CATHOLIC DIOCESE OF NASHVILLE

CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

JUNE 30, 2020 AND 2019

CATHOLIC DIOCESE OF NASHVILLE

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PURYEAR & NOONAN, CPAs

Independent Auditor's Report

Most Reverend J. Mark Spalding, Bishop
Diocesan Finance Council
Catholic Diocese of Nashville
Nashville, Tennessee

Report on Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Catholic Diocese of Nashville and Tennessee Register (Diocese), a non-profit organization, which comprise the consolidated statements of financial position as of June 30, 2020 and 2019, and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

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

(Auditor's report continued on next page)

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accounting estimates made by management, as well as evaluating the overall presentation of the consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Catholic Diocese of Nashville 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.

Puryear & Noonan, CPAs PLLC

Puryear & Noonan, CPAs
Nashville, Tennessee
September 17, 2020

CATHOLIC DIOCESE OF NASHVILLE
Consolidated Statements of Financial Position
June 30, 2020 and 2019

	2020	2019
Assets		
Cash	$ 11,134,756	$ 12,561,364
Investments in marketable securities	10,119,474	12,571,635
Accounts and other receivables, net of provision for doubtful accounts of $5,416 in 2020 and 2019	1,653,658	1,235,772
Property held for sale	226,097	226,097
Land, buildings, and equipment, net	31,587,889	27,450,496
Other assets	141,235	-
Residual interest in trusts	3,713,458	3,188,487
Total Assets	$ 58,576,567	$ 57,233,851
Liabilities and Net Assets		
Accounts payable and accrued expenses	$ 1,498,816	$ 1,563,503
Grant payable	4,800,000	4,800,000
Loans payable	8,172,593	7,577,312
Capitalized lease payable	64,864	76,107
Deferred revenue	72,211	66,678
Funds owed to others	248,897	256,956
Total Liabilities	14,857,381	14,340,556
Net Assets		
Without donor restrictions	928,312	4,691,191
Without donor restrictions - Designated	32,751,608	28,429,582
With donor restrictions	10,039,266	9,772,522
Total Net Assets	43,719,186	42,893,295
Total Liabilities and Net Assets	$ 58,576,567	$ 57,233,851

See accompanying independent auditor’s report and notes to consolidated financial statements.

CATHOLIC DIOCESE OF NASHVILLE
Consolidated Statements of Activities and Changes in Net Assets
For the Years Ended June 30, 2020 and 2019

	2020	2019
Changes in Net Assets Without Donor Restrictions		
Operating Support and Revenues		
Assessments	$ 6,257,356	$ 5,821,870
Gain on disposal of assets	-	5,449,227
Contributions	5,073,990	3,672,612
Service fees/materials supplied	3,382,802	3,070,675
Investment income	883,215	1,172,944
Program grants	57,036	44,949
Total Operating Support and Revenues Without Donor Restrictions	15,654,399	19,232,277
Net Assets Released From Restrictions		
Satisfaction of donor restrictions	1,124,571	1,325,137
Expiration of time restrictions	57,281	141,284
Transfer of donor restricted funds	-	166,108
Total Net Assets Released From Restrictions	1,181,852	1,632,529
Total Support and Revenues Without Donor Restrictions	16,836,251	20,864,806
Expenses		
Program Services		
School and institutional assistance	2,203,158	2,245,006
Pastoral, social and educational services	1,868,443	1,557,715
Program Facilities and Depreciation	1,626,507	1,478,917
Ministries (youth, elderly, campus and ethnic)	1,604,756	1,398,498
Clergy benefits	1,554,890	2,227,668
Vocations	1,511,357	1,862,834
Parish and institutional assistance	1,103,678	996,174
Communications	817,164	789,234
Cemeteries	285,888	263,999
Family assistance and payments to beneficiaries	110,152	256,055
Total Program Services	12,685,993	13,076,100
Management and General		
Governance	2,817,447	2,770,886
Insurance and worker's compensation	(4,518)	321,672
Total Management and General	2,812,929	3,092,558
Fundraising Expenditures	475,184	360,792
Total Expenses	15,974,106	16,529,450
Changes in Net Assets With Donor Restrictions		
Contributions	502,523	738,840
Service fees/materials supplied	354,342	410,508
Program grants	223,553	216,091
Investment income	143,209	248,465
Change in Value of Residual Interest	(78,029)	21,877
Net Assets Released From Restrictions	(1,181,852)	(1,632,529)
Increase (decrease) in net assets with donor restrictions	(36,254)	3,252
Change in Net Assets	825,891	4,338,608
Net Assets - Beginning of Year	42,893,295	38,554,687
Net Assets - End of Year	$ 43,719,186	$ 42,893,295

See accompanying independent auditor’s report and notes to consolidated financial statements.

CATHOLIC DIOCESE OF NASHVILLE
Consolidated Statements of Cash Flows
For the Years Ended June 30, 2020 and 2019

	2020	2019
Cash Flows from Operating Activities		
Change in net assets	$ 825,891	$ 4,338,608
Adjustments to Reconcile Change in Net Assets to		
Net Cash Provided by (Used for) Operating Activities		
Depreciation	567,158	501,370
Gain on disposal of assets	-	(5,449,227)
Net realized and unrealized gain on marketable securities	(225,865)	(723,254)
Unrealized gain, reclassifications, and adjustments		
of residual interests in trusts	78,029	(21,877)
Changes in assets and liabilities		
(Increase) decrease in accounts receivable	(417,886)	79,704
(Increase) decrease in other assets	(141,235)	1,490
Increase (decrease) in accounts payable and accrued expenses	(64,687)	10,935
Increase (decrease) in deferred revenue	5,533	(123,301)
Increase (decrease) in funds owed to others	(8,059)	60,829
Net Cash Provided by (Used for) Operating Activities	618,879	(1,324,723)
Cash Flows from Investing Activities		
Proceeds (purchases) from sale of investments in marketable securities, net	2,075,026	1,975,986
Proceeds from sale of fixed assets	-	5,621,155
Purchase of land, buildings, and equipment	(4,704,551)	(389,252)
Net Cash Provided by (Used for) Investing Activities	(2,629,525)	7,207,889
Cash Flows from Financing Activities		
Repayments on loan payable	(251,501)	(243,500)
Proceeds from SBA PPP loans	846,782	-
Repayments on capitalized lease payable	(11,243)	(2,518)
Net Cash Provided by (Used for) Financing Activities	584,038	(246,018)
Net Change in Cash	(1,426,608)	5,637,148
Cash - Beginning of Year	12,561,364	6,924,216
Cash - End of Year	$ 11,134,756	$ 12,561,364
Supplemental Disclosures of Cash Flow Information		
Cash paid for		
Interest	$ 265,088	$ 264,012

Non-cash transactions

During 2020, the Diocese wrote off fully depreciated eqipment of $6,315 and transferred $603,000 from investments to residual interests in trusts.

During 2019, the Diocese acquired copiers through a capital lease totaling $78,625, wrote off obsolete and depreciated equipment of $87,934 and related accumulated depreciation of $86,386, and transferred $250,000 from investments to residual interests in trusts.

See accompanying independent auditor’s report and notes to consolidated financial statements.

CATHOLIC DIOCESE OF NASHVILLE
Consolidated Statements of Functional Expenses
For the Years Ended June 30, 2020 and 2019

	2020			
	Program Services	Management and General	Fundraising	Total
Salaries and benefits	$ 4,286,626	$ 1,532,511	$ 178,852	$ 5,997,989
Subsidies and distributions	3,457,526	-	-	3,457,526
Professional services	1,003,034	387,464	161,977	1,552,475
Tuition, room and board	1,093,432	10,648	-	1,104,080
Supplies and other	614,750	176,146	19,118	810,014
Maintenance and repairs	391,115	192,869	5,006	588,990
Depreciation	567,158	-	-	567,158
Utilities	361,586	77,618	5,989	445,193
Travel, meals and conferences attended	327,464	47,732	9,326	384,522
Postage and printing	239,556	8,029	87,491	335,076
Interest	10,169	254,711	208	265,088
Conferences given	116,492	81,564	11	198,067
Food and beverage	94,256	60,069	5,186	159,511
Insurance	122,829	(16,432)	2,020	108,417
Total Functional Expenses	$ 12,685,993	$ 2,812,929	$ 475,184	$ 15,974,106

	2019			
	Program Services	Management and General	Fundraising	Total
Salaries and benefits	$ 4,630,107	$ 1,379,826	$ 138,603	$ 6,148,536
Subsidies and distributions	3,525,800	-	-	3,525,800
Professional services	1,044,378	522,020	25,694	1,592,092
Tuition, room and board	1,116,282	9,100	-	1,125,382
Supplies and other	589,304	288,688	43,871	921,863
Depreciation	501,370	-	-	501,370
Utilities	389,113	75,591	6,262	470,966
Postage and printing	261,948	23,285	135,170	420,403
Maintenance and repairs	284,738	114,528	3,487	402,753
Insurance	133,873	245,754	1,310	380,937
Travel, meals and conferences attended	300,470	62,065	1,687	364,222
Interest	2,826	261,140	46	264,012
Conferences given	210,594	11,677	9	222,280
Food and beverage	85,297	98,884	4,653	188,834
Total Functional Expenses	$ 13,076,100	$ 3,092,558	$ 360,792	$ 16,529,450

See accompanying independent auditor's report and notes to consolidated financial statements.

Note 1 - Summary of Significant Accounting Policies

Organization and Purpose
Catholic Diocese of Nashville is a juridic person under canon law and an unincorporated religious association under the civil law of the State of Tennessee. Catholic Diocese of Nashville carries out religious activities primarily in and for the benefit of the Catholic community in the middle Tennessee area. The consolidated financial statements include only the accounts maintained by and directly under the management of the Bishop of Nashville (or successor) solely. Tennessee Register, Inc. (Tennessee Register), although a separate legal entity under civil law, is controlled by the Bishop as the sole corporate member and on that basis, the financial operations of Tennessee Register are consolidated with Catholic Diocese of Nashville reporting.

Principles of Consolidation
The consolidated financial statements include the accounts of Catholic Diocese of Nashville and Tennessee Register. The consolidated group is collectively referred to as the Diocese. All significant intercompany balances and transactions have been eliminated in consolidation.

Basis of Accounting
The consolidated financial statements of the Diocese are prepared using the accrual basis of accounting, under which revenue is recognized when earned rather than when collected and expenses are recognized when incurred rather than when disbursed.

Consolidated Financial Statement Presentation
For consolidated financial statement presentation, the Diocese reports its financial information according to two classes of net assets (net assets with and without restrictions) based on the existence or absence of donor-imposed restrictions.

Net Assets Without Donor Restrictions
Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Diocese. Net assets without restrictions may be designated for specific purposes by the Bishop in consultation with the CAO, CFO, Finance Council and College of Consultors, as necessary, for specific long-term purposes.

Net Assets With Donor Restrictions
Net assets subject to stipulations imposed by donors and grantors that can be fulfilled by actions of the Diocese pursuant to those restrictions or that expire by the passage of time.

Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Measure of Operations
The Consolidated Statements of Activities and Changes in Net Assets reports changes in net assets, including changes in net assets from operating and non-operating activities. Operating activities consist of those items attributable to the Diocese's ongoing activities and interest and investment income. Non-operating activities are limited to resources that generate return from other investments, permanently restricted contributions, net assets released for capital expenditures, and other activities considered to be of a more unusual or non-recurring nature.

Use of Estimates
Management of the Diocese has made a number of estimates and assumptions relating to the reporting of assets and liabilities and disclosure of contingent assets and liabilities to prepare these consolidated financial statements and accompanying notes in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP). Actual results could differ from these estimates.

Program and Supporting Services - Functional Expenses
The following program and supporting services are included in the accompanying consolidated financial statements on the consolidated statements of functional expenses.

Program Services - includes activities carried out to fulfill the Diocese's mission of Living and Proclaiming the Good News of Jesus Christ, Welcoming All. Specific activities include school assistance, ministries, vocations, clergy benefits, educational services, communications and Parish assistance.

Supporting Services - Management and General - relates to the overall direction of the Diocese through the office of the Bishop. It encompasses the canonical offices required for a Diocese (Bishop, Vicar General, Judicial Vicar, Chancellor and CFO). These expenses are not identifiable with a particular program, event or fundraising, but are indispensable to the conduct of those activities and are essential to the Diocese. Specific activities include organizational oversight, Tribunal, Chancellor, business management, record keeping, budgeting, financing, and other administrative activities.

Supporting Services - Fundraising - includes cost of activities directed toward appeals for financial support and the cost of solicitations, and creation and distribution of fundraising materials.

Classifications of Expenses
Expenses are classified functionally as a measure of service efforts and accomplishments. Direct expenses, incurred for a single function, are allocated entirely to that function. Joint

expenses applicable to more than one function, are allocated on the basis of objectively summarized information or management estimates.

Contributions
Contributions are considered unrestricted unless they are received with donor stipulations that limit their use either through purpose or time restrictions. Contributions with donor stipulations that limit their use are considered to be temporarily restricted until the donor restrictions expire, that is, when a time restriction ends or a purpose restriction is fulfilled. Upon the expiration of donor stipulations, net assets with temporary donor restrictions are reclassified to net assets without donor restrictions and reported in the Consolidated Statements of Activities and Changes in Net Assets as net assets released from restrictions.

Cash
The Diocese maintains savings accounts and zero balance checking accounts at SunTrust Bank through Catholic Community Investment and Loan, Inc. (CCIL). Other banks are used as needed for specific functions. Cash maintained within investment accounts is reported as investments in marketable securities.

Self-Insured Medical Coverage
The Diocese maintains a self-insured medical benefits plan for those entities participating in the previous Blue Cross Blue Shield of Tennessee (BCBS-TN) insured plan. A key consideration was to be able to define the terms of coverage consistent with Catholic teachings. It is anticipated this will also allow the Diocese to better manage costs and the impact on premium rate increases. Premium rates were established with the consultation of experts. BCBS-TN was selected to administer the plan. Stop loss coverage was purchased to limit catastrophic claim losses. Included in accounts payable and accrued expenses at June 30, 2020 and 2019, is an estimate of $546,400 and $557,300, respectively, for incurred but not reported claims.

Premium payments are recorded as revenue and netted against claim expenses and are included in service fees/materials supplied in the Consolidated Statements of Activities and Changes in Net Assets. The cumulative balance is recorded as unrestricted designated – self-insured medical coverage.

Investments in Marketable Securities
Marketable securities are carried at estimated fair value as of June 30, 2020 and 2019. Gifts of marketable securities are recorded at the estimated fair market value at date of gift if retained, or the sale price if immediately sold. Estimated fair market values are based primarily on quoted market prices. Realized gains or losses on the sale of marketable securities are recognized on the trade date based upon specific identification of the security sold and are included in the Consolidated Statements of Activities and Changes in Net Assets.

The Diocese utilizes various investment instruments. The Diocese invests in fixed income securities including government bonds, and in publicly traded stocks and mutual funds, and occasionally real property. At June 30, 2020 and 2019, the Diocese had no direct financial investment in financial derivatives. Investment securities, in general, are exposed to a variety of risks, such as interest rate, credit, business performance, world events, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably likely that changes in the estimated fair values of investment securities will occur in the near term and such changes could materially affect the amounts reported in the Consolidated Statements of Financial Position and Consolidated Statements of Activities and Changes in Net Assets.

Accounts Receivable
Accounts receivable from parishes and institutions are uncollateralized obligations for assessments, priests' retreats, employee and priest benefits, and Catholic education. Tennessee Register receivables are uncollateralized obligations due from vendors for advertising and parishes for subscriptions. Receivables may include advances or loans to employees or diocesan entities. It is the Diocese's policy to charge off uncollectible accounts when management determines the receivable will not be collected. Late fees and interest are not assessed on delinquent accounts. The provision for doubtful accounts is estimated based on management's knowledge of the people, parishes, institutions, historical loss experience, and existing economic conditions. At June 30, 2020 and 2019, approximately $30,000 and $36,000, respectively, of accounts receivable were greater than 90 days.

Intentions to Give
Each year the Diocese asks the Catholic community to submit pledge cards as part of the Bishop's Annual Appeal for Ministry indicating the donations the Catholics intend to give for budgeted diocese and pastoral services during the upcoming calendar year. The pledge cards are used only for budgetary purposes and are not considered legally enforceable commitments. As such, these pledges do not meet the criteria for revenue recognition under U.S. GAAP. They are not reported as contributions in the Consolidated Statements of Activities and Changes in Net Assets until the pledges are collected.

Residual Interest in Trusts
The Diocese is the beneficiary of certain perpetual trusts held and controlled by others. The estimated fair value of the underlying trust accounts are an asset in the accompanying Consolidated Statements of Financial Position, although the Diocese has no access nor control over those funds. Contribution revenue is recognized at the date such trusts are established. Changes in the estimated fair value of the trust accounts are recognized as a gain or loss in the period such changes occur and income disbursements received from the trusts are recorded as revenue.

Deferred Revenue

Deferred revenue consists primarily of advance payments received by Tennessee Register for subscriptions. Revenue from subscriptions is recognized by the passage of time during the subscription period.

Land, Buildings, and Equipment

Land, buildings, and equipment are stated at cost, if purchased or constructed, or fair market value at date of gift if received by donation, net of accumulated depreciation and amortization. For buildings and systems/equipment, depreciation and amortization is computed on the straight-line basis over the estimated useful lives of the assets or lease term, net of salvage value. Salvage value is estimated by asset type per the Diocese expense capitalization policy. Land is not depreciated and remains on the books at the purchase or donated value. Useful lives by asset category are as follows:

Land	Infinite
Buildings - other, additions, and improvements	30 - 50 years
Machinery and equipment	3 - 10 years
Furniture and fixtures	10 years
Vestments	20 years

Expenditures for maintenance and repairs are expensed when incurred. Expenditures for renewals or betterments costing more than $2,500 per item are capitalized unless an exception is approved. All capitalized assets are inventoried and a record kept even if the item is fully depreciated. When assets are retired, or sold, the cost and the related accumulated depreciation are removed from the accounts, and the resulting gain or loss is included in the consolidated Statements of Activities and Changes in Net Assets.

Federal Income Taxes

Catholic Diocese of Nashville and Tennessee Register are exempt from federal income taxes on related income as a religious organization under the Internal Revenue Code (IRC) Section 501(c)(3); accordingly, no provision for income taxes has been made in the accompanying consolidated financial statements. The Diocese, as a church, is also exempt from filing a U.S. Federal information tax return (Form 990).

The Diocese accounts for the effect of any uncertain tax positions based on a more likely than not threshold to the recognition of the tax positions being sustained based on the technical merits of the position under examination by the applicable taxing authority. If a tax position or positions are deemed to result in uncertainties of those positions, the unrecognized tax benefit is estimated based on a cumulative probability assessment that aggregates the estimated tax liability for all uncertain tax positions. Tax positions for the Diocese include, but are not limited to, the tax-exempt status and determination of whether certain income is subject to unrelated business income tax; however, the Diocese has determined that such tax positions do not result in an uncertainty requiring recognition.

Impairment of Long-Lived Assets

Long-lived assets are reviewed 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 to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. No impairments have been recognized on any property at June 30, 2020 and 2019.

Fair Value Measurements

The Diocese follows Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820-10, *Fair Value Measurements*, with respect to its financial assets and liabilities. Fair value is defined as the price that would be received to sell an asset in the principal or most advantageous market for the asset in an orderly transaction between market participants on the measurement date. Fair value should be based on the assumptions market participants would use when pricing an asset. U.S. GAAP establishes a fair value hierarchy that prioritizes investments based on those assumptions. The fair value hierarchy gives the highest priority to quoted prices in active markets (observable inputs) and the lowest priority to an entity's assumptions (unobservable inputs). The Diocese groups assets at fair value in three levels, based on the markets in which the assets and liabilities are traded, and the reliability of the assumptions used to determine fair value. These levels are as follows:

Level 1 - Unadjusted quoted market prices for identical assets or liabilities in active markets as of the measurement date.

Level 2 - Other observable inputs, either directly or indirectly, including:

- Quoted prices for similar assets/liabilities in active markets;
- Quoted prices for identical or similar assets in non-active markets;
- Inputs other than quoted prices that are observable for the asset/liability; and,
- Inputs that are derived principally from or corroborated by other observable market data.

Level 3 - Unobservable inputs that cannot be corroborated by observable market data.

Reclassifications

Certain amounts in the 2019 consolidated financial statements have been reclassified to conform to the 2020 presentation.

Note 2 - Adoption of New Accounting Pronouncement

In August 2016, the FASB issued Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities.* The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Diocese has adjusted the presentation of these statements accordingly, effective July 1, 2018. There was no effect on the change in the net assets as a result of this adoption.

Note 3 - Liquidity and Availability

The Diocese's financial assets available within one year of the Consolidated Statement of Financial Position for general expenditure are as follows:

Cash	$ 11,134,756
Investments	10,119,474
Total financial assets	21,254,230
Less net assets with donor restrictions	(6,325,808)
Less net assets without donor restrictions - Board designated	(3,637,276)
Financial assets available to meet general expenditures over the next twelve months	$ 11,291,146

The Diocese's goal generally is to maintain financial assets at a minimum of $1,000,000. The Diocese currently has financial obligations coming due in 2020 and 2021 (See Notes 7 and 16) and is accumulating liquid assets to fulfill these obligations.

Note 4 - Funds on Deposit with Catholic Community Investment and Loan, Inc. (CCIL)

As of June 30, 2020 and 2019, the Diocese has funds on deposit with SunTrust Bank through CCIL. CCIL is a not-for-profit public benefit and charitable corporation established to benefit exclusively certain juridic persons within the diocese through loans to parishes and Diocesan institutions as well as to invest pooled deposits to provide a better return on those deposits to the account holders. The funds on deposit with CCIL are placed with SunTrust Bank and insured to FDIC limits or invested through brokerage firms. CCIL has private insurance for malfeasance losses up to $2,000,000 per incident. In management's opinion, these deposits are not subject to a significant risk of loss.

Note 5 - Investments

Investments are subject to market risk, the risk inherent in a fluctuating market. The broker/dealer that is the custodian of 85% and 84%, respectively, of the Diocese's investments in marketable securities at June 30, 2020 and 2019 is covered by the Securities Investor Protection Corporation (SIPC), which provides limited protection to investors. SIPC coverage is limited to specified investor-owned securities (notes, bonds, mutual funds, investment company securities, and registered securities) held by an insolvent SIPC member at the time a supervising trustee is appointed. The SIPC also protects against unauthorized trading in the Diocese's security account. SIPC coverage is limited to $500,000 per customer, including $250,000 for cash that is on deposit as the result of a security transaction. The SIPC protection does not insure against market risk.

A summary of investments as of June 30, 2020 and 2019 is as follows:

	2020		2019	
	Cost	Fair Value	Cost	Fair Value
Cash and money market	$ 293,499	$ 293,499	$ 455,970	$ 455,970
Fixed income funds	1,798,649	2,081,709	2,206,998	2,663,554
Equity & mutual funds				
US funds	5,187,570	6,306,634	6,830,571	7,611,672
Non - US market funds	1,624,139	1,437,632	2,088,345	1,840,439
Total equity & mutual funds	6,811,709	7,744,266	8,918,916	9,452,111
Total marketable securities	8,903,857	10,119,474	11,581,884	12,571,635
Residual interest in trust	3,253,323	3,713,458	2,650,323	3,188,487
Total investments	$ 12,157,180	$ 13,832,932	$ 14,232,207	$ 15,760,122

The following schedule summarizes the investment gains in the Consolidated Statements of Activities and Changes in Net Assets for the years ended June 30, 2020 and 2019:

	2020	2019
Interest and dividends	$ 800,559	$ 698,155
Unrealized gain (loss) on investments, net	225,865	723,254
	$ 1,026,424	$ 1,421,409

Note 6 - Fair Value Measurements

Required disclosures concerning the estimated fair value of financial instruments are presented below. The estimated fair value amounts have been determined based on the Diocese's assessment of available market information and appropriate valuation methodologies. The following table summarizes required fair value disclosures and measurements at June 30, 2020 and 2019 for the assets measured at fair value on a recurring basis under FASB ASC 820, *Fair Value Measurements and Disclosures*:

	Assets Measured at Fair Value	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
2020				
Cash and money market	$ 293,499	$ 293,499	$ -	$ -
Fixed income funds	2,081,709	2,081,709	-	-
Equity & mutual funds				
US funds	6,306,634	6,306,634	-	-
Non - US market funds	1,437,632	1,437,632	-	-
Total equity & mutual funds	7,744,266	7,744,266	-	-
Total marketable securities	10,119,474	10,119,474	-	-
Residual interest in trusts	3,713,458	-	-	-
Total investments	$ 13,832,932	$ 10,119,474	$ -	$ -

2019				
Cash and money market	$ 455,970	$ 455,970	$ -	$ -
Fixed income funds	2,663,554	2,663,554	-	-
Equity & mutual funds				
US funds	7,611,672	7,611,672	-	-
Non - US market funds	1,840,439	1,840,439	-	-
Total equity & mutual funds	9,452,111	9,452,111	-	-
Total marketable securities	12,571,635	12,571,635	-	-
Residual interest in trusts	3,188,487	-	-	-
Total investments	$ 15,760,122	$ 12,571,635	$ -	$ -

The fair value of residual interest in trusts is based upon percent of beneficiary interest in the trust times its measured market value determined by the custodians of the funds. The fair value of the Diocese's interest of the residual trust has been determined based on the net asset values of the underlying investments as a practical expedient and have not been classified in a level within the fair value hierarchy.

Note 7 - Loans Payable

On June 30, 2015, Catholic Diocese of Nashville entered into a loan agreement and a negative pledge agreement with a financial institution, due in monthly principal and interest payments of $42,008 through June 5, 2021 with an approximate $7,100,000 balloon payment due on June 30, 2021. The loan bears interest at a rate of 3.38%. The outstanding balance of the loan payable at June 30, 2020 and 2019 was $7,325,811 and $7,577,312, respectively.

The provisions of the loan place certain covenants upon Catholic Diocese of Nashville including maintaining a minimum of $500,000 cash with the lender and the maintenance of certain debt covenants. Catholic Diocese of Nashville was in compliance with the required covenants at June 30, 2020 and June 30, 2019.

The expected aggregate maturities of the loan agreement are as follows:

Year Ending June 30,	Principal Due
2021	7,325,811
	$ 7,325,811

Included in loans payable at June 30, 2020 is $846,782 of Payroll Protection Plan loans (See Note 16).

Note 8 - Land, Buildings, and Equipment

A summary of land, buildings, and equipment as of June 30, 2020 and 2019 is as follows:

	2020	2019
Land	$ 11,120,318	$ 7,444,004
Buildings	10,633,861	9,721,783
Machinery and equipment	316,352	206,393
Automobiles	137,223	137,223
Furniture and fixtures	80,414	80,414
Rental property - Land	2,556,557	2,556,672
Rental property - Buildings	9,452,418	9,452,418
	34,297,143	29,598,907
Less - Accumulated depreciation and amortization	(2,709,254)	(2,148,411)
	$ 31,587,889	$ 27,450,496

Note 9 - Pension and Other Post Retirement Benefit Plans

Defined Benefit Pension Plans

The Diocese participates in a qualified noncontributory Internal Revenue Service (IRS) recognized church pension plan for all eligible lay employees of the Diocese and its related parishes and institutions (Lay Plan). Pension costs are funded by the Diocese for qualified Diocesan lay employees, and by the parishes and institutions for their qualified lay employees. Only the expenses associated with the Diocese employees are reflected in the accompanying consolidated financial statements. Management has also determined that the defined benefit plan qualifies for treatment as a multi-employer plan under U.S. GAAP. The disclosure requirements for this pronouncement are limited to a description of the multi-employer plan and the amount of pension cost recognized. Church pension plans are exempt from compliance with participation, vesting, reporting, and funding rules of the Employee Retirement Income Security Act of 1974 (ERISA).

The Diocese made quarterly contributions to the Lay Plan based on 5% of eligible salaries for calendar years 2020 and 2019. Total contributions by the Diocese during 2020 and 2019 were $166,042 and $132,860, respectively.

The Diocese, through the Priests Benefit Foundation (PBF), provides a qualified noncontributory defined benefit pension plan for incardinated priests of the Diocese of Nashville (Priest Plan) who became 65 years of age after January 1, 1975. Contributions of $0 and $930,000 were made by the PBF into the Priest Plan in 2020 and 2019, respectively. An independent actuary prepares an annual actuarial valuation for both the Lay and Priest Plans.

The following table sets forth the defined benefit obligations, fair value of plan assets, and funded status of the noncontributory defined benefit pension plans as of the date of actuarial valuation:

	December 31, 2020 Lay	December 31, 2019 Lay	June 30, 2020 Priest	June 30, 2019 Priest
Pension benefits:				
Benefit obligation at end of plan year	$ (53,935,651)	$ (51,582,734)	$ (8,446,714)	$ (7,853,403)
Plan assets at fair value at end of plan year	57,535,403	47,269,321	10,481,775	9,803,674
Funded (unfunded)	$ 3,599,752	$ (4,313,413)	$ 2,035,061	$ 1,950,271

The market value of the Lay Plan assets as of June 30, 2020 and 2019, respectively, were $55,475,780 and $53,792,201.

Defined Contribution Retirement Plan (403b)

The Diocese has an Employee's Retirement Savings Plan (the Plan) covering participating lay employees and priests in the Diocese and parishes, and certain institutions within the Diocese. The Plan is a defined contribution plan under IRC Section 403(b)(9), whereby member employers contributed a standard percentage of payroll as determined by the Lay Retirement Board of Trust.

Participating employers currently contribute a dollar for dollar match equal to the participating lay employee's contribution up to 3% of that employee's payroll. The Diocese contributes a flat 4% of a priest's salary into their Plan whether they contribute or not. Employees and priests may contribute additional amounts up to the IRS limitations.

All participants are immediately vested fully in their individual and employer contributions. The Diocese recognized contributions to this Plan of $188,830 and $147,024 in 2020 and 2019, respectively.

Priest Post-Retirement Health Benefits

The Diocese, through the PBF, provides supplemental post-retirement health benefits (HB Plan) to incardinated priests of the Diocese of Nashville who retain faculties granted from the Bishop for the Diocese of Nashville. This obligation is met through the PBF. In 1992, through the PBF, a commitment was made to provide for assistance to covered diocesan priests for whom the Diocese could not purchase long-term care insurance or required financial medical assistance during retirement. Under the HB Plan, which was fully self-insured beginning in calendar year 2001, supplemental benefits are provided for qualifying medical expenses (primarily major medical, dental, and vision benefits). During the year ended June 30, 2010, the Diocese elected to include long-term care benefits as part of the priest post-retirement health benefit package. Accordingly, the long-term care insurance was incorporated into the priest post-retirement health benefits actuarial liability calculation.

A separate trust (Priests Medical Trust) has been established to manage and invest funds designated for the post-retirement health benefits for priests. The Trust balance was $4,093,826 and $4,578,480 as of June 30, 2020 and 2019, respectively.

The pension and medical trust funds have been legally transferred from the Diocese to the PBF, who assumed the accumulated benefit obligation in its entirety. Accordingly, since the funds and the liability are now under the control of the PBF and not the Diocese, the related assets and liabilities are not reflected in these consolidated financial statements.

Priests Individual Needs Trust

A separate trust has been established to manage and invest funds designated for the individual needs of priests (i.e., sabbaticals, education, special needs, burial). As of June 30, 2020 and 2019, the value of cash and investments in the Priest Individual Needs Trust was $726,220 and $705,026, respectively.

Retired Bishop's Supplemental Retirement Funds

In 1975, a commitment was made to provide supplemental retirement benefits to the Bishop for the Diocese of Nashville, if he retires while in office in Nashville. During 2019, a corpus of $60,000 was set aside for this purpose in the Priest Individual Needs Trust. No payment obligation exists at this time. Trust balance as of June 30, 2020 is $66,042.

Note 10 - Net Assets

Net asset without donor restrictions – Board designated are designated by the Board for the following purpose or periods:

	2020	2019
Physical plant	$ 29,114,332	$ 24,900,972
Church ministry	1,663,465	1,700,506
Cemetery perpertual care	819,121	1,086,604
Priest benefits	729,864	821,308
Self-insured medical coverage	424,826	(79,808)
	$ 32,751,608	$ 28,429,582

The cemetery perpetual care net assets represent contractual obligations established through exchange transactions.

Net asset with donor restrictions are available for the following purposes or periods:

	2020	2019
Parish assistance	$ 4,462,165	$ 4,444,847
Residual interests in trusts (income substantially restricted to seminarian education)	3,713,458	3,188,487
Vocations	1,630,537	1,862,773
Annuities	157,393	162,388
Programs	75,713	103,858
Elderly care	-	10,169
	$ 10,039,266	$ 9,772,522

Certain endowment funds were moved to the Catholic Community Foundation of Middle Tennessee (CCFMTN) during 2019, in the amount of $169,380, and are no longer on the Diocese books.

Note 11 - Endowment

The endowment includes two types of donor restricted endowment funds. Net assets associated with endowment funds, including funds designated by the Diocese, to function as endowments are classified and reported based on the existence or absence of donor-imposed restrictions.

The State of Tennessee has adopted the Uniform Prudent Management of Institutional Funds Act (UPMIFA). As prescribed by UPMIFA, the Diocese intends to preserve 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 Diocese classifies as net assets with permanent donor restrictions (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 net assets with permanent donor restrictions is classified as net assets with temporary donor restrictions until those amounts are appropriated for expenditures by the Diocese in a manner consistent with the standard of prudence prescribed by UPMIFA. Although not bound by it, in taking guidance from the UPMIFA, the Diocese 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 Diocese 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 Diocese
(7) The investment policies of the Diocese
(8) The needs of the beneficiaries

At June 30, 2020 and 2019, the endowment fund is composed of:

	2020	2019
Residual interests in trusts	$ 3,713,458	$ 3,188,487

Note 12 - Subsidies and Other Distributions

Details of subsidies and other distributions provided to various individuals and entities for the years ended June 30, 2020 and 2019 are as follows:

	2020	2019
Grants to:		
Schools	$ 1,574,969	$ 1,677,517
Diocesan institutions	1,237,733	1,352,007
Parishes	473,446	355,275
Family and individual assistance	92,374	54,055
Campus ministry	45,000	45,000
Catholic institutions	23,189	25,187
Trust beneficiaries	10,815	16,759
	$ 3,457,526	$ 3,525,800

Note 13 - Property Usage Arrangements

Facility Usage and Land Lease Revenues

The Diocese owns several properties devoted to ministries of the Diocese and providing housing to priests. Each arrangement is discussed below.

The Diocese entered into an operating lease agreement on October 1, 2015 with Catholic Charities of Tennessee, Inc (Catholic Charities). The lease covers the period from April 1, 2015 to June 30, 2020. Catholic Charities has the right to renew the lease for up to three successive additional five-year terms. Catholic Charities will renew for five years and the current lease extends month-to-month until the new lease is signed. Annual income of $366,000 and $342,000 is recorded as service fees/materials supplied fee income in the Consolidated Statements of Activities and Changes in Net Assets as of June 30, 2020 and 2019, respectively.

The Diocese is the lessor of a long-term operating land lease with Mary Queen of Angels for $1 a year. The Mary Queen of Angels land lease of 2.95 acres began in August 2000 and matures in 2040. Mary Queen of Angels constructed a facility in 2001 that will belong to the Diocese at the end of the lease period.

The Diocese is the lessor of a long-term operating property lease with Villa Maria Manor for an annual rental fee of $1 that terminates in June 2059. During 2020 and 2019, the fair market value of the rental income revenue of $600,000 and contributed rental expense of $599,999 was recorded in service fees/materials supplied and, subsidies and distributions, respectively, in the Consolidated Statements of Activities and Changes in Net Assets. Concurrent to the signing of the property lease agreement, Villa Maria Manor entered into a loan agreement with the Department of Housing and Urban Development (HUD). The Diocese has no direct liability from the loan, but if at some point in the future Villa Maria Manor is unable to service the HUD loan, and the Diocese does not cure, HUD reserves the right to purchase the Villa Maria Manor designated property from the Diocese at an appraised property value of $12,590,000.

The Diocese is the lessor under three land leases with Camp Marymount. One lease covers 160 acres at $1 a year for 50 years (2006-2056) and is the original property of the camp and the most usable portion. This lease has a contingent option allowing Camp Marymount to purchase the land. The second lease is for 200 acres acquired through a land swap involving other land donated to the Diocese and is a one-year evergreen lease at $1 a year. This land is only partially usable due to the terrain. The third lease of ten acres with two houses was entered into in January 2014 for $1 per year as an annual evergreen lease. The second and third leases do not include options to purchase.

A donor restricted fund owned by the Diocese owns a parking lot adjacent to St. Mary's of the Seven Sorrows Church. The Diocese has entered into a five-year contract that expired in September 2018 and then went month-to-month to lease the parking lot to a parking lot operator. The Diocese by contract extended the lease in the current year through December 31, 2024. The property is recorded on the Diocese books as rental property and a donor restricted net asset. All income and expense associated with the parking lot is recorded to that temporarily restricted fund and the consolidated financial statements accordingly.

Sagrado Corazon Church Community and Hispanic Ministries resides in the Catholic Pastoral Center. For the years ended June 30, 2020 and 2019, the annual lease payment was $336,000. The Sagrado Corazon Church Community and Hispanic Ministries contributed use fees income to the Diocese during 2020 and 2019, which were eliminated in consolidation.

The Diocese owns several houses that are used by the priests and seminarians of diocesan entities. In some instances, a use fee is provided by the person or entity benefiting from the use of the property. Annual income of approximately $12,000 is recorded as service fees/materials supplied income in the Consolidated Statements of Activities and Changes in Net Assets for the years ended June 30, 2020 and 2019.

The following is a schedule by years of future minimum rental income under the leases at June 30, 2020:

2021	$ 494,400
2022	524,064
2023	555,504
2024	588,834
2025	302,994
Total mimimum lease payments receivable	$ 2,465,796

As of June 30, 2020 and 2019, accumulated depreciation for rental property-buildings (See Note 8) was approximately $1,080,000 and $920,000, respectively.

Lease Expenses
The Diocese leases automobiles and equipment under various operating leases. Expenses incurred to operate and maintain these assets was approximately $35,000 in 2020 and 2019. A summary of approximate future minimum payments under these operating leases as of June 30, 2020 is as follows:

2021	$ 6,350

The Diocese has capitalized the present value of office equipment leases in the amount of $78,625 with related accumulated depreciation of $3,931 at June 30, 2020. Minimum future lease payments at June 30, 2020 are as follows:

2021	$ 23,738
2022	23,738
2023	23,738
2024	17,803
Future minimum payments	89,017
Less imputed interest	(24,153)
	$ 64,864

Note 14 - Management Service Agreements

The Diocese has entered into a management service agreement with CCIL. The services provided under the agreement include general administration and accounting services, through its personnel and facilities. Services include, but are not limited to, administration of parish and/or institution deposits; loan administration; treasury services related to investment of funds on deposit; general bookkeeping and record keeping services; data processing; filing and accounting for all revenue and expenditures of CCIL; and accounting and management support for the annual audit. The contract automatically renews each year unless terminated. The contracted fee for performance of these services was $144,000 for 2020 and 2019.

The Diocese has a service agreement with Catholic Charities to provide human resources services, and accounting software systems. The fee paid by Catholic Charities was approximately $35,000 in 2020 and 2019.

The Diocese also provides management and accounting services to the CCFMTN, Advancement for Catholic Education (ACE) and Hand in Hand Options (HIHO).

Note 15 - Risk on Uninsured Cash

The standard Federal Deposit Insurance Corporation insurance amount is $250,000 per depositor, per insured bank; and therefore, amounts in excess of $250,000 held by the Diocese during the current year were uninsured and uncollateralized. The Diocese is aware of the insured limitation and has not experienced any losses in such accounts and management believes the Diocese is not exposed to any significant credit risk related to cash.

Note 16 - Commitments and Contingencies

Pope John Paul II High School

As of June 30, 2020, the Diocese continued as guarantor to SunTrust Bank of a $10,000,000 tax-exempt industrial development bond (ID bond) for the construction of Pope John Paul II High School, Inc. (JPII). A requirement of this guarantee is the Diocese must maintain a minimum liquidity of not less than $6,000,000 of unrestricted liquid assets. At June 30, 2020 and 2019, the Diocese was in compliance with the minimum liquidity requirement. JPII is responsible for paying all principal and interest payments to SunTrust Bank.

The net result of the circa 2000 capital campaign, building expenses, and initial operating losses was a debt of $13,000,000, including the $10,000,000 ID bond. In 2011, a donor agreement between JPII and the Diocese was executed wherein the Diocese agreed to gift $8,750,000 million and JPII would pay the remaining $4,250,000. Shortly thereafter, the Diocese paid $3,000,000, in part using the balance of the capital campaign funds. In May 2015, JPII renegotiated the terms of the loan to defer the December 2015 payment until December 2020. In 2018, the Diocese transferred three properties to JPII for $950,000 as partial payment of the gift. As of June 2020 and 2019, the Diocese's gift balance is $4,800,000 for principal repayment, plus interest, until December 2020 unless a portion is extended to 2025. Annual interest expense paid and/or accrued by the Diocese in 2020 was approximately $275,000 and in 2019 was approximately $260,000 reflected in grants to schools.

Under the revised agreement, the Diocese will gift JPII the following funds:

December 15, 2020:	$2,300,000	(originally due December 2015)
December 15, 2020:	$2,500,000*	

**If desired, the Diocese retains the right to adjust the final $2,500,000 to $1,250,000 in December 2020 and $1,250,000 in December 2025.*

As a result of the signed agreement with JPII, the Diocese shows the full principal repayment commitment of $4,800,000 as a liability for fiscal years ending June 30, 2020 and 2019. All grants made to JPII for interest on the Diocese's gift portion of the outstanding principal balance are expensed in the year that they are incurred.

Litigation
The Diocese is involved in litigation from time to time arising in the ordinary course of business. In the opinion of management and general counsel, there is presently no litigation pending which could likely have a material adverse effect on the financial position of the Diocese.

Other
In December 2019, an outbreak of a novel strain of coronavirus (COVID-19) originated in Wuhan, China and has since spread to other countries, including the U.S. On March 11, 2020, the World Health Organization characterized COVID-19 as a pandemic. In addition, multiple jurisdictions in the U.S. have declared a state of emergency. It is anticipated that these conditions will continue for some time. The Diocese has adapted to the impact of COVID-19 on Diocese's operations. Future potential impacts may include disruptions or restrictions on the Diocese's employees' ability to work, or the Catholic community's ability to pay fees and donations. Changes to the operating environment may increase operating costs. The further effects of these issues are unknown.

On March 27, 2020, the Coronavirus Air, Relief, and Economic Security Act (the Cares Act) was signed into law. One of the features of the CARES Act is the Payroll Protection Program (PPP). The Catholic Diocese of Nashville and Tennessee Register each received a PPP loan in the amount of $766,382 and $80,400, respectively. These loans will be forgiven if the Diocese does the following:

1) Spends the funds on eligible expenses such as payroll, interest on already incurred debt, rent, and utilities during the defined covered period after the funding of the loan,
2) Spends less than 40% of the funds on non-payroll type eligible expenses, and
3) Demonstrates financial need.

The amount of the loan that is not forgiven can be converted up to a five-year loan at 1%. If financial need is not adequately demonstrated, the program may require immediate repayment, and penalties and interest could be assessed to the Diocese.

Note 17 - Subsequent Events

Effective July 1, 2020, the leadership of Tennessee Register is being legally changed from control solely by one Member, the Bishop of Nashville, to four governing Members. With the Bishop no longer the sole trustee for the Tennessee Register, it will not be consolidated with the Diocese of Nashville in future periods.

The Diocese has evaluated subsequent events through September 17, 2020, the date the consolidated financial statements were available for issuance, and has determined that there are no additional subsequent events that require disclosure.

Note 18 – Accounting Standards Not Yet Adopted

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers,* which establishes a comprehensive revenue recognition standard for virtually all industries in U.S. GAAP, including those that previously followed industry-specific guidance. For non-public entities, the new standard was originally effective for annual periods beginning after December 15, 2017. In August 2015, the FASB issued ASU 2015-04, *Revenue from Contracts with Customers (Topic 606) – Deferral of Effective Date*, which deferred the effective date one year. In May 2020, the FASB issued ASU 2020-05 in response to the ongoing impact to businesses in response to the coronavirus pandemic. The standard, as amended, will be effective for periods beginning after December 15, 2019. Accordingly, this ASU will be effective for the Diocese for the fiscal year ending June 30, 2021. The Diocese is currently evaluating the effect the provisions of ASU 2014-09 will have on the consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases* (ASC 842), which requires lessees to recognize assets and liabilities for most leases. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee is not expected to significantly change under such guidance. The standard, as amended, will be effective for annual reporting periods beginning after December 15, 2021. Accordingly, this ASU will be effective for the Diocese for the year ending June 30, 2023. The Diocese is currently evaluating the impact that adoption of this ASU will have on the Diocese's consolidated financial position and results of operations.