ROMAN CATHOLIC DIOCESE OF COVINGTON, OFFICES OF THE CURIA

June 30, 2019

CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

ROMAN CATHOLIC DIOCESE OF COVINGTON, OFFICES OF THE CURIA
TABLE OF CONTENTS

PAGE

Independent Auditors' Report

Consolidated Financial Statements

Consolidated Statements of Financial Position 1

Consolidated Statements of Activities 2

Consolidated Statement of Functional Expenses 4

Consolidated Statements of Cash Flows 5

Notes to the Consolidated Financial Statements 6

VonLehman CPA & ADVISORY FIRM

INDEPENDENT AUDITORS' REPORT

Board of Directors
Roman Catholic Diocese of Covington, Offices of the Curia
Covington, Kentucky

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of the Roman Catholic Diocese of Covington, Offices of the Curia (the Diocese) (a nonprofit organization), which comprise the consolidated statements of financial position as of June 30, 2019 and 2018, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements. The statement of functional expenses is not presented as permitted for the year ended June 30, 2018.

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 consolidated 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 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 auditors' 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 auditors consider internal control relevant to the entity'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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the 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 the Roman Catholic Diocese of Covington, Offices of the Curia as of June 30, 2019 and 2018, and the changes in its consolidated net assets and its consolidated cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in the notes to the consolidated financial statements, during 2019, Roman Catholic Diocese of Covington, Offices of the Curia adopted Accounting Standards Update (ASU) No 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities.* Our opinion is not modified with respect to this matter.

VonLehman & Company Inc.

Fort Wright, Kentucky
October 22, 2019

ROMAN CATHOLIC DIOCESE OF COVINGTON, OFFICES OF THE CURIA
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

ASSETS

	June 30, 2019	June 30, 2018
Assets		
Cash	$ 5,858,331	$ 8,084,456
Accounts Receivable, Net	445,795	831,247
Contributions Receivable, Net	1,963,679	1,695,533
Loans Receivable, Net	2,433,913	409,689
Notes Receivable, Net	13,358,707	13,602,775
Cemetery Property Held for Sale	180,066	214,719
Investments	31,151,986	28,714,548
Restricted Investments for Perpetual Care Fund	2,878,783	2,818,033
Property and Equipment, Net	13,476,281	13,343,000
Other Assets	592,102	579,676
Total Assets	$ 72,339,643	$ 70,293,676

LIABILITIES AND NET ASSETS

	2019	2018
Liabilities		
Accounts Payable and Accrued Expenses	$ 1,009,185	$ 1,453,861
Reserve for Incurred but not Reported Benefit Claims	784,336	661,986
Special Collections Payable	608,737	518,564
Pledges Payable, Net	239,788	177,160
Deposits Payable	13,960,618	10,211,538
Notes Payable, Net	13,330,010	13,464,119
Advances and Deferred Receipts	4,417,311	4,162,796
Priest Postretirement Liability	4,066,299	4,691,722
Total Liabilities	38,416,284	35,341,746
Net Assets		
Without Donor Restrictions	25,093,998	26,244,044
With Donor Restrictions	8,829,361	8,707,886
Total Net Assets	33,923,359	34,951,930
Total Liabilities and Net Assets	$ 72,339,643	$ 70,293,676

See accompanying notes.

ROMAN CATHOLIC DIOCESE OF COVINGTON, OFFICES OF THE CURIA
CONSOLIDATED STATEMENT OF ACTIVITIES

	Year Ended June 30, 2019		
	Without Donor Restrictions	**With Donor Restrictions**	**Total**
Revenues, Support, Gains and Reclassifications			
Parish Assessments	$ 4,813,386	$ -	$ 4,813,386
Diocesan Parish Annual Appeal	-	2,697,727	2,697,727
Dividends and Interest	703,660	220,756	924,416
Grants and Special Collections	73,154	433,590	506,744
Realized Gains on Investments	780,404	-	780,404
Unrealized Gains on Investments	815,874	-	815,874
Contributions and Bequests	101,850	936,325	1,038,175
Self-Insurance Premium Retention	456,236	-	456,236
Fees and Sales	4,276,809	-	4,276,809
Health Insurance Billings	9,196,146	-	9,196,146
Gain on Sale of Property and Equipment and Other Assets	55,794	-	55,794
Other Income	69,985	-	69,985
Net Assets Released From Restrictions	4,166,923	(4,166,923)	-
Total Revenues, Support, Gains and Reclassifications	25,510,221	121,475	25,631,696
Expenses			
Programs	9,885,146	-	9,885,146
Fundraising	419,118	-	419,118
Management and General			
Episcopal Administration	1,894,905	-	1,894,905
Settlements, Legal Fees and Counseling Related to Sexual Abuse	53,083	-	53,083
Grants Made by Diocese	1,498,314	-	1,498,314
Interest	689,029	-	689,029
Priest Post Employment Benefits	(67,330)	-	(67,330)
Secondary School Grants	1,546,060	-	1,546,060
Health Insurance Claims and Administration	10,569,405	-	10,569,405
Contributions and Assessments	172,537	-	172,537
Total Expenses	26,660,267	-	26,660,267
Change in Net Assets	(1,150,046)	121,475	(1,028,571)
Net Assets, Beginning of Year	26,244,044	8,707,886	34,951,930
Net Assets, End of Year	$ 25,093,998	$ 8,829,361	$ 33,923,359

See accompanying notes.

ROMAN CATHOLIC DIOCESE OF COVINGTON, OFFICES OF THE CURIA
CONSOLIDATED STATEMENT OF ACTIVITIES

	Year Ended June 30, 2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, Support, Gains and Reclassifications			
Parish Assessments	$ 4,779,124	$ -	$ 4,779,124
Diocesan Parish Annual Appeal	-	2,422,315	2,422,315
Dividends and Interest	441,427	375,734	817,161
Grants and Special Collections	83,972	292,415	376,387
Realized Gains on Investments	255,075	-	255,075
Unrealized Gains on Investments	1,265,317	-	1,265,317
Contributions and Bequests	158,554	888,035	1,046,589
Self-Insurance Premium Retention	437,633	-	437,633
Fees and Sales	4,505,777	-	4,505,777
Health Insurance Billings	8,777,042	-	8,777,042
Gain on Sale of Property and Equipment and Other Assets	2,342,106	-	2,342,106
Other Income	19,698	-	19,698
Net Assets Released From Restrictions	3,955,118	(3,955,118)	-
Total Revenues, Support, Gains and Reclassifications	27,020,843	23,381	27,044,224
Expenses			
Programs	9,889,839	-	9,889,839
Fundraising	412,370	-	412,370
Management and General			
Episcopal Administration	2,151,098	-	2,151,098
Settlements, Legal Fees and Counseling Related to Sexual Abuse	56,031	-	56,031
Grants Made by Diocese	1,192,576	-	1,192,576
Interest	573,323	-	573,323
Priest Post Employment Benefits	841,793	-	841,793
Secondary School Grants	1,506,242	-	1,506,242
Health Insurance Claims and Administration	9,030,248	-	9,030,248
Contributions and Assessments	191,226	-	191,226
Total Expenses	25,844,746	-	25,844,746
Change in Net Assets	1,176,097	23,381	1,199,478
Net Assets, Beginning of Year	25,067,947	8,684,505	33,752,452
Net Assets, End of Year	$ 26,244,044	$ 8,707,886	$ 34,951,930

See accompanying notes.

ROMAN CATHOLIC DIOCESE OF COVINGTON, OFFICES OF THE CURIA
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2019

	Programs													
	ACUE	Education	Seminary	Clergy	Community/ Pastoral	Retreat Center	Messenger	Facility and Project	Cemeteries	Total	Fundraising	Management and General	Other	Total
Salaries	$ 2,984,663	$ 575,405	$ 117,424	$ 223,613	$ 488,032	$ 504,357	$ 317,095	$ 245,747	$ 352,477	$ 5,808,813	$ 235,580	$ 1,213,625	$ -	$ 7,258,018
Events, Masses, Receptions	99	84,002	89,637	66,302	152,930	-	-	464	976	394,410	4,972	111,464	-	510,846
Supplies, Books, Subscriptions	20,851	41,495	191,041	910	69,371	81,457	16,894	82,260	24,493	528,772	2,193	19,263	-	550,228
Telecommunications	79,046	2,768	976	280	2,078	4,568	2,752	22,382	6,730	121,580	1,433	11,514	-	134,527
Postage	16,418	2,577	1,188	186	4,406	-	149,006	194	260	174,235	1,562	19,684	-	195,481
Printing	22,306	3,439	5	205	9,816	-	141,652	898	80	178,401	2,400	12,780	-	193,581
Building and Property Expenses	330,235	38,460	4,836	3,732	64,681	161,196	25,146	(31,644)	239,389	836,031	14,652	111,807	-	962,490
Travel/Fuel	1,105	3,099	3,007	3,060	9,141	6	3,770	17,684	1,395	42,267	164	37,361	-	79,792
Professional Fees, Dues, and Services	262,372	3,162	3,432	87,786	8,805	21,554	4,493	17,099	25,635	434,338	425	221,610	-	656,373
Cost of Sales	-	-	-	-	-	-	-	-	73,885	73,885	-	-	-	73,885
Other	9,964	1,181	2,431	-	518	7,335	212	-	-	21,641	-	45,922	-	67,563
Donor Maintenance	-	-	-	-	-	-	-	-	-	-	155,737	-	-	155,737
Insurance	6,052	-	-	-	1,392	26,577	-	57,264	29,562	120,847	-	89,533	-	210,380
Grants	-	-	-	-	-	-	-	-	-	-	-	-	1,498,314	1,498,314
Interest	-	-	-	-	-	-	-	-	-	-	-	-	689,029	689,029
Bad Debt	62,496	-	-	-	-	-	-	-	120,644	183,140	-	-	-	183,140
Tuition/Room and Board	-	-	327,552	83,430	-	-	-	-	-	410,982	-	-	-	410,982
Priest Post Employment Benefits	-	-	-	-	-	-	-	-	-	-	-	-	(67,330)	(67,330)
Depreciation	1,535	-	-	-	-	49,747	-	452,718	51,743	555,743	-	342	-	556,085
Secondary School	-	-	-	-	-	-	-	-	-	-	-	-	1,546,060	1,546,060
Health Insurance	-	-	-	-	-	-	-	-	-	-	-	-	10,569,405	10,569,405
Contributions and Assessments	-	61	-	-	-	-	-	-	-	61	-	-	172,537	172,598
Settlements, Legal Fees, and Counseling Related to Sexual Abuse	-	-	-	-	-	-	-	-	-	-	-	-	53,083	53,083
Total Expenses by Function	$ 3,797,142	$ 755,649	$ 741,529	$ 469,504	$ 811,170	$ 856,797	$ 661,020	$ 865,066	$ 927,269	$ 9,885,146	$ 419,118	$ 1,894,905	$ 14,461,098	$ 26,660,267

See accompanying notes.

ROMAN CATHOLIC DIOCESE OF COVINGTON, OFFICES OF THE CURIA
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended June 30, 2019	2018
Cash Flows From Operating Activities		
Change in Net Assets	$ (1,028,571)	$ 1,199,478
Reconciliation of Change in Net Assets with Cash Flows From Operating Activities		
Depreciation	582,888	548,691
Amortization of Debt Issuance Cost Included in Interest	46,218	46,222
Realized Gains on Investments	(780,404)	(255,075)
Unrealized Gains on Investments	(815,874)	(1,265,317)
Gain on Sale of Property and Equipment	(25,394)	(2,512,555)
Loss on Sale of Other Assets	-	170,449
Interest Credited Directly to Deposits	209,499	185,532
Changes in		
Accounts and Contributions Receivable	117,306	272,312
Cemetery Property Held for Sale	34,653	47,270
Other Assets	(12,426)	65,020
Accounts Payable, Accrued Expenses and Other Liabilities	(662,783)	732,757
Reserve for Incurred but not Reported Benefit Claims	122,350	110,113
Cash Used by Operating Activities	(2,212,538)	(655,103)
Cash Flows From Investing Activities		
Purchase of Property and Equipment	(737,233)	(591,274)
Proceeds From Sale of Property and Equipment	46,458	2,642,444
Proceeds From Sale of Other Assets	-	804,551
Purchase of Investments	(12,805,442)	(168,487)
Sales and Maturities of Investments	11,903,532	2,564,466
Issuance of New Loans	(12,710)	(7,608)
Payments Received on Loans	302,227	125,518
Cash (Used) Provided by Investing Activities	(1,303,168)	5,369,610
Cash Flows From Financing Activities		
New Deposits Received	1,922,296	2,164,909
Withdrawals of Deposits	(632,715)	(3,921,181)
Proceeds From Notes Payable	4,413,216	2,870,250
Disbursement of Notes Receivable	(4,413,216)	(2,870,250)
Cash Provided (Used) by Financing Activities	1,289,581	(1,756,272)
Net Change in Cash and Cash Equivalents	(2,226,125)	2,958,235
Cash, Beginning of Year	8,084,456	5,126,221
Cash, End of Year	$ 5,858,331	$ 8,084,456

See accompanying notes.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations and Principles of Consolidation

Roman Catholic Diocese of Covington, Offices of the Curia (the Diocese) is a nonprofit entity, founded and existing under the laws of the Commonwealth of Kentucky and commencing operations in 1853. The Diocese provides programs and services to various parishes, schools and religious organizations in the Northern Kentucky area.

The accompanying consolidated financial statements include the assets, liabilities and financial activities of all offices and organizations providing services at the diocesan level of administration, which are fiscally responsible to and controlled by the Bishop of the Diocese as those terms are defined in relevant accounting literature. The consolidated financial statements include the central administrative and program offices and departments of the Diocese, Cemeteries, Messenger, St. Anne's Retreat Center, Diocesan Parish Annual Appeal, Secondary School Fund, Self-Insured Health Insurance Program and Alliance for Catholic Urban Education (ACUE). All significant inter-organizational balances and transactions have been eliminated for purpose of this presentation.

Various religious orders, lay societies and religious organizations which operate within the Diocese, but which are governed by their own boards of directors, such as Catholic Charities, Thomas More University, St. Elizabeth Hospital, Diocesan Catholic Children's Home and parishes and their related institutions and high schools, are not included in the accompanying consolidated financial statements.

Use of Estimates

The process of preparing consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Certain estimates relate to unsettled transactions and events as of the date of the consolidated financial statements. Other estimates relate to assumptions about the ongoing operations and may impact future periods. Accordingly, upon settlement, actual results may differ from estimated amounts.

Accounts, Contributions, Loans, and Notes Receivable

Accounts, contributions, loans, and notes receivable are stated at their contractual outstanding balances, net of any allowance for doubtful accounts. Accounts are considered past due if any portion of an account has not been paid in full within the contractual terms of the account or the anticipated due date. The Diocese begins to assess its ability to collect receivables that are over 90 days past due and provides an adequate allowance for doubtful accounts based on the Diocese's collection history, the financial stability and recent payment history of the grantors and clients, and other pertinent factors. Receivables are written off as uncollectible after the Diocese has used reasonable collection efforts and deems them uncollectible. Based on these criteria, the Diocese has estimated an allowance for doubtful accounts of $916,312 and $735,794 at June 30, 2019 and 2018, respectively, for accounts receivable, an allowance for uncollectible contributions receivable of $57,614 at both June 30, 2019 and 2018, and an allowance for doubtful accounts of $718,632 at both June 30, 2019 and 2018, for loans receivable.

Cemetery Property Held for Sale

Cemetery property held for sale consists of developed mausoleum, niche and lawn crypt properties and is stated at the lower of average cost, which includes construction costs, or net realizable value.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments

Investments if purchased are recorded at cost, or if donated, at fair value on the date of donation. Thereafter, investments are reported at their fair values in the consolidated statements of financial position. Net investment return is reported in the consolidated statements of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less any external and direct internal investment expenses. Cash equivalents, and other securities and investments held in brokerage accounts are protected by the Securities Investor Protection Corporation (SIPC) in the event of broker-dealer failure, up to $500,000 of protection for each brokerage account with a limit of $250,000 for claims of uninvested cash balances. The SIPC insurance does not protect against market losses on investments.

The Diocese maintains pooled investment accounts. Investment income and realized and unrealized gains and losses from securities in the pooled investment accounts are allocated monthly to the individual funds based on the relationship of the fair value of the interest of each fund to the total fair value of the pooled investment accounts, as adjusted for additions to or reductions from those accounts.

Property and Equipment

Property and equipment are stated at cost, or if donated, at fair value on the date of donation, and depreciated over the estimated useful lives of the related asset. Depreciation is computed using the straight-line method for financial reporting purpose. Maintenance and repairs are charged to operations when incurred. Betterments and renewals are capitalized for items in excess of $1,000. The Curia building, in Covington, Kentucky is the single most significant asset in this category.

The useful lives of property and equipment for purposes of computing depreciation are:

Land Improvements	15 Years
Buildings and Improvements	30 – 40 Years
Furniture and Equipment	3 – 10 Years

Loan Closing Costs

Loan closing costs associated with the issuance of long term debt are capitalized and amortized over the life of the associated debt using the straight-line method. The respective long term debt is presented on the consolidated statements of financial position, net of the unamortized loan closing costs.

Long-Lived Assets

Long-lived assets to be held and used are tested for recoverability whenever events or changes in circumstances indicate that the related carrying amount may not be recoverable. When required, impairment losses on assets to be held and used are measured based on the fair value of the asset, and long-lived assets to be disposed of by sale are reported at the lower of the carrying amount or fair value less costs to sell. Long-lived assets were measured for impairment, and no adjustments were deemed necessary during both the years ended June 30, 2019 and 2018.

Reserve for Incurred but not Reported Benefit Claims

The reserve for incurred but not reported benefit claims represents an estimated aggregate liability expected to be incurred, based upon actual claims data and estimates of claims incurred but not yet reported for the self-insured health care program.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor restrictions. The Diocese has designated, from net assets without donor restrictions, net assets for parish and school health insurance, support of secondary schools, inner city school funds, offertory program, parish and school loan programs, annuity funds, and seminarian programs.

Net Assets With Donor Restrictions – Net assets subject to donor imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

The Diocese reports contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities as net assets released from restrictions.

Guarantees

The Diocese guarantees certain third-party debt of unconsolidated affiliated schools and parishes. The guarantee terms generally range from 3 to 20 years. The Diocese has not recognized a liability for the fair value of the guarantees provided as of both June 30, 2019 and 2018. At June 30, 2019 and 2018, the total outstanding balances on guaranteed loans were approximately $429,071 and $538,512, respectively.

Revenue and Revenue Recognition

Advance and Deferred Receipts

Revenue from fees for pre-need sales of cemetery property held for sale, advances on subscriptions and retreats and other advance payments is deferred and recognized over periods to which the fees relate.

Parish Assessments

All Diocesan parishes pay annual assessments to the Diocese to provide for the operating budget of the Diocese. Revenue from parish assessments is recognized when earned. The Diocese bills its parishes in advance based on prior assessable income calculations. Payments received in advance are held as advances and deferred receipts until earned.

Fundraising

The Diocese recognizes revenues from special events, gifts and grants from its fundraising activities and incurs related expenses as presented in the consolidated statement of functional expenses.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Donated Materials, Equipment and Services

Donations of materials and equipment are recorded as contributions at fair value at the date of donation. Such donations are reported as increases in net assets without donor restrictions unless the donor has restricted the donated asset to a specific purpose.

Donated services are recognized as contributions if the services a) create or enhance nonfinancial assets or b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Diocese.

The Diocese has significant time contributed to its mission through volunteers. However, the consolidated statements of activities does not reflect the value of these services as they do not meet recognition criteria required under U.S. GAAP.

Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the consolidated statements of activities. The consolidated statement of functional expenses presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The expenses that are allocated include occupancy and office expenses, property and liability insurance expenses, information technology expenses, and computer expenses which are allocated on a square footage basis, workers compensation insurance and telephone expense which is allocated on the basis of number of employees, and some salaries and wages and benefits which are allocated on the basis of estimates of time.

Employee Benefit Plans

The Diocese participates with other employers in a multi-employer defined benefit pension plan covering all of its lay employees who elect to be members in the plan.

The Diocese also has two plans that cover its priests. One plan provides retirement income to qualified priests. The other plan provides post-retirement benefits such as health insurance and nursing benefits.

Income Tax Status

The Diocese is a Kentucky nonprofit organization as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal and state income taxes on related income pursuant to the Internal Revenue Code.

The Diocese has adopted the provisions of the accounting pronouncement related to accounting for uncertainty in income taxes. The Diocese recognized no interest or penalties in the consolidated statements of activities for either of the years ended June 30, 2019 or 2018. If the situation arose in which the Diocese would have interest to recognize, it would recognize this as interest expense and penalties would be recognized in other expenses. Currently, the prior three years are open under federal and state statute of limitations and remain subject to review and change. The Diocese is not currently under audit, nor has the Diocese been contacted by these jurisdictions.

Based on the evaluation of the Diocese’s tax positions, management believes all positions taken would be upheld under an examination. Therefore, no provision for the effects of uncertain tax positions has been recorded for either of the years ended June 30, 2019 or 2018.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reclassifications

Certain amounts in the prior period consolidated financial statements have been reclassified for comparative purposes to conform with the presentation in the current year. The reclassifications had no impact on previously reported net assets.

Recently Issued Significant Accounting Standards

Revenue Recognition Standard

In May, 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (Topic 606). The core principle of the guidance 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 to in exchange for those goods or services. This standard may have an impact on the timing of when an entity recognizes certain revenue. The ASU is effective for nonpublic entities for years beginning after December 15, 2018.

In June, 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2018-08, *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made* (Topic 958). The core principle of the guidance is to clarify and improve current guidance about whether a transfer of assets is a contribution or an exchange transaction by evaluating whether the resource provider is receiving commensurate value in return for the resources transferred. The ASU is effective for nonpublic entities for years beginning after December 15, 2018.

Lease Accounting Standard

In February, 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, *Leases* (Topic 842). The core principle of Topic 842 is that a lessee should recognize the assets and liabilities that arise from leases that are not excluded by this standard. Such leases create an asset and liabilities that arise from leases that are not excluded by this standard. Such leases create an asset and a liability for the lessee in accordance with FASB Concepts Statement No. 6, Elements of Financial Statements, and therefore, recognition of those lease assets and lease liabilities to be recognized for most leases. The ASU is effective for nonpublic entities for years beginning after December 15, 2019.

The Diocese is currently in the process of evaluating the impact of adoption of these ASUs on their consolidated financial statements.

Change in Accounting Principle

In August, 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities* (Topic 958). The core principles of the guidance are a reduction in the number of net asset categories from three to two, reporting investment return net of external and internal investment expenses, the placed-in-service approach for reporting expirations of restrictions on donated assets and enhanced disclosures regarding designations and donor restrictions, qualitative and quantitative liquidity information, expense allocation methods, expenses by natural classification and function and underwater endowments. The Diocese implemented ASU 2016-14 and adjusted presentation in these consolidated statements accordingly.

Subsequent Events

The Diocese has evaluated subsequent events through October 22, 2019, which is the date the consolidated financial statements were available to be issued.

NOTE 2 – LIQUIDITY

Financial assets available for general use and without donor or other restrictions limiting their use, within one year of the consolidated statement of financial position are comprised of the following:

		June 30, 2019
Cash, Without Restrictions	$	5,839,963
Accounts Receivable, Net		445,795
Investments		9,791,954
	$	16,077,712

The Diocese's endowment funds consist of donor-restricted endowments. Income from donor-restricted endowments are restricted for specific purposes. Donor-restricted endowment funds are not available for general use.

The Diocese maintains funds designated for specific purposes. Although the Diocese does not intend to spend from these funds for general use purposes, these funds are available for general use purposes, if deemed necessary.

Certain financial assets are not available for general use due to regulatory requirements. The Diocese held investments of $2,878,783 at June 30, 2019 to be used for perpetual care and maintenance of Diocese cemeteries, and the Diocese held cash of $18,368 to be used for claims against the Diocese. These amounts are not available for general use.

NOTE 3 – CASH AND CASH FLOWS

For purposes of the consolidated cash flows statements, cash includes cash on hand and cash held in checking accounts.

At various times throughout the year, the Diocese may have cash in financial institutions in excess of insured limits. The Federal Deposit Insurance Corporation (FDIC) insures account balances up to $250,000 for each business depositor.

Cash paid for interest on notes payable was $453,249 and $375,467 in 2019 and 2018, respectively, and cash paid for interest on deposits payable was $207,859 and $186,524 in 2019 and 2018, respectively.

The Diocese had noncash financing or investing activities as follows:

	Years Ended June 30, 2019	Years Ended June 30, 2018
Non-Cash Decrease in Notes Receivable, Net and Notes Payable, Net	$ (4,657,284)	$ (2,967,030)
Non-Cash Increase in Loans Receivable, Net and Deposits Payable, Net	$ 2,250,000	$ -

NOTE 4 – CONTRIBUTIONS RECEIVABLE

Contributions receivable represents the amounts due for the Diocesan Parish Annual Appeal (DPAA), the Diocesan Capital Campaign – Faith in Action 2000 and ACUE appeal. The DPAA begins April 1 of each year and pledges made may be paid in installments through March 31 of the following year. Contributions receivable are recorded in the consolidated financial statements at their historically collected rate and are discounted to present value where applicable.

Contributions receivable were as follows:

	June 30, 2019	June 30, 2018
Amounts Due in		
Less than One Year	$ 1,030,760	$ 758,687
One to Five Years	1,000,000	1,000,000
Less Present Value Discount	(67,081)	(63,154)
Contributions Receivable, Net	$ 1,963,679	$ 1,695,533

Included in contributions receivable is a pledge for $1,000,000, which is past its original due date. The pledge is expected to be collected within one to five years and has been categorized as such in the table above. The Diocese maintains contact with the donor and estimates the pledge to be fully collectible. Events could occur that would change this estimate materially in the near term.

NOTE 5 – CEMETERY PROPERTY HELD FOR SALE

Developed burial spaces available for sale at June 30, 2019 and 2018, and burial spaces sold and the average sales prices (exclusive of plaques) for the years then ended, are as follows:

	Developed Burial Spaces Available for Sale, Including Returned Spaces		Number of Burial Spaces Sold		Average Sales Price	
	2019	2018	2019	2018	2019	2018
Graves	1,109	1,357	248	239	$ 1,340	$ 1,340
Mausoleum Crypts	159	190	31	40	4,400	4,400
Lawn Crypts	42	47	5	15	2,970	2,970
Columbarian Niches	19	28	9	11	1,050	1,050

There were no graves developed during 2019 and 2018.

NOTE 6 – FAIR VALUE MEASUREMENTS

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Diocese has the ability to access.

Level 2 - Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, inputs other than quoted prices that are observable for the asset or liability, and inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for marketable securities measured at fair value. There have been no changes in the methodologies used at June 30, 2019 and 2018.

Common Stocks: Valued at closing price reported on the active market in which the individual securities are traded.

Corporate Bonds and Commercial Paper, Short-Term U.S. Treasury and Agency Obligations: Valued by the custodians of the securities using pricing models based on credit quality, time to maturity, stated interest rates, and market-rate assumptions.

Mutual Funds: Valued at the net asset value (NAV) of shares held by the Diocese at year end.

The preceding methods described may provide a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Diocese believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the operating date.

The following were measured at fair value as of June 30, 2019:

	Investments at Fair Value			
June 30, 2019	Level 1	Level 2	Level 3	Total
Common Stocks	$ 4,757,226	$ -	$ -	$ 4,757,226
Fixed Income Mutual Funds	30,832	-	-	30,832
Commercial Paper, Short-Term U.S. Treasury and Agency Obligations	-	2,860,677	-	2,860,677
Corporate Bonds	-	11,852,706	-	11,852,706
Total Assets in Fair Value Hierarchy	$ 4,788,058	$ 14,713,383	$ -	19,501,441
Investments Measured at Net Asset Value (a)				14,529,328
Total Investments				$ 34,030,769

NOTE 6 – FAIR VALUE MEASUREMENTS (Continued)

The following were measured at fair value as of June 30, 2018:

June 30, 2018	Investments at Fair Value Level 1	Level 2	Level 3	Total
Common Stocks	$ 4,406,245	$ -	$ -	$ 4,406,245
Fixed Income Mutual Funds	101,917	-	-	101,917
Commercial Paper, Short-Term U.S. Treasury and Agency Obligations	-	491,410	-	491,410
Corporate Bonds	-	12,006,024	-	12,006,024
Total Assets in Fair Value Hierarchy	$ 4,508,162	$ 12,497,434	$ -	17,005,596
Investments Measured at Net Asset Value (a)				14,526,985
Total Investments				$ 31,532,581

(a) In accordance with FASB ASC Subtopic 820-10, certain investments that were measured at net asset value per share (or its equivalent) as a practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in the table are intended to permit reconciliation of the fair value hierarchy to the line items presented in the consolidated statements of financial position.

Risks and Uncertainties

The Diocese invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credits risks. Due to the level of risks associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect account balances and amounts reported in the consolidated statements of financial position.

NOTE 7 – PROPERTY AND EQUIPMENT

Property and equipment and related accumulated depreciation consists of the following:

	June 30, 2019	2018
Land and Improvements	$ 1,357,749	$ 1,334,849
Buildings and Improvements	15,155,038	14,966,297
Furniture and Equipment	1,850,834	1,760,144
Construction in Progress	56,031	-
	18,419,652	18,061,290
Less Accumulated Depreciation	4,943,371	4,718,290
	$ 13,476,281	$ 13,343,000

NOTE 8 – LOANS RECEIVABLE AND DEPOSITS PAYABLE

Loans receivable and deposits payable consists of the following:

	June 30,	
	2019	2018
Loans receivable from parishes, schools and other Diocesan institutions; due on demand; unsecured; interest ranging from 0.75% to 5.5% per annum; net of allowance of $718,632 at both June 30, 2019 and 2018.	$ 2,433,913	$ 409,689
Deposits payable to parishes, schools and other Diocesan institutions - Deposit and Loan Fund; payable on demand; unsecured; interest of 2.25% per annum.	$ 13,960,618	$ 10,211,538

NOTE 9 – OTHER ASSETS

Included in other assets, the self-insurance fund holds a 4.25% ownership investment of $419,516 and $453,875 as of June 30, 2019 and 2018, respectively, in Catholic Umbrella Pool II (CUP II). CUP II is a self-insurance arrangement for 62 Catholic diocesan entities. The investment is accounted for by the equity method, since the endeavor is with a captive insurance company, which is exclusively owned and utilized by the Catholic diocesan entities.

NOTE 10 – NOTES PAYABLE AND NOTES RECEIVABLE

During 2016, the Diocese entered into a loan syndication facilitated by US Bank to consolidate the existing debt of the Diocesan entities and enable the Diocese to access additional funds to be used for future expansion or renovation of its churches, schools, and other facilities. Through this loan syndication, the Diocese will be the borrower and the individual parishes, schools, and institutions will be the account debtors to the Diocese. US Bank will serve as the administrative agent and the lenders will be a group mutually acceptable to the borrower and administrative agent.

In facilitating this syndication, the Diocese entered into a loan agreement on May 19, 2016 with the Kentucky Bond Development Corporation, a Kentucky nonprofit corporation, acting on behalf of local governments in the Commonwealth of Kentucky. The loan agreement called for the issuance of Educational Facilities Revenue Bonds, City of Park Hills Series 2016 A in the aggregate amount of $7,128,783 and Educational Facilities Revenue Bonds, City of Alexandria, Edgewood and Newport Series 2016 B in the aggregate principal amount of $8,129,250. In May, 2019, the Diocese extended the syndication to call for Educational Facilities Revenue Bonds, City of Park Hills Series 2018 A in the aggregate principal amount of $1,500,000 and in June, 2019 to call for Educational Facilities Revenue Bonds, City of Erlanger, Series 2018 B in the aggregate principal amount of $1,413,216 and Educational Facilities Revenue Bonds, City of Alexandria, Series 2019 in the aggregate principal amount of $3,000,000 (together, the “notes”). The notes shall be dated as of May 1, 2016, May 1, 2018, and June 1, 2019, respectively and payable in amounts set forth in the respective promissory notes between the Diocese and parishes or schools, until the principal amount of the notes is paid in full. Accordingly, the Diocese has recognized off-setting notes receivable and payable for the loans made to each individual school and parish.

NOTE 10 – NOTES PAYABLE AND NOTES RECEIVABLE (Continued)

Notes payable related to the loan syndication as of June 30 are as follows:

	June 30, 2019	June 30, 2018
Series 2016 A Bonds	$ 4,193,094	$ 5,610,309
Series 2016 B Bonds	2,467,982	4,908,971
Series 2016 Term Bonds	784,415	858,296
Series 2017 Bonds	-	225,200
Series 2018 A Bonds	1,500,000	2,000,000
Series 2018 B Bonds	1,413,216	-
Series 2019 Bonds	3,000,000	-
Term Note	63,741	-
	13,422,448	13,602,776
Less Unamortized Debt Issuance Costs	(92,438)	(138,657)
	$ 13,330,010	$ 13,464,119

Interest on all notes are to be equal to the payments of interest on the corresponding bonds, which shall bear interest at a rate equal to one-month LIBOR, plus 1.20% (2.40% at June 30, 2019). All notes are secured by the real property of the schools and general assets of the Diocese.

The individual promissory note receivables are as follows:

	June 30, 2019	June 30, 2018
SERIES 2016 A BONDS		
Covington Latin School		
Promissory note consisting of two loans payable in quarterly installments ranging from $27,444 to $157,995 with maturities ending on April, 2022 and October, 2030. Balloon payment of $785,325 due upon April 1, 2022.	$ 4,193,094	$ 4,501,142
Covington Catholic High School		
Promissory note payable in annual installments ranging from $225,000 to $255,000 with a maturity date of November 1, 2022. This was paid off during the year ended June 30, 2019.	-	1,109,167
Total Series 2016 A Bonds	$ 4,193,094	$ 5,610,309

NOTE 10 – NOTES PAYABLE AND NOTES RECEIVABLE (Continued)

	June 30, 2019	June 30, 2018
SERIES 2016 B BONDS		
Bishop Brossart High School		
Promissory note payable in quarterly installments ranging from $147,610 to $255,000 with a maturity date of November 1, 2022.	$ 156,574	$ 775,795
Newport Catholic High School		
Promissory note payable in monthly installments ranging from $10,694 to $14,089 with a maturity date of May 1, 2029.	1,662,408	1,810,182
St. Henry District High School		
Promissory note payable in monthly installments ranging from $20,776 to $21,057 with a maturity date of January 1, 2023. This was paid off during the year ended June 30, 2019.	-	1,473,994
St. Pius X School		
Promissory note payable in annual installments ranging from $99,000 to $150,000 with a maturity date of June 1, 2028.	649,000	849,000
Total Series 2016 B Bonds	$ 2,467,982	$ 4,908,971
SERIES 2016 TERM BONDS		
St. Patrick Parish		
Promissory note payable in quarterly installments ranging from $4,495 to $6,896 with a maturity date of January 21, 2028.	$ 640,257	$ 699,558
St. Joseph Parish, Cold Spring		
Promissory note payable in monthly installments of $4,381 with a maturity date of May 1, 2029.	144,158	158,738
Total Series 2016 Term Bonds	$ 784,415	$ 858,296

NOTE 10 – NOTES PAYABLE AND NOTES RECEIVABLE (Continued)

	June 30, 2019	June 30, 2018
SERIES 2017		
St. Timothy Parish		
Promissory note payable in monthly installments of $14,800 with a maturity date of August 1, 2022.	$ -	$ 225,200
SERIES 2018 A TERM BONDS		
Covington Catholic High School		
Promissory note payable in annual installments of $500,000 with a maturity date of May, 2022.	$ 1,500,000	$ 2,000,000
SERIES 2018 B TERM BONDS		
St. Henry District High School		
Promissory note payable with no payment schedule set up as of June 30, 2019.	$ 1,413,216	$ -
SERIES 2019 TERM BONDS		
Bishop Brossart High School		
Promissory note payable in quarterly installments of $150,000 with a maturity date of May 31, 2024.	$ 3,000,000	$ -
Total	$ 13,358,707	$ 13,602,776

In connection with the St. Henry District High School promissory note, the school entered into an interest rate swap agreement to pay interest to the counterparty at a fixed rate, plus certain fees, on the notional amount and to receive interest from the counterparty at the floating index rate as defined in the agreement. The school paid or received the net interest amount monthly, with the monthly settlements included in interest expense. The swap agreement matured on January 1, 2018.

Debt issuance costs of $210,996 have been recognized as a reduction to the face amount of the notes payable and will be amortized over a period of five years. Amortization of debt issuance costs of $46,219 and $46,222 have been reported as interest expense for 2019 and 2018, respectively.

The aggregate remaining maturities on the notes payable and receivable are as follows:

Years Ending June 30,	
2020	$ 2,041,210
2021	1,921,535
2022	2,955,793
2023	1,395,798
2024	1,402,913
Thereafter	3,641,458
	$ 13,358,707

NOTE 11 – PLEDGES PAYABLE

The Diocese has recognized liabilities for promises to pay four Diocesan entities in future periods. Pledges payable at June 30 consisted of the following:

	June 30, 2019	June 30, 2018
Less than One Year	$ 95,000	$ 65,000
One to Five Years	150,000	115,000
	245,000	180,000
Less Unamortized Discount	(5,212)	(2,840)
	$ 239,788	$ 177,160

NOTE 12 – ADVANCES AND DEFERRED RECEIPTS

Advances and deferred receipts consists of the following:

Reserve for Counseling Claims Related to Class Action Lawsuit Settlement	$ 1,107,250	$ 1,209,174
Deferred Parish Assessment Revenue	2,711,561	2,744,935
Other Advances	303,977	43,055
Deferred Revenue Related to Cemetery Markers, Plaques and Inscriptions to be Installed	135,115	133,852
Deferred Revenue Related to ACUE	158,136	25,610
Deferred Revenue for *Messenger* Newspaper	1,272	6,170
Benefit Obligation at End of Year	$ 4,417,311	$ 4,162,796

NOTE 13 – ENDOWMENT FUNDS

The Diocese's endowment consists of donor-restricted funds. As required by U.S. GAAP, net assets associated with endowment funds are classified and reported based on existence or absence of donor-imposed restrictions.

The Diocese has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the contributed 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 retains in perpetuity (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instruction at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund are classified as with donor restrictions net assets until those amounts are appropriated for expenditure by the Diocese in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with 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 various funds, (2) the purposes of the donor-restricted endowment funds, (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 and (7) the Diocese's investment policies.

NOTE 13 – ENDOWMENT FUNDS (Continued)

Investment Return Objectives, Risk Parameters and Strategies. The Diocese expects its endowment assets, over time, to produce an average rate of return of approximately 7.5% annually. Actual returns in any given year may vary from this amount. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

Spending Policy. The Diocese has a policy that allows for appropriating for expenditure each year up to 4.5% of the average of the past 36 months' of month end total investment account value. In addition, the policy requires that the historic value of the endowment fund be preserved in order to appropriate funds for expenditure. In establishing this policy, the Diocese considered the long term expected return on its endowment and other invested assets. Accordingly, over the long term, the Diocese expects the current spending policy to allow its endowment to grow at an average of 3.0% annually. This is consistent with the Diocesan objective to maintain the purchasing power of the endowment assets held in perpetuity or for the specified term, as well as to provide additional real growth through new gifts and investment returns. The Diocese does not allow unspent or un-appropriated distributions from prior years to carry over to the future years.

Endowment net asset composition by type of fund as of June 30, 2019 is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor Restricted Endowment Funds	$ -	$ 4,821,578	$ 4,821,578
Endowment Net Asset Composition by Type of Fund	$ -	$ 4,821,578	$ 4,821,578

Changes in endowment net assets for the year ended June 30, 2019 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment Net Assets, Beginning of Year	$ -	$ 4,757,358	$ 4,757,358
Investment Return, Net	-	189,220	189,220
Appropriation of Endowment Assets Pursuant to Spending Policy	-	(125,000)	(125,000)
Endowment Net Assets, End of Year	$ -	$ 4,821,578	$ 4,821,578

NOTE 13 – ENDOWMENT FUNDS (Continued)

Endowment net asset composition by type of fund as of June 30, 2018 is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor Restricted Endowment Funds	$ -	$ 4,757,358	$ 4,757,358
Endowment Net Asset Composition by Type of Fund	$ -	$ 4,757,358	$ 4,757,358

Changes in endowment net assets for the year ended June 30, 2018 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment Net Assets, Beginning of Year	$ -	$ 4,536,050	$ 4,536,050
Investment Return, Net	-	341,308	341,308
Appropriation of Endowment Assets Pursuant to Spending Policy	-	(120,000)	(120,000)
Endowment Net Assets, End of Year	$ -	$ 4,757,358	$ 4,757,358

NOTE 14 – BOARD DESIGNATED NET ASSETS

The Board designated net assets for the following purposes:

	June 30, 2019	June 30, 2018
Funds to Pay for Parish and School Health Insurance	$ 4,200,440	$ 4,321,331
Funds to Support Secondary Schools	1,981,421	1,870,533
Inner City School Funds	271,920	697,162
Parish and School Loan Programs	(110,773)	(117,872)
Annuity Funds and Other	464	7,088
Over-spending on Seminarian Programs	(1,084,956)	(896,350)
	$ 5,258,517	$ 5,881,892

Legally restricted net assets for cemetery endowed care are required by the Commonwealth of Kentucky to be held for the purpose of perpetual care and maintenance of Diocese cemeteries and amounted to $2,878,783 and $2,818,033 at June 30, 2019 and 2018, respectively. Only the income on these funds may be used for care and maintenance.

NOTE 15 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted as follows:

	June 30, 2019	June 30, 2018
Subject to Expenditure for Specified Purpose:		
Pastoral Ministry Seminarian Services	$ -	$ 188,606
Diocesan Parish Annual Appeal	2,679,405	2,516,887
General Educational Need	89,835	84,578
ACUE	744,029	770,290
Other	417,895	390,167
	3,931,164	3,950,528
Subject to the Passage of Time:		
ACUE pledges for the 2019-2020 school year	76,619	-
Endowments:		
Subject to Appropriation and Expenditure When a Specified Event Occurs		
Accumulated Net Appreciation of Endowment Funds	1,321,898	1,257,678
Not Subject to Spending Policy or Appropriation:		
Educational Endowment	2,485,216	2,485,216
Property Maintenance Endowment	942,386	942,386
Diocesan Annual Appeal Endowment	52,504	52,504
Other Endowment	16,374	16,374
ACUE Endowment	3,200	3,200
Endowed Restricted Net Assets	4,821,578	4,757,358
Total Net Assets with Donor Restrictions	$ 8,829,361	$ 8,707,886

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by the donors as follows:

Net Assets Released from Restrictions	2019	2018
Satisfaction of Purpose Restrictions		
Diocesan Parish Annual Appeal	$ 2,528,427	$ 2,403,131
Pastoral Ministry Seminarian Services	478,235	404,261
ACUE	1,024,724	1,009,722
Other	10,537	18,004
	4,041,923	3,835,118
Restricted-Purpose Distributions and Appropriations		
General Educational Need	125,000	120,000
Total Net Assets Released From Restrictions	$ 4,166,923	$ 3,955,118

NOTE 16 – EMPLOYEE BENEFIT PLAN

Lay Employees Defined Benefit Pension Plan

The Diocese participates in the Employees' Pension and Investment Plan of Diocese of Covington and Other Adopting Employers (the Lay Plan). The Diocese has a contributory multi-employer defined benefit pension plan covering all lay employees who are at least 21 years of age and work at least 15 hours per week and five or more months per year. The pension plan is considered to be a multi-employer plan because financial activity of parishes and other entities of the Diocese that contribute to this plan are not included in these consolidated financial statements. There are no separate valuation of plan benefits or segregation of plan assets specifically for the Office of the Curia. As a religious organization, the Diocese plans are not subject to the *Employee Retirement Income Security Act of 1974* (ERISA) or the *Pension Protection Act of 2006* (PPA).

The risks of participating in these multi-employer plans are different from the risks associated with single-employer plans in the following respects:

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

b. If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.

c. If the Diocese chooses to stop participating in the multi-employer plan, they may be required to pay those plans an amount based on the underfunded status of the plan.

Employees become eligible to participate after reaching age 21, provided the employee agrees to make the required contribution. Participating employees are required to contribute 3.5% of their annual compensation. The Diocese has an automatic enrollment policy for all eligible employees. The Dioceses has agreed to voluntarily contribute such additional amounts that are necessary to provide assets sufficient to meet the benefits to be paid to plan members. The total pension expense was $261,832 and $173,360 for the years ended June 30, 2019 and 2018, respectively. The Diocese contributions do not represent more than 5% of total contributions received by the Lay Plan. The plan year end is June 30. As of the most recent valuation date of July 1, 2018, the plan was 86% funded, the actuarial value of the plan assets was $96,619,832 and the accumulated value of the plan benefits was $112,671,000.

A participant who entered the Lay Plan before November 1, 2000 and who has attained the age of 65 and has completed at least 5 years of participation or 10 years of credited service or attained the age of 60 and has completed at least 30 years of credited service and 5 years of participation is eligible for retirement pension payable for life determined as 0.885% of prior service compensation multiplied by service credited from date of hire to participation plus 1.77% of annual compensation for each year of service from date of participation. Effective as of November 1, 2000, an employee will accrue benefits at 1.77% of annual compensation for each year of service from the date of participation. After reaching age 55 and completing 10 years of service, a participant may retire and elect to receive an immediate monthly benefit equal to the participant's accrued benefit reduced 0.5% for each month by which the participant's early retirement date preceded his normal retirement date.

Priests Retirement Plan

The Diocese maintains a qualified church plan covering Diocesan priests. The plan is exempt from most of the requirements of ERISA. The plan is not designed to be a defined benefit or defined contribution plan and operates as a separate trust under the sponsorship of the Diocese. The plan is administered be seven independent trustees who implement policies established by the Priest Senate and approved by the Bishop. The current policy is that any priest having spent his entire priesthood on assignment with the Diocese, its parishes, schools, or other institutions, with a minimum of twenty years of service is eligible for retirement benefits. The Diocesan Annual Appeal partially funded the Priest Retirement Plan in the amount of $267,800 and $272,600 for the years ended June 30, 2019 and 2018, respectively.

NOTE 17 – POSTRETIREMENT BENEFIT PLAN

The Diocese provides health care insurance and nursing benefits to retired priests. The health insurance benefits are noncontributory. Retired priests residing in nursing homes contributed $425 per month toward the cost of nursing care. The Diocese policy is to fund expenses as they are incurred. Current accounting and reporting standards for postretirement benefits other than pensions require the Diocese to recognize the unfunded liability in its consolidated statements of financial position. The Diocese uses a June 30 measurement date for the Plan. Accrued postretirement benefit costs were $4,066,299 and $4,691,722 at June 30, 2019 and 2018, respectively.

The following table reconciles the change in accumulated benefit obligation and the amounts included in the consolidated statements of financial position as of June 30:

	June 30,	
	2019	2018
Change in Projected Benefit Obligation		
Benefit Obligation at Beginning of Year	$ 4,691,722	$ 4,554,423
Service Cost	70,575	72,000
Interest Costs	183,469	166,000
Benefits Paid	(309,306)	(210,701)
Actuarial (Gain) Loss	(570,161)	110,000
Benefit Obligation at End of Year	$ 4,066,299	$ 4,691,722

The Diocese recognizes postretirement health care expenses in its consolidated statements of activities. The components of the expense are:

	Years Ended June 30,	
	2019	2018
Service Cost - Benefits Attributed to Service During the Period	$ 70,575	$ 72,000
Interest Costs on Accumulated Post Retirement Benefit Obligation	183,469	166,000
Total	$ 254,044	$ 238,000

For measurement purposes, a 6.0% annual rate of increase in the per capita cost of covered insurance and Medicare Part D costs and a 3.0% annual rate of increase in the per capita costs of covered nursing home costs are assumed. The weighted average discount rate used in determining the accumulated postretirement benefit obligation was 7.0%.

NOTE 17 – POSTRETIREMENT BENEFIT PLAN (Continued)

The following benefit payments are expected to be paid based on the last actuarial review of the plan in 2019:

Years Ending June 30,		
2020	$	323,225
2021		302,043
2022		288,194
2023		256,184
2024		253,582
Thereafter		1,015,493
	$	2,438,721

NOTE 18 – GRANTS MADE BY DIOCESE

	Years Ended June 30, 2019	2018
Priest Retirement Fund	$ 279,800	$ 272,600
Catholic Charities	250,000	250,000
Cathedral Operating	427,106	248,961
Inner City	229,500	250,000
Parishes and Schools	127,820	121,110
School Lunch Program	(87,500)	(87,500)
Educational Assistance	80,000	75,000
DPAA Pledges from Contingency	125,644	-
Mission Outreach	20,073	21,530
Holy See	22,000	22,000
Miscellaneous	23,871	18,875
	$ 1,498,314	$ 1,192,576

NOTE 19 – CONTINGENCIES

The Diocese is subject to various claims and legal proceedings covering a wide range of matters that arise in the ordinary course of its business activities. Management believes that any liability that may ultimately result from the resolutions of these matters will not have a material adverse effect on the financial position or results of operations of the Diocese.

The Diocese's liability policies for some policy years have a $50,000 per claim deductible that may apply to any pending lawsuits.

NOTE 20 – SELF-INSURANCE

The Diocese administers a self-insured medical health plan for clergy and eligible lay employees at parishes, schools and other agencies. The plan is funded by participant premium contributions and direct billings to parishes, schools and agencies based on the number of employees participating in the program. The self-insured program pays for the first $150,000 of claims per individual per year to a maximum aggregate of 125% of total expected claims. Amounts in excess of these limits are insured with a general insurance carrier.