ROMAN CATHOLIC DIOCESE OF COVINGTON, OFFICES OF THE CURIA

June 30, 2020

CONSOLIDATED FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT

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INDEPENDENT AUDITORS' REPORT

Diocesan Finance Council
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, 2020 and 2019, 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.

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, 2020 and 2019, 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 2020, Roman Catholic Diocese of Covington, Offices of the Curia adopted Accounting Standards Update (ASU) No 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 958)* and ASU No. 2014-09, *Revenue from Contracts with Customers* (Topic 606), as amended. Our opinion is not modified with respect to these matters.

VonLehman & Company Inc.

Fort Wright, Kentucky
October 13, 2020

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

ASSETS

	June 30, 2020	June 30, 2019
Assets		
Cash	$ 6,640,294	$ 5,858,331
Accounts Receivable, Net	802,454	438,873
Loans Receivable, Net	3,144,051	2,433,913
Notes Receivable, Net	14,128,437	13,358,707
Unconditional Promises to Give, Net	2,943,603	1,970,601
Cemetery Property Held for Sale	457,302	180,066
Investments	24,322,535	31,151,986
Restricted Investments for Perpetual Care Fund	2,941,534	2,878,783
Property and Equipment, Net	13,280,516	13,476,281
Other Assets	904,281	592,102
Total Assets	$ 69,565,007	$ 72,339,643

LIABILITIES AND NET ASSETS

	2020	2019
Liabilities		
Accounts Payable and Accrued Expenses	$ 1,040,437	$ 1,009,185
Reserve for Incurred but not Reported Benefit Claims	835,482	784,336
Special Collections Payable	662,163	608,737
Pledges Payable, Net	147,317	239,788
Deposits Payable	11,043,654	13,960,618
Notes Payable, Net	14,132,540	13,330,010
Advances and Deferred Receipts	4,163,107	4,417,311
Priest Postretirement Liability	4,090,074	4,066,299
Total Liabilities	36,114,774	38,416,284
Net Assets		
Without Donor Restrictions	24,123,226	25,093,998
With Donor Restrictions	9,327,007	8,829,361
Total Net Assets	33,450,233	33,923,359
Total Liabilities and Net Assets	$ 69,565,007	$ 72,339,643

See accompanying notes.

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

	Year Ended June 30, 2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, Support, Gains and Reclassifications			
Parish Assessments	$ 4,981,629	$ -	$ 4,981,629
Diocesan Parish Annual Appeal	-	2,648,847	2,648,847
Dividends and Interest, Net	727,558	202,506	930,064
Grants and Special Collections	20,555	405,979	426,534
Realized Gains on Investments	1,415,591	-	1,415,591
Unrealized Losses on Investments	(442,055)	-	(442,055)
Contributions and Bequests	320,560	1,402,360	1,722,920
Self-Insurance Premium Retention	410,213	-	410,213
Fees and Sales	4,136,627	-	4,136,627
Health Insurance Billings	9,340,182	-	9,340,182
Payroll Protection Program Revenue, Net	2,056,718	-	2,056,718
Other Income	213,950	-	213,950
Net Assets Released From Restrictions	4,162,046	(4,162,046)	-
Total Revenues, Support, Gains and Reclassifications	27,343,574	497,646	27,841,220
Expenses			
Programs	10,430,310	-	10,430,310
Fundraising	484,249	-	484,249
Management and General			
Episcopal Administration	2,205,191	-	2,205,191
Settlements, Legal Fees and Counseling Related to Sexual Abuse	106,596	-	106,596
Grants Made by Diocese	1,958,158	-	1,958,158
Interest	632,424	-	632,424
Priest Post Employment Benefits	607,141	-	607,141
Depreciation	-	-	-
Secondary School Grants	1,956,472	-	1,956,472
Health Insurance Claims and Administration	9,806,120	-	9,806,120
Contributions and Assessments	127,685	-	127,685
Other	-	-	-
Total Expenses	28,314,346	-	28,314,346
Change in Net Assets	(970,772)	497,646	(473,126)
Net Assets, Beginning of Year	25,093,998	8,829,361	33,923,359
Net Assets, End of Year	$ 24,123,226	$ 9,327,007	$ 33,450,233

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, Net	700,466	220,756	921,222
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	4,280,003	-	4,280,003
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 FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2020

	Programs													
	ACUE	Education	Seminary	Clergy	Community/ Pastoral	Retreat Center	Messenger	Facility and Project	Cemeteries	Total	Fundraising	Management and General	Other	Total
Salaries	$ 3,259,992	$ 712,794	$ 149,640	$ 288,451	$ 615,911	$ 628,818	$ 303,074	$ 308,004	$ 464,639	$ 6,731,323	$ 280,774	$ 1,448,267	$ -	$ 8,460,364
Events, Masses, Receptions	58,533	152,679	91,481	54,914	104,306	400	-	3,079	2,211	467,603	3,338	94,615	-	565,556
Supplies, Books, Subscriptions	15,640	38,449	171,281	1,937	21,139	60,315	16,943	112,427	33,920	472,051	1,338	15,975	-	489,364
Telecommunications	50,991	2,578	1,019	280	1,684	5,999	2,064	19,584	6,179	90,378	1,116	12,474	-	103,968
Postage	15,109	642	368	200	3,168	55	144,074	179	276	164,071	769	10,414	-	175,254
Printing	6,030	2,689	38	103	5,783	-	128,544	116	1,090	144,393	5,338	10,266	-	159,997
Building and Property Expenses	290,260	54,163	6,124	4,692	74,444	140,776	26,604	(23,828)	253,836	827,071	18,276	138,330	-	983,677
Travel/Fuel	10	1,821	13,204	1,469	8,812	42	1,459	16,420	287	43,524	107	84,789	-	128,420
Professional Fees, Dues, and Services	194,243	500	2,480	66,438	12,067	21,923	3,316	15,122	14,810	330,899	1,785	253,490	-	586,174
Cost of Sales	-	-	-	-	-	-	-	-	52,688	52,688	-	-	-	52,688
Other	11,389	15,995	-	-	-	4,186	720	1,328	113	33,731	-	24,949	-	58,680
Donor Maintenance	-	-	-	-	-	-	-	-	-	-	171,408	-	-	171,408
Insurance	-	-	-	-	1,630	26,308	-	54,318	24,651	106,907	-	106,662	-	213,569
Grants	-	-	-	-	-	-	-	-	-	-	-	-	1,958,158	1,958,158
Interest	-	-	-	-	-	-	-	-	-	-	-	-	632,424	632,424
Bad Debt	-	38,706	2,106	-	-	-	-	-	(4,044)	36,768	-	4,500	-	41,268
Tuition/Room and Board	-	-	293,892	58,455	-	-	-	-	-	352,347	-	-	-	352,347
Priest Post Employment Benefits	-	-	-	-	-	-	-	-	-	-	-	-	607,141	607,141
Depreciation	5,786	-	-	-	-	53,569	-	446,748	70,453	576,556	-	460	-	577,016
Secondary School	-	-	-	-	-	-	-	-	-	-	-	-	1,956,472	1,956,472
Health Insurance	-	-	-	-	-	-	-	-	-	-	-	-	9,806,120	9,806,120
Contributions and Assessments	-	-	-	-	-	-	-	-	-	-	-	-	127,685	127,685
Settlements, Legal Fees, and Counseling Related to Sexual Abuse	-	-	-	-	-	-	-	-	-	-	-	-	106,596	106,596
Total Expenses by Function	$ 3,907,983	$ 1,021,016	$ 731,633	$ 476,939	$ 848,944	$ 942,391	$ 626,798	$ 953,497	$ 921,109	$ 10,430,310	$ 484,249	$ 2,205,191	$ 15,194,596	$ 28,314,346

See accompanying notes.

ROMAN CATHOLIC DIOCESE OF COVINGTON, OFFICES OF THE CURIA
CONSOLIDATED 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	1,242	2,431	-	518	7,335	212	-	-	21,702	-	45,922	-	67,624
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	-	-	-	-	-	-	-	-	-	-	-	-	172,537	172,537
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, 2020	Years Ended June 30, 2019
Cash Flows From Operating Activities		
Change in Net Assets	$ (473,126)	$ (1,028,571)
Reconciliation of Change in Net Assets with Cash Flows From Operating Activities		
Depreciation	628,496	582,888
Amortization of Debt Issuance Cost Included in Interest	46,218	46,218
Realized Gains on Investments	(1,415,591)	(780,404)
Unrealized Losses (Gains) on Investments	442,055	(815,874)
Gain on Sale of Property and Equipment	-	(25,394)
Interest Credited Directly to Deposits	201,494	209,499
Changes in		
Accounts Receivable, Net	(363,581)	117,306
Unconditional Promises to Give, Net	(973,002)	-
Cemetery Property Held for Sale	(277,236)	34,653
Other Assets	(312,179)	(12,426)
Accounts Payable, Accrued Expenses and Other Liabilities	(238,222)	(662,783)
Reserve for Incurred but not Reported Benefit Claims	51,146	122,350
Cash Used by Operating Activities	(2,683,528)	(2,212,538)
Cash Flows From Investing Activities		
Purchase of Property and Equipment	(432,731)	(737,233)
Proceeds From Sale of Property and Equipment	-	46,458
Purchase of Investments	(4,864,975)	(12,805,442)
Sales and Maturities of Investments	12,605,211	11,903,532
Issuance of New Loans	(23,144)	(12,710)
Payments Received on Loans	63,006	302,227
Cash Provided (Used) by Investing Activities	7,347,367	(1,303,168)
Cash Flows From Financing Activities		
New Deposits Received	1,080,768	1,922,296
Withdrawals of Deposits	(4,949,226)	(632,715)
Proceeds From Notes Payable	3,611,474	4,413,216
Disbursement of Notes Receivable	(3,624,892)	(4,413,216)
Cash (Used) Provided by Financing Activities	(3,881,876)	1,289,581
Net Change in Cash and Cash Equivalents	781,963	(2,226,125)
Cash, Beginning of Year	5,858,331	8,084,456
Cash, End of Year	$ 6,640,294	$ 5,858,331

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.

The Diocese's viability is dependent on contributions, the financial sustainability of its parishes, schools and institutions, and the ability to collect on its contracts with customers.

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, Loans, and Notes Receivable

Accounts, 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 $128,828 and $916,312 at June 30, 2020 and 2019, respectively, for accounts receivable, an allowance for doubtful accounts of $718,632 at both June 30, 2020 and 2019 for loans receivable, and no allowance for doubtful accounts has been provided at either June 30, 2020 and 2019 for notes receivable since the Diocese does not expect any material losses.

Promises to Give

The Diocese records unconditional promises to give that are expected to be collected at net realizable value. Unconditional promises to give expected to be collected in future years are initially recorded at fair value using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset. In subsequent years, amortization of the discounts is included in contribution revenue in the consolidated statements of activities. The Diocese determines the allowance for uncollectable promises to give based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Promises to give are written off when deemed uncollectable. Based on these criteria, the Diocese has estimated an allowance for uncollectible promises to give of $57,614 at both June 30, 2020 and 2019.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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. Investment return is segregated and 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, 2020 and 2019.

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, 2020 and 2019. At June 30, 2020 and 2019, the total outstanding balances on guaranteed loans were approximately $881,303 and $429,071, respectively.

Revenue and Revenue Recognition

Revenue from Contracts with Customers

Revenue is measured as the amount of consideration expected to be received in exchange for transferring goods or providing service. The Diocese recognizes contract revenue for financial reporting purposes over time and at a point in time. Depending on the terms of the contract, the Diocese may defer the recognition of revenue and record a contract liability when a future performance obligation has not yet occurred.

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

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.

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

Service revenue is recognized over time utilizing an input method and aligns with when services are provided. Typically, revenue is recognized in the amount of the invoices since that amount corresponds directly to the value of the Diocese's performance to date as the Diocese bills the customer a predetermined rate for each type of service performed.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue from the sale of products is recognized when obligations under the terms of a contract with the customer are satisfied, which generally occurs with the transfer of the product to the customer. Determining when control transfers requires management to make judgments that affect the timing of revenue recognized. The Diocese believes that this method provides a faithful depiction of the transfer of control of its products.

Revenue from Contributions

The Diocese recognizes contributions when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give, that is, those with a measurable performance or other barrier and a right of return, are not recognized until the conditions on which they depend have been substantially met. The Diocese's federal and state contracts and grants are conditioned upon certain performance requirements and the incurrence of allowable qualifying expenses. Consequently, no conditional contributions, for which no amounts had been received in advance, have been recognized in the accompanying consolidated financial statements at both June 30, 2020 and 2019.

Paycheck Protection Program Funding

In April 2020, the Diocese received funding in the amount of $10,000,000, under the Paycheck Protection Program (PPP). The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act (CARES Act), provides for loans to qualifying organizations for amounts up to 2.5 times of the average monthly payroll expenses of the qualifying organization. The loans and accrued interest are forgivable within a 24-week period as long as the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintains other designated thresholds. The unforgiven portion of the PPP loan is payable over five years at an interest rate of 1%, with a deferral of payments until the date that the lender receives the forgiveness amount from the SBA. The Diocese intends to use the proceeds for purposes consistent with the PPP. The Diocese accounts for the PPP Funding in accordance with ASC 958-605 *Revenue Recognition for Nonprofit Entities.* Revenue is recognized as eligible expenses and other conditions are substantially met or incurred. The Diocese obtained the funding on behalf of all their entities and processed it as a flow through transaction. The amount that flowed through the Diocese to their consolidated entities was $7,943,282 at June 30, 2020. As such, at June 30, 2020 the Diocese has recognized revenue of $2,056,718 as it has determined eligible expenses and other conditions have been met to satisfy the conditions.

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 statements 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2020 or 2019. 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, 2020 or 2019.

Recently Issued Significant Accounting Standard

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, 2021.

Based on an evaluation of the current leases, management believes that the impact of this ASU on their consolidated financial statements will be immaterial.

Change in Accounting Principle

FASB Accounting Standards Codification Topic 606, *Revenue from Contracts with Customers*, as amended, supersedes or replaces nearly all GAAP revenue recognition guidance. These standards establish a new contract and control-based revenue recognition model, change the basis for deciding when revenue is recognized over time or at a point in time, and expand disclosures about revenue. The Diocese has implemented Topic 606 and has adjusted the presentation in these consolidated financial statements accordingly.

In June 2018, FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (Topic 958). This standard assists entities in evaluating whether transactions should be accounted for as contributions or exchange transactions and determining whether a contribution is conditional. The Diocese has implemented the provisions of ASU 2018-08 applicable to both contributions received and to contributions made in the accompanying consolidated financial statements.

Collectively, the new Topic 606 and 958 will be referred to as the “new guidance.”

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Diocese adopted the requirements of the new guidance as of July 1, 2019, utilizing the modified retrospective method of transition. However, the adoption of this new guidance did not result in the Diocese changing its policies for recognizing revenue and thus no cumulative adjustment to the Diocese's net assets as of July 1, 2019 was necessary. The amounts reported in the consolidated financial statements for 2019 are the same amounts that would have been reported under the former guidance. The Diocese did apply the new guidance using the practical expedient provided in Topic 606 and 958 that allows the guidance to be applied only to contracts and contributions that weren't complete as of July 1, 2019. The effects of applying this practical expedient were not significant to the consolidated financial statements.

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, 2020	June 30, 2019
Cash, Without Restrictions	$ 6,621,926	$ 5,839,963
Accounts Receivable, Net	802,454	438,873
Investments	6,729,938	9,791,954
	$ 14,154,318	$ 16,070,790

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 $2,941,534 and $2,878,783 at June 30, 2020 and 2019, respectively, to be used for perpetual care and maintenance of Diocese cemeteries, and the Diocese held cash of $18,368 in both 2020 and 2019 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 $422,486 and $453,249 in 2020 and 2019, respectively, and cash paid for interest on deposits payable was $201,494 and $207,859 in 2020 and 2019, respectively.

NOTE 3 – CASH AND CASH FLOWS (Continued)

The Diocese had noncash financing or investing activities as follows:

	Years Ended June 30, 2020	2019
Non-Cash Decrease in Notes Receivable, Net and Notes Payable, Net	$ (2,855,162)	$ (4,657,284)
Non-Cash Increase in Loans Receivable, Net and Deposits Payable, Net	$ 750,000	$ 2,250,000

NOTE 4 – UNCONDITIONAL PROMISES TO GIVE

Unconditional promises to give 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. Unconditional promises to give are recorded in the consolidated financial statements at their historically collected rate and are discounted to present value where applicable.

Unconditional promises to give were as follows:

	June 30, 2020	2019
Amounts Promised		
Within One Year	$ 1,642,457	$ 1,037,682
One to Five Years	1,376,000	1,000,000
Less Present Value Discount	(74,854)	(67,081)
Unconditional Promises to Give, Net	$ 2,943,603	$ 1,970,601

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, 2020 and 2019, 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	
	2020	2019	2020	2019	2020	2019
Graves	1,116	1,109	202	248	$ 1,338	$ 1,340
Mausoleum Crypts	152	159	14	31	4,401	4,400
Lawn Crypts	39	42	7	5	2,967	2,970
Mausoleum Niches	3	19	18	9	1,050	1,050
Columbarium Niches	1,741	0	71	0	3,830	N/A

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, 2020 and 2019.

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 using a market approach on yields currently available on comparable securities of issuers with similar credit ratings.

Mutual Funds: Valued at the daily closing price as reported by the fund. Mutual funds held by the Diocese are open-end mutual funds that are registered with the SEC. These funds are required to publish their daily net asset value and to transact at that price. The mutual funds held by the Diocese are deemed to be actively traded.

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, 2020:

	Investments at Fair Value			
June 30, 2020	Level 1	Level 2	Level 3	Total
Common Stocks	$ 4,401,754	$ -	$ -	$ 4,401,754
Commercial Paper, Short-Term U.S. Treasury and Agency Obligations	-	2,541,812	-	2,541,812
Corporate Bonds	-	8,853,969	-	8,853,969
Total Assets in Fair Value Hierarchy	$ 4,401,754	$ 11,395,781	$ -	15,797,535
Investments Measured at Net Asset Value (a)				11,466,534
Total Investments				$ 27,264,069

NOTE 6 – FAIR VALUE MEASUREMENTS (Continued)

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

June 30, 2019	Investments at Fair Value 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

(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.

For both years ended June 30, 2020 and 2019, there were no significant transfers between Levels 1 and 2 and no transfers in or out of Level 3.

The following tables summarize investments for which fair value is measured using the net asset value per share practical expedient as of June 30, 2020 and 2019.

June 30, 2020	Fair Value	Unfunded Commitments	Redemption Frequency (If Currently) Eligible)	Redemption Notice Period
Alternative Investments	$ 11,466,534	N/A	Daily or Monthly	0 - 90 Days

June 30, 2019	Fair Value	Unfunded Commitments	Redemption Frequency (If Currently) Eligible)	Redemption Notice Period
Alternative Investments	$ 14,529,328	N/A	Daily or Monthly	0 - 90 Days

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, 2020	June 30, 2019
Land and Improvements	$ 1,577,472	$ 1,357,749
Buildings and Improvements	15,188,645	15,155,038
Furniture and Equipment	2,032,127	1,850,834
Construction in Progress	-	56,031
	18,798,244	18,419,652
Less Accumulated Depreciation	5,517,728	4,943,371
	$ 13,280,516	$ 13,476,281

NOTE 8 – LOANS RECEIVABLE AND DEPOSITS PAYABLE

Loans receivable and deposits payable consists of the following:

	2020	2019
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, 2020 and 2019.	$ 3,144,051	$ 2,433,913
Deposits payable to parishes, schools and other Diocesan institutions - Deposit and Loan Fund; payable on demand; unsecured; interest of 2.25% per annum.	$ 11,043,654	$ 13,960,618

NOTE 9 – OTHER ASSETS

Included in other assets, the self-insurance fund holds a 4.25% ownership investment of $410,664 and $419,516 as of June 30, 2020 and 2019, 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.

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

	June 30, 2020	June 30, 2019
Series 2016 A Bonds	$ 3,452,307	$ 4,193,094
Series 2016 B Bonds	1,742,350	2,467,982
Series 2016 Term Bonds	707,974	784,415
Series 2018 A Bonds	1,000,000	1,500,000
Series 2018 B Bonds	3,872,473	1,413,216
Series 2019 Bonds	2,400,000	3,000,000
Series 2019B Bonds	953,333	-
Term Note	50,322	63,741
	14,178,759	13,422,448
Less Unamortized Debt Issuance Costs	(46,219)	(92,438)
	$ 14,132,540	$ 13,330,010

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% (0.67% at June 30, 2020). All notes are secured by the real property of the schools and general assets of the Diocese.

NOTE 10 – NOTES PAYABLE AND NOTES RECEIVABLE (Continued)

The individual promissory note receivables are as follows:

	June 30, 2020	June 30, 2019
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.	$ 3,452,307	$ 4,193,094
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. This was paid off during the year ended June 30, 2020.	$ -	$ 156,574
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.	1,493,350	1,662,408
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.	249,000	649,000
Total Series 2016 B Bonds	$ 1,742,350	$ 2,467,982
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.	$ 578,626	$ 640,257
St. Joseph Parish, Cold Spring		
Promissory note payable in monthly installments of $4,381 with a maturity date of May 1, 2029.	129,348	144,158
Total Series 2016 Term Bonds	$ 707,974	$ 784,415

NOTE 10 – NOTES PAYABLE AND NOTES RECEIVABLE (Continued)

	June 30, 2020	June 30, 2019
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.	$ 1,000,000	$ 1,500,000
SERIES 2018 B TERM BONDS		
St. Henry District High School		
Promissory note payable in monthly installments of $16,409 with a maturity date of February 2040.	$ 3,872,473	$ 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.	$ 2,400,000	$ 3,000,000
SERIES 2019 B TERM BONDS		
Immaculate Heart of Mary Church		
Promissory note payable in monthly installments of $18,333 with a maturity date of November 1, 2024.	$ 953,333	$ -
Notes Receivable Balance	$ 14,128,437	$ 13,358,707
Catholic Cemeteries Note Payable		
Promissory note payable in monthly installments of $1,118 with a maturity date of March, 2024.	$ 50,322	$ 63,741
Less: Debit Issuance Costs	$ 46,219	$ 92,438
Notes Payable Balance	$ 14,132,540	$ 13,330,010

In connection with the St. Henry District High School term 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 have been reported as interest expense for both 2020 and 2019, respectively.

NOTE 10 – NOTES PAYABLE AND NOTES RECEIVABLE (Continued)

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

Years Ending June 30,	
2021	$ 2,281,197
2022	3,315,456
2023	1,755,461
2024	1,759,223
2025	1,002,491
Thereafter	4,064,931
	14,178,759
Less Debit Issuance Costs	46,219
Total Payments	$ 14,132,540

NOTE 11 – PLEDGES PAYABLE

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

	June 30,	
	2020	2019
Less than One Year	$ 80,000	$ 95,000
One to Five Years	70,000	150,000
	150,000	245,000
Less Unamortized Discount	(2,683)	(5,212)
	$ 147,317	$ 239,788

NOTE 12 – ADVANCES AND DEFERRED RECEIPTS

Advances and deferred receipts consists of the following:

Reserve for Counseling Claims Related to Class Action Lawsuit Settlement	$ 1,005,746	$ 1,107,250
Deferred Parish Assessment Revenue	2,627,876	2,711,561
Other Advances	359,644	303,977
Deferred Revenue Related to Cemetery Markers, Plaques and Inscriptions to be Installed	139,658	135,115
Deferred Revenue Related to ACUE	24,823	158,136
Deferred Revenue for *Messenger* Newspaper	5,360	1,272
Benefit Obligation at End of Year	$ 4,163,107	$ 4,417,311

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.

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, 2020 is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor Restricted Endowment Funds	$ -	$ 4,854,267	$ 4,854,267

NOTE 13 – ENDOWMENT FUNDS (Continued)

Changes in endowment net assets for the year ended June 30, 2020 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment Net Assets, Beginning of Year	$ -	$ 4,821,578	$ 4,821,578
Investment Return, Net	-	167,689	167,689
Appropriation of Endowment Assets Pursuant to Spending Policy	-	(135,000)	(135,000)
Endowment Net Assets, End of Year	$ -	$ 4,854,267	$ 4,854,267

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 14 – BISHOP DESIGNATED NET ASSETS

The Bishop designated net assets for the following purposes:

	June 30, 2020	June 30, 2019
Funds to Pay for Parish and School Health Insurance	$ 3,807,316	$ 4,200,440
Funds to Support Secondary Schools	1,375,967	1,981,421
Inner City School Funds	356,374	271,920
Parish and School Loan Programs	(176,591)	(110,773)
Annuity Funds and Other	7,906	465
Over-spending on Seminarian Programs	(1,084,956)	(1,084,956)
	$ 4,286,016	$ 5,258,517

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 $2,941,534 and $2,878,783 at June 30, 2020 and 2019, 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, 2020	June 30, 2019
Subject to Expenditure for Specified Purpose		
Diocesan Parish Annual Appeal	$ 2,892,916	$ 2,679,405
General Educational Need	96,746	89,835
ACUE	1,031,303	744,029
Other	451,777	417,895
	4,472,742	3,931,164
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	1,354,583	1,321,898
Not Subject to Spending Policy or Appropriation:		
Educational Endowment	2,485,218	2,485,216
Property Maintenance Endowment	942,386	942,386
Diocesan Annual Appeal Endowment	52,504	52,504
Other Endowment	16,376	16,374
ACUE Endowment	3,200	3,200
Endowed Restricted Net Assets	4,854,267	4,821,578
Total Net Assets with Donor Restrictions	$ 9,327,009	$ 8,829,361

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:

	2020	2019
Satisfaction of Purpose Restrictions		
Diocesan Parish Annual Appeal	$ 2,429,330	$ 2,528,427
Pastoral Ministry Seminarian Services	287,973	478,235
ACUE	1,294,813	1,024,724
Other	14,930	10,537
	4,027,046	4,041,923
Restricted-Purpose Distributions and Appropriations		
General Educational Need	135,000	125,000
Total Net Assets Released From Restrictions	$ 4,162,046	$ 4,166,923

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 $228,958 and $226,365 for the years ended June 30, 2020 and 2019, 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, 2019, the plan was 84% funded, the actuarial value of the plan assets was $99,627,489 and the accumulated value of the plan benefits was $118,575,644.

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 $275,000 and $279,800 for the years ended June 30, 2020 and 2019, 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 $4,090,074 and $4,066,299 at June 30, 2020 and 2019, 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, 2020	June 30, 2019
Change in Projected Benefit Obligation		
Benefit Obligation at Beginning of Year	$ 4,066,299	$ 4,691,722
Service Cost	72,000	70,575
Interest Costs	175,000	183,469
Benefits Paid	(323,225)	(309,306)
Actuarial Loss (Gain)	100,000	(570,161)
Benefit Obligation at End of Year	$ 4,090,074	$ 4,066,299

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

	Years Ended June 30, 2020	Years Ended June 30, 2019
Service Cost - Benefits Attributed to Service During the Period	$ 72,000	$ 70,575
Interest Costs on Accumulated Post Retirement Benefit Obligation	175,000	183,469
Total	$ 247,000	$ 254,044

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

Years Ending June 30,	
2021	$ 302,043
2022	288,194
2023	256,184
2024	253,582
2025	245,697
Thereafter	2,744,374
	$ 4,090,074

NOTE 18 – GRANTS MADE BY DIOCESE

	Years Ended June 30, 2020	Years Ended June 30, 2019
Priest Retirement Fund	$ 275,000	$ 279,800
Catholic Charities	250,000	250,000
Cathedral Operating	446,490	427,106
Inner City	212,500	229,500
Parishes and Schools	629,456	127,820
School Lunch Program	2,863	(87,500)
Educational Assistance	85,000	80,000
DPAA Pledges from Contingency	1,873	125,644
Mission Outreach	7,131	20,073
Holy See	22,000	22,000
Miscellaneous	25,845	23,871
	$ 1,958,158	$ 1,498,314

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.

NOTE 21 – SUBSEQUENT EVENTS

The Diocese has evaluated subsequent events through October 13, 2020, which is the date the consolidated financial statements were available to be issued.

Prior to year-end, the World Health Organization announced a global health emergency later classified as a global pandemic as a result of the COVID-19 outbreak. The outbreak and response has impacted financial and economic markets across the World and within the United States. The full impact continues to evolve and as such, it is uncertain as to the full magnitude that the pandemic will have on the Diocese's financial condition, liquidity, and future results of operations. Management is actively monitoring the possible effects on every aspect of the Diocese.