



# **Roman Catholic Diocese of Covington, Offices of the Curia**

June 30, 2022

Consolidated Financial Statements and Independent Auditors' Report

**ROMAN CATHOLIC DIOCESE OF COVINGTON, OFFICES OF THE CURIA  
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## INDEPENDENT AUDITORS' REPORT

Diocesan Finance Council  
Roman Catholic Diocese of Covington, Offices of the Curia  
Covington, Kentucky

### Opinion

We have audited the accompanying consolidated financial statements of Roman Catholic Diocese of Covington, Offices of the Curia (a nonprofit organization), which comprise the consolidated statements of financial position as of June 30, 2022 and 2021, 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.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Roman Catholic Diocese of Covington, Offices of the Curia as of June 30, 2022 and 2021, and the results of their consolidated operations and their consolidated cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of Roman Catholic Diocese of Covington, Offices of the Curia and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Responsibilities of Management 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, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Roman Catholic Diocese of Covington, Offices of the Curia's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.



### **Auditors' Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Roman Catholic Diocese of Covington, Offices of the Curia's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of the accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Roman Catholic Diocese of Covington, Offices of the Curia's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

*VonLehman & Company Inc.*

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

**ASSETS**

	June 30,	
	2022	2021
<b>Assets</b>		
Cash	\$ 7,996,699	\$ 7,370,219
Restricted Cash for Perpetual Care Fund	23,409	24,250
Accounts Receivable, Net	655,838	646,961
Loans Receivable, Net	3,491,849	3,198,386
Notes Receivable, Net	8,939,883	11,761,658
Unconditional Promises to Give, Net	1,572,247	1,677,597
Cemetery Property Held for Sale	385,858	409,556
Investments	24,786,021	28,493,758
Restricted Investments for Perpetual Care Fund	3,109,313	3,025,798
Property and Equipment, Net	13,080,535	13,196,956
Other Assets	548,008	766,899
	<u>64,589,660</u>	<u>70,572,038</u>
<b>Total Assets</b>	<b>\$ 64,589,660</b>	<b>\$ 70,572,038</b>

**LIABILITIES AND NET ASSETS**

<b>Liabilities</b>		
Accounts Payable and Accrued Expenses	\$ 1,935,903	\$ 2,048,591
Claims and Reserve for Incurred but not Reported Benefit Claims	537,778	673,300
Special Collections Payable	733,894	730,305
Pledges Payable, Net	642,302	751,919
Deposits Payable	11,417,733	10,940,043
Notes Payable, Net	8,933,263	11,767,451
Advances and Deferred Receipts	3,108,319	2,895,972
Priest Postretirement Liability	4,354,406	4,082,781
	<u>31,663,598</u>	<u>33,890,362</u>
<b>Total Liabilities</b>		
<b>Net Assets</b>		
Without Donor Restrictions	23,011,910	26,657,396
With Donor Restrictions	9,914,152	10,024,280
	<u>32,926,062</u>	<u>36,681,676</u>
<b>Total Net Assets</b>		
	<u>32,926,062</u>	<u>36,681,676</u>
<b>Total Liabilities and Net Assets</b>	<b>\$ 64,589,660</b>	<b>\$ 70,572,038</b>

See accompanying notes.

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

	Year Ended June 30, 2022		
	Without Donor Restrictions	With Donor Restrictions	Total
<b>Revenue, Support, and Gains</b>			
Parish Assessments	\$ 4,936,669	\$ -	\$ 4,936,669
Diocesan Parish Annual Appeal	-	2,664,801	2,664,801
Dividends and Interest, Net	645,809	38,509	684,318
Grants and Special Collections	27,795	384,202	411,997
Realized Gains on Investments	575,854	176,167	752,021
Unrealized Losses on Investments	(3,249,352)	(1,074,405)	(4,323,757)
Contributions and Bequests	777,941	1,323,074	2,101,015
Self-Insurance Premium Retention	502,666	-	502,666
Fees and Sales	4,234,855	-	4,234,855
Health Insurance Billings	10,286,895	-	10,286,895
Gain on Disposal of Property and Equipment	22,480	-	22,480
Other Income	69,373	-	69,373
	18,830,985	3,512,348	22,343,333
<b>Net Assets Released From Restrictions</b>	3,622,476	(3,622,476)	-
Total Revenue, Support, Gains, and Reclassifications	22,453,461	(110,128)	22,343,333
<b>Expenses</b>			
Programs	8,998,882	-	8,998,882
Fundraising	422,534	-	422,534
Management and General			
Episcopal Administration	1,988,874	-	1,988,874
Settlements, Legal Fees and Counseling			
Related to Sexual Abuse	111,651	-	111,651
Grants Made by Diocese	1,171,459	-	1,171,459
Interest	335,436	-	335,436
Priest Post Employment Benefits	751,677	-	751,677
Secondary School Grants	1,500,000	-	1,500,000
Health Insurance Claims and Administration	10,717,567	-	10,717,567
Contributions and Assessments	100,867	-	100,867
	26,098,947	-	26,098,947
<b>Change in Net Assets</b>	(3,645,486)	(110,128)	(3,755,614)
<b>Net Assets, Beginning of Year</b>	26,657,396	10,024,280	36,681,676
<b>Net Assets, End of Year</b>	\$ 23,011,910	\$ 9,914,152	\$ 32,926,062

See accompanying notes.

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

	Year Ended June 30, 2021		
	Without Donor Restrictions	With Donor Restrictions	Total
<b>Revenue, Support, and Gains</b>			
Parish Assessments	\$ 4,838,918	\$ -	\$ 4,838,918
Diocesan Parish Annual Appeal	-	2,596,590	2,596,590
Dividends and Interest, Net	625,068	30,020	655,088
Grants and Special Collections	-	344,013	344,013
Realized Gains on Investments	1,057,551	303,841	1,361,392
Unrealized Gains on Investments	3,409,503	898,987	4,308,490
Contributions and Bequests	491,039	1,120,234	1,611,273
Self-Insurance Premium Retention	501,776	-	501,776
Fees and Sales	3,927,083	-	3,927,083
Health Insurance Billings	9,272,151	-	9,272,151
Gain on Disposal of Property and Equipment	28,926	-	28,926
Other Income	32,872	-	32,872
	24,184,887	5,293,685	29,478,572
<b>Net Assets Released From Restrictions</b>	4,864,659	(4,864,659)	-
	29,049,546	429,026	29,478,572
<b>Expenses</b>			
Programs	8,418,279	-	8,418,279
Fundraising	395,065	-	395,065
Management and General			
Episcopal Administration	2,260,226	-	2,260,226
Settlements, Legal Fees and Counseling			
Related to Sexual Abuse	20,031	-	20,031
Grants Made by Diocese	2,371,264	-	2,371,264
Interest	356,682	-	356,682
Priest Post Employment Benefits	347,887	-	347,887
Secondary School Grants	1,402,636	-	1,402,636
Health Insurance Claims and Administration	10,546,595	-	10,546,595
Contributions and Assessments	128,464	-	128,464
	26,247,129	-	26,247,129
<b>Change in Net Assets</b>	2,802,417	429,026	3,231,443
<b>Net Assets, Beginning of Year</b>	23,854,979	9,595,254	33,450,233
<b>Net Assets, End of Year</b>	\$ 26,657,396	\$ 10,024,280	\$ 36,681,676

See accompanying notes.

**ROMAN CATHOLIC DIOCESE OF COVINGTON, OFFICES OF THE CURIA  
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED JUNE 30, 2022**

	Programs										Fundraising	Management and General	Other	Total
	ACUE	Education	Seminary	Clergy	Community/ Pastoral	Retreat Center	Messenger	Facility and Project	Cemeteries	Total				
Salaries	\$ 2,653,208	\$ 578,506	\$ 122,631	\$ 134,519	\$ 480,331	\$ 517,730	\$ 253,737	\$ 330,196	\$ 330,409	\$ 5,401,267	\$ 230,271	\$ 1,139,136	\$ -	\$ 6,770,674
Events, Masses, Receptions	32,361	30,899	71,973	15,394	111,685	6,124	-	741	8,851	278,028	1,077	238,112	-	517,217
Supplies, Books, Subscriptions	33,400	20,899	113,043	18,612	9,870	70,452	18,977	76,859	36,335	398,447	3,622	23,302	-	425,371
Telecommunications	56,110	2,053	198	3,929	916	6,975	2,600	18,249	6,720	97,750	1,648	12,310	-	111,708
Postage	3,212	279	5,254	19	2,891	28	193,648	837	576	206,744	471	7,107	-	214,322
Printing	13,429	2,924	16,203	3,064	12,660	-	161,109	457	1,263	211,109	5,575	21,698	-	238,382
Building and Property Expenses	276,434	59,200	7,200	38,723	76,870	176,503	35,840	(41,851)	259,156	888,075	25,955	163,173	-	1,077,203
Travel/Fuel	60	1,691	1,473	4,833	2,758	70	1,587	21,277	2,651	36,400	403	23,791	-	60,594
Professional Fees, Dues, and Services	264,564	1,931	1,353	10,967	6,734	19,902	3,706	39,700	28,006	376,863	1,660	187,191	-	565,714
Cost of Sales	-	-	-	-	-	-	-	-	129,236	129,236	-	-	-	129,236
Other	22,861	-	-	-	-	310	3	-	509	23,683	-	124,608	-	148,291
Donor Maintenance	-	-	-	-	-	-	-	-	-	-	151,852	-	-	151,852
Insurance	-	-	-	-	1,697	22,690	-	46,128	30,091	100,606	-	47,986	-	148,592
Grants	-	-	-	-	-	-	-	-	-	-	-	-	1,171,459	1,171,459
Interest	-	-	-	-	-	-	-	-	-	-	-	-	335,436	335,436
Bad Debt	-	-	-	-	-	-	4,572	-	-	4,572	-	-	-	4,572
Tuition/Room and Board	-	-	130,131	25,309	-	-	-	-	-	155,440	-	-	-	155,440
Priest Post Employment Benefits	-	-	-	-	-	-	-	-	-	-	-	-	751,677	751,677
Depreciation	60,696	-	-	19,085	-	55,510	-	455,011	100,360	690,662	-	460	-	691,122
Secondary School	-	-	-	-	-	-	-	-	-	-	-	-	1,500,000	1,500,000
Health Insurance	-	-	-	-	-	-	-	-	-	-	-	-	10,717,567	10,717,567
Contributions and Assessments	-	-	-	-	-	-	-	-	-	-	-	-	100,867	100,867
Settlements, Legal Fees, and Counseling Related to Sexual Abuse	-	-	-	-	-	-	-	-	-	-	-	-	111,651	111,651
<b>Total Expenses by Function</b>	<b>\$ 3,416,335</b>	<b>\$ 698,382</b>	<b>\$ 469,459</b>	<b>\$ 274,454</b>	<b>\$ 706,412</b>	<b>\$ 876,294</b>	<b>\$ 675,779</b>	<b>\$ 947,604</b>	<b>\$ 934,163</b>	<b>\$ 8,998,882</b>	<b>\$ 422,534</b>	<b>\$ 1,988,874</b>	<b>\$ 14,688,657</b>	<b>\$ 26,098,947</b>

See accompanying notes.



**ROMAN CATHOLIC DIOCESE OF COVINGTON, OFFICES OF THE CURIA  
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED JUNE 30, 2021**

	Programs										Fundraising	Management and General	Other	Total
	ACUE	Education	Seminary	Clergy	Community/ Pastoral	Retreat Center	Messenger	Facility and Project	Cemeteries	Total				
Salaries	\$ 2,599,475	\$ 486,068	\$ 133,882	\$ 144,259	\$ 464,107	\$ 446,621	\$ 246,014	\$ 338,604	\$ 339,764	\$ 5,198,794	\$ 241,951	\$ 1,377,642	\$ -	\$ 6,818,387
Events, Masses, Receptions	19,931	23,721	37,474	14,206	24,457	-	-	178	2,025	121,992	1,148	149,069	-	272,209
Supplies, Books, Subscriptions	61,962	53,080	125,669	1,759	13,685	19,991	17,171	118,846	31,352	443,515	723	13,000	-	457,238
Telecommunications	14,282	2,592	779	280	1,366	5,775	1,893	23,562	6,601	57,130	1,124	9,506	-	67,760
Postage	3,021	314	11,765	30	2,153	55	166,554	214	374	184,480	211	40,564	-	225,255
Printing	3,804	3,533	1,063	317	2,029	-	135,919	541	2,654	149,860	5,347	35,807	-	191,014
Building and Property Expenses	188,606	50,123	6,100	4,900	67,012	116,049	32,130	(12,174)	235,425	688,171	21,400	134,952	-	844,523
Travel/Fuel	-	369	1,917	507	1,005	46	538	8,407	176	12,965	-	1,386	-	14,351
Professional Fees, Dues, and Services	201,635	1,767	1,397	159,093	7,202	13,264	2,208	19,830	18,275	424,671	1,770	350,583	-	777,024
Cost of Sales	-	-	-	-	-	-	-	-	126,406	126,406	-	-	-	126,406
Other	15,124	-	-	-	-	250	479	-	-	15,853	-	19,418	-	35,271
Donor Maintenance	-	-	-	-	-	-	-	-	-	-	121,391	-	-	121,391
Insurance	26,144	-	-	-	4,108	24,190	-	47,396	28,474	130,312	-	106,180	-	236,492
Grants	-	-	-	-	-	-	-	-	-	-	-	-	2,371,264	2,371,264
Interest	-	-	-	-	-	-	-	-	-	-	-	-	356,682	356,682
Bad Debt	-	-	-	-	-	-	-	-	(1,980)	(1,980)	-	21,659	-	19,679
Tuition/Room and Board	-	-	220,843	-	-	-	-	-	-	220,843	-	-	-	220,843
Priest Post Employment Benefits	-	-	-	-	-	-	-	-	-	-	-	-	347,887	347,887
Depreciation	54,953	-	-	-	-	55,038	-	448,032	87,244	645,267	-	460	-	645,727
Secondary School	-	-	-	-	-	-	-	-	-	-	-	-	1,402,636	1,402,636
Health Insurance	-	-	-	-	-	-	-	-	-	-	-	-	10,546,595	10,546,595
Contributions and Assessments	-	-	-	-	-	-	-	-	-	-	-	-	128,464	128,464
Settlements, Legal Fees, and Counseling Related to Sexual Abuse	-	-	-	-	-	-	-	-	-	-	-	-	20,031	20,031
<b>Total Expenses by Function</b>	<b>\$ 3,188,937</b>	<b>\$ 621,567</b>	<b>\$ 540,889</b>	<b>\$ 325,351</b>	<b>\$ 587,124</b>	<b>\$ 681,279</b>	<b>\$ 602,906</b>	<b>\$ 993,436</b>	<b>\$ 876,790</b>	<b>\$ 8,418,279</b>	<b>\$ 395,065</b>	<b>\$ 2,260,226</b>	<b>\$ 15,173,559</b>	<b>\$ 26,247,129</b>

See accompanying notes.

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

	Years Ended June 30,	
	2022	2021
<b>Cash Flows From Operating Activities</b>		
Change in Net Assets	\$ (3,755,614)	\$ 3,231,443
Reconciliation of Change in Net Assets with Cash Flows From Operating Activities		
Depreciation	691,122	645,727
Amortization of Debt Issuance Cost Included in Interest	15,163	46,219
Realized Gains on Investments	(752,021)	(1,361,392)
Unrealized Losses (Gains) on Investments	4,323,757	(4,308,490)
Gain on Sale of Property and Equipment	(22,480)	(28,926)
Interest Credited Directly to Deposits	128,281	127,209
Changes in		
Accounts Receivable, Net	(8,877)	147,952
Unconditional Promises to Give, Net	105,350	1,266,006
Cemetery Property Held for Sale	23,698	47,746
Other Assets	218,891	137,382
Accounts Payable, Accrued Expenses and Other Liabilities	265,256	406,470
Claims and Reserve for Incurred but not Reported Benefit Claims	(135,522)	(162,182)
Cash Provided by Operating Activities	<u>1,097,004</u>	<u>195,164</u>
<b>Cash Flows From Investing Activities</b>		
Purchase of Property and Equipment	(576,886)	(517,736)
Proceeds from Sale of Property and Equipment	24,665	40,379
Purchase of Investments	(6,389,324)	(8,408,141)
Proceeds from Sales and Maturities of Investments	6,441,810	9,822,536
Issuance of New Loans	(517,682)	(175,247)
Payments Received on Loans	224,219	128,453
Cash (Used) Provided by Investing Activities	<u>(793,198)</u>	<u>890,244</u>
<b>Cash Flows From Financing Activities</b>		
New Deposits Received	3,146,484	2,165,223
Withdrawals of Deposits	(2,797,075)	(2,396,043)
Payments on Notes Payable	(27,576)	(24,596)
Payments for Loan Costs	-	(75,817)
Cash Provided (Used) by Financing Activities	<u>321,833</u>	<u>(331,233)</u>
Net Change in Cash and Cash Equivalents	625,639	754,175
<b>Cash, Beginning of Year</b>	<u>7,394,469</u>	<u>6,640,294</u>
<b>Cash, End of Year</b>	<u>\$ 8,020,108</u>	<u>\$ 7,394,469</u>

See accompanying notes.

**ROMAN CATHOLIC DIOCESE OF COVINGTON, OFFICES OF THE CURIA  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**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 \$188,908 and \$164,528 at June 30, 2022 and 2021, respectively, for accounts receivable, an allowance for doubtful accounts of \$718,632 at both June 30, 2022 and 2021 for loans receivable, and no allowance for doubtful accounts has been provided at either June 30, 2022 or 2021 for notes receivable since the Diocese does not expect any material losses.

**Cemetery Property Held for Sale**

Cemetery property held for sale consists of developed mausoleum, in-ground graves, 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)**

**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, no allowance for uncollectable promises to give has been provided at either June 30, 2022 or 2021 since the Diocese does not expect any material losses.

**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 \$5,000. 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 either of the years ended June 30, 2022 or 2021.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**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.

**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, 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, 2022 and 2021. At June 30, 2022 and 2021, the total outstanding balances on guaranteed loans were \$434,581 and \$676,033, 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 advertisement placements 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.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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.

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 require 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.

The Diocese recognizes revenue at both a point in time and over time. A breakdown of fees and sales revenue recognized at a point in time and revenue recognized over time is as follows:

	Years Ended June 30,	
	2022	2021
Recognition		
At a Point in Time	\$ 1,076,319	\$ 1,733,846
Over a Period of Time	3,158,536	2,193,237
Total Revenue	\$ 4,234,855	\$ 3,927,083

*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, 2022 and 2021.

**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 do 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 present 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©(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, 2022 or 2021. 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, 2022 or 2021.

**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 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.

**Subsequent Events**

The Diocese has evaluated subsequent events through October 18, 2022, 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 statements of financial position are comprised of the following:

	June 30,	
	2022	2021
Cash, Without Restrictions	\$ 7,978,332	\$ 7,376,101
Accounts Receivable, Net	655,838	646,961
Loans Receivable, Net	113,157	-
Investments	7,703,890	6,729,938
	\$ 16,451,217	\$ 14,753,000

The Diocese's endowment funds consist of donor-restricted endowments. Income from donor-restricted endowments is 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 \$3,109,313 and \$3,025,798 at June 30, 2022 and 2021, respectively, and cash of \$23,409 and \$24,250 at June 30, 2022 and 2021, respectively, to be used for perpetual care and maintenance of Diocese cemeteries, and the Diocese held cash of \$18,368 in both 2022 and 2021 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 \$182,201 and \$206,446 in 2022 and 2021, respectively, and cash paid for interest on deposits payable was \$37,312 and \$41,931 in 2022 and 2021, respectively.

The Diocese had noncash financing or investing activities as follows:

	Years Ended June 30,	
	2022	2021
Non-Cash Decrease in Notes Receivable, Net and Notes Payable, Net	\$ 2,821,775	\$ 2,366,779
Property and Equipment Financed Through Note Payable	\$ -	\$ 55,884



**NOTE 3 – CASH AND CASH FLOWS (Continued)**

The following provides a reconciliation of cash and restricted cash reported on the consolidated statements of cash flows to amounts reported in the consolidated statements of financial position:

	June 30,	
	2022	2021
Cash	\$ 7,996,699	\$ 7,370,219
Restricted Cash for Perpetual Care Fund	23,409	24,250
	\$ 8,020,108	\$ 7,394,469

**NOTE 4 – CONTRACT BALANCES**

Receivables and contract balances from contracts with customers were as follows:

	Years Ended June 30,	
	2022	2021
Accounts Receivable, Net		
Beginning of Year	\$ 646,961	\$ 794,913
End of Year	\$ 655,838	\$ 646,961
Advances and Deferred Receipts		
Beginning of Year	\$ 2,895,972	\$ 3,157,361
End of Year	\$ 3,108,319	\$ 2,895,972

**NOTE 5 – 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,	
	2022	2021
Amounts Promised		
Within One Year	\$ 506,454	\$ 544,181
One to Five Years	1,129,300	1,200,000
Less Present Value Discount	(63,507)	(66,584)
Unconditional Promises to Give, Net	\$ 1,572,247	\$ 1,677,597

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 6 – CEMETERY PROPERTY HELD FOR SALE**

Developed burial spaces available for sale at June 30, 2022 and 2021, 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	
	2022	2021	2022	2021	2022	2021
	Graves	3,234	1,881	253	416	\$ 1,338
Mausoleum Crypts	65	106	41	39	4,917	4,401
Lawn Crypts	39	49	10	3	3,400	2,967
Mausoleum Niches	0	2	2	1	1,050	1,050
Columbarium Niches	1,530	1,635	105	126	2,019	5,383

**NOTE 7 – 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, 2022 and 2021.

*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.

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.

**ROMAN CATHOLIC DIOCESE OF COVINGTON, OFFICES OF THE CURIA**

**NOTE 7 – FAIR VALUE MEASUREMENTS (Continued)**

The following were measured at fair value as of June 30, 2022:

	Investments at Fair Value			
	Level 1	Level 2	Level 3	Total
Common Stocks	\$ 5,203,681	\$ -	\$ -	\$ 5,203,681
Commercial Paper, Short-Term U.S. Treasury and Agency Obligations	-	3,237,580	-	3,237,580
Corporate Bonds	-	8,269,480	-	8,269,480
 Total Assets in Fair Value Hierarchy	 \$ <u>5,203,681</u>	 \$ <u>11,507,060</u>	 \$ <u>-</u>	 16,710,741
 Investments Measured at Net Asset Value (a)				 <u>11,184,593</u>
 Total Investments				 \$ <u><u>27,895,334</u></u>

The following were measured at fair value as of June 30, 2021:

	Investments at Fair Value			
	Level 1	Level 2	Level 3	Total
Common Stocks	\$ 5,600,196	\$ -	\$ -	\$ 5,600,196
Commercial Paper, Short-Term U.S. Treasury and Agency Obligations	-	3,523,152	-	3,523,152
Corporate Bonds	-	8,321,122	-	8,321,122
 Total Assets in Fair Value Hierarchy	 \$ <u>5,600,196</u>	 \$ <u>11,844,274</u>	 \$ <u>-</u>	 17,444,470
 Investments Measured at Net Asset Value (a)				 <u>14,075,086</u>
 Total Investments				 \$ <u><u>31,519,556</u></u>

(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.

**NOTE 7 – FAIR VALUE MEASUREMENTS (Continued)**

The following tables summarize investments for which fair value is measured using the net asset value per share practical expedient as of June 30, 2022 and 2021.

<u>June 30, 2022</u>	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency (If Currently Eligible)</u>	<u>Redemption Notice Period</u>
Alternative Investments	\$ 11,184,593	N/A	Daily or Monthly	0 - 90 Days

  

<u>June 30, 2021</u>	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency (If Currently Eligible)</u>	<u>Redemption Notice Period</u>
Alternative Investments	\$ 14,075,086	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 8 – PROPERTY AND EQUIPMENT**

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

	<u>June 30,</u>	
	<u>2022</u>	<u>2021</u>
Land Improvements	\$ 1,762,085	\$ 1,654,633
Buildings and Improvements	15,525,005	15,396,759
Furniture and Equipment	2,485,078	2,247,108
	19,772,168	19,298,500
Less Accumulated Depreciation	6,691,633	6,101,544
Total Property and Equipment, Net	<u>\$ 13,080,535</u>	<u>\$ 13,196,956</u>

**NOTE 9 – OTHER ASSETS**

Included in other assets, the self-insurance fund holds a 3.5% ownership investment of \$429,967 and \$390,269 as of June 30, 2022 and 2021, 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.

**ROMAN CATHOLIC DIOCESE OF COVINGTON, OFFICES OF THE CURIA**

**NOTE 10 – LOANS RECEIVABLE AND DEPOSITS PAYABLE**

Loans receivable and deposits payable consists of the following:

	June 30,	
	2022	2021
Loans receivable from parishes, schools and other Diocesan institutions; due on demand; unsecured; interest ranging from 0.0% to 4.5% per annum; net of allowance of \$718,632 at both June 30, 2022 and 2021.	\$ 3,087,097	\$ 3,171,291
Loan receivable from an individual for Seminary school. The loan does not charge interest and there is no formal terms for repayment.	27,222	27,095
Accumulated interest due on loan receivable from a school. Interest is calculated at a simple interest rate of 4% on a principal balance of \$3,000,000 at both June 30, 2022 and 2021.	<u>377,530</u>	<u>-</u>
Total Loans Receivable, Net	<u>\$ 3,491,849</u>	<u>\$ 3,198,386</u>
Deposits payable to parishes, schools and other Diocesan Institutions - Deposit and Loan Fund; payable on demand; unsecured; interest of 1.0% per annum.	\$ 11,404,483	\$ 10,927,318
St. Anne Retreat Center Deposits	<u>13,250</u>	<u>12,725</u>
Total Deposits Payable	<u>\$ 11,417,733</u>	<u>\$ 10,940,043</u>

**NOTE 11 – NOTES PAYABLE**

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 is the borrower and the individual parishes, schools, and institutions are the account debtors to the Diocese. US Bank will serve as the administrative agent and the lenders are 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 are 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 (see Notes Receivable note for payment terms), until the principal amount of the notes are 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 11 – NOTES PAYABLE (Continued)**

Interest on the loan syndication agreements bear interest at an adjustable rate equal to the sum of the product of the LIBOR rate, the applicable factor, and the applicable spread. At June 30, 2022 and 2021, the adjustable interest rate on the bonds was 2.31% and 1.42%, respectively. At June 30, 2022 and 2021, the interest rate on the term bonds was 2.41% and 1.44%, respectively. All notes are secured by the general assets of the Diocese and the remaining capital campaign collections of the various projects raised for the purpose of the notes.

The Diocese also has two interest free term notes payable to an unrelated third party to finance the purchase of two tractors. The final payments are due in April 2024 and August 2025, and the notes are due in monthly principal payments of \$1,118 and \$931.

Notes payable related to the loan syndication and term notes are as follows:

	June 30,	
	2022	2021
Series 2016 A Bonds	\$ 2,557,546	\$ 3,099,000
Series 2016 B Bonds	1,155,233	1,324,291
Series 2016 Term Bonds	548,441	629,465
Series 2018 A Bonds	-	500,000
Series 2018 B Bonds	3,478,663	3,675,568
Series 2019 Bonds	1,200,000	1,800,000
Series 2019B Bonds	-	733,333
Term Notes	54,033	81,610
	8,993,916	11,843,267
Less Unamortized Debt Issuance Costs	(60,653)	(75,816)
Total Notes Payable, Net	\$ 8,933,263	\$ 11,767,451

Debt issuance costs of \$210,996 were recognized as a reduction to the face amount of the notes payable and were amortized over a period of five years. During the year ended June 30, 2021, the Diocese recognized costs of \$75,816 for an interest rate refinancing that has been recognized as a reduction to the face amount of these notes and will be amortized over a period of five years. Amortization of debt issuance costs of \$15,163 and \$46,219 have been reported as interest expense for 2022 and 2021, respectively.

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

Years Ending June 30,	
2023	\$ 1,396,638
2024	1,400,399
2025	787,354
2026	816,475
2027	816,475
Thereafter	3,776,575
	8,993,916
Less Debt Issuance Costs	60,653
Total Payments	\$ 8,933,263

**NOTE 12 – NOTES RECEIVABLE**

The individual promissory note receivables are as follows:

	June 30,	
	2022	2021
<b>SERIES 2016 A BONDS</b>		
<u>Covington Latin School</u>		
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.	\$ 2,557,546	\$ 3,099,000
<b>SERIES 2016 B BONDS</b>		
<u>Newport Catholic High School</u>		
Promissory note payable in monthly installments ranging from \$10,694 to \$14,089 with a maturity date of May 1, 2029.	1,155,233	1,324,291
<b>SERIES 2016 TERM BONDS</b>		
<u>St. Patrick Parish</u>		
Promissory note payable in quarterly installments ranging from \$4,495 to \$6,896 with a maturity date of January 21, 2028.	448,004	514,574
<u>St. Joseph Parish, Cold Spring</u>		
Promissory note payable in monthly installments of \$4,381 with a maturity date of May 1, 2029.	100,437	114,892
Total Series 2016 Term Bonds	548,441	629,466
<b>SERIES 2018 A TERM BONDS</b>		
<u>Covington Catholic High School</u>		
Promissory note payable in annual installments of \$500,000 with a maturity date of May 2022.	-	500,000
<b>SERIES 2018 B TERM BONDS</b>		
<u>St. Henry District High School</u>		
Promissory note payable in monthly installments of \$16,409 with a maturity date of February 2040.	3,478,663	3,675,568
<b>SERIES 2019 TERM BONDS</b>		
<u>Bishop Brossart High School</u>		
Promissory note payable in quarterly installments of \$150,000 with a maturity date of May 31, 2024.	1,200,000	1,800,000
<b>SERIES 2019 B TERM BONDS</b>		
<u>Immaculate Heart of Mary Church</u>		
Promissory note payable in monthly installments of \$18,333 with a maturity date of November 1, 2024.	-	733,333
<b>Notes Receivable Balance</b>	<b>\$ 8,939,883</b>	<b>\$ 11,761,658</b>

Interest charged on notes receivable is equal to the loan syndication interest payments due as described in the Notes Payable note disclosure.

**NOTE 13 – PLEDGES PAYABLE**

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

	June 30,	
	2022	2021
Less than One Year	\$ 105,000	\$ 115,000
One to Five Years	340,000	445,000
Over Five Years	225,000	225,000
	670,000	785,000
Less Unamortized Discount	(27,698)	(33,081)
Total Pledges Payable, Net	\$ 642,302	\$ 751,919

**NOTE 14 – ADVANCES AND DEFERRED RECEIPTS**

Advances and deferred receipts consist of the following:

Deferred Parish Assessment Revenue	\$ 2,811,029	\$ 2,694,339
Other Advances	133,455	29,778
Deferred Revenue Related to Cemetery Markers, Plaques and Inscriptions to be Installed	151,206	145,270
Deferred Revenue Related to ACUE	11,742	21,724
Deferred Revenue for <i>Messenger</i> Newspaper	887	4,861
Total Advances and Deferred Receipts	\$ 3,108,319	\$ 2,895,972

**NOTE 15 – 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 15 – 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, 2022 is as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor Restricted Endowment Funds	\$ <u>          -</u>	\$ <u>  5,065,742</u>	\$ <u>  5,065,742</u>

Changes in endowment net assets for the year ended June 30, 2022 are as follows:

Endowment Net Assets, Beginning of Year	\$ -	\$ 5,840,358	\$ 5,840,358
Investment Loss, Net	-	(629,616)	(629,616)
Appropriation of Endowment Assets Pursuant to Spending Policy	<u>          -</u>	<u>  (145,000)</u>	<u>  (145,000)</u>
Endowment Net Assets, End of Year	<u>\$ <u>          -</u></u>	<u>\$ <u>  5,065,742</u></u>	<u>\$ <u>  5,065,742</u></u>

Endowment net asset composition by type of fund as of June 30, 2021 is as follows:

Donor Restricted Endowment Funds	\$ <u>          -</u>	\$ <u>  5,840,358</u>	\$ <u>  5,840,358</u>
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Changes in endowment net assets for the year ended June 30, 2021 are as follows:

Endowment Net Assets, Beginning of Year	\$ -	\$ 4,854,267	\$ 4,854,267
Investment Return, Net	-	1,111,091	1,111,091
Appropriation of Endowment Assets Pursuant to Spending Policy	<u>          -</u>	<u>  (125,000)</u>	<u>  (125,000)</u>
Endowment Net Assets, End of Year	<u>\$ <u>          -</u></u>	<u>\$ <u>  5,840,358</u></u>	<u>\$ <u>  5,840,358</u></u>

**NOTE 16 – BISHOP DESIGNATED NET ASSETS**

The Bishop designated net assets for the following purposes:

	June 30,	
	2022	2021
Funds to Pay for Parish and School Health Insurance	\$ 4,087,889	\$ 3,582,732
Funds to Support Secondary Schools	1,805,535	1,622,475
Inner City School Funds	1,190,783	787,747
Parish and School Loan Programs	5,557	(186,674)
Annuity Funds and Other	(429)	43
Over-Spending on Seminarian Programs	(1,084,956)	(1,084,956)
Total Bishop Designated Net Assets	\$ 6,004,379	\$ 4,721,367

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 \$3,132,722 and \$3,050,048 at June 30, 2022 and 2021, respectively. The income on these funds may only be used for care and maintenance.

**NOTE 17 – NET ASSETS WITH DONOR RESTRICTIONS**

Net assets with donor restrictions are restricted as follows:

<b>Subject to Expenditure for Specified Purpose</b>		
Diocesan Parish Annual Appeal	\$ 2,513,595	\$ 2,291,693
General Educational Need	273,999	111,659
ACUE	1,626,728	1,299,377
Other	434,088	481,193
	4,848,410	4,183,922
<b>Endowments</b>		
<i>Subject to Appropriation and Expenditure When a Specified Event Occurs</i>		
Accumulated Net Appreciation of Endowment Funds	1,566,058	2,340,674
<i>Not Subject to Spending Policy or Appropriation</i>		
Educational Endowment	2,485,218	2,485,218
Property Maintenance Endowment	942,386	942,386
Diocesan Annual Appeal Endowment	52,504	52,504
Other Endowment	16,376	16,376
ACUE Endowment	3,200	3,200
Endowed Restricted Net Assets	5,065,742	5,840,358
Total Net Assets with Donor Restrictions	\$ 9,914,152	\$ 10,024,280

**NOTE 17 – NET ASSETS WITH DONOR RESTRICTIONS (Continued)**

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:

	Years Ended June 30,	
	2022	2021
<b>Satisfaction of Purpose Restrictions</b>		
Diocesan Parish Annual Appeal	\$ 2,468,367	\$ 3,154,819
Pastoral Ministry Seminarian Services	316,210	299,836
ACUE	678,978	1,269,944
Other	9,421	15,060
	3,472,976	4,739,659
 Restricted-Purpose Distributions and Appropriations		
General Educational Need	149,500	125,000
 Total Net Assets Released From Restrictions	\$ 3,622,476	\$ 4,864,659

**NOTE 18 – 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 Diocese 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 \$223,410 and \$222,674 for the years ended June 30, 2022 and 2021, 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, 2021, the plan was 101.6% funded, the actuarial value of the plan assets was \$131,544,161 and the accumulated value of the plan benefits was \$129,464,930.

**NOTE 18 – EMPLOYEE BENEFIT PLAN (Continued)**

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 by 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 \$250,000 for the years ended June 30, 2022 and 2021, respectively.

**NOTE 19 – 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 \$4,354,406 and \$4,082,781 at June 30, 2022 and 2021, respectively.

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

	June 30,	
	2022	2021
Change in Projected Benefit Obligation		
Benefit Obligation at Beginning of Year	\$ 4,082,781	\$ 4,090,074
Service Cost	74,880	72,000
Interest Costs	157,604	122,750
Benefits Paid	(331,746)	(302,043)
Actuarial Loss (Gain)	370,887	100,000
Benefit Obligation at End of Year	\$ 4,354,406	\$ 4,082,781

**ROMAN CATHOLIC DIOCESE OF COVINGTON, OFFICES OF THE CURIA**

**NOTE 19 – POSTRETIREMENT BENEFIT PLAN (Continued)**

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

	Years Ended June 30,	
	2022	2021
Service Cost - Benefits Attributed to Service		
During the Period	\$ 74,880	\$ 72,000
Interest Costs on Accumulated Post Retirement		
Benefit Obligation	157,604	122,750
 Total	 \$ 232,484	 \$ 194,750

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 for the fiscal year ending June 30, 2022:

Years Ending June 30,	
2023	\$ 346,675
2024	316,288
2025	275,159
2025	253,050
2026	234,110
Thereafter	1,061,509
	\$ 2,486,791

**NOTE 20 – GRANTS MADE BY DIOCESE**

	Years Ended June 30,	
	2022	2021
Priest Retirement Fund	\$ 275,000	\$ 250,000
Catholic Charities	250,000	250,000
Cathedral Operating	299,750	671,789
Inner City	199,800	212,500
Parishes and Schools	16,295	94,721
Educational Assistance	87,000	75,000
DPAA Pledges from Contingency	5,384	777,949
Mission Outreach	4,996	5,119
Holy See	22,000	22,000
Miscellaneous	11,234	12,186
 Total Grants Made by Diocese	 \$ 1,171,459	 \$ 2,371,264

**NOTE 21 – 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 22 – 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 \$175,000 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 23 – RISKS AND UNCERTAINTIES – COVID-19 OUTBREAK**

During 2020, 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 have 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.