

Central Offices of the Archdiocese of Cincinnati

**Financial Statements with Accompanying Information
June 30, 2019 and 2018, and
Independent Auditors' Report**

CENTRAL OFFICES OF THE ARCHDIOCESE OF CINCINNATI

June 30, 2019 and 2018

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Independent Auditors' Report

Most Reverend Dennis M. Schnurr
Archbishop of Cincinnati

We have audited the accompanying financial statements of the Central Offices of the Archdiocese of Cincinnati (Archdiocese or Central Offices), which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of 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 financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Central Offices of the Archdiocese of Cincinnati as of June 30, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Independent Auditors' Report
(Continued)**

Effect of Adopting New Accounting Standard

As discussed in Note 1, the Central Offices of the Archdiocese of Cincinnati has adopted Financial Accounting Standards Board Accounting Standards Update 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, which primarily addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, the lack of consistency in the type of information provided about expenses and investment return, and other financial statement presentation items and enhanced disclosures. Our opinion is not modified with respect to this matter.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying information included in schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



February 17, 2020
Cincinnati, Ohio

CENTRAL OFFICES OF THE ARCHDIOCESE OF CINCINNATI

**Statements of Financial Position
June 30, 2019 and 2018**

	2019	2018
Assets		
Cash	\$ 200	\$ 200
Prepaid expenses	421,116	425,876
Accounts and interest receivable, net of allowances; 2019 - \$6,425,870 and 2018 - \$5,510,926	5,378,618	4,509,509
Due from other Archdiocesan agencies	41,880	-
Contributions receivable, net of discount	899,108	998,109
Notes receivable, net of allowances; 2019 - \$6,138,569 and 2018 - \$5,887,983	3,361,609	3,747,319
Investments	261,667,771	257,486,681
Beneficial interest in trust	5,744	3,825,351
Land, buildings and other property, net	10,635,631	10,263,157
Total assets	\$ 282,411,677	\$ 281,256,202
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 9,920,805	5,667,234
Reserve for insurance claims	5,254,090	5,904,090
Due to other Archdiocesan agencies	-	6,726,186
Funds held for Athenaeum of Ohio (Seminary)	28,973,840	27,799,504
Special collections	1,320,363	733,694
Parish exchange accounts and other liabilities	102,634	270,201
Notes payable - parishes and other Catholic institutions	117,463,264	116,317,692
Total liabilities	163,034,996	163,418,601
Net Assets		
Without donor restrictions:		
Undesignated	91,756,937	87,189,608
Archbishop-designated other funds	18,758,027	14,000,380
Archbishop-designated endowment funds	2,309,228	5,134,151
Total without donor restrictions	112,824,192	106,324,139
With donor restrictions	6,552,489	11,513,462
Total net assets	119,376,681	117,837,601
Total liabilities and net assets	\$ 282,411,677	\$ 281,256,202

See accompanying notes to financial statements

CENTRAL OFFICES OF THE ARCHDIOCESE OF CINCINNATI

Statement of Activities Year Ended June 30, 2019 with Summarized Comparative Totals for 2018

	2019			2018
	Without Donor Restrictions	With Donor Restrictions	Total	
Revenue, gains and other support				
Investment return, net	\$ 12,046,427	\$ 78,619	\$ 12,125,046	\$ 16,934,036
Insurance billings to parishes and institutions	50,597,084	-	50,597,084	51,276,356
Claim reimbursement and recoveries	206,777	-	206,777	153,959
Archdiocesan assessments	12,785,893	-	12,785,893	12,843,946
Notes receivable interest	289,930	-	289,930	312,033
Catholic Ministries Appeal	-	5,057,659	5,057,659	4,788,352
Contributions and bequests	1,347,723	3,150,809	4,498,532	7,293,181
Rental income	303,548	9,928	313,476	320,009
Other	397,828	-	397,828	133,994
Net assets released from restrictions	13,257,988	(13,257,988)	-	-
Total revenue, gains and other support	<u>91,233,198</u>	<u>(4,960,973)</u>	<u>86,272,225</u>	<u>94,055,866</u>
Expenses				
Chancery:				
Community services	1,436,176	-	1,436,176	1,435,109
Educational services	6,079,859	-	6,079,859	8,073,422
Executive services	3,783,646	-	3,783,646	3,203,989
Financial services	1,571,695	-	1,571,695	1,711,500
Human resources	499,539	-	499,539	512,154
Stewardship services	1,029,971	-	1,029,971	1,152,105
Pastoral services	9,556,899	-	9,556,899	9,398,172
General and administrative	4,189,659	-	4,189,659	4,628,964
Interest on notes payable	2,843,765	-	2,843,765	2,622,832
Administrative building operations	242,992	-	242,992	247,572
	<u>31,234,201</u>	<u>-</u>	<u>31,234,201</u>	<u>32,985,819</u>
Nonoperating transfers to related entities	5,500,000	-	5,500,000	-
Health Care Plan:				
Claims	38,257,444	-	38,257,444	36,325,847
Disability and life insurance premiums	1,223,721	-	1,223,721	1,355,264
Service fees	2,425,512	-	2,425,512	2,636,958
Stop loss premiums	571,003	-	571,003	611,465
Allowance for doubtful accounts	102,902	-	102,902	787,750
Other health care costs	226,463	-	226,463	185,202
	<u>42,807,045</u>	<u>-</u>	<u>42,807,045</u>	<u>41,902,486</u>
Self-Insurance Fund:				
Claims	2,254,693	-	2,254,693	2,599,786
Reinsurance premiums	2,886,773	-	2,886,773	2,696,671
Other self insurance costs	50,433	-	50,433	1,148,648
	<u>5,191,899</u>	<u>-</u>	<u>5,191,899</u>	<u>6,445,105</u>
Total expenses	<u>84,733,145</u>	<u>-</u>	<u>84,733,145</u>	<u>81,333,410</u>
Change in net assets before transfers	6,500,053	(4,960,973)	1,539,080	12,722,456
Transfers to other Archdiocesan agencies	-	-	-	9,065,728
Change in net assets	6,500,053	(4,960,973)	1,539,080	3,656,728
Net assets, beginning of year	<u>106,324,139</u>	<u>11,513,462</u>	<u>117,837,601</u>	<u>114,180,873</u>
Net assets, end of year	<u>\$ 112,824,192</u>	<u>\$ 6,552,489</u>	<u>\$ 119,376,681</u>	<u>\$ 117,837,601</u>

See accompanying notes to financial statements

CENTRAL OFFICES OF THE ARCHDIOCESE OF CINCINNATI

**Statement of Activities
Year Ended June 30, 2018**

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, gains and other support			
Investment return, net	\$ 16,527,347	\$ 406,689	\$ 16,934,036
Insurance billings to parishes and institutions	51,276,356	-	51,276,356
Claim reimbursement and recoveries	153,959	-	153,959
Archdiocesan assessments	12,843,946	-	12,843,946
Notes receivable interest	312,033	-	312,033
Catholic Ministries Appeal	-	4,788,352	4,788,352
Contributions and bequests	3,803,842	3,489,339	7,293,181
Rental income	316,493	3,516	320,009
Other	115,548	18,446	133,994
Net assets released from restrictions	12,458,020	(12,458,020)	-
Total revenue, gains and other support	<u>97,807,544</u>	<u>(3,751,678)</u>	<u>94,055,866</u>
Expenses			
Chancery:			
Community services	1,435,109	-	1,435,109
Educational services	8,073,422	-	8,073,422
Executive services	3,203,989	-	3,203,989
Financial services	1,711,500	-	1,711,500
Human resources	512,154	-	512,154
Stewardship services	1,152,105	-	1,152,105
Pastoral services	9,398,172	-	9,398,172
General and administrative	4,628,964	-	4,628,964
Interest on notes payable	2,622,832	-	2,622,832
Administrative building operations	247,572	-	247,572
	<u>32,985,819</u>	<u>-</u>	<u>32,985,819</u>
Health Care Plan:			
Claims	36,325,847	-	36,325,847
Disability and life insurance premiums	1,355,264	-	1,355,264
Service fees	2,636,958	-	2,636,958
Stop loss premiums	611,465	-	611,465
Allowance for doubtful accounts	787,750	-	787,750
Other health care costs	185,202	-	185,202
	<u>41,902,486</u>	<u>-</u>	<u>41,902,486</u>
Self-Insurance Fund:			
Claims	2,599,786	-	2,599,786
Reinsurance premiums	2,696,671	-	2,696,671
Other self insurance costs	1,148,648	-	1,148,648
	<u>6,445,105</u>	<u>-</u>	<u>6,445,105</u>
Total expenses	<u>81,333,410</u>	<u>-</u>	<u>81,333,410</u>
Change in net assets before transfers	16,474,134	(3,751,678)	12,722,456
Transfers to other Archdiocesan agencies	9,065,728	-	9,065,728
Change in net assets	7,408,406	(3,751,678)	3,656,728
Net assets, beginning of year	<u>98,915,733</u>	<u>15,265,140</u>	<u>114,180,873</u>
Net assets, end of year	<u>\$ 106,324,139</u>	<u>\$ 11,513,462</u>	<u>\$ 117,837,601</u>

See accompanying notes to financial statements

CENTRAL OFFICES OF THE ARCHDIOCESE OF CINCINNATI

**Statements of Functional Expenses
Years Ended June 30, 2019 and 2018**

	2019				2018			
	Program Services	Management and General	Fundraising	Total	Program Services	Management and General	Fundraising	Total
Chancery:								
Salaries and wages	\$ 8,200,877	\$ 1,368,565	\$ 160,904	\$ 9,730,346	\$ 8,256,235	\$ 1,313,025	\$ 121,718	\$ 9,690,978
Direct support to related entities	2,663,036	-	-	2,663,036	3,164,082	-	-	3,164,082
Direct support to parishes	1,839,648	-	-	1,839,648	3,571,476	-	-	3,571,476
Distributions to non-related charities	1,023,529	-	-	1,023,529	856,338	-	-	856,338
Interest Expense	2,843,765	-	-	2,843,765	2,622,832	-	-	2,622,832
Tuition Assistance	2,760,840	2,030	-	2,762,870	2,060,145	-	-	2,060,145
Payroll taxes and benefits	1,985,289	561,186	87,179	2,633,654	1,992,438	594,023	40,084	2,626,545
Provision for doubtful accounts	-	1,301,426	-	1,301,426	-	1,194,676	-	1,194,676
Depreciation expense	-	982,371	-	982,371	-	966,502	-	966,502
Legal and professional	435,370	448,108	80,500	963,978	273,542	565,863	225,050	1,064,455
Other professional	708,838	11,190	6,867	726,895	792,431	13,102	44,029	849,562
Software and Network Administration	291,039	316,255	35,155	642,449	295,144	261,237	19,269	575,650
Meetings and conferences	501,301	93,681	8,672	603,654	737,940	88,957	18,980	845,877
Building maintenance	19,592	569,888	589	590,069	23,815	1,032,183	-	1,055,998
Office and program supplies	250,039	131,082	129,283	510,404	241,717	173,228	131,418	546,363
Other expenses	169,319	263,316	61,045	493,680	268,032	175,934	47,893	491,859
Membership dues	174,565	180,704	4,200	359,469	102,982	178,979	4,455	286,416
Utilities	34,016	170,790	21,000	225,806	25,885	150,597	17,105	193,587
USCCB assessment paid	-	168,737	-	168,737	-	166,748	-	166,748
Priest business expenses	164,703	3,712	-	168,415	145,097	10,633	-	155,730
Total Chancery expenses	24,065,766	6,573,041	595,394	31,234,201	25,430,131	6,885,687	670,001	32,985,819
Nonoperating transfers to related entities	5,500,000	-	-	5,500,000	-	-	-	-
Health Care Plan	42,807,045	-	-	42,807,045	41,902,486	-	-	41,902,486
Self-Insurance Fund	5,191,899	-	-	5,191,899	6,445,105	-	-	6,445,105
Total expenses	<u>\$ 77,564,710</u>	<u>\$ 6,573,041</u>	<u>\$ 595,394</u>	<u>\$ 84,733,145</u>	<u>\$ 73,777,722</u>	<u>\$ 6,885,687</u>	<u>\$ 670,001</u>	<u>\$ 81,333,410</u>

See accompanying notes to financial statements

CENTRAL OFFICES OF THE ARCHDIOCESE OF CINCINNATI

**Statements of Cash Flows
Years Ended June 30, 2019 and 2018**

	2019	2018
Cash flows from operating activities		
Change in net assets	\$ 1,539,080	\$ 3,656,728
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	982,371	966,502
Provision for doubtful receivables	1,404,328	1,982,425
Net unrealized and realized gains on investments	(6,627,288)	(11,540,256)
Change in beneficial interest in trust	3,819,607	(110,811)
Interest reinvested into notes payable	1,393,305	1,310,855
Transfer to other Archdiocesan agencies	-	9,065,728
Changes in:		
Prepaid expenses	4,760	(52,010)
Accounts and interest receivable	(2,023,351)	1,012,510
Due to (from) other Archdiocesan agencies	(6,768,066)	10,726,825
Contributions receivable	99,001	107,173
Accounts payable and accrued expenses	4,253,571	1,867,056
Reserve for insurance claims	(650,000)	425,000
Funds held for Athenaeum of Ohio (Seminary)	150,124	63,024
Special collections	586,669	99,230
Parish exchange accounts and other liabilities	(167,567)	(187,567)
Net cash provided (used) by operating activities	(2,003,456)	19,392,412
Cash flows from investing activities		
Purchases of investments	(97,543,324)	(42,403,754)
Proceeds from sales of investments	101,013,734	19,984,798
Purchases of land, buildings and other property	(1,354,845)	(1,572,977)
Collections on notes receivable	190,090	1,163,654
Issuance of notes receivable	(54,466)	(601,630)
Net cash provided by (used in) investing activities	2,251,189	(23,429,909)
Cash flows from financing activities		
Originations of notes payable	6,651,092	8,905,703
Withdrawals from notes payable	(6,898,825)	(4,868,206)
Net cash provided by (used in) financing activities	(247,733)	4,037,497
Net change in cash	-	-
Cash, beginning of year	200	200
Cash, end of year	\$ 200	\$ 200
Supplemental cash flows information		
Interest paid	\$ 1,386,361	\$ 1,266,455
Non-cash change in funds held for Seminary	\$ 1,024,212	\$ 2,453,338

See accompanying notes to financial statements

CENTRAL OFFICES OF THE ARCHDIOCESE OF CINCINNATI

Notes to Financial Statements

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

The Central Offices of the Archdiocese of Cincinnati (Archdiocese or Central Offices) primarily consist of departments maintained for the administration of the general business and financial affairs of the Archdiocese of Cincinnati. The Archdiocese of Cincinnati encompasses the various institutions and organizations which are responsible to the Most Reverend Dennis M. Schnurr, Archbishop of Cincinnati.

The accompanying financial statements do not include the accounts of the Lay Employees' Pension Plan, the Priests' Retirement Corporation, Pooled Investment Trust Fund, and certain Catholic organizations located within the Archdiocese such as parishes, schools, publications, foundations, cemeteries, homes, seminaries, or any institutions owned and operated by religious orders of men or women, except insofar as financial transactions have taken place between such organizations and the Central Offices. These organizations may or may not be separate corporations under civil law; however, each is an operating entity distinct from the Central Offices, maintains separate accounts, carries on its own services and programs, and in some instances is expected to report annually to the Central Offices. The Central Offices may become responsible for liabilities of certain of these entities in its role as the financial administrator of the Archdiocese. See Note 16 for contingencies presented in these financial statements related to these future potential obligations.

Titles to certain properties of the above-mentioned organizations are held by the Archbishop and his successors in office as trustee of separate trusts. Commingling of these separate trusts is forbidden by Canon Law and policy as well as by Ohio Civil Law. For this reason, these properties are not included in the accompanying financial statements.

The Central Offices, certain related institutions, and all parishes participate in two self-insurance programs providing property and casualty as well as health care coverage (Archdiocesan insurance programs). The Central Offices administer the Archdiocesan insurance programs with the aid of an insurance service firm as directed by the Archbishop. Reinsurance and stop loss contracts are obtained to protect against losses in excess of self-insurance limits.

Financial Statement Presentation

The financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles (GAAP). The Archdiocese is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions, which are available for use in general operations and not subject to donor restrictions; and net assets with donor restrictions, which are either temporary in nature, such as those that will be met by the passage of time or other events specified by the donor, or are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

CENTRAL OFFICES OF THE ARCHDIOCESE OF CINCINNATI

Notes to Financial Statements (Continued)

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements

GAAP has a three-level hierarchy for fair value measurements based on transparency of valuation inputs as of the measurement date. The hierarchy is based on the lowest level of input that is significant to the fair value measurement. The three levels are defined as follows: Level 1 inputs are unadjusted quoted prices for identical assets in active markets; Level 2 inputs are observable quoted prices for similar assets in active markets; Level 3 inputs are unobservable and reflect management's best estimate of what market participants would use as fair value.

Accounts, Notes and Interest Receivable

Accounts receivable are stated at the amounts earned, but not collected, less related allowance for impaired accounts receivable. Notes and interest receivable are stated at the principal amount outstanding, less the related allowance for impaired receivables. Interest income on notes receivable is accrued as earned based on unpaid principal balances. The notes are payable on demand thirty days after issuance and interest is due quarterly. Interest accrues until the note is paid in full and therefore, notes are generally not placed on non-accrual status.

Accounts, notes and interest receivable are evaluated for impairment in accordance with GAAP. Management, considering current information and events, considers a receivable to be impaired when it is probable that the Archdiocese will be unable to collect all amounts due (both interest and principal) according to the terms of the note agreement. When a receivable is considered to be impaired, the amount of impairment is measured based on the expected future cash flows to include recovery from other assets of the obligor. Impairment losses are included in the allowance for doubtful accounts through a charge to the provision for doubtful receivables. Changes in the fair market value of collateral or the expected cash flows due to revisions to the timing or amount of those estimated cash flows are recorded as additions to or reductions in the provision for doubtful receivables. No allowance for doubtful accounts has been provided for receivables not deemed to be impaired.

Investments and Investment Return

Investments are carried at fair value. Investment return includes dividend and interest income, realized and unrealized gains and losses on investments, and investment management fees.

Investment return is reflected in the statements of activities as without donor restrictions or with donor restrictions based upon the existence and nature of any donor imposed restrictions.

Land, Buildings and Other Property

Land, buildings and other property are recorded at cost or, if donated or impaired, at fair value at the time of the gift or determination. Depreciation is calculated on a straight-line basis over the estimated useful lives of the respective assets. Major improvements are capitalized, while maintenance and repairs are expensed as incurred. It is the policy of the Archdiocese to dispose of real estate when it becomes evident that no future use for church purposes is likely.

CENTRAL OFFICES OF THE ARCHDIOCESE OF CINCINNATI

Notes to Financial Statements (Continued)

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions

Gifts of cash and other assets received without donor stipulations are reported as revenue without donor restrictions and net assets. Gifts received with a donor stipulation that limits their use are reported as revenue with donor restrictions and net assets. When a donor's stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Gifts and investment return that are originally restricted by the donor and for which the restriction is met in the same time period are recorded as with donor restrictions and then released from restriction.

Unconditional gifts expected to be collected within one year are reported at their net realizable value. Unconditional gifts expected to be collected in future years are reported at the present value of estimated future cash flows. The resulting discount is amortized using the level-yield method and is reported as contribution revenue.

Income Taxes and Uncertain Tax Positions

The United States Conference of Catholic Bishops received a determination letter dated March 25, 1946, which states that the agencies and instrumentalities and educational, charitable, and religious institutions operated, supervised or controlled by or in connection with the Roman Catholic Church in the United States, its territories or possessions appearing in the Official Catholic Directory are exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

The Archdiocese is listed in the 2019 edition of the Official Catholic Directory and is, therefore, exempt from federal income and unemployment taxes.

The Archdiocese is exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of Ohio law. However, the Archdiocese is subject to federal income tax on any unrelated business taxable income. The Archdiocese is not aware of any activities that would jeopardize its tax-exempt status, nor is it aware of any uncertain tax positions that could result in a material impact on the statements of financial position or statements of activities of the Archdiocese.

Functional Allocation of Expenses

The cost of supporting the various programs and other activities have been summarized on a functional basis in the statements of functional expenses. Expenses have been classified upon the actual direct expenditures and costs allocations. The most significant allocations were salaries and wages and related payroll taxes and benefit expenses, which were allocated based upon estimates of time spent by Archdiocese personnel.

CENTRAL OFFICES OF THE ARCHDIOCESE OF CINCINNATI

Notes to Financial Statements (Continued)

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates

GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue, expenses, gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain 2018 figures have been reclassified to conform to the 2019 presentation.

Effect of Adopting New Accounting Standard

In 2019, the Central Offices adopted Financial Accounting Services Board (FASB) Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profits Entities*. The update primarily addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, the lack of consistency in the type of information provided about expenses and investment return, and other financial statement presentation items and enhanced disclosures. Net asset classifications have been reduced from three classes (unrestricted, temporarily restricted and permanently restricted) to two classes (net assets without donor restrictions and net assets with donor restrictions). In addition, updated disclosure requirements are presented regarding risk exposure and availability of cash for short-term use and expenses are reported by both natural and functional classification. The Central Offices have adopted ASU 2016-14 as of July 1, 2018 and have adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented except disclosing information about liquidity and availability of resources, which is permitted to be omitted for any periods presented before the period of adoption.

Recently Issued Accounting Standards Updates

On May 28, 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*. The standard's core principle is that an organization will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the organization expects to be entitled in exchange for those goods or services. This standard also includes expanded disclosure requirements that result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contract with customers. This standard will be effective for the Central Office's fiscal year ended June 30, 2020.

In February 2016, the FASB issued ASU 2016-02, *Leases*. The standard requires all leases with lease terms over 12 months to be capitalized as a right-of-use asset and lease liability on the statement of financial position at the date of lease commencement. Leases will be classified as either finance or operating. This distinction will be relevant for the pattern of expense recognition in the statement of activities. This standard will be effective for the Central Office's fiscal year ended June 30, 2022.

CENTRAL OFFICES OF THE ARCHDIOCESE OF CINCINNATI

Notes to Financial Statements (Continued)

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recently Issued Accounting Standards Updates

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The standard clarifies and improves current guidance about whether a transfer of assets is a contribution or an exchange transaction. The standard clarifies how an entity determines whether a resource provider is receiving commensurate value in return for the resources transferred. The standard also requires that an entity determine whether a contribution is conditional on the basis of whether an agreement includes a barrier that must be overcome and either a right of return of assets transferred or a right of release of a promisor's obligation to transfer assets. This standard will be effective for the Central Office's fiscal year ended June 30, 2020.

The Central Offices is currently in the process of evaluating the impact of adoption of these ASUs on the financial statements.

Subsequent Event Evaluation

In preparing its financial statements, the Archdiocese has evaluated events subsequent to the statement of financial position date through February 17, 2020, which is the date the financial statements were available to be issued.

NOTE 2 NOTES RECEIVABLE AND NOTES PAYABLE

Notes Receivable

Certain parishes and other Catholic institutions have financed building projects and other needs through interest-bearing demand notes from surplus funds of other parishes and institutions. These notes are included in notes receivable on the statement of financial position. In addition to these notes, notes receivable also includes interest and accounts receivables that were converted to interest-bearing demand notes. The notes receivable interest rate was 6.5% for 2019 and 2018.

The Archdiocese acts as a lender of last resort for college seminarians. Each application is evaluated by the Archbishop with assistance of the Archdiocesan Finance Department. All such loans are evidenced by a promissory note signed by the student. The Archbishop, at his discretion, may forgive some portion of the loan upon the student's ordination to the priesthood. As of June 30, 2019 and 2018 there are eleven and twelve notes, respectively, outstanding totaling \$202,433 and \$204,530, respectively. The notes receivable interest rates range from 0% to 3.5%. The interest rate is set based on the prime rate when repayment is scheduled to begin.

Notes receivable include non-interest bearing notes of approximately \$4,930,000 and \$4,948,000 for 2019 and 2018, respectively.

CENTRAL OFFICES OF THE ARCHDIOCESE OF CINCINNATI

**Notes to Financial Statements
(Continued)**

NOTE 2 NOTES RECEIVABLE AND NOTES PAYABLE (CONTINUED)

Activity in the allowances for doubtful notes receivable for the periods ended June 30 and the gross and average balance of the corresponding receivables that are considered to be impaired as of June 30 was as follows:

	<u>2019</u>	<u>2018</u>
Beginning balance	\$ 5,887,983	\$ 5,687,983
Write-off of notes receivable	(68,348)	-
Provision for doubtful receivables	<u>318,934</u>	<u>200,000</u>
Ending balance	<u>\$ 6,138,569</u>	<u>\$ 5,887,983</u>
Gross balance of impaired notes receivable	<u>\$ 9,500,177</u>	<u>\$ 9,319,712</u>
Average balance of impaired notes receivable	<u>\$ 380,007</u>	<u>\$ 424,247</u>

Interest income recognized on impaired notes receivable during the years ended June 30, 2019 and 2018 was approximately \$289,000 and \$293,000, respectively.

Notes Payable

Some parishes and other Catholic institutions, which have funds not immediately needed for current operations, deposit such funds with the Archdiocese and receive an interest-bearing demand note as evidence thereof. These funds are classified as notes payable on the statement of financial position of \$117,463,264 and \$116,317,692 as of June 30, 2019 and 2018, respectively. The notes payable interest rates ranged from 2.35% to 2.50% for 2019 and 2.3% to 2.45% for 2018.

NOTE 3 CONTRIBUTIONS RECEIVABLE

Contributors to the Archdiocese have made unconditional pledges totaling \$1,040,389 and \$1,147,657 as of June 30, 2019 and 2018, respectively. Contributions receivable have been discounted at rates ranging from 0.0% to 7.0% to a net present value of \$899,108 and \$998,109 as of June 30, 2019 and 2018, respectively. As of June 30, these pledges are due as follows:

	<u>2019</u>	<u>2018</u>
Less than one year	\$ 640,389	\$ 747,657
More than five years	<u>400,000</u>	<u>400,000</u>
	1,040,389	1,147,657
Less discount applied	<u>(141,281)</u>	<u>(149,548)</u>
	<u>\$ 899,108</u>	<u>\$ 998,109</u>

Management has estimated that no allowance is necessary for uncollectable contributions receivable.

CENTRAL OFFICES OF THE ARCHDIOCESE OF CINCINNATI

**Notes to Financial Statements
(Continued)**

NOTE 4 DUE (TO) FROM OTHER ARCHDIOCESAN AGENCIES

Due (to) from other Archdiocesan agencies as of June 30 consisted of the following:

	2019	2018
Foundation for Catholic Education	\$ -	\$ 466,917
Priests' Retirement Corporation	(4,400)	(6,554,218)
Other Archdiocesan agencies	36,740	77,115
CISE	5,050	(702,581)
Catholic Community Foundation	4,490	(13,419)
	\$ 41,880	\$ (6,726,186)

NOTE 5 INVESTMENTS AT FAIR VALUE

Investments at fair value at June 30 consisted of the following:

	2019	2018
Level 1:		
Common stock	\$ 145,515,905	\$ 123,232,197
Real estate investments	82,239	5,645,269
Foreign stock	1,834,130	1,710,949
Preferred stock	354,900	287,100
Level 2:		
Corporate bonds	57,776,752	93,039
Tax exempt bonds	97,155	98,015
Foreign bonds	4,332,198	34,368
High yield bonds	794,969	
Money market funds	5,451,237	1,007,822
Deposits in Pooled Investment Trust Fund	40,231,178	52,408,175
Not subject to fair value hierarchy:		
StoneRoad Core Plus Fixed Income SRI	-	39,025,334
StoneRoad Strategic Income Plus SRI	-	28,693,179
Boston Common International Catholic SRI	3,912,436	3,968,847
TNCRRG stock	618,779	576,274
BPIC stock	665,893	706,113
	\$ 261,667,771	\$ 257,486,681
Total investments		

Fair value for stocks and real estate investments is determined by reference to quoted market prices and other relevant information generated by market transactions. These assets are categorized as using Level 1 inputs.

Fair value for bonds, money market funds, and interest in pooled investment trust funds is determined by a third-party utilizing models that use as their basis readily observable market parameters. These assets are categorized as using Level 2 inputs.

CENTRAL OFFICES OF THE ARCHDIOCESE OF CINCINNATI

**Notes to Financial Statements
(Continued)**

NOTE 5 INVESTMENTS AT FAIR VALUE (CONTINUED)

There are no valuations using Level 3 inputs.

Included in the above investments are investments of \$5,197,108 and \$72,969,747 at June 30, 2019 and 2018, respectively, in unregistered investment pools. The investment pools in turn invest in various equity and debt securities and other vehicles to generate its investment return. The fair value of these investment pools is reported by the Central Offices based on information provided by the investment managers.

Values may be based on readily available public market data as well as estimates that require varying degrees of judgment. Generally, fair value reflects net contributions to the investee and an ownership share of realized and unrealized investment income and expenses. The financial statements of the investees are audited annually by independent auditors as of December 31 with the most recent being as of December 31, 2018. Valuations for these investment pools provided by the investment managers are evaluated by the Central Offices, and management believes such values are reasonable for the years ended June 30, 2019 and 2018.

The Central Offices used Net Asset Value (NAV) to determine the fair value of all the underlying investments which do not have a readily determinable fair value and prepare their financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company. In accordance with ASU 2015-07, these investments are not required to be categorized using the fair value hierarchy. The following table lists investments in other investment companies by major category:

	2019	2018	2019 and 2018		
			Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Investment in StoneRoad Core Plus Fixed Income SRI	\$ -	\$ 39,025,334	-	Semi-monthly	None
Investment in StoneRoad Strategic Income Plus SRI	-	28,693,179	-	Semi-monthly	None
Boston Common International Catholic SRI	3,912,436	3,968,847	-	Monthly	10 days
Investment in TNCRRG	618,779	576,274	-	None	90 days
Investment in BPIC	665,893	706,113	-	None	90 days
	<u>\$ 5,197,108</u>	<u>\$ 72,969,747</u>	<u>\$ -</u>		

The Archdiocese has an investment in The National Catholic Risk Retention Group, Inc. (TNCRRG). TNCRRG is a licensed insurance company domiciled in the State of Vermont, operating as a risk retention group insurer authorized under Federal law, *Liability Risk Retention Act of 1986*. TNCRRG requires such an investment in order to provide the Archdiocese and other Catholic entities protection against losses in excess of the self-insurance limits for an annual premium. Ownership of TNCRRG is restricted to entities that are also insured by the risk retention group. TNCRRG stock is stated at an estimated fair value based on information provided by TNCRRG.

CENTRAL OFFICES OF THE ARCHDIOCESE OF CINCINNATI

Notes to Financial Statements (Continued)

NOTE 5 INVESTMENTS AT FAIR VALUE (CONTINUED)

The Archdiocese's investment in TNCRRG is subject to additional redemption restrictions, as the Archdiocese cannot receive a payout until five years following the effective date of their withdrawal from TNCRRG. Additionally, the payout will be calculated as the lesser of the share value at the effective date of the withdrawal or the share value at the time of payout. Any payout is subject to approval of the insurance regulators in the Vermont Department of Banking, Insurance Securities and Health Care Administration.

The Archdiocese has an investment in the Bishop's Plan Insurance Company (BPIC). BPIC is an industrial insured captive reinsurance company domiciled in the State of Vermont. BPIC is a self-insurance arrangement for various Catholic dioceses. The Archdiocese held a 3.45% and 3.19% ownership investment in BPIC as of June 30, 2019 and 2018, respectively. The investment is stated at an estimated fair value based on information provided by BPIC.

The Central Offices and certain parishes and institutions of the Archdiocese participate in a pooled investment trust fund (the trust). This cash management system is administered by a bank and its trust department.

As of June 30, 2019 and 2018, the assets of the trust are invested 92.2% and 84.6% in corporate bonds, 4.4% and 9.1% in U.S. Government and Federal Agency obligations, and 3.4% and 6.3% in cash equivalents, respectively. The Archdiocese maintains a Pooled Fund Reserve Account that is invested in an equity fund tied to the S&P 500 (see Note 16). This account could be used as a source of funds to meet liquidations, together with other Archdiocesan assets.

NOTE 6 BENEFICIAL INTEREST IN TRUST

The Archdiocese is the sole beneficiary of a charitable remainder trust administered by an outside party. Under the terms of the trust, the Archdiocese has the irrevocable right to receive income earned on the trust assets until termination of the trust in 2018. As of June 30, 2019, the trust is in the processing of dissolving and distributing its assets to the Archdiocese. The fair value of the beneficial interest in trust is \$5,744 and \$3,825,351, which represents the market value of the trust assets at June 30, 2019 and 2018, respectively. The beneficial interest in trust is valued by a third party utilizing models that use as their basis readily observable market parameters and is classified within Level 2 of the fair value hierarchy.

NOTE 7 LAND, BUILDINGS AND OTHER PROPERTY

Land, buildings and other property consisted of the following as of June 30:

	<u>2019</u>	<u>2018</u>
Land	\$ 1,517,278	\$ 1,517,278
Land held for future use	472,750	540,610
Buildings and improvements	20,160,545	19,786,712
Furniture and equipment	2,379,039	2,358,626
Construction in progress	2,851,865	1,823,406
Less accumulated depreciation	<u>(16,745,846)</u>	<u>(15,763,475)</u>
	<u>\$ 10,635,631</u>	<u>\$ 10,263,157</u>

CENTRAL OFFICES OF THE ARCHDIOCESE OF CINCINNATI

**Notes to Financial Statements
(Continued)**

NOTE 8 RESERVE FOR INSURANCE CLAIMS

A reserve has been established for claims reported but not yet paid and estimated claims incurred but not reported. The reserve is based on claims experience and existing matters known by management. As of June 30, 2019 and 2018, the Archdiocese has recorded a reserve for insurance claims of \$5,254,090 and \$5,904,090, respectively.

NOTE 9 FUNDS HELD FOR ATHENAEUM OF OHIO (SEMINARY)

Funds held for Athenaeum of Ohio (Seminary) represent assets entrusted to the Archdiocese only for the purposes of receiving, holding and disbursing such funds according to the depositors' intentions. The assets are not the property of the Archdiocese but are merely held for the account of the Seminary. As of June 30, 2019 and 2018, the Archdiocese had funds held for Athenaeum of Ohio (Seminary) of \$28,973,840 and \$27,799,504 respectively.

NOTE 10 NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions as of June 30 consisted of the following:

	2019	2018
Time restricted:		
Beneficial interest in trust	\$ 5,744	\$ 3,825,351
Purpose restricted:		
Education	1,859,481	2,300,662
Pastoral Services	234,355	391,385
Community Services	1,713,567	2,371,507
Missions	1,722,597	1,688,524
Vocation / Diaconate	84,540	94,508
Other	-	55,719
	5,614,540	6,902,305
Endowment funds:		
Subject to time restrictions	261,596	-
Subject to spending policy and appropriation:		
Education	648,479	763,806
Missions	20,000	20,000
Other	2,130	2,000
	932,205	785,806
	\$ 6,552,489	\$ 11,513,462

CENTRAL OFFICES OF THE ARCHDIOCESE OF CINCINNATI

**Notes to Financial Statements
(Continued)**

NOTE 11 DESIGNATED NET ASSETS

Archbishop-designated other funds as of June 30 consisted of the following:

	2019	2018
Priest Retirement	\$ 8,331,449	\$ 11,302,906
Other	5,663,216	1,773,027
Education	4,651,269	596,452
Pastoral	95,018	29,477
Vocations	17,075	17,075
Community	-	281,443
	\$ 18,758,027	\$ 14,000,380

NOTE 12 LAY EMPLOYEES DEFINED BENEFIT PENSION PLAN

The Central Offices participate in the Lay Employees of the Archdiocese of Cincinnati Pension Plan (the Lay Plan). The Lay Plan, which was established on January 1, 1973, is a non-contributory, defined benefit multi-employer pension plan covering substantially all full-time lay employees of the Archdiocese and certain other related institutions and entities, prior to January 1, 2011. The Lay Plan is funded through assessments of participating institutions, including the Central Offices. The Central Offices contributed \$152,635 and \$146,934 to the Lay Plan during 2019 and 2018, respectively. Based on information as of December 31, 2018 and 2017, the Central Offices' contributions do not represent more than 5% of total contributions received by the Lay Plan.

Effective December 31, 2010, the Archdiocese froze the accrual of retirement benefits for all participants. After that date, no additional compensation or future service has been counted in determining a participant's pension benefit. Service will continue to be credited for the purpose of determining a participant's vested interest in benefits. In order to assist in funding the accumulated benefit obligation, employers are required to contribute 2.5% of "eligible" salaries.

Plan benefits are to be paid in the form of a life annuity calculated at the greater of the "regular formula" or the "minimum benefit", as described in the plan document. The "regular formula" is the sum of: (1) 1.17% of past service career compensation, plus (2) 2.33% of future service career compensation, earned through 12/31/1999, divided by 12, plus (3) 2.02% of future service career compensation earned after 1999 divided by 12. The "minimum benefit" is the sum of (1) \$8.12 times months of past service, plus (2) \$25.00 times months of future service. Past service refers to the months of service before January 1, 1973. Future service refers to the months of service after 1972 and before 2011.

Since the Lay Plan operates as a multi-employer plan, the Archdiocese does not calculate separate measurements of assets, benefit obligations and expenses for the individual entities which participate in the Lay Plan and no liability is recorded in these financial statements. The Plan is not subject to ERISA and is not required to file a Form 5500, therefore certain Plan information is not required to be made available publicly. Accordingly, disclosures about the funding improvement plan, surcharge, minimum contributions, zone status and employer identification number (EIN) are not applicable.

CENTRAL OFFICES OF THE ARCHDIOCESE OF CINCINNATI

**Notes to Financial Statements
(Continued)**

NOTE 12 LAY EMPLOYEES DEFINED BENEFIT PENSION PLAN (CONTINUED)

The risks of a multi-employer plan differ from those of a single-employer plan. Assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of other participating employers. If a participating employer stops contributing to the plan, then the unfunded obligations of the plan may be borne by the remaining participating employers, and specifically the Central Offices. If a participating employer ceases or substantially reduces its operation, a full or partial withdrawal liability is incurred by the employer to the Lay Plan. If a participating employer stops contributing to the Lay Plan or does not pay its withdrawal liability, then these unfunded obligations of the plan may be borne by the remaining participating employers, to include the Central Offices.

The following presents the actuarial present value of accumulated plan benefits as of January 1 for the Lay Plan as a whole:

	2019	2018
Vested benefits:		
Participants currently receiving benefits	\$ 278,364,952	\$ 264,242,989
Other participants	174,133,662	184,002,772
Total vested benefits	452,498,614	448,245,761
Non-vested benefits:		
Total actuarial present value of accumulated plan benefits	\$ 453,047,915	\$ 448,809,924

A summary of significant actuarial assumptions used in preparing the actuarial valuations as of January 1, 2019 and 2018 is as follows:

Investment return	6.50%
Mortality	RP 2014 Mortality Table
Actuarial cost method	Entry Age Normal cost method

Net assets available for benefits under the Lay Plan approximated \$357,171,082 and \$409,460,666, indicating a level of funding of 79% and 91%, as of January 1, 2019 and 2018, respectively.

NOTE 13 MULTI-EMPLOYER DEFINED CONTRIBUTION RETIREMENT PLAN

The Central Offices participate in a defined contribution retirement plan (the 401(k) Plan) covering all eligible employees. The Archdiocese and participating entities made a contribution to the 401(k) Plan on a quarterly basis equal to 4% of all eligible participants' compensation. Contributions made by the Central Offices were approximately \$283,898 and \$244,374 for 2019 and 2018, respectively.

CENTRAL OFFICES OF THE ARCHDIOCESE OF CINCINNATI

Notes to Financial Statements (Continued)

NOTE 14 PRIESTS RETIREMENT PLANS

The Central Offices, along with certain other related institutions and entities, participates in a non-contributory, non-qualified, multi-employer pension plan and a non-contributory, non-qualified, multi-employer health and welfare plan, primarily for post-retirement benefits, (collectively the Priests Plans) covering substantially all Archdiocesan Priests.

Pension benefits include: (1) the monthly salary for active priests (frozen at the time of retirement), (2) \$16.75 per month (\$15.00 per month if retired before July 1, 2011) for each year since ordination, with this piece frozen at the later of retirement or June 30, 2011, and (3) payment for Medicare Part B premium. Health, medical and other benefits include: (1) payment of health insurance premiums, (2) payment of prescription drug costs, (3) payment of other medical care costs, and (4) lodging and other living expenses.

Since the Priests Plans operate as multi-employer plans, the Archdiocese does not calculate separate measurements of assets, benefit obligations and expenses for the individual entities which participate in the Priests Plans and no liability is recorded in these financial statements. The Priests Plans are not subject to ERISA and are not required to file a Form 5500, therefore certain Plan information is not required to be made available publicly. Accordingly, disclosures about the funding improvement plan, surcharge, minimum contributions, zone status and employer identification number (EIN) are not applicable.

The risks of a multi-employer plan differ from those of a single-employer plan. Assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of other participating employers. If a participating employer stops contributing to the plan, then the unfunded obligations of the plan may be borne by the remaining participating employers, and specifically the Central Offices. The Priests Plans are administered by the Archbishop and as such can be modified or terminated by the Archbishop. Admittance to the Priests Plans was changed by the Archbishop effective January 1, 2016. Any diocesan priest ordained or incardinated after January 1, 2016 is placed into the qualified, defined contribution 401(k) Plan. The 401(k) Plan was amended on December 31, 2015 to add this category of priest.

The following presents the Priests Plans' actuarial present values of future plan benefits as of June 30:

	<u>2019</u>	<u>2018</u>
Active priests	\$ 52,148,984	\$ 51,540,995
Retired priests	30,666,790	31,152,492
Terminated vested	<u>1,559,828</u>	<u>1,502,681</u>
Total actuarial present values of future plan benefits	<u><u>\$ 84,375,602</u></u>	<u><u>\$ 84,196,168</u></u>

CENTRAL OFFICES OF THE ARCHDIOCESE OF CINCINNATI

**Notes to Financial Statements
(Continued)**

NOTE 14 PRIESTS RETIREMENT PLANS (CONTINUED)

A summary of significant actuarial assumptions used in preparing the actuarial valuations as of June 30, 2019 and 2018 are as follows:

Discount rate	6%
Mortality	RP-2000 Mortality Table projected to the year 2020
Assumed retirement age	70
Pension cost-of-living increase	0% increase per year
Health care inflation	5% increase per year

A review of the retiree and beneficiary deaths among similar groups indicate that the RP-2000 mortality table projected to the year 2020 assumptions appear to provide an accurate estimate of life expectancy.

The Central Offices acts as the administrator of the Priests Plans and holds certain net assets designated to satisfy the Priests Plan's obligations. In addition, there are net assets available for the benefit of infirmed and retired priests held by the Priests' Retirement Corporation. The following Archdiocesan net assets included in the statements of financial position as of June 30 are either restricted or designated to satisfy the Priests Plans' obligations:

	<u>2019</u>	<u>2018</u>
Net assets held by the Central Offices:		
Archbishop designated	\$ 8,331,449	\$ 11,303,287
Net assets held by the		
Priests' Retirement Corporation	<u>56,927,145</u>	<u>51,488,463</u>
	<u>\$ 65,258,594</u>	<u>\$ 62,791,750</u>

This information indicates a level of funding for the Priests Plans of 77% and 75% as of June 30, 2019 and 2018, respectively.

The Priests Retirement Plan is the designated beneficiary of 10% of the net proceeds of the One Faith, One Hope, One Love campaign being conducted by the Catholic Community Foundation. The campaign is projected to have pledges in excess of \$150,000,000. The portion designated to the Priests Retirement Plan will be paid as pledges are collected over future years.

Through the financial statement date, the Priests Plans have been funded by investment income on assets held by the Archdiocese, allocations from the Catholic Ministries Appeal, contributions and bequests, transfers from other unrestricted funds of the Archdiocese, and assessments from other participating institutions. Priests Plans' net expenses recorded in the Central Offices' financial statements for the years ended June 30, 2019 and 2018 were approximately \$3,779,000 and \$3,758,000, respectively. Based on information as of June 30, 2019 and 2018, the Central Office's contributions represent more than 5% of total contributions received by the Plan.

In the fiscal year ended June 30, 2016, the Priests Plans were amended. Under the new plans, any Priest incardinated after January 1, 2016 are not eligible to accrue benefits in the Priests Plans. Instead, newly incardinated Priests are entered into the multi-employer defined contribution retirement plan (see Note 14).

CENTRAL OFFICES OF THE ARCHDIOCESE OF CINCINNATI

Notes to Financial Statements (Continued)

NOTE 15 CONTINGENCIES

In the ordinary course of business, the Archdiocese is involved in various matters of litigation. Many of these matters are covered by insurance. These matters are addressed through traditional legal efforts and are vigorously contested or settled. Management is of the opinion that the ultimate disposition of these matters will not have a material adverse effect on the overall financial position or liquidity of the Archdiocese.

The Archdiocese owns eleven high schools and certain other educational and non-educational entities. This ownership is distinguished from its relationship as trustee of the parishes within the Archdiocese's nineteen counties. As owner, the Archdiocese could become liable for the debts of an entity in the event of insolvency. During a prior fiscal year one of the owned entities experienced a significant deterioration in its operations. It is possible, though not certain, that this entity might significantly reduce its operations or, in a worst case, cease operations entirely in the coming years. In either case, the entity would be assessed a withdrawal liability to the Lay Employees' Pension Plan. In the event the entity could not make this payment, the Archdiocese might be required to satisfy the obligation. As of June 30, 2019 and 2018 a contingent liability of \$800,000 was established to reflect this liability.

Additionally, the Archdiocese guarantees certain third-party debt of unconsolidated affiliated parishes. The guarantee terms generally range from 2 to 20 years. The Archdiocese has not recognized a liability for the fair value of the guarantees provided as of June 30, 2019 and 2018, as the Central Offices and the unconsolidated affiliated parishes are considered to be entities under common control of the Archbishop of Cincinnati. At June 30, 2019 and 2018, the total outstanding balances on guaranteed loans were \$19,263,319 and \$21,692,454 respectively.

The Archdiocese guarantees the deposits in the Pooled Investment Trust Fund (the Fund) and assumes the risk should the underlying investment ever prove to be insufficient to satisfy the liquidating claims of the depositors. The depositors can redeem their accounts in whole or in part at any time and are entitled to their deposit balance, unaffected by any gains or losses in the securities in the Fund. The Archdiocese manages the investment risks in the Fund by limiting purchases to only investment grade bonds and maintaining a laddered maturity portfolio with an intermediate duration. Also, the Archdiocese maintains a Pooled Fund Reserve Account that is invested in an equity fund tied to the S&P 500. This account could be used as a source of funds to meet liquidations, together with other Archdiocesan assets. In addition, a portion of the interest income from the underlying Pooled Investment Trust Fund is retained by the Archdiocese and added to the Pooled Fund Reserve Account. It is the current policy of the Archdiocese to retain and contribute five basis points of the yield on the underlying Pooled Investment Trust Fund to the Pooled Fund Reserve Account.

As of June 30, 2019 and 2018, the market value of the underlying investments in the Pooled Investment Trust Fund was in excess (deficit) of the depositor claims by approximately \$4,618,544 and \$(2,554,160), respectively. The market value of the Pooled Fund Reserve Account as of June 30, 2019 and 2018 was approximately \$4,769,000 and \$3,873,000, respectively.

CENTRAL OFFICES OF THE ARCHDIOCESE OF CINCINNATI

Notes to Financial Statements (Continued)

NOTE 16 ENDOWMENT

The Archdiocese endowment consists of various donor-restricted and Archbishop-designated endowment funds established for a variety of purposes. As required by GAAP, net assets associated with endowment funds, including funds designated by the Archbishop to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Archdiocese follows the Uniform Prudent Management of Institutional Funds Act (UPMIFA). UPMIFA provides guidance on matters concerning the governance and management of donor-restricted endowment funds. Under UPMIFA, the original value of donated gifts to the donor-restricted endowment, the original value of subsequent gifts to the donor-restricted endowment, and accumulations to the donor-restricted endowment made in accordance with the direction of the applicable donor gift instrument are classified as net assets with donor restrictions (a time restriction in perpetuity). The remaining portion of the donor-restricted endowment fund that is not specified in the applicable donor gift instrument is classified as net assets with donor restrictions (a purpose or time restriction) until those amounts are appropriated for expenditure by the Archbishop.

Investment Policy

The Archdiocese articulates investment policies intended to help it achieve its objectives for various endowments, the priest retirement account, and the long term chancery fund. These policies are written with the advice of investment management firms and the Archdiocesan Finance Council. The assets are invested in stocks, bonds, equity funds, cash equivalents and other securities in a manner that is intended to support the objectives of donors and/or the Archbishop.

The performance of each investment management firm is measured on a quarterly basis against an appropriate benchmark or index. The Archdiocese expects the managers to achieve a total return, after deducting all professional fees that equals or exceeds the index return over three to five year periods. In addition to actual returns achieved, the Archdiocese reviews the portfolios of each manager for compliance with its ethical values policy that precludes investments in companies that operate programs or sell products that are inconsistent with Catholic beliefs.

The Archdiocese seeks to achieve diversification in its investment portfolios by limiting its investments in any one company or industry. In order to reduce credit risks the Archdiocese directs its managers away from investments in companies that do not have an investment grade rating. In managing interest rate risks the Archdiocese prefers bond portfolios with laddered maturities and durations that are appropriate to corresponding liabilities. Liquidity risks are minimal since the portfolios are almost entirely invested in public securities. Also, there is no use of complicated derivatives or leverage in its investment programs.

Spending Policy

The Archdiocese's current spending policy is to transfer all investment return into unrestricted net assets or temporarily restricted net assets if directed by the donor. Investment return on these funds accumulate until they are appropriated for expenditure to be spent in accordance each endowment gift.

CENTRAL OFFICES OF THE ARCHDIOCESE OF CINCINNATI

**Notes to Financial Statements
(Continued)**

NOTE 16 ENDOWMENT (CONTINUED)

Spending Policy (Continued)

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

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	\$ -	\$ 932,205	\$ 932,205
Archbishop-designated endowment funds	2,309,228	-	2,309,228
Total endowment funds	<u>\$ 2,309,228</u>	<u>\$ 932,205</u>	<u>\$ 3,241,433</u>

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

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	\$ -	\$ 785,806	\$ 785,806
Archbishop-designated endowment funds	5,134,151	-	5,134,151
Total endowment funds	<u>\$ 5,134,151</u>	<u>\$ 785,806</u>	<u>\$ 5,919,957</u>

The changes in endowment net assets for 2019 were:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets June 30, 2018	\$ 5,134,151	\$ 785,806	\$ 5,919,957
Contributions	28,000	1,375	29,375
Investment return	238,833	40,660	279,493
Endowment transfers	(2,733,017)	114,956	(2,618,061)
Appropriated expenditure	(358,739)	(10,592)	(369,331)
Endowment net assets June 30, 2019	<u>\$ 2,309,228</u>	<u>\$ 932,205</u>	<u>\$ 3,241,433</u>

The changes in endowment net assets for 2018 were:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets June 30, 2017	\$ 5,601,762	\$ 765,430	\$ 6,367,192
Contributions	80,500	1,530	82,030
Investment return	-	1,150	1,150
Appropriated expenditure	(548,111)	17,696	(530,415)
Endowment net assets June 30, 2018	<u>\$ 5,134,151</u>	<u>\$ 785,806</u>	<u>\$ 5,919,957</u>

CENTRAL OFFICES OF THE ARCHDIOCESE OF CINCINNATI

**Notes to Financial Statements
(Continued)**

NOTE 17 LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following at June 30, 2019:

Cash	\$ 200
Accounts and interest receivable, net	5,378,618
Due from other Archdiocesan agencies	41,880
Contributions receivable	899,108
Notes receivable, net	3,361,609
Investments	261,667,771
Endowment spending-rate distributions and appropriations	<u>410,588</u>
Total financial assets	271,759,774
Less contributions and notes receivable due in more than one year	(3,620,328)
Less funds held for Athenaeum of Ohio (Seminary)	(28,973,840)
Less Archbishop-designated other funds	(18,758,027)
Less Archbishop-designated endowment funds	(2,309,228)
Less net assets with donor restrictions	<u>(6,552,489)</u>
Total financial assets available for general expenditure within one year	<u><u>\$ 211,545,862</u></u>

The Archdiocese primarily receives its funding from investment return, insurance billings for health care, property, and liability insurance, assessments paid by parishes and schools, Catholic Ministries Appeal, contributions and bequests. As part of the Archdiocese's liquidity management practices, financial assets are structured to be available as its general expenditures, liabilities, and other obligations come due. In addition, the Archdiocese invests cash in excess of daily requirements in short-term investments.

ACCOMPANYING INFORMATION

CENTRAL OFFICES OF THE ARCHDIOCESE OF CINCINNATI

Detail of Chancery Expenses
Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Community services:		
Catholic Charities	\$ 824,724	\$ 824,724
Social Action	388,989	398,789
Hispanic Ministry - Su Casa	180,696	165,638
Assistance to the poor	26,582	25,566
Department Director	<u>15,185</u>	<u>20,392</u>
Total community services	<u>1,436,176</u>	<u>1,435,109</u>
Educational services:		
Cincinnati Inner City Schools (CISE)	98,422	2,364,436
Secondary Education Assistance	90,131	167,658
Education Assistance - Catholic Education Foundation	2,086,570	1,754,210
Catholic Schools Office	3,541,005	3,432,925
Other Education Related Programs	220	90,588
St. Rita School for the Deaf	<u>263,511</u>	<u>263,605</u>
Total educational services	<u>6,079,859</u>	<u>8,073,422</u>
Executive services:		
Tribunal	537,124	548,108
Vocations	1,787,605	1,539,007
Archives and Chancery Office	342,583	312,364
Permanent Diaconate	223,991	225,690
Communications	441,613	318,201
Background Check / Fingerprinting	104,461	155,706
Other	<u>346,269</u>	<u>104,913</u>
Total executive services	<u>3,783,646</u>	<u>3,203,989</u>
Financial services:		
Professional Fees	228,463	440,845
Finance Office	906,634	805,879
Computer Operation	34,398	15,831
Central Services	389,998	421,113
Contingencies	<u>12,202</u>	<u>27,832</u>
Total financial services	<u>1,571,695</u>	<u>1,711,500</u>
Human Resources	<u>499,539</u>	<u>512,154</u>
Stewardship services	<u>1,029,971</u>	<u>1,152,105</u>

(Continued)

CENTRAL OFFICES OF THE ARCHDIOCESE OF CINCINNATI

Detail of Chancery Expenses
Years Ended June 30, 2019 and 2018
(Continued)

	<u>2019</u>	<u>2018</u>
Pastoral services:		
Infirm and Retired Priests	\$ 3,955,630	\$ 3,890,994
Campus Ministry	578,383	581,593
Evangelization and Catechesis	1,432,733	1,507,930
Youth Ministry	701,470	733,252
Chaplain Salaries	571,347	580,794
Family Life	712,331	579,858
Hispanic Ministry	492,234	475,298
Priests' Personnel	131,113	121,218
Priestly Formation	346,985	268,542
Department Director	174,746	105,514
Worship	212,228	310,107
African American Ministries	95,243	96,262
Other	<u>152,456</u>	<u>146,810</u>
Total pastoral services	<u>9,556,899</u>	<u>9,398,172</u>
General and administrative:		
Depreciation	982,371	966,502
Cathedral of St. Peter in Chains	603,649	1,315,248
Provision for doubtful receivables	1,301,426	1,194,676
Office of Archbishop Schnurr	479,835	341,207
United States Catholic Conference of Bishops	168,737	166,748
Catholic Conference of Ohio	120,985	123,678
Office of Bishop Binzer	83,387	78,462
Gift Annuity PV adjustment	69,475	36,878
Other	<u>379,794</u>	<u>405,565</u>
Total general and administrative	<u>4,189,659</u>	<u>4,628,964</u>
Interest on notes payable	<u>2,843,765</u>	<u>2,622,832</u>
Administrative building operations		
Property management	<u>242,992</u>	<u>247,572</u>
Total Chancery	<u>\$ 31,234,201</u>	<u>\$ 32,985,819</u>

See independent auditors' report

CENTRAL OFFICES OF THE ARCHDIOCESE OF CINCINNATI

Schedule of Designated Collections
Year Ended June 30, 2019

	Amounts due to (from) outside agencies, beginning of year	Total Collections	Allocated to programs within the Archdiocese	Transmitted to agencies outside the Archdiocese	Amounts due to (from) outside agencies, end of year
Ash Wednesday – Eastern Europe	\$ -	\$ 224,389	\$ -	\$ 224,389	\$ -
Rice Bowl	-	58,799	14,700	44,099	-
Human Development	-	341,901	90,604	251,297	-
Mission Sunday	-	381,625	381,625	-	-
Holy Father	-	157,773	4,164	163,609	(10,000)
Commissariat of the Holy Land	-	191,924	3,838	188,086	-
Bishops' Relief	-	336,350	6,838	329,512	-
Religious Retirement	21,598	781,301	126,687	735,000	(58,788)
Respect Life	-	188,704	188,704	-	-
Disaster Relief	-	644,566	-	200,062	444,504
Military	-	578	-	-	578
	<u>\$ 21,598</u>	<u>\$ 3,307,910</u>	<u>\$ 817,160</u>	<u>\$ 2,136,054</u>	<u>\$ 376,294</u>

See independent auditors' report

CENTRAL OFFICES OF THE ARCHDIOCESE OF CINCINNATI

Schedule of Catholic Ministries Appeal
Contributions and Distributions

2018 Catholic Ministries Appeal:	
Contributions (net of direct expenses of \$400,899)	<u>\$ 4,832,916</u>
Distributions:	
Athenaeum of Ohio (Seminary)	\$ 986,606
Catholic Charities	920,833
Archdiocesan Priests' Retirement Fund	833,134
Campus Ministry	460,416
Chaplains Services	416,567
Sharing Our Faith	306,944
St. Rita School for the Deaf	263,095
Seminarian Scholarships	100,000
Vocations and Permanent Diaconate	92,550
Rebates to Parishes	<u>452,771</u>
	<u>\$ 4,832,916</u>
2019 Catholic Ministries Appeal:	
Gross pledges made through June 30, 2019	<u>\$ 4,804,992</u>

Note: The Catholic Ministries Appeal operates on a fiscal year that begins January 1 and ends the following December 31. The schedule above summarizes cash receipts and distributions for the 2018 appeal, which ended December 31, 2018. The schedule also indicates the status of the 2019 appeal, which began January 1, 2019.