

Central City Ministries Fund of The Roman Catholic Diocese of Toledo in America

**Financial Report
June 30, 2016**

Central City Ministries Fund of The Roman Catholic Diocese of Toledo in America

Contents

Report Letter	1-2
Financial Statements	
Statement of Financial Position	3
Statement of Activities and Changes in Net Assets (Deficit)	4
Statement of Cash Flows	5
Notes to Financial Statements	6-14

Independent Auditor's Report

To Bishop Daniel E. Thomas and
Reverend Monsignor William Kubacki
Central City Ministries Fund of The Roman Catholic
Diocese of Toledo in America

We have audited the accompanying financial statements of Central City Ministries Fund of The Roman Catholic Diocese of Toledo in America (the "Fund"), which comprise the statement of financial position as of June 30, 2016 and 2015 and the related statements of activities and changes in net assets (deficit) 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 audits 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.

To Bishop Daniel E. Thomas and
Reverend Monsignor William Kubacki
Central City Ministries Fund of The Roman Catholic
Diocese of Toledo in America

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Central City Ministries Fund of The Roman Catholic Diocese of Toledo in America as of June 30, 2016 and 2015 and the changes in its net assets (deficit) and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 5 to the financial statements, the Fund is one of several funds of the Roman Catholic Diocese of Toledo in America (the "Diocese") and has no separate legal status or existence. Its assets are legally available for the satisfaction of debts of the Diocese, not solely those appearing on the accompanying statement of financial position, and its debts may result in claims against assets not appearing thereon. Our opinion is not modified with respect to this matter.

Plante & Moran, PLLC

November 21, 2016

Central City Ministries Fund of The Roman Catholic Diocese of Toledo in America

Statement of Financial Position

	June 30, 2016	June 30, 2015
Assets		
Cash and cash equivalents	\$ 5,821	\$ 5,854
Investments (Note 2)	1,454,446	1,468,021
Receivables:		
Accounts receivable (Note 7)	72,327	54,504
Tuition receivable - Net	-	2,665
Total assets	\$ 1,532,594	\$ 1,531,044
Liabilities and Net Assets (Deficit)		
Liabilities		
Due to the General Fund (Note 7)	\$ 463,241	\$ 472,874
Accounts payable	22,294	67,321
Accrued liabilities and other liabilities	67,805	21,346
Subsidy payables (Note 7)	903,625	1,113,625
Total liabilities	1,456,965	1,675,166
Net Assets (Deficit)		
Unrestricted:		
Undesignated	(1,379,073)	(1,604,318)
Board designated (Note 3)	1,287,516	1,293,027
Temporarily restricted (Note 4)	167,186	167,169
Total net assets (deficit)	75,629	(144,122)
Total liabilities and net assets (deficit)	\$ 1,532,594	\$ 1,531,044

Central City Ministries Fund of The Roman Catholic Diocese of Toledo in America

Statement of Activities and Changes in Net Assets (Deficit)

	Year Ended					
	June 30, 2016			June 30, 2015		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenue, Gains (Losses), and Other Support						
Student tuition and fees, net of tuition assistance	\$ 1,639,847	\$ -	\$ 1,639,847	\$ 1,478,556	\$ -	\$ 1,478,556
Support services	31,214	-	31,214	40,586	-	40,586
Mandated services	150,002	-	150,002	138,960	-	138,960
Development office	323,790	-	323,790	357,660	-	357,660
Diocesan and parish support (Note 7)	287,676	-	287,676	297,944	-	297,944
Net realized and unrealized (loss) gain on investments	(22,864)	17	(22,847)	(2,838)	18	(2,820)
Gifts, donations, and grants	203,745	-	203,745	211,531	-	211,531
Miscellaneous income	14,346	-	14,346	20,068	-	20,068
Total revenue, gains (losses), and other support	2,627,756	17	2,627,773	2,542,467	18	2,542,485
Expenses						
Diocesan, supervision, fundraising, and support	309,900	-	309,900	312,320	-	312,320
Instructional expense	1,034,803	-	1,034,803	1,059,569	-	1,059,569
Student services expense	215,260	-	215,260	233,891	-	233,891
Plant maintenance	501,100	-	501,100	418,001	-	418,001
School administration expense	346,959	-	346,959	268,178	-	268,178
Total expenses	2,408,022	-	2,408,022	2,291,959	-	2,291,959
Increase in Net Assets	219,734	17	219,751	250,508	18	250,526
Net (Deficit) Assets - Beginning of year	(311,291)	167,169	(144,122)	(561,799)	167,151	(394,648)
Net (Deficit) Assets - End of year	<u>\$ (91,557)</u>	<u>\$ 167,186</u>	<u>\$ 75,629</u>	<u>\$ (311,291)</u>	<u>\$ 167,169</u>	<u>\$ (144,122)</u>

Central City Ministries Fund of The Roman Catholic Diocese of Toledo in America

Statement of Cash Flows

	Year Ended	
	June 30, 2016	June 30, 2015
Cash Flows from Operating Activities		
Increase in net assets	\$ 219,751	\$ 250,526
Adjustments to reconcile increase in net assets to net cash from operating activities:		
Net realized and unrealized loss on investments	22,847	2,820
Changes in operating assets and liabilities which (used) provided cash:		
Receivables	(15,158)	28,023
Accounts payable	(45,027)	59,183
Decrease in due to General Fund	(9,633)	(47,399)
Accrued liabilities and other liabilities	46,459	(20,204)
Net cash provided by operating activities	219,239	272,949
Cash Flows from Investing Activities	(9,272)	(31,562)
Cash Flows from Financing Activities - Decrease in subsidy from Insurance Fund	(210,000)	(240,000)
Net (Decrease) Increase in Cash and Cash Equivalents	(33)	1,387
Cash and Cash Equivalents - Beginning of year	5,854	4,467
Cash and Cash Equivalents - End of year	\$ 5,821	\$ 5,854

Central City Ministries Fund of The Roman Catholic Diocese of Toledo in America

Notes to Financial Statements June 30, 2016 and 2015

Note 1 - Nature of Business and Significant Accounting Policies

The Roman Catholic Diocese of Toledo in America (the "Diocese") maintains various funds and related entities to account for its activities. Central City Ministries Fund (the "Fund") was established June 30, 2006 to hold the activities of the Central City Ministries of Toledo school by campus. The accounts in the Fund include assets, liabilities, and operating income and expenses related to the administration and operations of the school campuses located in the Central City area of the city of Toledo.

Cash and Cash Equivalents - The Fund maintains cash in bank deposit accounts at financial institutions where balances may at times exceed federally insured limits. All highly liquid investments purchased with a maturity of three months or less are reported as cash equivalents.

Receivables - Accounts receivable represent the subsidy provided by various parishes to the Fund. No allowance for uncollectible accounts is considered necessary.

The Fund also carries tuition receivable from the parents/guardians of the students based on net invoiced amounts. At June 30, 2016 and 2015, there was no allowance for uncollectible accounts. The allowance is determined in consultation with school principals based on experience and current collection efforts.

Investments - Investments in debt and equity securities are carried at fair value. Fair values are based on quoted market prices. The appreciation or depreciation in market value is recognized as a credit or charge to operating support and revenue during the year. Gains and losses on sales of investments are determined based on the specific securities sold. Dividends and interest income are recorded as earned.

Classification of Net Assets - Net assets of the Fund are classified as permanently restricted, temporarily restricted, or unrestricted depending on the presence and characteristics of donor-imposed restrictions limiting the Fund's ability to use or dispose of contributed assets or the economic benefits embodied in those assets. Donor-imposed restrictions that expire with the passage of time or can be removed by meeting certain requirements result in temporarily restricted net assets. Permanently restricted net assets result from donor-imposed restrictions that limit the use of net assets in perpetuity. Earnings, gains, and losses on restricted net assets are classified as unrestricted unless specifically restricted by the donor or by applicable state law. See Note 4 for additional detail of temporarily restricted net assets. As of June 30, 2016 and 2015, there were no permanently restricted net assets.

Revenue Recognition - The Fund's principal activity is operating one school with two campuses in the Central City area of Toledo. Revenue is derived from students attending the school during the year. During the year, tuition revenue is recorded when paid. At year end, any unpaid tuition deemed collectible is recorded as revenue and a receivable.

Central City Ministries Fund of The Roman Catholic Diocese of Toledo in America

Notes to Financial Statements June 30, 2016 and 2015

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

The fund records other revenue, such as contributions and promises to give, when they are received unconditionally, at fair value. Conditional contributions are recognized as revenue when the conditions on them have been met.

Tuition Assistance - The Fund has various programs of financial aid available to students, including scholarships and other discounts, which are reported net of contractual tuition and fees. Tuition assistance totaled \$163,900 and \$301,305 in 2016 and 2015, respectively.

Income Taxes - The Diocese is a 501(c)(3) organization and therefore is not subject to federal income tax; therefore, a provision for income taxes has not been included in the financial statements.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Upcoming Accounting Changes - In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which will supersede the current revenue recognition requirements in Topic 605, *Revenue Recognition*. The ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The new guidance will be effective for the Diocese's year ending June 30, 2020. The ASU permits application of the new revenue recognition guidance to be applied using one of two retrospective application methods. The Diocese has not yet determined which application method it will use or the potential effects of the new standard on the financial statements, if any.

Central City Ministries Fund of The Roman Catholic Diocese of Toledo in America

Notes to Financial Statements June 30, 2016 and 2015

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

In August 2016, the FASB issued Accounting Standards Update No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. ASU No. 2016-14 requires significant changes to the financial reporting model of organizations that follow FASB not-for-profit rules, including changing from three classes of net assets to two classes, net assets with donor restrictions and net assets without donor restrictions. The ASU will also require changes in the way certain information is aggregated and reported by the Fund, including required disclosures about the liquidity and availability of resources. The new standard is effective for the Diocese's year ending June 30, 2019 and thereafter and must be applied on a retrospective basis. The Diocese is currently evaluating the impact this standard will have on the financial statements.

Subsequent Events - The financial statements and related disclosures include evaluation of events up through and including November 21, 2016, which is the date the financial statements were issued.

Note 2 - Investments

The majority of the investments of the Fund are held in the custody of KeyBank, as custodian, and are under the control of investment managers who have full discretionary authority for purchases and sales of investments subject to certain limitations on composition of the portfolio as specified in the statement of investments goals and objectives.

Investments consisted of the following at June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Money market funds	\$ 171,352	\$ 174,274
Equity securities	1,283,094	1,285,667
Cash	-	8,080
Total investments	<u>\$ 1,454,446</u>	<u>\$ 1,468,021</u>

The Fund invests in various investment securities. Investment securities are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk 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 changes could materially affect the amounts reported in the statement of financial position.

Central City Ministries Fund of The Roman Catholic Diocese of Toledo in America

Notes to Financial Statements June 30, 2016 and 2015

Note 3 - Board-designated Net Assets

As of June 30, 2016 and 2015, \$1,287,516 and \$1,293,027, respectively, of net assets are designated by the finance council for Central City Ministries of Toledo's long-term operations.

Note 4 - Temporarily Restricted Net Assets

The Fund holds an investment that was contributed to help aid in supporting the operations of the Queen of Apostles campus. The investment has been classified as temporarily restricted based on donor stipulations. As of June 30, 2016 and 2015, the temporarily restricted net assets totaled \$167,186 and \$167,169, respectively.

Note 5 - Legal Status of Diocese

The Diocese, as such, is not incorporated but is an entity recognized in Canon Law. The legal title to all property listed among the assets of the Diocese is in the name of the bishop of Toledo and his successor in office. Title in itself is one of individual ownership in fee simple but, by a decision of the Supreme Court of Ohio (Mannix vs. Pucell 460S.102), there is an implied trust on behalf of each separate parish and institution. Property, therefore, cannot be alienated arbitrarily by the bishop from the purpose for which it has been created. No mortgage, lien, or other obligation by reason of notes or contracts can be created against the assets of the Diocese, parishes, or institutions, except over the signature of the bishop or with his authorization. The Fund's assets are legally available for the satisfaction of debts of the Diocese, not solely those appearing in the accompanying statement of financial position, and its debts may result in claims against assets not appearing thereon.

Note 6 - Functional Expenses

For the years ended June 30, 2016 and 2015, expenses are functionally allocated as follows:

	<u>2016</u>	<u>2015</u>
Program services	\$ 2,112,846	\$ 1,982,386
Fundraising	158,435	185,937
General and administrative	<u>136,741</u>	<u>123,636</u>
Total functional expenses	<u>\$ 2,408,022</u>	<u>\$ 2,291,959</u>

Costs have been allocated between program services and general and administrative services on several bases and estimates. Although the methods of allocation are considered appropriate, other methods could be used that would produce different amounts.

Central City Ministries Fund of The Roman Catholic Diocese of Toledo in America

Notes to Financial Statements June 30, 2016 and 2015

Note 7 - Related Party Transactions

As of June 30, 2016 and 2015, the Fund has subsidy payables due to the Insurance Fund of \$903,625 and \$1,113,625, respectively. Repayment of the payables will depend upon the ability of the Fund to generate revenue in excess of operating expenses. Repayments made during 2016 and 2015 were \$210,000 and \$240,000, respectively. When the Fund generates revenue in excess of operating expenses, the Insurance Fund will be paid a minimum of \$100,000 per year until fully paid.

As of June 30, 2016 and 2015, there was \$38,488 and \$31,418, respectively, included in accounts receivable from Central City parishes for support of the Fund.

As of June 30, 2016 and 2015, \$463,241 and \$472,874, respectively, was due to the General Fund related to cash flow needs for current operations.

The Diocese's Catholic Foundation Fund and Central City parishes provided \$200,000 and \$70,823 during 2016, respectively, and \$200,000 and \$73,712 during 2015, respectively, for the support of the Fund, which is included as revenue in diocesan and parish support on the statement of activities and changes in net assets (deficit).

Note 8 - Lawsuits and Contingencies

The Diocese has been subject to a number of lawsuits alleging misconduct by clerics. The Diocese is also a party to various other legal matters arising in the ordinary course of business. Management is unable to determine possible outcomes of such lawsuits, but does not anticipate any future settlement to have a significant impact on the financial position of the Diocese.

Note 9 - Fair Value Measurements

Accounting standards require certain assets and liabilities be reported at fair value in on the financial statements and provide a framework for establishing that fair value. The framework for determining fair value is based on a hierarchy that prioritizes the inputs and valuation techniques used to measure fair value.

The following tables present information about the Fund's assets measured at fair value on a recurring basis at June 30, 2016 and 2015 and the valuation techniques used by the Fund to determine those fair values. The fund has no liabilities measured at fair value on a recurring basis.

Fair values determined by Level 1 inputs use quoted prices in active markets for identical assets that the Fund has the ability to access.

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets in active markets and other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

Central City Ministries Fund of The Roman Catholic Diocese of Toledo in America

Notes to Financial Statements June 30, 2016 and 2015

Note 9 - Fair Value Measurements (Continued)

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset. These Level 3 fair value measurements are based primarily on management's own estimates using pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the asset. The Fund has no Level 3 investments.

In instances whereby inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Fund's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset.

Assets Measured at Fair Value on a Recurring Basis at June 30, 2016

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Balance at June 30, 2016
Money market funds	\$ 171,352	\$ -	\$ 171,352
Catholic Foundation - Long-term equity fund	-	1,283,094	1,283,094
Total assets	<u>\$ 171,352</u>	<u>\$ 1,283,094</u>	<u>\$ 1,454,446</u>

Assets Measured at Fair Value on a Recurring Basis at June 30, 2015

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Balance at June 30, 2015
Money market funds	\$ 174,274	\$ -	\$ 174,274
Catholic Foundation - Long-term equity fund	-	1,285,667	1,285,667
Total assets	<u>\$ 174,274</u>	<u>\$ 1,285,667</u>	<u>\$ 1,459,941</u>

The Fund's policy is to recognize transfers in and transfers out of Level 1, 2, and 3 fair value classifications as of the actual date of the event of change in circumstances that caused the transfer. There were no significant transfers between levels of fair value hierarchy during 2016. During 2015, the Fund liquidated its investments in the PIMCO Low Duration Fund III and PIMCO Total Return Fund III (Level 1) and invested those funds in the Christian Brothers CUIT Intermediate Bond Fund (Level 2).

Central City Ministries Fund of The Roman Catholic Diocese of Toledo in America

Notes to Financial Statements June 30, 2016 and 2015

Note 9 - Fair Value Measurements (Continued)

The fair value of the Catholic Foundation - long-term equity fund at June 30, 2016 and 2015 was determined primarily based on Level 2 inputs. The Fund estimates the fair value of these investments based on stated market value of the underlying assets in the fund. There are no unfunded commitments or redemption restrictions relative to this fund.

Note 10 - Multiple-employer Defined Benefit Pension Plans

The Fund participates in the Retirement Plan for Lay Employees in the Catholic Diocese of Toledo (the "Retirement Plan"), a multiple-employer defined benefit pension plan established by the Diocese. The employer identification number of the plan is 34-4428233. The Fund contributes 4 percent of each participating employee's compensation to the plan and the employee contributes 2 percent of compensation. Benefits under the plan are generally based on compensation levels and years of service.

The financial risks of participating in multiemployer plans are different from single-employer defined benefit pension plans in the following respects:

- Assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers.
- If a participating employer discontinues contributions to a plan, the unfunded obligations of the plan may be borne by the remaining participating employers.
- If a participating employer chooses to stop participating in a plan, a withdrawal liability may be created based on the unfunded vested benefits for all employees in the plan.

The Fund's contributions to the plan were approximately \$36,000 and \$34,000 for the years ended June 30, 2016 and 2015, respectively. Based on the most recent available information as of June 30, 2015, the year end of the plan, Fund contributions to the plan do not represent more than 5 percent of total contributions received by the plan.

The plan is not required to file Form 5500; therefore, certain information is not required to be made available publicly and is unavailable. If the Fund withdraws its participation in the plan, the Fund could, under the terms of the plan, be subject to a penalty. In addition, to the extent that the plan is underfunded, the Fund's future contributions to the plan may increase to cover retirement benefits of employees of other companies participating in the plan. The following information is based on the most recent available actuarial valuation of the plan as of July 1, 2015.

Central City Ministries Fund of The Roman Catholic Diocese of Toledo in America

Notes to Financial Statements June 30, 2016 and 2015

Note 10 - Multiple-employer Defined Benefit Pension Plans (Continued)

	Retirement Plan for Lay Employees in the Catholic Diocese of Toledo
Total plan assets	\$ 152,734,094
Actuarial present value of accumulated plan benefits	\$ 184,831,141
Total contributions received by the plan*	\$ 4,082,385
Indicated level of funding	82.6 %

* Employer and employee contributions are deposited directly into the Retirement Plan's trust. Each year, based on the information provided in the actuarial report, the trustee determines the annual amount to be transferred from the Retirement Plan to the Health Care Assistance Benefits Plan (see Note 11). Of the \$4,082,385 in total contributions received by the plan, \$157,742 was contributed to the Health Care Assistance Benefits Plan.

Note 11 - Multiple-employer Plans Providing Postretirement Benefits Other Than Pensions

The Fund is a participant in the Health Care Assistance Benefits Plan for Lay Employees in the Catholic Diocese of Toledo (the "Health Care Assistance Benefits Plan"), a multiple-employer plan that provides healthcare stipends and group life insurance benefits to qualified participants. The plan covers substantially all full-time lay employees of the Diocese.

Each year, based on the information provided in the actuarial report, the trustee determines the amount to be transferred from the Retirement Plan for Lay Employees in the Catholic Diocese of Toledo to the Health Care Assistance Benefits Plan. As described in Note 10, \$157,742 in contributions to the Retirement Plan were transferred to the Health Care Assistance Benefits Plan during the plan year ended June 30, 2015. Information for the year ended June 30, 2016 is not currently available.

If the Diocese withdraws its participation in the plan, the Diocese could, under the terms of the plan, be subject to a penalty. In addition to the extent that the plan is underfunded, the Diocese's future contributions to the plan may increase to cover other benefits of employees of other entities participating in the plan.

Central City Ministries Fund of The Roman Catholic Diocese of Toledo in America

Notes to Financial Statements June 30, 2016 and 2015

Note 11 - Multiple-employer Plans Providing Postretirement Benefits Other Than Pensions (Continued)

Actuarial information is as of June 30, 2015 and is based on the financial statements of the Health Care Assistance Benefits Plan as of June 30, 2015. The actuarial present value of the accumulated benefits to all participants of the plan as of June 30, 2015 was \$11.2 million. The net assets available for those benefits were \$9.0 million as of June 30, 2015. The indicated funding level was 80.6 percent at June 30, 2015.

An assumed rate of 7.0 percent was used to determine the actuarial present value of accumulated plan benefits.