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Deposit & Loan Trust of The Roman Catholic  
Diocese of Toledo in America

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**Financial Report**  
**June 30, 2019**

**Deposit & Loan Trust of The Roman Catholic Diocese of Toledo in America**

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## **Independent Auditor's Report**

To the Most Reverend Daniel E. Thomas,  
Bishop of the Diocese of Toledo, and  
Reverend Monsignor William Kubacki,  
Vicar General and Moderator of the Curia  
Deposit & Loan Trust of The Roman  
Catholic Diocese of Toledo in America

We have audited the accompanying financial statements of the Deposit & Loan Trust of The Roman Catholic Diocese of Toledo in America (the "Deposit and Loan Trust"), which comprise the statement of financial position as of June 30, 2019 and the related statements of activities and changes in net assets and cash flows for the year 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 audit. We conducted our audit 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 Deposit and Loan Trust as of June 30, 2019 and the results of its changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

To the Most Reverend Daniel E. Thomas,  
Bishop of the Diocese of Toledo, and  
Reverend Monsignor William Kubacki,  
Vicar General and Moderator of the Curia  
Deposit & Loan Trust of The Roman  
Catholic Diocese of Toledo in America

***Emphasis of Matter***

As described in Note 2 to the financial statements, the Deposit and Loan Trust adopted the provisions of Accounting Standards Update No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, as of July 1, 2018. Our opinion is not modified with respect to this matter.

*Plante & Moran, PLLC*

December 5, 2019

**Deposit & Loan Trust of The Roman Catholic Diocese of Toledo in America**  
**Statement of Financial Position**

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**June 30, 2019**

**Assets**

Restricted cash and cash equivalents	\$ 9,095,680
Accrued interest receivable from investments	132,174
Receivables from related parties (Note 6)	1,138,916
Investments (Note 4)	24,193,355
Notes receivable - Net of allowance (Note 5)	14,383,707

Total assets	<b>\$ 48,943,832</b>
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**Liabilities and Net Assets**

**Liabilities**

Accounts payable	\$ 67,515
Payables to other funds and related parties (Note 6)	918
Notes payable (Notes 5 and 6)	45,347,213

Total liabilities	45,415,646
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<b>Net Assets</b> - Without donor restrictions - Board designated	3,528,186
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Total liabilities and net assets	<b>\$ 48,943,832</b>
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**Deposit & Loan Trust of The Roman Catholic Diocese of Toledo in America**  
**Statement of Activities and Changes in Net Assets**

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**Year Ended June 30, 2019**

**Changes in Net Assets without Donor Restrictions**

Revenue, gains, and other support:	
Interest in earnings of custody trust account (Note 4)	\$ 593,343
Interest income - Notes receivable	<u>846,569</u>
Total revenue, gains, and other support	1,439,912
Expenses:	
Program services - Interest	753,029
General and administrative:	
Other administrative expenses	60,305
Management fees	<u>56,716</u>
Total expenses	<u>870,050</u>
<b>Increase in Net Assets without Donor Restrictions - Before other items</b>	569,862
<b>Other Items - Net realized and unrealized gains on investments</b>	<u>355,606</u>
<b>Increase in Net Assets without Donor Restrictions</b>	925,468
<b>Net Assets without Donor Restrictions - Beginning of year</b>	<u>2,602,718</u>
<b>Net Assets without Donor Restrictions - End of year</b>	<u><u>\$ 3,528,186</u></u>

**Deposit & Loan Trust of The Roman Catholic Diocese of Toledo in America**  
**Statement of Cash Flows**

**Year Ended June 30, 2019**

<b>Cash Flows from Operating Activities</b>	
Increase in net assets without donor restrictions	\$ 925,468
Adjustments to reconcile increase in net assets without donor restrictions to net cash and cash equivalents from operating activities:	
Bad debt expense	44,000
Net realized and unrealized gains on investments	(355,606)
Changes in operating assets and liabilities that provided (used) cash and cash equivalents:	
Accrued interest receivable from investments	34,859
Accounts payable	(13,195)
	635,526
<b>Net cash and cash equivalents provided by operating activities</b>	
<b>Cash Flows from Investing Activities</b>	
Payments received on loans and notes receivable	8,888,258
Loans and notes receivable issued	(7,101,304)
Net purchases of investments	4,048,521
Net change in receivables from related parties	961,084
	6,796,559
<b>Net cash and cash equivalents provided by investing activities</b>	
<b>Cash Flows from Financing Activities</b>	
Notes payable repaid	12,017,531
Notes payable issued	(13,956,655)
	(1,939,124)
<b>Net cash and cash equivalents used in financing activities</b>	
<b>Net Increase in Restricted Cash and Cash Equivalents</b>	5,492,961
<b>Restricted Cash and Cash Equivalents - Beginning of year</b>	3,602,719
<b>Restricted Cash and Cash Equivalents - End of year</b>	<b>\$ 9,095,680</b>
<b>Supplemental Cash Flow Information - Cash paid for interest</b>	\$ 742,430

**Note 1 - Nature of Business**

The Roman Catholic Diocese of Toledo in America (the "Diocese") was established by the Roman pontiff in 1910. The Diocese comprises a geographic area of 8,222 square miles covering 19 counties in Northwest Ohio. The Diocese, under the governance of its duly appointed bishop, oversees the activities of the Roman Catholic Church (the "Church") and is operated in accordance with the provisions of the 1983 Code of Canon Law, as amended, of the Church. The Deposit & Loan Trust of The Roman Catholic Diocese of Toledo in America (the "Deposit and Loan Trust" or the "Trust") was established November 1, 2017 as an autonomous pious foundation, according to the 1983 Code of Canon Law, to hold and invest funds deposited by parishes and related institutions of the Diocese. These funds are invested on behalf of or loaned to parishes and related institutions of the Diocese. As there is not a full year of activity in the prior year due to the restructure, the financial statements are not comparative.

All other operations of the Diocese are accounted for in other funds or entities.

**Note 2 - Significant Accounting Policies**

***Restricted Cash and Cash Equivalents***

The Trust 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.

***Notes Receivable and Notes Payable***

The Trust holds unsecured notes receivable - net of allowance from and unsecured notes payable to the Diocese's parishes and related institutions, as described in Note 5.

***Receivables from Related Parties***

Receivables are due from the Diocese, are operational in nature, and are due on demand.

***Investments***

Investments are in debt securities and are carried at fair value. Fair value is based on quoted market prices. The appreciation or depreciation in market value is recognized as a credit or charge to revenue during the year. Gains and losses on sales of investments are determined based on the specific security sold. Interest and dividends are recorded on the accrual basis.

***Classification of Net Assets***

Net assets of the Deposit and Loan Trust are classified based on the presence or absence of donor-imposed restrictions.

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions or for which the donor-imposed restrictions have expired or been fulfilled. Net assets in this category may be expended for any purpose in performing the primary objectives of the Trust.

Net assets without donor restrictions are designated for the loan and deposit program.

***Revenue and Cost Recognition***

The Trust records revenue, including interest and investment income, as it is earned. Expenses are recognized when incurred.

***Income Taxes***

The Diocese and Trust are not-for-profit organizations and are exempt from tax under the provisions of Internal Revenue Code Section 501(c)(3); therefore, a provision for income taxes has not been included in the financial statements.

**Note 2 - Significant Accounting Policies (Continued)**

***Use of Estimates***

The preparation of financial statements in conformity with generally accepted accounting principles 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.

***Functional Allocation of Expenses***

Costs of providing the program and support services have been reported on a functional basis on the statement of activities and changes in net assets. Costs have been directly assigned between the program and support services, as determined by management. Although the methods of allocation used are considered appropriate, other methods could be used that would produce different amounts.

***Change in Accounting Principle***

As of July 1, 2018, the Trust adopted Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities*. This standard requires net assets to be classified in two categories, net assets with donor restrictions and net assets without donor restrictions, rather than the three previous classifications. This standard also requires changes in the way certain information is aggregated and reported by the Trust, including disclosures of qualitative and quantitative information about the liquidity and availability of resources and the presentation of expenses by both their functional and natural classification. This standard also clarifies the definition of management and general and prohibits certain expense from being allocated out of management and general.

***Subsequent Events***

The financial statements and related disclosures include evaluation of events up through and including December 5, 2019, which is the date the financial statements were available to be issued.

**Note 3 - Liquidity and Availability of Resources**

The following reflects the Deposit and Loan Trust's financial assets as of the statement of financial position date, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the statement of financial position date:

Cash and cash equivalents	\$ 9,095,680
Receivables from related parties	1,138,916
Accrued interest receivable from investments	132,174
Notes receivable	14,383,707
Investments	<u>24,193,355</u>
Financial assets - At year end	48,943,832
Less those unavailable for general expenditures within one year due to contractual or donor-imposed restrictions - Notes payable	<u>45,347,213</u>
Financial assets available to meet cash needs for general expenditures within one year	<u><u>\$ 3,596,619</u></u>

The Trust is required to maintain financial assets, which consist of cash and short-term investments, on hand to equal at least 5 percent of total notes payable or \$215,000 as of June 30, 2019.

The Trust also realizes there could be unanticipated liquidity needs.

# Deposit & Loan Trust of The Roman Catholic Diocese of Toledo in America

## Notes to Financial Statements

June 30, 2019

### Note 4 - Investments

The investments are held in trust by the trust company.

The estimated fair values of the Trust's investments at June 30, 2019 are as follows:

U.S. corporate bonds	\$ 1,428,567
U.S. government notes	23,017,257
Liabilities	<u>(252,469)</u>
Total	<u>\$ 24,193,355</u>

Investment income from interest and dividends for the year ended June 30, 2019 was \$593,343 and is included in interest in earnings of custody trust accounts on the statement of activities and changes in net assets.

The Trust 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.

### Note 5 - Notes to and from Parishes and Related Institutions

The Trust holds unsecured notes receivable from and unsecured notes payable to the Diocese's parishes and related institutions, with the notes payable on demand and the notes receivable maturing at various dates. The notes receivable have a variable interest rate equal to the prime rate. The notes payable had an interest rate of 1.50 percent through July 31, 2018, and, effective August 1, 2018 through November 30, 2018, the interest rate was 1.65 percent. Effective December 1, 2018, the interest rate on notes payable increased to 1.90 percent. Interest is due on a semiannual basis. The allowance for uncollectible notes is \$1,375,000 at June 30, 2019. The Diocese has the authority to liquidate assets of the parishes and related institutions to collect notes receivable due to the Trust.

The Trust has extended financing to various parishes and Catholic high schools in the form of construction notes. The Trust has also extended financing to a parish and a related entity under lines of credit. There are no commitments at June 30, 2019 to extend additional financing.

Interest income and expense on the above notes receivable and payable, which are included in the statement of activities and changes in net assets, totaled \$846,569 and \$753,029, respectively, for the year ended June 30, 2019.

In some instances, financing notes receivable are placed on nonaccrual (deferred status) to provide additional time for the parishes, schools, and other organizations to achieve financial stability and repay their loans. Accrual of interest is resumed when such entities are in a position to repay the loans. There was no investment in loans on nonaccrual status as of June 30, 2019.

The Trust considers a financing loan receivable to be impaired when, based on current information and events, it is probable that the Trust will be unable to collect all amounts due, according to the contractual terms of the loan agreement. Individual loans are assessed for impairment based on the following factors: (1) changes in borrower-specific financial condition, (2) failure to adhere to repayment schedules, and (3) negative loan-to-asset ratios. There was \$44,000 written off during the year ended June 30, 2019. There were no loans considered to be impaired at June 30, 2019.

**June 30, 2019**

**Note 5 - Notes to and from Parishes and Related Institutions (Continued)**

***Credit Quality Indicators***

The Trust takes into account the borrower's need, ability to raise funds for repayment (i.e., capital campaigns or other fundraising), and the borrower's financial history. The Bishop of the Diocese of Toledo makes final loan determinations. All credit quality indicators have been updated through June 30, 2019. Credit monitoring is done by evaluation of loan payment history and periodic financial statement review.

**Note 6 - Related Party Transactions**

Receivables from related parties are due from the Diocese. Included in notes payable are amounts due to the Diocese of \$4,264,452 that are related to amounts transferred to the Trust to earn interest from various surplus activities. Payables due to other funds and related parties are due to the Diocese.

During the year ended June 30, 2019, the Trust paid \$56,716 in management fees to the Diocese.

**Note 7 - Functional Expenses**

The Trust provides various services to its members. Expenses related to providing these services are as follows as of June 30, 2019:

Program services	\$ 753,029
General and administrative	<u>117,021</u>
Total functional expense	<u><u>\$ 870,050</u></u>

**Note 8 - Contingencies**

From time to time, the Diocese and its related funds and entities are subject to various disputes and legal proceedings arising in the ordinary course of business. Management is of the opinion, based upon information presently available, that it is unlikely that any liability would be significant in relation to the Trust's financial position, results of operations, or cash flows.

**Note 9 - Fair Value Measurements**

Accounting standards require certain assets and liabilities be reported at fair value in 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.

Fair values determined by Level 1 inputs use quoted prices in active markets for identical assets or liabilities that the Deposit and Loan Trust 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 and liabilities in active markets and other inputs, such as interest rates and yield curves, that are observable at commonly quoted intervals.

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 or liability.

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 Trust's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

## Deposit & Loan Trust of The Roman Catholic Diocese of Toledo in America

### Notes to Financial Statements

June 30, 2019

#### Note 9 - Fair Value Measurements (Continued)

The following table presents information about the Trust's assets and liabilities measured at fair value on a recurring basis at June 30, 2019 and the valuation techniques used by the Trust to determine those fair values.

	Assets and Liabilities Measured at Fair Value on a Recurring Basis at June 30, 2019			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at June 30, 2019
<b>Assets</b>				
Trading securities:				
U.S. corporate bonds	\$ -	\$ 1,428,567	\$ -	\$ 1,428,567
U.S. government bonds	-	23,017,257	-	23,017,257
Total assets	<u>\$ -</u>	<u>\$ 24,445,824</u>	<u>\$ -</u>	<u>\$ 24,445,824</u>
<b>Liabilities</b> - Due to brokers	<u>\$ 252,469</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 252,469</u>

The fair value of U.S. corporate bonds and U.S. government obligations at June 30, 2019 was determined primarily based on Level 2 inputs. The Trust estimates the fair value of these investments based on quoted prices for similar assets in active markets.