

# **Deposit and Loan Fund of The Roman Catholic Diocese of Toledo in America**

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**Financial Report  
June 30, 2017**

# **Deposit and Loan Fund of The Roman Catholic Diocese of Toledo in America**

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## Independent Auditor's Report

To the Most Reverend Daniel E. Thomas and  
Reverend Monsignor William Kubacki  
Deposit and Loan Fund of The Roman  
Catholic Diocese of Toledo in America

We have audited the accompanying financial statements of the Deposit and Loan Fund of The Roman Catholic Diocese of Toledo in America (the "Fund"), which comprise the statement of financial position as of June 30, 2017 and 2016 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 opinions.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Deposit and Loan Fund of The Roman Catholic Diocese of Toledo in America as of June 30, 2017 and 2016 and the changes in its net deficit and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

To the Most Reverend Daniel E. Thomas and  
Reverend Monsignor William Kubacki  
Deposit and Loan Fund of The Roman  
Catholic Diocese of Toledo in America

***Emphasis of Matter***

As described in Note 7 to the financial statements, the Deposit and Loan 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 20, 2017

# Deposit and Loan Fund of The Roman Catholic Diocese of Toledo in America

## Statement of Financial Position

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 7,061,356	\$ 7,710,839
Loans and notes receivable - Net of allowance (Note 3)	18,492,677	17,817,813
Due from Property Fund (Note 6)	11,858,411	11,799,526
Investments (Note 2)	13,954,854	12,612,284
Total assets	<u>\$ 51,367,298</u>	<u>\$ 49,940,462</u>
<b>Liabilities and Net Assets (Deficit)</b>		
<b>Liabilities</b>		
Notes payable (Note 3)	\$ 48,896,123	\$ 47,934,695
Interest rate swap contract (Note 5)	122,362	283,911
Bonds payable - Net of bond issuance costs (Note 4)	-	4,110,863
Total liabilities	49,018,485	52,329,469
<b>Net Assets (Deficit) - Unrestricted</b>	<u>2,348,813</u>	<u>(2,389,007)</u>
Total liabilities and net assets (deficit)	<u>\$ 51,367,298</u>	<u>\$ 49,940,462</u>

# Deposit and Loan Fund of The Roman Catholic Diocese of Toledo in America

## Statement of Activities and Changes in Net Assets (Deficit)

	Year Ended	
	June 30, 2017	June 30, 2016
<b>Revenue</b>		
Interest in earnings of custody trust account	\$ 1,358,714	\$ 112,387
Interest income - Notes receivable (Note 3)	784,270	770,429
Total revenue	2,142,984	882,816
<b>Expenses</b>		
Program services:		
Interest (Note 3)	947,256	957,541
Bad debt expense	73,000	79
General and administrative:		
Investment expense (Note 5)	346,193	238,419
Administrative and consulting	16,083	16,100
Other	9,181	9,531
Net unrealized gain on interest rate swap contract (Note 5)	(161,549)	(137,368)
Total expenses	1,230,164	1,084,302
<b>Contributions from (to) Related Funds - Net (Note 6)</b>	3,825,000	(175,000)
<b>Increase (Decrease) in Net Assets</b>	4,737,820	(376,486)
<b>Net Deficit - Beginning of year</b>	(2,389,007)	(2,012,521)
<b>Net Assets (Deficit) - End of year</b>	<b>\$ 2,348,813</b>	<b>\$ (2,389,007)</b>

# Deposit and Loan Fund of The Roman Catholic Diocese of Toledo in America

## Statement of Cash Flows

	Year Ended	
	June 30, 2017	June 30, 2016
<b>Cash Flows from Operating Activities</b>		
Increase (decrease) in net assets (deficit)	\$ 4,737,820	\$ (376,486)
Adjustments to reconcile increase (decrease) in net assets (deficit) to net cash from operating activities:		
Bad debt expense	73,000	79
Amortization	11,392	12,428
Write off of bond issuance costs (Note 5)	137,745	-
Interest in earnings of custody trust account	(1,358,714)	(112,387)
Interest rate swap contract	(161,549)	(137,368)
Net cash provided by (used in) operating activities	3,439,694	(613,734)
<b>Cash Flows from Investing Activities</b>		
Payments received on loans and notes receivable	2,161,666	6,594,975
Loans and notes receivable issued	(2,909,530)	(5,992,978)
Net sales of investments	16,144	16,123
Net change in receivables due from Property Fund	(58,885)	(1,002,434)
Net cash used in investing activities	(790,605)	(384,314)
<b>Cash Flows from Financing Activities</b>		
Notes payable repaid	(11,279,429)	(12,347,988)
Notes payable issued	12,240,857	11,547,788
Bond payments	(4,260,000)	(375,000)
Net cash used in financing activities	(3,298,572)	(1,175,200)
<b>Net Decrease in Cash and Cash Equivalents</b>	(649,483)	(2,173,248)
<b>Cash and Cash Equivalents - Beginning of year</b>	7,710,839	9,884,087
<b>Cash and Cash Equivalents - End of year</b>	<b>\$ 7,061,356</b>	<b>\$ 7,710,839</b>
<b>Supplemental Disclosure of Cash Flow Information - Cash paid for interest</b>	<b>\$ 936,092</b>	<b>\$ 945,800</b>

# Deposit and Loan Fund of The Roman Catholic Diocese of Toledo in America

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## Notes to Financial Statements June 30, 2017 and 2016

### Note 1 - Nature of Business and Significant Accounting Policies

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 northwestern 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 and Loan Fund (the "Fund") was established on July 1, 2005 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. All other operations of the Diocese are accounted for in other funds or entities.

**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.

**Loans and Notes Receivable and Notes Payable** - The Fund holds unsecured notes receivable, net of allowance, from and unsecured notes payable to the Diocese's parishes and related institutions as described in Note 3.

**Receivables from Other Funds** - Receivables due from other funds are operational in nature and due on demand.

**Investments** - Investments are in debt and equity securities and 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 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. The Fund's interest in the earnings is based upon the Fund's pro-rata share in the net assets of the Diocese of Toledo Custody Trust Account (the "Trust"), as described in Note 2, at the time the income is accrued. Investments in certain cash equivalents (i.e., money market accounts) are classified as investments.

**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.

# Deposit and Loan Fund of The Roman Catholic Diocese of Toledo in America

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## Notes to Financial Statements June 30, 2017 and 2016

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

Contributions without donor-imposed restrictions and contributions with donor-imposed time or purpose restrictions that are met in the same period as the gift are both reported as unrestricted support.

As of June 30, 2017 and 2016, there were no temporarily or permanently restricted net assets.

**Revenue Recognition** - The Fund records revenue, including interest and investment income, as it is earned. The Fund records contributions from other funds, when they are received, at fair value.

**Income Taxes** - The Diocese is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code; 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, expenses, and other changes in net assets during the reporting period. Actual results could differ from those estimates.

**Upcoming Accounting Change** - In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 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 has determined the effects of the new standard on the financial statements will include the change in net asset descriptions, additional disclosure on liquidity, and additional information on the natural classification of the functional expenses.

# **Deposit and Loan Fund of The Roman Catholic Diocese of Toledo in America**

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## **Notes to Financial Statements June 30, 2017 and 2016**

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

**Reclassification** - The Diocese adopted new GAAP guidance related to the presentation of debt issuance costs in its statement of financial position. Under the new guidance, debt issuances costs, on a retrospective basis, are reported as a direct deduction from the carrying amount of the related debt. The new guidance does not affect how debt issuance costs are accounted for after initial recognition, and these amounts continue to be amortized over the term of the related debt. However, the amortization of the debt issuance costs is now required to be reported as a component of interest expense. There was no effect on beginning net assets as a result of adopting the new requirements.

Debt issuance costs net of accumulated amortization of \$43,738 have been reclassified from prepaid bond issuance costs to bond payable in 2016. Debt issuance costs were fully amortized at June 30, 2017 due to the early payoff of the bonds payable described in Note 4.

**Subsequent Events** - The financial statements and related disclosures include evaluation of events up through and including November 20, 2017, which is the date the financial statements were available to be issued (see Note 11).

### **Note 2 - Investments**

The Fund's investments are held in the Trust administered by Comerica Bank, the trustee. The Trust was established to hold investments of the Fund and investments of the General and Catholic Foundation Funds of The Roman Catholic Diocese of Toledo in America and its related entities. The balance of investments on the accompanying statement of financial position reflects the Fund's total interest in the assets of the Trust, as allocated by Comerica Bank, and the Fund's interest in the earnings of the Trust for the year.

# Deposit and Loan Fund of The Roman Catholic Diocese of Toledo in America

## Notes to Financial Statements June 30, 2017 and 2016

### Note 2 - Investments (Continued)

The accompanying financial statements reflect the Fund's total interest (34.00 percent at June 30, 2017 and 31.06 percent at June 30, 2016) in the assets of the Trust. The estimated fair values of the Fund's investments at June 30, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
U.S. corporate bonds	\$ 211	\$ 233
Mutual funds - Fixed income	4,681,257	4,157,707
Equity securities	9,149,132	8,373,405
Money market funds	<u>124,254</u>	<u>80,939</u>
Total	<u>\$ 13,954,854</u>	<u>\$ 12,612,284</u>

Investment income from interest and dividends for the years ended June 30, 2017 and 2016 was \$263,000 and \$288,000, respectively, and is included in interest in earnings of custody trust accounts on the statement of activities and changes in net assets (deficit).

The Diocese 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 3 - Notes to and from Parishes and Related Institutions

The Fund 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 interest rates of 4.0 percent and the notes payable have interest rates of 2.0 percent with interest due on a semiannual basis. The allowance for uncollectible notes is \$1,500,000 and \$1,427,000 at June 30, 2017 and 2016 respectively. The Diocese has the authority to liquidate assets of the parishes and related institutions to collect notes receivable.

The Fund has extended financing to various parishes and Catholic high schools in the form of construction notes. The Fund has also extended financing to a parish and a related entity under lines of credit. The Fund has commitments at June 30, 2017 and 2016 to extend additional financing in amounts not to exceed \$3,000,000 and \$1,804,000, respectively, under these notes and lines of credit.

# **Deposit and Loan Fund of The Roman Catholic Diocese of Toledo in America**

## **Notes to Financial Statements June 30, 2017 and 2016**

### **Note 3 - Notes to and from Parishes and Related Institutions (Continued)**

Interest income and expense on the above notes receivable and payable, which were included in the statement of activities and changes in net assets (deficit), totaled \$784,270 and \$935,864, respectively, for the year ended June 30, 2017 and \$770,429 and \$945,113, respectively, for the year ended June 30, 2016.

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, 2017. As of June 30, 2016, the aggregate recorded investment in loans on nonaccrual status was \$404,492.

The Fund considers a financing loan receivable to be impaired when, based on current information and events, it is probable that the Fund 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 were no amounts written off during the years ended June 30, 2017 and 2016, respectively.

**Credit Quality Indicators** - The Diocese 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, 2017. Credit monitoring is done by evaluation of loan payment history and periodic financial statement review.

### **Note 4 - Bonds Payable**

In 2008, the Toledo-Lucas County Port Authority issued \$8,700,000 of Series 2008 Revenue Bonds for the purpose of improving the economic welfare of the people within its jurisdiction. The Diocese obtained the bonds to help fund capital improvements to three separate parishes and for the Central City Ministry of Toledo Schools within the Diocese.

# **Deposit and Loan Fund of The Roman Catholic Diocese of Toledo in America**

## **Notes to Financial Statements June 30, 2017 and 2016**

### **Note 4 - Bonds Payable (Continued)**

In connection with the issuance of the Series 2008 bonds, the Diocese entered into a note payable agreement with the Lucas County Port Authority. The terms of this note agreement mirrored those of the bond issue. The debt was collateralized by all revenue, cash, and investments of the Deposit and Loan Fund as well as any associated project funds. Additionally, under the terms of the bond agreement, the Diocese was required to meet a financial covenant related to liquid assets.

On June 1, 2017, the Diocese chose to optionally redeem the remaining balance of \$4,260,000 of the bond issue. The balance outstanding on the bonds at June 30, 2017 and 2016 was \$0 and \$4,260,000, respectively.

The Series 2008 Revenue Bonds matured from the first business day of June 2009 to the first business day of June 2028. Variable principal payments were payable yearly. Interest on the outstanding principal of the bonds was variable and based on the Securities Industry and Financial Markets Association Municipal Swap Index (SIFMA Municipal Swap Index). At June 30, 2016, the rate in effect was 0.52 percent. The Diocese also incurred \$248,561 of expenses related to the issuance of the bonds in 2008, which were being amortized over the life of the bonds. The balance of bond financing costs at June 30, 2016, net of accumulated amortization of \$99,424, was \$149,137. Amortization expense of \$11,392 and \$12,428 was recorded during the years ended June 30, 2017 and 2016, respectively, and included in interest expense. Due to the early payoff of the bonds payable, the remaining unamortized balance of \$137,745 was written off during the year ended June 30, 2017 and included in investment expense.

The interest rate swap associated with the variable rate borrowing (see Note 5) remained in effect at June 30, 2017 and was extinguished subsequent to June 30, 2017.

### **Note 5 - Derivative Financial Instruments**

The Fund is exposed to certain risks in the normal course of its business operations. The main risks are those relating to the variability of future earnings and cash flows, which are managed through the use of derivatives. All derivative financial instruments are reported on the statement of financial position at fair value.

In particular, interest rate swaps (which are designated as fair value hedges) are used to manage the risk associated with interest rates on variable rate borrowings. The Diocese entered into an interest rate swap agreement maturing on July 1, 2018 in order to convert the variable rate bonds to a fixed rate. This agreement effectively fixes the Diocese's borrowing rate at 3.87 percent, reducing exposure to interest rate risk for the term of the swap.

# **Deposit and Loan Fund of The Roman Catholic Diocese of Toledo in America**

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## **Notes to Financial Statements June 30, 2017 and 2016**

### **Note 5 - Derivative Financial Instruments (Continued)**

As of June 30, 2017, the Diocese held a fixed-rate interest rate swap with a total notional amount of \$0. Losses recognized on the interest rate swap of \$137,219 have been included in investment expense for the year ended June 30, 2017.

At June 30, 2016, the Diocese held a fixed-rate interest rate swap with a total notional amount of \$4,260,000. Losses recognized on the interest rate swap of \$175,274 have been included in investment expense for the year ended June 30, 2016.

Unrealized gains on the interest rate swaps were \$161,549 and \$137,368 for the years ended June 30, 2017 and 2016, respectively. The total interest rate swap liability at June 30, 2017 and 2016 was \$122,362 and \$283,911, respectively.

On July 7, 2017, the interest rate swap liability was extinguished in conjunction with the early extinguishments of the Series 2008 bonds described in Note 4.

### **Note 6 - Related Party Transactions**

In the years ended June 30, 2017 and 2016, the Fund provided \$175,000 to the General Fund to support operations. In addition, the Property Fund provided \$200,000 to the Deposit and Loan Fund for the CCMT school renovation loan for each of the years ended June 30, 2017 and 2016, which reduced loans and notes receivable. The Insurance Fund also provided \$4,000,000 to the Fund in the year ended June 30, 2017 to early extinguish the Series 2008 bonds. The Fund has a noninterest-bearing receivable from the Property Fund in the amount of \$11,858,411 and \$11,799,526 at June 30, 2017 and 2016, respectively.

Amounts due to other funds are included in notes payable and are related to amounts transferred to the Fund to earn interest from various surplus activities. Included in notes payable are amounts due to the General Fund of \$936,560 and \$865,906 at June 30, 2017 and 2016, respectively. See Note 3 for other related party transactions.

# Deposit and Loan Fund of The Roman Catholic Diocese of Toledo in America

## Notes to Financial Statements June 30, 2017 and 2016

### Note 7 - Legal Status of the Diocese

For the years ending June 30, 2017 and 2016, 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 (the "Bishop") 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 (see Note 11).

### Note 8 - Functional Allocation of Expenses

For the years ended June 30, 2017 and 2016, expenses are functionally allocated as follows:

	<u>2017</u>	<u>2016</u>
Church services:		
Program services	\$ 1,020,256	\$ 957,620
General and administrative	209,908	126,682
Total functional expenses	<u>\$ 1,230,164</u>	<u>\$ 1,084,302</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.

### Note 9 - 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 Diocese's financial position, results of operations, or cash flows.

# **Deposit and Loan Fund of The Roman Catholic Diocese of Toledo in America**

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## **Notes to Financial Statements June 30, 2017 and 2016**

### **Note 10 - Fair Value Measurements**

Accounting standards require certain assets and liabilities be reported at fair value in on the financial statements and provides 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 and liabilities measured at fair value on a recurring basis at June 30, 2017 and 2016, and the valuation techniques used by the Fund to determine those fair values.

Fair values determined by Level 1 inputs use quoted prices in active markets for identical assets or liabilities 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 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. 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 or liability.

As of July 1, 2016, the Fund implemented new guidance that changes the required disclosures for investments valued at net asset value (NAV) per share (or its equivalent) as a practical expedient. Previously, investments measured at fair value using the NAV practical expedient were classified in the fair value hierarchy based on the redemption features associated with the investment. Under the new guidance, investments measured at fair value using net asset value per share (or its equivalent) as a practical expedient are no longer classified in the fair value hierarchy above and the information for the year ended June 30, 2016 has been adjusted to conform to the new disclosure requirements.

# Deposit and Loan Fund of The Roman Catholic Diocese of Toledo in America

## Notes to Financial Statements June 30, 2017 and 2016

### Note 10 - Fair Value Measurements (Continued)

#### Assets and Liabilities Measured at Fair Value on a Recurring Basis at June 30, 2017

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Net Asset Value	Balance at June 30, 2017
<b>Assets</b>				
Mutual funds - Fixed income	\$ 4,681,257	\$ -	\$ -	\$ 4,681,257
Mutual funds - Equity	4,812,025	-	1,589,061	6,401,086
Equity securities - Common stock	2,531,598	-	-	2,531,598
Equity securities - Foreign stock	127,468	-	-	127,468
Equity securities - Real estate investment trusts	88,980	-	-	88,980
Money market fund	124,254	-	-	124,254
U.S. corporate bonds	-	211	-	211
Total assets at fair value	<u>\$ 12,365,582</u>	<u>\$ 211</u>	<u>\$ 1,589,061</u>	<u>\$ 13,954,854</u>
<b>Liabilities</b> - Interest rate swap contract	<u>\$ -</u>	<u>\$ 122,362</u>	<u>\$ -</u>	<u>\$ 122,362</u>

#### Assets and Liabilities 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)	Net Asset Value	Balance at June 30, 2016
<b>Assets</b>				
Mutual funds - Fixed income	\$ 4,157,707	\$ -	\$ -	\$ 4,157,707
Mutual funds - Equity	4,417,947	-	1,445,426	5,863,373
Equity securities - Common stock	2,306,504	-	-	2,306,504
Equity securities - Foreign stock	112,682	-	-	112,682
Equity securities - Real estate investment trusts	90,846	-	-	90,846
Money market fund	80,939	-	-	80,939
U.S. corporate bonds	-	233	-	233
Total assets at fair value	<u>\$ 11,166,625</u>	<u>\$ 233</u>	<u>\$ 1,445,426</u>	<u>\$ 12,612,284</u>
<b>Liabilities</b> - Interest rate swap	<u>\$ -</u>	<u>\$ 283,911</u>	<u>\$ -</u>	<u>\$ 283,911</u>

The Fund's policy is to recognize transfers in and out of Level 1, 2, and 3 fair value classifications as of the actual date of the event of the change in circumstances that caused the transfer. There were no transfers during 2017 and 2016.

# **Deposit and Loan Fund of The Roman Catholic Diocese of Toledo in America**

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## **Notes to Financial Statements June 30, 2017 and 2016**

### **Note 10 - Fair Value Measurements (Continued)**

The fair value of U.S. corporate bonds at June 30, 2017 and 2016 was determined primarily based on Level 2 inputs. The Fund estimates the fair value of these investments based on quoted prices for similar assets in active markets.

The Fund holds shares in the Christian Brothers CUIT Intermediate Bond Fund where the fair value of the investments are measured on a recurring basis using net asset value per share (or its equivalent) of the investment companies as a practical expedient. The investment is exclusive for tax-exempt Catholic institutions and includes U.S. government, agency, corporate, and mortgage-backed securities. The fund investment strategy pursues to achieve returns above the benchmark for the Bloomberg Barclays Aggregate Bond Index over a full market cycle. There are no unfunded commitments or redemption restrictions relative to this fund.

The fair value of the interest rate swap contract at June 30, 2017 and 2016 was determined primarily based on Level 2 inputs. The Fund estimates the fair value of these investments based on marked-to-market valuations and/or other market data for the same or comparable instruments or transactions in establishing the prices, discounted cash flow models, or other pricing models provided by the issuing bank.

### **Note 11 - Subsequent Event**

Effective November 1, 2017, the Diocese established several new legal entities recognized under the civil laws of the State of Ohio and under canon law to hold, administer, and govern its existing funds. Management believes these new entities more clearly represent the various goals and responsibilities of the respective funds and ministry programs of the Diocese.

Specifically, the assets and liabilities of the Deposit and Loan Fund of the Diocese will be moved into a new trust, the Diocese of Toledo Deposit and Loan Trust. This trust was also erected as an autonomous pious foundation according to the 1983 Code of Canon Law.

Accordingly, future financial reporting for the Diocese will not be completed on a fund basis, but will conform to the new legal structure of the respective entities.