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

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**Financial Report**  
**June 30, 2018**

**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, 2018 and the related statements of activities and changes in net assets and cash flows for the eight-month period ended June 30, 2018, 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, 2018 and the results of its operations and its cash flows for the eight-month period then ended in accordance with accounting principles generally accepted in the United States of America.

*Plante & Moran, PLLC*

December 11, 2018

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

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**June 30, 2018**

**Assets**

Restricted cash and cash equivalents	\$ 3,602,719
Other assets	167,033
Receivables from related parties (Note 5)	2,100,000
Investments (Note 3)	27,886,270
Notes receivable - Net of allowance (Note 4)	<u>16,214,661</u>
Total assets	<b><u>\$ 49,970,683</u></b>

**Liabilities and Net Assets**

**Liabilities**

Accounts payable	\$ 57,990
Payables to other funds and related parties (Note 5)	23,638
Notes payable (Notes 4 and 5)	<u>47,286,337</u>
Total liabilities	47,367,965

**Net Assets** - Unrestricted - Board designated

2,602,718

Total liabilities and net assets

**\$ 49,970,683**

**Deposit & Loan Trust of The Roman Catholic Diocese of Toledo in America**  
**Statement of Activities and Changes in Net Assets**

**Eight-month Period Ended June 30, 2018**

**Changes in Unrestricted Net Assets**

Revenue, gains, and other support:	
Interest in earnings of custody trust account	\$ 531,030
Interest income - Notes receivable (Note 4)	<u>502,579</u>
Total revenue, gains, and other support	1,033,609
Expenses:	
Program services - Interest	509,175
General and administrative:	
Other administrative expenses	43,409
Management fees	<u>33,725</u>
Total expenses	<u>586,309</u>
<b>Increase in Unrestricted Net Assets</b> - Before other items and transfer of net assets	447,300
<b>Other Items</b> - Net realized and unrealized loss on investments	<u>(315,480)</u>
<b>Increase in Unrestricted Net Assets</b> - Before transfer of net assets	131,820
<b>Transfer of Net Assets</b> (Note 5)	<u>2,470,898</u>
<b>Increase in Unrestricted Net Assets</b>	2,602,718
<b>Unrestricted Net Assets</b> - November 1, 2017	<u>-</u>
<b>Unrestricted Net Assets</b> - June 30, 2018	<u><u>\$ 2,602,718</u></u>

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

## Statement of Cash Flows

**Eight-month Period Ended June 30, 2018**

### Cash Flows from Operating Activities

Increase in unrestricted net assets before transfer of net assets	\$	131,820
Adjustments to reconcile increase in unrestricted net assets before transfer of net assets to net cash and cash equivalents from operating activities:		
Change in other assets		(115,085)
Bad debt expense		(169,000)
Net realized and unrealized loss on investments		315,480
Accounts payable		(1,520)
		161,695
Net cash and cash equivalents provided by operating activities		161,695

### Cash Flows from Investing Activities

Payments received on loans and notes receivable		4,696,078
Loans and notes receivable issued		(4,422,014)
Net purchases of investments		(5,208,678)
Cash transferred in from other funds of the Diocese (Note 5)		6,671,391
Net change in receivables from related parties		2,064,154
		3,800,931
Net cash and cash equivalents provided by investing activities		3,800,931

### Cash Flows from Financing Activities

Notes payable repaid		(7,779,205)
Notes payable issued		7,419,298
		(359,907)
Net cash and cash equivalents used in financing activities		(359,907)

### Net Increase in Restricted Cash and Cash Equivalents

3,602,719

### Restricted Cash and Cash Equivalents - November 1, 2017

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### Restricted Cash and Cash Equivalents - June 30, 2018

**\$ 3,602,719**

### Significant Noncash Transactions - Cash paid for interest

\$ 509,175

**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 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.

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 the activity that was previously reported in various other funds of the Diocese, including the former Deposit and Loan Fund. As part of the reorganization, the net assets of the former Deposit and Loan Fund were transferred into the Deposit & Loan Trust of The Roman Catholic Diocese of Toledo in America (the "Deposit and Loan Trust" or the "Trust"), as described in Note 5. This Trust was also erected as an autonomous pious foundation, according to the 1983 Code of Canon Law.

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 4.

***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.

Unrestricted net assets are not restricted by donors, or the donor-imposed restrictions have expired or been fulfilled.

Temporarily restricted net assets consist of contributions received with donor-imposed restrictions that expire with the passage of time or that can be removed by meeting certain requirements.

Permanently restricted net assets result from donor-imposed restrictions that limit the use of net assets in perpetuity.

**June 30, 2018**

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

Earnings, gains, and losses on restricted net assets are classified as unrestricted, unless specifically restricted by the donor or by applicable state law. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are released to unrestricted net assets.

Unrestricted net assets 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 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 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.

**Upcoming Accounting Pronouncement**

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 Diocese, including required disclosures about the liquidity and availability of resources. The new standard is effective for the Deposit and Loan Trust'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 functional expenses.

**Subsequent Events**

The financial statements and related disclosures include evaluation of events up through and including December 11, 2018, which is the date the financial statements were available to be issued.

**Note 3 - Investments**

The investments are held in trust by the Trust Company.

The estimated fair values of the Trust's investments at June 30, 2018 are as follows:

U.S. corporate bonds	\$ 1,386,588
U.S. government notes	<u>26,499,682</u>
Total	<u>\$ 27,886,270</u>

**Note 3 - Investments (Continued)**

Investment income from interest and dividends for the years ended June 30, 2018 was \$531,030 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 4 - 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 had an interest rate of 4 percent through March 31, 2018. Effective April 1, 2018 notes receivable have a variable interest rate equal to the prime rate. The notes payable had an interest rate of 2 percent through December 31, 2017. Effective January 1, 2018 the interest rate on notes payable was 1.5 percent. Interest is due on a semiannual basis. The interest rate on notes payable was increased to 1.65 percent effective July 1, 2018. The allowance for uncollectible notes is \$1,331,000 at June 30, 2018. 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, 2018 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 \$502,579 and \$509,175, respectively, for the period ended June 30, 2018.

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, 2018.

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 were no amounts written off during the period ended June 30, 2018.

***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, 2018. Credit monitoring is done by evaluation of loan payment history and periodic financial statement review.

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

## Notes to Financial Statements

June 30, 2018

### Note 5 - Related Party Transactions

Receivables from related parties are due from the Diocese. Notes receivable includes \$1,447,776 due from the Central City Ministries Fund of the Diocese. Included in notes payable are amounts due to the Diocese of \$605,150 and 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 eight-month period ended June 30, 2018 the Trust paid \$33,725 in management fees to the Diocese.

As described in Note 1, on November 1, 2017, various other funds of the Diocese, including the former Deposit and Loan Fund, were closed. The assets and liabilities of the former Deposit and Loan Fund were transferred into the new Deposit and Loan Trust, as follows, which is reflected as transfers of net assets on the statement of activities and changes in net assets.

Cash	\$ 6,671,391
Receivables	4,216,102
Notes receivable - Net	16,319,725
Investments	22,993,072
Accounts payable	(83,148)
Notes payable	<u>(47,646,244)</u>
Total transfer of net assets	<u>\$ 2,470,898</u>

### Note 6 - Functional Allocation of Expenses

For the period ended June 30, 2018, expenses are functionally allocated as follows:

Church services:	
Program services	\$ 509,175
General administrative	<u>77,134</u>
Total functional expenses	<u>\$ 586,309</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 7 - 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 8 - 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.

The following table presents information about the Deposit and Loan Trust's assets measured at fair value on a recurring basis at June 30, 2018 and the valuation techniques used by the Deposit and Loan Trust to determine those fair values.

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

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 Deposit and Loan Trust'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, 2018
	<u>Significant Other Observable Inputs (Level 2)</u>
Investments:	
U.S. corporate bonds	\$ 1,386,588
U.S. government obligations	<u>26,499,682</u>
Total assets at fair value	<u>\$ 27,886,270</u>

The Trust'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 2018.

The fair value of U.S. corporate bonds at June 30, 2018 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.

The fair value of U.S. government obligations at June 30, 2018 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.