

General Fund of The Roman Catholic Diocese of Toledo in America

**Financial Report
June 30, 2017**

General 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
General Fund of The Roman Catholic
Diocese of Toledo in America

We have audited the accompanying financial statements of the General 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 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.

Opinion

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

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

Emphasis of Matter

As described in Note 2 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 & Morse, PLLC

November 20, 2017

General Fund of The Roman Catholic Diocese of Toledo in America

Statement of Financial Position

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Assets		
Cash and cash equivalents	\$ 1,842,718	\$ 942,193
Receivables from other funds and related entities (Note 5)	2,694,478	3,562,006
Receivables - Net of allowance:		
Contributions receivable	558,315	-
Parish assessments (Note 5)	386,064	523,018
Other	8,040	7,841
Investments (Note 3)	4,349,742	673,226
Other assets	28,844	71,432
	<u>\$ 9,868,201</u>	<u>\$ 5,779,716</u>
Total assets		
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 382,261	\$ 569,067
Due to agency funds (Note 5)	655,082	678,414
Other liabilities	183,276	174,411
	<u>1,220,619</u>	<u>1,421,892</u>
Total liabilities		
Net Assets		
Unrestricted:		
Unrestricted and undesignated net assets	4,225,598	4,010,922
Unrestricted board-designated net assets	156,334	244,750
Temporarily restricted (Note 4)	107,335	102,152
Permanently restricted net assets (Note 11)	4,158,315	-
	<u>8,647,582</u>	<u>4,357,824</u>
Total net assets		
Total liabilities and net assets	<u>\$ 9,868,201</u>	<u>\$ 5,779,716</u>

General Fund of The Roman Catholic Diocese of Toledo in America

Statement of Activities and Changes in Net Assets Year Ended June 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue, Gains, and Other Support				
Parish assessments (Note 5)	\$ 3,167,876	\$ -	\$ -	\$ 3,167,876
Donations and bequests (Note 11)	-	18,152	4,158,315	4,176,467
Interest in earnings of custody trust account	19,965	2,048	-	22,013
Interest income	31,714	4,852	-	36,566
Support from other funds (Note 5)	3,202,102	-	-	3,202,102
Other income (Note 5)	27,710	-	-	27,710
Net assets released from restrictions	19,869	(19,869)	-	-
Total revenue, gains, and other support	6,469,236	5,183	4,158,315	10,632,734
Expenses				
Chancery:				
Communications	543,212	-	-	543,212
Archives and tribunal	196,481	-	-	196,481
Administration	676,572	-	-	676,572
Cathedral support and repair	267,159	-	-	267,159
Diocesan pastoral services:				
Human resources	248,839	-	-	248,839
Administration	750,529	-	-	750,529
Clergy, consecrated life, and vocations	1,077,515	-	-	1,077,515
Catholic education:				
Catholic schools	482,474	-	-	482,474
Catechesis	30,825	-	-	30,825
Discipleship and family life	787,255	-	-	787,255
Finance	582,611	-	-	582,611
Catholic social services (Note 5)	805,778	-	-	805,778
Bad debt recovery	(112,809)	-	-	(112,809)
Other expenses	66,643	-	-	66,643
Total expenses	6,403,084	-	-	6,403,084
Increase from Operations	66,152	5,183	4,158,315	4,229,650
Nonoperating Gains - Net realized and unrealized gains on investments	60,108	-	-	60,108
Increase in Net Assets	126,260	5,183	4,158,315	4,289,758
Net Assets - Beginning of year	4,255,672	102,152	-	4,357,824
Net Assets - End of year	<u>\$ 4,381,932</u>	<u>\$ 107,335</u>	<u>\$ 4,158,315</u>	<u>\$ 8,647,582</u>

General Fund of The Roman Catholic Diocese of Toledo in America

Statement of Activities and Changes in Net Assets Year Ended June 30, 2016

	Unrestricted	Temporarily Restricted	Total
Revenue, Gains, and Other Support			
Parish assessments (Note 5)	\$ 3,166,995	\$ -	\$ 3,166,995
Donations and bequests	-	15,630	15,630
Interest in earnings of custody trust account	15,388	1,955	17,343
Interest income	19,061	-	19,061
Support from other funds (Note 5)	4,093,278	-	4,093,278
Other income (Note 5)	57,700	-	57,700
Net assets released from restrictions	11,884	(11,884)	-
	<u>7,364,306</u>	<u>5,701</u>	<u>7,370,007</u>
Total revenue, gains, and other support			
Expenses			
Chancery:			
Communications	793,438	-	793,438
Archives and tribunal	205,826	-	205,826
Administration	1,114,064	-	1,114,064
Cathedral support and repair	250,609	-	250,609
Diocesan pastoral services:			
Human resources	230,099	-	230,099
Administration	744,921	-	744,921
Clergy, consecrated life, and vocations	909,344	-	909,344
Catholic education:			
Catholic schools	687,873	-	687,873
Catechesis	62,296	-	62,296
Discipleship and family life	867,855	-	867,855
Finance	636,990	-	636,990
Catholic social services (Note 5)	909,408	-	909,408
Other expenses	88,416	-	88,416
	<u>7,501,139</u>	<u>-</u>	<u>7,501,139</u>
Total expenses			
(Decrease) Increase from Operations	(136,833)	5,701	(131,132)
Nonoperating Losses - Net realized and unrealized losses on investments	(298)	-	(298)
(Decrease) Increase in Net Assets	(137,131)	5,701	(131,430)
Net Assets - Beginning of year	4,392,803	96,451	4,489,254
Net Assets - End of year	<u>\$ 4,255,672</u>	<u>\$ 102,152</u>	<u>\$ 4,357,824</u>

General Fund of The Roman Catholic Diocese of Toledo in America

Statement of Cash Flows

	Year Ended	
	June 30, 2017	June 30, 2016
Cash Flows from Operating Activities		
Increase (decrease) in net assets	\$ 4,289,758	\$ (131,430)
Adjustments to reconcile increase (decrease) in net assets to net cash from operating activities:		
Bad debt recovery	(112,809)	-
Impairment of inventory	-	16,462
Interest in earnings of custody trust account including net realized and unrealized gains and losses	(82,121)	(17,045)
Permanently restricted contribution	(4,158,315)	-
Changes in operating assets and liabilities which provided (used) cash:		
Parish assessments receivable	249,763	71,389
Other receivables	(199)	21,735
Inventory	-	738
Other assets	42,588	68,337
Accounts payable	(186,806)	(202,155)
Collections due to outside agencies and others	(23,332)	161,364
Other liabilities	8,865	(3,503)
Net cash provided by (used in) operating activities	27,392	(14,108)
Cash Flows from Investing Activities		
Net (purchases) sales of investments	(3,594,395)	12,332
Net change in receivables from other funds and related entities	867,528	(1,174,194)
Net cash used in investing activities	(2,726,867)	(1,161,862)
Cash Flows from Financing Activities - Proceeds from endowment	3,600,000	-
Net Increase (Decrease) in Cash and Cash Equivalents	900,525	(1,175,970)
Cash and Cash Equivalents - Beginning of year	942,193	2,118,163
Cash and Cash Equivalents - End of year	<u>\$ 1,842,718</u>	<u>\$ 942,193</u>

General Fund of The Roman Catholic Diocese of Toledo in America

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. In order to oversee the activities, the Diocese maintains various funds and related incorporated entities. The accounts of the General Fund (the "Fund") include only assets, liabilities, and operations related to the administration of the Diocese and its departments. The functions of the Diocese related to conducting the charitable works of the Diocese, administration of its schools and properties, payments of insurance claims, payment of expenses related to retired and infirmed priests of the Diocese, long-term fundraising campaigns, and other specific social and community services are accounted for in other funds or incorporated entities within the framework of the Diocese.

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.

Investments - Investments are carried at fair value. Fair values are based on quoted market prices. The appreciation or depreciation in market value is recognized as a change in nonoperating income. Gains and losses on sales of investments are determined based on the specific security sold. Interest and dividends are recorded on the accrual basis as part of operating income. 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 3, at the time the income is accrued. Investments in certain cash equivalents (i.e., money market accounts) are classified as investments.

Receivables - The Diocese carries parish assessments receivable equal to the unpaid amounts billed to the parishes based on net invoice amounts. An allowance for doubtful accounts is established for potentially uncollectible amounts. Management reviews the allowance on a yearly basis. Amounts are written off against the allowance in the year they are deemed uncollectible. Contributions receivable are deemed to be fully collectible and are due in less than one year.

Increase (Decrease) from Operations - Increase (decrease) from operations includes revenue and expenses available to support current operating activities within the Fund, which include interest and dividends earned on investments during the year. Operating activities exclude unrealized and realized gains and losses on investments, which are typically reinvested and intended to support the long-term mission of the Diocese.

General Fund of The Roman Catholic Diocese of Toledo in America

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

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

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. Permanently restricted net assets are endowments that must be held in perpetuity in accordance with donor restrictions. Earnings on endowment assets are classified as temporarily restricted until such time as the related donor restrictions have been met, if applicable, and the funds have been appropriated for expenditure. Donor-imposed restrictions that expire with the passage of time or can be removed by meeting certain requirements result in temporarily restricted net assets. Earnings, gains, and losses on temporarily restricted net assets are classified as unrestricted unless specifically restricted by the donor or by applicable state law.

Designated Net Assets - The Fund has board-designated net assets totaling \$156,334 and \$244,750 at June 30, 2017 and 2016, respectively. These net assets relate to certain unrestricted donation revenue which has been designated for future Discipleship and Family Life Department program expenditures.

Revenue Recognition - The Fund records revenue such as contributions and promises to give when it is received unconditionally at fair value. Conditional contributions are recognized as revenue when the conditions on which they depend have been substantially met. Parish assessments are levied annually and are calculated based on annual collections times a fixed percentage of 5 percent for parishes that have a school and 10 percent for parishes that do not have a school.

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.

General Fund of The Roman Catholic Diocese of Toledo in America

Notes to Financial Statements June 30, 2017 and 2016

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

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 reviewed its various revenue streams and does not feel this standard will have a significant impact on the timing of revenue recognition. However, the Diocese does expect to have expanded disclosures as a result of the new standard.

In August 2016, the FASB issued 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 the 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.

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 issued (see Note 12).

General Fund of The Roman Catholic Diocese of Toledo in America

Notes to Financial Statements June 30, 2017 and 2016

Note 2 - Legal Status of Diocese

For the years ended 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. The 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 12).

Note 3 - Investments

The Fund's investments are held in the Trust and an endowment administered by Comerica Bank, the trustee. The Trust was established to hold the assets of the Fund and other funds of the Diocese and its related entities. The accompanying financial statements reflect the Fund's total interest (1.82 and 1.66 percent at June 30, 2017 and 2016, respectively) in the assets of the Trust. The estimated fair values of the Fund's share of the Trust's investments as well as the endowment at June 30, 2017 and 2016 are as follows:

	2017	2016
Mutual funds - Fixed income	\$ 249,885	\$ 221,939
Equity securities	488,373	446,966
Money market funds	6,632	4,321
Total trust investments	744,890	673,226
Endowment - Money market funds (Note 11)	3,604,852	-
Total investments	\$ 4,349,742	\$ 673,226

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.

General Fund of The Roman Catholic Diocese of Toledo in America

Notes to Financial Statements June 30, 2017 and 2016

Note 4 - Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2017 and 2016 are available for the following purposes:

	2017	2016
Youth Young Adult Campus Ministries	\$ 8,600	\$ 7,274
Knights of Columbus Religious Education Grant	33,573	25,048
Mass stipends	887	6,186
Discretionary Fund	9,806	13,919
Earnings on endowment funds	4,852	-
Other	49,617	49,725
	<u>\$ 107,335</u>	<u>\$ 102,152</u>
Total temporarily restricted net assets	<u>\$ 107,335</u>	<u>\$ 102,152</u>

Note 5 - Related Party Transactions

Related party activities as of June 30, 2017 and 2016 are as follows:

	2017	2016
Receivable from Central City Ministries Fund	\$ 654,666	\$ 463,241
Receivable from Catholic Cemeteries Fund	822,450	668,721
Receivable from Deposit and Loan Fund	936,560	865,906
Receivable from Catholic Foundation	233,932	1,188,978
Other related party receivables	46,870	375,160
	<u>\$ 2,694,478</u>	<u>\$ 3,562,006</u>
Total receivables from other funds and related entities	<u>\$ 2,694,478</u>	<u>\$ 3,562,006</u>
Parish assessment receivable - Net of allowance	<u>\$ 386,064</u>	<u>\$ 523,018</u>
Due to agency fund - CYO	\$ 371,802	\$ 306,221
Due to agency fund - Global Concern	283,280	372,193
	<u>\$ 655,082</u>	<u>\$ 678,414</u>
Total due to agency funds	<u>\$ 655,082</u>	<u>\$ 678,414</u>
Parish assessment income	<u>\$ 3,167,876</u>	<u>\$ 3,166,995</u>

General Fund of The Roman Catholic Diocese of Toledo in America

Notes to Financial Statements June 30, 2017 and 2016

Note 5 - Related Party Transactions (Continued)

Related party activities for the years ended June 30, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Support from Annual Catholic Appeal	\$ 2,222,608	\$ 2,197,075
Support from Deposit and Loan Fund	175,000	175,000
Support from Insurance Fund	175,000	175,000
Support from Catholic Foundation Fund	<u>629,494</u>	<u>1,546,203</u>
Total support for operations from other funds	<u>\$ 3,202,102</u>	<u>\$ 4,093,278</u>
Reimbursement from Catholic Foundation Fund of seminary formation expenses (included in other income on statement of activities and changes in net assets)	<u>\$ 14,634</u>	<u>\$ 13,729</u>
Subsidy paid to Catholic Charities for operations	<u>\$ 805,778</u>	<u>\$ 909,408</u>

Receivables due from other funds and related entities are operational in nature and due on demand. Receivables from the Deposit and Loan Fund and the Catholic Foundation Fund relate to amounts transferred to these funds to earn interest from various surplus activities.

The Fund charged assessments as detailed above to related parishes and amounts outstanding related to these assessments are included in parish assessments receivable net of an allowance of \$135,000 and \$288,000 for the years ended June 30, 2017 and 2016, respectively.

Amounts due to agency funds are due on demand to the respective funds and relate to net income earned on their respective activities.

Transfers from the Annual Catholic Appeal, Deposit and Loan Fund, Insurance Fund, and Catholic Foundation Fund were made to support operations for each year. The Fund also received transfers from the Catholic Foundation Fund for reimbursement of seminary expenses included in other income on the statement of activities and changes in net assets during the years ended June 30, 2017 and 2016. The Fund also subsidized Catholic Charities for the years presented and amounts are included within the Catholic Charities expense on the statement of activities and changes in net assets.

General Fund of The Roman Catholic Diocese of Toledo in America

Notes to Financial Statements June 30, 2017 and 2016

Note 6 - 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 Retirement Plan is 34-4428233. The Fund contributes 4 percent of each participating employee's compensation to the Retirement Plan and the employee contributes 2 percent of compensation. Benefits under the Retirement Plan are generally based on compensation levels and years of service.

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

- Assets contributed to the multiple-employer 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 Retirement Plan were approximately \$90,000 and \$116,000 for the years ended June 30, 2017 and 2016, respectively. Based on the most recent available information as of June 30, 2017, the year end of the Retirement Plan, Diocese contributions to the Retirement Plan do not represent more than 5 percent of total contributions received by the Retirement Plan.

The Retirement 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 Retirement Plan, the Fund could, under the terms of the Retirement Plan, be subject to a penalty. In addition to the extent that the Retirement Plan is underfunded, the Fund's future contributions to the Retirement Plan may increase to cover retirement benefits of employees of other participants in the Retirement Plan.

General Fund of The Roman Catholic Diocese of Toledo in America

Notes to Financial Statements June 30, 2017 and 2016

Note 6 - Multiple-employer Defined Benefit Pension Plans (Continued)

The following information is based on the most recent available actuarial valuation of the Retirement Plan as of July 1, 2017:

	Retirement Plan for Lay Employees in the Catholic Diocese of Toledo	
Total plan net assets	\$	148,899,640
Actuarial present value of accumulated plan benefits	\$	189,827,742
Total contributions received by the Retirement Plan*	\$	4,113,241
Indicated level of funding		78.4 %

* 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 Fund (see Note 10). Of the \$4,113,241 in total contributions received by the Retirement Plan, \$507,844 was contributed to the Health Care Assistance Benefits Fund.

On August 9, 2017, the board of trustees of the Retirement Plan as well as two major advisory bodies to the Bishop of Toledo, approved various modifications to improve the financial health of the Retirement Plan. Such modifications include increased contributions by both the participating employers and their respective employees over a three-year period commencing on July 1, 2018 and the dissolution of the Health Care Assistance Benefits Fund (see Note 10) effective as of June 30, 2018. The Health Care Assistance Benefits Fund's assets will be transferred to the Retirement Plan. In addition, the Diocese contributed \$3,400,000 to the Retirement Plan on November 1, 2017.

Note 7 - Functional Expenses

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

	2017	2016
General and administrative	\$ 3,514,947	\$ 4,179,043
Program	2,888,137	3,322,096
Total functional expenses	<u>\$ 6,403,084</u>	<u>\$ 7,501,139</u>

General Fund of The Roman Catholic Diocese of Toledo in America

Notes to Financial Statements June 30, 2017 and 2016

Note 7 - Functional Expenses (Continued)

Costs have been allocated between program services and general and administrative services on several bases and estimates. There is no fundraising allocation for the years ended June 30, 2017 and 2016, as those activities have been transferred to the Catholic Foundation Fund. Although the methods of allocation are considered appropriate, other methods could be used that would produce different amounts.

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 Diocese'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.

The following tables present information about the Fund's assets 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 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.

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.

General Fund of The Roman Catholic Diocese of Toledo in America

Notes to Financial Statements June 30, 2017 and 2016

Note 9 - Fair Value Measurements (Continued)

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.

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

	Quoted Prices in Active Markets for Identical Assets (Level I)	Net Asset Value	Balance at June 30, 2017
Assets			
Mutual funds - Fixed income	\$ 249,885	\$ -	\$ 249,885
Mutual funds - Equity	256,869	84,820	341,689
Equity securities - Common stock	135,130	-	135,130
Equity securities - Foreign stock	6,804	-	6,804
Equity securities - Real estate investment trusts	4,750	-	4,750
Money market funds	3,611,484	-	3,611,484
Total assets at fair value	<u>\$ 4,264,922</u>	<u>\$ 84,820</u>	<u>\$ 4,349,742</u>

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

	Quoted Prices in Active Markets for Identical Assets (Level I)	Net Asset Value	Balance at June 30, 2016
Assets			
Mutual funds - Fixed income	\$ 221,939	\$ -	\$ 221,939
Mutual funds - Equity	235,835	77,153	312,988
Equity securities - Common stock	123,114	-	123,114
Equity securities - Foreign stock	6,015	-	6,015
Equity securities - Real estate investment trusts	4,849	-	4,849
Money market funds	4,321	-	4,321
Total assets at fair value	<u>\$ 596,073</u>	<u>\$ 77,153</u>	<u>\$ 673,226</u>

General Fund of The Roman Catholic Diocese of Toledo in America

Notes to Financial Statements June 30, 2017 and 2016

Note 9 - Fair Value Measurements (Continued)

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.

The Fund holds shares in the Christian Brothers CUIT Intermediate Bond Fund whereby 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

Note 10 - Multiemployer Plans Providing Postretirement Benefits Other Than Pensions

During the years ended June 30, 2017 and 2016, the Fund was a participant in the Health Care Assistance Benefits for Lay Employees in the Diocese of Toledo in America Fund (the "Health Care Assistance Benefits Fund"), 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 to the Health Care Assistance Benefits Fund. As described in Note 6, \$507,844 in contributions to the Retirement Plan were transferred to the Health Care Assistance Benefits Fund during the plan year ended June 30, 2017.

Actuarial information is as of July 1, 2017 and is based on the financial statements of the Health Care Assistance Benefits Fund as of June 30, 2017. The actuarial present value of the accumulated benefits to all participants of the plan as of July 1, 2017 was approximately \$0.8 million, reflecting the decision to terminate the fund on June 30, 2018. The net assets available for benefits total approximately \$9.0 million as of July 1, 2017. In conjunction with the modifications made to the Retirement Plan (see Note 6), the Health Care Assistance Benefits Fund will be dissolved on June 30, 2018.

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

General Fund of The Roman Catholic Diocese of Toledo in America

Notes to Financial Statements June 30, 2017 and 2016

Note 11 - Donor-restricted and Board-designated Endowments

The Fund's endowment consists of a donor-restricted endowment fund, that was received in March 2017. The endowment allows spendable income, as defined, to be used for assisting battered women, food and housing of the poor, and the education and enrichment of student of parochial schools within the Diocese with an emphasis on music and the arts. Net assets associated with endowment funds are classified and reported based on the existence of donor-imposed restrictions.

Interpretation of Relevant Law

Management of the Fund has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Fund classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Fund considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the Fund
- (2) The purposes of the organization and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Fund
- (7) The investment policies of the Fund.

Endowment Net Asset Composition by Type of Fund as of June 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 4,852	\$ 4,158,315	\$ 4,163,167

General Fund of The Roman Catholic Diocese of Toledo in America

Notes to Financial Statements June 30, 2017 and 2016

Note 11 - Donor-restricted and Board-resigned Endowments (Continued)

Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets -				
Beginning of year	\$ -	\$ -	\$ -	\$ -
Investment return -				
Investment income	-	4,852	-	4,852
Contributions	-	-	4,158,315	4,158,315
Endowment net assets -				
End of year	<u>\$ -</u>	<u>\$ 4,852</u>	<u>\$ 4,158,315</u>	<u>\$ 4,163,167</u>

Return Objectives and Risk Parameters

The Fund has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity. Under this policy, as approved by the Bishop, in consultation with the Diocesan Investment Committee, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the S&P 500 index while assuming a moderate level of investment risk. The Fund expects its endowment funds, over time, to provide an average rate of return of approximately 6 percent annually. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives and Spending Policy

To satisfy its long-term rate-of-return objectives, the Fund relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Fund targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

The Fund has a policy of appropriating for distribution each year 5 percent of its endowment fund's March 31 balance, but to not exceed \$180,000. In establishing this policy, the Fund considered the long-term expected return on its endowment. This is consistent with the Fund's objective to maintain the purchasing power of the endowment assets held in perpetuity as well as to provide additional real growth through new gifts and investment return.

General Fund of The Roman Catholic Diocese of Toledo in America

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

Note 12 - 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 ministries of the Diocese.

Specifically, the assets and liabilities of the General Fund of the Diocese will be moved to a new nonprofit corporation in the state of Ohio, The Roman Catholic Diocese of Toledo in America. This new entity retains the separate public juridic personality of the Diocese 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.