

Central Offices of the Archdiocese of Cincinnati

**Financial Statements with Accompanying Information
June 30, 2016 and 2015, and
Independent Auditors' Report**

**CENTRAL OFFICES OF THE
ARCHDIOCESE OF CINCINNATI**

June 30, 2016 and 2015

Contents

	<u>Page(s)</u>
Independent Auditors' Report	1 - 2
Financial Statements:	
Statements of Financial Position	3
Statements of Activities	4 - 5
Statements of Cash Flows	6
Notes to Financial Statements	7 - 23
Accompanying Information:	
Schedules	
1. Changes in Temporarily Restricted Net Assets – Year Ended June 30, 2016	24
2. Detail of Chancery Expenses – Years Ended June 30, 2016 and 2015	25 - 26
3. Schedule of Designated Collections – Year Ended June 30, 2016	27
4. Schedule of Catholic Ministries Appeal Contributions and Distributions	28

Independent Auditors' Report

Most Reverend Dennis M. Schnurr
Archbishop of Cincinnati

We have audited the accompanying financial statements of the Central Offices of the Archdiocese of Cincinnati (Archdiocese or Central Offices), which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities 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 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 Central Offices of the Archdiocese of Cincinnati as of June 30, 2016 and 2015, 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.

BARNES DENNIG

Independent Auditors' Report (Continued)

Other Matter

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying information included in schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Barnes, Dennig & Co., Ltd.

December 22, 2016
Cincinnati, Ohio

CENTRAL OFFICES OF THE ARCHDIOCESE OF CINCINNATI

**Statements of Financial Position
June 30, 2016 and 2015**

	2016	2015
Assets		
Cash	\$ 200	\$ 200
Prepaid expenses	434,315	402,067
Interest receivable, net of allowances; 2016 - \$2,952,364 2015 - \$2,767,480	1,973,481	2,204,993
Accounts receivable, net of allowances; 2016 - \$117,445 2015 - \$143,430	4,214,779	5,217,257
Contributions receivable, net of discount	996,758	1,029,457
Notes receivable, net of allowances; 2016 - \$8,967,477 2015 - \$8,396,370	6,824,516	16,942,896
Investments	223,714,211	218,627,774
Beneficial interest in trust	3,253,970	3,597,837
Land, buildings and other property, net	9,265,342	8,492,301
Total assets	\$ 250,677,572	\$ 256,514,782
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 1,216,092	\$ 2,489,783
Accrued interest on notes and bonds payable	782,566	771,939
Reserve for insurance claims	4,075,000	3,700,000
Funds held for Archdiocesan agencies	25,384,084	24,306,767
Other liabilities	959,115	432,591
Unemployment fund	804,090	800,000
Notes payable - parishes and other Catholic institutions	108,589,324	106,225,841
Bonds payable	1,428,095	11,044,541
Total liabilities	143,238,366	149,771,462
Net Assets		
Unrestricted	91,696,667	91,894,569
Temporarily restricted	14,987,760	14,095,217
Permanently restricted	754,779	753,534
Total net assets	107,439,206	106,743,320
Total liabilities and net assets	\$ 250,677,572	\$ 256,514,782

See accompanying notes to financial statements

CENTRAL OFFICES OF THE ARCHDIOCESE OF CINCINNATI

Statement of Activities Year Ended June 30, 2016 with Summarized Comparative Totals for 2015

	2016			Total	2015
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Revenue, gains (losses) and other support					
Investment income	\$ 6,545,330	\$ (76,104)	\$ -	\$ 6,469,226	\$ 5,774,096
Insurance billings to parishes and institutions	51,804,400	-	-	51,804,400	51,544,442
Claim reimbursement and recoveries	58,228	-	-	58,228	318,047
Archdiocesan assessments	12,993,856	-	-	12,993,856	12,867,803
Notes receivable interest	380,837	-	-	380,837	478,326
Designated collections	62,461	443,383	-	505,844	527,088
Catholic Ministries Appeal, net	-	4,105,173	-	4,105,173	4,712,837
Contributions and bequests	1,250,903	3,962,664	1,245	5,214,812	4,898,225
Rental income	292,980	-	-	292,980	347,707
Other	1,175,925	160,209	-	1,336,134	1,332,801
Net assets released from restrictions	7,702,782	(7,702,782)	-	-	-
Total revenue, gains (losses) and other support	<u>82,267,702</u>	<u>892,543</u>	<u>1,245</u>	<u>83,161,490</u>	<u>82,801,372</u>
Expenses					
Chancery:					
Community services	1,763,230	-	-	1,763,230	1,709,978
Educational services	8,974,493	-	-	8,974,493	8,732,997
Executive services	1,549,007	-	-	1,549,007	1,583,598
Financial services	1,756,585	-	-	1,756,585	1,658,308
Human resources	445,906	-	-	445,906	402,625
Stewardship services	210,740	-	-	210,740	155,331
Pastoral services	8,049,538	-	-	8,049,538	7,578,254
General and administrative	3,637,104	-	-	3,637,104	2,367,808
Interest on notes payable	2,629,991	-	-	2,629,991	2,831,372
Administrative building operations	1,000,030	-	-	1,000,030	1,785,359
Transfers to Seminary	921,845	-	-	921,845	1,136,074
	<u>30,938,469</u>	<u>-</u>	<u>-</u>	<u>30,938,469</u>	<u>29,941,704</u>
Health Care Plan:					
Claims	38,303,348	-	-	38,303,348	33,453,322
Service fees	3,987,239	-	-	3,987,239	4,472,012
Other	1,479,474	-	-	1,479,474	1,343,539
	<u>43,770,061</u>	<u>-</u>	<u>-</u>	<u>43,770,061</u>	<u>39,268,873</u>
Self-Insurance Fund:					
Claims	2,141,852	-	-	2,141,852	1,732,643
Reinsurance premiums	2,854,724	-	-	2,854,724	2,824,917
Other	760,498	-	-	760,498	437,281
	<u>5,757,074</u>	<u>-</u>	<u>-</u>	<u>5,757,074</u>	<u>4,994,841</u>
Total expenses	<u>80,465,604</u>	<u>-</u>	<u>-</u>	<u>80,465,604</u>	<u>74,205,418</u>
Change in net assets before transfers	1,802,098	892,543	1,245	2,695,886	8,595,954
Transfers to Priests' Retirement Corporation	2,000,000	-	-	2,000,000	-
Change in net assets	(197,902)	892,543	1,245	695,886	8,595,954
Net assets, beginning of year	91,894,569	14,095,217	753,534	106,743,320	98,147,366
Net assets, end of year	<u>\$ 91,696,667</u>	<u>\$ 14,987,760</u>	<u>\$ 754,779</u>	<u>\$ 107,439,206</u>	<u>\$ 106,743,320</u>

See accompanying notes to financial statements

CENTRAL OFFICES OF THE ARCHDIOCESE OF CINCINNATI

**Statement of Activities
Year Ended June 30, 2015**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenue, gains and other support				
Investment income	\$ 5,687,438	\$ 86,658	\$ -	\$ 5,774,096
Insurance billings to parishes and institutions	51,544,442	-	-	51,544,442
Claim reimbursement and recoveries	318,047	-	-	318,047
Archdiocesan assessments	12,867,803	-	-	12,867,803
Notes receivable interest	478,326	-	-	478,326
Designated collections	63,980	463,108	-	527,088
Catholic Ministries Appeal, net	-	4,712,837	-	4,712,837
Contributions and bequests	710,350	4,186,920	955	4,898,225
Rental income	347,707	-	-	347,707
Other	911,176	421,625	-	1,332,801
Net assets released from restrictions	10,291,447	(10,291,447)	-	-
Total revenue, gains and other support	<u>83,220,716</u>	<u>(420,299)</u>	<u>955</u>	<u>82,801,372</u>
Expenses				
Chancery:				
Community services	1,709,978	-	-	1,709,978
Educational services	8,732,997	-	-	8,732,997
Executive services	1,583,598	-	-	1,583,598
Financial services	1,658,308	-	-	1,658,308
Human resources	402,625	-	-	402,625
Stewardship services	155,331	-	-	155,331
Pastoral services	7,578,254	-	-	7,578,254
General and administrative	2,367,808	-	-	2,367,808
Interest on notes payable	2,831,372	-	-	2,831,372
Administrative building operations	1,785,359	-	-	1,785,359
Transfers to Seminary	1,136,074	-	-	1,136,074
	<u>29,941,704</u>	<u>-</u>	<u>-</u>	<u>29,941,704</u>
Health Care Plan:				
Claims	33,453,322	-	-	33,453,322
Service fees	4,472,012	-	-	4,472,012
Other	1,343,539	-	-	1,343,539
	<u>39,268,873</u>	<u>-</u>	<u>-</u>	<u>39,268,873</u>
Self-Insurance Fund:				
Claims	1,732,643	-	-	1,732,643
Reinsurance premiums	2,824,917	-	-	2,824,917
Other	437,281	-	-	437,281
	<u>4,994,841</u>	<u>-</u>	<u>-</u>	<u>4,994,841</u>
Total expenses	<u>74,205,418</u>	<u>-</u>	<u>-</u>	<u>74,205,418</u>
Change in net assets	9,015,298	(420,299)	955	8,595,954
Net assets, beginning of year	<u>82,879,271</u>	<u>14,515,516</u>	<u>752,579</u>	<u>98,147,366</u>
Net assets, end of year	<u>\$ 91,894,569</u>	<u>\$ 14,095,217</u>	<u>\$ 753,534</u>	<u>\$ 106,743,320</u>

See accompanying notes to financial statements

CENTRAL OFFICES OF THE ARCHDIOCESE OF CINCINNATI

**Statements of Cash Flows
Years Ended June 30, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities		
Change in net assets	\$ 695,886	\$ 8,595,954
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	815,541	678,250
Provision for doubtful receivables	730,006	194,651
Contributions restricted for long-term investment	(1,245)	(955)
Loss on disposal of fixed assets	-	774,017
Net unrealized and realized gains on investments	(1,769,069)	(944,174)
Change in beneficial interest in trust	343,867	42,431
Interest reinvested into notes payable	1,199,871	1,261,606
Transfer to Priests' Retirement Corporation	2,000,000	-
Changes in:		
Prepaid expenses	(32,248)	17,630
Interest receivable	46,628	328
Accounts receivable	1,028,463	(870,448)
Contributions receivable	32,699	255,750
Accounts payable and accrued expenses	(1,273,691)	151,870
Accrued interest on notes and bonds payable	10,627	(73,439)
Reserve for insurance claims	375,000	(347,000)
Funds held for Archdiocesan agencies, other liabilities and unemployment fund	1,607,931	793,082
Net cash provided by operating activities	<u>5,810,266</u>	<u>10,529,553</u>
Cash flows from investing activities		
Purchases of investments	(36,057,472)	(47,423,881)
Proceeds from sales of investments	30,740,103	46,316,964
Purchases of land, buildings and other property	(1,588,582)	(1,354,010)
Collections on notes receivable	444,783	2,453,922
Issuance of notes receivable	<u>(513,955)</u>	<u>(384,848)</u>
Net cash used in investing activities	<u>(6,975,123)</u>	<u>(391,853)</u>
Cash flows from financing activities		
Investments in endowment	1,245	955
Originations of notes payable	10,956,694	6,256,396
Payments on notes payable	<u>(9,793,082)</u>	<u>(16,395,051)</u>
Net cash provided by (used in) financing activities	<u>1,164,857</u>	<u>(10,137,700)</u>
Net change in cash	-	-
Cash, beginning of year	<u>200</u>	<u>200</u>
Cash, end of year	<u>\$ 200</u>	<u>\$ 200</u>
Supplemental cash flows information		
Interest paid	<u>\$ 2,619,363</u>	<u>\$ 2,904,811</u>
Non-cash reduction in notes receivable and bonds payable	<u>\$ 9,616,446</u>	<u>\$ 6,988,705</u>

See accompanying notes to financial statements

CENTRAL OFFICES OF THE ARCHDIOCESE OF CINCINNATI

Notes to Financial Statements

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

The Central Offices of the Archdiocese of Cincinnati (Archdiocese or Central Offices) primarily consist of departments maintained for the administration of the general business and financial affairs of the Archdiocese of Cincinnati. The Archdiocese of Cincinnati encompasses the various institutions and organizations which are responsible to the Most Reverend Dennis M. Schnurr, Archbishop of Cincinnati. With the exception of the Lay Employees Pension Plan, the Priests' Retirement Corporation, Pooled Investment Trust Fund, Catholic Community Foundation of the Archdiocese of Cincinnati and Foundation for Catholic Education the financial statements include all accounts maintained by and directly under the administration of the Central Offices of the Archdiocese of Cincinnati, including the Health Care Plan of the Archdiocese of Cincinnati, the Archbishop's Insurance Fund of the Archdiocese of Cincinnati, and the Priests' Retirement Fund.

The accompanying financial statements do not include the accounts of certain Catholic organizations located within the Archdiocese such as parishes, schools, foundations, cemeteries, homes, seminaries, or any institutions owned and operated by religious orders of men or women, except insofar as financial transactions have taken place between such organizations and the Central Offices. These organizations may or may not be separate corporations under civil law; however, each is an operating entity distinct from the Central Offices, maintains separate accounts, carries on its own services and programs, and in some instances is expected to report annually to the Central Offices. The Central Offices may become responsible for liabilities of certain of these entities in its role as the financial administrator of the Archdiocese. However, no contingent liability is presented in these financial statements related to these future potential obligations.

Titles to certain properties of the above-mentioned organizations are held by the Archbishop and his successors in office as trustee of separate trusts. Commingling of these separate trusts is forbidden by Canon Law and policy as well as by Ohio Civil Law. For this reason, these properties are not included in the accompanying financial statements.

The Central Offices, certain related institutions, and all parishes participate in two self-insurance programs providing property and casualty as well as health care coverage (Archdiocesan insurance programs). The Central Offices administers the Archdiocesan insurance programs with the aid of an insurance service firm as directed by the Archbishop. Reinsurance is obtained to protect against losses in excess of self-insurance limits.

Financial Statement Presentation

The financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles (GAAP). The Archdiocese is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets which have no donor-imposed restriction; temporarily restricted net assets which have donor-imposed restrictions that will expire in the future; and permanently restricted net assets which have donor-imposed restrictions which do not expire.

Fair Value Measurements

GAAP has a three-level hierarchy for fair value measurements based on transparency of valuation inputs as of the measurement date. The hierarchy is based on the lowest level of input that is significant to the fair value measurement. The three levels are defined as follows: Level 1 inputs are unadjusted quoted prices for identical assets in active markets; Level 2 inputs are observable quoted prices for similar assets in active markets; Level 3 inputs are unobservable and reflect management's best estimate of what market participants would use as fair value.

CENTRAL OFFICES OF THE ARCHDIOCESE OF CINCINNATI

**Notes to Financial Statements
(Continued)**

**NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)**

Accounts, Notes and Interest Receivable

Accounts receivable are stated at the amounts earned, but not collected, less related allowance for impaired accounts receivable. Notes and interest receivable are stated at the principal amount outstanding, less the related allowance for impaired receivables. Interest income on notes receivable is accrued as earned based on unpaid principal balances. The notes are payable on demand thirty days after issuance and interest is due quarterly. Interest accrues until the note is paid in full and therefore, notes are generally not placed on non-accrual status.

Accounts, notes and interest receivable are evaluated for impairment in accordance with GAAP. Management, considering current information and events, considers a receivable to be impaired when it is probable that the Archdiocese will be unable to collect all amounts due (both interest and principal) according to the terms of the note agreement. When a receivable is considered to be impaired, the amount of impairment is measured based on the expected future cash flows to include recovery from other assets of the obligor. Impairment losses are included in the allowance for doubtful accounts through a charge to the provision for doubtful receivables. Changes in the fair market value of collateral or the expected cash flows due to revisions to the timing or amount of those estimated cash flows are recorded as additions to or reductions in the provision for doubtful receivables. No allowance for doubtful accounts has been provided for receivables not deemed to be impaired.

Investments and Investment Return

Investments are carried at fair value. Investment return includes dividend and interest income and realized and unrealized gains and losses on investments.

Investment return is reflected in the statements of activities as unrestricted, temporarily restricted or permanently restricted based upon the existence and nature of any donor imposed restrictions.

Land, Buildings and Other Property

Land, buildings and other property are recorded at cost or, if donated or impaired, at fair value at the time of the gift or determination. Depreciation is calculated on a straight-line basis over the estimated useful lives of the respective assets. Major improvements are capitalized, while maintenance and repairs are expensed as incurred. It is the policy of the Archdiocese to dispose of real estate when it becomes evident that no future use for church purposes is likely.

Contributions

Gifts of cash and other assets received without donor stipulations are reported as unrestricted revenue and net assets. Gifts received with a donor stipulation that limits their use are reported as temporarily or permanently restricted revenue and net assets. When a donor's stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Gifts and investment income that are originally restricted by the donor and for which the restriction is met in the same time period are recorded as temporarily restricted and then released from restriction.

CENTRAL OFFICES OF THE ARCHDIOCESE OF CINCINNATI

**Notes to Financial Statements
(Continued)**

**NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)**

Contributions (Continued)

Unconditional gifts expected to be collected within one year are reported at their net realizable value. Unconditional gifts expected to be collected in future years are reported at the present value of estimated future cash flows. The resulting discount is amortized using the level-yield method and is reported as contribution revenue.

Income Taxes and Uncertain Tax Positions

The United States Conference of Catholic Bishops received a determination letter dated March 25, 1946, which states that the agencies and instrumentalities and educational, charitable, and religious institutions operated, supervised or controlled by or in connection with the Roman Catholic Church in the United States, its territories or possessions appearing in the Official Catholic Directory are exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

The Archdiocese is listed in the 2016 edition of the Official Catholic Directory and is, therefore, exempt from federal income and unemployment taxes.

The Archdiocese is exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of Ohio law. However, the Archdiocese is subject to federal income tax on any unrelated business taxable income. The Archdiocese is not aware of any activities that would jeopardize its tax-exempt status, nor is it aware of any uncertain tax positions that result in a material impact on the statements of financial position or statements of activities of the Archdiocese.

Use of Estimates

GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue, expenses, gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain 2015 figures have been reclassified to conform to the 2016 presentation.

Subsequent Event Evaluation

In preparing its financial statements, the Archdiocese has evaluated events subsequent to the statement of financial position date through December 22, 2016, which is the date the financial statements were available to be issued.

CENTRAL OFFICES OF THE ARCHDIOCESE OF CINCINNATI

**Notes to Financial Statements
(Continued)**

NOTE 2 ACCOUNTS, NOTES AND INTEREST RECEIVABLE AND NOTES PAYABLE

Some parishes and other Catholic institutions, which have funds not immediately needed for current operations, deposit such funds with the Archdiocese and receive an interest-bearing demand note as evidence thereof. These funds are classified as notes payable on the statement of financial position. The notes payable interest rates ranged from 2.5% to 2.6% for both 2016 and 2015. See Note 16 for information on deposits in the Pooled Investment Trust Fund.

Certain parishes and other Catholic institutions have financed building projects and other needs through interest-bearing demand loans from surplus funds of other parishes and institutions. These loans are included in notes receivable on the statement of financial position. In addition to these loans, notes receivable also includes interest and accounts receivables that were converted to interest-bearing demand loans. The notes receivable interest rate was 6.5% for 2016 and 2015. Notes receivable include non-interest bearing notes of approximately \$8,739,000 and \$7,657,000 for 2016 and 2015, respectively.

Activity in the allowances for doubtful interest receivable, accounts receivable and notes receivable for the periods ended June 30 and the gross and average balance of the corresponding receivables that are considered to be impaired as of June 30 was as follows:

<u>2016</u>	<u>Interest Receivable</u>	<u>Accounts Receivable</u>	<u>Notes Receivable</u>
Balance July 1, 2015	\$ 2,767,480	\$ 143,430	\$ 8,396,370
Provision for doubtful receivables, net of recoveries	<u>184,884</u>	<u>(25,985)</u>	<u>571,107</u>
Balance June 30, 2016	<u>\$ 2,952,364</u>	<u>\$ 117,445</u>	<u>\$ 8,967,477</u>
Gross balance of impaired receivables	<u>\$ 4,472,811</u>	<u>\$ 145,028</u>	<u>\$ 13,492,194</u>
Average balance of impaired receivables	<u>\$ 551,644</u>	<u>\$ 29,520</u>	<u>\$ 545,165</u>
<u>2015</u>	<u>Interest Receivable</u>	<u>Accounts Receivable</u>	<u>Notes Receivable</u>
Balance July 1, 2014	\$ 2,622,143	\$ 124,514	\$ 8,365,972
Provision for doubtful receivables, net of recoveries	<u>145,337</u>	<u>18,916</u>	<u>30,398</u>
Balance June 30, 2015	<u>\$ 2,767,480</u>	<u>\$ 143,430</u>	<u>\$ 8,396,370</u>
Gross balance of impaired receivables	<u>\$ 4,193,374</u>	<u>\$ 186,840</u>	<u>\$ 12,653,432</u>
Average balance of impaired receivables	<u>\$ 466,138</u>	<u>\$ 31,140</u>	<u>\$ 1,150,312</u>

Interest income recognized on impaired notes receivable during the years ended June 30, 2016 and 2015 was approximately \$357,000 and \$310,000, respectively.

CENTRAL OFFICES OF THE ARCHDIOCESE OF CINCINNATI

**Notes to Financial Statements
(Continued)**

NOTE 3 CONTRIBUTIONS RECEIVABLE

Contributors to the Archdiocese have made unconditional pledges totaling \$1,162,215 and \$1,193,292 as of June 30, 2016 and 2015, respectively. Contributions receivable have been discounted at rates ranging from 0.0% to 7.0% to a net present value of \$996,758 and \$1,029,457 as of June 30, 2016 and 2015, respectively. As of June 30, these pledges are due as follows:

	2016	2015
Less than one year	\$ 762,215	\$ 793,292
More than five years	400,000	400,000
	1,162,215	1,193,292
Less discount applied	(165,457)	(163,835)
	\$ 996,758	\$ 1,029,457

Management has estimated that no allowance is necessary for uncollectable contributions receivable.

NOTE 4 INVESTMENTS AT FAIR VALUE

Investments at fair value at June 30 consisted of the following:

	2016	2015
Level 1:		
U.S. Government obligations	\$ 7,759,298	\$ 12,918,487
Common stock	60,164,582	49,879,931
Preferred stock	261,250	248,400
Foreign stock	3,534,739	3,729,494
Corporate bonds	7,870,968	18,902,197
Foreign bonds	1,046,776	4,142,652
Mortgage backed securities	1,543,890	3,450,684
Asset backed securities	1,686,588	-
High yield bonds	37,026	155,283
Tax exempt bonds	104,805	198,160
Real estate investments	2,510,332	1,264,185
Level 2:		
Money market funds	2,663,931	1,723,820
Deposits in Pooled Investment Trust Fund	112,355,249	120,802,153
Not subject to fair value hierarchy:		
StoneRoad Core Plus Fixed Income SRI	21,166,115	-
TNCRRG stock	523,938	693,164
BPIC stock	484,724	519,164
Total investments	\$ 223,714,211	\$ 218,627,774

Fair value for certificates of deposit (included in cash equivalents), corporate stocks, U.S. Government obligations and fixed income securities is determined by reference to quoted market prices and other relevant information generated by market transactions. These assets are categorized as using Level 1 inputs.

CENTRAL OFFICES OF THE ARCHDIOCESE OF CINCINNATI

**Notes to Financial Statements
(Continued)**

NOTE 4 INVESTMENTS AT FAIR VALUE (Continued)

Fair value for money market fund and interest in pooled investment trust funds is determined by a third party utilizing models that use as their basis readily observable market parameters. These assets are categorized as using Level 2 inputs.

There are no valuations using Level 3 inputs.

Included in the above investments are investments of \$22,174,777 and \$1,212,328 at June 30, 2016 and 2015, respectively, in unregistered investment pools. The investment pools in turn invest in various equity and debt securities and other vehicles to generate its investment return. The fair value of these investment pools is reported by the Central Offices based on information provided by the investment managers.

Values may be based on readily available public market data as well as estimates that require varying degrees of judgement. Generally, fair value reflects net contributions to the investee and an ownership share of realized and unrealized investment income and expenses. The financial statements of the investees are audited annually by independent auditors as of December 31 with the most recent being as of December 31, 2015. Valuations for these investment pools provided by the investment managers are evaluated by the Central Offices, and management believes such values are reasonable for the years ended June 30, 2016 and 2015.

The Central Offices used Net Asset Value (NAV) to determine the fair value of all the underlying investments which do not have a readily determinable fair value and prepare their financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company. In accordance with ASU 2015-07, these investments are not required to be categorized using the fair value hierarchy. The following table lists investments in other investment companies by major category:

	2016 and 2015				
	2016	2015	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Investment in StoneRoad Core					
Plus Fixed Income SRI	\$ 21,166,115	\$ -	\$ -	Semi-monthly	None
Investment in TNCRRG	523,938	693,164	-	None	90 days
Investment in BPIC	484,724	519,164	-	None	90 days
	<u>\$ 22,174,777</u>	<u>\$ 1,212,328</u>	<u>\$ -</u>		

The Archdiocese has an investment in The National Catholic Risk Retention Group, Inc. (TNCRRG). TNCRRG is a risk retention group insurer authorized under Federal law, *Liability Risk Retention Act of 1986*. TNCRRG requires such an investment in order to provide the Archdiocese and other Catholic entities protection against losses in excess of the self-insurance limits for an annual premium. Ownership of TNCRRG is restricted to entities that are also insured by the risk retention group. TNCRRG stock is stated at an estimated fair value based on information provided by TNCRRG.

The Archdiocese's investment in TNCRRG is subject to additional redemption restrictions, as the Archdiocese cannot receive a payout until five years following the effective date of their withdrawal from TNCRRG. Additionally, the payout will be calculated as the lesser of the share value at the effective date of the withdrawal or the share value at the time of payout. Any payout is subject to approval of the insurance regulators in the Vermont Department of Banking, Insurance Securities and Health Care Administration.

CENTRAL OFFICES OF THE ARCHDIOCESE OF CINCINNATI

**Notes to Financial Statements
(Continued)**

NOTE 4 INVESTMENTS AT FAIR VALUE (Continued)

The Archdiocese held a 3.28% and 3.23% ownership investment in Bishops' Plan Insurance Company (BPIC) as of June 30, 2016 and 2015, respectively. BPIC is a self-insurance arrangement for various Catholic dioceses. The investment is stated at an estimated fair value based on information provided by BPIC.

The Central Offices and certain parishes and institutions of the Archdiocese participate in a pooled investment trust fund (the trust). This cash management system is administered by a bank and its trust department. Funds deposited by each participant in excess of amounts assigned to the individual demand deposit accounts to cover participants' operating needs are invested in the trust.

As of June 30, 2016 and 2015, the assets of the trust are invested 78.4% and 80.3% in corporate bonds, 14.3% and 13.6% in U.S. Government and Federal Agency obligations, and 7.3% and 6.0% in cash equivalents, respectively. The Archdiocese maintains a Pooled Fund Reserve Account that is invested in an equity fund tied to the S&P 500 (see Note 16). This account could be used as a source of funds to meet liquidations, together with other Archdiocesan assets.

Investment income for the years ended June 30 is as follows:

	2016		
	Unrestricted	Temporarily Restricted	Total
Net realized gain on investments	\$ 939,447	\$ 32,588	\$ 972,035
Net unrealized gain (loss) on investments	1,046,646	(249,612)	797,034
Interest and dividend income	1,879,207	140,920	2,020,127
Pooled Investment Trust Fund income	2,680,030	-	2,680,030
	<u>\$ 6,545,330</u>	<u>\$ (76,104)</u>	<u>\$ 6,469,226</u>
	2015		
	Unrestricted	Temporarily Restricted	Total
Net realized gain on investments	\$ 536,385	\$ -	\$ 536,385
Net unrealized gain on investments	387,689	20,100	407,789
Interest and dividend income	1,762,193	66,558	1,828,751
Pooled Investment Trust Fund income	3,001,171	-	3,001,171
	<u>\$ 5,687,438</u>	<u>\$ 86,658</u>	<u>\$ 5,774,096</u>

CENTRAL OFFICES OF THE ARCHDIOCESE OF CINCINNATI

**Notes to Financial Statements
(Continued)**

NOTE 5 BENEFICIAL INTEREST IN TRUST

The Archdiocese is the sole beneficiary of a charitable remainder trust administered by an outside party. Under the terms of the trust, the Archdiocese has the irrevocable right to receive income earned on the trust assets until termination of the trust in 2018, at which time the trust will dissolve and its assets will be distributed to the Archdiocese. The fair value of the beneficial interest in trust is \$3,253,970 and \$3,597,837, which represents the market value of the trust assets at June 30, 2016 and 2015, respectively. The beneficial interest in trust is valued by a third party utilizing models that use as their basis readily observable market parameters and is classified within Level 2 of the fair value hierarchy.

NOTE 6 LAND, BUILDINGS AND OTHER PROPERTY

Land, buildings and other property consisted of the following as of June 30:

	<u>2016</u>	<u>2015</u>
Land	\$ 1,517,278	\$ 1,517,278
Land held for future use	540,610	540,610
Buildings and improvements	18,834,710	17,465,911
Furniture and equipment	2,230,025	2,010,242
Less accumulated depreciation	<u>(13,857,281)</u>	<u>(13,041,740)</u>
	<u>\$ 9,265,342</u>	<u>\$ 8,492,301</u>

NOTE 7 RESERVE FOR INSURANCE CLAIMS

A reserve has been established for claims reported but not yet paid and estimated claims incurred but not reported. The reserve is based on claims experience and existing matters known by management. As of June 30, 2016 and 2015, the Archdiocese has recorded a reserve for insurance claims of \$4,075,000 and \$3,700,000, respectively.

NOTE 8 FUNDS HELD FOR ARCHDIOCESAN AGENCIES

Funds held for Archdiocesan agencies represent assets entrusted to the Archdiocese only for the purposes of receiving, holding and disbursing such funds according to the depositors' intentions. The assets are not the property of the Archdiocese but are merely held for the account of others. As of June 30, 2016 and 2015, the Archdiocese had funds held for Archdiocesan agencies of \$25,384,084 and \$24,306,767, respectively.

NOTE 9 BONDS PAYABLE

As trustee of LaSalle High School (LaSalle), the Archbishop entered into various bond agreements with various banks and municipalities. These bonds are the general obligations of the schools, were used to finance expenditures related to construction projects and have certain financial covenants which must be maintained by the schools.

Since the Archbishop entered into irrevocable letters of credit with the banks to guarantee payment of the principal amounts of the bonds and any interest accrued upon maturity and since the bonds are also collateralized by certain investments held by the Archdiocese, the bonds have been recorded as a general liability of the Archdiocese. Additionally, a corresponding note receivable has been recognized in an amount equal to the outstanding balance of bonds as of June 30, 2016 and 2015.

CENTRAL OFFICES OF THE ARCHDIOCESE OF CINCINNATI

**Notes to Financial Statements
(Continued)**

NOTE 9 BONDS PAYABLE (Continued)

As a strategy to reduce exposure to interest rate fluctuations, the schools entered into interest rate swap agreements for a portion of their bonds. The agreements provide for the schools to receive interest from the counterparty at the floating index rate as defined in the agreements and to pay interest to the counterparty at a fixed rate, plus certain fees on notional amounts. Under the agreements, the schools pay or receive the net interest amount monthly, with the monthly settlements included in interest expense. The interest rate swaps are valued by a third party utilizing models that use as their basis readily observable market parameters and is classified within Level 2 of the fair value hierarchy. Bonds payable includes a liability for the fair value of interest rate swap agreements as of June 30, as follows:

Associated Bond Payable	Notional Amount	Interest Rate	Maturity Date	Fair Value	
				2016	2015
LaSalle High School	1,370,000	4.02%	10/1/2017	\$ 58,095	\$ 109,541

Should the school wish to terminate the swap agreements, they could incur a termination expense or recovery depending on the value of the swap at the termination date. It is the school's intention to keep the interest rates fixed on the loans and to continue the swap agreements to maturity. In such case there would be no expense for the swap agreements.

Bonds payable consisted of the following as of June 30:

	2016	2015
Bond agreement between Fenwick, JP Morgan Chase Bank and the City of Middletown, Ohio, for the issuance of \$12,250,000 City of Middletown Adjustable Rate Demand Development Revenue Bonds. The bonds bear interest, payable monthly, at variable weekly interest rates (0.13% at June 30, 2015), payable in annual installments ranging from \$182,000 to \$222,000 through August 2023. These bonds were refinanced during 2016 into Development Refunding Bonds with the Warren County Port Authority of \$8,000,000. The remaining balance of the existing bonds was paid using cash on hand as of the date of the refinance. The Archbishop has entered into an unconditional guarantee agreement to secure the refinanced bonds.	\$ -	\$ 9,425,000
Bond agreement between LaSalle and Fifth Third Bank for the issuance of \$2,570,000 Adjustable Rate Tax Exempt Security Bonds, Series 2004. The bonds bear interest, payable monthly, at variable weekly interest rates (0.54% at June 30, 2016), payable in annual installments ranging from \$110,000 to \$200,000 through March 2024.	1,370,000	1,510,000
Fair value of interest rate swap agreements	58,095	109,541
	<u>\$ 1,428,095</u>	<u>\$ 11,044,541</u>

CENTRAL OFFICES OF THE ARCHDIOCESE OF CINCINNATI

**Notes to Financial Statements
(Continued)**

NOTE 9 BONDS PAYABLE (Continued)

Future principal payments are as follows:

2017	\$	145,000
2018		155,000
2019		218,095
2020		165,000
2021		175,000
Thereafter		570,000
		\$ 1,428,095

NOTE 10 TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets as of June 30 consisted of the following:

	2016	2015
Time restricted:		
Beneficial interest in trust	\$ 3,253,970	\$ 3,597,837
Purpose restricted:		
Education	6,063,804	5,569,137
Community Services	2,081,998	2,328,945
Missions	1,259,892	1,262,392
Pastoral Services	1,774,669	937,437
Vocation / Diaconate	441,337	252,621
Other	112,090	146,848
	11,733,790	10,497,380
	\$ 14,987,760	\$ 14,095,217

NOTE 11 PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets as of June 30, 2016 and 2015 consisted of \$754,779 and \$753,534, respectively, of various donor restricted endowment funds.

NOTE 12 FUNCTIONAL EXPENSES

Certain administrative salaries and wages have been allocated among the program, management and general and fundraising categories based upon actual time spent by Archdiocese personnel. Functional expenses as of June 30 are as follows:

	2016	2015
Program services	\$ 71,124,501	\$ 65,252,809
Management and general	8,818,789	8,471,093
Fundraising	522,314	481,516
	\$ 80,465,604	\$ 74,205,418

CENTRAL OFFICES OF THE ARCHDIOCESE OF CINCINNATI

Notes to Financial Statements (Continued)

NOTE 13 LAY EMPLOYEES DEFINED BENEFIT PENSION PLAN

The Central Office participates in the Lay Employees of the Archdiocese of Cincinnati Pension Plan (the Lay Plan). The Lay Plan, which was established on January 1, 1973, is a non-contributory, defined benefit multi-employer pension plan covering substantially all full-time lay employees of the Archdiocese and certain other related institutions and entities, prior to January 1, 2011. The Lay Plan is funded through assessments of participating institutions, including the Central Offices. The Central Offices contributed \$110,157 and \$115,442 to the Lay Plan during 2016 and 2015, respectively. Based on information as of December 31, 2015 and 2014, the Central Office's contributions do not represent more than 5% of total contributions received by the Plan.

Effective December 31, 2010, the Archdiocese froze the accrual of retirement benefits for all participants. After that date, no additional compensation or future service has been counted in determining a participant's pension benefit. Service will continue to be credited for the purpose of determining a participant's vested interest in benefits. In order to assist in funding the accumulated benefit obligation, employers are required to contribute 2% of "eligible" salaries.

Plan benefits are to be paid in the form of a life annuity calculated at the greater of the "regular formula" or the "minimum benefit", as described in the plan document. The "regular formula" is the sum of: (1) 1.17% of past service career compensation, plus (2) 2.33% of future service career compensation, earned through 12/31/1999, divided by 12, plus (3) 2.02% of future service career compensation earned after 1999 divided by 12. The "minimum benefit" is the sum of (1) \$8.12 times months of past service, plus (2) \$25.00 times months of future service. Past service refers to the months of service before January 1, 1973. Future service refers to the months of service after 1972 and before 2011.

Since the Lay Plan operates as a multi-employer plan, the Archdiocese does not calculate separate measurements of assets, benefit obligations and expenses for the individual entities which participate in the Lay Plan and no liability is recorded in these financial statements. The Plan is not subject to ERISA and is not required to file a Form 5500, therefore certain Plan information is not required to be made available publicly. Accordingly, disclosures about the funding improvement plan, surcharge, minimum contributions, zone status and employer identification number (EIN) are not applicable.

The risks of a multi-employer plan differ from those of a single-employer plan. Assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of other participating employers. If a participating employer stops contributing to the plan, then the unfunded obligations of the plan may be borne by the remaining participating employers, and specifically the Central Offices.

CENTRAL OFFICES OF THE ARCHDIOCESE OF CINCINNATI

**Notes to Financial Statements
(Continued)**

NOTE 13 LAY EMPLOYEES DEFINED BENEFIT PENSION PLAN (Continued)

The following presents the actuarial present value of accumulated plan benefits as of January 1 for the Lay Plan as a whole:

	<u>2016</u>	<u>2015</u>
Vested benefits:		
Participants currently receiving benefits	\$ 231,261,573	\$ 206,514,116
Other participants	<u>196,803,958</u>	<u>201,002,202</u>
Total vested benefits	428,065,531	407,516,318
Non-vested benefits:		
Total actuarial present value of accumulated plan benefits	<u>590,223</u> <u>\$ 428,655,754</u>	<u>702,302</u> <u>\$ 408,218,620</u>

A summary of significant actuarial assumptions used in preparing the actuarial valuations as of January 1, 2016 and 2015 is as follows:

Investment return	7.00%
Mortality	2016 – RP 2014 Mortality Table 2015 – RP-2000 Mortality Table
Actuarial cost method	Entry Age Normal cost method

For the plan year January 1, 2016, the actuarial present value of accumulated plan benefits was calculated using the RP 2014 mortality table which increased the Plan's actuarial present value of accumulated plan benefits by approximately \$19,000,000. For the plan year January 1, 2015, the actuary present value of accumulated plan benefits would have been approximately \$18,700,000 higher if the RP 2014 mortality table was used.

Net assets available for benefits under the Lay Plan approximated \$370,915,000 and \$391,203,000, indicating a level of funding of funding of 87% and 96%, as of December 31, 2015 and 2014, respectively.

NOTE 14 MULTI-EMPLOYER DEFINED CONTRIBUTION RETIREMENT PLAN

The Central Office participates in a defined contribution retirement plan (the 401(k) plan) covering all "eligible" employees. The Archbishop annually determines the amount, if any, of the Archdiocese's contributions to the Plan. The Archdiocese and participating entities made a contribution to the Plan on a quarterly basis equal to 4% of all eligible participants' compensation. Contributions made by the Central Offices were approximately \$227,588 and \$230,374 for 2016 and 2015, respectively.

NOTE 15 PRIESTS RETIREMENT PLANS

The Central Offices, along with certain other related institutions and entities, participates in a non-contributory, non-qualified, multi-employer pension plan and a non-contributory, non-qualified, multi-employer health and welfare plan, primarily for post-retirement benefits, (collectively the Priests Plans) covering substantially all Archdiocesan Priests.

CENTRAL OFFICES OF THE ARCHDIOCESE OF CINCINNATI

**Notes to Financial Statements
(Continued)**

NOTE 15 PRIESTS RETIREMENT PLANS (Continued)

Pension benefits include: (1) the monthly salary for active priests (frozen at the time of retirement), (2) \$16.75 per month (\$15.00 per month if retired before July 1, 2011) for each year since ordination, with this piece frozen at the later of retirement or June 30, 2011, and (3) payment for Medicare Part B premium. Health, medical and other benefits include: (1) payment of health insurance premiums, (2) payment of prescription drug costs, (3) payment of other medical care costs, and (4) lodging and other living expenses.

Since the Priests Plans operate as multi-employer plans, the Archdiocese does not calculate separate measurements of assets, benefit obligations and expenses for the individual entities which participate in the Priests Plans and no liability is recorded in these financial statements. The Priests Plans are not subject to ERISA and are not required to file a Form 5500, therefore certain Plan information is not required to be made available publicly. Accordingly, disclosures about the funding improvement plan, surcharge, minimum contributions, zone status and employer identification number (EIN) are not applicable.

The risks of a multi-employer plan differ from those of a single-employer plan. Assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of other participating employers. If a participating employer stops contributing to the plan, then the unfunded obligations of the plan may be borne by the remaining participating employers, and specifically the Central Offices.

The following presents the Priests Plans' actuarial present values of future plan benefits as of June 30:

	2016	2015
Currently retired priests	\$ 28,306,099	\$ 29,304,819
Active priests	52,815,003	52,441,151
Terminated vested	1,611,672	1,553,596
Total actuarial present values of future plan benefits	\$ 82,732,774	\$ 83,299,566

A summary of significant actuarial assumptions used in preparing the actuarial valuations as of June 30, 2016 and 2015 are as follows:

Discount rate	6%
Mortality	RP-2000 Mortality Table
Assumed retirement age	70
Pension cost-of-living increase	0% increase per year
Health care inflation	5% increase per year

A review of the retiree and beneficiary deaths among similar groups indicate that the RP-2000 mortality table assumptions appear to provide an accurate estimate of life expectancy.

CENTRAL OFFICES OF THE ARCHDIOCESE OF CINCINNATI

**Notes to Financial Statements
(Continued)**

NOTE 15 PRIESTS RETIREMENT PLANS (Continued)

During 2015, the Priests Plans were amended to add a “senior ministry” provision that allows a retirement age priest to remain in active service and receive full pay plus 50% of his pension. Additionally, when a priest retires, his pension benefit remains fixed (i.e. no cost of living or pay increases). Retirees at June 30, 2015 are frozen at the pension amount currently being received. These plan provisions reduced the actuarial present value of future benefits by \$9,938,730.

The Central Offices acts as the administrator of the Priests Plans and holds certain net assets designated to satisfy the Priests Plan’s obligations. In addition, there are net assets available for the benefit of infirmed and retired priests held by the Priests’ Retirement Corporation. The following Archdiocesan net assets included in the statements of financial position as of June 30 are either restricted or designated to satisfy the Priests Plans’ obligations:

	2016	2015
Net assets held by the Central Offices:		
Archbishop designated	\$ 24,376,794	\$ 29,701,725
Temporarily restricted	-	614,600
	24,376,794	30,316,325
Net assets held by the Priests' Retirement Corporation	30,608,647	22,910,463
	\$ 54,985,441	\$ 53,226,788

Included in the net assets held by the Priests’ Retirement Corporation is \$14,169,874 in permanently restricted endowment funds which were transferred from the Central Offices during the fiscal year ended June 30, 2014 and \$2,000,000 of Archbishop designated funds which were transferred during fiscal year ended June 30, 2016. This information indicates a level of funding for the Priests Plans of 66% and 64% as of June 30, 2016 and 2015, respectively.

The Priests Retirement Plan is the designated beneficiary of 10% of the net proceeds of the One Faith, One Hope, One Love campaign being conducted by the Catholic Community Foundation. The campaign is projected to have pledges in excess of \$150,000,000. The portion designated to the Priests Retirement Plan will be paid as pledges are collected over future years.

Through the financial statement date, the Priests Plans have been funded by investment income on assets held by the Archdiocese, allocations from the Catholic Ministries Appeal, contributions and bequests, transfers from other unrestricted funds of the Archdiocese, and assessments from other participating institutions. Priests Plans’ net expenses recorded in the Central Offices’ financial statements for the years ended June 30, 2016 and 2015 were approximately \$4,043,000 and \$3,825,000, respectively. Based on information as of June 30, 2016 and 2015, the Central Office’s contributions represent more than 5% of total contributions received by the Plan.

In the fiscal year ended June 30, 2016, the Priests Plans were amended. Under the new plans, any Priest incardinated after January 1, 2016 will not be eligible to accrue benefits in the Priests Plans. Instead, newly incardinated Priests will be entered into the multi-employer defined contribution retirement plan (see Note 14).

CENTRAL OFFICES OF THE ARCHDIOCESE OF CINCINNATI

Notes to Financial Statements (Continued)

NOTE 16 CONTINGENCIES

In the ordinary course of business, the Archdiocese is involved in various matters of litigation. Many of these matters are covered by insurance. These matters are addressed through traditional legal efforts and are vigorously contested or settled. Management is of the opinion that the ultimate disposition of these matters will not have a material adverse effect on the overall financial position or liquidity of the Archdiocese.

The Archdiocese guarantees certain third-party debt of unconsolidated affiliated parishes. The guarantee terms generally range from 2 to 20 years. The Archdiocese has not recognized a liability for the fair value of the guarantees provided as of June 30, 2016 and 2015, as the Central Offices and the unconsolidated affiliated parishes are considered to be entities under common control of the Archbishop of Cincinnati. At June 30, 2016 and 2015, the total outstanding balances on guaranteed loans were approximately \$27,480,005 and \$18,707,121, respectively.

The Archdiocese guarantees the deposits in the Pooled Investment Trust Fund (the Fund) and assumes the risk should the underlying investment ever prove to be insufficient to satisfy the liquidating claims of the depositors. The depositors can redeem their accounts in whole or in part at any time and are entitled to their deposit balance, unaffected by any gains or losses in the securities in the Fund. Effective January 1, 2014, the Archdiocese has revised the eligibility rules for participation in the Fund. This revision will decrease the number of depositors eligible to participate and will reduce the risk associated with these deposits. The Archdiocese manages the investment risks in the Fund by limiting purchases to only investment grade bonds and maintaining a laddered maturity portfolio with an intermediate duration. Also, the Archdiocese maintains a Pooled Fund Reserve Account that is invested in an equity fund tied to the S&P 500. This account could be used as a source of funds to meet liquidations, together with other Archdiocesan assets. In addition, a portion of the interest income from the underlying Pooled Investment Trust Fund is retained by the Archdiocese and added to the Pooled Fund Reserve Account. It is the current policy of the Archdiocese to retain and contribute five basis points of the yield on the underlying Pooled Investment Trust Fund to the Pooled Fund Reserve Account.

As of June 30, 2016 and 2015, the market value of the underlying investments in the Pooled Investment Trust Fund exceeded the depositor claims by approximately \$12,357,000 and \$5,233,000, respectively. The market value of the Pooled Fund Reserve Account as of June 30, 2016 and 2015 was approximately \$2,573,000 and \$2,330,000, respectively.

NOTE 17 ENDOWMENT

The Archdiocese endowment consists of various donor-restricted and Archbishop-designated endowment funds established for a variety of purposes. As required by GAAP, net assets associated with endowment funds, including funds designated by the Archbishop to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Archdiocese follows the Uniform Prudent Management of Institutional Funds Act (UPMIFA). UPMIFA provides guidance on matters concerning the governance and management of donor-restricted endowment funds. Under UPMIFA, the original value of donated gifts to the permanent endowment, the original value of subsequent gifts to the permanent endowment, and accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument are classified as permanently restricted. The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure.

CENTRAL OFFICES OF THE ARCHDIOCESE OF CINCINNATI

**Notes to Financial Statements
(Continued)**

NOTE 17 ENDOWMENT (Continued)

Investment Policy

The Archdiocese articulates investment policies intended to help it achieve its objectives for various endowments, the priest retirement account, and the long term chancery fund. These policies are written with the advice of investment management firms and the Archdiocesan Finance Council. The assets are invested in stocks, bonds, equity funds, cash equivalents and other securities in a manner that is intended to support the objectives of donors and/or the Archbishop.

The performance of each investment management firm is measured on a quarterly basis against an appropriate benchmark or index. The Archdiocese expects the managers to achieve a total return, after deducting all professional fees that equals or exceeds the index return over three to five year periods. In addition to actual returns achieved, the Archdiocese reviews the portfolios of each manager for compliance with its ethical values policy that precludes investments in companies that operate programs or sell products that are inconsistent with Catholic beliefs.

The Archdiocese seeks to achieve diversification in its investment portfolios by limiting its investments in any one company or industry. In order to reduce credit risks the Archdiocese directs its managers away from investments in companies that do not have an investment grade rating. In managing interest rate risks the Archdiocese prefers bond portfolios with laddered maturities and durations that are appropriate to corresponding liabilities. Liquidity risks are minimal since the portfolios are almost entirely invested in public securities. Also, there is no use of complicated derivatives or leverage in its investment programs.

Spending Policy

The Archdiocese's current spending policy is to transfer all investment return into unrestricted net assets or temporarily restricted net assets if directed by the donor. Investment return on these funds accumulate until they are appropriated for expenditure to be spent in accordance each endowment gift.

The endowment net asset composition by type of fund is as follows as of June 30, 2016:

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 26,515	\$ 754,779	\$ 781,294
Archbishop-designated endowment funds	6,165,554	-	-	6,165,554
Total endowment funds	<u>\$ 6,165,554</u>	<u>\$ 26,515</u>	<u>\$ 754,779</u>	<u>\$ 6,946,848</u>

The endowment net asset composition by type of fund is as follows as of June 30, 2015:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 43,165	\$ 753,534	\$ 796,699
Archbishop-designated endowment funds	7,067,578	-	-	7,067,578
Total endowment funds	<u>\$ 7,067,578</u>	<u>\$ 43,165</u>	<u>\$ 753,534</u>	<u>\$ 7,864,277</u>

CENTRAL OFFICES OF THE ARCHDIOCESE OF CINCINNATI

**Notes to Financial Statements
(Continued)**

NOTE 17 ENDOWMENT (Continued)

The changes in endowment net assets for 2016 were:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets June 30, 2015	\$ 7,067,578	\$ 43,165	\$ 753,534	\$ 7,864,277
Contributions	670,786	1,150	1,245	673,181
Investment return				
Interest and dividend income	403,229	26,814	-	430,043
Unrealized and realized gains	106,308	-	-	106,308
Appropriated expenditure	<u>(2,082,347)</u>	<u>(44,614)</u>	<u>-</u>	<u>(2,126,961)</u>
Endowment net assets June 30, 2016	<u>\$ 6,165,554</u>	<u>\$ 26,515</u>	<u>\$ 754,779</u>	<u>\$ 6,946,848</u>

The changes in endowment net assets for 2015 were:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets June 30, 2014	\$ 7,126,389	\$ 55,597	\$ 752,579	\$ 7,934,565
Contributions	602,416	-	955	603,371
Investment return				
Interest and dividend income	141,932	18,464	-	160,396
Unrealized and realized gains	106,308	-	-	106,308
Appropriated expenditure	<u>(1,073,671)</u>	<u>(30,896)</u>	<u>-</u>	<u>(1,104,567)</u>
Reclassification	164,204	-	-	164,204
Endowment net assets June 30, 2015	<u>\$ 7,067,578</u>	<u>\$ 43,165</u>	<u>\$ 753,534</u>	<u>\$ 7,864,277</u>

ACCOMPANYING INFORMATION

CENTRAL OFFICES OF THE ARCHDIOCESE OF CINCINNATI

Changes in Temporarily Restricted Net Assets
Year Ended June 30, 2016

	Beginning of Year Balances	Additions			Deductions		End of Year Balances
		Contributions, Bequests and Other	Designated Collections	Investment Income	Catholic Ministries Appeal	Net Assets Released	
Temporarily restricted net assets:							
Education	\$ 5,569,137	\$ 4,056,607	\$ 130,101	\$ 262,852	\$ 534,328	\$ 4,489,221	\$ 6,063,804
Beneficial interest in trust	3,597,837	-	-	(343,867)	-	-	3,253,970
Community Services	2,328,945	14,377	147,790	-	862,095	1,271,209	2,081,998
Missions	1,262,392	-	-	-	-	2,500	1,259,892
Pastoral Services	937,437	4,824	165,492	693	819,420	153,197	1,774,669
Vocation / Diaconate	252,621	31,288	-	4,218	187,731	34,521	441,337
Other	-	-	-	-	778,447	778,447	-
Infirm and priests' retirement fund Athenaeum of Ohio (Seminary)	146,848	15,777	-	-	1,307	51,842	112,090
	-	-	-	-	921,845	921,845	-
	<u>\$ 14,095,217</u>	<u>\$ 4,122,873</u>	<u>\$ 443,383</u>	<u>\$ (76,104)</u>	<u>\$ 4,105,173</u>	<u>\$ 7,702,782</u>	<u>\$ 14,987,760</u>

See independent auditors' report

CENTRAL OFFICES OF THE ARCHDIOCESE OF CINCINNATI

Detail of Chancery Expenses
Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Community services:		
Catholic Charities	\$ 961,769	\$ 1,017,485
Social Action	425,667	403,796
Hispanic Ministry - Su Casa	181,359	229,265
Assistance to the poor	174,960	38,214
Department Director	19,475	21,218
Total community services	<u>1,763,230</u>	<u>1,709,978</u>
Educational services:		
Cincinnati Inner City Schools (CISE)	2,956,085	2,958,747
Parishes and Parish Schools	1,416,879	1,416,878
Secondary Education Assistance	790,672	882,033
Superintendent of Schools	1,294,538	1,109,433
Evangelization and Catechesis	893,631	865,042
Other	736,625	697,601
St. Rita School for the Deaf	306,017	323,745
Sharing Our Faith	311,574	326,185
Department Director	181,054	153,333
Teacher Certification	87,418	-
Total educational services	<u>8,974,493</u>	<u>8,732,997</u>
Executive services:		
Tribunal	469,391	471,994
Vocations	376,754	381,044
Archives and Chancery Office	261,719	293,207
Permanent Diaconate	209,207	214,974
Communications	114,878	106,763
Background Check / Fingerprinting	81,024	80,205
Catholic Telegraph	25,752	25,752
Religious Brothers and Sisters	6,339	4,311
Department of Executive Services	3,943	5,348
Total executive services	<u>1,549,007</u>	<u>1,583,598</u>
Financial services:		
Professional Fees	505,585	611,315
Finance Office	489,820	419,106
Computer Operation	439,412	382,907
Central Services	177,393	174,847
Contingencies	136,194	59,567
Other	8,181	10,566
Total financial services	<u>1,756,585</u>	<u>1,658,308</u>
Human Resources	<u>445,906</u>	<u>402,625</u>
Stewardship services	<u>210,740</u>	<u>155,331</u>

(Continued)

CENTRAL OFFICES OF THE ARCHDIOCESE OF CINCINNATI

Detail of Chancery Expenses
Years Ended June 30, 2016 and 2015
(Continued)

	2016	2015
Pastoral services:		
Infirm and Retired Priests	\$ 4,073,241	\$ 3,826,794
College and University Campus Ministry	584,657	569,085
Youth Ministry	637,703	489,306
Chaplain Salaries - Public Institutions	529,547	494,365
Family Life	517,112	536,273
Hispanic Ministry	476,625	393,786
Priests' Personnel	215,405	293,498
Priestly Formation	400,980	288,661
Department Director	116,827	131,830
Worship	208,724	182,282
Revitalizing Summit	-	137,319
African American Catholic Ministries	64,367	60,321
Other	135,516	82,365
Metropolitan Area Religious Coalition of Cincinnati	40,000	40,000
Greater Dayton Christian Connections	21,000	21,000
Ohio Council of Churches	20,000	20,000
Planning and Research	7,834	11,369
Total pastoral services	8,049,538	7,578,254
General and administrative:		
Depreciation	815,541	678,250
Cathedral of St. Peter in Chains	1,065,025	629,000
Provision for doubtful receivables	730,006	323,169
Office of Archbishop Schnurr	268,886	295,924
United States Catholic Conference	203,754	158,688
General charitable projects	296,891	162,736
Real estate	78,817	5,323
Catholic Conference of Ohio	62,660	50,445
Office of Bishop Binzer	53,636	29,007
Gift Annuity PV adjustment	62,065	1,469
Other	(177)	33,797
Total general and administrative	3,637,104	2,367,808
Interest on notes payable	2,629,991	2,831,372
Administrative building operations		
Property management	1,000,030	1,011,342
Loss on disposal of old Archives building	-	774,017
Total administrative building operations	1,000,030	1,785,359
Transfers to Seminary	921,845	1,136,074
Total Chancery	\$ 30,938,469	\$ 29,941,704

See independent auditors' report

CENTRAL OFFICES OF THE ARCHDIOCESE OF CINCINNATI

Schedule of Designated Collections
Year Ended June 30, 2016

	Amounts due to outside agencies, beginning of year	Total Collections	Allocated to programs within the Archdiocese	Transmitted to agencies outside the Archdiocese	Amounts due to (from) outside agencies, end of year
Ash Wednesday – Eastern Europe	\$ -	\$ 181,584	\$ -	\$ 181,584	\$ -
Rice Bowl	-	80,474	20,119	60,355	-
Human Development	-	344,851	126,445	218,406	-
Mission Sunday	-	392,692	392,692	-	-
Holy Father	-	319,533	28,673	290,860	-
Commissariat of the Holy Land	-	194,708	9,735	184,973	-
Bishops' Relief	-	391,282	149,666	241,616	-
Religious Retirement	89,583	751,245	111,633	800,000	(70,805)
Respect Life	-	165,492	165,492	-	-
Disaster Relief	-	70,975	-	70,975	-
Military	-	6,854	343	6,511	-
Catholics Come Home	-	-	-	-	-
	<u>\$ 89,583</u>	<u>\$ 2,899,690</u>	<u>\$ 1,004,798</u>	<u>\$ 2,055,280</u>	<u>\$ (70,805)</u>

See independent auditors' report

CENTRAL OFFICES OF THE ARCHDIOCESE OF CINCINNATI

Schedule of Catholic Ministries Appeal
Contributions and Distributions

2015 Catholic Ministries Appeal:	
Contributions (net of direct expenses of \$427,659)	<u>\$ 4,777,878</u>
Distributions:	
Catholic Charities	\$ 961,769
Athenaeum of Ohio (Seminary)	983,627
Archdiocesan Priests' Retirement Fund	830,618
Campus Ministry	459,026
Chaplains Services	415,309
Sharing Our Faith	306,017
St. Rita School for the Deaf	306,017
Vocations and Permanent Diaconate	9,292
Seminarian Scholarships	100,000
Rebates to Parishes	<u>406,203</u>
	<u>\$ 4,777,878</u>
2016 Catholic Ministries Appeal:	
Gross pledges made through June 30, 2016	<u>\$ 4,724,379</u>

Note: The Catholic Ministries Appeal operates on a fiscal year that begins January 1 and ends the following December 31. The schedule above summarizes cash receipts and distributions for the 2015 appeal, which ended December 31, 2015. The schedule also indicates the status of the 2016 appeal, which began January 1, 2016.