

Central Offices of the Archdiocese of Cincinnati

**Financial Statements with Accompanying Information
June 30, 2017 and 2016, and
Independent Auditors' Report**

CENTRAL OFFICES OF THE ARCHDIOCESE OF CINCINNATI

June 30, 2017 and 2016

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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, 2017 and 2016, 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, 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.

**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.

January 30, 2018
Cincinnati, Ohio

CENTRAL OFFICES OF THE ARCHDIOCESE OF CINCINNATI

**Statements of Financial Position
June 30, 2017 and 2016**

	2017	2016
Assets		
Cash	\$ 200	\$ 200
Prepaid expenses	372,866	434,316
Accounts and interest receivable, net of allowances; 2017 - \$3,769,809 and 2016 - \$3,069,809	7,305,444	5,994,861
Due from other Archdiocesan agencies	4,000,639	-
Contributions receivable, net of discount	1,105,282	996,758
Notes receivable, net of allowances; 2017 - \$5,687,983 2016 - \$8,967,477	4,509,343	6,824,515
Investments	230,139,859	223,714,211
Beneficial interest in trust	3,714,540	3,253,970
Land, buildings and other property, net	9,656,682	9,265,342
Total assets	\$ 260,804,855	\$ 250,484,173
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 3,800,178	\$ 2,927,347
Reserve for insurance claims	5,479,090	4,879,090
Funds held for Athenaeum of Ohio (Seminary)	25,283,142	22,057,644
Special collections	634,464	641,988
Due to other Archdiocesan agencies	-	2,053,181
Parish exchange accounts and other liabilities	457,768	468,298
Notes payable - parishes and other Catholic institutions	110,969,340	108,589,324
Bonds payable	-	1,428,095
Total liabilities	146,623,982	143,044,967
Net Assets		
Unrestricted	98,915,733	91,696,667
Temporarily restricted	14,510,361	14,987,760
Permanently restricted	754,779	754,779
Total net assets	114,180,873	107,439,206
Total liabilities and net assets	\$ 260,804,855	\$ 250,484,173

See accompanying notes to financial statements

CENTRAL OFFICES OF THE ARCHDIOCESE OF CINCINNATI

Statement of Activities
Year Ended June 30, 2017 with Summarized Comparative Totals for 2016

	2017			Total	2016
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Revenue, gains and other support					
Investment income	\$ 14,791,437	\$ 546,729	\$ -	\$ 15,338,166	\$ 6,473,615
Insurance billings to parishes and institutions	53,815,532	-	-	53,815,532	51,804,400
Claim reimbursement and recoveries	136,401	-	-	136,401	310,778
Archdiocesan assessments	12,865,671	-	-	12,865,671	13,035,626
Notes receivable interest	385,218	-	-	385,218	380,837
Designated collections	31,847	437,488	-	469,335	505,844
Catholic Ministries Appeal, net	1,188,890	3,779,510	-	4,968,400	4,105,173
Contributions and bequests	871,615	3,115,825	-	3,987,440	5,214,812
Rental income	294,017	-	-	294,017	316,463
Other	1,402,666	38,574	-	1,441,240	1,921,913
Net assets released from restrictions	8,395,525	(8,395,525)	-	-	-
Total revenue, gains and other support	<u>94,178,819</u>	<u>(477,399)</u>	<u>-</u>	<u>93,701,420</u>	<u>84,069,461</u>
Expenses					
Chancery:					
Community services	1,432,053	-	-	1,432,053	1,480,291
Educational services	7,809,545	-	-	7,809,545	8,056,182
Executive services	1,733,811	-	-	1,733,811	1,638,810
Financial services	1,799,429	-	-	1,799,429	1,736,431
Human resources	473,784	-	-	473,784	445,906
Stewardship services	271,279	-	-	271,279	210,740
Pastoral services	9,476,776	-	-	9,476,776	9,489,230
General and administrative	4,786,147	-	-	4,786,147	3,916,433
Interest on notes payable	2,586,190	-	-	2,586,190	2,629,991
Administrative building operations	1,108,072	-	-	1,108,072	1,068,032
Transfers to Seminary	1,011,000	-	-	1,011,000	921,845
	<u>32,488,086</u>	<u>-</u>	<u>-</u>	<u>32,488,086</u>	<u>31,593,891</u>
Health Care Plan:					
Claims	39,635,903	-	-	39,635,903	38,053,348
Service fees	2,918,974	-	-	2,918,974	3,987,239
Other	1,840,450	-	-	1,840,450	1,729,474
	<u>44,395,327</u>	<u>-</u>	<u>-</u>	<u>44,395,327</u>	<u>43,770,061</u>
Self-Insurance Fund:					
Claims	1,795,265	-	-	1,795,265	2,270,960
Reinsurance premiums	2,816,292	-	-	2,816,292	2,854,724
Other	988,454	-	-	988,454	883,939
	<u>5,600,011</u>	<u>-</u>	<u>-</u>	<u>5,600,011</u>	<u>6,009,623</u>
Total expenses	<u>82,483,424</u>	<u>-</u>	<u>-</u>	<u>82,483,424</u>	<u>81,373,575</u>
Change in net assets before transfers	11,695,395	(477,399)	-	11,217,996	2,695,886
Transfers to other Archdiocesan agencies	4,476,329	-	-	4,476,329	2,000,000
Change in net assets	7,219,066	(477,399)	-	6,741,667	695,886
Net assets, beginning of year	91,696,667	14,987,760	754,779	107,439,206	106,743,320
Net assets, end of year	<u>\$ 98,915,733</u>	<u>\$ 14,510,361</u>	<u>\$ 754,779</u>	<u>\$ 114,180,873</u>	<u>\$ 107,439,206</u>

See accompanying notes to financial statements

CENTRAL OFFICES OF THE ARCHDIOCESE OF CINCINNATI

**Statement of Activities
Year Ended June 30, 2016**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenue, gains (losses) and other support				
Investment income	\$ 6,549,719	\$ (76,104)	\$ -	\$ 6,473,615
Insurance billings to parishes and institutions	51,804,400	-	-	51,804,400
Claim reimbursement and recoveries	310,778	-	-	310,778
Archdiocesan assessments	13,035,626	-	-	13,035,626
Notes receivable interest	380,837	-	-	380,837
Designated collections	62,461	443,383	-	505,844
Catholic Ministries Appeal, net	-	4,105,173	-	4,105,173
Contributions and bequests	1,250,903	3,962,664	1,245	5,214,812
Rental income	316,463	-	-	316,463
Other	1,761,704	160,209	-	1,921,913
Net assets released from restrictions	7,702,782	(7,702,782)	-	-
Total revenue, gains (losses) and other support	<u>83,175,673</u>	<u>892,543</u>	<u>1,245</u>	<u>84,069,461</u>
Expenses				
Chancery:				
Community services	1,480,291	-	-	1,480,291
Educational services	8,056,182	-	-	8,056,182
Executive services	1,638,810	-	-	1,638,810
Financial services	1,736,431	-	-	1,736,431
Human resources	445,906	-	-	445,906
Stewardship services	210,740	-	-	210,740
Pastoral services	9,489,230	-	-	9,489,230
General and administrative	3,916,433	-	-	3,916,433
Interest on notes payable	2,629,991	-	-	2,629,991
Administrative building operations	1,068,032	-	-	1,068,032
Transfers to Seminary	921,845	-	-	921,845
	<u>31,593,891</u>	<u>-</u>	<u>-</u>	<u>31,593,891</u>
Health Care Plan:				
Claims	38,053,348	-	-	38,053,348
Service fees	3,987,239	-	-	3,987,239
Other	1,729,474	-	-	1,729,474
	<u>43,770,061</u>	<u>-</u>	<u>-</u>	<u>43,770,061</u>
Self-Insurance Fund:				
Claims	2,270,960	-	-	2,270,960
Reinsurance premiums	2,854,724	-	-	2,854,724
Other	883,939	-	-	883,939
	<u>6,009,623</u>	<u>-</u>	<u>-</u>	<u>6,009,623</u>
Total expenses	<u>81,373,575</u>	<u>-</u>	<u>-</u>	<u>81,373,575</u>
Change in net assets before transfers	<u>1,802,098</u>	<u>892,543</u>	<u>1,245</u>	<u>2,695,886</u>
Transfers to Priests' Retirement Corporation	2,000,000	-	-	2,000,000
Change in net assets	(197,902)	892,543	1,245	695,886
Net assets, beginning of year	<u>91,894,569</u>	<u>14,095,217</u>	<u>753,534</u>	<u>106,743,320</u>
Net assets, end of year	<u>\$ 91,696,667</u>	<u>\$ 14,987,760</u>	<u>\$ 754,779</u>	<u>\$ 107,439,206</u>

See accompanying notes to financial statements

CENTRAL OFFICES OF THE ARCHDIOCESE OF CINCINNATI

Statements of Cash Flows Years Ended June 30, 2017 and 2016

	2017	2016
Cash flows from operating activities		
Change in net assets	\$ 6,741,667	\$ 695,886
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	978,961	815,541
Provision for doubtful receivables	934,648	730,006
Contributions restricted for long-term investment	-	(1,245)
Net unrealized and realized gains on investments	(9,603,511)	(2,112,936)
Change in beneficial interest in trust	(460,570)	343,867
Interest reinvested into notes payable	1,302,805	1,199,871
Transfer to other Archdiocesan agencies	4,476,329	2,000,000
Changes in:		
Prepaid expenses	61,450	(32,248)
Accounts and interest receivable	(2,023,711)	1,075,091
Due to (from) other Archdiocesan agencies	(6,053,820)	(254,124)
Contributions receivable	(108,524)	32,699
Accounts payable and accrued expenses	872,831	(635,241)
Reserve for insurance claims	600,000	375,000
Funds held for Athenaeum of Ohio (Seminary)	218,328	175,047
Special collections	(7,524)	160,388
Parish exchange accounts and other liabilities	(10,530)	32,811
Net cash provided by (used in) operating activities	(2,081,171)	4,600,413
Cash flows from investing activities		
Purchases of investments	(54,693,888)	(34,847,619)
Proceeds from sales of investments	56,402,592	30,740,103
Purchases of land, buildings and other property	(1,370,301)	(1,588,582)
Collections on notes receivable	671,126	444,783
Issuance of notes receivable	(5,569)	(513,955)
Net cash provided by (used in) investing activities	1,003,960	(5,765,270)
Cash flows from financing activities		
Investments in endowment	-	1,245
Originations of notes payable	9,420,339	10,956,694
Withdrawals from notes payable	(8,343,128)	(9,793,082)
Net cash provided by financing activities	1,077,211	1,164,857
Net change in cash	-	-
Cash, beginning of year	200	200
Cash, end of year	\$ 200	\$ 200
Supplemental cash flows information		
Interest paid	\$ 1,317,890	\$ 1,426,381
Non-cash reduction in notes receivable and bonds payable	\$ 1,428,095	\$ 9,616,446
Non-cash change in funds held for Seminary	\$ 3,007,170	\$ (865,986)

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, Foundation for Catholic Education and Catholic Telegraph 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. See Note 17 for contingencies 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.

CENTRAL OFFICES OF THE ARCHDIOCESE OF CINCINNATI

Notes to Financial Statements (Continued)

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

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.

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.

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

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.

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 2017 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 2016 figures have been reclassified to conform to the 2017 presentation.

CENTRAL OFFICES OF THE ARCHDIOCESE OF CINCINNATI

**Notes to Financial Statements
(Continued)**

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

Subsequent Event Evaluation

In preparing its financial statements, the Archdiocese has evaluated events subsequent to the statement of financial position date through January 30, 2018, which is the date the financial statements were available to be issued.

NOTE 2 NOTES RECEIVABLE AND NOTES PAYABLE

Notes Receivable

Certain parishes and other Catholic institutions have financed building projects and other needs through interest-bearing demand notes from surplus funds of other parishes and institutions. These notes are included in notes receivable on the statement of financial position. In addition to these notes, notes receivable also includes interest and accounts receivables that were converted to interest-bearing demand notes. The notes receivable interest rate was 6.5% for 2017 and 2016. Notes receivable include non-interest bearing notes of approximately \$4,947,000 and \$8,739,000 for 2017 and 2016, respectively.

Activity in the allowances for doubtful 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:

	2017	2016
Beginning balance	\$ 8,967,477	\$ 8,396,370
Write-off of notes receivable	(3,501,014)	-
Provision for doubtful receivables	221,520	571,107
Ending balance	\$ 5,687,983	\$ 8,967,477
Gross balance of impaired notes receivable	\$ 9,288,536	\$ 13,492,194
Average balance of impaired notes receivable	\$ 442,311	\$ 545,165

Interest income recognized on impaired notes receivable during the years ended June 30, 2017 and 2016 was approximately \$326,000 and \$357,000, respectively.

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 of \$110,969,340 and \$108,589,324 as of June 30, 2017 and 2016, respectively. The notes payable interest rates ranged from 2.3% to 2.5% for both 2017 and 2016. See Note 17 for information on deposits in the Pooled Investment Trust Fund.

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 \$1,263,161 and \$1,162,215 as of June 30, 2017 and 2016, respectively. Contributions receivable have been discounted at rates ranging from 0.0% to 7.0% to a net present value of \$1,105,282 and \$996,758 as of June 30, 2017 and 2016, respectively. As of June 30, these pledges are due as follows:

	<u>2017</u>	<u>2016</u>
Less than one year	\$ 863,161	\$ 762,215
More than five years	<u>400,000</u>	<u>400,000</u>
	1,263,161	1,162,215
Less discount applied	<u>(157,879)</u>	<u>(165,457)</u>
	<u>\$ 1,105,282</u>	<u>\$ 996,758</u>

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

NOTE 4 DUE (TO) FROM OTHER ARCHDIOCESAN AGENCIES

Due (to) from other Archdiocesan agencies as of June 30 consisted of the following:

	<u>2017</u>	<u>2016</u>
Foundation for Catholic Education	\$ 5,034,123	\$ (64,894)
Priests' Retirement Corporation	656,994	(2,000,000)
Other Archdiocesan agencies	34,971	11,713
Catholic Community Foundation	<u>(1,725,449)</u>	<u>-</u>
	<u>\$ 4,000,639</u>	<u>\$ (2,053,181)</u>

CENTRAL OFFICES OF THE ARCHDIOCESE OF CINCINNATI

**Notes to Financial Statements
(Continued)**

NOTE 5 INVESTMENTS AT FAIR VALUE

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

	2017	2016
Level 1:		
Common stock	\$ 89,517,924	\$ 60,164,582
Real estate investments	4,135,182	2,510,332
Foreign stock	1,476,693	3,534,739
Preferred stock	285,898	261,250
Corporate bonds	95,837	7,870,968
Tax exempt bonds	92,488	104,805
Foreign bonds	37,913	1,046,776
U.S. Government obligations	-	7,759,298
Mortgage backed securities	-	1,543,890
Asset backed securities	-	1,686,588
High yield bonds	-	37,026
Level 2:		
Money market funds	1,557,046	2,663,931
Deposits in Pooled Investment Trust Fund	76,632,222	112,355,249
Not subject to fair value hierarchy:		
StoneRoad Core Plus Fixed Income SRI	36,011,978	21,166,115
StoneRoad Strategic Income Plus SRI	15,476,586	-
Boston Common International Catholic SRI	3,607,752	-
TNCRRG stock	577,091	523,938
BPIC stock	635,249	484,724
Total investments	\$ 230,139,859	\$ 223,714,211

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.

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 \$56,308,656 and \$22,174,777 at June 30, 2017 and 2016, 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.

CENTRAL OFFICES OF THE ARCHDIOCESE OF CINCINNATI

Notes to Financial Statements (Continued)

NOTE 5 INVESTMENTS AT FAIR VALUE (CONTINUED)

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, 2016. 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, 2017 and 2016.

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:

	2017	2016	2017 and 2016		
			Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Investment in StoneRoad Core Plus Fixed Income SRI	\$ 36,011,978	\$ 21,166,115	\$ -	Semi-monthly	None
Investment in StoneRoad Strategic Income Plus SRI	15,476,586	-	-	Semi-monthly	None
Boston Common International Catholic SRI	3,607,752	-	-	Monthly	None
Investment in TNCRRG	577,091	523,938	-	None	90 days
Investment in BPIC	635,249	484,724	-	None	90 days
	<u>\$ 56,308,656</u>	<u>\$ 22,174,777</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.

The Archdiocese held a 3.19% and 3.28% ownership investment in Bishops' Plan Insurance Company (BPIC) as of June 30, 2017 and 2016, 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.

CENTRAL OFFICES OF THE ARCHDIOCESE OF CINCINNATI

**Notes to Financial Statements
(Continued)**

NOTE 5 INVESTMENTS AT FAIR VALUE (CONTINUED)

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, 2017 and 2016, the assets of the trust are invested 81.6% and 78.4% in corporate bonds, 12.3% and 14.3% in U.S. Government and Federal Agency obligations, and 6.1% and 7.3% 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 17). 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:

	2017		
	Unrestricted	Temporarily Restricted	Total
Net realized gain on investments	\$ 1,122,938	\$ 10,486	\$ 1,133,424
Net unrealized gain on investments	8,439,758	30,329	8,470,087
Interest and dividend income	4,285,938	45,344	4,331,282
Pooled Investment Trust Fund income	942,803	-	942,803
Change in value of trust	-	460,570	460,570
	<u>\$ 14,791,437</u>	<u>\$ 546,729</u>	<u>\$ 15,338,166</u>
	2016		
	Unrestricted	Temporarily Restricted	Total
Net realized gain on investments	\$ 939,447	\$ 32,588	\$ 972,035
Net unrealized gain on investments	1,046,646	94,255	1,140,901
Interest and dividend income	1,883,596	140,920	2,024,516
Pooled Investment Trust Fund income	2,680,030	-	2,680,030
Change in value of trust	-	(343,867)	(343,867)
	<u>\$ 6,549,719</u>	<u>\$ (76,104)</u>	<u>\$ 6,473,615</u>

NOTE 6 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 \$3,714,540 and \$3,253,970, which represents the market value of the trust assets at June 30, 2017 and 2016, 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.

CENTRAL OFFICES OF THE ARCHDIOCESE OF CINCINNATI

**Notes to Financial Statements
(Continued)**

NOTE 7 LAND, BUILDINGS AND OTHER PROPERTY

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

	<u>2017</u>	<u>2016</u>
Land	\$ 1,517,278	\$ 1,517,278
Land held for future use	540,610	540,610
Buildings and improvements	19,503,165	18,834,710
Furniture and equipment	2,334,631	2,230,025
Construction in progress	597,240	-
Less accumulated depreciation	<u>(14,836,242)</u>	<u>(13,857,281)</u>
	<u>\$ 9,656,682</u>	<u>\$ 9,265,342</u>

NOTE 8 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, 2017 and 2016, the Archdiocese has recorded a reserve for insurance claims of \$5,479,090 and \$4,879,090, respectively.

NOTE 9 FUNDS HELD FOR ATHENAEUM OF OHIO (SEMINARY)

Funds held for Athenaeum of Ohio (Seminary) 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 the Seminary. As of June 30, 2017 and 2016, the Archdiocese had funds held for Athenaeum of Ohio (Seminary) of \$25,283,142 and \$22,057,644, respectively.

CENTRAL OFFICES OF THE ARCHDIOCESE OF CINCINNATI

**Notes to Financial Statements
(Continued)**

NOTE 10 BONDS PAYABLE

Prior to 2016, as trustee of LaSalle High School (LaSalle), the Archbishop entered into a bond agreement with a bank and municipality. The bonds which were the general obligations of the school, 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 were also collateralized by certain investments held by the Archdiocese, the bonds had been recorded as a general liability of the Archdiocese in the amount of \$1,428,095 as of June 30, 2016. Additionally, a corresponding note receivable was recognized in an amount equal to the outstanding balance of bonds as of June 30, 2016. The bonds were refinanced during 2017 into a term note for which the Archdiocese is a guarantor (see Note 17).

NOTE 11 TEMPORARILY RESTRICTED NET ASSETS

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

	2017	2016
Time restricted:		
Beneficial interest in trust	\$ 3,714,540	\$ 3,253,970
Purpose restricted:		
Education	3,908,007	5,790,296
Pastoral Services	2,532,877	1,774,669
Community Services	1,741,543	2,081,998
Missions	1,262,392	1,262,392
Vocation / Diaconate	728,783	441,337
Sharing Our Faith	510,960	271,008
Other	111,259	112,090
	10,795,821	11,733,790
	\$ 14,510,361	\$ 14,987,760

NOTE 12 PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets as of June 30, 2017 and 2016 consisted of \$754,779 and \$754,779, respectively, of various donor restricted endowment funds.

CENTRAL OFFICES OF THE ARCHDIOCESE OF CINCINNATI

Notes to Financial Statements (Continued)

NOTE 13 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:

	<u>2017</u>	<u>2016</u>
Program services	\$ 72,186,534	\$ 71,967,905
Management and general	9,633,114	8,883,356
Fundraising	<u>663,776</u>	<u>522,314</u>
	<u>\$ 82,483,424</u>	<u>\$ 81,373,575</u>

NOTE 14 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 \$224,502 and \$110,157 to the Lay Plan during 2017 and 2016, respectively. Based on information as of December 31, 2016 and 2015, 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. Effective July 1, 2017, the required contribution changed to 2.5% 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.

CENTRAL OFFICES OF THE ARCHDIOCESE OF CINCINNATI

**Notes to Financial Statements
(Continued)**

NOTE 14 LAY EMPLOYEES DEFINED BENEFIT PENSION PLAN (CONTINUED)

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

	2017	2016
Vested benefits:		
Participants currently receiving benefits	\$ 244,258,790	\$ 231,261,573
Other participants	184,384,870	196,803,958
Total vested benefits	428,643,660	428,065,531
Non-vested benefits:		
Total actuarial present value of accumulated plan benefits	\$ 429,196,472	\$ 428,655,754

A summary of significant actuarial assumptions used in preparing the actuarial valuations as of January 1, 2017 and 2016 is as follows:

Investment return	7.00%
Mortality	RP 2014 Mortality Table
Actuarial cost method	Entry Age Normal cost method

Net assets available for benefits under the Lay Plan approximated \$383,838,756 and \$370,915,000, indicating a level of funding of funding of 89% and 87%, as of December 31, 2016 and 2015, respectively.

NOTE 15 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 \$239,703 and \$227,588 for 2017 and 2016, respectively.

NOTE 16 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 16 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:

	<u>2017</u>	<u>2016</u>
Currently retired priests	\$ 29,304,819	\$ 28,306,099
Active priests	52,441,151	52,815,003
Terminated vested	<u>1,553,596</u>	<u>1,611,672</u>
Total actuarial present values of future plan benefits	<u><u>\$ 83,299,566</u></u>	<u><u>\$ 82,732,774</u></u>

A summary of significant actuarial assumptions used in preparing the actuarial valuations as of June 30, 2017 and 2016 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 16 PRIESTS RETIREMENT PLANS (CONTINUED)

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:

	<u>2017</u>	<u>2016</u>
Net assets held by the Central Offices:		
Archbishop designated	\$ 20,381,469	\$ 24,376,794
Net assets held by the		
Priests' Retirement Corporation	<u>37,205,099</u>	<u>30,608,647</u>
	<u>\$ 57,586,568</u>	<u>\$ 54,985,441</u>

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 both fiscal years ended June 30, 2017 and 2016. This information indicates a level of funding for the Priests Plans of 69% and 66% as of June 30, 2017 and 2016, 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, 2017 and 2016 were approximately \$3,995,000 and \$4,043,000, respectively. Based on information as of June 30, 2017 and 2016, 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 15).

NOTE 17 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.

CENTRAL OFFICES OF THE ARCHDIOCESE OF CINCINNATI

Notes to Financial Statements (Continued)

NOTE 17 CONTINGENCIES (CONTINUED)

The Archdiocese owns eleven high schools and certain other educational and non-educational entities. This ownership is distinguished from its relationship as trustee of the parishes within the Archdiocese's nineteen counties. As owner, the Archdiocese could become liable for the debts of an entity in the event of insolvency. During the fiscal year one of the owned entities experienced a significant deterioration in its operations. It is possible, though not certain, that this entity might significantly reduce its operations or, in a worst case, cease operations entirely in the coming years. In either case, the entity would be assessed a withdrawal liability to the Lay Employees' Pension Plan. In the event the entity could not make this payment, the Archdiocese might be required to satisfy the obligation. As of June 30, 2017 a contingent liability of \$800,000 was established to reflect this liability.

Additionally, 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, 2017 and 2016, 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, 2017 and 2016, the total outstanding balances on guaranteed loans were \$22,948,360 and \$27,480,005, 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, 2017 and 2016, the market value of the underlying investments in the Pooled Investment Trust Fund exceeded the depositor claims by approximately \$4,522,304 and \$12,357,000, respectively. The market value of the Pooled Fund Reserve Account as of June 30, 2017 and 2016 was approximately \$3,211,000 and \$2,573,000, respectively.

NOTE 18 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.

CENTRAL OFFICES OF THE ARCHDIOCESE OF CINCINNATI

Notes to Financial Statements (Continued)

NOTE 18 ENDOWMENT (CONTINUED)

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.

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.

CENTRAL OFFICES OF THE ARCHDIOCESE OF CINCINNATI

**Notes to Financial Statements
(Continued)**

NOTE 18 ENDOWMENT (CONTINUED)

Spending Policy (Continued)

The endowment net asset composition by type of fund is as follows as of June 30, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 10,651	\$ 754,779	\$ 765,430
Archbishop-designated endowment funds	5,601,762	-	-	5,601,762
Total endowment funds	\$ 5,601,762	\$ 10,651	\$ 754,779	\$ 6,367,192

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

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

The changes in endowment net assets for 2017 were:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets June 30, 2016	\$ 6,165,554	\$ 26,515	\$ 754,779	\$ 6,946,848
Contributions	11,880	1,840	-	13,720
Investment return				
Interest and dividend income	43,054	5,567	-	48,621
Unrealized and realized gains	-	-	-	-
Appropriated expenditure	(618,726)	(23,271)	-	(641,997)
Endowment net assets June 30, 2017	\$ 5,601,762	\$ 10,651	\$ 754,779	\$ 6,367,192

The changes in endowment net assets for 2016 were:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
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	(2,082,347)	(44,614)	-	(2,126,961)
Endowment net assets June 30, 2016	\$ 6,165,554	\$ 26,515	\$ 754,779	\$ 6,946,848

ACCOMPANYING INFORMATION

CENTRAL OFFICES OF THE ARCHDIOCESE OF CINCINNATI

Changes in Temporarily Restricted Net Assets
Year Ended June 30, 2017

	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	\$ 5,790,296	\$ 3,047,096	\$ 121,039	\$ 83,701	\$ 210,692	\$ 5,344,817	\$ 3,908,007
Beneficial interest in trust	3,253,970	-	-	460,570	-	-	3,714,540
Pastoral Services	1,774,669	30,738	175,582	350	898,667	347,129	2,532,877
Community Services	2,081,998	12,272	140,857	-	1,149,782	1,643,366	1,741,543
Missions	1,262,392	-	-	-	-	-	1,262,392
Vocation / Diaconate	441,337	59,893	-	2,108	194,835	(30,610)	728,783
Sharing Our Faith	271,008	3,550	10	-	314,533	78,141	510,960
Other	112,090	850	-	-	-	1,681	111,259
Seminary	-	-	-	-	1,011,001	1,011,001	-
	<u>\$ 14,987,760</u>	<u>\$ 3,154,399</u>	<u>\$ 437,488</u>	<u>\$ 546,729</u>	<u>\$ 3,779,510</u>	<u>\$ 8,395,525</u>	<u>\$ 14,510,361</u>

See independent auditors' report

CENTRAL OFFICES OF THE ARCHDIOCESE OF CINCINNATI

Detail of Chancery Expenses
Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Community services:		
Catholic Charities	\$ 926,033	\$ 961,769
Social Action	446,112	425,667
Hispanic Ministry - Su Casa	-	-
Assistance to the poor	37,674	73,380
Department Director	22,234	19,475
Total community services	<u>1,432,053</u>	<u>1,480,291</u>
Educational services:		
Cincinnati Inner City Schools (CISE)	3,060,376	2,956,085
Parishes and Parish Schools	1,416,865	1,416,879
Secondary Education Assistance	766,652	790,672
Catholic Schools Office	2,301,074	2,586,529
St. Rita School for the Deaf	264,578	306,017
Total educational services	<u>7,809,545</u>	<u>8,056,182</u>
Executive services:		
Tribunal	466,269	469,391
Vocations	470,577	376,754
Archives and Chancery Office	315,486	351,522
Permanent Diaconate	218,793	209,207
Communications	122,082	114,878
Background Check / Fingerprinting	119,047	81,024
Other	21,557	36,034
Total executive services	<u>1,733,811</u>	<u>1,638,810</u>
Financial services:		
Professional Fees	386,078	505,585
Finance Office	609,218	469,666
Computer Operation	407,841	439,412
Central Services	259,011	177,393
Contingencies	137,281	136,194
Other	-	8,181
Total financial services	<u>1,799,429</u>	<u>1,736,431</u>
Human Resources	<u>473,784</u>	<u>445,906</u>
Stewardship services	<u>271,279</u>	<u>210,740</u>

(Continued)

CENTRAL OFFICES OF THE ARCHDIOCESE OF CINCINNATI

Detail of Chancery Expenses
Years Ended June 30, 2017 and 2016
(Continued)

	<u>2017</u>	<u>2016</u>
Pastoral services:		
Infirm and Retired Priests	\$ 4,067,762	\$ 4,073,241
Campus Ministry	638,224	588,519
Evangelization and Catechesis	909,878	893,631
Youth Ministry	605,502	637,807
Chaplain Salaries	571,254	529,547
Family Life	630,495	507,496
Hispanic Ministry	612,030	657,560
Priests' Personnel	209,402	215,405
Sharing Our Faith	315,822	311,574
Priestly Formation	370,449	400,980
Department Director	76,027	141,362
Worship	264,694	259,570
African American Ministries	84,752	64,367
Other	35,217	119,337
Metropolitan Area Religious Coalition of Cincinnati	44,100	40,000
Greater Dayton Christian Connections	21,000	21,000
Ohio Council of Churches	20,000	20,000
Planning and Research	168	7,834
Total pastoral services	<u>9,476,776</u>	<u>9,489,230</u>
General and administrative:		
Depreciation	978,961	815,541
Cathedral of St. Peter in Chains	1,230,972	1,382,600
Provision for doubtful receivables	934,648	730,006
Office of Archbishop Schnurr	300,221	268,886
United States Catholic Conference of Bishops	166,073	203,754
General charitable projects	174,278	296,891
Real estate	36,719	
Catholic Conference of Ohio	104,223	62,660
Office of Bishop Binzer	60,063	53,636
Gift Annuity PV adjustment		62,065
Other	799,989	40,394
Total general and administrative	<u>4,786,147</u>	<u>3,916,433</u>
Interest on notes payable	<u>2,586,190</u>	<u>2,629,991</u>
Administrative building operations		
Property management	<u>1,108,072</u>	<u>1,068,032</u>
Transfers to Seminary	<u>1,011,000</u>	<u>921,845</u>
Total Chancery	<u>\$ 32,488,086</u>	<u>\$ 31,593,891</u>

See independent auditors' report

CENTRAL OFFICES OF THE ARCHDIOCESE OF CINCINNATI

Schedule of Designated Collections
Year Ended June 30, 2017

	Amounts due to (from) 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	\$ -	\$ 198,174	\$ -	\$ 196,952	\$ 1,222
Rice Bowl	-	70,902	16,747	50,242	3,913
Human Development	-	324,765	119,075	205,675	15
Mission Sunday	-	373,337	373,337	-	-
Holy Father	-	315,090	55,790	253,724	5,576
Commissariat of the Holy Land	-	176,103	8,714	165,572	1,817
Bishops' Relief	-	317,310	121,039	195,403	868
Religious Retirement	(70,805)	781,893	117,415	599,850	(6,177)
Respect Life	-	180,616	180,616	-	-
Disaster Relief	-	173,812	-	173,812	-
Military	-	155,315	7,765	147,540	10
	<u>\$ (70,805)</u>	<u>\$ 3,067,317</u>	<u>\$ 1,000,498</u>	<u>\$ 1,988,770</u>	<u>\$ 7,244</u>

See independent auditors' report

CENTRAL OFFICES OF THE ARCHDIOCESE OF CINCINNATI

Schedule of Catholic Ministries Appeal
Contributions and Distributions

2016 Catholic Ministries Appeal:	
Contributions (net of direct expenses of \$434,050)	<u>\$ 4,405,815</u>
Distributions:	
Athenaeum of Ohio (Seminary)	\$ 918,929
Catholic Charities	857,667
Archdiocesan Priests' Retirement Fund	775,985
Campus Ministry	428,834
Chaplains Services	387,992
Sharing Our Faith	285,889
St. Rita School for the Deaf	245,048
Seminarian Scholarships	100,000
Vocations and Permanent Diaconate	87,054
Rebates to Parishes	<u>318,417</u>
	<u>\$ 4,405,815</u>
2017 Catholic Ministries Appeal:	
Gross pledges made through June 30, 2017	<u>\$ 5,245,853</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 2016 appeal, which ended December 31, 2016. The schedule also indicates the status of the 2017 appeal, which began January 1, 2017.