

**DIOCESE OF FORT WAYNE - SOUTH BEND, INC.
CENTRAL OPERATIONS
FORT WAYNE, INDIANA**

**Financial Statements
and Supplementary Information**

as of June 30, 2017 and 2016

CONTENTS

Page

FINANCIAL STATEMENTS WITH INDEPENDENT AUDITOR'S REPORT

Independent Auditor's Report	1-2
Statements of Financial Position	3-4
Statements of Activities and Net Assets	5-6
Statements of Cash Flows	7-8
Notes to Financial Statements	9-26

SUPPLEMENTARY INFORMATION

Schedules of Functional Expenses	27-28
Reconciliation of Designated Net Assets	29
Reconciliation of Temporarily Restricted Net Assets	30
Reconciliation of Permanently Restricted Net Assets	31
Schedules of Functional Expenses – By Department – Ministry Services	32
Schedules of Functional Expenses – By Department – Educational Services	33
Schedules of Functional Expenses – By Department – Communications	34
Schedules of Functional Expenses – By Department – Fund Raising	35
Schedules of Functional Expenses – By Department – Other Services	36
Schedules of Functional Expenses – By Department – Administrative	37

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INDEPENDENT AUDITOR'S REPORT

To Bishop Kevin C. Rhoades
Diocese of Fort Wayne - South Bend, Inc.
Central Operations
Fort Wayne, Indiana

We have audited the accompanying financial statements of the Diocese of Fort Wayne - South Bend, Inc. - Central Operations (a nonprofit organization) which comprise the statement of financial position as of June 30, 2017 and 2016, and the related statements of activities and net assets, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 Diocese of Fort Wayne - South Bend, Inc. – Central Operations as of June 30, 2017 and 2016, and the changes in its net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The schedules of functional expenses, reconciliations of net assets and schedules of functional expenses by department are presented for the purpose of additional analysis and are 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.

Leonard J. Andorfer & Co., LLP

LEONARD J. ANDORFER & CO., LLP
Certified Public Accountants
Fort Wayne, Indiana

September 8, 2017

DIOCESE OF FORT WAYNE - SOUTH BEND, INC.
CENTRAL OPERATIONS
Statements of Financial Position

ASSETS	June 30	
	2017	2016
Cash and cash equivalents	\$ 8,049,933	\$ 4,577,399
Accounts receivable (net of provision for doubtful accounts)	5,161,477	3,236,444
Investments	29,270,928	29,361,811
Loans receivable (net of provision for doubtful accounts)	18,641,151	20,286,759
Beneficial interest in trusts	3,486,764	3,535,633
Inventories	188,453	162,779
Land, buildings and equipment (net)	6,266,396	6,160,544
Deposits	216,000	216,000
Prepaid and deferred expenses	-	110,325
TOTAL ASSETS	\$ 71,281,102	\$ 67,647,694

(Continued)

The Notes to Financial Statements
are an integral part of the statements.

DIOCESE OF FORT WAYNE - SOUTH BEND, INC.
CENTRAL OPERATIONS
Statements of Financial Position (Continued)

LIABILITIES AND NET ASSETS	June 30	
	2017	2016
LIABILITIES		
Accounts payable and accrued expenses	\$ 1,578,585	\$ 1,572,718
Lay employees' retirement obligation	943,696	1,288,651
Parish deposits	38,515,535	39,668,746
Notes payable - bank	6,054,564	6,615,429
Collections payable	219,645	77,589
Annuities payable	7,624	7,624
Total Liabilities	47,319,649	49,230,757
NET ASSETS		
Unrestricted		
Operational	4,989,518	124,159
Designated	11,787,570	11,169,337
Total Unrestricted	16,777,088	11,293,496
Temporarily restricted	3,250,510	3,167,205
Permanently restricted	3,933,855	3,956,236
Total Net Assets	23,961,453	18,416,937
TOTAL LIABILITIES AND NET ASSETS	\$ 71,281,102	\$ 67,647,694

The Notes to Financial Statements
are an integral part of the statements.

DIOCESE OF FORT WAYNE - SOUTH BEND, INC.
CENTRAL OPERATIONS
Statement of Activities and Net Assets
For the Year Ended June 30, 2017
(With Comparative Totals for the Year Ended June 30, 2016)

	Unrestricted		Temporarily		June 30	
	Operational	Designated	Restricted	Restricted	2017	June 30
	Total	Total	Total	Total	Total	Total
REVENUES, GAINS AND OTHER SUPPORT						
Parish quotas	\$ 2,378,937	\$	\$	\$	\$ 2,378,937	\$ 2,346,695
Donations and bequests	801,104	681,606	83,119		1,565,829	1,856,938
Net investment income	1,429,081	930,871	55,163		2,415,115	1,024,975
Unrealized investment gain (loss)	725,371	397,920	21,763		1,145,054	(2,224,917)
Fund raising - Annual Bishop's Appeal	3,295,053	1,922,000			5,217,053	5,165,157
Insurance premiums	19,144,200		421,695		19,565,895	19,230,631
Interest - loans	491,635				491,635	507,033
Collections	252,503				252,503	279,765
Advertising	151,413				151,413	168,211
Sale of merchandise	411,084				411,084	450,545
Fees, rentals and workshops	598,641	143,437	3,768		745,846	748,192
Subscriptions	3,271				3,271	3,675
Miscellaneous	53,901	10,395			64,296	75,143
Change in value - beneficial trust interest			(26,488)		(26,488)	(9,195)
Gain on sale of assets	124,989				124,989	1,200
Net Assets Released From Restrictions	<u>3,966,092</u>	<u>(3,467,996)</u>	<u>(475,715)</u>	<u>(22,381)</u>	<u>-</u>	<u>-</u>
Total Revenue, Gains and Other Support and Net Assets Released from Restrictions	33,827,275	618,233	83,305	(22,381)	34,506,432	29,624,048
EXPENSES						
Ministry services	2,841,383				2,841,383	2,922,271
Educational services	4,585,007				4,585,007	4,764,064
Communications	1,143,186				1,143,186	1,137,943
Fund raising	300,412				300,412	414,261
Other services	16,117,650				16,117,650	16,009,746
Administrative	3,974,278				3,974,278	4,274,961
Total Expenses	<u>28,961,916</u>				<u>28,961,916</u>	<u>29,523,246</u>
CHANGE IN NET ASSETS	4,865,359	618,233	83,305	(22,381)	5,544,516	100,802
NET ASSETS AT BEGINNING OF YEAR	<u>124,159</u>	<u>11,169,337</u>	<u>3,167,205</u>	<u>3,956,236</u>	<u>18,416,937</u>	<u>18,316,135</u>
NET ASSETS AT END OF YEAR	<u>\$ 4,989,518</u>	<u>\$ 11,787,570</u>	<u>\$ 3,250,510</u>	<u>\$ 3,933,855</u>	<u>\$ 23,961,453</u>	<u>\$ 18,416,937</u>

The Notes to Financial Statements
are an integral part of the statements.

DIOCESE OF FORT WAYNE - SOUTH BEND, INC.
CENTRAL OPERATIONS
Statement of Activities and Net Assets
For the Year Ended June 30, 2016

	Unrestricted		Temporarily	Permanently	June 30
	Operational	Designated	Restricted	Restricted	2016
	\$	\$	\$	\$	Total
REVENUES, GAINS AND OTHER SUPPORT					
Parish quotas	\$ 2,346,695				\$ 2,346,695
Donations and bequests	949,966	707,359	199,613		1,856,938
Net investment income	625,709	354,166	45,100		1,024,975
Unrealized investment loss	(1,477,650)	(708,076)	(39,191)		(2,224,917)
Fund raising - Annual Bishop's Appeal	3,268,157	1,897,000			5,165,157
Insurance premiums	18,914,391		316,240		19,230,631
Interest - loans	507,033				507,033
Collections	279,765				279,765
Advertising	166,401	1,810			168,211
Sale of merchandise	446,260	4,285			450,545
Fees, rentals and workshops	551,994	169,628	26,570		748,192
Subscriptions	3,675				3,675
Miscellaneous	75,143				75,143
Change in value - beneficial trust interest			(9,195)		(9,195)
Gain on sale of assets	1,200				1,200
Net Assets Released From Restrictions	<u>3,956,148</u>	<u>(3,451,880)</u>	<u>(481,567)</u>	<u>(22,701)</u>	<u>-</u>
Total Revenue, Gains and Other Support and Net Assets Released from Restrictions	30,614,887	(1,025,708)	57,570	(22,701)	29,624,048
EXPENSES					
Ministry services	2,922,271				2,922,271
Educational services	4,764,064				4,764,064
Communications	1,137,943				1,137,943
Fund raising	414,261				414,261
Other services	16,009,746				16,009,746
Administrative	4,274,961				4,274,961
Total Expenses	<u>29,523,246</u>				<u>29,523,246</u>
CHANGE IN NET ASSETS	1,091,641	(1,025,708)	57,570	(22,701)	100,802
NET ASSETS AT BEGINNING OF YEAR	(967,482)	<u>12,195,045</u>	<u>3,109,635</u>	<u>3,978,937</u>	<u>18,316,135</u>
NET ASSETS AT END OF YEAR	<u>\$ 124,159</u>	<u>\$ 11,169,337</u>	<u>\$ 3,167,205</u>	<u>\$ 3,956,236</u>	<u>\$ 18,416,937</u>

The Notes to Financial Statements
are an integral part of the statements.

DIOCESE OF FORT WAYNE - SOUTH BEND, INC.

CENTRAL OPERATIONS

Statements of Cash Flows

	For the Year Ended June 30	
	2017	2016
	<u> </u>	<u> </u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from		
Parish quotas	\$ 2,397,160	\$ 2,374,263
Donations and bequests	1,960,811	1,461,956
Net investment income	2,415,115	1,024,975
Fund raising	5,272,418	5,128,056
Insurance premiums	19,776,853	19,498,711
Interest - loans	551,335	448,991
Other income and fees	683,449	2,207,085
Cash paid for		
Program and administrative services	(27,799,444)	(30,110,439)
Interest - parish deposits	(743,551)	(835,674)
	<u> </u>	<u> </u>
Net Cash Provided By Operating Activities	4,514,146	1,197,924
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(386,403)	(151,898)
Decrease in investments	1,235,937	4,348,943
Proceeds from sale of assets	124,989	1,200
Decrease in parish loans receivable	1,697,941	1,151,880
Decrease (increase) in accounts receivable-other	(2,000,000)	162,182
Increase in deposits	-	(108,000)
	<u> </u>	<u> </u>
Net Cash Provided By Investing Activities	672,464	5,404,307
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in parish deposits	(1,153,211)	(5,370,563)
Decrease in notes payable - bank	(560,865)	(827,095)
	<u> </u>	<u> </u>
Net Cash Used For Financing Activities	(1,714,076)	(6,197,658)
NET INCREASE IN CASH AND CASH EQUIVALENTS	3,472,534	404,573
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>4,577,399</u>	<u>4,172,826</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 8,049,933</u>	<u>\$ 4,577,399</u>

The Notes to Financial Statements
are an integral part of the statements.

(Continued)

DIOCESE OF FORT WAYNE - SOUTH BEND, INC.
CENTRAL OPERATIONS
Statements of Cash Flows (Continued)

	For the Year Ended June 30	
	2017	2016
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Change in net assets	\$ 5,544,516	\$ 100,802
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	280,551	301,479
Change in value - beneficial interest in trusts	48,869	31,896
Gain on sale of assets	(124,989)	(1,200)
Unrealized investment (gain) loss	(1,145,054)	2,224,917
Uncollectible accounts	250,751	254,207
Changes in operating assets and liabilities		
Decrease (increase) in		
Accounts receivable	(228,117)	262,589
Inventories	(25,674)	(1,714)
Prepaid and deferred expenses	110,325	3,501
Increase (decrease) in		
Accounts payable and accrued expenses	5,867	(1,316,412)
Lay employees' retirement obligation	(344,955)	(297,198)
Collections payable	142,056	(364,943)
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 4,514,146	\$ 1,197,924

The Notes to Financial Statements
are an integral part of the statements.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – Nature of Activities

The Diocese of Fort Wayne – South Bend, Inc. is organized and shall be operated exclusively to support and benefit the work and ministry of the Catholic Church and its related organizations in their religious, educational and charitable works. The accompanying financial statements reflect the Central Operations of the Diocese of Fort Wayne – South Bend, Inc. (the Diocese). Central Operations is not a legal entity, but an operating unit within the Diocesan Corporation. These statements are not intended to reflect the financial condition or results of operation of the Diocesan parishes or schools which are considered independent of Central Operations. These activities may or may not be separately incorporated under civil law. Each is a distinct operating entity from Central Operations maintaining separate accountability and carrying on their own services and programs.

NOTE 2 – Summary of Significant Accounting Policies

Promises to Give – Contributions are recognized when the donor makes a promise to give to the organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires temporarily restricted net assets are reclassified to unrestricted net assets.

The Diocese uses the allowance method to determine uncollectible unconditional promises receivable. The allowance is based on prior years' experience and management's analysis of specific promises made.

Property and Equipment – Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Diocese reclassifies temporarily restricted net assets to unrestricted net assets at that time. Property and equipment is depreciated using the straight-line method over estimated useful lives.

Financial Statement Presentation – Net assets and revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions; accordingly, the net assets of the Diocese and changes therein are classified and reported as follows:

Unrestricted net assets – operational – Net assets that are not subject to donor-imposed restrictions.

Unrestricted net assets – designated – Net assets that have been designated for a specific purpose by action of the Diocese.

Temporarily restricted net assets – Net assets subject to donor-imposed restrictions that may or will be met either by actions of the Diocese and/or the passage of time.

Permanently restricted net assets – Net assets subject to donor-imposed restrictions that they be maintained permanently by the Diocese. Generally, the donors of these assets permit the Diocese to use all or part of the income earned on related investments for general or specific purposes.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 2 – Summary of Significant Accounting Policies (Continued)

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law.

Investment income is reported as an increase in unrestricted net assets unless its use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

Contributions – The Diocese has adopted FASB ASC 958-605-05. In accordance with FASB ASC 958-605-05, contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence and/or nature of any donor restrictions.

Income Taxes – The Diocese of Fort Wayne – South Bend, Inc. is a nonprofit organization exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and qualifies for the 50% charitable contribution limitation.

The Diocese has adopted FASB ASC 740-10-25, and determined no material unrecognized tax benefits or liabilities exist as of June 30, 2017. The adoption of FASB ASC 740-10-25 did not impact the Diocese's financial position or results of operations. If applicable, the Diocese will recognize interest and penalties related to underpayment of income taxes as income tax expense. As of June 30, 2017, the Diocese had no amounts related to unrecognized income tax benefits and no amounts related to accrued interest and penalties. The Diocese does not anticipate any significant changes to unrecognized income tax benefits over the next year. The Diocese is not required to file tax returns as it is listed in the Official Catholic Directory.

Basis of Accounting – The Diocese records receipts and expenses on the accrual method for financial reporting purposes.

Inventories – Inventories of the Cathedral Bookstore and Diocesan Service Agency are carried at the lower of cost or market. Cost is determined on the first-in, first-out basis.

Uncollectible Accounts – The Diocese has adopted the allowance method of accounting for uncollectible accounts and loans receivable. The allowance is based on historical experience and management's analysis of current accounts and loans receivable. The value of the collateral supporting accounts and loans receivable is also considered in management's analysis.

Investments – The Diocese has adopted FASB ASC 958-320-50-1. The Diocese currently reports marketable equity securities and debt securities at their fair value. The Diocese maintains a diverse investment portfolio which is managed by professional investment managers in compliance with the investment policy established by the Diocese of Fort Wayne – South Bend Investment Trust, Inc.

Loans Receivable – Loans receivable are due primarily from parishes. The loans are due on demand with various payment schedules and with interest at a rate of 4%.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 2 – Summary of Significant Accounting Policies (Continued)

Parish Deposits – Parish deposits reflected in the balance sheet are primarily received from the parishes. The deposits are due on demand and bear interest at the rate of 2%. Interest expense incurred in connection with parish deposits amounted to \$743,551 and \$835,674 for the years ended June 30, 2017 and 2016, respectively.

Property and Depreciation – Property and equipment owned by the Diocese are recorded at cost with depreciation recorded on the straight-line basis over the following estimated useful lives:

Buildings	25-100 years
Building improvements	10-25 years
Furniture and equipment	5-10 years
Automobiles	5 years

Depreciation expense amounted to \$280,551 and \$301,479 for the years ending June 30, 2017 and 2016, respectively. Disposals are removed from the accounts at their original cost when identification is possible. Donated fixed assets are valued at estimated fair market value and recorded as contributed assets.

Expenditures for maintenance and repairs are charged to expense as incurred, while additions in excess of \$1,000 are capitalized. The cost and accumulated depreciation of property sold or otherwise disposed of are removed from the accounts, and any gain or loss is credited or charged to income.

At June 30, 2017 and 2016, the original cost, accumulated depreciation and net book value of the components of land, buildings and equipment are as follows:

	Original Cost	Accumulated Depreciation	Net Book Value
June 30, 2017			
Furniture and equipment	\$ 1,861,961	\$ 1,440,006	\$ 421,955
Buildings and improvements	6,280,046	2,970,186	3,309,860
Land	2,468,540	-	2,468,540
Automobiles	296,215	230,174	66,041
	\$ 10,906,762	\$ 4,640,366	\$ 6,266,396
June 30, 2016			
Furniture and equipment	\$ 3,055,818	\$ 2,825,250	\$ 230,568
Buildings and improvements	6,617,934	3,180,897	3,437,037
Land	2,470,540	-	2,470,540
Automobiles	286,147	263,748	22,399
	\$ 12,430,439	\$ 6,269,895	\$ 6,160,544

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 2 – Summary of Significant Accounting Policies (Continued)

Functional Allocation of Expenses – The costs of providing the various programs and activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Cash and Cash Equivalents – For purposes of the statement of cash flows, the Diocese considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

Compensated Absences – The Diocese has accrued for the liability associated with accrued vacation pay not used as of June 30, 2017 and 2016 in the amount of \$47,048 and \$32,442, respectively. The amounts are included in accounts payable and accrued expenses in the statements of financial position.

Collections Payable – The Diocese collects funds on behalf of other organizations. These funds are considered liabilities of the Diocese and are not reflected as contribution revenue. As funds are disbursed to or on behalf of the other organizations, the liability is reduced with no effect on the Statement of Activities.

Advertising and Promotion – Advertising and promotional costs are expensed when incurred. Advertising and promotional costs amounted to \$81,807 and \$117,560 for the years ended June 30, 2017 and 2016, respectively.

Concentration of Credit Risk – Financial instruments that potentially subject the Diocese to concentrations of credit risk consist primarily of cash and cash equivalents and accounts and loans receivable. Deposits with financial institutions may from time to time exceed the Federal Deposit Insurance Corporation (FDIC) limit. Management does not believe that a significant risk of loss due to the failure of a financial institution the Diocesan Central Fund's utilizes is likely. At June 30, 2017 and 2016, the gross accounts and loans receivable balance relating to amounts due from parishes and schools amounted to \$21,047,788 and \$22,764,084, respectively.

The Diocese invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risk. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statements of financial position.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

Reclassifications – Prior year presentation has been reclassified to conform with the current year presentation. A reclassification between unrestricted designated net assets and unrestricted operational net assets in the amount of \$280,008 was required. These reclassifications have no effect on previously reported operational results.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 2 – Summary of Significant Accounting Policies (Continued)

Recent Accounting Pronouncements – In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958), Presentation of Financial Statements of Not-for-Profit Entities*. Key elements of the ASU include a reduction in the number of net asset categories from three to two, conforming requirements on releases of capital restrictions, several new requirements related to expense presentation and disclosure (including investment expenses), and new required disclosures communicating information useful in assessing liquidity. The new standard is effective for the Diocese in the fiscal year ending June 30, 2018, early adoption is allowed. The Diocese is currently evaluating the impact of the adoption of the standard on its financial statements.

In February 2016, the FASB issued ASU 2016-2-Leases. The standard will increase the transparency and comparability among organizations by recognizing lease assets and lease liabilities on the statement of financial position and disclosing key information about leasing arrangements. The standard is effective for The Diocese beginning July 1, 2020 and is currently being evaluated to determine the impact on the financial statements.

Subsequent Events – In preparing these financial statements, the Diocese has evaluated events and transactions for potential recognition or disclosure through September 8, 2017, the date the financial statements were available to be issued.

NOTE 3 – Accounts Receivable – Net

Accounts receivable amounted to \$5,778,655 and \$3,704,303 as of June 30, 2017 and 2016, respectively. A summary of these receivables and related provision for uncollectible accounts is presented as follows:

	June 30 2017	June 30 2016
General receivables	\$ 32,940	\$ 20,646
Payroll	59,373	3,147
Quota	93,864	112,087
Insurance	322,302	211,736
Health and accident insurance	438,297	759,821
Retirement	396,647	155,384
Interest	1,120,270	1,179,970
Bishop's Appeal (net)	137,410	192,775
Affiliated organizations	650,498	403,428
Due from lay retirement plan	2,000,000	-
Other receivables	527,054	665,309
Gross accounts receivable	5,778,655	3,704,303
Less: provision for uncollectible accounts	(617,178)	(467,859)
Total Accounts Receivable - Net	\$ 5,161,477	\$ 3,236,444

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 – Loans Receivable – Net

Loans receivable amounted to \$18,929,748 and \$20,627,689 as of June 30, 2017 and 2016, respectively. A summary of loans receivable and related provision for uncollectible accounts is presented as follows:

	<u>June 30</u> <u>2017</u>	<u>June 30</u> <u>2016</u>
Loans to Diocesan Organizations	\$ 16,537,416	\$ 18,218,041
Noninterest bearing loans	<u>2,392,332</u>	<u>2,409,648</u>
	18,929,748	20,627,689
Less: provision for uncollectible loans	(288,597)	(340,930)
Total Accounts Receivable - Net	<u><u>\$ 18,641,151</u></u>	<u><u>\$ 20,286,759</u></u>

NOTE 5 – Provision for Uncollectible Accounts Receivable and Loans

Changes in the provision for uncollectible accounts receivable and loans were as follows:

	<u>June 30</u> <u>2017</u>	<u>June 30</u> <u>2016</u>
Beginning balance	\$ 808,789	\$ 811,868
Accounts written off	(153,765)	(257,286)
Bad debt provision	<u>250,751</u>	<u>254,207</u>
Ending balance	<u><u>\$ 905,775</u></u>	<u><u>\$ 808,789</u></u>

At June 30, 2017 and 2016, the following accounts and loans were past due:

	<u>6 Months</u> <u>Past Due</u>	<u>12 Months</u> <u>Past Due</u>	<u>18 Months</u> <u>Past Due</u>	<u>Total</u> <u>Past Due</u>
2017	\$ 224,567	\$ 917	\$ 706,137	\$ 931,621
2016	593,399	186,921	361,126	1,141,446

NOTE 6 – Investments

Investments as of June 30, 2017 and 2016 consisted of the following:

	Fair Market Value	
	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Cash equivalents	\$ 1,053,764	\$ 1,058,263
Non U.S. equity	9,513,048	10,653,769
Long / short equity	3,453,968	2,594,081
Real estate and commodities	-	512,691
U.S. Small cap	-	1,026,446
U.S. Large cap	7,800,699	3,816,217
Fixed income	3,556,417	6,176,021
Absolute return strategy	2,722,195	2,812,596
Private equity	<u>1,170,837</u>	<u>711,727</u>
Total Investments at Fair Value	<u><u>\$ 29,270,928</u></u>	<u><u>\$ 29,361,811</u></u>
Total Investments at Historical Cost	<u><u>\$ 28,057,599</u></u>	<u><u>\$ 29,293,532</u></u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 6 – Investments (Continued)

Net investment income (loss) consists of the following:

	<u>June 30</u> <u>2017</u>	<u>June 30</u> <u>2016</u>
Dividends and interest	\$ 220,537	\$ 267,248
Realized gains	2,293,734	840,818
Unrealized gains (losses)	1,145,054	(2,224,917)
Investment management fees	(99,156)	(83,091)
Net Investment Income (Loss)	<u>\$ 3,560,169</u>	<u>(\$ 1,199,942)</u>

NOTE 7 – Deposits Held in Financial Institutions

The Diocese maintains cash balance at one primary bank. Deposits at this institution are insured by the Federal Deposit Insurance Corporation. The Diocese had deposits of \$7,755,300 and \$4,155,553 in excess of the federally insured limits as of June 30, 2017 and 2016, respectively.

NOTE 8 – Retirement Plans

The Diocese participates in a defined benefit plan which previously covered all full-time lay employees who had completed one year of service and attained the age of 21. Employees of parishes, high schools and other related organizations are also covered under the plan. Pension expense amounted to \$133,309 and \$147,008 for the years ending June 30, 2017 and 2016, respectively.

The Diocese has adopted an Internal Revenue Code 403(b) retirement savings plan for substantially all employees. Contributions to the plan are made by the employees through salary deferrals. The plan also provides for Diocesan contributions for employees not covered by the defined benefit plan. Contributions to the 403(b) plan amounted to \$10,498 and \$3,607 for the years ended June 30, 2017 and 2016, respectively.

The following sets forth the funded status of the plan as of January 1, 2017 and 2016.

	<u>January 1</u> <u>2017</u>	<u>January 1</u> <u>2016</u>
Actuarial present value of benefit obligations:		
Vested benefits	\$ 95,953,000	\$ 83,596,000
Nonvested benefits	1,344,000	1,358,000
Accumulated and projected benefit obligations:	<u>\$ 97,297,000</u>	<u>\$ 84,954,000</u>
Fair value of assets held in the plan	<u>\$ 66,391,818</u>	<u>\$ 63,850,702</u>
Funding ratio	68.2%	75.2%

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 8 – Retirement Plans (Continued)

The assumed rate of return used in determining the actuarial present value of accumulated benefits was 7% and 8% at January 1, 2017 and 2016, respectively.

The following is an analysis of plan assets by category:

	January 1 2017	January 1 2016
Securities - Northern Trust	\$ 61,166,489	\$ 58,624,970
Annuity contract	1,812,260	1,831,355
Employer receivable	<u>3,413,069</u>	<u>3,394,377</u>
Total	<u>\$ 66,391,818</u>	<u>\$ 63,850,702</u>

The following is a reconciliation of plan assets for the plan year ending January 1, 2017 and 2016:

	Plan Year Ended January 1 2017	Plan Year Ended January 1 2016
Plan assets - beginning of year	\$ 63,850,702	\$ 65,407,748
Employer contribution	3,488,533	3,425,021
Benefits paid	(5,030,260)	(4,529,936)
Plan income	<u>4,082,843</u>	<u>(452,131)</u>
Plan Assets - end of year	<u>\$ 66,391,818</u>	<u>\$ 63,850,702</u>

The various Diocesan Corporations and affiliated organizations participating in the plan share the unfunded benefit obligation proportionately. FASB ASC 715-20-55 requires companies to move off balance sheet items onto the financial statements and has also changed required footnote disclosures. Because the Plan is a multi-employer plan, the amount of the accumulated benefits and net assets available for benefits related solely to the Central Operations is not determinable.

NOTE 9 – Beneficial Interest in Trusts

The Diocese is the beneficiary of one charitable remainder trust and one perpetual trust. The estimated present value of the Diocesan interest in the trusts is as follows:

	June 30	
	2017	2016
Charitable remainder trust	\$ 331,503	\$ 357,991
Perpetual trust	<u>3,155,261</u>	<u>3,177,642</u>
	<u>\$ 3,486,764</u>	<u>\$ 3,535,633</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 9 – Beneficial Interest in Trusts (Continued)

The estimated present value of the beneficial interest in the perpetual trust was calculated as of June 30, 2017 and 2016 based on the age of the life beneficiaries using the following assumptions:

Discount rate	2.9%
Mortality table	Published tables adopted by the Internal Revenue Service

NOTE 10 – Rental Income

The Diocese leases real property to Catholic Charities in South Bend, Indiana under the terms of a lease dated November 1, 2011. The lease called for monthly rent payments of \$2,800 through October 2016, and has been renewed for an additional five years under the same terms. Rental income received under the terms of this lease amounted to \$33,600 for each of the years ended June 30, 2017 and 2016.

The Diocese leases real property to Catholic Charities in Fort Wayne, Indiana under the terms of a lease dated November 1, 2013. The lease calls for monthly rent payments reviewed on an annual basis through June 2028. Rental income received under the terms of this lease amounted to \$82,475 and \$76,475 for the years ended June 30, 2017 and 2016, respectively.

The Diocese also leases parking spaces located in the Archbishop Noll Catholic Center to two unrelated entities. The leases provide a monthly fee based on the number of spaces used and expire at various times through December 2020. Rental income associated with these leases amounted to \$131,103 and \$133,219 for the years ended June 30, 2017 and 2016, respectively.

Future minimum lease payments over the next five years under the terms of the above leases are as follows:

Year Ending June 30	Charities - South Bend	Charities - Fort Wayne	Parking Spaces
2018	\$ 33,600	\$ 87,475	\$ 82,530
2019	33,600	87,475	82,530
2020	33,600	87,475	82,530
2021	33,600	87,475	75,653
2022	11,200	87,475	-

NOTE 11 – Note Payable – Bank

On December 19, 2012, the Diocese secured a promissory term note with 1st Source Bank in the amount of \$11,000,000. The note bears interest at a rate of 1.39% per annum in excess of the one month LIBOR rate (2.44% at June 30, 2017) and is due December 19, 2019. On April 25, 2014, the Diocese secured a second promissory term note with 1st Source Bank in the amount of \$2,500,000. The note bears interest at a rate of 1.5% per annum in excess of the one month LIBOR rate (2.55% at June 30, 2017) and was due April 1, 2017.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 11 – Note Payable – Bank (Continued)

On February 23, 2016, the Diocese secured a third promissory term note with 1st Source Bank in the amount of \$1,500,000. The note bears interest at a rate of 1.57% per annum in excess of the one month LIBOR rate (2.62% at June 30, 2017). On March 17, 2017, the Diocese secured a fourth promissory term note with 1st Source Bank in the amount of \$4,000,000. The note bears interest at a rate of 1.65% per annum in excess of the one month LIBOR rate (2.7% at June 30, 2017). Proceeds from the notes were used to partially fund construction projects of two high schools and three parishes within the Diocese. The notes require payments based on all pledge amounts collected on a monthly basis. The amount outstanding as of June 30, 2017 and 2016 under these agreements amounted to \$6,054,564 and \$6,615,429, respectively. The amounts are unsecured but required a negative pledge against all real estate. Corresponding loans receivable from the entities have been recorded and are included in loans receivable on the statement of financial position.

NOTE 12 – Insurance Funds

The Diocese is self-insured for medical benefits, unemployment compensation, automotive losses, and property and liability losses as described below. Various religious organizations, parishes, and schools participate with the Diocese in the self-insurance plans. Premiums paid to the Diocese by these organizations are included in insurance revenue.

The Diocese purchases an excess loss policy from an independent insurance company to provide medical benefits on all claims exceeding \$200,000 per employee and dependents per year.

The Diocese administers a self-insured pool to fund medical benefits on claims up to \$200,000 per covered employee. An independent administrator processes all claims. Claims amounted to \$11,274,732 and \$11,767,522 for the years ended June 30, 2017 and 2016, respectively.

The Diocese is self-insured with respect to unemployment compensation. Claims and benefits paid amounted to \$53,299 and \$48,460 for the years ended June 30, 2017, and 2016.

The Diocese's worker's compensation coverage is insurance by Preferred Professional Insurance Company, with Catholic Mutual Group as the broker.

The Diocese is self-insured for individual automotive losses of \$100,000 or less, and has purchased excess loss policies covering individual losses exceeding \$100,000 and aggregate losses exceeding \$400,000 per policy year. In connection with the automotive self-insurance, the Diocese has issued a letter of credit in the amount of \$1,000,000 to provide proof of financial responsibility in accordance with Indiana code.

The Diocese is self-insured for individual property and liability losses of \$100,000 or less, and has purchased excess loss policies covering individual losses exceeding \$100,000 and aggregate losses exceeding \$500,000 per policy year. The Diocese has excess liability in the amount of \$20,000,000 per occurrence and \$40,000,000 annual aggregate per location. Claims paid amounted to \$744,903 and \$485,280 for the years ended June 30, 2017 and 2016, respectively.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 13 – Related-Party Transactions

The Diocese has significant transactions with parishes and related corporations of the Diocese of Fort Wayne – South Bend, Inc. Below is a summary of the impact of significant transactions with these related parties on the statements of financial position and statements of activities and net assets:

	June 30 2017	June 30 2016
Assets and Liabilities:		
Accounts receivable, gross	\$ 2,118,040	\$ 2,406,406
Loans receivable, gross	18,929,748	20,357,678
Accounts payable and accrued expenses	170,522	135,639
Revenues:		
Parish quotas	2,378,937	2,346,695
Premiums and insurance billings	18,825,017	18,614,930
Interest income - notes receivable	491,635	507,033
Expenses:		
Education services	1,852,957	1,853,568
Ministry services	1,259,151	1,299,034

NOTE 14 – Fair Value of Financial Instruments

FASB ASC 820-10-50-1 requires certain disclosures regarding the fair value of financial instruments. Financial instruments held by the Diocese impacted by this pronouncement include the Diocesan investments held at market value. Following is a description of the valuation methods used for assets measured at fair market value.

Cash equivalents – cash and money market funds are valued at quoted market prices.

Common stock – valued at the closing price on the actual market on which the securities are traded. Securities traded in non-US dollars are valued the same as securities traded in US dollars, however, the value is converted to US dollars based on the mid-spot FX rate.

Mutual funds – valued at the net asset value of shares held by the Investment Trust.

Corporate and convertible bonds – valued at the average of at least two market quotes.

Alternative investments – investments in hedge funds and private equity funds are valued at estimated fair value based on periodic financial information received by the fund manager. Corporate securities that fall into level three are valued using external or internal models as determined by the fund manager. Real estate investment valuations are generally based on discounted cash flow analysis, the analysis of comparative sales or the cost of purchase for real estate that has been recently acquired.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 14 – Fair Value of Financial Instruments (Continued)

Beneficial interest in trusts – The Diocesan beneficial interest in trusts are valued at its proportional interest in the underlying trust assets which are valued at the fair market value as reported by the investment manager at year-end or the present value of the expected future cash flows.

FASB ASC 820-10-50-1 establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. There are three levels of input described below:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity’s own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The Diocese uses the Net Asset Value (NAV) per share, or its equivalent to determine the fair value as of the measurement date of all the underlying investments which: (a) do not have a readily determinable fair value and (b) prepare their investees financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company.

Fair value of financial instruments as of June 30, 2017 is as follows:

	Quoted market prices for identical assets Level 1	Significant other observable inputs Level 2	Significant unobservable inputs Level 3	NAV	Total
Cash equivalents	\$ 292,721	\$	\$	\$ 761,043	\$ 1,053,764
Non U.S. equity				9,513,048	9,513,048
Long/short equity	1,170,837			2,283,131	3,453,968
U.S. Large cap	3,805,219			3,995,480	7,800,699
Fixed income	1,463,546			2,092,871	3,556,417
Absolute return strategy			2,341,673	380,522	2,722,195
Private equity			1,170,837		1,170,837
Total investments	<u>6,732,323</u>	<u>-</u>	<u>3,512,510</u>	<u>19,026,095</u>	<u>29,270,928</u>
Beneficial interest in trusts		331,503	3,155,261		3,486,764
Total Financial Instruments	<u>\$ 6,732,323</u>	<u>\$ 331,503</u>	<u>\$ 6,667,771</u>	<u>\$ 19,026,095</u>	<u>\$ 32,757,692</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 14 – Fair Value of Financial Instruments (Continued)

Fair value of financial instruments as of June 30, 2016 is as follows:

	Quoted market prices for identical assets Level 1	Significant other observable inputs Level 2	Significant unobservable inputs Level 3	NAV	Total
Cash equivalents	\$ 494,923	\$	\$	\$ 563,340	\$ 1,058,263
Non U.S. equity	5,959,272			4,694,497	10,653,769
Long/short equity	1,467,402			1,126,679	2,594,081
Real estate and commodities	512,691				512,691
U.S. Small cap	1,026,446				1,026,446
U.S. Large cap	1,844,528			1,971,689	3,816,217
Fixed income	5,143,233			1,032,788	6,176,021
Absolute return strategy			2,812,596		2,812,596
Private equity			711,727		711,727
Total investments	16,448,495	-	3,524,323	9,388,993	29,361,811
Beneficial interest in trusts		357,991	3,177,642		3,535,633
Total Financial Instruments	\$ 16,448,495	\$ 357,991	\$ 6,701,965	\$ 9,388,993	\$ 32,897,444

Investments valued at NAV or its equivalent as of June 30, 2017, consisted of the following:

	Fair Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Catholic Endowment Fund	\$ 19,026,095	\$ N/A	Unlimited	95 Days

Investments valued at NAV or its equivalent as of June 30, 2016, consisted of the following:

	Fair Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Catholic Endowment Fund	\$ 9,388,993	\$ N/A	Unlimited	95 Days

The table below presents a reconciliation for all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3), and presents changes in unrealized gains or losses recorded in change in net assets for the year ended June 30, 2017 for Level 3 assets.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 14 – Fair Value of Financial Instruments (Continued)

	<u>Investments</u>	Beneficial Interest in <u>Trusts</u>	<u>Total</u>
Balance - July 1, 2016	\$ 3,524,323	\$ 3,177,642	\$ 6,701,965
Transfers in	425,000		425,000
Transfers out	(636,413)		(636,413)
Dividends and interest income, realized and unrealized gains, and changes in value	199,600	(22,381)	177,219
Balance - June 30, 2017	<u>\$ 3,512,510</u>	<u>\$ 3,155,261</u>	<u>\$ 6,667,771</u>

The table below presents a reconciliation for all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3), and presents changes in unrealized gains or losses recorded in change in net assets for the year ended June 30, 2016 for Level 3 assets.

	<u>Investments</u>	Beneficial Interest in <u>Trusts</u>	<u>Total</u>
Balance - July 1, 2015	\$ 2,854,157	\$ 3,200,342	\$ 6,054,499
Transfers in	2,705,023		2,705,023
Transfers out	(1,661,075)		(1,661,075)
Dividends and interest income, realized and unrealized gains, and changes in value	(373,782)	(22,700)	(396,482)
Balance - June 30, 2016	<u>\$ 3,524,323</u>	<u>\$ 3,177,642</u>	<u>\$ 6,701,965</u>

NOTE 15 – Temporarily Restricted Net Assets

Temporarily restricted net assets as of June 30, 2017 and 2016 consisted of the following:

	<u>2017</u>	<u>2016</u>
Gilmartin fund	\$ 781,544	\$ 781,544
Josephine A. Sommerer fund	397,776	378,232
Nellie Fowerbaugh estate	551,022	551,022
Future trust interest	340,676	367,164
Fund for the aging	301,719	345,719
Other funds	877,773	743,524
	<u>\$ 3,250,510</u>	<u>\$ 3,167,205</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 15 – Temporarily Restricted Net Assets (Continued)

Temporarily restricted net assets released from restriction during the years ended June 30, 2017 and 2016 are as follows:

	2017	2016
Josephine A. Sommerer fund	\$ 50,000	\$ 65,000
Fund for the aging	44,000	44,000
Student insurance	360,300	342,200
Other funds	21,415	30,367
	<u>\$ 475,715</u>	<u>\$ 481,567</u>

NOTE 16 – Permanently Restricted Net Assets

Permanently restricted net assets as of June 30, 2017 and 2016 consisted of the following:

	2017	2016
Burses	\$ 608,444	\$ 608,444
Music Education Scholarship	144,250	144,250
Perpetual trust interest	3,181,161	3,203,542
	<u>\$ 3,933,855</u>	<u>\$ 3,956,236</u>

NOTE 17 – Endowments

The Diocese endowments include funds that are established for a variety of purposes and include both donor-restricted endowment funds and funds designated to function as endowments. As required by accounting principles generally accepted in the United States of America (GAAP), net assets associated with permanently restricted funds, including designated funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Diocese endowment funds are invested as part of the Diocese of Fort Wayne-South Bend Investment Trust, Inc. (the Trust).

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 17 – Endowments (Continued)

In accordance with UPMIFA, the organization considers the following factors in making a determination to appropriate or accumulate donor-restricted funds:

- The duration and preservation of the fund
- The purposes of the organization and the donor-restricted fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the organization
- The investment policies of the organization

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

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted funds	\$	\$ 3,933,855	\$ 3,933,855
Designated funds	4,380,921		4,380,921
Total funds	<u>\$ 4,380,921</u>	<u>\$ 3,933,855</u>	<u>\$ 8,314,776</u>

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

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted funds	\$	\$ 3,956,236	\$ 3,956,236
Designated funds	4,096,928		4,096,928
Total funds	<u>\$ 4,096,928</u>	<u>\$ 3,956,236</u>	<u>\$ 8,053,164</u>

Changes in endowment net assets for the year ended June 30, 2017, are as follows:

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets - beginning of year	\$ 4,096,928	\$ 3,956,236	\$ 8,053,164
Investment return:			
Dividends, interest and realized investment gains (net)	392,903		392,903
Unrealized gains	179,892		179,892
Change in value - beneficial trust interest	<u>(22,381)</u>	<u>(22,381)</u>	<u>(22,381)</u>
Total investment return	572,795	(22,381)	550,414
Appropriation of endowment assets for expenditures	<u>(288,802)</u>		<u>(288,802)</u>
Endowment net assets - end of year	<u>\$ 4,380,921</u>	<u>\$ 3,933,855</u>	<u>\$ 8,314,776</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 17 – Endowments (Continued)

Changes in endowment net assets for the year ended June 30, 2016, are as follows:

	Unrestricted	Permanently Restricted	Total
Endowment net assets - beginning of year	\$ 4,538,902	\$ 3,978,937	\$ 8,517,839
Investment return:			
Dividends, interest and realized investment gains (net)	153,568		153,568
Unrealized losses	(313,667)		(313,667)
Change in value - beneficial trust interest		(22,701)	(22,701)
Total investment return	(160,099)	(22,701)	(182,800)
Appropriation of endowment assets for expenditures	(281,875)		(281,875)
Endowment net assets - end of year	\$ 4,096,928	\$ 3,956,236	\$ 8,053,164

Funds With Deficiencies – From time to time, the fair value of assets associated with individual donor permanently restricted funds may fall below the level that the donor or UPMIFA requires the Diocese to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets. These deficiencies result from unfavorable investment performance due to unfavorable market conditions for the investments supporting the permanently restricted and designated net assets.

Return Objectives and Risk Parameters – The long-term goal of the Trust will be to achieve a rate of growth sufficient to provide for the spending needs of various components of the total fund, increase the real purchasing power of the principal, and cover the annual operating expenses. Each component asset class of the Trust is expected to outperform its appropriate benchmark unless the volatility of quarterly returns is less than the benchmark.

Strategies Employed for Achieving Objectives – The total returns of each traditional asset class, equity and fixed income specialists, alternative investment manager and the total trust will be compared to the distribution of returns represented by an appropriate and statistically valid Universe of separately managed funds. Over a market cycle, the total trust and its individual components are expected to rank in the top half of their appropriate Universe.

Spending Policy – The Diocese has a policy of appropriating for distribution each year 100% of the income earned by the endowment assets during the prior fiscal year. The appropriation for spending is at the discretion of the Bishop of the Diocese of Fort Wayne-South Bend, Inc.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 18 – Contingent Liabilities

The Diocese is subject to various commitments and contingent liabilities, including general litigation arising in the ordinary course of its activities. Where applicable, reserves have been established for those cases where the potential liability is estimable and probable. There was no reserve as of June 30, 2017 or 2016.

**SUPPLEMENTARY
INFORMATION**

DIOCESE OF FORT WAYNE-SOUTH BEND, INC.
CENTRAL OPERATIONS
Schedule of Functional Expenses
For the Year Ended June 30, 2017
(With Comparative Totals for the Year Ended June 30, 2016)

	Ministry Services	Educational Services	Communications	Fund Raising	Other Services	Administrative	June 30 2017 Total	June 30 2016 Total
Salary-religious	\$ 68,954				\$ 31,536	\$ 314,828	\$ 415,318	\$ 423,038
Salary-lay	786,313	598,584	299,692	120,271	19,011	730,872	2,554,743	2,525,222
Commissions			14,553				14,553	26,882
FICA	55,554	44,781	23,926	8,502	1,219	51,734	185,716	184,348
Unemployment claims	4,229	3,346	1,241	883	40,233	3,367	53,299	48,460
Health and accident insurance	184,402	271,797	44,797	27,657	218,673	159,898	907,224	911,216
Pension and benefits	45,270	41,947	15,478	10,188	69,108	37,266	219,257	219,090
Education, seminars and conferences	15,411	6,782	1,720	3,058	1,500	5,500	33,971	44,925
Postage	4,569	1,274	1,860	17,388		20,177	45,268	63,972
Telephone	6,863	5,193	2,427	1,267		80,448	96,198	94,240
Office supplies	23,703	14,653	2,204	5,551		19,578	65,689	76,951
Printing	3,275		321	24,865		1,941	30,402	52,081
Equipment and furniture	455	2,245	2,179			2,048	6,927	10,141
Travel	39,941	47,660	2,341	3,785	712	20,440	114,879	121,694
Auto	2,500					47,612	50,112	36,549
Depreciation	13,133	2,761	24,172	903		239,582	280,551	301,479
Legal and professional	62,794	22,061			531	133,554	218,940	240,845
Public relations	24,098	14,126	1,379	291	53	41,446	81,393	67,992
Employee search							-	2,413
Donations and ministry support	326,362	156,666				46,498	529,526	566,658
Miscellaneous	2,711	26,772	15,496	102	818	16,837	62,736	34,719
Repairs, maintenance and utilities	25,436		1,175			487,289	513,900	461,093
Bank charges						36,304	36,304	40,815
Property and liability-self insurance					3,288,215		3,288,215	3,047,838
Student insurance						360,300	360,300	342,200
Memberships and subscriptions	10,837	50,105	1,608	1,100		7,311	70,961	83,374
Advertising and promotion	1,885	4,957	1,572	71,606		1,787	81,807	117,560
Program expense	447,201	604,254	101,212			5,659	1,158,326	1,186,745
Paper distribution			514,405				514,405	539,051
Freelance and news service			69,428				69,428	53,665
Assessments					136,434		136,434	126,715
Interest						743,551	743,551	835,674
Funding-ministry, education, P.I.N.	257,487	154,810					412,297	375,468
High school subsidy		1,122,000					1,122,000	1,122,000
Insurance claims					12,309,607		12,309,607	12,419,102
High school scholarships		275,000					275,000	275,000
Tuition and allowances	3,000	833,233		2,995			839,228	1,010,201
Catholic Charities subsidy	425,000						425,000	425,000
High school endowment fund distribution		280,000					280,000	280,000
Rent						7,200	7,200	7,200
Provision for uncollectible accounts						250,751	250,751	254,207
Litigation and settlement costs						100,500	100,500	467,423
Total Expenses	<u>\$ 2,841,383</u>	<u>\$ 4,585,007</u>	<u>\$ 1,143,186</u>	<u>\$ 300,412</u>	<u>\$ 16,117,650</u>	<u>\$ 3,974,278</u>	<u>\$ 28,961,916</u>	<u>\$ 29,523,246</u>

The Notes to Financial Statements
are an integral part of the statements.

DIOCESE OF FORT WAYNE-SOUTH BEND, INC.
CENTRAL OPERATIONS
Schedule of Functional Expenses
For the Year Ended June 30, 2016

	Ministry Services	Educational Services	Communications	Fund Raising	Other Services	Administrative	June 30 2016 Total
Salary-religious	\$ 73,726				\$ 62,374	\$ 286,938	\$ 423,038
Salary-lay	799,071	618,502	240,862	178,564	20,451	667,772	2,525,222
Commissions	272		26,610				26,882
FICA	56,227	46,610	20,129	12,388	1,210	47,784	184,348
Unemployment claims	4,167	3,141	1,385	1,002	42,078	(3,313)	48,460
Health and accident insurance	189,756	280,668	40,146	32,172	219,558	148,916	911,216
Pension and benefits	48,226	43,816	17,631	11,432	60,832	37,153	219,090
Education, seminars and conferences	19,977	10,729	840	6,189		7,190	44,925
Postage	6,888	1,938	8,352	21,016		25,778	63,972
Telephone	6,654	5,337	2,065	1,291		78,893	94,240
Office supplies	19,763	18,583	6,087	7,091		25,427	76,951
Printing	2,412		15,069	33,629		971	52,081
Equipment and furniture	2,937	1,713	2,815			2,676	10,141
Travel	32,306	63,600	6,150	4,721	2,534	12,383	121,694
Auto	2,708					33,841	36,549
Depreciation	14,695	3,169	18,648	1,158		263,809	301,479
Legal and professional	62,728	42,384	800		5,988	128,945	240,845
Public relations	15,403	19,845	2,764	1,092	697	28,191	67,992
Employee search			2,413				2,413
Donations and ministry support	365,188	152,892	500	24		48,054	566,658
Miscellaneous	5,160	11,979	724	445	369	16,042	34,719
Repairs, maintenance and utilities	7,482					453,611	461,093
Bank charges						40,815	40,815
Property and liability-self insurance					3,047,838		3,047,838
Student insurance						342,200	342,200
Memberships and subscriptions	11,574	59,779	1,407	2,174		8,440	83,374
Advertising and promotion	1,040	5,353	10,458	98,673		2,036	117,560
Program expense	528,980	536,088	118,472			3,205	1,186,745
Paper distribution			539,051				539,051
Freelance and news service			53,665				53,665
Assessments					126,715		126,715
Interest						835,674	835,674
Funding-ministry, education, P.I.N.	216,931	158,537					375,468
High school subsidy		1,122,000					1,122,000
Insurance claims					12,419,102		12,419,102
High school scholarships		275,000					275,000
Tuition and allowances	3,000	1,002,401	900	1,200		2,700	1,010,201
Catholic Charities subsidy	425,000						425,000
High school endowment fund distribution		280,000					280,000
Rent						7,200	7,200
Provision for uncollectible accounts						254,207	254,207
Litigation and settlement costs						467,423	467,423
Total Expenses	<u>\$ 2,922,271</u>	<u>\$ 4,764,064</u>	<u>\$ 1,137,943</u>	<u>\$ 414,261</u>	<u>\$ 16,009,746</u>	<u>\$ 4,274,961</u>	<u>\$ 29,523,246</u>

The Notes to Financial Statements
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DIOCESE OF FORT WAYNE - SOUTH BEND, INC.

CENTRAL OPERATIONS

Reconciliation of Designated Net Assets

For the Year Ended June 30, 2017

	July 1, 2016			June 30, 2017
	<u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u>
Bishop Noll scholarship	\$ 301,996	\$ 25,004	\$ 25,000	\$ 302,000
Bishop's OSV fund	54,119	86,000	29,857	110,262
Christopher fund	5,531			5,531
Franciscan seminary	1	89,909	10,837	79,073
Franciscan world youth day	2,875			2,875
Fund for the Poor	42,000	90,000	90,500	41,500
High school endowment fund	4,058,475	554,164	280,000	4,332,639
High school scholarships	234,980	240,000	240,000	234,980
High schools	24,064	1,131,996	1,122,000	34,060
Msgr. Hession scholarship fund	121,708	10,000	10,000	121,708
Music education endowment income	38,453	18,631	8,802	48,282
OC book royalties	11,141			11,141
OSV development grant	20,713			20,713
OSV - master arts	91,989	1,949	71,615	22,323
Organist training	(355)			(355)
Other	76,032	166,561	157,830	84,763
Our Lady of Guadalupe	19,806			19,806
Parish in need	183,533	210,000	217,223	176,310
Priests' retirement	1,261,940	282,818	268,307	1,276,451
Principal training	47,645			47,645
Project Rachel	4,361			4,361
Quo Vadis days	2,500			2,500
Renew International	81,568	100,000	92,989	88,579
School fund	249,226	10,000	90,520	168,706
School marketing	81,507	25,394	19,927	86,974
Separation benefits - lay	1,130,520	206,985	106,756	1,230,749
South Bend technology	530	78,444	78,419	555
St. Joseph Reg. Med. Center	11,482	130,395	134,042	7,835
St. Mary's Heritage fund	2,945,441	439,774	178,763	3,206,452
Staff development	6,085			6,085
Technology grant	531			531
Twinning	9,000	159,530	156,365	12,165
Vestments - Bishop Rhoades	371			371
World Youth Day - Madrid	49,569	28,675	78,244	-
	<u>\$ 11,169,337</u>	<u>\$ 4,086,229</u>	<u>\$ 3,467,996</u>	<u>\$ 11,787,570</u>

The Notes to Financial Statements
are an integral part of the statements.

DIOCESE OF FORT WAYNE - SOUTH BEND, INC.
CENTRAL OPERATIONS
Reconciliation of Temporarily Restricted Net Assets
For the Year Ended June 30, 2017

	July 1, 2016			June 30, 2017
	<u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u>
Bathe-Avilla	\$ 54,596	\$ 7,382	\$ 20,265	\$ 41,713
D'Arcy dash	4,150			4,150
Foreign missions	9,050			9,050
Fund for the aging	345,719		44,000	301,719
Future trust interest	367,164	(26,488)		340,676
Gilmartin fund	781,544			781,544
Health beats	240			240
Josephine A. Sommerer scholarship fund	378,232	69,544	50,000	397,776
Koester fund	274,661			274,661
Lowé charitable fund	8,000			8,000
Nellie Fowerbaugh estate	551,022			551,022
OLVM grant	8,906			8,906
Parkhurst estate	22,339			22,339
Student insurance	24	421,695	360,300	61,419
Schmidt trust	162,867			162,867
Deacon Comm fund	200	500		700
Jail Ministry	-	82,619		82,619
Catholic Missions	-	3,768	1,150	2,618
Fr. Beuter Trust	197,491			197,491
World meeting of families	1,000			1,000
	<u>\$ 3,167,205</u>	<u>\$ 559,020</u>	<u>\$ 475,715</u>	<u>\$ 3,250,510</u>

The Notes to Financial Statements
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DIOCESE OF FORT WAYNE - SOUTH BEND, INC.
CENTRAL OPERATIONS
Reconciliation of Permanently Restricted Net Assets
For the Year Ended June 30, 2017

	July 1, 2016 <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	June 30, 2017 <u>Balance</u>
Burses	\$ 608,444	\$	\$	\$ 608,444
Music education scholarship	144,250			144,250
Perpetual trust interest	<u>3,203,542</u>		<u>22,381</u>	<u>3,181,161</u>
	<u>\$ 3,956,236</u>	<u>\$</u>	<u>\$ 22,381</u>	<u>\$ 3,933,855</u>

The Notes to Financial Statements
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DIOCESE OF FORT WAYNE - SOUTH BEND, INC.
CENTRAL OPERATIONS
Schedules of Functional Expenses - By Department -
Ministry Services

	For the Year Ended June 30	
	2017	2016
UNRESTRICTED EXPENSES		
Special ministries	\$ 380,047	\$ 416,717
Liturgy department	161,570	147,640
Cathedral museum	4,882	10,002
Vocation department	44,505	40,833
Family life	258,452	274,435
Tribunal	405,271	378,381
Hospital ministry	103,813	101,468
Hispanic ministry	137,734	148,528
Youth ministry	61,710	84,870
Catholic Charities	425,000	425,000
Fund for the poor	90,500	89,500
St. Mary's Heritage fund	178,763	216,825
Parish in need	217,223	197,075
Other	32,086	19,040
Missions	18,490	18,128
Permanent diaconate	5,650	2,191
World Youth Day	78,243	112,183
CCHD Intern	12,600	10,068
Bishop's OSV funds	29,856	34,504
Pueri Cantores	11,808	-
World Meeting of Families	-	22,402
Renew international	92,989	47,801
Education for ministry	6,542	5,456
Y Disciples	-	30,552
Franciscan formation	18,234	-
Faustina program	-	14,305
Total Unrestricted Fund Expenses	2,775,968	2,847,904
RESTRICTED FUND EXPENSES		
Koester fund	20,265	1,875
Catholics/mission	1,150	26,570
Fund for the aging	44,000	44,000
Jail ministry	-	1,922
Total Restricted Fund Expenses	65,415	74,367
TOTAL MINISTRY SERVICES	\$ 2,841,383	\$ 2,922,271

The Notes to Financial Statements
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DIOCESE OF FORT WAYNE - SOUTH BEND, INC.
CENTRAL OPERATIONS
Schedules of Functional Expenses - By Department -
Educational Services

	For the Year Ended June 30	
	2017	2016
UNRESTRICTED EXPENSES		
School administration	\$ 303,959	\$ 306,923
Secretariat of Catholic education	138,539	134,660
Religious education	497,174	537,787
Seminarian education	1,021,542	1,121,419
Continuing education - Priests	81,164	132,108
Large Catholic family fund	104,810	83,537
High school subsidies - Villa	30,000	30,000
Msgr. Hession scholarship fund	10,000	10,052
High school scholarships	240,000	240,000
High school subsidies	1,092,000	1,092,000
Bishop Noll scholarships	25,000	25,000
School marketing	19,927	5,385
Organist training	-	1,200
Music education endowment income	8,802	1,875
CSO funded projects	44,644	47,108
Twinning	156,365	151,933
School fund	90,520	30,102
Principal training	-	19,250
St. Joseph Reg. Med. Center	134,042	132,662
South Bend technology	78,419	77,134
High school endowment	280,000	280,000
Other	39,004	26,640
Franciscan seminary education	10,837	91,345
OSV - master arts	71,615	75,418
Hispanic diaconate formation	56,644	45,526
Total Unrestricted Fund Expenses	4,535,007	4,699,064
RESTRICTED FUND EXPENSES		
Josephine A. Sommerer Scholarship Fund	50,000	65,000
Total Restricted Fund Expenses	50,000	65,000
TOTAL EDUCATIONAL SERVICES	\$ 4,585,007	\$ 4,764,064

The Notes to Financial Statements
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DIOCESE OF FORT WAYNE - SOUTH BEND, INC.
CENTRAL OPERATIONS
Schedules of Functional Expenses - By Department -
Communications

	For the Year Ended June 30	
	2017	2016
UNRESTRICTED EXPENSES		
Today's Catholic	\$ 777,226	\$ 820,796
Communications office	199,378	146,006
TV Mass	135,086	151,566
Diocesan Directory	9,590	10,381
Catholic Business Network	2,512	4,716
7th Floor Studios	19,394	4,478
TOTAL COMMUNICATIONS	\$ 1,143,186	\$ 1,137,943

The Notes to Financial Statements
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DIOCESE OF FORT WAYNE - SOUTH BEND, INC.
CENTRAL OPERATIONS
Schedules of Functional Expenses - By Department -
Fund Raising

	For the Year Ended June 30	
	2017	2016
UNRESTRICTED EXPENSES		
Bishop's appeal	\$ 238,422	\$ 320,107
Development office	46,777	78,462
Planned giving	15,213	15,692
TOTAL FUND RAISING	\$ 300,412	\$ 414,261

The Notes to Financial Statements
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DIOCESE OF FORT WAYNE - SOUTH BEND, INC.
CENTRAL OPERATIONS
Schedules of Functional Expenses - By Department -
Other Services

	For the Year Ended June 30	
	2017	2016
UNRESTRICTED EXPENSES		
Personnel	\$ 310,387	\$ 336,225
Assessments	136,435	126,715
Parish assistance	32,895	32,889
Group insurance expense	13,417,490	13,714,932
Property/liability insurance expense	2,180,332	1,757,008
Unemployment claims	40,111	41,977
TOTAL OTHER SERVICES	\$ 16,117,650	\$ 16,009,746

The Notes to Financial Statements
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DIOCESE OF FORT WAYNE - SOUTH BEND, INC.
CENTRAL OPERATIONS
Schedules of Functional Expenses - By Department -
Administrative

	For the Year Ended June 30	
	2017	2016
UNRESTRICTED EXPENSES		
Bishop	\$ 72,182	\$ 91,209
Administration	731,622	752,057
Archive department	46,504	36,469
Central purchasing	58,867	58,536
Data processing	105,520	136,694
Accounting	144,899	125,166
Property management	737,633	656,222
Property manager	104,129	96,641
Interest expense	743,551	835,674
Foreign clergy	32,231	25,993
Provision for uncollectible accounts	250,751	254,207
Separation benefits - lay	106,756	89,598
Priests' retirement	268,307	241,500
Safe environment	67,817	55,867
Andrews Center	21,671	31,876
Litigation and settlement costs	100,500	425,570
Old Chancery	15,104	12,529
Other	5,934	6,953
Total Unrestricted Administrative Expenses	3,613,978	3,932,761
RESTRICTED FUND EXPENSES		
Student insurance	360,300	342,200
TOTAL ADMINISTRATIVE	\$ 3,974,278	\$ 4,274,961

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