

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

**Financial Statements
and Supplementary Information**

as of June 30, 2018 and 2017

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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, 2018 and 2017, 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, 2018 and 2017, 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.

Report on Supplementary Information

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

August 28, 2018

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

ASSETS	June 30	
	2018	2017
Cash and cash equivalents	\$ 8,776,428	\$ 8,049,933
Accounts receivable (net of provision for doubtful accounts)	3,195,487	5,161,477
Investments	35,747,458	29,270,928
Loans receivable (net of provision for doubtful accounts)	19,548,137	18,641,151
Beneficial interest in trusts	3,440,758	3,486,764
Inventories	196,389	188,453
Land, buildings and equipment (net)	6,529,558	6,266,396
Deposits	343,000	216,000
TOTAL ASSETS	\$ 77,777,215	\$ 71,281,102

(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 <u>2018</u>	<u>2017</u>
LIABILITIES		
Accounts payable and accrued expenses	\$ 1,976,517	\$ 1,578,585
Lay employees' retirement obligation	53,352	943,696
Parish deposits	43,848,313	38,515,535
Notes payable - bank	4,328,965	6,054,564
Collections payable	100,719	219,645
Annuities payable	<u>7,624</u>	<u>7,624</u>
Total Liabilities	50,315,490	47,319,649
NET ASSETS		
Unrestricted Operational	7,547,297	4,989,518
Designated	<u>12,851,469</u>	<u>11,787,570</u>
Total Unrestricted	20,398,766	16,777,088
Temporarily restricted	3,176,968	3,250,510
Permanently restricted	<u>3,885,991</u>	<u>3,933,855</u>
Total Net Assets	<u>27,461,725</u>	<u>23,961,453</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 77,777,215</u></u>	<u><u>\$ 71,281,102</u></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, 2018
(With Comparative Totals for the Year Ended June 30, 2017)

	Unrestricted		Temporarily	Permanently	June 30	June 30
REVENUES, GAINS AND OTHER SUPPORT	Operational	Designated	Restricted	Restricted	2018 Total	2017 Total
Parish quotas	\$ 2,430,030	\$	\$	\$	\$ 2,430,030	\$ 2,378,937
Donations and bequests	1,440,435	1,413,551	1,475		2,855,461	1,565,829
Net investment income	935,445	621,664	34,501		1,591,610	2,415,115
Unrealized investment gain	472,808	359,193	20,969		852,970	1,145,054
Fund raising - Annual Bishop's Appeal	3,589,827	1,922,000			5,511,827	5,217,053
Insurance premiums	19,692,074		454,605		20,146,679	19,565,895
Interest - loans	569,678				569,678	491,635
Collections	284,669	14,130			298,799	252,503
Advertising	129,935	3,200			133,135	151,413
Sale of merchandise	385,499	1,935			387,434	411,084
Fees, rentals and workshops	601,510	252,038			853,548	745,846
Subscriptions	64,548				64,548	3,271
Miscellaneous	88,948				88,948	64,296
Change in value - beneficial trust interest			(24,054)		(24,054)	(26,488)
Gain on sale of assets	3,282				3,282	124,989
Net Assets Released From Restrictions	4,132,714	(3,523,812)	(561,038)	(47,864)	-	-
Total Revenue, Gains and Other Support and Net Assets Released from Restrictions	34,821,402	1,063,899	(73,542)	(47,864)	35,763,895	34,506,432
EXPENSES						
Ministry services	3,096,001				3,096,001	2,841,383
Educational services	4,962,155				4,962,155	4,585,007
Communications	898,829				898,829	1,143,186
Fund raising	396,621				396,621	300,412
Other services	18,457,667				18,457,667	16,117,650
Administrative	4,452,350				4,452,350	3,974,278
Total Expenses	32,263,623				32,263,623	28,961,916
CHANGE IN NET ASSETS	2,557,779	1,063,899	(73,542)	(47,864)	3,500,272	5,544,516
NET ASSETS AT BEGINNING OF YEAR	4,989,518	11,787,570	3,250,510	3,933,855	23,961,453	18,416,937
NET ASSETS AT END OF YEAR	\$ 7,547,297	\$ 12,851,469	\$ 3,176,968	\$ 3,885,991	\$ 27,461,725	\$ 23,961,453

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

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

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 2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from		
Parish quotas	\$ 2,430,030	\$ 2,397,160
Donations and bequests	3,292,852	1,960,811
Net investment income	1,591,610	2,415,115
Fund raising	5,816,101	5,272,418
Insurance premiums	20,219,923	19,776,853
Interest - loans	731,870	551,335
Other income and fees	1,837,253	683,449
Cash paid for		
Program and administrative services	(31,730,316)	(27,799,444)
Interest - parish deposits	(820,242)	(743,551)
Net Cash Provided By Operating Activities	3,369,081	4,514,146
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(595,501)	(386,403)
Decrease (increase) in investments	(5,623,560)	1,235,937
Proceeds from sale of assets	3,282	124,989
Decrease (increase) in parish loans receivable	(906,986)	1,697,941
Decrease (increase) in accounts receivable-other	1,000,000	(2,000,000)
Increase in deposits	(127,000)	-
Net Cash Provided By (Used For) Investing Activities	(6,249,765)	672,464
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (decrease) in parish deposits	5,332,778	(1,153,211)
Decrease in notes payable - bank	(1,725,599)	(560,865)
Net Cash Provided By (Used For) Financing Activities	3,607,179	(1,714,076)
NET INCREASE IN CASH AND CASH EQUIVALENTS	726,495	3,472,534
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	8,049,933	4,577,399
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 8,776,428	\$ 8,049,933

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 2018	2017
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Change in net assets	\$ 3,500,272	\$ 5,544,516
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	332,339	280,551
Change in value - beneficial interest in trusts	46,006	48,869
Gain on sale of assets	(3,282)	(124,989)
Unrealized investment gain	(852,970)	(1,145,054)
Uncollectible accounts	367,703	250,751
Changes in operating assets and liabilities		
Decrease (increase) in		
Accounts receivable	598,287	(228,117)
Inventories	(7,936)	(25,674)
Prepaid and deferred expenses	-	110,325
Increase (decrease) in		
Accounts payable and accrued expenses	397,932	5,867
Lay employees' retirement obligation	(890,344)	(344,955)
Collections payable	(<u>118,926</u>)	<u>142,056</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 3,369,081</u>	<u>\$ 4,514,146</u>

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, 2018. 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, 2018, 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 fair value of investments for which quoted market prices are not available are generally measured based on net asset value ("NAV") provided by the external investment managers. The Diocese believes the carrying amount of these assets represents a reasonable estimate of fair market 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 \$820,242 and \$743,551 for the years ended June 30, 2018 and 2017, 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 \$332,339 and \$280,551 for the years ending June 30, 2018 and 2017, 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, 2018 and 2017, 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, 2018			
Furniture and equipment	\$ 2,180,382	\$ 1,447,079	\$ 733,303
Buildings and improvements	6,364,130	3,165,178	3,198,952
Land	2,468,540	-	2,468,540
Automobiles	319,739	190,976	128,763
	\$ 11,332,791	\$ 4,803,233	\$ 6,529,558
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

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, 2018 and 2017 in the amount of \$59,488 and \$47,048, 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 \$98,526 and \$81,807 for the years ended June 30, 2018 and 2017, 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, 2018 and 2017, the gross accounts and loans receivable balance relating to amounts due from parishes and schools amounted to \$19,352,388 and \$21,047,788, 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. 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, 2019, 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 August 28, 2018, the date the financial statements were available to be issued.

NOTE 3 – Accounts Receivable – Net

Accounts receivable amounted to \$3,809,968 and \$5,778,655 as of June 30, 2018 and 2017, respectively. A summary of these receivables and related provision for uncollectible accounts is presented as follows:

	June 30 2018	June 30 2017
General receivables	\$ 22,799	\$ 32,940
Payroll	35,182	59,373
Quota	93,864	93,864
Insurance	234,214	322,302
Health and accident insurance	453,141	438,297
Retirement	194,806	396,647
Interest	958,078	1,120,270
Bishop's Appeal (net)	131,935	137,410
Affiliated organizations	596,286	650,498
Due from lay retirement plan	1,000,000	2,000,000
Other receivables	89,663	527,054
Gross accounts receivable	3,809,968	5,778,655
Less: provision for uncollectible accounts	(614,481)	(617,178)
Total Accounts Receivable - Net	\$ 3,195,487	\$ 5,161,477

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 – Loans Receivable – Net

Loans receivable amounted to \$19,815,713 and \$18,929,748 as of June 30, 2018 and 2017, respectively. A summary of loans receivable and related provision for uncollectible accounts is presented as follows:

	<u>June 30</u> 2018	<u>June 30</u> 2017
Loans to Diocesan Organizations	\$ 16,857,421	\$ 16,537,416
Noninterest bearing loans	<u>2,958,292</u>	<u>2,392,332</u>
	19,815,713	18,929,748
Less: provision for uncollectible loans	(267,576)	(288,597)
Total Accounts Receivable - Net	<u><u>\$ 19,548,137</u></u>	<u><u>\$ 18,641,151</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> 2018	<u>June 30</u> 2017
Beginning balance	\$ 905,775	\$ 808,789
Accounts written off	(391,421)	(153,765)
Bad debt provision	<u>367,703</u>	<u>250,751</u>
Ending balance	<u><u>\$ 882,057</u></u>	<u><u>\$ 905,775</u></u>

At June 30, 2018 and 2017, 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>
2018	\$ 154,261	\$ -	\$ 706,722	\$ 860,983
2017	224,567	917	706,137	931,621

NOTE 6 – Investments

Investments as of June 30, 2018 and 2017 consisted of the following:

	Fair Market Value	
	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Cash equivalents	\$ 2,936,220	\$ 1,053,764
Non U.S. equity	15,979,959	9,513,048
Long / short equity	3,835,190	3,453,968
U.S. Large cap	7,031,182	7,800,699
Fixed income	3,433,332	3,556,417
Absolute return strategy	1,596,259	2,722,195
Private equity	<u>935,316</u>	<u>1,170,837</u>
Total Investments at Fair Value	<u><u>\$ 35,747,458</u></u>	<u><u>\$ 29,270,928</u></u>
Total Investments at Historical Cost	<u><u>\$ 33,591,281</u></u>	<u><u>\$ 28,057,599</u></u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 6 – Investments (Continued)

Net investment income consists of the following:

	<u>June 30</u> <u>2018</u>	<u>June 30</u> <u>2017</u>
Dividends and interest	\$ 167,702	\$ 220,537
Realized gains	1,521,810	2,293,734
Unrealized gains	852,970	1,145,054
Investment management fees	(<u>97,902</u>)	(<u>99,156</u>)
Net Investment Income	<u>\$ 2,444,580</u>	<u>\$ 3,560,169</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 \$8,280,827 and \$7,755,300 in excess of the federally insured limits as of June 30, 2018 and 2017, 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 \$126,141 and \$133,309 for the years ending June 30, 2018 and 2017, 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 \$17,306 and \$10,498 for the years ended June 30, 2018 and 2017, respectively.

The following sets forth the funded status of the plan as of January 1, 2018 and 2017.

	<u>January 1</u> <u>2018</u>	<u>January 1</u> <u>2017</u>
Actuarial present value of benefit obligations:		
Vested benefits	\$ 99,888,000	\$ 95,953,000
Nonvested benefits	<u>873,000</u>	<u>1,344,000</u>
Accumulated and projected benefit obligations:	<u>\$ 100,761,000</u>	<u>\$ 97,297,000</u>
Fair value of assets held in the plan	<u>\$ 75,909,029</u>	<u>\$ 66,391,818</u>
Funding ratio	75.3%	68.2%

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% at January 1, 2018 and 2017.

The following is an analysis of plan assets by category:

	January 1 2018	January 1 2017
Securities - Northern Trust	\$ 70,084,064	\$ 61,166,489
Annuity contract	1,478,541	1,812,260
Employer receivable	<u>4,346,424</u>	<u>3,413,069</u>
Total	<u>\$ 75,909,029</u>	<u>\$ 66,391,818</u>

The following is a reconciliation of plan assets for the plan year ending January 1, 2018 and 2017:

	Plan Year Ended January 1 2018	Plan Year Ended January 1 2017
Plan assets - beginning of year	\$ 66,391,818	\$ 63,850,702
Employer contribution	4,417,168	3,488,533
Benefits paid	(5,445,203)	(5,030,260)
Plan income	<u>10,545,246</u>	<u>4,082,843</u>
Plan Assets - end of year	<u>\$ 75,909,029</u>	<u>\$ 66,391,818</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	
	2018	2017
Charitable remainder trust	\$ 307,449	\$ 331,503
Perpetual trust	<u>3,133,309</u>	<u>3,155,261</u>
	<u>\$ 3,440,758</u>	<u>\$ 3,486,764</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, 2018 and 2017 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, 2018 and 2017.

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 \$87,475 and \$82,475 for the years ended June 30, 2018 and 2017, 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 \$131,886 and \$131,103 for the years ended June 30, 2018 and 2017, respectively.

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

Year Ending June 30	Catholic Charities - South Bend	Catholic Charities - Fort Wayne	Parking Spaces
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	-
2023	-	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 (3.37% at June 30, 2018) and is due December 19, 2019.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 11 – Note Payable – Bank (Continued)

On February 23, 2016, the Diocese secured a second 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 (3.55% at June 30, 2018). On March 17, 2017, the Diocese secured a third promissory term note with 1st Source Bank in the amount of \$4,000,000. The note bears interest at a rate of 1.55% per annum below the prime rate (3.45% at June 30, 2018). Proceeds from the notes were used to partially fund construction projects of two high schools and two 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, 2018 and 2017 under these agreements amounted to \$4,328,965 and \$6,054,564, 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 \$13,637,634 and \$11,274,732 for the years ended June 30, 2018 and 2017, respectively.

The Diocese is self-insured with respect to unemployment compensation. Claims and benefits paid amounted to \$30,218 and \$53,299 for the years ended June 30, 2018, and 2017.

The Diocese's worker's compensation coverage is insurance by Church Mutual 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 \$370,395 and \$744,903 for the years ended June 30, 2018 and 2017, 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 2018	June 30 2017
Assets and Liabilities:		
Accounts receivable, gross	\$ 3,541,325	\$ 2,118,040
Loans receivable, gross	15,811,063	18,929,748
Accounts payable and accrued expenses	14,048	170,522
Revenues:		
Parish quotas	2,430,030	2,378,937
Premiums and insurance billings	19,358,967	18,825,017
Interest income - notes receivable	569,678	491,635
Expenses:		
Education services	2,080,628	1,852,957
Ministry services	1,418,695	1,259,151

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, 2018 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	\$ 1,657,822	\$	\$	\$ 1,278,398	\$ 2,936,220
Non U.S. equity				15,979,959	15,979,959
Long/short equity				3,835,190	3,835,190
U.S. Large cap				7,031,182	7,031,182
Fixed income	237,341			3,195,991	3,433,332
Absolute return strategy			957,061	639,198	1,596,259
Private equity			935,316		935,316
Total investments	1,895,163	-	1,892,377	31,959,918	35,747,458
Beneficial interest in trusts		307,449	3,133,309		3,440,758
Total Financial Instruments	<u>\$ 1,895,163</u>	<u>\$ 307,449</u>	<u>\$ 5,025,686</u>	<u>\$ 31,959,918</u>	<u>\$ 39,188,216</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 14 – Fair Value of Financial Instruments (Continued)

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	3,512,510			2,283,131	5,795,641
U.S. Large cap	3,805,219			3,995,480	7,800,699
Fixed income				2,092,871	2,092,871
Absolute return strategy			1,463,546	380,522	1,844,068
Private equity			1,170,837		1,170,837
Total investments	7,610,450	-	2,634,383	19,026,095	29,270,928
Beneficial interest in trusts		331,503	3,155,261		3,486,764
Total Financial Instruments	\$ 7,610,450	\$ 331,503	\$ 5,789,644	\$ 19,026,095	\$ 32,757,692

Investments valued at NAV or its equivalent as of June 30, 2018, consisted of the following:

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency (if Currently Eligible)</u>	<u>Redemption Notice Period</u>
Catholic Endowment Fund	\$ 31,959,918	\$ N/A	Unlimited	95 Days

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

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency (if Currently Eligible)</u>	<u>Redemption Notice Period</u>
Catholic Endowment Fund	\$ 19,026,095	\$ 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, 2018 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, 2017	\$ 2,634,383	\$ 3,155,261	\$ 5,789,644
Transfers in	436,672		436,672
Transfers out	(1,255,277)		(1,255,277)
Dividends and interest income, realized and unrealized gains, and changes in value	76,599	(21,952)	54,647
Balance - June 30, 2018	<u>\$ 1,892,377</u>	<u>\$ 3,133,309</u>	<u>\$ 5,025,686</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, 2017 for Level 3 assets.

	<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	(1,514,540)		(1,514,540)
Dividends and interest income, realized and unrealized gains, and changes in value	199,600	(22,381)	177,219
Balance - June 30, 2017	<u>\$ 2,634,383</u>	<u>\$ 3,155,261</u>	<u>\$ 5,789,644</u>

NOTE 15 – Temporarily Restricted Net Assets

Temporarily restricted net assets as of June 30, 2018 and 2017 consisted of the following:

	<u>2018</u>	<u>2017</u>
Gilmartin fund	\$ 781,544	\$ 781,544
Josephine A. Sommerer fund	405,068	397,776
Nellie Fowerbaugh estate	551,022	551,022
Future trust interest	316,622	340,676
Fund for the aging	147,719	301,719
Other funds	974,993	877,773
	<u>\$ 3,176,968</u>	<u>\$ 3,250,510</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, 2018 and 2017 are as follows:

	2018	2017
Josephine A. Sommerer fund	\$ 44,433	\$ 50,000
Fund for the aging	154,000	44,000
Student insurance	345,765	360,300
Other funds	16,840	21,415
	<u>\$ 561,038</u>	<u>\$ 475,715</u>

NOTE 16 – Permanently Restricted Net Assets

Permanently restricted net assets as of June 30, 2018 and 2017 consisted of the following:

	2018	2017
Burses	\$ 608,444	\$ 608,444
Music Education Scholarship	144,250	144,250
Perpetual trust interest	3,133,297	3,181,161
	<u>\$ 3,885,991</u>	<u>\$ 3,933,855</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, 2018, is as follows:

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted funds	\$	\$ 3,885,991	\$ 3,885,991
Designated funds	4,505,189		4,505,189
Total funds	<u>\$ 4,505,189</u>	<u>\$ 3,885,991</u>	<u>\$ 8,391,180</u>

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>

Changes in endowment net assets for the year ended June 30, 2018, are as follows:

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets - beginning of year	\$ 4,380,921	\$ 3,933,855	\$ 8,314,776
Investment return:			
Dividends, interest and realized investment gains (net)	253,225		253,225
Unrealized gains	154,093		154,093
Change in value - beneficial trust interest		(47,864)	(47,864)
Total investment return	407,318	(47,864)	359,454
Appropriation of endowment assets for expenditures	(283,050)		(283,050)
Endowment net assets - end of year	<u>\$ 4,505,189</u>	<u>\$ 3,885,991</u>	<u>\$ 8,391,180</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 17 – Endowments (Continued)

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

	Unrestricted	Permanently Restricted	Total
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 losses	179,892		179,892
Change in value - beneficial trust interest		(22,381)	(22,381)
Total investment return	572,795	(22,381)	550,414
Appropriation of endowment assets for expenditures	(288,802)		(288,802)
Endowment net assets - end of year	\$ 4,380,921	\$ 3,933,855	\$ 8,314,776

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. The reserve amounted to \$60,957 and \$0 as of June 30, 2018 and 2017, respectively.

**SUPPLEMENTARY
INFORMATION**

DIOCESE OF FORT WAYNE-SOUTH BEND, INC.
CENTRAL OPERATIONS
Schedule of Functional Expenses
For the Year Ended June 30, 2018
(With Comparative Totals for the Year Ended June 30, 2017)

	Ministry Services	Educational Services	Communications	Fund Raising	Other Services	Administrative	June 30 2018 Total	June 30 2017 Total
Salary-religious	\$ 76,313				\$ 50,246	\$ 298,303	\$ 424,862	\$ 415,318
Salary-lay	832,345	687,404	306,351	177,726	22,610	826,616	2,853,052	2,554,743
Commissions	480		19,490				19,970	14,553
FICA	60,280	51,141	24,250	11,890	1,361	60,414	209,336	185,716
Unemployment claims	4,052	3,215	1,359	767	17,306	3,519	30,218	53,299
Health and accident insurance	200,221	290,256	53,606	41,009	226,965	171,390	983,447	907,224
Pension and benefits	46,322	45,614	15,044	8,936	77,699	82,742	276,357	219,257
Education, seminars and conferences	18,220	5,915	925	13,399		7,073	45,532	33,971
Postage	7,717	1,290	1,612	19,834		18,591	49,044	45,268
Telephone	4,741	3,078	1,236	523		81,904	91,482	96,198
Office supplies	20,766	14,121	3,213	3,640		29,780	71,520	65,689
Printing	3,699	2,114	12,248	21,915		5,215	45,191	30,402
Equipment and furniture	2,601	1,897	3,445			2,255	10,198	6,927
Travel	42,988	65,622	2,767	3,155	2,116	20,868	137,516	114,879
Auto	3,273					46,950	50,223	50,112
Depreciation	7,235	2,665	28,047	1,227		293,165	332,339	280,551
Legal and professional	196,307	31,766	5,053	3,430	52	115,013	351,621	218,940
Public relations	23,685	19,259	4,360	466	72	21,594	69,436	81,393
Employee search						274	274	-
Donations and ministry support	414,718	177,337				45,018	637,073	529,526
Miscellaneous	6,719	31,325	138	68	1,307	13,925	53,482	62,736
Repairs, maintenance and utilities	19,339					633,743	653,082	513,900
Bank charges			766			47,811	48,577	36,304
Property and liability-self insurance					3,466,549		3,466,549	3,288,215
Student insurance						345,765	345,765	360,300
Memberships and subscriptions	12,328	64,511	959	1,200		10,104	89,102	70,961
Advertising and promotion	1,745	3,346	4,007	87,436		1,992	98,526	81,807
Program expense	425,367	484,880	136,033			3,776	1,050,056	1,158,326
Paper distribution			208,604				208,604	514,405
Freelance and news service			64,716				64,716	69,428
Assessments					136,885		136,885	136,434
Interest						820,242	820,242	743,551
Funding-ministry, education, P.I.N.	236,390	277,190					513,580	412,297
High school subsidy		1,131,999					1,131,999	1,122,000
Insurance claims					14,454,499		14,454,499	12,309,607
High school scholarships		265,000					265,000	275,000
Tuition and allowances	3,150	1,021,210	600				1,024,960	839,228
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						367,703	367,703	250,751
Litigation and settlement costs						69,405	69,405	100,500
Total Expenses	<u>\$ 3,096,001</u>	<u>\$ 4,962,155</u>	<u>\$ 898,829</u>	<u>\$ 396,621</u>	<u>\$ 18,457,667</u>	<u>\$ 4,452,350</u>	<u>\$ 32,263,623</u>	<u>\$ 28,961,916</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, 2017

	Ministry Services	Educational Services	Communications	Fund Raising	Other Services	Administrative	June 30 2017 Total
Salary-religious	\$ 68,954				\$ 31,536	\$ 314,828	\$ 415,318
Salary-lay	786,313	598,584	299,692	120,271	19,011	730,872	2,554,743
Commissions			14,553				14,553
FICA	55,554	44,781	23,926	8,502	1,219	51,734	185,716
Unemployment claims	4,229	3,346	1,241	883	40,233	3,367	53,299
Health and accident insurance	184,402	271,797	44,797	27,657	218,673	159,898	907,224
Pension and benefits	45,270	41,947	15,478	10,188	69,108	37,266	219,257
Education, seminars and conferences	15,411	6,782	1,720	3,058	1,500	5,500	33,971
Postage	4,569	1,274	1,860	17,388		20,177	45,268
Telephone	6,863	5,193	2,427	1,267		80,448	96,198
Office supplies	23,703	14,653	2,204	5,551		19,578	65,689
Printing	3,275		321	24,865		1,941	30,402
Equipment and furniture	455	2,245	2,179			2,048	6,927
Travel	39,941	47,660	2,341	3,785		20,440	114,879
Auto	2,500					47,612	50,112
Depreciation	13,133	2,761	24,172	903		239,582	280,551
Legal and professional	62,794	22,061				531	133,554
Public relations	24,098	14,126	1,379	291	53	41,446	81,393
Donations and ministry support	326,362	156,666				46,498	529,526
Miscellaneous	2,711	26,772	15,496	102	818	16,837	62,736
Repairs, maintenance and utilities	25,436		1,175			487,289	513,900
Bank charges						36,304	36,304
Property and liability-self insurance					3,288,215		3,288,215
Student insurance						360,300	360,300
Memberships and subscriptions	10,837	50,105	1,608	1,100		7,311	70,961
Advertising and promotion	1,885	4,957	1,572	71,606		1,787	81,807
Program expense	447,201	604,254	101,212			5,659	1,158,326
Paper distribution			514,405				514,405
Freelance and news service			69,428				69,428
Assessments					136,434		136,434
Interest						743,551	743,551
Funding-ministry, education, P.I.N.	257,487	154,810					412,297
High school subsidy		1,122,000					1,122,000
Insurance claims					12,309,607		12,309,607
High school scholarships		275,000					275,000
Tuition and allowances	3,000	833,233		2,995			839,228
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						250,751	250,751
Litigation and settlement costs						100,500	100,500
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>

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, 2018

	July 1, 2017			June 30, 2018
	<u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u>
Bishop Noll scholarship	\$ 302,000	\$ 25,004	\$ 25,000	\$ 302,004
Bishop's OSV fund	110,262	40,000	41,075	109,187
Christopher fund	5,531			5,531
Franciscan seminary	79,073	68,135	4,851	142,357
Franciscan world youth day	2,875			2,875
Fund for the Poor	41,500	90,000	92,500	39,000
High school endowment fund	4,332,639	393,539	280,000	4,446,178
High school scholarships	234,980	240,000	240,000	234,980
High schools	34,060	1,131,996	1,131,999	34,057
Msgr. Hession scholarship fund	121,708	10,000	10,000	121,708
Music education endowment income	48,282	13,779	3,050	59,011
OC book royalties	11,141			11,141
OSV development grant	20,713			20,713
OSV - master arts	22,323	114,034	64,175	72,182
Other	84,408	271,413	285,932	69,889
Our Lady of Guadalupe	19,806			19,806
Parish in need	176,310	210,000	172,390	213,920
Priests' retirement	1,276,451	949,678	292,982	1,933,147
Principal training	47,645		21,544	26,101
Project Rachel	4,361			4,361
Quo Vadis days	2,500			2,500
Renew International	88,579	100,000	93,172	95,407
School fund	168,706		39,902	128,804
School marketing	86,974	24,888	26,728	85,134
Separation benefits - lay	1,230,749	157,162	119,555	1,268,356
South Bend technology	555	80,088	80,077	566
St. Joseph Reg. Med. Center	7,835	130,000	135,619	2,216
St. Mary's Heritage fund	3,206,452	327,124	192,000	3,341,576
Staff development	6,085			6,085
Technology grant	531			531
Twinning	12,165	170,871	170,871	12,165
Vestments - Bishop Rhoades	371			371
World Youth Day	-	40,000	390	39,610
	<u>\$ 11,787,570</u>	<u>\$ 4,587,711</u>	<u>\$ 3,523,812</u>	<u>\$ 12,851,469</u>

The Notes to Financial Statements
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DIOCESE OF FORT WAYNE - SOUTH BEND, INC.
CENTRAL OPERATIONS
Reconciliation of Temporarily Restricted Net Assets
For the Year Ended June 30, 2018

	July 1, 2017			June 30, 2018
	<u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u>
Bathe-Avilla	\$ 41,713	\$ 3,745	\$	\$ 45,458
D'Arcy dash	4,150			4,150
Foreign missions	9,050			9,050
Fund for the aging	301,719		154,000	147,719
Future trust interest	340,676	(24,054)		316,622
Gilmartin fund	781,544			781,544
Health beats	240			240
Josephine A. Sommerer scholarship fund	397,776	51,725	44,433	405,068
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	61,419	454,605	345,765	170,259
Schmidt trust	162,867			162,867
Deacon Comm fund	700	100		800
Ross - St. Bernard's	82,619		9,124	73,495
Catholic Missions	2,618	375	2,818	175
Fr. Beuter Trust	197,491		3,898	193,593
World meeting of families	1,000			1,000
St. Thomas Moore society	-	1,000	1,000	-
	<u>\$ 3,250,510</u>	<u>\$ 487,496</u>	<u>\$ 561,038</u>	<u>\$ 3,176,968</u>

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

DIOCESE OF FORT WAYNE - SOUTH BEND, INC.
CENTRAL OPERATIONS
Reconciliation of Permanently Restricted Net Assets
For the Year Ended June 30, 2018

	July 1, 2017 <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	June 30, 2018 <u>Balance</u>
Burses	\$ 608,444	\$	\$	\$ 608,444
Music education scholarship	144,250			144,250
Perpetual trust interest	<u>3,181,161</u>		<u>47,864</u>	<u>3,133,297</u>
	<u>\$ 3,933,855</u>	<u>\$ -</u>	<u>\$ 47,864</u>	<u>\$ 3,885,991</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	
	2018	2017
UNRESTRICTED EXPENSES		
Special ministries	\$ 340,915	\$ 380,047
Liturgy department	161,961	161,570
Cathedral museum	7,646	4,882
Vocation department	44,070	44,505
Family life	272,043	258,452
Tribunal	447,949	405,271
Hospital ministry	123,138	103,813
Hispanic ministry	138,595	137,734
Youth ministry	115,665	61,710
Catholic Charities	425,000	425,000
Fund for the poor	92,500	90,500
St. Mary's Heritage fund	192,000	178,763
Parish in need	172,390	217,223
Other	32,071	32,086
Missions	18,951	18,490
Permanent diaconate	6,446	5,650
World Youth Day	390	78,243
CCHD Intern	2,000	12,600
Bishop's OSV funds	41,075	29,856
Pueri Cantores	11,232	11,808
Renew international	93,172	92,989
Education for ministry	8,596	6,542
Franciscan formation	181,254	18,234
	2,929,059	2,775,968
Total Unrestricted Fund Expenses		
RESTRICTED FUND EXPENSES		
Koester fund	-	20,265
Catholics/mission	2,818	1,150
Fund for the aging	154,000	44,000
Ross - St. Bernard's	9,124	-
St. Thomas Moore society	1,000	-
	166,942	65,415
Total Restricted Fund Expenses		
TOTAL MINISTRY SERVICES	\$ 3,096,001	\$ 2,841,383

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	
	2018	2017
UNRESTRICTED EXPENSES		
School administration	\$ 337,401	\$ 303,959
Secretariat of Catholic education	145,498	138,539
Religious education	540,077	497,174
Seminarian education	1,245,579	1,021,542
Continuing education - Priests	68,558	81,164
Large Catholic family fund	222,757	104,810
High school subsidies - Villa	40,000	30,000
Msgr. Hession scholarship fund	10,000	10,000
High school scholarships	240,000	240,000
High school subsidies	1,091,999	1,092,000
Bishop Noll scholarships	25,000	25,000
School marketing	26,728	19,927
Music education endowment income	3,050	8,802
CSO funded projects	44,952	44,644
Twinning	170,871	156,365
School fund	39,901	90,520
Principal training	21,544	-
St. Joseph Reg. Med. Center	135,619	134,042
South Bend technology	80,077	78,419
High school endowment	280,000	280,000
Other	23,295	39,004
Franciscan seminary education	4,851	10,837
OSV - master arts	64,175	71,615
Hispanic diaconate formation	51,892	56,644
Total Unrestricted Fund Expenses	4,913,824	4,535,007
RESTRICTED FUND EXPENSES		
Josephine A. Sommerer Scholarship Fund	44,433	50,000
Fr. Beuter Trust	3,898	-
Total Restricted Fund Expenses	48,331	50,000
TOTAL EDUCATIONAL SERVICES	\$ 4,962,155	\$ 4,585,007

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	
	2018	2017
UNRESTRICTED EXPENSES		
Today's Catholic	\$ 522,202	\$ 777,226
Communications office	142,438	199,378
TV Mass	148,469	135,086
Diocesan Directory	10,901	9,590
Catholic Business Network	141	2,512
7th Floor Studios	74,678	19,394
TOTAL COMMUNICATIONS	\$ 898,829	\$ 1,143,186

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

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

	For the Year Ended June 30	
	2018	2017
UNRESTRICTED EXPENSES		
Bishop's appeal	\$ 308,223	\$ 238,422
Development office	87,484	46,777
Planned giving	914	15,213
TOTAL FUND RAISING	\$ 396,621	\$ 300,412

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	
	2018	2017
UNRESTRICTED EXPENSES		
Personnel	\$ 344,458	\$ 310,387
Assessments	136,885	136,435
Parish assistance	36,914	32,895
Group insurance expense	16,030,593	13,417,490
Property/liability insurance expense	1,891,616	2,180,332
Unemployment claims	17,201	40,111
TOTAL OTHER SERVICES	\$ 18,457,667	\$ 16,117,650

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	
	2018	2017
UNRESTRICTED EXPENSES		
Bishop	\$ 86,261	\$ 72,182
Administration	761,235	731,622
Archive department	52,392	46,504
Central purchasing	58,596	58,867
Data processing	117,624	105,520
Accounting	185,887	144,899
Property management	929,285	737,633
Property manager	117,372	104,129
Interest expense	820,242	743,551
Foreign clergy	32,156	32,231
Provision for uncollectible accounts	367,703	250,751
Separation benefits - lay	119,555	106,756
Priests' retirement	292,982	268,307
Safe environment	70,720	67,817
Andrews Center	21,248	21,671
Litigation and settlement costs	69,405	100,500
Old Chancery	-	15,104
Other	3,922	5,934
	4,106,585	3,613,978
Total Unrestricted Administrative Expenses		
RESTRICTED FUND EXPENSES		
Student insurance	345,765	360,300
TOTAL ADMINISTRATIVE	\$ 4,452,350	\$ 3,974,278

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