

Insurance Fund of The Roman Catholic Diocese of Toledo in America

**Financial Report
June 30, 2016**

Insurance Fund of The Roman Catholic Diocese of Toledo in America

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Independent Auditor's Report

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

We have audited the accompanying financial statements of the Insurance Fund of The Roman Catholic Diocese of Toledo in America (the "Fund"), which comprise the statement of financial position as of June 30, 2016 and 2015 and the related statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Insurance Fund of The Roman Catholic Diocese of Toledo in America as of June 30, 2016 and 2015 and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

To the Most Reverend Daniel E. Thomas
and Reverend Monsignor William Kubacki
Insurance Fund of The Roman Catholic
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Emphasis of Matter

As described in Note 3 to the financial statements, the Fund is one of several funds of The Roman Catholic Diocese of Toledo in America (the "Diocese") and has no separate legal status or existence. Its assets are legally available for the satisfaction of debts of the Diocese, not solely those appearing on the accompanying statement of financial position, and its debts may result in claims against assets not appearing thereon. Our opinion is not modified with respect to this matter.

Plante & Moran, PLLC

November 21, 2016

Insurance Fund of The Roman Catholic Diocese of Toledo in America

Statement of Financial Position

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Assets		
Cash and cash equivalents	\$ 4,372,640	\$ 920,840
Participation charges receivable	256,566	221,029
Healthcare premiums receivable - Net of allowance	449,546	482,165
Due from Central City Ministries Fund (Note 4)	903,625	1,113,625
Investments (Note 2)	25,187,149	25,170,018
Prepaid expenses	512,175	526,440
Total assets	<u>\$ 31,681,701</u>	<u>\$ 28,434,117</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 224,270	\$ 65,254
Reserve for claims and claims expenses	1,854,322	1,911,879
Total liabilities	2,078,592	1,977,133
Net Assets - Unrestricted	<u>29,603,109</u>	<u>26,456,984</u>
Total liabilities and net assets	<u>\$ 31,681,701</u>	<u>\$ 28,434,117</u>

Insurance Fund of The Roman Catholic Diocese of Toledo in America

Statement of Activities and Changes in Net Assets

	Year Ended	
	June 30, 2016	June 30, 2015
Revenue, Gains, and Support		
Participation charges to parishes and related institutions	\$ 1,825,246	\$ 1,701,127
Healthcare premiums	15,663,317	15,572,899
Interest and dividend income	575,759	578,119
Net realized and unrealized losses on investments	(350,863)	(101,674)
PSI insurance receipts	2,163,486	-
Other income	210,183	112,802
Total revenue, gains, and support	20,087,128	17,863,273
Expenses		
Program services:		
Insurance premiums and healthcare claims	13,349,731	16,736,437
Self-insured program claims	1,135,225	2,279,086
Infirmid priests	254,361	617,520
Professional fees	1,266,484	475,542
Miscellaneous	529,198	383,513
Total expenses	16,534,999	20,492,098
Contributions to Related Funds (Note 4)	(406,004)	(175,000)
Increase (Decrease) in Net Assets	3,146,125	(2,803,825)
Net Assets - Beginning of year	26,456,984	29,260,809
Net Assets - End of year	\$ 29,603,109	\$ 26,456,984

Insurance Fund of The Roman Catholic Diocese of Toledo in America

Statement of Cash Flows

	Year Ended	
	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Cash Flows from Operating Activities		
Increase (decrease) in net assets	\$ 3,146,125	\$ (2,803,825)
Adjustments to reconcile increase (decrease) in net assets to net cash from operating activities:		
Realized/unrealized losses on investments - Net	350,863	101,674
Changes in operating assets and liabilities which (used) provided cash:		
Participation charges receivable	(35,537)	(8,866)
Healthcare premiums receivable	32,619	90,551
Prepaid expenses	14,265	(32,605)
Accounts payable	159,016	(46,425)
Reserve for claims and claims expenses	<u>(57,557)</u>	<u>950,012</u>
Net cash provided by (used in) operating activities	3,609,794	(1,749,484)
Cash Flows from Investing Activities		
Net (purchases) sales of investments	(367,994)	2,180,190
Payments received on advances to Central City Ministries Fund	<u>210,000</u>	<u>240,000</u>
Net cash (used in) provided by investing activities	<u>(157,994)</u>	<u>2,420,190</u>
Net Increase in Cash and Cash Equivalents	3,451,800	670,706
Cash and Cash Equivalents - Beginning of year	<u>920,840</u>	<u>250,134</u>
Cash and Cash Equivalents - End of year	<u>\$ 4,372,640</u>	<u>\$ 920,840</u>

Insurance Fund of The Roman Catholic Diocese of Toledo in America

Notes to Financial Statements June 30, 2016 and 2015

Note 1 - Nature of Business and Significant Accounting Policies

The Roman Catholic Diocese of Toledo in America (the "Diocese") maintains various funds and related entities to account for its activities. Insurance Fund of The Roman Catholic Diocese of Toledo in America (the "Fund") provides for the accounting function for the Protective Self-insurance Program (PSI), the Healthcare Program, the Workers' Compensation Program, and the Unemployment Program.

The PSI Program provides for the uniform property and blanket liability insurance coverage under one comprehensive plan for various parishes and agencies of the Diocese.

The Healthcare Program provides for the accounting of the healthcare insurance contracted with Medical Mutual, which became a self-insured program effective July 1, 2015. All invoices that are billed to the various parishes and agencies for coverage are created by a third-party administrator, Findley Davies, Inc.

The Workers' Compensation Program provides workers' compensation insurance benefits to employees of the Diocese and the related parishes and agencies. All claims are managed by a third-party administrator, Spooner, Inc.

The Unemployment Program provides unemployment insurance benefits for qualified unemployment claims to the employees of the Diocese and the related parishes' agencies. The program reimburses the State of Ohio for these expenses.

Cash and Cash Equivalents - The Fund maintains cash in bank deposit accounts at financial institutions where balances may at times exceed federally insured limits. All highly liquid investments purchased with a maturity of three months or less are reported as cash equivalents.

Accounts Receivable - Accounts receivable are comprised principally of amounts due from parishes and agencies for healthcare premiums based on net invoice amounts. An allowance for doubtful accounts in the amount of \$194,000 for the years ended June 30, 2016 and 2015 is established for potentially uncollectible amounts. Management reviews the allowance on a yearly basis. Amounts are written off against the allowance in the year they are deemed uncollectible.

Investments - Investments are carried at fair value. Fair values are based on quoted market prices. The appreciation or depreciation in market value is recognized as a change in nonoperating income. Gains and losses on sales of investments are determined based on the specific security sold. Interest and dividends are recorded on the accrual basis as part of operating income. The Fund's interest in the earnings is based upon the Fund's pro-rata share in the net assets of the trust, as described in Note 2, at the time the income is accrued.

Insurance Fund of The Roman Catholic Diocese of Toledo in America

Notes to Financial Statements June 30, 2016 and 2015

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

Reserve for Claims and Claims Expenses - The reserve for claims and claims expenses is based on the accumulation of case estimates for losses reported and estimates of incurred but unreported losses based on past history of claims for the PSI, the Unemployment Program, and the Workers' Compensation Program. The Healthcare Program was fully insured in 2015 and no reserve was recorded for that year. The Healthcare Program became self-insured effective July 1, 2015, and a reserve for claims and claims expenses of \$1,180,899, which is based on the accumulation of case estimates for losses reported and estimates of incurred but unreported losses based on past history of claims for health care, was recorded as of June 30, 2016. Because of the inherent uncertainties in estimating the outcome of these claims, it is at least reasonably possible that these estimates will change.

Classification of Net Assets - Net assets of the Fund are classified as permanently restricted, temporarily restricted, or unrestricted depending on the presence and characteristics of donor-imposed restrictions limiting the Fund's ability to use or dispose of contributed assets or the economic benefits embodied in those assets. Donor-imposed restrictions that expire with the passage of time or can be removed by meeting certain requirements result in temporarily restricted net assets. Permanently restricted net assets result from donor-imposed restrictions that limit the use of net assets in perpetuity. Earnings, gains, and losses on restricted net assets are classified as unrestricted unless specifically restricted by the donor or by applicable state law. As of June 30, 2016 and 2015, there were no temporarily or permanently restricted net assets.

Participation Charges - Participation charges are billed to parishes and agencies for the PSI and the Healthcare Program for the same fiscal year used in accounting for the Fund and are recognized in the period in which they are billed. The PSI is invoiced on July 1 for the fiscal year and the Healthcare Program is invoiced monthly by a third-party administrator, Findley Davies, Inc. Workers' compensation and unemployment costs are currently funded by the investment returns of the reserves; no participation charges are currently billed to the parishes and agencies.

Catastrophic Losses - The PSI Program provides for catastrophic losses through the purchase of excess insurance coverage, which limits losses of the PSI to \$100,000 per casualty (fire or theft) and \$150,000 per liability claim, and coverage insures property up to approximately \$1,008 million on a blanket basis and \$20 million per liability claim, with the program being liable for any remaining excess.

Insurance Fund of The Roman Catholic Diocese of Toledo in America

Notes to Financial Statements June 30, 2016 and 2015

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

The Workers' Compensation Program has catastrophic loss excess insurance coverage. The deductible for each accident is \$400,000. The deductible for a claim related to disease is \$400,000. The coverage for each type of claim (accident or disease) is statutory (no limit).

The Unemployment Program is required to maintain the State of Ohio Unemployment Bond. The bond is computed by the State of Ohio and is based on payroll; total coverage is \$789,100 as of June 30, 2016 and 2015.

The Healthcare Program has specific stop-loss insurance coverage of up to \$250,000 per covered person and annual maximum per covered person is unlimited. Amounts expensed by the Diocese under the plan were approximately \$13,350,000 during the year ended June 30, 2016.

Income Taxes - The Diocese is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code; therefore, a provision for income taxes has not been included in the financial statements.

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

Upcoming Accounting Changes - In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which will supersede the current revenue recognition requirements in Topic 605, *Revenue Recognition*. The ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The new guidance will be effective for the Diocese's year ending June 30, 2020. The ASU permits application of the new revenue recognition guidance to be applied using one of two retrospective application methods. The Diocese has not yet determined which application method it will use or the potential effects of the new standard on the financial statements, if any.

Insurance Fund of The Roman Catholic Diocese of Toledo in America

Notes to Financial Statements June 30, 2016 and 2015

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

In August 2016, the FASB issued Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. ASU No. 2016-14 requires significant changes to the financial reporting model of organizations who follow FASB not-for-profit rules, including changing from three classes of net assets to two classes, net assets with donor restrictions and net assets without donor restrictions. The ASU will also require changes in the way certain information is aggregated and reported by the Fund, including required disclosures about the liquidity and availability of resources. The new standard is effective for the Diocese's year ending June 30, 2019 and thereafter and must be applied on a retrospective basis. The Diocese is currently evaluating the impact this standard will have on the financial statements.

Subsequent Events - The financial statements and related disclosures include evaluation of events up through and including November 21, 2016, which is the date the financial statements were available to be issued.

Note 2 - Investments

The Fund's investments are through the Custody Trust Account (the "Trust") administered by Comerica Bank, the trustee. The Trust was established to hold the assets of the Fund and other funds of the Diocese and its related entities. The accompanying financial statements reflect the Fund's total interest (62.0244 percent at June 30, 2016 and 62.4117 percent at June 30, 2015) in the assets of the Trust as allocated by Comerica Bank and the Fund's interest in earnings of the Trust for each year.

The estimated fair values of investment securities at June 30, 2016 and 2015 are as follows:

	2016	2015
U.S. corporate bonds	\$ 466	\$ 680
Mutual funds - Fixed income	8,303,057	7,545,597
Equity securities	16,721,925	17,565,051
Money market fund	156,648	53,010
Accrued income	5,053	5,680
Total investments at fair value	<u>\$ 25,187,149</u>	<u>\$ 25,170,018</u>

Insurance Fund of The Roman Catholic Diocese of Toledo in America

Notes to Financial Statements June 30, 2016 and 2015

Note 2 - Investments (Continued)

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

Note 3 - Legal Status of Diocese

The Diocese, as such, is not incorporated but is an entity recognized in Canon Law. The legal title to all property listed among the assets of the Diocese is in the name of the Bishop of Toledo and his successor in office. Title in itself is one of individual ownership in fee simple but, by a decision of the Supreme Court of Ohio (Mannix vs. Pucell 460S.102), there is an implied trust on behalf of each separate parish and institution. Property, therefore, cannot be alienated arbitrarily by the bishop from the purpose for which it has been created. No mortgage, lien, or other obligation by reason of notes or contracts can be created against the assets of the Diocese, parishes, or institutions, except over the signature of the bishop or with his authorization. The Fund's assets are legally available for the satisfaction of debts of the Diocese, not solely those appearing in the accompanying statement of financial position, and its debts may result in claims against assets not appearing thereon.

Note 4 - Related Party Transactions

For the years ended June 30, 2016 and 2015, the Insurance Fund contributed \$175,000, respectively, to the General Fund for administrative support provided to the Fund. In addition, the Long Term Care Program for diocesan priests was terminated in January 2016, providing \$231,004 to offset parish assessments in the Priests' Retirement Fund.

The Fund advanced \$2,473,442 to the Central City Ministries Fund during the year ended June 30, 2008. Terms of repayment have not been established, but are expected to take place over several years. The remaining amount due from the Central City Ministries Fund at June 30, 2016 and 2015 was \$903,625 and \$1,113,625 respectively.

Note 5 - Functional Expenses

For the years ended June 30, 2016 and 2015, expenses are functionally allocated as follows:

	<u>2016</u>	<u>2015</u>
Program services	\$ 14,739,317	\$ 19,633,043
General and administrative	<u>1,795,682</u>	<u>859,055</u>
Total	<u>\$ 16,534,999</u>	<u>\$ 20,492,098</u>

Insurance Fund of The Roman Catholic Diocese of Toledo in America

Notes to Financial Statements June 30, 2016 and 2015

Note 5 - Functional Expenses (Continued)

Costs have been allocated between program services and general and administrative services on several bases and estimates. Although the methods of allocation are considered appropriate, other methods could be used that would produce different amounts.

General and administrative expenses for 2016 include the cost of administering the self-insured healthcare program.

Note 6 - Lawsuits and Contingencies

The Diocese has been subject to a number of lawsuits alleging misconduct by clerics. The Diocese is also a party to various other legal matters arising in the ordinary course of business. Management is unable to determine possible outcomes of such lawsuits, but does not anticipate any future settlement to have a significant impact on the financial position of the Diocese.

Note 7 - Fair Value Measurements

Accounting standards require certain assets and liabilities be reported at fair value in the financial statements and provide a framework for establishing that fair value. The framework for determining fair value is based on a hierarchy that prioritizes the inputs and valuation techniques used to measure fair value.

The following tables present information about the Fund's assets measured at fair value on a recurring basis at June 30, 2016 and 2015 and the valuation techniques used by the Fund to determine those fair values.

Fair values determined by Level 1 inputs use quoted prices in active markets for identical assets that the Fund has the ability to access.

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets in active markets and other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset. These Level 3 fair value measurements are based primarily on management's own estimates using pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the asset. The Fund has no Level 3 investments.

Insurance Fund of The Roman Catholic Diocese of Toledo in America

Notes to Financial Statements June 30, 2016 and 2015

Note 7 - Fair Value Measurements (Continued)

In instances whereby inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Fund's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset.

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

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Balance at June 30, 2016
Mutual funds - Fixed income	\$ 8,303,057	\$ -	\$ 8,303,057
Mutual funds - Equity	8,822,764	2,886,556	11,709,320
Equity securities - Common stock	4,606,154	-	4,606,154
Equity securities - Foreign stock	225,030	-	225,030
Equity securities - Real estate investment trusts	181,421	-	181,421
Money market mutual fund and accrued income	161,701	-	161,701
U.S. corporate bonds	-	466	466
Total assets	<u>\$ 22,300,127</u>	<u>\$ 2,887,022</u>	<u>\$ 25,187,149</u>

Assets Measured at Fair Value on a Recurring Basis at June 30, 2015

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Balance at June 30, 2015
Mutual funds - Fixed income	\$ 7,545,597	\$ -	\$ 7,545,597
Mutual funds - Equity	9,161,188	2,754,509	11,915,697
Equity securities - Common stock	5,266,034	-	5,266,034
Equity securities - Foreign stock	233,687	-	233,687
Equity securities - Real estate investment trusts	149,633	-	149,633
Money market mutual fund and accrued income	58,690	-	58,690
U.S. corporate bonds	-	680	680
Total assets	<u>\$ 22,414,829</u>	<u>\$ 2,755,189</u>	<u>\$ 25,170,018</u>

The fair value of the Christian Brothers CUIT Intermediate Bond and U.S. corporate bonds at June 30, 2016 and 2015 were determined primarily based on Level 2 inputs. The Fund estimates the fair value of these investments based on quoted prices for similar assets in active markets.

Insurance Fund of The Roman Catholic Diocese of Toledo in America

**Notes to Financial Statements
June 30, 2016 and 2015**

Note 7 - Fair Value Measurements (Continued)

There are no unfunded commitments or redemption restrictions relative to the Christian Brothers CUIT Intermediate Bond Fund.

The Fund's policy is to recognize transfers in and transfers out of Level 1, 2, and 3 fair value classifications as of the actual date of the event of change in circumstances that caused the transfer. There were no significant transfers between levels of fair value hierarchy during 2016. During 2015, the Fund liquidated its investments in the PIMCO Low Duration Fund III and PIMCO Total Return Fund III (Level 1) and invested those funds in the Christian Brothers CUIT Intermediate Bond Fund (Level 2).