

Daniel & Duncan LLC

Certified Public Accountants and Business Advisors

INDEPENDENT AUDITOR'S REPORT

The Most Reverend Gregory J. Hartmayer
Bishop of the Diocese of Savannah
Savannah, Georgia

Report on the Financial Statements

We have audited the accompanying financial statements of Catholic Pastoral Center of the Diocese of Savannah (a nonprofit corporation), which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Catholic Pastoral Center of the Diocese of Savannah as of June 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Daniel & Duncan LLC

Savannah, Georgia
December 13, 2017

**CATHOLIC PASTORAL CENTER
OF THE DIOCESE OF SAVANNAH
STATEMENTS OF ACTIVITIES**
Years Ended June 30, 2017 and 2016

	2017				2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES AND OTHER SUPPORT								
Parish assessments	\$ 2,672,208	\$	\$	\$ 2,672,208	\$ 2,651,688	\$	\$	\$ 2,651,688
Parish insurance and benefit billings	8,616,405			8,616,405	8,206,118			8,206,118
Contributions:								
Bishop's Annual Appeal	2,571,969			2,571,969	2,529,689			2,529,689
Other	764,030	343,518		1,107,548	151,883	52,750		204,633
Mission boards and commissions	128,078			128,078	124,911			124,911
Special collections	716,541			716,541	593,026			593,026
Investment income	425,066	41,156		466,222	447,759	41,217		488,976
Cemetery	91,183		8,439	99,622	125,338		14,402	139,740
Other	712,500			712,500	984,724			984,724
Net assets released from restrictions	366,704	(366,704)						
Total revenues and other support	17,064,684	17,970	8,439	17,091,093	15,815,136	93,967	14,402	15,923,505
EXPENSES								
Program services:								
Parish and mission subsidies and contributions	338,586			338,586	329,530			329,530
Pastoral support and services	748,268			748,268	863,972			863,972
Insurance and benefits services	8,882,070			8,882,070	8,857,658			8,857,658
Education	1,518,039			1,518,039	1,688,480			1,688,480
Social services	444,462			444,462	403,421			403,421
Savings deposits interest	127,419			127,419	142,779			142,779
Supporting services:								
Fund-raising	273,488			273,488	311,921			311,921
Diocesan administration	4,656,252			4,656,252	3,745,780			3,745,780
Total expenses	16,988,584			16,988,584	16,343,541			16,343,541
Changes in net assets before non-operating items	76,100	17,970	8,439	102,509	(528,405)	93,967	14,402	(420,036)
NON-OPERATING ITEMS								
Net realized and unrealized gains (losses) on investments	1,569,921			1,569,921	(752,918)			(752,918)
Pension related changes other than net periodic pension cost	887,953			887,953	(108,957)			(108,957)
Litigation settlement					(3,267,141)			(3,267,141)
Gain on sale of property					2,410,039			2,410,039
Change in fair value of interest rate swap agreements	116,052			116,052	(102,324)			(102,324)
Changes in net assets	2,650,026	17,970	8,439	2,676,435	(2,349,706)	93,967	14,402	(2,241,337)
NET ASSETS - Beginning of Year	5,478,828	5,811,053	385,138	11,675,019	7,828,534	5,717,086	370,736	13,916,356
NET ASSETS - End of Year	\$ 8,128,854	\$ 5,829,023	\$ 393,577	\$ 14,351,454	\$ 5,478,828	\$ 5,811,053	\$ 385,138	\$ 11,675,019

See notes to financial statements

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**CATHOLIC PASTORAL CENTER
OF THE DIOCESE OF SAVANNAH
STATEMENTS OF FINANCIAL POSITION**
June 30, 2017 and 2016

	2017	2016
ASSETS		
Cash and cash equivalents	\$ 2,544,864	\$ 2,205,942
Certificates of deposit	2,298,606	3,280,334
Accounts receivable:		
Assessments, insurance and benefits	1,750,316	2,532,995
Other	7,352	96,065
Pledges receivable	387,110	399,857
Loans receivable	4,611,236	5,621,278
Investments	15,702,055	15,053,116
Property and equipment	10,945,244	11,336,182
Other assets	63,811	20,946
Total Assets	\$ 38,310,594	\$ 40,546,715
LIABILITIES		
Interest bearing deposits	\$ 9,720,171	\$ 11,182,722
Accounts payable and accrued expenses	2,253,706	2,979,828
Funds held for others	399,155	499,490
Interest rate swap	26,568	142,619
Settlement liability	1,868,578	3,267,141
Unfunded pension obligation	4,767,177	5,461,390
Long-term debt	4,923,785	5,338,506
Total Liabilities	23,959,140	28,871,696
NET ASSETS		
Unrestricted	8,128,854	5,478,828
Temporarily restricted	5,829,023	5,811,053
Permanently restricted	393,577	385,138
Total Net Assets	14,351,454	11,675,019
Total Liabilities and Net Assets	\$ 38,310,594	\$ 40,546,715

See notes to financial statements

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CATHOLIC PASTORAL CENTER
OF THE DIOCESE OF SAVANNAH
NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization - The Diocese of Savannah (the "Diocese") is a religious organization exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. The Catholic Pastoral Center of the Diocese of Savannah is the ministerial and administrative center of the Diocese. It provides administrative support in the areas of financial reporting, insurance and benefit services, parish deposit and loan services, construction and communications to 77 parishes and missions and 17 schools and other church related organizations located throughout southeast Georgia. It funds ministerial services and programs in the areas of Catholic education, marriage and family life, social service and various other activities focusing on the spiritual life of the community.

The accompanying financial statements include accounts maintained by the administrative office of the Diocese and, in turn, those accounts which are directly under the immediate administration of the Catholic Pastoral Center of the Diocese of Savannah, which is referred to in these financial statements as the Catholic Pastoral Center.

The financial operations of individual parishes, school systems and other church-related organizations within the Diocese are operating entities distinct from the Catholic Pastoral Center and, therefore, are not included in the accompanying financial statements.

All property of the Diocese is titled in the name of the Bishop and his successors in office. For financial accounting, only the operating properties of the Catholic Pastoral Center and future parish sites are reported as assets in the accompanying financial statements. The land, buildings and equipment at the various parishes, schools and other church-related agencies are not included.

A summary of the significant policies consistently applied in the preparation of the accompanying financial statements follows:

Basis of Accounting - The financial statements of the Catholic Pastoral Center have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

Basis of Presentation - The Catholic Pastoral Center is required to report information regarding its financial position and activities according to the following classes of net assets:

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Catholic Pastoral Center and/or the passage of time.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Catholic Pastoral Center. Generally, the donors of these assets permit the use of all or part of the income earned on related investments for unrestricted purposes.

CATHOLIC PASTORAL CENTER
OF THE DIOCESE OF SAVANNAH
STATEMENTS OF CASH FLOWS

Years Ended June 30, 2017 and 2016

	2017	2016
OPERATING ACTIVITIES		
Changes in net assets	\$ 2,676,435	\$ (2,241,337)
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities		
Change in fair value of interest rate swap agreement	(116,051)	102,324
Depreciation	492,169	520,524
Amortization of discount on Settlement liability	101,437	
Net realized and unrealized (gains) losses on investments	(1,569,921)	752,918
Gain on sale of property		(2,410,039)
Change in allowance for doubtful accounts	74,000	(602,000)
Changes in:		
Accounts receivable	797,392	227,292
Pledges receivable	12,747	(9,002)
Other assets	(42,865)	24,258
Accounts payable and accrued expenses	(726,122)	(759,158)
Funds held for others	(100,335)	143,530
Settlement liability		3,267,141
Unfunded pension obligation	(694,213)	714,862
Net cash provided (used) by operating activities	<u>904,673</u>	<u>(268,687)</u>
INVESTING ACTIVITIES		
Net (increase) decrease in loans receivable	1,010,042	(1,270,360)
Net decrease in certificates of deposit	981,728	1,382,000
Purchase of investments	(7,085,957)	(3,957,744)
Proceeds from sale of investments	8,006,939	4,134,926
Proceeds from sale of property		3,342,500
Purchase of property and equipment	(101,231)	(218,933)
Net cash provided (used) by investing activities	<u>2,811,521</u>	<u>3,412,389</u>
FINANCING ACTIVITIES		
Net decrease in interest bearing deposits payable to affiliated parishes and organizations	(1,462,551)	(256,348)
Loan proceeds		1,386,920
Settlement payments	(1,500,000)	
Principal payments on long-term debt	(414,721)	(4,254,025)
Net cash provided (used) by financing activities	<u>(3,377,272)</u>	<u>(3,123,453)</u>
Net increase in cash and cash equivalents	338,922	20,249
CASH AND CASH EQUIVALENTS - beginning of year	<u>2,205,942</u>	<u>2,185,693</u>
CASH AND CASH EQUIVALENTS - end of year	<u>\$ 2,544,864</u>	<u>\$ 2,205,942</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	<u>\$ 228,856</u>	<u>\$ 344,257</u>

See notes to financial statements.

**CATHOLIC PASTORAL CENTER
OF THE DIOCESE OF SAVANNAH**

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization - The Diocese of Savannah (the "Diocese") is a religious organization exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. The Catholic Pastoral Center of the Diocese of Savannah is the ministerial and administrative center of the Diocese. It provides administrative support in the areas of financial reporting, insurance and benefit services, parish deposit and loan services, construction and communications to 77 parishes and missions and 17 schools and other church related organizations located throughout southeast Georgia. It funds ministerial services and programs in the areas of Catholic education, marriage and family life, social service and various other activities focusing on the spiritual life of the community.

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All property of the Diocese is titled in the name of the Bishop and his successors in office. For financial accounting, only the operating properties of the Catholic Pastoral Center and future parish sites are reported as assets in the accompanying financial statements. The land, buildings and equipment at the various parishes, schools and other church-related agencies are not included.

A summary of the significant policies consistently applied in the preparation of the accompanying financial statements follows:

Basis of Accounting – The financial statements of the Catholic Pastoral Center have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

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**CATHOLIC PASTORAL CENTER
OF THE DIOCESE OF SAVANNAH**

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

Cash and Cash Equivalents - Cash and cash equivalents include all cash balances and unrestricted highly liquid investments with an initial maturity of three months or less.

Income Tax Status – The Catholic Pastoral Center is exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code. The Catholic Pastoral Center may be subject to tax to the extent it has unrelated business income.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Catholic Pastoral Center and recognize a tax liability if an uncertain position has been taken that more likely than not would not be sustained upon examination by the IRS. As of June 30, 2017 and 2016, the Catholic Pastoral Center had no uncertain tax positions.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Concentrations of Market and Credit Risk - Financial instruments that potentially subject the Catholic Pastoral Center to concentrations of market and credit risk consist principally of cash and investments with financial institutions and investment brokerage firms. At June 30, 2017 and 2016, the Catholic Pastoral Center had cash deposits with financial institutions and brokerage firms in excess of insured limits of approximately \$1,653,000 and \$2,070,000 respectively. To minimize risk associated with investments, the Catholic Pastoral Center's investment portfolio is diversified with several investment managers in a variety of asset classes.

Accounts Receivable – Accounts receivable include amounts billed to the parishes, schools and other church related organizations for health, general liability, workers compensation insurance and contributions to the clergy and lay retirement plans. In addition, the annual parish assessments are a component of these receivables. Accounts receivable are stated at unpaid balances net of an allowance for doubtful accounts. The allowance for doubtful accounts was \$318,000 and \$244,000 at June 30, 2017 and 2016, respectively.

Deposit and loan program - The Catholic Pastoral Center sponsors a deposit and loan program whereby diocesan parishes, schools, and other church related organizations deposit excess funds and diocesan parishes and schools can obtain loans for approved construction or operating needs. Interest rate for deposits and loans are reviewed quarterly and adjusted as necessary. At June 30, 2017 and 2016 deposits earn interest at a rate of 1.25% and can be withdrawn as requested. At June 30, 2017 and 2016, loans bear an interest rate of 4.00% and 3.50%, respectively.

Allowance for Doubtful Accounts – The Catholic Pastoral Center provides an allowance for accounts, loans and pledges receivables which management believes may not be collected in full. The most significant estimates relate to the allowance for uncollectible accounts receivable and the allowance for loan losses. These estimates may be adjusted as more current information becomes available, and any adjustment could be significant.

CATHOLIC PASTORAL CENTER
OF THE DIOCESE OF SAVANNAH

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

NOTE 2 - PLEDGES RECEIVABLE

The Bishop's Annual Appeal ("BAA") is an annual campaign, conducted in the parishes, which raises operating funds for various service programs of the Diocese. Each parish is assigned a designated funding goal based on its pro-rata share of total offertory income within the Diocese.

Pledges receivables representing unconditional promises to give from the Bishop's Annual Appeal which are expected to be collected in less than one year are summarized as follows:

	June 30,	
	2017	2016
Pledges receivable	\$ 457,110	\$ 496,857
Allowance for uncollectible promises	(70,000)	(97,000)
Net unconditional promises to give	\$ 387,110	\$ 399,857

NOTE 3 - LOANS RECEIVABLE

Loans receivable consist of the following unsecured loans with initial repayment terms of 5 to 15 years:

	June 30,	
	2017	2016
Parishes	\$ 4,322,954	\$ 5,214,506
Schools	490,361	586,187
Priests	52,921	75,585
Total loans	4,866,236	5,876,278
Allowance for loan losses	(255,000)	(255,000)
	\$ 4,611,236	\$ 5,621,278

Interest income on loans during the years ended June 30, 2017 and 2016, was \$177,774 and \$144,659 respectively and is included in investment income.

NOTE 4 - INVESTMENTS

Investments are summarized as follows:

	June 30,	
	2017	2016
Equity securities	\$ 10,793,749	\$ 10,305,378
Fixed income securities	3,883,479	3,687,763
Alternative investments	722,687	801,876
Pooled investments:		
Catholic Foundation of South Georgia	245,633	209,061
Mission Diocese Fund, LLC	56,507	49,038
	\$ 15,702,055	\$ 15,053,116

Investment expenses, including custodial and investment advisory fees, amounted to \$100,534 and \$113,140 for the years ended June 30, 2017 and 2016, respectively, and have been netted against investment income.

CATHOLIC PASTORAL CENTER
OF THE DIOCESE OF SAVANNAH

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment is summarized as follows:

	June 30,	
	2017	2016
Land and improvements	\$ 1,709,162	\$ 1,709,162
Building and improvements	10,418,043	10,242,141
Furniture, fixtures and equipment	1,531,190	1,505,015
Automobiles	264,726	264,726
Construction in progress	11,126	111,971
	13,934,247	13,833,015
Less: accumulated depreciation	(2,989,003)	(2,496,833)
	\$ 10,945,244	\$ 11,336,182

NOTE 6 - LONG-TERM DEBT

Long-term debt consists of the following:

	June 30,	
	2017	2016
Note payable - bank, payable in monthly principal installments of \$8,870 plus interest at 2.75% above LIBOR through May 2021 with a final principal payment of \$524,981 plus unpaid interest due June 2021. Collateralized by real estate.	\$ 941,889	\$ 1,048,333
Note payable - bank, payable in monthly principal installments of \$25,690, plus interest at 1.75% above LIBOR through May 2030. Collateralized by real estate.	3,981,896	4,290,173
	\$ 4,923,785	\$ 5,338,506

Annual maturities of long-term debt are as follows:

Years ended June 30,	2018 \$	2019	2020	2021	2022	Thereafter
	414,720	414,720	414,720	930,832	308,276	2,440,517
						\$ 4,923,785

For the years ended June 30, 2017 and 2016, interest cost incurred on long-term debt totaled \$201,478 and \$133,434, respectively.

**CATHOLIC PASTORAL CENTER
OF THE DIOCESE OF SAVANNAH**

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

Net Pension Cost

	June 30,	
	2017	2016
Service cost	\$ 356,349	\$ 324,812
Interest cost	707,426	688,450
Expected return on plan assets	(549,582)	(572,186)
Amortization of prior service cost	167,017	167,017
Amortization of (gain)/loss	319,116	284,312
Net pension cost	<u>\$ 1,000,326</u>	<u>\$ 892,405</u>

The following assumptions were used in accounting for the plan for the fiscal years ended June 30, 2017 and 2016:

Weighted-average assumptions used to determine benefit obligations:

	2017		2016	
Discount rate	5.5%	5.5%	5.5%	5.5%
Rate of compensation increase	3%	3%	3%	3%
Post-retirement cost of living adjustment	2%	2%	2%	2%

Weighted-average assumptions used to determine net periodic cost:

	2017		2016	
Discount rate	5.5%	5.5%	5.5%	5.5%
Expected long-term return on plan assets	7%	7%	7%	7%
Rate of compensation increase	3%	3%	3%	3%
Post-retirement cost of living adjustment	2%	2%	2%	2%

Cash Flows

The estimated future benefits payments for each of the next five fiscal years and in the aggregate for the next five years are as follows:

Fiscal Year	Amount
2018	\$ 796,436
2019	809,662
2020	791,057
2021	767,530
2022	768,305
2023-2027	3,615,220

Plan Assets

The Diocese's overall investment objective is to balance risk and return so that obligations to retired clergy are met. All investments are chosen with care, prudence and with due diligence. A listing of permitted and prohibited investments is outlined in the Plan's Statement of Investment Policy. The expected rate of return assumption is based on the Trustees' evaluation of historical actual performance and conservative long-term return projections from the Plan's investment managers, which gives consideration to asset mix and anticipated length of obligation of the Plan. The target allocations for plan assets are 65% equity securities, 25% fixed income securities, and 10% for all other investments including cash and cash equivalents.

**CATHOLIC PASTORAL CENTER
OF THE DIOCESE OF SAVANNAH**

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

NOTE 7 - INTEREST RATE SWAP AGREEMENT

The Diocese and, effectively, the Catholic Pastoral Center entered into an interest rate swap agreement on \$2,000,000 of a \$4,470,000 term note bearing interest at LIBOR plus 1.75% that effectively converts the interest rate on the \$2,000,000 to a fixed rate of 4.04%. The purpose in entering into the swap arrangement was to hedge against the risk of interest rate increases on the related portion of the variable rate loan. Accordingly, the swap arrangement is classified as a cash flow hedging activity and represents a derivative financial instrument to be reported at fair value. At June 30, 2017 and 2016 the fair value of the swap agreement is reflected as a liability in the accompanying statements of financial position. The change in fair value of the swap agreement for fiscal years 2017 and 2016 is reflected in the accompanying statements of activities as an increase in unrestricted net assets.

NOTE 8 - CLERGY RETIREMENT PLAN

The Diocese sponsors a defined benefit pension plan for the clergy. Contributions are intended to provide not only for benefits attributed to service to date but also for those expected to be earned in the future. The Catholic Pastoral Center is ultimately responsible for the annual funding requirements of the plan and assesses each parish throughout the Diocese for their annual contribution to the plan.

The following is presented based on actuarial information as of June 30, 2017:

Funded Status

	June 30,	
	2017	2016
Fair value of plan assets - beginning of year	\$ 7,761,173	\$ 8,294,232
Actual return on plan assets	966,834	(219,124)
Employer contributions and rollovers	806,586	375,646
Expenses	(62,403)	(73,638)
Benefits paid	(626,584)	(615,943)
Fair value of plan assets - end of year	<u>\$ 8,845,606</u>	<u>\$ 7,761,173</u>
Projected benefit obligation - beginning of year	\$ 13,222,563	\$ 13,040,760
Service cost	356,349	324,812
Interest costs	707,426	688,450
Actuarial (gain) loss	(46,971)	(215,516)
Benefits paid	(626,584)	(615,943)
Projected benefit obligation - end of year	<u>\$ 13,612,783</u>	<u>\$ 13,222,563</u>
Funded status	<u>\$ (4,767,177)</u>	<u>\$ (5,461,390)</u>

CATHOLIC PASTORAL CENTER
OF THE DIOCESE OF SAVANNAH

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

The fair value of the plan's assets measured on a recurring basis at June 30, 2017 and 2016 are as follows. See note 11 for explanation of fair value hierarchy and determination of fair value.

	June 30, 2017				
	Total	Level 1	Level 2	Level 3	
Equities	\$ 5,793,737	\$ 5,793,737	\$	\$	
Fixed income	1,804,230	1,804,230			
Alternatives	432,628	432,628			
Total assets at fair value	8,030,595	8,030,595			
Cash and cash equivalents	815,011				
Total plan assets	<u>\$ 8,845,606</u>				
		June 30, 2016			
		Total	Level 1	Level 2	Level 3
Equities	\$ 5,269,635	\$ 5,269,635	\$	\$	
Fixed income	1,311,509	1,311,509			
Alternatives	416,441	416,441			
Total assets at fair value	6,997,585	6,997,585			
Cash and cash equivalents	763,588				
Total plan assets	<u>\$ 7,761,173</u>				

NOTE 9 - EMPLOYEE BENEFIT PLAN

The Diocese sponsors a defined contribution 401(k) plan which covers substantially all employees within the Diocese. The plan allows eligible employees, including priests to contribute, tax deferred, a portion of their compensation to the plan, subject to annual limits. In addition each employer within the Diocese is required to make an annual contribution to the plan based on 6% of all eligible lay employees' compensation. The plan is administered by the Catholic Pastoral Center, but is considered a multi-employer church plan and is not subject to ERISA funding requirements. Total contributions to the plan by the Catholic Pastoral Center for the years ended June 30, 2017 and 2016 were approximately \$147,000 and \$130,000, respectively.

NOTE 10 - SELF-INSURANCE

The Catholic Pastoral Center participates and maintains a self-insurance medical and dental plan. The participants of this plan also include the parishes, schools and other church related organizations. Premiums charged to the parishes, schools and other church related organizations are reported as revenues and expenses, respectively, within the employee benefits programs in the accompanying statement of activities. The Catholic Pastoral Center has purchased stop loss insurance to supplement the plan, which will reimburse the Catholic Pastoral Center for individual claims in excess of \$100,000 annually or aggregate claims exceeding \$4,349,000 annually.

At June 30, 2017 and 2016, the Catholic Pastoral Center has accrued an estimated liability for qualified medical and dental claims incurred but not paid of \$481,984 and \$475,605, respectively.

CATHOLIC PASTORAL CENTER
OF THE DIOCESE OF SAVANNAH

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

NOTE 11 - FAIR VALUE MEASUREMENT

FASB ASC Topic 820, *Fair Value Measurements and Disclosures*, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets and liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3) and distinguishes between observable inputs and unobservable inputs.

The term inputs refers to the assumptions that market participants use in pricing the asset or liability. Observable inputs reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from independent sources. Unobservable inputs reflect an entity's own assumptions about the assumptions market participants would use in pricing the asset or liability. ASC Topic 820 indicates that valuation techniques should maximize the use of observable inputs and minimize the use of unobservable inputs.

The fair value hierarchy prioritizes the inputs used in valuation techniques and creates the following three broad levels, with Level 1 being the highest priority:

- Level 1 - inputs are based upon unadjusted quoted prices in active markets for identical assets or liabilities that are accessible at the measurement date;
- Level 2 - inputs are other than quoted prices included in level 1 that are observable for the asset or liability, either directly or indirectly through corroboration with observable market data;
- Level 3 - inputs are unobservable that are supported by little or no market activity and that are significant to the fair value measurement.

The following tables represent by level within the fair value hierarchy, the Catholic Pastoral Center's investments and liabilities measured at fair value on a recurring basis as of June 30, 2017 and 2016:

	June 30, 2017			
	Total	Level 1	Level 2	Level 3
Investments				
Equity securities	\$ 10,793,749	\$ 10,793,749	\$	\$
Fixed income securities	3,883,479	3,883,479		
Alternatives	722,687	722,687		
Pooled investments:				
Catholic Foundation	245,633		245,633	
Mission Diocese Fund	56,507		56,507	
Total investments	<u>\$ 15,702,055</u>	<u>\$ 15,399,915</u>	<u>\$ 302,140</u>	<u>\$</u>
Liabilities				
Interest rate swap	\$ 26,568	\$	\$ 26,568	\$

CATHOLIC PASTORAL CENTER
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NOTES TO FINANCIAL STATEMENTS
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NOTE 13 - RESTRICTIONS/LIMITATIONS ON NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	June 30,	
	2017	2016
Education	\$ 5,073,972	\$ 5,073,629
Future church project	252,280	247,124
Diocesan retirement home	84,825	84,825
Diocesan operations	10,000	33,529
Church social hall or classrooms	17,469	17,469
Vocations	7,021	7,021
Flood relief	29,578	29,578
Home for the aged poor	353,878	317,878
	<u>\$ 5,829,023</u>	<u>\$ 5,811,053</u>

Permanently restricted net assets consist of the following:

	June 30,	
	2017	2016
Future church maintenance endowment	\$ 170,496	\$ 170,496
Cemetery perpetual care	223,081	214,642
	<u>\$ 393,577</u>	<u>\$ 385,138</u>

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NOTE 12 - COMMITMENTS AND CONTINGENCIES

Investments	June 30, 2016			
	Total	Level 1	Level 2	Level 3
Equity securities	\$ 10,305,378	\$ 10,305,378	\$	\$
Fixed income securities	3,687,763	3,687,763		
Alternatives	801,876	801,876		
Pooled investments:				
Catholic Foundation	209,061		209,061	
Mission Diocese Fund	49,038		49,038	
Total investments	<u>\$ 15,053,116</u>	<u>\$ 14,795,017</u>	<u>\$ 258,099</u>	<u>\$</u>
Liabilities				
Interest rate swap	\$ 142,619	\$	\$ 142,619	\$

Interest rate swap - The fair value of the interest rate swap is determined based on the relative values of the fixed and floating portions of the interest rate contract. The valuation model utilized involves current interest rates, projected yield curves and volatility factors to determine the fair value of the instrument as of the date of measurement.

NOTE 12 - COMMITMENTS AND CONTINGENCIES

Financial Guarantees

The Bishop is cosigner or guarantor of debt obligations totaling approximately \$22,988,000 and \$19,749,000 at June 30, 2017 and 2016, respectively, for parishes and other affiliated entities.

Litigation/Settlement Liability

From time to time, the Diocese, effectively, the Catholic Pastoral Center may become subject to legal proceedings in the conduct of its operations. The Catholic Pastoral Center's policy is to accrue the portion of these costs not covered by insurance when it is both probable that a material liability has been incurred and the amount can be reasonably estimated.

On June 30, 2016, a claim relating to alleged sexual misconduct was settled for \$4.5 million. The settlement which is payable in installments is recorded net of a 5% discount as litigation settlement costs in the accompanying financial statements as of June 30, 2016. A total of \$1,500,000 was paid during fiscal year 2017 with the remaining balance due in annual installments of \$150,000 over the next 20 years.