

Daniel & Duncan LLC

Certified Public Accountants and Business Advisors

*Catholic Pastoral Center
of the Diocese of Savannah*

*Financial Statements
Years Ended June 30, 2018 and 2017*

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, 2018 and 2017, 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, 2018 and 2017, 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 5, 2018

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**CATHOLIC PASTORAL CENTER
OF THE DIOCESE OF SAVANNAH
STATEMENTS OF FINANCIAL POSITION**

June 30, 2018 and 2017

| | <u>2018</u> | <u>2017</u> |
|---------------------------------------|----------------------|----------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 2,911,819 | \$ 2,544,864 |
| Certificates of deposit | 5,281,000 | 2,298,606 |
| Accounts receivable: | | |
| Assessments, insurance and benefits | 821,232 | 1,750,316 |
| Other | 315,914 | 7,352 |
| Pledges receivable | 245,090 | 387,110 |
| Loans receivable | 2,780,179 | 4,611,236 |
| Investments | 16,270,478 | 15,702,055 |
| Property and equipment | 10,390,281 | 10,945,244 |
| Interest rate swap | 40,199 | |
| Other assets | 70,067 | 63,811 |
| Total Assets | <u>\$ 39,126,259</u> | <u>\$ 38,310,594</u> |
| LIABILITIES | | |
| Interest bearing deposits | \$ 9,720,925 | \$ 9,720,171 |
| Accounts payable and accrued expenses | 1,136,257 | 2,253,706 |
| Funds held for others | 891,377 | 399,155 |
| Interest rate swap | | 26,568 |
| Settlement liability | 1,868,578 | 1,868,578 |
| Long-term debt | 4,509,065 | 4,923,785 |
| Unfunded pension obligation | 4,238,482 | 4,767,177 |
| Total Liabilities | <u>22,364,684</u> | <u>23,959,140</u> |
| NET ASSETS | | |
| Unrestricted | 11,109,990 | 8,128,854 |
| Temporarily restricted | 5,481,089 | 5,829,023 |
| Permanently restricted | 170,496 | 393,577 |
| Total Net Assets | <u>16,761,575</u> | <u>14,351,454</u> |
| Total Liabilities and Net Assets | <u>\$ 39,126,259</u> | <u>\$ 38,310,594</u> |

**CATHOLIC PASTORAL CENTER
OF THE DIOCESE OF SAVANNAH
STATEMENTS OF ACTIVITIES**
Years Ended June 30, 2018 and 2017

| | 2018 | | | | 2017 | | | |
|--|----------------------|------------------------|------------------------|----------------------|---------------------|------------------------|------------------------|----------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| REVENUES AND OTHER SUPPORT | | | | | | | | |
| Parish assessments | \$ 3,122,568 | \$ | \$ | \$ 3,122,568 | \$ 2,672,208 | \$ | \$ | \$ 2,672,208 |
| Parish insurance and benefit billings | 8,138,254 | | | 8,138,254 | 8,616,405 | | | 8,616,405 |
| Contributions: | | | | | | | | |
| Bishop's Annual Appeal | 2,772,040 | | | 2,772,040 | 2,571,969 | | | 2,571,969 |
| Other | 1,167,286 | | | 1,167,286 | 764,030 | 379,518 | | 1,143,548 |
| Mission boards and commissions | 102,333 | | | 102,333 | 128,078 | | | 128,078 |
| Special collections | 697,401 | | | 697,401 | 716,541 | | | 716,541 |
| Investment income | 413,015 | 5,944 | | 418,959 | 425,066 | 5,156 | | 430,222 |
| Cemetery | 129,167 | | | 129,167 | 91,183 | | 8,439 | 99,622 |
| Other | 1,249,989 | | | 1,249,989 | 712,500 | | | 712,500 |
| Net assets released from restrictions | 576,959 | (353,878) | (223,081) | | 366,704 | (366,704) | | |
| Total revenues and other support | <u>18,369,012</u> | <u>(347,934)</u> | <u>(223,081)</u> | <u>17,797,997</u> | <u>17,064,684</u> | <u>17,970</u> | <u>8,439</u> | <u>17,091,093</u> |
| EXPENSES | | | | | | | | |
| Program services: | | | | | | | | |
| Parish and mission subsidies and contributions | 1,080,069 | | | 1,080,069 | 338,586 | | | 338,586 |
| Pastoral support and services | 1,792,051 | | | 1,792,051 | 1,581,162 | | | 1,581,162 |
| Insurance and benefits services | 7,742,202 | | | 7,742,202 | 8,401,069 | | | 8,401,069 |
| Education | 2,027,252 | | | 2,027,252 | 1,694,036 | | | 1,694,036 |
| Social services | 517,109 | | | 517,109 | 470,464 | | | 470,464 |
| Savings deposits interest | 135,433 | | | 135,433 | 127,419 | | | 127,419 |
| Supporting services: | | | | | | | | |
| Fund-raising | 330,991 | | | 330,991 | 300,489 | | | 300,489 |
| Diocesan administration | 3,718,903 | | | 3,718,903 | 4,075,359 | | | 4,075,359 |
| Total expenses | <u>17,344,010</u> | | | <u>17,344,010</u> | <u>16,988,584</u> | | | <u>16,988,584</u> |
| Changes in net assets before non-operating items | 1,025,002 | (347,934) | (223,081) | 453,987 | 76,100 | 17,970 | 8,439 | 102,509 |
| NON-OPERATING ITEMS | | | | | | | | |
| Net realized and unrealized gains (losses) on investments | 1,005,633 | | | 1,005,633 | 1,569,921 | | | 1,569,921 |
| Pension related changes other than net periodic pension cost | 883,734 | | | 883,734 | 887,953 | | | 887,953 |
| Change in fair value of interest rate swap agreements | 66,767 | | | 66,767 | 116,052 | | | 116,052 |
| Changes in net assets | 2,981,136 | (347,934) | (223,081) | 2,410,121 | 2,650,026 | 17,970 | 8,439 | 2,676,435 |
| NET ASSETS - Beginning of Year | <u>8,128,854</u> | <u>5,829,023</u> | <u>393,577</u> | <u>14,351,454</u> | <u>5,478,828</u> | <u>5,811,053</u> | <u>385,138</u> | <u>11,675,019</u> |
| NET ASSETS - End of Year | <u>\$ 11,109,990</u> | <u>\$ 5,481,089</u> | <u>\$ 170,496</u> | <u>\$ 16,761,575</u> | <u>\$ 8,128,854</u> | <u>\$ 5,829,023</u> | <u>\$ 393,577</u> | <u>\$ 14,351,454</u> |

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

STATEMENTS OF CASH FLOWS

Years Ended June 30, 2018 and 2017

| | 2018 | 2017 |
|--|---------------------|---------------------|
| OPERATING ACTIVITIES | | |
| Changes in net assets | \$ 2,410,121 | \$ 2,676,435 |
| Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities | | |
| Change in fair value of interest rate swap agreement | (66,767) | (116,051) |
| Depreciation | 499,105 | 492,169 |
| Amortization of discount on Settlement liability | 93,684 | 101,437 |
| Net realized and unrealized (gains) losses on investments | (1,005,633) | (1,569,921) |
| Change in provision for uncollected accounts and loans receivable | (76,000) | 74,000 |
| Non-cash contribution | 481,640 | |
| Changes in: | | |
| Accounts receivable | 557,648 | 797,392 |
| Pledges receivable | 142,020 | 12,747 |
| Other assets | (6,256) | (42,865) |
| Accounts payable and accrued expenses | (1,211,133) | (726,122) |
| Funds held for others | 492,222 | (100,335) |
| Unfunded pension obligation | (528,695) | (694,213) |
| Net cash provided (used) by operating activities | 1,781,956 | 904,673 |
| INVESTING ACTIVITIES | | |
| Net decrease in loans receivable | 1,981,057 | 1,010,042 |
| Net (increase) decrease in certificates of deposit | (2,982,394) | 981,728 |
| Purchase of investments | (6,584,502) | (7,085,957) |
| Proceeds from sale of investments | 7,021,712 | 8,006,939 |
| Purchase of property and equipment | (436,908) | (101,231) |
| Net cash provided (used) by investing activities | (1,001,035) | 2,811,521 |
| FINANCING ACTIVITIES | | |
| Net increase (decrease) in interest bearing deposits payable to affiliated parishes and organizations | 754 | (1,462,552) |
| Settlement payments | | (1,500,000) |
| Principal payments on long-term debt | (414,720) | (414,720) |
| Net cash provided (used) by financing activities | (413,966) | (3,377,272) |
| Net increase in cash and cash equivalents | 366,955 | 338,922 |
| CASH AND CASH EQUIVALENTS - beginning of year | 2,544,864 | 2,205,942 |
| CASH AND CASH EQUIVALENTS - end of year | \$ 2,911,819 | \$ 2,544,864 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION | | |
| Interest paid | \$ 317,699 | \$ 318,456 |

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2018 and 2017

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 16 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**

NOTES TO FINANCIAL STATEMENTS

June 30, 2018 and 2017

New Accounting Pronouncements - In August 2016, the FASB issued a new accounting standard, ASU 2016-14, *Not-for-Profit Entities: Presentation of Financial Statements of Not-for-Profit Entities (Topic 958)*, which changes presentation and disclosure requirements to provide more relevant information about their resources to donors, grantors, creditors and other users. These changes include qualitative and quantitative requirements within net assets classes, investment returns, expenses, liquidity, and availability of resources and presentation of operating cash flows. The new standard will be effective for the fiscal year ended June 30, 2019. Management is in the process of evaluating the impact of this new standard.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities: Clarifying the Scope and Accounting Guidance for Contributions Received and Made (Topic 95)*. The amendment provides (1) a framework for determining whether a transaction should be accounted for as a contribution or as an exchange transaction, including how to evaluate whether a resource provider is receiving commensurate value in an exchange transaction, and (2) guidance to assist entities in determining whether a contribution is either conditional or unconditional. Management has not determined the impact of this new standard at this time.

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.

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, 2018 and 2017, the Catholic Pastoral Center had cash deposits with financial institutions and brokerage firms in excess of insured limits of approximately \$1,586,000 and \$1,653,000 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 \$393,000 and \$318,000 at June 30, 2018 and 2017, 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, 2018 and 2017 deposits earn interest at a rate of 1.50% and 1.25%, respectively and can be withdrawn as requested. At June 30, 2018 and 2017, loans bear an interest rate of 4.50% and 4.00%, respectively.

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2018 and 2017

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.

Investments – Investments are carried at fair value.

Property and Equipment - Property and equipment with values greater than \$1,000 are capitalized at cost if purchased, or fair value if contributed. Property acquired on or before August 31, 1970 is stated at amounts derived from insurance values or valuations prepared by various other third parties. Depreciation is provided on a straight-line method over the estimated useful lives of the respective assets. Costs of maintenance and repairs are charged to expense as incurred.

Diocesan Assessments and Services - The Catholic Pastoral Center provides a variety of services to parishes and affiliated organizations for an assessment amount which is determined by the Catholic Pastoral Center based on the cost of providing such services. Assessments to parishes are periodically reviewed and adjusted based on a variety of factors.

Contributions - Contributions are recorded as revenue when received or pledged unconditionally. Unconditional promises to give that are expected to be collected within one year are recognized as revenues in the period received at net realizable values. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows.

Contributions that are restricted by the donor are reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted contributions are reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Conditional promises to give are not included in revenue until the conditions are substantially met.

Funds Held for Others – Funds held for others are funds entrusted to the Catholic Pastoral Center for the purpose of receiving, holding, and disbursing such funds upon the authority of the depositor. Amounts received but not yet disbursed are not the property of the Catholic Pastoral Center but are held for the account of others and reported as liabilities.

Reclassification – Certain amounts from 2017 have been reclassified to conform to the current reporting format.

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2018 and 2017

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, 2018 and 2017, the Catholic Pastoral Center had no uncertain tax positions.

Subsequent Events - Management has evaluated subsequent events for recognition and disclosure in the financial statements through December 5, 2018 the date on which the financial statements were available to be issued and has determined there were no material subsequent events that require recognition or additional disclosure in these financial statements.

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, | |
|--------------------------------------|------------|------------|
| | 2018 | 2017 |
| Pledges receivable | \$ 315,090 | \$ 457,110 |
| Allowance for uncollectible promises | (70,000) | (70,000) |
| Net unconditional promises to give | \$ 245,090 | \$ 387,110 |

NOTE 3 - LOANS RECEIVABLE

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

| | June 30, | |
|---------------------------|--------------|--------------|
| | 2018 | 2017 |
| Parishes | \$ 2,448,206 | \$ 4,322,954 |
| Schools | 364,063 | 490,361 |
| Priests | 72,910 | 52,921 |
| Total loans | 2,885,179 | 4,866,236 |
| Allowance for loan losses | (105,000) | (255,000) |
| | \$ 2,780,179 | \$ 4,611,236 |

Interest income on loans during the years ended June 30, 2018 and 2017, was \$128,933 and \$177,774 respectively and is included in investment income.

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2018 and 2017

NOTE 4 - INVESTMENTS

Investments are summarized as follows:

| | June 30, | |
|--------------------------------------|---------------|---------------|
| | 2018 | 2017 |
| Equity securities | \$ 11,289,586 | \$ 10,793,749 |
| Fixed income securities | 4,093,744 | 3,883,479 |
| Alternative investments | 825,706 | 722,687 |
| Pooled investments: | | |
| Catholic Foundation of South Georgia | | 245,633 |
| Mission Diocese Fund, LLC | 61,442 | 56,507 |
| | \$ 16,270,478 | \$ 15,702,055 |

Investment expenses, including custodial and investment advisory fees, amounted to \$109,900 and \$100,534 for the years ended June 30, 2018 and 2017, respectively, and have been netted against investment income.

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment are summarized as follows:

| | June 30, | |
|-----------------------------------|---------------|---------------|
| | 2018 | 2017 |
| Land and improvements | \$ 1,266,991 | \$ 1,709,162 |
| Building and improvements | 10,610,604 | 10,418,043 |
| Furniture, fixtures and equipment | 1,620,015 | 1,531,190 |
| Automobiles | 320,778 | 264,726 |
| Construction in progress | | 11,126 |
| | 13,818,388 | 13,934,247 |
| Less: accumulated depreciation | (3,428,107) | (2,989,003) |
| | \$ 10,390,281 | \$ 10,945,244 |

NOTE 6 - INTEREST RATE SWAP AGREEMENT

The Diocese and, effectively, the Catholic Pastoral Center has 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, 2018 and 2017 the fair value of the swap agreement is reflected as either an asset or liability in the accompanying statements of financial position. The change in fair value of the swap agreement for fiscal years 2018 and 2017 is reflected in the accompanying statements of activities as an increase in unrestricted net assets.

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2018 and 2017

NOTE 7 - LONG-TERM DEBT

Long-term debt consists of the following:

| | June 30, | |
|--|---------------------|---------------------|
| | 2018 | 2017 |
| 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. | \$ 835,444 | \$ 941,889 |
| 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. | <u>3,673,621</u> | <u>3,981,896</u> |
| | <u>\$ 4,509,065</u> | <u>\$ 4,923,785</u> |

Annual maturities of long-term debt are as follows:

| | Years ended June 30, | |
|------------|----------------------|---------------------|
| 2019 | \$ | 414,720 |
| 2020 | | 414,720 |
| 2021 | | 930,832 |
| 2022 | | 308,276 |
| 2023 | | 308,276 |
| Thereafter | | <u>2,132,241</u> |
| | | <u>\$ 4,509,065</u> |

For the years ended June 30, 2018 and 2017, interest cost incurred on long-term debt totaled \$177,451 and \$165,924, respectively.

NOTE 8 - 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 \$4,457,000 annually.

At June 30, 2018 and 2017, the Catholic Pastoral Center has accrued an estimated liability for qualified medical and dental claims incurred but not paid of \$681,314 and \$481,984, respectively.

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2018 and 2017

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, 2018 and 2017 were approximately \$133,000 and \$147,000 respectively.

NOTE 10 - 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, 2018:

Funded Status

| | <u>June 30,</u> | |
|--|-----------------------|-----------------------|
| | <u>2018</u> | <u>2017</u> |
| Fair value of plan assets - beginning of year | \$ 8,845,606 | \$ 7,761,173 |
| Actual return on plan assets | 801,108 | 966,834 |
| Employer contributions and rollovers | 545,130 | 806,586 |
| Expenses | (71,634) | (62,403) |
| Benefits paid | <u>(706,276)</u> | <u>(626,584)</u> |
| Fair value of plan assets - end of year | <u>\$ 9,413,934</u> | <u>\$ 8,845,606</u> |
| Projected benefit obligation - beginning of year | \$ 13,612,783 | \$ 13,222,563 |
| Service cost | 370,655 | 356,349 |
| Interest costs | 710,824 | 707,426 |
| Actuarial (gain) loss | (335,570) | (46,971) |
| Benefits paid | <u>(706,276)</u> | <u>(626,584)</u> |
| Projected benefit obligation - end of year | <u>\$ 13,652,416</u> | <u>\$ 13,612,783</u> |
| Funded status | <u>\$ (4,238,482)</u> | <u>\$ (4,767,177)</u> |

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2018 and 2017

Net Pension Cost

| | June 30, | |
|------------------------------------|------------|--------------|
| | 2018 | 2017 |
| Service cost | \$ 370,655 | \$ 356,349 |
| Interest cost | 710,824 | 707,426 |
| Expected return on plan assets | (613,552) | (549,582) |
| Amortization of prior service cost | 167,017 | 167,017 |
| Amortization of (gain)/loss | 265,225 | 319,116 |
| Net pension cost | \$ 900,169 | \$ 1,000,326 |

The following assumptions were used in accounting for the plan for the fiscal years ended June 30, 2018 and 2017:

Weighted-average assumptions used to determine benefit obligations:

| | 2018 | 2017 |
|---|------|------|
| Discount rate | 5.5% | 5.5% |
| Rate of compensation increase | 3.0% | 3.0% |
| Post-retirement cost of living adjustment | 2.0% | 2.0% |

Weighted-average assumptions used to determine net periodic cost:

| | 2018 | 2017 |
|---|------|------|
| Discount rate | 5.5% | 5.5% |
| Expected long-term return on plan assets | 7.0% | 7.0% |
| Rate of compensation increase | 3.0% | 3.0% |
| Post-retirement cost of living adjustment | 2.0% | 2.0% |

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 |
|-------------|------------|
| 2019 | \$ 827,999 |
| 2020 | 819,027 |
| 2021 | 804,625 |
| 2022 | 814,015 |
| 2023 | 816,289 |
| 2024-2028 | 3,868,541 |

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.

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June 30, 2018 and 2017

The fair value of the plan's assets measured on a recurring basis at June 30, 2018 and 2017 are as follows. See note 11 for explanation of fair value hierarchy and determination of fair value.

| | June 30, 2018 | | | |
|----------------------------|---------------------|---------------------|-----------|-----------|
| | Total | Level 1 | Level 2 | Level 3 |
| Equities | \$ 6,171,924 | \$ 6,171,924 | \$ | \$ |
| Fixed income | 2,134,275 | 2,134,275 | | |
| Alternatives | 436,938 | 436,938 | | |
| Total assets at fair value | 8,743,137 | <u>\$ 8,743,137</u> | <u>\$</u> | <u>\$</u> |
| Cash and cash equivalents | 670,797 | | | |
| Total plan assets | <u>\$ 9,413,934</u> | | | |

| | 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 | <u>\$ 8,030,595</u> | <u>\$</u> | <u>\$</u> |
| Cash and cash equivalents | 815,011 | | | |
| Total plan assets | <u>\$ 8,845,606</u> | | | |

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;

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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, 2018 and 2017:

| | June 30, 2018 | | | |
|-------------------------|---------------|---------------|------------|---------|
| | Total | Level 1 | Level 2 | Level 3 |
| <u>Assets</u> | | | | |
| Investments: | | | | |
| Equity securities | \$ 11,289,586 | \$ 11,289,586 | \$ | \$ |
| Fixed income securities | 4,093,744 | 4,093,744 | | |
| Alternatives | 825,706 | 825,706 | | |
| Pooled investments: | | | | |
| Mission Diocese Fund | 61,442 | | 61,442 | |
| Total investments | 16,270,478 | 16,209,036 | 61,442 | |
| Interest rate swap | 40,199 | | 40,199 | |
| Total assets | \$ 16,310,677 | \$ 16,209,036 | \$ 101,641 | \$ |
| June 30, 2017 | | | | |
| | Total | Level 1 | Level 2 | Level 3 |
| <u>Assets</u> | | | | |
| 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 | \$ 15,702,055 | \$ 15,399,915 | \$ 302,140 | \$ |
| <u>Liabilities</u> | | | | |
| Interest rate swap | \$ 26,568 | \$ | \$ 26,568 | \$ |

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.

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NOTE 12 - COMMITMENTS AND CONTINGENCIES

Financial Guarantees

The Bishop is cosigner or guarantor of debt obligations totaling approximately \$23,240,000 and \$22,988,000 at June 30, 2018 and 2017, respectively, for parishes and other affiliated entities.

Litigation/Settlement

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 in the accompanying statements of financial position. 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 with the first installment payment due July 1, 2018.

NOTE 13 - RESTRICTIONS/LIMITATIONS ON NET ASSETS

Temporarily restricted net assets are available for the following purposes:

| | June 30, | |
|----------------------------------|--------------|--------------|
| | 2018 | 2017 |
| Education | \$ 5,073,972 | \$ 5,073,972 |
| Future church project | 258,224 | 252,280 |
| Diocesan retirement home | 84,825 | 84,825 |
| Diocesan operations | 10,000 | 10,000 |
| Church social hall or classrooms | 17,469 | 17,469 |
| Vocations | 7,021 | 7,021 |
| Flood relief | 29,578 | 29,578 |
| Social services | | 353,878 |
| | \$ 5,481,089 | \$ 5,829,023 |

Permanently restricted net assets consist of the following:

| | June 30, | |
|-------------------------------------|------------|------------|
| | 2018 | 2017 |
| Future church maintenance endowment | \$ 170,496 | \$ 170,496 |
| Cemetery perpetual care | | 223,081 |
| | \$ 170,496 | \$ 393,577 |