

The Catholic Archbishop of Omaha

**Financial Statements and
Independent Auditors' Report**

June 30, 2018 and 2017



The Catholic Archbishop of Omaha

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INDEPENDENT AUDITORS' REPORT

The Archbishop
The Catholic Archbishop of Omaha
Omaha, Nebraska

Report on the Financial Statements

We have audited the accompanying financial statements of The Catholic Archbishop of Omaha, which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities and changes in net assets, cash flows, and functional expenses 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.

Auditors' 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 auditors' 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 Catholic Archbishop of Omaha 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.

Lutz & Company, P.C.

November 15, 2018

The Catholic Archbishop of Omaha

Statements of Financial Position

June 30, 2018 and 2017

ASSETS	<u>2018</u>	<u>2017</u>
Cash and Cash Equivalents	\$ 1,612,359	\$ 2,048,768
Board Designated Cash and Cash Equivalents	1,078,491	671,049
Temporarily Restricted Cash and Cash Equivalents	12,258,683	12,371,110
Investments	7,695,634	8,685,392
Board Designated Investments	10,644,580	11,957,804
Parish Assessments Receivable	51,315	32,691
Other Assets	756,679	831,534
Property, Buildings and Equipment, Net	7,464,987	7,891,789
Temporarily Restricted Investments	23,839,715	22,953,976
Cash Surrender Value of Life Insurance	199,936	214,114
Prepaid Pension Cost	5,649,881	3,077,392
Notes Receivable, Related Party	5,700,000	5,900,000
Accrued Interest Receivable, Related Party	-	109,508
TOTAL ASSETS	\$ 76,952,260	\$ 76,745,127

LIABILITIES AND NET ASSETS

LIABILITIES:

Special Collections Payable	\$ 210,199	\$ 214,479
Capital Campaign Payable	33,824	211,615
Other Liabilities	820,820	786,408
Insurance Claims Reserve	3,562,394	3,217,986
Total Liabilities	4,627,237	4,430,488

COMMITMENTS AND CONTINGENCIES (Note 13)

NET ASSETS:

Unrestricted	31,521,047	32,186,315
Temporarily Restricted	40,803,976	40,128,324
Total Net Assets	72,325,023	72,314,639

TOTAL LIABILITIES AND NET ASSETS	\$ 76,952,260	\$ 76,745,127
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See Notes to Financial Statements.

The Catholic Archbishop of Omaha

Statement of Activities and Changes in Net Assets

Year Ended June 30, 2018

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
REVENUES, GAINS, AND OTHER SUPPORT:			
Contributions	\$ 1,481,841	\$ 5,615,421	\$ 7,097,262
Capital Campaign Contributions	-	2,917,481	2,917,481
Assessments	7,597,869	-	7,597,869
Program and Other Fees	3,847,136	-	3,847,136
Investment Income, Net	615,986	1,753,807	2,369,793
Other	1,086,685	-	1,086,685
Assets Released from Restrictions	9,611,057	(9,611,057)	-
Total Revenues, Gains, and Other Support	24,240,574	675,652	24,916,226
EXPENSES AND DISBURSEMENTS:			
Pastoral Education Services	8,027,371	-	8,027,371
Religious Stewardship Formation Ministries	3,078,060	-	3,078,060
Capital Campaign	9,025,450	-	9,025,450
Administrative Services	4,095,951	-	4,095,951
	2,678,261	-	2,678,261
Total Expenses and Disbursements	26,905,093	-	26,905,093
Increase (Decrease) in Net Assets before Pension and Postretirement-Related Changes Other than Net Periodic Pension Cost	(2,664,519)	675,652	(1,988,867)
Pension and Postretirement-Related Changes Other than Net Periodic Cost	1,999,251	-	1,999,251
Increase (Decrease) in Net Assets	(665,268)	675,652	10,384
NET ASSETS:			
Beginning of Year	32,186,315	40,128,324	72,314,639
END OF YEAR	\$ 31,521,047	\$ 40,803,976	\$ 72,325,023

See Notes to Financial Statements.

The Catholic Archbishop of Omaha

Statement of Activities and Changes in Net Assets

Year Ended June 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
REVENUES, GAINS, AND OTHER SUPPORT:			
Contributions	\$ 1,308,748	\$ 5,560,025	\$ 6,868,773
Capital Campaign Contributions	-	7,575,277	7,575,277
Assessments	7,596,668	-	7,596,668
Program and Other Fees	3,631,471	-	3,631,471
Investment Income, Net	1,056,238	2,954,599	4,010,837
Other	11,993,355	-	11,993,355
Assets Released from Restrictions	11,228,744	(11,228,744)	-
Total Revenues, Gains, and Other Support	36,815,224	4,861,157	41,676,381
EXPENSES AND DISBURSEMENTS:			
Pastoral Education Services	6,865,719	-	6,865,719
Religious Stewardship Formation Ministries	3,074,499	-	3,074,499
Capital Campaign	9,018,701	-	9,018,701
Administrative Services	5,982,296	-	5,982,296
	2,446,525	-	2,446,525
Total Expenses and Disbursements	27,387,740	-	27,387,740
Increase in Net Assets before Pension and Postretirement-Related Changes Other than Net Periodic Pension Cost	9,427,484	4,861,157	14,288,641
Pension and Postretirement-Related Changes Other than Net Periodic Cost	(216,789)	-	(216,789)
Increase in Net Assets	9,210,695	4,861,157	14,071,852
NET ASSETS:			
Beginning of Year	22,975,620	35,267,167	58,242,787
END OF YEAR	\$ 32,186,315	\$ 40,128,324	\$ 72,314,639

See Notes to Financial Statements.

The Catholic Archbishop of Omaha

Statements of Cash Flows

Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 10,384	\$ 14,071,852
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by (Used in) Operating Activities		
Depreciation	600,873	615,443
Pension-Related Changes Other than Net Periodic Pension Cost	(1,999,251)	216,789
Realized Gains on Sale of Investments, Net	(4,929,804)	(2,271,816)
Change in Unrealized Gains and Losses on Investments, Net	3,966,777	(544,233)
Gain on Sale of Property, Buildings and Equipment	(353,328)	(448,486)
Contributions of Investments	(1,623,546)	(1,821,222)
Proceeds from Sale of Contributions of Investments	1,623,546	1,821,222
Decrease in Cash Surrender Value of Life Insurance	14,178	12,228
Decrease (Increase) in Assets:		
Parish Assessment Receivable	(18,624)	94,755
Other Assets	74,855	(173,598)
Accrued Interest Receivable, Related Party	109,508	(109,508)
Prepaid Pension Cost	(573,238)	(5,198,685)
Increase (Decrease) in Liabilities:		
Special Collections Payable	(4,280)	4,549
Capital Campaign Payable	(177,791)	(109,698)
Postretirement Benefit Obligation	-	(6,040,039)
Other Liabilities	34,412	(106,798)
Insurance Claims Reserve	344,408	145,947
Net Cash Provided by (Used in) Operating Activities	(2,900,921)	158,702
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sale of Property, Buildings and Equipment	392,594	1,308,838
Purchase of Property, Buildings and Equipment	(213,337)	(433,094)
Proceeds from Sales of Investments	53,234,749	28,039,224
Purchase of Investments	(50,854,479)	(19,250,316)
Repayments on (Issuance of) Notes Receivable, Related Party	200,000	(5,900,000)
Net Cash Provided by Investing Activities	2,759,527	3,764,652
Net Increase (Decrease) in Cash and Cash Equivalents	(141,394)	3,923,354
Cash and Cash Equivalents, Beginning of Year	15,090,927	11,167,573
Cash and Cash Equivalents, End of Year	\$ 14,949,533	\$ 15,090,927

See Notes to Financial Statements.

The Catholic Archbishop of Omaha

Statements of Cash Flows

Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
RECONCILIATION TO STATEMENTS OF FINANCIAL POSITION		
Cash and Cash Equivalents	\$ 1,612,359	\$ 2,048,768
Board Designated Cash and Cash Equivalents	1,078,491	671,049
Temporarily Restricted Cash and Cash Equivalents	12,258,683	12,371,110
Total Cash and Cash Equivalents	\$ 14,949,533	\$ 15,090,927
NONCASH INVESTING AND FINANCING ACTIVITIES		
Contributions of Investments	\$ 1,623,546	\$ 1,821,222

See Notes to Financial Statements.

The Catholic Archbishop of Omaha

Statement of Functional Expenses

Year Ended June 30, 2018

	Pastoral Education Services	Religious Stewardship Formation	Ministries	Capital Campaign	Administrative Services	Total
Salaries	\$ 2,473,315	\$ 650,392	\$ 2,185,546	\$ 10,887	\$ 532,889	\$ 5,853,029
Benefits	839,256	157,153	672,978	5,925	170,374	1,845,686
Operating	2,454,746	247,590	3,699,408	-	836,189	7,237,933
Depreciation	226,282	-	254,417	-	120,174	600,873
Utilities and Maintenance	257,718	22,222	252,210	-	102,502	634,652
Fundraising	-	288,399	-	51,639	-	340,038
Contributions	1,776,054	1,712,304	1,960,891	4,027,500	916,133	10,392,882
	<u>\$ 8,027,371</u>	<u>\$ 3,078,060</u>	<u>\$ 9,025,450</u>	<u>\$ 4,095,951</u>	<u>\$ 2,678,261</u>	<u>\$ 26,905,093</u>

See Notes to Financial Statements.

The Catholic Archbishop of Omaha

Statement of Functional Expenses

Year Ended June 30, 2017

	Pastoral Education Services	Religious Stewardship Formation	Ministries	Capital Campaign	Administrative Services	Total
Salaries	\$ 2,194,510	\$ 637,209	\$ 2,230,283	\$ -	\$ 514,344	\$ 5,576,346
Benefits	792,130	159,507	742,142	-	206,568	1,900,347
Operating	1,502,100	266,298	3,061,901	28,484	432,932	5,291,715
Depreciation	212,810	-	279,544	-	123,089	615,443
Utilities and Maintenance	240,646	20,314	267,671	-	104,863	633,494
Fundraising	-	241,585	-	24,106	-	265,691
Contributions	1,923,523	1,749,586	2,437,160	5,929,706	1,064,729	13,104,704
	<u>\$ 6,865,719</u>	<u>\$ 3,074,499</u>	<u>\$ 9,018,701</u>	<u>\$ 5,982,296</u>	<u>\$ 2,446,525</u>	<u>\$ 27,387,740</u>

See Notes to Financial Statements.

The Catholic Archbishop of Omaha

Notes to Financial Statements

June 30, 2018 and 2017

1. Organization and Summary of Significant Accounting Policies

The Catholic Archbishop of Omaha (the Organization) is a not-for-profit organization established to administer the religious, education, and charitable activities of the Archdiocese of Omaha. The financial statements have been prepared in accordance with *Accounting Principles and Reporting Practices for Churches and Church-Related Organizations* adopted by the United States Conference of Catholic Bishops, the Leadership Conference of Women Religious, and Conference of Major Superiors of Men. The financial statements include all administrative and program offices, departments, and funds of the Organization.

The financial statements do not include the accounts of other related organizations of the Archdiocese of Omaha (the Archdiocese), such as schools, parishes, and cemeteries; FOCCUS, Inc.; the Omaha Archdiocesan Deposit and Loan Fund, Inc.; St. John Paul II Newman Center; and the Omaha Archdiocesan Educational Foundation Inc. and the Omaha Archdiocesan Parish Foundation, Inc. These organizations may or may not be separate legal entities; however, each is an operating entity distinct from the Organization, maintains separate accounts, carries on its own services and programs, and reports annually to its respective constituency.

During 2013, the Organization launched the Ignite the Faith capital campaign. This campaign resulted in intentions to give exceeding \$53 million which will be used to strengthen the Catholic schools and parishes, provide for priests and support the many faith formation efforts across the Archdiocese. The Organization has committed to return to each parish 10% of the total amount raised for its specific needs and 40% to be used for rural Catholic education in the communities served. The amount payable to the parishes as of June 30, 2018 and 2017 is shown separately in the statements of financial position (see Note 10) and the total amount returned to the parishes during the years ended June 30, 2018 and 2017 is shown separately as capital campaign contributions in the statements of functional expenses.

The accounting policies employed in the preparation of these financial statements are as follows:

Basis of Presentation

The Organization maintains its accounts in accordance with the principles and practices of fund accounting. Fund accounting is the procedure by which resources for various purposes are classified for accounting purposes in accordance with activities or objectives specified by donors.

These financial statements, which are presented on the accrual basis of accounting, have been prepared to focus on the Organization as a whole and to present balances according to the existence or absence of donor-imposed restrictions. Net assets and related activity are classified as follows:

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 will be met either by actions of the Organization and/or the passage of time. Board designated net assets are set aside to pay future obligations associated primarily with health care.

The Catholic Archbishop of Omaha

Notes to Financial Statements

June 30, 2018 and 2017

Permanently Restricted Net Assets – Net assets subject to donor-imposed stipulations that the principal be maintained in perpetuity by the Organization. There are no permanently restricted net assets as of June 30, 2018 and 2017.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions, in which case, the revenues are reported as increases in temporarily restricted or permanently restricted net assets. If, however, the donor restriction expires in the fiscal year in which the revenue is recognized, the revenues are reported as increases in unrestricted net assets. Expenses are reported as decreases in unrestricted net assets. Revenues and expenses are recognized when earned and incurred, respectively. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by donor stipulation or law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

Cash Equivalents

The Organization considers investments with an original maturity of three months or less when purchased to be cash equivalents, excluding those amounts held as part of the investment portfolio. Board designated cash and cash equivalents relate to cash amounts designated for the priest and lay health insurance plans.

Restricted Cash and Cash Equivalents

Restricted cash and cash equivalents relate to cash received with donor-imposed restrictions limiting their use. This includes cash donated for purposes of the annual appeal and capital campaign.

Intentions to Give

Contributions received are intentions to give rather than unconditional promises to give. Intentions to give are not recorded in the financial statements as a receivable since the donor has the ability to rescind their intention at any time. As of June 30, 2018, there were approximately \$2,900,000 intentions to give related to the Ignite the Faith campaign which are not reflected in the accompanying financial statements. These amounts will be reported as contribution revenue in future years when the cash is received.

Investments

Investments are recorded at fair value at the date of donation and are subsequently carried at fair value. Investments in securities traded on a national securities exchange are valued at quoted market prices. Investment income is included in the statements of activities and changes in net assets. Investment income is recorded as earned. Realized investment gains and losses are determined by specifically identifying the investment sold.

The Catholic Archbishop of Omaha

Notes to Financial Statements

June 30, 2018 and 2017

Property, Buildings, and Equipment

Property, buildings, and equipment are stated at cost or, in the case of gifts, fair market value at the date of donation. Expenditures for additions and betterments are capitalized; expenditures for maintenance and repairs are charged to expense as incurred. The costs of assets disposed of and the related accumulated depreciation are eliminated from the accounts in the year of disposal. Gains or losses from property disposals are recognized in the year of disposal.

Buildings and equipment are depreciated using the straight-line method over their estimated useful lives, which are as follows:

Buildings and Leasehold Improvements	10 – 39 years
Machinery and Equipment	3 – 7 years
Furniture and Fixtures	5 – 7 years
Transportation	5 – 7 years

Special Collections Payable

Special collections payable represent assets entrusted to the Organization only for the purposes of receiving, holding, and disbursing such funds according to the depositors' intentions.

Insurance Claim Reserve

The Archdiocese is subject to various risks of loss related to workers' compensation, general liability, and property insurance. The Organization has purchased commercially available indemnity insurance to cover these risks.

The Archdiocese is self-insured for healthcare, dental, and prescription drugs up to \$200,000 for lay employees and \$100,000 for priests at June 30, 2018 and 2017. The reserve for insurance claims represents estimates for reporting claims and an estimate for incurred claims but not reported based on actual historical claims.

Concentration of Credit and Market Risk

The Organization's financial instruments consisting of cash and cash equivalents, investments, and parish assessments receivable potentially expose the The Catholic Archbishop of Omaha to concentrations of credit and market risk.

The Organization maintains its cash and cash equivalents in bank accounts in which the balances sometimes exceed federally insured levels. These bank accounts are insured by the Federal Deposit Insurance Corporation (FDIC) with coverage of at least \$250,000 available to depositors under the FDIC's general deposit insurance rules. During 2018 and 2017, amounts in the Organization's bank accounts have exceeded FDIC coverage limits. The Organization has entered into a cash management agreement with its main bank, covering the operating, Annual Appeal, and Ignite the Faith accounts, whereby all amounts above FDIC insured limits are secured with overnight repurchase agreements of the bank's government securities.

The Catholic Archbishop of Omaha

Notes to Financial Statements

June 30, 2018 and 2017

The Organization maintains additional bank accounts which are not covered by a cash management agreement. At June 30, 2018 and 2017 there was a cash balance in excess of FDIC limits at these banks of approximately \$167,000 and \$261,000, respectively.

The Organization invests in a professionally managed portfolio that contains marketable investment securities. Such investments are exposed to various risks such as credit and market. Due to the level of risk associated with such investments, and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term could materially affect investment balances and the amounts reported in the financial statements.

The parish assessment receivable balances of \$51,315 and \$32,691 at June 30, 2018 and 2017, respectively, relate to assessments due from related entities.

Fair Value of Financial Instruments

The Organization utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. The Organization determines fair value based on assumptions that market participants would use in pricing an asset or liability in the principal or most advantageous market.

Functional Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The Organization allocates certain joint support costs. The total allocated during the period and the portions allocated to each functional expense category are disclosed in the statements of functional expenses under the columns labeled pastoral education services, religious stewardship formation, ministries, capital campaign, and administrative services.

Pension Plan

The Organization recognizes the funded status of the defined benefit pension plan as a net asset or liability, and recognizes changes in that funded status in the year in which the changes occur through other changes in net assets, to the extent those changes are not included in the net periodic pension cost.

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 the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

The Catholic Archbishop of Omaha

Notes to Financial Statements

June 30, 2018 and 2017

Income Taxes and Unemployment Taxes

The Organization is exempt from federal income taxes and unemployment taxes as an organization listed in the 2018 edition of the Official Catholic Directory.

The Organization applies the provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, included in ASC Subtopic 740-10, *Income Taxes – Overall*. ASC 740-10 provides specific guidance on how to address uncertainty in accounting for income tax assets and liabilities, prescribing recognition thresholds and measurement attributes. At June 30, 2018 and 2017, the Catholic Archbishop of Omaha had no uncertain tax positions.

The Organization is no longer subject to income tax examinations by federal, state, or local tax authorities for years before June 30, 2015.

Contributed Services

A number of volunteers have contributed various services to the Organization. The value of such services has not been recorded. In addition, the Organization contributes various personnel services, including accounting and human resources, to other related entities without charge. The cost of these services is reflected in salaries expense in the statements of functional expenses.

Subsequent Events

Subsequent events are events or transactions that occur after the statement of financial position date, but before the financial statements are available to be issued and may require potential recognition or disclosure in the financial statements. Management has considered such events or transactions through November 15, 2018. See Note 13 for a description of a subsequent event.

2. Property, Buildings and Equipment

Property, buildings and equipment at June 30, 2018 and 2017 consist of the following:

	<u>2018</u>	<u>2017</u>
Land and Land Improvements	\$ 2,922,189	\$ 2,970,258
Buildings and Leasehold Improvements	17,938,879	18,346,881
Machinery and Equipment	1,477,583	1,506,629
Furniture and Fixtures	317,783	439,533
Transportation	136,825	142,548
	<u>22,793,259</u>	<u>23,405,849</u>
Less Accumulated Depreciation	15,328,272	15,514,060
	<u>\$ 7,464,987</u>	<u>\$ 7,891,789</u>

The Archdiocese holds title to certain land and buildings occupied by three Archdiocesan high schools. The original cost of the land of approximately \$961,000 and buildings of approximately \$25,000,000 are not included in the statements of financial position of the Organization.

The Catholic Archbishop of Omaha

Notes to Financial Statements

June 30, 2018 and 2017

3. Investments

Investments are composed of the following at June 30, 2018 and 2017:

	2018		2017	
	Cost	Fair Value	Cost	Fair Value
Certificates of Deposit	\$ 5,115	\$ 5,115	\$ 5,115	\$ 5,115
Corporate Bonds	5,343,564	5,186,793	6,717,045	6,765,594
Mutual Funds	-	-	30,407,355	34,276,928
Cash Funds	2,175,632	2,175,632	1,438,438	1,438,438
U.S. Government Securities	2,842,169	2,801,875	528,896	529,199
Municipal Bonds	3,495,474	3,434,519	-	-
Other Bonds	598,997	580,881	-	-
Mortgage Backed Securities	3,403,994	3,350,201	-	-
Preferred Stock	1,581,169	1,544,403	-	-
Stocks and Equities	22,200,270	22,572,057	-	-
Other	891,568	528,453	891,569	581,898
Total Investments	<u>\$ 42,537,952</u>	<u>\$ 42,179,929</u>	<u>\$ 39,988,418</u>	<u>\$ 43,597,172</u>

Reconciliation to the statements of activities for the years ended June 30, 2018 and 2017 is as follows:

	2018	2017
Net Unrealized Gains, Beginning of Year	\$ 3,608,754	\$ 3,064,521
Net Unrealized Gains (Losses), End of Year	(358,023)	3,608,754
Change in Unrealized Gains and Losses	(3,966,777)	544,233
Realized Gains	4,929,804	2,271,816
Interest and Dividends	1,406,766	1,194,788
Total Investment Income, Net	<u>\$ 2,369,793</u>	<u>\$ 4,010,837</u>

Investments by net asset classification as of June 30, 2018 and 2017 are as follows:

	2018	2017
Investments	\$ 7,695,634	\$ 8,685,392
Board Designated Investments	10,644,580	11,957,804
Temporarily Restricted Investments	23,839,715	22,953,976
	<u>\$ 42,179,929</u>	<u>\$ 43,597,172</u>

During the year ending June 30, 2018, the Organization sold all investments previously held. This resulted in significant realized gains recognized in the accompanying financial statements. Proceeds from the sale of these assets were transferred into a single deposit account held at Merrill Lynch and then allocated to five new investment accounts (Passive Domestic Equity, Active Domestic Equity, Active International Equity, Passive International Equity, and Fixed Income). These separately managed accounts are comprised of investments ranging from bonds to common stock.

The Catholic Archbishop of Omaha

Notes to Financial Statements

June 30, 2018 and 2017

4. Fair Value Measurements

Fair Value Hierarchy

The Organization applies the provisions of ASC Topic 820, *Fair Value Measurements and Disclosures*. ASC 820 clarified that fair value should be measured at the exit price, which is the price to sell an asset or transfer a liability. The exit price may or may not equal the transaction price and the exit price objective applies regardless of the intent or ability to sell the asset or transfer the liability at the measurement date. ASC 820 also clarified that nonperformance risk, including an issuer's credit standing, should be considered when measuring liabilities at fair value. ASC 820 also requires enhanced disclosures and establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values giving the highest priority to the unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

Level 1 – Unadjusted quoted prices available in active markets that are accessible at the measurement date for identical assets or liabilities. This level primarily consists of financial instruments such as exchange-traded securities.

Level 2 – Pricing inputs include quoted prices for identical or similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 – Pricing inputs include significant inputs that are generally less observable from objective sources. These inputs reflect management's best estimates of fair value using its own assumptions about the assumptions a market participant would use in pricing the asset or liability.

The level in the fair value hierarchy within which a fair measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2018 and 2017.

Certificates of Deposit: Valued at original cost plus accrued interest, which approximates fair value.

Marketable Equity Securities: Marketable equity securities include mutual funds valued at the daily closing price as reported by the security. Mutual funds held by the Organization are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their NAV and to transact at that price. Mutual funds held by the Organization are deemed to be actively traded.

Bonds: Valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing the value on yields currently available on comparable securities of issuers with similar credit ratings.

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Preferred Stock: Valued using quoted prices for similar assets in active markets.

Other Investments: Other investments include a member interest in the Catholic Umbrella Pool. Members share in the operating and investment income and expenses of the Pool based on their contributions to the fund for each fiscal year.

Stocks and Equities: Valued at the daily close price as reported by the security. Stocks and equities held by the Organization are deemed to be actively traded.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table presents the placement in the fair value hierarchy of assets that are measured at fair value on a recurring basis (including items that are required to be measured at fair value and items for which the fair value option has been elected) at June 30, 2018 and 2017.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>2018</u> <u>Total</u>
Assets:				
Investments:				
Money Market Investments	\$ 2,175,632	\$ -	\$ -	\$ 2,175,632
Certificates of Deposit	-	5,115	-	5,115
Preferred Stock	-	1,544,403	-	1,544,403
Stocks and Equities:				
Consumer Discretionary	2,665,626	-	-	2,665,626
Consumer Staples	1,658,352	-	-	1,658,352
Energy	1,621,785	-	-	1,621,785
Financials	4,120,930	-	-	4,120,930
Health Care	1,754,466	-	-	1,754,466
Industrials	2,673,653	-	-	2,673,653
Information Technology	4,378,738	-	-	4,378,738
Materials	1,019,706	-	-	1,019,706
Real Estate	1,364,401	-	-	1,364,401
Telecommunication Services	616,824	-	-	616,824
Utilities	697,576	-	-	697,576
Bonds:				
Corporate Bonds	-	5,186,793	-	5,186,793
U.S. Government Securities	-	2,801,875	-	2,801,875
Mortgage-Backed Securities	-	3,350,201	-	3,350,201
Municipal Bonds	-	3,434,519	-	3,434,519
Other Bonds	-	580,881	-	580,881
Other Investments	-	528,453	-	528,453
	<u>\$ 24,747,689</u>	<u>\$ 17,432,240</u>	<u>\$ -</u>	<u>\$ 42,179,929</u>

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	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>2017</u> <u>Total</u>
Assets:				
Investments:				
Money Market Investments	\$ 1,438,438	\$ -	\$ -	\$ 1,438,438
Certificates of Deposit	-	5,115	-	5,115
Marketable Equity Securities	34,276,928	-	-	34,276,928
Corporate Bonds	-	6,765,594	-	6,765,594
U.S. Government Securities	-	529,199	-	529,199
Other Investments	-	581,898	-	581,898
	<u>\$ 35,715,366</u>	<u>\$ 7,881,806</u>	<u>\$ -</u>	<u>\$ 43,597,172</u>

5. Financing Arrangement

The Organization has available an unsecured line of credit totaling \$2,000,000 with an interest rate of 4.50%. There were no borrowings against this line of credit as of June 30, 2018 and 2017.

6. Net Assets

Temporary restricted net assets are available for the following purposes at June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Seminary	\$ 23,619,509	\$ 23,001,936
Archbishop's Annual Appeal	4,331,838	3,644,569
Campaign Funds (Ignite the Faith)	7,983,781	8,637,091
Plant Funds	459,815	458,117
Other Funds (Priest and Lay Well-Being)	3,664,086	3,624,037
Other	744,947	762,574
	<u>\$ 40,803,976</u>	<u>\$ 40,128,324</u>

Net assets were released from restrictions by incurring expenses satisfying the restricted purposes or by occurrence of their specified events for the years ended June 30, 2018 and 2017 as follows:

	<u>2018</u>	<u>2017</u>
Seminary	\$ 1,200,000	\$ 1,200,000
Archbishop's Annual Appeal	3,793,173	3,410,238
Campaign Funds (Ignite the Faith)	4,095,950	5,982,296
Other Funds (Priest and Lay Well-Being)	364,452	562,302
Other	157,482	73,908
	<u>\$ 9,611,057</u>	<u>\$ 11,228,744</u>

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7. Retirement Plans

The employees of the Archdiocese and its related organizations participate in one of two retirement plans. The priests participate in the Priests' Retirement Plan (Pension Plan). The lay employees participate in the Lay Employees' Retirement Plan (Lay Plan). The Pension Plan and the Lay Plan are exempt from the funding requirements of the Employee Retirement Income Security Act of 1974 (ERISA) as these have been recognized by the Internal Revenue Service as "church plans." These plans are described as follows:

Lay Plan

The Lay Plan is a defined contribution plan. The Lay Plan was a church plan under 414(e) of the Internal Revenue Code (IRC). Effective January 1, 2018, the 414(e) lay plan was terminated and plan assets were merged into the Organization's existing 403(b) defined contribution plan. Under the 403(b) plan, all lay employees of the Organization who have completed one year of service and who work at least 1,000 hours per year are eligible to receive employer contributions. The Organization contributes 5% of the employees' annualized gross earnings. Employees were not allowed to make salary reduction contributions to the 414(e) plan; however, employees are allowed to make salary reduction contributions to the 403(b) plan upon their date of hire. The Organization contributed \$207,876 and \$217,998 in 2018 and 2017, respectively.

Priests' Pension Plan

The Pension Plan, which is a noncontributory defined benefit plan, provides payments to eligible priests at retirement. All priests who are incardinated into the Archdiocese and have at least 10 years of service are eligible to participate as defined by the plan agreement. A priest who retires after attaining age 70 and 10 years of service with institutions of the Archdiocese may receive a retirement benefit. The Pension Plan is a church plan, as defined in Section 414(e) of the IRC.

The Pension Plan provides \$1,485 per month to active and inactive priests who are 70 years and older. The Pension Plan also provides a Medicare premium supplement of \$130 per month. The measurement date used to determine pension benefits is June 30.

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The following table sets forth the Pension Plan's funded status at June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Fair Value of Plan Assets, Beginning of Year	\$ 27,494,766	\$ 20,021,373
Actual Return on Plan Assets	2,279,662	2,553,770
Benefits Paid	(970,397)	(949,017)
Contributions Net of Extended Care Premiums*	1,217,286	5,868,640
Fair Value of Plan Assets, End of Year	<u>30,021,317</u>	<u>27,494,766</u>
Benefit Obligation, Beginning of Year	24,417,374	21,925,877
Service Cost	737,124	578,331
Interest Cost	954,326	748,123
Actuarial Loss (Gain)	(1,130,329)	2,114,060
Plan Amendment	363,338	-
Benefits Paid	(970,397)	(949,017)
Benefit Obligation, End of Year	<u>24,371,436</u>	<u>24,417,374</u>
Funded Status at End of Year	<u>\$ 5,649,881</u>	<u>\$ 3,077,392</u>

*Includes \$5,000,000 contribution from the Organization and \$450,000 of capital campaign contributions in 2017.

The following are the actuarial assumptions used by the Pension Plan to develop the pension projected benefit obligation as of June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Discount Rate	4.20%	4.00%
Expected Benefit Level Per Month	\$ 1,485	\$ 1,455
Expected Long-Term Rate of Return on Plan Assets	5.50%	5.50%

The following is a summary of the components of net periodic pension cost for the years ended June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Service Cost During the Period	\$ 737,124	\$ 578,331
Interest Cost on Projected Benefit Obligation	954,326	748,123
Expected Return on Plan Assets	(1,481,455)	(1,087,889)
Amortization of Unrecognized:		
Prior Service Cost	108,961	108,956
Loss	325,092	322,434
Net Periodic Pension Cost	<u>\$ 644,048</u>	<u>\$ 669,955</u>

The net loss and prior service credit for the Pension Plan that will be amortized from unrestricted net assets into net periodic benefit cost over the next fiscal year are \$173,120 and \$319,845, respectively.

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The following are the actuarial assumptions used by the Pension Plan to develop the components of pension cost for the years ended June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Discount Rate	4.00%	3.50%
Expected Benefit Level Per Month	\$ 1,485	\$ 1,455
Expected Long-Term Rate of Return on Plan Assets	5.50%	5.50%

Amounts recognized in unrestricted net assets consist of the following:

	<u>2018</u>	<u>2017</u>
Net Actuarial Loss (Gain)	\$ (2,253,628)	\$ 7,999,714
Prior Service Cost	254,377	2,428,276
	<u>\$ (1,999,251)</u>	<u>\$ 10,427,990</u>

Amounts recognized in pension-related changes other than net periodic pension cost for the years ended June 30, 2018 and 2017 consist of the following:

	<u>2018</u>	<u>2017</u>
Net Actuarial Loss (Gain)	\$ (1,928,536)	\$ 648,179
Prior Service Cost	363,338	-
Amortization of Unrecognized:		
Prior Service Cost	(108,961)	(108,956)
Loss	(325,092)	(322,434)
	<u>\$ (1,999,251)</u>	<u>\$ 216,789</u>

Plan asset and target allocations comprise the following investment classifications at June 30, 2018 and 2017:

<u>Asset Category</u>	<u>Target Allocations</u>	<u>2018</u>	<u>2017</u>
Equity Securities	60%	60%	60%
Debt Securities	40%	36%	38%
Other	0%	4%	2%
	<u>100%</u>	<u>100%</u>	<u>100%</u>

The Archdiocese's investment objective with respect to the Pension Plan is to produce sufficient current income and capital growth through a portfolio of equity and fixed income investments that, together with appropriate employer contributions, is sufficient to provide for the pension benefit obligations. The Pension Plan's assets are managed by outside investment managers in accordance with the investment policies and guidelines established by the pension trustees, and are diversified by investment style, asset category, sector, industry, issuer, and maturity.

The Archdiocese's overall expected long-term rate of return on assets is 5.50%. The expected long-term rate of return is based on the portfolio as a whole and not on the sum of the return on individual asset categories. The return is based exclusively on historical returns, without adjustments.

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The benefits to be paid in each of the next five years, and in the aggregate for the five fiscal years thereafter, are summarized in the table below:

2019	\$ 1,119,539
2020	1,195,843
2021	1,210,456
2022	1,241,420
2023	1,288,857
2024-2028	6,467,997
	<u>\$ 12,524,112</u>

The Archdiocese expects to contribute \$422,000 to this postretirement benefit plan during the year ending June 30, 2018.

The asset allocations of the Archdiocese's pension benefits as of June 30, 2018 and 2017 were as follows:

	Fair Value Measurements at June 30, 2018			Total
	Pension Benefits - Plan Assets			
Asset Category:	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Cash	\$ 1,171,400	\$ -	\$ -	\$ 1,171,400
Mutual Funds:				
Equity Funds	17,925,881	-	-	17,925,881
Fixed-Income Funds	10,924,036	-	-	10,924,036
Total	<u>\$ 30,021,317</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 30,021,317</u>

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	Fair Value Measurements at June 30, 2017			Total
	Pension Benefits - Plan Assets			
Asset Category:	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Cash	\$ 626,942	\$ -	\$ -	\$ 626,942
Mutual Funds:				
Equity Funds	16,579,289	-	-	16,579,289
Fixed-Income Funds	10,288,535	-	-	10,288,535
Total	\$ 27,494,766	\$ -	\$ -	\$ 27,494,766

8. Postretirement Benefits

In addition to providing pension benefits, the Archdiocese health plan provides prescription drugs and dental insurance for eligible priests after retirement. Those individuals who are eligible for the Pension Plan are also eligible for retirement benefits. The structure of the postretirement benefit plan changed during the fiscal year ended June 30, 2017.

The Organization approved certain changes to the postretirement plan effective January 1, 2017. The Organization discontinued the self-insured Medigap insurance plan for retired priests. A new traditional Medigap plan has been contracted through a third party, sponsored by Hartford, administered through Catholic Mutual. A portion of the Archdiocesan parish assessment for the Pension Plan funds the premiums paid in relation to the new plan. Given that the Pension Plan will experience a shortfall with the loss of the Medigap premium funds, the Organization transferred \$5,000,000 from the priest health plan account to the Pension Plan during the fiscal year ended June 30, 2017 in order to create investment income to offset the loss of the premium funds.

The postretirement benefit plan is no longer a self-insured plan, therefore the Organization is not required to record a postretirement benefit obligation. This liability was the estimated obligation for future medical and dental expenses incurred by retired priests that would be payable by the Organization in future periods. The traditional plan is funded by premiums paid by the Organization and the retired priests. The premiums, which are expensed as paid, are the only potential obligation of the Organization.

The discontinuance of the self-insured Medigap insurance plan resulted in a decrease in the postretirement benefit obligation of \$6,040,039 during the year ending June 30, 2017. This amount was included as a gain within other revenues, gains and other support in the statement of activities for the year ending June 30, 2017 (see Note 12).

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9. Special Collections Payable

Special collections payable at June 30, 2018 and 2017 are summarized as follows:

	<u>2018</u>		<u>2017</u>
Catholic Relief	\$ 100,614	\$	107,921
Communications	22,360		19,501
Peters Pence	10,552		17,547
Campaign for Human Development	2,573		2,553
Religious Pension	32,385		10,175
Rice Bowl	30,572		39,352
Home and Foreign Missions	2,058		-
Black and Indian Missions	9,085		17,430
	<u>\$ 210,199</u>	\$	<u>214,479</u>

10. Capital Campaign Payable

The capital campaign payable relates to amounts the Archdiocese has committed to return to parishes based on the goals of the Ignite the Faith capital campaign (see Note 1). The \$33,824 and \$211,615 outstanding at June 30, 2018 and 2017, respectively relates to capital campaign collections for the final quarter of fiscal year 2018 and 2017, respectively, which have been committed to the parishes but not yet remitted.

11. Notes Receivable, Related Party

Notes receivable, related party consists of unsecured notes receivable from St. John Paul II Newman Center, with interest at 3%, due in March 2021. Accrued interest receivable on these notes of \$0 and \$109,508 is due to the Organization at June 30, 2018 and 2017, respectively.

12. Other Revenues, Gains, and Other Support

Other revenues, gains and other support for the years ended June 30, 2018 and 2017 is as follow:

	<u>2018</u>		<u>2017</u>
Gain on Transfer to Traditional Medigap Plan	\$ -	\$	6,040,039
Change in Liability for Priests' Pension Plan	573,238		5,198,685
Gain on Sale of Property, Buildings and Equipment	353,328		448,486
Other	160,119		306,145
Total Other Revenues, Gains and Other Support	<u>\$ 1,086,685</u>	\$	<u>11,993,355</u>

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13. Commitments and Contingencies

In the normal course of business, the Organization becomes a party to a number of lawsuits and claims. Subsequent to year-end, on August 30, 2018, the Nebraska Attorney General's office requested the three Nebraska Catholic dioceses, including the Archdiocese of Omaha, to provide certain documents in their possession dating back to January 1, 1978. The Archdiocese of Omaha was requested to provide records, dating back to January 1, 1978, regarding sexual and other unlawful behavior involving a minor or adult by its clergy or other persons placed in a position of authority by the Archdiocese of Omaha. In addition, the Attorney General requested the Archdiocese of Omaha to provide documents pertaining to repeated grooming activity by clergy, whether associated with unlawful behavior or not. The Attorney General's requests are limited to matters which came to the attention of the Archdiocese of Omaha. The Archdiocese of Omaha is cooperating with the Attorney General in supplying the requested records. As of the date of this report, there are no open criminal or civil cases against the Archdiocese of Omaha pertaining to sexual misconduct. Management believes the ultimate resolution of any other outstanding lawsuits and claims will not have a significant effect on the Organization's financial position or results of operations.

The Organization has guaranteed various notes of affiliated entities. At June 30, 2018, \$28,211,260 is outstanding on these notes.

The following is a summary of guarantees outstanding at June 30, 2018:

<u>Entity</u>	<u>City</u>	<u>Purpose</u>	<u>Date of Debt</u>	<u>Term (Months)</u>	<u>Interest Rate</u>	<u>June 30, 2018</u>
St. Stanislaus	Duncan	Mold Removal	4/28/2016	60	3.50	\$ 2,148
St. Patrick	Elkhorn	Building of School	9/1/2007	240	2.28	3,550,000
Archbishop Bergan Catholic Schools	Fremont	Elementary School Construction	10/1/2010	96	3.25	1,565,244
St. Charles Borromeo	Gretna	Construction	5/15/2014	172	3.00	826,842
St. Charles Borromeo	Gretna	Mortgage Loan	6/17/2014	196	3.25	1,634,885
St. Patrick	Gretna	Purchase House	12/27/2017	240	3.50	203,265
St. Patrick	Gretna	Purchase House	3/30/2018	240	3.50	208,807
Cedar Catholic High School	Hartington	Construction/HVAC	6/20/2014	180	3.50	773,175
Cedar Catholic High School	Hartington	Building Restoration	6/17/2016	180	3.50	648,006
Sacred Heart	Norfolk	School Activity Center	9/2/2005	172	5.00	236,000
Sacred Heart	Norfolk	Operations	6/29/2017	Line of Credit	4.50	792,000
St. Cecilia	Omaha	School Renovation	8/8/2008	180	5.50	75,396
St. Cecilia	Omaha	Refinance	1/9/2018	180	3.50	361,869
St. Peter and Paul	Omaha	Roofing Concrete	10/6/2014	120	3.50	56,509
St. Robert Bellarmine	Omaha	Refinance	4/1/2013	180	3.75	803,167
St. Robert Bellarmine	Omaha	Construction	8/11/2016	40	2.55	611,544
Immaculate Conception	Omaha	Kitchen Repair	3/23/2015	60	3.50	9,914
Immaculate	Omaha	Maintenance Loan	9/17/2015	120	3.50	46,081

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<u>Entity</u>	<u>City</u>	<u>Purpose</u>	<u>Date of Debt</u>	<u>Term (Months)</u>	<u>Interest Rate</u>	<u>June 30, 2018</u>
Immaculate Conception	Omaha	Gym Roof	11/18/2016	120	3.50	59,774
St. James	Omaha	Refinance Loan	6/2/2015	144	3.50	534,446
St. Gerald	Omaha	Purchase House	9/24/2014	360	3.50	147,477
St. Pius X	Omaha	Refinance	3/20/2017	240	3.50	185,759
Madonna School	Omaha	Operations	8/5/2009	Line of Credit	4.50	272,399
St. Stephen	Omaha	School Authority	5/15/2012	120	3.19	401,976
St. John Paul II Newman Center	Omaha	Construction Costs	3/15/2016	60	2.53	9,488,652
St. John Vianney	Omaha	Refinance	8/6/2015	240	3.25	2,418,512
St. Mary Bellevue	Omaha	Roof Replacement	11/16/2016	240	3.50	90,092
Daniel Gross High School	Omaha	Construction	6/13/2016	60	3.50	900,000
St. Columbkille	Papillion	Purchase Property	10/23/2013	180	3.50	74,912
St. Columbkille	Papillion	Purchase Property	2/21/2014	180	3.50	76,883
St. Columbkille	Papillion	Purchase Property	3/21/2014	180	3.50	70,380
St. Columbkille	Papillion	Refinance Debt	2/28/2012	120	3.32	920,161
St. Paul Plainview	Plainview	Parish Hall Loan	12/20/2013	240	3.50	149,622
St. Michael	Platte Center	Steeple Repairs	4/28/2016	60	3.50	15,363
						<u>\$ 28,211,260</u>

Management of the Organization does not anticipate having to make payments on these guarantees.

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