

**Roman Catholic Archdiocese
of San Antonio Pastoral Center**

**Financial Statements and
Supplementary Information**

June 30, 2016 and 2015

Roman Catholic Archdiocese of San Antonio Pastoral Center

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Padgett Stratemann

Independent Auditor's Report

Most Reverend Gustavo Garcia-Siller, MSpS
Archbishop of San Antonio
Roman Catholic Archdiocese of
San Antonio Pastoral Center
San Antonio, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the Roman Catholic Archdiocese of San Antonio Pastoral Center (the "Pastoral Center"), which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities and changes in net assets and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the 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 Pastoral Center'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.

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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 Pastoral Center as of June 30, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Padgett, Stratemann + Co., L.L.P.

San Antonio, Texas

January 5, 2017

Roman Catholic Archdiocese of San Antonio Pastoral Center

Statements of Financial Position

June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash and cash equivalents:		
Plant and operations fund	\$ 18,971,892	\$ 23,815,079
Deposit and loan fund	309,573	721,182
Pledges receivable – net of allowance of \$239,177 (\$490,166 in 2015)	1,615,712	1,527,680
Accounts receivable:		
Insurance programs – net of allowance of \$817,722 (\$866,018 in 2015)	212,386	1,599,146
Archdiocesan assessments – net of allowance of \$282,531 (\$173,882 in 2015)	338,321	385,362
Other Archdiocesan entities – net of allowance of \$520 (\$568 in 2015)	348,653	315,983
Interest receivable	332,563	193,868
Prepaid expenses and other assets	16,777	133,106
Funds held by insurance company	146,644	209,580
Investments:		
Plant and operations fund	14,939,133	9,139,034
Deposit and loan fund	1,004,738	999,269
Notes receivable from related entities:		
Plant and operations fund – net of allowance of \$1,105,092 (\$1,157,852 in 2015)	2,998,970	3,292,613
Deposit and loan fund – net of allowance of \$22,014 (\$8,432 in 2015)	409,808	147,699
Land, buildings, and equipment – net	4,865,450	4,427,426
Land held for future use	1,699,081	1,699,081
Property held for lease – net	<u>3,129,925</u>	<u>1,309,767</u>
Total assets	\$ <u>51,339,626</u>	\$ <u>49,915,875</u>
Liabilities:		
Accounts payable and accrued expenses	\$ 2,408,038	\$ 1,254,862
Deposits payable – deposit and loan fund	1,066,568	1,230,591
Self-insurance reserve	5,515,109	3,827,312
Advances from insurance company	1,063,589	-
Postretirement benefits obligation	10,534,559	7,936,734
Deferred revenue:		
Rent income	555,000	-
Other	147,909	128,903
Notes payable to bank	3,373,426	3,649,831
Due to others	<u>1,477,965</u>	<u>1,467,402</u>
Total liabilities	<u>26,142,163</u>	<u>19,495,635</u>
Net assets:		
Unrestricted:		
Undesignated	6,644,883	8,369,786
Designated:		
Plant and operations fund	17,832,102	20,947,305
Deposit and loan fund	<u>669,484</u>	<u>653,812</u>
Total unrestricted	25,146,469	29,970,903
Temporarily restricted	30,994	429,337
Permanently restricted	<u>20,000</u>	<u>20,000</u>
Total net assets	<u>25,197,463</u>	<u>30,420,240</u>
Total liabilities and net assets	\$ <u>51,339,626</u>	\$ <u>49,915,875</u>

Notes to the financial statements form an integral part of these statements.

Roman Catholic Archdiocese of San Antonio Pastoral Center

Statement of Activities and Changes in Net Assets

Year Ended June 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>
Revenue, gains, and other support:				
Archdiocesan assessments	\$ 9,541,020	\$ -	\$ -	\$ 9,541,020
Educational	131,114	-	-	131,114
Contributions and support	3,501,443	125,000	-	3,626,443
Fees from operations	585,243	-	-	585,243
Insurance premiums – net of rebates	18,771,625	-	-	18,771,625
Program fees	250,039	-	-	250,039
Grant income	1,088,615	89,620	-	1,178,235
Investment return	30,990	-	-	30,990
Auxiliary activities	1,295,241	-	-	1,295,241
Archbishop's Appeal – net of rebates	4,705,796	-	-	4,705,796
Deposit and loan fund – interest income	16,169	-	-	16,169
Advertising revenue and sales	326,809	-	-	326,809
Gain on sale of assets	26,601	-	-	26,601
Other revenues	292,476	-	-	292,476
Net assets released from restrictions	612,963	(612,963)	-	-
Total revenue, gains, and other support	<u>41,176,144</u>	<u>(398,343)</u>	<u>-</u>	<u>40,777,801</u>
Expenses:				
Program services:				
Clergy and Consecrated Life	1,013,364	-	-	1,013,364
Pastoral Ministries	1,834,437	-	-	1,834,437
Communication services	932,888	-	-	932,888
Catholic Schools	1,850,915	-	-	1,850,915
Hope for the Future	3,090,961	-	-	3,090,961
Archbishop's Appeal	5,090,732	-	-	5,090,732
Old Spanish Missions Care Services	549,988	-	-	549,988
Supporting services:				
General, administrative, and auxiliary services	8,013,666	-	-	8,013,666
Insurance programs	23,301,972	-	-	23,301,972
Total expenses	<u>45,678,923</u>	<u>-</u>	<u>-</u>	<u>45,678,923</u>
Decrease in net assets before postretirement-related change other than net periodic pension costs	(4,502,779)	(398,343)	-	(4,901,122)
Postretirement-related change other than net periodic pension costs	<u>(321,655)</u>	<u>-</u>	<u>-</u>	<u>(321,655)</u>
Changes in net assets	(4,824,434)	(398,343)	-	(5,222,777)
Net assets at beginning of year	<u>29,970,903</u>	<u>429,337</u>	<u>20,000</u>	<u>30,420,240</u>
Net assets at end of year	<u>\$ 25,146,469</u>	<u>\$ 30,994</u>	<u>\$ 20,000</u>	<u>\$ 25,197,463</u>

Notes to the financial statements form an integral part of these statements.

Roman Catholic Archdiocese of San Antonio Pastoral Center

Statement of Activities and Changes in Net Assets

Year Ended June 30, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>
Revenue, gains, and other support:				
Archdiocesan assessments	\$ 9,298,044	\$ -	\$ -	\$ 9,298,044
Educational	129,743	-	-	129,743
Contributions and support	2,905,109	485,664	-	3,390,773
Fees from operations	379,743	-	-	379,743
Insurance premiums – net of rebates	17,690,476	-	-	17,690,476
Program fees	200,316	-	-	200,316
Grant income	861,468	100,080	-	961,548
Investment return	(44,850)	-	-	(44,850)
Auxiliary activities	1,639,370	-	-	1,639,370
Archbishop's Appeal – net of rebates	4,649,958	-	-	4,649,958
Deposit and loan fund – interest income	28,994	-	-	28,994
Advertising revenue and sales	329,138	-	-	329,138
Gain on sale of assets	40,715	-	-	40,715
Other revenues	412,339	-	-	412,339
Net assets released from restrictions	226,789	(226,789)	-	-
	<u>38,747,352</u>	<u>358,955</u>	<u>-</u>	<u>39,106,307</u>
Total revenue, gains, and other support				
Expenses:				
Program services:				
Clergy and Consecrated Life	1,304,121	-	-	1,304,121
Pastoral Ministries	1,864,895	-	-	1,864,895
Communication services	904,038	-	-	904,038
Catholic Schools	1,450,955	-	-	1,450,955
Hope for the Future	2,355,468	-	-	2,355,468
Archbishop's Appeal	4,119,844	-	-	4,119,844
Old Spanish Missions Care Services	1,737,236	-	-	1,737,236
Supporting services:				
General, administrative, and auxiliary services	7,192,727	-	-	7,192,727
Insurance programs	17,087,705	-	-	17,087,705
	<u>38,016,989</u>	<u>-</u>	<u>-</u>	<u>38,016,989</u>
Total expenses				
Increase in net assets before postretirement-related change other than net periodic pension costs	730,363	358,955	-	1,089,318
Postretirement-related change other than net periodic pension costs	(344,034)	-	-	(344,034)
	<u>386,329</u>	<u>358,955</u>	<u>-</u>	<u>745,284</u>
Changes in net assets				
Net assets at beginning of year	<u>29,584,574</u>	<u>70,382</u>	<u>20,000</u>	<u>29,674,956</u>
Net assets at end of year	<u>\$ 29,970,903</u>	<u>\$ 429,337</u>	<u>\$ 20,000</u>	<u>\$ 30,420,240</u>

Notes to the financial statements form an integral part of these statements.

Roman Catholic Archdiocese of San Antonio Pastoral Center

Statements of Cash Flows

Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash Flows From Operating Activities		
Changes in net assets	\$ (5,222,777)	\$ 745,284
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation expense	449,531	254,743
Gain on sale of assets	(26,601)	(40,715)
Provision for allowance for doubtful accounts	(229,862)	(386,329)
Unrealized and realized (gains) losses on investments – net	223,882	315,594
Subsidy – Rolling Hills Catholic School	(181,156)	695,958
Amortization of deferred rent income	(45,000)	-
Postretirement-related change other than net periodic pension costs	321,655	344,034
Changes in operating assets and liabilities:		
Pledges receivable	162,957	(87,083)
Accounts and interest receivable	1,202,131	(1,015,185)
Prepaid expenses and other assets	116,329	(82,017)
Funds held by insurance company	62,936	99,692
Accounts payable and accrued expenses	1,153,176	(640,876)
Self-insurance reserve	1,687,797	(1,123,148)
Advance from insurance company	1,063,589	-
Postretirement benefits obligation	2,276,170	2,091,462
Deferred revenue	574,006	(8,459)
Due to others	10,563	54,579
	<u>3,599,326</u>	<u>1,217,534</u>
Net cash provided by operating activities		
Cash Flows From Investing Activities		
Investment purchases	(12,086,234)	(4,282,980)
Sale of investments	6,056,784	6,243,417
Purchase of land, buildings, and equipment	(1,316,148)	(384,646)
Purchase of rental property	(1,192,482)	-
Proceeds from sale of land, buildings, and equipment	53,674	40,715
	<u>(8,484,406)</u>	<u>1,616,506</u>
Net cash provided by (used in) investing activities		
Cash Flows From Financing Activities		
Issuance of notes receivable	(746,146)	(3,912,485)
Collections of notes receivable	816,858	5,016,606
Payments on notes payable to bank	(276,405)	-
Decrease in deposits payable – deposit and loan fund	(164,023)	(522,594)
	<u>(369,716)</u>	<u>581,527</u>
Net cash provided by (used in) financing activities		
Net increase (decrease) in cash and cash equivalents	(5,254,796)	3,415,567
Cash and cash equivalents at beginning of year	<u>24,536,261</u>	<u>21,120,694</u>
Cash and cash equivalents at end of year	<u>\$ 19,281,465</u>	<u>\$ 24,536,261</u>
Reconciliation of Cash and Cash Equivalents to Statements of Financial Position		
Plant and operations fund	\$ 18,971,892	\$ 23,815,079
Deposit and loan fund	<u>309,573</u>	<u>721,182</u>
	<u>\$ 19,281,465</u>	<u>\$ 24,536,261</u>
Supplemental Disclosures of Cash Flow Information		
Cash paid for interest	<u>\$ 129,631</u>	<u>\$ 38,691</u>

Notes to the financial statements form an integral part of these statements.

Roman Catholic Archdiocese of San Antonio Pastoral Center

Notes to the Financial Statements

1. Summary of Significant Accounting Policies

Organization

The Roman Catholic Archdiocese of San Antonio Pastoral Center (the “Pastoral Center”) is the administrative entity of the Roman Catholic Archdiocese of San Antonio (the “Archdiocese”). The Pastoral Center provides planning and direction in the administration of pastoral, vocational, educational, and other services to its parishes and Archdiocesan institutions. The Pastoral Center also provides insurance, financing, investing, and other advisory services to certain organizations of the Archdiocese.

The accompanying financial statements include all accounts maintained by and directly under the administration and operational direction of the Pastoral Center. The Pastoral Center’s fund accounting balances include the following activities as the plant and operations fund:

- General operations of the Pastoral Center
- Insurance programs
- Archbishop’s Appeal activities
- Catholic Schools
- Hope for the Future tuition assistance program
- Custodian fund activities
- Catholic Television
- Old Spanish Missions, Inc.
- Land, buildings, and equipment of the Pastoral Center – net of accumulated depreciation

In addition, the Pastoral Center maintains a deposit and loan fund whereby funds can be deposited by parishes or related entities, and loans can be obtained by parishes for construction or special needs.

The Pastoral Center’s accompanying financial statements do not include the accounts of other organizations of the Archdiocese, such as parishes, foundations, schools, cemeteries, seminaries, or any other institutions owned and operated by religious orders of men or women, except insofar as financial transactions have taken place between such organizations and the Pastoral Center. These organizations may or may not be separate corporations under civil law; however, each is an operating entity distinct from the Pastoral Center, maintains separate accounts and operating controls, carries on its mission through its services and programs, and is expected to report annually to its respective constituency.

Roman Catholic Archdiocese of San Antonio Pastoral Center

Notes to the Financial Statements

The Pastoral Center maintains the accounts and provides the administration and operating direction for the following programs.

Program Services

Clergy and Consecrated Life – The Clergy and Consecrated Life program assists with the pastoral care of all Archdiocesan priests by encouraging and helping them in their personal and spiritual growth, pursue theological updates, and also seek ongoing development of their pastoral and ministerial skills. The diaconate program facilitates the formation of deacon candidates and provides support and continuing education for all Archdiocesan deacons. The Consecrated Life program works to foster the pastoral care of the religious men and women residing in the Archdiocese. The vocation program provides resources and discernment opportunities that promote and cultivate vocations to ordained and consecrated life.

Pastoral Ministries – The Pastoral Ministries program provides support to the Archdiocesan offices of ministry, which includes resources, educational opportunities, and faith formation events to assist people of all ages from various walks of life to promote gospel values in the local parish, the local Church, and the world.

Communication Services – The Communication Services program brings the message of Jesus in an understandable way to Catholics and non-Catholics alike. It distributes information on Archdiocesan events and developments in the church to the media and provides messages from the Archbishop to the members of the church, as well as the public.

Catholic Schools – The Catholic Schools program provides services and direction to pastors, principals, teachers, and other school leaders so that the vision of Catholic education in the Archdiocese can be realized.

Hope for the Future – The Hope for the Future tuition assistance program helps to make the proven benefits of a Catholic school education available to financially disadvantaged children. This program also serves the administrators, staff, teachers, and families in Catholic schools by funding projects that build up their campuses, including grants for infrastructure, special programs, and curriculum and technology enhancements.

Archbishop's Appeal – The annual fundraising campaign provides supplemental financial assistance to institutions, programs, and ministries affiliated with the Catholic Church throughout the Archdiocese. The campaign provides funding for social services and also provides support for Archdiocesan agencies that assist the many needs of the parishes, Catholic schools, and future church leaders.

Old Spanish Missions Care Services – Old Spanish Missions, Inc. ("OSM, Inc.") is a not-for-profit corporation operated by the Pastoral Center. OSM, Inc. was established to maintain and restore the four missions located in San Antonio, Texas.

Roman Catholic Archdiocese of San Antonio Pastoral Center

Notes to the Financial Statements

Supporting Services

Insurance Programs – Insurance programs is a fund established for the accounting of the insurance benefits established by the Archdiocese in which all Archdiocesan agencies participate. The insurance benefits include health, workers' compensation, and property liability insurances. Payments for insurance premiums received in advanced for future periods are recorded as deferred revenues.

General, Administrative, and Auxiliary Services – General, administrative, and auxiliary services are essential and legitimate costs of providing services to the Archdiocesan agencies. These costs include expenses such as salaries and benefits, information technology, office supplies and postage, utilities, and repairs and maintenance, among others.

Deposit and Loan Fund – The deposit and loan fund was established to fund a depository at the Pastoral Center whereby funds can be deposited by parishes or related entities, and loans can be obtained by parishes for construction or special needs. A reduced rate of interest is applied, to ensure the basic Christian concept of communities helping communities might be achieved in the realm of financial sharing.

Basis of Presentation

The financial statements of the Pastoral Center are prepared on the accrual basis of accounting with standards applicable to not-for-profit organizations in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

The net assets, revenues, expenses, gains, and losses of the Pastoral Center are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Pastoral Center and changes therein are classified and reported as follows.

Unrestricted Net Assets – Unrestricted net assets represent expendable funds available for operations, which are not otherwise limited by donor restriction. Unrestricted net assets may be designated for a specific purpose by action of the Board of Directors (the "Board").

Temporarily Restricted Net Assets – Temporarily restricted net assets consist of contributed funds subject to specific donor-imposed restrictions contingent upon specific performances of a future event or a specific passage of time before the Pastoral Center may spend the funds.

Permanently Restricted Net Assets – Permanently restricted net assets, including endowments received by the Pastoral Center, are subject to irrevocable explicit donor restrictions requiring that the assets be maintained in perpetuity, usually for the purpose of generating investment income to fund annual operations.

Support and revenue are reported as an increase in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of

Roman Catholic Archdiocese of San Antonio Pastoral Center

Notes to the Financial Statements

temporary restrictions on net assets (e.g., 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.

Accordingly, the Pastoral Center reports gifts of cash and other assets as temporarily restricted support if they are received with donor restrictions that limit the use of the donated assets. When a donor 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 statements of activities and changes in net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support.

Some of the funds generated by the Pastoral Center are designated by various boards that serve the Archdiocese for endowment funds for long-term investment purposes, and the interest income earned is distributed at the discretion of the boards to individual agencies and schools. The Pastoral Center has created the Archdiocese of San Antonio Endowment Fund, Inc.; the Archdiocesan Catholic Schools Endowment Fund, Inc.; the Archdiocesan Designated Catholic Schools Endowment Fund, Inc.; and the Seton Home Endowment Fund, Inc. In fiscal year 2013, the Pastoral Center donated the assets of certain endowment funds to the Catholic Community Foundation for the establishment of other endowment funds. Gifts of cash and other assets are classified as permanently restricted if the donor's explicit stipulation is to place the funds in perpetuity in one of the Pastoral Center's endowments. The income earned on the permanently restricted net assets is to be made available for program activities.

Recent Accounting Pronouncements

Leases – In February 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2016-02, *Leases*, which sets out the principles for the recognition, measurement, presentation, and disclosure of leases for both parties to a contract (i.e., lessees and lessors). The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease, respectively. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months, regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases today. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases, and operating leases. The standard is effective on January 1, 2020, with early adoption permitted. The Pastoral Center is in the process of evaluating the impact of this new guidance.

Revenue – In May 2014, FASB issued ASU No. 2014-09, *Revenue From Contracts With Customers*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, FASB issued ASU

Roman Catholic Archdiocese of San Antonio Pastoral Center

Notes to the Financial Statements

No. 2015-14, which defers the effective date of ASU No. 2014-09 one year, making it effective for annual reporting periods beginning after December 15, 2018. The Pastoral Center has not yet selected a transition method and is currently evaluating the effects the standard will have on the financial statements.

Cash and Cash Equivalents

For financial statement purposes, the Pastoral Center considers funds in money market accounts and highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Pledges Receivable – Fundraising

The Pastoral Center recognizes promises to give, also known as pledges, in the financial statements when there is sufficient evidence in the form of verifiable documentation that a promise was made and received. Pledges receivable are from commitments to OSM, Inc.'s capital campaign, the Archbishop's Appeal, and Hope for the Future. The related pledges receivable are discounted to an estimated present value.

Accounts and Notes Receivable

The allowance for doubtful accounts is established as losses are estimated to have occurred through a provision for bad debts charged to earnings. Losses are charged against the allowance when management believes the receivable is no longer collectible. Subsequent recoveries, if any, are credited to the allowance. The allowance for doubtful accounts is evaluated on a regular basis by management and is based on specifically identified questionable receivables. The evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available.

Accounts Receivable – Insurance Program

Insurance program receivables are recorded on the accrual basis of accounting. Each fiscal year, the Pastoral Center bills the various entities for their share of the self-insurance program which covers their respective property, liability, workers' compensation, and health insurance expenses.

Accounts Receivable – Archdiocesan Assessments

Archdiocesan assessments are recorded on the accrual basis of accounting. Each fiscal year, the Pastoral Center assesses its parishes between 2% and 12% on parish revenues (graduated based on parish income level), plus an additional 15% of the assessment rate for parishes with schools or an additional 18% of the assessment rate for parishes without schools.

Accounts Receivable – Other Archdiocesan Assessments

Other receivables are recorded on the accrual basis of accounting. The Pastoral Center records receivables for reimbursable expenses made on behalf of other entities.

Investments

Investments consist of certificates of deposit ("CDs") and mutual fund accounts. Investments are reported at their fair values in the statements of financial position. Unrealized and realized gains and losses are included in the statements of activities and changes in net assets.

Roman Catholic Archdiocese of San Antonio Pastoral Center

Notes to the Financial Statements

Land, Buildings, and Equipment

Land, buildings, and equipment are stated at cost, if purchased, or at fair value, if donated, less depreciation. Assets with lives greater than one year and that have a value greater than \$5,000 for movable assets, renovations and building additions that add value or extend the life of the assets, as well as all land and construction costs of new buildings, are capitalized. Depreciation is calculated on the straight-line method based on the estimated useful lives of the assets. Amortization of leasehold improvement is computed using the straight-line method over the shorter of the remaining lease term or the estimated useful lives of the improvements.

The following estimated useful lives are used:

<u>Asset</u>	<u>Estimated Useful Life</u>
Land improvements	15 years
Buildings and leasehold improvements	30 years
Equipment	15-25 years
Movable equipment	2-10 years

Self-Insurance Reserves

The Pastoral Center establishes insurance claims liabilities based on estimates of the ultimate cost of claims (including future claim adjustment expenses) that have been reported, but not settled, and of claims that have been incurred, but not reported. The length of time for which such costs must be estimated varies depending on the coverage involved. The amount paid to ultimately settle these claims may be more or less than the amounts currently accrued.

Contributions

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Unconditional promises to give are recorded as received, and allowances are provided for amounts estimated to be uncollectible. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years, if any, are recorded at the present value of their estimated future cash flows. Conditional promises to give are not included as support until the conditions are substantially met.

Functional Allocations of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities and changes in net assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Federal Income Taxes

The Pastoral Center is exempt from federal income tax under provisions of Section 501(c)(3) of the Internal Revenue Code. However, the Pastoral Center is subject to tax under Section 511(a) to the extent it has unrelated business taxable income. The Pastoral Center has no material unrelated business taxable income for the years ended June 30, 2016 and 2015.

Roman Catholic Archdiocese of San Antonio Pastoral Center

Notes to the Financial Statements

Contributed Services

Contributed services are reflected in the financial statements at the fair value of the services received. The contributions of services are recognized if the services received (a) create or enhance nonfinancial assets or (b) require specialized skills and are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. Contributed services recognized are not significant.

Contingencies

Certain conditions may exist as of the date the financial statements are issued, which may result in a loss to the Pastoral Center, but which will only be resolved when one or more future events occur or fail to occur. The Pastoral Center's management and its legal counsel assess such contingent liabilities, and such assessment inherently involves an exercise of judgment. In assessing loss contingencies related to legal proceedings that are pending against the Pastoral Center or unasserted claims that may result in such proceedings, the Pastoral Center's legal counsel evaluates the perceived merits of any legal proceedings or unasserted claims, as well as the perceived merits of the amount of relief sought or expected to be sought therein.

If the assessment of a contingency indicates it is probable that a material loss has been incurred and the amount of the liability can be estimated, then the estimated liability would be accrued in the Pastoral Center's financial statements. If the assessment indicates a potentially material loss contingency is not probable, but is reasonably possible, or is probable, but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss, if determinable and material, would be disclosed.

Loss contingencies considered remote are generally not disclosed unless they involve guarantees, in which case the guarantees would be disclosed.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP 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.

Advertising and Promotional Costs

The Pastoral Center expenses advertising and promotional costs when they are incurred. Advertising and promotional costs for the year ended June 30, 2016 totaled \$155,808 (\$202,595 in 2015).

Subsequent Events

The Pastoral Center has evaluated subsequent events through January 5, 2017, the date financial statements were available to be issued.

Reclassification

Certain reclassifications have been made in the prior year's financial statements to conform to the current year's presentation.

Roman Catholic Archdiocese of San Antonio Pastoral Center

Notes to the Financial Statements

2. Pledges Receivable

Pledges receivable – net consist of the following:

	June 30,	
	<u>2016</u>	<u>2015</u>
OSM, Inc.'s capital campaign	\$ 49,979	\$ 101,583
Pastoral Center's fundraising	<u>1,565,733</u>	<u>1,426,097</u>
Total pledges receivable – net	<u>\$ 1,615,712</u>	<u>\$ 1,527,680</u>

OSM, Inc.'s Capital Campaign

OSM, Inc. started a capital campaign during fiscal year 2008. The purpose of the capital campaign is to preserve San Antonio's missions by securing financial support for the restoration and preservation of those missions. At June 30, 2016 and 2015, pledges net receivable of \$49,979 and \$101,583, respectively, are included as unrestricted designated net assets.

Total amount of pledges receivable – net is summarized as follows:

	June 30,	
	<u>2016</u>	<u>2015</u>
Unrestricted designated:		
Less than one year	\$ 50,000	\$ 250,700
One to five years	<u>2,000</u>	<u>102,000</u>
	52,000	352,700
Less provision for allowance for pledges receivable	2,000	250,700
Less discount for present value (0.54% in 2016 and 0.27% in 2015)	<u>21</u>	<u>417</u>
Pledges receivable – net	<u>\$ 49,979</u>	<u>\$ 101,583</u>

Roman Catholic Archdiocese of San Antonio Pastoral Center

Notes to the Financial Statements

Pastoral Center's Fundraising

Total amount of pledges receivable – net is summarized as follows:

	June 30,	
	2016	2015
Unrestricted designated:		
Less than one year	\$ 1,608,592	\$ 1,472,716
One to five years	<u>199,433</u>	<u>195,823</u>
	1,808,025	1,668,539
Less provision for allowance for pledges receivable	237,177	239,466
Less discount for present value (0.54% in 2016 and 0.27% in 2015)	<u>5,115</u>	<u>2,976</u>
Pledges receivable – net	<u>\$ 1,565,733</u>	<u>\$ 1,426,097</u>

3. Accounts Receivable

Accounts receivable consist of the following:

	June 30,	
	2016	2015
Insurance programs	\$ 1,030,108	\$ 2,465,164
Archdiocesan assessments	620,852	559,244
Other Archdiocesan entities	<u>349,173</u>	<u>316,551</u>
Total accounts receivable	2,000,133	3,340,959
Less allowance for uncollectible accounts	<u>1,100,773</u>	<u>1,040,468</u>
Total accounts receivable – net	<u>\$ 899,360</u>	<u>\$ 2,300,491</u>

4. Fair Value Measurements

The requirements of *Fair Value Measurements and Disclosures* of the Accounting Standards Codification apply to all financial instruments and all nonfinancial assets and nonfinancial liabilities that are being measured and reported on a fair value basis. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. *Fair Value Measurements and Disclosures* also establishes a fair value hierarchy that prioritizes the inputs used in valuation methodologies into the following three levels:

- Level 1 Inputs – Unadjusted quoted prices in active markets for identical assets or liabilities.

Roman Catholic Archdiocese of San Antonio Pastoral Center

Notes to the Financial Statements

- Level 2 Inputs – Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, or other inputs that can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 Inputs – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or other valuation techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

At June 30, 2016 and 2015, all investments were classified as Level 1.

The fair value of the Pastoral Center’s cash and cash equivalents, pledges and accounts receivable and payable, and notes receivable approximates the carrying amounts of such instruments due to their short maturity.

5. Investments

The Pastoral Center’s investments are invested at various financial institutions with the majority of the investments managed by the Catholic Community Foundation (“CCF”). These investments are exposed to various risks such as interest rate, market, and credit risk. 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 future would materially affect investment balances and the amounts reported in the financial statements.

Investments consist of the following:

	June 30, 2016			June 30, 2015		
	Cost	Estimated Fair Value	Unrealized Appreciation (Depreciation)	Cost	Estimated Fair Value	Unrealized Appreciation (Depreciation)
CDs	\$ 6,426,303	\$ 6,483,654	\$ 57,351	\$ 2,404,729	\$ 2,411,457	\$ 6,728
Mutual funds	<u>9,539,213</u>	<u>9,460,217</u>	<u>(78,996)</u>	<u>7,965,368</u>	<u>7,726,846</u>	<u>(238,522)</u>
	<u>\$ 15,965,516</u>	<u>\$ 15,943,871</u>	<u>\$ (21,645)</u>	<u>\$ 10,370,097</u>	<u>\$ 10,138,303</u>	<u>\$ (231,794)</u>

Roman Catholic Archdiocese of San Antonio Pastoral Center

Notes to the Financial Statements

Investment returns (losses) consist of the following:

	Years Ended June 30,	
	<u>2016</u>	<u>2015</u>
Interest income	\$ 33,381	\$ 33,673
Dividend income	299,281	303,514
Realized losses	(434,031)	(70,482)
Unrealized gains (losses)	210,149	(245,112)
Investment expenses	<u>(77,790)</u>	<u>(66,443)</u>
	<u>\$ 30,990</u>	<u>\$ (44,850)</u>
Deposit and loan fund – interest income	<u>\$ 16,169</u>	<u>\$ 28,994</u>

Investment returns include interest and dividends from money market accounts the Pastoral Center considers to be cash equivalents. See description of cash and cash equivalents in note 1.

6. Notes Receivable From Related Entities

The Pastoral Center manages and is responsible for long-term notes made to entities related to the Archdiocese. At June 30, 2016, the plant and operations fund has net notes receivable due from other entities totaling \$2,998,970 (\$3,292,613 in 2015). At June 30, 2016, the deposit and loan fund has net notes receivable due from parishes totaling \$409,808 (\$147,699 in 2015). The notes have various repayment terms and bear interest rates ranging up to 8.5%.

As of June 30, 2016 and 2015, there was accrued interest included in interest receivable on these loans.

Roman Catholic Archdiocese of San Antonio Pastoral Center

Notes to the Financial Statements

Notes receivable consist of the following:

Borrower	Interest Rate	Maturity Date	Repayment Terms	June 30, 2016	June 30, 2015
MCSP, Inc.	6.25%	06/30/2021	A	\$ 1,992,140	\$ 1,992,140
CCF	5.50%	06/30/2019	B	1,709,729	1,674,349
St. Thomas Syro-Malabar, Catholic Diocese of Chicago	6.00%	05/31/2031	C	401,155	417,309
St. Gerard High School	0.00%	06/30/2020	D	-	360,000
Cash advances to parishes from Frost Bank line of credit	N/A	N/A	E	-	123,812
St. Mark the Evangelist	3.25%	05/31/2016	F	-	12,898
St. Peter, Prince of the Apostles	3.75%	05/01/2018	G	108,383	-
San Fernando Cathedral	0.00%	06/30/2017	H	250,000	-
Other notes receivable	0.00%-8.50%	Various	Various	<u>74,477</u>	<u>26,088</u>
				4,535,884	4,606,596
Less allowance for uncollectible accounts				<u>1,127,106</u>	<u>1,166,284</u>
				<u>\$ 3,408,778</u>	<u>\$ 3,440,312</u>

- A. MCSP, Inc. repayment terms include a lump-sum payment for the principal and any accrued and unpaid interest at date of maturity. There were no payments received during the years ended June 30, 2016 and 2015.
- B. CCF repayment terms include the payment of accrued and unpaid interest at each anniversary date and a lump-sum payment for the principal and accrued and unpaid interest at date of maturity. Payments received during the years ended June 30, 2016 and 2015 totaled \$174,840 and \$473,833 respectively.
- C. St. Thomas Syro-Malabar, Catholic Diocese of Chicago repayment terms include the payment of accrued and unpaid interest at each anniversary date and a lump-sum payment for the principal and accrued and unpaid interest at date of maturity. Payments received during the years ended June 30, 2016 and 2015 totaled \$16,154 and \$15,228, respectively.
- D. St. Gerard High School repayment terms include a lump-sum payment for the principal amount of the note at date of maturity. No payments were received as of June 30, 2016 and the amount was written off.
- E. Cash advances to parishes are reimbursed from the related parishes' Frost Bank line of credit. Payments received during the years ended June 30, 2016 and 2015 totaled \$203,606 and \$588,105, respectively.
- F. St. Mark the Evangelist repayment terms include a lump-sum payment of principal and accrued and unpaid interest at date of maturity. Payments received during the years ended June 30, 2016 and 2015 totaled \$12,898 and \$93,992, respectively.

Roman Catholic Archdiocese of San Antonio Pastoral Center

Notes to the Financial Statements

- G. St. Peter, Prince of the Apostles repayment terms include a lump-sum payment of principal and accrued and unpaid interest at date of maturity. Payments received during the year ended June 30, 2016 totaled \$4,542.
- H. San Fernando Cathedral repayment terms include monthly payments of principal until date of maturity. Payments received during the years ended June 30, 2016 and 2015 totaled \$12,000 and \$3,000, respectively.

7. Land, Buildings, and Equipment

Land, buildings, and equipment consist of the following:

	June 30,	
	2016	2015
Land and improvements	\$ 1,440,018	\$ 1,445,118
Buildings and leasehold improvements	9,327,657	8,864,157
Movable equipment	825,798	793,497
Construction in progress	475,654	250,532
	<u>12,069,127</u>	11,353,304
Less accumulated depreciation	<u>7,203,677</u>	<u>6,925,878</u>
	<u>\$ 4,865,450</u>	<u>\$ 4,427,426</u>

Depreciation expense for the year ended June 30, 2016 totaled \$296,051 (\$254,743 in 2015).

8. Purchase of Property and Lease Agreement

On September 25, 2015, the Pastoral Center purchased 4.41 acres of land and improvements for \$1,192,482 for a future parish site. Concurrently with the purchase, the seller also gifted 13.06 acres of undeveloped land. As a condition of the purchase of land and improvements, the Pastoral Center entered into a lease agreement with the seller for the entire 17.47 acres and improvements. The term of the lease is for ten years effective from September 25, 2015 and expires September 24, 2025. The rent is \$1.00 per year. The Pastoral Center, as landlord, will reimburse the tenant 50% of costs for maintenance, repairs, real property taxes, and assessments. The Pastoral Center has recorded the gifted 13.06 acres of land at its appraised value of \$600,000 and the lease agreement as deferred rent for the same amount. The deferred rent will be amortized over the life of the lease.

Rental income totaled \$45,000 and rental expenses totaled \$19,423, inclusive of depreciation of \$17,604 for the year ended June 30, 2016.

The net carrying value of this property held for lease, net of accumulated depreciation, totaled \$1,774,878 at June 30, 2016.

Roman Catholic Archdiocese of San Antonio Pastoral Center

Notes to the Financial Statements

9. Notes Payable to Bank, Land Held for Future Use, and Property Held for Lease

During the year ended June 30, 2015, the Rolling Hills Catholic School (the "School") became unable to repay its obligations to the bank and the Pastoral Center assumed the obligations. The School conveyed the land and buildings associated with the bank loan to the Pastoral Center at net book value. The difference of \$695,958 between the bank loan and the net book value of the land and buildings was recorded as a subsidy in the accompanying statement of activities and changes in net assets. The conveyance also included excess land with a book value of \$1,699,081, which is being held for future use. The loans consist of two note agreements. The first loan agreement matures on August 8, 2028 with a variable interest rate of 3.50% (3.25% in 2015) with an outstanding balance of \$2,850,788 as of June 30, 2016 (\$3,085,099 in 2015). The Pastoral Center repayment terms include monthly principal payments of \$19,526 plus accrued interest. The second loan agreement matures on November 16, 2018 with variable interest rate of 3.50% (3.25% in 2015) with an outstanding balance of \$522,638 as of June 30, 2016 (\$564,732 in 2015). The Pastoral Center repayment terms include monthly principal payments of \$3,508 plus accrued interest.

Future minimum payments to be paid by the Pastoral Center for these loans as of June 30, 2016 are as follows:

	<u>Loan 1</u>	<u>Loan 2</u>	<u>Total</u>
Year ending June 30,			
2017	\$ 234,311	\$ 42,092	\$ 276,403
2018	234,311	42,092	276,403
2019	234,311	438,454	672,765
2020	234,311	-	234,311
2021	234,311	-	234,311
Thereafter	<u>1,679,233</u>	<u>-</u>	<u>1,679,233</u>
	<u>\$ 2,850,788</u>	<u>\$ 522,638</u>	<u>\$ 3,373,426</u>

On May 1, 2015, the Pastoral Center entered into a lease agreement with the School leasing the related property pursuant to the lease agreement expiring on April 30, 2025. The premises shall be re-appraised at the end of the fifth year and every five years thereafter. The base rent shall be increased based on the re-appraisal using the same formula. If there is a decrease in any one year in the appraisal, the base rent will remain unchanged from the previous year.

Roman Catholic Archdiocese of San Antonio Pastoral Center

Notes to the Financial Statements

Future minimum lease payments to be received by the Pastoral Center under the lease agreement as of June 30, 2016 were as follows:

Year ending June 30,	
2017	\$ 169,490
2018	169,490
2019	169,490
2020	169,490
2021	169,490
Thereafter	<u>649,710</u>
	<u><u>\$ 1,497,160</u></u>

Rental income and expenses were as follows:

	June 30,	
	<u>2016</u>	<u>2015</u>
Rental income	\$ 169,490	\$ 28,250
Expenses – depreciation	<u>135,876</u>	<u>-</u>
Net	<u><u>\$ 33,614</u></u>	<u><u>\$ 28,250</u></u>

The net carrying value of this property held for lease, net of accumulated depreciation totaled \$1,355,047 at June 30, 2016 (\$1,309,767 in 2015).

In December 2016, the Archdiocese refinanced the above loans for the benefit of the School. The School will assume and will be responsible to repay these refinanced loans. As a result, the Pastoral Center has transferred back the property held for lease, the land held for future use, and the related above loans to the School. Also, the above lease agreement was terminated effective December 2016.

10. Deposits Payable

The Pastoral Center maintains savings accounts for the Archdiocesan entities and pays interest semiannually. The balance of such deposits due to parishes and other Archdiocesan entities at June 30, 2016 totaled \$1,066,568 (\$1,230,591 in 2015). Deposits bear interest at rates ranging from 0.5% to 2.0% for parishes and entities and 1.2% for burse funds based on the time commitment. There were no deposits payable for burse funds as of June 30, 2016 (\$212,682 at June 30, 2015).

Roman Catholic Archdiocese of San Antonio Pastoral Center

Notes to the Financial Statements

11. Insurance

Property, Liability, and Workers' Compensation Insurance

The Archdiocese has established a self-insured fund to pay for all property, liability, and workers' compensation claims under \$100,000 each claim. All property claims are at replacement cost coverage. Claims above the self-insured retention of \$100,000 are insured by outside commercial insurers. The Archdiocese's Risk Management Office administers all claims under the self-insured trust and the excess loss coverage.

Health Insurance Benefits

The Pastoral Center became self-insured effective September 1, 2012 for health insurance benefits. The Pastoral Center provides healthcare benefits to active lay and priest employees through the self-insured plan that includes medical and prescription drug benefits. Dental benefits are fully insured through an outside commercial insurer. The payment of claims associated with these benefits is handled by a third-party administrator. The Pastoral Center is self-insured for the first \$150,000 of medical claims, and also fully insured for claims in excess of \$150,000 up to a maximum annual aggregate stop-loss payment amount of \$1,000,000.

Employee Death Benefit

Effective July 1, 2014, the Pastoral Center became self-insured for a death benefit for all permanent full-time employees of the Archdiocese. The death benefit is \$20,000 for eligible employees up to age 70 and \$10,000 for employees 70 years and older. The death benefit discontinues at the time of termination, resignation, retirement, or with a status change from full-time to part-time. Archdiocesan priests, both active and retired, are eligible for this benefit. Administration of the benefit will be the responsibility of the Pastoral Center's Office of Human Resources.

As of June 30, 2016, a self-insurance reserve of \$5,515,109 has been made for the settlement of all incurred claims, which includes claims incurred, but not reported (\$3,827,312 in 2015).

The self-insurance reserve is an estimate of the cost of claims incurred, but not settled. Reserve estimates for reported claims are primarily determined by the evaluation of individual reported claims by a third-party underwriter. Provisions for estimates for claims incurred, but not reported are based on prior experience. The methods for making such estimates and for establishing the resulting liabilities are periodically reviewed and updated. Any adjustments to these estimates are reflected in the statements of activities and changes in net assets when they become known.

Roman Catholic Archdiocese of San Antonio Pastoral Center

Notes to the Financial Statements

12. Pension Plans

The Archdiocese sponsors a defined contribution, noncontributory, pension plan for all permanent full-time lay employees. The plan provides for a 7-year graded vesting with 100% vesting after 7 years of continuous service. After July 1, 2014, only full-time employees were eligible to participate in the plan beginning on the date that they became full-time. Part-time employees, who previously met the old eligibility requirements of 6 months of service and earnings equivalent to 1,000 hours times the minimum wage at January 1 of the given year, were grandfathered into the amended plan. Employer contributions are determined as 5% of each covered employee's salary. Participation is mandatory and employees cannot contribute to the plan.

The Archdiocese sponsors a voluntary 403(b) plan through TIAA CREF. Eligible employees may contribute up to the annual limit with no matching from the covered units.

The Archdiocese has a noncontributory, defined benefit plan for eligible priests. Funding for the plan is provided through mandatory contributions from employers.

Total pension expense for the Pastoral Center for the year ended June 30, 2016 was approximately \$332,000 (approximately \$290,000 in 2015).

13. Postretirement Benefits Plan

The Archdiocese has a commitment to provide for postretirement healthcare and support benefits for eligible infirm and retired Archdiocesan priests. U.S. GAAP requires the accrual, during the years that the participant renders the necessary service, of the expected cost of providing those benefits to a participant, the employee's beneficiaries, and covered dependents.

The Pastoral Center has a policy to have an actuarial valuation of the plan performed on a biannual basis. The most recent valuation was performed in fiscal year 2015 based on fiscal year ended June 30, 2015 data. The 2016 data was based on a rollforward from the fiscal year 2015 financial data.

Roman Catholic Archdiocese of San Antonio Pastoral Center

Notes to the Financial Statements

The following (unaudited) table presents the plan's status reconciled with amounts recognized in the Pastoral Center's statements of financial position:

	June 30,	
	<u>2016</u>	<u>2015</u>
Accumulated postretirement benefits obligation:		
Active participants fully eligible for benefits	\$ 2,684,496	\$ 2,220,187
Active participants not fully eligible for benefits	5,226,190	3,209,956
Retired participants	<u>2,623,873</u>	<u>2,506,591</u>
Postretirement benefits obligation	<u>\$ 10,534,559</u>	<u>\$ 7,936,734</u>
Postretirement-related change other than net periodic pension costs – unrecognized prior service gain	<u>\$ (321,655)</u>	<u>\$ (344,034)</u>
Net period postretirement benefits cost for components:		
Service cost for period – net of amortization	\$ 337,008	\$ 224,624
Interest cost on accumulated postretirement benefits	351,406	227,630
Plan amendments	-	249,075
Unrecognized net loss – immediate recognition	<u>2,125,033</u>	<u>1,924,277</u>
Net period postretirement benefits cost	<u>\$ 2,813,447</u>	<u>\$ 2,625,606</u>

A rollforward of the accrued postretirement benefit obligation is summarized as follows:

	June 30,	
	<u>2016</u>	<u>2015</u>
Balance at beginning of year	\$ 7,936,734	\$ 5,501,238
Net periodic postretirement benefits cost	2,813,447	2,625,606
Claims paid	<u>(215,622)</u>	<u>(190,110)</u>
Balance at end of year	<u>\$ 10,534,559</u>	<u>\$ 7,936,734</u>

For measurement purposes, a 7.5% annual rate increase in the per capita cost of covered benefits (e.g., healthcare cost trend rate) was assumed for 2016; the rate is assumed to decrease gradually to 4.5% by the year 2036 and remain at that level thereafter. The healthcare cost trend rate assumption has a significant effect on the amounts reported. For example, increasing the assumed healthcare cost trend rate by one percentage point in each year would increase the accumulated postretirement benefits obligation ("APBO") by \$2,115,280 as of June 30, 2016 (\$1,318,321 in 2015) and the aggregate of the service and interest cost components of net periodic postretirement benefits cost by \$170,740 for the year ended June 30, 2016 (\$108,620 in 2015). A reduction in assumed healthcare cost trend rate by one percentage point in each year would decrease the APBO by \$1,630,764 as of June 30, 2016

Roman Catholic Archdiocese of San Antonio Pastoral Center

Notes to the Financial Statements

(\$1,044,051 in 2015) and the aggregate of the service and interest cost components by \$127,495 for the year ended June 30, 2016 (\$83,092 in 2015). The weighted-average discount rate used in determining the APBO at June 30, 2016 was 3.52% (4.50% in 2015).

14. Due to Others

Amounts due to others are monies held for the benefit of other agencies and affiliates. Funds are noninterest-bearing and without repayment terms. Due to others is as follows:

	June 30,	
	<u>2016</u>	<u>2015</u>
Casa de Padres	\$ 1,137,511	\$ 1,100,495
Custodian and operating agency accounts	<u>340,454</u>	<u>366,907</u>
	<u>\$ 1,477,965</u>	<u>\$ 1,467,402</u>

15. Net Assets

The unrestricted designated net assets are as follows:

	June 30,	
	<u>2016</u>	<u>2015</u>
Plant and operations fund:		
Self-insurance programs – including property and medical benefits	\$ 545,886	\$ 5,443,969
Archbishop’s Appeal	5,869,334	6,247,016
Archdiocese of San Antonio	4,734	4,734
Hope for the Future	2,828,664	2,888,868
OSM, Inc.	944,862	1,373,733
Seton Home Endowment Fund, Inc. – Board designated	178,193	190,234
Catholic Television	68,306	63,340
Catholic Schools	387,099	599,378
Plant – net of payables	<u>7,005,024</u>	<u>4,136,033</u>
	<u>\$ 17,832,102</u>	<u>\$ 20,947,305</u>
Deposit and loan fund	<u>\$ 669,484</u>	<u>\$ 653,812</u>

Roman Catholic Archdiocese of San Antonio Pastoral Center

Notes to the Financial Statements

Temporarily restricted net assets are available for the following purposes:

	June 30,	
	<u>2016</u>	<u>2015</u>
Restricted for:		
Southside Catholic schools	\$ -	\$ 383,285
Other specific purpose grants	<u>30,994</u>	<u>46,052</u>
	<u>\$ 30,994</u>	<u>\$ 429,337</u>

Net assets were released from donor restrictions by incurring expenses satisfying restricted purposes or time restrictions specified by donors as follows:

	June 30,	
	<u>2016</u>	<u>2015</u>
Catholic extension	\$ 35,092	\$ 77,332
Hope for the Future Endowment	365,285	-
Local Religious Orders	125,000	100,000
Hope for the Future Tuition Assistance	19,000	-
John G. and Marie Stella Kenedy Memorial Foundation	33,225	25,030
Other specific purpose grants	<u>35,361</u>	<u>24,427</u>
	<u>\$ 612,963</u>	<u>\$ 226,789</u>

Permanently restricted net assets consist of the following:

	June 30,	
	<u>2016</u>	<u>2015</u>
Mary Jane Clark Endowment Fund	<u>\$ 20,000</u>	<u>\$ 20,000</u>

16. Endowment Funds

Interpretation of Relevant Law for Donor-Restricted Endowment Funds

In July 2006, the Uniform Law Commission approved the Uniform Prudent Management of Institutional Funds Act of 2006 ("UPMIFA") as a modernized version of the Uniform Management of Institutional Funds Act of 1972, the model act governing the investment and management of donor-restricted endowment funds by not-for-profit organizations. Among its changes, UPMIFA prescribes new guidelines for expenditure of a donor-restricted endowment fund, including Subsection 4(a), which states, "unless stated otherwise in the gift instrument, the assets in an endowment fund are donor-restricted assets until appropriated for expenditure by the institution."

Roman Catholic Archdiocese of San Antonio Pastoral Center

Notes to the Financial Statements

Management has interpreted the State Prudent Management of Institutional Funds Act (“SPMIFA”) as requiring the preservation of fair value of the original gift as of the gift date of the donor-restricted endowment fund, absent explicit donor stipulations to the contrary. As a result, the Pastoral Center classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Pastoral Center in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the Pastoral Center considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the organization and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Pastoral Center
- The investment policies of the Pastoral Center

The endowment net assets composition by type is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
June 30, 2016			
Donor-restricted endowment funds	\$ -	\$ -	\$ 20,000
Board-designated endowment funds	<u>178,193</u>	<u>-</u>	<u>-</u>
	<u>\$ 178,193</u>	<u>\$ -</u>	<u>\$ 20,000</u>
June 30, 2015			
Donor-restricted endowment funds	\$ -	\$ -	\$ 20,000
Board-designated endowment funds	<u>190,234</u>	<u>-</u>	<u>-</u>
	<u>\$ 190,234</u>	<u>\$ -</u>	<u>\$ 20,000</u>

Roman Catholic Archdiocese of San Antonio Pastoral Center

Notes to the Financial Statements

The unrestricted Board-designated endowment funds consist of the following:

	June 30,	
	<u>2016</u>	<u>2015</u>
Seton Home Endowment Fund, Inc.	\$ <u>178,193</u>	\$ <u>190,234</u>

The Pastoral Center had the following changes in endowment net assets for the years ended June 30, 2016 and 2015:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Year Ended June 30, 2016			
Endowment net assets at beginning of year	\$ 190,234	\$ -	\$ 20,000
Investment return:			
Investment income, gains, and losses – net	(6,897)	-	-
Amount appropriated for expenditures	<u>(5,144)</u>	<u>-</u>	<u>-</u>
Endowment net assets at end of year	\$ <u>178,193</u>	\$ <u>-</u>	\$ <u>20,000</u>
Year Ended June 30, 2015			
Endowment net assets at beginning of year	\$ 199,880	\$ -	\$ 20,000
Investment return:			
Investment income, gains, and losses – net	(9,175)	-	-
Amount appropriated for expenditures	<u>(471)</u>	<u>-</u>	<u>-</u>
Endowment net assets at end of year	\$ <u>190,234</u>	\$ <u>-</u>	\$ <u>20,000</u>

Descriptions of amounts classified as permanently restricted net assets and temporarily restricted net assets (endowment only) are as follows:

	June 30,	
	<u>2016</u>	<u>2015</u>
Permanently Restricted Net Assets		
The portion of perpetual endowment funds that is required to be retained permanently, either by explicit donor stipulation or by SPMIFA	\$ <u>20,000</u>	\$ <u>20,000</u>

Roman Catholic Archdiocese of San Antonio Pastoral Center

Notes to the Financial Statements

Funds With Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted funds may fall below the level that the donor or SPMIFA requires the Pastoral Center to retain as a fund of perpetual duration. There were no such deficiencies as of June 30, 2016 or 2015.

Return Objectives and Risk Parameters

The Pastoral Center endowment funds are managed by the CCF, and the Pastoral Center has adopted the CCF's investment policies for the endowment assets, which attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Pastoral Center must hold in perpetuity or for a donor-specified period(s), as well as Board-designated funds. Under this policy, as approved by the Board, the endowment assets are invested in a manner that is intended to produce results which, when compared to the current market place, would be better than average performance for fund managers with similar styles primarily based upon three-year rolling returns and net of (after) investment fees and expenses. The Pastoral Center expects its endowment funds, over time, to provide an average rate of return comparable to the benchmarks outlined in the investment policy. Actual returns in any given year may vary from these benchmarks.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, CCF diversifies its portfolio among a number of investments managers, within the feasibility of cost efficiency, to limit risk and maximize investment opportunities. The goal of CCF is to preserve and maintain the real purchasing power of the principal of portfolios by realizing a real total annual return of 500 basis points over inflationary expectations for equity funds and 100-200 basis points over inflation expectations for fixed income funds, dependent upon quality exposure.

Spending Policy

The Pastoral Center's current practice is to approve the annual budget for appropriation of expenditures. A formal spending or disbursement policy has not been adopted.

17. Related Party Transactions

For the years ended June 30, 2016 and 2015, the Pastoral Center recorded Archdiocesan assessments and the corresponding accounts receivable resulting from these transactions.

All Archdiocesan agencies participate under the Archdiocesan insurance plans. For the years ended June 30, 2016 and 2015, the Pastoral Center recorded insurance premiums and insurance program expenses in the statements of activities and changes in net assets. Receivables from these transactions are included in accounts receivable at year-end.

The Archdiocese assesses its parishes an annual quota based on Sunday collections for the Archbishop's Appeal. Amounts raised in excess of set goals are rebated to the parishes that exceed their goal.

Roman Catholic Archdiocese of San Antonio Pastoral Center

Notes to the Financial Statements

18. Commitments

The Archbishop of San Antonio is the signer and guarantor of loans incurred by parishes, schools, and agencies under his jurisdiction. These loans are not recognized in the financial statements, as these are only contingent liabilities, as the Archbishop is only responsible if the parishes, schools, and agencies do not pay the obligations.

19. Contingencies

The Archdiocese is involved in various claims and legal actions. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Pastoral Center's financial position, changes in net assets, or liquidity.

20. Concentration of Credit Risk

Cash balances are maintained by the Pastoral Center at several banks. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to a maximum of \$250,000. The Pastoral Center held cash balances in excess of the \$250,000 at various times during the year.

Supplementary Information



Padgett Stratemann

Independent Auditor's Report on Supplementary Information

Most Reverend Gustavo Garcia-Siller, MSpS
Archbishop of San Antonio
Roman Catholic Archdiocese of
San Antonio Pastoral Center
San Antonio, Texas

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information, as presented in the table of contents, is presented for purposes of additional analysis and is not a required part of the financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such supplementary information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the financial statements taken as a whole.

Padgett, Stratemann + Co., L.L.P.

San Antonio, Texas
January 5, 2017

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Roman Catholic Archdiocese of San Antonio Pastoral Center

Schedule of Functional Expenses

Year Ended June 30, 2016

	Program Services						Supporting Services			Total 2016
	Clergy and Consecrated Life	Pastoral Ministries	Communication Services	Catholic Schools	Hope for the Future	Archbishop's Appeal	Old Spanish Missions Care Services	General, Administrative, and Auxiliary Services	Insurance Programs	
Advertising and promotion	\$ 1,703	\$ 29,824	\$ 2,063	\$ 1,162	\$ 99,263	\$ -	\$ 3,397	\$ 13,396	\$ -	\$ 150,808
Benefits	203,010	190,757	94,607	97,362	11,220	-	9,085	824,003	-	1,430,044
Bank and credit card fees	30	5,867	868	48	17,039	74,041	1,209	6,164	-	105,266
Cathedraticum	-	-	-	-	-	-	-	111,078	-	111,078
Continuing education	154,625	950	-	10,805	-	-	453	433,663	-	600,496
Copying, duplicating, and printing	-	15,748	135,718	-	1,836	-	8,403	12,741	-	174,446
Depreciation expense	-	-	17,360	-	-	-	-	432,171	-	449,531
Direct agency support and assessments	-	-	-	522,204	-	2,118,577	-	640,780	-	3,281,561
Dues and publications	1,710	6,283	270	739	40	-	1,932	9,949	-	20,923
Gifts and donations	888	14,593	-	330,501	2,696,619	-	73,048	1,015,348	-	4,130,997
Grants expense	-	68,000	30,000	-	-	-	-	34,516	-	132,516
Hospital expense and support – retired priests	111,236	3,600	-	-	-	-	-	54,683	-	169,519
Hospitality	19,896	139,393	1,071	9,845	2,298	-	1,656	33,653	-	207,812
Interest and other	-	-	-	-	-	-	-	213,835	-	213,835
Insurance programs	-	-	-	-	-	-	-	-	23,494,280	23,494,280
Office equipment maintenance and leases	-	96	7,813	-	-	-	1,661	122,014	-	131,584
Office supplies and postage	6,332	43,317	118,517	3,614	3,448	-	5,645	224,691	-	405,564
Professional development	9,088	10,935	507	-	1,595	-	2,255	21,880	-	46,260
Professional, legal, and other fees	35,239	12,275	11,235	-	2,756	-	11,473	214,367	-	287,345
Property tax	-	-	-	-	-	-	-	70,660	-	70,660
Provision for allowance for doubtful accounts	-	-	81	11,556	21,460	180,766	2,000	413,874	-	629,737
Rent – building	24,522	45,020	-	732	-	-	6,585	40,806	-	117,665
Repairs and maintenance	1,837	1,200	1,065	-	-	-	323,106	136,045	-	463,253
Resource materials and audio visual	3,682	115,045	4,829	581	-	-	268	44,347	-	168,752
Salaries	297,487	1,367,351	732,767	761,069	161,883	-	67,033	2,723,035	-	6,110,625
Special assessment	-	-	-	-	-	-	-	312,585	-	312,585
Stipends and contracted services	39,496	333,967	12,592	34,612	4,492	-	-	777,661	-	1,202,820
Utilities	3,611	24,959	4,046	377	297	-	4,237	187,851	-	225,378
Vehicle	24,530	50,204	6,583	11,762	989	-	6,035	52,328	-	152,431
Workshop and banquets	71,427	97,936	12,881	1,579	421,151	-	13,650	62,528	-	681,152
Interprograms transfers in (out) – allocations	3,015	(742,883)	(261,985)	52,367	(355,425)	2,717,348	6,857	(1,226,986)	(192,308)	-
Total	\$ 1,013,364	\$ 1,834,437	\$ 932,888	\$ 1,850,915	\$ 3,090,961	\$ 5,090,732	\$ 549,988	\$ 8,013,666	\$ 23,301,972	\$ 45,678,923

See independent auditor's report on supplementary information.