

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

Financial Report and Supplementary Information  
June 30, 2017 and 2016

## Contents

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Independent auditor's report	1-2
<hr/>	
Financial statements	
Statements of financial position	3
Statements of activities and changes in net assets	4-5
Statements of cash flows	6-7
Notes to financial statements	8-29
<hr/>	
Independent auditor's report on the supplementary information	30
<hr/>	
Supplementary information	
Schedule of functional expenses	31
<hr/>	



RSM US LLP

## Independent Auditor's Report

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

### 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 statement of financial position as of June 30, 2017, the related statements of activities and changes in net assets and cash flows for the year 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 audit. We conducted our audit 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.

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, 2017, and the changes in its net assets and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

**Other Matter**

The financial statements of Roman Catholic Archdiocese of San Antonio Pastoral Center as of and for the year ended June 30, 2016, were audited by other auditors, whose report dated January 5, 2017, expressed an unmodified opinion on those statements.

*RSM VS LLP*

San Antonio, Texas  
December 27, 2017

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

**Statements of Financial Position  
June 30, 2017 and 2016**

	2017	2016
<b>Assets</b>		
Cash and cash equivalents:		
Plant and operations fund	\$ 16,444,580	\$ 18,971,892
Deposit and loan fund	22,370	309,573
Pledges receivable, net of allowance of \$248,343 (\$239,177 in 2016)	844,237	1,615,712
Accounts receivable:		
Insurance programs, net of allowance of \$672,621 (\$817,722 in 2016)	202,395	212,386
Archdiocesan assessments, net of allowance of \$291,396 (\$282,531 in 2016)	338,937	338,321
Other Archdiocesan entities, net of allowance of \$0 (\$520 in 2016)	344,190	348,653
Grants receivable	73,308	-
Interest receivable	876	332,563
Prepaid expenses and other assets	91,795	16,777
Funds held by insurance company	127,407	146,644
Investments:		
Plant and operations fund	15,374,839	13,802,277
Deposit and loan fund	1,115,437	1,004,738
Notes receivable from related entities:		
Plant and operations fund, net of allowance of \$2,629,547 (\$1,105,092 in 2016)	1,219,529	2,998,970
Deposit and loan fund, net of allowance of \$24,459 (\$22,014 in 2016)	464,268	409,808
Cash value life annuities	1,174,725	1,136,856
Land, buildings and equipment, net	4,715,794	4,592,429
Land held for future use—Rolling Hills School	-	1,699,081
Properties held for lease, net	2,294,820	3,402,946
<b>Total assets</b>	<b>\$ 44,849,507</b>	<b>\$ 51,339,626</b>
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 1,952,963	\$ 2,408,038
Deposits payable—deposit and loan fund	945,985	1,066,568
Self-insurance reserve	5,356,309	5,515,109
Advances from insurance company	1,015,621	1,063,589
Postretirement benefits obligation	9,699,085	10,534,559
Deferred revenue:		
Rent income	495,000	555,000
Other	45,204	147,909
Notes payable to bank	-	3,373,426
Due to others	1,493,430	1,477,965
<b>Total liabilities</b>	<b>21,003,597</b>	<b>26,142,163</b>
Net assets:		
Unrestricted:		
Undesignated	5,156,739	6,644,883
Designated:		
Plant and operations fund	17,704,885	17,832,102
Deposit and loan fund	660,096	669,484
<b>Total unrestricted</b>	<b>23,521,720</b>	<b>25,146,469</b>
Temporarily restricted	14,742	30,994
Permanently restricted	309,448	20,000
<b>Total net assets</b>	<b>23,845,910</b>	<b>25,197,463</b>
<b>Total liabilities and net assets</b>	<b>\$ 44,849,507</b>	<b>\$ 51,339,626</b>

See notes to financial statements.

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

**Statement of Activities and Changes in Net Assets  
Year Ended June 30, 2017**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
<b>Revenue, gains and other support:</b>				
Archdiocesan assessments	\$ 10,192,683	\$ -	\$ -	\$ 10,192,683
Educational	284,011	-	-	284,011
Contributions and support	4,570,431	125,000	289,448	4,984,879
Fees from operations	1,288,514	-	-	1,288,514
Insurance premiums, net of rebates	18,124,349	-	-	18,124,349
Program fees	174,371	-	-	174,371
Grant income	425,450	22,901	-	448,351
Investment return, net	907,115	13,364	-	920,479
Auxiliary activities	1,540,091	-	-	1,540,091
Archbishop's Appeal, net of rebates	4,852,956	-	-	4,852,956
Deposit and loan fund—interest income	17,257	-	-	17,257
Advertising revenue and sales	319,731	-	-	319,731
Gain on sale of assets	723,444	-	-	723,444
Other revenues	108,748	-	-	108,748
Net assets released from restrictions	177,517	(177,517)	-	-
<b>Total revenue, gains and other support</b>	<b>43,706,668</b>	<b>(16,252)</b>	<b>289,448</b>	<b>43,979,864</b>
<b>Expenses:</b>				
Program services:				
Clergy and Consecrated Life	1,467,013	-	-	1,467,013
Pastoral Ministries	1,928,766	-	-	1,928,766
Communication services	1,076,193	-	-	1,076,193
Catholic Schools	2,362,703	-	-	2,362,703
Hope for the Future	3,085,858	-	-	3,085,858
Archbishop's Appeal	4,644,595	-	-	4,644,595
Old Spanish Missions Care Services	708,205	-	-	708,205
Supporting services:				
General, administrative and auxiliary services	11,752,229	-	-	11,752,229
Insurance programs	17,984,200	-	-	17,984,200
<b>Total expenses</b>	<b>45,009,762</b>	<b>-</b>	<b>-</b>	<b>45,009,762</b>
<b>Decrease in net assets before postretirement-related change other than net periodic pension costs</b>	<b>(1,303,094)</b>	<b>(16,252)</b>	<b>289,448</b>	<b>(1,029,898)</b>
Postretirement-related change other than net periodic pension costs	(321,655)	-	-	(321,655)
<b>Changes in net assets</b>	<b>(1,624,749)</b>	<b>(16,252)</b>	<b>289,448</b>	<b>(1,351,553)</b>
Net assets at beginning of year	25,146,469	30,994	20,000	25,197,463
Net assets at end of year	\$ 23,521,720	\$ 14,742	\$ 309,448	\$ 23,845,910

See notes to financial statements.

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

**Statement of Activities and Changes in Net Assets  
Year Ended June 30, 2016**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
<b>Revenue, gains and other support:</b>				
Archdiocesan assessments	\$ 9,541,020	\$ -	\$ -	\$ 9,541,020
Educational	131,114	-	-	131,114
Contributions and support	3,563,243	125,000	-	3,688,243
Fees from operations	585,243	-	-	585,243
Insurance premiums, net of rebates	18,709,825	-	-	18,709,825
Program fees	250,039	-	-	250,039
Grant income	1,088,615	89,620	-	1,178,235
Investment return, net	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)	-	-
<b>Total revenue, gains and other support</b>	<b>41,176,144</b>	<b>(398,343)</b>	<b>-</b>	<b>40,777,801</b>
<b>Expenses:</b>				
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
<b>Total expenses</b>	<b>45,678,923</b>	<b>-</b>	<b>-</b>	<b>45,678,923</b>
<b>Decrease in net assets before postretirement-related change other than net periodic pension costs</b>	<b>(4,502,779)</b>	<b>(398,343)</b>	<b>-</b>	<b>(4,901,122)</b>
Postretirement-related change other than net periodic pension costs	(321,655)	-	-	(321,655)
<b>Changes in net assets</b>	<b>(4,824,434)</b>	<b>(398,343)</b>	<b>-</b>	<b>(5,222,777)</b>
Net assets at beginning of year	29,970,903	429,337	20,000	30,420,240
Net assets at end of year	\$ 25,146,469	\$ 30,994	\$ 20,000	\$ 25,197,463

See notes to financial statements.

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

**Statements of Cash Flows**  
**Years Ended June 30, 2017 and 2016**

	2017	2016
Cash flows from operating activities:		
Changes in net assets	\$ (1,351,553)	\$ (5,222,777)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation expense	419,100	449,531
(Gain) loss on sale of assets	5,749	(26,601)
Provision for allowance for doubtful accounts	1,399,310	(229,862)
Unrealized and realized (gains) losses on investments, net	(703,792)	223,882
Subsidy—Rolling Hills Catholic School	(729,193)	(181,156)
Amortization of deferred rent income	(60,000)	(45,000)
Postretirement-related change other than net periodic pension costs	321,655	321,655
Permanently restricted contribution	(289,448)	-
Changes in operating assets and liabilities:		
Pledges receivable	762,309	162,957
Accounts and interest receivable	125,904	1,202,131
Grants receivable	(73,308)	-
Prepaid expenses and other assets	(75,018)	116,329
Funds held by insurance company	19,237	62,936
Cash value life annuities	(37,869)	(37,016)
Accounts payable and accrued expenses	(455,075)	1,153,176
Self-insurance reserve	(158,800)	1,687,797
Advance from insurance company	(47,968)	1,063,589
Postretirement benefits obligation	(1,157,129)	2,276,170
Deferred revenue	(102,705)	574,006
Due to others	15,465	10,563
<b>Net cash (used in) provided by operating activities</b>	<b>(2,173,129)</b>	<b>3,562,310</b>
Cash flows from investing activities:		
Purchases of investments	(9,728,306)	(12,049,218)
Sale of investments	8,748,837	6,056,784
Purchase of land, buildings and equipment	(441,163)	(1,316,148)
Purchase of rental property	(283,539)	(1,192,482)
Proceeds from sale of properties held for lease	3,712,888	-
Proceeds from sale of land, buildings and equipment	-	53,674
<b>Net cash provided by (used in) investing activities</b>	<b>2,008,717</b>	<b>(8,447,390)</b>

(Continued)

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

**Statements of Cash Flows (Continued)**  
**Years Ended June 30, 2017 and 2016**

	<b>2017</b>	2016
Cash flows from financing activities:		
Issuance of notes receivable	\$ (987,454)	\$ (746,146)
Collections of notes receivable	1,541,912	816,858
Payments on notes payable to bank	(3,373,426)	(276,405)
Decrease in deposits payable—deposit and loan fund	(120,583)	(164,023)
Permanently restricted contribution—proceeds	289,448	-
<b>Net cash used in financing activities</b>	<b>(2,650,103)</b>	<b>(369,716)</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(2,814,515)</b>	<b>(5,254,796)</b>
Cash and cash equivalents at beginning of year	<b>19,281,465</b>	24,536,261
Cash and cash equivalents at end of year	<b>\$ 16,466,950</b>	\$ 19,281,465
Reconciliation of cash and cash equivalents to statements of financial position:		
Plant and operations fund	16,444,580	18,971,892
Deposit and loan fund	22,370	309,573
	<b>\$ 16,466,950</b>	\$ 19,281,465
Supplemental disclosures of cash flow information:		
Cash paid for interest	<b>\$ 69,797</b>	\$ 129,631

See notes to financial statements.

## Roman Catholic Archdiocese of San Antonio Pastoral Center

### Notes to Financial Statements

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#### Note 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.

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.

## Roman Catholic Archdiocese of San Antonio Pastoral Center

### Notes to Financial Statements

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#### Note 1. Summary of Significant Accounting Policies (Continued)

**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.

#### 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).

## Roman Catholic Archdiocese of San Antonio Pastoral Center

### Notes to Financial Statements

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#### Note 1. Summary of Significant Accounting Policies (Continued)

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 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.

**Adopted accounting pronouncement:** The Pastoral Center elected to adopt the guidance issued in the Financial Accounting Standards Board's (FASB) Accounting Standards Updated (ASU) No. 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or its Equivalent) (a consensus of the FASB Emerging Issues Task Force)*, which removes the requirement to categorize within the fair value hierarchy all investments measured using the net asset value (NAV) per share practical expedient and related disclosures. The Pastoral Center adopted the guidance retrospectively, which removes investments measured using NAV per share practical expedient from the fair value hierarchy in all periods presented.

## Roman Catholic Archdiocese of San Antonio Pastoral Center

### Notes to Financial Statements

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#### Note 1. Summary of Significant Accounting Policies (Continued)

**Recent accounting pronouncements:** In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force)*, which provides guidance on the presentation of restricted cash or restricted cash equivalents in the statement of cash flows. ASU No. 2016-18 will be effective for the Pastoral Center beginning January 1, 2019. ASU No. 2016-18 must be applied using a retrospective transition method with early adoption permitted. The Pastoral Center is in the process of evaluating the impact of this new guidance.

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which simplifies and improves how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance and cash flows. Among other changes, the ASU replaces the three current classes of net assets with two new classes, “net assets with donor restrictions” and “net assets without donor restrictions,” and expands disclosures about the nature and amount of any donor restrictions. The ASU is effective for annual periods beginning after December 15, 2017, and interim periods within fiscal years beginning after December 15, 2018, with early adoption permitted. The Pastoral Center is in the process of evaluating the impact of this new guidance.

In February 2016, the FASB issued 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.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, 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, the FASB issued ASU 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.

## Roman Catholic Archdiocese of San Antonio Pastoral Center

### Notes to Financial Statements

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#### Note 1. Summary of Significant Accounting Policies (Continued)

**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 percent and 12 percent on parish revenues (graduated based on parish income level), plus an additional 15 percent of the assessment rate for parishes with schools or an additional 18 percent 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 value based upon quoted market prices or similar investments or net asset 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.

**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:

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

## Roman Catholic Archdiocese of San Antonio Pastoral Center

### Notes to Financial Statements

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#### Note 1. Summary of Significant Accounting Policies (Continued)

**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, 2017 and 2016.

**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.

## Roman Catholic Archdiocese of San Antonio Pastoral Center

### Notes to Financial Statements

#### Note 1. Summary of Significant Accounting Policies (Continued)

**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, 2017, totaled \$246,234 (\$155,808 in 2016).

**Subsequent events:** The Pastoral Center has evaluated subsequent events through December 27, 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.

#### Note 2. Pledges Receivable

Pledges receivable, net consist of the following:

	June 30	
	2017	2016
OSM, Inc.'s capital campaign	\$ -	\$ 49,979
Pastoral Center's fundraising	844,237	1,565,733
Total pledges receivable, net	<u>\$ 844,237</u>	<u>\$ 1,615,712</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, pledges receivable net of \$49,979 are included as unrestricted designated net assets.

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

	June 30	
	2017	2016
Unrestricted designated:		
Less than one year	\$ 1,500	\$ 50,000
One to five years	-	2,000
	<u>1,500</u>	<u>52,000</u>
Less provision for allowance for pledges receivable	1,500	2,000
Less discount for present value (1.17% in 2017 and 0.54% in 2016)	-	21
Pledges receivable, net	<u>\$ -</u>	<u>\$ 49,979</u>

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

**Notes to Financial Statements**

**Note 2. Pledges Receivable (Continued)**

**Pastoral Center's fundraising:** Total amount of pledges receivable, net is summarized as follows:

	June 30	
	2017	2016
Unrestricted designated:		
Less than one year	\$ 931,080	\$ 1,608,592
One to five years	168,003	199,433
	<u>1,099,083</u>	<u>1,808,025</u>
Less provision for allowance for pledges receivable	246,843	237,177
Less discount for present value (1.17% in 2017 and 0.54% in 2016)	8,003	5,115
Pledges receivable, net	<u>\$ 844,237</u>	<u>\$ 1,565,733</u>

**Note 3. Accounts Receivable**

Accounts receivable consist of the following:

	June 30	
	2017	2016
Insurance programs	\$ 875,016	\$ 1,030,108
Archdiocesan assessments	630,333	620,852
Other Archdiocesan entities	344,190	349,173
Total accounts receivable	<u>1,849,539</u>	<u>2,000,133</u>
Less allowance for uncollectible accounts	964,017	1,100,773
Total accounts receivable, net	<u>\$ 885,522</u>	<u>\$ 899,360</u>

**Note 4. 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:

	Years Ended June 30	
	2017	2016
Certificates of deposit	\$ 6,856,661	\$ 6,483,654
Mutual funds	9,633,615	8,323,361
	<u>\$ 16,490,276</u>	<u>\$ 14,807,015</u>

## Roman Catholic Archdiocese of San Antonio Pastoral Center

### Notes to Financial Statements

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#### Note 4. Investments (Continued)

Investment return consists of the following:

	Years Ended June 30	
	2017	2016
Interest income	\$ 77,658	\$ 33,381
Dividend income	232,949	299,281
Unrealized and realized gains (losses)	703,792	(223,882)
Investment expenses	(93,920)	(77,790)
Net investment return	<u>\$ 920,479</u>	<u>\$ 30,990</u>
Deposit and loan fund—interest income	<u>\$ 17,257</u>	<u>\$ 16,169</u>

#### Note 5. Fair Value Measurements

The Fair Value Measurements and Disclosures topic of the *FASB Accounting Standards Codification* defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants and requires the use of valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources, or unobservable, meaning those that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. In that regard, the topic establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

- **Level 1:** Inputs are unadjusted quoted prices in active markets for identical assets or liabilities.
- **Level 2:** Inputs are observable, 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 are unobservable and are supported by little or no market activity and 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.

Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities would include highly liquid government bonds and exchange-traded equities. If quoted market prices are not available, then fair value is estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flow. Level 2 securities would include U.S. agency securities, mortgage-backed agency securities, obligations of states and political subdivisions and certain corporate, asset-backed and other securities. In certain cases where there is limited activity or transparency around inputs to the valuation, securities are classified within Level 3 of the valuation hierarchy.

## Roman Catholic Archdiocese of San Antonio Pastoral Center

### Notes to Financial Statements

#### Note 5. Fair Value Measurements (Continued)

The following table summarizes the assets measured at fair value on a recurring basis as of June 30, 2017 and 2016, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

	Fair Value Measurement at June 30, 2017			
	Level 1	Level 2	Level 3	Total
Investments:				
CDs—participating	\$ 6,835,665	\$ -	\$ -	\$ 6,835,665
Mutual funds	6,574,275	-	-	6,574,275
	<u>\$ 13,409,940</u>	<u>\$ -</u>	<u>\$ -</u>	<u>13,409,940</u>
Investments measured at NAV per share:				
CUIT—Equity securities				3,059,340
CDs—nonparticipating				20,996
Total investments				<u>\$ 16,490,276</u>

  

	Fair Value Measurement at June 30, 2016			
	Level 1	Level 2	Level 3	Total
Investments:				
CDs—participating	\$ 6,462,668	\$ -	\$ -	\$ 6,462,668
Mutual funds	8,323,361	-	-	8,323,361
	<u>\$ 14,786,029</u>	<u>\$ -</u>	<u>\$ -</u>	<u>14,786,029</u>
CDs—nonparticipating				20,986
Total investments				<u>\$ 14,807,015</u>

**Certificate of deposit:** The Pastoral Center also invests in a CD that is nonparticipating and earns an interest rate of 0.05 percent. The CD is carried at amortized cost and renews on an annual basis and had a total balance of \$20,996 and \$20,986 at June 30, 2017 and 2016, respectively.

#### Note 6. Cash Value Life Annuities

Cash value life annuities consists of three flexible premium deferred annuity certificates which provide for a death benefit in the event of the annuitant's death. At June 30, 2017, the cash value of the life annuities totaled \$1,174,725 (\$1,136,856 in 2016). The cash value life annuities have a minimum guaranteed interest rate of 1.5 percent for the life of the certificates.

#### Note 7. 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, 2017, the plant and operations fund has net notes receivable due from other entities totaling \$1,219,529 (\$2,998,970 in 2016). At June 30, 2017, the deposit and loan fund has net notes receivable due from parishes totaling \$464,268 (\$409,808 in 2016). The notes have various repayment terms and bear interest rates ranging up to 8.5 percent.

As of June 30, 2017 and 2016, there was accrued interest included in interest receivable on certain of these loans.

## Roman Catholic Archdiocese of San Antonio Pastoral Center

### Notes to Financial Statements

#### Note 7. Notes Receivable From Related Entities (Continued)

Notes receivable consist of the following:

Borrower	Interest Rate	Maturity Date	Repayment Terms	June 30	
				2017	2016
MCSP, Inc.	6.25%	6/30/2021	A	\$ 2,348,516	\$ 1,992,140
CCF	5.50%	6/30/2019	B	1,475,489	1,709,729
St. Thomas Syro-Malabar, Catholic Diocese of Chicago	6.00%	5/31/2031	C	-	401,155
Cash advances to parishes from Frost Bank line of credit	N/A	N/A	-	150,000	-
St. Peter, Prince of the Apostles	3.75%	5/1/2018	D	52,741	108,383
San Fernando Cathedral	0.00%	9/30/2020	E	195,000	250,000
Other notes receivable	0.00%-8.50%	Various	Various	116,057	74,477
				<u>4,337,803</u>	<u>4,535,884</u>
Less allowance for uncollectible accounts				<u>2,654,006</u>	<u>1,127,106</u>
				<u>\$ 1,683,797</u>	<u>\$ 3,408,778</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, 2017 and 2016. In 2017, the note receivable ceased to accrue interest. The allowance for uncollectible accounts for this note receivable is \$2,259,422 for 2017 and \$498,035 for 2016.
- 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, 2017 and 2016, totaled \$297,174 and \$174,840, 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. The outstanding balance was fully paid during the fiscal year. Payments received during the years ended June 30, 2017 and 2016, totaled \$401,155 and \$16,154, respectively.
- D. 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, 2017 and 2016, totaled \$55,642 and \$4,542, respectively.
- E. San Fernando Cathedral repayment terms include monthly payments of principal until date of maturity. Payments received during the years ended June 30, 2017 and 2016, totaled \$55,000 and \$12,000, respectively.

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

**Notes to Financial Statements**

**Note 8. Land, Buildings and Equipment**

Land, buildings and equipment consist of the following:

	June 30	
	2017	2016
Land, buildings and improvements	\$ 9,689,735	\$ 9,027,626
Land held for future use	1,465,018	1,440,018
Movable equipment	949,289	825,798
Construction in progress	94,867	475,654
	<u>12,198,909</u>	<u>11,769,096</u>
Less accumulated depreciation	7,483,115	7,176,667
	<u>\$ 4,715,794</u>	<u>\$ 4,592,429</u>

Depreciation expense for the year ended June 30, 2017, totaled \$312,124 (\$286,050 in 2016).

**Note 9. Properties Held for Lease**

**Real estate ground lease:** The Pastoral Center (Landlord) executed a real estate ground lease which consists of 11.102 acres with a Texas limited partnership (Tenant). These acres also include certain existing buildings, infrastructure and attached fixtures (collectively known as the Premises). This ground lease is a master lease of the Premises with the understanding that the tenant will rehabilitate and construct improvements on the land (the Project). The term of this master lease is for a period of 75 years commencing on May 1, 2015, with the option to extend for an additional 10 years. This master lease is also a net lease to the Landlord which requires the tenant pay all costs related to the use, operation, maintenance and repair of the Premises. Also, at the end of the term of the master lease, title to all improvements constructed by the Tenant shall be vested to the Landlord. The Project is in its preliminary development phase.

The net carrying value of this property held for lease, net of accumulated depreciation, totaled \$263,020 at June 30, 2017 (\$273,021 at 2016).

Rental income and expenses for the real estate ground lease premises is as follows:

	June 30	
	2017	2016
Rental income	\$ 42,000	\$ 12,000
Expenses—other	-	37,087
Expenses—depreciation	10,001	10,001
	<u>\$ 31,999</u>	<u>\$ (35,088)</u>

**Catholic Charities:** In September 2016, the Pastoral Center purchased a property consisting of buildings and land for \$283,539. Subsequently, the Pastoral Center leased the property to Catholic Charities. The lease term is for a one-year period commencing on July 1, 2017, renewable on a year to year basis until Catholic Charities has no ministry use for the property. Base rent is \$3,000 per month.

The net carrying value of this property held for lease, net of accumulated depreciation of \$5,492, totaled \$278,047 at June 30, 2017.

## Roman Catholic Archdiocese of San Antonio Pastoral Center

### Notes to Financial Statements

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#### Note 9. Properties Held for Lease (Continued)

**Boerne Stage Road:** 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 10 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 percent 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 income for the same amount. The deferred rent will be amortized over the life of the lease to rent income.

Rental income for the years ended June 30, 2017 and 2016, totaled \$60,000 and \$45,000, respectively, and rental expenses totaled \$32,357 and \$19,423, inclusive of depreciation of \$21,125 and \$17,604, respectively.

The net carrying value of this property held for lease, net of accumulated depreciation, totaled \$1,753,753 and \$1,774,878 at June 30, 2017 and 2016, respectively.

#### Note 10. Notes Payable to Bank, Land Held for Future Use and Property Held for Lease

In December 2016, the Archdiocese refinanced the Rolling Hills loans for the benefit of the School. The School has assumed and is responsible for repayment of refinanced loans. As a result, the Pastoral Center has conveyed all the land and buildings associated with the bank loans to the School at net book value. The difference of \$729,193, between the bank loans assumed by the School and the net book value of the land and buildings was recorded as gain on sale of assets (i.e., a recovery of the initial subsidy) in the statement of activities and changes in net assets. Additionally, the lease agreement between the Pastoral Center and the School was terminated effective December 2016.

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 percent and an outstanding balance of \$2,850,788 as of June, 30 2016. 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 percent with an outstanding balance of \$522,638 as of June, 30 2016. The Pastoral Center repayment terms include monthly principal payments of \$3,508 plus accrued interest.

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. As described above, the lease was terminated effective December 2016. 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 Financial Statements

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#### Note 10. Notes Payable to Bank, Land Held for Future Use and Property Held for Lease (Continued)

Rental income and expenses were as follows:

	June 30	
	2017	2016
Rental income	\$ 70,625	\$ 169,490
Expenses—depreciation	70,358	135,876
	<u>\$ 267</u>	<u>\$ 33,614</u>

The net carrying value of this property held for lease, net of accumulated depreciation totaled \$-0- at June 30, 2017 (\$1,355,047 in 2016).

#### Note 11. 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, 2017, totaled \$945,985 (\$1,066,568 in 2016). Deposits bear interest at rates ranging from 0 percent to 1.2 percent for parishes and entities based on the time commitment.

#### Note 12. 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, 2017, a self-insurance reserve of \$5,356,309 has been made for the settlement of all incurred claims, which includes claims incurred, but not reported (\$5,515,109 in 2016).

## Roman Catholic Archdiocese of San Antonio Pastoral Center

### Notes to Financial Statements

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#### **Note 12. Insurance (Continued)**

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.

#### **Note 13. Pension Plans**

The Archdiocese sponsors a defined contribution, noncontributory, pension plan for all permanent full-time lay employees. The plan provides for a seven-year graded vesting with 100 percent vesting after seven 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 six 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 percent of each covered employee's salary. Participation is mandatory and employees cannot contribute to the plan. Total contributions for the Pastoral Center for the year ended June 30, 2017, was approximately \$346,000 (approximately \$332,000 in 2016).

The predecessor of the above defined contribution pension plan was a defined benefit plan (Pre-1991 Plan) for its lay employees. This Pre-1991 Plan has a remaining actuarial liability of approximately \$160,000 and is fully funded.

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

The Archdiocese has a noncontributory, defined benefit plan for eligible priests for its Archdiocesan participating locations. The Pastoral Center participates in a separate and independent Archdiocese of San Antonio Priest Defined Benefit Pension Plan (the Priest Pension Plan). The purpose of the Priest Pension Plan is to provide a retirement program for the exclusive benefit of eligible priests and to provide support for priests with disabilities. The participating locations are assessed annually for the support of the Priest Pension Plan. The plan administrator of the Priest Pension Plan is the Pension Board which are elected by the participants.

The Pastoral Center has a few clergy who participate in the plan at June 30, 2017 and 2016. The Pastoral Center made contributions of \$31,491 and \$27,915 as of June 30, 2017 and 2016, respectively. The Pastoral Center nor the Archdiocese has no additional obligation to fund nor sustain the Priest Pension Plan.

#### **Note 14. 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 2017 based on fiscal year ended June 30, 2017 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 Financial Statements**

**Note 14. Postretirement Benefits Plan (Continued)**

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

	June 30	
	2017	2016
Accumulated postretirement benefits obligation:		
Active participants fully eligible for benefits	\$ 2,502,646	\$ 2,684,496
Active participants not fully eligible for benefits	4,619,462	5,226,190
Retired participants	2,576,977	2,623,873
Postretirement benefits obligation	<u>\$ 9,699,085</u>	<u>\$ 10,534,559</u>
Postretirement-related change other than net periodic pension costs—unrecognized prior service gain	<u>\$ (321,655)</u>	<u>\$ (321,655)</u>
Net period postretirement benefits cost for components:		
Service cost for period, net of amortization	\$ 522,006	\$ 337,008
Interest cost on accumulated postretirement benefits	365,846	351,406
Unrecognized net (gain) loss, immediate recognition	(1,521,815)	2,125,033
Net period postretirement benefits (gain) cost	<u>\$ (633,963)</u>	<u>\$ 2,813,447</u>

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

	June 30	
	2017	2016
Balance at beginning of year	\$ 10,534,559	\$ 7,936,734
Net periodic postretirement benefits (gain) cost	(633,963)	2,813,447
Claims paid	(201,511)	(215,622)
Balance at end of year	<u>\$ 9,699,085</u>	<u>\$ 10,534,559</u>

For measurement purposes, a 7.35 percent annual rate increase in the per capita cost of covered benefits (e.g., healthcare cost trend rate) was assumed for 2017; the rate is assumed to decrease gradually to 4.5 percent 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 \$1,818,201 as of June 30, 2017 (\$2,115,280 in 2016) and the aggregate of the service and interest cost components of net periodic postretirement benefits cost by \$259,648 for the year ended June 30, 2017 (\$170,740 in 2016). A reduction in assumed healthcare cost trend rate by one percentage point in each year would decrease the APBO by \$1,416,068 as of June 30, 2017 (\$1,630,764 in 2016) and the aggregate of the service and interest cost components by \$189,047 for the year ended June 30, 2017 (\$127,495 in 2016). The weighted-average discount rate used in determining the APBO at June 30, 2017, was 3.83 percent (3.52 percent in 2016).

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

**Notes to Financial Statements**

**Note 15. 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	
	2017	2016
Casa de Padres	\$ 1,175,380	\$ 1,137,511
Custodian and operating agency accounts	318,050	340,454
	<u>\$ 1,493,430</u>	<u>\$ 1,477,965</u>

**Note 16. Net Assets**

The unrestricted designated net assets are as follows:

	June 30	
	2017	2016
Plant and operations fund:		
Self-insurance programs—including property and medical benefits	\$ 1,224,379	\$ 545,886
Archbishop's Appeal	6,081,110	5,869,334
Archdiocese of San Antonio	4,734	4,734
Hope for the Future	2,158,070	2,828,664
OSM, Inc.	908,336	944,862
Seton Home Endowment Fund, Inc.—Board designated	189,017	178,193
Catholic Television	144,392	68,306
Catholic Schools	59,133	387,099
Plant, net of payables	6,935,714	7,005,024
	<u>\$ 17,704,885</u>	<u>\$ 17,832,102</u>
Deposit and loan fund	<u>\$ 660,096</u>	<u>\$ 669,484</u>

Temporarily restricted net assets are available for the following purposes:

	June 30	
	2017	2016
Restricted for:		
Paul P. Baltos, Jr. Scholarships	\$ 13,364	\$ -
Other specific purpose grants	1,378	30,994
	<u>\$ 14,742</u>	<u>\$ 30,994</u>

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

**Notes to Financial Statements**

**Note 16. Net Assets (Continued)**

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

	June 30	
	2017	2016
Catholic extension	\$ 29,317	\$ 35,092
Hope for the Future Endowment	-	365,285
Local Religious Orders	125,000	125,000
Hope for the Future Tuition Assistance	-	19,000
John G. and Marie Stella Kenedy Memorial Foundation	23,200	33,225
Other specific purpose grants	-	35,361
	<u>\$ 177,517</u>	<u>\$ 612,963</u>

Permanently restricted net assets consist of the following:

	June 30	
	2017	2016
Mary Jane Clark Endowment Fund	\$ 20,000	\$ 20,000
Paul P. Baltos, Jr. Scholarship Fund	289,448	-
	<u>\$ 309,448</u>	<u>\$ 20,000</u>

**Note 17. 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.”

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.

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

**Notes to Financial Statements**

**Note 17. Endowment Funds (Continued)**

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:

	June 30, 2017		
	Unrestricted	Temporarily Restricted	Permanently Restricted
Donor-restricted endowment funds	\$ -	\$ -	\$ 309,448
Plant and Operations Fund:			
Board-designated endowment funds—Seton Home	189,017	-	-
	<u>\$ 189,017</u>	<u>\$ -</u>	<u>\$ 309,448</u>
	June 30, 2016		
	Unrestricted	Temporarily Restricted	Permanently Restricted
Donor-restricted endowment funds	\$ -	\$ -	\$ 20,000
Plant and Operations Fund:			
Board-designated endowment funds—Seton Home	178,193	-	-
	<u>\$ 178,193</u>	<u>\$ -</u>	<u>\$ 20,000</u>

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

	June 30	
	2017	2016
Seton Home Endowment Fund, Inc.	<u>\$ 189,017</u>	<u>\$ 178,193</u>

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

**Notes to Financial Statements**

**Note 17. Endowment Funds (Continued)**

The Pastoral Center had the following changes in endowment net assets for the years ended June 30, 2017 and 2016:

	Year Ended June 30, 2017		
	Unrestricted	Temporarily Restricted	Permanently Restricted
Endowment net assets at beginning of year	\$ 178,193	\$ -	\$ 20,000
Contributions			289,448
Investment return:			
Investment income, gains and losses, net	13,498	13,364	-
Amount appropriated for expenditures	(2,674)	-	-
Endowment net assets at end of year	<u>\$ 189,017</u>	<u>\$ 13,364</u>	<u>\$ 309,448</u>

  

	Year Ended June 30, 2016		
	Unrestricted	Temporarily Restricted	Permanently Restricted
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	(5,144)	-	-
Endowment net assets at end of year	<u>\$ 178,193</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	
	2017	2016
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>\$ 309,448</u>	<u>\$ 20,000</u>

**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, 2017 or 2016.

## Roman Catholic Archdiocese of San Antonio Pastoral Center

### Notes to Financial Statements

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#### Note 17. Endowment Funds (Continued)

**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.

#### Note 18. Operating Leases

The Pastoral Center has commitments under noncancelable operating lease agreements. As of June 30 2017, the Pastoral Center had outstanding commitments, which consists of leases for copy machines and postage meters with the agreements expiring on December 1, 2022. Rental expense totaled \$86,969 for the year ended June 30, 2017.

Future minimum lease payments under the noncancelable operating lease agreements as of June 30, 2017, are as follows:

Years ending June 30:	
2018	\$ 90,168
2019	84,721
2020	24,418
2021	17,565
2022	13,076
Thereafter	1,083
	<u>\$ 231,031</u>

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

### **Notes to Financial Statements**

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#### **Note 19. Related-Party Transactions**

For the years ended June 30, 2017 and 2016, 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, 2017 and 2016, 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.

#### **Note 20. Commitments**

In May 2017, the Pastoral Center executed an earnest money contract for \$25,000 for the purchase of 20 acres of land for an initially estimated price of \$3,500,000, subject to adjustment, for a future parish site. Concurrently, the seller has agreed to donate 6.5 acres contiguous to the property.

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.

#### **Note 21. Contingencies**

The Archdiocese is involved in various claims and legal actions which arise in the general course of the operations of the Archdiocese and its parishes, schools and other activities. The Archdiocese believes the majority of these claims are subject to coverage under the Archdiocese's insurance programs. 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.

#### **Note 22. 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**



RSM US LLP

### **Independent Auditor's Report on the Supplementary Information**

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

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.

*RSM US LLP*

San Antonio, Texas  
December 27, 2017

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

**Schedule of Functional Expenses  
Year Ended June 30, 2017**

	Program Services						Supporting Services			Total 2017
	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	\$ 2,021	\$ 30,413	\$ 16,484	\$ 740	\$ 150,170	\$ -	\$ 5,908	\$ 28,038	\$ -	\$ 233,774
Benefits	197,373	204,829	101,458	80,365	25,021	-	10,639	751,185	-	1,370,870
Bank and credit card fees	-	4,711	1,438	-	20,083	69,297	1,678	8,879	-	106,086
Cathedraticum	-	-	-	-	-	-	-	189,897	-	189,897
Continuing education	172,401	738	-	-	-	-	1,299	428,977	-	603,415
Copying, duplicating and printing	210	2,635	152,821	-	4,669	-	5,771	14,775	-	180,881
Depreciation expense	-	-	29,297	-	-	-	-	389,803	-	419,100
Direct agency support and assessments	-	-	-	1,338,280	-	1,567,993	-	809,000	-	3,715,273
Dues and publications	3,744	5,265	1,366	881	467	-	2,323	9,282	-	23,328
Gifts and donations	386,367	15,598	-	14,352	2,775,657	-	75,792	2,584,721	-	5,852,487
Grants expense	-	-	-	-	-	-	-	44,158	-	44,158
Hospital expense and support—retired priests	98,090	3,600	-	-	-	-	-	89,939	-	191,629
Hospitality	13,268	156,995	247	7,393	1,001	-	1,208	38,865	-	218,977
Interest and other	-	-	-	-	-	-	-	69,797	-	69,797
Insurance programs	-	-	-	-	-	-	-	-	18,399,704	18,399,704
Office equipment maintenance and leases	1,837	-	8,302	-	-	-	1,989	178,289	-	190,417
Office supplies and postage	4,976	35,038	94,463	2,334	11,039	-	3,880	212,781	-	364,511
Professional development	7,640	11,021	3,985	7,085	-	-	-	42,347	-	72,078
Professional, legal and other fees	68,550	20,885	6,000	5,789	-	-	5,698	250,327	-	357,249
Property tax	-	-	-	-	-	-	-	36,781	-	36,781
Provision for allowance for doubtful accounts	300	-	-	8,453	49,960	165,709	(500)	1,841,115	-	2,065,037
Rent—building	22,796	58,707	-	1,165	-	-	6,784	28,871	-	118,323
Repairs and maintenance	-	1,452	6,746	-	-	-	385,799	138,384	-	532,381
Resource materials and audio visual	4,956	112,781	2,869	10,005	-	-	90	33,032	-	163,733
Salaries	282,390	1,482,780	799,999	704,176	214,845	-	67,535	2,707,065	-	6,258,790
Special assessment	-	-	-	-	-	-	-	320,770	-	320,770
Stipends and contracted services	17,098	398,442	52,586	118,023	3,990	-	41,245	1,440,901	-	2,072,285
Utilities	3,748	21,932	4,267	454	229	-	4,231	192,640	-	227,501
Vehicle	27,567	48,112	5,582	8,715	-	-	5,408	40,449	-	135,833
Workshop and banquets	131,073	25,431	9,907	2,000	209,289	-	65,993	31,004	-	474,697
Interprograms transfers in (out)—allocations	20,608	(712,599)	(221,624)	52,493	(380,562)	2,841,596	15,435	(1,199,843)	(415,504)	-
<b>Total</b>	<b>\$ 1,467,013</b>	<b>\$ 1,928,766</b>	<b>\$ 1,076,193</b>	<b>\$ 2,362,703</b>	<b>\$ 3,085,858</b>	<b>\$ 4,644,595</b>	<b>\$ 708,205</b>	<b>\$ 11,752,229</b>	<b>\$ 17,984,200</b>	<b>\$ 45,009,762</b>

