

Roman Catholic Archdiocese of San Antonio Pastoral Center

Financial Report and Supplementary Information
June 30, 2018 and 2017

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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 statements of financial position as of June 30, 2018 and 2017, 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.

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, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

RSM US LLP

San Antonio, Texas
November 28, 2018

Roman Catholic Archdiocese of San Antonio Pastoral Center

**Statements of Financial Position
June 30, 2018 and 2017**

	2018	2017
Assets		
Cash and cash equivalents:		
Plant and operations fund	\$ 15,369,023	\$ 16,444,580
Deposit and loan fund	227,724	22,370
Pledges receivable, net of allowance of \$294,912 (\$248,343 in 2017)	2,458,210	844,237
Accounts receivable:		
Insurance programs, net of allowance of \$734,366 (\$672,621 in 2017)	160,577	206,297
Archdiocesan assessments, net of allowance of \$331,553 (\$291,396 in 2017)	376,258	338,937
Other Archdiocesan entities, net of allowance of \$0 in 2018 and 2017	367,254	344,190
Insurance programs from insurance company	441,613	-
Grants receivable	42,744	73,308
Interest receivable	422	876
Prepaid expenses and other assets	210,618	91,795
Funds held by insurance company	113,537	127,407
Investments:		
Plant and operations fund	14,336,023	15,374,839
Deposit and loan fund	1,014,173	1,115,437
Notes receivable from related entities:		
Plant and operations fund, net of allowance of \$2,589,591 (\$2,629,547 in 2017)	968,330	1,219,529
Deposit and loan fund, net of allowance of \$13,474 (\$24,459 in 2017)	256,000	464,268
Cash value of life annuities	1,207,734	1,174,725
Land, buildings and equipment, net	5,375,891	4,715,794
Properties held for lease, net	2,324,333	2,294,820
	\$ 45,250,464	\$ 44,853,409
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 1,744,615	\$ 1,952,963
Deposits payable—deposit and loan fund	831,491	945,985
Self-insurance reserve	4,221,309	5,356,309
Advances from insurance company for losses exceeding self-insurance deductible	-	1,015,621
Postretirement benefits obligation	10,250,090	9,699,085
Deferred revenue:		
Rent income	435,000	495,000
Other	452,131	49,106
Due to others	1,405,792	1,493,430
	19,340,428	21,007,499
Net assets:		
Unrestricted:		
Undesignated	5,100,884	5,156,739
Designated:		
Plant and operations fund	19,803,634	17,704,885
Deposit and loan fund	669,683	660,096
Total unrestricted	25,574,201	23,521,720
Temporarily restricted	26,387	14,742
Permanently restricted	309,448	309,448
	25,910,036	23,845,910
	\$ 45,250,464	\$ 44,853,409

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, 2018**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
Revenue, gains and other support:				
Archdiocesan assessments	\$ 10,710,752	\$ -	\$ -	\$ 10,710,752
Educational	269,006	-	-	269,006
Contributions and support	4,786,903	125,000	-	4,911,903
Fees from operations	704,084	-	-	704,084
Insurance premiums, net of rebates	18,210,687	-	-	18,210,687
Program fees	214,163	-	-	214,163
Grant income	1,620,428	20,399	-	1,640,827
Investment return, net	700,429	17,325	-	717,754
Auxiliary activities	1,302,965	-	-	1,302,965
Archbishop's Appeal, net of rebates	4,558,740	-	-	4,558,740
Deposit and loan fund—interest income	21,686	-	-	21,686
Advertising revenue and sales	306,673	-	-	306,673
Gain on sale of assets	16,749	-	-	16,749
Other revenues	61,759	-	-	61,759
Net assets released from restrictions	151,079	(151,079)	-	-
Total revenue, gains and other support	43,636,103	11,645	-	43,647,748
Expenses:				
Program services:				
Clergy and Consecrated Life	1,231,700	-	-	1,231,700
Pastoral Ministries	1,946,220	-	-	1,946,220
Communication Services	1,008,086	-	-	1,008,086
Catholic Schools	2,547,797	-	-	2,547,797
Hope for the Future	2,584,739	-	-	2,584,739
Archbishop's Appeal	4,845,554	-	-	4,845,554
Old Spanish Missions Care Services	603,655	-	-	603,655
Supporting services:				
General, administrative and auxiliary services	7,996,313	-	-	7,996,313
Insurance programs	18,497,903	-	-	18,497,903
Total expenses	41,261,967	-	-	41,261,967
Increase in net assets before postretirement-related change other than net periodic pension costs	2,374,136	11,645	-	2,385,781
Postretirement-related change other than net periodic pension costs	(321,655)	-	-	(321,655)
Changes in net assets	2,052,481	11,645	-	2,064,126
Net assets at beginning of year	23,521,720	14,742	309,448	23,845,910
Net assets at end of year	\$ 25,574,201	\$ 26,387	\$ 309,448	\$ 25,910,036

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
Revenue, gains and other support:				
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)	-	-
Total revenue, gains and other support	43,706,668	(16,252)	289,448	43,979,864
Expenses:				
Program services:				
Clergy and Consecrated Life	1,520,814	-	-	1,520,814
Pastoral Ministries	2,054,422	-	-	2,054,422
Communication Services	1,122,746	-	-	1,122,746
Catholic Schools	2,428,302	-	-	2,428,302
Hope for the Future	3,154,044	-	-	3,154,044
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	11,392,438	-	-	11,392,438
Insurance programs	17,984,196	-	-	17,984,196
Total expenses	45,009,762	-	-	45,009,762
Increase (decrease) in net assets before postretirement-related change other than net periodic pension costs	(1,303,094)	(16,252)	289,448	(1,029,898)
Postretirement-related change other than net periodic pension costs	(321,655)	-	-	(321,655)
Changes in net assets	(1,624,749)	(16,252)	289,448	(1,351,553)
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

Statements of Cash Flows
Years Ended June 30, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Changes in net assets	\$ 2,064,126	\$ (1,351,553)
Adjustments to reconcile changes in net assets to net cash used in operating activities:		
Depreciation expense—building and equipment	341,388	312,124
Depreciation expense—property held for lease	38,228	106,976
Donated property held for lease recorded as contributions	(67,740)	-
Loss on sale of assets	-	5,749
Provision for allowance for doubtful accounts—accounts receivable	148,471	(127,590)
Provision for allowance for doubtful accounts—notes receivable	(50,941)	1,526,900
Unrealized and realized (gains) losses on investments, net	(522,157)	(703,792)
Subsidy—Rolling Hills Catholic School	-	(729,193)
Amortization of deferred rent income	(60,000)	(60,000)
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	(1,660,542)	762,309
Accounts and interest receivable	(116,113)	125,904
Insurance recoveries from insurance company	(441,613)	-
Grants receivable	30,564	(73,308)
Prepaid expenses and other assets	(118,823)	(75,018)
Funds held by insurance company	13,870	19,237
Cash value of life annuities	(33,009)	(37,869)
Accounts payable and accrued expenses	(208,348)	(455,075)
Self-insurance reserve	(1,135,000)	(158,800)
Advances from insurance company for losses exceeding self-insurance deductible	(1,015,621)	(47,968)
Postretirement benefits obligation	229,350	(1,157,129)
Deferred revenue—other	403,025	(102,705)
Due to others	(87,638)	15,465
Net cash used in operating activities	(1,926,868)	(2,173,129)
Cash flows from investing activities:		
Purchases of investments	(3,795,345)	(9,728,306)
Proceeds from sale of investments	5,457,579	8,748,837
Purchase of land, buildings and equipment	(1,001,483)	(441,163)
Purchase of rental property	-	(283,539)
Proceeds from sale of properties held for lease	-	3,712,888
Net cash provided by investing activities	660,751	2,008,717

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Roman Catholic Archdiocese of San Antonio Pastoral Center

**Statements of Cash Flows (Continued)
Years Ended June 30, 2018 and 2017**

	2018	2017
Cash flows from financing activities:		
Issuance of notes receivable	\$ (2,614,287)	\$ (987,454)
Collections of notes receivable	3,124,695	1,541,912
Payments on notes payable to bank	-	(3,373,426)
Decrease in deposits payable—deposit and loan fund	(114,494)	(120,583)
Permanently restricted contribution—proceeds	-	289,448
Net cash provided by (used in) financing activities	395,914	(2,650,103)
Net decrease in cash and cash equivalents	(870,203)	(2,814,515)
Cash and cash equivalents at beginning of year	16,466,950	19,281,465
Cash and cash equivalents at end of year	\$ 15,596,747	\$ 16,466,950
Reconciliation of cash and cash equivalents to statements of financial position:		
Plant and operations fund	\$ 15,369,023	\$ 16,444,580
Deposit and loan fund	227,724	22,370
	\$ 15,596,747	\$ 16,466,950
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$ 3,706	\$ 69,797

See notes to financial statements.

Roman Catholic Archdiocese of San Antonio Pastoral Center

Notes to Financial Statements

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

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

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 (CCF) 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: In June 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which provides guidance to assist entities in (1) evaluating whether a contribution is conditional. ASU No. 2018-08 will be effective for the Pastoral Center for its year ending June 30, 2020. ASU No. 2018-08 should be applied on a modified prospective basis. Retrospective application is permitted. The Pastoral Center is currently evaluating the impact of the adoption of this guidance on its financial statements.

Roman Catholic Archdiocese of San Antonio Pastoral Center

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

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*. This guidance amends the requirements for financial statements and notes presented by a not-for-profit entity to: (a) present on the face of the statement of financial position amounts for two classes of net assets at the end of the period, rather than for the currently required three classes; (b) present on the face of the statement of activities the amount of the change in either of the two classes of net assets rather than that of the currently required three classes; (c) provide enhanced disclosures in the notes to the financial statements; (d) report investment return net of external and direct internal investment expenses and (e) utilize, in the absence of explicit donor stipulations, the placed-in-service approach for reporting expirations of restrictions on gifts of cash or other assets to be used to acquire or construct a long-lived asset. The ASU will be effective for the Pastoral Center for the year ending June 30, 2019. Early application is permitted. Retrospective application is required for many provisions of this guidance. The Pastoral Center is currently evaluating the impact of the pending adoption of the new standard on its financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the current leasing guidance. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of income. The new standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The ASU will be effective for the Pastoral Center for the year ending June 30, 2021. The Pastoral Center is currently evaluating the impact of its pending adoption of the new standard on its financial statements.

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 ASU will be effective for the Pastoral Center for the year ending June 30, 2020. The Pastoral Center has not yet selected a transition method and is currently evaluating the effects the standard will have on its 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: 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 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

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 reimbursables: 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 (NAVs) 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

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.

Roman Catholic Archdiocese of San Antonio Pastoral Center

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

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 revenue until the conditions are substantially met.

Also contributions of noncash assets from Archdiocesan related party organizations are recorded at net book value.

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, 2018 and 2017.

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.

Roman Catholic Archdiocese of San Antonio Pastoral Center

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

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, 2018, totaled \$148,683 (\$246,234 in 2017).

Subsequent events: The Pastoral Center has evaluated subsequent events through November 28, 2018, 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. There is no impact on total assets, net assets or changes in net assets.

Note 2. Pledges Receivable

Pledges receivable, net consist of the following:

	June 30	
	2018	2017
OSM, Inc.	\$ 1,690,424	\$ -
Pastoral Center, primarily Archbishop's Appeal	767,786	844,237
Total pledges receivable, net	\$ 2,458,210	\$ 844,237

OSM, Inc.: OSM, Inc. continued fundraising during fiscal year 2018. The purpose of fundraising is to preserve San Antonio's missions by securing financial support for the restoration and preservation of those missions, including support of operations. At June 30, 2018, pledges receivable net of allowance are included as unrestricted designated net assets.

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

	June 30	
	2018	2017
Unrestricted designated:		
Less than one year	\$ 1,001,000	\$ 1,500
One to five years	825,000	-
	1,826,000	1,500
Less provision for allowance for pledges receivable	84,567	1,500
Less discount for present value (2.25% in 2018 and 1.17% in 2017)	51,009	-
Pledges receivable, net	\$ 1,690,424	\$ -

Roman Catholic Archdiocese of San Antonio Pastoral Center

Notes to Financial Statements

Note 2. Pledges Receivable (Continued)

Pastoral Center, primarily Archbishop's Appeal: Total amount of pledges receivable, net is summarized as follows:

	June 30	
	2018	2017
Unrestricted designated:		
Less than one year	\$ 848,159	\$ 931,080
One to five years	142,464	168,003
	990,623	1,099,083
Less provision for allowance for pledges receivable	210,345	246,843
Less discount for present value (2.25% in 2018 and 1.17% in 2017)	12,492	8,003
Pledges receivable, net	<u>\$ 767,786</u>	<u>\$ 844,237</u>

Note 3. Accounts Receivable

Accounts receivable consist of the following:

	June 30	
	2018	2017
Insurance programs	\$ 894,943	\$ 878,918
Archdiocesan assessments	707,811	630,333
Other Archdiocesan entities	367,254	344,190
Total accounts receivable	1,970,008	1,853,441
Less allowance for uncollectible accounts	1,065,919	964,017
Total accounts receivable, net	<u>\$ 904,089</u>	<u>\$ 889,424</u>

Note 4. Investments

The Pastoral Center's investments are invested at various financial institutions with the majority of the investments managed by the 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	
	2018	2017
Certificates of deposit	\$ 6,628,216	\$ 6,856,661
Mutual funds	6,465,059	6,574,275
CUIT—equity securities	2,256,921	3,059,340
	<u>\$ 15,350,196</u>	<u>\$ 16,490,276</u>

Roman Catholic Archdiocese of San Antonio Pastoral Center

Notes to Financial Statements

Note 4. Investments (Continued)

Investment return consists of the following:

	Years Ended June 30	
	2018	2017
Interest income	\$ 93,708	\$ 77,658
Dividend income	202,358	232,949
Unrealized and realized gains (losses)	522,012	703,792
Investment expenses	(100,324)	(93,920)
Net investment return	<u>\$ 717,754</u>	<u>\$ 920,479</u>
Deposit and loan fund—interest income	<u>\$ 21,686</u>	<u>\$ 17,257</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 United States 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, 2018 and 2017, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

	Fair Value Measurement at June 30, 2018			
	Level 1	Level 2	Level 3	Total
Investments:				
CDs—participating	\$ 4,555,492	\$ -	\$ -	\$ 4,555,492
Mutual funds	6,465,059	-	-	6,465,059
	<u>\$ 11,020,551</u>	<u>\$ -</u>	<u>\$ -</u>	<u>11,020,551</u>
Investments measured at NAV per share:				
CUIT—equity securities				2,256,921
CDs—nonparticipating				2,072,724
Total investments				<u>\$ 15,350,196</u>
	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>

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 \$2,072,724 and \$20,996 at June 30, 2018 and 2017, 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, 2018, the cash value of the life annuities totaled \$1,207,734 (\$1,174,725 in 2017). 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, 2018, the plant and operations fund has net notes receivable due from other entities totaling \$968,330 (\$1,219,529 in 2017). At June 30, 2018, the deposit and loan fund has net notes receivable due from parishes totaling \$256,000 (\$464,268 in 2017). The notes have various repayment terms and bear interest rates ranging up to 8.5 percent.

As of June 30, 2018 and 2017, 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	
				2018	2017
MCSP, Inc.	6.25%	6/30/2021	A	\$ 2,412,524	\$ 2,348,516
CCF	5.50%	6/30/2019	B	1,124,466	1,475,489
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	C	-	52,741
San Fernando Cathedral	0.00%	9/30/2020	D	165,000	195,000
Other notes receivable	0.00%-8.50%	Various	Various	125,405	116,057
				<u>3,827,395</u>	<u>4,337,803</u>
Less allowance for uncollectible accounts				<u>2,603,065</u>	<u>2,654,006</u>
				<u>\$ 1,224,330</u>	<u>\$ 1,683,797</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, 2018 and 2017. In 2017, the note receivable ceased to accrue interest. The allowance for uncollectible accounts for this note receivable is \$2,307,428 for 2018 and \$2,259,422 for 2017.
- 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, 2018 and 2017, totaled \$402,538 and \$297,174, respectively.
- C. 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, 2018 and 2017, totaled \$52,741 and \$55,642, respectively.
- D. San Fernando Cathedral repayment terms include monthly payments of principal until date of maturity. Payments received during the years ended June 30, 2018 and 2017, totaled \$30,000 and \$55,000, respectively.

Note 8. Land, Buildings and Equipment

Land, buildings and equipment consist of the following:

	June 30	
	2018	2017
Land, buildings and improvements	\$ 10,129,915	\$ 9,689,735
Land held for future use	1,488,179	1,465,018
Movable equipment	991,938	949,289
Construction in progress	590,363	94,867
	<u>13,200,395</u>	<u>12,198,909</u>
Less accumulated depreciation	<u>7,824,504</u>	<u>7,483,115</u>
	<u>\$ 5,375,891</u>	<u>\$ 4,715,794</u>

Depreciation expense for the year ended June 30, 2018, totaled \$341,388 (\$312,124 in 2017).

Roman Catholic Archdiocese of San Antonio Pastoral Center

Notes to Financial Statements

Note 9. Properties Held for Lease

Properties held for lease consist of land and buildings as follows:

	June 30	
	2018	2017
Real estate ground lease (A)	\$ 300,031	\$ 300,031
Catholic Charities (B)	283,539	283,539
Boerne Stage Road (C)	1,792,482	1,792,482
St. Stephen's Property (D)	765,667	-
	<u>3,141,719</u>	<u>2,376,052</u>
Less accumulated depreciation	<u>(817,386)</u>	<u>(81,232)</u>
	<u>\$ 2,324,333</u>	<u>\$ 2,294,820</u>

Depreciation expense for properties held for lease for the year ended June 30, 2018, totaled \$38,228 (\$106,976 in 2017).

A. St John's Master Ground Lease: In fiscal year 2018, the 2015 real estate ground lease was terminated and replaced with the St. John's Master Ground Lease (the Lease) effective on December 1, 2017. The Pastoral Center (the Landlord) executed this Lease which consists of 11.139 acres with a Texas public facility corporation (the Tenant). This Lease has a guaranty executed by a Texas limited liability partnership and an individual (collectively, the Guarantor). The acres also include certain existing buildings, infrastructure and attached fixtures (collectively known as the Premises). This Lease is a master lease of the Premises for the Tenant's development, rehabilitation and operation as a rental project comprised of 228 rental units (the Project), including ancillary commercial and public space for related mixed-use purposes (collectively, the Improvements). The term of the Lease is for a period of 75 years commencing on December 1, 2017, with the option to extend for an additional 10 years. The 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 Lease, title to all Improvements constructed by the Tenant shall be vested to the Landlord. The Project is currently in its preliminary development phase.

Preliminary base rent is \$58,500 per year. Upon the issuance of a certificate of occupancy, base rent will adjust to \$117,000 per year, with subsequent CPI percentage increases.

The net carrying value of the property held for lease, net of accumulated depreciation of \$47,012, totaled \$253,019 at June 30, 2018.

Rental income and expenses for the Lease for the year ended June 30, 2018, is as follows:

Rental income	\$ 34,125
Expenses:	
Other	(18,193)
Depreciation	(5,834)
Net rental income	<u>\$ 10,098</u>

In addition, in the fiscal year 2018, the Pastoral Center also earned net rental income of \$18,426, net of \$4,167 depreciation and \$1,782 other expenses from the 2015 real estate ground lease which was terminated on December 1, 2017.

Roman Catholic Archdiocese of San Antonio Pastoral Center

Notes to Financial Statements

Note 9. Properties Held for Lease (Continued)

B. 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 totaled \$270,956 and \$278,047, net of accumulated depreciation of \$12,583 and \$5,492, at June 30, 2018 and 2017, respectively.

	June 30	
	2018	2017
Rental income	\$ 36,000	\$ -
Expenses:		
Other	(6,669)	-
Depreciation	(7,091)	(5,909)
Net rental income (loss)	<u>\$ 22,240</u>	<u>\$ (5,909)</u>

C. 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.

The net carrying value of this property held for lease totaled \$1,732,618 and \$1,753,753, net of accumulated depreciation \$59,864 and \$38,729 at June 30, 2018 and 2017, respectively.

	June 30	
	2018	2017
Rental income	\$ 60,000	\$ 60,000
Expenses:		
Other	(8,474)	(11,232)
Depreciation	(21,125)	(21,125)
Net rental income	<u>\$ 30,401</u>	<u>\$ 27,643</u>

D. St. Stephen's Property: In September 2017, the Pastoral Center received land and building as a donation from St. Stephen's Church at a net book value of \$67,740 as a result of the closure of the parish. Subsequently, the Pastoral Center leased the property to Catholic Charities. The lease term is for a one-year period commencing on September 1, 2017, renewable on a year-to-year basis until Catholic Charities has no office and storage use for the property. Base rent is \$7,500 per month.

Roman Catholic Archdiocese of San Antonio Pastoral Center

Notes to Financial Statements

Note 9. Properties Held for Lease (Continued)

The net carrying value of this property held for lease, net of accumulated depreciation of \$697,927, totaled \$67,740 at June 30, 2018.

Rental income	\$ 75,000
Expenses—other	(146,953)
Net rental loss	<u>\$ (71,953)</u>

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

In December 2016, the Archdiocese refinanced the loans for the benefit of the Rolling Hills Catholic School (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 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.

Rental income and expenses were as follows:

	June 30	
	2018	2017
Rental income	\$ -	\$ 70,625
Expenses—depreciation	-	(70,358)
	<u>\$ -</u>	<u>\$ 267</u>

The net carrying value of this property held for lease, net of accumulated depreciation totaled \$-0- at June 30, 2017.

Roman Catholic Archdiocese of San Antonio Pastoral Center

Notes to Financial Statements

Note 11. Purchase Commitment from Bank—Tax Credits

The Pastoral Center has a commitment letter from a bank to purchase Texas Historic Rehabilitation Tax Credits issues by the Texas Comptroller of Public Accountants of approximately \$1,500,000. The tax credits are related to the renovation of the four missions, which are certified historic structures. The bank will pay \$0.92 per \$1.00 of tax credits, and the commitment letter expires on December 31, 2023. For the year ended June 30, 2018, the Pastoral Center received \$335,851 for the sale of tax credits related to Mission San Francisco de la Espada, which is included in other revenue in the accompanying statement of activities and changes in net assets.

Note 12. 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, 2018, totaled \$831,491 (\$945,985 in 2017). Deposits bear interest at rates ranging from 0.0 percent to 1.2 percent for parishes and entities based on the time commitment.

Note 13. 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 not insured by outside commercial insurers. All property claims are at replacement cost coverage. Certain covered claims above the self-insured retention of \$100,000 (i.e., deductible) 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. Effective July 1, 2017, the Archdiocese switched workers' compensation to a guaranteed cost program and are 100 percent insured by an outside commercial insurer. Workers' compensation claims incurred prior to July 1, 2017, are included in the self-insurance reserves for claims not covered by other outside insurers.

Health insurance benefits: The Pastoral Center became self-insured effective September 1, 2012, for health insurance claims not covered by outside insurers. The Pastoral Center provides health care 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, 2018, a self-insurance reserve of \$4,221,309 has been made for the settlement of all incurred claims, which includes claims incurred, but not reported (\$5,356,309 in 2017).

Roman Catholic Archdiocese of San Antonio Pastoral Center

Notes to Financial Statements

Note 13. 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 and the Archdiocese's Risk Management Office. 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 14. 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, 2018, was approximately \$380,000 (approximately \$346,000 in 2017).

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 \$120,000 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, 2018 and 2017. The Pastoral Center made contributions of \$34,620 and \$31,491 as of June 30, 2018 and 2017, respectively. The Pastoral Center nor the Archdiocese has no additional obligation to fund nor sustain the Priest Pension Plan.

Note 15. 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 2018 data was based on a rollforward from the fiscal year 2017 financial data.

Roman Catholic Archdiocese of San Antonio Pastoral Center

Notes to Financial Statements

Note 15. 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	
	2018	2017
Accumulated postretirement benefits obligation:		
Active participants fully eligible for benefits	\$ 2,592,137	\$ 2,502,646
Active participants not fully eligible for benefits	5,256,178	4,619,462
Retired participants	2,401,775	2,576,977
Postretirement benefits obligation	<u>\$ 10,250,090</u>	<u>\$ 9,699,085</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	\$ 508,163	\$ 522,006
Interest cost on accumulated postretirement benefits	366,788	365,846
Unrecognized net gain, immediate recognition	(110,045)	(1,521,815)
Net period postretirement benefits (gain) cost	<u>\$ 764,906</u>	<u>\$ (633,963)</u>

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

	June 30	
	2018	2017
Balance at beginning of year	\$ 9,699,085	\$ 10,534,559
Net periodic postretirement benefits (gain) cost	764,906	(633,963)
Claims paid	(213,901)	(201,511)
Balance at end of year	<u>\$ 10,250,090</u>	<u>\$ 9,699,085</u>

For measurement purposes, a 7.50 percent annual rate increase in the per capita cost of covered benefits (e.g., healthcare cost trend rate) was assumed for 2018; the rate is assumed to decrease gradually to 4.50 percent by the year 2039 and remain at that level thereafter. In 2017, an assumed 7.35 annual rate increase in the per capita costs of covered benefits (e.g., health care cost trend rate); the rate was also assumed to decrease gradually to 4.50 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 \$2,031,077 as of June 30, 2018 (\$1,818,201 in 2017) and the aggregate of the service and interest cost components of net periodic postretirement benefits cost by \$257,073 for the year ended June 30, 2018 (\$259,648 in 2017). A reduction in assumed healthcare cost trend rate by one percentage point in each year would decrease the APBO by \$1,576,683 as of June 30, 2018 (\$1,416,068 in 2017) and the aggregate of the service and interest cost components by \$188,854 for the year ended June 30, 2018 (\$189,047 in 2017). The weighted-average discount rate used in determining the APBO at June 30, 2018, was 4.11 percent (3.83 percent in 2017).

Roman Catholic Archdiocese of San Antonio Pastoral Center

Notes to Financial Statements

Note 16. 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	
	2018	2017
Casa de Padres	\$ 1,208,390	\$ 1,175,380
Custodian and operating agency accounts	197,402	318,050
	<u>\$ 1,405,792</u>	<u>\$ 1,493,430</u>

Note 17. Net Assets

The unrestricted designated net assets are as follows:

	June 30	
	2018	2017
Plant and operations fund:		
Self-insurance programs—including property and medical benefits	\$ 1,315,231	\$ 1,224,379
Archbishop's Appeal	5,797,258	6,081,110
Archdiocese of San Antonio	4,734	4,734
Hope for the Future	2,257,831	2,158,070
OSM, Inc.	2,870,636	908,336
Seton Home Endowment Fund, Inc.—Board designated	200,779	189,017
Catholic Television	127,725	144,392
Catholic Schools	51,875	59,133
Plant, net of payables	7,177,565	6,935,714
	<u>\$ 19,803,634</u>	<u>\$ 17,704,885</u>
Deposit and loan fund	<u>\$ 669,683</u>	<u>\$ 660,096</u>

Temporarily restricted net assets are available for the following purposes:

	June 30	
	2018	2017
Restricted for:		
Paul P. Baltos, Jr. Scholarship	\$ 24,609	\$ 13,364
Other specific purpose grants	1,778	1,378
	<u>\$ 26,387</u>	<u>\$ 14,742</u>

Roman Catholic Archdiocese of San Antonio Pastoral Center

Notes to Financial Statements

Note 17. 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	
	2018	2017
Catholic extension	\$ -	\$ 29,317
Local Religious Orders	125,000	125,000
John G. and Marie Stella Kenedy Memorial Foundation	20,000	23,200
Paul P. Baltos, Jr. Scholarship Fund	6,079	-
	<u>\$ 151,079</u>	<u>\$ 177,517</u>

Permanently restricted net assets consist of the following:

	June 30	
	2018	2017
Mary Jane Clark Endowment Fund	\$ 20,000	\$ 20,000
Paul P. Baltos, Jr. Scholarship Fund	289,448	289,448
	<u>\$ 309,448</u>	<u>\$ 309,448</u>

Note 18. 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 18. 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, 2018		
	Unrestricted	Temporarily Restricted	Permanently Restricted
Donor-restricted endowment funds	\$ -	\$ -	\$ 309,448
Plant and Operations Fund:			
Board-designated endowment funds—Seton Home	200,779	-	-
	<u>\$ 200,779</u>	<u>\$ -</u>	<u>\$ 309,448</u>
	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>

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

	June 30	
	2018	2017
Seton Home Endowment Fund, Inc.	<u>\$ 200,779</u>	<u>\$ 189,017</u>

Roman Catholic Archdiocese of San Antonio Pastoral Center

Notes to Financial Statements

Note 18. Endowment Funds (Continued)

The Pastoral Center had the following changes in endowment net assets for the years ended June 30, 2018 and 2017:

	Year Ended June 30, 2018		
	Unrestricted	Temporarily Restricted	Permanently Restricted
Endowment net assets at beginning of year	\$ 189,017	\$ 13,364	\$ 309,448
Contributions	5,002	-	-
Investment return:			
Investment income, gains and losses, net	6,760	17,325	-
Amount appropriated for expenditures	-	(6,079)	-
Endowment net assets at end of year	<u>\$ 200,779</u>	<u>\$ 24,610</u>	<u>\$ 309,448</u>

	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>

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

	June 30	
	2018	2017
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>\$ 309,448</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, 2018 or 2017.

Roman Catholic Archdiocese of San Antonio Pastoral Center

Notes to Financial Statements

Note 18. 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 19. Operating Leases

The Pastoral Center has commitments under noncancelable operating lease agreements. As of June 30 2018, 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 \$78,921 for the year ended June 30, 2018 (\$86,969 in 2017).

Future minimum lease payments under the noncancelable operating lease agreements as of June 30, 2018, are as follows:

Years ending June 30:	
2019	\$ 73,435
2020	13,133
2021	6,279
2022	4,612
2023	2,166
	<u>\$ 99,625</u>

Note 20. Related-Party Transactions

For the years ended June 30, 2018 and 2017, 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, 2018 and 2017, 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.

Roman Catholic Archdiocese of San Antonio Pastoral Center

Notes to Financial Statements

Note 20. Related-Party Transactions (Continued)

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 21. 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.

Note 22. 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 23. 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.

Note 24. Subsequent Event

In October 2018, the Pastoral Center purchased approximately 20 acres tract of land for \$4,000,000. The Pastoral Center intends to develop the property as a future parish site. Concurrently, the seller donated to the Archdiocese approximately 25 acres contiguous to the property. Also in connection with the land purchase, the Pastoral Center has a commitment to fund approximately \$575,000 in development shared costs.

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
November 28, 2018

Roman Catholic Archdiocese of San Antonio Pastoral Center

Schedule of Functional Expenses Year Ended June 30, 2018

	Program Services						Supporting Services			Total 2018
	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	\$ -	\$ 32,844	\$ 46	\$ 263	\$ 99,040	\$ -	\$ 11,304	\$ 5,186	\$ -	\$ 148,683
Benefits	212,357	206,696	94,782	93,388	13,183	-	12,515	649,859	-	1,282,780
Bank and credit card fees	15	4,759	1,720	15	14,930	66,254	1,355	3,097	-	92,145
Cathedraticum	-	-	-	-	-	-	-	228,359	-	228,359
Continuing education	205,935	1,760	-	-	-	-	1,585	418,717	-	627,997
Copying, duplicating and printing	396	6,709	133,519	-	2,398	-	1,855	12,777	-	157,654
Depreciation expense	21,347	33,730	52,219	44,156	44,796	-	-	183,368	-	379,616
Direct agency support and assessments	-	45,126	-	1,181,262	-	1,681,874	-	1,263,346	-	4,171,608
Dues and publications	5,131	5,643	7,156	1,655	60	-	18,030	7,447	-	45,122
Gifts and donations	1,092	9,047	-	252,051	1,959,945	-	23,662	945,322	-	3,191,119
Grants expense	-	-	-	-	341,766	-	-	12,998	-	354,764
Hospital expense and support—retired priests	67,539	2,700	-	-	-	-	-	68,271	-	138,510
Hospitality	17,980	195,950	404	8,735	1,009	-	1,750	32,581	-	258,409
Interest and other	-	-	-	-	-	-	-	6,394	-	6,394
Insurance programs	-	-	-	-	-	-	-	-	19,073,294	19,073,294
Office equipment maintenance and leases	1,837	-	11,876	-	935	-	1,593	189,299	-	205,540
Office supplies and postage	3,342	50,091	63,161	2,225	5,029	-	3,172	228,804	-	355,824
Professional development	11,885	18,328	-	10,713	87	-	-	23,917	-	64,930
Professional, legal and other fees	77,500	4,309	8,027	979	-	-	62,127	153,772	-	306,714
Property tax	-	-	-	-	-	-	-	43,992	-	43,992
Provision for allowance for doubtful accounts	3,300	-	745	15,277	1,555	112,139	83,067	(26,061)	-	190,022
Rent—building	22,770	51,480	-	1,195	-	-	6,984	20,666	-	103,095
Repairs and maintenance	-	4,214	971	-	-	-	261,299	150,287	-	416,771
Resource materials and audio visual	4,282	82,180	7,259	6,410	-	-	40	36,214	-	136,385
Salaries	269,266	1,486,694	762,237	735,518	250,664	-	68,932	2,973,796	-	6,547,107
Special assessment	-	-	-	-	-	-	-	302,711	-	302,711
Stipends and contracted services	69,103	451,520	36,020	117,522	25,535	-	10,260	887,325	-	1,597,285
Utilities	3,305	21,837	5,340	1,005	199	-	3,524	224,265	-	259,475
Vehicle	23,633	52,279	7,531	9,062	21	-	5,268	47,292	-	145,086
Workshop and banquets	121,085	17,388	16,599	2,035	233,585	-	8,818	31,066	-	430,576
Interprograms transfers in (out)—allocations of cost	88,600	(839,064)	(201,526)	64,331	(409,998)	2,985,287	16,515	(1,128,754)	(575,391)	-
Total	\$ 1,231,700	\$ 1,946,220	\$ 1,008,086	\$ 2,547,797	\$ 2,584,739	\$ 4,845,554	\$ 603,655	\$ 7,996,313	\$ 18,497,903	\$ 41,261,967

