The Pastoral Center of the Roman Catholic Diocese of Dallas

Consolidated Financial Report
June 30, 2018

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Independent Auditor's Report

To the Most Reverend Edward J. Burns,
Bishop of the Roman Catholic Diocese of Dallas

We have audited the accompanying consolidated financial statements of The Pastoral Center of the Roman Catholic Diocese of Dallas and its subsidiaries (a nonprofit organization), which comprise the consolidated statements of financial position as of June 30, 2018 and 2017, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 the consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

The Most Reverend Edward J. Burns,
Bishop of the Roman Catholic Diocese of Dallas

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Pastoral Center of the Roman Catholic Diocese of Dallas and its subsidiaries as of June 30, 2018 and 2017, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Dallas, Texas
October 19, 2018

The Pastoral Center of the
Roman Catholic Diocese of Dallas
Consolidated Statements of Financial Position
June 30, 2018 and 2017

	2018	2017
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents		
Pastoral center operations	$ 2,477,764	$ 4,374,214
Insurance operations	16,149,811	10,481,270
Parish deposits	2,000,234	2,466,255
Donor-imposed restrictions	16,834,053	15,961,275
Total cash and cash equivalents	37,461,862	33,283,014
Investments for designated purposes, at fair value	34,183,495	31,478,413
Restricted investments, at fair value	47,103,593	43,598,991
Pledges and other receivables, net	11,244,321	14,508,827
Prepaid expenses and other assets	2,369,954	1,831,177
Property and equipment, net	5,853,782	5,780,386
TOTAL ASSETS	$ 138,217,007	$ 130,480,808
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and other accrued liabilities	$ 8,087,743	$ 6,614,177
Parish deposits	4,581,756	4,974,938
Assets held for others	5,025,667	4,816,054
Deferred obligation for priests' pension plan	-	1,927,387
Deferred obligation for priests' postretirement benefits	13,546,059	13,588,340
Total liabilities	31,241,225	31,920,896
NET ASSETS		
Unrestricted	42,518,777	34,007,339
Temporarily restricted	60,353,117	60,456,790
Permanently restricted	4,103,888	4,095,783
Total net assets	106,975,782	98,559,912
TOTAL LIABILITIES AND NET ASSETS	$ 138,217,007	$ 130,480,808

The Notes to Consolidated Financial Statements
are an integral part of these statements.

The Pastoral Center of the
Roman Catholic Diocese of Dallas

Consolidated Statements of Activities
Years Ended June 30, 2018 and 2017

	2018			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS, AND OTHER SUPPORT				
Contributions and bequests	$ 2,231,451	$ 15,059,602	$ 8,105	$ 17,299,158
Parish assessments	11,402,367	-	-	11,402,367
Interest and dividends	839,492	663,137	-	1,502,629
Unrealized and realized gains (losses) on investments	1,105,300	2,330,225	-	3,435,525
Gains (losses) on sale of property and equipment	11,697	-	-	11,697
Casualty and medical insurance				-
premiums earned	28,435,064	-	-	28,435,064
Reimbursable capital campaign costs	-	709,083	-	709,083
Other income and fees	1,440,089	507,678	-	1,947,767
Net assets released in satisfaction of				-
Annual Appeal restrictions	7,400,000	(7,400,000)	-	-
Other program restrictions	11,973,398	(11,973,398)	-	-
Total revenues, gains, and other support	64,838,858	(103,673)	8,105	64,743,290
EXPENSES				
Programs				
Insurance premiums, claims, and related costs	27,423,816	-	-	27,423,816
Financial aid and grants to schools	4,493,951	-	-	4,493,951
Catholic education	1,404,065	-	-	1,404,065
Grants to parishes	3,500,166	-	-	3,500,166
Pastoral ministries and missions	3,962,747	-	-	3,962,747
Clergy assistance	2,876,762	-	-	2,876,762
Seminarian education and assistance	5,979,796	-	-	5,979,796
Catholic Charities	522,500	-	-	522,500
Catechesis and worship	832,784	-	-	832,784
Tribunal	675,286	-	-	675,286
Retreat center	609,825	-	-	609,825
Marriage and family ministries	284,879	-	-	284,879
Fundraising				-
Development and Annual Appeal	1,085,926	-	-	1,085,926
Capital campaign	655,745	-	-	655,745
General and administrative	3,965,848	-	-	3,965,848
Total expenses	58,274,096	-	-	58,274,096
Other changes				
Pension and postretirement benefits credits for changes other than net periodic pension and postretirement benefit costs	1,946,676	-	-	1,946,676
Change in net assets	8,511,438	(103,673)	8,105	8,415,870
NET ASSETS, beginning of year	34,007,339	60,456,790	4,095,783	98,559,912
NET ASSETS, end of year	$ 42,518,777	$ 60,353,117	$ 4,103,888	$ 106,975,782

The Notes to Consolidated Financial Statements are an integral part of these statements.

2017			
Unrestricted	Temporarily Restricted	Permanently Restricted	Total
$ 2,165,335	$ 14,067,102	$ 381,930	$ 16,614,367
10,630,570	-	-	10,630,570
614,885	499,292	-	1,114,177
1,422,713	4,277,291	-	5,700,004
(15,938)	-	-	(15,938)
27,254,655	-	-	27,254,655
-	452,627	-	452,627
1,530,752	395,787	-	1,926,539
7,000,000	(7,000,000)	-	-
6,401,839	(6,401,839)	-	-
57,004,811	6,290,260	381,930	63,677,001
25,529,280	-	-	25,529,280
2,222,352	-	-	2,222,352
1,373,467	-	-	1,373,467
3,425,290	-	-	3,425,290
3,570,679	-	-	3,570,679
3,225,145	-	-	3,225,145
3,358,487	-	-	3,358,487
651,566	-	-	651,566
689,586	-	-	689,586
650,718	-	-	650,718
596,462	-	-	596,462
375,615	-	-	375,615
979,277	-	-	979,277
588,482	-	-	588,482
3,587,374	-	-	3,587,374
50,823,780	-	-	50,823,780
2,716,955	-	-	2,716,955
8,897,986	6,290,260	381,930	15,570,176
25,109,353	54,166,530	3,713,853	82,989,736
$ 34,007,339	$ 60,456,790	$ 4,095,783	$ 98,559,912

The Pastoral Center of the
Roman Catholic Diocese of Dallas

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

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 8,415,870	$ 15,570,176
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	283,237	227,501
Provision for collection allowances, net	2,361,150	684,790
Net unrealized investment (gains)	(1,812,914)	(5,000,625)
Net (gain) losses on sale of property and equipment	(11,697)	15,938
Contributions restricted for endowment	(8,105)	(381,930)
Changes in operating assets and liabilities		
Decrease in pledges and other receivables	903,356	2,099,192
Increase in prepaid expenses and other assets	(538,777)	(464,715)
Increase (decrease) in accounts payable and other accrued liabilities	1,473,566	(512,577)
Increase in assets held for others	209,613	310,372
Decrease in priests' benefit plan obligations	(1,969,668)	(2,805,579)
Net cash provided by operating activities	9,305,631	9,742,543
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(16,382,714)	(23,333,989)
Proceeds from sales and maturity of investments	11,985,944	25,293,734
Purchases of property and equipment	(363,218)	(2,116,516)
Proceeds from sales of property and equipment	18,282	-
Net cash used in investing activities	(4,741,706)	(156,771)
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions permanently restricted for endowment	8,105	381,930
Additions to parish deposits	99,794	197,070
Withdrawals from parish deposits	(492,976)	(278,554)
Net cash provided by (used in) financing activities	(385,077)	300,446
Net increase in cash and cash equivalents	4,178,848	9,886,218
CASH AND CASH EQUIVALENTS, beginning of year	33,283,014	23,396,796
CASH AND CASH EQUIVALENTS, end of year	$ 37,461,862	$ 33,283,014
SUPPLEMENTAL INFORMATION		
Interest paid	$ 9,617	$ 10,121

The Notes to Consolidated Financial Statements
are an integral part of these statements.

Note 1. Organization

The Pastoral Center of the Roman Catholic Diocese of Dallas (Pastoral Center) is the administrative entity of the Roman Catholic Diocese of Dallas (Diocese). The Pastoral Center provides planning and direction in the administration of pastoral, vocational, educational, and other services to its parishes and other Diocesan institutions. The Pastoral Center also provides financing and other advisory services to the organizations of the Diocese. The Diocese is an ecclesiastical territory which encompasses nine counties in the north central portion of the state of Texas. Record title to all parish, parish school, and church properties in the Diocese is held in the name of the Bishop and his successors for the benefit of the individual parishes, churches, chapels, and certain charitable trusts. Record title to other properties in the Diocese is held in the name of the Bishop and his successors. The Bishop has ecclesiastical responsibility for 77 parishes, which includes Chapel of the Annunciation at SMU, Church of the Incarnation at University of Dallas, and a number of other institutions, such as elementary schools, high schools, cemeteries, and other charitable organizations. Each parish is an operating entity distinct from the Pastoral Center that maintains separate financial records and carries on its own services and programs.

Note 2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America, and include the assets, liabilities, and related financial activity managed by the Pastoral Center and for the benefit of third parties, as well as the accounts of Catholic Community Appeal, Inc. (the Appeal). The Appeal is a nonprofit corporation which manages the Bishop's Annual Appeal that raises funds for certain ministries of the Pastoral Center. Total annual campaign revenues were $7,360,000 and $7,601,000 for the years ended June 30, 2018 and 2017, respectively, and are included in contributions and bequests in the consolidated statements of activities. All significant intercompany balances and transactions have been eliminated in consolidation.

The accompanying consolidated financial statements do not include the Diocesan parishes, schools, churches, missions, chapels, seminaries and other similar organizations, including Catholic Charities of Dallas, Inc., Calvary Hill Cemetery, St. Joseph's Residence, Inc. and the Texas Catholic Publishing Company.

Display of Net Assets by Class

For reporting purposes herein, the Pastoral Center classifies net assets into three categories according to the existence or absence of donor-imposed restrictions.

Accordingly, net assets of the Pastoral Center and changes therein are classified and reported as follows:

Unrestricted net assets represent resources available for support of Pastoral Center operations and for other charitable purposes that are not subject to donor-imposed restrictions.

Temporarily restricted net assets represent available resources subject to donor-imposed restrictions that may or will be met either by actions of the Pastoral Center and/or the passage of time. These include various trusts and accumulated appreciation on donor restricted endowments. When a purpose restriction is accomplished or when a stipulated time restriction ends, temporarily restricted net assets are released to unrestricted net assets and reported in the statement of activities as net assets released from restriction.

Permanently restricted net assets represent funds that are subject to restrictions of gift instruments requiring that the principal be invested in perpetuity and only the income may be used for specific purposes. Permanently restricted net assets include endowment contributions.

From time to time, the fair value of assets associated with permanently restricted funds may fall below the level that the donor requires to be maintained in perpetuity. Deficiencies of this nature result from unfavorable market value fluctuations and are reported in unrestricted net assets. Subsequent gains restoring the fair value of such funds to the required level are classified as an increase in unrestricted net assets.

Functional Allocation of Expenses

The costs of providing the various programs and supporting services have been summarized on a functional basis in the accompanying consolidated statements of activities. Salaries and related payroll expenses are recorded based on actual segregation of personnel by program or supporting services benefited. Depreciation and plant operations have been allocated based on square footage among the functional categories. Distribution of all other expenses is based on actual usage or management's estimate of usage applicable to the various programs and supporting services benefited.

Revenue Recognition

Contributions and bequests, including unconditional promises to give (pledges), are recognized as revenues when the donor's commitment is received, net of allowance for collection and a discount. Promises to give that are scheduled to be received in future periods are recognized as increases in temporarily restricted net assets and are reclassified to unrestricted net assets when the purpose or time restrictions are met. Promises to give subject to donor-imposed stipulations that the corpus be maintained permanently are recognized as increases in permanently restricted net assets.

Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value.

Dividends, interest, and net gains on investments of permanently restricted net assets are reported as increases in temporarily restricted net assets since the terms of these gifts impose restrictions on the income and net gains.

Parish assessments paid by the parishes are billed by the Pastoral Center quarterly, and are recognized as revenue in the quarter for which the assessment is billed. Medical insurance premiums charged to the parishes and schools are billed monthly and are recognized as revenue in the month billed. Casualty insurance premiums are billed in advance, and are recognized as revenue when earned.

Financial Instruments

The Pastoral Center's financial instruments consist of cash and cash equivalents, investment securities, pledges and accounts receivable, and accounts payable. The recorded values of cash and cash equivalents and accounts receivable and payable approximate their fair values based on their short-term nature. The recorded values of the investment securities are stated at fair value and the unrealized gains and losses are recorded. The amortized cost of notes receivable and payable approximate fair value, as the stated interest rate approximates market rates.

Cash and Cash Equivalents

Cash and cash equivalents are liquid assets with minimal interest rate risk and maturities of three months or less when purchased. Such assets, reported at fair value, primarily consist of depository account balances, money market funds, and certificates of deposit.

Investments

Investments in marketable securities are reported at fair value in the consolidated statements of financial position using the three-level hierarchy established by generally accepted accounting principles. Purchases and sales of securities are recorded on the trade date, and unrealized gains and losses are included in the consolidated statements of activities.

Receivables

Notes, pledges (Annual Appeal and capital campaign) and other receivables are stated at fair value, less the allowance for collection, which is determined by management based on historical collection experience and ongoing analyses of each debtor's financial condition. Notes, pledges or other receivables that are deemed to be uncollectible are charged to the allowance.

Property and Equipment

Property and equipment acquisitions are capitalized at cost, when purchased or at fair value at date of gift, when donated. All purchases over $5,000 for property and those which substantially increase the useful lives of assets are capitalized. Maintenance, repairs, and minor renewals are expensed as incurred. Depreciation on property and equipment is provided on a straight-line basis over the estimated useful lives of assets. The estimate service lives of property and equipment are principally as follows:

Buildings	30 - 40 Years
Building improvements	15 - 25 Years
Equipment	3 - 8 Years
Automobiles	5 Years

Parish Deposits

Parish deposits represent funds deposited with the Pastoral Center primarily by parishes, churches, missions, chapels, and other related entities within the Diocese. Withdrawals are subject to certain restrictions determined by the Pastoral Center.

The interest rate paid on parish deposits is 0.20% per annum compounded semiannually.

Assets Held for Others

The Bishop of the Diocese is the trustee of an agreement benefiting Catholic Charities of Dallas, and under the terms of the agreement, no variance power related to distributions has been granted to the trustee. Therefore, in the consolidated statements of financial position, the Pastoral Center records these related trust assets in restricted investments and the corresponding liability in assets held for others.

Income Taxes

Under a group ruling issued by the Internal Revenue Service to the United States Conference of Catholic Bishops, the Pastoral Center, as an institution of the Roman Catholic Church in the United States, is exempt from federal income taxes on related income pursuant to Section 501(a) of the Internal Revenue Code (the Code).

Accordingly, the Pastoral Center is a tax-exempt organization as described in Section 501(c)(3) of the Code, and no such provision for income taxes has been made in the accompanying consolidated financial statements.

The Pastoral Center is, however, subject to federal income tax on unrelated business income, and provision for such taxes, when appropriate, is included in the accompanying consolidated financial statements. Based on management's analysis, the Pastoral Center did not have any uncertain tax positions as of June 30, 2018 and 2017. The Pastoral Center files income tax returns in the U.S. federal jurisdiction. There are currently no income tax examinations under way for this jurisdiction. As of June 30, 2018, the Pastoral Center's tax years 2014 to 2018 remain subject to examination.

Use of Estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain amounts during the reporting period as well as the disclosure of contingent liabilities. Accordingly, actual results could ultimately differ from those estimates.

Concentration of Credit Risk

In the course of the Pastoral Center's operations, the cash balances maintained at financial institutions used by the Pastoral Center are in excess of the amount insured by the Federal Deposit Insurance Corporation (FDIC). The Pastoral Center has not suffered any losses as a result of the excess balances in the past and management does not anticipate losses in the future.

Reclassifications

Certain 2017 amounts have been reclassified to conform to the 2018 presentation. These reclassifications had no impact on the change in net assets.

Subsequent Events

Subsequent events, occurring after the statement of financial position date but before the statements are available to be issued, are evaluated by management for appropriate recognition and disclosure. All significant events or transactions have been evaluated subsequent to June 30, 2018, and through the date on which the consolidated financial statements were available for issuance, October 19, 2018.

Effective July 1, 2018, the Diocese changed its legal status and filed a Certificate of Formation with the Office of the Secretary of State of Texas to form a nonprofit corporation. The name of the corporation is Roman Catholic Diocese of Dallas and it is organized exclusively for charitable, religious and educational purposes.

Note 3. Fair Value of Investments

Investment securities are stated at fair value. Generally accepted accounting principles establish a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 inputs) and the lowest priority to unobservable inputs (level 3 inputs). The three levels of the fair value hierarchy are described below:

Level 1 inputs: Unadjusted, quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities. The majority of investments included in level 1 are common stock and mutual funds typically valued at the closing price reported on the active market on which the individual securities are traded.

Level 2 inputs: Inputs (other than quoted market prices included within level 1) that are either directly or indirectly observable for the asset or liability through correlation with market data at the measurement date and fair value is determined through the use of models or other valuation techniques. The majority of investments included in level 2 are fixed income securities, privately issued mutual funds, alternative investments in absolute return, long/short equity funds and emerging markets, typically valued based on information received from the custodian.

Level 3 inputs: Prices or valuations that require inputs that are both significant to the fair measurement and unobservable. Fair value for these investments are determined using valuation methodologies that consider a range of factors including but not limited to the nature of the investment, market conditions, current and projected operating performance and changes in operating characteristics of the investment. The investments included in level 3 consist of investments in absolute return funds.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. There have been no changes in the methodologies used at June 30, 2018 and 2017.

The tables below summarize the investment securities by level at June 30:

	2018			
	Level 1	Level 2	Level 3	Total
Mutual funds				
Money market	$ -	$ 4,019,420	$ -	$ 4,019,420
Growth and value	1,503,109	-	-	1,503,109
Fixed income	17,791,759	-	-	17,791,759
International	7,561,406	-	-	7,561,406
Large cap	7,514,637	-	-	7,514,637
Small cap	1,833,704	-	-	1,833,704
Pooled investments	-	26,043,948	-	26,043,948
Alternative investments				
Absolute return		12,499,534	1,048,228	13,547,762
Fixed Income	-	1,501,062	-	1,501,062
Long/short equity	-	3,989,701	-	3,989,701
Emerging markets	-	-	-	-
Total investments at fair value	$ 36,204,615	$ 48,053,665	$ 1,048,228	$ 85,306,508
			Cash equivalents	(4,019,420)
				$ 81,287,088

	2017			
	Level 1	Level 2	Level 3	Total
Mutual funds				
Money market	$ -	$ 5,954,245	$ -	$ 5,954,245
Growth and value	1,738,435	-	-	1,738,435
Fixed income	18,234,019	-	-	18,234,019
International	8,852,477	-	-	8,852,477
Large cap	7,051,696	-	-	7,051,696
Small cap	1,859,580	-	-	1,859,580
Pooled investments	-	20,432,377	-	20,432,377
Alternative investments				
Absolute return		9,831,463	1,190,037	11,021,500
Fixed Income	-	1,462,024	-	1,462,024
Long/short equity	-	4,407,950	-	4,407,950
Emerging markets	-	17,346	-	17,346
Total investments at fair value	$ 37,736,207	$ 42,105,405	$ 1,190,037	$ 81,031,649
			Cash equivalents	(5,954,245)
				$ 75,077,404

The table below summarizes fair value, unfunded commitments, redemption frequency and notice period, for investments for which net asset value or its equivalent, management uses to determine fair value as of June 30, 2018:

	Fair Value	Unfunded Commitment	Redemption Frequency	Redemption Notice Period
Pooled investments	$ 26,043,948	-	Daily	Immediate
Alternative investments				
Absolute return	4,719,632	-	Annual	90-100 days
Absolute return	5,647,767	-	Quarterly	45-90 days
Absolute return	2,132,136	-	Monthly	45 days
Fixed income	1,501,062	-	Monthly	45 days
Long/short equity	2,431,127	-	Quarterly	45 days
Long/short equity	1,558,574	-	Annual	90 days

Mutual funds and alternative investments are reported at fair value utilizing Level 1 and Level 2 inputs. For these securities, fair value measurements are obtained from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the US Treasury yield curve, live trading levels, trade execution data, market consensus prepayments speeds, credit information and the bond's terms and conditions, among other things.

The table below sets forth a summary of changes in the fair value of level 3 investment assets for the years ended June 30:

	2018 Alternative Investments Absolute Return	2017 Alternative Investments Absolute Return
Balance, beginning of year	$ 1,190,037	$ 1,205,690
Purchases, sales, issuances and settlements	(365,093)	(133,746)
Realized and unrealized gain included in changes in net assets	223,284	118,093
Balance, end of year	$ 1,048,228	$ 1,190,037

The level 3 investment assets above are valued using a market approach, utilizing the percentage of capital in the investments based on the financial statements for the investment. The Pastoral Center did not adjust the valuation, therefore there were no significant unobservable inputs developed by management.

Expenses related to the professional management of investments amounted to $316,291 and $160,042 for the years ended June 30, 2018 and 2017, respectively, and is included in the consolidated statements of activities.

Investment income for the years ended June 30 is as follows:

	2018			2017		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Interest and dividends	$ 839,492	$ 663,137	$ 1,502,629	$ 614,885	$ 499,292	$ 1,114,177
Unrealized gain on investments	410,674	1,402,240	1,812,914	996,483	4,004,142	5,000,625
Realized gain on investments	694,626	927,985	1,622,611	426,230	273,149	699,379
Total investment income	$ 1,944,792	$ 2,993,362	$ 4,938,154	$ 2,037,598	$ 4,776,583	$ 6,814,181

Note 4. Pledges and Other Receivables

Pledges and other receivables consist of the following at June 30:

	2018	2017
Annual Appeal pledges due within one year	$ 2,383,653	$ 2,583,207
Capital campaign pledges receivable	6,666,853	9,142,706
Parish assessments and accounts receivable	3,613,476	3,237,922
Casualty and medical insurance premiums receivable from parishes and other related organizations	5,994,573	4,835,389
Miscellaneous accounts	72,004	161,239
	18,730,559	19,960,463
Less present value discount	(201,911)	(392,460)
Less allowance for collection	(7,284,327)	(5,059,176)
Pledges and other receivables, net	$ 11,244,321	$ 14,508,827

Future collections of the capital campaign pledges receivable are as follows at June 30, 2018:

Less than one year	$ 2,281,693
One to five years	4,385,160
	$ 6,666,853

Capital campaign pledges are restricted for capital campaign purposes. They are recorded at the present value of the estimated future cash flow using a discount rate of 2.5%. The allowance for collection is determined by management based on historical collection experience and ongoing analysis of each donor’s pledge.

Note 5. Property and Equipment

Property and equipment consist of the following at June 30:

	2018	2017
Land	$ 1,611,073	$ 1,611,073
Land held for future use or disposition	138,705	138,705
Buildings and improvements	7,851,795	7,539,858
Equipment	443,594	536,688
	10,045,167	9,826,324
Less accumulated depreciation and amortization	(4,191,385)	(4,045,938)
	$ 5,853,782	$ 5,780,386

Depreciation and amortization expense was $283,237 and $227,501 for the years ended June 30, 2018 and 2017, respectively.

Note 6. Accounts Payable and Other Accrued Liabilities

Accounts payable and other accrued liabilities consist of the following at June 30:

	2018	2017
Self-insurance claims incurred but not reported	$ 2,346,000	$ 2,080,000
Unearned casualty insurance premiums	1,140,464	1,173,547
Accounts payable	3,162,948	1,996,172
Accrued legal fees	213,654	129,999
Special collections payable	440,868	655,488
Miscellaneous accounts	783,809	578,971
	$ 8,087,743	$ 6,614,177

Note 7. Self-Insurance Programs

The Diocese provides casualty and group health insurance for the Pastoral Center, parishes, diocesan schools, and other related organizations (Participants) under partially self-insured programs with third-party administrators processing claims. The Pastoral Center receives insurance premiums from the Participants and, in turn, pays claims for the self-insured portion, pays premiums for conventional excess loss coverage, and pays the programs' administrative costs.

The medical, prescription, and dental program offers a comprehensive health care benefit plan to all eligible employees of the Pastoral Center and Participants. Insurance is purchased for medical claims from any one individual during the year in excess of $250,000.

The casualty program insures all property owned by the Participants. Property claims are insured under policies with insurance carriers, subject to $150,000 retention per occurrence, which represents the maximum self-insured portion per occurrence. The casualty program also provides commercial liability coverage, as well as other liability coverages, under insurance carriers' policies, subject to a self-insured retention of $150,000 per claim. Workers' compensation coverage is also provided under insurance carrier policies, and is not subject to a deductible.

Estimated incurred but not reported claims recorded in other accrued liabilities in the accompanying consolidated financial statements at June 30 are:

	2018	2017
Medical and dental	$ 1,274,000	$ 1,300,000
Casualty	1,072,000	780,000
	$ 2,346,000	$ 2,080,000

The estimated liability is based upon information available regarding the self-insurance programs; however, the liability could change materially in the near term.

In order to manage self-insurance risks related to certain liability claims, the Diocese participates in a protected captive insurance cell within the Catholic Relief Insurance Company of America II (CRIC II). The Pastoral Center office obtains insurance coverage from the protected cell and bears a risk of loss from claims in excess of premiums paid to the cell. Based on the control of the protected cell and the structure of CRIC II, the assets and liabilities of the captive cell are included within the Pastoral Center's consolidated financial statements. Insurance premium payments to the protected cell during each of the years ended June 30, 2018 and 2017 were $500,000.

Note 8. Priests' Postretirement Benefits

The Diocese provides retiree health care benefits, including pharmacy benefits, for priests of the Diocese who meet minimum age and service requirements and retire from active service. The Diocese has reserved the right to change or eliminate this benefit at any time. These benefits are funded as claims are submitted for reimbursement or payment.

The Diocese recognizes the underfunded status of the defined postretirement health care benefit plan as a liability in the statement of financial position and recognizes the changes in that funded status of the plan in net assets in the year in which the changes occur.

The following table sets forth the funded status and amounts recognized in the accompanying consolidated financial statements as of and for the years ended June 30:

	2018	2017
Benefit obligation	$ 13,546,059	$ 13,588,340
Less fair value of assets	-	-
Unfunded status	$ 13,546,059	$ 13,588,340

Amounts recognized in the statements of financial position as of June 30 consist of:

	2018	2017
Accrued benefit liability	$ 13,546,059	$ 13,588,340

Cumulative amounts charged to net assets which have not been recognized in net periodic benefits expense as of June 30:

	2018	2017
Unrecognized actuarial losses	$ 3,574,096	$ 4,611,790
Components of expense for the years ended June 30		
Benefit cost	1,395,858	1,312,062
Employer contribution	400,445	339,124
Benefits paid	400,445	339,124
Weighted average assumptions as of June 30		
Discount rate for benefit obligations	4.21%	3.93%
Discount rate for net periodic benefit cost	3.93%	3.74%
Expected contributions for the next year ending June 30		
Expected employer contributions	416,634	369,684

Estimated future benefit payments reflecting expected future service for the fiscal years ending June 30:

Year ending June 30,	Amount
2019	$ 416,634
2020	496,806
2021	536,009
2022	587,080
2023	628,214
2024 and thereafter	3,609,449
	$ 6,274,192

The assumed health care cost trends were graded from 7.20% in 2018 to 4.10% in 2074 for medical and prescription drugs.

As of June 30, 2018, $164,773 of the net actuarial loss will, through amortization, be recognized as a component of periodic benefit cost in 2019.

The estimated liability for postretirement health care benefits is based upon information available regarding the assumptions used in the actuarial computation; however, the liability may change materially in the near term.

As of June 30, 2018, the Diocese has $11,563,676 of internally designated funds and $535,960 of donor-restricted funds available to fund these obligations.

Note 9. Priests' Pension Plan

The Pension Plan for Diocesan Priests, Diocese of Dallas (Priest Plan) covers diocesan priests serving in the Diocese. Generally, the Priest Plan covers the ordained priests and certain diocesan priests from other dioceses. The Priest Plan provides monthly benefits, payable for life at age 70. In 2018 and 2017, the monthly benefit amount is $50 multiplied by the number of years of credited service, subject to plan provisions.

Net periodic pension cost and projected benefit obligation in the accompanying consolidated financial statements include all benefits under the Priest Plan, and are based on years of service. The assets of the Priest Plan are separately maintained and are not part of the accompanying consolidated financial statements. Contributions to the Priest Plan are based on independent actuarial reviews. Participants are neither required nor permitted to make contributions to the Priest Plan. The Diocesan Investment Committee monitors the investments of the Priest Plan's assets and a committee of priests monitors payment of benefits in accordance with plan provisions.

The Diocese recognizes the underfunded status of the defined benefit plan as a liability in the statement of financial position and recognizes the changes in the funded status of the plan in net assets in the year in which the changes occur.

The following table sets forth the Priest Plan's funded status and amounts recognized in the accompanying consolidated financial statements measured as of and for the years ended June 30:

	2018	2017
Benefit obligation	$ (13,273,511)	$ (13,421,803)
Fair value of plan assets, net	13,857,544	11,494,416
Funded (unfunded) status	$ 584,033	$ (1,927,387)

Amounts recognized in the statements of financial position as of June 30 consist of:

	2018	2017
Net pension asset (liability)	$ 584,033	$ (1,927,387)

Amounts charged to net assets which have not been recognized in net periodic pension expense as of June 30:

	2018	2017
Unrecognized actuarial losses	$ 4,674,406	$ 6,747,112
Unrecognized transition obligation	143,856	281,387
Unrecognized prior service cost	752,733	882,337

Components of pension changes for the years ended June 30:

	2018	2017
Benefit cost expensed	$ 509,294	$ 867,895
Employer contribution to the plan	2,111,732	1,929,457
Benefits paid to retirees	675,815	570,899

Weighted-average assumptions for the benefit obligation as of June 30:

	2018	2017
Discount rate-net periodic pension cost	3.84%	3.59%
Expected return on plan assets	7.00%	7.00%

Weighted-average assumptions for the benefit cost as of June 30:

	2018	2017
Discount rate-benefit obligations	4.16%	3.84%
Expected return on plan assets	7.00%	7.00%

Weighted average assumption for compensation increase is 0% since the benefit is not based on compensation.

As of June 30, 2018, $211,353 of the net actuarial loss, $137,531 of the transition obligation, and $129,604 of the prior service cost will, through amortization, be recognized as components of periodic benefit cost in 2019.

The plan assets are principally invested in equity and fixed income type investments and the actual asset allocation is as follows:

	Percentage of Plan Assets at	
	2018	2017
Plan assets		
Domestic equity securities	20%	17%
Fixed income securities	8%	9%
International equity securities	19%	19%
Long/short equity securities	13%	10%
Emerging markets securities	7%	7%
Absolute return securities	23%	19%
Cash and equivalents	10%	19%
Total	100%	100%

Determination of Expected Long-term Rate of Return

The expected long-term rate of return for the plan's total assets is based on the expected return of each of the above categories, weighted based on the median of the target allocation for each class.

	Target Allocation Percentage of Plan Assets at	
	2018	2017
Plan assets		
Domestic equity securities	20%	20%
Fixed income securities	8%	8%
International equity securities	20%	20%
Long/Short equity securities	15%	15%
Emerging markets securities	10%	10%
Absolute return securities	27%	27%
Total	100%	100%

Investment Policy and Strategy

The investment policy is to broadly diversify the investments in order to reduce risk and to produce incremental return, while observing the requirements and principles of prudent investment management. The investments will be diversified among economic sector, industry, quality, and size.

The purpose of diversification is to provide reasonable assurance that no single security or class of securities will have a disproportionate impact on the performance of the plan. As a result, the risk level associated with the portfolio should be reduced.

Investment securities are stated at fair value. Generally accepted accounting principles establish a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 inputs) and the lowest priority to unobservable inputs (level 3 inputs).

The three levels of the fair value hierarchy are described below:

Level 1 inputs: Unadjusted, quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities. The majority of investments included in level 1 are mutual funds typically valued at the closing price reported on the active market on which the individual securities are traded.

Level 2 inputs: Inputs (other than quoted market prices included within level 1) that are either directly or indirectly observable for the asset or liability through correlation with market data at the measurement date and fair value is determined through the use of models or other valuation techniques. The majority of investments included in level 2 are fixed income securities, privately issued mutual funds, alternative investments in long/short equity funds and emerging markets, typically valued based on information received from the custodian.

Level 3 inputs: Prices or valuations that require inputs that are both significant to the fair measurement and unobservable. Fair value for these investments are determined using valuation methodologies that consider a range of factors including but not limited to the nature of the investment, market conditions, current and projected operating performance and changes in operating characteristics of the investment. The investments included in level 3 consist of investments in absolute return funds.

The fair value of the Diocese's pension plan investments at June 30 by level is as follows:

	2018	2017
Level 1	$ 5,292,581	$ 5,585,999
Level 2	7,440,485	5,605,580
Level 3	252,865	286,432
Total investments	$ 12,985,931	$ 11,478,011

Cash Flows

Expected contributions for the next year ending June 30, 2019 are $2,000,000.

Estimated future benefit payments reflecting expected future service for the fiscal years ending June 30:

Year ending June 30,	Amount
2019	$ 659,574
2020	709,538
2021	802,496
2022	817,545
2023	847,298
2024 and thereafter	4,547,005
	$ 8,383,456

Note 10. Defined Contribution 403(B) Plan

The Diocese has a defined contribution 403(b) plan which allows eligible lay employees to contribute, tax deferred, a portion of their compensation to the plan, subject to annual limits. The Pastoral Center contributes a required amount equal to 3% of employee compensation and makes an elective additional matching contribution of up to 4% of compensation. The Pastoral Center's total contributions for Pastoral Center employees in 2018 and 2017 were approximately $344,000 and $330,000, respectively.

Note 11. Net Assets

Unrestricted net assets consist of the following at June 30:

	2018	2017
Undesignated operating surplus	$ 7,217,461	$ 7,115,070
Designated for parish deposits	107,138	65,626
Designated for casualty self-insurance program	11,004,028	11,421,212
Deficit for priests' pension and postretirement benefits	(545,306)	(4,648,124)
Designated for group health self-insurance program	19,392,992	15,300,159
Deficit for Bishop Dunne renovation project	(2,294,385)	(3,230,111)
Designated for various Diocesan programs	2,032,669	2,105,487
Designated for land and depreciable assets	5,604,180	5,878,020
	$ 42,518,777	$ 34,007,339

Temporarily restricted net assets consist of the following at June 30:

	2018	2017
Gifts and related revenues available for		
Financial aid for schools	$ 30,711,388	$ 24,664,156
Annual Appeal	5,971,051	6,085,964
Capital campaign	17,075,909	23,393,262
Seminarian education	4,074,465	4,015,213
Various other Diocesan programs or activities	2,520,304	2,298,195
	$ 60,353,117	$ 60,456,790

Permanently restricted net assets consist of the following at June 30:

	2018	2017
Seminary Burse Endowment	$ 3,103,888	$ 3,095,783
Santa Clara School Endowment	1,000,000	1,000,000
	$ 4,103,888	$ 4,095,783

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes specified by donors for the following purposes for the years ended June 30, 2018 and 2017:

	2018	2017
Annual appeal restrictions	$ 7,400,000	$ 7,000,000
Catholic education and schools	3,537,672	2,465,933
Grants to parishes	4,393,639	1,977,736
Pastoral ministries and missions	432,677	470,635
Seminarian education	2,574,331	734,828
Clergy assistance	262,767	277,454
Other	772,312	475,253
Total net assets released from restrictions	$ 19,373,398	$ 13,401,839

Note 12. Endowments

The Pastoral Center has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. The State of Texas and the Pastoral Center have both adopted UPMIFA. As a result of this interpretation, the Pastoral Center classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment funds not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by management in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the Pastoral Center considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the donor-restricted endowment funds
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources available
7. The investment policies of the Pastoral Center

Annual distributions will not exceed five percent (5%) of the average net assets at June 30 over the past three rolling years.

A reconciliation of the endowment funds' beginning and ending balances for the year ended June 30, 2018 is as follows:

	Temporarily Restricted	Permanently Restricted	Total
Beginning of year	$ 4,061,501	$ 4,095,783	$ 8,157,284
Interest and dividends	86,282	-	86,282
Realized and unrealized gains	402,040	-	402,040
Total investment return	488,322	-	488,322
Contributions	-	8,105	8,105
Appropriation of endowment assets for expenditure	(420,600)	-	(420,600)
End of year	$ 4,129,223	$ 4,103,888	$ 8,233,111

A reconciliation of the endowment funds' beginning and ending balances for the year ended June 30, 2017 is as follows:

	Temporarily Restricted	Permanently Restricted	Total
Beginning of year	$ 3,830,389	$ 3,713,853	$ 7,544,242
Interest and dividends	77,979	-	77,979
Realized and unrealized gains	585,489	-	585,489
Total investment return	663,468	-	663,468
Contributions	-	381,930	381,930
Appropriation of endowment assets for expenditure	(432,356)	-	(432,356)
End of year	$ 4,061,501	$ 4,095,783	$ 8,157,284

All endowment assets as of June 30, 2018 and 2017 are donor restricted.

Return Objectives and Risk Parameters

The Pastoral Center has adopted an Investment Policy for endowment assets that attempts to provide a predictable stream of funding to programs supported by its endowments 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. The Investment Policy provides that funds be structured in order to participate in up markets and protect in down markets with the goal of outperforming over a market cycle with an acceptable level of volatility.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, a total return strategy is utilized in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Pastoral Center targets a diversified asset allocation strategy to achieve its long-term return objectives within the guidelines of its investment policy.

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or UPMIFA requires to be retained as a fund of perpetual duration. There were no deficiencies of this nature which resulted from unfavorable market value fluctuations that are reported in unrestricted net assets as of June 30, 2018 and 2017.

Note 13. Transactions with Parishes and Other Related Organizations

Transactions with parishes and other related organizations for the years ended June 30 are as follows:

	2018	2017
Casualty and medical insurance premiums billed to parishes and other related organizations	$ 28,435,064	$ 27,254,655
Parish assessments	11,402,367	10,630,570

Parish contributions originate in and are received by the parishes, and thus, are recorded on the basis of accounting determined by the parishes. The parishes calculate the assessment due to the Pastoral Center based on such contributions received, adjusted for certain defined deductions. Due to the nature of these transactions and related accounting records, the parish assessments received by the Pastoral Center are recorded based solely on such parish accounting.

Note 14. Commitments and Contingencies

The Diocese entered into contractual agreements with a contractor and architects for several construction projects on behalf of the following Diocesan entities:

(1.) The Cathedral Shrine of the Virgin of Guadalupe Parish ($7.1 million) for exterior renovations. The Diocese contributed approximately $2,709,000 and $3,343,000 for the years ended June 30, 2018 and 2017, respectively.

(2.) Holy Trinity Seminary ($7.3 million) for construction of a new student building center for the seminarians. The Diocese contributed approximately $2,146,000 and $90,000 for the years ended June 30, 2018 and 2017, respectively.

(3.) St. Philip & St. Augustine Catholic Academy ($1.9 million) for Phase II classroom addition. The Diocese contributed approximately $1,181,000 for the year ended June 30, 2018.

(4.) St. Mary of Carmel School ($473,000) for Phase I construction design. The Diocese contributed approximately $468,000 for the year ended June 30, 2018.

The Diocese has guaranteed two parish notes payable to unrelated financial entities. The balance of these notes at June 30, 2018 and 2017 is $5,983,143 and $6,319,627, respectively. Should the parishes fail to meet their obligation to repay the notes, the Diocese would be responsible for repayment. The Pastoral Center has not included these balances as liabilities in the accompanying consolidated financial statements.

At June 30, 2018 and 2017, the Pastoral Center has collateralized bank letters of credit outstanding of approximately $802,000, on which no funds had been drawn. The letters of credit are pledged to insurance companies to secure Diocesan performance under the Diocese's self-insured obligations (see Note 7).

The Pastoral Center has a revolving line of credit in the amount of $5 million with a bank (the Credit). The Credit is unsecured, and the Pastoral Center can borrow and repay on the Credit until January 31, 2019. No amounts were borrowed during fiscal 2018 and 2017.

The Diocese is engaged in certain legal proceedings and has unresolved claims pending. The ultimate liability from such proceedings and claims cannot be determined at this time; however, management of the Diocese is of the opinion that any liability not already covered by insurance should not have a material adverse effect on the financial position or operations of the Pastoral Center.