

Consolidated Financial Statements and Report of Independent Certified Public Accountants

Roman Catholic Diocese of Dallas

June 30, 2019 and 2018

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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

Report on the financial statements

We have audited the accompanying consolidated financial statements of Roman Catholic Diocese of Dallas and Subsidiaries (the "Diocese"), which comprise the consolidated statement of financial position as of June 30, 2019, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these 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 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 Diocese'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 Diocese'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.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Roman Catholic Diocese of Dallas as of June 30, 2019, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other matter

The consolidated financial statements of Roman Catholic Diocese of Dallas as of and for the year ended June 30, 2018 were audited by other auditors. Those auditors expressed an unmodified opinion on those 2018 financial statements in their report dated October 19, 2018.



Dallas, Texas
October 31, 2019

Roman Catholic Diocese of Dallas

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

June 30,

	2019	2018
ASSETS		
Cash and cash equivalents	\$ 40,778,966	\$ 37,461,862
Investments	84,975,960	81,287,088
Pledges and other receivables, net	7,348,725	11,244,321
Prepaid expenses and other assets	335,996	2,369,954
Property and equipment, net	11,994,982	5,853,782
Total assets	\$ 145,434,629	\$ 138,217,007
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and other accrued liabilities	\$ 7,958,227	\$ 8,087,743
Parish deposits	4,070,200	4,581,756
Assets held for others	5,160,222	5,025,667
Deferred obligation for priests' pension plan	488,341	-
Deferred obligation for priests' postretirement benefits	15,259,156	13,546,059
Total liabilities	32,936,146	31,241,225
NET ASSETS		
Without donor restrictions		
Undesignated	4,502,160	4,021,048
Designated operating reserve	3,539,252	3,196,413
Net investment in plant	6,310,106	5,604,180
Designated for special purposes	31,596,854	29,697,136
Total net assets without donor restrictions	45,948,372	42,518,777
With donor restrictions		
Purpose and time restricted	62,437,606	60,353,117
Restricted in perpetuity	4,112,505	4,103,888
Total net assets with donor restrictions	66,550,111	64,457,005
Total net assets	112,498,483	106,975,782
Total liabilities and net assets	\$ 145,434,629	\$ 138,217,007

The accompanying notes are an integral part of these consolidated financial statements.

Roman Catholic Diocese of Dallas

CONSOLIDATED STATEMENT OF ACTIVITIES

Year ended June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains, and other support			
Contributions, grants and bequests	\$ 2,533,897	\$ 22,351,496	\$ 24,885,393
Parish assessments	11,213,415	-	11,213,415
Interest and dividends	1,374,636	936,262	2,310,898
Unrealized and realized gains on investments, net	1,092,059	1,922,609	3,014,668
Casualty and medical insurance premiums earned	29,266,872	-	29,266,872
Reimbursable capital campaign costs	-	600,159	600,159
Other income and fees	1,730,931	518,135	2,249,066
Gains on sale of property and equipment	792,184	-	792,184
Net assets released in satisfaction of:			
Annual Appeal restrictions	10,798,045	(10,798,045)	-
Other program restrictions	13,437,510	(13,437,510)	-
Total revenues, gains, and other support	72,239,549	2,093,106	74,332,655
Expenses			
Program Services:			
Diocesan insurance programs	32,444,789	-	32,444,789
Pastoral ministries and missions	8,544,709	-	8,544,709
Clergy and vocations	12,594,338	-	12,594,338
Catholic schools and education	5,631,893	-	5,631,893
Supporting Activities:			
Fundraising and development	1,539,654	-	1,539,654
Management and general	3,705,768	-	3,705,768
Total expenses	64,461,151	-	64,461,151
Other changes			
Pension and postretirement benefits charges for changes other than net periodic pension and postretirement benefit costs	(4,348,803)	-	(4,348,803)
CHANGE IN NET ASSETS	3,429,595	2,093,106	5,522,701
Net assets, beginning of year	42,518,777	64,457,005	106,975,782
Net assets, end of year	\$ 45,948,372	\$ 66,550,111	\$ 112,498,483

The accompanying notes are an integral part of this consolidated financial statement.

Roman Catholic Diocese of Dallas

CONSOLIDATED STATEMENT OF ACTIVITIES

Year ended June 30, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains, and other support			
Contributions, grants and bequests	\$ 2,231,451	\$ 15,067,707	\$ 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 on investments, net	1,105,300	2,330,225	3,435,525
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
Gains on sale of property and equipment	11,697	-	11,697
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	(95,568)	64,743,290
Expenses			
Program Services:			
Diocesan insurance programs	27,423,816	-	27,423,816
Pastoral ministries and missions	10,388,187	-	10,388,187
Clergy and vocations	8,856,558	-	8,856,558
Catholic schools and education	5,898,016	-	5,898,016
Supporting Activities:			
Fundraising and development	1,741,671	-	1,741,671
Management and general	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	(95,568)	8,415,870
Net assets, beginning of year	34,007,339	64,552,573	98,559,912
Net assets, end of year	\$ 42,518,777	\$ 64,457,005	\$ 106,975,782

The accompanying notes are an integral part of this consolidated financial statement.

Roman Catholic Diocese of Dallas
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Years ended June 30, 2019 and 2018

	Program Services				Supporting Activities			2019 Total Expenses	2018 Total Expenses (Unaudited)	
	Diocesan Insurance Programs	Pastoral Ministries and Missions	Clergy and Vocations	Catholic Schools and Education	Total Program Services	Fundraising and Development	Management & General			Total Supporting Activities
Insurance premiums and claims	\$ 26,483,778	\$ -	\$ -	\$ -	\$ 26,483,778	\$ -	\$ -	\$ -	\$ 26,483,778	\$ 24,658,101
Salaries and benefits	252,314	3,563,660	1,344,896	1,131,391	6,292,261	1,052,942	2,183,062	3,236,004	9,528,265	9,445,552
Office and occupancy	4,456	452,114	206,874	58,495	721,939	240,057	238,625	478,682	1,200,621	1,334,587
Professional services and fees	3,766,244	106,355	161,968	131,157	4,165,724	83,406	445,980	529,386	4,695,110	2,526,176
Tuition and fees	-	-	2,712,743	-	2,712,743	-	-	-	2,712,743	2,521,915
Ministry programs, travel and other expenses	-	1,391,484	491,355	311,070	2,193,909	145,287	96,116	241,403	2,435,312	2,314,626
Grants and donations	-	2,873,568	6,281,663	3,924,156	13,079,387	-	-	-	13,079,387	11,797,126
Clergy retirement programs	-	-	1,380,776	-	1,380,776	-	-	-	1,380,776	1,550,002
Dues and fees	-	32,751	3,670	49,640	86,061	640	487,418	488,058	574,119	419,774
Bad debt	1,934,533	-	-	-	1,934,533	-	168,793	168,793	2,103,326	1,423,000
Depreciation and amortization expense	3,464	124,777	10,393	25,984	164,618	17,322	85,774	103,096	267,714	283,237
Total expenses	\$ 32,444,789	\$ 8,544,709	\$ 12,594,338	\$ 5,631,893	\$ 59,215,729	\$ 1,539,654	\$ 3,705,768	\$ 5,245,422	\$ 64,461,151	\$ 58,274,096

The accompanying notes are an integral part of this consolidated financial statement.

Roman Catholic Diocese of Dallas

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended June 30,

	2019	2018
Cash flows from operating activities:		
Change in net assets	\$ 5,522,701	\$ 8,415,870
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	267,714	283,237
Provision for collection allowances	2,103,326	1,423,000
Unrealized and realized gains on investments, net	(3,014,668)	(3,435,525)
Net gains on sale of property and equipment	(792,184)	(11,697)
Contributions restricted for endowment	(8,617)	(8,105)
Changes in operating assets and liabilities:		
Decrease in pledges and other receivables	1,792,270	1,841,506
Decrease (increase) in prepaid expenses and other assets	2,033,958	(538,777)
(Decrease) increase in accounts payable and other accrued liabilities	(129,516)	1,473,566
Increase in assets held for others	134,555	209,613
Increase (decrease) in priests' benefit plan obligations	2,201,438	(1,969,668)
Net cash provided by operating activities	10,110,977	7,683,020
Cash flows from investing activities:		
Purchases of investments	(8,665,227)	(14,760,103)
Proceeds from sales and maturity of investments	7,991,023	11,985,944
Purchases of property and equipment	(7,608,253)	(363,218)
Proceeds from sales of property and equipment	1,991,523	18,282
Net cash used in investing activities	(6,290,934)	(3,119,095)
Cash flows from financing activities:		
Contributions restricted for endowment	8,617	8,105
Additions to parish deposits	86,246	99,794
Withdrawals from parish deposits	(597,802)	(492,976)
Net cash used in financing activities	(502,939)	(385,077)
NET INCREASE IN CASH AND CASH EQUIVALENTS	3,317,104	4,178,848
Cash and cash equivalents, beginning of year	37,461,862	33,283,014
Cash and cash equivalents, end of year	\$ 40,778,966	\$ 37,461,862
Supplemental information:		
Interest paid	\$ 8,366	\$ 9,617

The accompanying notes are an integral part of this consolidated financial statement.

Roman Catholic Diocese of Dallas

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2019 and 2018

NOTE 1 - ORGANIZATION

The Roman Catholic Diocese of Dallas (the “Diocese”) was declared a Catholic diocese by Pope Leo XIII in 1890. The Diocese oversees an ecclesiastical territory of the Roman Catholic Church which encompasses nine counties in the north central portion of the state of Texas. The Diocese provides consultation and assistance in pastoral, vocational, educational, and other services to its parishes and other Diocesan institutions. The Bishop has ecclesiastical responsibility for 77 parishes, and a number of other institutions, such as elementary schools, high schools, cemeteries, and other charitable organizations. The Bishop of Dallas, by virtue of his office, serves on the board of numerous separately incorporated Catholic organizations that operate within the Diocese. While these organizations are considered to be related organizations of the Diocese, management doesn’t consider them to be under the control of the Diocese and, accordingly, their financial activities are not presented as part of the accompanying consolidated financial statements. 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 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 (US GAAP), and include the assets, liabilities, and related financial activity managed by the Diocese and for the benefit of third parties, as well as the accounts of Catholic Community Appeal, Inc. (the “Appeal”) and Archangels Academy Foundation (the “Foundation”). The Appeal is a nonprofit corporation which manages the Bishop’s Annual Appeal to raise funds for certain ministries of the Diocese. Net Appeal revenues were \$6,709,000 (net of allowance for collection of \$1,040,000) and \$7,360,000 (net of allowance for collection of \$664,000) for the years ended June 30, 2019 and 2018, respectively, and are included in contributions revenue with donor restrictions in the consolidated statements of activities. The Foundation is a nonprofit corporation formed in 2019 for the purpose of building and maintaining educational facilities of the Diocese. Foundation revenues were \$8,000,000 in 2019 and are included in contributions revenue with donor restrictions in the consolidated statements of activities. These revenues were used to purchase land in 2019, which is included in property and equipment in the consolidated statement of financial position. Additionally, 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 Diocese 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 of the captive cell are recorded in cash and cash equivalents and investments, and are included within the Diocese’s consolidated financial statements. Insurance premiums paid to the protected cell during the years ended June 30, 2019 and 2018 were \$650,000 and \$500,000, respectively. All significant intercompany balances and transactions have been eliminated in consolidation.

Roman Catholic Diocese of Dallas

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2019 and 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Recent Accounting Pronouncements

Beginning in the fiscal year ended June 30, 2019 the Diocese implemented Financial Accounting Standards Board (the "FASB") Accounting Standards Update ("ASU") 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. The new pronouncement amends certain financial reporting requirements for not-for-profit entities, including revisions to the classification of net asset and expanded disclosure requirements concerning expenses and liquidity. In addition to the changes in terminology used to describe categories of net assets throughout the consolidated financial statements, new disclosures were added regarding liquidity and the availability of resources (Note 13), a statement of functional expenses, and disclosures related to the functional allocation of expenses were expanded (Note 2).

In May 2015, the FASB issued ASU 2015-07, "Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)." Under this standard, investments for which fair value is measured at Net Asset Value (NAV) per share (or its equivalent using the practical expedient) are removed from the fair value hierarchy. The requirements of this update are reflected in Note 3 with 2018 amounts reclassified to conform to the current year presentation.

The FASB released multiple ASUs beginning in 2014 through 2017 impacting the new revenue recognition standard, ASC 606. The new guidance sets forth a new five step revenue recognition model which replaces most of the prior revenue recognition guidance and is intended to eliminate numerous industry-specific revenue recognition guidance that has historically existed under U.S. GAAP. The underlying principle of the new amendment is that a business or other organization will recognize revenue when it transfers promised goods or services to customers in an amount that reflects what it ultimately expects to receive in exchange for the goods or services. The new standard also requires more detailed disclosures and provides additional guidance for transactions that were not addressed completely in the prior accounting guidance. The new standard is effective for annual periods beginning after December 15, 2018. The Diocese is currently evaluating the impact this standard will have on the consolidated financial statements and results of operations.

In June 21, 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This standard is intended to clarify whether a contract or agreement should be accounted for as a contribution or as an exchange transaction. It also provides a framework for determining whether a contribution is conditional or unconditional which will impact the timing of revenue recognition. The new standard is effective for annual periods beginning after December 15, 2018. The Diocese is currently evaluating the impact this standard will have on the consolidated financial statements and results of operations.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. This new standard introduces a new lease model that requires the recognition of lease assets and lease liabilities on the statement of financial position and the related disclosure of key information about leasing arrangements. The ASU will be effective for annual periods beginning after December 15, 2019. The Diocese is currently evaluating the impact that this standard will have on the consolidated financial statements and results of operations beginning in fiscal year 2021.

Roman Catholic Diocese of Dallas

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2019 and 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Display of Net Assets by Class

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

Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets without Donor Restrictions – represent amounts free from donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Diocese. Certain amounts may be designated for reserves, investment in plant, or special purposes.

Net Assets with Donor Restrictions – these amounts are subject to donor-imposed restrictions which either expire with the passage of time, will be fulfilled for the intended purpose pursuant to those provisions, or are perpetual in nature.

The consolidated financial statements for June 30, 2018 have been modified to reflect the net asset classifications required by ASU 2016-14. Net assets classified previously as unrestricted are now reported as net assets without donor restrictions and temporarily and permanently restricted net assets are now reported as net assets with donor restrictions.

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. The consolidated statement of functional expenses presents expenses by function and natural classification. 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, including unconditional promises to give (pledges), are recognized as revenues when the donor's commitment is received, net of allowance for uncollectible accounts and a discount. Promises to give that are scheduled to be received in future periods are recognized as increases in net assets with donor restrictions and are reclassified to net assets without donor restrictions 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 net assets with donor restrictions.

Unconditional bequests are considered to be unconditional promises receivable and are recognized as revenue after they clear probate. Unconditional bequests that are not in probate are considered to be intentions to give and are not recognized in the consolidated financial statements.

Roman Catholic Diocese of Dallas

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2019 and 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Revenue Recognition - continued

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 subject to donor-imposed stipulations that the corpus be maintained in perpetuity are reported as increases in net assets with donor restrictions since the terms of these gifts impose restrictions on the income and net gains.

Parish assessments paid by the parishes are billed by the Diocese and are recognized as revenue when 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.

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

Investments

Investments in marketable securities are reported at fair value in the consolidated statements of financial position. Purchases and sales of securities are recorded on the trade date, and unrealized and realized gains and losses are included in the consolidated statements of activities. U.S. GAAP also provides guidance for estimating the fair value of investments in funds that calculate net asset value ("NAV"). The NAV is determined by the fund manager based on their best estimates using fair value estimation techniques, substantiated, in part, by their audited financial statements and supported by due diligence of management.

Receivables

Pledges (the Appeal and capital campaign) and other receivables are stated net realizable value, net of the allowance for uncollectible accounts, which is determined by management based on historical collection experience and ongoing analyses of each debtor's financial condition. Pledges and other receivables that are deemed to be uncollectible are charged to the allowance.

Roman Catholic Diocese of Dallas

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2019 and 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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 Diocese primarily by parishes, churches, missions, chapels, and other related entities within the Diocese. Withdrawals are subject to certain restrictions determined by the Diocese.

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 Diocese records these related trust assets in 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 Diocese, 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 Diocese 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 Diocese 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 Diocese did not have any uncertain tax positions as of June 30, 2019 and 2018.

The Diocese 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, 2019, the Diocese's tax years 2015 to 2019 remain subject to examination.

Roman Catholic Diocese of Dallas

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2019 and 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Use of Estimates

The preparation of the consolidated financial statements in conformity with US GAAP 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.

Reclassifications

Certain financial statement and footnote information from the prior year financial statements has been reclassified to conform with the current year presentation. In conjunction with the implementation of ASU 2016-14 (referenced above), presentation of expenses on the face of the consolidated statement of activities have been reclassified. During 2019 management identified an immaterial error in Appeal restrictions that was corrected in the 2019 financial statements. Refer to Note 11 for additional information.

NOTE 3 - FAIR VALUE OF INVESTMENTS

Investments, primarily in mutual funds, are carried at fair value and are based on quoted market prices in active markets. For these securities, fair value measurements are obtained from an independent pricing service. Fair values of alternative investments are based on net asset value as a practical expedient in estimating 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.

Level 3 inputs: Prices or valuations that require inputs that are both significant to the fair measurement and unobservable. Fair value for these investments is 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.

Roman Catholic Diocese of Dallas

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2019 and 2018

NOTE 3 - FAIR VALUE OF INVESTMENTS - Continued

The schedule below classifies certain of the Diocese's assets carried at fair value based upon the three-tier hierarchy required by ASC 820 and the Net Asset Value (NAV) permitted under FASB ASU 2015-07 as of June 30, 2019:

	Fair Value Measurements at June 30, 2019 Using				
	Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments Valued At NAV	Total Fair Value
Mutual funds:					
Fixed income	\$ 17,260,366	\$ -	\$ -	\$ -	\$ 17,260,366
International	11,655,826	-	-	-	11,655,826
Large Cap	2,560,778	-	-	6,469,187	9,029,965
Small Cap	1,907,062	-	-	-	1,907,062
Pooled Investments	-	-	-	27,181,564	27,181,564
Alternative investments:					
Absolute return	-	-	-	9,966,684	9,966,684
Fixed income	-	-	-	1,572,460	1,572,460
Long/short equity	-	-	-	6,383,585	6,383,585
Private equity	-	-	-	18,448	18,448
Total investments	<u>\$ 33,384,032</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 51,591,928</u>	<u>\$ 84,975,960</u>

The schedule below classifies certain of the Diocese's assets carried at fair value based upon the three-tier hierarchy required by ASC 820 and the Net Asset Value (NAV) permitted under FASB ASU 2015-07 as of June 30, 2018. The schedule has been updated to conform to the current year's presentation:

	Fair Value Measurements at June 30, 2018 Using				
	Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments Valued At NAV	Total Fair Value
Mutual funds:					
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	2,752,527	-	-	4,762,110	7,514,637
Small Cap	1,833,704	-	-	-	1,833,704
Pooled Investments	-	-	-	26,043,948	26,043,948
Alternative investments:					
Absolute return	-	-	-	13,547,762	13,547,762
Fixed income	-	-	-	1,501,062	1,501,062
Long/short equity	-	-	-	3,989,701	3,989,701
Total investments	<u>\$ 31,442,505</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 49,844,583</u>	<u>\$ 81,287,088</u>

Roman Catholic Diocese of Dallas

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2019 and 2018

NOTE 3 - FAIR VALUE OF INVESTMENTS - Continued

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, 2019:

	<u>Fair Value</u>	<u>Unfunded Commitment</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Pooled investments	\$ 27,181,564	\$ -	Daily	1 day
Large Cap	6,469,187	-	Daily	1 day
Alternative investments:				
Absolute return	9,966,684	-	90 to 365 days	45 to 100 days
Fixed income	1,572,460	-	30 days	45 days
Long/short equity	6,383,585	-	30 to 365 days	45 to 90 days
Private equity	<u>18,448</u>	<u>2,481,552</u>	N/A	N/A
Total	<u>\$ 51,591,928</u>	<u>\$ 2,481,552</u>		

NOTE 4 - PLEDGES AND OTHER RECEIVABLES

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

	<u>2019</u>	<u>2018</u>
Annual Appeal pledges due within one year	\$ 2,743,260	\$ 2,383,653
Capital campaign pledges receivable	<u>5,370,980</u>	<u>6,666,853</u>
Total pledges receivable	8,114,240	9,050,506
Parish assessments and accounts receivable	1,258,162	3,613,476
Casualty and medical insurance premiums receivable from parishes and other related organizations	7,540,314	5,994,573
Miscellaneous accounts	<u>311,074</u>	<u>72,004</u>
Total other receivable	9,109,550	9,680,053
Less present value discount	(183,065)	(201,911)
Less allowance for collection	<u>(9,692,000)</u>	<u>(7,284,327)</u>
Pledges and other receivables, net	<u>\$ 7,348,725</u>	<u>\$ 11,244,321</u>

Roman Catholic Diocese of Dallas

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2019 and 2018

NOTE 4 - PLEDGES AND OTHER RECEIVABLES - Continued

Future collections of pledges receivable are as follows at June 30, 2019:

Less than one year	\$	5,629,828
One to five years		2,484,412
	\$	8,114,240

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 at the time of pledge which was 2.5%. No significant new pledges were received in fiscal years 2019 and 2018.

Pledges and other receivables are stated net of allowance for doubtful accounts of \$9,692,000 and \$7,284,327 as of June 30, 2019 and 2018, respectively. An allowance is recorded for all amounts past due from parishes, schools, and other related organizations for casualty and medical insurance. Bad debt expense related to the capital campaign was \$676,455 and \$957,220 for the years ended June 30, 2019 and 2018, respectively, and is netted against contributions revenue with donor restrictions. The allowance for collection of pledges receivable 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:

	2019	2018
Land	\$ 8,546,193	\$ 1,611,073
Land held for future use or disposition	98,970	138,705
Buildings and improvements	6,931,525	7,851,795
Equipment	404,701	443,594
	15,981,389	10,045,167
Less accumulated depreciation and amortization	(3,986,407)	(4,191,385)
	\$ 11,994,982	\$ 5,853,782

Depreciation and amortization expense was \$267,714 and \$283,237 for the years ended June 30, 2019 and 2018, respectively.

Roman Catholic Diocese of Dallas

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2019 and 2018

NOTE 6 - ACCOUNTS PAYABLE AND OTHER ACCRUED LIABILITIES

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

	2019	2018
Self-insurance claims incurred but not reported	\$ 2,835,000	\$ 2,346,000
Unearned casualty insurance premiums	733,399	1,140,464
Accounts payable	3,286,833	3,162,948
Accrued legal fees	243,967	213,654
Special collections payable	395,790	440,868
Miscellaneous accounts	463,238	783,809
	\$ 7,958,227	\$ 8,087,743

NOTE 7 - SELF-INSURANCE PROGRAMS

The Diocese provides casualty and group health insurance for the Diocese, parishes, diocesan schools, and other related organizations (“Participants”) under partially self-insured programs, with third-party administrators processing claims. The Diocese 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 Diocese 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 accounts payable and other accrued liabilities in the accompanying consolidated statements of financial position at June 30 are:

	2019	2018
Medical and dental	\$ 1,185,000	\$ 1,072,000
Casualty	1,650,000	1,274,000
	\$ 2,835,000	\$ 2,346,000

Roman Catholic Diocese of Dallas

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2019 and 2018

NOTE 7 - SELF-INSURANCE PROGRAMS - Continued

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

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 consolidated 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:

	2019	2018
Benefit obligation	\$ 15,259,156	\$ 13,546,059
Less fair value of assets	-	-
Unfunded status	<u>\$ 15,259,156</u>	<u>\$ 13,546,059</u>

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

	2019	2018
Accrued benefit obligation	<u>\$ 15,259,156</u>	<u>\$ 13,546,059</u>

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

	2019	2018
Unrecognized actuarial losses	<u>\$ 4,249,968</u>	<u>\$ 3,574,096</u>

Roman Catholic Diocese of Dallas

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2019 and 2018

NOTE 8 - PRIESTS' POSTRETIREMENT BENEFITS - Continued

Amounts recognized as expense in the consolidated statements of activities for the years ended June 30:

	2019	2018
Net periodic benefit cost	<u>\$ 1,306,933</u>	<u>\$ 1,395,858</u>
Other information:		
Employer contribution	269,708	400,445
Benefits paid	269,708	400,445
Weighted average assumptions as of June 30:		
Discount rate for benefit obligations	3.57%	4.21%
Discount rate for net periodic benefit cost	4.21%	3.93%
Expected contributions for the next year ending June 30:		
Expected employer contributions	<u>\$ 495,596</u>	<u>\$ 416,634</u>

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

Year ending June 30,	Amount
2020	\$ 495,596
2021	519,967
2022	568,043
2023	606,018
2024	619,505
2025 and thereafter	\$ 3,685,887

The assumed health care cost trends were graded from 5.80% in 2019 to 4.10% in 2072 for medical and prescription drugs.

As of June 30, 2019, \$200,151 of the net actuarial loss will, through amortization, be recognized as a component of periodic benefit cost in 2020.

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, 2019, the Diocese has \$12,081,853 of internally designated funds and \$535,960 of donor-restricted funds. These amounts consist of investments in mutual funds and alternative investments and are available to fund the postretirement health care obligations.

Roman Catholic Diocese of Dallas

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2019 and 2018

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 2019 and 2018, the monthly benefit amount is \$50 multiplied by the number of years of credited service, subject to plan provisions. Beginning July 1, 2019, the monthly benefit increased to \$60 multiplied by the number of years of credited service.

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. 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 consolidated 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:

	2019	2018
Benefit obligation	\$ (17,035,728)	\$ (13,273,511)
Fair value of total plan assets	16,547,387	13,857,544
Net pension (liability) asset	\$ (488,341)	\$ 584,033

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

	2019	2018
Unrecognized actuarial losses	\$ 5,967,677	\$ 4,674,406
Unrecognized transition obligation	6,325	143,856
Unrecognized prior service cost	\$ 3,269,924	\$ 752,733

Roman Catholic Diocese of Dallas

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2019 and 2018

NOTE 9 - PRIESTS' PENSION PLAN - Continued

Components of pension changes for the years ended June 30:

	2019	2018
Benefit cost expensed	\$ 274,626	\$ 509,294
Employer contribution to the plan	2,875,183	2,111,732
Benefits paid to retirees	\$ 645,661	\$ 675,815

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

	2019	2018
Discount rate-net periodic pension cost	4.16%	3.84%
Expected return on plan assets	7.00%	7.00%

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

	2019	2018
Discount rate-benefit obligations	3.52%	4.16%
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, 2019, \$267,510 of the net actuarial loss, \$6,325 of the transition obligation, and \$295,651 of the prior service cost will, through amortization, be recognized as components of periodic benefit cost in 2020.

Roman Catholic Diocese of Dallas

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2019 and 2018

NOTE 9 - PRIESTS' PENSION PLAN - Continued

The Priest Plan assets are invested in mutual funds and alternative investments and the target range and actual asset allocation is as follows:

	2019	Actual Percent of	
	Target Range of Plan Assets	Plan Assets at 2019	2018
Plan assets			
Domestic equity securities	15 – 25%	22%	20%
Fixed income securities	0 – 15%	8%	8%
International equity securities	15 – 25%	22%	19%
Long/short equity securities	0 – 20%	15%	13%
Emerging markets securities	5 – 15%	9%	7%
Absolute return securities	10 – 25%	21%	23%
Cash and equivalents	0 – 10%	3%	10%
Total		<u>100%</u>	<u>100%</u>

Determination of Expected Long-term Rate of Return

The expected long-term rate of return for the Priest 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.

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.

The fair value of the Priest Plan investments and other assets at June 30 by level is as follows:

	2019	2018
Level 1 – Quoted Prices in Active Markets for Identical Assets	\$ 8,392,051	\$ 5,292,581
Investments Valued at Net Asset Value	5,580,358	6,421,926
Other short-term investments	<u>2,574,978</u>	<u>2,143,037</u>
Fair value of total plan assets	<u>\$ 16,547,387</u>	<u>\$ 13,857,544</u>

Roman Catholic Diocese of Dallas

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2019 and 2018

NOTE 9 - PRIESTS' PENSION PLAN - Continued

Cash Flows

Expected contributions for the year ending June 30, 2020 are \$2,000,000.

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

<u>Year ending June 30,</u>	<u>Amount</u>
2020	\$ 1,028,017
2021	1,025,277
2022	1,005,046
2023	1,037,164
2024	1,011,369
2025 - 2029	6,174,855

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 Diocese contributes a required amount equal to 3% of employee compensation and makes an elective additional matching contribution of up to 4% of compensation. The Diocese's total contributions for Diocese employees in 2019 and 2018 were \$387,000 and \$344,000, respectively.

Roman Catholic Diocese of Dallas

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2019 and 2018

NOTE 11 - NET ASSETS

Net assets without donor restrictions consist of the following at June 30:

	2019	2018
Undesignated operating surplus	\$ 4,502,160	\$ 4,021,048
Designated operating reserve	3,539,252	3,196,413
Net investment in plant	6,310,106	5,604,180
Designated for special purposes as follows:		
Parish deposits	231,904	107,138
Casualty self-insurance program	8,112,308	11,004,028
Deficit for priests' pension and postretirement benefits	(3,214,434)	(545,306)
Medical and dental self-insurance program	21,258,189	19,392,992
Deficit for Bishop Dunne renovation project	-	(2,294,385)
Various Diocesan programs	5,208,887	2,032,669
Total designated for special purposes	31,596,854	29,697,136
	\$ 45,948,372	\$ 42,518,777

Net assets with donor restrictions consist of the following at June 30:

	2019	2018
Gifts and related revenues available for		
Purpose and time restrictions:		
Financial aid for schools	\$ 31,360,503	\$ 30,711,388
Educational facilities	8,001,573	-
Annual appeal	1,808,365	5,971,051
Capital campaign	14,790,504	17,075,909
Seminarian education	4,038,047	4,074,465
Various other Diocesan programs or activities	2,438,614	2,520,304
Total purpose and time restrictions	62,437,606	60,353,117
Restricted in perpetuity		
Seminary Burse Endowment	3,112,505	3,103,888
Santa Clara School Endowment	1,000,000	1,000,000
Total restricted in perpetuity	4,112,505	4,103,888
	\$ 66,550,111	\$ 64,457,005

Roman Catholic Diocese of Dallas

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2019 and 2018

NOTE 11 - NET ASSETS - Continued

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:

	2019	2018
Annual appeal restrictions*	\$ 10,798,045	\$ 7,400,000
Catholic schools and education	4,757,144	3,548,239
Grants for parishes	1,088,232	4,440,676
Pastoral ministries and missions	823,497	383,370
Clergy and vocations	6,106,968	2,837,097
Other	661,669	764,016
 Total net assets released from restrictions	 \$ 24,235,555	 \$ 19,373,398

* During 2019, management identified an immaterial error in the Annual appeal released from net assets with donor restrictions for years ending June 30, 2017 and prior. The amount in the 2019 table above reflects the proper release of annual appeal restrictions.

NOTE 12 - ENDOWMENTS

The Diocese 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 Diocese have both adopted UPMIFA. As a result of this interpretation, the Diocese classifies as net assets with donor restrictions (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 as permanent endowment is classified as net assets with restriction for purpose restrictions 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 Diocese 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 Diocese

Roman Catholic Diocese of Dallas

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2019 and 2018

NOTE 12 - ENDOWMENTS - Continued

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

A reconciliation of the endowment net assets beginning and ending balances for the years ended June 30, 2019 and 2018 is as follows:

	2019 With Donor Restrictions	2018 With Donor Restrictions
Beginning of year	\$ 8,233,111	\$ 8,157,284
Interest and dividends	117,975	86,282
Realized and unrealized gains	260,596	402,040
Total investment return	378,571	488,322
Contributions	8,617	8,105
Appropriation of endowment assets for expenditure	(422,461)	(420,600)
End of year	\$ 8,197,838	\$ 8,233,111

Return Objectives and Risk Parameters

The Diocese 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 Diocese 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 Diocese targets a diversified asset allocation strategy to achieve its long-term return objectives within the guidelines of its investment policy.

Roman Catholic Diocese of Dallas

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2019 and 2018

NOTE 13 - FINANCIAL ASSETS AND LIQUIDITY RESOURCES

As part of the Diocese's liquidity management, it structures financial assets to be available as its operating expenditures, liabilities, and other obligations come due.

The following reflects the Diocese's financial assets as of June 30, 2019, reduced by amounts not available for general use within one year because of designated, contractual or donor-imposed restrictions, or internal special designation of funds. Amounts not available include amounts set aside for investing in the operating and capital reserves that could be drawn upon if the Bishop approves that action.

	2019
Cash and cash equivalents	\$ 40,778,966
Investments	84,975,960
Pledges and other receivables, net	7,348,725
Total financial assets available	\$ 133,103,651
Less amounts unavailable for general expenditure within one year due to:	
Receivables scheduled to be collected in more than one year or restricted for specific purposes	\$ (6,703,551)
Designated, contractual or donor-imposed restrictions:	
Cash and cash equivalents designated for special purposes	(22,761,321)
Cash and cash equivalents with time or purpose restrictions by donor	(12,380,842)
Investments designated for special purposes	(34,129,305)
Investments with time or purpose restrictions by donor	(42,132,933)
Investments held in charitable trust for others	(5,160,222)
	(116,564,623)
Other designations:	
Cash and cash equivalents for operating reserves	(3,539,252)
Cash and cash equivalents for investment in plant	(1,725,574)
	(5,264,826)
Financial assets available to meet cash needs for general expenditures within one year	\$ 4,570,651

Roman Catholic Diocese of Dallas

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2019 and 2018

NOTE 14 - TRANSACTIONS WITH PARISHES AND OTHER RELATED ORGANIZATIONS

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

	2019	2018
Casualty and medical insurance premiums billed to parishes and other related organizations	\$ 29,266,872	\$ 28,435,064
Parish assessments	11,213,415	11,402,367

Parish contributions originate in and are received by the parishes, and thus, are recorded on the basis of accounting determined by the parishes. The Diocese calculates the assessment due 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 Diocese are recorded based solely on such parish accounting.

NOTE 15 - COMMITMENTS AND CONTINGENCIES

The Diocese entered into a contractual agreement with a contractor and architects for a construction project on behalf of The Cathedral Shrine of the Virgin of Guadalupe Parish (\$7.1 million) for exterior renovations. The Diocese paid approximately \$1,015,000 and \$2,709,000 for the years ended June 30, 2019 and 2018, respectively, and has a remaining commitment of \$359,000 at June 30, 2019.

The Diocese has guaranteed two parish notes payable to unrelated financial entities. The balance of these notes at June 30, 2019 and 2018 is \$5,619,014 and \$5,983,143, respectively. Should the parishes fail to meet their obligation to repay the notes, the Diocese would be responsible for repayment. The Diocese has not included these balances as liabilities in the accompanying consolidated financial statements based on the assessment that it is not likely the Diocese will be obligated under these arrangements.

At June 30, 2019 and 2018, the Diocese 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 Diocese is a party to certain investigations, legal proceedings and has unresolved lawsuits and claims pending. Although it is impossible to predict with certainty the outcome, management of the Diocese is not aware of any current lawsuits that either are not already reflected in the accompanying consolidated financial statements or may not be covered by insurance, which would have a material adverse effect on the financial position or operations of the Diocese. Additional information as to claims that have not resulted in litigation may be asserted in the future; however, sufficient information is not currently available to predict the potential outcome or financial impact.

Roman Catholic Diocese of Dallas

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2019 and 2018

NOTE 16 - 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, 2019, and through the date on which the consolidated financial statements were available for issuance, October 31, 2019.