# Catholic Diocese of Fort Worth Advancement Foundation

Independent Auditor's Report and Financial Statements

June 30, 2019

# Catholic Diocese of Fort Worth
# Advancement Foundation
### June 30, 2019

## Contents

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# Independent Auditor's Report

Board of Directors
Catholic Diocese of Fort Worth Advancement Foundation
Fort Worth, Texas

We have audited the accompanying financial statements of the Catholic Diocese of Fort Worth Advancement Foundation (the "Foundation"), which comprise the statement of financial position as of June 30, 2019, and the related 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 financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 financial statements.

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

***Opinion***

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

***Emphasis of Matter***

As described in *Note 2* to the financial statements, in 2019, the Foundation adopted Accounting Standards Update 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities.* Our opinion is not modified with respect to this matter.

BKD, LLP

Fort Worth, Texas
February 27, 2020

# Catholic Diocese of Fort Worth Advancement Foundation

## Statement of Financial Position

## June 30, 2019

| | |
|---|---|
| **Assets** | |
| Cash | $ 12,919,219 |
| Accounts receivable - parishes and affiliates | 153,421 |
| Prepaid expenses | 35,429 |
| Contributions receivable, less allowance for doubtful accounts and unamortized discount of $1,374,112 | 4,966,224 |
| Investments | |
| Marketable securities | 57,318,244 |
| Mineral interest | 1,363,398 |
| Land and buildings | 39,669 |
| Investments restricted for endowment | 16,100,715 |
| Total assets | $ 92,896,319 |
| **Liabilities and Net Assets** | |
| **Liabilities** | |
| Accounts payable | $ 291,985 |
| Due to affiliate | 15,973 |
| Accrued expenses | 68,970 |
| Funds held for others | 29,324,502 |
| Annuity obligations | 321,172 |
| Contributions payable - parishes and affiliates, net | 15,940,738 |
| Total liabilities | 45,963,340 |
| **Net Assets** | |
| Without donor restrictions | 3,548,864 |
| With donor restrictions | 43,384,115 |
| Total net assets | 46,932,979 |
| Total liabilities and net assets | $ 92,896,319 |

# Catholic Diocese of Fort Worth Advancement Foundation

## Statement of Activities

## Year Ended June 30, 2019

| | Without Donor Restriction | With Donor Restriction | Total |
|---|---|---|---|
| **Revenue and Other Support** | | | |
| Contributions | $ 85,971 | $ 4,225,871 | $ 4,311,842 |
| Investment income, net of fees | 810,785 | 1,185,252 | 1,996,037 |
| Royalty income | - | 222,245 | 222,245 |
| Fees and related charges, net | 242,356 | - | 242,356 |
| Other | 43,922 | 10,571 | 54,493 |
| Net assets released from restrictions | 5,491,810 | (5,491,810) | - |
| Total revenue and other support | 6,674,844 | 152,129 | 6,826,973 |
| **Expenses** | | | |
| Program services | | | |
| Support to parishes and schools | 5,196,593 | - | 5,196,593 |
| Support services | | | |
| General and administrative | 874,377 | - | 874,377 |
| Fundraising | 490,530 | - | 490,530 |
| Total expenses | 6,561,500 | - | 6,561,500 |
| **Change in Net Assets** | 113,344 | 152,129 | 265,473 |
| **Net Assets, Beginning of Year, as Previously Reported** | 3,053,615 | 43,613,891 | 46,667,506 |
| Revision applicable to prior years (*Note 12*) | 381,905 | (381,905) | - |
| **Net Assets, Beginning of Year, as Revised** | 3,435,520 | 43,231,986 | 46,667,506 |
| **Net Assets, End of Year** | $ 3,548,864 | $ 43,384,115 | $ 46,932,979 |

# Catholic Diocese of Fort Worth Advancement Foundation

## Statement of Functional Expenses

## Year Ended June 30, 2019

| | Program Services | Supporting Services | | | |
|---|---|---|---|---|---|
| | Support to Parishes and Schools | General and Administrative | Fundraising | Total Supporting Services | Total |
| Services and professional fees | $ - | $ 567,754 | $ 327,224 | $ 894,978 | $ 894,978 |
| Other program services | - | 6,416 | 42,417 | 48,833 | 48,833 |
| Systems and software | - | 30,665 | - | 30,665 | 30,665 |
| Staff development and recognition | - | 3,370 | 2,679 | 6,049 | 6,049 |
| Rent and utilities | - | 2,072 | 9 | 2,081 | 2,081 |
| Membership, dues and subscriptions | - | 3,192 | - | 3,192 | 3,192 |
| Meetings and seminars | - | 6,995 | 3,575 | 10,570 | 10,570 |
| Program materials | - | 9,664 | 10,136 | 19,800 | 19,800 |
| Travel | - | 3,961 | 2,098 | 6,059 | 6,059 |
| Postage | - | 28,267 | 12,015 | 40,282 | 40,282 |
| Printing and copying | - | 13,436 | 63,180 | 76,616 | 76,616 |
| Supplies | - | 4,517 | 1,195 | 5,712 | 5,712 |
| Licenses and fees | - | 12,000 | - | 12,000 | 12,000 |
| Advertising and promotion | - | 63 | 20 | 83 | 83 |
| Annuity underwriting expense | - | 177,731 | - | 177,731 | 177,731 |
| Grants | 5,196,593 | - | - | - | 5,196,593 |
| Financial services | - | 4,274 | 25,982 | 30,256 | 30,256 |
| **Total Expenses** | $ 5,196,593 | $ 874,377 | $ 490,530 | $ 1,364,907 | $ 6,561,500 |

# Catholic Diocese of Fort Worth Advancement Foundation

## Statement of Cash Flows

## Year Ended June 30, 2019

| | |
|---|---|
| **Operating Activities** | |
| Change in net assets | $ 265,473 |
| Items not requiring (providing) operating activities cash flows: | |
| Net realized and unrealized gain on investments | (1,311,661) |
| Investment expense of annuity obligations | 177,731 |
| Contribution recognized from annuity obligations | (4,750) |
| Contributions restricted for endowment | (133,927) |
| Change in operating assets and liabilities: | |
| Accounts receivable - parishes and affiliates | (39,013) |
| Prepaid expenses | 21,973 |
| Contributions receivable | 247,238 |
| Accounts payable | (26,091) |
| Due to affiliates | (55,902) |
| Accrued expenses | (124,424) |
| Funds held for others | 1,179,743 |
| Contributions payable - parishes and affiliates | (1,106,383) |
| Net cash used in operating activities | (909,993) |
| **Investing Activities** | |
| Proceeds from sale of investments | 34,603,900 |
| Purchase of investments | (35,045,931) |
| Net cash used in investing activities | (442,031) |
| **Financing Activities** | |
| Cash received for contributions restricted for endowment | 133,927 |
| Payment of annuity obligations | (65,357) |
| Net cash provided by financing activities | 68,570 |
| **Net Change in Cash** | (1,283,454) |
| **Cash, Beginning of Year** | 14,202,673 |
| **Cash, End of Year** | $ 12,919,219 |

## Note 1: Nature of Activities and Summary of Significant Accounting Policies

### *Nature of Operations*

The Catholic Diocese of Fort Worth - Advancement Corporation (the "Corporation") was formed in July 2009 as a tax-exempt organization. It is charged with receiving, managing, and distributing contributions intended to benefit the supported activities of the Catholic Diocese of Fort Worth (the "Diocese").

Effective September 27, 2013, the Corporation changed its name to the Catholic Diocese of Fort Worth Advancement Foundation (the "Foundation"). All assets from the Catholic Foundation of North Texas, the Catholic Schools Trust, the Catholic Cemeteries Trust, and the St. Joseph's Health Care Trust were transferred to the Foundation subject to all restrictions placed on the assets by the original donors. The Foundation is authorized to receive, accept, own, and manage the assets delivered to the Foundation on behalf of the various beneficiaries. Investments were transferred to the Foundation as of November 1, 2013.

### *Description of Programs*

The main purpose of the Foundation is to manage fundraising activities, endowment gifts, and trusts on behalf of the Diocese, including the collection and disbursement of contributions that support the various ministries of the Diocese. The Foundation receives contributions restricted to benefit individual parishes, schools, and other ministries. Capital and operating grants are provided to the parishes, schools, and other ministries to satisfy the donor restrictions.

The Catholic Schools Trust (the "Schools Trust") was established by the Diocese to receive, manage, invest, and distribute properties, assets, and monies given to the Diocese for the use and benefit of the schools that are a part of the Diocese and for religious and educational purposes in the Diocese.

The Catholic Cemeteries Trust (the "Cemeteries Trust") was established by the Diocese to receive, manage, invest, and distribute properties, assets, and monies given to the Diocese for the use and benefit of cemeteries, which are a part of the Diocese.

The St. Joseph's Health Care Trust (the "Health Trust") was established to receive, manage, invest and distribute properties, assets, and monies given to the Diocese for the use and benefit of health care programs in the Diocese.

### *Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

### *Cash and Cash Equivalents*

The Foundation considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2019, the Foundation did not have any assets that met this definition.

The Foundation had deposits of approximately $12,700,000 in excess of federally insured limits at June 30, 2019.

### *Accounts Receivable*

Accounts receivable are due almost exclusively from affiliates of the Foundation. Management periodically evaluates receivables for collectability and only records a reserve if ultimate collection appears doubtful. Based upon a review of outstanding receivables and collection history, management does not consider an allowance for doubtful accounts necessary at June 30, 2019.

### *Contributions Receivable*

Contributions receivable are due from individual donors which are generally affiliated with parishes of the Diocese. Management periodically evaluates contributions receivable and records an allowance for uncollectible contributions based on historical collection rates on similar campaigns of the Diocese and other information known to management that may affect collectability. Account write-offs are posted against the allowance for doubtful accounts, and an expense is recorded only when write-offs exceed the balance of the allowance.

Unconditional gifts expected to be collected within one year are reported at their net realizable value. Unconditional gifts expected to be collected in future years are initially reported at fair value determined using the discounted present value of estimated future cash flows technique. The resulting discount is amortized using the level-yield method and is reported as contribution revenue.

### *Investments and Net Investment Return*

Investments in marketable securities having a readily determinable fair value and in all debt securities, are carried at fair value. Investments in mineral interests are recorded at estimated market values, based on projected future cash flows.

Investment returns include dividend, interest and other investment income and realized and unrealized gains and losses on investments carried at fair value, less external investment expenses.

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year, is recorded as net assets with donor restrictions and then released from restriction. Other investment return is reflected in the statement of activities, with or without donor restrictions, based upon the existence and nature of any donor or legally imposed restrictions.

The Foundation maintains pooled investment accounts for its Diocesan entities and endowment. Investment income and realized and unrealized gains and losses from securities in the pooled investment accounts are allocated quarterly to the individual accounts based on the relationship of the fair value of the interest of each account to the total fair value of the pooled investments accounts, as adjusted for additions to or deductions from those accounts.

### *Revenue Recognition*

Contributions are recorded as received or unconditionally pledged. Other revenues are recorded as earned.

### *Contributions Payable – Parishes and Affiliates*

The Foundation receives funds on behalf of local parishes and schools that have collected contributions for capital projects. These amounts are held until paid to the affiliates for capital acquisitions. In addition, as part of the All Things Possible campaign, the Foundation collected certain contributions on behalf of local parishes and schools that participated in the campaign. These payments are due within six months after completion of the parish's campaign.

### *Long-lived Asset Impairment*

The Foundation evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds it fair value. No asset impairment was recognized during the year ended June 30, 2019.

### *Annuity Obligations*

Annuity obligations are based on the present value of the future annuity obligations.

### *Net Assets*

Net assets, revenues, gains and losses are classified based on the existence or absence of donor restrictions.

Net assets without donor restrictions are available for use in general operations and not subject to donor restrictions.

Net assets with donor restrictions are subject to donor restrictions. Some restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

### *Contributions*

Contributions are provided to the Foundation either with or without restrictions placed on the gift by the donor. Revenues and net assets are separately reported to reflect the nature of those gifts – with or without donor restrictions.

| Nature of the Gift | Value Recognized |
|---|---|
| *Conditional gifts, with or without restriction* | |
| Gifts that depend on the Foundation overcoming a donor-imposed barrier to be entitled to the funds | Not recognized until the gift becomes unconditional, *i.e.* the donor-imposed barrier is met |
| *Unconditional gifts, with or without restriction* | |
| Received at date of gift – cash and other assets | Fair value |
| Received at date of gift – property, equipment and long-lived assets | Estimated fair value |
| Expected to be collected within one year | Net realizable value |
| Collected in future years | Initially reported at fair value determined using the discounted present value of estimated future cash flows technique |

In addition to the amount initially recognized, revenue for unconditional gifts to be collected in future years is also recognized each year as the present-value discount is amortized using the level-yield method.

When a donor stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Absent explicit donor stipulations for the period of time that long-lived assets must be held, expirations of restrictions for gifts of land, buildings, equipment and other long-lived assets are reported when those assets are placed in service.

Gifts and investment income that are originally restricted by the donor and for which the restriction is met in the same time period the gift is received are recorded as revenue with donor restrictions and then released from restriction.

### *Contributed Services*

Contributions of services are recognized as revenue at their estimated fair value only when the services received create or enhance nonfinancial assets or require specialized skills possessed by the individuals providing the service and the service would typically need to be purchased if not donated. Contributions of services also include services received from personnel of an affiliate. No amounts have been reflected in the statement of activities for donated services because this criteria has not been met; however, a substantial number of volunteers have donated significant amounts of their time to the Foundation.

### *Income Taxes*

The Foundation is exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, the Foundation is subject to federal income tax on any unrelated business taxable income.

### *Functional Allocation of Expenses*

The costs of supporting the various programs and other activities have been summarized on a functional basis in the statement of activities. The statement of functional expenses presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among supporting services by specific identification of costs or approximate percentage of time expended.

### *Subsequent Events*

Management evaluated subsequent events through February 27, 2020, which is the date the financial statements were available to be issued.

## Note 2: Change in Accounting Principle

In 2019, the Foundation, adopted ASU 2016-14, *Not-For-Profit Entities (Topic 958): Presentation of Financial Statements of Not-For-Profit Entities*. A summary of the changes is as follows:

### *Statement of Financial Position*

- The statement of financial position distinguishes between two new classes of net assets—those with donor-imposed restrictions and those without. This is a change from the previously required three classes of net assets—unrestricted, temporarily restricted and permanently restricted.

***Statement of Activities***

- Investment income is shown net of external investment expenses. Disclosure of the expenses netted against investment income is no longer required.

***Statement of Functional Expenses***

- Expenses are reported by both nature and function in one location.
- Only activities that represent direct conduct or direct supervision of programs are to be classified as program expenses. Other indirect and administrative activities are to be allocated to management and general expenses.

***Notes to the Financial Statements***

- Enhanced quantitative and qualitative disclosures provide additional information useful in assessing liquidity and cash flows available to meet operating expenses for one-year from the date of the statement of financial position.

This change had no impact on previously reported total change in net assets.

## Note 3: Contributions Receivable

Contributions receivable at June 30, 2019, are measured at the present value of the estimated future cash flows using a discount rate equal to the risk-free borrowing rate (ranging from 1.76% to 2.63%) applicable to the year the pledge was made, resulting in an unamortized discount of $139,049 at June 30, 2019. Based on historical collection rates on similar campaigns of the Diocese and current collection history, management determined that an allowance for doubtful contributions receivable of $1,235,063 is considered necessary at June 30, 2019. Collection of contributions receivable is expected as follows as of June 30, 2019:

| | |
|---|---|
| Due in one year | $ 4,167,582 |
| Due in two years | 1,844,688 |
| Due in three years | 311,827 |
| Due in four years | 16,239 |
| | 6,340,336 |
| Less allowance for uncollectible contributions | (1,235,063) |
| Less unamortized discount | (139,049) |
| Contributions receivable, net | $ 4,966,224 |

## Note 4: *Investments and Fair Value Measurements*

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. The hierarchy comprises three levels of inputs that may be used to measure fair value:

**Level 1** Quoted prices in active markets for identical assets or liabilities.

**Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

**Level 3** Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities.

### *Recurring Measurements*

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying statement of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2019:

| | | Fair Value Measurements | | |
|---|---|---|---|---|
| **Asset Class** | **Total** | **Quoted Prices in Active Markets for Identical Identical Assets (Level 1)** | **Significant Other Observable Inputs (Level 2)** | **Significant Unobservable Inputs (Level 3)** |
| Investments | | | | |
| Cash equivalents | $ 2,661,910 | $ 2,661,910 | $ - | $ - |
| Corporate bonds | 4,065,398 | 4,065,398 | - | - |
| Equity mutual funds | 1,118,655 | 1,118,655 | - | - |
| Fixed income mutual funds | 11,438,404 | 11,438,404 | - | - |
| Foreign bonds | 686,063 | 686,063 | - | - |
| Stocks | 46,551,885 | 46,551,885 | - | - |
| U.S. Government obligations | 6,896,644 | - | 6,896,644 | - |
| Total investments | $ 73,418,959 | $ 66,522,315 | $ 6,896,644 | $ - |
| Mineral interest | $ 1,363,398 | $ - | $ - | $ 1,363,398 |

### *Reconciliation of Investments to Statement of Financial Position*

| | | |
|---|---|---|
| Marketable securities | $ | 57,318,244 |
| Investments permanently restrcited for endowment | | 16,100,715 |
| | $ | 73,418,959 |

Investment return activity for the fiscal year ending June 30, 2019 consists of the following:

| | | |
|---|---|---|
| Dividends and interest, net of fees | $ | 684,376 |
| Unrealized and realized gains | | 1,311,661 |
| | $ | 1,996,037 |

Following is a description of the valuation methodologies and inputs used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying statement of financial position, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended June 30, 2019. For assets classified within Level 3 of the fair value hierarchy, the process used to develop the reported fair value is described below.

### *Investments*

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. See the table below for inputs and valuation techniques used for Level 3 investments.

### *Level 3 Valuation Process – Mineral Interest*

The Foundation invests in mineral interests. Investments in this category for which there is no readily determinable value are classified as Level 3 as the valuation is based on significant unobservable inputs. The fair value of these investments has been estimated based on projected future cash flows as provided by the fund manager. Management challenges the reasonableness of the assumptions used and reviews the methodology to ensure the estimated fair value complies with accounting standards generally accepted in the United States.

The following is a reconciliation of the beginning and ending balances of recurring fair value measurements recognized in the accompanying statement of financial position using significant unobservable inputs:

| | |
|---|---|
| Balance, beginning of year | $ 1,198,296 |
| Unrealized gain | 165,102 |
| Balance, end of year | $ 1,363,398 |

| | |
|---|---|
| Total gains or losses for the period included in change in net assets attributable to the change in unrealized gains or losses related to assets and liabilities still held at the reporting date | $ 165,102 |

### *Unobservable (Level 3) Inputs*

The following table present quantitative information about unobservable inputs used in recurring Level 3 fair value measurements at June 30, 2019:

| | Fair Value at 6/30/2019 | Valuation Technique | Unobservable Inputs | Range (Weigted Average) |
|---|---|---|---|---|
| Mineral interest | $ 1,363,398 | Market comparables | Cash flow multiple | 6x |

## Note 5: Funds Held For Others

Funds held for others primarily relate to amounts that the Foundation manages for the Schools Trust, the Cemeteries Trust, and various parishes and affiliated entities of the Diocese. These amounts are recorded at their determinable fair values and reported as a component of investments in the accompanying financial statements. Funds held for others consist of the following at June 30, 2019:

| | |
|---|---|
| The Schools Trust | $ 17,876,940 |
| The Cemeteries Trust | 2,217,471 |
| Parishes and schools of the Diocese | 8,821,274 |
| Other | 408,817 |
| | $ 29,324,502 |

### Note 6: Annuity Obligations

The Foundation has been the recipient of several gift annuities which require future payments to the donor or their named beneficiaries. The Foundation has recorded a liability at June 30, 2019 of $321,172 which represents the present value of the future annuity obligations. The liability has been determined by using a discount rate that reflects the life expectancy of the annuitant and the applicable federal rate at the date of the gift. This liability is remeasured annually, and any adjustment necessary is recognized in the statement of activities.

Contribution revenue recognized under such agreements was $4,750 for the year ended June 30, 2019. Expenses recognized for these annuities for the year ended June 30, 2019 were $177,731.

### Note 7: Contributions Payable – Parishes and Affiliates

As part of the *All Things Possible* campaign, the Foundation collects certain contributions on behalf of local parishes and schools that participated in the campaign. These pledges are due to the schools and parishes within six months after completion of their campaign, which began in 2011 for some parishes and schools. As part of the *Capital Projects Campaign Funds*, the Foundation collects pledges on behalf of local parishes and schools that are undergoing building construction or renovations. The portion of unpaid pledges is reflected as contributions receivable on the statement of financial position. Contributions payable to parishes and schools are reduced by the related discount of $139,049 (1.76%) at June 30, 2019 and allowance for doubtful contributions receivable of $1,235,063 at June 30, 2019.

The composition of contributions payable, net of discount and allowance at June 30, 2019 follows:

| | 2019 |
|---|---|
| Contributions payable for noncurrent local campaigns | $ 3,620 |
| Contributions payable for local share of *All Things Possible* | 225,230 |
| Contributions Payable for local share of *Capital Project Campaign Fund* | 15,711,888 |
| | $ 15,940,738 |

Payments for the contributions payable are expected to be paid out as follows as of June 30, 2019:

| | 2019 |
|---|---|
| Due in one year | $ 11,323,989 |
| Due in two years | 4,616,749 |
| | $ 15,940,738 |

## Note 8: Net Assets with Donor Restrictions

Net assets with donor restrictions consist of the following at June 30, 2019:

| | |
|---|---|
| **Subject to Expenditure for Specified Purpose** | |
| Schools Trust | $ 4,730,896 |
| Healthcare | 19,545,097 |
| All Things Possible | 2,604,815 |
| Other | 402,592 |
| | 27,283,400 |
| **Endowments** | |
| Subject to appropriation and expenditure when a specified event occurs | |
| Restricted by donors for | |
| Seminarian support | 4,146,801 |
| Schools Trust | 1,044,308 |
| | 5,191,109 |
| Subject to NFP endowment spending policy and appropriation | |
| Seminarian support | 6,509,606 |
| Schools Trust | 4,400,000 |
| | 10,909,606 |
| Total endowments | 16,100,715 |
| | $ 43,384,115 |

### *Net Assets Released from Restrictions*

During 2019, net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors as follow:

| | |
|---|---|
| Satisfaction or purpose restriction | |
| Schools Trust | $ 570,187 |
| Healthcare | 589,074 |
| All Things Possible | 178,151 |
| Annual Diocesan Appeal | 2,798,399 |
| Other | 838,368 |
| | 4,974,179 |
| Restricted purpose spending - rate distributions and appropriations: | |
| Seminarian support | 517,631 |
| | $ 5,491,810 |

## Note 9: Endowment

The Foundation's governing body is subject to the State of Texas Uniform Prudent Management of Institutional Funds Act (UPMIFA). As a result, the Foundation classifies amounts in its donor-restricted endowment funds as net assets with donor restrictions because those net assets are time restricted until the governing body appropriates such amounts for expenditures. All of those net assets also are subject to purpose restrictions that must be met before being reclassified as net assets without donor restrictions.

The endowed funds are restricted in perpetuity to support the education of seminarians and the Catholic school system. Income generated by these assets is restricted for seminarian support and financial aid, respectively.

The designated net assets of the Foundation were undesignated by the Board of Directors for the year ended June 30, 2019.

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

1. Duration and preservation of the fund
2. Purposes of the Foundation and the fund
3. General economic conditions
4. Possible effect of inflation and deflation
5. Expected total return from investment income and appreciation or depreciation of investments
6. Other resources of the Foundation
7. Investment policies of the Foundation

The Foundation's endowment consists of approximately two individual funds established for a variety of purposes. As required by accounting principles generally accepted in the United States of America (GAAP), net assets associated with endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

Endowment net asset composition by type of funds at June 30, 2019 follows:

| | Without Donor Restriction | With Donor Restriction | Total |
|---|---|---|---|
| Donor restricted | | | |
| Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor | $ - | $ 10,909,606 | $ 10,909,606 |
| Accumulated investment gains | - | 5,191,109 | 5,191,109 |
| | $ - | $ 16,100,715 | $ 16,100,715 |

The changes in the endowment for the year ended June 30, 2019, follow:

| | Without Donor Restriction | With Donor Restriction | Total |
|---|---|---|---|
| Balance, beginning of year, as previously reported | $ 585,074 | $ 15,010,094 | $ 15,595,168 |
| Revision applicable to prior years | - | 847,683 | 847,683 |
| Balance, beginning of year, as revised | 585,074 | 15,857,777 | 16,442,851 |
| Contributions | - | 133,927 | 133,927 |
| Investment return, net of expenses | - | 626,642 | 626,642 |
| Appropriation for expenditures | - | (517,631) | (517,631) |
| Removal of board designation | (585,074) | - | (585,074) |
| Balance, end of year | $ - | $ 16,100,715 | $ 16,100,715 |

In prior years, there were restricted funds that were improperly excluded from endowment net assets, which understated the endowment net assets. This error was identified during 2019 and resulted in a revision to the opening net asset balances. This revision did not impact previously reported net assets on the statement of financial position or activities, or change in net assets.

### *Return Objectives and Risk Parameters*

The objective of the investment program is to enhance the Foundation’s portfolio through capital appreciation and reinvestment of income above required needs. The Diocesan Finance Council and the Foundation Trustees recognize that this objective can be met over time only if the purchasing power of the investment portfolio is increased on a real dollar (inflation-adjusted) basis. Therefore, the Foundation’s goal is to achieve a premium of 4% over the rate of inflation as measured by the Consumer Price Index over a five-year time horizon.

### *Strategies Employed for Achieving Objectives*

In order to meet the objectives for capital growth, the following guidelines are established with respect to the proportions of equities and fixed income securities held in the portfolio:

1) The equity exposure should be between 30% and 70% of the portfolio at market value. A high level of diversification across industry and individual holdings will be maintained. The maximum exposure to any industry shall be 30% of the total equities portfolio market value, and the maximum exposure to an individual issuer shall be 5% of the total of each portfolio’s value at cost; however, no issuer should exceed 10% at any time.

   The majority of holdings shall be listed on a major exchange to take advantage of listing requirements, disclosure rules, and to improve liquidity. Prudent standards of quality will be developed and maintained by the investment manager. Companies whose securities are held should exhibit strong financial position and have a record of profitable operating results. The preference is for high quality dividend paying securities.

2) The fixed income exposure will be a minimum of 30% and a maximum of 70% of the portfolio at market value. Except for U.S. Treasury and Agency obligations, the debt portion of the portfolio shall not contain more than 5% from any given issuer (valued at cost); however, no issue should exceed 10% at any time. Maturity should be limited to 15 years or less. The average duration of the fixed income portion of the portfolio must not exceed five (5) years. Convertible securities will not be restricted to the 15-year maximum maturity. Securities with put features shall be assumed to have maturity to the put date. The average quality rating of the fixed income portion of the portfolio should be A rated or better by an acceptable rating agency. The total percentage of the non-convertible fixed income portion rated less than A may not exceed 20%.

It is recognized that there may be times when the investment manager wishes to hold cash equivalents based on their market outlook. The manager has the discretion to do so within the context of this longer-term allocation policy.

### *Spending Policy and How the Investment Objectives Relate to Spending Policy*

It is anticipated that annual distributions equaling five (5%) percent of the average market value of the Endowment's assets at January 1st over the past five rolling years may be withdrawn quarterly for disbursement to support the Foundation.

### *Underwater Endowments*

The governing body of the Foundation has interpreted UPMIFA as not requiring the maintenance of purchasing power of the original gift amount contributed to an endowment fund, unless a donor stipulates the contrary. As a result of this interpretation, when reviewing its donor-restricted endowment funds, the Foundation considers a fund to be underwater if the fair value of the fund is less than the sum of

a) the original value of initial and subsequent gift amounts donated to the fund and

b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument.

The Foundation has interpreted UPMIFA to not permit spending from underwater funds in accordance with the prudent measures required under the law.

At June 30, 2019, there were no funds underwater.

## Note 10: Related Parties

Substantially all of the Foundation's activities are conducted for the benefit of the Diocese and related entities and ministries, including fund raising activities and collection of contributions.

The Foundation utilizes the services of some personnel employed by the Diocese. During 2019, the Foundation reimbursed the Diocese for these costs of $251,209. The Foundation also reimbursed the Diocese for other costs such as postage, copying and other supplies in the amount of $77,363 for the year ended June 30, 2019.

In addition, the Foundation pays a management fee to the Diocese in the amount of $12,000. The Foundation had accounts payable to the Diocese of approximately $16,000 at June 30, 2019.

## Note 11: Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of June 30, 2019, comprise the following:

| | 2019 |
|---|---|
| Financial assets at year end | |
| Cash | $ 12,919,219 |
| Contributions receivable, net | 4,966,224 |
| Accounts receivable - parishes and affiliates | 153,421 |
| Investments | 73,418,959 |
| Total financial assets at year end | 91,457,823 |
| | |
| Less amounts not available to be used with one year | |
| Funds held for others | (29,324,502) |
| Contributions payable - parishes and affiliates, net | (15,940,738) |
| Donor imposed restrictions | |
| Restricted for purpose | (25,020,733) |
| Endowment | (16,100,715) |
| Financial assets not available to be used within one year | (86,386,688) |
| | |
| Financial assets available to meet cash needs for general expenditures within one year | $ 5,071,135 |

The Foundation receives contributions with donor restrictions to be used in accordance with the associated purpose restrictions. It also receives gifts to establish endowments that will exist in perpetuity; the income generated from such endowments is used to fund programs. Donor-restricted endowment funds are not available for general expenditure.

The Foundation considers appropriated earnings from donor-restricted endowments, contributions with donor restrictions for use in current programs which are ongoing, major and central to its annual operations to be available to meet cash needs for general expenditures. General expenditures include administrative and general expenses, fundraising expenses and grant commitments expected to be paid in the subsequent year. Annual operations are defined as activities occurring during the Foundation's fiscal year. For the year ended June 30, 2019, restricted contributions of $2,262,667 were included in financial assets available to meet cash needs for general expenditures within one year.

The Foundation manages its cash available to meet general expenditures following three guiding principles:

- Operating within a prudent range of financial soundness and stability
- Maintaining adequate liquid assets
- Maintaining sufficient reserves to provide reasonable assurance that long-term grant commitments and obligations under endowments with donor restrictions that support mission fulfillment will continue to be met, ensuring the sustainability of the Foundation

The Foundation's Grant Committee (the Committee) meets annually to review and approve grant requests. The Diocesan policy establishes the distribution guidelines for the fiscal year in relation to appropriated earnings from donor restricted funds. The budget prepared annually establishes the disbursements from the restricted contributions from the Annual Diocesan Appeal.

## Note 12: Revision to 2018 Financial Statements

The 2018 financial statements were revised for an error related to misclassifying net assets with donor restrictions and net assets without donor restrictions. This revision did not have a significant impact on the 2018 financial statements.

The following financial statement line items for fiscal year 2018 were affected by the revisions:

| | As Revised | As Previously Reported | Effect of Change |
|---|---|---|---|
| **Statement of Financial Position** | | | |
| Net assets | | | |
| Without donor restrictions | $ 3,435,520 | $ 3,053,615 | $ 381,905 |
| With donor restrictions | 43,231,986 | 43,613,891 | (381,905) |
| Total net assets | $ 46,667,506 | $ 46,667,506 | $ - |

## Note 13: Future Change in Accounting Principle

### *Revenue Recognition*

The Financial Accounting Standards Board amended its standards related to revenue recognition. This amendment replaces all existing revenue recognition guidance and provides a single, comprehensive revenue recognition model for all contracts with customers. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of the time value of money in the transaction price and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The amendment also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in those judgments and assets recognized from costs incurred to fulfill a contract. The standard allows either full or modified retrospective adoption effective for annual periods beginning after December 15, 2018 for nonpublic entities.

On June 21, 2018, FASB issued Accounting Standards Update (ASU) 2018-08. This standard clarifies existing guidance on determining whether a transaction with a resource provider, e.g., the receipt of funds under a government grant or contract, is a contribution or an exchange transaction. The guidance requires all organizations to evaluate whether the resource provider is receiving commensurate value in a transfer of assets transaction, and whether contributions are conditional or unconditional.

FASB expects that the new standard could result in more grants and contracts being accounted for as contributions (often conditional contributions) than under current generally accepted accounting principles. Because of this, it believes the clarifying guidance about whether a contribution is conditional or unconditional, which affects the timing of revenue recognition, is important.

For nonpublic entities, the standard will be effective for reporting periods beginning on or after December 15, 2018.

The Foundation is in the process of evaluating the impact these ASU’s will have on the financial statements.