



Financial Statements
June 30, 2018 and 2017

Archdiocese of Oklahoma City Pastoral Office Funds

Archdiocese of Oklahoma City Pastoral Office Funds

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Independent Auditor's Report

Most Reverend Paul S. Coakley
Archbishop of the Archdiocese of Oklahoma City

Report on the Financial Statements

We have audited the accompanying financial statements of the Archdiocese of Oklahoma City Pastoral Office Funds (Pastoral Office), which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 Archdiocese of Oklahoma City Pastoral Office Funds as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Restatement

As discussed in Note 15 to the financial statements, certain errors resulting in understatement of amounts previously reported for beneficial interest in charitable trusts held by others and temporarily restricted net assets as of June 30, 2017, were discovered by management of the Pastoral Office during the current year. Accordingly, the 2017 financial statements have been restated to correct the error. Our opinion is not modified with respect to that matter.

Eide Bailly LLP

Tulsa, Oklahoma
January 10, 2019

Archdiocese of Oklahoma City Pastoral Office Funds
Statements of Financial Position
June 30, 2018 and 2017

	2018	2017 (As Restated)
Assets		
Cash and cash equivalents	\$ 10,151,070	\$ 2,348,589
Investments, including investments held for others	116,386,951	107,168,528
Accounts receivable, net	2,241,376	1,343,133
Contributions receivable, net	24,753,889	850,810
Notes receivable, net	16,140,476	13,643,465
Prepaid expenses and other assets	96,589	208,377
Property and equipment, net	36,864,397	35,340,105
Beneficial interests in charitable trusts held by others	1,269,900	1,599,923
	\$ 207,904,648	\$ 162,502,930
Liabilities and Net Assets		
Accounts payable	\$ 1,564,143	\$ 746,589
Funds due to related parties	1,955,464	-
Contributions payable, net	562,365	945,455
Investments managed for related parties	56,222,984	50,750,219
Accrued insurance claims and settlements	1,389,509	2,407,426
Accrued pension benefit cost	11,917,183	12,110,905
	73,611,648	66,960,594
Net Assets		
Unrestricted		
Designated and operating	56,785,297	55,915,563
Accumulated pension related changes other than net periodic pension benefit costs	(3,164,040)	(4,165,510)
Invested in property and equipment, net of related debt	36,864,397	35,340,105
	90,485,654	87,090,158
Temporarily restricted	37,205,152	1,997,935
Permanently restricted	6,602,194	6,454,243
	134,293,000	95,542,336
	\$ 207,904,648	\$ 162,502,930

Archdiocese of Oklahoma City Pastoral Office Funds
Statement of Activities
Year Ended June 30, 2018

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue, Support, and Gains				
Contributions and collections				
Annual Catholic appeal	\$ 3,290,614	\$ -	\$ -	\$ 3,290,614
Capital campaign	-	38,079,606	-	38,079,606
Archdiocesan assessments	1,915,832	-	-	1,915,832
Fees of budgeted departments and offices	2,266,491	-	-	2,266,491
Priest medical collections	-	99,662	-	99,662
Property additions of Bishop McGuinness				
Catholic High School	24,016	-	-	24,016
Bequests and other	430,508	-	-	430,508
Insurance premiums, net	9,704,594	-	-	9,704,594
Oil, gas, and royalty income	841,222	-	-	841,222
Interest and dividend income:				
Investments	2,334,189	6,810	1,302	2,342,301
Notes receivable	389,621	-	-	389,621
Net gains on investments	3,749,756	239,806	146,649	4,136,211
Gain on sale of property and equipment	1,600,955	-	-	1,600,955
Other income	146,872	-	-	146,872
Change in value of beneficial interests in charitable trusts held by others				
	-	169,977	-	169,977
Net assets released from restriction	3,388,644	(3,388,644)	-	-
Total revenue, support, and gains	30,083,314	35,207,217	147,951	65,438,482
Expenses				
Budgeted departments and offices				
Pastoral Center	1,769,266	-	-	1,769,266
Business Office	1,806,695	-	-	1,806,695
Capital campaign	2,039,790	-	-	2,039,790
Evangelization and Catechesis	163,883	-	-	163,883
Safe Environment	164,560	-	-	164,560
Archdiocesan Newspaper (Sooner Catholic)	543,132	-	-	543,132
Office of Christian Education	599,188	-	-	599,188
Youth Ministry	463,214	-	-	463,214
Office of Family Life	158,986	-	-	158,986
Hispanic Ministry	361,613	-	-	361,613
Our Lady Guadalupe	376,023	-	-	376,023
Office of Planning, Stewardship, and Development	765,886	-	-	765,886
Ministry to Priests, Permanent Deacons, and Clergy Education	391,008	-	-	391,008
Hospital Ministry	264,527	-	-	264,527
Tribunal	153,752	-	-	153,752
Office of Worship and Spiritual Life	194,129	-	-	194,129
United States Conference of Catholic Bishops	162,801	-	-	162,801
Archival	124,106	-	-	124,106
Priests' welfare, retirement, and disability	58,338	-	-	58,338
Property taxes and insurance	101,419	-	-	101,419
Total budgeted departments and offices	10,662,316	-	-	10,662,316

See Notes to Financial Statements.

Archdiocese of Oklahoma City Pastoral Office Funds
Statement of Activities
Year Ended June 30, 2018

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Expenses				
Sponsored programs and other subsidies:				
Insurance claims and settlements	8,009,421	-	-	8,009,421
Administrative self-insurance costs	1,505,181	-	-	1,505,181
Pilgrimage	32,003	-	-	32,003
Campus ministry	114,793	-	-	114,793
Ecumenical and interreligious	16,033	-	-	16,033
Contributions made to others	480,181	-	-	480,181
Seminarian programs	959,366	-	-	959,366
Net periodic pension benefit cost	1,011,074	-	-	1,011,074
PDLF investment pool interest expense	922,450	-	-	922,450
Depreciation	1,313,708	-	-	1,313,708
Other	2,662,762	-	-	2,662,762
Total sponsored programs and other subsidies	<u>17,026,972</u>	<u>-</u>	<u>-</u>	<u>17,026,972</u>
Change in Net Assets from Operations	2,394,026	35,207,217	147,951	37,749,194
Gain associated with pension benefits that are not recognized immediately as a component of net periodic benefit cost	<u>1,001,470</u>	<u>-</u>	<u>-</u>	<u>1,001,470</u>
Change in Net Assets	3,395,496	35,207,217	147,951	38,750,664
Net Assets, Beginning of Year	<u>87,090,158</u>	<u>1,997,935</u>	<u>6,454,243</u>	<u>95,542,336</u>
Net Assets, End of Year	<u>\$ 90,485,654</u>	<u>\$ 37,205,152</u>	<u>\$ 6,602,194</u>	<u>\$ 134,293,000</u>

Archdiocese of Oklahoma City Pastoral Office Funds
Statement of Activities
Year Ended June 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue, Support, and Gains				
Contributions and collections				
Archdiocesan Development Fund	\$ 3,327,677	\$ -	\$ -	\$ 3,327,677
Archdiocesan assessments	1,963,914	-	-	1,963,914
Fees of budgeted departments and offices	1,679,878	-	-	1,679,878
Priest medical collections	-	47,264	-	47,264
Property additions of Bishop McGuinness				
Catholic High School	1,416,622	-	-	1,416,622
Bequests and other	1,059,848	-	-	1,059,848
Insurance premiums, net	9,428,381	-	-	9,428,381
Oil, gas, and royalty income	820,885	-	-	820,885
Interest and dividend income:				
Investments	1,783,582	35,744	31,250	1,850,576
Notes receivable	300,124	-	-	300,124
Net gains on investments	5,727,932	193,100	193,086	6,114,118
Other income	197,518	-	-	197,518
Net assets released from restriction	274,828	(274,828)	-	-
Total revenue, support, and gains	27,981,189	1,280	224,336	28,206,805
Expenses				
Budgeted departments and offices				
Pastoral Center	1,710,424	-	-	1,710,424
Business Office	1,404,588	-	-	1,404,588
Capital campaign	139,668	-	-	139,668
Safe Environment	136,580	-	-	136,580
Archdiocesan Newspaper (Sooner Catholic)	516,269	-	-	516,269
Office of Christian Education	562,812	-	-	562,812
Youth Ministry	444,374	-	-	444,374
Office of Family Life	165,883	-	-	165,883
Hispanic Ministry	366,353	-	-	366,353
Our Lady Guadalupe	358,026	-	-	358,026
Office of Planning, Stewardship, and Development	614,528	-	-	614,528
Ministry to Priests, Permanent Deacons, and Clergy Education	371,472	-	-	371,472
Hospital Ministry	236,527	-	-	236,527
Tribunal	143,796	-	-	143,796
Office of Worship and Spiritual Life	209,008	-	-	209,008
United States Conference of Catholic Bishops	46,491	-	-	46,491
Priests' welfare, retirement, and disability	21,819	-	-	21,819
Property taxes and insurance	71,351	-	-	71,351
Total budgeted departments and offices	7,519,969	-	-	7,519,969

Archdiocese of Oklahoma City Pastoral Office Funds
Statement of Activities
Year Ended June 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Expenses				
Sponsored programs and other subsidies:				
Insurance claims and settlements	8,896,336	-	-	8,896,336
Administrative self-insurance costs	1,424,016	-	-	1,424,016
Pilgrimage	24,700	-	-	24,700
Campus ministry	115,588	-	-	115,588
Ecumenical and interreligious	15,600	-	-	15,600
Contributions made to others	712,265	-	-	712,265
Seminarian programs	799,019	-	-	799,019
Net periodic pension benefit cost	1,078,256	-	-	1,078,256
PDLF investment pool interest expense	559,192	-	-	559,192
Depreciation	1,187,058	-	-	1,187,058
Other	851,584	-	-	851,584
Total sponsored programs and other subsidies	15,663,614	-	-	15,663,614
Change in Net Assets from Operations	4,797,606	1,280	224,336	5,023,222
Gain associated with pension benefits that are not recognized immediately as a component of net periodic benefit cost	1,172,969	-	-	1,172,969
Change in Net Assets	5,970,575	1,280	224,336	6,196,191
Net Assets, Beginning of Year (As Restated)	81,119,583	1,996,655	6,229,907	89,346,145
Net Assets, End of Year (As Restated)	\$ 87,090,158	\$ 1,997,935	\$ 6,454,243	\$ 95,542,336

Archdiocese of Oklahoma City Pastoral Office Funds

Statements of Cash Flows

For the Years Ended June 30, 2018 and 2017

	2018	2017
Operating Activities		
Change in net assets	\$ 38,750,664	\$ 6,196,191
Adjustments to reconcile change in net assets to net cash from (used for) operating activities		
Provision for doubtful accounts - PDLF	-	50,000
Provision for doubtful accounts - capital campaign	2,099,276	-
Depreciation	1,313,708	1,187,058
Realized and unrealized gains on investments	(4,136,211)	(6,114,118)
Gain on sale of property and equipment	(1,600,955)	-
Contributions of property from		
Bishop McGuinness High School	(24,016)	(1,416,622)
Change in beneficial interests in trusts held by others	330,023	-
Net periodic pension cost	1,011,074	1,078,256
Pension related changes other than net periodic pension benefit cost	(1,001,470)	(1,172,969)
Changes in operating assets and liabilities		
Accounts receivable, net	(898,243)	99,849
Contributions receivable, net	(26,002,355)	11,560
Prepaid expenses and other assets	111,788	(168,006)
Accounts payable	817,554	(17,493)
Funds due to related parties	1,955,464	-
Contributions payable, net	(383,090)	(637,667)
Accrued insurance claims	(1,017,917)	590,780
Accrued pension benefit cost	(203,326)	(587,227)
Net Cash from (used for) Operating Activities	11,121,968	(900,408)
Investing Activities		
Advances on notes receivable	(3,792,500)	(1,222,645)
Collections on notes receivables	1,295,489	2,794,870
Purchases of investments	(542,339)	(1,866,329)
Proceeds from sale of investments	932,892	734,344
Purchases property and equipment	(2,849,634)	(1,104,276)
Net Cash used for Investing Activities	(3,319,487)	(664,036)
Net Change in Cash and Cash Equivalents	7,802,481	(1,564,444)
Cash and Cash Equivalents, Beginning of Year	2,348,589	3,913,033
Cash and Cash Equivalents, End of Year	\$ 10,151,070	\$ 2,348,589
Supplemental Disclosure of Cash Flow Information		
Cash paid during the year for		
Interest	\$ 1,022,500	\$ 559,192

Note 1 - Principal Activity and Significant Accounting Policies

Organization

Archdiocese of Oklahoma City (the Archdiocese) is a nonprofit organization that serves the parishes and parishioners of the Roman Catholic Archdiocese of Oklahoma City. The Pastoral Office has the accounting and reporting responsibilities of certain budgeted departments and offices of the Archdiocese. The Archdiocese includes 46 counties and over 100 parishes and missions located throughout central and western Oklahoma. The Archdiocese charges each parish an annual assessment and conducts annual development fund drives through the parishes in order to fund operations. Services provided by the Archdiocese include various social services, Catholic communications, priests' support, and information about the Catholic faith.

Basis of Presentation

The accompanying financial statements are prepared on the accrual basis of accounting, in accordance with accounting principles generally accepted in the United States of America and include the accounts and funds of the Pastoral Office of the Archdiocese and certain budgeted department and offices over which the Pastoral Office has accounting and reporting responsibility (collectively, the Pastoral Office). The Archdiocese has certain other Archdiocesan agencies, parishes, and organizations which operate within the Archdiocese; however, these organizations do not operate within the Pastoral Office. Accordingly, the accounts of these other agencies, parishes, and organizations have not been included with the Pastoral Office. As a result, the accompanying financial statements are not intended to present the financial position and changes in net assets of the Archdiocese as a whole.

Cash and Cash Equivalents

All cash and highly liquid financial instruments with original maturities of three months or less, and which are neither held nor restricted by donors for long-term purposes, are considered to be cash and cash equivalents. Cash and highly liquid financial instruments restricted to projects, endowment, or other long-term purposes are excluded from this definition.

Receivables

Accounts receivable consist primarily of Diocesan assessment due from various Catholic organizations and insurance premiums receivable. Notes receivable consist primarily of notes due from member parishes in connection with the PDLF program discussed in Note 13. Notes receivable are carried at unpaid principal balances, less an allowance for losses.

Management's periodic evaluation of the adequacy of the allowances for uncollectible accounts and notes receivable are based on historical loss experience, a review of subsequent collections, specific impaired notes, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, and current economic conditions. Past due status is based on the contractual terms of the note. Notes are considered impaired if full principal or interest payments are not anticipated in accordance with the contractual terms. Receivables are written off when deemed uncollectible.

Interest on notes is recognized over the term of the note and is calculated using the simple-interest method on principal amounts outstanding. Notes are placed on nonaccrual when management believes, after considering economic conditions and collection efforts, that the notes are impaired or collection of interest is doubtful. Interest income on nonaccrual loans is recognized only to the extent cash payments are received.

Contributions Receivable

Unconditional contributions receivable expected to be collected within one year are recorded at net realizable value. Unconditional contributions receivable expected to be collected in future years are initially recorded at fair value using present value techniques incorporating risk-adjusted discount rates designated to reflect the assumptions market participants would use in pricing the asset. In subsequent years, amortization of the discounts is included in contribution revenue in the statements of activities. The allowance for uncollectible contributions receivable is based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Contributions receivable are written off when deemed uncollectible.

Property and Equipment

Property and equipment additions are recorded at cost, or if donated, at fair value on the date of donation. The gross costs of the Pastoral Center and Bishop McGuinness Catholic High School reflect replacement values as determined as of December 31, 1967 plus the historical cost of additions to the buildings subsequent to 1967.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets ranging from five to fifty years. When assets are sold or otherwise disposed of, the cost and related depreciation are removed from the accounts, and any resulting gain or loss is included in the statements of activities. Expenditures for renewals and improvements that significantly add to the productive capacity or extend the useful life of an asset are capitalized. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently.

The Pastoral Office reviews the carrying value of property and equipment for impairment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There were no indicators of asset impairment during the years ended June 30, 2018 and 2017.

Beneficial Interests in Charitable Trusts Held by Others

The Pastoral Office has been named as an irrevocable beneficiary of multiple charitable trusts held and administered by independent trustees. These trusts were created independently by donors and are administered by outside agents designated by the donors. Therefore, the Pastoral Office has neither possession nor control over the assets of the trusts. When the notice of a beneficial interest is received, a temporarily or permanently restricted contribution is recorded in the statements of activities, and a beneficial interest in charitable trusts held by others is recorded in the statements of financial position at fair value using present value techniques and risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the expected distributions to be received under the agreement. Thereafter, beneficial interests in the trusts are reported at fair value in the statements of financial position, with changes in fair value recognized in the statements of activities.

Upon receipt of trust distributions and/or expenditures in satisfaction of the restricted purpose stipulated by the donor, if any, temporarily restricted net assets are released to unrestricted net assets; permanently restricted net assets are transferred to the endowment.

Self-Insurance Plan

The Pastoral Office has a self-insured plan to serve the property and casualty and health and accident insurance needs of the Archdiocese and its parishes and organizations. Premiums received by the Pastoral Office from the insured organizations are recognized evenly over the contract period and are shown net of premiums paid to third parties for reinsurance coverage. Unearned insurance premiums representing the portion of the premiums applicable to the unexpired period of the contract are included with liabilities in the accompanying statements of financial position. A plan administrator has been retained to oversee the administration of the plan based upon guidelines established by the Pastoral Office.

Contributions Payable

Contributions payable consist of unconditional promises to give to recipients. Amounts expected to be paid within one year are recorded at net realizable value. Unconditional promises to give to be paid over more than one year are recorded at fair value using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the liability. In subsequent years, amortization of the discount is included in contribution expenses in the statements of activities.

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Unrestricted Net Assets – Net assets available for use in general operations. Unrestricted board-designated net assets consist of net assets designated by the Finance Council for operating reserve and board-designated endowment.

Temporarily Restricted Net Assets – Net assets subject to donor restrictions that may or will be met by expenditures or actions of the Organization and/or the passage of time, and certain income earned on permanently restricted net assets that has not yet been appropriated for expenditure by the Finance Council.

Contributions are reported as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

Permanently Restricted Net Assets – Net assets whose use is limited by donor-imposed restrictions that neither expire by the passage of time nor can be fulfilled or otherwise removed by actions of the Pastoral Office. The restrictions stipulate that resources be maintained permanently but permit the Pastoral Office to expend the income generated in accordance with the provisions of the agreements.

Revenue and Revenue Recognition

Contributions, including unconditional contributions receivable, are recognized as support in the period received. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted net assets based on donor-imposed restrictions, if any. Assessment and fee income is recognized ratably over the period for which the related assessments and fees relate, which generally corresponds with the Pastoral Office's fiscal year. Insurance premiums received from the insured parishes and organizations are recognized evenly over the contract period and are shown net of premiums paid to third parties for reinsurance coverage.

Donated Services and In-Kind Contributions

Volunteers contribute significant amounts of time to program services, administration, and fundraising and development activities; however, the financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by generally accepted accounting principles. Contributed goods are recorded at fair value at the date of donation. Donated professional services are recorded at the respective fair values of the services received.

Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Note 11 presents total expenses by function.

Income Taxes

The Archdiocese is organized as an Oklahoma nonprofit corporation and has been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under Section 501(a) of the Internal Revenue Code as organizations described in Section 501(c)(3). Accordingly, no provision for income taxes has been included in the accompanying financial statements.

The Archdiocese is not required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. Furthermore, Congress has imposed special limitations on how and when the IRS may conduct civil tax inquiries and examinations of religious entities. The IRS may only initiate a tax inquiry if the Director of Exempt Organizations Examinations reasonably believes based on written statements of the facts and circumstances that the Organization may not qualify for the exemption or may not be paying tax on unrelated business income or other taxable activity.

The Archdiocese believes that it has not engaged in activities that are not related to the purposes for which the Archdiocese was created, and as such, does not have any uncertain tax positions that are material to the financial statements. The Archdiocese would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the Archdiocese to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and those differences could be material.

Financial Instruments and Credit Risk

The Pastoral Office manages deposit concentration risk by placing cash, money market accounts, and certificates of deposits with financial institutions they believe to be creditworthy. At times, amounts on deposit may exceed insured limits. To date, the losses in any of these accounts has not been experienced. Credit risk associated with accounts and contributions receivable is considered to be limited due to high historical collection rates. Investments are made by diversified investment managers whose performance is monitored by the Finance Council. Although fair values of investments are subject to fluctuation on a year-to-year basis, the Archdiocese and the Finance Council believe that the investment policies and guidelines are prudent for the long-term welfare of the Pastoral Office.

Reclassifications

Certain reclassifications of amounts previously reported have been made to the accompanying financial statements to maintain consistency between periods presented. The reclassifications had no impact on previously reported net assets.

Recent Accounting Guidance

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2016-14, Not-for-Profit Entities. This comprehensive standard provides guidance on net asset classification, required disclosures on liquidity, and availability of resources; requires expanded disclosure about expenses and investment returns; and eliminates the requirement to present or disclose the indirect method reconciliation if using the direct method when presenting cash flows. The standard is effective for annual periods beginning after December 15, 2017. Management is evaluating the impact of adopting this new accounting standard on the financial statements.

Subsequent Events

Subsequent events have been evaluated through January 10, 2019, the date the financial statements were available to be issued.

Note 2 - Fair Value Measurements and Disclosures

The Pastoral Office reports certain assets and liabilities at fair value in the financial statements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal, or most advantageous, market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Inputs used to determine fair value refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available. A three-tier hierarchy categorizes the inputs as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that can be accessed at the measurement date.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and market-corroborated inputs.

Level 3 – Unobservable inputs for the asset or liability. In these situations, inputs are developed using the best information available in the circumstances.

In some cases, the inputs used to measure the fair value of an asset or a liability might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to entire measurement requires judgment, taking into account factors specific to the asset or liability. The categorization of an asset or liability within the hierarchy is based upon the pricing transparency of the asset and does not necessarily correspond to an assessment of the quality, risk or liquidity profile of the asset or liability.

Generally, quoted market prices are available for cash equivalents, common and preferred stocks, and open-end mutual funds with readily determinable fair values based on daily redemption values, and as such are classified as Level 1 in the fair value hierarchy. The Pastoral Office also invests in corporate bonds and notes, government debt and mortgage backed securities, and certificates of deposit traded in the financial markets; these are valued by the custodians of the securities using pricing models based on credit quality, time to maturity, stated interest rates, and market-rate assumptions, and are classified as Level 2. The fair values of beneficial interests in charitable trusts are determined by using present value techniques and risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the underlying assets and are based on the fair values of trust investments as reported by the trustees.

Archdiocese of Oklahoma City Pastoral Office Funds

Notes to Financial Statements

June 30, 2018 and 2017

The Pastoral Office uses (NAV) per share, or its equivalent, such as member units or an ownership interest in partners' capital, to estimate the fair values of certain private equity funds, pooled investment funds, funds of funds, and limited partnerships which do not have readily determinable fair values. Investments valued at NAV are classified within Level 2 if the Organization has the ability to redeem the investment at NAV per share at the measurement date or within the near term; otherwise, the investment is classified within Level 3.

The fair value of the liability for funds held for parishes and other Catholic organizations is derived in the same manner as investments. The related investments managed for these entities are comprised of Level 1 and Level 2 investments. As these funds effectively represent pooled investments with no withdrawal restrictions, they are classified as Level 2 within the fair value hierarchy.

The following table presents assets and liabilities measured at fair value on a recurring basis, at June 30, 2018:

	Fair Value Measurements Using			
	Total	(Level 1)	(Level 2)	(Level 3)
Assets				
Investments				
Money market funds	\$ 3,813,482	\$ 3,813,482	\$ -	\$ -
Corporate bonds and notes	24,245,460	-	24,245,460	-
Certificates of deposit	4,977,629	-	4,977,629	-
Government debt securities	22,349,017	-	22,349,017	-
Equity securities	47,888,845	37,106,019	10,782,826	-
Pooled investment funds	13,112,518	-	13,112,518	-
Beneficial interests in charitable trusts held by others	1,269,900	-	-	1,269,900
Total assets	\$ 117,656,851	\$ 40,919,501	\$ 75,467,450	\$ 1,269,900
Liabilities				
Investments managed for related parties	\$ 56,222,984	\$ -	\$ 56,222,984	\$ -

Archdiocese of Oklahoma City Pastoral Office Funds
Notes to Financial Statements
June 30, 2018 and 2017

The following table presents assets and liabilities measured at fair value on a recurring basis, at June 30, 2017:

	Fair Value Measurements Using			
	Total	(Level 1)	(Level 2)	(Level 3)
Assets				
Investments				
Money market funds	\$ 4,308,102	\$ 4,308,102	\$ -	\$ -
Corporate bonds and notes	23,681,908	-	23,681,908	-
Certificates of deposit	4,580,747	-	4,580,747	-
Government debt securities	17,375,214	-	17,375,214	-
Equity securities	44,381,907	34,382,451	9,999,456	-
Mortgage backed securities	24,072	-	24,072	-
Pooled investment funds	12,816,578	-	12,816,578	-
Beneficial interests in charitable trusts held by others	1,599,923	-	-	1,599,923
Total assets	<u>\$108,768,451</u>	<u>\$ 38,690,553</u>	<u>\$ 68,477,975</u>	<u>\$ 1,599,923</u>
Liabilities				
Investments managed for related parties	<u>\$ 50,750,219</u>	<u>\$ -</u>	<u>\$ 50,750,219</u>	<u>\$ -</u>

Below is a reconciliation of the beginning and ending balance of assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended June 30, 2018 and 2017:

	<u>Beneficial Interests in Charitable Trusts Held by Others</u>
<u>Year ended June 30, 2018</u>	
Balance at June 30, 2017	\$ 1,599,923
Net realized and unrealized gain	169,977
Distributions	<u>(500,000)</u>
Balance at June 30, 2018	<u>\$ 1,269,900</u>
<u>Year ended June 30, 2017</u>	
Balance at June 30, 2016 (As Restated)	\$ 1,599,923
Net realized and unrealized gain	-
Distributions	<u>-</u>
Balance at June 30, 2017	<u>\$ 1,599,923</u>

Subsequent to June 30, 2018, the Pastoral Office received an additional distribution of approximately \$669,000.

Archdiocese of Oklahoma City Pastoral Office Funds

Notes to Financial Statements

June 30, 2018 and 2017

Investments in certain entities that calculate NAV per share are as follows at June 30, 2018 and 2017:

	Fair value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
June 30, 2018				
Pooled investment funds (A)	\$ 13,112,518	\$ -	Daily	None
Catholic Values index fund (B)	10,782,826	-	Daily	None
	\$ 23,895,344	\$ -		
June 30, 2017				
Pooled investment funds (A)	\$ 12,816,578	\$ -	Daily	None
Catholic Values index fund (B)	9,999,456	-	Daily	None
	\$ 22,816,034	\$ -		

(A) Pooled investment funds represent the Pastoral Office's proportionate share of an investment pool which is the custodial responsibility of The Catholic Foundation of Oklahoma, Inc. (the Foundation). Pooled investment funds are held and managed by a trust company affiliated with a major regional bank that has investment authority over the investment transactions subject to investment policies that are established and periodically updated by the Board of Directors of the Foundation. Pooled investment funds are generally comprised of money funds, government debt securities, certificates of deposits, and equity securities.

(B) This fund's objective is to provide a similar price and yield performance, before expenses, of large cap equities. The Fund refrains from owning securities of firms whose products or services are inconsistent with the philosophy of the Catholic Church through the investment guidelines published by the U.S. Conference of Catholic Bishops.

Note 3 - Net Investment Return

Net investment return consists of the following for the years ended June 30, 2018 and 2017:

	2018	2017
Operating investments		
Interest and dividends	\$ 2,151,646	\$ 1,691,841
Net realized and unrealized gain	3,090,014	4,767,614
	5,241,660	6,459,455
Endowment investments		
Interest and dividends	190,655	158,735
Net realized and unrealized gain	1,046,197	1,346,504
	1,236,852	1,505,239
	\$ 6,478,512	\$ 7,964,694

Note 4 - Contributions and Accounts Receivable

Contributions and accounts receivable at June 30, 2018 and 2017 are as follows:

	2018	2017
Annual contributions receivable, net of allowance of \$57,420 and \$59,124 at June 30, 2018 and 2017, respectively	\$ 853,533	\$ 850,810
Capital campaign contributions receivable, net of allowance of \$2,073,608 and present value discount of \$3,053,708 at June 30, 2018	23,900,356	-
Diocesan assessments receivable and other amounts due from Catholic organizations, net of allowance of \$5,211,669 and \$5,196,613 at June 30, 2018 and 2017, respectively	575,912	525,482
Insurance premiums receivable, net of allowance of \$250,000 at June 30, 2018 and 2017	1,665,464	817,651
	\$ 26,995,265	\$ 2,193,943

Note 5 - Notes Receivable

Notes receivable at June 30, 2018 and 2017 are as follows:

	2018	2017
Notes receivable from member parishes, noninterest-bearing, with maturities in installments through July 2020	\$ 176,500	\$ 120,527
Notes receivable from member parishes related to the capital campaign, noninterest-bearing, maturing at various dates through 2023	3,444,000	-
Notes receivable from member parishes related to borrowings from PDLF, at variable interest rates adjusted monthly based on average rate of two-year U.S. Treasury notes plus 1.25% (3.65% and 2.53% at June 30, 2018 and 2017, respectively), maturing at various dates through 2036	12,569,976	13,572,938
	16,190,476	13,693,465
Less allowance for credit losses	(50,000)	(50,000)
	\$ 16,140,476	\$ 13,643,465

A note receivable of \$6,288,485 and \$6,301,973 was past due at June 30, 2018 and 2017, respectively, and individually evaluated for impairment. The remaining \$9,901,991 and \$7,391,492 in note receivables at June 30, 2018 and 2017, respectively, were collectively evaluated for impairment.

Note 6 - Property and Equipment

Property and equipment consists of the following at June 30, 2018 and 2017:

	2018	2017
Land and improvements	\$ 12,871,692	\$ 12,190,261
Buildings and improvements	44,060,728	42,847,726
Equipment	544,781	540,781
Vehicles	362,938	256,402
Furniture and fixtures	676,273	349,148
Computers	168,635	168,635
Construction in progress	477,269	-
	59,162,316	56,352,953
Less accumulated depreciation and amortization	(22,297,919)	(21,012,848)
	\$ 36,864,397	\$ 35,340,105

Note 7 - Line of Credit and Letters of Credit

The Pastoral Office has a revolving line of credit with a bank that provides for borrowings of up to \$2,350,000 through March 25, 2019. Borrowings on the line bear interest at the 6-Month London Interbank Offered Rate for deposits in US Dollars as published by the Intercontinental Exchange Benchmark Administration plus 1.35 percent. The Pastoral Office is required to make monthly payments of accrued interest with all outstanding borrowings due March 25, 2019. The line of credit agreement contains several financial covenants which require, among other things, maintenance of \$20 million of unrestricted and unencumbered liquid net assets, maintenance of \$30 million of unrestricted net assets, and limitation to \$50 million of aggregate funded and contingent debt. There were no outstanding borrowings on the line of credit at June 30, 2018 and 2017.

The Pastoral Office has a \$475,000 irrevocable letter of credit with a bank for the benefit of Oklahoma's Workers' Compensation Court in relation to the self-insurance plan described in Note 1. The letter of credit provides borrowings through July 30, 2019, and automatically renews each year unless otherwise terminated.

Archdiocese of Oklahoma City Pastoral Office Funds

Notes to Financial Statements

June 30, 2018 and 2017

Note 8 - Net Assets

Net assets at June 30, 2018, consist of:

	Unrestricted*	Temporarily Restricted	Permanently Restricted	Total
Seminary Burses Fund	\$ 7,069,490	\$ -	\$ 782,841	\$ 7,852,331
Joseph Danne Fund	1,079,696	-	3,874,875	4,954,571
Archdiocesan Endowment Fund:				
Operating activity	30,477,569	-	-	30,477,569
Pastoral Center	2,157,043	-	-	2,157,043
Archbishop's Residence	1,170,585	-	-	1,170,585
Mt. St. Mary High School	2,813,119	-	-	2,813,119
Catholic School Support	3,785,654	-	-	3,785,654
Bombing tuition	-	126,579	-	126,579
Pastoral ministry	-	66,240	158,511	224,751
Pilgrimage	-	11,163	-	11,163
Crested Butte	45,339	-	-	45,339
Salatka & Zagar	-	5,623	-	5,623
Donald Mileur	-	182,116	-	182,116
Maloney Trust	75,731	-	1,785,967	1,861,698
Youth Camp	1,001,045	-	-	1,001,045
	41,526,085	391,721	1,944,478	43,862,284
Capital Campaign	-	35,543,531	-	35,543,531
Land, Buildings and Equipment Fund	36,864,397	-	-	36,864,397
Operating Fund:				
Self-Insurance Fund	12,070,705	-	-	12,070,705
Retirement Benefits	(8,124,719)	-	-	(8,124,719)
Total Operating Fund	3,945,986	-	-	3,945,986
Time restrictions (proceeds are not restricted by donors)				
Beneficial interests in charitable trusts held by others	-	1,269,900	-	1,269,900
Total Net Assets	\$ 90,485,654	\$ 37,205,152	\$ 6,602,194	\$ 134,293,000

*Amounts in Unrestricted column for each fund are board designated

Archdiocese of Oklahoma City Pastoral Office Funds

Notes to Financial Statements

June 30, 2018 and 2017

Net assets at June 30, 2017, consist of:

	Unrestricted*	Temporarily Restricted	Permanently Restricted	Total
Seminary Burses Fund	\$ 6,603,831	\$ -	\$ 782,841	\$ 7,386,672
Joseph Danne Fund	883,082	-	3,735,799	4,618,881
Archdiocesan Endowment Fund:				
Operating activity	23,559,107	-	-	23,559,107
Pastoral Center	2,143,053	-	-	2,143,053
Archbishop's Residence	2,221,651	-	-	2,221,651
Mt. St. Mary High School	2,663,841	-	-	2,663,841
Catholic School Support	3,721,902	-	-	3,721,902
Bombing tuition	-	141,687	-	141,687
Pastoral ministry	-	69,989	149,636	219,625
Pilgrimage	-	2,902	-	2,902
Crested Butte	42,935	-	-	42,935
Salatka & Zagar	-	10,975	-	10,975
Donald Mileur	-	172,459	-	172,459
Maloney Trust	191,793	-	1,785,967	1,977,760
Youth Camp	852,878	-	-	852,878
	35,397,160	398,012	1,935,603	37,730,775
St. Joseph's Children's Fund	7,661,025	-	-	7,661,025
Land, Buildings and Equipment Fund	35,340,105	-	-	35,340,105
Operating Fund:				
Self-Insurance Fund	10,149,394	-	-	10,149,394
Retirement Benefits	(8,944,439)	-	-	(8,944,439)
Total Operating Fund	1,204,955	-	-	1,204,955
Time restrictions (proceeds are not restricted by donors)				
Beneficial interests in charitable trusts held by others	-	1,599,923	-	1,599,923
Total Net Assets	\$ 87,090,158	\$ 1,997,935	\$ 6,454,243	\$ 95,542,336

*Amounts in Unrestricted column for each fund are board designated

Archdiocese of Oklahoma City Pastoral Office Funds

Notes to Financial Statements

June 30, 2018 and 2017

Net assets were released from restrictions as follows during the years ended June 30, 2018 and 2017:

	2018	2017
Satisfaction of purpose restrictions		
Priest medical	\$ 99,662	\$ 47,264
Bombing tuition	17,798	4,250
Pastoral ministry	717	1,373
Pilgrimage	80,164	645
Donald Mileur	1,000	3,477
Salatka & Zagar	5,400	8,120
Other	4,018	-
Capital campaign	2,536,074	-
Distributions (proceeds are not restricted by donors)		
Beneficial interests in charitable trusts held by others	500,000	-
	3,244,833	65,129
Restricted spending-rate appropriations	143,811	209,699
	\$ 3,388,644	\$ 274,828

Note 9 - Endowment Funds

The Pastoral Office's endowments consist of various donor and board-restricted funds which are managed and controlled by the Pastoral Office and were established for various donor restricted purposes as shown in Note 8. The net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. All of the endowment funds held by the Pastoral Office are managed and controlled by the Pastoral Office in accordance with the following policies.

Interpretation of Relevant Law

The Finance Council of the Archdiocese has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA). For purposes of these financial statements, the market value of the original gift date is classified as permanently restricted.

As a result of this interpretation, the Pastoral Office classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of the 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 fund, not classified in permanently restricted net assets, is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Archdiocese in a manner consistent with the standard of prudence prescribed by UPMIFA.

Archdiocese of Oklahoma City Pastoral Office Funds

Notes to Financial Statements

June 30, 2018 and 2017

In accordance with UPMIFA, the Finance Council considers the followings factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the organization and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and appreciation of investments
- Other resources of the organization
- The investment policies of the organization

At June 30, 2018 and 2017, the Archdiocese had the following net asset composition by type of fund:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<u>June 30, 2018</u>				
Board-designated endowment	\$ 7,069,490	\$ -	\$ -	\$ 7,069,490
Donor-restricted endowment	1,155,427	66,240	6,602,194	7,823,861
	\$ 8,224,917	\$ 66,240	\$ 6,602,194	\$ 14,893,351
<u>June 30, 2017</u>				
Board-designated endowment	\$ 6,603,831	\$ -	\$ -	\$ 6,603,831
Donor-restricted endowment	1,074,875	69,989	6,454,243	7,599,107
	\$ 7,678,706	\$ 69,989	\$ 6,454,243	\$ 14,202,938

Investment and Spending Policies

From time to time, the fair value of assets associated with the individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Pastoral Office to retain as a fund of perpetual duration.

The Pastoral Office has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Pastoral Office must hold in perpetuity. Under this policy, as approved by the governing body, the endowment assets are invested with the combined objectives of growth and current income. The asset allocation policies (see below) reflect and are consistent with the investment objectives and risk tolerances expressed through the investment policy. Certain endowments have donor stipulations requiring a portion of the funds to be reinvested into the fund.

Archdiocese of Oklahoma City Pastoral Office Funds

Notes to Financial Statements

June 30, 2018 and 2017

To satisfy its long-term rate-of-return objectives, the Pastoral Office relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Pastoral Office targets a diversified asset allocation via investments managed by professional investment managers who have discretionary investment authority over investment transactions subject to investment policies which are established and periodically updated by the Pastoral Office.

The Pastoral Office has a policy of appropriating for distribution each year amounts up to, but not to exceed, actual investment performance for that year. Distributions subsequent to appropriation occasionally exceed current year investment performance, as appropriated funds may not be spent until the following fiscal year. Since the Pastoral Office limits the appropriations to actual investment performance, it feels that this policy protects the purchasing power of the endowment as outlined by donor specifications.

Changes in endowment net assets for the year ended June 30, 2018 and 2017 is as follows:

Year ended June 30, 2018	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 7,678,706	\$ 69,989	\$ 6,454,243	\$ 14,202,938
Investment return				
Investment income, net of fees	188,051	1,302	1,302	190,655
Net realized and unrealized gain	760,788	138,760	146,649	1,046,197
	<u>948,839</u>	<u>140,062</u>	<u>147,951</u>	<u>1,236,852</u>
Appropriation of restricted endowment assets pursuant to spending-rate policy	143,811	(143,811)	-	-
Distributions subsequent to appropriation	<u>(546,439)</u>	<u>-</u>	<u>-</u>	<u>(546,439)</u>
Endowment net assets, end of year	<u>\$ 8,224,917</u>	<u>\$ 66,240</u>	<u>\$ 6,602,194</u>	<u>\$ 14,893,351</u>
<u>Year ended June 30, 2017</u>				
Endowment net assets, beginning of year	\$ 7,042,472	\$ 69,735	\$ 6,229,907	\$ 13,342,114
Investment return				
Investment income, net of fees	96,235	31,250	31,250	158,735
Net realized and unrealized gain	973,342	180,076	193,086	1,346,504
	<u>1,069,577</u>	<u>211,326</u>	<u>224,336</u>	<u>1,505,239</u>
Appropriation of restricted endowment assets pursuant to spending-rate policy	211,072	(211,072)	-	-
Distributions subsequent to appropriation	<u>(644,415)</u>	<u>-</u>	<u>-</u>	<u>(644,415)</u>
Endowment net assets, end of year	<u>\$ 7,678,706</u>	<u>\$ 69,989</u>	<u>\$ 6,454,243</u>	<u>\$ 14,202,938</u>

Note 10 - Donated Professional Services and Materials

During the years ended June 30, 2018 and 2017, Bishop McGuiness Catholic High School donated real property consisting of building renovations and a sports complex, which are used by the school. These items were capitalized in the amount of \$24,016 and \$1,416,622, respectively.

Note 11 - Functionalized Expenses

Total expenses by function were as follows for the years June 30, 2018 and 2017:

	2018	2017
Program	\$ 16,571,397	\$ 16,931,598
Management and general	8,312,215	5,497,789
Fundraising	2,805,676	754,196
Total functionalized expenses	\$ 27,689,288	\$ 23,183,583

Note 12 - Employee Benefits

Defined Benefit Plan

The Pastoral Office has an unfunded noncontributory defined benefit pension plan that covers all incardinated priests (the Pension Plan). The priests are eligible to receive pension benefits upon reaching their normal retirement age of 75, however, early or late retirement may be granted by the Archbishop in specific instances (average retirement age is 70). The pension benefits include (1) retired priests receive the same salary as active priests, adjusted every June for inflation; (2) \$1,000 per year for personal expenses; (3) monthly rent subsidies of \$500; and (4) nursing home care provided at no cost; however, monthly pension payments are reduced to \$100.

The Pension Plan is currently funded by assessments to parishes, monthly contributions from the Pastoral Office, and receipts of discretionary contributions from parishioners. The Pastoral Office uses a June 30 measurement date for the Pension Plan.

The changes in the pension benefit obligations for the years ended June 30, 2018 and 2017, are as follows:

	2018	2017
Benefit obligation, beginning of year	\$ 15,731,783	\$ 16,185,049
Service cost	539,207	565,449
Interest cost	572,823	540,038
Actuarial gain	(869,157)	(829,821)
Benefit payments	(638,464)	(728,932)
Benefit obligation, end of year	\$ 15,336,192	\$ 15,731,783

Archdiocese of Oklahoma City Pastoral Office Funds
Notes to Financial Statements
June 30, 2018 and 2017

The changes in fair value of the pension plan's assets for the years ended June 30, 2018 and 2017 are as follows:

	2018	2017
Fair value of plan assets, beginning of year	\$ 3,620,878	\$ 3,392,204
Actual return on plan assets	233,269	370,379
Benefit payments	(638,464)	(728,932)
Employer contribution	203,326	587,227
Fair value of plan assets, end of year	\$ 3,419,009	\$ 3,620,878

The funded status of the pension plan at June 30, 2018 and 2017 are as follows:

	2018	2017
Unfunded	\$ (11,917,183)	\$ (12,110,905)

The net amount recognized in the statements of financial position at June 30, 2018 and 2017 consist of:

	2018	2017
Accrued pension benefit cost	\$ (11,917,183)	\$ (12,110,905)
Accumulated pension related changes other than net periodic pension benefit costs	3,164,040	4,165,510
Net amount recognized	\$ (8,753,143)	\$ (7,945,395)

In addition to the pension plan's assets segregated in a trust for the benefit of future payments under the pension plan, the Pastoral Office has internally designated \$3,596,162 and \$3,166,466 as of June 30, 2018 and 2017, respectively, of its unrestricted net assets for funding of the pension plan's obligations.

Archdiocese of Oklahoma City Pastoral Office Funds

Notes to Financial Statements

June 30, 2018 and 2017

Components of net periodic benefit cost and other amounts recognized in accumulated pension related changes for the years ended June 30, 2018 and 2017, are as follows:

	2018	2017
Net periodic benefit cost		
Service cost	\$ 539,207	\$ 565,449
Interest cost	572,823	540,038
Expected return on plan assets	(242,691)	(224,997)
Amortization	141,735	197,766
Net periodic benefit cost	1,011,074	1,078,256
Other changes in plan assets and benefit obligations recognized in accumulated pension related changes		
Current year actuarial gain	(1,001,470)	(1,172,969)
Total recognized in net periodic benefit cost and accumulated pension related changes	\$ 9,604	\$ (94,713)

The estimated net loss and prior service cost that will be amortized from accumulated pension related changes into net periodic pension benefit cost in fiscal year 2019 will be \$91,958.

The following are weighted-average assumptions used to determine benefit obligations at June 30, 2018 and 2017:

	2018	2017
Discount rate	4.07%	3.74%
Rate of compensation increase	3.00%	3.00%

The following are weighted-average assumptions used to determine net periodic benefit cost for the years ended June 30, 2018 and 2017:

	2018	2017
Discount rate	3.74%	3.43%
Rate of compensation increase	3.00%	3.00%
Expected long-term rate of return on plan assets	7.00%	7.00%

The Pastoral Office's expected long term return on plan assets assumption was derived from an analysis conducted by the Pastoral Office's actuaries. The analysis included a review of the asset allocation strategy, anticipated future long-term performance of individual asset classes, and risks and correlations for each of the asset classes that comprise the asset mix. While the analysis gives appropriate consideration to recent performance and historical returns, the assumption is primarily a long-term prospective rate.

Archdiocese of Oklahoma City Pastoral Office Funds

Notes to Financial Statements

June 30, 2018 and 2017

The following table sets forth by level, within the fair value hierarchy, the pension plan's assets at fair value as of June 30, 2018 and 2017:

	<u>Total</u>	<u>Quoted Prices in Active Markets (Level 1)</u>	<u>Other Observable Inputs (Level 2)</u>	<u>Unobservable Inputs (Level 3)</u>
<u>June 30, 2018</u>				
Cash and cash equivalents	\$ 85,426	\$ 85,426	\$ -	\$ -
Equity securities	1,937,956	1,937,956	-	-
Fixed income funds	1,395,627	1,395,627	-	-
Total assets at fair value	<u>\$ 3,419,009</u>	<u>\$ 3,419,009</u>	<u>\$ -</u>	<u>\$ -</u>
<u>June 30, 2017</u>				
Cash and cash equivalents	\$ 255,853	\$ 255,853	\$ -	\$ -
Equity securities	2,099,159	2,099,159	-	-
Fixed income funds	1,265,866	1,265,866	-	-
Total assets at fair value	<u>\$ 3,620,878</u>	<u>\$ 3,620,878</u>	<u>\$ -</u>	<u>\$ -</u>

The pension benefit plan assets are carried at fair value in accordance with the fair value hierarchy as discussed in Note 2.

In setting investment policies and strategies, the ability of the selected investment mix to fund the pension plan liabilities effectively, meet the long-term asset return target of 7 percent, and align the selected mix with the risk tolerance of the plan's fiduciaries was taken into account. The strategic mix has reduced exposure to an equity market risk and increased allocation to asset classes which are not highly correlated, as well as asset classes where management has historically generated excess returns, and places greater emphasis on manager skills to produce excess return while employing various risk mitigation strategies to reduce volatility.

The Pastoral Office expects to contribute approximately \$522,000 to the defined benefit pension plan in fiscal year 2019.

The following estimated future benefit payments, which reflect expected future service, as appropriate, are expected to be paid in the fiscal years indicated:

2019	\$ 835,249
2020	844,758
2021	789,446
2022	769,301
2023	717,212
2024-2028	3,339,041

Defined Contribution Plan

The Pastoral Office also sponsors a 403(b) Church Retirement Plan (the 403(b) Plan). The 403(b) Plan covers substantially all Archdiocesan or affiliated Catholic organizations' lay employees. Each affiliated Catholic organization contributes a discretionary amount (3 percent of the participant's salary for fiscal years 2018 and 2017). In addition, organizations match the first 4 percent of employee contributions at 50 percent such amount. New participants become vested in six years (20 percent per year after the second year of service). Expenses for the Pastoral Office's portion of the 403(b) plan were not significant for the years ended June 30, 2018 and 2017.

Note 13 - Related Party Transactions

Investments include investments managed for related parties. The Pastoral Office, in a fiduciary capacity, manages the following investments for parties associated with the Archdiocese as of June 30, 2018 and 2017:

	2018	2017
Archdiocesan Parish Deposit and Loan Fund (PDLF)	\$ 42,715,593	\$ 38,120,020
Catholic Charities	1,760,518	1,609,363
Resurrection Memorial Cemetery, Inc.	8,925,637	8,072,061
St. Ann's Home, Inc.	602,369	942,102
Bishop McGuinness High School	2,218,867	2,006,673
	\$ 56,222,984	\$ 50,750,219

PDLF is an investment pool of funds deposited by parishes and other members of the Archdiocese. PDLF was established to provide financing to defined members of the Archdiocese and is administered by the Pastoral Office and a third-party administrator. Funds deposited to the PDLF earn interest at a rate based on the monthly average rate of two-year U.S. Treasury Notes plus 0.25 percent, and loans from PDLF bear interest at a floating rate adjusted monthly based on the average rate of two-year U.S. Treasury Notes plus 1.25 percent. The policy of PDLF is to limit outstanding loans to 75 percent of the total PDLF assets with the remaining assets being invested in cash or equity/fixed income securities.

Deposits to PDLF are guaranteed by the Pastoral Office. As of June 30, 2018, PDLF has assets of \$51,763,000, consisting of funds deposited by the Pastoral Office and other members of the Archdiocese, and had loans outstanding to members of the Archdiocese of \$12,569,976. As of June 30, 2017, PDLF had assets of \$45,797,522 and had loans outstanding to members of the Archdiocese of \$13,572,938.

During the year ended June 30, 2018, the Pastoral Office began soliciting funds related to the One Church, Many Disciples capital campaign. Member parishes are participating in the campaign and the Pastoral Office is the administrator. The Pastoral Office will distribute a portion of the funds collected to each member parish in accordance with the campaign policy. As of June 30, 2018, the amount of funds due to related parties is \$1,955,464.

The Catholic Foundation of Oklahoma, Inc. (Foundation) conducts business from offices located inside the Pastoral Office building, and reimburses the Pastoral Office for salaries, payroll taxes, retirement and other benefits, insurance, rent, and telephone expenses. The totals received from the Foundation for the years ended June 30, 2018 and 2017 were \$184,602 and \$170,950, respectively. Accounts receivable at June 30, 2018 and 2017 included \$43,616 and \$15,094, respectively, due from the Foundation. The Foundation holds and manages certain investments of the Pastoral Office, which amounted to \$13,112,518 and \$12,816,578 at June 30, 2018 and 2017, respectively. Fund management fees paid to the Foundation for the years ended June 30, 2018 and 2017 were \$39,961 and \$40,480, respectively.

Note 14 - Commitments and Contingencies

Guarantees

The Pastoral Office is contingently liable as guarantor for certain automobile loans for its priests which total approximately \$106,000 at June 30, 2018. In the event the debtor fails to make the required principal and interest payments on the bank debt, the Pastoral Office would be required to make such payments. All priest car loans are paying as agreed and the Pastoral Office believes it is unlikely they will be required to make payments.

The Pastoral Office was contingently liable as guarantor for a loan between Good Shepherd Catholic School, Inc. and a nonprofit corporation for \$150,000 at June 30, 2018. Subsequent to year-end, the Pastoral Office was notified that the nonprofit corporation had forgiven the loan in full, effective October 23, 2018.

St. Ann Retirement Center, Inc. had obligations as of June 30, 2018 and 2017, related to 2011 Revenue Bonds (Bonds). In connection with the Bonds, the Pastoral Office has entered into a guaranty agreement that will remain in effect through the maturity and settlement of the Bonds. The Bonds bear interest at an annual fixed rate of 4.06 percent and require monthly principal and interest payments through December 1, 2027. Remaining payments total approximately \$8,055,000 as of June 30, 2018. The bonds are current as of June 30, 2018 and 2017, and the Pastoral Office does not believe it will have any obligation related to these bonds.

Contributions Payable

The Pastoral Office has made unconditional promises to give to certain organizations. Contributions to be paid in more than one year are discounted, generally using rates ranging from 1 to 3%. The following is a summary of contributions payable at June 30, 2018:

To be paid within 1 year		\$	466,666
To be paid within 2 years			166,667
			<u>633,333</u>
Less discount			<u>(70,968)</u>
			<u><u>\$ 562,365</u></u>

Archdiocese of Oklahoma City Pastoral Office Funds
Notes to Financial Statements
June 30, 2018 and 2017

The following is a summary of contributions payable at June 30, 2017:

To be paid within 1 year	\$	548,757
To be paid within 2 years		<u>467,666</u>
		1,016,423
Less discount		<u>(70,968)</u>
	\$	<u><u>945,455</u></u>

Litigation

The Pastoral Office is subject to various claims and legal proceedings covering certain matters that arise in the course of its activities. Based upon available information and advice from the Pastoral Office’s legal counsel, management believes that any liability that may ultimately arise from these matters will not have a material adverse effect on the financial condition or results of activities of the Pastoral Office.

Note 15 - Restatement

During the year ended June 30, 2018, the Pastoral Office identified a misstatement within the 2017 financial statements related to beneficial interests in charitable trusts held by others. As a result, the Pastoral Office restated its previously issued financial statements to appropriately reflect the beneficial interests in charitable trusts held by others and temporarily restricted net assets for the year ended June 30, 2017.

The following is a summary of the effects of the restatement in the Pastoral Office’s June 30, 2017 Statement of Financial Position:

	As Previously Reported	Adjustment	As Restated
As of June 30, 2017			
Beneficial interests in charitable trusts held by others	\$ -	\$ 1,599,923	\$ 1,599,923
Total assets	160,903,007	1,599,923	162,502,930
Net Assets			
Temporarily restricted	398,012	1,599,923	1,997,935
Total net assets	93,942,413	1,599,923	95,542,336
Total liabilities and net assets	160,903,007	1,599,923	162,502,930

Archdiocese of Oklahoma City Pastoral Office Funds
Notes to Financial Statements
June 30, 2018 and 2017

The following is a summary of the effects of the restatement in the Pastoral Office's June 30, 2017 Statement of Activities:

	<u>As Previously Reported</u>	<u>Adjustment</u>	<u>As Restated</u>
Year ended June 30, 2017			
Temporarily Restricted Net Assets, Beginning of Year	\$ 396,732	\$ 1,599,923	\$ 1,996,655
Temporarily Restricted Net Assets, End of Year	398,012	1,599,923	1,997,935
Total Net Assets, Beginning of Year	87,746,222	1,599,923	89,346,145
Total Net Assets, End of Year	93,942,413	1,599,923	95,542,336

Note 16 - Subsequent Events

On August 1, 2018, the Pastoral Office received approximately \$3,100,000 from the sale of St. Ann's Home, Inc., an Archdiocese entity. Approximately \$776,000 of the funds received were used to settle an outstanding insurance premium receivable due to the Pastoral Office that was outstanding as of June 30, 2018. Approximately \$602,000 of funds held for others as of June 30, 2018 related to this entity became assets of the Pastoral Office at the time of the sale.