ROMAN CATHOLIC DIOCESE OF AMARILLO
DEPOSIT AND LOAN FUND

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT

FOR THE YEAR ENDED JUNE 30, 2016
INDEPENDENT AUDITOR'S REPORT

To the Most Reverend Patrick J. Zurek,
Bishop of the Roman Catholic Diocese of Amarillo
and Members of the Finance Council
Amarillo, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the Roman Catholic Diocese of Amarillo Deposit & Loan Fund (a non-profit organization) (the "D&L"), which consist of the statement of financial position as of June 30, 2016, and the related statements of activities 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.
To the Most Reverend Patrick J. Zurek,
Bishop of the Roman Catholic Diocese of Amarillo
and Members of the Finance Council

Opinion

In our opinion the financial statements referred to above present fairly, in all material respects, the financial position of the Roman Catholic Diocese of Amarillo Deposit & Loan Fund as of June 30, 2016 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.

Brown, Graham & Company, P.C.

Amarillo, Texas
October 27, 2016
Assets:
Cash and cash equivalents $ 789,769
Investments 8,759,499
Loans receivable 2,239,941

Total assets $ 11,789,209

Liabilities:
Deposits payable $ 12,074,688

Net Assets:
Unrestricted (285,479)

Total liabilities and net assets $ 11,789,209

The accompanying notes are an integral part of these financial statements.
<table>
<thead>
<tr>
<th>Description</th>
<th>Unrestricted Net Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Change in net assets:</strong></td>
<td></td>
</tr>
<tr>
<td>Revenue, gains and other support:</td>
<td></td>
</tr>
<tr>
<td>Investment income</td>
<td>$ 260,208</td>
</tr>
<tr>
<td>Interest earned on loans receivable</td>
<td>39,601</td>
</tr>
<tr>
<td>Net realized losses on investments</td>
<td>(321,757)</td>
</tr>
<tr>
<td>Net unrealized losses on investments</td>
<td>(178,439)</td>
</tr>
<tr>
<td>Other income</td>
<td>12</td>
</tr>
<tr>
<td>Total revenue and other support</td>
<td>(200,375)</td>
</tr>
<tr>
<td><strong>Expenses:</strong></td>
<td></td>
</tr>
<tr>
<td>Interest paid on deposits</td>
<td>384,673</td>
</tr>
<tr>
<td>Investment expenses</td>
<td>78,205</td>
</tr>
<tr>
<td>Other</td>
<td>8,752</td>
</tr>
<tr>
<td>Total expenses</td>
<td>471,630</td>
</tr>
<tr>
<td><strong>Changes in net assets</strong></td>
<td>(672,005)</td>
</tr>
<tr>
<td><strong>Net assets - beginning of year</strong></td>
<td>386,526</td>
</tr>
<tr>
<td><strong>Net assets - end of year</strong></td>
<td>$ (285,479)</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these financial statements.
Cash flows from operating activities:
- Change in net assets $ (672,005)
- Adjustments to reconcile change in net assets to
  net cash flow from operating activities:
  - Net realized losses on investments 321,757
  - Net unrealized losses on investments 178,439
  - (Increase) decrease in:
    - Loans receivable (1,454,284)
    - Increase (decrease) in:
      - Deposits payable (1,470,858)
- Net cash flows from operating activities (3,096,951)

Cash flow from investing activities:
- Proceeds from sale of investments 5,688,239
- Purchases of investments (3,627,792)
- Net cash flows from investing activities 2,060,447

Cash flow from financing activities:
- Advances on note payable 1,500,000
- Payments on note payable (1,500,000)
- Net cash flows from financing activities
- Net change in cash and cash equivalents (1,036,504)

Cash and cash equivalents - beginning of year 1,826,273
Cash and cash equivalents - end of year $ 789,769

Supplemental disclosure of cash flow information:
- Cash paid during the year for interest on deposits payable $ 384,673
- Cash paid during the year for interest on line of credit $ 3,324

The accompanying notes are an integral part of these financial statements.
Note 1 – Organization and Summary of Significant Accounting Policies:

Nature of Operations
The Roman Catholic Diocese of Amarillo (the “Diocese”) was established August 25, 1926. It includes 34 parishes, 13 mission communities, 6 elementary schools, 1 diocesan high school and other institutions under the direct supervision of the Bishop of Amarillo. The Bishop of Amarillo is a de facto corporation sole. The Bishop of Amarillo has dominion over the entities indicated and property is titled: The Most Reverend Patrick J. Zurek, Bishop of the Roman Catholic Diocese of Amarillo, and/or his successors in office. The Diocese is part of the Catholic Church of America, also known as the United States Catholic Conference, and of the Texas Catholic Conference.

The Roman Catholic Diocese of Amarillo Deposit and Loan Fund (the “D&L”) was established in June 2002 by the Diocese. It is a separate Texas non-profit corporation formed for the cooperative investment and lending of funds for the mutual benefit of parishes and organizations in the Diocese. There is a two percentage point difference between the interest charged and the interest paid.

The accompanying financial statements of the D&L include only the investing and lending activities performed for the mutual benefit of the parishes and organizations served by the D&L and do not include any financial information for the activities performed by these separate legal entities.

Basis of Presentation
The accompanying financial statements are prepared in accordance with accounting principles generally accepted in the United States of America as applicable to non-profit organizations. They include the assets, liabilities, net assets and activities of only the D&L’s accounts.

The accompanying financial statements exclude the assets, liabilities, net assets and activities of the Diocese, individual parishes, schools, the Roman Catholic Diocese of Amarillo Pastoral Center, the Bishop DeFalco Retreat Center and other church organizations, which operate within the Diocese of Amarillo. Each, although ultimately responsible to the Bishop, is an operating entity distinct from the D&L, maintains separate financial records, and provides its own services and programs.

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents
For purposes of the statement of cash flows, the D&L considers cash in operating bank accounts, cash on hand, money market funds held in the D&L’s investment accounts and all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Accounts and Loans Receivable
The D&L follows the direct write-off method of expensing accounts and loans receivable when considered uncollectible. The effect of using this method (as compared to an allowance method) on the statement of activities is immaterial. Management evaluates each account individually to determine its collectability.
Note 1 – Organization and Summary of Significant Accounting Policies (continued):

Accounts Receivable (continued)
During the current year, the D&L did not write off any receivables because none were considered to be uncollectible.

Contributions
Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a 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 Statement of Activities as net assets released from restrictions. Permanently restricted net assets represent contributions received that, according to donor wishes, are to be held in perpetuity, with related income being available for specific use within the Diocese. Contributions received with donor-imposed restrictions that are met in the same year in which the contributions are received are classified as unrestricted contributions.

Donated equipment, materials and supplies are reflected as contributions in the accompanying financial statements at their estimated values at date of receipt. No amounts have been reflected in the accompanying financial statements for donated services since no objective basis is available to measure the value of such services.

Federal Income Tax
The D&L is exempt from federal income tax under Internal Revenue Code Section 501(c)(3). As a result, no provision for current or deferred income tax liability is recognized in the D&L’s books and records. Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 740, Income Taxes, requires extensive disclosures about uncertain income tax positions. This standard seeks to reduce the diversity in practice associated with certain aspects of the recognition and measurement related to accounting for income taxes. Management evaluates any uncertain tax positions using the provisions of ASC 450, Contingencies. Accordingly, a loss contingency is recognized when it is probable that a liability has been incurred as of the date of the financial statements and the amount of loss can be reasonably estimated. The amount recognized is subject to estimate and management judgment with respect to the likely outcome of each uncertain tax position. The amount that is ultimately sustained for an individual uncertain tax position or for all uncertain tax positions in the aggregate could differ from the amount recognized. Management does not believe that it has engaged in any activity that would result in an uncertain tax position. As a result, management does not believe that any uncertain tax positions currently exist and no loss contingency has been recognized in the accompanying financial statements. Federal and state income tax statutes dictate that tax returns filed in any of the previous three reporting periods remain open to examination. Currently, the D&L has no open examinations with either the Internal Revenue Service or state taxing authorities. The D&L has been classified as an organization that is not a private foundation under Section 509(a)(2) of the Internal Revenue Code.

The D&L’s policy is to record any income tax related penalties and interest incurred as operating expense. There were no income tax related penalties or interest included in the accompanying financial statements.
Note 1 – Organization and Summary of Significant Accounting Policies (continued):

Investments
Investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair values in the statement of financial position. Realized and unrealized gains and losses are included in the change in net assets. Investments held in alternative structures are recorded at net asset values provided by external investment managers as a practical expedient in determining fair value. Because such investments are not readily marketable, the estimated value is subject to uncertainty and therefore may differ materially from the value that would have been used had a ready market for such investments existed. Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis and dividends are recorded on the ex-dividend date.

Risks and uncertainties
The D&L invests in various types of investment securities. These investments are exposed to several risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the fair value of investment securities will occur in the near term and those changes could materially affect the amounts reported in the D&L’s financial statements.

Unrestricted Net Assets
The purpose of the D&L is to provide a fund for parishes, schools, and other diocesan entities of the Roman Catholic Diocese of Amarillo to deposit excess funds and receive interest thereon, and to loan those funds to other diocesan entities for construction projects and other projects deemed prudent by the Bishop and the Finance Council of the D&L. The amounts accumulated over the years which make up the unrestricted net asset balance are available to further provide resources for these diocesan entities.

Note 2 – Loans Receivable:
Loans are made from the D&L Fund to schools, parishes, and others within the Diocese with the approval of the Bishop and the Finance Council. Outstanding loan balances are not secured by a formal deed of trust or other type of security agreement. Loan activity in the D&L fund for the year ended June 30, 2016 was as follows:

<table>
<thead>
<tr>
<th>Loans to:</th>
<th>Balance 7/1/2015</th>
<th>Loans Awarded</th>
<th>Interest Charges Added</th>
<th>Principal Payments Received</th>
<th>Interest Payments Received</th>
<th>Balance 6/30/2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Parishes</td>
<td>$354,021</td>
<td>$1,535,849</td>
<td>$23,398</td>
<td>$(132,007)</td>
<td>$(20,293)</td>
<td>$1,760,968</td>
</tr>
<tr>
<td>Schools</td>
<td>$412,580</td>
<td>-</td>
<td>$17,808</td>
<td>$(3,500)</td>
<td>$(17,823)</td>
<td>$409,065</td>
</tr>
<tr>
<td>Others</td>
<td>$19,056</td>
<td>$57,838</td>
<td>$1,033</td>
<td>$(7,124)</td>
<td>$(895)</td>
<td>$69,908</td>
</tr>
<tr>
<td>Total</td>
<td>$785,657</td>
<td>$1,593,687</td>
<td>$42,239</td>
<td>$(142,631)</td>
<td>$(39,011)</td>
<td>$2,239,941</td>
</tr>
</tbody>
</table>

Interest earned on loans reported above in the amount of $42,239 differs by $2,638 from the amount reported on the statement of activities in the amount of $39,601. This is a result of timing differences.
Note 3 – Deposits Payable:

Deposits payable consist of amounts remitted by various parishes, schools, and others to the D&L in order to pool funds together for the cooperative investment of funds. The invested funds are described in more detail in Note 4 below. Deposit activity in the D&L fund for the year ended June 30, 2016 was as follows:

<table>
<thead>
<tr>
<th>Deposits from:</th>
<th>Balance 7/1/2015</th>
<th>Deposits and Interest Added</th>
<th>Payments and Interest Remitted</th>
<th>Balance 6/30/2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Parishes</td>
<td>$6,483,356</td>
<td>$2,406,277</td>
<td>(2,294,139) $</td>
<td>$6,595,494</td>
</tr>
<tr>
<td>Schools</td>
<td>493,767</td>
<td>189,756</td>
<td>(171,384) $</td>
<td>512,139</td>
</tr>
<tr>
<td>Others</td>
<td>6,568,423</td>
<td>5,020,402</td>
<td>(6,621,770) $</td>
<td>4,967,055</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$13,545,546</strong></td>
<td><strong>$7,616,435</strong></td>
<td>(9,087,293) $</td>
<td><strong>12,074,688</strong></td>
</tr>
</tbody>
</table>

Note 4 – Investments:

FASB ASC 958-320, *Fair Value Measurements and Disclosures*, defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. Fair value is defined as 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. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability, or in the absence of a principal market, the most advantageous market. Valuation techniques that are consistent with the market, income or cost approach, as specified by ASC Topic 820, are used to measure fair value. The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels as follows:

Level 1: Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets (examples include equity securities);

Level 2: Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, and inputs that are observable for the asset or liability other than quoted prices, either directly or indirectly, including inputs in markets that are not considered to be active, inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability (examples include corporate or municipal bonds and certain types of hedge funds);

Level 3: Inputs to the valuation methodology are unobservable (supported by little or no market activity) and significant to the fair value measurement. The inputs to the determination of fair value require significant management judgment (examples include certain private equity securities and certain types of hedge funds).
Note 4 – Investments (continued):

The asset’s or liability’s fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. There have been no changes in the methodologies used at June 30, 2016.

The methods used may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the D&L believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Investments classified as Level 1 consist of mutual funds that invest in equity securities (stocks). Because the equity securities that these mutual funds invest in are publicly traded with quoted market prices for identical assets in active markets, they are considered to be at the highest level of observable inputs. The mutual funds themselves are based upon the quoted market price as of June 30, 2016 for the particular investment held.

Investments classified as Level 2 consist of mutual funds that invest in debt securities (bonds). Because the debt securities that these mutual funds invest in are considered to be valued based upon quoted market prices for similar assets and have a lower level of observable inputs, they are considered a Level 2 investment. The mutual funds themselves are based upon quoted market prices as of June 30, 2016 for the particular investment held.

Investments classified as Level 2 also consist of mutual funds that invest in hedge funds, real estate, infrastructure, and similar types of assets. The input for the valuation of these types of investments typically would be supported only by little or no market input, using fund manager’s views about future outcomes of events, speculation, etc.; however, these funds were considered to be a Level 2 category rather than a Level 3 category because the mutual funds themselves are actively traded in public markets, and can be corroborated by observable market data by correlation or other means. The mutual funds themselves are based upon quoted market prices as of June 30, 2016 for the particular investments held.

Also included in investments classified as Level 2 are shares or units in common trust funds (CTFs) as opposed to direct interests in the funds’ underlying holdings, which may be marketable. Because the net asset value reported by each fund is used as a practical expedient to estimate fair value of the D&L’s interest therein, its classification in Level 2 or 3 is based on the D&L’s ability to redeem its interest at or near June 30. If the interest can be redeemed in the near term, the investment is classified as Level 2.

Investment income reported on the statement of activities in the amount of $260,208 consisted of interest earned and dividends received on investments during the year. The D&L also incurred $78,205 of investment related fees and expenses for the year, as reported on the statement of activities.
Note 4 – Investments (continued):

The D&L’s investments as of June 30, 2016 broken down by the type of investment evaluation used are as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Quoted Market Prices in Active Markets for Identical Assets Level 1</th>
<th>Significant Other Observable Inputs Level 2</th>
<th>Total Fair Value 6/30/2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asia ex-Japan Equity</td>
<td>$69,669</td>
<td>-</td>
<td>$69,669</td>
</tr>
<tr>
<td>EAFE Equity</td>
<td>644,812</td>
<td>106,671</td>
<td>751,483</td>
</tr>
<tr>
<td>Global Equity</td>
<td>436,763</td>
<td>-</td>
<td>436,763</td>
</tr>
<tr>
<td>Hedge Funds</td>
<td>62,679</td>
<td>-</td>
<td>62,679</td>
</tr>
<tr>
<td>Japanese Large Cap Equity</td>
<td>71,648</td>
<td>-</td>
<td>71,648</td>
</tr>
<tr>
<td>Short Term Fixed Income</td>
<td>-</td>
<td>71,400</td>
<td>71,400</td>
</tr>
<tr>
<td>U.S. Fixed Income</td>
<td>-</td>
<td>5,340,563</td>
<td>5,340,563</td>
</tr>
<tr>
<td>U.S. All Cap Equity</td>
<td>362,645</td>
<td>-</td>
<td>362,645</td>
</tr>
<tr>
<td>U.S. Large Cap Equity</td>
<td>1,371,552</td>
<td>-</td>
<td>1,371,552</td>
</tr>
<tr>
<td>U.S. Mid Cap Equity</td>
<td>221,097</td>
<td>-</td>
<td>221,097</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$3,240,865</strong></td>
<td><strong>$5,518,634</strong></td>
<td><strong>$8,759,499</strong></td>
</tr>
</tbody>
</table>

Note 5 – Related Party Transactions:

The D&L has significant transactions with the Roman Catholic Diocese of Amarillo Diocesan Pastoral Center (the “DPC”). The DPC is a separate organization that oversees the various entities located within the Diocese, including the D&L, which is a cooperative investment and lending program for the mutual benefit of Diocesan organizations, including the DPC. The DPC’s account balances with the D&L as of June 30, 2016 as well as the amount of interest paid to the DPC on accounts held within the D&L for the year ended June 30, 2016 are as follows:

<table>
<thead>
<tr>
<th>Funds on Deposit</th>
<th>Account Balance</th>
<th>Interest Paid</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deposit and Loan Savings</td>
<td>$971,497</td>
<td>$37,008</td>
</tr>
<tr>
<td>Catholic School System Savings</td>
<td>$6,415</td>
<td>$190</td>
</tr>
<tr>
<td>Grand Street Property</td>
<td>$114,893</td>
<td>$3,401</td>
</tr>
<tr>
<td>Diocese Bus Fund Savings</td>
<td>$19,432</td>
<td>$572</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$1,112,237</strong></td>
<td><strong>$41,171</strong></td>
</tr>
</tbody>
</table>
Note 5 – Related Party Transactions (continued):

The Diocese has been in the process of a major fundraising campaign for multiple purposes, including a new administration building for the DPC, as well as improvements for the Bishop DeFalco Retreat Center, Catholic Charities, priest seminary, priest education, and priest retirement housing. The activity for this campaign is being accounted for in a separate entity created by the Diocese which is entitled Preparing the Way. Once completed, the administration building will be gifted to the DPC and recorded as an asset on the DPC’s records. Although subject to change, the estimated cost of the administration building is $6,000,000 and is expected to be completed by the end of 2016.

Included in the D&L funds held for other Diocesan entities as of June 30, 2016 is $911,515 being held for Preparing the Way which is included in deposits payable on the statement of financial position. During the year ended June 30, 2016, the activity for the Preparing the Way funds held by the D&L was total cash received of $2,581,195, interest credited to the Preparing the Way account of $54,699, and remittances in the amount of $4,022,460.

Related to the construction of the administration building being funded by the Preparing the Way campaign, the Diocese entered into a line of credit with J.P. Morgan Chase in the amount of $2,000,000 in May 2015. The purpose of the line of credit was to help cash flow construction costs of the administration building as donations are being received. The line of credit is secured by the various investment accounts maintained by the D&L. Interest on the line of credit is payable monthly at the Variable Libor Rate plus 1.90% which was 2.343% as of June 30, 2016. The line of credit was scheduled to mature in August 2016 and was renewed subsequent to year end as discussed in Note 7. The line of credit activity summarized below for the year ended June 30, 2016, is being accounted for by the D&L in the Preparing the Way deposits payable account.

<table>
<thead>
<tr>
<th>Line of Credit</th>
<th>Balance 7/1/2015</th>
<th>Deposits and Interest Added</th>
<th>Payments and Interest Received</th>
<th>Balance 6/30/2016</th>
<th>Interest Paid</th>
</tr>
</thead>
<tbody>
<tr>
<td>J.P Morgan Chase</td>
<td>$</td>
<td>$1,500,000</td>
<td>(1,500,000)</td>
<td>-</td>
<td>$3,324</td>
</tr>
</tbody>
</table>

Note 6 – Concentration of Credit Risk:

The D&L maintains various bank accounts at institutions insured by the Federal Deposit Insurance Corporation (FDIC). Cash accounts are federally insured up to $250,000 and deposits at these institutions exceeded federally insured limits. The amounts in excess of FDIC insurance totaled approximately $18,378 as of June 30, 2016.

Note 7 – Subsequent Events:

Management has evaluated subsequent events through October 27, 2016, the date on which the financial statements were available to be issued. In August 2016 the Diocese extended the line of credit discussed in Note 5 above through November 30, 2017. Other than this event, management has not identified anything subsequent to year end that would warrant disclosure in the notes or adjustment to the financial statements.