

**ROMAN CATHOLIC DIOCESE OF AMARILLO
DEPOSIT AND LOAN FUND**

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT**

FOR THE YEAR ENDED JUNE 30, 2015



BROWN, GRAHAM & COMPANY

PROFESSIONAL CORPORATION
CERTIFIED PUBLIC ACCOUNTANTS

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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, 2015, 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, 2015 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 29, 2015

**ROMAN CATHOLIC DIOCESE OF AMARILLO
DEPOSIT & LOAN FUND
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2015**

<u>Assets:</u>	
Cash and cash equivalents	\$ 1,826,273
Investments	11,320,142
Loans receivable	<u>785,657</u>
 Total assets	 \$ <u><u>13,932,072</u></u>
<u>Liabilities:</u>	
Deposits payable	\$ 13,545,546
<u>Net Assets:</u>	
Unrestricted	<u>386,526</u>
 Total liabilities and net assets	 \$ <u><u>13,932,072</u></u>

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

**ROMAN CATHOLIC DIOCESE OF AMARILLO
DEPOSIT & LOAN FUND
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015**

	<u>Unrestricted Net Assets</u>
Change in net assets:	
Revenue, gains and other support:	
Investment income	\$ 254,384
Interest earned on loans receivable	40,232
Net realized gains on investments	34,698
Net unrealized losses on investments	(126,649)
Other income	3
Total revenue and other support	<u>202,668</u>
Expenses:	
Interest paid on deposits	338,385
Investment expenses	72,978
Other	5,022
Total expenses	<u>416,385</u>
Change in net assets	(213,717)
Net assets - beginning of year	<u>600,243</u>
Net assets - end of year	<u>\$ 386,526</u>

The accompany notes are an integral part of these financial statements.

**ROMAN CATHOLIC DIOCESE OF AMARILLO
DEPOSIT & LOAN FUND
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2015**

Cash flows from operating activities:

Change in net assets	\$	(213,717)
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Realized gains on investments		(34,698)
Unrealized losses on investments		126,649
(Increase) decrease in:		
Loans receivable		200,354
Increase (decrease) in:		
Deposits payable		<u>3,997,148</u>
Net cash flows from operating activities		<u>4,075,736</u>
Cash flows from investing activities:		
Net proceeds from the sale of investments		9,921
Net purchases of investments		<u>(3,084,728)</u>
Net cash flows from investing activities		<u>(3,074,807)</u>
Net changes in cash and cash equivalents		1,000,929
Cash and cash equivalents - beginning of year		<u>825,344</u>
Cash and cash equivalents - end of year	\$	<u><u>1,826,273</u></u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest on deposits payable	\$	<u><u>338,385</u></u>

The accompany notes are an integral part of these financial statements.

ROMAN CATHOLIC DIOCESE OF AMARILLO
DEPOSIT & LOAN FUND
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015

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 does 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 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 and all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Accounts Receivable

The D&L follows the direct write-off method of expensing accounts 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.

**ROMAN CATHOLIC DIOCESE OF AMARILLO
DEPOSIT & LOAN FUND
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015**

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.

**ROMAN CATHOLIC DIOCESE OF AMARILLO
DEPOSIT & LOAN FUND
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015**

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 Board of Directors 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, 2015 was as follows:

Loans to:	Balance 7/1/2014	Interest Charges Added	Principal Payments Received	Interest Payments Received	Balance 6/30/2015
Parishes	\$ 531,868	\$ 20,562	\$ (175,833)	\$ (22,576)	\$ 354,021
Schools	414,588	17,966	(2,000)	(17,974)	412,580
Others	<u>39,555</u>	<u>1,699</u>	<u>(20,312)</u>	<u>(1,886)</u>	<u>19,056</u>
Total	<u>\$ 986,011</u>	<u>\$ 40,227</u>	<u>\$ (198,145)</u>	<u>\$ (42,436)</u>	<u>\$ 785,657</u>

Interest earned on loans reported above in the amount of \$40,227 differs by \$5 from the amount reported on the statement of activities in the amount of \$40,232. This is a result of timing differences.

**ROMAN CATHOLIC DIOCESE OF AMARILLO
DEPOSIT & LOAN FUND
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015**

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, 2015 was as follows:

<u>Deposits from:</u>	<u>Balance 7/1/2014</u>	<u>Deposits and Interest Added</u>	<u>Payments and Interest Returned</u>	<u>Balance 6/30/2015</u>
Parishes	\$ 5,245,239	\$ 2,296,344	\$ (1,058,227)	\$ 6,483,356
Schools	400,074	285,593	(191,900)	493,767
Others	3,903,085	4,362,812	(1,697,474)	6,568,423
Total	<u>\$ 9,548,398</u>	<u>\$ 6,944,749</u>	<u>\$ (2,947,601)</u>	<u>\$ 13,545,546</u>

Note 4 – Investments:

FASB ASC 958-820, *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).

ROMAN CATHOLIC DIOCESE OF AMARILLO
DEPOSIT & LOAN FUND
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015

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, 2015.

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, 2015 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, 2015 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, 2015 for the particular investments held.

Most investments classified in Level 2 consist of 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 \$254,384 consisted of interest earned and dividends received on investments during the year. The D&L also incurred \$72,978 of investment related fees and expenses for the year, as reported on the statement of activities.

**ROMAN CATHOLIC DIOCESE OF AMARILLO
DEPOSIT & LOAN FUND
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015**

Note 4 – Investments (continued):

The D&L’s investments as of June 30, 2015 broken down by the type of investment evaluation used are as follows:

<u>Description</u>	<u>Quoted Market Prices in Active Markets for Identical Assets Level 1</u>	<u>Significant Other Observable Inputs Level 2</u>	<u>Total Fair Value</u>
Asia ex-Japan Equity	\$ 490,926	\$ -	\$ 490,926
EAFE Equity	1,228,846	-	1,228,846
Global Equity	576,635	-	576,635
Hedge Funds	-	607,430	607,430
Japanese Large Cap Equity	81,989	-	81,989
Real Estate & Infrastructure	-	105,018	105,018
U.S. Fixed Income	-	4,407,855	4,407,855
U.S. All Cap Equity	770,603	-	770,603
U.S. Large Cap Equity	2,496,048	-	2,496,048
U.S. Mid Cap Equity	554,792	-	554,792
	<u>\$ 6,199,839</u>	<u>\$ 5,120,303</u>	<u>\$ 11,320,142</u>

Note 5 – Related Party Transactions:

The D&L has significant transactions with the Roman Catholic Diocese of Amarillo Diocesan Pastoral Center (the “DPC”). The D&L 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, 2015 as well as the amount of interest paid to the DPC on accounts held within the D&L for the year ended June 30, 2015 are as follows:

<u>Funds on Deposit</u>	<u>Account Balance</u>	<u>Interest Paid</u>
Deposit and Loan Savings	\$ 1,070,615	\$ 31,580
Catholic School System Savings	6,225	184
Grand Street Property	111,492	2,189
Diocese Bus Fund Savings	18,657	540
Total	<u>\$ 1,206,989</u>	<u>\$ 34,493</u>

Note 6 – Subsequent Events:

Management has evaluated subsequent events through October 29, 2015, the date on which the financial statements were available to be issued. Management has not noted anything subsequent to year end that would warrant discussion in the notes to the financial statements.