

ST. MARY CATHOLIC PARISH

Sherman, Texas

Combined Financial Statements

Year Ended June 30, 2019

ST. MARY CATHOLIC PARISH

Combined Financial Statements

Year Ended June 30, 2019

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INDEPENDENT AUDITORS' REPORT

To the Finance Committee
St. Mary Catholic Parish
Sherman, Texas

We have audited the accompanying combined financial statements of St. Mary Catholic Parish (the "Parish"), which comprise the combined statement of financial position as of June 30, 2019, and the related combined statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of these combined 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 combined financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these combined 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 combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Parish's preparation and fair presentation of the combined 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 Parish'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 combined financial statements.

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

Basis for Qualified Opinion

Because of the inadequacy of accounting records, we were unable to obtain sufficient appropriate audit evidence regarding the recorded amount of physical properties. Additionally, physical properties are not being depreciated over the estimated useful lives of the underlying assets. The effects of these departures from generally accepted accounting principles have not been determined.

Qualified Opinion

In our opinion, except for the effects of the matter discussed in the preceding paragraph, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of St. Mary Catholic Parish as of June 30, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

PSK LLP

Arlington, Texas
September 4, 2019

ST. MARY CATHOLIC PARISH
 Combined Statement of Financial Position
 June 30, 2019

ASSETS

Cash and cash equivalents	\$ 1,474,080
Investments	118,136
Physical properties, net	8,583,149
Other assets	<u>11,210</u>
 Total assets	 <u>\$ 10,186,575</u>

LIABILITIES AND NET ASSETS

Liabilities	
Accounts payable and accrued expenses	<u>\$ 19,146</u>
 Net assets	
Without donor restrictions	9,617,868
With donor restrictions	<u>549,561</u>
 Total net assets	 <u>10,167,429</u>
 Total liabilities and net assets	 <u>\$ 10,186,575</u>

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

ST. MARY CATHOLIC PARISH

Combined Statement of Activities

Year Ended June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and support			
Contributions	\$ 866,911	\$ 69,495	\$ 936,406
Tuition	607,242	-	607,242
Fundraisers and investment income	273,149	316	273,465
Gifts and bequests	223,860	-	223,860
Fees and other revenues	197,330	-	197,330
Net assets released from restrictions	<u>56,540</u>	<u>(56,540)</u>	<u>-</u>
Total revenues	<u>2,225,032</u>	<u>13,271</u>	<u>2,238,303</u>
Expenses			
Program expenses			
Faith formation	70,494	-	70,494
Worship and liturgical	406,424	-	406,424
Ministries	105,995	-	105,995
School	<u>1,201,085</u>	<u>-</u>	<u>1,201,085</u>
Total program expenses	<u>1,783,998</u>	<u>-</u>	<u>1,783,998</u>
Supporting services			
Management and general	275,561	-	275,561
Fundraising and development	<u>103,150</u>	<u>-</u>	<u>103,150</u>
Total supporting services	<u>378,711</u>	<u>-</u>	<u>378,711</u>
Total expenses	<u>2,162,709</u>	<u>-</u>	<u>2,162,709</u>
Change in net assets	62,323	13,271	75,594
Net assets at beginning of the year	<u>9,555,545</u>	<u>536,290</u>	<u>10,091,835</u>
Net assets at end of the year	<u>\$ 9,617,868</u>	<u>\$ 549,561</u>	<u>\$ 10,167,429</u>

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

ST. MARY CATHOLIC PARISH
Combined Statement of Functional Expenses
Year Ended June 30, 2019

	Program Expenses				Total Program Expenses
	Faith Formation	Worship and Liturgical	Ministries	School	
Salaries and benefits	\$ -	\$ 113,682	\$ 16,158	\$ 904,442	\$ 1,034,282
Contributions and assessments	150	849	2,938	2,744	6,681
Professional fees	1,282	16,756	280	31,167	49,485
Insurance and risk management	3,674	21,936	5,285	24,485	55,380
Supplies, repairs, and maintenance	54,159	209,189	67,545	194,079	524,972
Utilities	11,229	44,012	13,789	33,844	102,874
Interest and financing	-	-	-	4,296	4,296
Bad debt expense	-	-	-	6,028	6,028
Total	<u>\$ 70,494</u>	<u>\$ 406,424</u>	<u>\$ 105,995</u>	<u>\$ 1,201,085</u>	<u>\$ 1,783,998</u>

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

ST. MARY CATHOLIC PARISH
 Combined Statement of Functional Expenses (continued)
 Year Ended June 30, 2019

	Supporting Services			Total Expenses
	Management and General	Fundraising and Development	Total Supporting Services	
Salaries and benefits	\$ 82,084	\$ -	\$ 82,084	\$ 1,116,366
Contributions and assessments	110,967	-	110,967	117,648
Professional fees	19,653	-	19,653	69,138
Insurance and risk management	3,606	-	3,606	58,986
Supplies, repairs, and maintenance	42,980	103,150	146,130	671,102
Utilities	16,264	-	16,264	119,138
Interest and financing	7	-	7	4,303
Bad debt expense	-	-	-	6,028
	-	-	-	6,028
Total	\$ 275,561	\$ 103,150	\$ 378,711	\$ 2,162,709

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

ST. MARY CATHOLIC PARISH
 Combined Statement of Cash Flows
 Year Ended June 30, 2019

Cash flows from operating activities:	
Change in net assets	\$ 75,594
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by operating activities:	
Net investment return	(1,452)
Decrease in other assets	20,546
Decrease in accounts payable and accrued expenses	<u>(26,083)</u>
Net cash and cash equivalents provided by operating activities	<u>68,605</u>
Cash flows from investing activities:	
Purchases of physical properties	(66,009)
Proceeds from sale of investments	<u>199,684</u>
Net cash and cash equivalents provided by investing activities	<u>133,675</u>
Change in cash and cash equivalents	202,280
Cash and cash equivalents at beginning of the year	<u>1,271,800</u>
Cash and cash equivalents at end of the year	<u><u>\$ 1,474,080</u></u>

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

ST. MARY CATHOLIC PARISH
Notes to Combined Financial Statements

1 - Historical Background

St. Mary Catholic Parish was established by the Catholic Diocese of Dallas (the “Diocese”) in 1874 to provide ministry services to Catholics in Sherman, Texas. St. Mary Catholic School (the “School”) is a coeducational parochial school of the Parish providing education to students in kindergarten through eighth grade. St. Francis of Assisi Catholic Parish - Whitesboro (the “Quasi Parish”) is a satellite campus that was established in 2006 to provide ministry services to Catholics in Whitesboro, Texas.

The combined financial statements include the accounts of the Parish, School, and Quasi Parish (collectively referred to as the “Parish”). All significant inter-organizational transactions and balances have been eliminated.

2 - Significant Accounting Policies

Basis of Accounting - The combined financial statements of the Parish have been prepared on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned, and expenses are recorded when the obligation is incurred. The combined financial statements of the Parish have been prepared using accounting principles generally accepted in the United States of America (“U.S. GAAP”).

Departure from U.S. GAAP - The Parish has not fully implemented the Recognition of Property, Plant, and Equipment by Not-for-Profit Organizations topic of the Financial Accounting Standards Board *Accounting Standards Codification* (“FASB ASC”). Specifically, the Parish has not capitalized certain physical properties at historical cost or recorded depreciation on such physical properties. The effects of these departures from U.S. GAAP have not been determined.

Adoption of New Accounting Standards - In August 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update 2016-14: *Presentation of Financial Statements for Not-for-Profit Entities* (“ASU 2016-14”), which is an amendment to the FASB ASC Topic 958. ASU 2016-14 is effective for annual financial statements issued for fiscal years beginning after December 15, 2017. Adopting ASU 2016-14 has had the following impact on the Parish’s combined financial statements:

- The temporarily restricted net asset class has been renamed *net assets with donor restrictions*.
- The unrestricted net asset class has been renamed *net assets without donor restrictions*.
- The combined financial statements now include a combined statement of functional expenses.
- The notes to combined financial statements include a new disclosure about liquidity and availability of resources (See Note 3).
- Investment return is now simply reported in the aggregate, net of investment expenses.

ST. MARY CATHOLIC PARISH
Notes to Combined Financial Statements

2 - Significant Accounting Policies (continued)

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

Net Assets Without Donor Restrictions - Net assets available for use in general operations and not subject to donor restrictions.

Net Assets With Donor Restrictions - Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions may be perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled or both.

Revenues and Support - Revenues and support for the Parish are primarily derived from contributions from the Parish membership and from tuition and fees charged by the School.

Income Taxes - The Internal Revenue Service issued a determination letter dated March 25, 1946, stating that all Catholic Parish entities listed in the *Official Catholic Directory* are exempt from federal income taxes under Internal Revenue Code Section 501(c)(3). Each year since then, the IRS has issued a communication stating that the determination letter is still in effect. St. Mary Catholic Parish, as part of the Catholic Diocese of Dallas, is exempt under this ruling.

The Parish follows the Income Taxes topic of the FASB ASC, which prescribes a comprehensive model for the financial statement recognition, measurement, presentation and disclosure of uncertain tax positions taken or expected to be taken in income tax returns. The Parish is not aware of any activities that would jeopardize its tax-exempt status and is not aware of any activities that are subject to tax on unrelated business income. As of June 30, 2019, the Parish has no uncertain tax positions that qualify for either recognition or disclosure in the combined financial statements and does not expect this to change in the next twelve months.

Programs - The Parish pursues its objectives through the execution of the following major programs:

Faith formation - Religious education and spiritual development programs.

Worship and liturgical - Prayer and worship services.

Ministries - Various ministry areas of the Parish, including outreach, social, and health ministries.

School - Coeducational parochial education and activities provided to students in kindergarten through eighth grade.

Use of Estimates - Management used estimates and assumptions in preparing these combined financial statements in accordance with U.S. GAAP. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

Donated Services - No amounts have been reflected in the combined financial statements for donated services. The Parish pays for most services requiring specific expertise. A large number of people have contributed significant amounts of time to the activities of the Parish without compensation. The combined financial statements do not reflect the value of those contributed services.

ST. MARY CATHOLIC PARISH
Notes to Combined Financial Statements

2 - Significant Accounting Policies (continued)

Donated Assets - Donated marketable equity securities and other noncash donations are recorded as contributions at their estimated fair values at the date of donation.

Compensated Absences - Employees of the Parish, administrative and ministerial, are entitled to paid vacation depending upon length of service and other factors. The Parish cannot reasonably estimate the amount of compensation for future absences; accordingly, no liability has been recorded in the accompanying combined financial statements. The Parish's policy is to recognize the cost of compensated absences when paid to employees.

Cash and Cash Equivalents - For purposes of reporting cash flows, the Parish considers all bank deposits and highly liquid financial instruments with original maturities of three months or less, which are neither held for nor restricted by donors for long-term purposes, to be cash and cash equivalents.

Investments - As required by the Not-for-Profit Entities Investments of Debt and Equity Securities topic of the FASB ASC, investments in marketable equity securities with readily determinable fair values and all investments in debt securities are carried at their fair values in the combined statement of financial position. Realized and unrealized gains and losses are included in the change in net assets.

Physical Properties - Physical properties acquired have not been consistently capitalized or depreciated. See Note 2, Departure from U.S. GAAP, for more information regarding physical properties.

Functional Allocation of Expenses - The costs of program and supporting services activities have been summarized on a functional basis in the combined statement of activities. The combined statement of functional expenses presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting activities benefited on the basis of estimates of time and effort and utilization of space.

Concentrations of Credit Risk - At times, the Parish maintains cash balances with financial institutions in excess of federally insured limits. It is the opinion of management that the solvency of these financial institutions is sufficient to cover any exposure.

Subsequent Events - Subsequent events have been evaluated through September 4, 2019, which is the date the combined financial statements were available to be issued.

3 - Liquidity and Availability of Resources

The Parish operates under a budget for activities supported by unrestricted contributions and fees. Its Finance Committee (the "Board") is responsible for monitoring the liquidity necessary to meet the Parish's operating needs and meets periodically throughout the year to evaluate the actual results of financial operations versus the budget. Additionally, the Parish maintains certain Board-designated and donor-restricted funds (See Notes 9 and 10). Management, in accordance with Parish policy and/or in collaboration with the Board, appropriates resources from donor-restricted funds as needed.

ST. MARY CATHOLIC PARISH
Notes to Combined Financial Statements

3 - Liquidity and Availability of Resources (continued)

Financial assets available for general expenditure, that is, without donor-restrictions limiting their use or without requiring specific action of the Board, within one year of the date of the combined statement of financial position, as of June 30, 2019 are comprised of the following:

Cash and cash equivalents	\$ 1,474,080
Investments	<u>118,136</u>
	1,592,216
Donor-restricted funds	<u>(549,561)</u>
	1,042,655
Board-designated funds	<u>(249,515)</u>
Financial assets available to meet general expenditure needs within one year	<u>\$ 793,140</u>

4 - Physical Properties

Physical properties as of June 30, 2019 are comprised of the following:

Buildings	\$ 13,721,411
Building improvements	<u>201,738</u>
	13,923,149
Less: accumulated depreciation	<u>(5,340,000)</u>
Net physical properties	<u>\$ 8,583,149</u>

See Note 2, Departure from U.S. GAAP, for more information regarding physical properties.

5 - Fair Value Measurements and Disclosures

The Parish follows the Fair Value Measurements topic of the FASB ASC for all financial assets and liabilities measured at fair value on a recurring basis. The topic establishes a framework for measuring fair value and enhances disclosure requirements for fair value measurements. The Fair Value Measurements topic of the FASB ASC defines fair value 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.

The topic establishes market or observable inputs as the preferred sources of values, followed by assumptions based on hypothetical transactions in the absence of market inputs. The topic establishes a hierarchy for grouping these assets and liabilities based on the significance level of the following inputs:

Level I – Quoted prices in active markets for identical assets or liabilities.

Level II – Quoted prices in active markets for similar assets and liabilities, quoted prices for identical or similar instruments in markets that are not active, and model-derived valuations whose inputs are observable or whose significant drivers are observable.

Level III – Significant inputs to the valuation model are unobservable.

ST. MARY CATHOLIC PARISH
Notes to Combined Financial Statements

5 - Fair Value Measurements and Disclosures (continued)

The following is a listing of investments measured at fair value on a recurring basis and where they are classified within the hierarchy as of June 30, 2019:

	Fair Value Measurements				Total
	Level I	Level II	Level III	Other	
Cash (at cost)	\$ -	\$ -	\$ -	\$ 5,907	\$ 5,907
Equity securities	82,695	-	-	-	82,695
Fixed income securities	29,534	-	-	-	29,534
Total	\$ 112,229	\$ -	\$ -	\$ 5,907	\$ 118,136

The equity securities and fixed income securities are valued using Level 1 inputs. These inputs consist of quoted prices on nationally recognized securities exchanges.

6 - Operating Leases

The Parish has entered into non-cancelable operating leases for office equipment. Total lease expense for the year ended June 30, 2019 totaled \$3,246. The following is a schedule of future minimum payments under the leases at June 30, 2019:

Year Ending June 30,	
2020	\$ 4,638
2021	4,011
2022	3,954
2023	1,393

7 - Commitments

The Parish pays an assessment to the Catholic Diocese of Dallas (the "Diocese"), which is calculated annually as a percentage of contributions, less certain deductions. Assessments totaled \$114,118 for the year ended June 30, 2019.

8 - Retirement Plan

The Parish participates in the Diocese's 403(b) Retirement Plan for Lay Employees. After one year of employment, eligible employees receive an employer contribution of 3% of annual salary and an employer matching contribution of up to an additional 4% of annual pay. Aggregate employer contributions during the year ended June 30, 2019 totaled \$19,791.

9 - Net Assets Without Donor Restrictions

The balance of net assets without donor restrictions as of June 30, 2019 includes net assets designated by the Board for building improvements in the amount of \$249,515.

ST. MARY CATHOLIC PARISH
Notes to Combined Financial Statements

10 - Net Assets With Donor Restrictions

The balance of net assets with donor restrictions as of June 30, 2019 of \$549,561 relates to certain contributions for which the donors have imposed restrictions. These restrictions require the Parish to spend such funds for scholarships for students attending the School. During the year ended June 30, 2019, net assets with donor restrictions in the amount of \$56,540 had been expended in accordance with donor restrictions and have been reclassified to net assets without donor restrictions.