THE ROMAN CATHOLIC DIOCESE OF MEMPHIS IN TENNESSEE

CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2018

WATKINS UIBERALL
Certified Public Accountants
Independent Member of BKR International

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INDEPENDENT AUDITOR'S REPORT

His Excellency The Most Reverend Joseph E. Kurtz
The Roman Catholic Diocese of Memphis in Tennessee

We have audited the accompanying consolidated financial statements of the Roman Catholic Diocese of Memphis in Tennessee (a nonprofit organization) (the "Diocese"), which comprise the consolidated statement of financial position as of June 30, 2018, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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

As described more fully in Note 1, the Diocese has elected not to provide for depreciation of exhaustible property and equipment in accordance with accounting principles generally accepted in the United States of America. Additionally, the Diocese has not recorded the cost of certain land, as the cost of such land is not readily determinable. Disposals, retirements, and the related gains and losses have also not been recorded. The effect of these omissions on the accompanying consolidated financial statements has not been reasonably determined.

Qualified Opinion

In our opinion, except for the matters discussed in the Basis for Qualified Opinion paragraph, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Diocese as of June 30, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter Regarding Prior Period Adjustment

As described in Note 19 to the financial statements, certain corrections of amounts previously reported in the financial statements for the year ended June 30, 2017, were made during the fiscal year ended June 30, 2018, and the beginning net asset classifications have been restated for these corrections. Our opinion is not modified with respect to that matter.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplemental schedules as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Watkins Uiberall, PLLC

Memphis, Tennessee
December 12, 2018

THE ROMAN CATHOLIC DIOCESE OF MEMPHIS IN TENNESSEE

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

June 30, 2018

Assets		
Cash and cash equivalents	$	26,079,800
Receivables		
Unconditional promises to give, net		1,202,644
Tuition, net		223,605
Related party		1,513,953
Other		840,411
Prepaid expenses		207,914
Beneficial interest in trusts		7,253,363
Investments		43,364,502
Property and equipment		261,251,094
Right-of-use assets		980,343
Other assets		256,103
Total assets	$	343,173,732
Liabilities and Net Assets		
Accounts payable and accrued expenses	$	4,559,776
Collections held for transmittal		242,356
Deferred revenue		4,426,464
Lease liabilities		1,013,028
Due to annuitants		298,023
Due to beneficiaries		249,400
Additional minimum pension liability		15,997,214
Additional post-retirement benefit obligation		4,761,058
Related party payables		925,290
Derivative financial instruments		1,406,687
Long-term debt		22,977,561
Total liabilities		56,856,857
Net Assets		
Unrestricted		
Diocese-designated		5,624,064
Undesignated		243,975,671
Total unrestricted		249,599,735
Temporarily restricted		30,770,866
Permanently restricted		5,946,274
Total net assets		286,316,875
Total liabilities and net assets	$	343,173,732

The accompanying notes are an integral part of the consolidated financial statements.

THE ROMAN CATHOLIC DIOCESE OF MEMPHIS IN TENNESSEE

CONSOLIDATED STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2018

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating Support and Revenues				
Contributions and Grants				
General contributions	$ 22,437,281	$ 5,712,035	$ 50,000	$ 28,199,316
Bishop's annual appeal	-	1,731,338	-	1,731,338
Grant revenue	1,418,180	-	-	1,418,180
Estate donations	255,839	4,498,910	-	4,754,749
Missions and societies	142,000	-	-	142,000
Education				
Tuition and fees, net	27,894,313	-	-	27,894,313
Other education revenue	4,939,890	-	-	4,939,890
Social and fundraising	2,439,889	-	-	2,439,889
Auxiliary services	672,152	-	-	672,152
Cemeteries	550,847	-	-	550,847
Investment income	1,801,128	59,237	-	1,860,365
Other income	2,498,566	-	-	2,498,566
Net assets released from restrictions	17,208,094	(17,208,094)	-	-
Total operating support and revenues	82,258,179	(5,206,574)	50,000	77,101,605
Operating Expenses				
Program Services				
Cemeteries	663,319	-	-	663,319
Education	40,712,462	-	-	40,712,462
Ministry services	1,873,387	-	-	1,873,387
Diocesan clergy services	1,531,411	-	-	1,531,411
Parishes	17,042,877	-	-	17,042,877
Total program services	61,823,456	-	-	61,823,456
General and administration	16,838,302	-	-	16,838,302
Fundraising	628,276	-	-	628,276
Total operating expenses	79,290,034	-	-	79,290,034
Income (loss) from operations	2,968,145	(5,206,574)	50,000	(2,188,429)
Nonoperating Gains (Losses)				
Change in value of beneficial interest in trusts	228,301	-	-	228,301
Change in market value of investments	1,034,037	647,854	-	1,681,891
Change in fair value of derivatives	1,144,224	-	-	1,144,224
Minimum pension liability adjustment	9,324,073	-	-	9,324,073
Postretirement benefits adjustment	(587,531)	-	-	(587,531)
Loss on uncollectible promises to give	-	(148,043)	-	(148,043)
Gain on sale of assets	405,417	-	-	405,417
Total nonoperating gains (losses)	11,548,521	499,811	-	12,048,332
Change in net assets	14,516,666	(4,706,763)	50,000	9,859,903
Net assets, beginning of year as previously stated	226,920,492	43,009,616	6,526,864	276,456,972
Prior period adjustment	8,162,577	(7,531,987)	(630,590)	-
Net assets, beginning of year as restated	235,083,069	35,477,629	5,896,274	276,456,972
Net assets, end of year	$ 249,599,735	$ 30,770,866	$ 5,946,274	$ 286,316,875

The accompanying notes are an integral part of the consolidated financial statements.

THE ROMAN CATHOLIC DIOCESE OF MEMPHIS IN TENNESSEE

CONSOLIDATED STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2018

Cash Flows Provided By (Used In) Operating Activities:	
Change in net assets	$ 9,859,903
Adjustments to Reconcile Change in Net Assets to Net Cash Provided By (Used In) Operating Activities:	
Change in value of beneficial interest in trusts	(228,301)
Estate donation of beneficial interest in trust	(4,498,910)
Reclassification of beneficial interest in trust	(630,590)
Change in market value of investments	(1,681,891)
Change in fair value of derivatives	(1,144,224)
Minimum pension liability adjustment	(9,324,073)
Postretirement benefits adjustment	587,531
Loss on uncollectible promises to give	148,043
Gain on sale of property and equipment	(405,417)
Amortization of right-of-use-assets	855,794
Changes in Operating Assets and Liabilities:	
Receivables	584,617
Prepaid expenses	74,473
Other assets	31,532
Accounts payable and accrued expenses	526,080
Collections held for transmittal	(51,305)
Deferred revenue	(335,142)
Related party payables	160,147
Total adjustments	(15,331,636)
Net cash used in operating activities	(5,471,733)
Cash Flows Provided By (Used In) Investing Activities:	
Purchases of investments	(3,814,120)
Proceeds from sales of investments	22,466,372
Proceeds from sale of property and equipment	551,059
Purchases of property and equipment	(1,127,296)
Payments to annuitants and beneficiaries	(158,177)
Net cash provided by investing activities	17,917,838
Cash Flows Provided By (Used In) Financing Activities:	
Payments on lease liabilities	(859,377)
Principal payments on long-term debt	(1,949,041)
Principal payments on line of credit	(1,541,254)
Net cash used in financing activities	(4,349,672)
Net increase in cash and cash equivalents	8,096,433
Cash and cash equivalents, beginning of year	17,983,367
Cash and cash equivalents, end of year	$ 26,079,800

The accompanying notes are an integral part of the consolidated financial statements.

THE ROMAN CATHOLIC DIOCESE OF MEMPHIS IN TENNESSEE

CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

For the Year Ended June 30, 2018

Supplemental Cash Flow Information:		
Cash paid during the year for interest	$	1,400,035
Noncash Investing and Financing Activities:		
Decrease in related party receivables due to decrease in their respective pension liabilities	$	(431,331)
Increase in related party payables due to change in their investments	$	(20,835)
Lease liabilities arising from obtaining right-of-use assets	$	53,377

The accompanying notes are an integral part of the consolidated financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Activities

The Roman Catholic Diocese of Memphis in Tennessee (the "Diocese") is a non-profit religious organization consisting of parishes and missions, grade schools, jubilee grade schools, high schools, cemeteries, Catholic Memphis Urban Schools, Inc. ("CMUS"), and the administrative offices. CMUS is a Tennessee non-profit organization chartered in April, 2003 to assist the Diocese with funding and development for the Catholic schools in the Memphis inner city ("Jubilee schools"). Title to Diocesan property vests in the Bishop and his successors; similarly, Diocesan obligations are those of the Bishop and his successors.

Financial Statement Presentation

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP").

The accompanying consolidated financial statements include the financial position, activities and cash flows of all parishes and missions, grade schools, jubilee grade schools, high schools, cemeteries, CMUS and the administrative offices, which operate under Diocesan management and are fiscally responsible to the Bishop. All significant inter-organizational balances and transactions have been eliminated to the extent respective equity of those organizations is combined for presentation purposes. Various religious orders, lay societies, and religious organizations that operate within the Diocese, and are not fiscally responsible to the Bishop, have not been included in the accompanying consolidated financial statements.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Contributions

The Diocese receives support from a variety of sources including contributions from individuals, estates, missions and societies. Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support depending upon the existence and/or nature of any donor restrictions. Contributions are recognized when the donor makes a promise to give that is, in substance, unconditional. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

Donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. 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 consolidated statement of activities as net assets released from restrictions.

Contributions derived from the Bishop's Annual Appeal are used primarily for seminarian education, ministries of the Diocese and subsidies for various funded agencies. These contributions are restricted for use during the subsequent fiscal year. Accordingly, all contributions for the subsequent fiscal year's Annual Appeal have been recognized as temporarily restricted contributions and will be released from restriction in the following fiscal year in order to support operations for that year. Contributions derived from campaign pledge drives are recorded as temporarily restricted until the respective project is substantially complete, at which time the net assets will be reclassified to unrestricted net assets in the consolidated statement of activities.

Tuition and Fees

Tuition and fees are recorded as revenue in the applicable school year. Any fees received in advance of the applicable school year are reflected as deferred revenue in the consolidated statement of financial position.

Tuition revenue is reported net of discounts and financial aid awarded. Total discounts and financial aid awarded for the year ended June 30, 2018 was $12,735,627.

Fair Value Measurements

The Diocese applies GAAP for fair value measurements of financial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a recurring basis. 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. GAAP also establishes a framework for measuring fair value and requires certain disclosures about fair value measurements. See Note 4 for the required disclosure information.

Functional Expenses

Based on management's estimates, the costs of providing the various ministries and supporting services have been summarized on a functional basis in the consolidated statement of activities. Accordingly, certain costs have been allocated among the ministries and supporting services benefited.

Credit Risks

The Diocese's credit risks primarily relate to cash and cash equivalents, receivables, investments and derivatives. The Diocese maintains cash on deposit at local banks in excess of federally insured limits. Accounts are insured by the Federal Deposit Insurance Corporation ("FDIC") up to an aggregate of $250,000. The Diocese has minimized risk by depositing cash in banks with high credit standings. The Diocese has not experienced any losses of such funds, and management believes the Diocese is not exposed to significant risk on cash.

Investments, which are not insured by the FDIC, are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with investments, it is at least possible that changes in the values of investments will occur in the near term and such changes could materially affect the Diocese's financial position and changes in its net assets. See Note 10 for credit risks related to derivatives.

Cash and Cash Equivalents

For purposes of the consolidated statement of cash flows, the Diocese considers all highly liquid investments with initial maturities of three months or less to be cash equivalents. All certificates of deposit are considered to be cash equivalents since interest penalties for early withdrawal are insignificant. The Diocese has excluded cash and cash equivalents held in investment accounts.

Receivables

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Promises that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates, and amortization of the discounts is included in contribution revenue. Unconditional promises to give are stated at the amount management expects to collect. Management provides for an allowance based on historical collection rates and the evaluation of past due promises to give. See Note 2 for additional information.

Tuition and other receivables are stated at the amount management expects to collect from outstanding balances. Management monitors outstanding balances and provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based upon its assessment of the current status of individual accounts. The allowance for uncollectible accounts for tuition and other receivables was $1,149,254 at June 30, 2018. Balances that are still outstanding after a reasonable period of time has elapsed are generally written off through a charge to the valuation allowance and a credit to the appropriate receivable.

Investments

Investments are stated at fair market value in the consolidated statement of financial position. Changes in market value, including realized gains and losses and unrealized appreciation and depreciation, are included in the consolidated statement of activities. Investment advisory fees of $100,157 were netted against investment income for the year ended June 30, 2018.

Property and Equipment

The land for thirty-two of the forty-eight parishes and missions, as well as six other properties owned by the Diocese, has been excluded from the accompanying consolidated financial statements. The cost of such land is not readily determinable, since most of it was developed more than forty years ago. Current zoning regulations indicate that this land is restricted for a single purpose and, accordingly, has no determinable commercial resale value. Due to the absence of certain records, most of the buildings and equipment recorded upon the founding of the Diocese in 1971 are stated at insurance appraisal value at that time.

Other property and equipment purchases in excess of $5,000 are capitalized and stated at cost if purchased or constructed, or the estimated fair value on the date received if donated. The Diocese does not record depreciation expense for property and equipment.

Leases

The Diocese adopted FASB Accounting Standards Update 2016-2 – *Leases,* during 2017. The standard was implemented using a modified retrospective approach. For leases previously recognized as operating leases, the new guidance requires the recording of a right-to-use asset and offsetting lease liability and the recording of interest expense for a portion of lease payments and amortization of the right-to-use asset. Right-of-use assets reflect the present value of future lease payments of all finance-type leases amortized on a straight-line basis. Lease liabilities reflect the present value of future lease payments of all finance-type leases. See Note 8 for additional information.

Derivatives

Derivatives are recorded as either assets or liabilities in the consolidated statement of financial position at fair market value. The interest rate swap agreements described in Note 10 are derivative instruments whose fair values are based on the expected cash flows over the lives of the trades.

Net Assets

The Diocese's net assets and changes therein are classified and reported as follows:

Permanently Restricted Net Assets – Permanently restricted net assets represent contributions subject to donor-imposed stipulations to be invested in perpetuity, for which only the income may be available for Diocese operations or specific purposes.

Temporarily Restricted Net Assets – Temporarily restricted net assets represent gifts or other revenues wherein donors have specified the purpose for which the net assets are to be spent or time restrictions imposed or implied by the nature of the gift. When a restriction is fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities as net assets released from restrictions.

Unrestricted Net Assets – Unrestricted net assets are all the remaining net assets of the Diocese, which includes voluntary Diocese-approved designations of unrestricted net assets for specific purposes, projects, or investments. Because designations are voluntary and may be reversed at any time by the Bishop, designated portions of net assets are not considered temporarily or permanently restricted.

Retirement Plans

The Diocese follows the provisions of the Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans Topic of the FASB Accounting Standards Codification. This topic requires plan sponsors to recognize the funded status of defined benefit pension and other postretirement plans as a net asset or liability and to recognize changes in that funded status in the year in which the changes occur through a change in unrestricted net assets, apart from expenses, to the extent those changes are not included in the net periodic costs.

Advertising Costs

Advertising costs are expensed as incurred and totaled $177,373 for the year ended June 30, 2018.

Income Taxes

No provision for federal income taxes is required since the Diocese is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and has been determined to be an Organization that is not a private foundation. Accordingly, no provision for income taxes is included in the accompanying consolidated financial statements. CMUS files an exempt return in the U.S. federal jurisdiction.

Donated Services

A substantial number of volunteers and contributors donated significant amounts of their time to the Diocese in promoting and assisting with various special fundraising events and other programs. No amounts have been included in the accompanying consolidated financial statements to reflect the value of such donated services since the criteria for recognition has not been met.

Recent Accounting Pronouncements

The FASB issued ASU No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, effective for annual financial statements issued for fiscal years beginning after December 15, 2017. The most significant changes within the ASU impact the following areas:

1. Net Asset Classes – Net asset classification has been reduced from three classes of net assets (unrestricted, temporarily restricted and permanently restricted) to net assets with donor restrictions and net assets without donor restrictions.

2. Investment Return – Investment return will be reported net of external and direct internal investment expenses and those netted expenses are no longer required to be disclosed.

3. Expenses – Expenses by both their natural classification and their functional classification will be presented either on the face of the statement of activities, as a separate statement or in the notes to the financial statements.

4. Liquidity and Availability of Resources – The ASU requires disclosures that communicate qualitative information of how a not-for-profit entity manages its liquid resources available to meet cash needs for general expenditures within one year of the statement of financial position date, as well as quantitative information that communicates the availability of a not-for-profit entity's financial assets at the statement of financial position date to meet cash needs for general expenditures within one year of the statement of financial position date.

5. Presentation of Operating Cash Flows – Not-for-profit entities can continue to present the statement of cash flows using either the direct method or indirect method. The ASU removes the requirement to present or disclose the indirect method when using the direct method of reporting cash flows.

The above changes only impact the presentation and disclosures within the financial statements. However, within the ASU, there is one change in the accounting requirements for not-for-profit entities. The placed-in-service approach will now be required for reporting expirations of restrictions on gifts of cash or other assets to be used to acquire or construct a long-lived asset. The ASU eliminates the current option that, in the absence of explicit donor stipulations, had allowed a not-for-profit to delay reporting of an expiration of a donor imposed restriction for the acquisition or construction of a long-lived asset by electing to report the expiration over time (as the asset is used or consumed, i.e. to match the depreciation expense on the asset) rather than when placed in service.

The Diocese intends to adopt the new ASU guidance using the retrospective method for the year ending June 30, 2019.

Date of Management's Review

The Diocese evaluated its June 30, 2018 consolidated financial statements for subsequent events through December 12, 2018, the date the consolidated financial statements were available to be issued. The Diocese is not aware of any subsequent events which would require recognition or disclosure in the consolidated financial statements.

NOTE 2 – UNCONDITIONAL PROMISES TO GIVE

Unconditional promises to give consist of the following at June 30, 2018:

Bishop's Annual Appeal	$ 756,964
Holy Cross Church, Paris	111,803
Church of the Nativity	192,470
St. Mary Church, Jackson	335,354
Cathedral of Immaculate Conception	283,195
	$ 1,679,786

At June 30, 2018, expected collections of unconditional promises to give, net of present value discounts and allowances, are as follows:

Due within one year	$ 1,450,343
Due within one to five years	229,443
Less allowance for uncollectible promises	(458,480)
Less unamortized discount	(18,662)
Total net unconditional promises to give	$ 1,202,644

Unconditional promises to give due in more than one year are reflected at the present value of estimated future cash flows using a discount rate of 5%.

NOTE 3 – BENEFICIAL INTEREST IN TRUSTS

The Diocese is the designated beneficiary for several irrevocable charitable remainder trusts. The Diocese is the trustee for one of the trusts; the others are administered by third-party trustees. The agreement for which the Diocese is the trustee requires quarterly payments to the lead beneficiaries equal to 7% of the fair value of the trust assets. The difference between the fair value of the assets received and the present value of the obligation to beneficiaries over their estimated life expectancies is recognized as contribution revenue in the year the agreement is signed. The fair value of the trust assets has been included in the consolidated statement of financial position, and a corresponding liability has been recorded to reflect the present value of required lifetime payments to the named beneficiaries using the IRS discount rate of 3.4% for the year ended June 30, 2018.

The trust agreements for which assets are held and administered by other trustees are similar. Upon the death of the lead beneficiaries, the Diocese will receive a percentage of the remaining trust assets, ranging from 37.5% to 75%. The estimated amount to be collected upon the death of the lead beneficiaries is recorded in the consolidated statement of financial position and is based on the fair value of the trust assets and the respective life expectancies, discounted to present value at the IRS discount rate of 3.4% for the year ended June 30, 2018. Realized and unrealized gains and losses from market value fluctuations of the trust assets and amortization of discounts and changes in life expectancy assumptions are reported in the change in fair value of beneficial interest in trusts in the consolidated statement of activities.

The Diocese is the sole beneficiary of an irrevocable trust for priest retirement housing. The trust terms stipulate periodic distributions as determined by the trustee, which are restricted for the Villa Vianney priest retirement community or other residences for retired priests of the Diocese. The trust is intended to continue indefinitely as there is no termination date specified. The Diocese's beneficial interest in this trust is carried at fair value in the consolidated statement of financial position based on the fair value of the underlying trust assets.

The Diocese is the sole beneficiary of an irrevocable trust. The trust terms stipulate periodic unrestricted distributions of the net income of the trust to Holy Angels Catholic Church in Dyersburg, Tennessee. Distributions of the principal of the Trust to Holy Angels Catholic Church is restricted for the construction of a new sanctuary. The trust is intended to continue indefinitely as there is no termination date specified. The Diocese's beneficial interest in this trust is carried at fair value in the consolidated statement of financial position based on the fair value of the underlying trust assets.

Beneficial interest in trusts consisted of the following at June 30, 2018:

Powell Trust	$ 392,719
Gauthreaux Trust	153,575
Kavanagh Trust	151,858
Lattus Trust	633,856
Carmer Trust	4,498,910
Jarboe Trust	1,422,445
	$ 7,253,363

NOTE 4 – FAIR VALUE MEASUREMENTS

GAAP establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). 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. In determining fair value, the Diocese utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible.
The three levels of the fair value hierarchy under GAAP are described below:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities the Diocese has the ability to access.

- Level 2 – Inputs (other than quoted prices within Level 1) such as quoted prices for similar assets or liabilities; quoted prices in inactive markets; or other inputs that can be corroborated by observable market data.

- Level 3 – Inputs which are unobservable for the asset or liability and rely on management's own assumptions about the assumptions that market participants would use in pricing the asset or liability.

The following is a description of the valuation methodologies used for investments measured at fair value. There have been no changes in the methodologies used at June 30, 2018. See Notes 3 and 9 for valuation methods used for beneficial interest in trusts, due to beneficiaries and charitable gift annuities.

Common stock and mutual funds: Valued at the closing price reported on the active market on which the individual securities are traded.

Money market funds: Valued based on current yields of similar instruments with comparable durations considering the credit-worthiness of the issuer.

Limited partnerships: Management uses significant unobservable inputs including information from fund managers and general partners. The fund managers value these investments using the practical expedient based upon the Diocese's proportional share of the net asset values ("NAV") of the underlying securities or as reported by the underlying entities. Since these investments are measured at NAV, there is no requirement to categorize them within the fair value hierarchy. Rather, they are presented in a separate column labeled "Investments Measured at Net Asset Value" in order to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated statement of financial position. Management reviews and evaluates the values provided by the fund managers and general partners and agrees with the valuation methods and assumptions used in determining the fair values. Because of the inherent uncertainty of the valuation of these assets, the values reported in these financial statements may differ significantly from the values that would have been used had a ready market for the investments existed.

The following table sets forth by level, within the fair value hierarchy, the Diocese's assets and liabilities at fair value at June 30, 2018.

	Fair Value Measurements				
	Level 1	Level 2	Level 3	Investments Measured at Net Asset Value	Total
Investments					
Mutual Funds					
Equity	$ 6,055,741	$ -	$ -	$ -	$ 6,055,741
Fixed income	17,398,074	-	-	-	17,398,074
Total mutual funds	23,453,815	-	-	-	23,453,815
Common stocks	7,639,820	-	-	-	7,639,820
Limited Partnerships					
Strategic hedge funds	-	-	-	3,830,562	3,830,562
Conservative hedge fund	-	-	-	2,627,997	2,627,997
Total limited partnerships	-	-	-	6,458,559	6,458,559
Money market funds	-	5,812,308	-	-	5,812,308
Total investments	31,093,635	5,812,308	-	6,458,559	43,364,502
Beneficial interest in trusts	-	-	7,253,363	-	7,253,363
Total assets at fair value	$ 31,093,635	$ 5,812,308	$ 7,253,363	$ 6,458,559	$ 50,617,865
Liabilities					
Derivative financial instruments	$ -	$ 1,406,687	$ -	$ -	$ 1,406,687
Due to beneficiaries	-	-	249,400	-	249,400
Due to annuitants	-	-	298,023	-	298,023
Total liabilities at fair value	$ -	$ 1,406,687	$ 547,423	$ -	$ 1,954,110

The Diocese serves as custodian for the investments for several religious organizations that operate within the Diocese and are not consolidated. Investments for these organizations are offset by liabilities included in the consolidated statement of financial position as related party payables. The amount included in investments and related party payables at June 30, 2018 was $900,284.

The following table sets forth summaries of changes in the fair value of the Diocese's Level 3 assets and liabilities for the year ended June 30, 2018:

	Beneficial Interest in Trusts	Gift Annuities	Due to Beneficiaries
Balance, beginning of year	$ 1,849,239	$ 409,877	$ 114,274
Prior period reclassifications	773,909	-	143,319
Contributions	4,498,910	-	-
Realized/unrealized gains	237,851	(92,068)	(8,193)
Purchases/settlements (net)	(106,546)	(19,786)	-
Balance, end of year	$ 7,253,363	$ 298,023	$ 249,400

The table below presents additional information regarding investments whose fair value is estimated using the practical expedient of reported net asset value (NAV) at June 30, 2018:

	Conservative Hedge Fund (1)	Strategic Hedge Funds (2)
Liquidity		
Initial lock-up	1 year	0 - 2 years
Redemption fees	Up to 5%	0 - 3%
Redemption frequency	Quarterly/semi-annual	Quarterly/semi-annual
Notice	95 days	90 - 105 days
Gate	10%	None
Fair value	$ 2,627,997	$ 3,830,562

(1) *Conservative hedge fund:* This is a fund of funds that seeks consistent returns by primarily investing in funds that generally engage in more non-directional strategies such as Equity Market Neutral and Fixed Income Arbitrage.

(2) *Strategic hedge funds*: These are funds of funds that seek superior returns by primarily investing in funds that engage in more opportunistic strategies such as Emerging Markets, Sector specific, Equity Hedge, credit-related investments, and structured products.

NOTE 5 – PROPERTY AND EQUIPMENT

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

	Cost			
	Land and Improvements	Buildings and Equipment	1971 Appraisal	Total
Administrative offices	$ 1,135,494	13,571,466	$ 665,622	$ 15,372,582
Parish churches and rectories	3,671,093	144,751,802	17,788,335	166,211,230
Parish and Diocesan schools	4,982,747	61,068,072	9,665,760	75,716,579
Cemeteries and other Diocesan institutions	-	3,202,230	748,473	3,950,703
	$ 9,789,334	$ 222,593,570	$ 28,868,190	$ 261,251,094

NOTE 6 – LINES OF CREDIT

The Diocese has a $7,500,000 line of credit with a bank at a variable interest rate of 30-day LIBOR plus 225 basis points, currently 4.34%. There was no outstanding balance at June 30, 2018. The line is secured by a negative pledge agreement and matures on April 20, 2020.

The Diocese has a $3,000,000 line of credit with a bank at a variable interest rate of 30-day LIBOR plus 225 basis points, currently 4.34%. There was no outstanding balance at June 30, 2018. This line is secured by negative pledge agreements and matures on January 31, 2020.

NOTE 7 – LONG-TERM DEBT

Bonds

In May 2003, the Diocese was involved in the issuance by the Health, Educational and Housing Facility Board of the County of Shelby, Tennessee of $25,170,000 of variable rate demand revenue bonds for the St. Benedict at Auburndale High School Project. In July 2010, the 2003 variable rate demand revenue bonds were redeemed through the issuance of Series 2010 Revenue Refunding Bonds. In September 2013, the Series 2010 Revenue Refunding Bonds were redeemed through the issuance of Series 2013A and Series 2013B Revenue Refunding Bonds. Pursuant to the bond issuance, the Diocese entered into a loan agreement with a bank for $20,000,000 (two $10,000,000 tranches) at a fixed interest rate of 3.55% ("bank-qualified loan"). The agreement contains a mandatory prepayment clause at the election of the bank. Not later than November 30, 2022, the bank shall give written notice to the Diocese as to whether it will continue to own the Series 2013A and Series 2013B bonds upon the same or different terms after July 1, 2023, or the bank could elect to require prepayment in full of the bonds on July 1, 2023. If no prepayment is required the bonds will mature on May 1, 2033.

Bank Note

In September 2009, the Diocese entered into a loan agreement with a bank for $11,000,000. In September 2013, the Diocese refinanced the note in the amount of $13,336,667 at a variable rate of interest, which included additional indebtedness of $4,000,000 for the purpose of paying down the line of credit. The specific terms of the loan agreement are presented in the following table. In connection with the refinancing, the Diocese entered into an interest rate swap agreement at the notional amount of $13,039,514, effectively fixing the interest rate at approximately 5.09%. The swap agreements terminate on September 1, 2025. See Note 10 for additional information.

The Diocese is subject to various restrictive debt covenant ratios for the bank loan agreements. At June 30, 2018, the Diocese was not aware of any non-compliance with such covenants.

Outstanding long-term debt at June 30, 2018 is summarized as follows:

Bank qualified loan, Tranche A, payable in monthly installments of $61,313 at 3.55% interest, matures on May 1, 2033, secured by a deed of trust on real estate.	$	8,050,947
Bank qualified loan, Tranche B, payable in monthly installments of $61,509 at 3.55% interest, matures on May 1, 2033, secured by a deed of trust on real estate.		8,090,762
Bank note, principal payments ranging from $33,017 to $57,475 due monthly plus interest at a variable rate of 1.65% over one month LIBOR, currently 3.63%, matures September 1, 2025, secured by substantially all assets of the Diocese.		6,767,461
St. Mary Memphis Church note payable, payable in monthly installments of $2,833, including interest at 6.51%, through June 20, 2020, secured by equipment.		68,391
Total long-term debt	$	22,977,561

Principal maturities of long-term debt are as follows for the years ending June 30:

2019	$	1,451,238
2020		1,516,876
2021		1,541,108
2022		1,605,441
2023		1,672,546
Thereafter		15,190,352
	$	22,977,561

Interest expense totaled $1,407,941 for the year ended June 30, 2018.

NOTE 8 – FINANCE-TYPE LEASES

The Diocese leases copiers, computer equipment, and postage machines under finance-type leases. The related right-of-use assets and lease liabilities are amortized using the Diocese's incremental borrowing rate of 6%. The leases have a weighted average remaining term of 749 days. Future amortization of right-of-use assets are as follows for the years ending June 30:

2019	$	522,810
2020		264,571
2021		124,571
2022		52,620
2023		7,552
Thereafter		8,219
	$	980,343

Future maturities of lease liabilities are as follows for the years ending June 30:

2019	$ 519,037
2020	280,734
2021	136,120
2022	59,117
2023	8,355
Thereafter	9,665
	$ 1,013,028

Amortization expense was $855,794 for the year ended June 30, 2018.

NOTE 9 – CHARITABLE GIFT ANNUITIES

The Diocese is a party to charitable gift annuity arrangements under which donors make gifts to the Diocese and, in turn, receive income payments for the remainder of their lives. The expected future cash flows to be paid to the annuitants have been discounted to present values using a rate of 5.0% at June 30, 2018. Related assets are recognized at fair value, with no contributions received in 2018.

NOTE 10 – DERIVATIVE FINANCIAL INSTRUMENTS

The Diocese has entered into various interest rate swap contracts under which the Diocese pays a fixed rate of interest times a notional principal amount, and receives in return an amount equal to a specified variable rate of interest times a notional principal amount. No other cash payments are made unless the contracts are terminated prior to maturity, in which case the amount paid or received in settlement is established by an agreement at the time of termination, and usually represents the net present value, at current rates of interest, of the remaining obligations to exchange payments under the terms of the contracts. The interest rate swaps are considered to be hedges against the change in the amount of future cash flows associated with the Diocese's bond and bank loan interest payments. Outstanding interest rate swap contracts at June 30, 2018 are summarized as follows:

Swap Inception	Notional Principal at 6/30/2018	Fixed Rate	Variable Rate	Termination Date	Asset/ (Liability)
7/1/2003	$ 8,220,000	3.61%	% of 30-day LIBOR	5/1/2033	$ (973,410)
9/4/2013	11,261,178	5.09%	30-day LIBOR +1.65	9/1/2025	(433,277)
					$ (1,406,687)

In the event that the counterparty fails to perform under the contract, the Diocese bears the risk that payments due to the Diocese may not be collected. The amounts recorded for all swap contracts have been combined as a net liability in the accompanying consolidated statement of financial position. The changes in fair value of the swaps are included in the consolidated statement of activities.

NOTE 11 – DIOCESE-DESIGNATED NET ASSETS

Unrestricted net assets were designated by the Diocese for the following purposes at June 30, 2018:

Perpetual care for cemeteries	$ 2,687,892
Retreat center	769,446
Msgr. Clunan	979,216
Holy Rosary school trust	1,187,510
	$ 5,624,064

NOTE 12 – TEMPORARILY RESTRICTED NET ASSETS

A summary of temporarily restricted net assets at June 30, 2018 is as follows:

Purpose Restrictions:	
Capital projects	$ 2,906,041
Education	14,809,071
Debt reduction	1,637,842
Housing - priests/retired priests	2,468,475
Other ministries	7,064,524
Time restrictions	1,884,913
	$ 30,770,866

NOTE 13 – ENDOWMENT FUNDS

The Diocese maintains endowment funds which consist solely of donor-restricted net assets intended to support the various ministries of the Diocese in perpetuity. To the extent allowed by donor stipulations, the spending policy of the Diocese is to annually spend up to 5% of the five-year rolling average of the endowment fair values. In the event the fair values of the endowment assets fall below the original permanently restricted gift amounts, the Diocese will make no appropriations until the original gift amounts are restored.

Interpretation of Relevant Law

The Diocese is subject to the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"), which governs the State of Tennessee, the provisions of which apply to its endowment funds. The Diocese has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary.

As a result of this interpretation, the Diocese classifies the following as permanently restricted net assets:

(1) The original value of gifts donated to the permanent endowment;
(2) Subsequent gifts to the permanent endowment; and
(3) Accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Finance Council in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Diocese considers the following factors in making decisions related to appropriations for expenditures or accumulations of donor-restricted endowment funds:

(1) The duration and preservation of the various funds;
(2) The purposes of the donor-restricted endowment funds;
(3) General economic conditions;
(4) The possible effect of inflation and deflation;
(5) The expected total return from income and the appreciation of investments;
(6) Other resources of the Diocese; and
(7) The Diocese's investment policies.

Endowment Investment Policy

The Diocese follows an investment policy of placing endowments in its long-term investment portfolio because of their intended long-term duration. The overall objective of this portfolio is to preserve capital and achieve, at a minimum, a total return, net of investment management fees, which is sufficient to offset normal inflation plus reasonable spending.

The asset allocation targets are as follows:

Equities	60%
Fixed income	17.5%
Alternative investments	22.5%
	100%

The net asset composition of the endowment funds at June 30, 2018 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-Restricted Endowment Funds:				
Forsdick Scholarship Trust	$ -	$ 817,486	$ 2,036,690	$ 2,854,176
Walsh Trust	-	461,013	600,437	1,061,450
Canale Scholarship Trust	-	186,594	433,979	620,573
Todd Education Trust	-	52,906	125,897	178,803
Hearst Scholarship Trust	-	36,988	100,000	136,988
Sister Graeber Memorial	-	2,601	30,000	32,601
Gadomski Scholarship Trust	-	109,944	808,457	918,401
Dr. Sullivan Memorial	-	1,214	10,000	11,214
St. Louis Parish - Msgr. Clunan	979,216	251,076	1,389,784	2,620,076
OLPH School (Costa Family)	-	86,192	152,426	238,618
Our Lady of Sorrows School	-	-	44,705	44,705
St. Francis School - Msgr. Buchignani	-	80,150	213,899	294,049
	$ 979,216	$ 2,086,164	$ 5,946,274	$ 9,011,654

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the Diocese to retain as a fund of perpetual duration. There were no deficiencies of this nature at June 30, 2018.

The changes in endowment net assets for the year ended June 30, 2018 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 916,044	$ 1,722,438	$ 6,526,864	$ 9,165,346
Prior period adjustment	-	(5,643)	(630,590)	(636,233)
Investment Return				
Investment income	-	59,237	-	59,237
Net appreciation	63,172	647,854	-	711,026
Total investment return	63,172	707,091	-	770,263
Contributions	-	2,733	50,000	52,733
Appropriations for expenditure	-	(340,455)	-	(340,455)
Endowment net assets, end of year	$ 979,216	$ 2,086,164	$ 5,946,274	$ 9,011,654

NOTE 14 – RETIREMENT PLANS

403(b) Plan

On July 1, 2011, the Diocese established a 403(b) retirement plan for employees with discretionary employer matching contributions up to 1% of compensation. All employees are immediately eligible to make contributions under the Plan. Participants are immediately vested in their voluntary contributions plus actual earnings thereon. Vesting in the employer contributions portion of their accounts is based on a 3 Year Cliff (0% Years 1-2, 100% at end of 3rd year). For 2018, employer contributions to the plan totaled $232,659.

Priest Plan

On July 1, 1973, the Diocese adopted a non-contributory defined benefit plan covering all of its eligible priests (the “Priest Plan”). The Diocese acts as the receiving agent for parish and institutional contributions, which are forwarded to the trustee. Prior service costs are being funded over a thirty (30) year period, after giving effect to actuarial gains or losses.

Employee Plan

On July 1, 1974, a similar non-contributory defined benefit plan (the “1974 Employee Plan”) was adopted covering all full-time lay employees of the Diocese and related organizations included in this report as well as those related entities not included in these financial statements. Prior service costs are being funded over a thirty (30) year period, after giving effect to actuarial gains or losses. The Diocese executed an agreement to freeze accumulated benefits as of August 31, 2007. Accordingly, no new participants have been admitted to the Employee Plan after that date, and years of credited service were frozen on that date.

Additionally, On September 1, 2007, the Diocese adopted another non-contributory defined benefit plan (the “2007 Employee Plan”) with similar terms as the 1974 Employee Plan. The Diocese executed an agreement to freeze accumulated benefits as of June 30, 2011. Accordingly, no new participants have been admitted to the 2007 Employee Plan after that date, and years of credited service were frozen on that date. The 1974 Employee Plan and the 2007 Employee Plan were merged effective December 31, 2012, hereinafter referred to as (the “Employee Plan”).

The following table provides a reconciliation of benefit obligations, plan assets, and funded status of the Plans for the year ended June 30, 2018:

	Priest Plan	Employee Plan	Total
Change in Projected Benefit Obligation:			
Projected benefit obligation, beginning of year	$ 7,285,196	$ 90,439,621	$ 97,724,817
Service cost	129,729	-	129,729
Interest cost	256,830	3,216,644	3,473,474
Actuarial (gain)/loss	(170,809)	(2,473,675)	(2,644,484)
Benefits paid	(261,474)	(4,848,765)	(5,110,239)
Projected benefit obligation, end of year	$ 7,239,472	$ 86,333,825	$ 93,573,297
Change in Plan Assets:			
Fair value of plan assets, beginning of year	$ 6,786,078	$ 65,202,724	$ 71,988,802
Actual return on plan assets, net of expenses	768,532	7,380,005	8,148,537
Employer contributions	175,248	2,373,735	2,548,983
Benefits paid	(261,474)	(4,848,765)	(5,110,239)
Fair value of plan assets, end of year	$ 7,468,384	$ 70,107,699	$ 77,576,083
Funded status	$ 228,912	$ (16,226,126)	$ (15,997,214)

Since the accumulated benefits have been frozen for the employee plan, the accumulated benefit obligation is equal to the projected benefit obligation. The accumulated benefit obligation for the priest plan is equal to the projected benefit obligation as the plan benefits are not based on compensation of the priests.

The additional minimum pension liability as reflected on the consolidated statement of financial position is offset by related party receivables for the portion of this liability owed by Catholic Charities, Inc. The portion of the additional minimum pension liability attributed to Catholic Charities, Inc. totaled $1,159,282 at June 30, 2018.

Weighted-average actuarial assumptions used to calculate the projected benefit obligation were as follows for June 30, 2018:

	Priest Plan	Employee Plan
Discount rate	4.00%	4.00%
Rate of compensation increase	N/A	N/A

The components of the net periodic benefit cost for the year ended June 30, 2018 are as follows:

	Priest Plan	Employee Plan	Total
Net Periodic Benefit Cost:			
Service cost	$ 129,729	$ -	$ 129,729
Interest cost	256,830	3,216,644	3,473,474
Expected return on plan assets	(502,756)	(4,805,789)	(5,308,545)
Amortization of net loss	98,763	2,852,051	2,950,814
	$ (17,434)	$ 1,262,906	$ 1,245,472

Weighted-average actuarial assumptions used to calculate the net periodic benefit cost for the year ended June 30, 2018 are as follows:

	Priest Plan	Employee Plan
Discount rate	3.60%	3.65%
Expected return on plan assets	7.50%	7.50%
Rate of compensation increase	N/A	N/A

The rate used for the expected return on plan assets is within an acceptable range of typical long-term expected return on plan assets assumptions used by actuaries and is based upon the expected return on each asset class together with consideration of the long-term asset strategy of the plan sponsor.

A reconciliation of prepaid pension cost is as follows for the year ended June 30, 2018:

	Priest Plan	Employee Plan	Total
Prepaid Pension Cost:			
Balance, beginning of year	$ 1,788,875	$ 7,250,927	$ 9,039,802
Net periodic pension credit (cost)	17,434	(1,262,906)	(1,245,472)
Employer contributions	175,248	2,373,735	2,548,983
Balance, end of year	$ 1,981,557	$ 8,361,756	$ 10,343,313

Expected future benefit payments for the next ten years ending June 30 are as follows:

	Priest Plan	Employee Plan	Total
2019	$ 370,000	$ 4,762,000	$ 5,132,000
2020	391,000	4,775,000	5,166,000
2021	412,000	4,871,000	5,283,000
2022	454,000	4,918,000	5,372,000
2023	459,000	4,955,000	5,414,000
2024 - 2028	2,332,000	25,277,000	27,609,000
	$ 4,418,000	$ 49,558,000	$ 53,976,000

Funding

The Diocese has historically funded its pension plans using a formula of approximately 8% of employee salaries and $2,580 annually per priest. Management anticipates continuing this funding approach in the foreseeable future and estimates employer contributions to the plans in 2019 will be approximately $2,500,000.

Investment Strategy for Plan Assets

The Retirement Allowance Committee of the Diocese has established four primary objectives for the plans which include (1) to maximize total return within reasonable and prudent levels of risk, (2) to provide annual cash flow sufficient to meet the annual benefit and cash expenditures, (3) to control costs of administering and managing the plans and managing the investments, and (4) to ensure that the investment portfolios are managed responsibly and in compliance with investment manager defined guidelines.

To achieve its investment objectives, the following asset allocation mix has been established:

	Minimum Weight	Maximum Weight
Equities	30%	70%
Fixed income	10%	60%
Alternative investments	0%	25%
Cash and equivalents	0%	10%

The following table sets forth by level, within the fair value hierarchy, the Plans' assets that are measured on a recurring basis at June 30, 2018:

	Priest Plan	Employee Plan	Total
Level 1			
Mutual Funds			
Equities	$ 1,996,045	$ 18,953,068	$ 20,949,113
Fixed Income	987,400	8,351,016	9,338,416
Total mutual funds	2,983,445	27,304,084	30,287,529
Common stocks	2,425,568	23,059,759	25,485,327
Total level 1	5,409,013	50,363,843	55,772,856
Level 2			
Money market funds	286,807	2,121,422	2,408,229
Investments Measured at Net Asset Value			
Limited Partnerships			
Conservative hedge fund	713,906	7,248,604	7,962,510
Strategic hedge fund	1,058,658	10,373,830	11,432,488
Total investments measured at NAV	1,772,564	17,622,434	19,394,998
Total plan assets at fair value	$ 7,468,384	$ 70,107,699	$ 77,576,083

See Note 4 for a description of the valuation methodologies used for assets measured at fair value.

The table below presents additional information regarding plan assets whose fair value is estimated using the practical expedient of reported net asset value (NAV) at June 30, 2018:

	Conservative Hedge Fund (1)	Strategic Hedge Funds (2)
Liquidity		
Initial lock-up	1 year	0 - 2 years
Redemption fees	Up to 5%	0 - 3%
Redemption frequency	Quarterly/semi-annual	Quarterly/semi-annual
Notice	95 days	90 - 105 days
Gate	10%	None
Fair value	$ 7,962,510	$ 11,432,488

The following are descriptions of the investment strategies and any restrictions of the Plan's hedge funds:

(1) *Conservative hedge fund:* This is a fund of funds that seeks consistent returns by primarily investing in funds that generally engage in more non-directional strategies such as Equity Market Neutral and Fixed Income Arbitrage.

(2) *Strategic hedge funds*: These are funds of funds that seek superior returns by primarily investing in funds that engage in more opportunistic strategies such as Emerging Markets, Sector specific, Equity Hedge, credit-related investments, and structured products.

NOTE 15 – POST-RETIREMENT BENEFIT OBLIGATION

The Diocese pays all healthcare costs incurred for its retired priests. The following table presents a summary of Plan assets, projected benefit obligation, funded status and benefit activity of the Plan for the year ended June 30, 2018:

Change in Projected Benefit Obligation:	
Projected benefit obligation, beginning of year	$ 4,173,527
Service cost	213,335
Interest cost	157,000
Actuarial (gain)/loss	300,615
Benefits paid	(83,419)
Projected benefit obligation, end of year	$ 4,761,058
Fair value of plan assets	-
Funded status	$ (4,761,058)

The components of net periodic post-retirement benefit cost are as follows for the year ended June 30, 2018:

Net Periodic Benefit Cost:	
Service cost	$ 213,335
Interest cost	157,000
Amortization of prior service cost	218,133
Amortization of net (gain)/loss	(196,428)
Net periodic benefit cost	$ 392,040

Weighted-average actuarial assumptions used to calculate the projected benefit obligation and net periodic benefit cost were as follows for 2018:

Discount rate	4.10%

For the next five years, the healthcare cost trend rate is 7% and graded to 4% in year seven and beyond.

Accrued post-retirement benefit costs at June 30, 2018 are as follows:

Prepaid (Accrued) Benefit Cost:	
Balance, beginning of year	$ (7,062,085)
Net periodic benefit cost	392,040
Employer contributions	83,419
Balance, end of year	$ (7,370,706)

As this obligation is unfunded, the projected benefit obligation exceeds the fair value of the Plan assets requiring recognition of an additional post-retirement liability at June 30, 2018.

Expected future benefit payments are as follows for the next ten years ending June 30:

2019	$ 141,000
2020	156,000
2021	173,000
2022	199,000
2023	211,000
2024 - 2028	1,224,000
	$ 2,104,000

NOTE 16 – OTHER EMPLOYEE BENEFIT PLANS

It is Diocesan policy to self-insure for health and medical benefits for its employees. The Diocese accrues its estimated liability for these self-insured benefits, including an estimate for incurred but not reported claims, and maintains stop-loss insurance for those individual claims exceeding $175,000 for 2018. Amounts accrued totaled $496,516 at June 30, 2018.

The Diocese maintains an Employee Flexible Benefits Plan (the “Plan”) for full-time employees. The Plan is qualified under Section 125 of the Internal Revenue Code, Cafeteria Compensation Plans. The Plan includes various medical and life insurance coverage, childcare reimbursement accounts, medical care reimbursement accounts, and other qualified pre-tax benefits. The Plan is funded by both employer and employee contributions depending upon the benefits selected. The Diocese serves as the receiving agent in the administration of the funding for this Plan.

NOTE 17 – CATHOLIC UMBRELLA POOL

The Diocese participates in a self-insurance fund for certain Dioceses of the Roman Catholic Church in North America (“the Pool”) which provides excess liability coverages for its membership. Participating Dioceses share in the operating and investment income and expenses of the Pool based on their contributions for each fiscal year. Participants are responsible for claims and claim expenses incurred during fiscal years in which they participate in the Pool; however, historically claims have been less than participant equity. Management believes the Pool’s reserve for unpaid claims and claim expenses is adequate. The Diocese’s equity in the pool at June 30, 2018, of $230,444 is included in other assets on the consolidated statement of financial position.

NOTE 18 – RELATED PARTY TRANSACTIONS

The Diocese advances and borrows amounts on behalf of related party religious organizations which operate within the Diocese. Current amounts due from related parties consisted of the following at June 30, 2018:

Catholic Charities, Inc.	
Pension liability	$ 1,159,282
Cafeteria benefits	612,684
Other	23,124
Loan receivable	262,160
Total due from Catholic Charities, Inc.	2,057,250
Less allowance	(589,982)
	1,467,268
Note receivable from priest, unsecured, non-interest bearing	46,685
	$ 1,513,953

See Note 4 for related party payable information.

NOTE 19 – PRIOR PERIOD ADJUSTMENT

During the year ended June 30, 2018, the Diocese made adjustments to correct errors in the classification of beginning net assets and to properly account for donor restrictions. The effect of these adjustments was an increase in unrestricted net assets of $8,162,577; a decrease in temporarily restricted net assets of $7,531,987; and a decrease in permanently restricted net assets of $630,590. The adjustments had no impact on previously reported total net assets or change in net assets.

SUPPLEMENTAL SCHEDULES

THE ROMAN CATHOLIC DIOCESE OF MEMPHIS IN TENNESSEE

CONSOLIDATING SCHEDULE OF FINANCIAL POSITION

June 30, 2018

	Diocesan Administrative Offices	Diocesan Activities: Parishes: Churches	Diocesan Activities: Parishes: Schools	Diocesan Activities: CMUS & Jubilee Schools	Diocesan Activities: St. Benedict at Auburndale High School	Diocesan Activities: Cemeteries	Combined Total	Eliminations	Consolidated Total
Assets									
Cash and cash equivalents	$ (1,929,089)	$ 10,499,337	$ 2,703,030	$ 11,233,056	$ 3,545,512	$ 27,954	$ 26,079,800	$ -	$ 26,079,800
Receivables									
Unconditional promises to give, net	667,210	535,434	-	-	-	-	1,202,644	-	1,202,644
Tuition, net	-	-	106,594	82,743	36,728	-	226,065	(2,460)	223,605
Related party	17,387,148	9,771,831	3,508,314	69,036	228,844	113,158	31,078,331	(29,564,378)	1,513,953
Other	787,653	47,146	4,465	1,579	173,660	163,333	1,177,836	(337,425)	840,411
Prepaid expenses	83,202	21,387	18,709	84,221	395	-	207,914	-	207,914
Beneficial interest in trusts	2,120,597	5,132,766	-	-	-	-	7,253,363	-	7,253,363
Investments	32,495,714	6,121,955	1,989,786	54,144	-	2,702,903	43,364,502	-	43,364,502
Property and equipment	15,372,582	166,211,230	26,118,145	16,256,260	33,342,174	3,950,703	261,251,094	-	261,251,094
Right-of-use assets	980,343	-	-	-	-	-	980,343	-	980,343
Other assets	230,444	16,684	8,975	-	-	-	256,103	-	256,103
Total assets	$ 68,195,804	$ 198,357,770	$ 34,458,018	$ 27,781,039	$ 37,327,313	$ 6,958,051	$ 373,077,995	$ (29,904,263)	$ 343,173,732
Liabilities and Net Assets									
Accounts payable and accrued expenses	$ 1,239,839	$ 1,933,650	$ 1,189,546	$ 456,088	$ 941,659	$ 13,977	$ 5,774,759	$ (1,214,983)	$ 4,559,776
Line of credit	-	7,920,671	-	-	444,564	-	8,365,235	(8,365,235)	-
Collections held for transmittal	154,384	103,775	-	(19,881)	4,078	-	242,356	-	242,356
Deferred revenue	14,409	36,058	2,102,417	52,793	2,215,947	4,840	4,426,464	-	4,426,464
Lease liabilities	1,013,028	-	-	-	-	-	1,013,028	-	1,013,028
Due to annuitants	298,023	-	-	-	-	-	298,023	-	298,023
Due to beneficiaries	249,400	-	-	-	-	-	249,400	-	249,400
Additional minimum pension liability	(3,426,523)	5,549,357	8,973,475	2,736,880	1,990,705	173,320	15,997,214	-	15,997,214
Additional post-retirement benefit obligation	4,761,058	-	-	-	-	-	4,761,058	-	4,761,058
Related party payables	12,057,558	1,101,952	4,889,611	8,835	-	3,191,379	21,249,335	(20,324,045)	925,290
Derivative financial instruments	433,277	-	-	-	973,410	-	1,406,687	-	1,406,687
Long-term debt	6,767,461	68,391	-	-	16,141,709	-	22,977,561	-	22,977,561
Total liabilities	23,561,914	16,713,854	17,155,049	3,234,715	22,712,072	3,383,516	86,761,120	(29,904,263)	56,856,857
Net assets	44,633,890	181,643,916	17,302,969	24,546,324	14,615,241	3,574,535	286,316,875	-	286,316,875
Total liabilities and net assets	$ 68,195,804	$ 198,357,770	$ 34,458,018	$ 27,781,039	$ 37,327,313	$ 6,958,051	$ 373,077,995	$ (29,904,263)	$ 343,173,732

See independent auditor’s report.

THE ROMAN CATHOLIC DIOCESE OF MEMPHIS IN TENNESSEE

CONSOLIDATING SCHEDULE OF ACTIVITIES

For the Year Ended June 30, 2018

	Diocesan Administrative Offices	Diocesan Activities: Parishes – Churches	Diocesan Activities: Parishes – Schools	Diocesan Activities: CMUS & Jubilee Schools	Diocesan Activities: St. Benedict at Auburndale High School	Diocesan Activities: Cemeteries	Combined Total	Eliminations	Consolidated Total
Operating Support and Revenues									
Contributions and Grants									
General contributions	$ 670,316	$ 26,105,262	$ 599,283	$ 633,164	$ 630,296	$ 27,880	$ 28,666,201	$ (466,885)	$ 28,199,316
Bishop's annual appeal	1,731,338	-	-	-	-	-	1,731,338	-	1,731,338
Grant revenue	-	10,000	313,077	1,131,248	83,500	-	1,537,825	(119,645)	1,418,180
Estate donations	165,220	4,589,529	-	-	-	-	4,754,749	-	4,754,749
Missions and societies	142,000	-	-	-	-	-	142,000	-	142,000
Education									
Tuition and fees, net	-	-	18,820,109	1,995,493	7,079,365	-	27,894,967	(654)	27,894,313
Other education revenue	-	458,991	3,021,830	539,668	919,401	-	4,939,890	-	4,939,890
Social and fundraising	370	1,876,253	447,722	110,585	4,959	-	2,439,889	-	2,439,889
Auxiliary services	608,125	158,668	4,545	-	500	-	771,838	(99,686)	672,152
Cemeteries	-	36,510	-	-	-	514,337	550,847	-	550,847
Assessments and subsidies	3,530,563	-	156,430	-	-	-	3,686,993	(3,686,993)	-
Investment income	435,119	204,566	86,592	1,303,808	4,527	23,466	2,058,078	(197,713)	1,860,365
Other income	534,232	897,598	989,067	53,424	(32,455)	56,700	2,498,566	-	2,498,566
Total operating support and revenue	7,817,283	34,337,377	24,438,655	5,767,390	8,690,093	622,383	81,673,181	(4,571,576)	77,101,605

See independent auditor’s report.

THE ROMAN CATHOLIC DIOCESE OF MEMPHIS IN TENNESSEE

CONSOLIDATING SCHEDULE OF ACTIVITIES (continued)

For the Year Ended June 30, 2018

	Diocesan Activities								
	Diocesan Administrative Offices	Parishes: Churches	Parishes: Schools	CMUS & Jubilee Schools	St. Benedict at Auburndale High School	Cemeteries	Combined Total	Eliminations	Consolidated Total
Operating Expenses									
Program Services									
Cemeteries	-	-	-	-	-	663,319	663,319	-	663,319
Education	-	-	21,675,317	11,816,604	7,690,822	-	41,182,743	(470,281)	40,712,462
Ministry services	1,873,387	-	-	-	-	-	1,873,387	-	1,873,387
Diocesan clergy services	1,531,411	-	-	-	-	-	1,531,411	-	1,531,411
Parishes	-	17,042,877	-	-	-	-	17,042,877	-	17,042,877
Total program services	3,404,798	17,042,877	21,675,317	11,816,604	7,690,822	663,319	62,293,737	(470,281)	61,823,456
General and administration	4,593,324	6,562,018	3,710,079	1,661,102	407,135	175,728	17,109,386	(271,084)	16,838,302
Fundraising	304,639	315,867	17,143	-	-	-	637,649	(9,373)	628,276
Total operating expenses	8,302,761	23,920,762	25,402,539	13,477,706	8,097,957	839,047	80,040,772	(750,738)	79,290,034
Income (loss) from operations	(485,478)	10,416,615	(963,884)	(7,710,316)	592,136	(216,664)	1,632,409	(3,820,838)	(2,188,429)
Nonoperating Gains (Losses)									
Subsidies - Diocesan entities	(984,214)	(3,453,804)	447,873	(76,550)	254,540	-	(3,812,155)	(3,812,155)	-
Change in value of beneficial interest in trusts	228,301	-	-	-	-	-	228,301	-	228,301
Change in market value of investments	1,074,375	330,370	90,228	(17,187)	-	204,105	1,681,891	-	1,681,891
Change in value of derivatives	637,360	38,152	-	-	468,712	-	1,144,224	-	1,144,224
Minimum pension liability adjustment	9,324,073	-	-	-	-	-	9,324,073	-	9,324,073
Postretirement benefits adjustment	(587,531)	-	-	-	-	-	(587,531)	-	(587,531)
Loss on uncollectible promises to give	(60,677)	(87,366)	-	-	-	-	(148,043)	-	(148,043)
Gain/(loss) on sale of assets	461,352	(55,935)	-	-	-	-	405,417	-	405,417
Total nonoperating gains (losses)	10,093,039	(3,228,583)	538,101	(93,737)	723,252	204,105	8,236,177	(3,812,155)	12,048,332
Change in net assets	9,607,561	7,188,032	(425,783)	(7,804,053)	1,315,388	(12,559)	9,868,586	(8,683)	9,859,903
Net assets, beginning of year	35,026,329	174,466,423	17,718,213	32,350,377	13,299,853	3,587,094	276,448,289	8,683	276,456,972
Transfers	-	(10,539)	10,539	-	-	-	-	-	-
Net assets, beginning of year, as restated	35,026,329	174,455,884	17,728,752	32,350,377	13,299,853	3,587,094	276,448,289	8,683	276,456,972
Net assets, end of year	$ 44,633,890	$ 181,643,916	$ 17,302,969	$ 24,546,324	$ 14,615,241	$ 3,574,535	$ 286,316,875	$ -	$ 286,316,875

See independent auditor’s report.

THE ROMAN CATHOLIC DIOCESE OF MEMPHIS IN TENNESSEE

CONSOLIDATED SCHEDULE OF INDEBTEDNESS

June 30, 2018

Catholic Center - principal payment	$	(1,597,774)
Church of the Incarnation		1,599,725
Church of the Nativity		31
St. Ann Church, Bartlett		3,014,041
St. Anne Church		239,241
St. Benedict at Auburndale School		444,564
St. Brigid Church		1,300,738
St. Mary Church, Memphis		1,766,895
	$	6,767,461
Bank note balance (Note 7)	$	6,767,461

See independent auditor's report.