

# **Bishop Lynch High School, Inc.**

Consolidated Annual Financial Report  
June 30, 2017

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## Independent Auditor's Report

To the School Board of  
Bishop Lynch High School, Inc.  
Dallas, Texas

We have audited the accompanying consolidated financial statements of Bishop Lynch High School, Inc. (the School), which comprise the consolidated statements of financial position as of June 30, 2017 and 2016, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### **Management's Responsibility for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

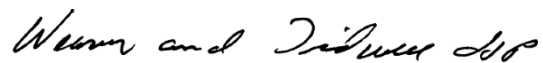
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether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

To the School Board of  
Bishop Lynch High School, Inc.

**Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Bishop Lynch High School, Inc. as of June 30, 2017 and 2016, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



WEAVER AND TIDWELL, L.L.P.

Dallas, Texas  
September 26, 2017

**Bishop Lynch High School, Inc.**  
Consolidated Statements of Financial Position  
June 30, 2017 and 2016

	<b>2017</b>	<b>2016</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 8,373,482	\$ 7,164,978
Investments	5,999,202	5,277,645
Tuition receivable, net of allowance for doubtful accounts of \$362,538 and \$481,640 in 2017 and 2016, respectively	9,768,605	9,329,425
Miscellaneous receivable, net of allowance of \$138,027 and \$125,074 in 2017 and 2016, respectively	647,723	490,723
Promises to give receivable, net of allowance for doubtful accounts of \$613,973 and \$926,351 and discount of \$60,066 and \$138,624 in 2017 and 2016, respectively	586,097	1,352,542
Lynch Locker inventory	40,526	46,513
Other assets	104,233	106,982
Land, building, and equipment, net of accumulated depreciation	41,046,656	39,459,512
<b>TOTAL ASSETS</b>	<b>\$ 66,566,524</b>	<b>\$ 63,228,320</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Notes payable	\$ 11,612,767	\$ 10,033,629
Capital lease obligations	74,534	2,329
Accounts payable and accrued expenses	205,936	1,336,768
Wages payable	38,414	61,236
Deferred revenue and support	14,671,566	13,793,422
Total liabilities	26,603,217	25,227,384
<b>NET ASSETS</b>		
Unrestricted		
Undesignated	30,904,086	27,022,725
Designated	2,786,271	5,392,870
Temporarily restricted	6,147,950	5,460,341
Permanently restricted - endowment	125,000	125,000
Total net assets	39,963,307	38,000,936
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 66,566,524</b>	<b>\$ 63,228,320</b>

The Notes to Consolidated Financial Statements are an integral part of these statements.

**Bishop Lynch High School, Inc.**  
Consolidated Statements of Activities  
Years Ended June 30, 2017 and 2016

	For the Year Ended June 30, 2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>REVENUE AND SUPPORT</b>				
Tuition and fees	\$ 14,791,042	\$ -	\$ -	\$ 14,791,042
Operational income	621,429	-	-	621,429
Contributions	477,984	1,296,981	-	1,774,965
Capital campaign contributions	-	129,116	-	129,116
Interest income	70,145	74,901	-	145,046
Other income	894,680	-	-	894,680
Athletic	126,726	-	-	126,726
Fees	136,265	-	-	136,265
Student activities and support organizations	1,482,855	-	-	1,482,855
Investment income	152,251	405,876	-	558,127
	18,753,377	1,906,874	-	20,660,251
Net assets released from restrictions	1,219,265	(1,219,265)	-	-
	19,972,642	687,609	-	20,660,251
<b>EXPENSES</b>				
Program services				
Instructional	6,827,512	-	-	6,827,512
Administration	7,831,312	-	-	7,831,312
Support services				
Facilities	1,145,424	-	-	1,145,424
Fundraising	780,171	-	-	780,171
Athletics	673,273	-	-	673,273
Student activities	1,440,188	-	-	1,440,188
	18,697,880	-	-	18,697,880
Total expenses	18,697,880	-	-	18,697,880
Change in net assets	1,274,762	687,609	-	1,962,371
<b>NET ASSETS, BEGINNING OF YEAR</b>	32,415,595	5,460,341	125,000	38,000,936
<b>NET ASSETS, END OF YEAR</b>	\$ 33,690,357	\$ 6,147,950	\$ 125,000	\$ 39,963,307

The Notes to Consolidated Financial Statements are an integral part of these statements.

**Bishop Lynch High School, Inc.**  
 Consolidated Statements of Activities  
 Years Ended June 30, 2017 and 2016

	For the Year Ended June 30, 2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>REVENUE AND SUPPORT</b>				
Tuition and fees	\$ 14,477,719	\$ -	\$ -	\$ 14,477,719
Operational income	540,456	-	-	540,456
Contributions	442,653	888,966	-	1,331,619
Capital campaign contributions	-	994,423	-	994,423
Interest income	70,908	81,407	-	152,315
Other income	877,557	-	-	877,557
Athletic	111,881	-	-	111,881
Fees	128,425	-	-	128,425
Student activities and support organizations	1,307,312	-	-	1,307,312
Investment income (loss)	(24,418)	(64,015)	-	(88,433)
	17,932,493	1,900,781	-	19,833,274
Net assets released from restrictions	784,641	(784,641)	-	-
<b>Total revenue, support, and net assets released from restrictions</b>	18,717,134	1,116,140	-	19,833,274
<b>EXPENSES</b>				
Program services				
Instructional	6,771,639	-	-	6,771,639
Administration	7,054,796	-	-	7,054,796
Support services				
Facilities	1,212,585	-	-	1,212,585
Fundraising	763,121	-	-	763,121
Athletics	695,541	-	-	695,541
Student activities	1,254,226	-	-	1,254,226
<b>Total expenses</b>	17,751,908	-	-	17,751,908
<b>Change in net assets</b>	965,226	1,116,140	-	2,081,366
<b>NET ASSETS, BEGINNING OF YEAR , AS RESTATED</b>	31,450,369	4,344,201	125,000	35,919,570
<b>NET ASSETS, END OF YEAR</b>	\$ 32,415,595	\$ 5,460,341	\$ 125,000	\$ 38,000,936

The Notes to Consolidated Financial Statements are an integral part of these statements.

**Bishop Lynch High School, Inc.**  
Consolidated Statements of Cash Flows  
Years Ended June 30, 2017 and 2016

	<b>2017</b>	<b>2016</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 1,962,371	\$ 2,081,366
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,908,018	1,780,308
Loss on sale of equipment	3,274	8,836
Unrealized (gain) loss on investments, net	(558,127)	88,433
Income reinvested	(82,060)	(93,146)
Receivables	170,265	(1,272,930)
Other assets	2,749	(21,389)
Accounts payable and accrued expenses	(1,130,832)	(667,049)
Wages payable	(22,822)	8,496
Lynch Locker inventory	5,987	18,756
Deferred revenue and support	878,144	73,887
Net cash provided by operating activities	<u>3,136,967</u>	<u>2,005,568</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Capital expenditures	(3,408,256)	(7,888,953)
Purchase of marketable investments	(277,923)	(82,640)
Sales of marketable investments	196,553	144,824
Net cash used in investing activities	<u>(3,489,626)</u>	<u>(7,826,769)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments on long-term debt	(99,300)	-
Proceeds from issuance of notes payable	1,678,438	4,328,903
Payments on capital lease obligations	(17,975)	(26,158)
Net cash provided by financing activities	<u>1,561,163</u>	<u>4,302,745</u>
Net change in cash and cash equivalents	1,208,504	(1,518,456)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>7,164,978</u>	<u>8,683,434</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 8,373,482</u>	<u>\$ 7,164,978</u>
<b>SUPPLEMENTAL CASH FLOW INFORMATION</b>		
Interest paid (portion capitalized and expensed)	<u>\$ 348,720</u>	<u>\$254,122</u>

The Notes to Consolidated Financial Statements are an integral part of these statements.



# **Bishop Lynch High School, Inc.**

## Notes to Consolidated Financial Statements

### **Note 1. Organization**

Bishop Lynch High School, Inc. (the School) is a nonprofit coeducational institution of the Roman Catholic Diocese of Dallas (the Diocese) providing a Catholic secondary education in the Dallas, Texas area. The School's Board of Directors is responsible for the direction of the School. The School began operations in September 1963.

The School is organized as a single-member, Texas nonprofit corporation exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code through the annual IRS Group Ruling for the Catholic Church in the United States. The single member is the Bishop of the Diocese.

The School is a continuing Trustee of the Bishop Lynch High School Building and Endowment Trust, a charitable nonprofit trust (the Trust). The Trust was established to create a fund to which individual donors may transfer property and from which the Trust can construct, expand, equip, and maintain an educational institution and fund a continuing endowment fund for the purpose of assisting, promoting, and furthering the education of students enrolled in the School and to advance and support the operation of the School.

Title to the School's property, plant and equipment aggregating \$41,046,656 and \$39,459,512, net of depreciation, at June 30, 2017 and 2016, respectively, is held by the Trust and the Trust is a co-borrower on the School's note payable (see Note 8). Depreciable assets not held in the Trust total \$53,159 and \$56,433, net of depreciation, at June 30, 2017 and 2016, respectively.

### **Note 2. Summary of Significant Accounting Policies**

#### **Basis of 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. The consolidated financial statements include the assets, liabilities and related financial activity managed by the School, as well as the accounts of the Trust. All significant inter-entity balances and transactions have been eliminated in consolidation.

#### **Display of Net Assets by Class**

The School's financial resources are classified into various net asset categories in accordance with activities or restrictions specified by donors.

The balances and activities are classified into three categories according to the existence or absence of donor-imposed restrictions, as follows:

Unrestricted net assets represent resources available for support of the School's operations that are not subject to donor-imposed restrictions.

Temporarily restricted net assets represent available resources subject to donor-imposed restrictions that may or will be met either by actions of the School and/or the passage of time. These include, among others, undistributed earnings on endowments.

# **Bishop Lynch High School, Inc.**

## **Notes to Consolidated Financial Statements**

Permanently restricted net assets represent funds that are subject to donor restrictions requiring that the principal be invested in perpetuity and only the income may be used in accordance with the donor restrictions. Permanently restricted net assets include endowment contributions.

### **Financial Instruments**

The recorded values of the School's financial instruments (cash and cash equivalents, accounts receivable and accounts payable and accruals) approximate their fair values based on their short-term nature.

### **Revenue Recognition**

Deferred revenue and support represents amounts received by the School for tuition, technology fees, and financial aid applicable to the following school year.

Contributions, including unconditional promises to give, are recognized as revenues in the period received, net of an allowance for collection. Promises to give that are scheduled to be collected after the statement of financial position date are shown as increases in temporarily restricted net assets and are reclassified to unrestricted net assets when the purpose or time restrictions are met. Promises to give subject to donor-imposed stipulations that the corpus be maintained permanently are recognized as increases in permanently restricted net assets. Donated assets other than cash are recorded at their estimated fair value at the date of donation. Donor-imposed restrictions on contributions that are satisfied during the period are reported as released from restrictions. Conditional promises to give are not recognized until the conditions on which they depend are substantially met.

Dividends, interest and net gains on investments from permanently restricted net assets are reported as increases in temporarily restricted net assets since the terms of these gifts impose restrictions on the income and net gains.

### **Cash Equivalents**

Cash equivalents consist of short-term, highly liquid investments with an original maturity of 90 days or less and are recorded at cost, which approximates fair value.

### **Investments in Marketable Securities**

Investments are reported at fair value in the consolidated statements of financial position using the three level hierarchy established by generally accepted accounting principles. Realized and unrealized gains and losses are included in the consolidated statements of activities.

### **Accounts Receivables**

Tuition, promises to give and other receivables are stated at unpaid principal balances, less the allowance for collection and a discount to reflect the adjustment necessary to state the stream of future payments at their current value. The allowance for collection is determined by management based on historical collection experience and ongoing analyses of each debtor's financial condition. The provision for the discount and the provision for uncollectible pledges are included in administration expense. Promises to give or other receivables that are deemed to be uncollectible are charged to the allowance. It is at least reasonably possible that the estimate for uncollectible pledges may change materially in the near term.

# **Bishop Lynch High School, Inc.**

## Notes to Consolidated Financial Statements

### **Property and Equipment**

Property and equipment are capitalized at cost when purchased or at fair value at the date of gift when donated. Depreciation on property and equipment is provided on a straight-line basis over the estimated useful lives of assets, which range from 3 to 40 years. Major expenditures for property and those which substantially increase the useful lives of assets are capitalized. Maintenance, repairs, and minor renewals are expensed as incurred.

### **Inventory**

Inventories are expensed when consumed and are stated at cost. Inventories consist primarily of the School merchandise held for resale.

### **Income Taxes**

Under a group ruling issued by the Internal Revenue Service to the United States Conference of Catholic Bishops, the School, as an institution of the Roman Catholic Church in the United States, is exempt from federal income tax under Section 501(a) of the United States Internal Revenue code as an organization described in Section 501(c)(3).

Accordingly, no provision for income taxes has been made in the accompanying consolidated financial statements. As of June 30, 2017, the School has no uncertain tax positions that qualify for either recognition or disclosure in the consolidated financial statements. The School's tax years 2014 through 2016 remain subject to examination.

### **Use of Estimates**

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

### **Advertising Costs**

Advertising costs are expensed as incurred and totaled \$74,410 and \$40,205 for the years ended June 30, 2017 and 2016, respectively.

### **Subsequent Events**

All events or transactions that occurred after June 30, 2017 through September 26, 2017, the date these financial statements were available to be issued, have been evaluated. During this period there were no material recognizable subsequent events.

### **Concentration of Credit Risk**

In the course of the School's operations, the cash balances maintained at financial institutions used by the School are in excess of the amount insured by the FDIC. The School has not suffered any losses as a result of the excess balances in the past and management does not anticipate losses in the future.

# Bishop Lynch High School, Inc.

## Notes to Consolidated Financial Statements

### Note 3. Accounts Receivable

In advance of the upcoming school year, the School requires tuition to either be paid in full or have a funding program secured. The School provides a program where tuition can be paid in monthly installments by debiting the financially responsible party's bank account. Tuition collected under this program is recorded as received against tuition receivable in the accompanying consolidated statements of financial position.

### Note 4. Promises to Give

Promises to give are due as follows:

	2017	2016
Less than one year	\$ 883,538	\$ 1,423,123
One to five years	376,598	994,394
	1,260,136	2,417,517
Present value discount	(60,066)	(138,624)
Allowance for doubtful accounts	(613,973)	(926,351)
Total	\$ 586,097	\$ 1,352,542

Promises to give are restricted for campus construction projects. Unconditional promises are reflected at the present value of the estimated cash flow for 2017 using a discount rate of 5%. The allowance for collection is determined by management based on historical collection experience and ongoing analyses of each donor's pledge.

### Note 5. Investment Securities

The recorded value of the investment securities are stated at fair value. Generally accepted accounting principles establish 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 inputs) and the lowest priority to unobservable inputs (level 3 inputs).

The three levels of the fair value of hierarchy are described below:

Level 1 inputs: Unadjusted, quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities. The majority of investments included in level 1 are mutual funds typically valued of the closing price reported on the active market on which the individual securities are traded.

Level 2 inputs: Inputs (other than quoted market prices included within level 1) that are either directly or indirectly observable for the asset or liability, through correlation with market data at the measurement date and fair value is determined through the use of models or other valuation techniques. The investments included in level 2 are mutual funds typically valued based on information received from the custodian.

## Bishop Lynch High School, Inc.

### Notes to Consolidated Financial Statements

Level 3 inputs: Prices or valuations that require unobservable inputs that are both significant to the fair measurement and unobservable. Fair value for these investments are determined using valuation methodologies that consider a range of factors including but not limited to the nature of the investment, market conditions, current and projected operating performance and changes in operating characteristics of the investment.

A financial instrument's level within the fair value of hierarchy is based on the lowest level of any input that is significant to the fair value measurement. There have been no changes in operating characteristics of the investments or methodologies used at June 30, 2017 and 2016.

The table below summarizes the fair value of investment securities and pledge receivables by level:

	June 30, 2017			
	Level 1	Level 2	Level 3	Total
Equity funds	\$ -	\$ 3,606,360	\$ -	\$ 3,606,360
Bond funds	-	2,392,842	-	2,392,842
Pledge receivables (net)	-	-	586,097	586,097
	\$ -	\$ 5,999,202	\$ 586,097	\$ 6,585,299
	June 30, 2016			
	Level 1	Level 2	Level 3	Total
Equity funds	\$ -	\$ 3,131,603	\$ -	\$ 3,131,603
Bond funds	-	2,146,042	-	2,146,042
Pledge receivables (net)	-	-	1,352,542	1,352,542
	\$ -	\$ 5,277,645	\$ 1,352,542	\$ 6,630,187

Investments primarily include contributed funds set aside in trust or otherwise for specific purposes.

The following is description of the valuation methodologies used to measure and disclose fair value of assets:

The fair value of mutual funds reported as level two is based on quoted net asset values of shares or units for similar assets in inactive markets held by the School at year end.

The fair value of pledge receivables reported as level three is based on the discounted value of expected future cash flows.

## Bishop Lynch High School, Inc.

### Notes to Consolidated Financial Statements

Assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3 inputs) for the year ended June 30, 2017 are as follows:

	Pledge Receivables, (net)
Beginning balance	\$ 1,352,542
Payments received	(1,025,966)
Change in pledge allowance	312,378
Change in pledge discount	78,558
Pledge write offs	(241,240)
Contributions	109,825
Ending balance	\$ 586,097

Assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3 inputs) for the year ended June 30, 2016 are as follows:

	Pledge Receivables, (net)
Beginning balance	\$ 1,365,619
Payments received	(1,023,999)
Change in pledge allowance	28,783
Change in pledge discount	1,338
Pledge write offs	(19,699)
Contributions	1,000,500
Ending balance	\$ 1,352,542

#### Note 6. Property, Plant and Equipment

At June 30, 2017 and 2016, property, plant and equipment consist of the following:

	2017	2016
Land	\$ 219,352	\$ 219,352
Buildings and improvements	58,469,963	45,338,669
Furniture, fixtures, equipment & vehicles	5,096,317	5,219,661
Construction in progress	42,712	9,839,624
	63,828,344	60,617,306
Less accumulated depreciation and amortization	22,781,688	21,157,794
Total	\$ 41,046,656	\$ 39,459,512

## Bishop Lynch High School, Inc.

### Notes to Consolidated Financial Statements

Cost and accumulated amortization of assets under capital leases included above are as follows:

	2017	2016
Cost	\$ 90,180	\$ 328,094
Less: Accumulated amortization	11,273	328,094
Total	\$ 78,907	\$ -

Depreciation and amortization expense was \$1,908,018 and \$1,780,308 for the years ended June 30, 2017 and 2016, respectively.

#### Note 7. Commitments

The School leases certain equipment under capital lease agreements. Future minimum lease payments on capital leases are as follows:

Years Ended June 30,	Capital
2018	\$ 28,027
2019	28,027
2020	28,027
2021	4,671
Total future minimum lease payments	88,752
Less amount representing interest	14,218
Present value of future minimum lease payments	74,534
Less current portion	20,784
Total noncurrent	\$ 53,750

#### Note 8. Notes Payable

On April 14, 2014, the School authorized an interest bearing loan (Loan 1) for a total of \$7,500,000. From April 14, 2014 through April 13, 2017, the outstanding principal balance for Loan 1 shall bear interest only at a fixed rate per annum of 2.85%. On April 27, 2015, the School authorized an interest bearing loan (Loan 2) for a total of \$5,800,000. From March 19, 2015 through April 14, 2017, the outstanding principal balance for Loan 2 shall bear interest only at a fixed rate per annum of 3.00%. Beginning April 14, 2017 through April 14, 2032, on Loan 2 interest shall accrue on the day to day principal balance outstanding at a floating rate equal to the highest prime rate (Loan 1 rate receives a discount of 0.5% off the highest prime rate), not to exceed ceiling rates for both loans as outlined below.

Ceiling rates outlined for future years under each loan:

Loan 1	Loan 2
3.25% from April 14, 2017 through April 13, 2020	3.75% from April 15, 2017 through April 14, 2020
4.25% from April 14, 2020 through April 13, 2023	4.75% from April 15, 2020 through April 14, 2023
4.35% from April 14, 2023 through April 13, 2026	5.00% from April 15, 2023 through April 14, 2026
4.45% from April 14, 2026 through April 14, 2032	5.45% from April 15, 2026 through April 14, 2032

## Bishop Lynch High School, Inc.

### Notes to Consolidated Financial Statements

The purpose of Loan 1 and 2 is to be used for the Veritas Capital Campaign construction project.

For the period ending June 30, 2016, Loan 1 had a full outstanding balance of \$7,500,000 and Loan 2 had an outstanding balance of \$2,533,629. For the period ending June 30, 2017, the school obtained additional advances of \$1,678,438 on Loan 2, resulting in a final outstanding loan balance of \$4,212,067 when it went to term on April 14, 2017; therefore, the total outstanding debt when Loan 1 and Loan 2 went to term on April 14, 2017 was \$11,712,067. As of June 30, 2017, there were principal payments totaling \$99,300 bringing the total outstanding loan balance to \$11,612,767. Both loan principal balances are payable in the following fiscal years ended June 30th:

2018	\$	609,221
2019		630,721
2020		652,029
2021		676,003
2022		699,872
Thereafter		8,344,921
Total	\$	11,612,767

Interest of \$247,588 and \$251,267 related to the loans were capitalized and interest of \$101,132 and \$0 was expensed, in accordance with GAAP, for the years ended June 30, 2017 and 2016, respectively.

Both loans are collateralized by the property and equipment of the School. Loan 2 requires the School be in compliance with several loan covenants mainly pertaining to reporting to the lender within certain time frames. As of June 30, 2017, the School was in compliance with each of these covenants.

#### Note 9. Net Assets

Unrestricted net assets consist of the following at June 30:

	2017	2016
Undesignated operating surplus	\$ 30,459,615	\$ 26,620,915
School based organizations	444,471	401,810
Board designated	2,786,271	5,392,870
	\$ 33,690,357	\$ 32,415,595

Temporarily restricted net assets consist of the following at June 30:

	2017	2016
Capital campaign	\$ 1,139,352	\$ 1,071,429
Endowment	4,234,626	3,687,471
For scholarships	773,972	701,441
	\$ 6,147,950	\$ 5,460,341



# Bishop Lynch High School, Inc.

## Notes to Consolidated Financial Statements

Permanently restricted net assets consist of the following at June 30:

	<u>2017</u>	<u>2016</u>
Endowment	<u>\$ 125,000</u>	<u>\$ 125,000</u>

### Note 10. Endowments

The School has interpreted the Uniform Prudent Management of Institutional Funds Act (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. The State of Texas and the School have both adopted UPMIFA.

As a result of this interpretation, the School classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment funds not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by management in a manner consistent with the standard of prudence prescribed by UPMIFA.

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

1. The duration and preservation of the fund
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 available
7. The investment policies of the School

## Bishop Lynch High School, Inc.

### Notes to Consolidated Financial Statements

Changes in endowment net assets for fiscal year ended June 30, 2017 are as follows:

	Unrestricted Board Designated	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 1,465,174	\$ 3,687,471	\$ 125,000	\$ 5,277,645
Contributions	-	277,923	-	277,923
Investment return:				
Investment income	27,914	74,901	-	102,815
Net appreciation (realized and unrealized)	146,488	390,884	-	537,372
Total investment return	174,402	465,785	-	640,187
Appropriation of endowment assets for expenditure	-	(196,553)	-	(196,553)
Endowment net assets, end of year	<u>\$ 1,639,576</u>	<u>\$ 4,234,626</u>	<u>\$ 125,000</u>	<u>\$ 5,999,202</u>

Changes in endowment net assets for fiscal year ended June 30, 2016 are as follows:

	Unrestricted Board Designated	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 1,464,113	\$ 3,746,003	\$ 125,000	\$ 5,335,116
Contributions	-	82,640	-	82,640
Investment return:				
Investment income	30,635	81,407	-	112,042
Net appreciation (depreciation) (realized and unrealized)	(29,574)	(77,755)	-	(107,329)
Total investment return	1,061	3,652	-	4,713
Appropriation of endowment assets for expenditure	-	(144,824)	-	(144,824)
Endowment net assets, end of year	<u>\$ 1,465,174</u>	<u>\$ 3,687,471</u>	<u>\$ 125,000</u>	<u>\$ 5,277,645</u>

#### Return Objectives and Risk Parameters

The School has adopted an Investment Policy for endowment assets that attempts to provide a predictable stream of funding to programs supported by its endowments while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor restricted funds that the School must hold in perpetuity.

# Bishop Lynch High School, Inc.

## Notes to Consolidated Financial Statements

### Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, a total return strategy is utilized in which investments returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends).

The School targets a diversified asset allocation strategy to achieve its long-term return objectives within the guidelines of its investment policy.

### Note 11. Related Parties

#### Defined Contribution Plan (403 B)

The School participates in the Diocese's 403(b) retirement savings plan for lay employees. The plan is a defined contribution self-directed plan open to all eligible employees. The plan offers the option to designate contributions as traditional pre-tax contributions and/or designate Roth contributions. Employee contributions to the plan are fully vested whereas contributions made by the School on behalf of the employee vest over five years. After one year of service, the School contributes 3% of the eligible employee's compensation to the plan and matches employee contributions on a dollar for dollar basis up to 3% of compensation. The School's contributions to the Plan were \$424,211 and \$419,903 during the years ended June 30, 2017 and 2016, respectively.

#### Insurance

The School participates in the Diocesan workers' compensation, property and casualty insurance plan and School personnel participate in the Diocesan group insurance and flexible benefits plan. Amounts paid to the Diocese for these services were \$1,611,998 and \$1,549,243 for years ended June 30, 2017 and 2016, respectively. As of June 30, 2017 and 2016, no amounts were owed to the Diocese.

### Note 12. Expenses by Natural Classification

Expenses by natural classification were as follows for the years ended June 30:

	2017	2016
Salaries and benefits	\$ 10,644,163	\$ 10,483,851
Utilities	392,633	460,761
Fundraising and advertising	267,577	239,251
Maintenance	752,791	751,824
General and administrative	2,972,413	2,508,596
Casualty insurance	320,097	273,091
Student activities and support organizations	1,440,188	1,254,226
Depreciation	1,908,018	1,780,308
Total expenses	\$ 18,697,880	\$ 17,751,908