

**CENTRAL OFFICE OF THE CATHOLIC
DIOCESE OF FORT WORTH**

AUDITED FINANCIAL STATEMENTS

Year Ended June 30, 2012



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INDEPENDENT AUDITOR'S REPORT

Most Reverend Bishop Kevin Vann
Central Office of the Catholic Diocese of Fort Worth

We have audited the accompanying statement of financial position of the Central Office of the Catholic Diocese of Fort Worth (the "Central Office") as of June 30, 2012, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Central Office's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Central Office's 2011 financial statements, and in our report dated March 7, 2012, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Central Office of the Catholic Diocese of Fort Worth as of June 30, 2012, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Rylander, Clay & Opitz, LLP

March 25, 2013

CENTRAL OFFICE OF THE CATHOLIC DIOCESE OF FORT WORTH

STATEMENTS OF FINANCIAL POSITION June 30, 2012 and 2011

	2012	2011
ASSETS		
Cash and cash equivalents	\$ 11,579,029	\$ 12,282,918
Accounts receivable - parishes and affiliates, net	2,150,129	1,729,764
Accrued interest receivable	239,984	136,699
Due from affiliates	1,327,252	2,435,795
Other assets	176,222	232,087
Loans receivable - affiliates	30,901,691	27,377,835
Investments	5,383,609	10,533,533
Property held for future parish/school use	14,745,765	14,700,422
Property and equipment, net	4,526,302	4,551,573
Total assets	\$ 71,029,983	\$ 73,980,626
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 3,710,216	\$ 3,383,820
Due to affiliates	1,035,932	-
Accrued expenses	671,040	688,333
Claims liability	713,528	1,096,309
Funds held for others	495,642	777,366
Deposits payable - affiliates	47,887,841	50,284,461
Interest rate swap	63,670	113,277
Notes payable	1,237,392	2,215,610
Total liabilities	55,815,261	58,559,176
Commitments and Contingencies (Note 12)		
Net Assets		
Unrestricted		
Undesignated	2,972,203	3,103,728
Designated for insurance reserve	3,151,865	2,725,519
Designated for quasi-endowment	4,022,419	4,037,693
Designated for loans to related entities	3,400,856	4,128,770
Total unrestricted	13,547,343	13,995,710
Temporarily restricted		
Sharing-In-Ministry annual case	-	111,285
Other programs	1,667,379	1,314,455
Total temporarily restricted	1,667,379	1,425,740
Total net assets	15,214,722	15,421,450
Total liabilities and net assets	\$ 71,029,983	\$ 73,980,626

See notes to financial statements.



CENTRAL OFFICE OF THE CATHOLIC DIOCESE OF FORT WORTH

STATEMENTS OF ACTIVITIES

Year Ended June 30, 2012 with Comparative Total for 2011

	Unrestricted	Temporarily Restricted	Total	
			2012	2011
Revenue and other support				
Contributions	\$ 239,759	\$ 4,666,830	\$ 4,906,589	\$ 5,531,460
Diocesan assessments	6,146,486	-	6,146,486	5,967,631
Program and service fees	4,707,039	-	4,707,039	5,009,994
Investment income	238,019	-	238,019	233,661
Net realized and unrealized gain (loss)	(38,264)	149,442	111,178	2,030,718
Interest on loans receivable - affiliates	972,137	-	972,137	1,082,159
Unrealized gain on interest rate swap	49,607	-	49,607	90,449
Gain (loss) on disposal of asset	670	-	670	(288,432)
Other	165,534	-	165,534	(255,458)
Net assets released from restrictions	4,574,633	(4,574,633)	-	-
Total revenue and other support	17,055,620	241,639	17,297,259	19,402,182
Expenses				
Program services				
Education and formation	2,868,667	-	2,868,667	2,845,368
Grants	4,500	-	4,500	230,501
Pastoral services	2,204,357	-	2,204,357	2,303,593
Communication	824,229	-	824,229	794,999
Administrative and support services				
Benefit programs for parish, school, and Diocesan employees	589,669	-	589,669	1,772,267
Diocesan administration	8,065,338	-	8,065,338	7,229,213
Insurance for all property in the Diocese	1,895,825	-	1,895,825	1,400,738
Deposit and Loan and other funds	1,051,402	-	1,051,402	1,450,443
Total expenses	17,503,987	-	17,503,987	18,027,122
Change in net assets	(448,367)	241,639	(206,728)	1,375,060
Net assets at beginning of year	13,995,710	1,425,740	15,421,450	14,046,390
Net assets at end of year	\$ 13,547,343	\$ 1,667,379	\$ 15,214,722	\$ 15,421,450

See notes to financial statements.



CENTRAL OFFICE OF THE CATHOLIC DIOCESE OF FORT WORTH

STATEMENTS OF CASH FLOWS Years Ended June 30, 2012 and 2011

	2012	2011
Cash Flows from Operating Activities		
Change in net assets	\$ (206,728)	\$ 1,375,060
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net realized and unrealized gain	(111,178)	(2,030,718)
Depreciation	302,780	325,066
(Gain) loss on sale of assets	(670)	288,432
Unrealized gain on interest rate swap	(49,607)	(90,449)
Grants of property held for future parish/school use	-	200,094
Change in operating assets and liabilities:		
Increase in accounts receivable - parishes and affiliates	(420,365)	(530,961)
(Increase) decrease in accrued interest receivable	(103,285)	87,043
Decrease in due to/from affiliates	2,144,475	3,076,841
Decrease in other assets	55,865	50,558
Increase in accounts payable	326,396	444,168
Increase (decrease) in accrued expenses	(17,293)	20,755
Increase (decrease) in claims liability	(382,781)	762,735
Increase (decrease) in funds held for others	(281,724)	135,120
Net cash provided by operating activities	1,255,885	4,113,744
Cash Flows from Investing Activities		
Receipts on loans receivable - affiliates	12,108,494	9,044,370
Advances on loans receivable - affiliates	(15,204,693)	(11,266,515)
Proceeds from sale of investments	6,537,276	1,025,246
Purchase of investments	(1,276,174)	(818,919)
Proceeds on sale of property held for future parish/school use	57,827	256,599
Purchase of property held for future parish/school use	(530,827)	(1,109,148)
Proceeds on sale of property and equipment	12,502	17,945
Purchase of property and equipment	(289,341)	(244,758)
Net cash provided (used) by investing activities	1,415,064	(3,095,180)
Cash Flows from Financing Activities		
Cash paid on deposits payable - affiliates	(35,992,727)	(39,037,050)
Cash received for deposits payable - affiliates	33,596,107	30,478,023
Repayment of notes payable	(995,910)	(1,544,454)
Proceeds from notes payable	17,692	-
Net cash used by financing activities	(3,374,838)	(10,103,481)
Net decrease in cash and cash equivalents	(703,889)	(9,084,917)
Cash and cash equivalents at beginning of year	12,282,918	21,367,835
Cash and cash equivalents at end of year	\$ 11,579,029	\$ 12,282,918

See notes to financial statements.



CENTRAL OFFICE OF THE CATHOLIC DIOCESE OF FORT WORTH

NOTES TO FINANCIAL STATEMENTS

NOTE 1. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Central Office of the Catholic Diocese of Fort Worth (the “Central Office”) provides certain administrative functions for the Catholic Diocese of Fort Worth (the “Diocese”). Included in these financial statements are the assets, liabilities, net assets, and financial activities of certain program offices and departments of the Diocese that are fiscally responsible to the Bishop. The accompanying financial statements exclude the assets, liabilities, net assets, and financial activities of the individual parishes, schools, Catholic Foundation of North Texas (the “Foundation”), and various Diocesan employee benefit plans that operate within the Diocese. Each of these affiliated entities, although ultimately responsible to the Bishop, is an operating entity distinct from the Central Office, maintains separate financial records, and carries on its own services and programs. In addition, various religious orders, lay societies, and religious organizations that operate within the Diocese, which are not fiscally responsible to the Bishop, have been excluded from the accompanying financial statements.

Description of Programs

The programs and administrative and support services of the Central Office consist of:

Education and Formation – Education continues to flourish in the parishes, schools, and education centers in all corners of the Diocese. Supporting these programs are the various education and formation departments of the Central Office. They include: Adult Formation; Catholic Schools Office; Children, Youth, and Young Adult Ministries; Seminarian Training; Deacon Formation; Vocations; Continuing Education for Clergy; Lay Ministry Training; and many others.

Grants – The Central Office assists parishes, schools, and other ministries through capital and operating grants. The recipients are inner city or rural parishes or schools as well as Catholic Charities, school children needing tuition assistance, ministers furthering their education, social outreach programs, and many others inside and outside the Diocese.

Pastoral Services – Care of the whole family and each of its members continues to be a focus of the programs of the Central Office. These include: activities pertaining to Family Life; Chaplaincies for the Sick and Imprisoned; Care of Elderly and Infirm Priests; Peace and Justice Outreach; and others.

Communication – The vehicles used to communicate with the people of the Diocese are newspaper and an internet web page. The North Texas Catholic bi-weekly newspaper continues to be the vital link to keep Catholics throughout the Diocese informed.

Administrative Support Services – The effectiveness of the ministries that are supported through the Central Office is dependent on the proper stewardship of the gifts of the thousands of Catholics throughout the Diocese. Administrative support of the Central Office and parishes, schools, and agencies is a very important part of the life of the Central Office. The support provided through departments such as Human Resources, Stewardship and Development, Planning, Fiscal Management, and Tribunal, as well as insurance programs, employee benefits, and many others are enabling the ministries and programs that touch and change the lives of Catholics throughout the Diocese.



CENTRAL OFFICE OF THE CATHOLIC DIOCESE OF FORT WORTH

NOTES TO FINANCIAL STATEMENTS

NOTE 1. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Management Estimates and Assumptions

Management uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported revenues and expenses. Actual results could vary from these estimates.

Cash and Cash Equivalents

The Central Office considers all highly-liquid investments with an initial maturity of three months or less to be cash equivalents.

Supplemental Cash Flow Information

Interest paid on deposits payable - affiliates amounts to \$953,750 and \$1,271,610 for the years ended June 30, 2012 and 2011, respectively. The Central Office also paid interest on notes payable of \$98,841 and \$175,518 for the years ended June 30, 2012 and 2011, respectively.

Non-cash financing and investing activities from 2012 include the transfer of approximately \$428,000 in property held for future use to related parishes and schools in the form of loans.

Accounts and Loans Receivable

Accounts and loans receivable are due almost exclusively from affiliates of the Central Office. The Central Office does not extend credit unless management is reasonably certain the related amount will be repaid. Management periodically evaluates the related receivables and only records a reserve for uncollectability if ultimate collection appears doubtful. Account write-offs are posted against the allowance for doubtful accounts, and an expense is recorded only when the allowance is not sufficient to absorb a related write-off.

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are measured at fair value in the statement of financial position. Investment income and realized and unrealized gains and losses are included in the statement of activities as increases or decreases in unrestricted net assets unless the income or loss is restricted by the donor or law. The Central Office invests in an investment pool that uses the market value unit method of accounting for investment transactions. Under this method, each fund is assigned a number of units based on the relationship of the market value of all investments at the time of entry into the pool. The pooled assets are revalued quarterly and new unit values are calculated. The pooled value is used to determine the number of units to be allocated to new funds entering the pool, the allocation of recurring income, gains and losses, or to calculate the equity of funds withdrawn from the pool.



CENTRAL OFFICE OF THE CATHOLIC DIOCESE OF FORT WORTH

NOTES TO FINANCIAL STATEMENTS

NOTE 1. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property Held for Future Parish/School Use

Property held for future parish/school use is recorded at cost and consists of property purchased by the Central Office that will be used by parishes and schools within the Diocese in the future. This property is typically purchased at cost from the Central Office by the parish or school. During 2012 and 2011, property with a cost of approximately \$485,000 and \$457,000, respectively, was sold or granted to related parishes and schools.

Property and Equipment

Property and equipment that are purchased are recorded at cost and depreciated over the estimated useful lives of the related assets using the straight-line method. Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated assets to a specific purpose. Assets donated with explicit restrictions regarding their use, and contributions of cash that must be used to acquire property and equipment, are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Central Office reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Central Office then releases temporarily restricted net assets to unrestricted net assets as reflected in the statement of activities. The estimated lives by asset class follow:

Buildings	3 - 40 years
Equipment, furnishings, and vehicles	3 - 5 years

Impairment of Long-Lived Assets

Management evaluates its long-lived assets for financial impairment whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable. An impairment loss is recognized when the estimated undiscounted future cash flows from the assets are less than the carrying value of the assets. Assets to be disposed of are reported at the lower of their carrying amount or fair value, less cost to sell. Management is of the opinion that the carrying amount of its long-lived assets does not exceed their estimated recoverable amount.

Funds Held for Others

Funds held for others represent royalty funds held for affiliates of the Central Office.

Deposits Payable - Affiliates

Deposits payable represent amounts held as savings accounts for affiliates.

Compensated Absences

The Central Office compensates individuals for accumulated, vested benefit hours including vacation time. It is not practicable for the Central Office to estimate the amount of compensation for future absences; accordingly, no liability for compensated absences is recorded in the accompanying financial statements. The Central Office's policy is to recognize the costs of compensated absences when paid to employees.



CENTRAL OFFICE OF THE CATHOLIC DIOCESE OF FORT WORTH

NOTES TO FINANCIAL STATEMENTS

NOTE 1. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recognition of Donor Restrictions

Contributions are recognized when unconditional commitments are received and recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and nature of any donor restrictions. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Donated Materials and Services

Donated materials are reflected as contributions in the accompanying statements at their estimated values at the date of receipt. No significant amounts have been reflected in the statements for donated services as no objective basis is available to measure the value of such services; however, a substantial number of volunteers have donated significant amounts of their time to the Central Office.

Income Taxes

The Central Office is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and is not considered a private foundation.

The Central Office follows the provisions of FASB ASC 740, *Income Taxes*, which requires financial statement recognition and disclosure for uncertain tax positions taken or expected to be taken in a tax return. Financial statement recognition of a tax position is dependent on an assessment of a 50% or greater likelihood that the tax position will be sustained upon examination by the Internal Revenue Service, based on the technical merits of the position. Interest and penalties, if any, related to uncertain tax positions would be recorded in the statement of activities as administrative and support services expense.

At June 30, 2012 and 2011, management determined that the Central Office does not have any uncertain tax positions that require adjustments or disclosures in the financial statements.

Functional Allocation of Expenses

The cost of providing the program services and other activities has been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among program and supporting services.

Prior-Year Comparative Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Central Office's financial statements for the year ended June 30, 2011, from which the summarized information was derived.

Subsequent Events

Management evaluated subsequent events through March 25, 2013, which is the date the financial statements were available to be issued.



CENTRAL OFFICE OF THE CATHOLIC DIOCESE OF FORT WORTH

NOTES TO FINANCIAL STATEMENTS

NOTE 2. ACCOUNTS RECEIVABLE - PARISHES AND AFFILIATES

Accounts receivable from parishes and affiliates relates to amounts that the Central Office paid on behalf of the related entities, or has billed them for various services provided on their behalf. The amounts are due primarily from parishes and schools within the Diocese. An allowance for doubtful accounts of \$11,794 is recorded at June 30, 2012 and 2011. The allowance is established based on past experience and an analysis of the collectability of current receivables.

NOTE 3. DUE TO/FROM AFFILIATES

The Central Office is affiliated with the Catholic Foundation of North Texas (the "Foundation"), as both are governed by the Diocese. A total of \$79,045 and \$79,592 is due from the Foundation at June 30, 2012 and 2011, respectively, and is reflected as an asset in the accompanying financial statements. These amounts are primarily for withdrawals from the Catholic Schools Trust advanced by the Central Office. A total of \$903,291 is due to the Foundation at June 30, 2012 and is reflected as a liability in the accompanying financial statements. These amounts are primarily for permanently restricted funds received by the Central Office. No such amounts were due to the Foundation at June 30, 2011.

The Central Office is also affiliated with the Catholic Diocese of Fort Worth - Advancement Corporation (the "Corporation"), as members of the governing body of the Central Office compose the board of the Corporation. The Central Office awarded grants on behalf of the Advancement Corporation in accordance with the All Things Possible Campaign. The amount due from the Corporation at June 30, 2012 and 2011 is \$1,248,207 and \$2,356,203, respectively.

A total of \$132,641 is due to the Priest Pension Plan at June 30, 2012 and is reflected as a liability in the accompanying financial statements. These amounts are primarily for restricted funds received by the Central Office. The Priest Pension Plan is a retirement fund governed by the Diocese.

NOTE 4. LOANS RECEIVABLE - AFFILIATES

The Central Office provides loans to parishes, schools, and other entities within the Diocese for capital projects and various operating purposes. These loans generally have an interest rate of 3.5% and 5.5% at June 30, 2012 and 2011, respectively, and are due primarily in monthly installments. Interest income is recognized monthly based on the outstanding loan balance. Certain loans relating to real estate acquisitions by new parishes are allowed a five-year exemption from interest and principal after dedication of the first building on the property. The composition of loans receivable at June 30, 2012 and 2011 follows:

	2012	2011
Loans to parishes	\$ 20,725,084	\$ 18,766,748
Loans to schools	10,149,790	8,152,837
Loans to other Diocesan entities	26,817	458,250
	<u>\$ 30,901,691</u>	<u>\$ 27,377,835</u>

At June 30, 2012 and 2011, management of the Central Office believes all loans are fully collectible based on past experience and review of individual accounts. Accordingly, there is no allowance for potential losses recorded in the accompanying financial statements.



CENTRAL OFFICE OF THE CATHOLIC DIOCESE OF FORT WORTH

NOTES TO FINANCIAL STATEMENTS

NOTE 5. INVESTMENTS AND FAIR VALUE

The Fair Value Measurements and Disclosures Topic of the Accounting Standards Codification defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The standards also establish a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

- | | |
|---------|--|
| Level 1 | Quoted prices in active markets for identical assets or liabilities. |
| Level 2 | Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. |
| Level 3 | Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. |

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying statements of financial position, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy.

Other Assets and Liabilities

The recorded value of the loans receivable – affiliates, deposits payable – affiliates, and notes payable approximates their fair value, as interest approximates market rates. The recorded values of cash and cash equivalents, accounts receivable, and accounts payable approximate their fair values based on their short-term nature.

Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include publicly traded stocks, mutual funds, certificates of deposit, and money market funds. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

See Note 9 for additional information on the Central Office's purpose for entering into derivatives designated as hedging instruments and its overall risk management strategies.



CENTRAL OFFICE OF THE CATHOLIC DIOCESE OF FORT WORTH

NOTES TO FINANCIAL STATEMENTS

NOTE 5. INVESTMENTS AND FAIR VALUE (Continued)

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying statement of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the measurements fall at June 30, 2012 and 2011.

	2012 Fair Value	2011 Fair Value	Level
Cash and cash equivalents	\$ 52,126	\$ 665,023	1
LKCM fixed income fund	1,484,224	2,464,569	1
LKCM small cap equity	207,576	802,525	1
LKCM small mid cap equity	155,211	381,000	1
Equities:			
Technology	638,030	1,294,428	1
Consumer goods	309,195	439,635	1
Basic materials	613,535	1,216,186	1
Healthcare	295,807	583,885	1
Services	514,473	963,742	1
Industrial goods	294,037	458,390	1
Utilities	80,710	131,810	1
Financial	352,455	720,828	1
Other	4,076	4,076	1
Insurance Reserve	382,154	407,436	2
Marketable securities	\$ 5,383,609	\$ 10,533,533	
Interest rate swap	\$ (63,670)	\$ (113,277)	2

Net realized and unrealized gain is summarized as follows:

	2012	2011
Net realized gain	\$ 916,536	\$ 678,947
Net unrealized gain (loss)	(805,358)	1,351,771
Total net realized and unrealized gain	\$ 111,178	\$ 2,030,718

Investment income is summarized as follows:

	2012	2011
Pooled investment income	\$ 220,821	\$ 199,773
Interest on deposits	-	13,025
Other interest and dividend income	17,198	20,863
Total	\$ 238,019	\$ 233,661



CENTRAL OFFICE OF THE CATHOLIC DIOCESE OF FORT WORTH

NOTES TO FINANCIAL STATEMENTS

NOTE 6. PROPERTY AND EQUIPMENT

The composition of property and equipment at June 30, 2012 and 2011 follows:

	<u>2012</u>	<u>2011</u>
Land	\$ 1,351,718	\$ 1,351,718
Buildings	5,520,882	5,516,206
Equipment, furnishings, and vehicles	<u>1,859,722</u>	<u>1,595,072</u>
	8,732,322	8,462,996
Less: accumulated depreciation	<u>4,206,020</u>	<u>3,911,423</u>
	<u>\$ 4,526,302</u>	<u>\$ 4,551,573</u>

NOTE 7. DEPOSITS PAYABLE - AFFILIATES

The Central Office receives deposits from parishes, schools, and other entities within the Diocese. The amounts on deposit accrue interest at a rate of 1.5% at June 30, 2012 and 2.5% at June 30, 2011, and are due on demand. The composition of deposits payable at June 30, 2012 and 2011 follows:

	<u>2012</u>	<u>2011</u>
Deposits payable to parishes	\$ 24,569,534	\$ 28,384,746
Deposits payable to schools	22,148,253	20,613,743
Deposits payable to other entities	<u>1,170,054</u>	<u>1,285,972</u>
	<u>\$ 47,887,841</u>	<u>\$ 50,284,461</u>

Interest expense relating to deposits payable is \$953,750 and \$1,271,610 for the years ended June 30, 2012 and 2011, respectively, and is included as a component of deposit and loan and other funds expense in the accompanying statement of activities.

NOTE 8. DESIGNATED NET ASSETS

The accompanying financial statements include unrestricted net assets that have been designated for various purposes. A description of these designations follows:

Insurance Reserves

Net assets designated for insurance reserves are funds that have been collected by the Central Office that are to be used to provide amounts necessary for unexpected claims in the future, or to reduce future premiums of Diocesan entities for various insurance coverage.

Quasi-Endowment

Net assets designated for quasi-endowment represent funds that have been identified by the Bishop to be invested by the Central Office.



CENTRAL OFFICE OF THE CATHOLIC DIOCESE OF FORT WORTH

NOTES TO FINANCIAL STATEMENTS

NOTE 8. DESIGNATED NET ASSETS (Continued)

Loans

Net assets designated for loans to related entities represent funds that are available to be loaned, or have been loaned, to various Diocesan entities.

NOTE 9. NOTES PAYABLE

The Central Office also has a loan agreement with the City of Roman Forest in the original amount of \$9,500,000 that originated in 2002. The proceeds were used for construction of education facilities. Terms of the loan require quarterly payments in the amount of \$253,450, equal to one-fourth (1/4) of the amount of principal that would be due during the applicable year based on a ten-year amortization at an interest rate equal to 5.265%. The stated rate on the note agreement, which fluctuates with the LIBOR rate, is 1.52% at June 30, 2011. The loan is unsecured and was repaid in December 2011. The balance at June 30, 2011 is \$618,741.

In 2005, the Central Office entered into an additional loan agreement with the City of Roman Forest in the original amount of \$3,500,000. The proceeds were also used for construction of education facilities. Terms of the loan require quarterly payments in the amount of \$77,060, equal to one-fourth (1/4) of the amount of principal that would be due during the applicable year based on a ten-year amortization at an interest rate equal to 4.60%. The stated rate on the note agreement, which fluctuates with the LIBOR rate, is 1.40% at June 30, 2012 and 1.52% at June 30, 2011. The loan is unsecured and matures on June 1, 2015. The balance is \$1,225,057 at June 30, 2012 and \$1,596,869 at June 30, 2011.

The loan agreements with the City of Roman Forest include interest rate swaps with a financial institution that effectively fix the variable rates stated in the agreement at 5.265% for the initial note and 4.60% for the additional loan. By fixing the interest rate on the loans, the Central Office makes a fixed payment on the note.

The swap agreements are accounted for in accordance with FASB ASC 815, *Derivatives and Hedging*. The standards require that every derivative instrument be recorded on the statement of financial position as either an asset or liability stated at fair value. The Central Office designates interest rate swaps as fair value hedges of fixed-rate borrowings. Gain or loss on the settlement of the swaps and changes in the swaps fair value are recognized in the statement of activities.

The Central Office also has a vehicle note payable in the amount of \$12,335 at June 30, 2012.

Included in the statement of activities for the years ended June 30, 2012 and 2011 is a net gain of \$49,607 and \$90,449, respectively, relating to the change in derivative value. At June 30, 2012 and 2011, a liability for derivative instruments of \$63,670 and \$113,277, respectively, is recorded in the statement of financial position. The fair value of the interest rate swap has been estimated based upon available information and may change materially in the near-term based on changes in interest rates and other factors.



CENTRAL OFFICE OF THE CATHOLIC DIOCESE OF FORT WORTH

NOTES TO FINANCIAL STATEMENTS

NOTE 9. NOTES PAYABLE (Continued)

Interest and amortization expense of \$96,887 and \$177,959 is included in deposit and loan and other funds expense in the accompanying statement of activities for the years ended June 30, 2012 and 2011, respectively. Maturities of the notes payable at June 30, 2012 follow:

2013	\$ 401,667
2014	408,202
2015	<u>427,523</u>
	<u>\$ 1,237,392</u>

NOTE 10. PENSION PLANS

Pension plans maintained by the Diocese cover eligible employees of the Central Office as well as those of parishes, schools, and other affiliated entities. Assets of the plans are held in trust funds managed by independent third parties.

The defined benefit plans of the Diocese cover eligible employees as follows:

A noncontributory retirement plan that provides retirement benefits to eligible priests (the "Priests' Plan"). A priest becomes eligible to participate in the Priests' Plan in the months following his incardination. If a priest has served a minimum of seven years with the Diocese, he will be vested for retirement benefits. A priest's service is measured by his aggregate periods of service prior to his retirement date or earlier termination from the Priests' Plan.

A noncontributory retirement plan that provides retirement benefits for eligible employees (the "Employee Plan"). The Employee Plan covers all employees scheduled to work at least 1,000 hours in a calendar year and have five years of credited service for vesting status. Benefit payments are based upon a defined benefit formula determined by plan document provisions.

The Diocese charges the Central Office and other participating entities for pension costs based on a percentage of each entities' payroll. This rate is determined periodically by the Diocese based upon plan assets, liabilities, and other factors considered relevant by the Diocese. The ultimate obligation to fund these plans is the responsibility of the Diocese. The Central Office is responsible only to the extent of the assessment charged to it unless determined otherwise by the Diocesan Finance Council and the Bishop in the future.

Annual Pension Cost

For the years ended June 30, 2012 and 2011, the annual pension cost and actual contributions for the Central Office are \$324,565 and \$273,305, respectively.

The annual required contributions were actuarially determined as a percent of the covered payroll of the participating employees. The Central Office is not responsible for the unfunded liability unless determined otherwise by the Diocesan Finance Council and the Bishop in the future.



CENTRAL OFFICE OF THE CATHOLIC DIOCESE OF FORT WORTH

NOTES TO FINANCIAL STATEMENTS

NOTE 10. PENSION PLANS (Continued)

Employee Plan

The actuarial valuation information for the Employee Plan follows:

Actuarial valuation date	June 30, 2012	June 30, 2011
Actuarial cost method	projected unit credit	projected unit credit
Asset valuation method	market value	market value
Assumptions:		
Investment return	7.25%	7.25%
Projected salary increases	2.50%	2.50%
Inflation	3.00%	3.00%

The annual pension cost trend information for the Employee Plan follows:

	June 30, 2012	June 30, 2011
Annual Pension Cost (APC)	\$ 2,426,149	\$ 2,313,525
Percentage of APC Contributed	100%	100%
Net Pension Obligation	\$ -	\$ -

The funding information for the Employee Plan follows:

Actuarial valuation date	June 30, 2012	June 30, 2011
Actuarial value of assets	\$ 29,772,877	\$ 28,865,586
Actuarial accrued liability (AAL)	\$ 36,117,144	\$ 33,792,806
Unfunded actuarial accrued liability (UAAL)	\$ 6,344,267	\$ 4,927,220
Funded ratio	82.43%	85.42%
Annual covered payroll	\$ 27,204,540	\$ 27,044,446
UAAL as percentage of covered payroll	23.32%	18.22%

Priests' Plan

The actuarial valuation information for the Priests' Plan follows:

Actuarial valuation date	June 30, 2012	June 30, 2011
Actuarial cost method	projected unit credit	projected unit credit
Asset valuation method	market value	market value
Assumptions:		
Investment return	8.00%	8.00%
Projected salary increases	not applicable	not applicable
Inflation	3.00%	3.00%



CENTRAL OFFICE OF THE CATHOLIC DIOCESE OF FORT WORTH

NOTES TO FINANCIAL STATEMENTS

NOTE 10. PENSION PLANS (Continued)

The annual pension cost trend information for the Priests' Plan follows:

	June 30, 2012	June 30, 2011
Annual Pension Cost (APC)	\$ 357,882	\$ 289,050
Percentage of APC Contributed	100%	100%
Net Pension Obligation	\$ -	\$ -

The funding information for the Priests' Plan follows:

	June 30, 2012	June 30, 2011
Actuarial valuation date		
Actuarial value of assets	\$ 3,961,359	\$ 3,905,446
Actuarial accrued liability (AAL)	\$ 4,573,463	\$ 4,393,531
Unfunded actuarial accrued liability (UAAL)	\$ 612,104	\$ 488,805
Funded ratio	86.62%	88.89%

NOTE 11. DIOCESAN ASSESSMENTS

The Central Office charges parishes of the Diocese an assessment on weekly offertory collections as a means to provide funds for the recurring operations of the Central Office. This assessment is calculated on a sliding scale ranging from 1.35% to 13.00% of the gross offertory collections, based on the circumstances at each parish.

In addition, the Central Office assessed approximately \$178,000 and \$177,000 in 2012 and 2011, respectively, to parishes that have students enrolled at Nolan High School.

NOTE 12. COMMITMENTS AND CONTINGENCIES

The Central Office manages the claims against the Diocese. At June 30, 2012 and 2011, the Diocese is subject to various claims and legal proceedings covering a wide range of matters that arise in the ordinary course of its activities. The outstanding claims and litigation are covered by commercial insurance. The deductible on insurance claims is \$100,000 per occurrence. Management believes that any liability that may ultimately result from the resolution of these matters will not have a material adverse effect on the financial condition or results of operations of the Central Office.



CENTRAL OFFICE OF THE CATHOLIC DIOCESE OF FORT WORTH

NOTES TO FINANCIAL STATEMENTS

NOTE 13. INSURANCE PLANS

The Central Office maintains a workers' compensation plan for the employees of Diocesan parishes, schools, and other affiliated entities (the "participants") and a multi-peril insurance plan. Both plans are partially self-insured through a high deductible. The Central Office has a fully-insured plan for the health insurance needs of the participants. The Central Office acts as billing agent for the multi-peril insurance plan. The parishes and schools calculate the monthly premium for the workers' compensation plan and remit the premiums to the Central Office. These calculations are made under parameters set by the Central Office and are reviewed periodically by the Central Office. The health insurance plan is administered by a third party, and the Central Office does not participate in billing the premiums to the parishes and schools. Included in expenses are actual costs and claims paid plus management's estimates of any additional ultimate loss which may change materially in the near term.

NOTE 14. ASSETS DESIGNATED FOR PERMANENT ENDOWMENT

Net assets designated for quasi-endowment represent funds that have been identified by the Bishop to be invested by the Central Office. The income may be expendable to support operations. Endowment net assets are unrestricted and amount to \$4,022,419 and \$4,037,693 for the years ended June 30, 2012 and 2011, respectively. Changes in the endowment for the years ended June 30, 2012 and 2011 follow:

	2012	2011
Balance at beginning of year	\$ 4,037,693	\$ 3,386,894
Transfer from undesignated	441,828	-
Investment income	74,332	70,257
Net realized and unrealized gain (loss)	(326,575)	781,845
Appropriation for expenditures	(204,859)	(201,303)
Balance at end of year	<u>\$ 4,022,419</u>	<u>\$ 4,037,693</u>

Return Objectives and Risk Parameters

The objective of the investment program is to enhance the Central Office's portfolio through capital appreciation and reinvestment of income above required needs. The Diocesan Finance Council recognizes that this objective can be met over time only if the purchasing power of the investment portfolio is increased on a real dollar (inflation-adjusted) basis. Therefore, the Central Office's goal is to achieve a premium of four percent (4%) over the rate of inflation as measured by the Consumer Price Index over a five-year time horizon.

In order to meet the objectives for capital growth, the following guidelines are established with respect to the proportions of equities and fixed income securities held in the portfolio:

- 1) The equity exposure will not exceed seventy percent (70%) of the portfolio at market value. A high level of diversification across industry and individual holdings will be maintained. The maximum exposure to any industry shall be 20% of the total portfolio's market value and the maximum exposure to an individual security shall be 8% of the total portfolio's market value. The majority of holdings shall be listed on a major exchange to take advantage of listing requirements, disclosure rules, and to improve liquidity. Prudent standards of quality will be



CENTRAL OFFICE OF THE CATHOLIC DIOCESE OF FORT WORTH

NOTES TO FINANCIAL STATEMENTS

NOTE 14. ASSETS DESIGNATED FOR PERMANENT ENDOWMENT (Continued)

developed and maintained by the investment manager. Companies whose securities are held should exhibit strong financial position and have a record of profitable operating results. It is expected that the majority of issues held shall be B+ or better rated securities by Standard & Poor's Corp. and the average rating of stocks shall meet this minimum test. The preference is for high quality dividend paying securities.

- 2) The fixed income exposure will be a minimum of thirty percent (30%) of the portfolio at market value. Except for U.S. Treasury and Agency obligations, the debt portion of the portfolio shall not contain more than ten percent (10%) from any given issuer. Maturity should be limited to fifteen years or less. The average maturity must not exceed eight years. The average quality rating of the fixed income portion of the portfolio should be A rated or better. The total percentage of the non-convertible fixed income portion rated less than A may not exceed ten percent (10%).

It is recognized that there may be times when the investment manager wishes to hold cash equivalents, based on the near-term market outlook. The manager has the discretion to do so within the context of this longer term allocation policy.

Strategies Employed for Achieving Objectives

All investment decisions on behalf of the Central Office shall be based upon and consistent with the above priorities. Specifically, it is desired that the following mix of investments be maintained:

Equities	70% or less
Fixed income/cash	30% or more

The Central Office shall select manager(s) that will routinely monitor economic and market conditions as well as Central Office cash flow requirements and will adjust the portfolio accordingly. In addition, the manager(s) will diversify the use of investment instruments, maturities, and individual financial institutions to avoid unreasonable risk inherent in over-investing in specific instruments, maturities, or individual financial institutions.

Spending Policy and How the Investment Objectives Relate to Spending Policy

It is anticipated that annual distributions that total five percent (5%) of the average market value of the Endowment's assets at January 1st over the past five rolling years may be withdrawn quarterly for disbursement to support the Central Office.

