

**Central Office of The Catholic
Diocese of Fort Worth**

Independent Auditor's Report and Financial Statements

June 30, 2021

**Central Office of The Catholic
Diocese of Fort Worth**

June 30, 2021

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Independent Auditor's Report

Most Reverend Michael F. Olson
Central Office of the Catholic Diocese of Fort Worth
Fort Worth, Texas

We have audited the accompanying financial statements of Central Office of the Catholic Diocese of Fort Worth (the "Central Office"), which comprise the statement of financial position as of June 30, 2021, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Most Reverend Michael F. Olson
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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Central Office, as of June 30, 2021, 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

As described in *Note 2* to the financial statements, in 2021, the Central Office adopted Accounting Standards Update 2014-09, Not-for-Profit Entities (Topic 606): *Revenue from Contracts with Customers*, (ASU 2014-09). Our opinion is not modified with respect to this matter.

BKD, LLP

Fort Worth, Texas
January 21, 2022

**Central Office of The Catholic
Diocese of Fort Worth
Statement of Financial Position
June 30, 2021**

Assets

Cash	\$ 24,758,622
Restricted cash	150,000
Accounts receivable - affiliates, net	3,642,940
Contribution receivable - affiliate	700,000
Accrued interest receivable	5,516,354
Other assets	765,606
Loans receivable - affiliates, net	47,036,758
Investments	14,267,210
Property held for sale	85,700
Property held for future parish/school use	11,328,604
Property and equipment, net	7,779,434
Beneficial interest in a perpetual trust	<u>1,489,140</u>
 Total assets	 <u><u>\$ 117,520,368</u></u>

Liabilities and Net Assets

Liabilities

Accounts payable	\$ 1,089,233
Accrued expenses	464,224
Claims liability	224,281
Funds held for others	1,084,613
Grants payable	584,807
Deposits payable - affiliates	66,230,334
Notes payable	<u>24,615,791</u>
 Total liabilities	 <u>94,293,283</u>

Net Assets

Without donor restrictions	20,228,383
With donor restrictions	<u>2,998,702</u>
 Total net assets	 <u>23,227,085</u>
 Total liabilities and net assets	 <u><u>\$ 117,520,368</u></u>

**Central Office of The Catholic
Diocese of Fort Worth**
Statement of Activities
Year Ended June 30, 2021

	Without Donor Restriction	With Donor Restriction	Total
Revenue and Other Support			
Contributions	\$ 217,888	\$ 2,643,232	\$ 2,861,120
Diocesan assessments	8,899,673	-	8,899,673
Program and service fees	3,773,256	-	3,773,256
Investment return, net of fees	258,450	-	258,450
Net realized and unrealized gain on investments	639,756	351	640,107
Change in value of beneficial interest in perpetual trust	-	293,350	293,350
Interest on loans receivable - affiliates	868,303	-	868,303
Loss on disposal of assets	(505,584)	-	(505,584)
Other	52,987	-	52,987
Net assets released from restrictions	2,912,278	(2,912,278)	-
	<u>17,117,007</u>	<u>24,655</u>	<u>17,141,662</u>
Expenses			
Program services			
Education and formation	1,738,392	-	1,738,392
Pastoral services	4,606,399	-	4,606,399
Communication	1,153,039	-	1,153,039
Administrative support services	9,368,243	-	9,368,243
	<u>16,866,073</u>	<u>-</u>	<u>16,866,073</u>
Change in Net Assets	250,934	24,655	275,589
Net Assets, Beginning of Year	<u>19,977,449</u>	<u>2,974,047</u>	<u>22,951,496</u>
Net Assets, End of Year	<u>\$ 20,228,383</u>	<u>\$ 2,998,702</u>	<u>\$ 23,227,085</u>

**Central Office of The Catholic
Diocese of Fort Worth
Statement of Functional Expenses
Year Ended June 30, 2021**

	Program Services				Administrative and Support Services	
	Education and Formation	Pastoral Services	Communications	Program Services Total	Total	Total
Salaries and wages	\$ 873,051	1,311,912	360,552	\$ 2,545,515	1,979,934	\$ 4,525,449
Payroll taxes	63,606	93,407	26,286	183,299	141,445	324,744
Benefits, education & allowances	435,961	647,402	180,733	1,264,096	978,821	2,242,917
Insurance	16,304	170,663	-	186,967	1,818,703	2,005,670
Services and professional fees	36,755	247,582	280,146	564,483	1,635,118	2,199,601
Other program services	61,765	119,159	3,438	184,362	47,034	231,396
Interest	-	-	-	-	910,218	910,218
Systems and software	3,163	1,797	30,599	35,559	282,777	318,336
Staff development and recognition	3,985	533,280	1,127	538,392	13,972	552,364
Rent and utilities	123,646	24,249	19,980	167,875	145,677	313,552
Third-party assessments	-	241,433	-	241,433	-	241,433
Membership, dues and subscriptions	4,610	11,709	134,055	150,374	8,206	158,580
Meetings and seminars	-	23,201	76	23,277	7,098	30,375
Program materials	32,380	33,701	-	66,081	47,364	113,445
Repairs and maintenance	19,154	6,092	-	25,246	119,403	144,649
Travel	3,438	72,737	2,446	78,621	19,343	97,964
Postage	2,877	12,441	71,087	86,405	4,324	90,729
Events and activities	3,224	18,293	-	21,517	25,040	46,557
Printing and copying	2,292	5,196	190	7,678	4,433	12,111
Supplies	10,441	7,040	6,753	24,234	41,213	65,447
Licenses and fees	840	538	948	2,326	10,099	12,425
Property taxes	-	-	-	-	5,982	5,982
Bank fees	7,655	263	-	7,918	8,872	16,790
Advertising and promotion	599	2,400	2,914	5,913	-	5,913
Other	12,939	71,492	-	84,431	16,276	100,707
Grants	9	918,114	21,355	939,478	872,316	1,811,794
Depreciation	19,698	32,298	10,354	62,350	224,575	286,925
	<u>\$ 1,738,392</u>	<u>\$ 4,606,399</u>	<u>\$ 1,153,039</u>	<u>\$ 7,497,830</u>	<u>\$ 9,368,243</u>	<u>\$ 16,866,073</u>

See Notes to Financial Statements

**Central Office of The Catholic
Diocese of Fort Worth**
Statement of Cash Flows
Year Ended June 30, 2021

Operating Activities	
Change in net assets	\$ 275,589
Items not requiring (providing) cash	
Net realized and unrealized gain on investments	(640,107)
Change in value of beneficial interest in perpetual trust	(293,350)
Depreciation	286,925
Loss on disposal of assets	505,584
Donated property	100,000
Changes in:	
Accounts receivable - affiliates	(1,720,626)
Contribution receivable	(700,000)
Accrued interest receivable	(1,240,242)
Other assets	(212,195)
Accounts payable	(2,503,385)
Accrued expenses	(265,502)
Claims liability	58,798
Deferred revenue	(320,000)
Funds held for others	(86,300)
Grants payable	584,807
	<hr/>
Net cash used by operating activities	(6,170,004)
Investing Activities	
Increase in cash surrender value of life insurance	36,901
Payments on loans receivable - affiliates	23,469,221
Advances on loans receivable - affiliates	(14,984,987)
Proceeds from sale of investments	650,928
Purchase of investments	(10,837,604)
Proceeds on sale of property held for sale	792,436
Purchase of property and equipment	(272,068)
	<hr/>
Net cash used in investing activities	(1,145,173)
Financing Activities	
Cash paid on deposits payable - affiliates	(33,973,225)
Cash received for deposits payable - affiliates	39,227,299
Repayment of notes payable	(964,186)
	<hr/>
Net cash provided by financing activities	4,289,888
Net Change in Cash	(3,025,289)
Cash and Restricted Cash, Beginning of Year	<hr/> 27,933,911
Cash and Restricted Cash, End of Year	<hr/> <hr/> \$ 24,908,622

**Central Office of The Catholic
Diocese of Fort Worth**
Statement of Cash Flows (continued)
Year Ended June 30, 2021

Non-cash investing and financing activities

Assets transferred to loan receivable	\$ 1,288,801
Donated property	\$ 100,000

Supplemental Disclosure of Cash Flow Information:

Cash paid for interest on deposits payable	\$ 909,174
Cash paid for interest on note payable	\$ 829,385

Cash reconciliation:

Cash	\$ 24,758,622
Restricted cash	150,000
	<u>\$ 24,908,622</u>

**Central Office of The Catholic
Diocese of Fort Worth
Notes to Financial Statements
June 30, 2021**

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

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 Diocese of Fort Worth Advancement 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.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting, which is in conformity with accounting principles generally accepted in the United States of America.

Description of Programs

The programs and administrative 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.
- 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 a magazine and an internet web page. The North Texas Catholic bi-monthly magazine continues to be the vital link to keep Catholics throughout the Diocese informed.

**Central Office of The Catholic
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Notes to Financial Statements
June 30, 2021**

- 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, Catechetical, Property Management and Construction, Catholic Schools, Finance and Administrative Services, and Tribunal, as well as insurance programs, employee benefits, and many others enable the ministries and programs to touch and change the lives of Catholics throughout the Diocese.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Central Office considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2021, the Central Office did not have any assets that met this definition. Uninvested cash and cash equivalents included in investment accounts are not considered to be cash and cash equivalents. Deposit accounts restricted externally by third parties are considered to be cash and cash equivalents.

The Central Office's cash accounts exceeded federally insured limits by approximately \$24,981,000 for the year ended June 30, 2021.

At June 30, 2021, the Central Office has restricted cash of \$150,000 held in a separate bank account as collateral against the unused letter of credit available for the same amount as required by their insurance claims administrator. These funds are to be used to pay for any insurance claims for which the Central Office self-insures that come due in the event that the Central Office does not have sufficient funds to cover those claims. (See *Note 16*).

Investments

The Central Office measures securities at fair value.

Net Investment Return

Investment return includes dividend, interest and other investment income; realized and unrealized gains and losses on investments carried at fair value; less external investment expenses. Gains and losses on the sale of securities are recorded on the trade date and are determined using the average cost method.

**Central Office of The Catholic
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Notes to Financial Statements
June 30, 2021**

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is recorded as revenue with donor restrictions and then released from restrictions. Other investment return is reflected in the statement of activities with or without donor restrictions based upon the existence and nature of any donor or legally imposed restrictions.

The Central Office maintains pooled investment accounts. Investment income and realized and unrealized gains and losses from securities in the pooled investment accounts are allocated monthly to the individual accounts based on the relationship of the fair value of the interest of each account to the total fair value of the pooled investments accounts, as adjusted for additions to or deductions from those accounts.

Accounts Receivable - Affiliates

Accounts receivable are due almost exclusively from affiliates of the Central Office including parishes and schools. Accounts receivable are stated at the amount of consideration from affiliates, of which the Central Office has an unconditional right to receive. The Central Office provides an allowance for doubtful accounts, which is based upon a review of outstanding receivables, historical collection information and existing economic conditions. At June 30, 2021, management has recorded an allowance of \$11,788.

Accounts receivable are ordinarily due 30 days after the issuance of the invoice. Delinquent receivables are written off only after collections efforts have been made and decisions are based upon specific circumstances of the affiliates.

Contributions Receivable - Affiliate

Contributions receivable represents amounts due from the Advancement Foundation and are stated at the amount of consideration from the donor to which the Central Office has an unconditional right to receive. Based on past experience, management has determined that no allowance for doubtful contributions receivable is considered necessary. All amounts are expected to be paid within the next year.

Loans Receivable - Affiliates

Loans receivable are due almost exclusively from affiliates of the Central Office including parishes and schools. The Central Office does not extend credit unless management is reasonably certain the related amount will be repaid. The Central Office charges up to 4.5% interest on some of its outstanding loan receivables. 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.

**Central Office of The Catholic
Diocese of Fort Worth
Notes to Financial Statements
June 30, 2021**

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.

Property Held for Sale

During 2021, the Central Office evaluated various parcels of land that had been held for future parish or school use. One parcel of land was identified as a property that would not be needed for a future parish or school. The Central Office has decided to sell this property, which was sold subsequent to year-end for \$405,000, resulting in a gain of \$298,300.

In addition, the Central Office sold one parcel of land during the year with a cost of \$900,000 resulting in a loss of \$112,543. Another property, with a net book value of \$450,000 was donated to a school, at the fair market value of \$100,000. Therefore, \$350,000 is reflected as a loss on impairment, and \$100,000 is reflected as grant expense.

Property and Equipment

Property and equipment acquisitions over \$5,000 are stated at cost less accumulated depreciation. Depreciation is charged to expense using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives. The estimated useful lives for each major depreciable classification of property and equipment are as follows:

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

Long-lived Asset Impairment

The Central Office evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

Impairment loss of \$350,000 was recognized during the year ended June 30, 2021.

**Central Office of The Catholic
Diocese of Fort Worth
Notes to Financial Statements
June 30, 2021**

Claims Liability

The Central Office manages insurance claims for the Diocese. Claims liability represents the estimated losses payable, including incurred but not reported claims, for property damage, general liability, workers' compensation, and disability insurance.

Funds Held for Others

Funds held for others consists of national and special collections that are passed through the Central Office and sent to various missions and programs.

Deposits Payable - Affiliates

Deposits payable represent amounts held as savings accounts for affiliates.

Net Assets

Net assets, revenues, gains and losses are classified based on the existence or absence of donor restrictions.

Net assets without donor restrictions are available for use in general operations and not subject to donor restrictions. Net assets with donor restrictions are subject to donor restrictions. Some restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

Contributions

Contributions are provided to the Central Office either with or without restrictions placed on the gift by the donor. Revenues and net assets are separately reported to reflect the nature of those gifts – with or without donor restrictions.

The value recorded for each contribution is recognized as follows:

Nature of the Gift	Value Recognized
<i>Conditional gifts, with or without restriction</i>	
Gifts that depend on the Central Office overcoming a donor-imposed barrier to be entitled to the funds	Not recognized until the gift becomes unconditional, <i>i.e.</i> the donor-imposed barrier is met
<i>Unconditional gifts, with or without restriction</i>	
Received at date of gift – cash and other assets	Fair value

**Central Office of The Catholic
Diocese of Fort Worth
Notes to Financial Statements
June 30, 2021**

Received at date of gift – property, equipment and long-lived assets	Estimated fair value
Expected to be collected within one year	Net realizable value
Collected in future years	Initially reported at fair value determined using the discounted present value of estimated future cash flows technique

In addition to the amount initially recognized, revenue for unconditional gifts to be collected in future years is also recognized each year as the present-value discount is amortized using the level-yield method.

When a donor stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Absent explicit donor stipulations for the period of time that long-lived assets must be held, expirations of restrictions for gifts of land, buildings, equipment and other long-lived assets are reported when those assets are placed in service.

Gifts and investment income, that are originally restricted by the donor and for which the restriction is met in the same time period the gift is received, are recorded as revenue with donor restrictions and then released from restriction.

Conditional contributions and investment income having donor stipulations which are satisfied in the period the gift is received and the investment income is earned are recorded as revenue with donor restrictions and then released from restriction.

Contributed Services

Contributions of services are recognized as revenue at their estimated fair value only when the services received create or enhance nonfinancial assets or require specialized skills possessed by the individuals providing the service and the service would typically need to be purchased if not donated. Contributions of services also include services received from personnel of an affiliate. No significant amounts have been reflected in the statement of activities for donated services because this criterion has not been met.

**Central Office of The Catholic
Diocese of Fort Worth
Notes to Financial Statements
June 30, 2021**

In-kind Contributions

In addition to receiving cash contributions, the Central Office receives in-kind contributions from various donors. It is the policy of the Central Office to record the fair value of certain in-kind donations as an expense in its financial statements unless the contributed items meet the criteria to be capitalized. Contribution revenue is recorded by the same amount. For the year ended June 30, 2021, no in-kind contributions were received by the Central Office which required capitalization.

Income Taxes

The Central Office is exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, the Central Office is subject to federal income tax on any unrelated business taxable income.

Functional Allocation of Expenses

The costs of supporting the various programs and other activities have been summarized on a functional basis in the statement of activities. The statement of functional expenses presents the natural classification detail of expenses by function. Certain costs have been allocated among program services and administrative and support services by specific identification of costs, approximate percentage of time expended or percentage of usage of building, as appropriate.

Note 2: Change in Accounting Principles

On July 1, 2020, the Central Office adopted the Financial Accounting Standards Board Accounting Standards Update 2014-09, *Revenue from Contracts with Customers (Topic 606)*, (ASU 2014-09) using a modified retrospective method of adoption to all contracts that are not completed at the date of initial application.

The core guidance in ASU 2014-09 is to recognize revenue to depict the transfer of promised goods or services to customers in amounts that reflect the consideration to which the Central Office expects to be entitled in exchange for those goods or services.

The amount to which the Central Offices expects to be entitled is calculated as the transaction price and recorded as revenue in exchange for providing goods or services.

Adoption of ASU 2014-09 resulted in changes in presentation of financial statements and related disclosures in the notes to the financial statements.

**Central Office of The Catholic
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Notes to Financial Statements
June 30, 2021**

Note 3: Fair Value of Assets and Liabilities

Fair value is 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. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. The hierarchy comprises 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 other 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 supported by little or no market activity and that are significant to the fair value of the assets or liabilities

Recurring Measurements

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 fair value measurements fall at June 30, 2021:

	Fair Value	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Investments				
Cash	\$ 6,513,100	\$ 6,513,100	\$ -	\$ -
Corporate bonds	631,281	631,281	-	-
Equity mutual funds	29,747	29,747	-	-
Fixed mutual funds	465,513	465,513	-	-
Equities	6,136,128	6,136,128	-	-
Foreign bonds	43,389	43,389	-	-
Catholic Umbrella Pool II	448,053	-	448,053	-
Total investments	<u>\$ 14,267,210</u>	<u>\$ 13,819,157</u>	<u>\$ 448,053</u>	<u>\$ -</u>
Beneficial interest in perpetual trust	<u>\$ 1,489,140</u>	<u>\$ -</u>	<u>\$ -</u>	<u>1,489,140</u>

**Central Office of The Catholic
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Notes to Financial Statements
June 30, 2021**

Following is a description of the valuation methodologies and inputs used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying statement of financial position, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended June 30, 2021.

Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

Level 3 Valuation Process

Fair value determinations for Level 3 measurements of securities are the responsibility of the Controller's office. The Controller's office obtains financial statements of the trust from the trustee and challenges the reasonableness of the assumptions used and reviews the methodology to ensure the estimated fair value complies with accounting standards generally accepted in the United States.

Beneficial Interest in Perpetual Trust

Fair value of the trust is measured using the fair value of the underlying assets held by the trust. Because this is a perpetual trust, the Central Office will never have the ability to redeem its investment at fair value; therefore, the trust is classified within Level 3 of the fair value hierarchy. The Central Office is to receive 75% of the annual distributions as determined by the trustee.

Activity within the amounts classified as Level 3 as of June 30, 2021 are:

Beginning balance	\$ 1,195,790
Total gain (realized/unrealized)	<u>293,350</u>
Ending balance	<u><u>\$ 1,489,140</u></u>

**Central Office of The Catholic
Diocese of Fort Worth
Notes to Financial Statements
June 30, 2021**

Catholic Umbrella Pool II

The Central Office invests in the Catholic Umbrella Pool II (CUP II), which is an excess liability pool designed to reduce susceptibility to the volatility of the insurance market. The CUP II has limitations on redemption of the participant's equity account. For a 10-year period, a payment equal to 75% of the annual return of contribution shall be paid. Within 12 months following the expiration of the 10-year period, a payment shall be made equal to the remaining equity account.

Note 4: Beneficial Interest in Trust

The Central Office was named as a beneficiary of a perpetual charitable trust held and administered by an independent trustee in 2000. Perpetual trusts provide for the distribution of the net income of the trust to the Central Office (which it has been receiving); however, the Central Office will never receive the assets of the trusts.

In accordance with generally accepted accounting principles, a beneficial interest in perpetual trust should be recorded in the statement of financial position at the fair value of the underlying trust assets for the Central Office's portion of the trust, which is 75%. Thereafter, beneficial interests in the trusts are reported at the fair value of the trusts' assets in the statement of financial position, with trust distributions and changes in fair value recognized in the statement of activities.

The estimated value of the expected future cash flows is \$1,489,140, which represents the fair value of the trust assets at June 30, 2021. The income from this trust for 2021 was a gain of \$293,350, and distributions received were \$49,721 which was reflected as contributions in the statement of activities.

Note 5: Property and Equipment

Property and equipment at June 30, 2021, consists of:

Land	\$	4,850,662
Buildings		6,492,291
Equipment, furnishings and vehicles		<u>2,933,737</u>
		14,276,690
Less accumulated depreciation		<u>(6,497,256)</u>
		<u>\$ 7,779,434</u>

**Central Office of The Catholic
Diocese of Fort Worth
Notes to Financial Statements
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Note 6: Diocesan Assessments

Per Canon Law, 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 0% to 16.00% of the gross collections. There are also exemptions and reductions based on certain activity of the specific parish such as school subsidy and social outreach support. In addition, the Central Office assessed approximately \$198,000 in 2021 to parishes that have students enrolled at Nolan Catholic High School. These amounts were transferred to the school to help support operations.

Note 7: Related Parties

The Central Office works closely with the Catholic Diocese of Fort Worth Advancement Foundation (Foundation). The Foundation is a separate non-profit organization organized to support the activities of the Diocese of Fort Worth. Substantially, all of the Foundation's activities are conducted for the benefit of the Diocese and related entities and ministries including fund raising and collection of contributions. The Foundation reimbursed the Central Office for utilizing the services of some personnel employed by the Central Office. In addition, the Foundation reimbursed the Central Office for other costs such as postage, copying, and other supplies for the year ended June 30, 2021. The Central Office received grants from the Foundation and earned a management fee for the year ended June 30, 2021. During 2021, the Foundation and the Diocese had the following transactions as of June 30, 2021:

	Revenue	Expense Reimbursement	Receivable
Diocese personnel	\$ -	\$ 619,239	\$ 43,342
Postage, copying and other supplies	-	20,699	2,086
Management fee	12,000	-	3,000
Diocese grant	1,209,753	-	700,000
	<u>\$ 1,221,753</u>	<u>\$ 639,938</u>	<u>\$ 748,428</u>

The Foundation receives funds on behalf of local parishes and schools that have collected contributions for capital projects. The capital projects are funded by the Diocese through a temporary loan to the parish or school. The temporary loan represents the funds in transit from the Foundation to the Diocese on June 30, 2021.

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Note 8: Loans Receivable - Affiliates

The Central Office provides loans to parishes, schools, and others within the Diocese for capital projects and various operating purposes. These loans have an interest rate of 4.5% at June 30, 2021, 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.

During 2016, the Central Office entered into a loan agreement (See *Note 10*) with a financial institution to finance development projects, primarily related to St. Martin de Porres. While the loan is in the name of the Diocese, St. Martin de Porres is expected to repay the Central Office for this loan.

The composition of loans receivable, net, at June 30, 2021, follows:

Loans to parishes	\$ 41,441,479
Loans to schools	10,595,279
Allowance for doubtful accounts	<u>(5,000,000)</u>
	<u>\$ 47,036,758</u>

Payments on the loans are expected to be collected as follows:

One year or less	\$ 2,595,064
More than one year	<u>44,441,694</u>
	<u>\$ 47,036,758</u>

Note 9: 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, 2021, and are due on demand. The composition of deposits payable at June 30, 2021, consists of:

Deposits payable to parishes	\$ 52,402,332
Deposits payable to schools	<u>13,828,002</u>
	<u>\$ 66,230,334</u>

Interest expense relating to deposits payable is \$910,218 for the year ended June 30, 2021, and is included in the accompanying Statement of Functional Expenses.

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Note 10: Long-Term Debt

In June 2016, the Central Office entered into an unsecured term loan agreement with a municipal entity that immediately assigned the note to a financial institution. The original loan amount was \$25,620,000 with the proceeds to be used for future development projects. Terms of the loan require interest-only payments until December 2017, with a fixed interest rate of 2.73%. Beginning March 1, 2018, payments of principal and interest are due quarterly through the maturity date of December 30, 2027. Principal payments range from \$194,370 to \$254,348 per quarter. The loan has certain limitations to prepayments after December 31, 2017, that impose a penalty. The agreement also requires additional payments if certain taxable events cause the interest to become taxable to the financial institution. The outstanding balance was \$22,773,868 at June 30, 2021. The interest rate as of June 30, 2021 was 3.32%.

The Central Office entered into another unsecured loan agreement in June 2016 with a maximum draw amount of \$2,879,110. The proceeds of this loan are also to be used for future development projects. Terms of the loan required interest-only payments until December 2017 with a floating interest rate equal to the published 3-month London Interbank Offered Rate (LIBOR) plus 2.06% (2.19% at June 30, 2021). Beginning March 1, 2018, equal payments of principal and accrued interest are due quarterly through the maturity date of December 30, 2027. The outstanding balance was \$1,841,923 as of June 30, 2021.

Interest paid on both loans during 2021 was \$829,385.

Aggregate annual maturities of long-term debt at June 30, 2021 are as follows:

2022	\$	987,726
2023		1,011,924
2024		1,036,798
2025		1,062,369
2026		1,088,654
Thereafter		19,428,320
	\$	24,615,791

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Note 11: Net Assets

Net Assets With Donor Restrictions

Net assets, with donor restrictions at June 30, 2021, are restricted for the following purposes or periods:

Subject to expenditure for specified purpose	
Pastoral services	\$ 757,736
Education and formation	<u>51,826</u>
	<u>809,562</u>
Subject to the passage of time	
Promises to give that are not restricted by donors but which are unavailalbe for expenditure until due	<u>\$ 700,000</u>
Not subject to spending policy or appropriation	
Beneficial interest in perpetual trust	<u>1,489,140</u>
	<u><u>\$ 2,998,702</u></u>

Net Assets Released from Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

Satisfaction or purpose restrictions	
Pastoral services	\$ 1,941,635
Education and formation	<u>970,643</u>
	<u><u>\$ 2,912,278</u></u>

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Note 12: Revenue from Contracts with Customers

Insurance Revenue

Revenue from contracts with parishes, schools and other affiliated entities (the “locations”) for insurance premiums is reported at the amount that reflects the consideration to which the Central Office expects to be entitled in exchange for providing insurance coverage to these locations.

Revenue is recognized as performance obligations are satisfied, which is ratably over the period of coverage (July 1 – June 30) which aligns with the fiscal year of the Central Office. Generally, the Central Office bills the locations over an 11-month period, with amounts due within 30 days of the billing.

Transaction Price and Recognition

The Central Office determines the transaction price for the locations based on standard charges for services provided, which includes claims history, administrative costs, and premiums charged by a third-party insurance company for stop-loss coverage. There are no implicit price concessions provided to the locations.

Contract Balances

The following table provides information about the Central Office’s receivables, which are reflected in accounts receivable on the statement of financial position, from contracts with the locations as of June 30:

Accounts receivable, beginning of year	\$ 52,297
Accounts receivable, end of year	\$ 267,485

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Note 13: Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of June 30, 2021, comprise the following:

Financial assets at year end	
Cash	\$ 24,758,622
Accounts receivable - affiliates, net	3,642,940
Contributions receivable	700,000
Accrued interest receivable	5,516,354
Loans receivable - affiliates, net	47,036,758
Investments	<u>14,267,210</u>
 Total financial assets at year end	 <u>95,921,884</u>
Less amounts not available to be used with one year	
Loan receivables not expected to be collected within one year	(44,441,694)
Accrued loan interest not expected to be collected within one year	(4,186,543)
Funds held for others	(1,084,613)
Deposits payable - affiliates	(66,230,334)
Donor restricted funds	<u>(415,036)</u>
 Financial assets not available to be used within one year	 <u>(116,358,220)</u>
 Financial assets available to meet cash needs for general expenditures within one year	 <u>\$ (20,436,336)</u>

The Central Office receives significant contributions restricted by donors, and considers contributions restricted for programs which are ongoing, major and central to its annual operations to be available to meet cash needs for general expenditures. For the year ended June 30, 2021, restricted contributions of \$1,094,527 were included in financial assets available to meet cash needs for general expenditures within one year.

The Diocese of Fort Worth monitors the availability of resources required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. For purposes of analyzing resources available to meet general expenditures over a twelve-month period, the Central Office considers all expenditures related to its ongoing activities including religious education and formation, pastoral services, and communications as well as the conduct of services undertaken to support those activities to be general expenditures.

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The Central Office holds deposits on behalf of parishes and schools within the Fort Worth Diocese, and in turn loans out these funds within the Diocese. The deposits are due on demand, although the loans receivable are due over a period of time. While the deposits are due on demand, in looking back over the past five years, the parishes and schools have a history of making deposits that are similar to the withdrawals made in a given year. During this time period, the largest excess of withdrawals over deposits was approximately \$6.3 million, representing only approximately 10% of the amount that could be withdrawn. The Central Office consistently has cash on hand to cover these situations. Over the next twelve months, management does not expect withdrawals to be significantly greater than expected deposits.

The Central Office can also open a line of credit with its current commercial bank for operational expenses, should the need arise.

In addition to financial assets available to meet general expenditures over the next twelve months, the Central Office strives to operate with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures.

Note 14: Commitments and Contingencies

Guaranteed Bonds

On December 23, 2020, Nolan Catholic High School (School) borrowed \$15,750,000 in revenue bonds to fund capital projects and to refinance existing debt with the Catholic Diocese of Fort Worth.

The financing transaction included \$9,000,000 of Tax-Exempt Revenue Notes, Series 2020-1X, issued by Arlington Higher Education Finance Corporation (“AHEFC”) and sold to a single bank in a direct private placement transaction. These bonds are guaranteed by the Catholic Diocese of Fort Worth.

The remaining transaction includes (i) \$1,000,000 of Taxable Senior Revenue Bonds, Series 2020-1A and (ii) \$5,750,000 of Taxable Junior Revenue Bonds, Series 2020-1B, issued by the Catholic Diocese of Fort Worth Advancement Foundation (Foundation) and also sold to the Foundation by a Placement Agent pursuant to a Prospectus.

Insurance

The Central Office manages the claims against the Diocese. At June 30, 2021, the Diocese is subject to various claims covering a wide range of matters that arise in the ordinary course of its activities. Claims and litigation are covered by commercial insurance. The deductible on insurance claims is \$200,000 per occurrence. Management believes that any liability that may ultimately result from the resolution of claims will not have a material adverse effect on the financial condition or results of operations of the Central Office.

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Note 15: Defined Benefit Pension Plans

The Diocese has two noncontributory defined benefit pension plans covering all 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 Diocese's funding policy is to make the minimum annual contribution that is required by applicable regulations, plus such amounts as the Diocese may determine to be appropriate from time to time.

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.

For the year ended June 30, 2021, the actual contributions for the Central Office's portion of these plans for the priests and employees were \$389,536.

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.

The following information reflects all participants in the plans, which includes the Central Office priests and employees.

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Employee Plan

The actuarial valuation information for the Employee Plan follows:

Actuarial valuation date	6/30/2021
Actuarial cost method	Projected Unit Credit
Asset valuation method	Market Value
Assumptions:	
Investment return	7.25%
Projected salary increases	2.50%

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

Annual Pension Cost (APC)	\$	3,177,972
Percentage of APC Contributed		100.00%
Net Pension Obligation	\$	-

The funding information for the Employee Plan follows:

Actuarial valuation date	6/30/2021
Fair value of plan assets	\$ 42,870,748
Actuarial accrued liability (AAL)	\$ 54,093,846
Unfunded actuarial accrued liability (UAAL)	\$ 11,223,098
Funded ratio	79.25%
Annual covered payroll	\$ 27,445,233
UAAL as percentage of covered payroll	40.89%

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Priests' Plan

The actuarial valuation information for the Priests' Plan follows:

Actuarial valuation date	6/30/2021
Actuarial cost method	Projected Unit Credit
Asset valuation method	Market Value
Assumptions:	
Investment return	7.25%
Cost of living	1.50%

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

Annual Pension Cost (APC)	\$ 739,200
Percentage of APC Contributed	100.000%

The funding information for the Priests' Plan follows:

Actuarial valuation date	6/30/2021
Fair value of plan assets	\$ 9,082,811
Actuarial accrued liability (AAL)	\$ 7,447,551
Unfunded actuarial accrued liability/(benefit) (UAAL)	\$ (1,635,260)
Funded ratio	121.96%

Note 16: 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 Payroll Department calculates the premium for the workers' compensation plan and remits the premiums to the Accounting Department. The calculations are made per pay period under parameters set by Church Mutual.

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The Central Office has a fully insured plan for the health insurance needs of the participants. 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 17: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of American require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

Economic Uncertainties

As a result of the spread of the SARS-CoV-2 virus and the incidence of COVID-19, economic uncertainties have arisen which may negatively affect the financial position, results of operations and cash flows of the Central Office. The duration of these uncertainties and the ultimate financial effects cannot be reasonably estimated at this time.

Investments

The Central Office invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the accompanying statements of financial position.

Contributions

Approximately 47% of total contributions were received from one donor.

Note 18: Subsequent Events

Subsequent events have been evaluated through January 21, 2022, which is the date the financial statements were available to be issued.

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Note 19: Future Change in Accounting Principle

Accounting for Leases

The Financial Accounting Standards Board amended its standard related to the accounting for leases. Under the new standard, lessees will now be required to recognize substantially all leases on the statements of financial position as both a right-of-use asset and a liability. The standard has two types of leases for statements of activities recognition purposes: operating leases and finance leases. Operating leases will result in the recognition of a single lease expense on a straight-line basis over the lease term similar to the treatment for operating leases under existing standards. Finance leases will result in an accelerated expense similar to the accounting for capital leases under existing standards. The determination of lease classification as operating or finance will be done in a manner similar to existing standards. The new standard also contains amended guidance regarding the identification of embedded leases in service contracts and the identification of lease and nonlease components in an arrangement. The new standard is effective for annual periods beginning after December 15, 2021, and any interim periods within annual reporting periods that begin after December 15, 2022. The Central Office has not evaluated the effect the standard will have on the financial statements.