

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

**AUDITED FINANCIAL STATEMENTS**

**Year Ended June 30, 2017 and 2016**



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## INDEPENDENT AUDITOR'S REPORT

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

### Report on the Financial Statements

We have audited the accompanying financial statements of the Central Office of the Catholic Diocese of Fort Worth (the "Central Office") which comprise the statement of financial position as of June 30, 2017, the related statements of activities 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 in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### 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, 2017, 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.

### Report on Summarized Comparative Information

We have previously audited the Central Office's 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 10, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Rylander, Clay & Opitz, LLP*

January 12, 2018

# CENTRAL OFFICE OF THE CATHOLIC DIOCESE OF FORT WORTH

## STATEMENTS OF FINANCIAL POSITION

June 30, 2017 and 2016

	2017	2016
<b>ASSETS</b>		
Cash and cash equivalents	\$ 15,715,858	\$ 16,416,775
Restricted cash	8,304,441	16,378,455
Accounts receivable - parishes and affiliates, net	1,567,866	2,016,590
Accrued interest receivable	1,018,549	737,076
Due from affiliates	1,536,538	1,095,148
Other assets	562,354	464,874
Loans receivable - affiliates	24,751,715	28,180,754
Investments	3,390,512	3,293,248
Property held for future parish/school use	29,348,488	28,890,549
Property and equipment, net	17,735,552	8,663,878
<b>Total assets</b>	<b>\$ 103,931,873</b>	<b>\$ 106,137,347</b>
 <b>LIABILITIES AND NET ASSETS</b>		
Liabilities		
Accounts payable	\$ 788,628	\$ 552,795
Accrued expenses	1,492,630	1,279,804
Claims liability	1,218,033	1,164,083
Funds held for others	874,881	491,669
Deposits payable - affiliates	51,474,441	57,109,115
Notes payable	27,551,994	26,647,544
<b>Total liabilities</b>	83,400,607	87,245,010
Commitments and Contingencies (Note 13)		
Net Assets		
Unrestricted		
Undesignated	11,377,564	10,188,872
Designated for insurance reserve	6,217,958	5,551,014
Designated for loans to related entities	1,092,404	1,471,225
<b>Total unrestricted</b>	18,687,926	17,211,111
Temporarily restricted		
Other programs	1,843,340	1,681,226
<b>Total temporarily restricted</b>	1,843,340	1,681,226
<b>Total net assets</b>	20,531,266	18,892,337
<b>Total liabilities and net assets</b>	<b>\$ 103,931,873</b>	<b>\$ 106,137,347</b>

See notes to financial statements.



# CENTRAL OFFICE OF THE CATHOLIC DIOCESE OF FORT WORTH

## STATEMENTS OF ACTIVITIES

Year Ended June 30, 2017 with Comparative Total for 2016

	Unrestricted	Temporarily Restricted	Total	
			2017	2016
Revenue and other support				
Contributions	\$ 38,909	\$ 3,740,776	\$ 3,779,685	\$ 2,605,900
Diocesan assessments	8,167,723	-	8,167,723	8,029,235
Program and service fees	5,219,114	-	5,219,114	6,000,016
Investment income	187,645	-	187,645	170,179
Net realized and unrealized gain (loss)	186,088	1,563	187,651	(69,599)
Interest on loans receivable - affiliates	925,335	-	925,335	747,713
Gain on sale of assets	277,866	-	277,866	370,711
Forgiveness of related party transaction		-	-	900,039
Other	430,778	-	430,778	88,439
Net assets released from restrictions	3,580,225	(3,580,225)	-	-
<b>Total revenue and other support</b>	<b>19,013,683</b>	<b>162,114</b>	<b>19,175,797</b>	<b>18,842,633</b>
Expenses				
Program services				
Education and formation	1,947,104	-	1,947,104	2,328,643
Grants	1,893,725	-	1,893,725	442,660
Pastoral services	2,815,176	-	2,815,176	2,815,713
Communication	761,336	-	761,336	763,323
Administrative and support services				
Benefit programs for parish, school, and Diocesan employees	1,762,209	-	1,762,209	1,670,455
Diocesan administration	5,673,509	-	5,673,509	5,234,305
Insurance for all property in the Diocese	1,921,482	-	1,921,482	2,620,068
Deposit and loan and other funds	762,327	-	762,327	840,937
<b>Total expenses</b>	<b>17,536,868</b>	<b>-</b>	<b>17,536,868</b>	<b>16,716,104</b>
<b>Change in net assets</b>	<b>1,476,815</b>	<b>162,114</b>	<b>1,638,929</b>	<b>2,126,529</b>
Net assets at beginning of year	17,211,111	1,681,226	18,892,337	16,765,808
<b>Net assets at end of year</b>	<b>\$ 18,687,926</b>	<b>\$ 1,843,340</b>	<b>\$ 20,531,266</b>	<b>\$ 18,892,337</b>

See notes to financial statements.



## CENTRAL OFFICE OF THE CATHOLIC DIOCESE OF FORT WORTH

### STATEMENTS OF CASH FLOWS Years Ended June 30, 2017 and 2016

	2017	2016
Cash Flows from Operating Activities		
Change in net assets	\$ 1,638,929	\$ 2,126,529
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net realized and unrealized (gain) loss	(187,651)	69,599
Depreciation	255,131	339,227
Gain on sale of assets	(277,866)	(370,711)
Grants of property held for future parish/school use	-	42,763
Change in operating assets and liabilities:		
Decrease in accounts receivable - parishes and affiliates	448,724	98,463
(Increase) decrease in accrued interest receivable	(281,473)	28,371
Increase in due to/from affiliates	(441,390)	(1,547,119)
(Increase) decrease in other assets	(75,599)	258,492
Increase (decrease) in accounts payable	235,833	(510,271)
Increase in accrued expenses	212,826	296,559
Increase (decrease) in claims liability	53,950	455,882
Increase (decrease) in funds held for others	383,212	(439,512)
<b>Net cash provided by operating activities</b>	<b>1,964,626</b>	<b>848,272</b>
Cash Flows from Investing Activities		
Receipts on loans receivable - affiliates	12,383,758	16,557,239
Advances on loans receivable - affiliates	(8,925,425)	(16,417,348)
Increase in cash surrender value of life insurance	(21,881)	(335,966)
Proceeds from sale of investments	2,290,756	813,035
Purchase of investments	(2,200,369)	(825,753)
Proceeds on sale of property held for future parish/school use	425,525	3,766,079
Purchase of property held for future parish/school use	(912,758)	(5,163,300)
Proceeds on sale of property and equipment	531,469	370,711
Purchase of property and equipment	(9,580,408)	(4,985,456)
<b>Net cash used by investing activities</b>	<b>(6,009,333)</b>	<b>(6,220,759)</b>
Cash Flows from Financing Activities		
Cash paid on deposits payable - affiliates	(32,308,393)	(27,114,413)
Cash received for deposits payable - affiliates	26,673,719	33,881,363
Proceeds from notes payable	904,450	26,647,834
Repayment of notes payable	-	(9,529,573)
<b>Net cash provided (used) by financing activities</b>	<b>(4,730,224)</b>	<b>23,885,211</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(8,774,931)</b>	<b>18,512,724</b>
Cash and cash equivalents at beginning of year	32,795,230	14,282,506
<b>Cash and cash equivalents at end of year</b>	<b>\$ 24,020,299</b>	<b>\$ 32,795,230</b>

See notes to financial statements.



# CENTRAL OFFICE OF THE CATHOLIC DIOCESE OF FORT WORTH

## NOTES TO FINANCIAL STATEMENTS

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### 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, 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.

#### **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-monthly 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

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### 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. The Central Office has \$8,304,441 in cash reserved for construction from the remaining proceeds from a construction note payable.

#### Supplemental Cash Flow Information

Interest paid on deposits payable - affiliates amounts to \$762,487 and \$698,177 for the years ended June 30, 2017 and 2016, respectively. The Central Office also paid interest on notes payable of \$227,120 for the year ended June 30, 2016. For the year ended June 30, 2017, the interest expense was transferred to the applicable parish.

Non-cash financing and investing activities included the transfer of approximately \$30,000 and \$802,334 in property held for future use to related parishes and schools in the form of loans for the years ended June 30, 2017 and 2016, respectively. The Central office also forgave a parish's loan resulting in approximately \$715,000 in grant expense for 2017.

#### 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. The Central Office charges up to 4.5% interest on some of its outstanding note 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.

#### 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

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### 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 2017 and 2016, property with a cost of approximately \$454,802 and \$4,611,000, 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.

#### 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 primarily represent royalty funds held for affiliates of the Central Office.

#### Deposits Payable - Affiliates

Deposits payable represent amounts held as savings accounts for affiliates.

#### 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.



# CENTRAL OFFICE OF THE CATHOLIC DIOCESE OF FORT WORTH

## NOTES TO FINANCIAL STATEMENTS

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### 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.

#### **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.

#### **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 within the meaning of Section 509(a) of the Code. As a not-for-profit organization, the Central Office is not liable for federal income taxes.

#### **Concentration of Credit and Market Risk**

At June 30, 2017, the Central Office has deposits of approximately \$24,400,000 in excess of federally insured limits. This amount is not reduced by items recorded in the accounts not yet clearing the bank. Management does not believe that it is subject to any significant risk of loss on bank balances.

#### **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, 2016, from which the summarized information was derived.

#### **Subsequent Events**

Management evaluated subsequent events through January 12, 2018, 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

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### 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. Accounts receivable amounts are expected to be received within the following fiscal year. An allowance for doubtful accounts of \$11,788 is recorded at June 30, 2017 and 2016. 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 Diocese of Fort Worth Advancement Foundation (Advancement), as both are governed by the Diocese. The Central Office paid expenses on behalf of Advancement. The amount due from Advancement at June 30, 2017 and 2016 is \$1,536,538 and \$1,095,148, respectively.

### 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 have an interest rate of 4.5% at June 30, 2017 and 2016, 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, 2017 and 2016 follows:

	2017	2016
Loans to parishes	\$ 15,472,185	\$ 17,833,458
Loans to schools	9,279,530	10,347,296
	<u>\$ 24,751,715</u>	<u>\$ 28,180,754</u>

At June 30, 2017 and 2016, 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.

### 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.



# CENTRAL OFFICE OF THE CATHOLIC DIOCESE OF FORT WORTH

## NOTES TO FINANCIAL STATEMENTS

### NOTE 5. INVESTMENTS AND FAIR VALUE (Continued)

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-parishes and affiliates, 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.

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, 2017 and 2016.

	2017 Fair Value	2016 Fair Value	Level
Cash held for investment	\$ 391,042	\$ 524,993	1
LKCM small mid cap equity	1,029,633	954,848	1
LKCM fixed income fund	14,839	35,650	1
LKCM small cap equity	34,399	30,652	1
Equities:			
Technology	224,553	120,279	1
Consumer goods	91,725	111,164	1
Basic materials	241,068	281,603	1
Healthcare	139,481	175,968	1
Services	233,295	154,775	1
Industrial goods	60,312	84,972	1
Utilities	47,163	26,080	1
Financial	402,176	345,293	1
Other	4,076	4,076	1
Catholic Umbrella Pool II	476,750	442,895	2
Marketable securities	<u>\$ 3,390,512</u>	<u>\$ 3,293,248</u>	



# CENTRAL OFFICE OF THE CATHOLIC DIOCESE OF FORT WORTH

## NOTES TO FINANCIAL STATEMENTS

### NOTE 5. INVESTMENTS AND FAIR VALUE (Continued)

Net realized and unrealized gains (losses) are summarized as follows:

	2017	2016
Net realized gain (loss)	\$ 27,862	\$ (90,779)
Net unrealized gain	159,789	21,180
Net realized and unrealized gain (loss)	<u>\$ 187,651</u>	<u>\$ (69,599)</u>

Investment income is summarized as follows:

	2017	2016
Pooled investment income	\$ 73,340	\$ 80,251
Insurance reserve income	48,080	70,956
Other interest and dividend income	66,225	18,972
Total	<u>\$ 187,645</u>	<u>\$ 170,179</u>

#### 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 6. PROPERTY AND EQUIPMENT

The composition of property and equipment at June 30, 2017 and 2016 follows:

	2017	2016
Land	\$ 5,006,530	\$ 4,760,342
Buildings	5,033,238	5,177,165
Construction in progress	10,776,801	1,641,436
Equipment, furnishings, and vehicles	2,302,595	2,236,380
	23,119,164	13,815,323
Less: accumulated depreciation	<u>(5,383,612)</u>	<u>(5,151,445)</u>
	<u>\$ 17,735,552</u>	<u>\$ 8,663,878</u>

### NOTE 7. 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 1.27% to 16.00% of the gross collections. There are also tax exemptions and tax reductions based on the circumstances of the specific parish. In addition, the Central Office assessed approximately \$222,000 and \$34,000 in 2017 and 2016, respectively, to parishes that have students enrolled at Nolan High School. These amounts are transferred to the school to help support operations.



# CENTRAL OFFICE OF THE CATHOLIC DIOCESE OF FORT WORTH

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 8. 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, 2017 and 2016, and are due on demand. The composition of deposits payable at June 30, 2017 and 2016 follows:

	<u>2017</u>	<u>2016</u>
Deposits payable to parishes	\$ 29,624,930	\$ 30,162,931
Deposits payable to schools	21,275,709	24,087,769
Deposits payable to other entities	573,802	2,858,415
	<u>\$ 51,474,441</u>	<u>\$ 57,109,115</u>

Interest expense relating to deposits payable is \$762,487 and \$698,177 for the years ended June 30, 2017 and 2016, respectively, and is included as a component of deposit and loan and other funds expense in the accompanying statement of activities.

### NOTE 9. 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.

#### 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 10. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets of the Central Office at June 30, 2017 and 2016, in the amount of \$1,843,340 and \$1,681,226, respectively, related to funds contributed to the Central Office and are restricted by the donor for future program services.

### NOTE 11. NOTES PAYABLE

In June 2016, the Central Office entered into a new unsecured term loan agreement with a municipal entity that immediately assigned the note to a financial institution. The original loan amount is \$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 balance is \$25,620,600 at June 30, 2017 and 2016.



# CENTRAL OFFICE OF THE CATHOLIC DIOCESE OF FORT WORTH

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 11. NOTES PAYABLE (Continued)

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 require interest-only payments until December 2017 with a floating rate equal to the published 3-month London Interbank Offered Rate (LIBOR) plus 2.06%. 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 \$1,931,394 and \$1,026,944 as of June 30, 2017 and 2016, respectively.

### NOTE 12. 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, 2017 and 2016, the annual pension cost and actual contributions for the Central Office are \$379,862 and \$342,160, 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 12. PENSION PLANS (Continued)

#### Employee Plan

The actuarial valuation information for the Employee Plan follows:

Actuarial valuation date	June 30, 2017	June 30, 2016
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	8.00%	8.00%

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

	June 30, 2017	June 30, 2016
Annual Pension Cost (APC)	\$ 3,046,982	\$ 2,347,184
Percentage of APC Contributed	100%	100%
Net Pension Obligation	\$ -	\$ -

The funding information for the Employee Plan follows:

Actuarial valuation date	June 30, 2017	June 30, 2016
Actuarial value of assets	\$ 39,318,519	\$ 36,704,874
Actuarial accrued liability (AAL)	\$ 44,629,655	\$ 45,054,474
Unfunded actuarial accrued liability (UAAL)	\$ 5,311,136	\$ 8,349,600
Funded ratio	88.10%	81.47%
Annual covered payroll	\$ 25,299,343	\$ 26,792,174
UAAL as percentage of covered payroll	21.00%	31.16%

#### Priests' Plan

The actuarial valuation information for the Priests' Plan follows:

Actuarial valuation date	June 30, 2017	June 30, 2016
Actuarial cost method	projected unit credit	projected unit credit
Asset valuation method	market value	market value
Assumptions:		
Investment return	7.25%	7.25%
Cost of living	1.5%	1.5%
Inflation	none assumed	none assumed





# CENTRAL OFFICE OF THE CATHOLIC DIOCESE OF FORT WORTH

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 12. PENSION PLANS (Continued)

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

	June 30, 2017	June 30, 2016
Annual Pension Cost (APC)	\$ 390,852	\$ 444,142
Percentage of APC Contributed	100%	100%
Net Pension Obligation	\$ -	\$ -

The funding information for the Priests' Plan follows:

	June 30, 2017	June 30, 2016
Actuarial valuation date		
Actuarial value of assets	\$ 6,899,220	\$ 6,197,214
Actuarial accrued liability (AAL)	\$ 7,033,992	\$ 6,933,546
Unfunded actuarial accrued liability (UAAL)	\$ 134,772	\$ 736,332
Funded ratio	98.08%	89.38%

### NOTE 13. COMMITMENTS AND CONTINGENCIES

The Central Office manages the claims against the Diocese. At June 30, 2017 and 2016, 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 \$100,000 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.

During 2016, the Central Office entered into an agreement for the construction of a new school and parish in Prosper, Texas. The project is estimated to cost approximately \$17,600,000. Expenditures totaled approximately \$9,000,000 in 2017. The remaining cost of the project is expected to be paid in 2018.

### NOTE 14. 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 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 Central Office acts as billing agent for the multi-peril insurance plan.

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.

