

Central Office of the Catholic Diocese of Fort Worth

Financial Report
June 30, 2022

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Independent Auditor's Report

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

Opinion

We have audited the 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, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Central Office of the Catholic Diocese of Fort Worth as of June 30, 2022, and the changes in its net assets, functional expenses, and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Central Office and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Central Office's ability to continue as a going concern for one year after the date that the financial statements are issued (or, when applicable, one year after the date that the financial statements are available to be issued).

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Central Office's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Central Office's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Fort Worth, Texas
November 30, 2022

Central Office of the Catholic Diocese of Fort Worth

Statement of Financial Position June 30, 2022

ASSETS		
Cash and cash equivalents	\$	33,619,112
Restricted cash		150,000
Accounts receivable, affiliates		5,152,651
Contribution receivable, affiliate		550,000
Accrued interest receivable		6,614,849
Other assets		707,221
Loans receivable, affiliates, net		47,543,977
Investments		12,499,320
Beneficial interest in a perpetual trust		1,236,850
Property held for future parish/school use		6,114,551
Property and equipment, net		<u>7,592,900</u>
Total assets	\$	<u><u>121,781,431</u></u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$	1,544,740
Accrued expenses		776,605
Claims liability		284,444
Funds held for others		1,513,240
Deposits payable, affiliates		71,588,005
Notes payable		<u>23,628,065</u>
Total liabilities		99,335,099
NET ASSETS		
Without donor restrictions		19,781,012
With donor restrictions		<u>2,665,320</u>
Total net assets		<u><u>22,446,332</u></u>
TOTAL LIABILITIES AND NET ASSETS	\$	<u><u>121,781,431</u></u>

The Notes to Financial Statements
are an integral part of this statement.

Central Office of the Catholic Diocese of Fort Worth

Statement of Activities Year Ended June 30, 2022

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
REVENUES AND OTHER SUPPORT			
Contributions	\$ 304,818	\$ 2,566,988	\$ 2,871,806
Diocesan assessments	9,841,890	-	9,841,890
Program and service fees	4,061,801	-	4,061,801
Investment return, net of fees	178,908	-	178,908
Net realized and unrealized loss on investments	(1,918,245)	311	(1,917,934)
Change in value of beneficial interest in perpetual trust	-	(252,290)	(252,290)
Interest on loans receivable, affiliates	595,978	-	595,978
Gain on sale of assets	332,852	-	332,852
Other	36,341	228,000	264,341
Net assets released from restrictions	2,876,391	(2,876,391)	-
	<u>16,310,734</u>	<u>(333,382)</u>	<u>15,977,352</u>
EXPENSES			
Program services			
Education and formation services	1,555,493	-	1,555,493
Pastoral services	5,709,739	-	5,709,739
Communication services	1,096,377	-	1,096,377
Administrative and support services	8,396,496	-	8,396,496
	<u>16,758,105</u>	<u>-</u>	<u>16,758,105</u>
Total expenses	16,758,105	-	16,758,105
Change in net assets	(447,371)	(333,382)	(780,753)
NET ASSETS, beginning of year	<u>20,228,383</u>	<u>2,998,702</u>	<u>23,227,085</u>
NET ASSETS, end of year	<u>\$ 19,781,012</u>	<u>\$ 2,665,320</u>	<u>\$ 22,446,332</u>

The Notes to Financial Statements
are an integral part of this statement.

Central Office of the Catholic Diocese of Forth Worth

Statement of Functional Expenses Year Ended June 30, 2022

	Program Services			Supporting Services	All Services Total	
	Education and Formation Services	Pastoral Services	Communication Services	Program Services Total	Administrative and Support Services Total	Total
Salaries and wages	\$ 853,778	\$ 1,397,675	\$ 421,751	\$ 2,673,204	\$ 2,232,242	\$ 4,905,446
Payroll taxes	55,838	94,307	28,876	179,021	152,832	331,853
Benefits, education and allowances	204,779	1,476,347	101,424	1,782,550	510,930	2,293,480
Insurance	8,213	84,241	-	92,454	1,933,897	2,026,351
Services and professional fees	48,226	241,051	263,127	552,404	1,291,595	1,843,999
Other program services	120,122	106,030	42	226,194	52,967	279,161
Interest	-	-	-	-	999,337	999,337
Systems and software	322	2,317	26,566	29,205	297,155	326,360
Staff development and recognition	8,742	460,472	786	470,000	21,264	491,264
Rent, utilities and other	101,240	133,753	7,281	242,274	23,928	266,202
Third-party assessments	-	265,269	-	265,269	-	265,269
Membership, dues and subscriptions	6,241	14,150	149,457	169,848	19,445	189,293
Meetings and seminars	14,259	38,160	91	52,510	12,411	64,921
Program materials	32,337	38,435	505	71,277	26,770	98,047
Repairs and maintenance	21,620	33,650	-	55,270	117,604	172,874
Travel	25,806	178,733	4,605	209,144	29,414	238,558
Postage	3,211	12,248	74,635	90,094	4,375	94,469
Events and activities	4,541	65,359	-	69,900	15,188	85,088
Printing and copying	4,113	8,953	136	13,202	8,550	21,752
Supplies	8,038	18,883	7,047	33,968	29,495	63,463
Licenses and fees	1,673	1,776	604	4,053	38,979	43,032
Property taxes	-	-	-	-	6,612	6,612
Bank fees	10,895	3,870	-	14,765	6,596	21,361
Advertising and promotion	718	12,400	863	13,981	-	13,981
Grants	3,360	995,090	-	998,450	379,693	1,378,143
Depreciation	17,421	26,570	8,581	52,572	185,217	237,789
TOTAL EXPENSES	\$ 1,555,493	\$ 5,709,739	\$ 1,096,377	\$ 8,361,609	\$ 8,396,496	\$ 16,758,105

The Notes to Financial Statements
are an integral part of this statement.

Central Office of the Catholic Diocese of Forth Worth

Statement of Cash Flows Year Ended June 30, 2022

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ (780,753)
Adjustments to reconcile change in net assets to net cash used in operating activities	
Net realized and unrealized loss on investments	1,917,934
Change in value of beneficial interest in perpetual trust	252,290
Depreciation and amortization	237,789
Gain on disposal of assets	(332,852)
Changes in operating assets and liabilities:	
Accounts receivable, affiliates	(1,509,711)
Contribution receivable, affiliates	150,000
Accrued interest receivable	(1,098,495)
Other assets	98,881
Accounts payable	455,507
Accrued expenses	312,381
Claims liability	60,163
Funds held for others	428,627
Grants payable	(584,807)
Net cash used in operating activities	<u>(393,046)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Change in cash surrender value of life insurance	(40,496)
Receipts on loans receivable, affiliates	18,869,492
Advances on loans receivable, affiliates	(14,162,658)
Proceeds from sale of investments	3,068,632
Purchase of investments	(3,218,676)
Proceeds on sale of property and equipment	538,293
Purchase of property and equipment	(170,996)
Net cash provided by investing activities	<u>4,883,591</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Cash paid on deposits payable, affiliates	(22,717,771)
Cash received for deposits payable, affiliates	28,075,442
Repayment of notes payable	(987,726)
Net cash provided by financing activities	<u>4,369,945</u>
Net change in cash and cash equivalents	8,860,490
CASH AND CASH EQUIVALENTS, beginning of year	<u>24,908,622</u>
CASH AND CASH EQUIVALENTS, end of year	<u><u>\$ 33,769,112</u></u>
SUPPLEMENTAL CASH FLOW INFORMATION	
Interest paid on deposits payable	<u>\$ 999,004</u>
Interest paid on note payable	<u>\$ 797,539</u>
NON-CASH FINANCING ACTIVITIES	
Assets transferred to loan receivable	<u>\$ 5,214,053</u>
CASH AND CASH EQUIVALENTS RECONCILIATION	
Cash	\$ 33,619,112
Restricted Cash	150,000
	<u><u>\$ 33,769,112</u></u>

The Notes to Financial Statements are an integral part of this statement.

Central Office of the Catholic Diocese of Fort Worth

Note to Financial Statements

Note 1. 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 (GAAP).

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.

Communications – The vehicles used to communicate with the people of the Diocese are a magazine, an internet web page and social media. The North Texas Catholic bi-monthly magazine continues to be the vital link to keep Catholics throughout the Diocese informed.

Administrative and 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.

Central Office of the Catholic Diocese of Fort Worth

Note to Financial Statements

Use of Estimates

The preparation of financial statements in conformity with GAAP 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, 2022, the Central Office did not have any assets that met this definition.

The Central Office's cash accounts exceeded federally insured limits by approximately \$33,519,000 for the year ended June 30, 2022.

At June 30, 2022, 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 15).

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.

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 in net assets 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.

Central Office of the Catholic Diocese of Fort Worth

Note to Financial Statements

Accounts Receivable

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, 2022, no allowance was recorded by management.

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.

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 year ended June 30, 2022, the Central Office evaluated various 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, and was shown as property held for sale in the prior year. The Central Office sold this property for \$405,000 in the current year, resulting in a gain of \$298,300, which was included in gain on sale of assets on the statement of activities for year ended June 30, 2022.

Central Office of the Catholic Diocese of Fort Worth

Note to Financial Statements

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 Assets

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.

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 auto 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.

Central Office of the Catholic Diocese of Fort Worth

Note to Financial Statements

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
Conditional gifts, with or without restriction 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.e. the donor - imposed barrier is met
Unconditional gifts, with or without restriction Received at date of gift - cash and other assets	Fair value
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.

Central Office of the Catholic Diocese of Fort Worth

Note to Financial Statements

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 may include services received from personnel of an affiliate. No significant amounts have been reflected in the statement of activities for donated services because this criteria has not been met.

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, 2022, in-kind contributions of \$1,000 were received by the Central Office.

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.

Recent Accounting Pronouncements

The FASB issued ASU 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets* to increase transparency of contributed nonfinancial assets for nonprofit entities through enhancements to presentation and disclosure. The guidance is effective for fiscal years beginning after June 15, 2021, and interim periods within annual periods beginning after June 15, 2022. The Central Office adopted this standard in year ended June 30, 2022, which had minimal impact on the overall financial statements.

Future Change in Accounting Principles

The Financial Accounting Standards Board (FASB) 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. 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 is evaluating the effect the standard will have on the financial statements, as the standard will be effective in FY 2023.

Central Office of the Catholic Diocese of Fort Worth

Note to Financial Statements

Note 2. Investments

The Central Office records its investments in investment securities at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Where available, fair value is based on observable market prices or parameters, or derived from such prices or parameters. Where observable prices or inputs are not available, valuation models are applied. These valuation techniques involve some level of management estimation and judgment, the degree of which is dependent on the price transparency for the instrument or market and the instrument's complexity.

GAAP established a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted, quoted prices in active markets for identical assets or liabilities (Level 1 inputs) and the lowest priority to unobservable inputs (Level 3 inputs). The three levels of the fair value hierarchy are described below:

- Level 1 Unadjusted, quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

- Level 2 Inputs (other than quoted market prices included within Level 1) that are either directly or indirectly observable for the asset or liability through correlation with market data at the measurement date. Inputs may include quoted prices for the identified instrument in an inactive market; prices for similar instruments; interest rates, credit risk and similar data.

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

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

Equities, international equities and real estate investment trusts (REITS) are valued at the last sales price on the largest securities exchange in which such securities have been traded on the valuation date.

Corporate bonds and foreign bonds are valued using information from the custodian, which is based on quoted prices available from well-known brokers.

Equity mutual funds and fixed income mutual funds are valued at the daily closing price as reported by the fund.

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.

In regards to the beneficial interest in perpetual trust, fair value of the trust is measured using the fair value of the underlying assets held by the trust.

Central Office of the Catholic Diocese of Fort Worth

Note to Financial Statements

The following table presents the fair value measurements of assets 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, 2022:

	Fair Value	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Investments				
Cash equivalents	\$ 597,782	\$ 597,782	\$ -	\$ -
Corporate bonds	1,563,611	1,563,611	-	-
Equity mutual funds	21,783	21,783	-	-
Fixed income mutual funds	1,257,599	1,257,599	-	-
Equities	7,132,935	7,132,935	-	-
International equities	1,082,854	1,082,854	-	-
REITS	136,730	136,730	-	-
Foreign bonds	333,519	333,519	-	-
Catholic Umbrella Pool II	372,507	-	372,507	-
Total investments	<u>\$ 12,499,320</u>	<u>\$ 12,126,813</u>	<u>\$ 372,507</u>	<u>\$ -</u>
Beneficial interest in perpetual trust	<u>\$ 1,236,850</u>	<u>\$ -</u>	<u>\$ 1,236,850</u>	<u>\$ -</u>

There have been no significant changes in the valuation techniques during the year ended June 30, 2022.

Note 3. Beneficial Interest in Perpetual 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. The Central Office is to receive 75% of the annual distributions as determined by the trustee.

In accordance with GAAP, 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.

Activity related to the beneficial interest in perpetual trust for year ended June 30, 2022, is as follows:

Beneficial interest in a perpetual trust, beginning of year	\$ 1,489,140
Distributions	(55,948)
Change in fair value	<u>(196,342)</u>
Beneficial interest in a perpetual trust, end of year	<u>\$ 1,236,850</u>

Distributions and change in fair value, totaling \$252,290 in the aggregate, are included in change in value of beneficial interest in perpetual trust on the statement of activities for year ended June 30, 2022.

The estimated value of the expected future cash flows is \$1,236,850, which represents the fair value of the trust assets at June 30, 2022.

**Central Office of the Catholic
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Note to Financial Statements

Note 4. Property and Equipment

Property and equipment at June 30, 2022, consists of:

Land	\$	4,850,662
Buildings		6,373,415
Equipment, furnishings and vehicles		2,978,815
Construction in progress		25,961
		14,228,853
Less accumulated depreciation		(6,635,953)
Total	\$	7,592,900

Depreciation expense for year ended June 30, 2022 was \$237,789.

Note 5. 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 1.27% 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 \$192,000 in 2022 to parishes that have students enrolled at Nolan Catholic High School. These amounts were transferred to Nolan Catholic High School to help support operations.

Note 6. 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, 2022. The Central Office received contributions from the Foundation of \$1,247,109 to support programs and ministries, and earned a management fee for the year ended June 30, 2022, of \$75,926.

**Central Office of the Catholic
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Note to Financial Statements

During 2022, the Foundation and the Diocese had the following transactions as of June 30, 2022:

	Revenue	Expense Reimbursement	Receivable
Leased personnel	\$ -	\$ 1,610,758	\$ 68,466
Postage, copying and other supplies	-	15,700	247
Management fee	75,926	-	6,836
Foundation grant	1,247,109	-	700,000
	\$ 1,323,035	\$ 1,626,458	\$ 775,549

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, 2022.

Note 7. 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, 2022, 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 9) 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, 2022, follows:

Loans to parishes	\$ 43,050,288
Loans to schools	9,493,689
Allowance for doubtful accounts	(5,000,000)
Total	\$ 47,543,977

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

One year or less	\$ 1,926,183
More than one year	45,617,794
Total	\$ 47,543,977

**Central Office of the Catholic
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Note to Financial Statements

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, 2022, and are due on demand. The composition of deposits payable at June 30, 2022, consists of:

Deposits payable to parishes	\$	57,972,728
Deposits payable to schools		13,615,277
	\$	71,588,005

Interest expense relating to deposits payable is \$999,337 for the year ended June 30, 2022, and is included in the accompanying Statement of Functional Expenses.

Note 9. 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 required 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 \$21,908,656 at June 30, 2022, with an interest rate of 3.32%. Interest paid for this loan during the year ended June 30, 2022 was \$755,745.

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% (4.353% at June 30, 2022). 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 \$1,719,409 as of June 30, 2022. Interest paid for this loan during year ended June 30, 2022, was \$41,794.

Aggregate annual maturities of long-term debt at June 30, 2022, are as follows:

Year Ending June 30,		
2023	\$	1,011,924
2024		1,036,798
2025		1,062,369
2026		1,088,654
2027		1,088,654
Thereafter		18,339,666
	\$	23,628,065

**Central Office of the Catholic
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Note to Financial Statements

Note 10. Net Assets

Net Assets with Donor Restrictions

Net assets, with donor restrictions at June 30, 2022, are restricted for the following purposes or periods:

Subject to expenditure for specified purpose	
Education and formation	\$ 5,179
Pastoral services	460,648
Administration and support	<u>412,643</u>
	<u>878,470</u>
Subject to the passage of time	
Promises to give that are not restricted by donors but which are unavailable for expenditure until due	550,000
Not subject to spending policy or appropriation	
Beneficial interest in perpetual trust	<u>1,236,850</u>
	<u><u>\$ 2,665,320</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 of purpose restrictions	
Education and formation	\$ 192,699
Pastoral services	2,300,301
Communications	75,939
Administration and support	<u>307,452</u>
	<u><u>\$ 2,876,391</u></u>

Note 11. 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. Insurance revenue of \$2,529,307 is recorded in program and service fees on the statement of activities for the year ended June 30, 2022.

Central Office of the Catholic Diocese of Fort Worth

Note to Financial Statements

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, 2022:

Accounts receivable, beginning of year	\$	<u>267,485</u>
Accounts receivable, end of year	\$	<u>266,292</u>

Note 12. 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, 2022, comprise the following:

Financial assets at year end		
Cash	\$	33,619,112
Accounts receivable - affiliates, net		5,152,651
Contributions receivable		550,000
Accrued interest receivable		6,614,849
Loans receivable - affiliates, net		47,543,977
Investments		<u>12,499,320</u>
Total financial assets at year end		105,979,909
Less amounts not available to be used with one year		
Loan receivables not expected to be collected within one year		(45,617,794)
Accrued loan interest not expected to be collected within one year		(6,406,849)
Funds held for others		(1,513,240)
Deposits payable - affiliates		(71,588,005)
Donor restricted funds not expected to be used within one year		<u>(471,218)</u>
Amounts not available to be used within one year		<u>(125,597,106)</u>
Financial assets available to meet cash needs for general expenditures within one year	\$	<u>(19,617,197)</u>

Central Office of the Catholic Diocese of Fort Worth

Note to Financial Statements

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.

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.

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 five year 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 may 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 13. 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 Foundation and also sold to the Foundation by a placement agent pursuant to a Prospectus.

Central Office of the Catholic Diocese of Fort Worth

Note to Financial Statements

Insurance Claims

The Central Office manages the claims against the Diocese. At June 30, 2022, 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. As of June 30, 2022, claims liability of \$284,444 has been recorded to account for the estimate of these claims.

Note 14. 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, 2022, the actual contributions for the Central Office's portion of these plans for the priests and employees were \$429,147.

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.

**Central Office of the Catholic
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Note to Financial Statements

Employee Plan

The actuarial valuation information for the Employee Plan follows:

Actuarial valuation date	July 1, 2022
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)	\$ 3,362,658
Percentage of APC contributed	100.00%
Net pension obligation	-

The funding information for the Employee Plan follows:

Actuarial valuation date	July 1, 2022
Fair value of plan assets	\$ 35,782,020
Actuarial accrued liability (AAL)	55,534,638
Unfunded actuarial accrued liability (UAAL)	19,752,618
Funded ratio	64.43%
Annual covered payroll	\$ 28,379,126
UAAL as percentage of covered payroll	69.60%

Priests' Plan

The actuarial valuation information for the Priests' Plan follows:

Actuarial valuation date	July 1, 2022
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)	\$ 410,900
Percentage of APC contributed	100.00%

Central Office of the Catholic Diocese of Fort Worth

Note to Financial Statements

The funding information for the Priests' Plan follows:

Actuarial valuation date		July 1, 2022
Fair value of plan assets	\$	7,701,329
Actuarial accrued liability (AAL)		8,556,975
Unfunded actuarial accrued liability (UAAL)		855,646
Funded ratio		90.00%

Note 15. 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 premiums for these are paid to Catholic Mutual. The FY22 premiums were \$1,222,210 and are included in insurance on the statement of functional expenses.

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 as the workers' compensation carrier.

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, Christian Brothers Employee Benefit Trust (CBEBT), and the Central Office does not participate in billing the premiums to the parishes and schools. The FY22 premiums were \$946,648 and are included in benefits, education and allowances on the statement of functional expenses.

Included in insurance expense are actual costs and claims paid plus management's estimates of any additional ultimate loss which may change materially in the near term. The FY22 claims paid for Workers' Compensation and Multi-Peril were \$154,058 and \$274,664, respectively, and are included in insurance expenses. The total estimated additional loss is \$251,844 and is included in claims liability on the statement of financial position.

Note 16. COVID-19

As a result of the aftereffects from the COVID-19 virus, economic uncertainties exist which may negatively affect the financial position, results of operations, and cash flows of the Central Office. The duration of these uncertainties and ultimate financial impact cannot be reasonably estimated at this time.

Note 17. Subsequent Events

Subsequent events have been evaluated through November 30, 2022, which is the date the financial statements were available to be issued, noting the following:

In July 2022, the Central Office paid off their unsecured loan agreement of \$1,719,409 with a financial institution.