

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

Independent Auditor's Report and Financial Statements

June 30, 2018 and 2017



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

**June 30, 2018 and 2017**

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## Independent Auditor's Report

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

We have audited the accompanying financial statements of Central Office of the Catholic Diocese of Fort Worth (the "Central Office"), which comprise the statement of financial position as of June 30, 2018, and 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.

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***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Central Office, as of June 30, 2018, 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.

***Prior Year Audited by Other Auditors and Report on Summarized Comparative Information***

The 2017 financial statements were audited by other auditors, and their report thereon dated January 12, 2018, expressed an unmodified opinion. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

**BKD, LLP**

Fort Worth, Texas  
December 6, 2018

# Central Office of The Catholic Diocese of Fort Worth

## Statements of Financial Position

June 30, 2018 and 2017

<b>Assets</b>	<u>2018</u>	<u>2017</u>
Cash and cash equivalents	\$ 22,144,431	\$ 15,715,858
Restricted cash	1,410,069	8,304,441
Accounts receivable - affiliates, net	3,259,287	1,567,866
Accrued interest receivable	1,170,987	1,018,549
Due from affiliates	71,875	1,536,538
Other assets	622,090	562,354
Loans receivable - affiliates, net	49,134,681	24,751,715
Investments	3,437,031	3,390,512
Property held for future parish/school use	15,216,346	29,348,488
Property and equipment, net	<u>7,238,834</u>	<u>17,735,552</u>
Total assets	<u>\$ 103,705,631</u>	<u>\$ 103,931,873</u>
 <b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts payable	\$ 2,701,546	\$ 788,628
Accrued expenses	1,207,962	1,315,222
Claims liability	1,227,790	1,218,033
Funds held for others	962,345	1,052,289
Deposits payable - affiliates	49,475,960	51,474,441
Notes payable	<u>28,048,278</u>	<u>27,551,994</u>
Total liabilities	<u>83,623,881</u>	<u>83,400,607</u>
 Net Assets		
Unrestricted		
Undesignated	11,979,593	11,377,564
Designated for insurance reserve	5,626,686	6,217,958
Designated for loans to related entities	<u>489,302</u>	<u>1,092,404</u>
Total unrestricted	18,095,581	18,687,926
 Temporarily restricted		
Programs	<u>1,986,169</u>	<u>1,843,340</u>
Total net assets	<u>20,081,750</u>	<u>20,531,266</u>
Total liabilities and net assets	<u>\$ 103,705,631</u>	<u>\$ 103,931,873</u>

# Central Office of The Catholic Diocese of Fort Worth

## Statements of Activities

**Year Ended June 30, 2018, with Summarized Financial Information for 2017**

	Unrestricted	Temporarily Restricted	Total	
			2018	2017
<b>Revenue and Other Support</b>				
Contributions	\$ 3,929,250	\$ 2,963,744	\$ 6,892,994	\$ 3,779,685
Diocesan assessments	8,518,289	-	8,518,289	8,167,723
Program and service fees	5,567,751	-	5,567,751	5,219,114
Investment income	167,372	-	167,372	187,645
Net realized and unrealized gain	30,114	1,422	31,536	187,651
Interest on loans receivable - affiliates	846,061	-	846,061	925,335
Gain on sale of assets	972,354	-	972,354	277,866
Other	227,363	-	227,363	430,778
Net assets released from restrictions	2,822,337	(2,822,337)	-	-
	<u>23,080,891</u>	<u>142,829</u>	<u>23,223,720</u>	<u>19,175,797</u>
<b>Expenses</b>				
Program services				
Education and formation	1,842,225	-	1,842,225	1,947,104
Grants	4,445,945	-	4,445,945	1,893,725
Pastoral services	5,281,560	-	5,281,560	2,815,176
Communication	796,345	-	796,345	761,336
Administrative support services				
Benefit programs for parish, school, and Diocesan employees	2,000,489	-	2,000,489	1,762,209
Diocesan administration	3,683,547	-	3,683,547	5,673,509
Bad debt expense	2,850,000	-	2,850,000	-
Insurance for all property in the Diocese	2,056,492	-	2,056,492	1,921,482
Deposit and loan and other funds	716,633	-	716,633	762,327
	<u>23,673,236</u>	<u>-</u>	<u>23,673,236</u>	<u>17,536,868</u>
<b>Change in Net Assets</b>	(592,345)	142,829	(449,516)	1,638,929
<b>Net Assets, Beginning of Year</b>	<u>18,687,926</u>	<u>1,843,340</u>	<u>20,531,266</u>	<u>18,892,337</u>
<b>Net Assets, End of Year</b>	<u>\$ 18,095,581</u>	<u>\$ 1,986,169</u>	<u>\$ 20,081,750</u>	<u>\$ 20,531,266</u>

**Central Office of The Catholic  
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**Statements of Cash Flows**  
**Years Ended June 30, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
<b>Operating Activities</b>		
Change in net assets	\$ (449,516)	\$ 1,638,929
Items not requiring (providing) operating activities cash flows:		
Net realized and unrealized gain	(31,536)	(187,651)
Depreciation	263,499	255,131
Bad debt expense	2,850,000	-
Gain on sale of assets	(972,354)	(277,866)
Grants of property held for future parish/school use	79,231	-
Change in operating assets and liabilities:		
Accounts receivable - affiliates	(1,691,421)	448,724
Accrued interest receivable	(152,438)	(281,473)
Due from affiliates	1,464,663	(441,390)
Other assets	(21,712)	(75,599)
Accounts payable	1,912,918	235,833
Accrued expenses	(107,260)	212,826
Claims liability	9,757	53,950
Funds held for others	(89,944)	383,212
	<u>3,063,887</u>	<u>1,964,626</u>
Net cash provided by operating activities		
<b>Investing Activities</b>		
Payments on loans receivable - affiliates	9,613,337	12,383,758
Advances on loans receivable - affiliates	(8,794,602)	(8,925,425)
Increase in cash surrender value of life insurance	(38,024)	(21,881)
Proceeds from sale of investments	3,838,381	2,290,756
Purchase of investments	(3,853,364)	(2,200,369)
Proceeds on sale of property held for future parish/school use	5,228,577	425,525
Purchase of property held for future parish/school use	(131,286)	(912,758)
Proceeds on sale of property and equipment	-	531,469
Purchase of property and equipment	(7,890,508)	(9,580,408)
	<u>(2,027,489)</u>	<u>(6,009,333)</u>
Net cash used by investing activities		
<b>Financing Activities</b>		
Cash paid on deposits payable - affiliates	(24,950,269)	(32,308,393)
Cash received for deposits payable - affiliates	22,951,788	26,673,719
Proceeds from notes payable	947,715	904,450
Repayment of notes payable	(451,431)	-
	<u>(1,502,197)</u>	<u>(4,730,224)</u>
Net cash used by financing activities		
<b>Net Change in Cash and Cash Equivalents</b>	(465,799)	(8,774,931)
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>24,020,299</u>	<u>32,795,230</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 23,554,500</u>	<u>\$ 24,020,299</u>
<b>Reconciliation of Cash Equivalents to the Statements of Financial Position</b>		
Cash and cash equivalents	\$ 22,144,431	\$ 15,715,858
Restricted cash	1,410,069	8,304,441
	<u>\$ 23,554,500</u>	<u>\$ 24,020,299</u>
<b>Supplemental Disclosure of Cash Flow Information:</b>		
Cash paid for interest	<u>\$ 822,885</u>	<u>\$ 689,598</u>

**Central Office of The Catholic  
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Notes to Financial Statements  
June 30, 2018 and 2017**

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

***Nature of Operations***

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

***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.
- 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.



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- 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 enable the ministries and programs to touch and change the lives of Catholics throughout the Diocese.

***Use of Estimates***

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

***Cash and Cash Equivalents***

The Central Office considers all liquid investments with original maturities of three months or less to be cash equivalents. The Central Office has \$1,410,069 and \$8,304,441 in cash reserved for construction from the remaining proceeds from a construction note payable for the years ended June 30, 2018 and 2017, respectively.

The Central Office's cash accounts exceeded federally insured limits by approximately \$23,500,000 and \$24,300,000 for the years ended June 30, 2018 and 2017, respectively.

***Supplemental Cash Flow Information***

Interest paid on deposits payable - affiliates amounts to \$716,960 and \$762,487 for the years ended June 30, 2018 and 2017, respectively.

Non-cash financing and investing activities included the transfer of approximately \$30,100,000 and \$30,000 in property held for future use to related parishes and schools in the form of loans for the years ended June 30, 2018 and 2017, respectively. The Central office also forgave a parish's loan resulting in approximately \$715,000 in grant expense for 2017. Grants were made to affiliates of approximately \$4,400,000 for the year ending June 30, 2018, relating to various operational needs and property.

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***Investments and Investment Return***

Investments in marketable securities having a readily determinable fair value and in all debt securities are carried at fair value on the statements of financial position. Investment returns include dividend, interest and other investment income; realized and unrealized gains and losses on investments carried at fair value; and realized gains and losses on other investments.

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in unrestricted net assets. Other investment return is reflected in the statements of activities as unrestricted, temporarily restricted or permanently restricted based upon the existence and nature of any donor or legally imposed restrictions.

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

***Accounts and Loans Receivable - Affiliates***

Accounts and 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 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.

***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 2018 and 2017, property with a cost of approximately \$18,620,000 and \$455,000 respectively, was sold or granted to related parishes and schools.

***Property and Equipment***

Property and equipment 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. During 2018, property and land with a cost of approximately \$18,124,000 was sold to a parish in exchange for a note receivable.

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The estimated useful lives for each major depreciable classification of property and equipment are as follows:

- Building 40 years
- Equipment, furnishings, and vehicles 3 – 5 years

***Long-lived Asset Impairment***

Management 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.

No asset impairment was recognized during the years ended June 30, 2018 and 2017.

***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.

***Temporarily Restricted Net Assets***

Temporarily restricted net assets are those whose use by the Central Office has been limited by donors to a specific time period or purpose.

***Contributions***

Gifts of cash and other assets received without donor stipulations are reported as unrestricted revenue and net assets. Gifts received with a donor stipulation that limits their use are reported as temporarily or permanently restricted revenue and net assets. When a donor stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets.

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

***Contributed Services***

Contributions of services are recognized as revenue at their estimated fair value only when the services received create or enhance nonfinancial assets or require specialized skills possessed by the individuals providing the service and the service would typically need to be purchased if not donated. Contributions of services also include services received from personnel of an affiliate. No significant amounts have been reflected in the statements of activities for donated services because this criteria has not been met; however, a substantial number of volunteers have donated significant amounts of their time to 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 statements of activities. Accordingly, certain costs have been allocated among program services and general and administrative expenses by specific identification of costs, approximate percentage of time expended or percentage of usage of building, as appropriate.

***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, 2017, from which the summarized information was derived.

***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.

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***Subsequent Events***

Management evaluated subsequent events through December 6, 2018, which is the date the financial statements were available to be issued.

**Note 2: *Fair Value Measurements***

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

**Level 1** Quoted prices in active markets for identical assets or liabilities

**Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

**Level 3** Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. The Diocese did not have any Level 3 securities at June 30, 2018 or 2017.

***Recurring Measurements***

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying statements 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 at June 30, 2018 and 2017:

**Central Office of The Catholic  
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	<b>2018 Fair Value</b>	<b>2017 Fair Value</b>	<b>Level</b>
Federated prime obligation fund	\$ 213,202	\$ 391,042	1
LKCM small mid cap equity	41,948	34,399	1
LKCM fixed income fund	903,517	1,029,633	1
LKCM small cap equity	17,918	14,839	1
Equities:			
Technology	111,822	224,553	1
Consumer goods	174,312	91,725	1
Basic materials	249,211	241,068	1
Real estate	38,301	-	1
Healthcare	189,054	139,481	1
Energy	71,208	-	1
Services	298,616	233,295	1
Industrial goods	166,975	60,312	1
Utilities	45,953	47,163	1
Financial	449,010	402,176	1
Other	21,234	4,076	1
Catholic Umbrella Pool II	<u>444,750</u>	<u>476,750</u>	2
Marketable securities	<u>\$ 3,437,031</u>	<u>\$ 3,390,512</u>	

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

	<b>2018</b>	<b>2017</b>
Net realized gain	\$ 82,450	\$ 27,862
Net unrealized gain (loss)	<u>(50,914)</u>	<u>159,789</u>
Net realized and unrealized gain	<u>\$ 31,536</u>	<u>\$ 187,651</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.

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**Note 3: Property and Equipment**

The composition of property and equipment at June 30, 2018 and 2017, consists of:

	2018	2017
Land	\$ 5,006,530	\$ 5,006,530
Buildings	5,575,186	5,033,238
Construction in progress	1,634	10,776,801
Equipment, furnishings and vehicles	2,302,595	2,302,595
	12,885,945	23,119,164
Less accumulated depreciation	(5,647,111)	(5,383,612)
	\$ 7,238,834	\$ 17,735,552

**Note 4: 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 exemptions and reductions based on the circumstances of the specific parish. In addition, the Central Office assessed approximately \$180,000 and \$222,000 in 2018 and 2017, respectively, to parishes that have students enrolled at Nolan Catholic High School. These amounts were transferred to the school to help support operations.

**Note 5: Accounts Receivable – Affiliates**

Accounts receivable 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 \$0 and \$11,788 is recorded at June 30, 2018 and 2017, respectively. The allowance is established based on past experience and an analysis of the collectability of current receivables.

**Note 6: 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, 2018 and 2017, is \$71,875 and \$1,536,538, respectively.

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**Note 7: 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, 2018 and 2017, 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 (*Note 9*) with a financial institution to finance development projects, primarily related to St. Martin de Porres. While the note is in the name of the Diocese, St. Martin de Porres is expected to repay the Central Office for this loan. An allowance for doubtful accounts of \$2,850,000 relating to the St. Martin de Porres loan was recorded at June 30, 2018. An allowance was not considered necessary as of June 30, 2017.

The composition of loans receivable at June 30, 2018 and 2017, follows:

	<u>2018</u>	<u>2017</u>
Loans to parishes	\$ 13,521,526	\$ 14,782,587
Loan to St Martin de Porres, net of allowance	27,150,695	\$ 689,598
Loans to schools	<u>8,462,460</u>	<u>9,279,530</u>
	<u>\$ 49,134,681</u>	<u>\$ 24,751,715</u>

**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, 2018 and 2017, and are due on demand. The composition of deposits payable at June 30, 2018 and 2017, consists of:

	<u>2018</u>	<u>2017</u>
Deposits payable to parishes	\$ 34,077,066	\$ 29,624,930
Deposits payable to schools	14,778,537	21,275,709
Deposits payable to other entities	<u>620,357</u>	<u>573,802</u>
	<u>\$ 49,475,960</u>	<u>\$ 51,474,441</u>

Interest expense relating to deposits payable is \$716,960 and \$762,487 for the years ended June 30, 2018 and 2017, respectively, and is included as a component of deposit and loan and other funds expense in the accompanying statements of activities.



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**Note 9: 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 outstanding balance is \$25,230,426 and \$25,620,600 at June 30, 2018 and 2017, respectively. The interest rate as of June 30, 2018 and 2017 was 3.32% and 2.73%, respectively.

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%, (4.4% and 3.37% at June 30, 2018 and 2017, respectively). 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 \$2,817,852 and \$1,931,394 as of June 30, 2018 and 2017, respectively.

Aggregate annual maturities of long-term debt at June 30, 2018 are as follows:

2019	\$	1,040,404
2020		1,073,443
2021		1,108,199
2022		1,143,828
2023		1,180,664
Thereafter		22,501,740
		\$ 28,048,278

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**Note 10: 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 11: Temporarily Restricted Net Assets**

Temporarily restricted net assets of the Central Office at June 30, 2018 and 2017, in the amount of \$1,986,169 and \$1,843,340, respectively, related to funds contributed to the Central Office and are restricted by the donor for future program services.

**Note 12: Commitments and Contingencies**

The Central Office manages the claims against the Diocese. At June 30, 2018 and 2017, 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.

**Note 13: Pension and Other Postretirement Benefit Plans**

The Diocese has a noncontributory defined benefit pension plan 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.

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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, 2018 and 2017, the annual pension cost and actual contributions for the Central Office are \$420,659 and \$379,862, 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.

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**Employee Plan**

The actuarial valuation information for the Employee Plan follows:

Actuarial valuation date	<u>June 30, 2018</u>	<u>June 30, 2017</u>
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:

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Annual Pension Cost (APC)	\$ 3,160,207	\$ 3,046,982
Percentage of APC Contributed	100%	100%
Net Pension Obligation	\$ -	\$ -

The funding information for the Employee Plan follows:

<b>Funding information for the employee plan</b>	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Actuarial valuation date		
Actuarial value of assets	\$ 40,482,352	\$ 39,318,519
Actuarial accrued liability (AAL)	\$ 47,575,615	\$ 44,629,655
Unfunded actuarial accrued liability (UAAL)	\$ 7,093,263	\$ 5,311,136
Funded ratio	85.09%	88.10%
Annual covered payroll	\$ 29,024,326	\$ 25,299,343
UAAL as percentage of covered payroll	24.44%	20.99%

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**Priests' Plan**

The actuarial valuation information for the Priests' Plan follows:

<b>Priests' Plan</b>	<b>June 30, 2018</b>	<b>June 30, 2017</b>
Actuarial valuation date		
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	1.50%	1.50%
Inflation	none assumed	none assumed

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

	<b>June 30, 2018</b>	<b>June 30, 2017</b>
Annual Pension Cost (APC)	\$ 417,475	\$ 390,852
Percentage of APC Contributed	100%	100%

The funding information for the Priests' Plan follows:

	<b>June 30, 2018</b>	<b>June 30, 2017</b>
Actuarial valuation date		
Actuarial value of assets	\$ 7,441,403	\$ 6,899,220
Actuarial accrued liability (AAL)	\$ 7,087,527	\$ 7,033,992
Unfunded actuarial accrued liability (UAAL)	\$ -	\$ 134,772
Funded ratio	104.99%	98.08%

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**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.