

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

Independent Auditor's Report and Financial Statements

June 30, 2019

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

**June 30, 2019**

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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, 2019, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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.

Most Reverend Michael F. Olson  
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***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Central Office, as of June 30, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Emphasis of Matter***

As described in *Note 2* to the financial statements, in 2019, the Central Office adopted Accounting Standards Update 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

**BKD, LLP**

Fort Worth, Texas  
February 27, 2020

**Central Office of The Catholic  
Diocese of Fort Worth**  
**Statement of Financial Position**  
**June 30, 2019**

**Assets**

Cash	\$ 25,418,642
Accounts receivable - affiliates, net	2,943,900
Accrued interest receivable	1,397,480
Other assets	560,359
Loans receivable - affiliates, net	53,840,494
Investments	3,489,790
Property held for future parish/school use	15,380,719
Property and equipment, net	<u>7,319,531</u>
Total assets	<u><u>\$ 110,350,915</u></u>

**Liabilities and Net Assets**

**Liabilities**

Accounts payable	\$ 2,241,128
Accrued expenses	877,005
Claims liability	867,830
Funds held for others	1,419,631
Deposits payable - affiliates	57,504,187
Notes payable	<u>26,521,264</u>
Total liabilities	<u>89,431,045</u>

**Net Assets**

Without donor restrictions	18,865,741
With donor restrictions	
Programs	<u>2,054,129</u>
Total net assets	<u>20,919,870</u>
Total liabilities and net assets	<u><u>\$ 110,350,915</u></u>

# Central Office of The Catholic Diocese of Fort Worth

## Statement of Activities Year Ended June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
<b>Revenue and Other Support</b>			
Contributions	\$ 556,823	\$ 2,278,862	\$ 2,835,685
Diocesan assessments	8,870,702	-	8,870,702
Program and service fees	4,720,095	-	4,720,095
Investment income	247,878	-	247,878
Net realized and unrealized gain on investments	11,238	831	12,069
Interest on loans receivable - affiliates	831,847	-	831,847
Gain on sale of assets	192,873	-	192,873
Other	448,953	-	448,953
Net assets released from restrictions	2,211,733	(2,211,733)	-
Total revenue and other support	18,092,142	67,960	18,160,102
<b>Expenses</b>			
Program services			
Education and formation	2,104,911	-	2,104,911
Pastoral services	4,486,127	-	4,486,127
Communication	970,623	-	970,623
Administrative support services	9,760,321		9,760,321
Total expenses	17,321,982	-	17,321,982
<b>Change in Net Assets</b>	770,160	67,960	838,120
<b>Net Assets, Beginning of Year</b>	18,095,581	1,986,169	20,081,750
<b>Net Assets, End of Year</b>	\$ 18,865,741	\$ 2,054,129	\$ 20,919,870

**Central Office of The Catholic  
Diocese of Fort Worth  
Statement of Functional Expenses  
Year Ended June 30, 2019**

	<u>Program Services</u>				<u>Administrative and Support Services</u>		<u>Total</u>
	<u>Education and Formation</u>	<u>Pastoral Services</u>	<u>Communications</u>	<u>Program Services Total</u>		<u>Total</u>	
Salaries and wages	\$ 937,477	\$ 1,236,183	\$ 339,893	\$ 2,513,553	\$ 2,567,842	\$ 5,081,395	
Payroll taxes	63,063	82,761	23,722	169,546	200,069	369,615	
Benefits, education & allowances	422,125	556,540	153,233	1,131,898	1,266,882	2,398,780	
Insurance	8,084	87,241	-	95,325	1,901,197	1,996,522	
Services and professional fees	40,816	447,538	137,604	625,958	1,348,888	1,974,846	
Other program services	282,508	444,710	10,570	737,788	264,113	1,001,901	
Interest	-	-	-	-	806,802	806,802	
Systems and software	30	15,158	23,956	39,144	623,208	662,352	
Staff development and recognition	12,133	525,300	1,459	538,892	17,726	556,618	
Rent and utilities	113,001	17,812	41,665	172,478	110,046	282,524	
Third-party assessments	-	270,148	-	270,148	-	270,148	
Membership, dues and subscriptions	5,971	10,218	140,398	156,587	6,007	162,594	
Meetings and seminars	40,075	75,908	515	116,498	38,752	155,250	
Program materials	54,168	70,209	-	124,377	18,581	142,958	
Repairs and maintenance	24,456	4,970	-	29,426	113,318	142,744	
Travel	27,957	68,920	2,715	99,592	42,441	142,033	
Postage	2,358	13,829	75,335	91,522	15,120	106,642	
Events and activities	6,584	12,143	-	18,727	43,172	61,899	
Printing and copying	10,071	20,522	1,803	32,396	23,676	56,072	
Supplies	14,260	9,877	4,489	28,626	23,853	52,479	
Licenses and fees	280	875	31	1,186	17,212	18,398	
Property taxes	357	-	-	357	15,371	15,728	
Bank fees	6,510	171	-	6,681	7,297	13,978	
Advertising and promotion	1,750	-	2,283	4,033	2,003	6,036	
Other	7,013	14,557	-	21,570	12,984	34,554	
Grants	4,295	475,941	-	480,236	25,384	505,620	
Depreciation	19,569	24,596	10,952	55,117	248,377	303,494	
	<u>\$ 2,104,911</u>	<u>\$ 4,486,127</u>	<u>\$ 970,623</u>	<u>\$ 7,561,661</u>	<u>\$ 9,760,321</u>	<u>\$ 17,321,982</u>	

**Central Office of The Catholic  
Diocese of Fort Worth**  
**Statement of Cash Flows**  
**Year Ended June 30, 2019**

<b>Operating Activities</b>	
Change in net assets	\$ 838,120
Items not requiring (providing) operating activities cash flows:	
Net realized and unrealized gain on investments	(12,069)
Depreciation	303,494
Gain on sale of assets	(192,873)
Change in operating assets and liabilities:	
Accounts receivable - affiliates	315,387
Accrued interest receivable	(226,493)
Due from affiliates	71,875
Other assets	58,420
Accounts payable	(460,418)
Accrued expenses	(330,957)
Claims liability	(359,960)
Funds held for others	457,286
	<hr/>
Net cash provided by operating activities	461,812
<b>Investing Activities</b>	
Payments on loans receivable - affiliates	10,524,581
Advances on loans receivable - affiliates	(13,721,889)
Increase in cash surrender value of life insurance	3,311
Proceeds from sale of investments	2,075,165
Purchase of investments	(2,115,855)
Proceeds on sale of property held for future parish/school use	433,491
Purchase of property held for future parish/school use	(2,106,369)
Proceeds on sale of property and equipment	385,474
Purchase of property and equipment	(576,792)
	<hr/>
Net cash provided by investing activities	(5,098,883)
<b>Financing Activities</b>	
Cash paid on deposits payable - affiliates	(30,887,553)
Cash received for deposits payable - affiliates	38,915,780
Repayment of notes payable	(1,527,014)
	<hr/>
Net cash provided by financing activities	6,501,213
<b>Net Change in Cash</b>	1,864,142
<b>Cash, Beginning of Year</b>	<hr/> 23,554,500
<b>Cash, End of Year</b>	<hr/> <hr/> \$ 25,418,642
<b>Supplemental Disclosure of Cash Flow Information:</b>	
Cash paid for interest on deposits payable	\$ 806,802
Cash paid for interest on note payable	\$ 966,343
Transfer of property held for future parish to a note receivable	\$ 1,508,143



**Central Office of The Catholic  
Diocese of Fort Worth  
Notes to Financial Statements  
June 30, 2019**

**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.
- 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.

**Central Office of The Catholic  
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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. At June 30, 2019, the Central Office did not have any assets that met this definition.

The Central Office's cash accounts exceeded federally insured limits by approximately \$25,800,000 for the year ended June 30, 2019.

***Investments and Net Investment Return***

Investments in equity securities having a readily determinable fair value, and in all debt, securities are carried at fair value on the statement 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, less external investment expenses.

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

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

**Central Office of The Catholic  
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Notes to Financial Statements  
June 30, 2019**

***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 2019, property with a cost of approximately \$1,940,000 was sold or granted to related parishes and schools.

***Property and Equipment***

Property and equipment acquisitions over \$500 are stated at cost less accumulated depreciation. Depreciation is charged to expense using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives.

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

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

***Long-lived Asset Impairment***

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 year ended June 30, 2019.

**Central Office of The Catholic  
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Notes to Financial Statements  
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***Claims Liability***

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

***Funds Held for Others***

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

***Deposits Payable - Affiliates***

Deposits payable represent amounts held as savings accounts for affiliates.

***Net Assets***

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

Net assets without donor restrictions are available for use in general operations and not subject to donor restrictions.

Net assets with donor restrictions are subject to donor restrictions. Some restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

***Contributions***

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

The value recorded for each contribution is recognized as follows:

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

**Central Office of The Catholic  
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<b>Nature of the Gift</b>	<b>Value Recognized</b>
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.

***Contributed Services***

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

**Central Office of The Catholic  
Diocese of Fort Worth  
Notes to Financial Statements  
June 30, 2019**

***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.

***Subsequent Events***

Management evaluated subsequent events through February 27, 2020, which is the date the financial statements were available to be issued.

**Note 2: Change in Accounting Principle**

In 2019, the Central Office adopted Accounting Standards Update 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. A summary of the changes is as follows:

***Statement of Financial Position***

- The statement of financial position distinguishes between two new classes of net assets – those with donor-imposed restrictions and those without. This is a change from the previously required three classes of net assets – unrestricted, temporarily restricted, and permanently restricted.

***Statement of Activities***

- Investment income is shown net of external investment expenses. Disclosure of the expenses netted against investment income is no longer required.

**Central Office of The Catholic  
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Notes to Financial Statements  
June 30, 2019**

***Statement of Functional Expenses***

- Expenses are reported by both nature and function in one location.
- Only activities that represent direct conduct or direct supervision of programs are to be classified as program expenses. Other indirect and administrative activities are to be allocated to management and general expenses.

***Notes to the Financial Statements***

- Enhanced quantitative and qualitative disclosures provide additional information useful in assessing liquidity and cash flows available to meet operating expenses for one year from the date of the statement of financial position.

This change has no impact on previously reported total change in net assets.

**Note 3: Fair Value of Assets and Liabilities**

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

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

***Recurring Measurements***

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying statement of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2019:

**Central Office of The Catholic  
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Notes to Financial Statements  
June 30, 2019**

	<b>Fair Value Measurements Using</b>			
	<b>Total Fair Value</b>	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
Investments				
Cash	\$ 122,213	\$ 122,213	\$ -	\$ -
Corporate bonds	188,885	188,885	-	-
Equity income	18,261	18,261	-	-
Fixed mutual funds	450,504	450,504	-	-
Equities	1,919,854	1,919,854	-	-
U.S. Treasury securities	358,971	358,971	-	-
Catholic Umbrella Pool II	431,102	-	431,102	-
Total investments	<u>\$ 3,489,790</u>	<u>\$ 3,058,688</u>	<u>\$ 431,102</u>	<u>\$ -</u>

**Investments**

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. The Diocese did not have any Level 3 securities at June 30, 2019.

**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.



**Central Office of The Catholic  
Diocese of Fort Worth  
Notes to Financial Statements  
June 30, 2019**

**Note 4: Property and Equipment**

The composition of property and equipment at June 30, 2019, consists of:

Land	\$	4,823,609
Buildings		5,825,911
Equipment, furnishings and vehicles		<u>2,614,530</u>
		13,264,050
Less accumulated depreciation		<u>(5,944,519)</u>
		<u>\$ 7,319,531</u>

**Note 5: 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 \$220,000 in 2019 to parishes that have students enrolled at Nolan Catholic High School. These amounts were transferred to the school to help support operations.

**Note 6: 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 \$11,788 is recorded at June 30, 2019. The allowance is established based on past experience and an analysis of the collectability of current receivables.

**Central Office of The Catholic  
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Notes to Financial Statements  
June 30, 2019**

**Note 7: Related Parties**

The Central Office works closely with the Catholic Diocese of Fort Worth Advancement Foundation (Advancement). 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. Advancement utilizes the services of some personnel employed by the Central Office. During 2019, Advancement reimbursed the Central Office \$251,209 for these costs. In addition, Advancement reimbursed the Central Office \$77,863 for other costs such as postage, copying, and other supplies for the year ended June 30, 2019.

**Note 8: 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, 2019, 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 10*) 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, 2019.

The composition of loans receivable, net, at June 30, 2019, follows:

Loans to parishes	\$ 45,398,175
Loans to schools	<u>8,442,319</u>
	<u>\$ 53,840,494</u>

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

One year or less	\$ 6,013,752
More than one year	<u>47,826,742</u>
	<u>\$ 53,840,494</u>

**Central Office of The Catholic  
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Notes to Financial Statements  
June 30, 2019**

**Note 9: Deposits Payable - Affiliates**

The Central Office receives deposits from parishes, schools, and other entities within the Diocese. The amounts on deposit accrue interest at a rate of 1.5% at June 30, 2019, and are due on demand. The composition of deposits payable at June 30, 2019, consists of:

Deposits payable to parishes	\$	42,043,429
Deposits payable to schools		<u>15,908,514</u>
		<u>\$ 57,951,943</u>

Interest expense relating to deposits payable is \$806,802 for the year ended June 30, 2019, and is included as a component of deposit and loan and other funds expense in the accompanying statement of activities.

**Note 10: Long-Term Debt**

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 \$24,434,310 at June 30, 2019. The interest rate as of June 30, 2019 was 3.32%.

The Central Office entered into another unsecured loan agreement in June 2016 with a maximum draw amount of \$2,879,110. The proceeds of this loan are also to be used for future development projects. Terms of the loan 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%, (4.46% at June 30, 2019). 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 \$2,086,954 as of June 30, 2019.

Interest paid on both loans during 2019 was \$966,343.

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Aggregate annual maturities of long-term debt at June 30, 2019 are as follows:

2020	\$	1,073,443
2021		1,108,199
2022		1,143,828
2023		1,180,664
2024		914,283
Thereafter		<u>21,100,847</u>
		<u>\$ 26,521,264</u>

**Note 11: Net Assets**

***Net Assets With Donor Restrictions***

Net assets, with donor restrictions at June 30, 2019, are restricted for the following purposes or periods:

Subject to expenditure for specified purpose		
Pastoral	\$	1,813,502
Education and formation		<u>240,627</u>
		<u>\$ 2,054,129</u>

***Net Assets Released from Restrictions***

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

Satisfaction or purpose restrictions		
Pastoral	\$	887,040
Education and formation		<u>1,324,693</u>
		<u>\$ 2,211,733</u>

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**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, 2019, comprise the following:

Financial assets at year end		
Cash	\$	25,418,642
Accounts receivable - affiliates, net		2,943,900
Accrued interest receivable		1,397,480
Loans receivable - affiliates, net		53,840,494
Investments		3,489,790
Total financial assets at year end		<u>87,090,306</u>
Less amounts not available to be used with one year		
Loan receivables not expected to be collected within one year	(47,826,742)	
Funds held for others	(1,419,631)	
Deposits payable - affiliates	(57,504,187)	
Donor restricted funds	(1,708,978)	
Financial assets not available to be used within one year		<u>(108,459,538)</u>
Financial assets available to meet cash needs for general expenditures within one year	\$	<u>(21,369,232)</u>

The Central Office receives significant contributions restricted by donors, and considers contributions restricted for programs which are ongoing, major and central to its annual operations to be available to meet cash needs for general expenditures. For the year ended June 30, 2019, restricted contributions of \$345,151 were included in financial assets available to meet cash needs for general expenditures within one year.

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

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The Central Office holds deposits on behalf of parishes and schools within the Fort Worth Diocese, and in turn loans out these funds within the Diocese. The deposits are due on demand, although the notes receivable are due over a period of time. While the deposits are due on demand, in looking back over the past five years, the parishes and schools have a history of making deposits that are similar to the withdrawals made in a given year. During this time period, the largest excess of withdrawals over deposits was approximately \$6.5 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 is anticipating the sale of a property that should result in approximately \$4 million of proceeds.

The Central Office also has the ability to 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 operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures.

**Note 13: Commitments and Contingencies**

The Central Office manages the claims against the Diocese. At June 30, 2019, 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.

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**Note 14: 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.

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 year ended June 30, 2019, the annual pension cost and actual contributions for the Central Office are \$450,375.

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><b>June 30, 2019</b></u>
Actuarial cost method	projected unit credit
Asset valuation method	market value
Assumptions:	
Investment return	7.25%
Projected salary increases	2.50%
Inflation	8.00%

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

Annual Pension Cost (APC)	\$ 2,912,002
Percentage of APC Contributed	100%
Net Pension Obligation	\$ -

The funding information for the Employee Plan follows:

Actuarial valuation date	<u><b>June 30, 2019</b></u>
Actuarial value of assets	\$ 39,902,693
Actuarial accrued liability (AAL)	\$ 52,724,459
Unfunded actuarial accrued liability (UAAL)	\$ 12,821,766
Funded ratio	75.68%
Annual covered payroll	\$ 29,310,680
UAAL as percentage of covered payroll	43.74%



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**Priests' Plan**

The actuarial valuation information for the Priests' Plan follows:

Actuarial valuation date	<u>June 30, 2019</u>
Actuarial cost method	projected unit credit
Asset valuation method	market value
Assumptions:	
Investment return	7.25%
Cost of living	1.50%
Inflation	none assumed

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

Annual Pension Cost (APC)	\$	208,050
Percentage of APC Contributed		100%

The funding information for the Priests' Plan follows:

Actuarial valuation date	<u>June 30, 2019</u>	
Actuarial value of assets	\$	7,393,867
Actuarial accrued liability (AAL)	\$	6,808,369
Unfunded actuarial accrued liability (UAAL)	\$	(585,498)
Funded ratio		108.60%

**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 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.

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The Central Office has a fully-insured plan for the health insurance needs of the participants. The health insurance plan is administered by a third party, and the Central Office does not participate in billing the premiums to the parishes and schools.

Included in expenses are actual costs and claims paid plus management's estimates of any additional ultimate loss which may change materially in the near term.

**Note 16: Future Change in Accounting Principle**

***Revenue Recognition***

The Financial Accounting Standards Board amended its standards related to revenue recognition. This amendment replaces all existing revenue recognition guidance and provides a single, comprehensive revenue recognition model for all contracts with customers. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of the time value of money in the transaction price and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The amendment also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in those judgments and assets recognized from costs incurred to fulfill a contract. The standard allows either full or modified retrospective adoption effective for nonpublic entities for annual periods beginning after December 15, 2018 (December 15, 2017, for not-for-profits that are conduit debt obligors), and any interim periods within annual reporting periods that begin after December 15, 2019 (December 15, 2018, for not-for-profits that are conduit debt obligors). The Central Office is in the process of evaluating the effect the amendment will have on the financial statements.

***Grants and Contributions***

On June 21, 2018, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2018-08. This standard clarifies existing guidance on determining whether a transaction with a resource provider, e.g., the receipt of funds under a government grant or contract, is a contribution or an exchange transaction. The guidance requires all organizations to evaluate whether the resource provider is receiving commensurate value in a transfer of assets transaction, and whether contributions are conditional or unconditional.

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If commensurate value is received by the resource provider, the transaction would be accounted for as an exchange transaction by applying Topic 606, *Revenue from Contracts with Customers*, or other topics. The standard clarifies that a resource provider is not synonymous with the general public. Indirect benefit received by the public as a result of the assets transferred is not equivalent to commensurate value received by the resource provider. If commensurate value is not received by the resource provider, i.e., the transaction is nonexchange, the recipient organization would record the transaction as a contribution under Topic 958 and determine whether the contribution is conditional or unconditional

FASB expects that the new standard could result in more grants and contracts being accounted for as contributions (often conditional contributions) than under current generally accepted accounting principles. Because of this, it believes the clarifying guidance about whether a contribution is conditional or unconditional, which affects the timing of revenue recognition, is important. Both the recipient and resource provider would equally apply the guidance.

These standards will be effective for the Central Office's 2020 fiscal year.