

**CENTRAL SERVICE OFFICES OF THE  
DIOCESE OF TYLER**

**FINANCIAL STATEMENTS**

**YEARS ENDED DECEMBER 31, 2015 AND 2014**

**Gollob Morgan Peddy PC**  
CERTIFIED PUBLIC ACCOUNTANTS

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Independent Auditors' Report

Bishop and Management of the  
Central Service Offices of the Diocese of Tyler

**Report on the Financial Statements**

We have audited the accompanying financial statements of the Central Service Offices of the Diocese of Tyler (a nonprofit organization) which comprise the statements of financial position as of December 31, 2015 and 2014, and the related statements of activities, functional expenses and cash flows for the years 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.

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

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

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Central Service Offices of the Diocese of Tyler as of December 31, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



Certified Public Accountants

Tyler, Texas  
May 19, 2016

**CENTRAL SERVICE OFFICES OF THE DIOCESE OF TYLER  
STATEMENTS OF FINANCIAL POSITION  
DECEMBER 31, 2015 AND 2014**

<b>ASSETS</b>	<u>2015</u>	<u>2014</u>
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 3,778,637	\$ 2,886,050
Accounts receivable - parishes and affiliates, (net of allowance for doubtful accounts of \$682,060 and \$654,332, respectively)	245,918	355,123
Contributions and grants receivable, net (Note A)	41,325	52,547
Prepaid expenses	26,812	193,124
Accrued interest receivable	<u>759</u>	<u>2,789</u>
<b>Total Current Assets</b>	<b>4,093,451</b>	<b>3,489,633</b>
<b>Restricted Assets:</b>		
Cash and cash equivalents (Note G)	-	1,535,745
<b>Other Assets:</b>		
Investments, at market (Note B)	1,474,682	1,532,320
Equity in Catholic Umbrella Pool II (Note C)	3,768	20,158
Loans receivable - parishes and other Catholic institutions (Note D)	90,320	32,420
Land, property and equipment - net (Note E)	<u>1,999,046</u>	<u>1,777,682</u>
<b>TOTAL ASSETS</b>	<b>\$ <u>7,661,267</u></b>	<b>\$ <u>8,387,958</u></b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Current Liabilities:</b>		
Accounts payable	\$ 107,804	\$ 556,133
Deferred revenue	-	38,675
Funds held for others (Note D)	371,949	701,534
Pension payable	100,000	-
Insurance payable	758,200	-
Seminarian payable	<u>726,378</u>	<u>-</u>
<b>Total Current Liabilities</b>	<b><u>2,064,331</u></b>	<b><u>1,296,342</u></b>
Deferred obligation for priest's pension plan (Note J)	<u>5,239,419</u>	<u>5,879,477</u>
<b>Total Liabilities</b>	<b>7,303,750</b>	<b>7,175,819</b>
<b>Net Assets:</b>		
Unrestricted:	269,668	(398,741)
Temporarily restricted (Note F)	87,849	75,135
Permanently restricted (Note G)	<u>-</u>	<u>1,535,745</u>
	<u>357,517</u>	<u>1,212,139</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ <u>7,661,267</u></b>	<b>\$ <u>8,387,958</u></b>

**CENTRAL SERVICE OFFICES OF THE DIOCESE OF TYLER  
STATEMENTS OF ACTIVITIES  
YEARS ENDED DECEMBER 31, 2015 AND 2014**

	2015			
	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
<b>SUPPORT AND REVENUE</b>				
Assessments	\$ 1,452,155	\$ -	\$ -	\$ 1,452,155
Contributions	2,570,518	21,469	-	2,591,987
Grants	-	275,679	-	275,679
Fees for services	21,081	-	-	21,081
Investment income	36,263	-	-	36,263
Equity in Catholic Umbrella Pool II	(8,069)	-	-	(8,069)
Subscription revenue	134,272	-	-	134,272
Interest income	1,968	-	-	1,968
Property management income	6,737	-	-	6,737
Program fees	266,183	-	-	266,183
Net realized gain (loss) on sale of investments	229,156	-	-	229,156
Net unrealized gain (loss) on investments	(281,986)	-	-	(281,986)
Net gain (loss) on sale of assets	8,705	-	-	8,705
Reimbursable income	41,144	-	-	41,144
Other Revenue	33,044	-	-	33,044
	4,511,171	297,148	-	4,808,319
<b>Net Assets Released From Restrictions</b>				
Expiration of time or other restrictions - BAA	1,820,179	(284,434)	(1,535,745)	-
	1,820,179	(284,434)	(1,535,745)	-
<b>Total Support, Revenue and Net Assets Released from Restrictions</b>				
	6,331,350	12,714	(1,535,745)	4,808,319
<b>EXPENSES</b>				
<b>Program Services:</b>				
Chancery Services	1,308,415	-	-	1,308,415
Education	634,033	-	-	634,033
Faith Formation	2,113,757	-	-	2,113,757
Community Development	465,798	-	-	465,798
Social activities	89,208	-	-	89,208
	4,611,211	-	-	4,611,211
<b>Supporting Services:</b>				
General and Administration	1,313,777	-	-	1,313,777
Fundraising	378,011	-	-	378,011
	1,691,788	-	-	1,691,788
<b>Total Expenses</b>				
	6,302,999	-	-	6,302,999
<b>Change in Net Assets From Operating Activities</b>				
	28,351	12,714	(1,535,745)	(1,494,680)
<b>Adjustment for decrease in minimum priest's pension plan obligation</b>				
	640,058	-	-	640,058
<b>Change in Net Assets</b>				
	668,409	12,714	(1,535,745)	(854,622)
<b>Net Assets at Beginning of Year</b>				
	(398,741)	75,135	1,535,745	1,212,139
<b>NET ASSETS AT END OF YEAR</b>				
	\$ 269,668	\$ 87,849	\$ -	\$ 357,517

**CENTRAL SERVICE OFFICES OF THE DIOCESE OF TYLER**  
**STATEMENTS OF ACTIVITIES**  
**YEARS ENDED DECEMBER 31, 2015 AND 2014**

	2014			
	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
<b>SUPPORT AND REVENUE</b>				
Assessments	\$ 1,547,717	\$ -	\$ -	\$ 1,547,717
Contributions	2,150,357	32,877	33,392	2,216,626
Grants	350,690	-	-	350,690
Fees for services	849,625	-	-	849,625
Investment income	39,925	-	-	39,925
Equity in Catholic Umbrella Pool II	(36,202)	-	-	(36,202)
Subscription revenue	126,385	-	-	126,385
Program fees	116,415	-	-	116,415
Net realized gain (loss) on sale of investments	61,572	-	-	61,572
Net unrealized gain (loss) on investments	4,558	-	-	4,558
Other revenue	27,050	-	-	27,050
<b>Total Support and Revenue</b>	<b>5,238,092</b>	<b>32,877</b>	<b>33,392</b>	<b>5,304,361</b>
<b>Net Assets Released From Restrictions</b>				
Expiration of time or other restrictions - BAA	61,440	(61,440)	-	-
<b>Total Net Assets Released from Restrictions</b>	<b>61,440</b>	<b>(61,440)</b>	<b>-</b>	<b>-</b>
<b>Total Support, Revenue and Net Assets Released from Restrictions</b>	<b>5,299,532</b>	<b>(28,563)</b>	<b>33,392</b>	<b>5,304,361</b>
<b>EXPENSES</b>				
<b>Program Services:</b>				
Chancery Services	1,351,978	-	-	1,351,978
Education	563,528	-	-	563,528
Faith Formation	368,490	-	-	368,490
Community Development	272,567	-	-	272,567
<b>Total Program Services</b>	<b>2,556,563</b>	<b>-</b>	<b>-</b>	<b>2,556,563</b>
<b>Supporting Services:</b>				
General and Administration	1,426,735	-	-	1,426,735
Fundraising	403,884	-	-	403,884
<b>Total Supporting Services</b>	<b>1,830,619</b>	<b>-</b>	<b>-</b>	<b>1,830,619</b>
<b>Total Expenses</b>	<b>4,387,182</b>	<b>-</b>	<b>-</b>	<b>4,387,182</b>
<b>Change in Net Assets From Operating Activities</b>	<b>912,350</b>	<b>(28,563)</b>	<b>33,392</b>	<b>917,179</b>
Adjustment for increase in minimum priest's pension plan obligation	(1,575,020)	-	-	(1,575,020)
<b>Change in Net Assets</b>	<b>(662,670)</b>	<b>(28,563)</b>	<b>33,392</b>	<b>(657,841)</b>
<b>Net Assets at Beginning of Year</b>	<b>263,929</b>	<b>103,698</b>	<b>1,502,353</b>	<b>1,869,980</b>
<b>NET ASSETS AT END OF YEAR</b>	<b>\$ (398,741)</b>	<b>\$ 75,135</b>	<b>\$ 1,535,745</b>	<b>\$ 1,212,139</b>

**CENTRAL SERVICE OFFICES OF THE DIOCESE OF TYLER  
STATEMENTS OF FUNCTIONAL EXPENSES  
YEARS ENDED DECEMBER 31, 2015 AND 2014**

2015

	PROGRAM SERVICES						SUPPORTING SERVICES			TOTAL FUNCTIONAL EXPENSES
	CHANCERY SERVICES	EDUCATION	FAITH FORMATION	COMMUNITY DEVELOPMENT	SOCIAL ACTIVITIES	TOTAL PROGRAM EXPENSES	GENERAL ADMIN	FUND RAISING	TOTAL	
Salaries and wages	\$ 450,088	\$ 298,692	\$ 28,805	\$ 66,436	\$ 44,746	\$ 888,767	\$ 249,937	\$ 143,577	\$ 1,282,281	
Benefits	367,190	77,496	96,692	15,056	13,469	569,903	228,125	32,440	830,468	
Contract labor	6,260	1,160	-	-	-	7,420	10,240	8,885	26,545	
Clergy expense	48,976	-	3,744	800	1,668	55,188	20,286	-	75,474	
Supplies	15,666	13,176	312	4,530	601	34,285	26,832	13,420	74,537	
Professional fees	85,441	35,987	-	-	-	121,428	112,007	83,780	317,215	
Computer services	-	2,095	-	-	-	2,095	143,036	1,762	146,893	
Fees and assessments	35,717	-	-	-	-	35,717	20,095	-	55,812	
Dues and publications	8,792	7,278	1,843	1,230	340	19,483	1,495	3,021	23,999	
Telephone	7,602	1,509	1,119	-	1,609	11,839	18,436	316	30,591	
Postage and shipping	5,857	42,139	557	176	159	48,888	67	14,764	63,719	
Printing	15,821	75,915	2,225	235	3,126	97,322	23,536	20,360	141,218	
Occupancy	79,155	26,138	13,720	-	2,327	121,340	32,098	8,956	162,394	
Vehicle	10,660	340	4,237	-	1,542	16,779	2,061	472	19,312	
Travel	23,478	17,266	5,326	4,075	8,402	58,547	4,178	8,731	71,456	
Conferences	12,928	17,442	930	72,567	6,030	109,897	3,258.00	1,674	114,829	
Lecturer/speaker fees	-	-	-	-	-	-	-	-	-	
Continuing education	23,944	1,545	464	1,820	-	27,773	5,110	8,899	41,782	
Retreats	6,899	1,650	15,720	6,905	-	31,174	-	-	31,174	
Hospitality	35,361	8,779	2,911	766	3,684	51,501	3,331	8,957	63,789	
Special programs	36,001	1,956	-	-	505	38,462	-	-	38,462	
Miscellaneous	2,143	1,096	-	3,500	-	7,586	-	3,601	11,187	
Advertising	1,770	2,374	2,428	13	-	6,585	-	14,396	24,208	
Seminary expenses	6,319	-	395,082	-	-	401,401	-	-	401,401	
Contribution to Foundation	-	-	1,535,745	-	-	1,535,745	-	-	1,535,745	
Grants	7,150	-	1,050	287,689	1,000	296,889	2,000	-	298,889	
Investment expense	-	-	-	-	-	-	17,689	-	17,689	
Premium expense and claims	2,697	-	-	-	-	2,697	74,265	-	76,962	
Provision for uncollectible receivables and pledges	12,500	-	-	-	-	12,500	193,922	-	206,422	
Depreciation expense	-	-	-	-	-	-	118,546	-	118,546	
<b>TOTAL EXPENSES</b>	<b>\$ 1,308,415</b>	<b>\$ 634,033</b>	<b>\$ 2,113,757</b>	<b>\$ 465,798</b>	<b>\$ 89,208</b>	<b>\$ 4,611,211</b>	<b>\$ 1,313,777</b>	<b>\$ 378,011</b>	<b>\$ 6,302,999</b>	

**CENTRAL SERVICE OFFICES OF THE DIOCESE OF TYLER  
STATEMENTS OF FUNCTIONAL EXPENSES  
YEARS ENDED DECEMBER 31, 2015 AND 2014**

2014

	PROGRAM SERVICES					SUPPORTING SERVICES			TOTAL FUNCTIONAL EXPENSES
	CHANCERY SERVICES	EDUCATION	FAITH FORMATION	COMMUNITY DEVELOPMENT	TOTAL PROGRAM EXPENSES	GENERAL ADMIN	FUND RAISING		
Salaries and wages	\$ 365,986	\$ 308,283	\$ 12,091	\$ -	\$ 686,360	\$ 262,249	\$ 119,655	\$ 1,068,264	
Payroll taxes	16,826	21,502	367	-	38,695	20,050	9,154	67,899	
Insurance - medical	246,196	47,491	80,626	-	374,313	19,984	22,369	416,666	
Pension expense	45,701	6,729	-	-	52,430	14,168	2,342	68,940	
Contract labor	12,554	155	-	-	12,709	105	163,142	175,956	
Clergy expense	16,347	-	-	-	16,347	-	-	16,347	
Supplies	6,316	9,052	388	-	15,756	4,228	8,584	28,568	
Professional fees	132,896	9,897	-	13,131	155,924	71,736	20,884	248,544	
Fees and assessments	63,222	-	-	-	63,222	1,153	-	64,375	
Dues and publications	1,790	19,300	80	-	21,170	-	-	21,170	
Telephone	7,610	-	12	-	7,622	18,175	312	26,109	
Postage and shipping	4,468	38,408	191	-	43,067	1,987	4,716	49,770	
Printing	9,724	26,770	2,675	216	39,385	23,526	40,380	103,291	
Occupancy	84,264	9,214	505	505	94,488	47,178	3,539	145,205	
Vehicle	12,277	1,500	1,038	-	14,815	-	197	15,012	
Travel	39,908	25,209	90	3,106	68,313	563	2,289	71,165	
Conferences	2,281	3,049	22,727	300	28,357	-	200	28,557	
Lecturer/speaker fees	1,800	9,850	500	4,700	16,850	-	-	16,850	
Continuing education	45,667	-	-	-	45,667	-	-	45,667	
Retreats	27,650	-	-	-	27,650	-	-	27,650	
Hospitality	42,079	13,513	304	-	55,896	1,079	2,501	59,476	
Special programs	36,769	-	-	-	36,769	30,673	2,427	69,869	
Miscellaneous	10,646	9,606	1	472	20,725	17,491	9	38,225	
Advertising	375	-	-	-	375	-	1,184	1,559	
Donations	118,549	4,000	-	-	122,549	-	-	122,549	
Seminary expenses	77	-	246,895	-	246,972	-	-	246,972	
Grants	-	-	-	250,137	250,137	-	-	250,137	
Investment expense	-	-	-	-	-	18,326	-	18,326	
Premium expense and claims	-	-	-	-	-	617,748	-	617,748	
Provision for uncollectible receivables and pledges	-	-	-	-	-	146,873	-	146,873	
Depreciation expense	-	-	-	-	-	109,443	-	109,443	
<b>TOTAL EXPENSES</b>	<b>\$ 1,351,978</b>	<b>\$ 563,528</b>	<b>\$ 368,490</b>	<b>\$ 272,567</b>	<b>\$ 2,556,563</b>	<b>\$ 1,426,735</b>	<b>\$ 403,884</b>	<b>\$ 4,387,182</b>	

See accompanying notes to the financial statements.



**CENTRAL SERVICE OFFICES OF THE DIOCESE OF TYLER**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2015 AND 2014**

	<u>2015</u>	<u>2014</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets (operations)	\$ (1,494,680)	\$ 917,179
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net realized and unrealized (gain) loss on investments	52,830	(66,130)
Net (gain) loss on sale of assets	(8,705)	-
Noncash donation - revenue	-	(55,672)
Depreciation	118,546	109,443
(Increase) decrease in assets:		
Accounts receivable	109,205	(43,265)
Contributions and grants receivable	11,222	(42,446)
Accrued interest receivable	2,030	3,489
Prepaid expenses	166,312	(97,523)
Equity in Catholic Umbrella Pool II	16,390	36,202
Increase (decrease) in liabilities:		
Accounts payable	(448,325)	147,968
Deferred revenue	(38,675)	(994)
Total Adjustments	<u>(19,170)</u>	<u>(8,928)</u>
Net Cash (Used In) Provided by Operating Activities	<u>(1,513,850)</u>	<u>908,251</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from sales and maturities of investments	1,836,021	576,157
Proceeds from sales of assets	27,391	-
Purchase of investments	(1,831,218)	(400,958)
Net increase in loans receivable	(57,900)	4,212
Purchases of property and equipment	<u>(358,595)</u>	<u>(179,919)</u>
Net Cash Used in Investing Activities	<u>(384,301)</u>	<u>(508)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Increase (decrease) in funds held for others	(329,585)	146,683
Increase in funds held for pension	100,000	-
Increase in funds held for insurance	758,200	-
Increase in funds held for seminarians	<u>726,378</u>	<u>-</u>
Net Cash Provided By Financing Activities	<u>1,254,993</u>	<u>146,683</u>
Net (Decrease) Increase in Cash and Cash Equivalents	(643,158)	1,054,426
Cash and cash equivalents at beginning of year	<u>4,421,795</u>	<u>3,367,369</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u><u>\$ 3,778,637</u></u>	<u><u>\$ 4,421,795</u></u>
<b>Reconciliation to Exhibit A:</b>		
Cash - Unrestricted	\$ 3,778,637	\$ 2,886,050
Cash - Restricted	-	1,535,745
	<u><u>\$ 3,778,637</u></u>	<u><u>\$ 4,421,795</u></u>
<b>SUPPLEMENTAL DISCLOSURE FOR NON-CASH ACTIVITY:</b>		
Stock donation	\$ -	\$ 55,672
FASB ASC 715-20 post retirement benefit adjustment	\$ 640,058	\$ (1,575,020)

**CENTRAL SERVICE OFFICES OF THE DIOCESE OF TYLER  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2015 AND 2014**

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNT POLICIES**

**Nature of Organization**

The Central Service Offices of the Diocese of Tyler (the “Chancery”) serves as the central administrative office for the Diocese of Northeast Texas (the “Diocese”). The Chancery provides planning and direction in the administration of pastoral, vocational, educational and other services to its parishes and other Diocesan institutions. The Chancery also provides financing, investing and other advisory services to the organizations of the Diocese. These statements include the assets, liabilities, net assets and financial activities of certain program offices and departments of the Diocese that are fiscally responsible to the Bishop and referred to herein as the Chancery Office.

The accompanying financial statements exclude the assets, liabilities, net assets and financial activities of the individual parishes, schools, charitable organizations, 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 Chancery 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 in accordance with generally accepted accounting principles.

**Presentation**

The 2014 financial statements have not been reclassified to conform to the 2015 presentation. Management has determined that the presentation of 2015 and 2014 is materially stated and that both years are not misleading to the users of the financial statements.

**Use of Estimates**

The preparation of the financial statements in conformity with generally accepted accounting principles 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 support and revenue and expenses during the reporting period. Actual results could differ from those estimates.

**Advertising**

The Diocese expenses advertising costs as they are incurred. Advertising expenses for the year ended December 31, 2015 and 2014 were \$24,208 and \$1,559, respectively.

**Cash and Cash Equivalents**

For the purposes of presentation in the statement of cash flows, the Diocese considers cash equivalents to be short-term, highly liquid investments that are readily convertible to cash and have original maturities when acquired of three months or less.

**Investments**

Investments in marketable securities with readily determinable fair values and all investments in debt securities are measured at fair values in the Statements of Financial Position. Investment income or loss (including gains and losses on investments, interest and dividends) is included in the Statements of Activities as increases or decreases in unrestricted net assets unless the income or loss is restricted by the donor or law.

**Equity in Catholic Umbrella Pool II**

The Chancery Office accounts for its 0.40% participation interest in the Catholic Umbrella Pool II (the Pool) under the equity method. The Pool is a nonprofit corporation that was formed as a self-insurance fund for Dioceses and Archdioceses of the Roman Catholic Church in North America. The Pool provides excess liability coverage for participating Dioceses. Participants share in the operating and investment income and expenses of the Pool based on their contributions to the Pool.

**CENTRAL SERVICE OFFICES OF THE DIOCESE OF TYLER**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015 AND 2014**

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNT POLICIES - CONTINUED**

**Property and Equipment**

Property and equipment are stated at cost for purchased assets and fair market value (at date of contribution) for contributed assets. Major expenditures for property and those which substantially increase useful lives are capitalized. Maintenance, repairs, and minor renewals are expensed as incurred. For the year ended December 31, 2015, the Diocese changed its policy as to the minimum amount for an expenditure to be considered major from \$5,000 to \$1,000. When assets are retired or otherwise disposed of, their cost and related accumulated depreciation are removed from the accounts. Resulting gains or losses are included in income. Depreciation is computed using the straight-line method over estimated useful lives ranging from 5 to 40 years.

**Contributions**

Contributions, including unconditional promises to give, are recognized as revenue in the period received and recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and nature of any donor restrictions.

When a donor restriction is satisfied or expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. The Diocese uses the allowance method to determine uncollectible contribution receivables. The allowance is based on historical experience and management's analysis of specific promises made.

Donated marketable securities and other non-cash donations are recorded as contributions at their estimated fair values at the date of donation.

No amounts have been reflected in the financial statements for donated services. The Diocese pays for most services requiring specific expertise.

**Net Assets**

Net assets, revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes in net assets of the Organization are classified and reported as follows:

- Unrestricted net assets – net assets not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors.
- Temporarily restricted net assets – net assets subject to donor-imposed stipulations that may be, or will be, met by the occurrence of a specific event or the passage of time. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.
- Permanently restricted net assets – net assets subject to donor-imposed stipulations to be maintained in perpetuity by the Organization.

**Income Taxes**

The activities of the Diocese are exempt from federal income taxes under provisions of Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been made in the financial statements.

The Diocese has adopted the provisions of FASB ASC 740-10, (FASB Interpretation No 48, *Accounting for Uncertainty in Income Taxes*). The Company records a liability for uncertain tax positions when it is probable that a loss has been incurred and the amount can be reasonably estimated. We continually evaluate expiring statutes of limitations, audits, proposed settlements, changes in tax law and new authoritative rulings.

**Functional Allocation of Expenses**

The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities and the statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

**CENTRAL SERVICE OFFICES OF THE DIOCESE OF TYLER  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2015 AND 2014**

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNT POLICIES - CONTINUED**

**Allowance for Doubtful Accounts**

An allowance for doubtful accounts is recorded to cover parish and contribution receivables which are deemed to be uncollectible. This estimate is based on a review of the entities financial position and cash flows as well as their history of paying outstanding debts and/or pledges to the Diocese. The bad debt expense is a result of insurance, property, and medical charges to parishes and schools as well as unpaid pledges on the prior year Bishop's Annual Appeal.

**Fair Value of Financial Instruments**

The carrying value of cash, accounts receivable and accounts payable approximates fair value due to the short maturity of these instruments.

**NOTE B - INVESTMENTS**

Investments in marketable securities are carried at fair value (level 1) and the composite of the portfolio at December 31, 2015 and 2014 is as follows:

	<u>2015</u>		<u>2014</u>	
	<u>Carrying Value</u>	<u>Market Value</u>	<u>Carrying Value</u>	<u>Market Value</u>
Mutual Funds	\$ 225,014	\$ 212,500	\$ 1,088,850	\$ 1,249,917
Government Securities	226,381	224,790	289,968	282,403
Stock and Options	1,071,713	984,072	-	-
Alternative Investments	49,128	53,320	-	-
<b>Total</b>	<u>\$ 1,572,236</u>	<u>\$ 1,474,682</u>	<u>\$ 1,378,818</u>	<u>\$ 1,532,320</u>

Summary investment return information for the years ended December 31, 2015 and 2014 were as follows:

	<u>2015</u>	<u>2014</u>
Investment Income	\$ 36,263	\$ 39,925
Net realized and unrealized gain (loss) on investment	(52,830)	66,130
Equity in Catholic Umbrella Pool II	<u>(8,069)</u>	<u>(36,202)</u>
<b>Total Investment Income</b>	<u>\$ (24,636)</u>	<u>\$ 69,853</u>

**NOTE C – RISK MANAGEMENT**

**Health Care Coverage**

For the years ended December 31, 2015 and 2014, the Diocese participated in a “church plan” within the meaning of Section 414 (e) of the Internal Revenue Code. Health insurance coverage is provided through the Catholic Employee Benefit Group (CEBG), a corporation formed as a self-insured trust for four Dioceses in Texas. CEBG has contracted with Web TPA to be its Claims Administrator, and also has a stop-loss policy with Aetna. The Diocese maintains no equity position in CEBG at December 31, 2015 and 2014.

**Catholic Umbrella Pool II**

The Chancery Office provides liability insurance coverage for the Chancery operations as well as for parishes, schools and other related entities. This coverage is provided through participation in the Catholic Umbrella Pool II (the Pool), a corporation formed as a self-insurance fund for the Dioceses and Archdioceses of the Roman Catholic Church in North America. There are approximately 50 Diocese throughout the country who currently retain coverage in the Pool. Catholic Mutual Group manages the Pool which insures general liability claims up to \$3.5 million.

**CENTRAL SERVICE OFFICES OF THE DIOCESE OF TYLER  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2015 AND 2014**

**NOTE C – RISK MANAGEMENT - CONTINUED**

The Diocese of Tyler had an equity balance in the Pool of \$3,768 and \$20,158 at December 31, 2015 and 2014, respectively.

**NOTE D – RELATED PARTY TRANSACTIONS**

**Loans Receivable**

The Diocese loans receivable are for automobile and general parish loans. Loans receivable are generally due in monthly installments. However, the repayment terms are subject to modification by the Bishop as considered necessary and he also has the authority to waive interest charges. As of December 31, 2015 and 2014, the loans receivable outstanding totaled \$90,320 and \$32,420, respectively. The Diocese generally charges an interest rate of 7% on general parish loans and 8% on auto loans. Interest received was \$1,968 and \$ - for the years ended December 31, 2015 and 2014, respectively. Because of the uncertain nature of the repayments, management has chosen to reflect these receivables as non-current assets on the statement of financial position.

**Diocesan Assessments**

Diocesan assessments on parish offertories are included in the accompanying financial statements as support and revenue. These assessments are calculated semi-annually for each parish based on gross revenues, adjusted for certain excludable items, using the following rates:

<u>Semi-Annual Net Income</u>	<u>Rates 2015 and 2014</u>
Under \$50,000	7.5%
\$50,001 to \$100,000	8.5%
\$100,001 to \$200,000	9.5%
\$200,001 to \$500,000	10.5%
\$500,001 and up	11.5%

**Funds Held For Others**

At December 31, 2015 and 2014, the funds held for others relates to amounts collected and/or managed by the Chancery Office for various Diocesan and national Catholic organizations.

**NOTE E – LAND, PROPERTY, AND EQUIPMENT**

The composition of land, property and equipment at December 31, 2015 and 2014 are as follows:

	<u>2015</u>	<u>2014</u>
Land	\$ 388,429	\$ 407,115
Buildings and improvements	1,842,097	1,704,537
Leasehold improvements	383,472	319,881
Furniture and equipment	627,972	542,265
Vehicles	144,241	129,093
	<u>3,386,211</u>	<u>3,102,891</u>
Less: Accumulated Depreciation	<u>(1,387,165)</u>	<u>(1,325,209)</u>
	<u>\$ 1,999,046</u>	<u>\$ 1,777,682</u>

**CENTRAL SERVICE OFFICES OF THE DIOCESE OF TYLER**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE F – TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets are available for the following purposes:

	<u>2015</u>	<u>2014</u>
Bishops Annual Appeal	\$ 21,469	\$ (2,999)
Catholic Extension Grant	66,380	-
Diocesan Development	-	53,746
Black & Indian Mission	-	18,833
Miscellaneous	-	5,555
	<u>\$ 87,849</u>	<u>\$ 75,135</u>

**NOTE G – PERMANENTLY RESTRICTED NET ASSETS**

Permanently restricted net assets consist of donations from donors which are expendable only for purposes specified by the donor. For the year 2015, the Diocese researched all of the donations that comprised the permanently restricted funds. The amount that could be identified as permanently restricted by the donor was transferred to the East Texas Catholic Foundation. The amounts that could not be identified as permanently restricted were transferred to the Seminarians Payable account. At December 31, 2015 and 2014, permanently restricted assets were composed of the following donations:

	<u>2015</u>	<u>2014</u>
Catholic Daughters	\$ -	\$ 14,200
Vincent Colorigh Estate	-	20,790
General Seminarian	-	241,690
John Herzig	-	20,650
Bishop Charles E. Herzig	-	31,155
Bishop Charles E. Herzig Memorial	-	140,158
Knights of Columbus	-	54,538
Knights of Columbus 4th Degree	-	16,339
Msgr. Milam Joseph	-	2,700
Msgr. Meyers	-	73,296
Priests Ed L.V. St. Mary's	-	27,205
John Przydac	-	25,000
Msgr. Edward Szapka	-	25,000
Lucille Weeks	-	19,650
BCCW Seminary Burse	-	11,465
F. Joe & Loretta Spaeth	-	25,025
Rev. Emilian Novak Burse	-	6,350
Billy R. Randolph Memorial	-	25,000
Rev. Bernard Pustejovsky	-	3,030
John & Berma Collins Burse	-	10,000
Nick & Mildred Brandon Burse	-	25,000
Carl T. Goodgame Burse	-	270,478
St. Jude's Burse	-	827
Pope John Paul II Memorial Burse	-	25,500
George & Georgia Nicholds	-	23,155
Elizabeth Calloway Burse	-	100,000
Leon G. Triana Seminary Burse	-	262,543
Bishop Joseph Strickland	-	15,000
Peter & Cecelia Sanfelippo	-	20,000
	<u>\$ -</u>	<u>\$ 1,535,745</u>
TOTAL	<u>\$ -</u>	<u>\$ 1,535,745</u>

**CENTRAL SERVICE OFFICES OF THE DIOCESE OF TYLER  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2015 AND 2014**

**NOTE H – BISHOP’S ANNUAL APPEAL (“BAA”)**

The Diocese commences the BAA fund-raising campaign each spring and collects pledges until the next appeal begins. The pledges are included in temporarily restricted contributions on the Statements of Activities. The results of the 2015 and 2014 appeals are summarized as follows:

	<u>2015</u>	<u>2014</u>
Amounts pledged	2,466,230	2,201,791
Pledge payments received	2,292,039	2,103,885
Percentage of pledges paid	93%	96%

**NOTE I - POST RETIREMENT EMPLOYEE BENEFITS**

The Diocese provides health care coverage for all its diocesan priests after retirement through its health care program. The coverage provided is secondary to the priest’s Medicare coverage. The Diocese pays the monthly premiums for the retired priests, the premiums totaled \$77,536 for the year ended December 31, 2015 and \$91,800 for the year ended December 31, 2014. Lay employees are not provided any post retirement health coverage or life insurance benefits. The Diocese provides reduced life insurance benefits to the retired priests.

**NOTE J – PENSION PLANS**

**Defined Benefit Plan**

**Priests Pension Plan** - This is a noncontributory retirement plan that provides retirement benefits to eligible priests. All priests engaged in regular full-time duties in the Diocese are eligible to participate in the Priests Pension Plan as of the date of their arrival in the Diocese. If a priest has served a minimum of ten years with the Diocese, and attained age 70 at retirement date, he will be eligible for full retirement benefits. The pension plan provides a maximum benefit of \$1,650 monthly annuity payable for life. The Diocese funding policy is to make the minimum annual contribution to amortize the unfunded liability.

The Diocese has adopted FASB ASC 715-20 (*Formerly SFAS No. 158, Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plan*). This statement requires recognition of the overfunded or underfunded status of defined benefit postretirement plans as an asset or liability in the statement of financial position and to recognize the changes in that funded status in net assets in the year in which the adoption occurs and in net assets the following years. An increase of \$640,058 and a decrease of \$1,575,020 to unrestricted net assets is recognized in the accompanying financial statements for the years ending December 31, 2015 and 2014 respectively.

	<u>2015</u>	<u>2014</u>
Benefit obligation	\$ 7,956,571	\$ 8,446,405
Fair value of plan assets	<u>2,717,152</u>	<u>2,566,928</u>
Unfunded status	<u>\$ 5,239,419</u>	<u>\$ 5,879,477</u>

Amounts recognized in the statement of financial position as of December 31 consist of:

Accrued pension obligation	\$ 5,239,419	\$ 5,879,477
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**CENTRAL SERVICE OFFICES OF THE DIOCESE OF TYLER  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2015 AND 2014**

**NOTE J – PENSION PLANS – CONTINUED**

Amounts included in net assets which have not been recognized in net periodic pension expense as of December 31:

Unrecognized actuarial losses	\$ 1,151,113	\$ 1,835,772
Unrecognized transition obligations	521,369	571,949

Components of expense for the years ended December 31:

Benefit cost	\$ 714,441	\$ 592,357
Employer contribution	462,872	451,594
Plan participants contributions	-	-

Weighted-average assumptions for the benefit obligation as of December 31:

Discount rate	4.75%	4.25%
Expected long -term return on plan assets	7.00	7.00
Rate of compensation increase	N/A	N/A

Benefits Paid	\$ 256,628	\$ 254,760
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**Asset Category**

Equity securities	0%	49%
Fixed income	11%	49%
Mutual Funds	66%	0%
Cash/Money Market	20%	2%
Other Investments	3%	0%

Estimated future benefit payments:

	<u>Amount</u>
2016	\$ 333,099
2017	379,112
2018	415,517
2019	476,327
2020	495,711
2021-2025	<u>2,710,955</u>
	<u>\$ 4,810,721</u>

**Contributions**

Contributions to the plan are made by the Diocese for the priest employed at the Diocese, and by individual parishes for the priest employed by the parish. Diocese contributions are expected to be \$75,000, and the parish contributions are expected to be \$400,000.

During the year ending December 31, 2015 and 2014, the Diocese recognized \$50,580 in amortization of the unrecognized transition obligation in net periodic benefit cost.

**Tax Deferred Annuity Plan**

Lay Plan – The Diocese provides a tax deferred annuity plan available to all lay employees of the Chancery Office as well as those of parishes, schools, and other affiliated entities. This plan is organized under Section 403(b)(3)



**CENTRAL SERVICE OFFICES OF THE DIOCESE OF TYLER**  
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**NOTE J – PENSION PLANS – CONTINUED**

of the Internal Revenue Code. Lay employees must be 21 years or older and have completed one year of service in order to participate in the plan. Under the provision of the plan, eligible employees under 50 years of age may defer up to \$18,000 of their annual salary, and eligible employees age 50 and over may defer up to \$24,000 of their annual salary. Employer contributions of up to 4% of eligible employee salaries are made each year. Total expense for the years ended December 31, 2015 and 2014 were approximately \$24,436 and \$29,316, respectively.

**NOTE K – CONCENTRATION OF CREDIT AND MARKET RISK**

Financial instruments that potentially expose the Chancery Office to concentrations of credit and market risk consist primarily of cash in banks and investments in securities. There were no uninsured excess in the deposit accounts at December 31, 2015 and 2014. In addition, the Chancery Office maintained cash management accounts with a carrying value of \$356,228 and \$400,620 at December 31, 2015 and 2014. The Diocese also has a sweep account in which the balance is invested daily in Federal obligations. The balance for the sweep account was \$3,422,409 at December 31, 2015 and \$4,147,139 at December 31, 2014. The cash management accounts and sweep accounts are not covered by federal depository insurance but are fully collateralized through Securities Investor Protection Corporation insurance and Investor Protection Insurance Company. The Chancery Office's investments in securities (see Note B) are not considered to represent significant concentrations of market risk because the portfolio is reasonably diversified among issuers.

**NOTE L – COMMITMENT AND CONTINGENCIES**

The Bishop of the Diocese of Tyler is guarantor of loans made to the Diocese's parishes by third party lending institutions, which aggregated approximately \$4,412,927 at December 31, 2015 and \$5,444,169 at December 31, 2014.

**NOTE M – SUBSEQUENT EVENTS**

The Diocese has evaluated subsequent events through May 19, 2016, the date which the financial statements were available to be issued.