

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

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

**CENTRAL SERVICE OFFICES OF THE DIOCESE OF TYLER
TABLE OF CONTENTS
YEAR ENDED DECEMBER 31, 2016**

INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS	
STATEMENT OF FINANCIAL POSITION	3
STATEMENT OF ACTIVITIES	4
STATEMENT OF FUNCTIONAL EXPENSES	5
STATEMENT OF CASH FLOWS	6
NOTES TO FINANCIAL STATEMENTS	7
SUPPLEMENTARY INFORMATION	
SUPPLEMENTAL SCHEDULE OF FINANCIAL POSITION BY FUND	18
SUPPLEMENTAL SCHEDULE OF ACTIVITIES BY FUND	19

INDEPENDENT AUDITORS' REPORT

Most Reverend Joseph E. Strickland, Bishop of the Diocese of Tyler
Central Service Offices of the Diocese of Tyler
Tyler, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of Central Service Offices of the Diocese of Tyler (the Chancery), which comprise the financial position as of December 31, 2016, 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.

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 Central Service Offices of the Diocese of Tyler as of December 31, 2016, 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-Matters

Correction of Errors

As described in Note 2 to the financial statements, an understatement of beginning net assets for the year ended December 31, 2015 was discovered. Accordingly, beginning net assets for the year ended December 31, 2016 have been restated to correct the errors. Our opinion is not modified with respect to these matters.

Change in Accounting Principle

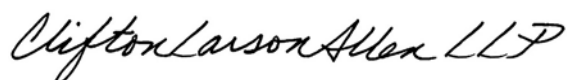
As described in Note 2 to the financial statements, the Chancery has adjusted its net assets to retrospectively apply a change in accounting policy to remove the Priest Retirement Plan of the Diocese from the financial statements of the Chancery. Our opinion is not modified with respect to the matter.

Component Statements

As explained in the summary of significant accounting policies, the financial statements being presented are for only a component of the Diocese, known as the Central Service Offices of the Diocese of Tyler, and do not include the assets, liabilities, and net assets or the revenues and expenses of the other components of the Diocese. Accordingly, the accompanying financial statements are not intended to present the financial position of the Diocese as of December 31, 2016, changes in net assets, or its cash flows for the year then ended. Our opinion is not modified with respect to this matter.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



CliftonLarsonAllen LLP

Dallas, Texas
May 30, 2017

**CENTRAL SERVICE OFFICES OF THE DIOCESE OF TYLER
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2016**

ASSETS

Cash and Cash Equivalents	\$ 2,294,756
Pledges, Accounts and Interest Receivable	82,961
Notes Receivable	26,920
Due from Diocesan Institutions	177,703
Prepaid Expenses	57,911
Investments	4,074,826
Land, Property, and Equipment	<u>2,048,450</u>
Total Assets	<u><u>\$ 8,763,527</u></u>

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts Payable and Accrued Expenses	\$ 475,977
Deferred Revenue	5,280
Funds Held for Others	<u>138,420</u>
Total Liabilities	<u>619,677</u>

NET ASSETS

Unrestricted	6,003,087
Designated for Insurance	1,052,675
Designated for Plant	<u>21,181</u>
Total Unrestricted	<u>7,076,943</u>
Temporarily Restricted	<u>1,066,907</u>
Total Net Assets	<u><u>8,143,850</u></u>

Total Liabilities and Net Assets	<u><u>\$ 8,763,527</u></u>
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See accompanying Notes to Financial Statements.

**CENTRAL SERVICE OFFICES OF THE DIOCESE OF TYLER
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2016**

	Unrestricted	Temporarily Restricted	Total
REVENUE, GAINS, AND OTHER SUPPORT			
Parish Assessment	\$ 1,582,466	\$ -	\$ 1,582,466
Annual Appeal	2,598,561	-	2,598,561
Contributions and bequests	81,819	446,522	528,341
Program Revenue:			
Teaching the Faith	322,189	-	322,189
Sanctifying the Faith	139,861	-	139,861
Living the Faith	26,723	-	26,723
Administering the Faith	269,154	-	269,154
Risk/Property Management	797,965	-	797,965
Investment Income	206,446	-	206,446
Loss on Disposal of Assets	(1,984)	-	(1,984)
Net Assets Released from Restriction	442,992	(442,992)	-
Total Revenue, Gains, and Other Support	<u>6,466,192</u>	<u>3,530</u>	<u>6,469,722</u>
EXPENSES			
Program Expenses:			
Teaching the Faith	1,139,773	-	1,139,773
Sanctifying the Faith	794,113	-	794,113
Living the Faith	595,312	-	595,312
Administering the Faith	2,165,665	-	2,165,665
Risk and Property Management	823,834	-	823,834
Investment Expense	20,497	-	20,497
Total Expenses	<u>5,539,194</u>	<u>-</u>	<u>5,539,194</u>
CHANGE IN NET ASSETS	926,998	3,530	930,528
Net Assets - Beginning of Year, As Restated	<u>6,149,945</u>	<u>1,063,377</u>	<u>7,213,322</u>
NET ASSETS - END OF YEAR	<u>\$ 7,076,943</u>	<u>\$ 1,066,907</u>	<u>\$ 8,143,850</u>

See accompanying Notes to Financial Statements.

**CENTRAL SERVICE OFFICES OF THE DIOCESE OF TYLER
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2016**

	Operating Fund	Risk Management	Restricted Fund	Plant Fund	Total
Compensation	\$ 1,498,962	\$ 13,973	\$ -	\$ 3,795	\$ 1,516,730
Health Insurance/Medical	556,697	19	-	-	556,716
Payroll Taxes	96,565	1,069	-	290	97,924
Retirement Contribution	103,833	-	-	-	103,833
Advertising and Public Relations	12,705	-	-	332	13,037
Computer Services	92,968	-	-	-	92,968
Professional Services	457,106	-	6,666	388	464,160
Property and Liability Insurance	287	507,634	-	-	507,921
Supplies/Materials	172,569	404	-	6,459	179,432
Telephone	9,090	-	-	20,699	29,789
Postage and Shipping	80,625	-	-	1,731	82,356
Maintenance and Repairs	9,572	-	-	56,026	65,598
Rent - Vehicles, Equipment, Etc.	3,522	-	-	-	3,522
Utilities	1,046	-	-	65,239	66,285
Printing and Copier Costs	141,727	-	-	298	142,025
Automobile Expenses and Repairs	36,882	-	-	-	36,882
Hotel	222,955	-	904	-	223,859
Air Travel and Transportation	23,714	-	-	-	23,714
Meals	14,863	-	-	-	14,863
Registration Fees	367,225	-	474	-	367,699
Tuition and Fees	188,446	-	-	-	188,446
Memberships, Dues, Assessments	68,431	-	-	-	68,431
Subsidies	117,431	-	2,400	-	119,831
Social Services	228,724	-	34,400	-	263,124
Depreciation	-	-	-	145,359	145,359
Bad Debt	164,650	-	-	-	164,650
Property Taxes	(82)	-	-	122	40
Total Expenses before Transfers	4,670,513	523,099	44,844	300,738	5,539,194
Transfers	349,839	936	398,148	37,634	786,557
Total Expenses	\$ 5,020,352	\$ 524,035	\$ 442,992	\$ 338,372	\$ 6,325,751

See accompanying Notes to Financial Statements.

**CENTRAL SERVICE OFFICES OF THE DIOCESE OF TYLER
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2016**

CASH FLOWS FROM OPERATING ACTIVITIES

Change in Net Assets	\$ 930,528
Adjustments to Reconcile Change in Net Assets to Net Cash	
Provided by Operating Activities:	
Loss on Disposal of Assets	1,984
Net Realized and Unrealized Gain on Investments	(99,259)
Depreciation	145,359
(Increase) Decrease in Assets:	
Accounts and Interest Receivable	27,338
Prepaid Expenses	(31,099)
Increase (Decrease) in Liabilities:	
Accounts Payable and Accrued Expenses	234,079
Deferred Revenue	(77,968)
Net Cash Provided by Operating Activities	1,130,962

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from Sales and Maturities of Investments	1,734,431
Purchase of Investments	(4,231,547)
Net Increase in Notes Receivable	63,400
Purchases of Property and Equipment	(196,747)
Net Cash Used by Investing Activities	(2,630,463)

CASH FLOWS FROM FINANCING ACTIVITIES

Funds Held for Others	15,620
Net Cash Provided by Financing Activities	15,620

NET DECREASE IN CASH AND CASH EQUIVALENTS

(1,483,881)

Cash and Cash Equivalents - Beginning of Year

3,778,637

CASH AND CASH EQUIVALENTS - END OF YEAR

\$ 2,294,756

See accompanying Notes to Financial Statements.

**CENTRAL SERVICE OFFICES OF THE DIOCESE OF TYLER
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

The Central Service Offices of the Diocese of Tyler (the Chancery) serves as the central administrative office for the Catholic Diocese of Tyler (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.

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, operate distinct from the Chancery Office, maintains separate financial records, and carries its own services and programs. In addition, various religious orders, lay societies, and religious organizations operating 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 U.S. generally accepted accounting principles.

Use of Estimates

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

Cash and Cash Equivalents

For the purposes of presentation in the statement of cash flows, the Chancery 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 value and all investments in debt securities are measured at fair values in the statement of financial position. Investment income or loss (including gains and losses on investments, interest, and dividends) is included in the statement of activities as increases or decreases in unrestricted net assets unless the income or loss is restricted by the donor or law.

**CENTRAL SERVICE OFFICES OF THE DIOCESE OF TYLER
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Equity in Catholic Umbrella Pool II

The Chancery accounts for its 0.40% participation interest in the Catholic Umbrella Pool II (the Pool) under the equity method. The Pool is a nonprofit organization 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.

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 over \$1,000 for property and those for which substantially increase useful lives are capitalized. Maintenance, repairs, and minor renewals are expensed as incurred. 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 five 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 Chancery 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 noncash 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 Chancery 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.

**CENTRAL SERVICE OFFICES OF THE DIOCESE OF TYLER
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Assets (Continued)

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 statement 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. The Chancery has no permanently restricted net assets

Income Taxes

The Diocese (of which the Chancery is a component) is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code (IRC). The Diocese has been classified as an organization that is a public charity under the IRC and charitable contributions by the donors are tax deductible. The Chancery has no current obligation for unrelated business income tax or uncertain tax positions.

Functional Allocation of Expenses

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

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 Chancery. 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.

Subsequent Events

The Chancery has evaluated subsequent events through May 30, 2017, the date which the financial statements were available to be issued.

**CENTRAL SERVICE OFFICES OF THE DIOCESE OF TYLER
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 2 RESTATEMENTS AND CHANGE IN ACCOUNTING PRINCIPLE

Change in Accounting Principle

For the year ended December 31, 2016, the Chancery elected to no longer present the priests' defined benefit post retirement plan as a part of these financial statements. The change is preferable as the Plan also provides benefits to priests that are not employed by the Chancery and is funded by the Diocese as a whole. As such, the plan functions similar to a multi-employer plan. As a result, the deferred liability for the underfunded portion of the plan was removed from the statement of financial position. The cumulative effect of the change was recognized in unrestricted net assets as of January 1, 2016, as an increase of \$5,239,419.

Prior Period Restatements

The Chancery receives contributions from donors designated for specific purposes. Historically, these were recorded as payables rather than as temporarily restricted revenue in the year they were received. During 2016, the Chancery determined that these payables are more accurately temporarily restricted net assets and restated temporarily restricted net assets as of January 1, 2016, reflecting an increase of \$975,528.

The Chancery receives registration fees for events that have been recorded in revenue. During 2016, it was determined that some of the fees collected during the prior year were for an event that did not occur until August 2016. Accordingly, these fees should not be recorded as revenue until the event occurs and unrestricted net assets at January 1, 2016 have been corrected. The effect of the correction was to decrease beginning unrestricted net assets and increase the current year change in unrestricted net assets by \$83,248.

The Diocese holds one insurance policy for all entities organized under the Bishop of Tyler. They receive premiums from the other entities which have historically been recorded as payables for future claims expense. During 2016, the Chancery determined that these funds were more appropriately classified as board designated net assets. The effect of the correction was to increase unrestricted net assets at January 1, 2016 by \$724,106.

**CENTRAL SERVICE OFFICES OF THE DIOCESE OF TYLER
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 2 RESTATEMENTS AND CHANGE IN ACCOUNTING PRINCIPLE (CONTINUED)

The table below presents the individual changes for the change in accounting principle and to restate net assets at January 1, 2016:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Net Assets - Beginning of Year, as Previously Stated	\$ 269,668	\$ 87,849	\$ 357,517
Change in Accounting Policy:			
Remove Priest Pension Plan Obligation	5,239,419	-	5,239,419
Restatement by Fund:			
Contributions for Winfield	-	3,784	3,784
Bishop's Charity Fund	-	50,796	50,796
Operation Rice Bowl Retainage	-	30,579	30,579
Catholic Communications Retainage	-	15,755	15,755
Campaign for Human Dev Retainage	-	6,452	6,452
Contributions for Retired Diocesan Priests	-	19,376	19,376
Contributions for Seminarians	-	726,379	726,379
Contributions for Schools	-	41,585	41,585
Contributions for Christmas Collection	-	27,252	27,252
Contributions for Infirm Priests	-	53,570	53,570
Insurance Program Premiums	758,200	-	758,200
Insurance Claims	(34,094)	-	(34,094)
Registration Fees	(83,248)	-	(83,248)
Total Restatement	<u>640,858</u>	<u>975,528</u>	<u>1,616,386</u>
Total Change in Accounting Policy and Restatement	<u>5,880,277</u>	<u>975,528</u>	<u>6,855,805</u>
 Net Assets - Beginning of Year, as Restated	 <u>\$ 6,149,945</u>	 <u>\$ 1,063,377</u>	 <u>\$ 7,213,322</u>

NOTE 3 INVESTMENTS

The Chancery's investment portfolio at December 31, 2016 is as follows:

Equity Securities	\$ 2,888,850
Mutual Funds	566,388
Government Securities	574,596
Alternative Investments	44,992
Total	<u>\$ 4,074,826</u>

CENTRAL SERVICE OFFICES OF THE DIOCESE OF TYLER
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 3 INVESTMENTS (CONTINUED)

Summary investment return information for the year ended December 31 is as follows:

Investment Income	\$ 107,187
Net Realized and Unrealized Gains on Investments	99,259
Equity in Catholic Umbrella Pool II	-
Total Investment Income	<u>\$ 206,446</u>

NOTE 4 FAIR VALUE MEASUREMENTS

The Chancery categorizes its investments measured at fair value into a three-level hierarchy based on the priority of the inputs to the valuation technique used to determine fair value. The fair value hierarchy gives the highest priority to quotes prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used in the determination of the fair value measurement fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement. Investments valued at fair value are categorized based on the inputs to the valuation techniques as follows:

Level 1 – Inputs that utilized quoted prices (unadjusted) in active markets for identical assets or liabilities that an entity has the ability to access.

Level 2 – Inputs that included quoted prices of similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Fair values for these instruments are estimated using pricing models, quotes prices of securities with similar characteristics, or discounted cash flows.

Level 3 – Inputs that are unobservable for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

The Chancery has adopted the standard on disclosures for investments in certain entities that calculate net asset value (NAV) per share or its equivalent which removes those investments that calculate NAV per share from the fair value disclosure

**CENTRAL SERVICE OFFICES OF THE DIOCESE OF TYLER
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 4 FAIR VALUE MEASUREMENTS (CONTINUED)

The following table presents the fair value hierarchy for investments measured at fair value on a recurring basis as of December 31, 2016:

	Level 1	Level 2	Level 3	Total
Equity Securities	\$ 2,888,850	\$ -	\$ -	\$ 2,888,850
Mutual Funds	566,388	-	-	566,388
Government Securities	-	574,596	-	574,596
	<u>\$ 3,455,238</u>	<u>\$ 574,596</u>	<u>\$ -</u>	<u>4,029,834</u>
Funds Valued at NAV				44,992
Total Investments				<u>\$ 4,074,826</u>

Investments in entities that calculate NAV per share (or its equivalent) as of December 31, 2016:

	Net Asset Value	Unfunded Commitment	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
PMF TEI Fund, LP	\$ 44,992	\$ -	N/A	N/A

PMI TEI Fund, LP (the Fund) was initially purchased in April 2014. The Fund is a limited partnership whose primary investment objective is to preserve value and to hold self-liquidating private equity and other similar illiquid interests in investment funds and oversee the liquidation of other investment funds.

NOTE 5 RISK MANAGEMENT

Health Care Coverage

For the year ended December 31, 2016, the Chancery 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 Chancery maintains no equity position in CEBG at December 31, 2016.

Catholic Umbrella Pool II

The Chancery provides liability insurance coverage for the Dioceses, including 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 insured general liability claims up to \$3.5 million.

The Chancery had an equity balance in the Pool of \$-0- at December 31, 2016.

**CENTRAL SERVICE OFFICES OF THE DIOCESE OF TYLER
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 6 RELATED PARTY TRANSACTIONS

Loans Receivable

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, 2016, the loans receivable outstanding totaled \$26,920. The Chancery generally charges an interest rate of 7% on general parish loans and 8% on auto loans. Interest received was \$1,572 for the year ended December 31, 2016. Management considers these receivables to be non-current assets.

Diocesan Assessments

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

<u>Semi-Annual Net Income</u>	<u>2016 Rates</u>
Under \$50,000	7.5%
\$50,001 to \$100,000	8.50%
\$100,001 to \$200,000	9.50%
\$200,001 to \$500,000	10.50%
\$500,001 and Up	11.50%

Funds Held for Others

At December 31, 2016, the funds held for others relates to collected and/or managed by the Chancery for various Diocesan and national Catholic organizations.

NOTE 7 LAND, PROPERTY, AND EQUIPMENT

The composition of land, property, and equipment at December 31, 2016 is as follows:

Land	\$ 584,256
Buildings and Improvements	1,151,475
Leasehold Improvements	1,021,591
Furniture and Equipment	679,413
Vehicles	144,241
Total	<u>3,580,976</u>
Less: Accumulated Depreciation	(1,532,526)
Total	<u><u>\$ 2,048,450</u></u>

**CENTRAL SERVICE OFFICES OF THE DIOCESE OF TYLER
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 8 PROGRAM SERVICES AND SUPPORTING ACTIVITIES

Expenses for program services and supporting activities are summarized below:

Program Services	\$ 4,443,006
Management and General	734,708
Fundraising	361,480
Total	<u>\$ 5,539,194</u>

NOTE 9 TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

Infirm Priest Fund	\$ 91,222
Deacon's Aid Fund	7,142
Winfield	3,784
Bishop's Charity Fund	8,966
Development for Campus Ministry	4,672
Spanish Marriage Encounter	2,262
Seminarians	758,486
Schools	55,848
Retired Diocesan Priests	46,531
Rice Bowl	20,131
Communication	24,050
Campaign for Human Development	8,203
Christmas Collection	34,610
Prison Ministry	1,000
Total	<u>\$ 1,066,907</u>

NOTE 10 BISHOP'S ANNUAL APPEAL (BAA)

The Chancery commences the BAA fundraising campaign each spring and collects pledges until the next appeal begins. The pledges are included in unrestricted contributions on the statement of activities. The results of the 2016 appeal is summarized as follows:

Amounts Pledged	\$ 2,808,373
Pledge Payments Received	\$ 2,577,468
Percentage of Pledges Paid	92%

CENTRAL SERVICE OFFICES OF THE DIOCESE OF TYLER
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 11 POST RETIREMENT EMPLOYEE BENEFITS

The Diocese provides health care coverage for all of its diocesan priests after retirement through its health care program. The coverage provided is secondary to the priest's Medicare coverage. The Chancery pays the monthly premiums for these retired priests. The premiums totaled \$54,432 for the year ended December 31, 2016. Lay employees are not provided any post retirement health coverage or life insurance benefits. The Chancery also provides reduced life insurance benefits to the retired priests.

NOTE 12 PENSION PLANS

Defined Benefit Plan

The Chancery contributes to a noncontributory defined benefit pension plan which covers substantially all Diocesan clergy serving within the Chancery and in the various parishes. The Chancery is responsible for funding the priests working at the Chancery and parish priests in transition between parishes. For the purposes of the financial statements, the pension plan is considered to be a multi-employer plan as defined under FASB AS 715-20, *Defined Benefit Plans*, since the financial activity of parishes and other entities within the Diocese, which contribute to these plans, are not included in these financial statements. The Chancery contributed \$74,698 to the defined benefit plan in 2016.

Tax Deferred Annuity Plan

Lay Plan – The Diocese provides a tax deferred annuity plan available to lay employees of the Diocese including the Chancery as well as those of parishes, schools, and other affiliated entities. This plan is organized under Section 403(b)(3) of the IRC. Lay employees must be 21 years or older and work full-time 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 are 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 year ended December 31, 2016 was \$29,135.

NOTE 13 CONCENTRATION OF CREDIT AND MARKET RISK

Financial instruments that potentially expose the Chancery to concentrations of credit and market risk consist primarily of cash in banks and investments in securities. The Chancery maintained cash management accounts with a carrying value of \$1,806,615 at December 31, 2016. The cash management accounts are not covered by federal depository insurance. The Chancery's investments in securities (see Note 2) are not considered to represent significant concentrations of market risk because the portfolio is reasonably diversified among issuers.

**CENTRAL SERVICE OFFICES OF THE DIOCESE OF TYLER
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 14 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 \$2,665,987 December 31, 2016.

**CENTRAL SERVICE OFFICES OF THE DIOCESE OF TYLER
(COMPONENT OF THE CATHOLIC DIOCESE OF TYLER)
SUPPLEMENTAL SCHEDULE OF FINANCIAL POSITION BY FUND
DECEMBER 31, 2016**

	Operating Fund	Risk Management	Restricted Fund	Infirm Priest Fund	Plant Fund	Custodial Fund	Total
ASSETS							
Cash and Cash Equivalents	\$ 2,061,656	\$ 1,034,661	\$ 987,351	\$ 91,222	\$ (2,018,554)	\$ 138,420	\$ 2,294,756
Pledges, Accounts and Interest Receivable	82,961	-	-	-	-	-	82,961
Notes Receivable	26,920	-	-	-	-	-	26,920
Due from Diocesan Institutions	20,522	157,181	-	-	-	-	177,703
Prepaid Expenses	-	57,911	-	-	-	-	57,911
Investments	4,074,826	-	-	-	-	-	4,074,826
Land, Property, and Equipment	-	-	-	-	2,048,450	-	2,048,450
Total Assets	\$ 6,266,885	\$ 1,249,753	\$ 987,351	\$ 91,222	\$ 29,896	\$ 138,420	\$ 8,763,527
LIABILITIES AND NET ASSETS							
LIABILITIES							
Accounts Payable and Accrued Expenses	\$ 258,517	\$ 197,078	\$ 11,666	\$ -	\$ 8,716	\$ -	\$ 475,977
Deferred Revenue	5,280	-	-	-	-	-	5,280
Funds Held for Others	-	-	-	-	-	138,420	138,420
Total Liabilities	263,797	197,078	11,666	-	8,716	138,420	619,677
NET ASSETS							
Unrestricted	6,003,088	-	-	-	-	-	6,003,088
Designated for Insurance	-	1,052,675	-	-	-	-	1,052,675
Designated for Plant	-	-	-	-	21,180	-	21,181
Total Unrestricted	6,003,088	1,052,675	-	-	21,180	-	7,076,943
Temporarily Restricted	-	-	975,685	91,222	-	-	1,066,907
Total Net Assets	6,003,088	1,052,675	975,685	91,222	21,180	-	8,143,850
Total Liabilities and Net Assets	\$ 6,266,885	\$ 1,249,753	\$ 987,351	\$ 91,222	\$ 29,896	\$ 138,420	\$ 8,763,527

**CENTRAL SERVICE OFFICES OF THE DIOCESE OF TYLER
(COMPONENT OF THE CATHOLIC DIOCESE OF TYLER)
SUPPLEMENTAL SCHEDULE OF ACTIVITIES BY FUND
YEAR ENDED DECEMBER 31, 2016**

	<u>Operating Fund</u>	<u>Risk Management</u>	<u>Restricted Fund</u>	<u>Infirm Priest Fund</u>	<u>Plant Fund</u>	<u>Total</u>
REVENUE, GAINS, AND OTHER SUPPORT						
Parish Assessment	\$ 1,582,466	\$ -	\$ -	\$ -	\$ -	\$ 1,582,466
Annual Appeal	2,598,561	-	-	-	-	2,598,561
Contributions and bequests	56,037	4,347	408,871	37,651	21,435	528,341
Program Revenue:						
Teaching the Faith	322,189	-	-	-	-	322,189
Sanctifying the Faith	139,861	-	-	-	-	139,861
Living the Faith	26,723	-	-	-	-	26,723
Administering the Faith	269,154	-	-	-	-	269,154
Risk/Property Management	-	797,965	-	-	-	797,965
Investment Income	206,446	-	-	-	-	206,446
Loss on Disposal of Assets	(1,984)	-	-	-	-	(1,984)
Transfers	398,148	50,292	-	-	338,117	786,557
Total Revenue, Gains, and Other Support	<u>5,597,601</u>	<u>852,604</u>	<u>408,871</u>	<u>37,651</u>	<u>359,552</u>	<u>7,256,279</u>
EXPENSES						
Program Expenses:						
Teaching the Faith	1,122,932	-	16,841	-	-	1,139,773
Sanctifying the Faith	794,113	-	-	-	-	794,113
Living the Faith	592,912	-	2,400	-	-	595,312
Administering the Faith	2,140,062	-	25,603	-	-	2,165,665
Risk and Property Management	-	523,100	-	-	300,734	823,834
Investment Expenses	20,497	-	-	-	-	20,497
Transfers	349,836	935	398,148	-	37,638	786,557
Total Expenses	<u>5,020,352</u>	<u>524,035</u>	<u>442,992</u>	<u>-</u>	<u>338,372</u>	<u>6,325,751</u>
Change in Unrestricted Net Assets	577,249	328,569	-	-	21,180	926,998
Change in Temporarily Restricted Net Assets	-	-	(34,121)	37,651	-	3,530
Net Assets - Beginning of Year, as Restated	<u>5,425,839</u>	<u>724,106</u>	<u>1,009,806</u>	<u>53,571</u>	<u>-</u>	<u>7,213,322</u>
NET ASSETS - END OF YEAR	<u><u>\$ 6,003,088</u></u>	<u><u>\$ 1,052,675</u></u>	<u><u>\$ 975,685</u></u>	<u><u>\$ 91,222</u></u>	<u><u>\$ 21,180</u></u>	<u><u>\$ 8,143,850</u></u>