



**RSM McGladrey Network**  
An Independently Owned Member

**Lockart, Atchley & Associates, L.L.P.**  
CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS ADVISORS

James E. Lockart, CPA  
Karen E. Atchley, CPA  
Nancy E. Boyd, CPA  
Dan A. Shaner, CPA  
Evonne G. Jones, CPA  
Joyce J. Smith, CPA  
Harold F. Ingersoll, CPA  
Ronny Armstrong, CPA

The document contained in this electronic file was originally transmitted by Lockart, Atchley & Associates, L.L.P. (LAA). We certify its accuracy only as long as you have received this file DIRECTLY from LAA. Please be aware that if you have received this document from a party other than LAA, it is possible that it may have been modified from its original form and content. If there are any concerns as to its accuracy, please contact us and we will be happy to verify its authenticity if you are an authorized user of the information.

Lockart, Atchley & Associates, L.L.P.

**CENTRAL ADMINISTRATIVE OFFICE  
OF THE DIOCESE OF AUSTIN**

**Financial Statements with  
Supplementary Information**

**June 30, 2008 and 2007**  
(With Independent Auditors' Report)

**CENTRAL ADMINISTRATIVE OFFICE  
OF THE DIOCESE OF AUSTIN**

C O N T E N T S

	<u>Page</u>
Independent Auditors' Report	1
Financial Statements	
Statements of Financial Position	2
Statement of Activities	
Year Ended June 30, 2008	3
Year Ended June 30, 2007	4
Statements of Cash Flows	5
Notes to Financial Statements	6
Supplementary Information (Unaudited)	
Summary Financial Information for Parishes and Missions in the Austin Diocese (exclusive of the Central Administrative Office)	20



**RSM McGladrey Network**  
An Independently Owned Member

**Lockart, Atchley & Associates, L.L.P.**  
CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS ADVISORS

James E. Lockart, CPA  
Karen E. Atchley, CPA  
Nancy E. Boyd, CPA  
Dan A. Shaner, CPA  
Evonne G. Jones, CPA  
Joyce J. Smith, CPA  
Harold F. Ingersoll, CPA  
Ronny Armstrong, CPA

**Independent Auditors' Report**

The Most Reverend Gregory Aymond and Finance Council  
Diocese of Austin:

We have audited the accompanying statements of financial position of the Central Administrative Office of the Diocese of Austin (the Diocese) as of June 30, 2008 and 2007, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Diocese's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Central Administrative Office of the Diocese of Austin as of June 30, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The supplementary information included in page 20 is presented for purposes of additional analysis and is not a required part of these financial statements. Such information has not been subjected to the procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

*Lockart, Atchley & Associates, L.L.P.*

December 1, 2008  
Austin, Texas

**CENTRAL ADMINISTRATIVE OFFICE OF THE DIOCESE OF AUSTIN**

Statements of Financial Position

June 30, 2008 and 2007

	2008	2007
<b>Assets</b>		
Cash and cash equivalents, primarily interest-bearing	\$ 8,823,012	\$ 7,364,577
Pledges receivable	26,941,714	32,767,047
Receivables from parishes and schools:		
Cathedraticum (net of allowance of \$200,000 in 2008 & 2007)	1,094,566	935,378
Insurance programs	862,899	511,588
Interest from DIAL notes	209,439	180,201
Other receivables	228,358	324,300
Prepaid expenses	132,950	98,100
Investments		
Unrestricted	35,382,681	28,358,730
Restricted by bond covenants	22,964,149	30,527,781
DIAL notes receivable	63,250,580	62,458,950
Land, building, and equipment, net	19,569,122	13,553,932
Bond issuance costs, net	2,482,391	2,586,944
	<hr/>	<hr/>
Total Assets	\$ 181,941,861	\$ 179,667,528
	<hr/> <hr/>	<hr/> <hr/>
<b>Liabilities and Net Assets</b>		
Accounts payable and accrued expenses	\$ 2,281,975	\$ 2,340,058
Collections held for transmittal	745,635	488,355
Pledges payable	2,657,414	-
Deferred revenue	193,735	15,565
DIAL deposits	20,525,004	14,065,550
Self-insurance reserve	1,532,325	1,832,420
Line of credit payable	-	4,079,438
Bonds payable		
Current portion	800,000	800,000
Long term portion	76,900,000	77,700,000
	<hr/>	<hr/>
Total liabilities	105,636,088	101,321,386
	<hr/>	<hr/>
Net assets:		
Unrestricted	41,780,067	40,843,247
Temporarily restricted	34,504,151	37,481,770
Permanently restricted	21,555	21,125
	<hr/>	<hr/>
Total net assets	76,305,773	78,346,142
	<hr/>	<hr/>
Commitments and contingencies	-	-
	<hr/>	<hr/>
Total Liabilities and Net Assets	\$ 181,941,861	\$ 179,667,528
	<hr/> <hr/>	<hr/> <hr/>

See accompanying notes to financial statements.

**CENTRAL ADMINISTRATIVE OFFICE OF THE DIOCESE OF AUSTIN**

Statement of Activities  
Year Ended June 30, 2008

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Revenues, gains, and other support:				
Catholic Services Appeal	\$ 3,376,635	\$ -	\$ -	\$ 3,376,635
Cathedraticum assessments	4,623,573	-	-	4,623,573
Contributions and bequests	159,987	644,773	430	805,190
Special collections	-	520,822	-	520,822
Interest income from notes receivable	3,804,718	-	-	3,804,718
Investment income	389,903	(44,418)	-	345,485
Insurance premiums	8,669,300	-	-	8,669,300
Program service fees	682,029	-	-	682,029
Catholic Spirit	390,477	-	-	390,477
Retreat center	371,218	-	-	371,218
Other	501,252	-	-	501,252
	<hr/>	<hr/>	<hr/>	<hr/>
Total revenues, gains, and other support	22,969,092	1,121,177	430	24,090,699
Net assets released from restrictions	4,098,796	(4,098,796)	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total revenues and release of restrictions	27,067,888	(2,977,619)	430	24,090,699
	<hr/>	<hr/>	<hr/>	<hr/>
Expenses and losses:				
Program services				
Pastoral services	3,410,068	-	-	3,410,068
Formation and religious education	2,659,015	-	-	2,659,015
Catholic schools	1,036,904	-	-	1,036,904
Social services	531,106	-	-	531,106
Religious personnel care and development	1,422,045	-	-	1,422,045
Catholic Charities	545,610	-	-	545,610
Catholic Spirit	795,871	-	-	795,871
DIAL deposit interest	741,768	-	-	741,768
Supporting services				
Insurance program	6,586,162	-	-	6,586,162
Administration	1,045,201	-	-	1,045,201
Facilities and information technology	1,995,301	-	-	1,995,301
Fundraising	1,091,936	-	-	1,091,936
Interest on debt	4,270,081	-	-	4,270,081
	<hr/>	<hr/>	<hr/>	<hr/>
Total expenses and losses	26,131,068	-	-	26,131,068
	<hr/>	<hr/>	<hr/>	<hr/>
Change in net assets	936,820	(2,977,619)	430	(2,040,369)
	<hr/>	<hr/>	<hr/>	<hr/>
Net assets at beginning of year	40,843,247	37,481,770	21,125	78,346,142
	<hr/>	<hr/>	<hr/>	<hr/>
Net assets at end of year	\$ 41,780,067	\$ 34,504,151	\$ 21,555	\$ 76,305,773
	<hr/>	<hr/>	<hr/>	<hr/>

See accompanying notes to financial statements.

**CENTRAL ADMINISTRATIVE OFFICE OF THE DIOCESE OF AUSTIN**

Statement of Activities

Year Ended June 30, 2007

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Revenues, gains, and other support:				
Catholic Services Appeal	\$ 585,331	\$ -	\$ -	\$ 585,331
Cathedraticum assessments	4,436,060	-	-	4,436,060
Capital campaign contributions	-	32,786,702	-	32,786,702
Contributions and bequests	87,012	529,980	10,025	627,017
Special collections	-	326,469	-	326,469
Interest income from notes receivable	3,905,307	-	-	3,905,307
Investment income	4,795,051	165,799	-	4,960,850
Insurance premiums	8,273,997	-	-	8,273,997
Program service fees	605,014	-	-	605,014
Catholic Spirit	363,417	-	-	363,417
Retreat center	234,260	-	-	234,260
Other	136,418	-	-	136,418
	<hr/>	<hr/>	<hr/>	<hr/>
Total revenues, gains, and other support	23,421,867	33,808,950	10,025	57,240,842
Net assets released from restrictions	<hr/>	<hr/>	<hr/>	<hr/>
	10,813,642	(10,813,642)	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total revenues and release of restrictions	34,235,509	22,995,308	10,025	57,240,842
Expenses and losses:				
Program services				
Pastoral services	3,110,827	-	-	3,110,827
Formation and religious education	2,696,233	-	-	2,696,233
Catholic schools	854,114	-	-	854,114
Social services	460,929	-	-	460,929
Religious personnel care and development	1,176,389	-	-	1,176,389
Catholic Charities	435,800	-	-	435,800
Catholic Spirit	838,792	-	-	838,792
DIAL deposit interest	416,672	-	-	416,672
Supporting services				
Insurance program	5,921,986	-	-	5,921,986
Administration	988,974	-	-	988,974
Facilities and information technology	1,667,805	-	-	1,667,805
Fundraising	2,183,944	-	-	2,183,944
Interest on debt	4,783,620	-	-	4,783,620
Conveyance of land to parish	706,617	-	-	706,617
	<hr/>	<hr/>	<hr/>	<hr/>
Total expenses and losses	26,242,702	-	-	26,242,702
Change in net assets	<hr/>	<hr/>	<hr/>	<hr/>
	7,992,807	22,995,308	10,025	30,998,140
Net assets at beginning of year	<hr/>	<hr/>	<hr/>	<hr/>
	32,850,440	14,486,462	11,100	47,348,002
Net assets at end of year	<hr/>	<hr/>	<hr/>	<hr/>
	\$ 40,843,247	\$ 37,481,770	\$ 21,125	\$ 78,346,142

See accompanying notes to financial statements.

**CENTRAL ADMINISTRATIVE OFFICE OF THE DIOCESE OF AUSTIN**

Statements of Cash Flows  
Years Ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities and non-operating gains		
Change in net assets	\$ (2,040,369)	\$ 30,998,140
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation expense	814,596	609,511
Amortization of bond issuance costs	104,553	105,520
Provision for uncollectible pledges	7,021,215	6,317,793
Discount on pledges receivable	1,012,180	3,033,778
Net unrealized and realized gains on investments	2,038,247	(2,464,422)
Net gain on disposal of property and equipment	(155,873)	(4,922)
Conveyance of land to parish	-	706,617
Donation of automobiles to parish	-	27,565
Donated investment securities	(536,858)	(804,859)
Changes in assets and liabilities:		
Increase in Cathedraticum assessments	(159,188)	(100,536)
Increase in pledges receivable	(2,208,061)	(29,882,050)
Increase in insurance program receivable	(351,311)	(238,475)
Increase in interest receivable from DIAL note:	(36,000)	(3,097)
Decrease in other receivable:	102,707	198,193
(Increase) decrease in prepaid expenses	(34,850)	9,441
Increase (decrease) in collections held for transmitta	257,280	(242,936)
Increase (decrease) in accounts payable and accrued expense:	(58,083)	171,447
Increase (decrease) in deferred revenue	178,170	(64,860)
Increase in pledges payable	2,657,414	-
Decrease in self-insurance reserve	(300,095)	(187,915)
Net cash provided by operating activities	<u>8,305,674</u>	<u>8,183,933</u>
Cash from investing activities:		
Proceeds from sale and maturities of investment:	8,147,796	4,193,670
Redemption of restricted securities	8,661,120	3,542,452
Purchase of investments	(5,704,138)	(2,869,893)
Purchase of restricted investments	(1,097,488)	(1,202,988)
Issuance of DIAL notes	(6,830,425)	(14,179,114)
Principal payments received on DIAL notes	6,038,795	10,856,256
Net change in money market funds	(10,968,998)	(2,568,572)
Purchase of property and equipment	(7,048,198)	(2,105,376)
Proceeds from sale of property and equipment	374,281	11,500
Net cash provided by (used in) investing activities	<u>(8,427,255)</u>	<u>(4,322,065)</u>
Cash from financing activities:		
Proceeds from line of credit	5,500,000	5,150,000
Proceeds from (payments of) note payable	-	(750,000)
Principal payments on bonds	(800,000)	(700,000)
Principal payments on line of credit	(9,579,438)	(13,150,000)
Increase in DIAL deposits, net	6,459,454	9,934,914
Net cash provided by (used in) financing activities	<u>1,580,016</u>	<u>484,914</u>
Net increase in cash	1,458,435	4,346,782
Cash and cash equivalents at beginning of year	<u>7,364,577</u>	<u>3,017,795</u>
Cash and cash equivalents at end of year	<u>\$ 8,823,012</u>	<u>\$ 7,364,577</u>
Cash paid for interest	<u>\$ 4,150,255</u>	<u>\$ 4,647,022</u>

See accompanying notes to financial statements.

# CENTRAL ADMINISTRATIVE OFFICE OF THE DIOCESE OF AUSTIN

## Notes to Financial Statements

June 30, 2008 and 2007

### **Note A - Organization**

The accompanying financial statements are those of the Central Administrative Office (CAO) of the Diocese of Austin (Diocese). The CAO provides programs and services to parishes, schools and other Catholic organizations in Central Texas. These statements include the assets, liabilities, net assets, and financial activities of all institutions and organizations providing services at the diocesan level of administration which are fiscally responsible to the Bishop of the Diocese of Austin.

On October 8, 2007, the CAO was incorporated into a newly formed non-profit organization in the state of Texas, the Catholic Diocese of Austin. All parishes in the Diocese were also separately incorporated as non-profit organizations. The purpose of these filings establishing the non-profit organizations was to organize the CAO and parishes in the way the church views itself according to the Code of Canon Law.

A substantial portion of the Diocesan transactions are with affiliated parishes, schools and other Catholic organizations. The accompanying audited financial statements do not include the parishes, missions, schools and certain other Diocesan activities.

### **Note B - Summary of Significant Accounting Policies**

#### ***1. Method of Accounting***

The financial statements of the CAO of the Diocese are presented on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America applicable to nonprofit organizations.

#### ***2. Basis of Presentation***

The accompanying financial statements include the financial activities of departments and offices that comprise the CAO. All significant interoffice transactions have been eliminated.

The financial statements of the CAO of the Diocese are presented in accordance with the Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*, issued by the American Institute of Certified Public Accountants. The Diocese is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted. Accordingly, net assets and changes therein are classified and reported as follows:

*Unrestricted net assets*-- Includes net assets that are not subject to donor-imposed restrictions.

*Temporarily restricted net assets*-- Includes gifts and other amounts for which donor-imposed restrictions have not been met and pledges receivable for which the ultimate purpose of the proceeds is not permanently restricted.

*Permanently restricted net assets*-- Includes gifts and pledges that require, by donor restriction, that the corpus be invested in perpetuity and that only the income be made available for program operations in accordance with donor restrictions.

**CENTRAL ADMINISTRATIVE OFFICE OF THE DIOCESE OF AUSTIN**

Notes to Financial Statements

June 30, 2008 and 2007

**Note B - Summary of Significant Accounting Policies (Continued)**

**3. Significant Accounting Policies**

**(a) Cash and Cash Equivalents**

Cash and cash equivalents include cash in banks and time deposits with an initial maturity of less than 90 days. Money market funds are considered to be held for investment and are not included in cash and cash equivalents.

The Diocese maintains cash balances at several financial institutions. Generally, such cash and cash equivalents are in excess of insurance limits provided by the Federal Deposit Insurance Corporation and the Securities Investor Protection Corporation. At June 30, 2008 and 2007, the Diocese's uninsured cash balances were \$1,102,671 and \$1,414,188, respectively.

**(b) Cathedraticum Assessments**

Cathedraticum assessments are recorded on the accrual basis of accounting. On a calendar year basis, assessments are made by the Diocese on parishes at the rate of 9% of parish collections and other assessable revenue. The assessment on parishes who subsidize their own parish school is 8%. Management provides for probable uncollectible amounts through a provision for uncollectible accounts and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts.

**(c) Pledges Receivable**

Pledges receivable are from commitments to the Our Faith Our Legacy capital campaign and to the St. Dominic Savio Catholic High School capital campaign. The related pledges receivable are discounted at a risk-free rate. (See Notes C and G)

**(d) Investments**

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statements of financial position. Unrealized gains and losses are included in the statements of activities. Land held for investment and investments in closely held entities are valued at historical cost.

**(e) Land, Buildings, and Equipment**

Land, buildings, and equipment in excess of \$5,000 are recorded at cost. Donated properties are recorded at fair value at date of gift. Depreciation is provided over the estimated useful lives (5 to 30 years) using the straight-line method.

**(f) Deferred Revenue**

Registration and other fees received in advance for conferences and other events are recorded as deferred revenue until the conference or event is held.

**CENTRAL ADMINISTRATIVE OFFICE OF THE DIOCESE OF AUSTIN**

Notes to Financial Statements

June 30, 2008 and 2007

**Note B - Summary of Significant Accounting Policies (Continued)**

**(g) *Collections Held for Transmittal***

Parishes within the Diocese take up collections throughout the year for specific charities and organizations within and outside the Diocese. Such receipts are remitted to the CAO which classifies these funds as a liability until the funds are remitted to the appropriate organizations.

**(h) *Pledges Payable***

Pledges payable are pledges to the St. Dominic Savio Catholic High School capital campaign. (See Note G)

**(i) *Allowance for Claims***

The Diocese establishes insurance claim liabilities based on estimates of the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not settled, and of claims that have been incurred but not reported. The length of time for which such costs must be estimated varies depending on the coverage involved. Estimates of reinsurance amounts recoverable on unpaid claims are recorded as receivables. The amounts paid to ultimately settle these claims may be more or less than the amounts currently accrued.

**(j) *Catholic Services Appeal Collections***

Catholic Services Appeal (CSA) is an annual appeal to all Catholics in the Diocese to support various programs and ministries. CSA contributions are recorded as revenue when received.

**(k) *Functional Allocation of Expenses***

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

**(l) *Income Taxes***

The Diocese is exempt from Federal income tax under provisions of Section 501(c)(3) of the Internal Revenue Code. However, the Diocese is subject to tax under Section 511(a) to the extent it has unrelated business taxable income. The Diocese had no material unrelated business taxable income during fiscal years 2008 or 2007.

**(m) *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 and expenses during the reporting period. Actual results could differ from those estimates.

**CENTRAL ADMINISTRATIVE OFFICE OF THE DIOCESE OF AUSTIN**

Notes to Financial Statements

June 30, 2008 and 2007

**Note B - Summary of Significant Accounting Policies (Continued)**

*(n) Fair Value of Financial Instruments*

The deposits and loans in the DIAL program and amounts due from parishes are believed to be recorded at fair value. However, the transactions are with parishes and schools (related parties) and accordingly the fair value may differ from arms-length transactions between unrelated parties.

*(o) Reclassifications*

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

**Note C - Our Faith Our Legacy Capital Campaign**

As of June 30, 2007, the CAO completed the pledge phase of a capital and endowment campaign entitled, Our Faith Our Legacy (OFOL). The committed amounts will be used to establish endowments and provide funds for clergy formation, retired priests, and catholic education. OFOL funded the annual Catholic Services Appeal for the fiscal year ended June 30, 2007. The CAO retains approximately eighty percent of the contributions up to the goal and the remaining twenty percent is returned to the parish. If the parish exceeds the set goal, the CAO retains twenty percent of the additional contributions and the remaining eighty percent is returned to the parish. Pledges receivable do not include the parish share. The related contributions receivable are discounted at a risk-free rate of 2.52% and 5.14% at June 30, 2008 and 2007, respectively.

Pledges receivable at June 30 consist of the following:

	<u>2008</u>	<u>2007</u>
Pledges expected to be received in less than one year	\$ 9,589,659	\$ 8,955,531
Pledges expected to be received in one to five years	21,827,281	32,633,696
Pledges expected to be received after five years	438,410	529,391
Unamortized discount	(861,812)	(3,033,778)
Provision for uncollectible pledges receivable	(6,709,239)	(6,317,793)
Total pledges receivable, net	<u>\$ 24,284,299</u>	<u>\$ 32,767,047</u>

**CENTRAL ADMINISTRATIVE OFFICE OF THE DIOCESE OF AUSTIN**

Notes to Financial Statements

June 30, 2008 and 2007

**Note D - Investments**

Investments at June 30, 2008 and 2007, are summarized as follows:

	<u>2008</u>		<u>2007</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Unrestricted				
Marketable securities				
Money market funds	\$ 18,451,955	\$ 18,451,955	\$ 7,482,964	\$ 7,482,960
Corporate stocks	11,995,421	12,813,334	11,732,999	15,249,198
Corporate bonds	406,178	409,351	272,140	278,500
U.S. Government securities	1,954,689	2,171,249	3,457,052	3,528,942
U.S. Government agency securities	821,785	823,200	1,088,849	1,073,950
Annuity contracts	31,072	258,087	31,072	258,087
Mutual funds	294,542	282,744	272,532	312,519
Certificates of deposit	-	-	10,000	9,955
	<u>33,955,642</u>	<u>35,209,920</u>	<u>24,347,608</u>	<u>28,194,111</u>
Land held for investment, at cost	73,345	73,345	65,203	65,203
Investments in closely held entities, at cost	<u>99,416</u>	<u>99,416</u>	<u>99,416</u>	<u>99,416</u>
Total Unrestricted Investments	<u>34,128,403</u>	<u>35,382,681</u>	<u>24,512,227</u>	<u>28,358,730</u>
Restricted				
Money market funds	918	918	835	835
Money market fund (U.S. Government securities)	22,513,785	22,513,785	-	-
Guaranteed Investment Contract	<u>449,446</u>	<u>449,446</u>	<u>30,526,946</u>	<u>30,526,946</u>
Total Restricted Investments	<u>22,964,149</u>	<u>22,964,149</u>	<u>30,527,781</u>	<u>30,527,781</u>
Total Investments	<u>\$ 57,092,552</u>	<u>\$ 58,346,830</u>	<u>\$ 55,040,008</u>	<u>\$ 58,886,511</u>

Investment income for the years ended June 30, 2008 and 2007, is comprised of the following:

	<u>2008</u>	<u>2007</u>
Interest and dividend income	\$ 2,383,732	\$ 2,496,428
Unrealized and realized gains (losses)	<u>(2,038,247)</u>	<u>2,464,422</u>
	<u>\$ 345,485</u>	<u>\$ 4,960,850</u>

**CENTRAL ADMINISTRATIVE OFFICE OF THE DIOCESE OF AUSTIN**

Notes to Financial Statements

June 30, 2008 and 2007

**Note D - Investments (Continued)**

Restricted investments were received from the issuance of the Series 2005 Bonds for the future construction of various capital projects (including capitalized interest) (See Note I). Management expects these funds to be used over the next two years for qualified capital projects and are restricted solely for this purpose.

**Note E - DIAL Program**

The Diocesan Investment and Loan Program (DIAL) was established by the Diocese to provide parishes and schools with a source for low-cost funding for capital improvements and major renovations along with market rates of return for deposits and investments. Each parish and school is encouraged to deposit amounts in excess of those required for operations into the DIAL program. The program was established by the Bishop with the advice and counsel of the Diocesan Finance Council and is administered by the Chief Financial Officer of the Diocese. The program was established in 2005.

DIAL deposits may be invested by parishes on a short-term basis (one year or less) or a long-term basis (greater than one year). The interest rate on short term deposits is changed monthly based on market conditions and the interest rate on long-term deposits is variable (prime - 2.0%). Interest rates for deposits for the years ended June 30, 2008 and 2007 ranged from:

	<u>2008</u>	<u>2007</u>
Short-term deposits	2.60% - 5.00%	4.75% - 5.00%
Long-term deposits	3.00% - 6.25%	6.25%

Interest rates for DIAL notes receivable are variable (generally expected to be received within 5 years) or fixed (generally expected to be received over a term longer than 5 years). The variable rate is floating at prime - 1.25% and fixed rates are set monthly based on the term of the note and prevailing market conditions.

Notes receivable are generally established with a maximum term of fifteen years. Shown below are the interest rates for the notes receivable portfolio at June 30, 2008 and 2007:

<u>Rate</u>	<u>2008</u>	<u>2007</u>
3.75%	\$ 8,812,253	\$ -
5.83%-6.03%	4,445,867	4,942,785
6.14%	19,446,890	21,255,302
6.21%	15,961,240	16,466,292
6.25%-6.44%	3,557,286	3,997,705
6.51%-7.00%	9,893,063	15,003,381
Other	1,133,981	793,485
<b>Total</b>	<u><u>\$ 63,250,580</u></u>	<u><u>\$ 62,458,950</u></u>

**CENTRAL ADMINISTRATIVE OFFICE OF THE DIOCESE OF AUSTIN**

Notes to Financial Statements

June 30, 2008 and 2007

**Note E - DIAL Program (Continued)**

Notes receivable mature as follows:

Year Ending June 30	
2009	\$ 3,216,485
2010	3,109,255
2011	3,146,503
2012	3,183,702
2013	3,303,077
Thereafter	<u>47,291,558</u>
<b>Total</b>	<b><u>\$ 63,250,580</u></b>

**Note F - Land, Buildings, and Equipment**

Land, buildings, and equipment consist of the following at June 30, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Chancery operating land, buildings, and improvements	\$ 15,111,673	\$ 8,407,483
John Paul II Residence for Priests	4,582,386	4,581,577
Retreat center land, buildings, and equipment	3,089,947	3,084,006
Chancery equipment and furnishings	1,214,602	1,214,602
Other office equipment and furnishings	242,913	233,160
Land held for future parish and school sites	<u>1,538,621</u>	<u>1,538,621</u>
Total land, buildings and equipment	25,780,142	19,059,449
Less: accumulated depreciation	<u>6,211,020</u>	<u>5,505,517</u>
Land, buildings, and equipment, net of depreciation	<u>\$ 19,569,122</u>	<u>\$ 13,553,932</u>

**Note G - St. Dominic Savio Catholic High School Capital Campaign**

During the fiscal year ended June 30, 2008, the CAO began a capital and endowment campaign for a new high school in Austin, St. Dominic Savio Catholic High School. The goal of the campaign is \$15 million to build Phase I of the project, establish endowments and fund operating expenses in the early years. Facilities will be constructed in three phases. The first phase will contain 78,648 square feet and thirteen classrooms, a gymnasium, a band and choral suite, science labs, library, art studio and leveled athletic fields.

**CENTRAL ADMINISTRATIVE OFFICE OF THE DIOCESE OF AUSTIN**

Notes to Financial Statements

June 30, 2008 and 2007

**Note G - St. Dominic Savio Catholic High School Capital Campaign (Continued)**

Pledges receivable at June 30 consist of the following:

	<u>2008</u>	<u>2007</u>
Pledges expected to be received in less than one year	\$ 549,631	\$ -
Pledges expected to be received in one to five years	2,419,228	-
Pledges expected to be received after five years	150,900	-
Unamortized discount	(150,368)	-
Provision for uncollectible pledges receivable	<u>(311,976)</u>	<u>-</u>
 Total pledges receivable, net	 <u>\$ 2,657,415</u>	 <u>\$ -</u>

An offsetting liability (pledges payable) has been recorded as all amounts received from the capital campaign will be given to St. Dominic Savio Catholic High School for the uses stated above.

**Note H - Restricted Net Assets**

Contributions that are restricted by the donor are recognized as temporarily or permanently restricted revenues (See Note B). Temporary donor restrictions are released when the purpose set forth by the donor has been substantially achieved, generally by incurring expenses related to the stated purpose.

Temporarily restricted net assets at June 30, 2008 and 2007, respectively, include:

	<u>2008</u>	<u>2007</u>
Our Faith Our Legacy Capital Campaign (See Note C)	\$ 32,865,705	\$ 35,733,611
Sacred Heart Catholic School Fund	999,339	1,112,430
McCarthy Memorial Fund	207,064	207,064
Masters of Theology program	185,685	194,911
Missions	120,693	128,966
Pro-Life Activities	31,238	46,685
Other	<u>94,427</u>	<u>58,103</u>
	<u>\$ 34,504,151</u>	<u>\$ 37,481,770</u>

Permanently restricted net assets at June 30, 2008 and 2007, respectively, include:

	<u>2008</u>	<u>2007</u>
Seminary Endowment	<u>\$ 21,555</u>	<u>\$ 21,125</u>

**CENTRAL ADMINISTRATIVE OFFICE OF THE DIOCESE OF AUSTIN**

Notes to Financial Statements

June 30, 2008 and 2007

**Note H - Restricted Net Assets (Continued)**

Net assets were released from donor restrictions by incurring expenses satisfying the purpose restrictions specified by donors as follows:

	<b>Year Ended June 30,</b>	
	<b>2008</b>	<b>2007</b>
Sacred Heart Catholic School Fund	\$ 68,673	\$ 11,731
Missions	126,955	69,253
Masters of Theology program	64,027	65,966
Seminarians	397,732	447,751
Retired Priests	159,652	110,067
Pro-Life programs	99,712	45,269
Child and family services	70,827	-
Our Faith Our Legacy Capital Campaign		
Retired Priests	-	2,927,003
Catholic Education and Formation	151,370	76,941
Direct Costs	240,536	1,768,273
Catholic Services Appeal	408,000	4,000,000
Future Schools Construction	1,574,082	279,976
Discernment Houses	393,191	879,032
Other Donor Specified Causes	100,728	-
Others	243,311	132,380
	<u>\$ 4,098,796</u>	<u>\$ 10,813,642</u>

**CENTRAL ADMINISTRATIVE OFFICE OF THE DIOCESE OF AUSTIN**

Notes to Financial Statements

June 30, 2008 and 2007

**Note I - Long Term Debt**

In April 2005, the Capital Area Cultural Education Facilities Finance Corporation issued \$79,800,000 in aggregate principal amount of Variable Rate Revenue Bonds, Series 2005, (Series 2005 Bonds) pursuant to a Trust Indenture and Security Agreement with Wells Fargo Bank, Trustee and the Most Reverend Gregory M. Aymond, in his capacity as Bishop for the Diocese of Austin. The Series 2005 Bonds are an unsecured general obligation and are not secured by any revenues or a mortgage on any real property. The proceeds of the Series 2005 Bonds were used for the purpose of funding various capital projects (including capitalized interest), refinancing certain indebtedness of parishes and schools which was guaranteed by the Diocese and reimbursing the Diocese for certain qualified expenditures. The Series 2005 Bonds mature on April 1, 2045. The sources and uses of proceeds of the Series 2005 Bonds follows:

Sources of Funds:

Par amount of Series 2005 Bonds	<u>\$ 79,800,000</u>
---------------------------------	----------------------

Uses of Funds:

Project Fund for Future Construction	\$ 35,860,901
Refinance Parish Debt	32,008,611
Capitalized Interest Funds	3,990,000
Capitalized Costs and other fees	2,882,010
Reimbursement of qualified expenditures	<u>5,058,478</u>
	<u>\$ 79,800,000</u>

The Series 2005 Bonds are secured through an irrevocable, direct pay letter of credit with Wachovia Bank LLC (Wachovia). The amount of the letter of credit totals \$79,130,532. This total includes the principal amount of the bonds (\$77,700,000) and interest of \$1,430,532 calculated at 56 days at an assumed per annum rate of 12% and a 365 day year. The term of the letter of credit expires on April 12, 2010, and is subject to extension of up to 365 days per request. Under the terms of a Letter of Credit and Reimbursement Agreement with Wachovia, the Diocese must maintain certain debt covenants. The Diocese was in compliance with all covenants at June 30, 2008 and 2007.

Concurrently with the issuance of the Series 2005 Bonds, the Diocese entered into two interest rate exchange agreements (SWAP's) as a strategy for managing interest rate risk associated with the Series 2005 Bonds with Wachovia and Goldman Sachs Capital Markets. Under the terms of the SWAP agreements that seek to effectively fix the variable rates associated with the Series 2005 Bonds, the Diocese pays a fixed interest rate of 4.097% and receives a variable interest rate of 68% of the London Interbank Offer Rate (LIBOR). One of the interest rate exchange agreements is secured with a letter of credit in the amount of \$3,000,000. The Diocese may terminate or cancel the remainder of the SWAP on or after April 1, 2010, without the payment of any termination amount.

**CENTRAL ADMINISTRATIVE OFFICE OF THE DIOCESE OF AUSTIN**

Notes to Financial Statements

June 30, 2008 and 2007

**Note I - Long Term Debt (Continued)**

The fair value of the SWAP agreements is the estimated amount that the Diocese would have received or (paid), including accrued interest, to terminate the agreements on June 30, taking into account the creditworthiness of the underlying counterparties. The SWAP may be held for the life of the Series 2005 Bonds and may reflect significant unrealized gains and losses depending on the change in value since the inception of the contracts.

The notional and fair value of the SWAP agreements was \$77,700,000 and (\$1,380,925) respectively, as of June 30, 2008. The fair value adjustment for the SWAP is unrealized and not reflected or recorded in the financial statements of the Diocese. The (gain) loss realized from the monthly settling of these agreements was (\$4,885) and \$26,991 for the years ending June 30, 2008 and 2007, respectively, and is recorded as a component of interest expense.

Concurrently with the issuance of the Series 2005 Bonds, the Diocese entered into a Revolving Line of Credit Agreement with Wachovia in the amount of \$26.5 million. The Diocese directed Wachovia to reduce the line of credit to \$20,000,000 in April 2007. Amounts drawn under this line of credit were used to refinance certain indebtedness of parishes and schools which was guaranteed by the Diocese. On June 30, 2008 and 2007, the amount outstanding under the line of credit was \$0 and \$4,079,438, respectively. The interest rate on the line of credit is a floating rate of LIBOR plus .75%.

Principal payments for the Series 2005 Bonds due over the next five years are as follows:

Year Ending June 30	
2009	\$ 800,000
2010	800,000
2011	900,000
2012	900,000
2013	1,000,000
Thereafter	<u>73,300,000</u>
Total	<u>\$ 77,700,000</u>

**Note J - Insurance**

The Diocese administers a partially self-insured program for property, auto, liability and worker's compensation for parishes and schools in the Diocese. The program is funded by premiums charged by the Diocese to the parishes and schools. The Diocese pays the initial \$175,000 for all claims except misconduct claims, for which the Diocese pays the initial \$250,000 per occurrence. Claims in excess of these limits are insured with insurance carriers. The insured values of the buildings, improvements and contents in the program totaled approximately \$444,000,000 (unaudited) and \$423,000,000 (unaudited) at June 30, 2008 and 2007, respectively.

## CENTRAL ADMINISTRATIVE OFFICE OF THE DIOCESE OF AUSTIN

### Notes to Financial Statements

June 30, 2008 and 2007

#### **Note J - Insurance (Continued)**

The Diocese also administers a partially self-insured program for health care covering all eligible priests and lay employees at parishes, schools and the CAO. The program is funded by premiums charged by the Diocese to parishes and schools. The Diocese pays the initial \$125,000 of claims per employee per year to a maximum aggregate of 125% of expected claims, which vary based on enrollment. Amounts in excess of this aggregate are insured with a general insurance carrier. Health care claims totaled \$4,617,170 and \$4,321,569, net of individual stop loss reimbursements of \$59,091 and \$75,237, during the years ended June 30, 2008 and 2007, respectively.

A contingent liability exists which would become a liability of the Diocese and the participating parishes in the event that the reinsurers are unable to meet the obligations assumed under reinsurance agreements.

#### **Note K - Pension Plan and Post-Retirement Benefits**

The Diocese contributes to a noncontributory, pension plan which covers substantially all Diocesan clergy in the CAO of the Diocese and in the various parishes. The Diocese is responsible only for the Chancery priests and for parish priests in transition between parishes.

The Diocese also provides certain health care and life insurance benefits for substantially all retired Diocesan clergy. The premium costs of providing those benefits are funded primarily by special parishioner collections and operating revenues of the CAO. Costs incurred by the Diocese for post-retirement benefits were approximately \$382,500 and \$337,933 for the years ended June 30, 2008 and 2007, respectively.

The Diocese sponsors a tax deferred defined contribution plan for all lay employees of the CAO. All lay employees are eligible to participate in the plan. Contributions by employees may be from zero to fifteen percent of annual compensation, while the Diocese contributes 6% of salary per employee per year and a dollar-for-dollar match of employee contributions up to 4% of salary. Contributions by the Diocese were \$202,807 and \$213,905, for the years ended June 30, 2008 and 2007, respectively.

#### **Note L - Related Party Transactions**

The parishes in the Diocese pay cathedraticum to provide for the operating budget of the CAO. Service fees are charged to parishes and schools for insurance and health care programs which are centrally administered by the CAO for the benefit of the entire Diocese. The CAO also administers the DIAL program for the benefit of the entire Diocese. All of these transactions are separately disclosed in the financial statements and notes thereto.

#### **Note M - Commitments and Contingencies**

The Bishop of the Diocese of Austin is cosigner or guarantor of loans to the Diocese's parishes and the other affiliated entities which aggregated approximately \$11,378,576 and \$13,839,338 at June 30, 2008 and 2007, respectively. Additionally, the Diocese has pledged property with a book value of \$4,927,796 at June 30, 2008 (which approximates market value, management believes) to secure an outstanding loan to a bank by one of its affiliated entities.

## CENTRAL ADMINISTRATIVE OFFICE OF THE DIOCESE OF AUSTIN

### Notes to Financial Statements

June 30, 2008 and 2007

#### **Note M - Commitments and Contingencies (Continued)**

The Diocese has open letters of credit in the amount of \$772,270 and \$597,270 for workers' compensation insurance at June 30, 2008 and 2007, respectively. See also Note I for letters of credit related to the Series 2005 Bonds.

The Diocese is subject to various commitments and contingent liabilities, including general litigation arising in the ordinary course of its activities. Various lawsuits and claims are pending against the Diocese, the majority of which are subject to coverage under the Diocese's insurance programs. Where applicable, reserves have been established for those cases where the potential liability is estimable and probable. Management believes that the resolution of such matters will not have a material impact on the financial condition of the Diocese as of June 30, 2008.

#### **Note N - Fair Values of Financial Instruments**

Statement of Financial Accounting Standards No. 107, *Disclosures about Fair Value of Financial Instruments*, requires disclosure of fair value information about financial instruments, whether or not recognized in the statements of financial position. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instruments. Statement No. 107 excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Diocese.

The following methods and assumptions were used by the Diocese in estimating its fair value disclosures for financial instruments:

Investment securities: Fair values for investment securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments.

DIAL notes receivable: For variable-rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying amounts. The fair values for fixed rate loans are estimated using discounted cash flow analysis, based on interest rates currently being offered for loans with similar terms and credit quality. Loan fair value estimates include judgments regarding future expected loss experience and risk characteristics.

Payables: The carrying amounts reported in the statements of financial position for all payables approximate those liabilities' fair values.

**CENTRAL ADMINISTRATIVE OFFICE OF THE DIOCESE OF AUSTIN**

Notes to Financial Statements

June 30, 2008 and 2007

**Note N - Fair Values of Financial Instruments (Continued)**

The estimated fair values of the Diocese's financial instruments as of June 30, are as follows:

	2008		2007	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Investment securities	\$ 58,273,484	\$ 58,273,484	\$ 58,821,308	\$ 58,821,308
DIAL notes receivable	63,250,580	68,320,841	62,458,950	59,655,898
Financial liabilities:				
DIAL deposits	20,525,004	20,525,004	14,065,550	14,065,550
Line of credit payable	-	-	4,079,438	4,079,438
Bonds payable	77,700,000	77,700,000	78,500,000	78,500,000

**CENTRAL ADMINISTRATIVE OFFICE OF THE DIOCESE OF AUSTIN**

Supplementary Information (Unaudited)

June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Summary Financial Information for Parishes and Missions in the Austin Diocese (exclusive of the Central Administrative Office)		
Total Number of Parishes & Missions	126	126
Cash and Cash Equivalents	\$ 7,158,108	\$ 6,286,615
Investments	25,304,249	22,894,016
Building Funds	15,292,793	13,664,982
Accounts Receivable	370,605	376,221
Land, Buildings, and Equipment, net	360,949,639	345,572,150
Other	<u>5,176,173</u>	<u>8,353,514</u>
Total Assets	<u>414,251,567</u>	<u>397,147,498</u>
Accounts Payable to Central Administrative Office	1,388,047	1,312,377
Other Accounts Payable	479,285	233,277
Funds Held in Trust	9,829,236	11,839,290
Notes Payable	62,504,964	59,946,320
Bonds Payable	5,225,000	5,330,000
Other Liabilities	<u>639,863</u>	<u>490,498</u>
Total Liabilities	<u>80,066,395</u>	<u>79,151,762</u>
Net Assets	<u>\$ 334,185,172</u>	<u>\$ 317,995,736</u>
Sunday and Holy Day Collections	\$ 51,204,509	\$ 48,261,463
Building Fund and Other Collections	10,987,122	11,421,005
Gifts, Bequests and Grants	3,514,171	4,539,527
Fundraising (net of related expenses)	4,565,512	4,207,311
Program Fees	1,289,619	1,182,102
Investment Income	2,119,661	1,939,194
Our Faith Our Legacy Collections (Parish Share)	<u>2,638,696</u>	<u>1,770,117</u>
Total Revenues	<u>76,319,290</u>	<u>73,320,719</u>
Pastoral Services	9,447,926	9,003,929
Religious Development	5,171,120	4,810,846
Social Services	1,626,220	1,548,148
School Subsidies	3,554,758	2,979,782
Plant Operating and Maintenance	13,193,019	12,160,660
Diocesan Assessment	4,611,887	4,440,483
Interest Expense	4,031,711	4,175,241
General and Administrative	14,540,652	13,518,201
Other Expenses	<u>4,041,725</u>	<u>2,408,238</u>
Total Expenses	<u>60,219,018</u>	<u>55,045,528</u>
Revenue Over Expenses	<u>\$ 16,100,272</u>	<u>\$ 18,275,191</u>

See accompanying independent auditors' report.