

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

**Financial Statements with  
Supplementary Information**

**June 30, 2014 and 2013**  
(With Independent Auditors' Report)

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

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## **Independent Auditors' Report**

Most Reverend Joe Vásquez and Finance Council  
Central Administrative Office of the Diocese of Austin

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Central Administrative Office of the Diocese of Austin (the Diocese) which comprise the statements of financial position as of June 30, 2014 and 2013, and the related statements of activities 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 audits. 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 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 auditors consider 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 Administrative Office of the Diocese of Austin as of June 30, 2014 and 2013, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matter**

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying 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. This information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

*Atehly & Associates, LLP*

Austin, Texas

November 19, 2014

**CENTRAL ADMINISTRATIVE OFFICE  
OF THE DIOCESE OF AUSTIN**  
Statements of Financial Position  
June 30, 2014 and 2013

<b>Assets</b>	2014	2013
<b>ASSETS</b>		
Cash and cash equivalents, primarily interest-bearing	\$ 5,839,882	\$ 6,561,902
Receivables from parishes and schools	400,404	532,068
Prepaid expenses	294,546	418,310
Other receivables	259,335	265,284
Pledges receivable	714,522	1,074,522
Investments		
Unrestricted	48,916,836	34,905,017
Restricted by bond covenants	6,063,151	6,096,536
DIAL notes receivable	78,447,938	84,150,874
Land, building, and equipment, net	18,789,888	18,487,914
Bond issuance costs, net	2,906,904	3,061,684
	<b>Total Assets</b>	<b>Total Assets</b>
	\$ 162,633,406	\$ 155,554,111
<b>Liabilities and Net Assets</b>		
<b>LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 1,021,340	\$ 1,547,759
Collections held for transmittal	1,957,235	2,072,622
Interest payable	1,184,302	1,198,989
DIAL deposits	18,132,681	15,280,273
Self-insurance reserve	1,549,013	1,549,261
Notes payable	250,000	250,000
Bonds payable		
Current portion	1,220,000	1,175,000
Long term portion	78,780,000	80,000,000
Discount on bonds payable	(1,220,781)	(1,245,926)
	<b>Total Liabilities</b>	<b>Total Liabilities</b>
	102,873,790	101,827,978
<b>NET ASSETS</b>		
Unrestricted	57,398,169	50,610,151
Temporarily restricted	2,361,447	3,115,982
	<b>Total Net Assets</b>	<b>Total Net Assets</b>
	59,759,616	53,726,133
	<b>Total Liabilities and Net Assets</b>	<b>Total Liabilities and Net Assets</b>
	\$ 162,633,406	\$ 155,554,111

The accompanying notes are an integral part of these financial statements.

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

Statement of Activities  
Year Ended June 30, 2014

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Revenues, gains, and other support:				
Catholic Services Appeal	\$ 5,171,928	\$ -	\$ -	\$ 5,171,928
Cathedraticum assessments	5,688,566	298,910	-	5,987,476
Other contributions and bequests	39,747	2,010,369	-	2,050,116
Our Faith our Legacy Capital Campaign	-	89,330	-	89,330
Special collections	-	777,097	-	777,097
Interest income from DIAL notes	4,601,190	-	-	4,601,190
Investment income	4,493,550	-	-	4,493,550
Insurance premiums	12,374,528	-	-	12,374,528
Program service fees	1,202,884	-	-	1,202,884
Catholic Spirit	470,451	-	-	470,451
Retreat center	363,505	37,400	-	400,905
Other	801,473	-	-	801,473
Total revenues, gains, and other support	<u>35,207,822</u>	<u>3,213,106</u>	<u>-</u>	<u>38,420,928</u>
Net assets released from restrictions	<u>3,967,641</u>	<u>(3,967,641)</u>	<u>-</u>	<u>-</u>
Total revenues and release of restrictions	<u>39,175,463</u>	<u>(754,535)</u>	<u>-</u>	<u>38,420,928</u>
Expenses and losses:				
Program services				
Pastoral services	4,110,000	-	-	4,110,000
Formation and religious education	1,314,882	-	-	1,314,882
Vocations	1,767,041	-	-	1,767,041
Catholic schools	1,106,923	-	-	1,106,923
Social services	626,525	-	-	626,525
Religious personnel care and development	2,157,943	-	-	2,157,943
Catholic Charities	589,094	-	-	589,094
Catholic Spirit	721,566	-	-	721,566
DIAL deposit interest	182,080	-	-	182,080
Supporting services				
Insurance program	9,879,989	-	-	9,879,989
Administration	1,535,783	-	-	1,535,783
Facilities and information technology	2,157,107	-	-	2,157,107
Fundraising	1,227,496	-	-	1,227,496
Interest on debt	5,011,016	-	-	5,011,016
Total expenses and losses	<u>32,387,445</u>	<u>-</u>	<u>-</u>	<u>32,387,445</u>
Change in net assets	6,788,018	(754,535)	-	6,033,483
Net assets at beginning of year	<u>50,610,151</u>	<u>3,115,982</u>	<u>-</u>	<u>53,726,133</u>
Net assets at end of year	<u>\$ 57,398,169</u>	<u>\$ 2,361,447</u>	<u>\$ -</u>	<u>\$ 59,759,616</u>

The accompanying notes are an integral part of these financial statements.

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

Statement of Activities  
Year Ended June 30, 2013

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Revenues, gains, and other support:				
Catholic Services Appeal	\$ 5,132,082	\$ -	\$ -	\$ 5,132,082
Cathedraticum assessments	5,220,008	481,092	-	5,701,100
Contributions and bequests	18,801	1,540,911	570	1,560,282
Our Faith Our Legacy Campaign	-	499,047	-	499,047
Special collections	-	418,628	-	418,628
Interest income from DIAL notes	4,568,844	-	-	4,568,844
Investment income	2,756,834	10,646	-	2,767,480
Insurance premiums	12,111,144	-	-	12,111,144
Program service fees	1,234,292	-	-	1,234,292
Catholic Spirit	456,531	-	-	456,531
Retreat center	411,743	-	-	411,743
Other	768,288	-	-	768,288
Total revenues, gains, and other support	<u>32,678,567</u>	<u>2,950,324</u>	<u>570</u>	<u>35,629,461</u>
Net assets released from restrictions	<u>5,214,956</u>	<u>(5,214,216)</u>	<u>(740)</u>	<u>-</u>
Total revenues and release of restrictions	<u>37,893,523</u>	<u>(2,263,892)</u>	<u>(170)</u>	<u>35,629,461</u>
Expenses and losses:				
Program services				
Pastoral services	3,712,319	-	-	3,712,319
Formation and religious education	1,657,792	-	-	1,657,792
Vocations	1,797,195	-	-	1,797,195
Catholic schools	889,702	-	-	889,702
Social services	591,524	-	-	591,524
Religious personnel care and development	1,507,036	-	-	1,507,036
Catholic Charities	605,173	-	-	605,173
Catholic Spirit	734,504	-	-	734,504
DIAL deposit interest	168,691	-	-	168,691
Supporting services				
Insurance program	9,141,127	-	-	9,141,127
Administration	1,476,341	-	-	1,476,341
Facilities and information technology	2,128,550	-	-	2,128,550
Fundraising	1,656,120	-	-	1,656,120
Distribution to Foundation	2,672,334	-	-	2,672,334
OFOL distributions	1,000,000	-	-	1,000,000
Interest on debt	5,062,356	-	-	5,062,356
Total expenses and losses	<u>34,800,764</u>	<u>-</u>	<u>-</u>	<u>34,800,764</u>
Change in net assets	3,092,759	(2,263,892)	(170)	828,697
Net assets at beginning of year	<u>47,517,392</u>	<u>5,379,874</u>	<u>170</u>	<u>52,897,436</u>
Net assets at end of year	<u>\$ 50,610,151</u>	<u>\$ 3,115,982</u>	<u>\$ -</u>	<u>\$ 53,726,133</u>

The accompanying notes are an integral part of these financial statements.

**CENTRAL ADMINISTRATIVE OFFICE  
OF THE DIOCESE OF AUSTIN**  
Statements of Cash Flows  
Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Change in net assets	\$ 6,033,483	\$ 828,697
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation expense	840,002	894,672
Amortization of bond issuance costs	154,780	156,967
Amortization of bond discount	25,145	7,700
Net realized and unrealized (gains) on investments	(2,916,606)	(1,534,904)
Changes in assets and liabilities:		
(Increase) decrease in receivables from parishes and schools	131,664	83,317
(Increase) decrease in pledges receivable	360,000	627,791
(Increase) decrease in other receivables	5,949	69,951
(Increase) decrease in prepaid expenses	123,764	(113,360)
Increase (decrease) in collections held for transmittal	(115,387)	986,287
Increase (decrease) in accounts payable and accrued expenses	(526,419)	(721,809)
Increase (decrease) in interest payable	(14,687)	(14,125)
Increase (decrease) in self-insurance reserve	(248)	(381,067)
Net cash provided by (used in) operating activities	<u>4,101,440</u>	<u>890,117</u>
Cash from investing activities:		
Proceeds from sale and maturities of investments	16,802,134	20,312,441
Purchase of investments	(21,410,749)	(17,923,024)
Issuance of DIAL notes	(2,766,839)	(8,881,569)
Principal payments received on DIAL notes	8,469,775	8,175,306
Net change in money market funds	(6,453,213)	(672,184)
Purchase of property and equipment	(1,141,976)	(600,791)
Net cash provided by (used in) investing activities	<u>(6,500,868)</u>	<u>410,179</u>
Cash from financing activities:		
Principal payments on bonds	(1,175,000)	(1,130,000)
Principal payments on line of credit	-	(1,000,000)
Increase (decrease) in DIAL deposits, net	2,852,408	137,987
Net cash provided by (used in) financing activities	<u>1,677,408</u>	<u>(1,992,013)</u>
Net decrease in cash	(722,020)	(691,717)
Cash and cash equivalents at beginning of year	<u>6,561,902</u>	<u>7,253,619</u>
Cash and cash equivalents at end of year	<u>\$ 5,839,882</u>	<u>\$ 6,561,902</u>
Supplemental disclosures of cash flow information:		
Cash paid for interest	<u>\$ 4,901,373</u>	<u>\$ 4,914,829</u>

The accompanying notes are an integral part of these financial statements.



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

Notes to Financial Statements  
June 30, 2014 and 2013

**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.

The CAO is incorporated as a non-profit organization in the state of Texas, the Catholic Diocese of Austin. All parishes in the Diocese are also separately incorporated as non-profit organizations. The CAO and parishes are organized and operate in the way the church views itself according to the Code of Canon Law, promulgated by the Roman Catholic Church.

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 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 are presented in accordance with the Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) 958, *Not-for-Profit Entities*. 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*-- Temporarily restricted net assets are funds whose use by the CAO have been limited by donor stipulations that limit the use of the contributed assets to (a) later periods or after specific dates (time restrictions), (b) specific purposes (purpose restrictions) or (c) both. 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.

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

Notes to Financial Statements  
June 30, 2014 and 2013

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

*Permanently restricted net assets*-- Permanently restricted net assets represent endowment funds which are subject to the restriction of donors that the principal be invested in perpetuity and only the income be utilized. There were no permanently restricted net assets as of June 30, 2014 or June 30, 2013.

**3. Significant Accounting Policies**

***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. A portion of 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, 2014 and 2013, the Diocese's uninsured cash balances were \$3,370,734 and \$6,657,044, respectively.

***Pledges Receivable***

Unconditional promises to give that are expected to be collected within one year are recorded at realizable value. The discounts on amounts beyond one year are discounted at rates approximating U.S. Treasury yields applicable to the years in which the promises are received. Amortization of the discounts is included in revenue. Conditional promises to give are not recorded as revenue until the conditions are substantially met. Pledges receivable are from commitments to the Our Faith Our Legacy capital campaign. See Note D.

***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 10% of parish collections and other assessable revenue. The assessment on parishes who subsidize their own parish school is 9%. 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.

***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 based on quoted market prices and fair value reports provided by fund managers. Unrealized gains and losses are included in the statements of activities. Land held for investment is valued at historical cost. See Note E.

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

Notes to Financial Statements  
June 30, 2014 and 2013

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

Investment income includes interest and dividends on investments, as well as both (1) the realized gains and losses on investment transactions and (2) unrealized gains and losses from changes in the market value of investment.

Realized gains and losses on disposition of investment securities are determined using average cost and transactions are recorded on a trade date basis. Net realized gains and (losses) on disposition of investments for the years ended June 30, 2014 and 2013, were \$1,202,395 and \$2,011,478, respectively.

***Fair Value of Financial Instruments***

The carrying amounts of financial instruments, including cash and cash equivalents, receivables, prepaid expenses and other assets, accounts payable, accrued expenses and deferred revenue approximate fair value due to the short-term nature of these instruments. The fair value of investments are estimated based on valuations provided by the third party custodians.

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.

***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. Expenditures that significantly increase values, change capacities or extend useful lives are capitalized. Depreciation is provided over the estimated useful lives (5 to 30 years) using the straight-line method. Repairs and maintenance costs are expensed as incurred. The CAO leases certain office equipment. The leases are structured and accounted for as operating leases and the related payments are expensed ratably over the rental period.

***Valuation of Long-Lived Assets***

The CAO reviews long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. An impairment loss is recognized when the estimated fair value is less than the carrying amount of the asset. No impairment losses were recognized in 2014 or 2013.

***Collections Held for Transmittal***

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

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

Notes to Financial Statements  
June 30, 2014 and 2013

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

***Self-insurance reserve***

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.

***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.

***Contributions and Bequests***

Contributions and bequests are recognized as revenue when they are received or unconditionally pledged. Contributions are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

The CAO reports gifts of land, buildings, and equipment at fair value at date of donation as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as temporarily restricted support. Absent explicit donor stipulations about how these long-lived assets must be maintained, the CAO reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

***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.

***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 2014 or 2013.

The Diocese adopted FASB ASC 740-10, which prescribed a comprehensive model for how an organization should measure, recognize, present, and disclose in its financial statements uncertain tax positions that an organization has taken or expects to take on a tax return.

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

Notes to Financial Statements  
June 30, 2014 and 2013

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

*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.

*Risks and Uncertainties*

The CAO invests in various securities including U.S. Government securities, corporate debt instruments, and corporate stocks. Investment securities, in general, are exposed to various risks, such as interest rate, credit, foreign exchange fluctuations, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statements of financial position and statements of activities.

*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.

*Subsequent Events*

Management of the Diocese has evaluated subsequent events for disclosure through the date of the independent auditors' report, the date the financial statements were issued.

**Note C - Receivable from Parishes and Schools**

The accounts receivable arise in the normal course of the operation of the CAO and are primarily due from the parishes and schools of the Diocese. Credit is generally extended on a short-term basis; thus, accounts receivable bear no interest. The CAO periodically reviews the outstanding accounts receivable for the purposes of establishing an allowance for uncollectible accounts. Aggregate accounts receivable past due 90 days or more amount to approximately \$122,670 and \$216,403 as of June 30, 2014, and 2013, respectively. Delinquency status is based on normal credit terms.

	<u>2014</u>	<u>2013</u>
Insurance programs	\$ 142,637	\$ 258,273
Interest from DIAL notes	156,435	161,611
Cathedraticum assessments	101,332	112,184
Total	<u>\$ 400,404</u>	<u>\$ 532,068</u>

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

Notes to Financial Statements  
June 30, 2014 and 2013

**Note D - Capital Campaign**

***Our Faith Our Legacy Capital Campaign***

During 2007, the CAO completed the pledge phase of a capital and endowment campaign entitled, Our Faith Our Legacy (OFOL). The committed amounts have been and will be used to establish endowments and provide funds for clergy formation, retired priests, and catholic education. See Note G. The CAO retains approximately eighty percent of the contributions up to the goal and the remaining twenty percent is distributed 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 distributed to the parish. Pledges receivable do not include the parish share.

Pledges receivable at June 30 consist of the following:

	<b>2014</b>	<b>2013</b>
Pledges expected to be received in less than one year	\$ 589,521	\$ 160,000
Pledges expected to be received in one to five years	125,001	914,522
Total pledges receivable, net	\$ 714,522	\$ 1,074,522

**Note E - Investments**

Investments at June 30, 2014 and 2013, are summarized as follows:

	<b>2014</b>		<b>2013</b>	
	<b>Cost</b>	<b>Fair Value</b>	<b>Cost</b>	<b>Fair Value</b>
<i><b>Unrestricted</b></i>				
<i>Marketable securities</i>				
Money market funds	\$ 9,058,159	\$ 9,058,159	\$ 2,678,567	\$ 2,678,567
Certificates of deposit	125,000	125,000	-	-
Corporate stocks	17,050,172	19,829,659	14,591,975	15,845,680
Corporate and municipal bonds	11,689,894	11,708,583	7,862,881	7,721,374
U.S. Government agency securities	6,037,145	6,101,102	5,759,931	5,777,437
Municipal bonds	692,093	705,190	197,100	195,260
Annuity contracts	-	-	-	51,012
Mutual funds - bond	67,826	68,550	51,635	50,400
Mutual funds - equity	122,311	135,544	133,788	130,137
Total marketable securities	44,842,600	47,731,787	31,275,877	32,449,867
Land held for investment, at cost	591,557	591,557	527,671	527,671
Investments in closely held entities	99,416	593,492	1,535,717	1,927,479
Total unrestricted investments	45,533,573	48,916,836	33,339,265	34,905,017

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

Notes to Financial Statements  
June 30, 2014 and 2013

**Note E - Investments (Continued)**

***Restricted***

Money market fund	252,982	252,982	179,361	179,361
U.S. Government securities	5,811,589	5,810,169	5,812,496	5,917,175
Total restricted investments	<u>6,064,571</u>	<u>6,063,151</u>	<u>5,991,857</u>	<u>6,096,536</u>
Total investments	<u>\$ 51,598,144</u>	<u>\$ 54,979,987</u>	<u>\$ 39,331,122</u>	<u>\$ 41,001,553</u>

Upon the conversion of the Series 2005 Bonds in April 2010, a Debt Service Reserve Fund was established in an aggregate amount of \$5,991,000 from a portion of the proceeds of the remarketing of the Series 2005 Bonds. Investments in the Debt Service Reserve Fund are restricted. See Note J.

Investment income for the years ended June 30, 2014 and 2013, is comprised of the following:

	<u>2014</u>	<u>2013</u>
Interest and dividend income	\$ 1,576,944	\$ 1,232,576
Realized gains	1,202,395	2,011,478
Unrealized gains (losses)	1,714,211	(476,574)
	<u>\$ 4,493,550</u>	<u>\$ 2,767,480</u>

**Note F - DIAL Program**

The Diocesan Investment and Loan Program (DIAL) was established by the Diocese to provide parishes and schools with a source of funding for capital improvements and major renovations along with market rates of return for deposits. 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.

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 less 2.0%). Interest rates for deposits for the years ended June 30, 2014 and 2013, were:

	<u>2014</u>	<u>2013</u>
Short-term deposits (< 6 months)	0.10%	0.10%
Short-term deposits (> 6 months)	0.60%	N/A
Long-term deposits	1.25%	1.25%

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 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, 2014 and 2013:

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OF THE DIOCESE OF AUSTIN**

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June 30, 2014 and 2013

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

<u>Rate</u>	<u>2014</u>	<u>2013</u>
2.50%-3.50%	\$ 5,372,837	\$ 5,522,551
4.00%-4.25%	22,577,163	23,542,868
5.25%	3,911,847	8,137,582
5.83%-6.10%	1,341,683	1,627,871
6.14%	8,648,048	11,112,569
6.21%	13,422,179	14,561,373
6.25%-6.62%	5,921,168	6,235,347
6.83%-7.21%	17,253,013	13,410,713
<b>Total</b>	<b><u>\$ 78,447,938</u></b>	<b><u>\$ 84,150,874</u></b>

Notes receivable mature as follows:

Year Ending June 30,	
2015	\$ 6,141,778
2016	5,187,363
2017	4,882,141
2018	4,606,226
2019	3,125,844
Thereafter	54,504,586
<b>Total</b>	<b><u>\$ 78,447,938</u></b>

**Note G - Catholic Foundation - Diocese of Austin Endowments**

The Catholic Foundation - Diocese of Austin (Foundation) was created in October 2007 as a separate nonprofit corporation to promote the establishment and growth of endowment funds and planned giving to provide perpetual funding for the CAO and for participating parishes, schools and other Catholic organizations within the Diocese. The initial establishment of endowment funds in the Foundation began in December 2009 with the transfer of \$14,000,000 of funds from the OFOL campaign. See Note D.



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**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, 2014 and 2013 include:

	<u>2014</u>	<u>2013</u>
Our Faith Our Legacy Capital Campaign (See Note D)	\$ 946,078	\$ 1,402,254
Non-Exempt Building Campaign Assessments	681,912	532,191
Bishop's Charitable Fund	153,644	208,862
Masters of Theology program	148,494	180,694
Catholic Campaign for Human Development	207,661	232,550
Other	223,658	559,431
	<u>\$ 2,361,447</u>	<u>\$ 3,115,982</u>

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

	<u>2014</u>	<u>2013</u>
Sacred Heart Endowment	\$ -	\$ 1,120,995
Seminarians	613,636	593,072
Retired Priests	298,361	309,637
Pro-Life Programs	92,179	100,906
Higher Education	255,384	34,255
Fries Living Trust	345,000	-
Cedarbrake	480,626	48,605
Catholic Charities	138,323	136,509
Catholic Schools Event	176,155	147,201
Bishop's Charitable Fund	112,091	68,825
Assistance to Parishes	149,189	300,286
Others	697,622	430,369
Our Faith Our Legacy Capital Campaign		
Released from restriction and moved to Foundation:		
Religious Education & Youth Ministry	-	1,000,000
Released from restriction:		
Campus Ministry	358,744	630,343
Catholic Education and Formation	250,000	274,170
Direct Costs	331	19,783
	<u>\$ 3,967,641</u>	<u>\$ 5,214,956</u>

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

Land, buildings, and equipment consist of the following at June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Operating land, buildings, and improvements	\$ 17,970,187	\$ 17,320,329
John Paul II Residence for Priests	4,861,603	4,861,603
Retreat center land, buildings, and equipment	3,786,676	3,425,559
Equipment and furnishings	1,562,781	1,562,781
Land held for future parish and school sites	902,211	771,210
Total land, buildings and equipment	29,083,458	27,941,482
Less: accumulated depreciation	(10,293,570)	(9,453,568)
Land, buildings, and equipment, net of depreciation	<u>\$ 18,789,888</u>	<u>\$ 18,487,914</u>

**Note J - 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, pursuant to a Trust Indenture and Security Agreement with Well Fargo Bank, Trustee and the Bishop for the Diocese of Austin. The proceeds 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. On April 30, 2010, the Diocese exercised its option to convert the mode for the Variable Rate Revenue Bonds, Series 2005, from a variable rate to fixed rates. The outstanding bonds and accrued interest were tendered and \$84,460,000 of bonds were remarketed in the aggregate principal amount of \$22,810,000 (Subseries 2005A Bonds) and \$61,650,000 (Subseries 2005B Bonds). The Subseries 2005A and Subseries 2005B Bonds are collectively referred to as "Series 2005 Bonds". The Series 2005 Bonds are an unsecured general obligation and are not secured by any revenues or a mortgage on any real property. The Series 2005 Bonds mature on April 1, 2045. The proceeds of the Series 2005 Bonds were used as follows:

Tender of Variable Rate Revenue Bonds, Series 2005	\$ 76,100,000
Discount on Bonds	1,224,548
Debt Service Reserve Fund	5,991,256
Costs of Issuance	1,144,196
Par Value of Series 2005 Bonds	<u>\$ 84,460,000</u>

The Subseries 2005A Bonds are serial bonds bearing interest at fixed rates with an average rate of 5.023%. The Subseries 2005B Bonds are term bonds bearing interest at a fixed rate 6.125%. Interest is payable semiannually on April 1 and October 1 of each year. None of the Series 2005 Bonds may be redeemed prior to April 1, 2020. Under the terms of the Master Trust Indenture, the Diocese must maintain certain debt covenants. The Diocese was in compliance with all covenants at June 30, 2014.

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

Pursuant to the bond indenture, the Diocese established a reserve fund securing the Series 2005 Bonds in the aggregate amount of \$5,991,000 (Debt Service Reserve Fund). Monies in the Debt Service Reserve Fund are required to be used to pay the principal and interest on the Series 2005 Bonds at any time that monies paid by the Diocese are insufficient for such payments.

The Diocese has a Revolving Line of Credit with Wells Fargo Bank in the amount of \$15 million. Amounts drawn under this line of credit are used to finance certain indebtedness of parishes and schools on a short-term basis. No amount was outstanding on the line of credit on June 30, 2014 or June 30, 2013. The interest rate on the line of credit is a floating rate of LIBOR plus 1.35%. Under the terms of the Line of Credit Agreement, the Diocese must maintain certain debt covenants. The Diocese was in compliance with all covenants at June 30, 2014.

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

Year Ending June 30	
2015	\$ 1,220,000
2016	1,270,000
2017	1,315,000
2018	1,370,000
2019	1,425,000
Thereafter	73,400,000
Total	<u>\$ 80,000,000</u>

To finance the purchase of property, the Diocese entered into a Note Payable with the seller in the amount of \$250,000. The Note is due in full on December 1, 2015 and bears no interest.

**Note K - Insurance**

The Diocese administers a partially self-insured program for property, auto, liability and workers' compensation for the CAO, parishes and schools in the Diocese. The program is funded by premiums charged by the Diocese to the parishes and schools and pays the initial \$400,000 for property and workers' compensation claims and \$250,000 for liability claims. 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 \$612,500,000 (unaudited) and \$578,000,000 (unaudited) at June 30, 2014 and 2013, respectively.

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Notes to Financial Statements  
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**Note K - Insurance (Continued)**

The Diocese also administers a partially self-insured program for healthcare 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 \$150,000 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. Healthcare claims totaled \$7,245,260 and \$7,079,151, net of individual stop loss reimbursements of \$187,066 and \$161,883, during the years ended June 30, 2014 and 2013, 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 L - Leases**

The CAO leases certain office equipment under operating leases which expire at various dates through 2015. Future minimum lease payments due under operating leases at June 30, 2014 are \$218,066. Lease expense was \$100,602 and \$95,521 in 2014 and 2013, respectively.

**Note M - Pension Plan and Post-Retirement Benefits**

The Diocese contributes to a noncontributory defined benefit pension plan administered by the Diocese which covers substantially all Diocesan clergy in the CAO of the Diocese and in the various parishes. The CAO is responsible for funding the priests working in the CAO 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 ASC 715-20, *Defined Benefit Plans*, since the financial activity of parishes and other entities at the Diocese, which contribute to these plans, are not included in these financial statements. The Diocese contributed \$61,250 and \$53,441 to the defined benefit plan in 2014 and 2013, respectively.

The Diocese also provides certain health care, life insurance and long-term care benefits for substantially all retired Diocesan clergy. The 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 \$571,540 and \$588,845 for the years ended June 30, 2014 and 2013, 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 are restricted by IRS 403(b) regulations, 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 \$312,098 and \$295,877, for the years ended June 30, 2014 and 2013, respectively.

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**Note N - 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 O - 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 are approximately \$10,276,414 (unaudited) and \$10,739,245 (unaudited) at June 30, 2014 and 2013, respectively. Additionally, the Diocese has pledged property with a book value of \$7,319,905 at June 30, 2014 (which management believes approximates market value) to secure an outstanding loan to a bank by one of its affiliated entities.

The Diocese has open letters of credit in the amount of \$757,270 and \$697,510 for workers' compensation insurance at June 30, 2014 and 2013, respectively.

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, 2014.

**Note P - Fair Value Disclosures**

FASB ASC 820-10, *Fair Value Measurements*, 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. FASB ASC 820-10 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.

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

Notes to Financial Statements  
June 30, 2014 and 2013

**Note P - Fair Value Disclosures (Continued)**

*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.

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

	<b>2014</b>		<b>2013</b>	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Investment securities	\$ 54,388,430	\$ 54,388,430	\$ 40,473,882	\$ 40,473,882
DIAL notes receivable	78,447,938	88,000,133	84,150,874	94,438,894
Land held for investment	591,557	591,557	527,671	527,671
Financial liabilities:				
DIAL deposits	18,132,681	18,132,681	15,280,273	15,280,273
Bonds payable	78,779,219	78,779,219	79,929,074	79,929,074

The Diocese has implemented FASB ASC 820-10 which establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB-ASC 820-10 are described below:

*Level 1* - Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. Level 1 also includes U.S. Treasury and federal agency securities and federal agency mortgage-backed securities, which are traded by dealers or brokers in active markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

*Level 2* - Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party pricing services for identical or similar assets or liabilities.

*Level 3* - Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

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Notes to Financial Statements  
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**Note P - Fair Value Disclosures (Continued)**

The CAO and Foundation use appropriate valuation techniques based on available inputs to measure fair value of its investments. An asset's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques must maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value.

*Common stocks, corporate bonds and U.S. government securities* : Valued at the closing price reported on the active market on which the individual securities are traded.

*Money market funds and Mutual funds* : Valued at the net asset value (NAV) of shares held by the Diocese at year end.

*Land held for investment* : Valued at cost which management believes approximates fair value.

*Investments in closely held entities* : Valued at net realizable value which management believes approximates fair value.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Diocese believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the fair value of assets as of June 30, 2014:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market funds	\$ 9,311,141	\$ -	\$ -	\$ 9,311,141
Certificates of deposit	125,000	-	-	125,000
Corporate stocks	19,829,659	-	-	19,829,659
Corporate bonds	11,708,583	-	-	11,708,583
U.S. Government agency securities	11,911,271	-	-	11,911,271
Municipal bonds	705,190	-	-	705,190
Mutual funds - Bonds	68,550	-	-	68,550
Mutual funds - Equity	135,544	-	-	135,544
Land held for investment	-	-	591,557	591,557
Investment in closely held entities	-	-	593,492	593,492
	<u>\$ 53,794,938</u>	<u>\$ -</u>	<u>\$ 1,185,049</u>	<u>\$ 54,979,987</u>

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Notes to Financial Statements  
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**Note P - Fair Value Disclosures (Continued)**

The following table sets forth by level, within the fair value hierarchy, the fair value of assets as of June 30, 2013:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market funds	\$ 2,857,928	\$ -	\$ -	\$ 2,857,928
Corporate stocks	15,845,680	-	-	15,845,680
Corporate bonds	7,721,374	-	-	7,721,374
U.S. Government agency securities	11,694,612	-	-	11,694,612
Municipal bonds	195,260	-	-	195,260
Annuity contracts	-	51,012	-	51,012
Mutual funds - bonds	50,400	-	-	50,400
Mutual funds - equity	130,137	-	-	130,137
Land held for investment	-	-	527,671	527,671
Investment in closely held entities	-	-	1,927,479	1,927,479
	<u>\$ 38,495,391</u>	<u>\$ 51,012</u>	<u>\$ 2,455,150</u>	<u>\$ 41,001,553</u>

The following table shows a summary of changes in the fair value of Level 3 assets for the years ending June 30:

	<u>2014</u>	<u>2013</u>
Beginning balance	\$ 2,455,150	\$ 2,472,083
Unrealized gains	102,317	46,028
Acquisitions	63,888	-
Disposals	(1,436,306)	(62,961)
Ending balance	<u>\$ 1,185,049</u>	<u>\$ 2,455,150</u>



## **Supplementary Information**

**Summary Financial Information for Parishes and Missions in the Austin  
Diocese (exclusive of the Central Administrative Office)  
Supplementary Information (Unaudited)  
June 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
Total Number of Parishes & Missions	126	126
Cash and Cash Equivalents	\$ 20,230,641	\$ 13,025,153
DIAL Deposits	17,619,909	14,367,233
Investments (includes building funds)	21,528,142	21,393,838
Plant Assets	446,335,308	444,260,459
Other	<u>10,663,216</u>	<u>11,406,665</u>
Total Assets	<u>516,377,216</u>	<u>504,453,348</u>
Accounts Payable to Central Administrative Office	371,542	147,368
Other Accounts Payable	1,627,903	863,332
Funds Held in Trust	9,506,118	10,613,828
Notes Payable	65,756,945	73,890,580
Bonds Payable	4,465,000	3,403,484
Other Liabilities	<u>941,457</u>	<u>653,988</u>
Total Liabilities	<u>82,668,965</u>	<u>89,572,580</u>
Net Assets	<u>\$ 433,708,251</u>	<u>\$ 414,880,768</u>
Sunday and Holy Day Collections	\$ 58,566,448	\$ 56,377,421
Building Funds	12,032,179	11,133,789
Gifts, Bequests and Grants	3,140,316	4,879,347
Fundraising (net of related expenses)	5,218,222	5,391,883
Program Fees	2,874,891	2,387,469
Investment Income	675,137	1,684,417
Our Faith Our Legacy Collections (Parish Share)	516,672	781,668
Other Income	<u>10,507,177</u>	<u>7,473,186</u>
Total Revenues	<u>93,531,042</u>	<u>90,109,180</u>
Pastoral Services	11,553,755	10,398,939
Religious Development	7,476,100	6,771,167
Social Services	2,186,164	1,529,594
School Subsidies	3,857,572	3,373,660
Plant Operating and Maintenance	17,331,055	15,116,732
Diocesan Assessment	5,815,261	5,531,592
Interest Expense	4,287,371	3,673,869
General and Administrative	20,143,079	17,814,900
Other Expenses	<u>2,128,769</u>	<u>6,201,800</u>
Total Expenses	<u>74,779,126</u>	<u>70,412,253</u>
Revenue Over Expenses	<u>\$ 18,751,916</u>	<u>\$ 19,696,927</u>

See accompanying independent auditors' report.