

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

**Financial Statements with
Supplementary Information**

June 30, 2016 and 2015
(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, 2016 and 2015, 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, 2016 and 2015, 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.

A handwritten signature in cursive script that reads "Atchley & Associates, LLP".

Austin, Texas
December 7, 2016

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

Statement of Activities
Year Ended June 30, 2016

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Revenues, gains, and other support:				
Catholic Services Appeal	\$ 5,590,869	\$ -	\$ -	\$ 5,590,869
Cathedraicum assessments	6,285,170	459,922	-	6,745,092
Contributions and bequests	975,910	1,740,453	-	2,716,363
Special collections	-	812,798	-	812,798
Interest income from DIAL notes	4,105,464	-	-	4,105,464
Investment income	2,552,754	5,679	-	2,558,433
Insurance premiums	13,685,297	-	-	13,685,297
Program service fees	1,261,650	17,730	-	1,279,380
Catholic Spirit	488,590	-	-	488,590
Retreat center	449,885	-	-	449,885
Other	2,235,974	-	-	2,235,974
Total revenues, gains, and other support	<u>37,631,563</u>	<u>3,036,582</u>	<u>-</u>	<u>40,668,145</u>
Net assets released from restrictions	<u>3,168,367</u>	<u>(3,168,367)</u>	<u>-</u>	<u>-</u>
Total revenues and release of restrictions	<u>40,799,930</u>	<u>(131,785)</u>	<u>-</u>	<u>40,668,145</u>
Expenses and losses:				
Program services				
Pastoral services	4,913,133	-	-	4,913,133
Formation and religious education	1,170,851	-	-	1,170,851
Vocations	1,873,877	-	-	1,873,877
Catholic schools	841,624	-	-	841,624
Social services	519,837	-	-	519,837
Religious personnel care and development	1,965,222	-	-	1,965,222
Catholic Charities	642,590	-	-	642,590
Catholic Spirit	715,046	-	-	715,046
DIAL deposit interest	255,645	-	-	255,645
Supporting services				
Insurance program	13,209,407	-	-	13,209,407
Administration	1,665,907	-	-	1,665,907
Facilities and information technology	2,268,150	-	-	2,268,150
Fundraising	1,445,015	-	-	1,445,015
Interest on debt	4,898,407	-	-	4,898,407
Gift to San Juan Diego High School	1,500,000	-	-	1,500,000
Total expenses and losses	<u>37,884,711</u>	<u>-</u>	<u>-</u>	<u>37,884,711</u>
Change in net assets	2,915,219	(131,785)	-	2,783,434
Reclassification of restricted net assets	(233,891)	233,891	-	-
Net assets at beginning of year	<u>62,336,270</u>	<u>3,096,784</u>	<u>-</u>	<u>65,433,054</u>
Net assets at end of year	<u>\$ 65,017,598</u>	<u>\$ 3,198,890</u>	<u>\$ -</u>	<u>\$ 68,216,488</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, 2015

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues, gains, and other support:				
Catholic Services Appeal	\$ 4,965,306	\$ -	\$ -	\$ 4,965,306
Cathedraticum assessments	6,008,790	738,013	-	6,746,803
Contributions and bequests	2,243,274	2,182,198	-	4,425,472
Special collections	-	605,850	-	605,850
Interest income from DIAL notes	4,388,510	-	-	4,388,510
Investment income	1,892,787	-	-	1,892,787
Insurance premiums	12,944,163	-	-	12,944,163
Program service fees	1,152,048	4,200	-	1,156,248
Catholic Spirit	462,020	-	-	462,020
Retreat center	396,035	-	-	396,035
Other	1,104,302	-	-	1,104,302
Total revenues, gains, and other support	<u>35,557,235</u>	<u>3,530,261</u>	<u>-</u>	<u>39,087,496</u>
Net assets released from restrictions	<u>2,794,924</u>	<u>(2,794,924)</u>	<u>-</u>	<u>-</u>
Total revenues and release of restrictions	<u>38,352,159</u>	<u>735,337</u>	<u>-</u>	<u>39,087,496</u>
Expenses and losses:				
Program services				
Pastoral services	4,284,310	-	-	4,284,310
Formation and religious education	1,084,354	-	-	1,084,354
Vocations	2,062,867	-	-	2,062,867
Catholic schools	930,692	-	-	930,692
Social services	617,042	-	-	617,042
Religious personnel care and development	2,006,939	-	-	2,006,939
Catholic Charities	590,515	-	-	590,515
Catholic Spirit	685,502	-	-	685,502
DIAL deposit interest	237,819	-	-	237,819
Supporting services				
Insurance program	10,777,700	-	-	10,777,700
Administration	1,609,431	-	-	1,609,431
Facilities and information technology	2,188,320	-	-	2,188,320
Fundraising	1,357,956	-	-	1,357,956
Interest on debt	4,980,611	-	-	4,980,611
Total expenses and losses	<u>33,414,058</u>	<u>-</u>	<u>-</u>	<u>33,414,058</u>
Change in net assets	4,938,101	735,337	-	5,673,438
Net assets at beginning of year	<u>57,398,169</u>	<u>2,361,447</u>	<u>-</u>	<u>59,759,616</u>
Net assets at end of year	<u>\$ 62,336,270</u>	<u>\$ 3,096,784</u>	<u>\$ -</u>	<u>\$ 65,433,054</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, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
Change in net assets	\$ 2,783,434	\$ 5,673,438
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation expense	920,201	850,258
Amortization of bond issuance costs	150,152	152,509
Amortization of bond discount	49,013	39,599
Net realized & unrealized (gains) losses on investments	(570,598)	(138,557)
Gain from sale of fixed assets	(1,496,732)	(484,134)
Changes in assets and liabilities:		
(Increase) decrease in receivables from parishes and schools	(163,215)	(53,184)
(Increase) decrease in pledges receivable	60,000	589,521
(Increase) decrease in other receivables	(200,519)	(89,992)
(Increase) decrease in prepaid expenses	(247,472)	(37,815)
Increase (decrease) in collections held for transmittal	(569,003)	358,014
Increase (decrease) in accounts payable and accrued expense	61,211	335,580
Increase (decrease) in notes payable	-	(250,000)
Increase (decrease) in interest payable	(14,288)	(15,250)
Increase (decrease) in self-insurance reserve	1,190,987	-
Net cash provided by (used in) operating activities	1,953,171	6,929,987
Cash from investing activities:		
Proceeds from sale and maturities of investments	20,110,652	12,359,838
Purchase of investments	(32,153,907)	(18,089,109)
Issuance of DIAL notes	(7,077,354)	(6,478,291)
Principal payments received on DIAL notes	11,934,222	8,312,107
Net change in money market funds	324,555	(4,841,884)
Proceeds from sale of fixed assets	1,901,892	1,753,156
Purchase of property and equipment	(423,714)	(3,409,473)
Net cash provided by (used in) investing activities	(5,383,654)	(10,393,656)
Cash from financing activities:		
Principal payments on bonds	(1,270,000)	(1,220,000)
Increase (decrease) in DIAL deposits, net	3,500,962	4,209,694
Net cash provided by (used in) financing activities	2,230,962	2,989,694
Net decrease in cash	(1,199,521)	(473,975)
Cash and cash equivalents at beginning of year	5,365,907	5,839,882
Cash and cash equivalents at end of year	\$ 4,166,386	\$ 5,365,907
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$ 4,720,530	\$ 4,775,419

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, 2016 and 2015

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.

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, 2016 or June 30, 2015.

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

Notes to Financial Statements
June 30, 2016 and 2015

Note B - Summary of Significant Accounting Policies (Continued)

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 short-term investment and are not included in cash and cash equivalents.

Cash Concentration

The CAO 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 (FDIC) and the Securities Investor Protection Corporation (SIPC). If these financial institutions were not to honor their contractual liability, the Diocese would incur loss. Management is of the opinion that there is minimal risk of loss because of the financial strength of these financial institutions.

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.

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 D.

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 fair market value and transactions are recorded on a trade date basis. Net realized gains (losses) on disposition of investments for the years ended June 30, 2016 and 2015, were (\$77,396) and \$1,134,136, respectively.

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

Notes to Financial Statements
June 30, 2016 and 2015

Note B - Summary of Significant Accounting Policies (Continued)

Fair Value of Financial Instruments

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 CAO 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.

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

	2016		2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Short-term investments	\$ 13,828,470	\$ 13,828,470	\$ 14,153,025	\$ 14,153,025
Long-term investments	63,508,968	63,508,968	50,895,115	50,895,115
DIAL notes receivable	71,757,254	78,293,760	76,614,122	84,705,240
Land held for investment	641,559	641,559	641,559	641,559
Financial liabilities:				
DIAL deposits	25,843,337	25,843,337	22,342,375	22,342,375
Bonds payable	76,377,831	76,377,831	77,598,818	77,598,818

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

Notes to Financial Statements
June 30, 2016 and 2015

Note B - Summary of Significant Accounting Policies (Continued)

The CAO 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.

The CAO uses 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 CAO 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.

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

Notes to Financial Statements
June 30, 2016 and 2015

Note B - Summary of Significant Accounting Policies (Continued)

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 during the years ended June 30, 2016 or 2015.

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.

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.

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

Notes to Financial Statements
June 30, 2016 and 2015

Note B - Summary of Significant Accounting Policies (Continued)

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 CAO is exempt from Federal income tax under provisions of Section 501(c)(3) of the Internal Revenue Code. However, the CAO is subject to tax under Section 511(a) to the extent it has unrelated business taxable income. The CAO had no material unrelated business taxable income during fiscal years 2016 or 2015.

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.

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

Notes to Financial Statements
June 30, 2016 and 2015

Note B - Summary of Significant Accounting Policies (Continued)

Subsequent Events

Management of the CAO 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 \$39,544 and \$22,630 as of June 30, 2016, and 2015, respectively. Delinquency status is based on normal credit terms.

	2016	2015
Insurance programs	\$ 423,400	\$ 281,736
Interest from DIAL notes	138,478	156,884
Cathedraticum assessments	54,925	14,968
Total	\$ 616,803	\$ 453,588

Note D - Investments

Investments at June 30, 2016 and 2015, are summarized as follows:

	2016		2015	
	Cost	Fair Value	Cost	Fair Value
Short-term investments - money market mutual funds	\$ 13,828,470	\$ 13,828,470	\$ 14,153,025	\$ 14,153,025
<i>Unrestricted long-term investments</i>				
Marketable securities				
Certificates of deposit	\$ 8,992,228	\$ 8,992,228	\$ 621,602	\$ 621,602
Corporate stocks	20,827,427	23,147,674	19,949,224	22,061,099
Corporate bonds	17,441,885	17,720,083	15,654,661	15,526,053
U.S. Government agency securities	4,746,600	4,901,920	5,253,910	5,298,941
Municipal bonds	791,441	826,922	791,777	802,412
Mutual funds - bond	1,293,397	1,232,152	1,287,629	1,266,100
Mutual funds - equity	47,034	44,766	42,185	48,002
Total marketable securities	54,140,012	56,865,745	43,600,988	45,624,209
Land held for investment, at cost	641,559	641,559	641,559	641,559
Investments in closely or privately held entities	99,416	702,493	99,416	696,114
Total unrestricted long-term investments	54,880,987	58,209,797	44,341,963	46,961,882

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

Notes to Financial Statements
June 30, 2016 and 2015

Note D - Investments (Continued)

	2016		2015	
	Cost	Fair Value	Cost	Fair Value
<i>Restricted long-term investments</i>				
Certificates of deposit	1,711,000	1,735,477	-	-
U.S. Government securities	4,224,872	4,205,253	4,608,032	4,574,792
Total restricted long-term investments	<u>5,935,872</u>	<u>5,940,730</u>	<u>4,608,032</u>	<u>4,574,792</u>
Total long-term investments	<u>\$ 60,816,859</u>	<u>\$ 64,150,527</u>	<u>\$ 48,949,995</u>	<u>\$ 51,536,674</u>

Upon the conversion of the Series 2005 Bonds in April 2010, a Debt Service Reserve Fund was established in an aggregate amount of \$5,991,256 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 H.

Investment income (loss) for the years ended June 30, 2016 and 2015, is comprised of the following:

	2016	2015
Interest and dividend income	\$ 1,987,835	\$ 1,754,230
Realized gains (losses)	(77,396)	1,134,136
Unrealized gains (losses)	647,994	(995,579)
	<u>\$ 2,558,433</u>	<u>\$ 1,892,787</u>

Note E - 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.

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, 2016 and 2015, were:

	2016	2015
Short-term deposits (< 6 months)	0.10%	0.10%
Short-term deposits (> 6 months)	0.60%	0.60%
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, 2016 and 2015:

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

Notes to Financial Statements
June 30, 2016 and 2015

Note E - DIAL Program (Continued)

<u>Rate</u>	<u>2016</u>	<u>2015</u>
2.50% - 3.50%	\$ 7,414,518	\$ 5,050,825
4.00% - 4.75%	21,362,996	22,010,701
5.25% - 5.50%	4,306,710	5,450,616
5.98% - 6.03%	231,255	1,165,890
6.14%	6,202,210	7,179,705
6.21%	10,779,294	12,431,490
6.25% - 6.62%	3,044,301	4,133,880
6.83% - 7.51%	18,415,970	19,191,015
Total	<u>\$ 71,757,254</u>	<u>\$ 76,614,122</u>

Notes receivable mature as follows:

Year Ending June 30,	
2017	\$ 8,367,606
2018	4,670,245
2019	3,953,787
2020	3,724,990
2021	3,567,716
Thereafter	47,472,910
Total	<u>\$ 71,757,254</u>

Note F - 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, 2016 and 2015, respectively, include:

	<u>2016</u>	<u>2015</u>
Building Campaign Assessments - Parish Assistance	\$ 1,327,983	\$ 1,240,636
Our Faith Our Legacy Capital Campaign	642,669	751,446
Capital Improvements Fund	312,264	423,880
Catholic Campaign for Human Development	210,643	186,054
Masters of Theology Program	132,759	136,494
Bishop's Charitable Fund	186,716	123,618
Other	385,856	234,656
	<u>\$ 3,198,890</u>	<u>\$ 3,096,784</u>

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

Notes to Financial Statements
June 30, 2016 and 2015

Note F - Restricted Net Assets (Continued)

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

	<u>2016</u>	<u>2015</u>
Seminarians	\$ 660,881	\$ 642,294
Retired Priests	465,181	326,286
Catholic Schools	411,623	597,038
Catholic Charities	151,202	188,866
Capital Improvement Fund	135,000	-
Assistance to Parishes	372,574	179,290
Pro-Life Programs	130,368	118,655
Higher Education	125,104	111,788
Bishop's Charitable Fund	163,815	131,830
Cedarbrake	68,301	55,100
Social Concerns	150,765	111,874
Other	333,553	331,903
	<u>\$ 3,168,367</u>	<u>\$ 2,794,924</u>

Fiscal year 2016 includes a reclassification from unrestricted net assets to temporarily restricted net assets in the amount of \$233,891.

Note G - Land, Buildings, and Equipment

Land, buildings, and equipment consist of the following at June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Operating land, buildings, and improvements	\$ 18,807,576	\$ 18,705,841
John Paul II Residence for Priests	5,010,129	4,877,632
Retreat center land, buildings, and equipment	4,741,039	4,741,039
Equipment and furnishings	1,562,781	1,562,781
Land held for future parish and school sites	499,811	904,971
Other assets	189,483	-
	<u>30,810,819</u>	<u>30,792,264</u>
Total land, buildings and equipment	30,810,819	30,792,264
Less: accumulated depreciation	(11,632,385)	(10,712,183)
Land, buildings, and equipment, net of depreciation	<u>\$ 19,178,434</u>	<u>\$ 20,080,081</u>

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

Notes to Financial Statements
June 30, 2016 and 2015

Note H - 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><u>\$ 84,460,000</u></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 of 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, 2016.

Pursuant to the bond indenture, the Diocese established a reserve fund securing the Series 2005 Bonds in the aggregate amount of \$5,991,256 (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 \$5 million. Amounts drawn under this line of credit are used to finance certain indebtedness of parishes and schools on a short-term basis. From time to time, a portion of the line of credit may be allocated to letters of credit (see Note M). On June 30, 2016 or 2015, no amount was outstanding under the line of credit. 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, 2016.

**CENTRAL ADMINISTRATIVE OFFICE
OF THE DIOCESE OF AUSTIN**
Notes to Financial Statements
June 30, 2016 and 2015

Note H - Long Term Debt (Continued)

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

Year Ending June 30,	
2017	1,315,000
2018	1,370,000
2019	1,425,000
2020	1,485,000
2021	1,550,000
Thereafter	70,365,000
Total	<u><u>\$ 77,510,000</u></u>

Note I - 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 \$675,800,000 (unaudited) and \$643,200,000 (unaudited) at June 30, 2016 and 2015, respectively.

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 \$175,000 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 \$8,701,376 and \$7,633,684 net of individual stop loss reimbursements of \$273,332 and \$289,159, during the years ended June 30, 2016 and 2015, 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 J - Leases

The CAO leases certain office equipment under operating leases which expire at various dates through 2018. Future minimum lease payments due under operating leases at June 30, 2016 are \$86,206. Lease expense was \$96,399 and \$124,552 for the years ended June 30, 2016 and 2015, respectively.

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

Notes to Financial Statements
June 30, 2016 and 2015

Note K - 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 \$120,000 and \$81,250 to the defined benefit plan for the years ended June 30, 2016 and 2015, 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 \$587,711 and \$620,615 for the years ended June 30, 2016 and 2015, 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 \$330,096 and \$335,842, for the years ended June 30, 2016 and 2015, respectively.

Note L - Related Party Transactions

The parishes in the Diocese pay cathedralicium 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 are approximately \$8,568,512 (unaudited) and \$8,818,176 (unaudited) at June 30, 2016 and 2015, respectively. Additionally, the Diocese has pledged property with a book value of \$7,319,905 at June 30, 2016 (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 \$430,000 for workers' compensation insurance for both June 30, 2016 and 2015.

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, 2016.

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

Notes to Financial Statements
June 30, 2016 and 2015

Note N - Fair Value Disclosures

The following table sets forth by level, within the fair value hierarchy, the fair value of investments as of June 30, 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Short-term investments	\$ 13,828,470	\$ -	\$ -	\$ 13,828,470
<u>Long-term investments:</u>				
Certificates of deposit	\$ 10,727,705	\$ -	\$ -	\$ 10,727,705
Corporate stocks	23,147,674	-	-	23,147,674
Corporate bonds	17,720,083	-	-	17,720,083
U.S. Government agency securities	9,107,173	-	-	9,107,173
Municipal bonds	826,922	-	-	826,922
Mutual funds - bonds	1,232,152	-	-	1,232,152
Mutual funds - equity	44,766	-	-	44,766
Land held for investment	-	-	641,559	641,559
Investment in closely held entities	-	-	702,493	702,493
Total long-term investments	<u>\$ 62,806,475</u>	<u>\$ -</u>	<u>\$ 1,344,052</u>	<u>\$ 64,150,527</u>

The following table sets forth by level, within the fair value hierarchy, the fair value of investments as of June 30, 2015:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Short-term investments	\$ 14,153,025	\$ -	\$ -	\$ 14,153,025
<u>Long-term investments:</u>				
Certificates of deposit	\$ 621,602	\$ -	\$ -	\$ 621,602
Corporate stocks	22,061,099	-	-	22,061,099
Corporate bonds	15,526,053	-	-	15,526,053
U.S. Government agency securities	9,873,733	-	-	9,873,733
Municipal bonds	802,412	-	-	802,412
Mutual funds - bonds	1,266,100	-	-	1,266,100
Mutual funds - equity	48,002	-	-	48,002
Land held for investment	-	-	641,559	641,559
Investment in closely held entities	-	-	696,114	696,114
Total long-term investments	<u>\$ 50,199,001</u>	<u>\$ -</u>	<u>\$ 1,337,673</u>	<u>\$ 51,536,674</u>

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

	2016	2015
Beginning balance	\$ 1,337,673	\$ 1,185,051
Unrealized gains	6,379	102,622
Acquisitions	-	84,000
Disposals	-	(34,000)
Ending balance	<u>\$ 1,344,052</u>	<u>\$ 1,337,673</u>

Supplementary Information
(Unaudited)

**Summary Financial Information for Parishes and Missions in the Austin
Diocese (exclusive of the Central Administrative Office)
Supplementary Information (Unaudited)
June 30, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
Total Number of Parishes & Missions	126	126
Cash and Cash Equivalents	\$ 32,734,718	\$ 34,415,117
DIAL Deposits	23,315,128	21,520,982
Investments (includes building funds)	18,267,352	23,620,774
Plant Assets	472,234,895	452,296,997
Other	13,540,159	11,999,046
 Total Assets	 <u>560,092,252</u>	 <u>543,852,916</u>
Accounts Payable to Central Administrative Office	60,434	67,752
Other Accounts Payable	576,015	586,441
Funds Held in Trust	9,274,375	9,909,094
Notes Payable	58,426,141	64,752,147
Bonds Payable	4,041,671	4,242,506
Other Liabilities	1,822,861	1,495,888
 Total Liabilities	 <u>74,201,497</u>	 <u>81,053,828</u>
 Net Assets	 <u>\$ 485,890,755</u>	 <u>\$ 462,799,088</u>
Sunday and Holy Day Collections	\$ 61,972,176	\$ 59,743,428
Building Funds	17,196,718	25,582,650
Gifts, Bequests and Grants	2,239,414	2,395,625
Fundraising (net of related expenses)	6,142,106	5,625,296
Program Fees	5,460,183	3,235,465
Investment Income	732,937	864,605
Our Faith Our Legacy Collections (Parish Share)	-	609,984
Other Income	11,543,604	9,505,441
 Total Revenues	 <u>105,287,138</u>	 <u>107,562,494</u>
Pastoral Services	13,012,833	11,521,105
Religious Development	8,328,213	7,617,035
Social Services	2,602,567	2,192,370
School Subsidies	4,487,539	3,877,809
Plant Operating and Maintenance	14,960,606	16,282,343
Diocesan Assessment	6,745,092	7,146,840
Interest Expense	3,850,884	4,162,221
General and Administrative	23,943,613	21,359,770
Other Expenses	4,264,123	4,312,164
 Total Expenses	 <u>82,195,470</u>	 <u>78,471,657</u>
 Revenue Over Expenses	 <u>\$ 23,091,668</u>	 <u>\$ 29,090,837</u>

See accompanying independent auditors' report.