CENTRAL OFFICE OF THE CATHOLIC DIOCESE OF FORT WORTH

AUDITED FINANCIAL STATEMENTS

Year Ended June 30, 2009

CONTENTS

R | C | O RYLANDER, CLAY & OPITZ, LLP
CERTIFIED PUBLIC ACCOUNTANTS
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INDEPENDENT AUDITOR'S REPORT

Most Reverend Bishop Kevin Vann
Central Office of the Catholic Diocese of Fort Worth
800 West Loop 820 South
Fort Worth, Texas 76108

We have audited the accompanying statement of financial position of the Central Office of the Catholic Diocese of Fort Worth (the "Central Office") as of June 30, 2009, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Central Office's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Central Office's 2008 financial statements, and in our report dated March 19, 2009, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Central Office of the Catholic Diocese of Fort Worth as of June 30, 2009, and the changes in their net assets and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 14 to the financial statements, effective July 1, 2008, the Central Office adopted provisions of Statement of Financial Accounting Standards No. 157, *Fair Value Measurements*, as it relates to financial assets and liabilities.

As discussed in Note 15, the Central Office changed its method of recognition of classification of net assets comprising endowment funds in 2009.

Rylander, Clay & Opitz, LLP

January 28, 2010

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CENTRAL OFFICE OF THE CATHOLIC DIOCESE OF FORT WORTH

STATEMENTS OF FINANCIAL POSITION
June 30, 2009 and 2008

	2009	2008
ASSETS		
Cash and cash equivalents	$ 24,508,123	$ 32,561,797
Accounts receivable - parishes and affiliates, net	1,595,106	1,280,148
Accrued interest receivable	159,739	332,931
Due from affiliates	50,073	62,244
Other assets	198,927	270,948
Loans receivable - affliliates	26,713,448	28,790,459
Investments	7,635,867	9,123,295
Propety held for future parish/school use	16,810,025	11,133,522
Property and equipment, net	5,247,420	3,925,911
Total assets	$ 82,918,728	$ 87,481,255
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	$ 2,726,170	$ 2,104,419
Accrued expenses	764,676	661,040
Claims liability	449,382	359,061
Funds held for others	570,839	797,120
Deferred revenue	380,415	-
Deposits payable - affiliates	52,938,954	55,312,802
Interest rate swap	278,999	190,764
Notes payable	5,227,003	6,620,630
Total liabilities	63,336,438	66,045,836
Commitments and Contingencies (Note 11)		
Net Assets		
Unrestricted		
Undesignated	5,745,803	3,295,908
Designated for insurance reserve	1,816,262	2,066,540
Designated for quasi - endowment	3,022,710	6,894,901
Designated for loans to related entities	5,109,177	6,211,412
Total unrestricted	15,693,952	18,468,761
Temporarily restricted		
Capital grants	1,413,032	1,111,548
Sharing-In-Minsitry annual case	1,174,182	725,791
Other	1,301,124	1,129,319
Total temporarily restricted	3,888,338	2,966,658
Total net assets	19,582,290	21,435,419
Total liabilities and net assets	$ 82,918,728	$ 87,481,255

See notes to financial statements.

CENTRAL OFFICE OF THE CATHOLIC DIOCESE OF FORT WORTH

STATEMENTS OF ACTIVITIES

Year Ended June 30, 2009, with comparative total for 2008

	Unrestricted	Temporarily Restricted	Total 2009	Total 2008
Revenue and other support				
Contributions	$ 44,629	$ 5,443,412	$ 5,488,041	$ 5,379,151
Diocesan assessments	4,440,232	-	4,440,232	4,204,472
Program and service fees	4,919,159	-	4,919,159	4,880,269
Investment income	342,017	-	342,017	913,838
Net realized and unrealized gain (loss)	(1,569,512)	244,292	(1,325,220)	(1,013,133)
Interest on loans receivable - affiliates	1,680,548	-	1,680,548	2,160,941
Unrealized loss on interest rate swap	(88,235)	-	(88,235)	(184,520)
Gain on land swap	708,551	-	708,551	-
Other	668,411	-	668,411	541,530
Net assets released from restrictions	4,766,024	(4,766,024)	-	-
Total revenue and other support	15,911,824	921,680	16,833,504	16,882,548
Expenses				
Program services				
Education and formation	3,485,056	-	3,485,056	3,436,143
Grants	2,960,685	-	2,960,685	3,412,204
Pastoral services	1,144,165	-	1,144,165	1,156,419
Communication	553,473	-	553,473	480,481
Administrative and support services				
Benefit programs for parish, school and Diocesan employees	683,468	-	683,468	604,971
Diocesan administration	5,733,863	-	5,733,863	4,217,515
Insurance for all property in the Diocese	1,340,485	-	1,340,485	1,512,191
Deposit and Loan and other funds	2,785,438	-	2,785,438	2,909,994
Total expenses	18,686,633	-	18,686,633	17,729,918
Change in net assets	(2,774,809)	921,680	(1,853,129)	(847,370)
Net assets at beginning of year	18,468,761	2,966,658	21,435,419	22,282,789
Net assets at end of year	$ 15,693,952	$ 3,888,338	$ 19,582,290	$ 21,435,419

See notes to financial statements.

CENTRAL OFFICE OF THE CATHOLIC DIOCESE OF FORT WORTH

STATEMENTS OF CASH FLOWS
Years Ended June 30, 2009 and 2008

	2009	2008
Cash Flows from Operating Activities		
Change in net assets	$ (1,853,129)	$ (847,370)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net realized and unrealized loss	1,325,220	1,013,133
Depreciation	316,178	271,716
Loss on sale of assets	2,496	-
Unrealized loss on interest rate swap	88,235	184,520
Gain on land swap	(708,551)	-
Grants of property held for future parish/school use	84,256	2,564,346
Change in operating assets and liabilities:		
Increase in accounts receivable - parishes and affiliates	(314,958)	(453,721)
(Increase) decrease in accrued interest receivable	173,192	(31,322)
Decrease in due from affiliates	12,171	4,854
Decrease in other assets	72,021	71,106
Increase (decrease) in accounts payable	621,751	(490,962)
Increase in accrued expenses	103,636	25,727
Increase in claims liability	90,321	59,090
Increase (decrease) in funds held for others	(226,281)	285,329
Increase in deferred revenue	380,415	-
Net cash provided by operating activities	166,973	2,656,446
Cash Flows from Investing Activities		
Purchase of property and equipment	(508,056)	(332,483)
Proceeds on sale of property held for future parish/school use	431,039	342,496
Purchase of property held for future parish/school use	(9,064,105)	(6,907,382)
Receipts on loans receivable - affilitates	11,380,155	10,468,987
Advances on loans receivable - affiliates	(6,854,413)	(1,983,899)
Proceeds from sale of investments	4,133,772	4,514,466
Purchase of investments	(3,971,564)	(3,949,481)
Net cash provided (used) by investing activities	(4,453,172)	2,152,704
Cash Flows from Financing Activities		
Cash paid on deposits payable - affiliates	(34,291,542)	(28,340,272)
Cash received for deposits payable - affiliates	31,917,694	32,788,706
Repayment of notes payable	(1,393,627)	(2,001,794)
Net cash provided (used) by financing activities	(3,767,475)	2,446,640
Net increase (decrease) in cash and cash equivalents	(8,053,674)	7,255,790
Cash and cash equivalents at beginning of year	32,561,797	25,306,007
Cash and cash equivalents at end of year	$ 24,508,123	$ 32,561,797

See notes to financial statements.

CENTRAL OFFICE OF THE CATHOLIC DIOCESE OF FORT WORTH

NOTES TO FINANCIAL STATEMENTS

NOTE 1. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Central Office of the Catholic Diocese of Fort Worth (the "Central Office") provides certain administrative functions for the Catholic Diocese of Fort Worth (the "Diocese"). Included in these financial statements are the assets, liabilities, net assets and financial activities of certain program offices and departments of the Diocese that are fiscally responsible to the Bishop. The accompanying financial statements exclude the assets, liabilities, net assets and financial activities of the individual parishes, schools, Catholic Foundation of North Texas (the "Foundation"), and various Diocesan employee benefit plans that operate within the Diocese. Each of these affiliated entities, although ultimately responsible to the Bishop, is an operating entity distinct from the Central Office, maintains separate financial records, and carries on its own services and programs. In addition, various religious orders, lay societies, and religious organizations that operate within the Diocese, which are not fiscally responsible to the Bishop, have been excluded from the accompanying financial statements.

Description of Programs
The programs and administrative and support services of the Central Office consist of:

Education and Formation – Education continues to flourish in the parishes, schools and education centers in all corners of the Diocese. Supporting these programs are the various education and formation departments of the Central Office. They include: Adult Formation; Catholic Schools Office; Children, Youth and Young Adult Ministries; Seminarian Training; Deacon Formation; Vocations; Continuing Education for Clergy; Lay Ministry Training; and many others.

Grants – The Central Office assists parishes, schools and other ministries through capital and operating grants. The recipients are inner city or rural parishes or schools as well as Catholic Charities, school children needing tuition assistance, ministers furthering their education, social outreach programs and many others inside and outside the Diocese.

Pastoral Services – Care of the whole family and each of its members continues to be a focus of the programs of the Central Office. These include: activities pertaining to Family Life; Chaplaincies for the Sick and Imprisoned; Care of Elderly and Infirm Priests; Peace and Justice Outreach; and others.

Communication – The vehicles used to communicate with the people of the Diocese are newspaper and an internet web page. The North Texas Catholic bi-weekly newspaper continues to be the vital link to keep Catholics throughout the Diocese informed.

Administrative Support Services – The effectiveness of the ministries that are supported through the Central Office is dependent on the proper stewardship of the gifts of the thousands of Catholics throughout the Diocese. Administrative support of the Central Office and parishes, schools and agencies is a very important part of the life of the Central Office. The support provided through departments such as Human Resources, Stewardship and Development, Planning, Fiscal Management, and Tribunal, as well as insurance programs, employee benefits, and many others are enabling the ministries and programs that touch and change the lives of Catholics throughout the Diocese.

NOTE 1. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Management Estimates and Assumptions
Management uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported revenues and expenses. Actual results could vary from these estimates.

Cash and Cash Equivalents
The Central Office considers all highly-liquid investments with an initial maturity of three months or less to be cash equivalents.

Supplemental Cash Flow Information
Interest paid on deposits payable - affiliates amounts to $2,246,386 and $2,422,422 for the years ended June 30, 2009 and 2008, respectively. The Central Office also paid interest on notes payable of $327,944 and $369,238 for the years ended June 30, 2009 and 2008, respectively.

Non-cash financing and investing activities from 2009 and 2008 include the transfer of approximately $2,533,000 and $4,196,000, respectively, in property held for future use to related parishes and schools in the form of loans and grants. The Central Office also gave a parcel of land recorded in property held for future parish/school use, recorded at $423,576, in exchange for land and a building that is recorded in property and equipment at June 30, 2009.

Accounts and Loans Receivable
Accounts and loans receivable are due almost exclusively from affiliates of the Central Office. The Central Office does not extend credit unless management is reasonably certain the related amount will be repaid. Management periodically evaluates the related receivables and only records a reserve for uncollectability if ultimate collection appears doubtful. Account write-offs are posted against the allowance for doubtful accounts, and an expense is recorded only when the allowance is not sufficient to absorb a related write-off.

Investments
Investments in marketable securities with readily determinable fair values and all investments in debt securities are measured at fair value in the statement of financial position. Investment income and realized and unrealized gains and losses are included in the statement of activities as increases or decreases in unrestricted net assets unless the income or loss is restricted by the donor or law. The Central Office invests in an investment pool that uses the market value unit method of accounting for investment transactions. Under this method, each fund is assigned a number of units based on the relationship of the market value of all investments at the time of entry into the pool. The pooled assets are revalued quarterly and new unit values are calculated. The pooled value is used to determine the number of units to be allocated to new funds entering the pool, the allocation of recurring income, gains and losses, or to calculate the equity of funds withdrawn from the pool.

NOTE 1. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property Held for Future Parish/School Use
Property held for future parish/school use is recorded at cost and consists of property purchased by the Central Office that will be used by parishes and schools within the Diocese in the future. This property is typically purchased at cost from the Central Office by the parish or school. During 2009 and 2008, property with a cost of approximately $2,964,000 and $4,538,000, respectively, was sold to related parishes and schools.

Property and Equipment
Property and equipment that are purchased are recorded at cost and depreciated over the estimated useful lives of the related assets using the straight-line method. Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated assets to a specific purpose. Assets donated with explicit restrictions regarding their use, and contributions of cash that must be used to acquire property and equipment, are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Central Office reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The School then releases temporarily restricted net assets to unrestricted net assets as reflected in the statement of activities.

The estimated lives by asset class follow:

Buildings	3 - 40 years
Equipment, furnishings and vehicles	3 - 5 years

Impairment of Long-Lived Assets
Management evaluates its long-lived assets for financial impairment whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable. An impairment loss is recognized when the estimated undiscounted future cash flows from the assets are less than the carrying value of the assets. Assets to be disposed of are reported at the lower of their carrying amount or fair value, less cost to sell. Management is of the opinion that the carrying amount of its long-lived assets does not exceed their estimated recoverable amount.

Funds Held for Others
Funds held for others represent royalty funds held for affiliates of the Central Office.

Deposits Payable - Affiliates
Deposits payable represent amounts held as savings accounts for affiliates.

NOTE 1. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recognition of Donor Restrictions
Contributions are recognized when unconditional commitments are received and recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence and nature of any donor restrictions. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Donated Materials and Services
Donated materials are reflected as contributions in the accompanying statements at their estimated values at the date of receipt. No significant amounts have been reflected in the statements for donated services as no objective basis is available to measure the value of such services; however, a substantial number of volunteers have donated significant amounts of their time to the Central Office.

Income Taxes
The Central Office is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and is not considered a private foundation.

Functional Allocation of Expenses
The cost of providing the program services and other activities has been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among program and supporting services.

Concentration of Credit and Market Risk
At June 30, 2009, the Central Office has deposits of approximately $25,651,000 in excess of federally insured limits. This amount is not reduced by items recorded in the accounts not yet clearing the bank. Management does not believe that it is subject to any significant risk of loss on cash.

Prior-Year Comparative Information
The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Central Office's financial statements for the year ended June 30, 2008, from which the summarized information was derived.

Recent Accounting Pronouncements
In July 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48). FIN 48 clarifies the accounting for uncertain tax positions recognized in an entity's financial statements in accordance with Statement No. 109, *Accounting for Income Taxes*. FIN 48 establishes recognition and measurement criteria for tax positions taken or expected to be taken in a tax return.

NOTE 1. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Accounting Pronouncements (Continued)

In December 2008, the FASB deferred the effective date of FIN 48 for certain nonpublic entities to annual financial statements for fiscal years beginning after December 15, 2008. The Central Office has elected this deferral and accordingly will be required to adopt FIN 48 in its 2010 annual financial statements. Prior to adoption of FIN 48, the Central Office will continue to evaluate its uncertain tax positions and related income tax contingencies under Statement No. 5, *Accounting for Contingencies*. SFAS No. 5 requires the Central Office to accrue for losses it believes are probable and can be reasonably estimated. Management has not assessed the impact of FIN 48 on its financial position and results of operations and has not determined if the adoption of FIN 48 will have a material effect on its financial statements.

Subsequent Events

Management evaluates subsequent events through the date of the report, which is the date the financial statements were available to be issued.

Reclassifications

Certain items in 2008 have been reclassified for comparative purposes with 2009 presentation.

NOTE 2. ACCOUNTS RECEIVABLE - PARISHES AND AFFILIATES

Accounts receivable from parishes and affiliates relates to amounts that the Central Office paid on behalf of the related entities, or has billed them for various services provided on their behalf. The amounts are due primarily from parishes and schools within the Diocese. An allowance for doubtful accounts of $11,794 is recorded at June 30, 2009 and 2008. The allowance is established based on past experience and an analysis of the collectability of current receivables.

NOTE 3. LOANS RECEIVABLE - AFFILIATES

The Central Office provides loans to parishes, schools and other entities within the Diocese for capital projects and various operating purposes. These loans generally have an interest rate of 5.5% and 7% at June 30, 2009 and 2008, respectively, and are due primarily in monthly installments. Interest income is recognized monthly based on the outstanding loan balance. Certain loans relating to real estate acquisitions by new parishes are allowed a five-year exemption from interest and principal after dedication of the first building on the property.

The composition of loans receivable at June 30, 2009 and 2008 follows:

	2009	2008
Loans to parishes	$ 13,887,547	$ 13,724,070
Loans to schools	12,552,962	14,801,052
Loans to other Diocesan entities	272,939	265,337
	$ 26,713,448	$ 28,790,459

NOTE 3. LOANS RECEIVABLE – AFFILIATES (Continued)

At June 30, 2009 and 2008, management of the Central Office believes all loans are fully collectible based on past experience and review of individual accounts. Accordingly, there is no allowance for potential losses recorded in the accompanying financial statements.

NOTE 4. INVESTMENTS

Investments in marketable securities are carried at fair value and consist of the following at June 30, 2009 and 2008:

	2009		2008	
	Market Value	Cost	Market Value	Cost
Pooled Investments:				
Short-term funds	$ 238,944	$ 238,944	$ 1,222,420	$ 1,222,420
Corporate bonds	-	-	201,596	199,846
Mutual funds	2,369,923	2,535,341	2,214,672	2,219,706
Equity securities	4,758,304	4,726,186	5,143,119	4,241,680
Insurance Reserve	268,696	244,823	341,488	314,395
	$ 7,635,867	$ 7,745,294	$ 9,123,295	$ 8,198,047

Net realized and unrealized gain (loss) is summarized as follows:

	2009	2008
Net realized gain (loss)	$ (299,135)	$ 664,186
Net unrealized loss	(1,026,085)	(1,677,319)
Total net realized and unrealized loss	$ (1,325,220)	$ (1,013,133)

Investment income is summarized as follows:

	2009	2008
Pooled investment income	$ 224,090	$ 247,558
Interest on deposits	91,385	625,340
Other interest and dividend income	26,542	40,940
Total	$ 342,017	$ 913,838

NOTE 5. PROPERTY AND EQUIPMENT

The composition of property and equipment at June 30, 2009 and 2008 follows:

	2009	2008
Land	$ 1,316,632	$ 1,299,826
Buildings	5,681,842	4,415,735
Equipment, furnishings and vehicles	1,810,844	1,456,069
	8,809,318	7,171,630
Less: accumulated depreciation	3,561,898	3,245,719
	$ 5,247,420	$ 3,925,911

NOTE 6. DEPOSITS PAYABLE - AFFILIATES

The Central Office receives deposits from parishes, schools, and other entities within the Diocese. The amounts on deposit accrue interest at a rate of 3.5% and 5.0% at June 30, 2009 and 2008, respectively, and are due on demand. The composition of deposits payable at June 30, 2009 and 2008 follows:

	2009	2008
Deposits payable to parishes	$ 34,496,450	$ 32,304,814
Deposits payable to schools	17,503,606	22,392,773
Deposits payable to other entities	938,898	615,215
	$ 52,938,954	$ 55,312,802

Interest expense relating to deposits payable is $2,246,386 and $2,422,422 for the years ended June 30, 2009 and 2008, respectively, and is included as a component of deposit and loan and other funds expense in the accompanying statement of activities.

NOTE 7. NOTES PAYABLE

The Central Office also has a loan agreement with the City of Roman Forest in the original amount of $9,500,000 that originated in 2002. The proceeds were used for construction of education facilities. Terms of the loan require quarterly payments in the amount of $253,450, equal to one-fourth (1/4) of the amount of principal that would be due during the applicable year based on a ten-year amortization at an interest rate equal to 5.265%. The stated rate on the note agreement, which fluctuates with the LIBOR rate, is 1.68% at June 30, 2009 and 3.41% at June 30, 2008. The loan is unsecured and matures in December 2011. The balance is $2,935,944 at June 30, 2009 and $4,005,582 at June 30, 2008.

NOTE 7. NOTES PAYABLE (Continued)

In 2005, the Central Office entered into an additional loan agreement with the City of Roman Forest in the original amount of $3,500,000. The proceeds were also used for construction of education facilities. Terms of the loan require quarterly payments in the amount of $77,060, equal to one-forth (1/4) of the amount of principal that would be due during the applicable year based on a ten-year amortization at an interest rate equal to 4.60%. The stated rate on the note agreement, which fluctuates with the LIBOR rate, is 1.68% at June 30, 2009 and 3.41% at June 30, 2008. The loan is unsecured and matures on June 1, 2015. The balance is $2,291,059 at June 30, 2009 and $2,615,048 at June 30, 2008.

The loan agreements with the City of Roman Forest include interest swap provisions with a financial institution that effectively fix the variable rate agreement. The swap was instituted to provide known cash requirements not available with the floating rate.

The swap agreements are accounted for under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*. SFAS No. 133 requires that every derivative instrument be recorded on the statement of financial position as either an asset or liability stated at fair value. SFAS No. 133 requires that changes in the derivative's fair value be recognized in the statement of activities. Included in the statement of activities for the years ended June 30, 2009 and 2008 is a net loss of $88,235 and $184,520, respectively, relating to the change in derivative value during each year. At June 30, 2009 and 2008, a liability for derivative instruments of $278,999 and $190,764, respectively, is recorded in the statement of financial position. The fair value of the interest rate swap has been estimated based upon available information and may change materially in the near-term based on changes in interest rates and other factors.

Interest and amortization expense of $311,521 and $383,274 is included in deposit and loan and other funds expense in the accompanying statement of activities for the years ended June 30, 2009 and 2008, respectively. Maturities of the notes payable at June 30, 2009 follow:

2010	$ 1,134,870
2011	1,193,478
2012	1,255,123
2013	1,083,562
2014	406,221
Thereafter	153,749
	$ 5,227,003

NOTE 8. PENSION PLANS

Pension plans maintained by the Diocese cover eligible employees of the Central Office as well as those of parishes, schools and other affiliated entities. Assets of the plans are held in trust funds managed by independent third parties. The defined benefit plans of the Diocese cover eligible employees as follows:

> A noncontributory retirement plan that provides retirement benefits to eligible priests (the "Priests' Plan"). A priest becomes eligible to participate in the Priests' Plan in the months following his incardination. If a priest has served a minimum of seven years with the Diocese, he will be vested for retirement benefits. A priest's service is measured by his aggregate periods of service prior to his retirement date or earlier termination from the Priests' Plan.
>
> A noncontributory retirement plan that provides retirement benefits for eligible employees (the "Employee Plan"). The Employee Plan covers all employees scheduled to work at least 1,000 hours in a calendar year and have five years of credited service for vesting status. Benefit payments are based upon a defined benefit formula determined by plan document provisions.

The Diocese charges the Central Office and other participating entities for pension costs based on a percentage of the each entities' payroll. This rate is determined periodically by the Diocese based upon plan assets, liabilities, and other factors considered relevant by the Diocese. The ultimate obligation to fund these plans is the responsibility of the Diocese. The Central Office is responsible only to the extent of the assessment charged to it unless determined otherwise by the Diocesan Finance Council and the Bishop in the future.

Annual Pension Cost
For the years ended June 30, 2009 and 2008, the annual pension cost and actual contributions for the Central Office are $281,794 and $274,008, respectively.

The annual required contributions were actuarially determined as a percent of the covered payroll of the participating employees. The Central Office is not responsible for the unfunded liability unless determined otherwise by the Diocesan Finance Council and the Bishop in the future.

Employee Plan
The actuarial valuation information for the Employee Plan follows:

Actuarial valuation date	June 30, 2009	June 30, 2008
Actuarial cost method	projected unit credit	projected unit credit
Asset valuation method	market value	market value
Assumptions:		
Investment return	8.00%	8.00%
Projected salary increases	5.50%	5.50%
Inflation	3.00%	3.00%

NOTE 8. PENSION PLANS (Continued)

The annual pension cost trend information for the Employee Plan follows:

	June 30, 2009	June 30, 2008
Annual Pension Cost (APC)	$ 2,239,051	$ 2,376,104
Percentage of APC Contributed	100%	100%
Net Pension Obligation	$ -	$ -

The funding information for the Employee Plan follows:

Actuarial valuation date	June 30, 2009	June 30, 2008
Actuarial value of assets	$ 19,556,533	$ 20,948,233
Actuarial accrued liability (AAL)	$ 29,467,733	$ 25,208,813
Unfunded actuarial accrued liability (UAAL)	$ 9,911,200	$ 4,260,580
Funded ratio	66.37%	83.10%
Annual covered payroll	$ 24,165,750	$ 22,124,943
UAAL as percentage of covered payroll	41.01%	19.30%

Priests' Plan
The actuarial valuation information for the Priests' Plan follows:

Actuarial valuation date	June 30, 2009	June 30, 2008
Actuarial cost method	projected unit credit	projected unit credit
Asset valuation method	market value	market value
Assumptions:		
Investment return	8.00%	8.00%
Projected salary increases	not applicable	not applicable
Inflation	3.00%	3.00%

The annual pension cost trend information for the Priests' Plan follows:

	June 30, 2009	June 30, 2008
Annual Pension Cost (APC)	$ 219,960	$ 226,230
Percentage of APC Contributed	100%	100%
Net Pension Obligation	$ -	$ -

NOTE 8. PENSION PLANS (Continued)

The funding information for the Priests' Plan follows:

Actuarial valuation date	June 30, 2009		June 30, 2008	
Actuarial value of assets	$	2,682,839	$	3,255,544
Actuarial accrued liability (AAL)	$	4,243,744	$	4,081,278
Unfunded actuarial accrued liability (UAAL)	$	1,560,905	$	825,734
Funded ratio		63.22%		79.77%

NOTE 9. DIOCESAN ASSESSMENTS

The Central Office charges parishes of the Diocese an assessment on weekly offertory collections as a means to provide funds for the recurring operations of the Central Office. This assessment is calculated on a sliding scale ranging from 1% to 9.5% of the gross offertory collections, based on the circumstances at each parish.

In addition, the Central Office assessed approximately $170,000 and $164,000 in 2009 and 2008, respectively, to parishes that have students enrolled at Nolan High School.

NOTE 10. DESIGNATED NET ASSETS

The accompanying financial statements include unrestricted net assets that have been designated for various purposes. A description of these designations follows:

Net assets designated for insurance reserves are funds that have been collected by the Central Office that are to be used to provide amounts necessary for unexpected claims in the future, or to reduce future premiums of Diocesan entities for various insurance coverages.

Net assets designated for quasi-endowment represent funds that have been identified by the Bishop to be invested by the Central Office.

Net assets designated for loans to related entities represent funds that are available to be loaned, or have been loaned, to various Diocesan entities.

NOTE 11. COMMITMENTS AND CONTINGENCIES

The Central Office manages the claims against the Diocese. At June 30, 2009, the Diocese is subject to various claims and legal proceedings covering a wide range of matters that arise in the ordinary course of its activities. The outstanding claims and litigation are covered by commercial insurance. The deductible on insurance claims is $100,000 per occurrence. Management believes that any liability that may ultimately result from the resolution of these matters will not have a material adverse effect on the financial condition or results of operations of the Central Office.

NOTE 12. INSURANCE PLANS

The Central Office maintains a workers' compensation plan for the employees of Diocesan parishes, schools, and other affiliated entities (the "participants") and a multi-peril insurance plan. Both plans are partially self-insured through a high deductible. The Central Office has a fully-insured plan for the health insurance needs of the participants. The Central Office acts as billing agent for the multi-peril insurance plan. The parishes and schools calculate the monthly premium for the workers compensation plan and remit the premiums to the Central Office. These calculations are made under parameters set by the Central Office and are reviewed periodically by the Central Office. The health insurance plan is administered by a third party, and the Central Office does not participate in billing the premiums to the parishes and schools. Included in expenses are actual costs and claims paid plus management's estimates of any additional ultimate loss which may change materially in the near term.

NOTE 13. DUE FROM AFFILIATE

The Central Office is affiliated with the Foundation, as both are governed by the Diocese. A total of $50,073 and $62,244 is due from the Foundation at June 30, 2009 and 2008, respectively, and is reflected as an asset in the accompanying financial statements. These amounts are primarily for withdrawals from the Catholic Schools Trust advanced by the Central Office.

NOTE 14. FAIR VALUE OF ASSETS AND LIABILITIES

Effective July 1, 2008, the Central Office adopted Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (SFAS No. 157). SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS No. 157 has been applied prospectively as of the beginning of the year.

SFAS No. 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. SFAS No. 157 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

- Level 1 — Quoted prices in active markets for identical assets or liabilities.
- Level 2 — Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

NOTE 14. FAIR VALUE OF ASSETS AND LIABILITIES (Continued)

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying statements of financial position, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy.

The recorded value of the loans receivable - affiliates, deposits payable – affiliates, and notes payable approximates their fair value, as interest approximates market rates. The recorded values cash and cash equivalents, accounts receivable, and accounts payable approximate their fair values based on their short-term nature.

Investments
Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include publically traded stocks, mutual funds, certificates of deposit, and money market funds. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows.

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying statement of financial position measured at fair value on a recurring basis and the level within SFAS No. 157 fair value hierarchy in which the fair value measurements fall at June 30, 2009.

	Fair Value Measurements Using			
	Level 1	Level 2	Level 3	Fair Value
Investments	$ 7,367,171	$ 268,696	$ -	$ 7,635,867
Interest rate swap	-	(278,999)	-	(278,999)
Total	$ 7,367,171	$ (10,303)	$ -	$ 7,356,868

NOTE 15. ASSETS DESIGNATED FOR PERMANENT ENDOWMENT

Net assets designated for quasi-endowment represent funds that have been identified by the Bishop to be invested by the Central Office. The income may be expendable to support operations. Endowment net assets are unrestricted and amount to $3,022,710 and $6,894,901 for the years ended June 30, 2009 and 2008, respectively. The changes in the endowment for the years ended June 30, 2009 and 2008, follows:

	2009	2008
Balance at beginning of year	$ 6,894,901	$ 7,935,042
Investment income, net	67,131	153,029
Net realized and unrealized loss	(514,159)	(770,290)
Grants	-	(44,918)
Appropriation for expenditures	(157,331)	(377,962)
Released from designation	(3,267,832)	-
Balance at end of year	$ 3,022,710	$ 6,894,901

NOTE 15. ASSETS DESIGNATED FOR PERMANENT ENDOWMENT (Continued)

Return Objectives and Risk Parameters
The objective of the investment program is to enhance the Central Office's portfolio through capital appreciation and reinvestment of income above required needs. The Diocesan Finance Council recognizes that this objective can be met over time only if the purchasing power of the investment portfolio is increased on a real dollar (inflation-adjusted) basis. Therefore, the Central Office's goal is to achieve a premium of four percent (4%) over the rate of inflation as measured by the Consumer Price Index over a five-year time horizon.

In order to meet the objectives for capital growth, the following guidelines are established with respect to the proportions of equities and fixed income securities held in the portfolio:

1) The equity exposure will not exceed seventy percent (70%) of the portfolio at market value. A high level of diversification across industry and individual holdings will be maintained. The maximum exposure to any industry shall be 20% of the total portfolio's market value and the maximum exposure to an individual security shall be 8% of the total portfolio's market value. The majority of holdings shall be listed on a major exchange to take advantage of listing requirements, disclosure rules, and to improve liquidity. Prudent standards of quality will be developed and maintained by the investment manager. Companies whose securities are held should exhibit strong financial position and have a record of profitable operating results. It is expected that the majority of issues held shall be B+ or better rated securities by Standard & Poor's Corp. and the average rating of stocks shall meet this minimum test. The preference is for high quality dividend paying securities.

2) The fixed income exposure will be a minimum of thirty percent (30%) of the portfolio at market value. Except for U.S. Treasury and Agency obligations, the debt portion of the portfolio shall not contain more than ten percent (10%) from any given issuer. Maturity should be limited to fifteen years or less. The average maturity must not exceed eight years. The average quality rating of the fixed income portion of the portfolio should be A rated or better. The total percentage of the non-convertible fixed income portion rated less than A may not exceed ten percent (10%).

It is recognized that there may be times when the investment manager wishes to hold cash equivalents, based on the near-term market outlook. The manager has the discretion to do so within the context of this longer term allocation policy.

Strategies Employed for Achieving Objectives
All investment decisions on behalf of the Central Office shall be based upon and consistent with the above priorities. Specifically, it is desired that the following mix of investments be maintained:

Equities	70% or less
Fixed income/cash	30% or more

NOTE 15. ASSETS DESIGNATED FOR PERMANENT ENDOWMENT (Continued)

The Central Office shall select manager(s) that will routinely monitor economic and market conditions as well as Central Office cash flow requirements and will adjust the portfolio accordingly. In addition, the manager(s) will diversify the use of investment instruments, maturities, and individual financial institutions to avoid unreasonable risk inherent in over-investing in specific instruments, maturities, or individual financial institutions.

Spending Policy and How the Investment Objectives Relate to Spending Policy

It is anticipated that annual distributions that total five percent (5%) of the average market value of the Endowment's assets at January 1st over the past five rolling years may be withdrawn quarterly for disbursement to support the Central Office.