

**CATHOLIC FOUNDATION
OF NORTH TEXAS**

AUDITED FINANCIAL STATEMENTS

Year Ended June 30, 2009



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R | C | O RYLANDER, CLAY & OPITZ, LLP
CERTIFIED PUBLIC ACCOUNTANTS
Smart Solutions. Real Results.

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of the
Catholic Foundation of North Texas
Fort Worth, Texas

We have audited the accompanying statement of financial position of the Catholic Foundation of North Texas (the "Foundation") 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 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 Foundation's June 30, 2008 financial statements and in our report dated March 19, 2009 we expressed an unqualified opinion on those 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 provides 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 Catholic Foundation of North Texas as of June 30, 2009, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 6 to the financial statements, effective July 1, 2008, the Foundation 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 7, the Foundation changed its method of recognition of classification of net assets comprising endowment funds in 2009.

Rylander, Clay & Opitz, LLP

December 17, 2009

CATHOLIC FOUNDATION OF NORTH TEXAS

STATEMENTS OF FINANCIAL POSITION

June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
ASSETS		
Cash and cash equivalents	\$ 97,698	\$ 60,844
Accounts receivable	1,816,844	1,261,966
Investments		
Marketable securities	29,613,217	35,265,391
Mineral interest	1,933,062	2,103,750
Land and buildings	43,019	42,979
Other assets	<u>206,034</u>	<u>175,108</u>
Total assets	<u><u>\$ 33,709,874</u></u>	<u><u>\$ 38,910,038</u></u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 271,885	\$ 354,412
Due to Central Office	50,073	62,244
Annuity obligations	273,600	285,523
Funds held for others	<u>10,332,211</u>	<u>11,965,694</u>
Total liabilities	10,927,769	12,667,873
Net Assets		
Unrestricted		
Undesignated	2,527,786	1,793,999
Designated	<u>585,377</u>	<u>701,434</u>
Total unrestricted	3,113,163	2,495,433
Temporarily restricted	16,370,307	20,726,427
Permanently restricted	<u>3,298,635</u>	<u>3,020,305</u>
Total net assets	<u><u>22,782,105</u></u>	<u><u>26,242,165</u></u>
Total liabilities and net assets	<u><u>\$ 33,709,874</u></u>	<u><u>\$ 38,910,038</u></u>

See notes to financial statements.



CATHOLIC FOUNDATION OF NORTH TEXAS

STATEMENTS OF ACTIVITIES

Year Ended June 30, 2009 with comparative total for 2008

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
				2009	2008
Revenue and other support					
Contributions	\$ 730,767	\$ 25,828	\$ 278,330	\$ 1,034,925	\$ 1,364,842
Investment income, net	24,066	606,077	-	630,143	758,062
Royalty income	322,177	-	-	322,177	350,641
Net realized and unrealized loss	(326,766)	(4,066,468)	-	(4,393,234)	(2,014,133)
Unrealized gain (loss) on mineral interest	(170,688)	-	-	(170,688)	311,750
Fees and related charges	66,808	-	-	66,808	83,048
Lease and rental income	553	-	-	553	2,395
Loss on sale of land	-	-	-	-	(24,597)
Net assets released from restrictions	921,557	(921,557)	-	-	-
Total revenue and other support	1,568,474	(4,356,120)	278,330	(2,509,316)	832,008
Expenses					
Program services					
Catholic Partnership Campaign	-	-	-	-	1,022,369
Grants	883,081	-	-	883,081	1,024,420
Financial services	38,848	-	-	38,848	127,292
Administrative and support services	28,815	-	-	28,815	25,109
Total expenses	950,744	-	-	950,744	2,199,190
Change in net assets	617,730	(4,356,120)	278,330	(3,460,060)	(1,367,182)
Net assets at beginning of year, as previously stated	1,922,428	21,299,432	3,020,305	26,242,165	27,609,347
Restatement due to change in law and correction	573,005	(573,005)	-	-	-
Net assets at beginning of year, as restated	2,495,433	20,726,427	3,020,305	26,242,165	27,609,347
Net assets at end of year	\$ 3,113,163	\$ 16,370,307	\$ 3,298,635	\$ 22,782,105	\$ 26,242,165

See notes to financial statements.



CATHOLIC FOUNDATION OF NORTH TEXAS

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

	2009	2008
Cash Flows from Operating Activities		
Change in net assets	\$ (3,460,060)	\$ (1,367,182)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Net realized and unrealized loss on marketable securities	4,393,234	2,014,133
Unrealized (gain) loss on mineral interest	170,688	(311,750)
Investment expense of annuity obligations	33,778	36,215
Loss on sale of land	-	24,597
Permanently restricted contributions	(278,330)	(173,367)
Changes in operating assets and liabilities:		
Increase in accounts receivable	(554,878)	(1,128,385)
Increase (decrease) in accounts payable	(82,527)	190,610
Decrease in due to Central Office	(12,171)	(4,854)
Decrease in funds held for others	(1,633,483)	(1,422,217)
Net cash used by operating activities	(1,423,749)	(2,142,200)
Cash Flows from Investing Activities		
(Increase) decrease in other assets	(30,926)	(19,464)
Purchase of land	(40)	(40)
Proceeds from sale of land	-	40,403
Purchase of marketable securities	(12,058,761)	(32,489,047)
Proceeds from the sale of marketable securities	13,317,701	33,285,496
Net cash provided by investing activities	1,227,974	817,348
Cash Flows from Financing Activities		
Cash received from permanently restricted contributions	278,330	173,367
Payment of annuity obligations	(50,310)	(137,249)
Amounts received on annuity obligations	4,609	10,303
Net cash used by financing activities	232,629	46,421
Net increase (decrease) in cash and cash equivalents	36,854	(1,278,431)
Cash and cash equivalents at beginning of year	60,844	1,339,275
Cash and cash equivalents at end of year	\$ 97,698	\$ 60,844

See notes to financial statements.



CATHOLIC FOUNDATION OF NORTH TEXAS

NOTES TO FINANCIAL STATEMENTS

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

The accompanying financial statements include the assets, liabilities, net assets and financial activities of the Catholic Foundation of North Texas, the Catholic Schools Trust, the Catholic Cemeteries Trust and the St. Joseph's Health Care Trust (collectively, the "Foundation"). The Trusts are governed by one board of trustees. Each of these affiliated entities of the Catholic Diocese of Fort Worth (the "Diocese") is ultimately responsible to the Bishop.

The Foundation was established by the governance of the Diocese to receive and manage bequests, endowments and other resources as an additional means to provide support for the ministries and programs of the parishes, schools and other agencies of the Diocese.

The programs of the Foundation consist of:

Catholic Partnership Campaign – a multi-year Diocesan capital campaign established to generate a long-term base of financial support for key pastoral priorities and programs. The fundraising portion of the campaign has ended; however, the Foundation maintains the remaining funds to be disbursed.

Grants – provides grant funding to agencies, primarily within the Diocese, to further their programs and goals which are similar to those of the Diocese.

Financial Services – provides accounting, property management, and other financial assistance to the Foundation.

The Catholic Schools Trust (the "Schools Trust") was established by the Diocese to receive, manage, invest, and distribute properties, assets, and monies given to the Diocese for the use and benefit of the schools that are a part of the Diocese and for religious and educational purposes in the Diocese.

The Catholic Cemeteries Trust (the "Cemeteries Trust") was established by the Diocese to receive, manage, invest, and distribute properties, assets, and monies given to the Diocese for the use and benefit of cemeteries, which are a part of the Diocese.

The St. Joseph's Health Care Trust (the "Health Trust") was established to receive, manage, invest and distribute properties, assets, and monies given to the Diocese for the use and benefit of health care programs in the Diocese.

Cash and Cash Equivalents

The Foundation considers all highly-liquid investments with an initial maturity of three months or less to be cash equivalents.



CATHOLIC FOUNDATION OF NORTH TEXAS

NOTES TO FINANCIAL STATEMENTS

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

Accounts Receivable

Accounts receivable are due almost exclusively from affiliates of the Foundation. Management periodically evaluates receivables for collectability and only records a reserve if ultimate collection appears doubtful. Management does not consider an allowance for doubtful accounts necessary at June 30, 2009 and 2008.

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are measured at fair value in the statements 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 Foundation invests a portion of its assets in an investment pool that uses the market value unit method of accounting for investment transactions. Under this method, each fund or Diocesan entity 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 unit 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.

Investments in mineral interests are recorded at estimated market values, based on projected future cash flows. Investments in land and buildings are recorded at cost.

Other Assets

Other assets consist primarily of the cash surrender value of life insurance policies with the Foundation as the beneficiary.

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.

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.

Income Taxes

The Foundation 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.



CATHOLIC FOUNDATION OF NORTH TEXAS

NOTES TO FINANCIAL STATEMENTS

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

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 Foundation.

Supporting Services

Administrative and fundraising costs related to the Foundation are jointly associated with the Central Office. There is no reasonable basis for estimating the direct cost associated with supporting services for the Foundation for the years ended June 30, 2009 and 2008.

Recent Accounting Pronouncement

In July 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. FIN 48 prescribes financial statement recognition and measurement criteria for tax positions taken or expected to be taken in a tax return. 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 Foundation 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 Foundation 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 Foundation 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 activities and has not yet determined if the adoption of FIN 48 will have a material effect on its financial statements.

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 Foundation's financial statements for the year ended June 30, 2008, from which the summarized information is derived.

Reclassifications

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

Subsequent Events

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



CATHOLIC FOUNDATION OF NORTH TEXAS

NOTES TO FINANCIAL STATEMENTS

NOTE 2. INVESTMENTS IN MARKETABLE SECURITIES

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

	2009		2008	
	Market Value	Cost	Market Value	Cost
Short-term funds	\$ 706,991	\$ 706,991	\$ 2,258,536	\$ 2,258,536
Fixed income	-	-	368,066	349,731
Equity securities	17,318,726	19,815,817	20,177,762	18,130,627
Mutual funds	11,587,090	12,790,683	12,460,617	12,714,962
Other	410	410	410	410
	<u>\$ 29,613,217</u>	<u>\$ 33,313,901</u>	<u>\$ 35,265,391</u>	<u>\$ 33,454,266</u>

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

	2009	2008
Net realized gain (loss)	\$ (376,640)	\$ 2,248,369
Net unrealized loss	<u>(4,016,594)</u>	<u>(4,262,502)</u>
Net realized and unrealized loss	<u>\$ (4,393,234)</u>	<u>\$ (2,014,133)</u>

Investment income is presented net of expenses of approximately \$124,000 and \$158,000 for the years ended June 30, 2009 and 2008, respectively.

NOTE 3. ANNUITY OBLIGATIONS

Annuity obligations represent the actuarially determined liability resulting from the receipt of various annuity gifts by the Foundation. The present value of the liability resulting from the receipt of an annuity gift is recorded at the date of the gift. The payments to the annuitant are determined based on valuation tables published by the "Committee on Gift Annuities," a nationally recognized organization. Since the Foundation underwrites the annuities, it is liable for full funding of each annuitant's benefits. This liability is remeasured annually, and any adjustment necessary is recognized in the statement of activities.

The activity in the annuity obligations account for the years ended June 30, 2009 and 2008 follows:

	2009	2008
Balance at beginning of year	\$ 285,523	\$ 376,254
Liability recorded for additional gifts	4,609	10,303
Investment expense of annuity obligations	33,778	36,215
Payments to annuitants	<u>(50,310)</u>	<u>(137,249)</u>
Balance at end of year	<u>\$ 273,600</u>	<u>\$ 285,523</u>



CATHOLIC FOUNDATION OF NORTH TEXAS

NOTES TO FINANCIAL STATEMENTS

NOTE 4. FUNDS HELD FOR OTHERS

Funds held for others primarily relate to amounts that the Foundation manages for the Schools Trust, the Cemeteries Trust, and various parishes and affiliated entities of the Diocese. These amounts are recorded at their determinable fair values, and reported as a component of investments in the accompanying financial statements.

Funds held for others consist of the following at June 30, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
The Schools Trust	\$ 6,977,921	\$ 8,212,525
The Cemeteries Trust	881,081	1,032,025
Parishes and Schools of the Diocese	2,132,731	2,334,559
Other	340,478	386,585
	<u>\$ 10,332,211</u>	<u>\$ 11,965,694</u>

NOTE 5. RESTRICTIONS ON ASSETS

The accompanying financial statements include net assets that are temporarily restricted, based on various donor-imposed purpose and time restrictions.

A summary of temporarily restricted net assets at June 30, 2009 and 2008 follows:

	<u>2009</u>	<u>2008</u>
Catholic Partnership Campaign	\$ 871,197	\$ 1,075,901
Seminarian support	598,768	1,362,149
Schools Trust	342,974	667,922
Healthcare	14,557,368	17,620,455
	<u>\$ 16,370,307</u>	<u>\$ 20,726,427</u>

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

	<u>2009</u>	<u>2008</u>
Catholic Partnership Campaign	\$ 88,043	\$ 1,154,245
Seminarian support	197,068	233,312
Schools Trust	89,927	63,995
Healthcare	546,519	444,876
	<u>\$ 921,557</u>	<u>\$ 1,896,428</u>

Permanently restricted net assets are endowed funds restricted in perpetuity to support the education of seminarians. Income generated by these assets is restricted for seminarian support.



CATHOLIC FOUNDATION OF NORTH TEXAS

NOTES TO FINANCIAL STATEMENTS

NOTE 6. FAIR VALUE OF ASSETS AND LIABILITIES

Effective July 1, 2008, the Foundation 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.

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.

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 publicly 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 the SFAS No. 157 fair value hierarchy in which the fair value measurements fall at June 30, 2009.

	Fair Value	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Marketable securities	\$ 29,613,217	\$ 29,613,217	\$ -	\$ -



CATHOLIC FOUNDATION OF NORTH TEXAS

NOTES TO FINANCIAL STATEMENTS

NOTE 6. FAIR VALUE OF ASSETS AND LIABILITIES (Continued)

Fair Value of Financial Instruments

The Foundation's financial instruments consist of cash and cash equivalents, accounts receivable, investments in marketable securities and mineral interest, accounts payable, due to Central Office, and annuity obligations. The recorded values of investments in marketable securities are stated at fair value and unrealized gains and losses are recorded in the statements of activities. Investments in mineral interests are recorded at estimated market values, based on projected future cash flows. The recorded value of the annuity obligations approximates their fair value as they are actuarially determined at the date of the gift. The recorded values of cash and cash equivalents, accounts receivable, accounts payable, and the amount due to Central Office approximate their fair values based on their short-term nature.

NOTE 7. ASSETS RESTRICTED AND DESIGNATED FOR PERMANENT ENDOWMENT

The net assets of the Foundation represent funds designated by donors and the Bishop to fund an endowment. Income generated by these assets is designated for support of seminarians. Endowment net asset composition by type of funds for the years ended June 30, 2009 and 2008 follows:

	2009			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted	\$ -	\$ 598,768	\$ 3,298,635	\$ 3,897,403
Board designated	585,377	-	-	585,377
	<u>\$ 585,377</u>	<u>\$ 598,768</u>	<u>\$ 3,298,635</u>	<u>\$ 4,482,780</u>

	2008			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted	\$ -	\$ 1,362,149	\$ 3,020,305	\$ 4,382,454
Board designated	701,434	-	-	701,434
	<u>\$ 701,434</u>	<u>\$ 1,362,149</u>	<u>\$ 3,020,305</u>	<u>\$ 5,083,888</u>

The changes in the endowment for the years ended June 30, 2009 and 2008, follow:

	2009			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance at beginning of year	\$ 701,434	\$ 1,362,149	\$ 3,020,305	\$ 5,083,888
Current year contributions	-	-	278,330	278,330
Investment income, net	12,933	83,189	-	96,122
Investment losses	(98,418)	(649,502)	-	(747,920)
Appropriation for expenditures	(30,572)	(197,068)	-	(227,640)
Balance at end of year	<u>\$ 585,377</u>	<u>\$ 598,768</u>	<u>\$ 3,298,635</u>	<u>\$ 4,482,780</u>



CATHOLIC FOUNDATION OF NORTH TEXAS

NOTES TO FINANCIAL STATEMENTS

NOTE 7. ASSETS RESTRICTED FOR PERMANENT ENDOWMENT (Continued)

	2008			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Balance at beginning of year	\$ 790,184	\$ 1,884,600	\$ 2,846,938	\$ 5,521,722
Current year contributions	-	-	173,367	173,367
Investment income, net	17,647	107,679	-	125,326
Investment losses	(67,717)	(396,818)	-	(464,535)
Appropriation for expenditures	(38,680)	(233,312)	-	(271,992)
Balance at end of year	<u>\$ 701,434</u>	<u>\$ 1,362,149</u>	<u>\$ 3,020,305</u>	<u>\$ 5,083,888</u>

Prior to 2009, board designated net assets for the Foundation were previously reported as temporarily restricted funds. Based on management's review, these funds are considered board designated to add to the endowment. Therefore net assets previously reported of \$790,184 at July 1, 2007 as temporarily restricted, have been restated as board designated.

Interpretation of Relevant Law

The Foundation's Board of Trustees have interpreted the State of Texas's Uniform Prudent Management of Institutional Funds Act (UPMIFA) requiring the preservation of the fair value of the original gift as of the gift date of donor-restricted endowment funds absent explicit donor stipulations to the contrary. Therefore, the Foundation will classify as permanently restricted net assets:

- The original value of gifts donated to the permanent endowment,
- The original value of subsequent gifts to the permanent endowment, and
- Accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund.
- The purposes of the Foundation's and the donor-restricted endowment fund.
- General economic conditions.
- The effect of inflation or deflation when the maintenance of purchasing power is specifically indicated by the donor.
- The expected total return from income and the appreciation of investments.
- Other resources of the Foundation.
- The investment policies of the Foundation.



CATHOLIC FOUNDATION OF NORTH TEXAS

NOTES TO FINANCIAL STATEMENTS

NOTE 7. ASSETS RESTRICTED FOR PERMANENT ENDOWMENT (Continued)

Return Objectives and Risk Parameters

The objective of the investment program is to enhance the Foundation's portfolio through capital appreciation and reinvestment of income above required needs. The Diocesan Finance Council and the Foundation Trustees recognize 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 Foundation'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 Foundation 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



CATHOLIC FOUNDATION OF NORTH TEXAS

NOTES TO FINANCIAL STATEMENTS

NOTE 7. ASSETS RESTRICTED FOR PERMANENT ENDOWMENT (Continued)

The Foundation shall select manager(s) that will routinely monitor economic and market conditions as well as Foundation 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 (5%) percent 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 Foundation.

NOTE 8. RELATED PARTY

The Foundation is affiliated with the Central Office, both of which are governed by the Diocese. The Central Office provides certain administrative services to the Foundation. A total of \$50,073 and \$62,244 is due to the Central Office at June 30, 2009 and 2008, respectively, primarily for advances made by the Central Office to be paid out of the pooled investments for seminarian support.

The Central Office processes the claims against the Diocese. At June 30, 2009, the Central Office 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 is 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 or the Foundation.

