

**CENTRAL OFFICE OF THE
DIOCESE OF FORT WORTH**

FINANCIAL STATEMENTS

JUNE 30, 2005 AND 2004

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INDEPENDENT AUDITOR'S REPORT

The Most Reverend Kevin Vann
Bishop of the Diocese of Fort Worth

We have audited the accompanying statements of financial position of the Central Office of the Diocese of Fort Worth as of June 30, 2005 and 2004, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Central Office of the Diocese of Fort Worth as of June 30, 2005 and 2004, and the change in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Fort Worth, Texas
September 20, 2005

**CENTRAL OFFICE OF DIOCESE OF FORT WORTH
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2005 AND 2004**

	<u>2005</u>	<u>2004</u>
ASSETS		
Cash and cash equivalents	\$ 3,021,072	\$ 6,600,093
Accounts receivable - parishes and affiliates, net	631,847	361,120
Accrued interest receivable	558,358	966,041
Investments	9,691,037	12,456,220
Loans receivable	43,320,782	44,977,167
Due from affiliates	57,634	57,261
Other assets	342,122	255,248
Property held for future parish/school use	9,131,793	4,554,219
Property and equipment, net	<u>3,800,902</u>	<u>4,769,469</u>
TOTAL ASSETS	<u><u>\$ 70,555,547</u></u>	<u><u>\$ 74,996,838</u></u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 778,225	\$ 655,176
Accrued liabilities	287,001	36,788
Funds held for others	297,035	451,102
Deposits payable	32,476,950	35,996,750
Unearned service fee revenue	299,114	322,741
Interest rate swap	370,386	316,751
Notes payable	<u>12,657,238</u>	<u>10,939,644</u>
Total liabilities	47,165,949	48,718,952
Net assets		
Unrestricted		
Undesignated	5,804,897	6,721,919
Designated for insurance reserve	2,397,632	4,619,374
Designated for quasi-endowment	6,989,604	7,829,692
Designated for loans to related entities	<u>5,779,308</u>	<u>5,293,482</u>
Total unrestricted	20,971,441	24,464,467
Temporarily restricted		
Capital grants	1,377,960	879,494
Formation and assistance of clergy	-	78,711
Sharing-In-Ministry annual case	852,397	690,811
Other	<u>187,800</u>	<u>164,403</u>
Total temporarily restricted	2,418,157	1,813,419
Total net assets	<u><u>23,389,598</u></u>	<u><u>26,277,886</u></u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 70,555,547</u></u>	<u><u>\$ 74,996,838</u></u>

The Notes to Financial Statements are an integral part of these statements.

**CENTRAL OFFICE OF DIOCESE OF FORT WORTH
STATEMENTS OF ACTIVITIES
JUNE 30, 2005 AND 2004**

	2005		
	Unrestricted	Temporarily Restricted	Total
REVENUE AND SUPPORT			
Contributions	\$ 17,192	\$ 4,276,041	\$ 4,293,233
Diocesan assessments	3,228,978	-	3,228,978
Program and service fees	3,562,882	-	3,562,882
Net investment income	651,401	-	651,401
Net investment gains (losses)	(13,245)	-	(13,245)
Interest on loans receivable	2,676,882	-	2,676,882
Interest rate swap	(53,635)	-	(53,635)
Other	193,142	-	193,142
Net assets released from restrictions	3,671,303	(3,671,303)	-
Total revenue and support	<u>13,934,900</u>	<u>604,738</u>	<u>14,539,638</u>
 EXPENSES			
Program services:			
Education and formation	3,115,528	-	3,115,528
Grants	2,285,121	-	2,285,121
Pastoral services	843,881	-	843,881
Communication	529,328	-	529,328
Administrative and support services			
Benefit programs for parish, school and Diocesan employees	578,636	-	578,636
Diocesan administration	6,385,074	-	6,385,074
Insurance for all property in the Diocese	1,332,833	-	1,332,833
Deposit and Loan and other funds	2,049,286	-	2,049,286
Investment fees	37,022	-	37,022
Depreciation	271,217	-	271,217
Total expenses	<u>17,427,926</u>	<u>-</u>	<u>17,427,926</u>
CHANGES IN NET ASSETS	(3,493,026)	604,738	(2,888,288)
NET ASSETS, BEGINNING OF YEAR	<u>24,464,467</u>	<u>1,813,419</u>	<u>26,277,886</u>
NET ASSETS, END OF YEAR	<u>\$ 20,971,441</u>	<u>\$ 2,418,157</u>	<u>\$ 23,389,598</u>

The Notes to Financial Statements are an integral part of these statements.

2004		
Unrestricted	Temporarily Restricted	Total
\$ 19,912	\$ 4,142,073	\$ 4,161,985
3,086,389	-	3,086,389
3,276,384	-	3,276,384
567,438	-	567,438
1,308,256	-	1,308,256
2,666,768	-	2,666,768
417,707	-	417,707
198,028	-	198,028
<u>3,510,243</u>	<u>(3,510,243)</u>	<u>-</u>
<u>15,051,125</u>	<u>631,830</u>	<u>15,682,955</u>
2,821,843	-	2,821,843
1,803,041	-	1,803,041
801,285	-	801,285
483,615	-	483,615
646,690	-	646,690
2,744,324	-	2,744,324
1,064,669	-	1,064,669
2,180,032	-	2,180,032
39,278	-	39,278
265,147	-	265,147
<u>12,849,924</u>	<u>-</u>	<u>12,849,924</u>
2,201,201	631,830	2,833,031
<u>22,263,266</u>	<u>1,181,589</u>	<u>23,444,855</u>
<u>\$ 24,464,467</u>	<u>\$ 1,813,419</u>	<u>\$ 26,277,886</u>

The Notes to Financial Statements are
an integral part of these statements.

CENTRAL OFFICE OF DIOCESE OF FORT WORTH
STATEMENTS OF CASH FLOWS
JUNE 30, 2005 AND 2004

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Decrease (Increase) in net assets	(\$ 2,888,288)	\$ 2,833,031
Adjustments to reconcile increase in net assets to net cash provided by (used in) operating activities:		
Net realized and unrealized (gains) losses in market value	13,245	(1,308,256)
Depreciation	271,217	265,147
Interest rate swap	53,635	(417,707)
Gain (Loss) on retirement of fixed assets	(41,626)	2,458
Increase (Decrease) in accounts receivable	(270,727)	919,481
Increase in accounts receivable - affiliate	(373)	(13,861)
Decrease in accrued interest receivable	407,683	218,504
Increase in other assets	(86,874)	(79,049)
Increase (Decrease) in accounts payable	123,049	(21,083)
Increase in accrued expenses	250,213	4,814
Decrease in unearned service fee revenue	(23,627)	(47,001)
Decrease (Increase) in funds held for others	(154,067)	212,784
	(2,346,540)	2,569,262
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(210,443)	(201,043)
Purchase of property held for investments	(6,018,353)	(574,558)
Net decrease in loans receivable	3,675,268	54,012
Sale of investments, net	2,751,938	(1,200,606)
Proceeds from sale of fixed assets	371,315	(625,645)
	569,725	(2,547,840)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net decrease (increase) in deposits payable	(3,519,800)	1,495,550
Borrowings on notes payable	3,500,000	-
Repayment of notes payable	(1,782,406)	(1,508,529)
	(1,802,206)	(12,979)
Net decrease (increase) in cash and cash equivalents	(3,579,021)	8,443
CASH AND CASH EQUIVALENTS, beginning of year	6,600,093	6,591,650
CASH AND CASH EQUIVALENTS, end of year	\$ 3,021,072	\$ 6,600,093
Interest paid - deposits payable	\$ 1,495,544	\$ 1,525,499
Interest paid - notes payable	\$ 755,820	\$ 641,975

The Notes to Financial Statements are
an integral part of these statements.

**CENTRAL OFFICE OF THE DIOCESE OF FORT WORTH
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005 AND 2004**

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

Organization

The Central Office of the Diocese of Fort Worth (the Central Office) provides certain administrative functions for the 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 and referred to herein as the Central Office. 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 are comprised 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 of 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.

**CENTRAL OFFICE OF THE DIOCESE OF FORT WORTH
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005 AND 2004**

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Administrative Support Services - The effectiveness of the ministries that are supported through the Central Office are dependent on the proper stewardship of the gifts of the thousands of Catholics throughout the Diocese. Administrative support of the Central Office and the 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, Tribunal, insurance programs, employee benefits, and many others are enabling the ministries and programs that touch and change the lives of Catholics throughout the Diocese.

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are measured at fair values in the Statement of Financial Position. Investment income or loss (including gains and losses on investments, interest and dividends) is 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 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 withdrawing from the pool.

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 2005, property with a cost of approximately \$1,400,000 was sold to related parishes and schools, typically by making a loan to the entity.

Property and Equipment

Property and equipment are stated at cost for purchased assets and fair market value (at date of contribution) for contributed assets. Major expenditures for property and those which substantially increase the useful lives of assets are capitalized. Maintenance, repairs, and minor renewals are expensed as incurred. When assets are retired or otherwise disposed of, their cost and related accumulated depreciation are removed from the accounts. Resulting gains or losses are included in the Statement of Financial Activities. The Central Office provides for depreciation of property and equipment using the straight-line method over estimated useful lives of the assets, ranging from 3 to 40 years.

**CENTRAL OFFICE OF THE DIOCESE OF FORT WORTH
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005 AND 2004**

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Cash and Cash Equivalents

For the purpose of presentation in the Statement of Cash Flows, cash and cash equivalents are defined as cash on hand and on deposit in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to cash and have original maturities when acquired of three months or less. In addition, non cash financing and investing activities from 2005 include the transfer of approximately \$1,400,000 in property held for future use to related parishes and schools.

Contributions

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, (when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

Donations of property, materials and services are recorded at fair value for donations having a measurable and objective basis for valuation. The Central Office recognizes contributed services received that require specialized skills, or that would enhance nonfinancial assets which would have been purchased, if not acquired through donation. The Central Office does not recognize revenue or expense associated with services contributed by religious personnel or volunteers since no objective basis is available to measure the value of such services. Several volunteers have donated significant amounts of time in the Central Office's programs and supporting services.

Income Taxes

The activities of the Central Office are exempt from Federal income taxes under provisions of Section 501(c)(3) of the Internal Revenue Code, and the Central Office is not considered a private foundation. Accordingly, no provision for Federal income taxes has been made in the accompanying financial statements.

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 expense during the reporting period. Actual results could differ from those estimates.

**CENTRAL OFFICE OF THE DIOCESE OF FORT WORTH
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005 AND 2004**

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Concentration of Credit and Market Risk

Concentration of credit and market risk for the Central Office consists primarily of cash and money market funds, loans receivable and investments. The Central Office maintains its cash and money market accounts with quality financial institutions; however, for the year ended June 30, 2005 and at June 30, 2005, the Central Office's deposits with financial institutions exceeded the limits insured by the FDIC. The Central Office has not experienced any losses on its deposits and believes that it is not exposed to any significant credit risk on cash. The Central Office's investments are not considered to represent significant concentrations of market risk because the portfolio is reasonably diversified among issuers. The loans receivable of the Central Office are primarily due from parishes and schools within the Diocese, and management of the Central Office closely monitors their financial position.

Valuation of 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, and 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.

NOTE 2. ACCOUNTS RECEIVABLE

Accounts receivable - parishes and affiliates relates to amounts that the Central Office has 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.

The balance of accounts receivable - parishes and affiliates consists of the following at June 30:

	<u>2005</u>	<u>2004</u>
Accounts receivable	\$ 643,641	\$ 372,914
Less allowance for doubtful accounts	<u>11,794</u>	<u>11,794</u>
Net receivable balance	<u>\$ 631,847</u>	<u>\$ 361,120</u>

**CENTRAL OFFICE OF THE DIOCESE OF FORT WORTH
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005 AND 2004**

NOTE 3. INVESTMENTS

Investments in marketable securities are carried at market value and are comprised of the following:

	<u>2005</u>		
	<u>Cost</u>	<u>Market Value</u>	<u>Carrying Value</u>
Pooled investments:			
Short-term investment funds	\$ 1,143,556	\$ 1,143,608	\$ 1,143,608
U. S. Government obligations	284,890	289,603	289,603
Corporate bonds	491,042	504,261	504,261
Mutual funds	1,405,648	1,570,148	1,570,148
Equity securities	4,232,377	5,744,870	5,744,870
Other	<u>438,547</u>	<u>438,547</u>	<u>438,547</u>
	<u>\$ 7,996,060</u>	<u>\$ 9,691,037</u>	<u>\$ 9,691,037</u>
	<u>2004</u>		
	<u>Cost</u>	<u>Market Value</u>	<u>Carrying Value</u>
Pooled investments:			
Short-term investment funds	\$ 1,906,942	\$ 1,906,716	\$ 1,906,716
U. S. Government obligations	572,130	584,742	584,742
Corporate bonds	1,040,001	1,111,851	1,111,851
Mutual funds	648,552	816,478	816,478
Equity securities	6,459,800	7,587,240	7,587,240
Other	<u>449,193</u>	<u>449,193</u>	<u>449,193</u>
	<u>\$ 11,076,618</u>	<u>\$ 12,456,220</u>	<u>\$ 12,456,220</u>

Net investment gains (losses) are summarized as follows:

	<u>2005</u>	<u>2004</u>
Net realized gains (losses)	(\$ 581,051)	\$ 933,277
Net unrealized gains	<u>567,806</u>	<u>374,979</u>
Total net gains (losses)	<u>(\$ 13,245)</u>	<u>\$ 1,308,256</u>

Net investment income is summarized as follows:

	<u>2005</u>	<u>2004</u>
Pooled investment income, net	\$ 563,015	\$ 460,336
Interest on deposits	75,863	103,603
Other interest income	<u>12,523</u>	<u>3,499</u>
Total	<u>\$ 651,401</u>	<u>\$ 567,438</u>

**CENTRAL OFFICE OF THE DIOCESE OF FORT WORTH
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005 AND 2004**

NOTE 4. LOANS RECEIVABLE

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 6% at June 30, 2005, 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:

	<u>2005</u>	<u>2004</u>
Loans to parishes	\$ 21,821,072	\$ 23,200,177
Loans to schools	21,313,709	20,931,675
Loans to other Diocesan entities	186,001	235,816
Loans to parishes subject to five year exception from interest and principal payments	<u>-</u>	<u>609,499</u>
	<u>\$ 43,320,782</u>	<u>\$ 44,977,167</u>

At June 30, 2005, 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 5. PROPERTY AND EQUIPMENT

The composition of property and equipment at June 30:

	<u>2005</u>	<u>2004</u>
Land	\$ 1,299,826	\$ 1,877,930
Buildings	3,782,226	4,268,800
Equipment, furnishings and vehicles	<u>1,179,578</u>	<u>1,119,398</u>
	6,261,630	7,266,128
Less: accumulated depreciation	<u>2,460,728</u>	<u>2,496,659</u>
	<u>\$ 3,800,902</u>	<u>\$ 4,769,469</u>

**CENTRAL OFFICE OF THE DIOCESE OF FORT WORTH
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005 AND 2004**

NOTE 6. DEPOSITS PAYABLE

The Central Office receives deposits from parishes, schools and other entities within the Diocese; interest accrues on these deposits at a rate of 4.5% at June 30, 2005, and the amounts are due on demand. The composition of deposits payable at June 30, is as follows:

	<u>2005</u>	<u>2004</u>
Deposits payable to parishes	\$ 20,177,444	\$ 23,568,747
Deposits payable to schools	12,007,047	11,984,170
Deposits payable to other entities	<u>292,459</u>	<u>443,833</u>
	<u>\$ 32,476,950</u>	<u>\$ 35,996,750</u>

Interest expense relating to deposits payable was \$1,495,544 and \$1,525,499 for the years ended June 30, 2005 and 2004, respectively and is included as a component of Deposit and Loan and other funds expense in the accompanying financial statements.

NOTE 7. NOTES PAYABLE

The Central Office has a loan agreement with the City of Tatum, Texas Higher Education Facilities Corporation in the original principal amount of \$7,500,000 to be used for the acquisition of land and the construction of buildings, facilities and improvement within the Diocese for educational purposes. The loan originated on January 1, 1998 and matures December 1, 2007. Terms of the loan require that payments be made quarterly in the amount of \$243,330, including interest at a fixed rate of 5.35%. During 2005, the interest rate was renegotiated to a rate of 4.45%. The loan is unsecured.

The Central Office also has a loan agreement with the City of Roman Forest in an original amount of \$9,500,000, which originated in the 2002, the proceeds of which are to be used generally for the same purposes as noted above. Terms of the loan require that payments be made quarterly in an amount of \$315,623, equal to one-fourth (1/4) of the amount of principal that would be owing during the applicable year based on a ten year amortization at a rate equal to 5.265%. The stated rate on the note agreement fluctuates with the LIBOR rate and was approximately 3.88% at June 30, 2005. The loan is unsecured and matures December 2011.

**CENTRAL OFFICE OF THE DIOCESE OF FORT WORTH
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005 AND 2004**

NOTE 7. NOTES PAYABLE – CONTINUED

During the year ended June 30, 2005, the Central Office entered into an additional loan agreement with the City of Roman Forest in an original amount of \$3,500,000, the proceeds of which are to be used generally for the same purposes as noted above. Terms of the loan require that payments be made quarterly in an amount of \$102,809, equal to one-fourth (1/4) of the amount of principal that would be owing during the applicable year based on a ten year amortization at a rate equal to 4.60%. The stated rate on the note agreement fluctuates with the LIBOR rate and was approximately 3.29% at June 30, 2005. The loan is unsecured and matures June 1, 2015.

The loan agreements with the City of Roman Forest include an interest swap provision that effectively fixes the variable rate agreement. The swap was instituted to provide a fixed rate on the debt in order 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 balance sheet as either an asset or liability measured 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, 2005 and 2004 is a net loss of \$53,635 and a net gain of \$417,707, respectively relating to the change in derivative value during each year. At June 30, 2005, a liability for derivative instruments of \$370,386 has been recorded as the fair value of the instruments. The fair value of the interest rate swap has been estimated based upon available information at June 30, 2005 and may change materially in the near-term based on changes in interest rates and other factors.

Maturities of the loans in the years subsequent to June 30, 2005 are as follows:

2006	\$	2,081,219
2007		2,192,157
2008		1,819,197
2009		1,413,647
2010		1,487,485
Thereafter		<u>3,663,533</u>
		<u>\$ 12,657,238</u>

Interest and amortization expense of \$755,820 and \$541,666 is included in Deposit and Loan and other funds in the accompanying financial statements for notes payable outstanding during 2005 and 2004, respectively.

**CENTRAL OFFICE OF THE DIOCESE OF FORT WORTH
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005 AND 2004**

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 month 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 a thousand hours a calendar year who 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 subject 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 recognizes pension expense only to the extent of the assessment charged to it. During the years ended June 30, 2005 and 2004, the pension expense of the Central Office was approximately \$269,000 and \$260,000, respectively.

NOTE 9. 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 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 the billing of 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.

**CENTRAL OFFICE OF THE DIOCESE OF FORT WORTH
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005 AND 2004**

NOTE 10. COMMITMENTS AND CONTINGENCIES

Included in accounts payable is a pledge in the original amount of \$120,000 made by the Central Office for a scholarship fund. \$30,000 is payable each year, continuing through 2007. The remaining pledge at June 30, 2005 was \$60,000. The pledge is recorded at the present value of future cash flows. As a result, a discount of \$7,227 has been recorded.

The Central Office is involved in litigation incident to the operation of its business. In the opinion of management, their ultimate resolution will not have a materially adverse effect on the Central Office's financial position.

NOTE 11. 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 of 1% to 9.5% of the gross offertory collections, based on the circumstances at each parish.

In addition, the Central Office assessed approximately \$149,000 and \$145,000 in 2005 and 2004, respectively to parishes that have students enrolled at Nolan High School.

NOTE 12. CLASSIFICATION OF NET ASSETS

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

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.

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

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NOTE 13. LITIGATION SETTLEMENT

During the year ended June 30, 2005, the Central office settled a lawsuit involving a priest that worked in the Diocese from 1988 to 1992. The lawsuit alleged sexual impropriety on the part of the priest. The terms of the settlement required the Central Office to pay approximately \$4,150,000 to the plaintiffs. In addition, the Central Office incurred approximately \$944,000 in legal costs relating to the lawsuit. The Central Office was reimbursed approximately \$1,300,000 by their insurance carrier. The related costs, net of the insurance recovery, were included as a component of diocesan administration costs in the accompanying financial statements. For the year ended June 30, 2005, there was a decrease in net assets of approximately \$2,900,000; had it not been for the above noted settlement, there would have been an increase in net assets of approximately \$894,000 for the year ended June 30, 2005.

NOTE 14. RELATED PARTY

The Central Office is affiliated with the Foundation, as both are governed by the Diocese of Fort Worth. A total of \$57,634 and \$57,261 is due from the Foundation at June 30, 2005 and 2004, respectively and is reflected as an asset in the accompanying financial statements. These amounts are primarily for withdrawals from the Catholic School Trust advanced by the Central Office.