

DIOCESE OF TYLER – CHANCERY OFFICE
FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2007 AND 2006

**GOLLOB MORGAN
PEDDY & Co., P.C.**
Certified Public Accountants

**DIOCESE OF TYLER – CHANCERY OFFICE
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We have audited the accompanying statements of financial position of the Diocese of Tyler – Chancery Office as of December 31, 2007 and 2006, and the related statements of activities, combined statements of functional expenses, and statements of cash flows for the years then ended. These financial statements are the responsibility of Diocesan 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 in the first paragraph present fairly, in all material respects, the financial position of the Diocese of Tyler - Chancery Office as of December 31, 2007 and 2006, and the changes 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.

Certified Public Accountants

Tyler, Texas
September 22, 2008

**DIOCESE OF TYLER - CHANCERY OFFICE
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2007 AND 2006**

	2007	2006
ASSETS		
Cash and cash equivalents	\$ 3,688,289	\$ 2,376,731
Accounts receivable - parishes and affiliates, net (Note A)	1,021,916	1,010,498
Contributions and grants receivable, net (Note A)	612,377	780,998
Accrued interest receivable	307,731	315,774
Prepaid expenses	223,361	211,665
Investments, at market (Note B)	1,063,595	1,313,939
Equity in Catholic Umbrella Pool II (Note C)	74,053	55,195
Loans receivable - parishes and other Catholic institutions (Note D)	4,573,270	5,288,220
Land, property and equipment - net (Note E)	1,915,084	1,968,939
TOTAL ASSETS	\$ 13,479,676	\$ 13,321,959
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 189,058	\$ 194,508
Deferred revenue	29,676	53,427
Funds held for others (Note D)	134,702	172,009
Deposits payable (Note D)	4,681,983	4,372,922
Deferred obligation for priest's pension plan	926,009	724,641
Total Liabilities	5,961,428	5,517,507
Net Assets:		
Unrestricted	4,936,002	5,129,913
Temporarily restricted (Note F)	1,127,825	1,345,907
Permanently restricted (Note G)	1,454,421	1,328,632
	7,518,248	7,804,452
TOTAL LIABILITIES AND NET ASSETS	\$ 13,479,676	\$ 13,321,959

DIOCESE OF TYLER - CHANCERY OFFICE
STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2007 AND 2006

EXHIBIT "B"
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	2007			
	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
SUPPORT AND REVENUE				
Contributions	\$ 142,725	1,095,506	125,789	\$ 1,364,020
Assessments	810,885	-	-	810,885
Grants	152,346	-	-	152,346
Fees for services	1,196,318	-	-	1,196,318
Investment income	178,322	3,829	-	182,151
Equity in Catholic Umbrella Pool II	20,376	-	-	20,376
Interest on loans	315,895	-	-	315,895
Subscription revenue	100,433	-	-	100,433
Program fees	137,252	-	-	137,252
Net loss on obsolete equipment	-	-	-	-
Net realized gain (loss) on sale of investments	21,595	-	-	21,595
Net unrealized gain (loss) on investments	22,084	-	-	22,084
Net gain (loss) on sale of equipment	1,579	-	-	1,579
Bad debt recovery	11,141	-	-	11,141
Other revenue (Note M)	149,953	-	-	149,953
	3,260,904	1,099,335	125,789	4,486,028
Net Assets Released From Restrictions				
Expiration of time restrictions - BAA	1,317,417	(1,317,417)	-	-
Expiration of time restrictions - Other	-	-	-	-
	1,317,417	(1,317,417)	-	-
Total Support, Revenue and Net Assets Released from Restrictions	4,578,321	(218,082)	125,789	4,486,028
EXPENSES				
Program Services:				
Chancery Services	928,676	-	-	928,676
Education	565,866	-	-	565,866
Faith Formation	843,393	-	-	843,393
Community Development	92,178	-	-	92,178
	2,430,113	-	-	2,430,113
Supporting Services:				
Management and general	1,956,286	-	-	1,956,286
Fundraising	184,465	-	-	184,465
	2,140,751	-	-	2,140,751
Total Expenses	4,570,864	-	-	4,570,864
Change in Net Assets	7,457	(218,082)	125,789	(84,836)
Net Assets at Beginning of Year, as adjusted	5,129,913	\$ 1,345,907	\$ 1,328,632	7,804,452
Adjustment for additional minimum priest's				

DIOCESE OF TYLER - CHANCERY OFFICE
STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2007 AND 2006

	2006			
	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
SUPPORT AND REVENUE				
Contributions	\$ 72,649	\$ 1,317,417	\$ 69,912	\$ 1,459,978
Assessments	671,129	-	-	671,129
Grants	165,000	-	-	165,000
Fees for services	1,821,126	-	-	1,821,126
Investment income	154,788	3,078	-	157,866
Equity in Catholic Umbrella Pool II	(13,670)	-	-	(13,670)
Interest on loans	332,005	-	-	332,005
Subscription revenue	97,860	-	-	97,860
Program fees	118,657	-	-	118,657
Net loss on obsolete equipment	(640)	-	-	(640)
Net realized gain (loss) on sale of investments	15,941	-	-	15,941
Net unrealized gain (loss) on investments	59,655	-	-	59,655
Bad debt recovery	-	-	-	-
Other revenue (Note M)	484,671	-	-	484,671
Total Support and Revenue	3,979,171	1,320,495	69,912	5,369,578
Net Assets Released From Restrictions				
Expiration of time restrictions - BAA	1,142,839	(1,142,839)	-	-
Expiration of time restrictions - Other	275	(275)	-	-
Total Net Assets Released from Restrictions	1,143,114	(1,143,114)	-	-
Total Support, Revenue and Net Assets Released from Restrictions	5,122,285	177,381	69,912	5,369,578
EXPENSES				
Program Services:				
Chancery Services	870,710	-	-	870,710
Education	574,489	-	-	574,489
Faith Formation	723,170	-	-	723,170
Community Development	429,527	-	-	429,527
Total Program Services	2,597,896	-	-	2,597,896
Supporting Services:				
Management and general	2,478,161	-	-	2,478,161
Fundraising	172,211	-	-	172,211
Total Supporting Services	2,650,372	-	-	2,650,372
Total Expenses	5,248,268	-	-	5,248,268
Change in Net Assets	(125,983)	177,381	69,912	121,310
Net Assets at Beginning of Year, as previously reported	5,980,537	1,168,526	1,258,720	8,407,783
Adjustment to adopt SFAS No. 158	(724,641)	-	-	(724,641)
NET ASSETS AT END OF YEAR, as adjusted	\$ 5,129,913	\$ 1,345,907	\$ 1,328,632	\$ 7,804,452

DIOCESE OF TYLER - CHANCERY OFFICE
COMBINED STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED DECEMBER 31, 2007 AND 2006

	2007							
	PROGRAM SERVICES				TOTAL PROGRAM EXPENSES	SUPPORTING SERVICES		TOTAL FUNCTIONAL EXPENSE
	CHANCERY SERVICES	EDUCATION	FAITH FORMATION	COMM DEVEL		GENERAL ADMIN	FUND RAISING	
Salaries and wages	\$ 213,700	\$ 280,873	\$ 26,250	\$ -	\$ 520,823	\$ 215,020	84,827	\$ 820,670
Payroll taxes	11,640	18,572	769	-	30,981	16,449	6,489	53,919
Insurance - medical	104,111	45,987	156,758	-	306,856	35,884	12,606	355,346
Pension expense	55,628	6,369	-	-	61,997	6,802	3,619	72,418
Contract labor	9,095	700	-	-	9,795	1,212	-	11,007
Clergy expense	32,092	-	7,457	-	39,549	-	-	39,549
Supplies	4,845	8,077	379	-	13,301	4,331	3,820	21,452
Professional fees	104,301	3,074	2,258	-	109,633	31,643	20	141,296
Fees and assessments	55,667	-	-	-	55,667	-	-	55,667
Dues and publications	5,817	21,561	500	-	27,878	-	300	28,178
Telephone	4,548	594	2,385	-	7,527	10,789	119	18,435
Postage and shipping	4,552	66,382	845	9	71,788	2,677	17,060	91,525
Printing	785	26,299	5,673	-	32,757	21,228	23,510	77,495
Occupancy	68,933	30,723	4,879	-	104,535	12,132	7,086	123,753
Equipment rental	-	-	-	-	-	-	-	-
Vehicle	6,052	3,975	969	-	10,996	-	-	10,996
Travel	35,505	5,555	(302)	-	40,758	-	690	41,448
Conferences	420	2,749	-	-	3,169	-	-	3,169
Lecturer/speaker fees	6,489	5,690	1,830	-	14,009	-	-	14,009
Continuing education	-	-	-	-	-	-	-	-
Retreats	25,962	-	52,852	-	78,814	-	-	78,814
Hospitality	31,206	14,286	134	-	45,626	225	2,523	48,374
Special programs	16,600	(3,200)	4,000	-	17,400	-	21,649	39,049
Miscellaneous	7,867	-	7,149	-	15,016	625	97	15,738
Advertising	-	-	-	-	-	-	-	-
Donations	122,861	-	550	-	123,411	-	50	123,461
Seminary expenses	-	-	568,058	-	568,058	-	-	568,058
Grants	-	27,600	-	92,169	119,769	-	-	119,769
Investment expense	-	-	-	-	-	11,934	-	11,934
Premium expense and claims	-	-	-	-	-	1,115,947	-	1,115,947
Provision for uncollectible receivables and pledges	-	-	-	-	-	183,212	-	183,212
Interest expense	-	-	-	-	-	186,494	-	186,494
Depreciation expense	-	-	-	-	-	99,682	-	99,682
TOTAL EXPENSES	\$ 928,676	\$ 565,866	\$ 843,393	\$ 92,178	\$ 2,430,113	\$ 1,956,286	\$ 184,465	\$ 4,570,864

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

**DIOCESE OF TYLER - CHANCERY OFFICE
COMBINED STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED DECEMBER 31, 2007 AND 2006**

	2006							
	PROGRAM SERVICES				TOTAL PROGRAM EXPENSES	SUPPORTING SERVICES		TOTAL FUNCTIONAL EXPENSE
CHANCERY SERVICES	EDUCATION	FAITH FORMATION	COMMUNITY DEVELOPMENT	GENERAL ADMIN		FUND RAISING		
Salaries and wages	\$ 165,467	\$ 263,940	\$ 25,700	\$ 273,388	\$ 728,495	\$ 212,831	\$ 69,518	\$ 1,010,844
Payroll taxes	9,739	19,273	1,010	20,914	50,936	16,299	5,318	72,553
Insurance - medical	95,726	41,859	114,407	15,688	267,680	34,088	11,933	313,701
Pension expense	56,102	6,091	-	190	62,383	6,746	3,021	72,150
Contract labor	12,671	20,475	-	-	33,146	1,818	50	35,014
Clergy expense	25,350	-	1,528	-	26,878	-	-	26,878
Supplies	3,260	8,085	50	3,779	15,174	6,801	3,164	25,139
Professional fees	206,331	1,100	4,000	150	211,581	33,587	-	245,168
Fees and assessments	42,907	72	916	-	43,895	10,333	1,148	55,376
Dues and publications	9,241	23,728	1,840	-	34,809	-	-	34,809
Telephone	5,950	480	2,100	214	8,744	9,401	106	18,251
Postage and shipping	5,296	65,308	532	878	72,014	3,359	16,922	92,295
Printing	378	24,427	1,500	-	26,305	17,301	32,498	76,104
Occupancy	73,122	29,286	4,929	257	107,594	7,383	10,713	125,690
Equipment rental	1,017	-	-	-	1,017	-	-	1,017
Vehicle	9,529	-	711	-	10,240	-	-	10,240
Travel	33,318	11,508	2,704	134	47,664	-	49	47,713
Conferences	2,917	2,812	325	-	6,054	-	-	6,054
Lecturer/speaker fees	5,217	2,600	8,692	-	16,509	-	-	16,509
Continuing education	-	400	-	-	400	-	-	400
Retreats	19,855	1,630	14,680	-	36,165	-	-	36,165
Hospitality	38,378	12,238	59	97	50,772	271	1,565	52,608
Special programs	22,192	629	-	-	22,821	-	16,206	39,027
Miscellaneous	16,847	-	-	1,077	17,924	(39)	-	17,885
Donations	9,900	100	-	-	10,000	-	-	10,000
Seminary expenses	-	-	537,487	-	537,487	-	-	537,487
Grants	-	38,448	-	112,761	151,209	-	-	151,209
Premium expense and claims	-	-	-	-	-	1,705,328	-	1,705,328
Provision for uncollectible receivables and pledges	-	-	-	-	-	148,745	-	148,745
Interest expense	-	-	-	-	-	167,709	-	167,709
Depreciation expense	-	-	-	-	-	96,200	-	96,200
TOTAL EXPENSES	\$ 870,710	\$ 574,489	\$ 723,170	\$ 429,527	\$ 2,597,896	\$ 2,478,161	\$ 172,211	\$ 5,248,268

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

DIOCESE OF TYLER - CHANCERY OFFICE
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (84,836)	\$ 121,310
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net realized and unrealized (gain) loss on investments	(43,679)	(75,596)
Net (gain) loss on obsolete equipment	(1,579)	641
Noncash donation - revenue	(64,127)	(6,692)
Depreciation	99,682	96,200
(Increase) decrease in assets:		
Accounts receivable	(11,418)	(177,680)
Contributions and grants receivable	168,621	(83,472)
Accrued interest receivable	8,043	(138,530)
Other receivables	-	-
Prepaid expenses	(11,696)	(19,644)
Equity in Catholic Umbrella Pool II	(18,858)	13,670
Increase (decrease) in liabilities:		
Accounts payable	(5,450)	(41,612)
Insurance claims payable	-	(73,871)
Deferred revenue	(23,751)	(5,078)
Deferred obligation for priest's retirement	201,368	724,641
Funds held for others	(37,307)	(182,453)
	<u>259,849</u>	<u>30,524</u>
Net Cash Provided by (Used in) Operating Activities	<u>175,013</u>	<u>151,834</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales and maturities of investments	565,579	604,189
Proceeds from sales of equipment	10,000	-
Purchase of stocks	(207,428)	(685,963)
Net (increase) decrease in loans receivable	714,950	(670,733)
Purchases of property and equipment	(54,248)	(458,550)
	<u>1,028,853</u>	<u>(1,211,057)</u>
Net Cash Provided by (Used in) Investing Activities	<u>1,028,853</u>	<u>(1,211,057)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
SFAS 158 adjustment for post retirement benefit	(201,368)	(724,641)
Net increase (decrease) in deposits payable	309,061	489,482
	<u>107,693</u>	<u>(235,159)</u>
Net Cash Provided by (Used in) Financing Activities	<u>107,693</u>	<u>(235,159)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	1,311,559	(1,294,382)
Cash and cash equivalents at beginning of year	<u>2,376,731</u>	<u>3,671,113</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$ 3,688,290</u></u>	<u><u>\$ 2,376,731</u></u>
SUPPLEMENTAL INFORMATION:		
Cash paid for interest	<u><u>\$ 186,211</u></u>	<u><u>\$ 169,699</u></u>
SUPPLEMENTAL DISCLOSURE FOR NON-CASH ACTIVITY:		
Stock donation	<u><u>\$ 64,127</u></u>	<u><u>\$ 6,692</u></u>

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

DIOCESE OF TYLER – CHANCERY OFFICE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

Note A – Summary of Significant Accounting Policies

Nature of Organization

The Chancery Office of the Catholic Diocese of Tyler (the “Chancery”) serves as the central administrative office for the Diocese of Northeast Texas (the “Diocese”). The Chancery provides planning and direction in the administration of pastoral, vocational, educational and other services to its parishes and other Diocesan institutions. The Chancery also provides financing, investing and other advisory services to the organizations of the Diocese. These statements include 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 Chancery Office.

The accompanying financial statements exclude the assets, liabilities, net assets and financial activities of the individual parishes, schools, charitable organizations, 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 Chancery 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.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

Use of Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles 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 support and revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

For the purposes of presentation in the statement of cash flows, the Diocese considers cash equivalents to be short-term, highly liquid investments that are readily convertible to cash and have original maturities when acquired of three months or less.

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are measured at fair values in the Statements of Financial Position. Investment income or loss (including gains and losses on investments, interest and dividends) is included in the Statements of Activities as increases or decreases in unrestricted net assets unless the income or loss is restricted by the donor or law.

Equity in Catholic Umbrella Pool II

The Chancery Office accounts for its 0.40% participation interest in the Catholic Umbrella Pool II (the Pool) under the equity method. The Pool is a nonprofit corporation that was formed as a self-insurance fund for Dioceses and Archdioceses of the Roman Catholic Church in North America. The Pool provides excess liability coverage for participating Dioceses. Participants share in the operating and investment income and expenses of the Pool based on their contributions to the Pool.

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 useful lives 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 income. Depreciation is computed using the straight-line method over estimated useful lives ranging from 5 to 40 years.

Contributions

Contributions, including unconditional promises to give, are recognized as revenue in the period 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 is satisfied or expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. The Diocese uses the allowance method to determine uncollectible contribution receivables. The allowance is based on historical experience and management's analysis of specific promises made.

Donated marketable securities and other non-cash donations are recorded as contributions at their estimated fair values at the date of donation.

No amounts have been reflected in the financial statements for donated services. The Diocese pays for most services requiring specific expertise.

Income Taxes

The activities of the Diocese are exempt from federal income taxes under provisions of Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been made in the financial statements.

Functional Expense Allocation

The Diocese records expenses on an accrual basis. The majority of expenses can generally be directly identified with the program or supporting service to which they relate and are charged accordingly. Other expenses by function have been allocated among program and supporting services classifications on the basis of square footage of office space occupied and other basis determined by Diocesan management.

Allowance for Doubtful Accounts

An allowance for doubtful accounts is recorded to cover parish and contribution receivables which are deemed to be uncollectible. This estimate is based on a review of the entities financial position and cash flows as well as their history of paying outstanding debts and/or pledges to the Diocese. The bad debt expense is a result of insurance, property, and medical charges to parishes and schools as well as unpaid pledges on the prior year Bishop's Annual Appeal.

Note B – Investments

Investments in marketable securities are carried at fair value and composite of the portfolio at December 31, 2007 and 2006 are as follows:

	<u>2007</u>		<u>2006</u>	
	<u>Carrying</u> <u>Value</u>	<u>Market</u> <u>Value</u>	<u>Carrying</u> <u>Value</u>	<u>Market</u> <u>Value</u>
Stocks	\$ 738,780	\$ 770,587	\$ 668,498	\$ 732,806
Certificates of Deposit	294,000	293,008	588,000	581,133
Total	<u>\$ 1,032,780</u>	<u>\$1,063,595</u>	<u>\$ 1,256,498</u>	<u>\$ 1,313,939</u>

Summary investment return information for the years ended December 31, 2007 and 2006 were as follows:

	<u>2007</u>	<u>2006</u>
Investment income	\$182,151	\$157,866
Net realized and unrealized gain (loss) on investment	43,679	75,596
Equity in Catholic Umbrella Pool II	<u>20,376</u>	<u>(13,670)</u>
Total investment income	<u>\$246,206</u>	<u>\$219,792</u>

Note C – Risk Management

Health Care Coverage

For the years ended December 31, 2007 and 2006, the Diocese participated in a “church plan” within the meaning of Section 414 (e) of the Internal Revenue Code. Their health insurance coverage is now provided through the Catholic Employee Benefit Group (CEBG), a corporation formed as a self-insured trust for four Dioceses in Texas. CEBG has contracted with Mutual of Omaha to be its Claims Administrator, and also has a stop-loss policy with Mutual of Omaha. The Diocese maintains no equity position in CEBG at December 31, 2007 and 2006.

Catholic Umbrella Pool II

The Chancery Office provides liability insurance coverage for the Chancery operations as well as for parishes, schools and other related entities. This coverage is provided through participation in the Catholic Umbrella Pool II (the Pool), a corporation formed as a self-insurance fund for the Dioceses and Archdioceses of the Roman Catholic Church in North America.

There are approximately 50 Diocese throughout the country who currently retain coverage in the Pool. Catholic Mutual Group manages the Pool which insures general liability claims up to \$3.5 million.

The Diocese of Tyler had an equity balance in the Pool of \$74,053 and \$55,195 at December 31, 2007 and 2006, respectively.

Note D – Related Party Transactions

Loans Receivable

The Diocese receives deposits from parishes and other related entities that, in turn, are loaned or available for loan to parishes and other related entities. Loans receivable are generally due in monthly installments. However, the repayment terms are subject to modification by the Bishop as considered necessary. As of December 31, 2007 and 2006, the loans receivable outstanding totaled \$4,573,270 and \$5,288,220, respectively. The Diocese generally charges an interest rate of 7% on general parish loans and 8% on auto loans. Interest received on loans receivable amounted to \$315,895 and \$332,005 for the years ended December 31, 2007 and 2006, respectively.

Deposits Payable

The deposits payable are due to parishes and other related entities on demand. As of December 31, 2007 and 2006, the savings deposits payable totaled \$4,681,983 and \$4,372,922, respectively. Interest on deposits is paid at 4% and amounted to \$186,494 and \$167,709 for the years ended December 31, 2007 and 2006, respectively.

Diocesan Assessments

Diocesan assessments on parish offertories are included in the accompanying financial statements as support and revenue. These assessments are calculated semi-annually for each parish based on gross revenues, adjusted for certain excludable items, using the following rates:

Semi-Annual Net IncomeRates

	<u>2007</u>	<u>2006</u>
Under \$50,000	5.5%	4.5%
\$50,001 to \$100,000	6.5%	5.5%
\$100,001 to \$250,000	7.5%	6.5%
\$250,001 to \$500,000	8.5%	7.5%
\$500,001 and up	9.5%	8.5%

Funds Held For Others

At December 31, 2007 and 2006, the funds held for others related to amounts collected and/or managed by the Chancery Office for various Diocesan and national Catholic organizations.

Note E – Land, Property and Equipment

The composition of land, property and equipment at December 31, 2007 and 2006 are as follows:

	<u>2007</u>	<u>2006</u>
Land	\$ 618,368	\$ 618,368
Buildings and improvements	1,574,657	1,536,257
Furniture and equipment	292,628	276,781
Vehicles	<u>87,495</u>	<u>99,818</u>
	2,573,148	2,531,224
Less: Accumulated Depreciation	<u>(658,064)</u>	<u>(562,285)</u>
	<u>\$ 1,915,084</u>	<u>\$ 1,968,939</u>

Note F – Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

	<u>2007</u>	<u>2006</u>
Bishops Annual Appeal	\$ 1,059,630	\$ 1,281,542
East Texas Catholic Foundation	43,824	39,995
Black & Indian Mission	18,833	18,833
Miscellaneous	<u>5,538</u>	<u>5,537</u>
Total Temporarily Restricted Net Assets	<u>\$ 1,127,825</u>	<u>\$ 1,345,907</u>

Note G – Permanently Restricted Net Assets

Permanently restricted net assets consist of donations from donors which are expendable only for purposes specified by the donor. They are comprised of the following donations:

	<u>2007</u>	<u>2006</u>
Catholic Daughters	\$ 11,100	\$ 10,600
Vincent Colorigh Estate	20,790	20,790
General Seminarian	151,991	129,152
John Herzig	20,650	20,650
Bishop Charles E. Herzig	31,155	31,155
Bishop Charles Herzig Memo	140,158	140,158
Knights of Columbus	51,413	51,413
Knights of Columbus 4 th De	16,089	15,790
Msgr. Milam Joseph	2,700	2,700
Msgr. Meyers	73,046	73,046
Priests Ed L.V. St. Mary's	27,205	27,205

John Przydac	25,000	25,000
Msgr. Edward Szapka	25,000	25,000
Lucille Weeks	19,650	19,650
BCCW Seminary Burse	10,458	8,307
F Joe & Loretta Spaeth	25,025	25,025
Sr. Brady School Trust	14,275	14,275
East Texas Catholic Foundation	36,833	36,833
Rev. Emilian Novak Burse	6,350	6,350
Billy R. Randolph Memorial	25,000	25,000
Rev. Bernard Pustejovsky	3,030	3,030
John & Berma Collins Burse	10,000	10,000
Nick & Mildred Brandon Burse	25,000	25,000
Carl T. Goodgame Burse	270,478	270,478
St. Jude's Burse	827	827
Pope John Paul II Memorial Burse	25,500	13,000
George & Georgia Nicholds	23,155	23,155
Elizabeth Calloway Burse	100,000	-
Leon G. Triana Seminary Burse	<u>262,543</u>	<u>262,543</u>
TOTAL	<u>\$1,454,421</u>	<u>\$1,328,632</u>

Note H – Bishop's Annual Appeal ("BAA")

The Diocese commences the BAA fund-raising campaign each October and collects pledges until the next appeal begins. The pledges are included in temporarily restricted contributions on the Statements of Activities. The results of the 2007 and 2006 appeals are summarized as follows:

	<u>2007</u>	<u>2006</u>
Amounts pledged	\$1,444,980	\$1,221,875
Pledge payments received	1,267,025	1,076,210
Percentage of pledges paid	88%	88%

Note I – Post Retirement Employee Benefits

The Diocese provides health care coverage for all its diocesan priests after retirement through its health care program. The coverage provided is secondary to the priest's Medicare coverage. The Diocese pays the monthly premiums for the retired priests which totaled \$20,926 for the year ended December 31, 2007 and \$13,919 for the year ended December 31, 2006. Lay employees are not provided any post retirement health coverage or life insurance benefits. The Diocese provides reduced life insurance benefits to the retired priests.

Note J – Pension Plans

Defined Benefit Plan

Priests Pension Plan - This is a noncontributory retirement plan that provides retirement benefits to eligible priests. All priests engaged in regular full-time duties in the Diocese are eligible to participate in the Priests Plan as of the date of their arrival in the Diocese. If a priest has served a minimum of ten years with the Diocese, and attained age 70 at retirement date, he will be eligible for full retirement benefits. The pension plan provides a maximum benefit of \$1,000 monthly annuity payable for life. The Diocese funding policy is to make the minimum annual contribution to amortize the unfunded liability.

Effective December 31, 2007, the Diocese adopted SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plan*. This statement requires recognition of the overfunded or underfunded status of defined benefit postretirement plans as an asset or liability in the statement of financial position and to recognize the changes in that funded status in net assets in the year in which the adoption occurs and in net assets the

following years. The adoption of SFAS 158 resulted in a decrease of \$201,368 to Unrestricted net asset in the accompanying consolidated financial statements.

	<u>2007</u>
Benefit obligation	\$ 2,123,793
Fair value of plan assets	<u>1,197,784</u>
Unfunded status	<u>\$ 926,009</u>

Amounts recognized in the statement of financial position as of December 31 consist of:

Accrued pension obligation	\$ 926,009
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Amounts included in net assets which have not been recognized in net periodic pension expense as of December 31:

Unrecognized actuarial losses	\$ -
Unrecognized transition obligations	926,009

Components of expense for the years ended December 31:

Benefit Cost	\$ 146,874
Employer Contribution	51,122
Plan participants' contributions	-

Weighted-average assumptions for the benefit obligation as of December 31:

Discount rate	6.25%
Expected return on plan assets	6.00%

Weighted average assumption for compensation increase is 0% as the benefit is not based on payroll.

During the year ending December 31, 2008, the Diocese expects to recognize \$92,601 in amortization of the unrecognized transition obligation in net periodic pension expense.

At the time of the issuance of the financial statements, certain information required to be disclosed under SFAS No. 158 was not available. The information required, but not available, included benefits paid, breakdown of plan assets, target allocations of plan assets, determination of expected long-term rate of return, the investment policy and strategy, expected future contributions, and the estimated future benefit payments for the next ten years.

Tax Deferred Annuity Plan

Lay Plan – The Diocese provides a tax deferred annuity plan available to all lay employees of the Chancery Office as well as those of parishes, schools, and other affiliated entities. This plan is organized under Section 403(b)(3) of the Internal Revenue Code. Under the provision of the plan, eligible employees under 50 years of age may defer up to \$15,000 of their annual salary, and eligible employees age 50 and over may defer up to \$20,000 of their annual salary. Employer contributions of up to 4% of eligible employee salaries are made each year. Total expense for the years ended December 31, 2007 and 2006 were approximately \$21,296 and \$19,931, respectively.

Note K– Concentration of Credit and Market Risk

Financial instruments that potentially expose the Chancery Office to concentrations of credit and market risk consist primarily of cash in banks and investments in securities. During 2007 and 2006 the Chancery Office maintained balances in deposit accounts that exceeded the limit insured by the FDIC. At December 31, 2007 and 2006, the

uninsured excess in the deposit accounts was \$55,791 and \$25,380, respectively. In addition, the Chancery Office maintained cash management accounts with a carrying value of \$920,024 at December 31, 2007. The Diocese also has a sweep account in which the balance is invested daily in Federal obligations. The balance for the sweep account was \$2,995,269 at December 31, 2007 and \$2,055,870 at December 31, 2006. The cash management accounts are not covered by federal depository insurance but are fully collateralized through Securities Investor Protection Corporation insurance and Investor Protection Insurance Company. The Chancery Office's investments in securities (see Note B) are not considered to represent significant concentrations of market risk because the portfolio is reasonably diversified among issuers.

In addition, the Chancery Office has loans receivable from parishes and schools that are individually significant to these financial statements. There were 10 significant loans receivable totaling \$3,392,290 at December 31, 2007 and twelve significant loans receivable totaling \$4,248,764 at December 31, 2006.

Note L- Commitments and Contingencies

The Diocese is engaged in various legal proceedings. The ultimate liability from such proceedings cannot be determined at this time; however, management of the Diocese is of the opinion that any liability not already covered by insurance should not have a material adverse effect on the financial position of the Chancery.

The Bishop of the Diocese of Tyler is guarantor of loans made to the Diocese's parishes by third party lending institutions, which aggregated approximately \$2,588,675 at December 31, 2007 and \$689,695 at December 31, 2006.

Note M- Other Revenue

Other Revenue at December 31, 2007 consisted of \$62,846 in contributions from the Knights of Columbus for seminary formation, \$20,665 from the Diocese of Galveston / Houston for seminary scholarships, and the remaining balance of \$66,442 represents miscellaneous revenue from various sources.

Other Revenue at December 31, 2006 consisted of \$225,958 of legal fees reimbursed to the Diocese under the settlement agreement from a legal proceeding and \$228,390 reimbursed from Catholic Charities for expenses the Diocese paid on their behalf. The remaining balance of \$30,323 represents miscellaneous revenue from various sources.