

DIOCESE OF TYLER – CHANCERY OFFICE

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2010 AND 2009

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CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

Bishop of the Diocese of Tyler:

We have audited the accompanying statements of financial position of the Diocese of Tyler – Chancery Office as of December 31, 2010 and 2009, and the related statements of activities, combined statements of functional expenses and cash flows for the years then ended. These financial statements are the responsibility of the Organization's 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 Diocese of Tyler – Chancery Office as of December 31, 2010 and 2009, 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
March 23, 2011

**DIOCESE OF TYLER - CHANCERY OFFICE
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2010 AND 2009**

ASSETS	<u>2010</u>	<u>2009</u>
Current Assets:		
Cash and cash equivalents	\$ 1,608,738	\$ 4,581,697
Accounts receivable - parishes and affiliates, net (Note A)	1,420,388	1,091,321
Contributions and grants receivable, net (Note A)	1,016,305	572,484
Accrued interest receivable	<u>6,429</u>	<u>437,209</u>
Total Current Assets	4,051,860	6,682,711
Restricted Assets:		
Cash and cash equivalents (Note G)	1,469,807	1,465,322
Other Assets:		
Prepaid expenses	212,265	77,896
Investments, at market (Note B)	973,708	976,287
Equity in Catholic Umbrella Pool II (Note C)	49,031	38,214
Loans receivable - parishes and other Catholic institutions (Note D)	19,967	2,692,849
Land, property and equipment - net (Note E)	<u>1,771,452</u>	<u>1,662,740</u>
TOTAL ASSETS	\$ <u>8,548,090</u>	\$ <u>13,596,019</u>
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable	\$ 274,115	\$ 271,046
Deferred revenue	44,600	6,882
Funds held for others (Note D)	468,269	414,680
Deposits payable (Note D)	<u>-</u>	<u>4,859,795</u>
Total Current Liabilities	<u>786,984</u>	<u>5,552,403</u>
Deferred obligation for priest's pension plan (Note J)	<u>3,408,121</u>	<u>4,306,264</u>
Total Liabilities	4,195,105	9,858,667
Net Assets:		
Unrestricted	1,292,389	1,159,537
Temporarily restricted (Note F)	1,590,790	1,112,494
Permanently restricted (Note G)	<u>1,469,806</u>	<u>1,465,321</u>
	<u>4,352,985</u>	<u>3,737,352</u>
TOTAL LIABILITIES AND NET ASSETS	\$ <u>8,548,090</u>	\$ <u>13,596,019</u>

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

DIOCESE OF TYLER - CHANCERY OFFICE
STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010			
	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
SUPPORT AND REVENUE				
Contributions	\$ 381,231	\$ 1,418,013	\$ 4,485	\$ 1,803,729
Assessments	1,218,751	-	-	1,218,751
Grants	171,509	168,528	-	340,037
Fees for services	923,590	-	-	923,590
Investment income	29,531	134	-	29,665
Equity in Catholic Umbrella Pool II	14,005	-	-	14,005
Interest on loans	1,804	-	-	1,804
Subscription revenue	107,638	-	-	107,638
Program fees	176,338	-	-	176,338
Net realized gain (loss) on sale of investments	16,904	-	-	16,904
Net unrealized gain (loss) on investments	84,696	-	-	84,696
Net gain (loss) on sale of equipment	80	-	-	80
Other revenue (Note M)	163,820	-	-	163,820
Total Support and Revenue	3,289,897	1,586,675	4,485	4,881,057
Net Assets Released From Restrictions				
Expiration of time or other restrictions - BAA	1,078,097	(1,078,097)	-	-
Expiration of time or other restrictions - Other	30,282	(30,282)	-	-
Total Net Assets Released from Restrictions	1,108,379	(1,108,379)	-	-
Total Support, Revenue and Net Assets Released from Restrictions	4,398,276	478,296	4,485	4,881,057
EXPENSES				
Program Services:				
Chancery Services	1,255,882	-	-	1,255,882
Education	684,077	-	-	684,077
Faith Formation	930,730	-	-	930,730
Community Development	87,400	-	-	87,400
Total Program Services	2,958,090	-	-	2,958,090
Supporting Services:				
General and Administration	1,976,775	-	-	1,976,775
Fundraising	228,702	-	-	228,702
Total Supporting Services	2,205,477	-	-	2,205,477
Total Expenses	5,163,567	-	-	5,163,567
Change in Net Assets From Operating Activities	(765,291)	478,296	4,485	(282,510)
Adjustment for decrease in minimum priest's pension plan obligation	898,143	-	-	898,143
Change in Net Assets	132,852	478,296	4,485	615,633
Net Assets at Beginning of Year, as adjusted	1,159,537	1,112,494	1,465,321	3,737,352
NET ASSETS AT END OF YEAR	\$ 1,292,389	\$ 1,590,790	\$ 1,469,806	\$ 4,352,985

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

**DIOCESE OF TYLER - CHANCERY OFFICE
STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2010 AND 2009**

	2009			
	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
SUPPORT AND REVENUE				
Contributions	\$ 357,248	\$ 1,078,097	\$ 5,840	\$ 1,441,185
Assessments	1,184,683	-	-	1,184,683
Grants	139,635	-	-	139,635
Fees for services	981,448	-	-	981,448
Investment income	23,648	201	-	23,849
Equity in Catholic Umbrella Pool II	(3,275)	-	-	(3,275)
Interest on loans	168,834	-	-	168,834
Subscription revenue	106,341	-	-	106,341
Program fees	192,366	-	-	192,366
Net realized gain (loss) on sale of investments	(60,375)	-	-	(60,375)
Net unrealized gain (loss) on investments	202,033	-	-	202,033
Net gain (loss) on sale of equipment	382,712	-	-	382,712
Bad debt recovery	553	-	-	553
Other revenue (Note M)	164,251	-	-	164,251
Total Support and Revenue	3,840,102	1,078,298	5,840	4,924,240
Net Assets Released From Restrictions				
Expiration of time restrictions - BAA	1,032,361	(1,032,361)	-	-
Total Net Assets Released from Restrictions	1,032,361	(1,032,361)	-	-
Total Support, Revenue and Net Assets Released from Restrictions	4,872,463	45,937	5,840	4,924,240
EXPENSES				
Program Services:				
Chancery Services	1,053,158	-	-	1,053,158
Education	601,943	-	-	601,943
Faith Formation	855,377	-	-	855,377
Community Development	83,692	-	-	83,692
Total Program Services	2,594,170	-	-	2,594,170
Supporting Services:				
General and Administration	2,094,862	-	-	2,094,862
Fundraising	197,545	-	-	197,545
Total Supporting Services	2,292,407	-	-	2,292,407
Total Expenses	4,886,577	-	-	4,886,576
Change in Net Assets From Operating Activities	(14,114)	45,937	5,840	37,663
Adjustment for additional minimum priest's pension plan obligation	(2,710,645)	-	-	(2,710,645)
Change in Net Assets	(2,724,759)	45,937	5,840	(2,672,982)
Net Assets at Beginning of Year, as previously reported	3,884,296	1,066,557	1,459,481	6,410,334
NET ASSETS AT END OF YEAR, as adjusted	\$ 1,159,537	\$ 1,112,494	\$ 1,465,321	\$ 3,737,352

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

**DIOCESE OF TYLER - CHANCERY OFFICE
COMBINED STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED DECEMBER 31, 2010 AND 2009**

2010

	PROGRAM SERVICES				SUPPORTING SERVICES			TOTAL FUNCTIONAL EXPENSES
	CHANCERY SERVICES	EDUCATION	FAITH FORMATION	COMM DEVEL	TOTAL PROGRAM EXPENSES	GENERAL ADMIN	FUND RAISING	
Salaries and wages	\$ 346,163	\$ 347,190	\$ 500	\$ -	\$ 693,853	\$ 201,788	\$ 115,117	\$ 1,010,758
Payroll taxes	15,694	23,501	38	-	39,233	15,437	8,412	63,082
Insurance - medical	149,225	51,083	168,040	-	368,348	33,681	16,599	418,628
Pension expense	44,250	8,225	-	-	52,475	7,584	3,982	64,041
Contract labor	10,696	5,724	-	-	16,420	1,327	818	18,565
Clergy expense	30,218	-	-	-	30,218	-	-	30,218
Supplies	4,369	6,002	-	-	10,371	6,328	3,980	20,679
Professional fees	207,168	3,550	-	-	210,718	20,271	925	231,914
Fees and assessments	43,353	-	-	-	43,353	-	-	43,353
Dues and publications	5,819	23,049	3,044	-	31,912	-	148	32,060
Telephone	8,045	595	462	-	9,102	16,681	67	25,850
Postage and shipping	6,709	35,431	170	-	42,310	2,328	9,553	54,191
Printing	991	17,051	552	-	18,594	19,657	25,053	63,304
Occupancy	98,892	29,620	6,197	-	134,709	7,901	12,525	155,135
Vehicle	9,460	1,250	360	-	11,070	-	-	11,070
Travel	46,825	13,072	3,995	-	63,892	-	2,569	66,461
Conferences	1,618	3,446	-	-	5,064	-	-	5,064
Lecturer/speaker fees	1,475	4,380	7,200	-	13,055	-	-	13,055
Continuing education	20,539	-	15,000	-	35,539	-	5,175	40,714
Retreats	25,575	-	20,574	-	46,149	-	-	46,149
Hospitality	40,417	12,052	-	-	52,469	213	2,426	55,108
Special programs	9,183	57,950	16,108	-	83,241	8,751	17,620	109,612
Miscellaneous	6,073	-	-	-	6,073	1,574	2,668	10,315
Advertising	2,647	106	4,320	-	7,073	-	965	8,038
Donations	120,478	-	-	-	120,478	-	100	120,578
Seminary expenses	-	-	684,170	-	684,170	-	-	684,170
Grants	-	40,800	-	87,400	128,200	-	-	128,200
Investment expense	-	-	-	-	-	9,516	-	9,516
Premium expense and claims	-	-	-	-	-	1,158,961	-	1,158,961
Provision for uncollectible receivables and pledges	-	-	-	-	-	359,753	-	359,753
Depreciation expense	-	-	-	-	-	105,024	-	105,024
TOTAL EXPENSES	\$ 1,255,882	\$ 684,077	\$ 930,730	\$ 87,400	\$ 2,958,090	\$ 1,976,775	\$ 228,702	\$ 5,163,567

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

**DIocese of Tyler - Chancery Office
Combined Statements of Functional Expenses
Years Ended December 31, 2010 and 2009**

	2009					2009			TOTAL FUNCTIONAL EXPENSES
	PROGRAM SERVICES					SUPPORTING SERVICES			
CHANCERY SERVICES	EDUCATION	FAITH FORMATION	COMMUNITY DEVELOPMENT	TOTAL PROGRAM EXPENSES	GENERAL ADMIN	FUND RAISING			
Salaries and wages	\$ 274,923	\$ 8,480	\$ -	\$ 580,514	\$ 204,317	\$ 100,362	\$ -	\$ 885,193	
Payroll taxes	12,105	534	-	32,307	15,630	7,678	-	55,615	
Insurance - medical	120,497	153,848	-	323,565	31,754	14,078	-	369,397	
Pension expense	62,139	8,958	-	71,097	7,724	3,934	-	82,755	
Contract labor	33,109	2,990	-	36,099	8,506	480	-	45,085	
Clergy expense	24,448	-	-	24,525	-	-	-	24,525	
Supplies	3,736	5,897	-	9,681	5,528	1,412	-	16,621	
Professional fees	146,208	1,140	-	148,252	4,203	94	-	152,549	
Fees and assessments	43,949	-	-	43,949	-	-	-	43,949	
Dues and publications	5,389	15,859	-	26,705	67	22	-	26,794	
Telephone	5,124	860	-	6,939	14,480	101	-	21,520	
Postage and shipping	7,072	31,949	-	39,498	3,179	16,213	-	58,890	
Printing	1,787	14,817	-	16,604	-	24,358	-	40,962	
Occupancy	66,312	23,343	-	93,861	8,512	10,338	-	112,711	
Vehicle	9,539	141	-	10,127	-	-	-	10,127	
Travel	20,956	10,243	-	34,889	-	311	-	35,200	
Conferences	325	9,224	-	10,609	-	-	-	10,609	
Lecturer/speaker fees	652	3,250	-	8,227	-	-	-	8,227	
Continuing education	45,917	30,360	-	76,277	-	-	-	76,277	
Retreats	25,642	21,429	-	47,071	-	-	-	47,071	
Hospitality	18,977	338	-	32,860	-	1,972	-	34,832	
Special programs	3,454	54,569	-	58,475	16,980	14,252	-	89,707	
Miscellaneous	4,661	3	-	4,664	15,941	1,940	-	22,545	
Advertising	3,848	-	-	10,298	-	-	-	10,298	
Donations	112,389	10,356	-	123,545	500,000	-	-	623,545	
Seminary expenses	-	611,040	-	611,040	-	-	-	611,040	
Grants	-	28,800	83,692	112,492	-	-	-	112,492	
Investment expense	-	-	-	-	8,166	-	-	8,166	
Premium expense and claims	-	-	-	-	775,010	-	-	775,010	
Provision for uncollectible receivables and pledges	-	-	-	-	217,377	-	-	217,377	
Interest expense	-	-	-	-	155,873	-	-	155,873	
Depreciation expense	-	-	-	-	101,615	-	-	101,615	
TOTAL EXPENSES	\$ 1,053,158	\$ 601,943	\$ 83,692	\$ 2,594,170	\$ 2,094,862	\$ 197,545	\$ -	\$ 4,886,577	

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

**DIOCESE OF TYLER - CHANCERY OFFICE
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (282,510)	\$ 37,663
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net realized and unrealized (gain) loss on investments	(101,600)	(141,658)
Net (gain) loss on sale of equipment	(80)	(382,712)
Noncash donation - revenue	(14,105)	(34,905)
Depreciation	105,024	101,615
(Increase) decrease in assets:		
Accounts receivable	(329,067)	(74,599)
Contributions and grants receivable	(443,821)	16,572
Accrued interest receivable	430,780	(67,263)
Prepaid expenses	(134,369)	153,451
Equity in Catholic Umbrella Pool II	(10,817)	3,377
Increase (decrease) in liabilities:		
Accounts payable	3,069	109,823
Deferred revenue	37,718	(14,975)
Deferred obligation for priest's retirement	(898,143)	2,710,645
Funds held for others	53,589	60,726
	<u>(1,301,822)</u>	<u>2,440,097</u>
Net Cash Provided by Operating Activities	<u>(1,584,332)</u>	<u>2,477,760</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales and maturities of investments	443,925	508,395
Proceeds from sales of equipment	300	697,085
Purchase of stocks	(325,641)	(287,803)
Net decrease in loans receivable	2,672,882	399,319
Purchases of property and equipment	<u>(213,956)</u>	<u>(72,695)</u>
Net Cash Provided by Investing Activities	<u>2,577,510</u>	<u>1,244,301</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
FASB ASC 715-20 post retirement benefit adjustment	898,143	(2,710,645)
Net increase (decrease) in deposits payable	<u>(4,859,795)</u>	<u>838,720</u>
Net Cash Used in Financing Activities	<u>(3,961,652)</u>	<u>(1,871,925)</u>
Net Increase in Cash and Cash Equivalents	(2,968,474)	1,850,136
Cash and cash equivalents at beginning of year	<u>6,047,019</u>	<u>4,196,883</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 3,078,545</u>	<u>\$ 6,047,019</u>
Reconciliation to Exhibit A:		
Cash - Unrestricted	\$ 1,608,738	\$ 4,581,697
Cash - Restricted	1,469,807	1,465,322
	<u>\$ 3,078,545</u>	<u>\$ 6,047,019</u>
SUPPLEMENTAL INFORMATION:		
Cash paid for interest	<u>\$ 166,945</u>	<u>\$ 157,656</u>
SUPPLEMENTAL DISCLOSURE FOR NON-CASH ACTIVITY:		
Stock donation	<u>\$ 14,105</u>	<u>\$ 34,905</u>

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

**DIOCESE OF TYLER – CHANCERY OFFICE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009**

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.

The Diocese adopted the provisions of FASB ASC 740-10, (FASB Interpretation No 48, *Accounting for Uncertainty in Income Taxes*), on September 15, 2009. The Company records a liability for uncertain tax position when it is probable that a loss has been incurred and the amount can be reasonably estimated. We continually evaluate expiring statutes of limitations, audits, proposed settlements, changes in tax law and new authoritative rulings.

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.

Fair Value of Financial Instruments

The carrying value of cash, accounts receivable and accounts payable approximates fair value due to the short maturity of these instruments.

Change in Presentation

The presentation of the change in the deferred obligation for priest's pension plan was changed in the 2009 statement of activities to conform with the 2010 presentation.

Note B – Investments

Investments in marketable securities are carried at fair value (level 1) and the composite of the portfolio at December 31, 2010 and 2009 is as follows:

	<u>2010</u>		<u>2009</u>	
	<u>Carrying Value</u>	<u>Market Value</u>	<u>Carrying Value</u>	<u>Market Value</u>
Stocks	\$ 624,051	\$ 716,148	\$ 422,798	\$ 626,223
Certificates of Deposit	248,000	257,560	346,000	350,064
Total	<u>\$ 872,051</u>	<u>\$ 973,708</u>	<u>\$ 768,798</u>	<u>\$ 976,287</u>

Summary investment return information for the years ended December 31, 2010 and 2009 were as follows:

	<u>2010</u>	<u>2009</u>
Investment Income	\$ 29,665	\$ 23,849
Net realized and unrealized gain (loss) on investment	101,600	141,658
Equity in Catholic Umbrella Pool II	<u>14,005</u>	<u>(3,275)</u>
Total Investment Income	<u>\$ 145,270</u>	<u>\$ 162,232</u>

Note C – Risk Management

Health Care Coverage

For the years ended December 31, 2010 and 2009, 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, 2010 and 2009.

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 \$49,031 and \$38,214 at December 31, 2010 and 2009, 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, 2010 and 2009, the loans receivable outstanding totaled \$19,967 and \$2,692,849, 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 \$1,804 and \$168,834 for the years ended December 31, 2010 and 2009, respectively. During the year ended December 31, 2010, The Diocese transferred ownership of the parish deposits and related loans to a separate corporation. The balances shown as outstanding and interest receivable as of December 31, 2010 are related to automobile loans that The Diocese retained.

Deposits Payable

The deposits payable are due to parishes and other related entities on demand. As of December 31, 2010 and 2009, the savings deposits payable totaled \$0 and \$4,859,795, respectively. Interest on deposits is paid at 4% and amounted to \$0 and \$155,873 for the years ended December 31, 2010 and 2009, 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:

<u>Semi-Annual Net Income</u>	<u>Rates</u>	
	<u>2010</u>	<u>2009</u>
Under \$50,000	8.5%	7.5%
\$50,001 to \$100,000	9.5%	8.5%
\$100,001 to \$250,000	10.5%	9.5%
\$250,001 to \$500,000	11.5%	10.5%
\$500,001 and up	12.5%	11.5%

Funds Held For Others

At December 31, 2010 and 2009, 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, 2010 and 2009 are as follows:

	<u>2010</u>	<u>2009</u>
Land	\$ 457,130	\$ 454,630
Buildings and improvements	1,574,656	1,574,656
Leasehold improvements	149,966	-
Furniture and equipment	395,368	360,563
Vehicles	131,188	111,100
	<u>2,708,308</u>	<u>2,500,949</u>
Less: Accumulated Depreciation	<u>(936,856)</u>	<u>(838,209)</u>
	<u>\$ 1,771,452</u>	<u>\$ 1,662,740</u>

Note F – Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

	<u>2010</u>	<u>2009</u>
Bishops Annual Appeal	\$ 1,382,137	\$ 1,042,220
Director of Campus Ministries	91,346	-
Diocesan Development	46,900	-

East Texas Catholic Foundation	46,036	45,903
Black & Indian Mission	18,833	18,833
Miscellaneous	<u>5,538</u>	<u>5,538</u>
	<u>\$ 1,590,790</u>	<u>\$ 1,112,494</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>2010</u>	<u>2009</u>
Catholic Daughters	\$ 13,100	\$ 12,100
Vincent Colorigh Estate	20,790	20,790
General Seminarian	162,249	158,764
John Herzig	20,650	20,650
Bishop Charles E. Herzig	31,155	31,155
Bishop Charles E. Herzig Memorial	140,158	140,158
Knights of Columbus	54,413	54,413
Knights of Columbus 4th Degree	16,215	16,215
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	10,458
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	25,500
George & Georgia Nicholds	23,155	23,155
Elizabeth Calloway Burse	100,000	100,000
Leon G. Triana Seminary Burse	<u>262,543</u>	<u>262,543</u>
TOTAL	<u>\$ 1,469,806</u>	<u>\$ 1,465,321</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 2010 and 2009 appeals are summarized as follows:

	<u>2010</u>	<u>2009</u>
Amounts pledged	1,459,228	1,387,985
Pledge payments received	1,177,352	1,130,762
Percentage of pledges paid	81%	81%

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 \$40,420 for the year ended December 31, 2010 and \$59,997 for the year ended December 31, 2009. 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 Pension 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 \$1,500 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 FASB ASC 715-20 (*Formerly 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 FASB ASC 715-20 resulted in an increase of \$898,143, and a decrease of \$2,710,645 to Unrestricted net assets in the accompanying consolidated financial statements for the years ending December 31, 2010 and 2009 respectively.

	<u>2010</u>	<u>2009</u>
Benefit obligation	\$ 4,818,260	\$ 5,318,178
Fair value of plan assets	<u>1,410,139</u>	<u>1,011,914</u>
Unfunded status	<u>\$ 3,408,121</u>	<u>\$ 4,306,264</u>

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

Accrued pension obligation	\$ 3,408,121	\$ 4,306,264
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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 gains (losses)	\$ (419,739)	\$ 469,447
Unrecognized transition obligations	774,269	824,849

Components of expense for the years ended December 31:

Benefit cost	\$ 614,467	\$ 426,564
Employer contribution	426,527	48,000
Plan participants contributions	-	-

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

Discount rate	6.00%	6.00%
Expected long -term return on plan assets	7.00	7.00
Rate of compensation increase	3.00	3.00

Benefits Paid	\$ 124,672	Not Available
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Asset Category

Equity securities	56%	56%
Fixed income	23%	23%
Cash/Money Market	21%	21%

Contributions

Contributions to the plan are made by the Diocese for the priest employed at the Diocese, and by individual parishes for the priest employed by the parish. Diocese contributions are expected to be \$36,576, and the parish contributions are expected to be \$439,735.

During the year ending December 31, 2010 and 2009, the Diocese recognized \$50,580 and \$50,580, respectively in amortization of the unrecognized transition obligation in net periodic benefit cost.

At the time of the issuance of the financial statements, certain information required to be disclosed was not available. The information required, but not available, the investment policy and strategy, 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 \$16,500 of their annual salary, and eligible employees age 50 and over may defer up to \$22,000 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, 2010 and 2009 were approximately \$27,466 and \$31,600, 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. At December 31, 2010 and 2009, the uninsured excess in the deposit accounts was \$439,609 and \$0, respectively. In addition, the Chancery Office maintained cash management accounts with a carrying value of \$992,020 and \$960,836 at December 31, 2010 and 2009. The Diocese also has a sweep account in which the balance is invested daily in Federal obligations. The balance for the sweep account was \$1,891,396 at December 31, 2010 and \$5,213,891 at December 31, 2009. 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 no significant loans receivable at December 31, 2010, and nine significant loans receivable totaling \$2,174,114 at December 31, 2009.

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 \$4,646,589 at December 31, 2010 and \$6,884,159 at December 31, 2009.

Note M- Other Revenue

Other Revenue at December 31, 2010 totaling \$163,820 represents miscellaneous revenue from various sources.

Other Revenue at December 31, 2009 consisted of \$25,000 in contributions from the Stephen & Mary Burch Foundation for seminary formation, \$20,000 from the John J. and Marie Stella Kennedy Foundation for the Evangelization program, and the remaining balance of \$119,251 represents miscellaneous revenue from various sources.

Note N – Subsequent Events

The Diocese has evaluated subsequent events through March 23, 2011, the date which the financial statements were issued.