

**THE PASTORAL CENTER OF THE ROMAN
CATHOLIC DIOCESE OF DALLAS**

CONSOLIDATED FINANCIAL REPORT

JUNE 30, 2011

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INDEPENDENT AUDITORS' REPORT

Most Reverend Kevin J. Farrell, D.D.
Bishop of the Roman Catholic Diocese of Dallas

We have audited the accompanying consolidated statements of financial position of the Pastoral Center of the Roman Catholic Diocese of Dallas as of June 30, 2011 and 2010 and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of management. Our responsibility is to express an opinion on these consolidated 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 consolidated 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 consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Pastoral Center of the Roman Catholic Diocese of Dallas as of June 30, 2011 and 2010, and the consolidated change in their net assets and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Weaver and Tidwell LLP

WEAVER AND TIDWELL, L.L.P.

Dallas, Texas
October 17, 2011

**THE PASTORAL CENTER OF THE
ROMAN CATHOLIC DIOCESE OF DALLAS
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2011 AND 2010**

	2011	2010
ASSETS		
Cash and cash equivalents	\$ 23,556,128	\$ 20,933,824
Cash and cash equivalents held for parishes	6,479,211	9,117,674
Restricted cash and cash equivalents	9,254,717	8,030,275
Investments, primarily for restricted purposes	22,006,496	18,808,099
Notes receivable, net of allowance for collection	211,812	291,152
Pledges and other receivables, net of allowance for collection	5,230,982	4,336,156
Prepaid expenses and other assets	1,717,931	335,161
Property and equipment, net	4,939,633	5,002,241
TOTAL ASSETS	\$ 73,396,910	\$ 66,854,582
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and other accrued liabilities	\$ 6,668,592	\$ 3,990,424
Note payable	190,677	237,393
Parish funds on deposit	6,885,994	9,781,141
Deferred obligation for priests' pension plan	4,087,995	4,844,711
Deferred obligation for priests' postretirement benefits	6,292,426	6,388,451
Total liabilities	24,125,684	25,242,120
Net assets		
Unrestricted	16,182,695	13,263,751
Temporarily restricted	29,491,400	24,791,938
Permanently restricted	3,597,131	3,556,773
Total net assets	49,271,226	41,612,462
Commitments and contingencies	-	-
TOTAL LIABILITIES AND NET ASSETS	\$ 73,396,910	\$ 66,854,582

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

**THE PASTORAL CENTER OF THE
ROMAN CATHOLIC DIOCESE OF DALLAS
CONSOLIDATED STATEMENTS OF ACTIVITIES
JUNE 30, 2011 AND 2010**

	2011			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
REVENUES, GAINS, AND OTHER SUPPORT				
Contributions and bequests	\$ 940,247	\$ 7,452,666	\$ 40,358	\$ 8,433,271
Parish assessments	7,932,836	-	-	7,932,836
Interest and dividends	73,877	413,352	-	487,229
Net unrealized gain on investments	46,708	3,632,374	-	3,679,082
Gains on sales of land	-	-	-	-
Casualty and medical insurance premiums earned	21,271,703	-	-	21,271,703
Other income and fees	1,304,947	194,113	-	1,499,060
Net assets released in satisfaction of:				
Annual appeal restrictions	5,639,655	(5,639,655)	-	-
Other program restrictions	1,353,388	(1,353,388)	-	-
Total revenues, gains, and other support	38,563,361	4,699,462	40,358	43,303,181
EXPENSES				
Insurance premiums, claims, & related costs	21,895,635	-	-	21,895,635
Grants to schools and parishes	625,998	-	-	625,998
Catholic education	1,510,925	-	-	1,510,925
Pastoral ministries and missions	1,818,271	-	-	1,818,271
Clergy assistance	1,925,236	-	-	1,925,236
Seminarian education and assistance	1,427,461	-	-	1,427,461
Subsidy of seminaries	1,155,483	-	-	1,155,483
Catholic Charities	571,000	-	-	571,000
Catechesis and worship	481,015	-	-	481,015
Tribunal	388,778	-	-	388,778
Retreat center	351,677	-	-	351,677
Marriage and family ministries	213,380	-	-	213,380
Annual campaign & fund raising	854,647	-	-	854,647
Diocesan administration	671,073	-	-	671,073
Business operations	3,096,931	-	-	3,096,931
Total expenses	36,987,510	-	-	36,987,510
Change in net assets	1,575,851	4,699,462	40,358	6,315,671
NET ASSETS, beginning of year	13,263,751	24,791,938	3,556,773	41,612,462
Pension and postretirement benefits/credits (charges) for changes other than net periodic pension and postretirement benefit costs	1,343,093	-	-	1,343,093
NET ASSETS, end of year	\$16,182,695	\$29,491,400	\$3,597,131	\$49,271,226

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

2010

Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 927,410	\$11,435,203	\$ 26,157	\$12,388,770
7,449,752	-	-	7,449,752
79,267	406,278	-	485,545
46,256	951,475	-	997,731
-	-	-	-
19,567,475	-	-	19,567,475
1,142,483	370,591	-	1,513,074
5,590,720	(5,590,720)	-	-
2,773,244	(2,773,244)	-	-
<u>37,576,607</u>	<u>4,799,583</u>	<u>26,157</u>	<u>42,402,347</u>
20,270,821	-	-	20,270,821
789,519	-	-	789,519
1,512,297	-	-	1,512,297
2,454,932	-	-	2,454,932
1,934,679	-	-	1,934,679
1,141,023	-	-	1,141,023
1,089,312	-	-	1,089,312
1,080,583	-	-	1,080,583
472,854	-	-	472,854
383,310	-	-	383,310
402,355	-	-	402,355
216,482	-	-	216,482
867,488	-	-	867,488
792,035	-	-	792,035
3,255,862	-	-	3,255,862
<u>36,663,552</u>	<u>-</u>	<u>-</u>	<u>36,663,552</u>
913,055	4,799,583	26,157	5,738,795
13,144,139	19,992,355	3,530,616	36,667,110
(793,443)	-	-	(793,443)
<u>\$13,263,751</u>	<u>\$24,791,938</u>	<u>\$3,556,773</u>	<u>\$41,612,462</u>

**THE PASTORAL CENTER OF THE
ROMAN CATHOLIC DIOCESE OF DALLAS
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2011 AND 2010**

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 6,315,671	\$ 5,738,795
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	179,141	168,349
Provision for collection allowances net of recoveries	425,001	334,666
Net unrealized investment losses (gains)	(3,679,082)	(997,731)
Contributions restricted for endowment	(40,358)	(26,157)
Increase in pledges and other receivables	(1,319,827)	(850,517)
Increase in prepaid expenses and other assets	(1,382,770)	(87,988)
Increase (decrease) in accounts payable and other accrued liabilities	2,678,168	(211,926)
Increase in defined benefit postretirement plan obligations	490,352	260,635
Net cash provided by operating activities	<u>3,666,296</u>	<u>4,328,126</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(1,210,646)	(6,366,402)
Proceeds from sales of investments	1,691,331	1,342,355
Purchases of property and equipment	(116,533)	(574,781)
Collections of notes receivable	79,340	419,589
Net cash provided by (used in) investing activities	<u>443,492</u>	<u>(5,179,239)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions restricted for endowment	40,358	26,157
Payments on debt	(46,716)	(43,624)
Additions to parish funds on deposit	1,083,545	1,225,197
Withdrawals from parish funds on deposit	(3,978,692)	(1,864,484)
Net cash used in financing activities	<u>(2,901,505)</u>	<u>(656,754)</u>
Net increase (decrease) in cash and cash equivalents	1,208,283	(1,507,867)
CASH AND CASH EQUIVALENTS, beginning of year	<u>38,081,773</u>	<u>39,589,640</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 39,290,056</u>	<u>\$ 38,081,773</u>
Reconciliation to Consolidated Statements of Financial Position		
Cash and cash equivalents	\$ 23,556,128	\$ 20,933,824
Cash equivalents held for parishes	6,479,211	9,117,674
Restricted cash and cash equivalents	9,254,717	8,030,275
TOTAL CASH AND CASH EQUIVALENTS, end of year	<u>\$ 39,290,056</u>	<u>\$ 38,081,773</u>
SUPPLEMENTAL DATA		
Interest paid	<u>\$ 23,776</u>	<u>\$ 39,224</u>

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

**THE PASTORAL CENTER OF THE
ROMAN CATHOLIC DIOCESE OF DALLAS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

NOTE 1. ORGANIZATION

The Pastoral Center of the Roman Catholic Diocese of Dallas (Pastoral Center) is the administrative entity of the Roman Catholic Diocese of Dallas (Diocese). The Pastoral Center provides planning and direction in the administration of pastoral, vocational, educational, and other services to its parishes and other Diocesan institutions. The Pastoral Center also provides financing, investing, and other advisory services to the organizations of the Diocese. The Diocese is an ecclesiastical territory which encompasses nine counties in the north central portion of the state of Texas. Record title to all parish, parish school, and church properties in the Diocese is held in the name of the Bishop and his successors for the benefit of the individual parishes, churches, chapels, and certain charitable trusts. Record title to other properties in the Diocese is held in the name of the Bishop and his successors. The Bishop has ecclesiastical responsibility for approximately 75 parishes and a number of other institutions, such as elementary schools, high schools, cemeteries, and other charitable organizations. Each parish is an operating entity distinct from the Pastoral Center that maintains separate financial records and carries on its own services and programs.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America, and include the assets, liabilities, and related financial activity managed by the Pastoral Center and for the benefit of third parties, as well as the accounts of Catholic Community Appeal, Inc. (the Appeal). The Appeal is a nonprofit corporation which manages the Bishop's Annual Appeal that raises funds for certain ministries of the Pastoral Center. Total annual campaign revenues were \$6,541,000 and \$5,546,000 for the years ended June 30, 2011 and 2010, respectively. All significant intercompany balances and transactions have been eliminated in consolidation.

The accompanying consolidated financial statements do not include the Diocesan parishes, schools, churches, missions, chapels, seminaries and other similar organizations, including Catholic Charities of Dallas, Inc., Calvary Hill Cemetery, St. Joseph's Residence, Inc. and the Texas Catholic Publishing Company.

Display of Net Assets by Class

The Pastoral Center maintains its accounts in accordance with the principles of fund accounting. Resources for various purposes are classified into various funds in accordance with activities or restrictions specified by donors. Separate accounting is maintained for each fund. For reporting purposes herein, however, the Pastoral Center classifies net assets into three categories according to the existence or absence of donor-imposed restrictions.

**THE PASTORAL CENTER OF THE
ROMAN CATHOLIC DIOCESE OF DALLAS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Display of Net Assets by Class – Continued

Accordingly, net assets of the Pastoral Center and changes therein are classified and reported as follows:

Unrestricted net assets represent resources available for support of Pastoral Center operations and for other charitable purposes that are not subject to donor-imposed restrictions.

Temporarily restricted net assets represent available resources subject to donor-imposed restrictions that may or will be met either by actions of the Pastoral Center and/or the passage of time. These include various trusts and accumulated appreciation on donor restricted endowments.

Permanently restricted net assets represent funds that are subject to restrictions of gift instruments requiring that the principal be invested in perpetuity and only the income may be used for specific purposes. Permanently restricted net assets include endowment contributions.

From time to time, the fair value of assets associated with permanently restricted funds may fall below the level that the donor requires to be maintained in perpetuity. Deficiencies of this nature result from unfavorable market value fluctuations and are reported in unrestricted net assets. Subsequent gains restoring the fair value of such funds to the required level are classified as an increase in unrestricted net assets.

Expirations of temporary restrictions on net assets, such as the fulfillment of donor imposed stipulations, are reported as net assets released from restrictions between the applicable classes of net assets in the consolidated statements of activities.

Revenue Recognition

Contributions and bequests, including unconditional promises to give (pledges), are recognized as revenues when the donor's commitment is received, net of allowance for collection. Promises to give that are scheduled to be received in future periods are shown as increases in temporarily restricted net assets and are reclassified to unrestricted net assets when the purpose or time restrictions are met. Promises to give subject to donor-imposed stipulations that the corpus be maintained permanently are recognized as increases in permanently restricted net assets. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value.

Dividends, interest, and net gains on investments of permanently restricted net assets are reported as increases in temporarily restricted net assets since the terms of these gifts impose restrictions on the income and net gains.

**THE PASTORAL CENTER OF THE
ROMAN CATHOLIC DIOCESE OF DALLAS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Financial Instruments

The Pastoral Center's financial instruments consist of cash and cash equivalents, investment securities, notes and accounts receivable, and accounts and note payable. The recorded values of cash and cash equivalents and accounts receivable and payable approximate their fair values based on their short-term nature. The recorded values of the investment securities are stated at fair value and the unrealized gains and losses are recorded. The amortized cost of notes receivable and payable approximate fair value, as the stated interest rate approximates market rates.

Cash Equivalents

Cash and cash equivalents are liquid assets with minimal interest rate risk and maturities of three months or less when purchased. Such assets, reported at fair value, primarily consist of depository account balances, money market funds, and certificates of deposit.

Restricted cash is comprised of donor restricted cash contributions for capital and operational purposes.

Investments in Marketable Securities

Investments are reported at fair value in the consolidated statements of financial position using the three-level hierarchy established by generally accepted accounting principles. Purchases and sales of securities are recorded on the trade date, and unrealized gains and losses are included in the consolidated statements of activities.

Receivables

Notes, pledges and other receivables are stated at unpaid principal balances, less the allowance for collection, which is determined by management based on historical collection experience and ongoing analyses of each debtor's financial condition. Notes, pledges or other receivables that are deemed to be uncollectible are charged to the allowance.

Property and Equipment

Property and equipment acquisitions are capitalized at cost, when purchased or at fair value at date of gift, when donated. Depreciation on property and equipment is provided on a straight-line basis over the estimated useful lives of assets, which range from 5 to 40 years (see Note 6). 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.

**THE PASTORAL CENTER OF THE
ROMAN CATHOLIC DIOCESE OF DALLAS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Funds on Deposit

Funds on deposit represent funds deposited with the Pastoral Center primarily by parishes, churches, missions, chapels, and other related entities within the Diocese. In prior years, these funds were used for loans to other parishes within the Diocese (see Note 4). Withdrawals are subject to certain restrictions determined by the Pastoral Center.

Interest rates paid on funds on deposit ranged from 0.1% to 0.35% per annum compounded semiannually for the years ended June 30, 2011 and 2010.

Income Taxes

Under a group ruling issued by the Internal Revenue Service to the United States Conference of Catholic Bishops, the Pastoral Center, as an institution of the Roman Catholic Church in the United States, is exempt from federal income taxes on related income pursuant to Section 501(a) of the Internal Revenue Code (the Code). Accordingly, the Pastoral Center is a tax-exempt organization as described in Section 501(c)(3) of the Code, and no such provision for income taxes has been made in the accompanying consolidated financial statements.

The Pastoral Center is, however, subject to federal income tax on unrelated business income, and provision for such taxes, when appropriate, is included in the accompanying consolidated financial statements. Additionally, the Pastoral Center evaluates tax positions and has no uncertain tax positions that qualify for either recognition or disclosure in the financial statements.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain amounts during the reporting period as well as the disclosure of contingent liabilities. Accordingly, actual results could ultimately differ from those estimates.

Reclassifications

Certain 2010 amounts have been reclassified to conform to the 2011 presentation. These reclassifications had no impact on the change in net assets.

**THE PASTORAL CENTER OF THE
ROMAN CATHOLIC DIOCESE OF DALLAS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Subsequent Events

Subsequent events, occurring after the statement of financial position date but before the statements are available to be issued, are evaluated by management for appropriate recognition and disclosure. All significant events or transactions have been evaluated subsequent to June 30, 2011, and through the date on which the consolidated financial statements were available for issuance, October 17, 2011. During this period there were no material recognizable subsequent events, other than a litigation settlement as further explained in Note 16.

NOTE 3. INVESTMENT SECURITIES

Effective July 1, 2009, the Pastoral Center adopted accounting principles which clarify the definition of fair value for financial reporting, establish a framework for measuring fair value and require additional disclosures about the use of fair value measurements. These standards establish a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 inputs) and the lowest priority to unobservable inputs (level 3 inputs). The three levels of the fair value hierarchy are described below:

Level 1 inputs: Unadjusted, quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities. The majority of investments included in level 1 are common stock and mutual funds typically valued at the closing price reported on the active market on which the individual securities are traded.

Level 2 inputs: Inputs (other than quoted market prices included within level 1) that are either directly or indirectly observable for the asset or liability through correlation with market data at the measurement date and fair value is determined through the use of models or other valuation techniques. The majority of investments included in level 2 are fixed income securities, privately issued mutual funds and collective investment trusts typically valued based on information received from the custodian.

Level 3 inputs: Prices or valuations that require inputs that are both significant to the fair measurement and unobservable. Fair value for these investments are determined using valuation methodologies that consider a range of factors including but not limited to the nature of the investment, market conditions, current and projected operating performance and changes in operating characteristics of the investment.

**THE PASTORAL CENTER OF THE
ROMAN CATHOLIC DIOCESE OF DALLAS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

NOTE 3. INVESTMENT SECURITIES – CONTINUED

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. There have been no changes in the methodologies used at June 30, 2011 and 2010.

The table below summarizes the investments by level as of June 30, 2011:

	Level 1	Level 2	Level 3	Total
Common stock	\$ 4,006,108	\$ -	\$ -	\$ 4,006,108
Mutual funds:				
Growth and Value	3,460,610	350,477	823,581	4,634,668
Fixed Income	3,193,198	-	-	3,193,198
International	1,482,851	447,417	-	1,930,268
Common trust funds:				
Capital Appreciation	-	3,620,620	-	3,620,620
Income	-	3,964,021	-	3,964,021
Certificates of deposit	-	578,174	-	578,174
Other	-	-	79,439	79,439
Total investments at fair value	<u>\$ 12,142,767</u>	<u>\$ 8,960,709</u>	<u>\$ 903,020</u>	<u>\$ 22,006,496</u>

The table below summarizes the investments and other investment securities by level as of June 30, 2010:

	Level 1	Level 2	Level 3	Total
Common stock	\$ 3,610,828	\$ -	\$ -	\$ 3,610,828
Mutual funds:				
Growth and Value	2,312,505	236,190	755,647	3,304,342
Fixed Income	1,977,986	991,837	-	2,969,823
International	1,126,586	345,720	-	1,472,306
Fixed income securities	-	666,975	-	666,975
Common trust funds:				
Capital Appreciation	-	2,870,302	-	2,870,302
Income	-	2,981,095	-	2,981,095
Certificates of deposit	-	807,775	-	807,775
Other	-	45,214	79,439	124,653
Total investments at fair value	<u>\$ 9,027,905</u>	<u>\$ 8,945,108</u>	<u>\$ 835,086</u>	<u>\$ 18,808,099</u>

**THE PASTORAL CENTER OF THE
ROMAN CATHOLIC DIOCESE OF DALLAS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

NOTE 3. INVESTMENT SECURITIES – CONTINUED

The table below sets forth a summary of changes in the fair value of the Plan's level 3 investment assets and liabilities for the year ended June 30, 2011:

	<u>Level 3 Assets</u> <u>Year Ended June 30, 2011</u>	
	<u>Growth and</u> <u>Value Fund</u>	<u>Other</u>
Balance, beginning of year	\$ 755,647	\$ 79,439
Total gains or losses (realized and unrealized) included in changes in net assets	<u>67,934</u>	<u>-</u>
Balance, end of year	<u>\$ 823,581</u>	<u>\$ 79,439</u>

The table below sets forth a summary of changes in the fair value of the Plan's level 3 investment assets and liabilities for the year ended June 30, 2010:

	<u>Level 3 Assets</u> <u>Year Ended June 30, 2010</u>	
	<u>Growth and</u> <u>Value Fund</u>	<u>Other</u>
Balance, beginning of year	\$ -	\$ 79,439
Total gains or losses (realized and unrealized) included in changes in net assets	5,647	-
Purchases, sales, issuances and settlements (net)	<u>750,000</u>	<u>-</u>
Balance, end of year	<u>\$ 755,647</u>	<u>\$ 79,439</u>

**THE PASTORAL CENTER OF THE
ROMAN CATHOLIC DIOCESE OF DALLAS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

NOTE 3. INVESTMENT SECURITIES – CONTINUED

Investments primarily include contributed funds set aside in trust or otherwise for specific charitable purposes. The fair values of investments by type at June 30, 2011 and 2010 are as follows:

	2011		2010	
	Fair Value	Cost	Fair Value	Cost
Equity, fixed income and mutual funds, restricted as specified by donors	\$ 21,927,057	\$ 19,698,513	\$ 18,728,660	\$ 19,287,227
Other	79,439	79,439	79,439	79,439
Total investments at fair value	<u>\$ 22,006,496</u>	<u>\$ 19,777,952</u>	<u>\$ 18,808,099</u>	<u>\$ 19,366,666</u>

The following tabulation summarizes investment income and its related classification in the consolidated statements of activities for the years ended June 30, 2011 and 2010:

	2011		2010	
	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted
Interest and dividends	\$ 70,250	\$ 413,352	\$ 70,810	\$ 406,278
Interest income on notes receivable	3,627	-	8,457	-
Net unrealized gain on investments	46,708	3,632,374	46,256	951,475
Total investment income	<u>\$ 120,585</u>	<u>\$ 4,045,726</u>	<u>\$ 125,523</u>	<u>\$ 1,357,753</u>

**THE PASTORAL CENTER OF THE
ROMAN CATHOLIC DIOCESE OF DALLAS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

NOTE 4. NOTES RECEIVABLE

In prior years, loans were made to parishes for parish development and are unsecured. The Pastoral Center maintains an allowance for collection of principal and interest based upon the expected collectability of the notes, review of the accounts, past experience and other pertinent factors. An allowance was not required at June 30, 2011 or 2010.

The interest rate on all parish loans outstanding is 0% to 5% per annum for the years ended June 30, 2011 and 2010. Loans are typically due within 15 years of the date of the note and require the balance plus accrued interest to be repaid ratably over that period.

The aggregate maturities of notes receivable for each of the five years subsequent to June 30, 2011 are as follows:

2012	\$	93,261
2013		79,739
2014		14,652
2015		15,402
2016		8,758
		<hr/>
Total notes receivable		211,812
Less allowance for collection		-
		<hr/>
Net	\$	<u>211,812</u>

NOTE 5. PLEDGES AND OTHER RECEIVABLES

Pledges and other receivables consist of the following at June 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Pledges receivable due within one year	\$ 2,927,662	\$ 2,931,949
Parish assessments and accounts receivable	2,057,970	2,037,041
Casualty and medical insurance premiums receivable from parishes and other related organizations	1,717,033	1,181,341
Miscellaneous accounts	570,317	201,661
	<hr/>	<hr/>
	7,272,982	6,351,992
Less allowance for collection	<u>(2,042,000)</u>	<u>(2,015,836)</u>
	<hr/>	<hr/>
Total pledges and other receivables, net of allowance	<u>\$ 5,230,982</u>	<u>\$ 4,336,156</u>

**THE PASTORAL CENTER OF THE
ROMAN CATHOLIC DIOCESE OF DALLAS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

NOTE 6. PROPERTY AND EQUIPMENT

At June 30, 2011 and 2010, property and equipment consist of the following:

	2011	2010
Land	\$ 1,111,073	\$ 1,111,073
Land held for future use or disposition	517,307	517,307
Buildings and improvements	5,909,495	5,792,962
Equipment	577,564	577,564
	8,115,439	7,998,906
Less accumulated depreciation	(3,175,806)	(2,996,665)
	\$ 4,939,633	\$ 5,002,241

Depreciation expense was \$179,141 and \$168,349 for the years ended June 30, 2011 and 2010, respectively.

NOTE 7. ACCOUNTS PAYABLE AND OTHER ACCRUED LIABILITIES

Accounts payable and other accrued liabilities consist of the following at June 30, 2011 and 2010:

	2011	2010
Self insurance claims incurred but not reported	\$ 2,487,000	\$ 2,341,000
Unearned casualty insurance premiums	1,468,763	-
Accrued litigation settlements	700,000	85,000
Accounts payable	482,533	336,083
Accrued legal fees	417,220	149,439
Accrued grants payable	300,000	400,000
Special collections payable	654,671	395,482
Miscellaneous accounts	158,405	283,420
Total liabilities	\$ 6,668,592	\$ 3,990,424

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NOTE 8. NOTE PAYABLE

At June 30, 2011 and 2010, there was \$190,677 and \$237,393 outstanding under a mortgage loan, respectively. This note bears interest at a fixed rate of 7% and is collateralized by residential real estate. The loan matures January 1, 2015.

The note is due as follows :

<u>Years Ended June 30,</u>	
2012	\$ 46,104
2013	53,776
2014	57,663
2015	<u>33,134</u>
Total	<u>\$ 190,677</u>

NOTE 9. SELF-INSURANCE PROGRAMS

The Diocese provides casualty and group health insurance for the Pastoral Center, parishes, diocesan schools, and other related organizations (Participants) under partially self-insured programs with third-party administrators processing claims. The Pastoral Center receives insurance premiums from the Participants and, in turn, pays claims for the self-insured portion, pays premiums for conventional excess loss coverage, and pays the programs' administrative costs.

The medical and dental program offers a comprehensive health care benefit plan to all eligible employees of the Pastoral Center and Participants. Insurance is purchased for medical claims from any one individual during the year in excess of \$185,000 and \$175,000 for the years ended June 30, 2011 and 2010, respectively.

The casualty program insures all property owned by the Participants. Property claims are insured under policies with insurance carriers, subject to \$150,000 retention per occurrence, which represents the maximum self-insured portion per occurrence. The casualty program also provides commercial liability coverage under insurance carriers' policies, subject to a self-insured retention of \$150,000 per claim. Workers' compensation coverage is also provided under insurance carrier policies, subject to no deductible in 2010, and a deductible of \$50,000 per claim in 2011.

Estimated incurred but not reported claims recorded in other accrued liabilities in the accompanying consolidated financial statements at June 30, 2011 and 2010 are:

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NOTE 9. SELF-INSURANCE PROGRAMS – CONTINUED

	<u>2011</u>	<u>2010</u>
Medical and dental	\$ 1,412,000	\$ 1,711,000
Casualty	<u>1,075,000</u>	<u>630,000</u>
	<u>\$ 2,487,000</u>	<u>\$ 2,341,000</u>

The estimated liability is based upon information available regarding the self-insurance programs; however, the liability could change materially in the near term.

NOTE 10. POST RETIREMENT HEALTH CARE BENEFITS

The Diocese provides retiree health care benefits, including pharmacy benefits, for priests of the Diocese who meet minimum age and service requirements and retire from active service. The Diocese has reserved the right to change or eliminate this benefit at any time. These benefits are funded as claims are submitted for reimbursement or payment.

The Diocese recognizes the underfunded status of the defined postretirement health care benefit plan as a liability in the statement of financial position and recognizes the changes in that funded status of the plan in net assets in the year in which the changes occur.

The following table sets forth the funded status and amounts recognized in the accompanying consolidated financial statements as of and for the years ended June 30:

	<u>2011</u>	<u>2010</u>
Benefit obligation	\$ 6,292,426	\$ 6,388,451
Fair value of assets	<u>-</u>	<u>-</u>
Unfunded status	<u>\$ (6,292,426)</u>	<u>\$ (6,388,451)</u>
Accrued benefit liability	<u>\$ 6,292,426</u>	<u>\$ 6,388,451</u>

Amounts charged to net assets which have not been recognized in net periodic benefits expense as of June 30:

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NOTE 10. POST RETIREMENT HEALTH CARE BENEFITS- CONTINUED

	2011	2010
Unrecognized actuarial losses	\$ 1,917,456	\$ 2,515,065
Unrecognized prior service costs	4,744	5,609
Components of expense for the years ended June 30:		
Benefit cost	\$ 656,950	\$ 656,339
Employer Contribution	-	-
Benefits paid	154,501	154,404
Weighted average assumptions as of June 30:		
Discount rate for benefit obligations	5.50%	5.25%
Discount rate for net periodic benefit cost	5.25%	6.25%
Expected contributions for the next year ending June 30:		
Expected employer contributions	\$ 331,203	\$ 318,036
Expected employee contributions	-	-
Estimated future benefit payments reflecting expected future service for the fiscal years ending June 30:		
2012		\$ 331,203
2013		337,195
2014		341,716
2015		344,499
2016		337,078
2017-2021		1,876,114

The assumed health care cost trends were graded from 7.30% in 2011 to 5.80% in 2026 for medical and prescription drugs.

As of June 30, 2011, \$83,266 of the net loss and \$865 of the prior service cost will, through amortization, be recognized as components of periodic benefit cost in 2012.

The estimated liability for postretirement health care benefits is based upon information available regarding the assumptions used in the actuarial computation; however, the liability may change materially in the near term.

As of June 30, 2011, the Diocese has \$2,231,205 of internally designated funds and \$655,613 of donor-restricted funds available to fund these obligations.

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NOTE 11. PRIESTS' RETIREMENT PLAN

The Pension Plan for Diocesan Priests, Diocese of Dallas (Priest Plan) covers diocesan priests serving in the Diocese. Generally, the Priest Plan covers the ordained priests and certain diocesan priests from other dioceses. The Priest Plan provides monthly benefits, payable for life at age 70. In 2011 and 2010, monthly benefits amount to \$50 multiplied by the number of years of credited service, subject to plan provisions.

Net periodic pension cost and projected benefit obligation in the accompanying consolidated financial statements include all benefits under the Priest Plan, and are based on years of service. The assets of the Priest Plan are separately maintained and are not part of the accompanying consolidated financial statements. Contributions to the Priest Plan are based on independent actuarial reviews. Participants are neither required nor permitted to make contributions to the Priest Plan. A committee of priests monitors the investment of contributions and payment of benefits in accordance with plan provisions.

The Diocese recognizes the overfunded or underfunded status of the defined benefit plan as an asset or liability in the statement of financial position and recognizes the changes in the funded status of the plan in net assets in the year in which the changes occur.

The following table sets forth the Priest Plan's funded status and amounts recognized in the accompanying consolidated financial statements measured as of and for the years ended June 30:

	<u>2011</u>	<u>2010</u>
Benefit obligation	\$ 9,680,455	\$ 9,502,506
Fair value of plan assets	<u>5,592,460</u>	<u>4,657,795</u>
Unfunded status	<u>\$ (4,087,995)</u>	<u>\$ (4,844,711)</u>

Amounts recognized in the statement of financial position as of June 30 consist of:

	<u>2011</u>	<u>2010</u>
Accrued pension obligation	\$ 4,087,995	\$ 4,844,711

Amounts charged to net assets which have not been recognized in net periodic pension expense as of June 30:

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NOTE 11. PRIESTS' RETIREMENT PLAN – CONTINUED

	<u>2011</u>	<u>2010</u>
Unrecognized actuarial losses	\$ 1,963,928	\$ 2,441,412
Unrecognized transition obligation	1,106,573	1,244,104
Unrecognized prior service cost	1,659,961	1,789,565

Components of pension changes for the years ended June 30:

	<u>2011</u>	<u>2010</u>
Benefit cost expensed	\$ 609,368	\$ 701,656
Employer contribution to the plan	621,465	942,956
Plan participants' contributions	-	-
Benefits paid to retirees	647,250	605,200

Weighted-average assumptions for the benefit cost as of June 30:

	<u>2011</u>	<u>2010</u>
Discount rate-net periodic pension cost	5.00%	6.25%
Expected return on plan assets	7.75%	7.75%

Weighted-average assumptions for the benefit obligation as of June 30:

	<u>2011</u>	<u>2010</u>
Discount rate-benefit obligations	5.25%	5.00%
Expected return on plan assets	7.75%	7.75%

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

As of June 30, 2011, \$137,531 of the translation obligation, \$64,367 of the net loss and \$129,604 of the prior service cost will, through amortization, be recognized as components of periodic benefit cost in 2012.

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NOTE 11. PRIESTS' RETIREMENT PLAN – CONTINUED

The plan assets are invested principally in cash equivalents, equity funds and fixed income investments and the target and actual asset allocation is as follows:

	Target Allocation	Percentage of Plan Assets at	
	2011	2011	2010
Plan assets			
Domestic equity securities	45% - 55%	60%	55%
Debt securities	35% - 45%	31%	37%
International equity securities	10% - 20%	9%	8%
Total		<u>100%</u>	<u>100%</u>

The actual allocations above are being reviewed for conformity with target allocations.

Determination of Expected Long-term Rate of Return

The expected long-term rate of return for the plan's total assets is based on the expected return of each of the above categories, weighted based on the median of the target allocation for each class. Domestic equity securities are expected to return 9% to 10 % over the long-term, while debt (fixed income) securities are expected to return between 5% and 6%, and international equity securities are expected to return 9% to 10%, with a goal of achieving a total return of 6% to 8% per year.

Investment Policy and Strategy

The investment policy is to broadly diversify the investments in order to reduce risk and to produce incremental return, while observing the requirements and principles of prudent investment management. The investments will be diversified among economic sector, industry, quality, and size. The purpose of diversification is to provide reasonable assurance that no single security or class of securities will have a disproportionate impact on the performance of the plan. As a result, the risk level associated with the portfolio should be reduced.

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NOTE 11. PRIESTS' RETIREMENT PLAN – CONTINUED

Investment Policy and Strategy

The fair values of the Diocese's pension plan assets held in fixed income and equity securities at June 30 by level is as follows:

	<u>2011</u>	<u>2010</u>
Level 1	\$ 5,624,031	\$4,657,795
Level 2	-	-
Level 3	<u>-</u>	<u>-</u>
Total investments in equity securities	<u>\$ 5,624,031</u>	<u>\$4,657,795</u>

Cash Flows

Expected contributions for year ending June 30, 2012:

Expected employer contributions	\$ 587,000	\$ 602,000
Expected employee contributions	-	-

Estimated future benefit payments reflecting expected future service for the fiscal years ending June 30:

2012	\$ 761,679
2013	749,661
2014	718,082
2015	695,040
2016	670,516
2017-2021	3,518,911

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NOTE 12. DEFINED CONTRIBUTION 403(b) PLAN

The Diocese also has a defined contribution 403(b) plan which allows eligible lay employees to contribute, tax deferred, a portion of their compensation to the plan, subject to annual limits. The Pastoral Center contributes a required amount equal to 3% of employee compensation and makes an elective additional matching contribution of up to 3% of compensation. The Pastoral Center's total contributions for Pastoral Center employees in 2011 and 2010 were approximately \$184,000 and \$163,000, respectively.

NOTE 13. NET ASSETS

Unrestricted net assets consist of the following at June 30:

	2011	2010
Undesignated operating surplus (deficit)	\$ 7,097,094	\$ 6,337,071
Designated for parish deposit and loan program	(187,290)	(341,653)
Designated for casualty self-insurance program	2,264,203	2,835,776
Designated for priest retirement and post retirement	(7,361,747)	(9,135,131)
Designated for group health self-insurance program	7,676,155	7,087,936
Designated for various Diocesan programs	681,649	490,017
Designated for land and depreciable assets	6,012,631	5,989,735
	\$ 16,182,695	\$ 13,263,751

Temporarily restricted net assets consist of the following at June 30:

	2011	2010
Gifts and related revenues available for:		
Financial aid for schools	\$ 16,242,516	\$ 13,597,719
Bishop's annual appeal	5,959,572	5,057,878
Various other Diocesan programs or activities	7,289,312	6,136,341
	\$ 29,491,400	\$ 24,791,938

Permanently restricted net assets consist of the following at June 30:

	2011	2010
Seminary Burse Endowment	\$ 2,597,131	\$ 2,556,773
Santa Clara School Endowment	1,000,000	1,000,000
	\$ 3,597,131	\$ 3,556,773

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NOTE 14. ADOPTION OF THE STATE UNIFORM PRUDENT MANAGEMENT OF INSTITUTIONAL FUNDS ACT

The Pastoral Center has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. The State of Texas and the Pastoral Center have both adopted UPMIFA. As a result of this interpretation, the Pastoral Center classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment funds not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by management in a manner consistent with the standard of prudence prescribed by UPMIFA.

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

- (1) The duration and preservation of the fund
- (2) The purposes of the donor-restricted endowment funds
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources available
- (7) The investment policies of the Pastoral Center

A reconciliation of the endowment funds' beginning and ending balances for the year ended June 30, 2011 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Beginning of year	\$ (46,708)	\$ 2,217,902	\$ 3,556,773	\$ 5,727,967
Interest and dividends	-	160,847	-	160,847
Realized and unrealized losses	46,708	949,940	-	996,648
Total investment return	46,708	1,110,787	-	1,157,495
Contributions	-	70,057	40,358	110,415
Appropriation of endowment assets for expenditure	-	(335,667)	-	(335,667)
End of year	<u>\$ -</u>	<u>\$ 3,063,079</u>	<u>\$ 3,597,131</u>	<u>\$ 6,660,210</u>

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NOTE 14. ADOPTION OF THE STATE UNIFORM PRUDENT MANAGEMENT OF INSTITUTIONAL FUNDS ACT – CONTINUED

A reconciliation of the endowment funds' beginning and ending balances for the year ended June 30, 2010 is as follows:

	<u>Unrestricted</u>	<u>Temporarily</u>	<u>Permanently</u>	<u>Total</u>
Beginning of year	\$ (92,964)	\$ 1,956,667	\$ 3,530,616	\$5,394,319
Interest and dividends	-	171,701	-	171,701
Realized and unrealized losses	<u>46,256</u>	<u>436,787</u>	<u>-</u>	<u>483,043</u>
Total investment return	46,256	608,488	-	654,744
Contributions	-	-	26,157	26,157
Appropriation of endowment assets for expenditure	<u>-</u>	<u>(347,253)</u>	<u>-</u>	<u>(347,253)</u>
End of year	<u>\$ (46,708)</u>	<u>\$2,217,902</u>	<u>\$ 3,556,773</u>	<u>\$5,727,967</u>

All endowment assets as of June 30, 2011 and 2010 are donor restricted.

Return Objectives and Risk Parameters

The Pastoral Center has adopted an Investment Policy for endowment assets that attempts to provide a predictable stream of funding to programs supported by its endowments while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor restricted funds that the Pastoral Center must hold in perpetuity. The Investment Policy prohibits short selling, margin trading, securities lending, private placements, commodity trading, futures and options contracts, and derivatives of any type, thinly traded and non-marketable securities.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, a total return strategy is utilized in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Pastoral Center targets a diversified asset allocation strategy to achieve its long-term return objectives within the guidelines of its investment policy.

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or UPMIFA requires to be retained as a fund of perpetual duration. Accordingly, there were \$0 and \$46,708 in deficiencies of this nature which resulted from unfavorable market value fluctuations that are reported in unrestricted net assets as of June 30, 2011 and 2010, respectively.

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NOTE 15. TRANSACTIONS WITH PARISHES AND OTHER RELATED ORGANIZATIONS

Transactions with parishes and other related organizations for the years ended June 30 are as follows:

	2011	2010
Casualty and medical insurance premiums billed to parishes and other related organizations	\$ 21,271,703	\$ 19,567,475
Parish assessments	7,932,836	7,449,752

Parish contributions, originate in and are received by the parishes, and thus, are recorded on the basis of accounting determined by the parishes. The parishes calculate the assessment due to the Pastoral Center based on such contributions received adjusted for certain defined deductions. Due to the nature of these transactions and related accounting records, the parish assessments received by the Pastoral Center are recorded based solely on such parish accounting.

NOTE 16. COMMITMENTS AND CONTINGENCIES

At June 30, 2011, various contracts aggregating approximately \$22,468,000 for construction projects in parishes had been signed by the pastor and by the Bishop for the benefit of the parishes. Such contracts were partially completed and paid at that date in the amount of approximately \$13,657,000.

At June 30, 2011, the Pastoral Center may be obligated on a note payable of approximately \$113,000 payable by a parish to an unrelated financial entity. The Pastoral Center has not included this balance as a liability in the accompanying consolidated financial statements.

At June 30, 2011 and 2010, the Pastoral Center has collateralized bank letters of credit outstanding of approximately \$605,000 and \$1,847,000, respectively, on which no funds had been drawn. The letters of credit are pledged to workers' compensation insurance companies to secure Diocesan performance under the Diocese's self-insured obligations (see Note 9).

The Pastoral Center has a revolving line of credit in the amount of \$3 million with a bank (the Credit). The Credit is collateralized by a mortgage on the Pastoral Center office building. The Pastoral Center can borrow and repay on the Credit until August 31, 2013. No amounts were borrowed during fiscal 2011 or 2010.

The Pastoral Center maintains its cash and money market accounts with quality financial institutions; however, at most times the Pastoral Center deposits exceed the limits insured by the FDIC. The Pastoral Center has not experienced any losses on its deposits and believes that it is not exposed to any significant credit risk on cash.

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NOTE 16. COMMITMENTS AND CONTINGENCIES – CONTINUED

The Diocese is a defendant in a lawsuit brought by three plaintiffs, for incidences alleged to have occurred approximately 30 years ago. The lawsuit alleges the Diocese is responsible for the alleged sexual misconduct of an Order priest. The Diocese is of the opinion that any improper conduct on the part of the involved priest is the responsibility of that priest and religious Order to which he belonged, and that any such improper conduct was not within the course and scope of any work with the Diocese, that the Diocese was not negligent with regard to the involved matters, and that the claims are time-barred by the statute of limitations.

The Diocese and a Parish are defendants in an ongoing lawsuit in which the plaintiff alleges that the Diocese and Parish are responsible for alleged sexual misconduct on the part of two Parish employees. Subsequent to June 30, 2011, a settlement in the amount of \$1,200,000 was reached with the plaintiff. Of this amount, \$500,000 is to be paid by insurance proceeds. The remaining \$700,000 is to be paid by the Diocese, and is recorded as an accrued liability in the accompanying consolidated financial statements.

The Diocese and a Parish are defendants in an ongoing lawsuit in which the plaintiff alleges that the Diocese and Parish are responsible for a Parish employee's alleged sexual misconduct. The Diocese is of the opinion that any alleged improper conduct of the Parish employee was not within the course and scope of his employment, and that neither the Diocese nor the Parish was negligent.

Additionally, the Diocese has certain other unresolved claims of alleged sexual misconduct.

Generally, the plaintiffs in all of the pending misconduct litigation seek monetary damages of an unspecified amount.

Management of the Diocese, in consultation with its attorneys, believes that the ultimate outcome of pending sexual misconduct cases and claims cannot be determined at this time. Accordingly, other than noted above, no provision for any liability that may result upon adjudication has been recognized in the accompanying consolidated financial statements. This belief is based on the available information; however, the liability for pending sexual misconduct claims may change materially in the near term.

Additionally, the Diocese is engaged in certain other legal proceedings and has other unresolved claims pending. The ultimate liability from such other proceedings and claims 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 or operations of the Pastoral Center.