

**Chancery Office of the Archdiocese  
of Galveston-Houston**

Financial Statements  
and Independent Auditors' Report  
for the years ended June 30, 2010 and 2009

## Independent Auditors' Report

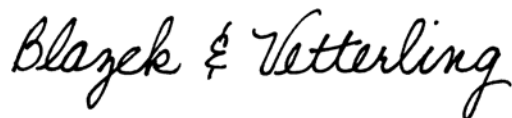
To His Eminence Daniel Cardinal DiNardo  
Archbishop of the Archdiocese of Galveston-Houston:

We have audited the accompanying statements of financial position of the Chancery Office of the Archdiocese of Galveston-Houston as of June 30, 2010 and 2009 and the related statements of activities, of cash flows, and of functional expenses for the years then ended. These financial statements are the responsibility of the management of the Chancery Office of the Archdiocese of Galveston-Houston. 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform our audits 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 Chancery Office of the Archdiocese of Galveston-Houston as of June 30, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 2, 2010, on our consideration of the Chancery Office of the Archdiocese of Galveston-Houston's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



December 2, 2010

## Chancery Office of the Archdiocese of Galveston-Houston

Statements of Financial Position as of June 30, 2010 and 2009 (in thousands)

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	<u>2010</u>	<u>2009</u>
ASSETS		
Cash and cash equivalents (Notes 2 and 8)	\$ 2,327	\$ 3,315
Short-term investments – money market mutual funds (Note 8)	47,101	36,864
Accounts receivable from related entities, net (Note 3)	2,169	3,603
Prepaid expenses and other assets (Note 11)	1,685	12,526
Pledges receivable, net (Note 4)	3,436	4,455
Notes receivable from related entities, net (Note 5)	72,142	80,431
Notes receivable from others, net (Note 6)	3,722	4,078
Cemetery inventory	2,279	2,226
Investments (Notes 7 and 8)	65,215	65,812
Chancery Office property, net (Note 9)	24,283	25,120
Other property, net (Note 10)	<u>9,144</u>	<u>11,009</u>
TOTAL ASSETS	<u>\$ 233,503</u>	<u>\$ 249,439</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 2,811	\$ 2,741
Grants payable	3,014	4,211
Deferred revenue	2,201	1,516
Accrued insurance claims (Note 11)	5,476	15,339
DS&L deposits held for related entities	106,215	115,472
Funds held for others	2,907	2,841
Notes and bonds payable (Note 12)	35,163	37,894
Accrued pension and postretirement health benefits liability (Note 13)	<u>83,307</u>	<u>71,120</u>
Total liabilities	<u>241,094</u>	<u>251,134</u>
Commitments and contingencies (Note 14)		
Net assets:		
Unrestricted	(26,658)	(21,241)
Temporarily restricted (Note 15)	18,693	19,273
Permanently restricted for Circle Lake Retreat Center	<u>374</u>	<u>273</u>
Total net assets	<u>(7,591)</u>	<u>(1,695)</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 233,503</u>	<u>\$ 249,439</u>

See accompanying notes to financial statements.

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## Chancery Office of the Archdiocese of Galveston-Houston

Statement of Activities for the year ended June 30, 2010 (in thousands)

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL	2009 TOTAL
<b>OPERATING REVENUE:</b>					
Health insurance premiums	\$ 17,020			\$ 17,020	\$ 16,284
Archdiocesan assessments	15,674			15,674	15,059
Unrestricted contributions	11,738			11,738	11,811
Business insurance premiums	11,399			11,399	9,130
Program and service fees	3,258			3,258	2,960
Interest on notes receivable from related entities	2,915			2,915	3,614
Cemetery sales and services	<u>972</u>			<u>972</u>	<u>938</u>
Total operating revenue	62,976			62,976	59,796
Net assets released for operating purposes	<u>7,521</u>			<u>7,521</u>	<u>10,572</u>
Total	<u>70,497</u>			<u>70,497</u>	<u>70,368</u>
<b>OPERATING EXPENSES:</b>					
Program services:					
Health insurance program (Note 11)	18,964			18,964	16,596
Chancery services	9,890			9,890	10,758
Business insurance program (Note 11)	5,005			5,005	20,062
Seminarian education	3,719			3,719	5,324
Diocesan Savings & Loan	3,137			3,137	3,418
Cemetery operations	970			970	1,121
Clergy	699			699	1,082
Other program services	<u>8,094</u>			<u>8,094</u>	<u>7,697</u>
Total program services	50,478			50,478	66,058
Administrative and general	14,197			14,197	13,817
Fundraising	<u>1,661</u>			<u>1,661</u>	<u>1,795</u>
Total operating expenses	<u>66,336</u>			<u>66,336</u>	<u>81,670</u>
Changes in net assets from operations	4,161			4,161	(11,302)
<b>OTHER CHANGES IN NET ASSETS:</b>					
Restricted contributions		\$ 6,506	\$ 100	6,606	7,957
Restricted fees and interest on notes receivable		265		265	295
Investment return, net (Note 7)	4,733	442	1	5,176	(4,973)
Loss on impairment					(5,089)
Gain on sale of property	117			117	
Other benefit-related changes (Note 13)	(9,427)			(9,427)	(23,458)
Non-operating grants and transfers (Note 16)	(5,273)			(5,273)	(4,238)
Net assets released for operating purposes		(7,521)		(7,521)	(10,572)
Net assets released for capital expenditures	<u>272</u>	<u>(272)</u>			
CHANGES IN NET ASSETS	(5,417)	(580)	101	(5,896)	(51,380)
Net assets, beginning of year	<u>(21,241)</u>	<u>19,273</u>	<u>273</u>	<u>(1,695)</u>	<u>49,685</u>
Net assets, end of year	<u>\$ (26,658)</u>	<u>\$ 18,693</u>	<u>\$ 374</u>	<u>\$ (7,591)</u>	<u>\$ (1,695)</u>

See accompanying notes to financial statements.

## Chancery Office of the Archdiocese of Galveston-Houston

Statement of Activities for the year ended June 30, 2009 (in thousands)

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
<b>OPERATING REVENUE:</b>				
Health insurance premiums	\$ 16,284			\$ 16,284
Archdiocesan assessments	15,059			15,059
Unrestricted contributions	11,811			11,811
Business insurance premiums	9,130			9,130
Program and service fees	2,960			2,960
Interest on notes receivable from related entities	3,614			3,614
Cemetery sales and services	938			938
	<u>59,796</u>			<u>59,796</u>
Total operating revenue				59,796
Net assets released for operating purposes	<u>10,572</u>			<u>10,572</u>
Total	<u>70,368</u>			<u>70,368</u>
<b>OPERATING EXPENSES:</b>				
Program services:				
Health insurance program (Note 11)	16,596			16,596
Chancery services	10,758			10,758
Business insurance program (Note 11)	20,062			20,062
Seminarian education	5,324			5,324
Diocesan Savings & Loan	3,418			3,418
Cemetery operations	1,121			1,121
Clergy	1,082			1,082
Other program services	7,697			7,697
	<u>66,058</u>			<u>66,058</u>
Total program services				66,058
Administrative and general	13,817			13,817
Fundraising	1,795			1,795
	<u>81,670</u>			<u>81,670</u>
Total operating expenses				81,670
Changes in net assets from operations	(11,302)			(11,302)
<b>OTHER CHANGES IN NET ASSETS:</b>				
Restricted contributions		\$ 7,857	\$ 100	7,957
Restricted fees and interest on notes receivable		295		295
Investment return, net (Note 7)	(4,746)	(201)	(26)	(4,973)
Loss on impairment of property (Note 11)	(5,089)			(5,089)
Other benefit-related changes (Note 13)	(23,458)			(23,458)
Non-operating grants and transfers (Note 16)	(4,238)			(4,238)
Net assets released for operating purposes		(10,572)		(10,572)
Net assets released for capital expenditures	621	(621)		
CHANGES IN NET ASSETS	(48,212)	(3,242)	74	(51,380)
Net assets, beginning of year	<u>26,971</u>	<u>22,515</u>	<u>199</u>	<u>49,685</u>
Net assets, end of year	<u>\$ (21,241)</u>	<u>\$ 19,273</u>	<u>\$ 273</u>	<u>\$ (1,695)</u>

See accompanying notes to financial statements.

## Chancery Office of the Archdiocese of Galveston-Houston

Statements of Cash Flows for the years ended June 30, 2010 and 2009 (in thousands)

	<u>2010</u>	<u>2009</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Changes in net assets	\$ (5,896)	\$ (51,380)
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities:		
Contributions restricted for long-term purposes	(272)	(593)
Net realized and unrealized (gain) loss on investments	(3,046)	8,313
Depreciation expense	1,096	1,081
Gain on sale of property	(117)	
Loss on impairment of property due to <i>Hurricane Ike</i>		5,089
Net grants and transfers of property	1,973	4,375
Changes in operating assets and liabilities:		
Accounts receivable from related entities	1,434	1,434
Prepaid expenses, other assets and cemetery inventory	10,788	(10,586)
Pledges receivable not restricted for long-term purposes	(919)	1,949
Accounts payable and accrued expenses	70	(545)
Grants payable	(1,197)	605
Accrued insurance claims	(9,863)	10,620
Accrued pension and postretirement health benefits liability	12,187	24,453
Deferred revenue	685	163
DS&L deposits and funds held for others	<u>(9,191)</u>	<u>8,423</u>
Net cash provided (used) by operating activities	<u>(2,268)</u>	<u>3,401</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Payments received on notes receivable	27,431	21,239
Additions of notes receivable	(18,787)	(31,762)
Net purchases of money market mutual funds held for investment	(10,143)	(1,389)
Proceeds from sales of investments	44,362	26,152
Purchases of investments	(40,811)	(22,896)
Purchases of property	(395)	(1,583)
Proceeds from sale of property	<u>145</u>	<u></u>
Net cash provided (used) by investing activities	<u>1,802</u>	<u>(10,239)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from contributions restricted for long-term purposes	2,210	2,774
Proceeds from note and bond issuance	1,373	9,441
Payment of note and bond principal	<u>(4,105)</u>	<u>(3,572)</u>
Net cash provided (used) by financing activities	<u>(522)</u>	<u>8,643</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	(988)	1,805
Cash and cash equivalents, beginning of year	<u>3,315</u>	<u>1,510</u>
Cash and cash equivalents, end of year	<u>\$ 2,327</u>	<u>\$ 3,315</u>

*See accompanying notes to financial statements.*

## Chancery Office of the Archdiocese of Galveston-Houston

Statement of Functional Expenses for the year ended June 30, 2010 (in thousands)

	PROGRAM SERVICES							SUPPORTING SERVICES		TOTAL FUNCTIONAL EXPENSES	
	HEALTH INSURANCE PROGRAM	CHANCERY SERVICES	BUSINESS INSURANCE PROGRAM	SEMINARIAN EDUCATION	DIOCESAN SAVINGS & LOAN	CEMETARY OPERATIONS	OTHER PROGRAM SERVICES	ADMINISTRATIVE AND GENERAL	FUNDRAISING		
Salaries and benefits		\$ 5,984		\$ 1,428		\$ 454	\$ 265	\$ 79	\$ 5,992	\$ 717	\$ 14,919
Claims expense	\$ 17,852		\$ (341)								17,511
Premium expense	1,615		5,515								7,130
Operating grants (Note 16)		655	151	4			12	6,211			7,033
Interest expense					\$ 3,136			990			4,126
Professional fees	1,121	589	272	99		52	91	818	590		3,632
Repair, maintenance and occupancy		1,038		694		236	4	121	1,356	2	3,451
Unallocated net periodic pension and postretirement costs									2,760		2,760
Provision for losses and uncollectible receivables					1	27		165	990		1,183
Assistance to individuals		16		950			177				1,143
Depreciation						14		1,082			1,096
Supplies		475		275		117	39	126	8		1,040
Meetings and events		404		46		3	72	151	38		717
Dues and assessments of support organizations		10						502			512
Postage and printing		46		16		5		283	135		485
Newspaper distribution		416									416
Special programs		30		47			6	23	240		346
Local travel		122		87		12	10	79	2		312
Telephone		41		50		13	23	114			241
Other expenses		64	1	23		37		206	169		500
Premiums allocated to salaries and benefits and occupancy	(1,624)		(593)								(2,217)
Total operating expenses	\$ 18,964	\$ 9,890	\$ 5,005	\$ 3,719	\$ 3,137	\$ 970	\$ 699	\$ 8,094	\$ 14,197	\$ 1,661	\$ 66,336

See accompanying notes to financial statements.

## Chancery Office of the Archdiocese of Galveston-Houston

Statement of Functional Expenses for the year ended June 30, 2009 (in thousands)

	PROGRAM SERVICES						SUPPORTING SERVICES			TOTAL FUNCTIONAL EXPENSES	
	HEALTH INSURANCE PROGRAM	CHANCERY SERVICES	BUSINESS INSURANCE PROGRAM	SEMINARIAN EDUCATION	DIOCESAN SAVINGS & LOAN	CEMETARY OPERATIONS	CLERGY	OTHER PROGRAM SERVICES	ADMINISTRATIVE AND GENERAL		FUNDRAISING
Salaries and benefits		\$ 7,035		\$ 1,900		\$ 542	\$ 520	\$ 102	\$ 4,665	\$ 836	\$ 15,600
Claims expense	\$ 17,181		\$ 14,303								31,484
Premium expense	1,568	4	5,361	9		5		1	7		6,955
Operating grants (Note 16)		153	1,056	8				5,606			6,823
Interest expense					\$ 4,023			1,156	2		5,181
Professional fees	950	576	190	114		54	116	200	907	445	3,552
Repair, maintenance and occupancy		990	19	987		266		83	1,312		3,657
Unallocated net periodic pension and postretirement costs									995		995
Provision for losses and uncollectible receivables	(1,322)		102	760	(605)	42		(94)	3,777		2,660
Assistance to individuals		9		968			149		2		1,128
Depreciation						14			1,067		1,081
Supplies		550		267		128	69		149	26	1,189
Meetings and events		431	2	55		3	60		65	19	655
Dues and assessments of support organizations		16						497			513
Postage and printing		80		13		5		3	310	315	726
Newspaper distribution		468									468
Special programs		140	4	65			76	31	79		395
Local travel		133	2	84		15	12		45	3	294
Telephone		49		34		12	80		93		268
Other expenses		124		60		35		92	342	151	804
Premiums allocated to salaries and benefits and occupancy	(1,781)		(977)								(2,758)
Total operating expenses	\$ 16,596	\$ 10,758	\$ 20,062	\$ 5,324	\$ 3,418	\$ 1,121	\$ 1,082	\$ 7,697	\$ 13,817	\$ 1,795	\$ 81,670

See accompanying notes to financial statements.

## Chancery Office of the Archdiocese of Galveston-Houston

Notes to Financial Statements for the years ended June 30, 2010 and 2009

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### NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization – The Roman Catholic Archdiocese of Galveston-Houston (the Archdiocese) is an ecclesiastical territory that encompasses ten counties in southeastern Texas in an area covering almost 9,000 square-miles. The Archdiocese serves approximately 1.3 million Catholics with over 200 parishes, missions and schools. The Chancery Office of the Archdiocese of Galveston-Houston (the Chancery Office) includes administrative and program services of the Archdiocese that are fiscally and operationally responsible directly to the Office of the Cardinal Archbishop of the Archdiocese. The operations of the Chancery Office are organized under Secretariats with Secretariat Directors who, as a cabinet under the Cardinal Archbishop, oversee the activities of the Chancery Office. The Secretariats include Communications, Finance, Administration, Pastoral and Educational Ministries, Clergy Formation and Chaplaincy Services, and Catholic Schools. Archdiocesan entities organized under these Secretariats include St. Mary's Seminary, four Catholic cemeteries, the Bishop's Palace Historic Home, Catholic university student centers, and retreat centers. Additionally, the Tribunal and Ethnic offices are included in this organizational body. St. Mary's Cathedral Basilica in Galveston was transferred to the Chancery Office in 2009.

Basis of presentation – These financial statements include only the assets, liabilities, net assets and activities of the Chancery Office. All significant balances and transactions between operating units included in these financial statements have been eliminated. The accompanying financial statements do not include the assets, liabilities, net assets, and financial activities of the individual parishes, schools, and Diocesan organizations that operate within the Archdiocese. Each of these related entities, although ultimately responsible to the Cardinal Archbishop, is an operating entity distinct from the Chancery Office, maintains separate financial records, and administers its own services and programs. Additionally, various religious orders, lay societies, and religious organizations that operate within the Archdiocese, but which are not fiscally responsible to the Cardinal Archbishop, are not included in the accompanying financial statements.

Federal income tax status – The Archdiocese is exempt from federal income tax under §501(c)(3) of the Internal Revenue Code and is classified as a public charity under §170(b)(1)(A)(i) under the group exemption of the United States Catholic Conference.

Net asset classification – Revenue and the related net assets are classified based on the existence or absence of donor-imposed restrictions, as follows:

- *Unrestricted net assets* include those net assets whose use is not restricted by donor-imposed stipulations, even though their use may be limited in other respects, such as by contract or board designation.
- *Temporarily restricted net assets* include revenue restricted by the donor for specific purposes or time periods. When a purpose restriction is accomplished or a time restriction ends, temporarily restricted net assets are released to unrestricted net assets.
- *Permanently restricted net assets* include revenue that donors have restricted in perpetuity. The donor requires that investment return be added to the corpus of the fund during his lifetime.

Changes in net assets from operations excludes donor-restricted revenue, investment return and other transactions not in the normal course of operations. Net assets restricted for operating purposes are reclassified as operating in the period the purpose restriction is accomplished or time restriction ends.

Cash and cash equivalents include deposits in checking and savings accounts and short-term, highly liquid investments that are readily convertible to cash and have maturities of three months or less when acquired. Cash and cash equivalents that are invested for long-term purposes are grouped with investments.

Allowance for uncollectible receivables – Allowances for accounts and notes receivable are provided when it is believed they may not be collected in full. The amount of bad debt expense recorded each period and the resulting adequacy of the allowance at the end of each period are determined using a combination of historical loss experience and customer-by-customer analysis of receivable balances each period.

Pledges receivable that are expected to be collected within one year are recorded at net realizable value. Pledges receivable that are expected to be collected in future years are discounted to estimate the present value of future cash flows, if material. Discounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of discounts is included in contribution revenue.

Cemetery inventory is valued at cost using the average cost method.

Investments in marketable securities with readily determinable fair values and investments in debt securities are recorded at fair value as determined from quoted exchange market prices. Investments in the Catholic Endowment Foundation, annuity contracts, hedge funds, and unit and real estate investment trusts, which are not readily marketable, are recorded at estimated fair values, as provided by the investment manager or general partner. Those estimated values may differ significantly from the values that would have been used had a ready market for these investments existed. The Chancery Office accounts for its participation interest (3.0% at June 30, 2010 and 2009) in the Catholic Umbrella Pool under the equity method. Certain other investments are recorded at the lower of cost or fair value.

Investment return is reported in the statement of activities as an increase in unrestricted net assets unless the use of the income is limited by donor-imposed restrictions. Interest and dividends are recognized when earned. Transactions are recorded on a trade-date basis. Net realized and unrealized gains and losses on investments are determined by comparison of average costs of acquisitions to proceeds at the time of disposal or recorded fair value at the last day of the fiscal year.

Property is recorded at cost if purchased and at fair value at the date of gift if donated. The Chancery Office capitalizes major expenditures to acquire property and those which substantially increase the useful lives of assets. Routine maintenance and repairs as well as equipment and improvements with a future economic life of less than five years are expensed as incurred. The Chancery Office provides for depreciation of property using the straight-line method based on estimated useful lives of ten to forty years for buildings and improvements and five to fifteen years for furnishings and equipment.

Diocesan Savings and Loan (DS&L) deposits held for related entities represent amounts deposited with the Chancery Office by parishes, schools and other related entities through the Archdiocesan savings and loan program. Deposits accrue interest at the average of select certificate of deposit rates offered by local banks. Interest is payable upon demand by the depositor. At June 30, 2010 and 2009, deposits were accruing interest at 2.8%.

Funds held for others consist primarily of amounts collected by parishes on behalf of unrelated charitable beneficiaries that have been forwarded to the Chancery Office for disbursement to the specified beneficiary. The Chancery Office acts as an agent in collecting and disbursing these funds and such transactions are not reflected as revenue or expenses in the statement of activities.

Accrued pension and postretirement health benefits liabilities – The Chancery Office recognizes the actuarially determined overfunded or underfunded status of the defined benefit postretirement plans as an asset or liability in its statement of financial position and recognizes changes in that funded status in the year in which the changes occur through changes in unrestricted net assets. The measurement date for recognizing the funded status of the plans is June 30.

Contributions are recorded as revenue at fair value when an unconditional commitment is received from the donor. Contributions received with donor stipulations that limit their use are recorded as restricted support. Conditional contributions are recognized in the same manner when the conditions are substantially met. A portion of contributions to the annual Diocesan services fund in excess of a parish's goal are paid to the parish in the form of a rebate. Contributions are recognized net of estimated rebates. Rebates payable at year end are included in accounts payable and accrued expenses.

Donated materials, use of facilities and services – Donated materials and use of facilities are recorded at fair value as unrestricted contributions when an unconditional commitment is received from the donor. The related expense is recognized as the item is used. Contributions of services are recognized when services received create or enhance nonfinancial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. A substantial number of volunteers have contributed significant amounts of time in connection with programs, administration and fundraising for which no amount has been recorded in the financial statements because the services did not meet the criteria for recognition under generally accepted accounting principles.

Insurance premiums and expenses – The Chancery Office administers insurance plans as described in Note 11. Premiums are assessed annually based upon management’s estimate of claims, deductibles, and premiums for third-party coverage and administrative costs. The Chancery Office recognizes revenue for premiums billed to participating entities in the year for which coverage is provided. The Chancery Office recognizes expenses for actual claims paid plus management’s estimate of additional claims and losses for the self-insured portion of plans, premiums for excess loss and catastrophic coverage and administrative costs. Claims expense is recognized net of estimated reimbursements from third-party providers. Management’s estimate of additional claims and losses for the self-insured portion of plans is reflected in the statement of financial position as accrued insurance claims.

Archdiocesan assessments – In order to provide funds for the operation of the Chancery Office, the Archdiocese levies assessments on the revenue of its parishes adjusted for certain excludable items and deductions. These assessments are computed from financial information submitted by the parishes using formulas established by the Cardinal Archbishop. Revenue from these assessments is recognized in the period in which they are levied.

Program and service fees are recognized in the period in which the services are provided.

Recent accounting pronouncements – During the year ended June 30, 2010, the Chancery Office implemented the disclosure requirements of Financial Accounting Standards Board (FASB) Staff Position No. 132(R)-1, *Employers’ Disclosures about Postretirement Benefit Plan Assets*, requiring additional disclosures about plan assets of a defined benefit pension or other postretirement plan. During the year ended June 30, 2010, the Chancery Office also implemented FASB Accounting Standards Update (ASU) No. 2009-12, *Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*. This standard permits categorization of such investments as Level 2 in certain circumstances. Implementation resulted in transfer of certain investments from Level 3 to Level 2 in 2010. In January 2010, FASB ASU No. 2010-06, *Improving Disclosures about Fair Value Measurements*, was issued. ASU 2010-06 requires additional detail in the rollforward of activity of Level 3 investments. These requirements will be effective for the year ending June 30, 2012.

Estimates – Management must make estimates and assumptions to prepare financial statements in accordance with generally accepted accounting principles. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, the amounts reported as revenue and expenses, and the allocation of expenses among various functions. Actual results could vary from the estimates that were used.

Reclassifications – Certain reclassifications have been made to the prior year financial statements to conform with the current presentation.

**NOTE 2 – CASH AND CASH EQUIVALENTS**

Cash and cash equivalents consist of the following (*in thousands*):

	<u>2010</u>	<u>2009</u>
U. S. depository accounts	\$ 2,297	\$ 1,768
Money market mutual funds	<u>30</u>	<u>1,547</u>
Total cash and cash equivalents	<u>\$ 2,327</u>	<u>\$ 3,315</u>

Bank deposits exceed the federally insured limit per depositor per institution.

**NOTE 3 – ACCOUNTS RECEIVABLE FROM RELATED ENTITIES**

Accounts receivable from related entities consist of the following (*in thousands*):

	<u>2010</u>	<u>2009</u>
Total accounts receivable from related entities	\$ 7,117	\$ 9,734
Allowance for uncollectible accounts receivable	<u>(4,948)</u>	<u>(6,131)</u>
Accounts receivable from related entities, net	<u>\$ 2,169</u>	<u>\$ 3,603</u>

#### NOTE 4 – PLEDGES RECEIVABLE

Pledges receivable consist of the following (*in thousands*):

	<u>2010</u>	<u>2009</u>
Diocesan services fund	\$ 2,282	\$ 2,322
Cardinal Circle	800	
Co-Cathedral and dome campaigns	<u>808</u>	<u>2,746</u>
Total pledges receivable	3,890	5,068
Discount on pledges receivable at 5%	(70)	(166)
Allowance for uncollectible amounts	<u>(384)</u>	<u>(447)</u>
Pledges receivable, net	<u>\$ 3,436</u>	<u>\$ 4,455</u>

Pledges receivable at June 30, 2010 are expected to be collected as follows (*in thousands*):

Within one year	\$ 3,149
In one to five years	<u>741</u>
Total pledges receivable	<u>\$ 3,890</u>

#### NOTE 5 – NOTES RECEIVABLE FROM RELATED ENTITIES

The Chancery Office provides loans to parishes, schools and other entities within the Archdiocese for capital projects and operating needs. Interest rates and principal and interest payment terms on the notes associated with Chancery notes and bonds payable are identical to the terms for the respective notes and bonds payable. Interest rates on other notes from related entities vary and repayment terms generally require periodic payments of principal and interest over periods ranging from five to seven years. Variable rate notes accrue interest based on average medium term certificate of deposit rates offered by local banks. At June 30, 2010, variable rate notes were accruing interest at 4.65%. Fixed rate notes accrue interest based on U. S. Treasury securities with similar maturities plus a spread that varies. At June 30, 2010, fixed rate notes were generally accruing interest at rates between 2.25% and 6.70%. All of the notes are unsecured.

Notes receivable from related entities consist of the following (*in thousands*):

	<u>2010</u>	<u>2009</u>
Notes associated with Chancery notes and bonds payable	\$ 35,163	\$ 37,895
Other notes from related entities	<u>37,974</u>	<u>43,530</u>
Total notes receivable from related entities	73,137	81,425
Allowance for uncollectible amounts	<u>(995)</u>	<u>(994)</u>
Notes receivable from related entities, net	<u>\$ 72,142</u>	<u>\$ 80,431</u>

#### NOTE 6 – NOTES RECEIVABLE FROM OTHERS

Notes receivable from others consist of the following (*in thousands*):

	<u>2010</u>	<u>2009</u>
Mortgage notes secured by real property, 6% to 10% annual interest rates	\$ 3,366	\$ 3,716
Unsecured notes receivable	70	1,395
Cemetery sales payment plans	<u>680</u>	<u>738</u>
Total notes receivable from others	4,116	5,849
Allowance for doubtful accounts	<u>(394)</u>	<u>(1,771)</u>
Notes receivable from others, net	<u>\$ 3,722</u>	<u>\$ 4,078</u>

Notes receivable from others are expected to be collected as follows (*in thousands*):

Fiscal year 2011	\$ 218
Fiscal year 2012	223
Fiscal year 2013	212
Fiscal year 2014	200
Fiscal year 2015	192
Thereafter	2,321
Unscheduled	<u>750</u>
Total notes receivable from others	<u>\$ 4,116</u>

## NOTE 7 – INVESTMENTS

Investments consist of the following (*in thousands*):

	<u>2010</u>	<u>2009</u>
Corporate bonds and notes	\$ 16,525	\$ 12,365
Unit investment trust	14,231	1,826
Equity securities	11,807	11,466
Annuity contracts	5,042	4,690
Mortgage-backed securities	4,072	16,068
U. S. Treasury securities	3,429	3,216
Invested with Catholic Endowment Foundation	2,640	7,373
Money market mutual funds	2,129	2,223
Bond mutual funds	1,179	126
Equity mutual funds	951	934
Real estate investment trust	810	1,013
Equity in Catholic Umbrella Pool	593	457
Hedge funds	422	2,670
Other investments (reported at the lower of cost or fair value)	<u>1,385</u>	<u>1,385</u>
Total investments	<u>\$ 65,215</u>	<u>\$ 65,812</u>

Investments are exposed to various risks such as interest rate, market and credit risks. In addition to risks associated with other investments, alternative investments in securities other than stocks and bonds include additional risks because of their complex nature and limited regulations resulting in a greater risk of losing invested capital. Such risks include, but are not limited to, limited liquidity, absence of oversight, dependence upon key individuals, emphasis on speculative investments (both derivatives and nonmarketable investments), and nondisclosure of portfolio composition. Because of these risks, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position and statement of activities.

The Chancery Office invests with the Catholic Endowment Foundation (the Foundation), a related entity, in an investment pool that uses the market value unit method of accounting for investment transactions. The fair value of the Chancery Office's investment in the Foundation reflects the Chancery Office's share of the fair value of the total underlying investment portfolio managed by the Foundation. The Chancery Office's share of changes in the value of the pooled portfolio is included in net realized and unrealized gain (loss).

Investment return including earnings on cash and cash equivalents and short-term and other investments consists of the following (*in thousands*):

	<u>2010</u>	<u>2009</u>
Interest, dividends and royalties	\$ 2,710	\$ 3,599
Net realized and unrealized gain (loss)	3,046	(8,313)
Investment custodial and management fees	<u>(580)</u>	<u>(259)</u>
Investment return, net	<u>\$ 5,176</u>	<u>\$ (4,973)</u>

## NOTE 8 – FAIR VALUE MEASUREMENTS

Generally accepted accounting principles require that certain assets and liabilities be reported at fair value and establish a hierarchy that prioritizes inputs used to measure fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The three levels of the fair value hierarchy are as follows:

- *Level 1* – Inputs are unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the reporting date.
- *Level 2* – Inputs are other than quoted prices included in Level 1, which are either directly observable or can be derived from or corroborated by observable market data at the reporting date.
- *Level 3* – Inputs are not observable and are based on the reporting entity’s assumptions about the inputs market participants would use in pricing the asset or liability.

Assets measured at fair value on a recurring basis at June 30, 2010 consist of the following (*in thousands*):

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Money market mutual funds	\$ 49,260			\$ 49,260
Corporate bonds and notes		\$ 16,525		16,525
Unit investment trust	14,231			14,231
Equity securities	11,807			11,807
Annuity contracts			\$ 5,042	5,042
Mortgage-backed securities		4,072		4,072
U. S. Treasury securities		3,429		3,429
Invested with Catholic Endowment Foundation		2,640		2,640
Bond mutual funds	1,179			1,179
Equity mutual funds	951			951
Real estate investment trust			810	810
Hedge funds			<u>422</u>	<u>422</u>
Total assets measured at fair value	<u>\$ 77,428</u>	<u>\$ 26,666</u>	<u>\$ 6,274</u>	<u>\$ 110,368</u>

Assets measured at fair value on a recurring basis at June 30, 2009 consist of the following (*in thousands*):

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Money market mutual funds	\$ 40,634			\$ 40,634
Corporate bonds and notes		\$ 12,365		12,365
Unit investment trust	1,826			1,826
Equity securities	11,466			11,466
Annuity contracts			\$ 4,690	4,690
Mortgage-backed securities		16,068		16,068
U. S. Treasury securities		3,216		3,216
Invested with Catholic Endowment Foundation			7,373	7,373
Bond mutual funds	126			126
Equity mutual funds	934			934
Real estate investment trust			1,013	1,013
Hedge funds			<u>2,670</u>	<u>2,670</u>
Total assets measured at fair value	<u>\$ 54,986</u>	<u>\$ 31,649</u>	<u>\$ 15,746</u>	<u>\$ 102,381</u>

Valuation methods used for assets measured at fair value are as follows:

- *Mutual funds* are valued at the reported net asset value.
- *Corporate bonds and notes, mortgage-backed securities, and U. S. Treasury securities* are valued using prices obtained from independent quotation bureaus that use computerized valuation formulas which may include market-corroborated inputs for credit risk factors, interest rate and yield curves and broker quotes, to calculate fair values.

- *Unit investment trust and equity securities* are valued at the closing price reported on the active market on which the individual securities are traded.
- *Annuity contracts, invested with Catholic Endowment Foundation, real estate investment trust, and hedge funds* are valued at the reported net asset value determined by the investment manager based on the fair value of the underlying investments.

These valuation methods may produce a fair value that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Chancery Office believes its valuation methods are appropriate, the use of different methods or assumptions could result in a different fair value measurement at the reporting date.

Changes in the fair value of Level 3 assets for the years ended June 30, 2010 and 2009 consist of the following (*in thousands*):

	CATHOLIC ENDOWMENT FOUNDATION	ANNUITY CONTRACTS	OTHER	TOTAL
Balance at June 30, 2008	\$ 8,309	\$ 9,905	\$ 4,098	\$ 22,312
Net realized and unrealized loss	(728)	(97)	(416)	(1,241)
Purchases, issuances, sales and settlements, net	<u>(208)</u>	<u>(5,117)</u>		<u>(5,325)</u>
Balance at June 30, 2009	7,373	4,691	3,682	15,746
Transfer to Level 2	(7,373)			(7,373)
Net realized and unrealized gain (loss)		259	(164)	95
Purchases, issuances, sales and settlements, net		<u>92</u>	<u>(2,286)</u>	<u>(2,194)</u>
Balance at June 30, 2010	<u>\$ 0</u>	<u>\$ 5,042</u>	<u>\$ 1,232</u>	<u>\$ 6,274</u>

#### NOTE 9 – CHANCERY OFFICE PROPERTY

Chancery Office property is comprised of the following (*in thousands*):

	<u>2010</u>	<u>2009</u>
Land	\$ 11,356	\$ 11,325
Buildings and improvements	24,577	24,440
Furnishings and equipment	6,906	6,912
Construction and projects in progress	<u>81</u>	<u>51</u>
Total Chancery Office property, at cost	42,920	42,728
Accumulated depreciation	<u>(18,637)</u>	<u>(17,608)</u>
Chancery Office property, net	<u>\$ 24,283</u>	<u>\$ 25,120</u>

#### NOTE 10 – OTHER PROPERTY

Other property is comprised of the following (*in thousands*):

	<u>2010</u>	<u>2009</u>
Land and buildings used by related entities and others	\$ 4,116	\$ 6,779
Land held for anticipated future parish or school use	3,048	3,048
Co-Cathedral construction in progress	<u>2,033</u>	<u>1,871</u>
Total other property, at cost	9,197	11,698
Accumulated depreciation	<u>(53)</u>	<u>(689)</u>
Other property, net	<u>\$ 9,144</u>	<u>\$ 11,009</u>

Other property includes properties owned by the Cardinal Archbishop that are used by related entities and others. It does not include properties held in trust by the Cardinal Archbishop on behalf of parishes, schools and other related entities which are not included in the financial statements of the Chancery Office. Other property also includes land

purchased in anticipation of future needs of the Archdiocese that may be used for additional parishes and schools. Such property may be developed as a new parish or school or may be sold as needs change. Generally, six months after construction of a new parish or school, the historical cost of the land is transferred to the new entity.

Co-cathedral construction in progress consists of construction of an organ that was in progress at June 30, 2010 and 2009. The project was completed and transferred without consideration to Sacred Heart Co-Cathedral parish in October 2010.

#### NOTE 11 – HEALTH AND BUSINESS INSURANCE

The Chancery Office provides workers’ compensation, auto, property and liability insurance coverage for Chancery Office operations as well as for parishes, schools and other related entities. Coverage is provided through a combination of self-funded deductibles and coverage, policies obtained in the reinsurance market and participation in the Catholic Umbrella Pool (the Pool). The Pool is a nonprofit corporation formed to provide self-insurance funds for Dioceses and Archdioceses of the Roman Catholic Church in North America. The Pool provides excess liability coverage for participating Dioceses and Archdioceses. The Chancery Office’s equity interest in the Pool is included in investments.

The Chancery Office also provides medical, dental, disability and life insurance plans for eligible employees of the Chancery Office as well as employees of parishes, schools and other related entities. The plans are primarily self-insured with additional third-party coverage provided by aggregate stop-loss policies. Premiums for employee coverage are paid by the Chancery Office and participating employers.

In September 2008, *Hurricane Ike* caused substantial damage to property held by the Chancery Office and to several parishes and schools of the Archdiocese. Revenue and expenses related to *Hurricane Ike* were recognized as follows (*in thousands*):

	<u>2010</u>	<u>2009</u>
Claims incurred on behalf of parishes and schools		\$ 29,184
Recoveries from third-party insurance providers	\$ (510)	(11,308)
Recoveries from Federal Emergency Management Agency	<u>(1,676)</u>	<u>(3,804)</u>
Claims expense (recovery) recognized in connection with <i>Hurricane Ike</i>	(2,186)	14,072
Loss on impairment of property held by Chancery Office		5,089
Grants committed for social services to aid in <i>Hurricane Ike</i> recovery		780
Restricted contributions recognized for <i>Hurricane Ike</i> recovery		<u>(3,147)</u>
Net impact of <i>Hurricane Ike</i> on changes in net assets	<u>\$ (2,186)</u>	<u>\$ 16,794</u>

Included in prepaid expenses and other assets at June 30, 2009 are receivables from third-party insurance providers and from the Federal Emergency Management Agency (FEMA) of approximately \$10,803,000. Approximately \$1,370,000 and \$11,598,000 of accrued insurance claims at June 30, 2010 and 2009, respectively, are for *Hurricane Ike* claims and commitments. Grants committed for social services are included in grants payable at June 30, 2009. Deferred revenue at June 30, 2010 includes approximately \$685,000 of advances received from FEMA for projects that have not been completed at June 30, 2010. If, ultimately, the advances are not used either as originally approved or for an approved alternate project, some or all of these funds would be refunded to FEMA pursuant to the relevant government regulation.

Funds received from FEMA are passed through the Texas Department of Public Safety, Texas Division of Emergency Management. Award amounts are determined based upon estimated project costs and third-party insurance recoveries as well as allowable use of facilities. Awards are subject to review and audit by the awarding agencies. Such reviews and audits could result in de-obligation of funds for unallowable activities or costs or for changes in estimates. Consequently, the awarding agencies may, at their discretion, request reimbursement of de-obligated amounts. Management believes de-obligated amounts, if any, would not be material to the financial position or changes in net assets of the Chancery Office.

## NOTE 12 – NOTES AND BONDS PAYABLE

The Chancery Office is primarily liable on the following notes and bonds issued for projects of related entities. These notes and bonds are secured by notes receivable from the related entities which have identical interest rates and payment terms. Notes and bonds payable consist of the following (*in thousands*):

	<u>2010</u>	<u>2009</u>
Harris County Health Facilities Development Corporation, Adjustable Rate Demand Revenue Bonds (0.29% at June 30, 2010), St. Dominic Village Project, Series 2000, \$10,000,000, issued July 2000, mandatory principal payments due June 2005 through July 2025, secured by certain revenue of St. Dominic Village Corporation.	\$ 8,010	\$ 8,380
Beasley Higher Education Finance Corporation, Education Revenue Bonds, St. Anthony of Padua Project, \$10,000,000, issued February 17, 2006, 4.10% interest and principal due monthly February 2006 through February 2018, secured by tuition and other revenue of St. Anthony of Padua Catholic School.	7,833	8,333
Hilshire Village Cultural Education Facilities Finance Corporation, Demand Revenue Bonds, Co-Cathedral of the Sacred Heart Parish Project, \$5,300,000, variable interest due monthly (0.94% at June 30, 2010), principal payments due monthly November 2008 through November 2015, secured by certain revenue of the Co-Cathedral of the Sacred Heart Parish.	4,716	5,066
Revolving line of credit with a bank for St. Theresa Catholic School building construction, issued March 14, 2008, interest due monthly, interest accrues at prime (3.25% at June 30, 2010) less 1.75%, matures March 2020.	4,984	3,799
Manvel Education Facilities Corporation, Education Revenue Bonds, St. Martha Catholic School Capital Improvements, \$4,000,000, issued July 2001, 5.25% interest and scheduled principal due quarterly through September 2016, secured by revenue derived from the operation of St. Martha Catholic School.	2,051	2,321
Manvel Education Facilities Corporation, Education Revenue Bonds, St. Mary Magdalene Catholic School refinancing, \$2,813,233, issued May 2007, 4.25% interest and scheduled principal payments due monthly through December 2017, secured by revenue derived from the operation of St. Mary Magdalene Catholic School.	1,994	2,259
Revolving line of credit with a bank for Christ the Redeemer Church construction, issued July 2008, interest due monthly, interest accrues at prime (3.25% at June 30, 2010) less 1.50%, matures June 2016.	1,484	2,216
Revolving line of credit with a bank for St. Albert Trapani Church construction, issued May 2008, interest due monthly, interest accrues at a fixed rate of 5.28%, matures June 2016.	2,100	2,100
Wallis Higher Education Facilities Corporation, Education Revenue Bonds, St. Laurence Catholic School Project, \$4,825,000, issued March 1999, 4.91% interest and principal due quarterly through March 2014, secured by tuition and other revenue of St. Laurence Catholic School.	1,556	1,925
Revolving line of credit with a bank for St. Laurence Church construction, issued January 2008, interest due quarterly, interest accrues at LIBOR (0.35% at June 30, 2010) plus 0.70%, matures December 2010.		732
Wallis Higher Education Facilities Corporation, Education Revenue Bonds, St. Laurence Catholic School Project, \$2,800,000, issued July 2001, 5.25% interest and principal due quarterly through September 2011, secured by tuition and other revenue of St. Laurence Catholic School.	<u>435</u>	<u>763</u>
Total notes and bonds payable	<u>\$ 35,163</u>	<u>\$ 37,894</u>

Notes and bonds payable at June 30, 2010 are due as follows (*in thousands*):

Fiscal year 2011	\$ 3,020
Fiscal year 2012	2,892
Fiscal year 2013	2,859
Fiscal year 2014	2,805
Fiscal year 2015	2,507
Thereafter	<u>21,080</u>
Total notes and bonds payable	<u>\$ 35,163</u>

Interest expense recognized and paid on notes and bonds payable was approximately \$1,000,000 in 2010 and \$1,200,000 in 2009.

### NOTE 13 – PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS

The Archdiocese sponsors a noncontributory, defined benefit pension plan for employees of the Chancery Office as well as employees of parishes, schools and other related entities. The pension plan covers lay employees and Archdiocesan priests who work a minimum of 20 hours per week for at least five consecutive months. The plan provides pension benefits that are based on an employee's average monthly compensation and length of credited service. Assets of the pension plan are held in trust funds and managed by independent third parties. The Archdiocese also sponsors a noncontributory health benefit plan that provides healthcare benefits for Archdiocesan priests upon retirement including those Archdiocesan priests not employed directly by the Chancery Office.

#### Obligations and funded status (*in thousands*)

	PENSION BENEFITS		HEALTH BENEFITS	
	2010	2009	2010	2009
Fair value of plan assets	\$ 92,469	\$ 84,068		
Benefit obligation	<u>(157,487)</u>	<u>(142,896)</u>	<u>\$ (18,289)</u>	<u>\$ (12,292)</u>
Funded status of the plans	<u>\$ (65,018)</u>	<u>\$ (58,828)</u>	<u>\$ (18,289)</u>	<u>\$ (12,292)</u>
Liability from net periodic benefit cost	\$ (14,959)	\$ (12,856)	\$ (15,058)	\$ (14,401)
Accumulated other benefit-related changes:				
Actuarial (loss) gain	(51,911)	(48,387)	(3,231)	2,109
Prior service credit	<u>1,852</u>	<u>2,415</u>	<u>          </u>	<u>          </u>
Accrued benefits liability	<u>\$ (65,018)</u>	<u>\$ (58,828)</u>	<u>\$ (18,289)</u>	<u>\$ (12,292)</u>
Accumulated benefit obligation	<u>\$ (148,569)</u>	<u>\$ (130,521)</u>	<u>\$ (18,289)</u>	<u>\$ (12,292)</u>

#### Net periodic benefit cost and other benefit-related changes (*in thousands*)

	PENSION BENEFITS		HEALTH BENEFITS	
	2010	2009	2010	2009
Net periodic benefit cost	<u>\$ 8,174</u>	<u>\$ 7,165</u>	<u>\$ 1,518</u>	<u>\$ 884</u>
Other benefit-related changes:				
Net (gain) loss arising during year	6,126	28,869	5,340	(5,276)
Amortization of net gain (loss)	(2,602)	(934)		236
Amortization of prior service credit	<u>564</u>	<u>564</u>	<u>          </u>	<u>          </u>
Other benefit-related changes	<u>4,088</u>	<u>28,499</u>	<u>5,340</u>	<u>(5,040)</u>
Total benefit cost	12,262	35,664	6,858	(4,156)
Net periodic cost funded by related entities	<u>(5,382)</u>	<u>(5,413)</u>	<u>          </u>	<u>          </u>
Benefit cost recognized by Chancery Office	<u>\$ 6,880</u>	<u>\$ 30,251</u>	<u>\$ 6,858</u>	<u>\$ (4,156)</u>

The amount expected to be amortized from accumulated other benefit-related changes into net periodic benefit cost for pension benefits in 2011 is \$2,981,000 which is comprised of \$3,545,000 of net loss and \$(564,000) of prior service credit. The amount expected to be amortized from accumulated other benefit-related changes into net periodic benefit costs for health benefits in 2011 is \$160,000 of net loss.

### Assumptions

	<u>PENSION BENEFITS</u>		<u>HEALTH BENEFITS</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Weighted average actuarial assumptions used to determine benefit obligations at end of year:				
Discount rate	5.25%	6.25%	5.25%	6.25%
Rate of compensation increase	3.00%	3.75%		
Weighted average actuarial assumptions used to determine net periodic costs for year:				
Discount rate	6.25%	6.75%	6.25%	6.75%
Expected return on plan assets	7.00%	7.00%		
Rate of compensation increase	3.00%	3.75%		
Assumed healthcare cost trend rates at June 30, 2010:				
Healthcare cost trend rate assumed for next year				7.9% - 6.3%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)				4.7%
Years to reach the ultimate trend rate				73

Assumed healthcare cost trend rates have a significant effect on the amounts reported for the health benefit plan. A one-percentage point change in assumed healthcare cost trend rates would have the following effect (*in thousands*):

	<u>ONE-PERCENTAGE POINT INCREASE</u>	<u>ONE-PERCENTAGE POINT DECREASE</u>
Effect on total of service and interest cost components	\$360	\$(276)
Effect on postretirement benefit obligation	\$2,667	\$(2,129)

### Plan assets

The primary objective in the management of the pension plan assets is to meet the plan's liabilities of paying pension benefit obligations to its participants. The secondary objective is to minimize and control the difference between the plan's assets and liabilities, evaluated on an on-going basis, through the asset allocation guidelines, as well as by setting the target duration of assets in line with the plan's liabilities. Over a five-year market cycle, the plan's objective is to match or exceed its actuarial long-term rate of return while maintaining the liquidity needed to meet benefit payment requirements. The expected long-term rate of return on assets is established taking into account the intended asset mix and historical rates of return on comparable assets.

The assets of the pension plan are invested in accordance with the following allocation guidelines:

	<u>MINIMUM</u>	<u>MAXIMUM</u>	<u>TARGET</u>
Equity investments	25%	65%	40%
Fixed income investments	20%	45%	37%
Alternative investments	10%	35%	22%
Cash and cash equivalents	0.5%	2%	1%

The pension plan's actual asset allocation by type of asset is as follows:

	<u>2010</u>	<u>2009</u>
Equity investments	43%	40%
Fixed income investments	37%	32%
Alternative investments	15%	13%
Cash and cash equivalents	<u>5%</u>	<u>15%</u>
Total plan assets	<u>100%</u>	<u>100%</u>

Plan assets measured at fair value at June 30, 2010 were measured according to the three levels of the fair value hierarchy as follows (*in thousands*):

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Equity securities	\$ 32,410			\$ 32,410
Fixed income mutual funds	17,460			17,460
Fixed income – corporate bonds and notes, U. S. Government and federal agency obligations, and mortgage-backed securities		\$ 16,990		16,990
Alternate investments			\$ 13,706	13,706
Equity mutual funds	7,478			7,478
Cash equivalents	<u>4,425</u>			<u>4,425</u>
Total fair value of plan assets	<u>\$ 61,773</u>	<u>\$ 16,990</u>	<u>\$ 13,706</u>	<u>\$ 92,469</u>

### Cash flows

The pension plan is funded by contributions from the Chancery Office and other Archdiocesan employers at the rate of 6.5% of each eligible lay employee's gross salary and \$1,400 annually for each Archdiocesan priest. The Chancery Office and related employers expect to contribute approximately \$6 million to the pension plan during 2011. Employer contributions paid to the pension plan during 2010 and 2009 were as follows (*in thousands*):

	<u>2010</u>	<u>2009</u>
Chancery Office	\$ 690	\$ 733
Related employers	<u>5,381</u>	<u>5,413</u>
Total employer contributions paid during the year	<u>\$ 6,071</u>	<u>\$ 6,146</u>

Pension benefits paid by the pension plan were approximately \$6.1 million during 2010 and \$5.6 million during 2009. Estimated future pension and health benefit payments for the next ten years as of June 30, 2010 are as follows (*in thousands*):

	<u>PENSION BENEFITS</u>	<u>HEALTH BENEFITS</u>
2011	\$7,637	\$449
2012	\$8,025	\$495
2013	\$8,476	\$552
2014	\$8,918	\$582
2015	\$9,471	\$627
2016 through 2020	\$55,222	\$4,119

The health benefit plan is funded directly by the Chancery Office from insurance operations and various Archdiocesan revenues and reserves. The Chancery Office funded health benefit costs of approximately \$861,000 during 2010 and \$909,000 during 2009. The Chancery expects to fund health benefit costs of approximately \$500,000 during 2011.

### NOTE 14 – COMMITMENTS AND CONTINGENCIES

The Chancery Office maintains a letter of credit for \$1,350,000 in favor of their workers' compensation insurance carrier that may be drawn in the event the Chancery Office fails to fund claims. The Chancery Office also maintains a letter of credit in favor of the trustee of one of their bonds payable that may be drawn in the event the Chancery Office fails to make required bond payments. This letter of credit was approximately \$9.2 million at June 30, 2010. There were no outstanding balances on letters of credit at June 30, 2010.

The Cardinal Archbishop of the Archdiocese acts as guarantor on numerous notes between financial institutions and parishes, schools and other related entities that are being repaid by the respective entities. The outstanding balances of these notes of approximately \$52 million at June 30, 2010 are not reflected in these financial statements.

The Archdiocese is involved in various legal proceedings, disputes, and litigation. The Archdiocese may be held liable for claims, disputes, and legal actions brought against related entities. In the opinion of management, uninsured losses, if any, resulting from resolution of these matters will not have a material effect on the financial position of the Chancery Office.

As a participant in the Catholic Umbrella Pool, the Chancery Office may, in certain circumstances, be required to participate in losses in excess of their equity. Management is not aware of any pending claims at this time that would result in additional material loss to the Chancery Office.

#### NOTE 15 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes (*in thousands*):

	<u>2010</u>	<u>2009</u>
Loans to minority individuals and businesses	\$ 7,947	\$ 8,225
Grants on behalf of underprivileged children	3,084	2,887
Special program services	2,762	1,607
Aid to poor parishes	2,644	4,217
St. Mary's Seminary	1,115	519
Restricted-purpose land	697	1,374
Celebrating Our Faith capital campaign projects	<u>444</u>	<u>444</u>
Total temporarily restricted net assets	<u>\$ 18,693</u>	<u>\$ 19,273</u>

#### NOTE 16 – GRANTS AND TRANSFERS

Operating and non-operating grants and transfers made to related and unrelated entities during the year ended June 30, 2010 consist of the following (*in thousands*):

	<u>RELATED ENTITIES</u>	<u>UNRELATED ENTITIES</u>	<u>TOTAL</u>
Operating grants:			
Schools	\$ 2,545	\$ 52	\$ 2,597
Parishes	1,738	5	1,743
Diocesan Services Fund	144	1,337	1,481
Other	<u>333</u>	<u>879</u>	<u>1,212</u>
Total operating grants	<u>\$ 4,760</u>	<u>\$ 2,273</u>	<u>\$ 7,033</u>
Non-operating grants and transfers:			
Catholic Endowment Foundation	\$ 3,300		\$ 3,300
Return of property to donors due to change in use	<u>          </u>	<u>\$ 1,973</u>	<u>1,973</u>
Total non-operating grants and transfers	<u>\$ 3,300</u>	<u>\$ 1,973</u>	<u>\$ 5,273</u>

Operating and non-operating grants and transfers made to related and unrelated entities during the year ended June 30, 2009 consist of the following (*in thousands*):

	RELATED ENTITIES	UNRELATED ENTITIES	TOTAL
Operating grants:			
Schools	\$ 2,332	\$ 79	\$ 2,411
Parishes	1,274		1,274
Diocesan Services Fund	144	1,377	1,521
Social service grants to aid in <i>Hurricane Ike</i> recovery		780	780
Other	<u>20</u>	<u>817</u>	<u>837</u>
Total operating grants	<u>\$ 3,770</u>	<u>\$ 3,053</u>	<u>\$ 6,823</u>
Non-operating grants and transfers:			
Property grants		\$ 6,113	\$ 6,113
St. Mary's Basilica transferred to Chancery Office	<u>\$ (1,875)</u>	<u>      </u>	<u>(1,875)</u>
Total non-operating grants and transfers	<u>\$ (1,875)</u>	<u>\$ 6,113</u>	<u>\$ 4,238</u>

#### **NOTE 17 – SUBSEQUENT EVENTS**

Management has evaluated subsequent events through December 2, 2010, which is the date that the financial statements were available for issuance. As a result of this evaluation, no events were identified that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.