

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

Financial Statements
and Independent Auditors' Report
for the years ended June 30, 2011 and 2010

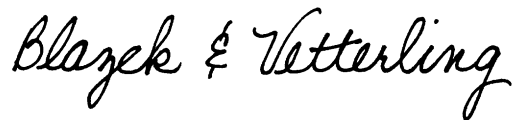
Independent Auditors' Report

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, 2011 and 2010 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. 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, 2011 and 2010 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.



December 13, 2011

Chancery Office of the Archdiocese of Galveston-Houston

Statements of Financial Position as of June 30, 2011 and 2010 (in thousands)

	<u>2011</u>	<u>2010</u>
ASSETS		
Cash	\$ 4,471	\$ 2,327
Short-term investments – money market mutual funds (Note 7)	50,916	47,101
Accounts receivable from related entities, net (Note 2)	1,598	2,169
Prepaid expenses and other assets	1,333	1,685
Pledges receivable, net (Note 3)	4,910	3,436
Notes receivable from related entities, net (Note 4)	70,667	72,142
Notes receivable from others, net (Note 5)	515	3,722
Cemetery inventory	2,253	2,279
Investments (Notes 6 and 7)	80,498	65,215
Chancery Office property, net (Note 8)	24,671	24,283
Other property, net (Note 9)	<u>7,103</u>	<u>9,144</u>
TOTAL ASSETS	<u>\$ 248,935</u>	<u>\$ 233,503</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 2,785	\$ 2,811
Grants payable	4,129	3,014
Deferred revenue (Note 10)	1,902	2,201
Accrued insurance claims (Note 10)	3,947	5,476
DS&L deposits held for related entities	112,393	106,215
Funds held for others	3,092	2,907
Notes and bonds payable (Note 11)	31,968	35,163
Accrued pension and postretirement health benefits liability (Note 12)	<u>73,627</u>	<u>83,307</u>
Total liabilities	<u>233,843</u>	<u>241,094</u>
Commitments and contingencies (Note 13)		
Net assets:		
Unrestricted	(4,112)	(26,658)
Temporarily restricted (Note 14)	18,727	18,693
Permanently restricted for Circle Lake Retreat Center	<u>477</u>	<u>374</u>
Total net assets	<u>15,092</u>	<u>(7,591)</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 248,935</u>	<u>\$ 233,503</u>

See accompanying notes to financial statements.

Chancery Office of the Archdiocese of Galveston-Houston

Statement of Activities for the year ended June 30, 2011 *(in thousands)*

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL	2010 TOTAL
OPERATING REVENUE:					
Health insurance premiums <i>(Note 10)</i>	\$ 17,206			\$ 17,206	\$ 17,020
Archdiocesan assessments	15,981			15,981	15,674
Unrestricted contributions	12,502			12,502	11,738
Business insurance premiums <i>(Note 10)</i>	11,402			11,402	11,399
Program and service fees	3,007			3,007	3,258
Interest on notes receivable from related entities	2,659			2,659	2,915
Cemetery sales and services	<u>1,166</u>			<u>1,166</u>	<u>972</u>
Total operating revenue	63,923			63,923	62,976
Net assets released for operating purposes	<u>9,336</u>			<u>9,336</u>	<u>7,521</u>
Total	<u>73,259</u>			<u>73,259</u>	<u>70,497</u>
OPERATING EXPENSES:					
Program services:					
Health insurance program <i>(Note 10)</i>	17,213			17,213	18,964
Chancery services	10,137			10,137	9,890
Business insurance program <i>(Note 10)</i>	6,272			6,272	5,005
Seminar education	3,985			3,985	3,719
Diocesan Savings & Loan	2,384			2,384	3,137
Cemetery operations	882			882	970
Clergy	757			757	699
Other program services	<u>9,636</u>			<u>9,636</u>	<u>8,094</u>
Total program services	51,266			51,266	50,478
Administrative and general	14,915			14,915	14,197
Fundraising	<u>1,865</u>			<u>1,865</u>	<u>1,661</u>
Total operating expenses	<u>68,046</u>			<u>68,046</u>	<u>66,336</u>
Changes in net assets from operations	5,213			5,213	4,161
OTHER CHANGES IN NET ASSETS:					
Restricted contributions		\$ 9,030	\$ 100	9,130	6,606
Restricted fees and interest on notes receivable		240		240	265
Investment return, net <i>(Note 6)</i>	7,547	666	3	8,216	5,176
Gain on sales of property and notes	827	19		846	117
Other benefit-related changes <i>(Note 12)</i>	13,215			13,215	(9,427)
Non-operating grants and transfers <i>(Note 15)</i>	(4,841)			(4,841)	(5,273)
Net assets released for operating purposes		(9,336)		(9,336)	(7,521)
Net assets released for capital expenditures	<u>585</u>	<u>(585)</u>			
CHANGES IN NET ASSETS	22,546	34	103	22,683	(5,896)
Net assets, beginning of year	<u>(26,658)</u>	<u>18,693</u>	<u>374</u>	<u>(7,591)</u>	<u>(1,695)</u>
Net assets, end of year	<u>\$ (4,112)</u>	<u>\$ 18,727</u>	<u>\$ 477</u>	<u>\$ 15,092</u>	<u>\$ (7,591)</u>

See accompanying notes to financial statements.

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
OPERATING REVENUE:				
Health insurance premiums (Note 10)	\$ 17,020			\$ 17,020
Archdiocesan assessments	15,674			15,674
Unrestricted contributions	11,738			11,738
Business insurance premiums (Note 10)	11,399			11,399
Program and service fees	3,258			3,258
Interest on notes receivable from related entities	2,915			2,915
Cemetery sales and services	<u>972</u>			<u>972</u>
Total operating revenue	62,976			62,976
Net assets released for operating purposes	<u>7,521</u>			<u>7,521</u>
Total	<u>70,497</u>			<u>70,497</u>
OPERATING EXPENSES:				
Program services:				
Health insurance program (Note 10)	18,964			18,964
Chancery services	9,890			9,890
Business insurance program (Note 10)	5,005			5,005
Seminarian education	3,719			3,719
Diocesan Savings & Loan	3,137			3,137
Cemetery operations	970			970
Clergy	699			699
Other program services	<u>8,094</u>			<u>8,094</u>
Total program services	50,478			50,478
Administrative and general	14,197			14,197
Fundraising	<u>1,661</u>			<u>1,661</u>
Total operating expenses	<u>66,336</u>			<u>66,336</u>
Changes in net assets from operations	4,161			4,161
OTHER CHANGES IN NET ASSETS:				
Restricted contributions		\$ 6,506	\$ 100	6,606
Restricted fees and interest on notes receivable		265		265
Investment return, net (Note 6)	4,733	442	1	5,176
Gain on sale of property	117			117
Other benefit-related changes (Note 12)	(9,427)			(9,427)
Non-operating grants and transfers (Note 15)	(5,273)			(5,273)
Net assets released for operating purposes		(7,521)		(7,521)
Net assets released for capital expenditures	<u>272</u>	<u>(272)</u>		<u></u>
CHANGES IN NET ASSETS	(5,417)	(580)	101	(5,896)
Net assets, beginning of year	<u>(21,241)</u>	<u>19,273</u>	<u>273</u>	<u>(1,695)</u>
Net assets, end of year	<u>\$ (26,658)</u>	<u>\$ 18,693</u>	<u>\$ 374</u>	<u>\$ (7,591)</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, 2011 and 2010 (in thousands)

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 22,683	\$ (5,896)
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities:		
Contributions restricted for long-term purposes	(428)	(272)
Net realized and unrealized gain on investments	(5,432)	(3,046)
Depreciation expense	830	1,096
Gain on sales of property and notes	(846)	(117)
Grants and transfers of property	2,341	1,973
Changes in operating assets and liabilities:		
Accounts receivable from related entities	571	1,434
Prepaid expenses, other assets and cemetery inventory	378	10,788
Pledges receivable not restricted for long-term purposes	(1,707)	(919)
Accounts payable and accrued expenses	(26)	70
Grants payable	1,115	(1,197)
Deferred revenue	(299)	685
Accrued insurance claims	(1,529)	(9,863)
DS&L deposits and funds held for others	6,364	(9,191)
Accrued pension and postretirement health benefits liability	<u>(9,680)</u>	<u>12,187</u>
Net cash provided (used) by operating activities	<u>14,335</u>	<u>(2,268)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Payments received on notes receivable	12,208	27,431
Additions of notes receivable	(10,425)	(18,787)
Net purchases of money market mutual funds	(3,534)	(10,143)
Proceeds from sales of investments	30,915	44,362
Purchases of investments	(41,047)	(40,811)
Purchases of property	(1,617)	(395)
Proceeds from sale of property	925	145
Proceeds from sale of notes receivable	<u>2,919</u>	<u> </u>
Net cash provided (used) by investing activities	<u>(9,656)</u>	<u>1,802</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from contributions restricted for long-term purposes	660	2,210
Payment of note and bond principal	(3,195)	(4,105)
Proceeds from note and bond issuance	<u> </u>	<u>1,373</u>
Net cash used by financing activities	<u>(2,535)</u>	<u>(522)</u>
NET CHANGE IN CASH	2,144	(988)
Cash, beginning of year	<u>2,327</u>	<u>3,315</u>
Cash, end of year	<u>\$ 4,471</u>	<u>\$ 2,327</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, 2011 *(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		\$ 6,247		\$ 1,376		\$ 461	\$ 320	\$ 80	\$ 6,360	\$ 743	\$ 15,587
Claims expense	\$ 16,148		\$ 828								16,976
Operating grants <i>(Note 15)</i>		564	29				3	7,155			7,751
Premium expense	1,953		5,596								7,549
Professional fees	1,335	609	489	226		66	118	5	1,144	658	4,650
Unallocated net periodic pension and postretirement costs									4,341		4,341
Repair, maintenance and occupancy		1,057		591		163	58	67	1,305	2	3,243
Interest expense					\$ 2,171			909			3,080
Assistance to individuals		12		1,206			153				1,371
Provision for losses and uncollectible receivables				(2)	213	26		846			1,083
Supplies		485		268		103	17		137	14	1,024
Depreciation						14			816		830
Meetings and events		470		95		3	61	4	82	59	774
Postage and printing		45		16		5	3		297	352	718
Dues and assessments of support organizations		10						544			554
Special programs		29		116			12	26	283	35	501
Newspaper distribution		391									391
Local travel		140		88		14	12		82	2	338
Other expenses		78	30	5		27			68		208
Premiums allocated to salaries and benefits and occupancy	(2,223)		(700)								(2,923)
Total operating expenses	\$ 17,213	\$ 10,137	\$ 6,272	\$ 3,985	\$ 2,384	\$ 882	\$ 757	\$ 9,636	\$ 14,915	\$ 1,865	\$ 68,046

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	CLERGY	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
Operating grants <i>(Note 15)</i>		655	151	4			12	6,211			7,033
Premium expense	1,615		5,515								7,130
Professional fees	1,121	589	272	99		52	91		818	590	3,632
Unallocated net periodic pension and postretirement costs									2,760		2,760
Repair, maintenance and occupancy		1,079		744		249	27	121	1,470	2	3,692
Interest expense					\$ 3,136			990			4,126
Assistance to individuals		16		950			177				1,143
Provision for losses and uncollectible receivables					1	27		165	990		1,183
Supplies		475		275		117	39		126	8	1,040
Depreciation						14			1,082		1,096
Meetings and events		404		46		3	72	3	151	38	717
Postage and printing		46		16		5			283	135	485
Dues and assessments of support organizations		10						502			512
Special programs		30		47			6	23	240		346
Newspaper distribution		416									416
Local travel		122		87		12	10		79	2	312
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

Notes to Financial Statements for the years ended June 30, 2011 and 2010

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 (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, St. Mary's Cathedral Basilica, 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.

Basis of presentation – These financial statements include only the assets, liabilities, 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, and 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 a donor has 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.

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 recognized 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 reported 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 reported 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 reported at estimated fair values, as provided by the investment manager. 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% at June 30, 2011 and 2010) in the Catholic Umbrella Pool under the equity method. Certain other investments are reported 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 fair value at the last day of the fiscal year.

Property is reported 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. Deposits were accruing interest at 1.75% and 2.8% at June 30, 2011 and 2010, respectively.

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 liability – 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 recognized as revenue at fair value when an unconditional commitment is received from the donor. Contributions received with donor stipulations that limit their use are recognized 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 recognized 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 10. 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. It is possible that management’s estimate of claims and losses could change in the near term and that such changes could affect the amounts reported in the statement of financial position and the statement of activities.

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.

Adoption of accounting pronouncements – During the year ended June 30, 2011, the Chancery Office implemented Accounting Standards Update No. 2010-06, *Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements*, which resulted in additional disclosures. This statement requires an increased level of disaggregation in disclosing the level of fair value measurements. It also requires additional disclosures for inputs and valuation techniques used for Level 2 and 3 fair value measurements.

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.

NOTE 2 – ACCOUNTS RECEIVABLE FROM RELATED ENTITIES

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

	<u>2011</u>	<u>2010</u>
Total accounts receivable from related entities	\$ 7,006	\$ 7,117
Allowance for uncollectible accounts receivable	<u>(5,408)</u>	<u>(4,948)</u>
Accounts receivable from related entities, net	<u>\$ 1,598</u>	<u>\$ 2,169</u>

NOTE 3 – PLEDGES RECEIVABLE

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

	<u>2011</u>	<u>2010</u>
Diocesan Services Fund	\$ 2,389	\$ 2,282
Corpus Christi Day due from parishes	1,386	
Cardinal Circle	1,048	800
Co-Cathedral and dome campaigns	<u>575</u>	<u>808</u>
Total pledges receivable	5,398	3,890
Discount on pledges receivable at 5%	(96)	(70)
Allowance for uncollectible amounts	<u>(392)</u>	<u>(384)</u>
Pledges receivable, net	<u>\$ 4,910</u>	<u>\$ 3,436</u>

Pledges receivable at June 30, 2011 are expected to be collected as follows (*in thousands*):

Within one year	\$ 4,792
In one to five years	<u>606</u>
Total pledges receivable	<u>\$ 5,398</u>

NOTE 4 – 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 substantially similar 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 nationally plus a spread. At June 30, 2011, variable rate notes were accruing interest at 3.25%. Fixed rate notes accrue interest based on the medium-term certificate of deposit rates offered nationally plus a spread that varies. At June 30, 2011, fixed rate notes were generally accruing interest at rates between 3.25% and 7.25%.

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

	<u>2011</u>	<u>2010</u>
Notes associated with Chancery notes and bonds payable	\$ 31,368	\$ 35,163
Other notes from related entities	<u>40,507</u>	<u>37,974</u>
Total notes receivable from related entities	71,875	73,137
Allowance for uncollectible amounts	<u>(1,208)</u>	<u>(995)</u>
Notes receivable from related entities, net	<u>\$ 70,667</u>	<u>\$ 72,142</u>

NOTE 5 – NOTES RECEIVABLE FROM OTHERS

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

	<u>2011</u>	<u>2010</u>
Unsecured notes receivable	\$ 70	\$ 70
Cemetery sales payment plans	551	680
Mortgage notes secured by real property, 6% to 10% annual interest rates	<u> </u>	<u>3,366</u>
Total notes receivable from others	621	4,116
Allowance for doubtful accounts	<u>(106)</u>	<u>(394)</u>
Notes receivable from others, net	<u>\$ 515</u>	<u>\$ 3,722</u>

In June 2011, the Chancery Office sold its mortgage notes. The Chancery Office recognized a gain of approximately \$19,000 for the difference between the net book value of the mortgage notes and the proceeds received.

NOTE 6 – INVESTMENTS

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

	<u>2011</u>	<u>2010</u>
Unit investment trust	\$ 17,529	\$ 14,231
Equity securities	14,418	11,807
Corporate bonds and notes	13,428	16,525
Invested with Catholic Endowment Foundation	10,399	2,640
Annuity contracts	5,270	5,042
Mortgage-backed securities	4,118	4,072
U. S. Treasury securities	3,739	3,429
Equity mutual funds	2,529	951
Bank loan mutual funds	2,218	
Money market mutual funds	1,847	2,129
Energy infrastructure mutual funds	1,002	
Real estate investment trust	810	810
Equity in Catholic Umbrella Pool (equity method)	783	593
Municipal bonds	502	
Commodity mutual funds	304	
Bond mutual funds	126	1,179
Hedge funds	91	422
Other investments (reported at the lower of cost or fair value)	<u>1,385</u>	<u>1,385</u>
Total investments	<u>\$ 80,498</u>	<u>\$ 65,215</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.

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

	<u>2011</u>	<u>2010</u>
Interest, dividends and royalties	\$ 2,975	\$ 2,380
Net realized and unrealized gain	5,432	3,046
Investment custodial and management fees	<u>(191)</u>	<u>(250)</u>
Investment return, net	<u>\$ 8,216</u>	<u>\$ 5,176</u>

NOTE 7 – 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 at June 30, 2011 consist of the following (*in thousands*):

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Investments:				
Unit investment trust	\$ 17,529			\$ 17,529
Equity securities:				
Domestic large-cap	10,861			10,861
International large-cap	1,412			1,412
Domestic mid-cap	1,370			1,370
Domestic small-cap	642			642
International mid-cap	124			124
International small-cap	9			9
Corporate bonds and notes		\$ 13,428		13,428
Invested with Catholic Endowment Foundation		10,399		10,399
Annuity contracts			\$ 5,270	5,270
Mortgage-backed securities		4,118		4,118
U. S. Treasury securities		3,739		3,739
Equity mutual funds:				
Domestic small-cap	1,060			1,060
International mid-cap	682			682
International large-cap	469			469
Domestic large-cap	139			139
International small-cap	123			123
Domestic mid-cap	56			56
Bank loan mutual funds	2,218			2,218
Money market mutual funds	1,847			1,847
Energy infrastructure mutual funds	1,002			1,002
Real estate investment trust			810	810
Municipal bonds		502		502
Commodity mutual funds	304			304
Bond mutual funds:				
Short-term	76			76
International	35			35
High-yield	15			15
Hedge funds			91	91
Total investments measured at fair value	39,973	32,186	6,171	78,330
Short-term investments – money market mutual funds	50,916			50,916
Total assets measured at fair value	<u>\$ 90,889</u>	<u>\$ 32,186</u>	<u>\$ 6,171</u>	<u>\$ 129,246</u>

Assets measured at fair value 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>
Investments:				
Unit investment trust	\$ 14,231			\$ 14,231
Equity securities	11,807			11,807
Corporate bonds and notes		\$ 16,525		16,525
Invested with Catholic Endowment Foundation		2,640		2,640
Annuity contracts			\$ 5,042	5,042
Mortgage-backed securities		4,072		4,072
U. S. Treasury securities		3,429		3,429
Equity mutual funds	951			951
Money market mutual funds	2,159			2,159
Real estate investment trust			810	810
Bond mutual funds	1,179			1,179
Hedge funds			422	422
Total investments measured at fair value	30,327	26,666	6,274	63,267
Short-term investments – money market mutual funds	47,101			47,101
Total assets measured at fair value	<u>\$ 77,428</u>	<u>\$ 26,666</u>	<u>\$ 6,274</u>	<u>\$ 110,368</u>

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

- *Unit investment trust* and *equity securities* are valued at the closing price reported on the active market on which the individual securities are traded.
- *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.
- *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.
- *Mutual funds* are valued at the reported net asset value.

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 during the years ended June 30, 2011 and 2010 consist of the following (*in thousands*):

	<u>CATHOLIC ENDOWMENT FOUNDATION</u>	<u>ANNUITY CONTRACTS</u>	<u>OTHER</u>	<u>TOTAL</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		92	(2,286)	(2,194)
Balance at June 30, 2010	0	5,042	1,232	6,274
Net realized and unrealized gain (loss)		136	(19)	117
Purchases, issuances, sales and settlements, net		93	(313)	(220)
Balance at June 30, 2011	<u>\$ 0</u>	<u>\$ 5,271</u>	<u>\$ 900</u>	<u>\$ 6,171</u>

NOTE 8 – CHANCERY OFFICE PROPERTY

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

	<u>2011</u>	<u>2010</u>
Land	\$ 11,010	\$ 11,356
Buildings and improvements	25,113	24,577
Furnishings and equipment	7,166	6,906
Construction and projects in progress	<u>779</u>	<u>81</u>
Total Chancery Office property, at cost	44,068	42,920
Accumulated depreciation	<u>(19,397)</u>	<u>(18,637)</u>
Chancery Office property, net	<u>\$ 24,671</u>	<u>\$ 24,283</u>

NOTE 9 – OTHER PROPERTY

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

	<u>2011</u>	<u>2010</u>
Land and buildings used by related entities and others	\$ 4,116	\$ 4,116
Land held for anticipated future parish or school use	3,048	3,048
Co-Cathedral construction in progress	<u> </u>	<u>2,033</u>
Total other property, at cost	7,164	9,197
Accumulated depreciation	<u>(61)</u>	<u>(53)</u>
Other property, net	<u>\$ 7,103</u>	<u>\$ 9,144</u>

Other property includes properties owned by the Cardinal Archbishop that are used by related entities and others. It does not include properties held by the Cardinal Archbishop for the benefit 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 at June 30, 2010 consisted of construction of an organ that was in progress. The project was completed and transferred without consideration to Sacred Heart Co-Cathedral parish in October 2010.

NOTE 10 – 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. Claims were covered by the Chancery Office with some recoveries from third-party insurance providers and from the Federal Emergency Management Agency (FEMA). Approximately \$895,000 and \$1,370,000 of accrued insurance claims at June 30, 2011 and 2010, respectively, are for *Hurricane Ike* claims and commitments. Deferred revenue at June 30, 2011 and 2010 includes approximately \$685,000 of advances received from FEMA for projects that have not been completed at June 30, 2011. 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.

Cumulatively through June 30, 2011, the Chancery Office has recognized approximately \$5.5 million of awards from FEMA. 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 11 – 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>2011</u>	<u>2010</u>
Harris County Health Facilities Development Corporation, Adjustable Rate Demand Revenue Bonds (0.10% at June 30, 2011), St. Dominic Village Project, Series 2000, \$10,000,000, issued July 2000, mandatory principal payments due through July 2025, secured by certain revenue of St. Dominic Village Corporation.	\$ 7,625	\$ 8,010
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 through February 2018, secured by tuition and other revenue of St. Anthony of Padua Catholic School.	7,333	7,833
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 (0.73% at June 30, 2011), principal payments due monthly through November 2015, secured by certain revenue of the Co-Cathedral of the Sacred Heart Parish.	4,366	4,716
Note payable with a bank for St. Theresa Catholic School building construction, issued March 14, 2008, interest due monthly, interest accrues at prime less 1.75% (1.50% at June 30, 2011), matures March 2020.	4,691	4,984
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.	1,766	2,051

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.	1,728	1,994
Note payable with a bank for Christ the Redeemer Church construction, issued July 2008, principal and interest due monthly, interest accrues at prime less 1.50% (1.75% at June 30, 2011), matures June 2016.	1,127	1,484
Note payable with a bank for St. Albert Trapani Church construction, issued May 2008, principal and interest due monthly, interest accrues at a fixed rate of 5.28%, matures March 2021.	2,074	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.	1,169	1,556
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>89</u>	<u>435</u>
Total notes and bonds payable	<u>\$ 31,968</u>	<u>\$ 35,163</u>

Notes and bonds payable at June 30, 2011 are due as follows (*in thousands*):

Fiscal year 2012	\$ 2,892
Fiscal year 2013	2,859
Fiscal year 2014	2,805
Fiscal year 2015	2,507
Fiscal year 2016	2,546
Thereafter	<u>18,359</u>
Total notes and bonds payable	<u>\$ 31,968</u>

Interest expense recognized and paid on notes and bonds payable was approximately \$909,000 in 2011 and \$990,000 in 2010.

NOTE 12 – 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	
	2011	2010	2011	2010
Fair value of plan assets	\$ 109,498	\$ 92,469		
Benefit obligation	<u>(163,130)</u>	<u>(157,487)</u>	<u>\$ (19,995)</u>	<u>\$ (18,289)</u>
Funded status of the plans	<u>\$ (53,632)</u>	<u>\$ (65,018)</u>	<u>\$ (19,995)</u>	<u>\$ (18,289)</u>
Liability from net periodic benefit cost	\$ (17,309)	\$ (14,959)	\$ (16,244)	\$ (15,058)
Accumulated other benefit-related changes:				
Actuarial loss	(37,520)	(51,911)	(3,751)	(3,231)
Prior service credit	<u>1,197</u>	<u>1,852</u>		
Accrued benefits liability	<u>\$ (53,632)</u>	<u>\$ (65,018)</u>	<u>\$ (19,995)</u>	<u>\$ (18,289)</u>
Accumulated benefit obligation	<u>\$ (153,552)</u>	<u>\$ (148,569)</u>	<u>\$ (19,995)</u>	<u>\$ (18,289)</u>

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

	PENSION BENEFITS		HEALTH BENEFITS	
	2011	2010	2011	2010
Net periodic benefit cost	<u>\$ 9,391</u>	<u>\$ 8,174</u>	<u>\$ 2,027</u>	<u>\$ 1,518</u>
Other benefit-related changes:				
Net (gain) loss arising during year	(10,858)	6,126	756	5,340
Amortization of net loss	(3,533)	(2,602)	(235)	
Amortization of prior service credit	<u>655</u>	<u>564</u>		
Other benefit-related changes	<u>(13,736)</u>	<u>4,088</u>	<u>521</u>	<u>5,340</u>
Total benefit cost	(4,345)	12,262	2,548	6,858
Net periodic cost funded by related entities	<u>(5,501)</u>	<u>(5,382)</u>		
Benefit cost recognized by Chancery Office	<u>\$ (9,846)</u>	<u>\$ 6,880</u>	<u>\$ 2,548</u>	<u>\$ 6,858</u>

The amount expected to be amortized from accumulated other benefit-related changes into net periodic benefit cost for pension benefits in 2012 is \$1,393,000 which is comprised of \$2,100,000 of net loss and \$(707,000) 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 2012 is \$198,000 of net loss.

Assumptions

	PENSION BENEFITS		HEALTH BENEFITS	
	2011	2010	2011	2010
Weighted average actuarial assumptions used to determine benefit obligations at end of year:				
Discount rate	5.25%	5.25%	5.25%	5.25%
Rate of compensation increase	3.00%	3.00%		
Weighted average actuarial assumptions used to determine net periodic costs for year:				
Discount rate	5.25%	6.25%	5.25%	6.25%
Expected return on plan assets	7.00%	7.00%		
Rate of compensation increase	3.00%	3.00%		
Assumed healthcare cost trend rates at June 30, 2011:				
Healthcare cost trend rate assumed for next year				8.0% - 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				72

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	\$465	\$(351)
Effect on postretirement benefit obligation	\$3,771	\$(2,973)

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 rolling five-year basis, 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>2011</u>	<u>2010</u>
Equity investments	44%	43%
Fixed income investments	34%	37%
Alternative investments	18%	15%
Cash and cash equivalents	<u>4%</u>	<u>5%</u>
Total plan assets	<u>100%</u>	<u>100%</u>

Plan assets measured at fair value at June 30, 2011 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:				
Domestic large-cap	\$ 16,925			\$ 16,925
Domestic small-cap	10,386			10,386
International and emerging mutual fund	7,705			7,705
Domestic mid-cap	5,985			5,985
International large-cap	3,834			3,834
International mid-cap	2,186			2,186
International small-cap	679			679
Fixed income:				
Domestic fixed income mutual fund	16,893			16,893
Domestic corporate debt		\$ 9,779		9,779
Domestic U. S. agency and pass through		4,156		4,156
Domestic U. S. Treasury		4,090		4,090
High-yield corporate mutual fund		2,138		2,138
Alternate investments:				
Absolute return			\$ 12,960	12,960
Long and short equity			4,289	4,289
Commodity mutual fund	2,423			2,423
Money market mutual funds	<u>5,070</u>			<u>5,070</u>
Total fair value of plan assets	<u>\$ 72,086</u>	<u>\$ 20,163</u>	<u>\$ 17,249</u>	<u>\$ 109,498</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>

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

- *Equity securities* are valued at the closing price reported on the active market on which the individual securities are traded.
- *Mutual funds* are valued at reported net asset value.
- *Corporate debt, U. S. agency and pass through securities, 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.
- *Alternative investments* include commodities and hedge funds. Alternative investments are valued by the investment manager based on their net asset values computed from the estimated fair value of the underlying securities.

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 year ended June 30, 2011 consist of the following (*in thousands*):

	<u>ABSOLUTE RETURN</u>	<u>LONG AND SHORT EQUITY</u>	<u>TOTAL</u>
Balance at June 30, 2010	\$ 13,706		\$ 13,706
Purchases		\$ 4,000	4,000
Sales	(1,430)		(1,430)
Net realized and unrealized gain	<u>684</u>	<u>289</u>	<u>973</u>
Balance at June 30, 2011	<u>\$ 12,960</u>	<u>\$ 4,289</u>	<u>\$ 17,249</u>

Pension plan investments are exposed to various risks such as interest rate, market, and credit risks. 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 amount of the pension liability and pension expense reported in the statement of financial position and statement of activities.

Investments in hedge funds are speculative and involve a high degree of risk, and returns may not adequately compensate investors for the business and financial risks assumed. While hedge funds are subject to market risks common to other types of investments, including market volatility, they may employ certain trading techniques, such as the use of leverage, hedging, derivatives, illiquid instruments, short selling, and other speculative investment practices that may increase the volatility of their portfolios, as well as the risk of investment loss. Other risks associated with an investment in hedge funds include, but are not limited to, the fact that these funds:

- May be highly illiquid;
- Are not required to provide periodic pricing or valuation information to investors;

- May involve complex tax structures and delays in distributing important tax information;
- Are not subject to the same regulatory requirements as mutual funds;
- Often charge higher fees that may offset the fund's trading profits;
- May have a limited operating history;
- May have performance that is volatile;
- May have a fund manager who has total trading authority over the fund and the use of a single adviser applying generally similar trading programs could mean a lack of diversification and, consequentially, higher risk;
- May not have a secondary market for an investor's interest in the fund and none may be expected to develop; and
- May have restrictions on transferring interests in the fund.

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 \$7 million to the pension plan during 2012. Employer contributions paid to the pension plan during 2011 and 2010 were as follows (*in thousands*):

	<u>2011</u>	<u>2010</u>
Chancery Office	\$ 1,540	\$ 690
Related employers	<u>5,501</u>	<u>5,381</u>
Total employer contributions paid during the year	<u>\$ 7,041</u>	<u>\$ 6,071</u>

Pension benefits paid by the pension plan were approximately \$6.5 million during 2011 and \$6.1 million during 2010. Estimated future pension and health benefit payments for the next ten years as of June 30, 2011 are as follows (*in thousands*):

	<u>PENSION BENEFITS</u>	<u>HEALTH BENEFITS</u>
2012	\$8,277	\$489
2013	\$8,721	\$549
2014	\$9,134	\$577
2015	\$9,579	\$627
2016	\$10,015	\$692
2017 through 2021	\$57,719	\$4,467

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 \$842,000 during 2011 and \$861,000 during 2010. The Chancery Office expects to fund health benefit costs of approximately \$500,000 during 2011.

NOTE 13 – COMMITMENTS AND CONTINGENCIES

The Chancery Office maintains letters of credit totaling \$1,525,000 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 \$7.7 million at June 30, 2011.

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 \$59 million at June 30, 2011 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 14 – TEMPORARILY RESTRICTED NET ASSETS

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

	<u>2011</u>	<u>2010</u>
Charitable grants primarily for the needs of the poor	\$ 7,589	
Loans to minority individuals and businesses		\$ 7,947
Special program services	4,729	2,762
Grants on behalf of underprivileged children	3,532	3,084
St. Mary's Seminary	1,314	1,115
Restricted-purpose land	681	697
Celebrating Our Faith capital campaign projects	445	444
Aid to poor parishes	<u>437</u>	<u>2,644</u>
Total temporarily restricted net assets	<u>\$ 18,727</u>	<u>\$ 18,693</u>

NOTE 15 – GRANTS AND TRANSFERS

Operating and non-operating grants and transfers made to related and unrelated entities during the year ended June 30, 2011 consist of the following (*in thousands*):

	<u>RELATED ENTITIES</u>	<u>UNRELATED ENTITIES</u>	<u>TOTAL</u>
Operating grants:			
Schools	\$ 3,700	\$ 31	\$ 3,731
Diocesan Services Fund	143	1,337	1,480
Parishes	1,182	19	1,201
Other	<u>137</u>	<u>1,202</u>	<u>1,339</u>
Total operating grants	<u>\$ 5,162</u>	<u>\$ 2,589</u>	<u>\$ 7,751</u>
Non-operating grants and transfers:			
Catholic Endowment Foundation	\$ 2,500		\$ 2,500
Organ transferred to Sacred Heart Co-Cathedral parish	<u>2,341</u>		<u>2,341</u>
Total non-operating grants and transfers	<u>\$ 4,841</u>	<u>\$ 0</u>	<u>\$ 4,841</u>

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
Diocesan Services Fund	144	1,337	1,481
Parishes	1,738	5	1,743
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>

NOTE 16 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 13, 2011, 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.