Chancery Office of the Archdiocese of Galveston-Houston

Financial Statements
and Independent Auditors' Report
for the years ended June 30, 2018 and 2017

Chancery Office of the Archdiocese of Galveston-Houston

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Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Chancery Office of the Archdiocese of Galveston-Houston, which comprise the statements of financial position as of June 30, 2018 and 2017 and the related statements of activities, of functional expenses, and of cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2018 and 2017 and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Blazek & Vetterling

December 17, 2018

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Chancery Office of the Archdiocese of Galveston-Houston

Statements of Financial Position as of June 30, 2018 and 2017

	2018	2017
ASSETS		
Cash	$ 5,360,057	$ 5,773,358
Short-term investments – money market mutual funds *(Note 5)*	15,724,808	3,919,820
Accounts receivable from related entities, net *(Note 2)*	2,123,947	2,805,068
Prepaid expenses and other assets	1,013,175	1,084,310
Pledges receivable, net *(Note 3)*	3,183,539	3,876,196
Notes receivable from related entities *(Note 4)*	105,115,892	109,444,600
Cemetery inventory	2,038,867	2,050,212
Investments *(Note 5)*	119,509,555	129,797,935
Cash restricted for property improvements	424,352	425,591
Pledges receivable restricted for Ignite Campaign, net *(Note 3)*	10,854,412	8,911,168
Chancery Office property, net *(Note 6)*	44,395,908	44,237,178
Other property *(Note 7)*	4,886,488	4,886,488
TOTAL ASSETS	$ 314,631,000	$ 317,211,924
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	$ 5,657,672	$ 3,807,550
Construction payable	3,033,941	1,614,864
Grants payable	3,510,088	5,409,113
Deferred revenue	1,122,937	1,073,319
Accrued insurance claims *(Note 8)*	4,307,826	3,842,417
DS&L deposits held for related entities	164,512,791	163,813,082
Funds held for others	1,893,028	3,655,738
Notes and bonds payable *(Note 9)*	8,900,703	9,924,154
Accrued pension and postretirement health benefits liability *(Note 10)*	145,233,696	167,411,263
Total liabilities	338,172,682	360,551,500
Commitments and contingencies *(Note 11)*		
Net assets *(Note 15)*:		
Unrestricted *(Note 12)*	(61,746,503)	(80,387,314)
Temporarily restricted *(Note 13)*	36,381,079	35,358,937
Permanently restricted *(Note 14)*	1,823,742	1,688,801
Total net assets	(23,541,682)	(43,339,576)
TOTAL LIABILITIES AND NET ASSETS	$ 314,631,000	$ 317,211,924

See accompanying notes to financial statements.

Chancery Office of the Archdiocese of Galveston-Houston

Statement of Activities for the year ended June 30, 2018 (with comparative totals for the year ended June 30, 2017)

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL	2017 TOTAL
OPERATING REVENUE:					
Health insurance premiums *(Note 8)*	$ 28,401,128			$ 28,401,128	$ 25,805,847
Archdiocesan assessments	18,753,801			18,753,801	18,987,554
Unrestricted contributions	14,824,514			14,824,514	14,530,572
Business insurance premiums *(Note 8)*	9,971,674			9,971,674	9,944,928
Program and service fees	3,368,464			3,368,464	3,494,558
Interest on notes receivable from related entities	3,038,669			3,038,669	2,651,380
Cemetery sales and services	1,015,650			1,015,650	1,311,903
Other income	288,198			288,198	367,451
Total operating revenue	79,662,098			79,662,098	77,094,193
Net assets released for operating purposes	11,012,607			11,012,607	9,768,827
Total	90,674,705			90,674,705	86,863,020
OPERATING EXPENSES:					
Program services:					
Health insurance program *(Note 8)*	30,174,178			30,174,178	28,092,386
Chancery services	15,910,711			15,910,711	17,079,353
Pastoral and education	7,735,059			7,735,059	9,004,525
Business insurance program *(Note 8)*	7,711,251			7,711,251	6,297,832
Catholic school office	6,918,343			6,918,343	7,285,617
Seminary	4,952,448			4,952,448	5,745,064
Clergy	4,434,437			4,434,437	4,545,628
Diocesan Savings and Loan	1,908,987			1,908,987	1,457,818
Cemetery operations	1,066,937			1,066,937	1,264,383
Total program services	80,812,351			80,812,351	80,772,606
Administrative and general	9,249,990			9,249,990	10,239,241
Unallocated net periodic benefit costs – pension and postretirement	9,806,151			9,806,151	9,392,452
Fundraising	2,928,121			2,928,121	4,792,602
Total operating expenses	102,796,613			102,796,613	105,196,901
Changes in net assets from operations	(12,121,908)			(12,121,908)	(18,333,881)
OTHER CHANGES IN NET ASSETS:					
Contributions *(Note 17)*	14,112	$29,443,617	$ 38,585	29,496,314	21,593,013
Investment return, net *(Note 5)*	538,343	722,999	96,356	1,357,698	1,822,619
Gain on sales of property	7,642,031			7,642,031	5,110,198
Net claims expenses – Hurricane Harvey *(Note 8)*	(13,410,274)			(13,410,274)	
Other benefit-related changes *(Note 10)*	31,983,718			31,983,718	22,485,556
Non-operating grants and transfers *(Note 16)*	(14,137,078)			(14,137,078)	(247,026)
Net assets released for expenditure	18,131,867	(29,144,474)		(11,012,607)	(9,768,827)
CHANGES IN NET ASSETS	18,640,811	1,022,142	134,941	19,797,894	22,661,652
Net assets, beginning of year	(80,387,314)	35,358,937	1,688,801	(43,339,576)	(66,001,228)
Net assets, end of year	$(61,746,503)	$36,381,079	$1,823,742	$(23,541,682)	$(43,339,576)

See accompanying notes to financial statements.

Chancery Office of the Archdiocese of Galveston-Houston

Statement of Activities for the year ended June 30, 2017

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
OPERATING REVENUE:				
Health insurance premiums *(Note 8)*	$ 25,805,847			$ 25,805,847
Archdiocesan assessments	18,987,554			18,987,554
Unrestricted contributions	14,530,572			14,530,572
Business insurance premiums *(Note 8)*	9,944,928			9,944,928
Program and service fees	3,494,558			3,494,558
Interest on notes receivable from related entities	2,651,380			2,651,380
Cemetery sales and services	1,311,903			1,311,903
Other income	367,451			367,451
Total operating revenue	77,094,193			77,094,193
Net assets released for operating purposes	9,768,827			9,768,827
Total	86,863,020			86,863,020
OPERATING EXPENSES:				
Program services:				
Health insurance program *(Note 8)*	28,092,386			28,092,386
Chancery services	17,079,353			17,079,353
Pastoral and education	9,004,525			9,004,525
Business insurance program *(Note 8)*	6,297,832			6,297,832
Catholic school office	7,285,617			7,285,617
Seminary	5,745,064			5,745,064
Clergy	4,545,628			4,545,628
Diocesan Savings and Loan	1,457,818			1,457,818
Cemetery operations	1,264,383			1,264,383
Total program services	80,772,606			80,772,606
Administrative and general	10,239,241			10,239,241
Unallocated net periodic benefit costs – pension and postretirement	9,392,452			9,392,452
Fundraising	4,792,602			4,792,602
Total operating expenses	105,196,901			105,196,901
Changes in net assets from operations	(18,333,881)			(18,333,881)
OTHER CHANGES IN NET ASSETS:				
Contributions *(Note 17)*		$ 21,441,582	$ 151,431	21,593,013
Investment return, net *(Note 5)*	519,626	1,169,213	133,780	1,822,619
Gain on sales of property	5,110,198			5,110,198
Other benefit-related changes *(Note 10)*	22,485,556			22,485,556
Non-operating grants and transfers *(Note 16)*	(247,026)			(247,026)
Net assets released for expenditure	1,068,012	(10,836,839)		(9,768,827)
CHANGES IN NET ASSETS	10,602,485	11,773,956	285,211	22,661,652
Net assets, beginning of year	(90,989,799)	23,584,981	1,403,590	(66,001,228)
Net assets, end of year	$ (80,387,314)	$ 35,358,937	$ 1,688,801	$ (43,339,576)

See accompanying notes to financial statements.

Chancery Office of the Archdiocese of Galveston-Houston

Statement of Functional Expenses for the year ended June 30, 2018

	HEALTH INSURANCE PROGRAM	CHANCERY SERVICES	PASTORAL AND EDUCATION	BUSINESS INSURANCE PROGRAM	CATHOLIC SCHOOL OFFICE	SEMINARY	CLERGY	DIOCESAN SAVINGS AND LOAN	CEMETERY	ADMINISTRATIVE AND GENERAL	FUNDRAISING	TOTAL
Claims expense	$ 27,777,669			$ 1,611,874								$ 29,389,543
Salaries and related benefits		$ 4,078,110	$ 4,475,034		$ 1,384,444	$ 1,262,407	$ 2,112,840		$ 401,928	$ 6,565,443	$ 830,029	21,110,235
Pension and post retirement												
Grants		7,799,273		986,342	4,489,928	3,159	84,260					13,362,962
Premium expense	3,968,707			5,658,694								9,627,401
Professional services	1,853,300	764,844	697,382	105,074	632,712	1,049,923	407,814	$ 112,253	237,127	1,007,628	1,465,201	8,333,258
Occupancy		713,050	867,837		44,714	486,134	170,324		171,789	649,135	16,885	3,119,868
Assistance to individuals		900	147,608			1,254,136	883,763					2,286,407
Depreciation		1,197,549	252,530			449,972	5,968		27,123	31,188		1,964,330
Interest paid to related entities on DS&L deposits								1,811,743				1,811,743
Conferences and meetings		139,515	597,943	1,305	63,365	125,907	225,578		1,338	142,652	143,972	1,441,575
Supplies		71,015	446,778		276,039	187,232	77,601		182,938	33,762	14,641	1,290,006
Dues and assessments						100	298,890			665,924		964,914
Printing and publications		220,179	28,011		5,656	22,031	15,250		4,651	17,564	321,746	635,088
Postage and shipping		311,263	7,588			4,720	1,344		418	8,552	111,815	445,700
Local travel and automobile		36,494	126,242	11	11,824	67,034	41,802		10,038	59,009	7,274	359,728
Interest expense		253,371										253,371
Non-capital equipment and improvement		30,397	30,274		9,562	13,001	95,194		18,078	18,039	4,781	219,326
Uncollectible accounts		149,257				(21,095)		(15,009)				113,153
Rental and maintenance		10,712	51,634		99	11,266	169		164	157	11,777	85,978
Premium allocated to Chancery operations	(3,425,498)			(652,049)								(4,077,547)
Other		134,782	6,198			36,521	13,640		11,345	50,937		253,423
Total expenses	$ 30,174,178	$ 15,910,711	$ 7,735,059	$ 7,711,251	$ 6,918,343	$ 4,952,448	$ 4,434,437	$ 1,908,987	$ 1,066,937	$ 9,249,990	$ 2,928,121	92,990,462
Claims expenses pertaining to Hurricane Harvey												13,410,274
Non-operating grants and transfers												14,137,078
Unallocated net periodic benefit costs – pension and postretirement												9,806,151
Total												$130,343,965

See accompanying notes to financial statements.

Chancery Office of the Archdiocese of Galveston-Houston

Statement of Functional Expenses for the year ended June 30, 2017

	HEALTH INSURANCE PROGRAM	CHANCERY SERVICES	PASTORAL AND EDUCATION	BUSINESS INSURANCE PROGRAM	CATHOLIC SCHOOL OFFICE	SEMINARY	CLERGY	DIOCESAN SAVINGS AND LOAN	CEMETERY	ADMINISTRATIVE AND GENERAL	FUNDRAISING	TOTAL
Claims expense	$ 25,384,146			$ 1,041,077								$ 26,425,223
Salaries and related benefits		$ 3,740,885	$ 4,516,480		$ 1,542,766	$ 1,383,681	$ 1,922,618		$ 466,573	$ 6,349,942	$ 914,652	20,837,597
Pension and post retirement		1,531,460	1,161,644		397,591	388,686	571,232		120,669	544,792	234,770	4,950,844
Grants		7,298,233	11,834	86,926	4,761,501	128,270	106,615					12,393,379
Premium expense	3,886,692			5,453,236								9,339,928
Professional services	1,891,931	807,144	743,586	288,225	91,639	1,084,811	353,078	$ 118,499	174,589	1,648,544	2,859,724	10,061,770
Occupancy		767,289	853,233		48,277	497,579	204,168		207,466	587,969	20,582	3,186,563
Assistance to individuals			103,452			1,122,398	742,810					1,968,660
Depreciation		851,398	242,984			665,119	3,497		16,212	67,286		1,846,496
Interest paid to related entities on DS&L deposits								1,545,721				1,545,721
Conferences and meetings		143,831	583,041		70,786	137,035	177,397		1,928	108,211	198,474	1,420,703
Supplies		89,923	496,656	211	280,377	192,762	80,018		211,461	29,457	21,424	1,402,289
Dues and assessments						100	258,774			680,437	1,194	940,505
Printing and publications		240,701	55,090		12,135	30,796	21,897		6,378	40,643	370,875	778,515
Postage and shipping		305,174	6,603		56	5,942	724		782	7,877	140,584	467,742
Local travel and automobile		32,833	126,010		66,935	82,178	53,590		15,482	86,842	9,021	472,891
Interest expense		311,796										311,796
Non-capital equipment and improvement		35,376	85,387		13,084	39,092	21,091		4,361	21,065	8,663	228,119
Uncollectible accounts		787,095				(38,835)		(206,402)				541,858
Rental and maintenance		12,490	11,637		170	12,249	1,011		2,282	265	12,639	52,743
Premium allocated to Chancery operations	(3,070,383)			(571,843)								(3,642,226)
Other		123,725	6,888		300	13,201	27,108		36,200	65,911		273,333
Total expenses	$ 28,092,386	$ 17,079,353	$ 9,004,525	$ 6,297,832	$ 7,285,617	$ 5,745,064	$ 4,545,628	$ 1,457,818	$ 1,264,383	$ 10,239,241	$ 4,792,602	95,804,449
Non-operating grants and transfers												247,026
Unallocated net periodic benefit costs – pension and postretirement												9,392,452
Total												$105,443,927

See accompanying notes to financial statements.

Chancery Office of the Archdiocese of Galveston-Houston

Statements of Cash Flows for the years ended June 30, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	$ 19,797,894	$ 22,661,652
Adjustments to reconcile changes in net assets to net cash used by operating activities:		
Contributions restricted for Ignite Campaign	(5,172,717)	(11,346,057)
Contributions restricted for endowment	(38,585)	(151,431)
Net realized and unrealized loss on investments	2,228,845	1,559,150
Depreciation	1,964,330	1,846,497
Net gain on sales of property	(7,642,031)	(5,110,198)
Contributed property		(502,429)
Changes in operating assets and liabilities:		
Accounts receivable from related entities	681,121	(405,598)
Prepaid expenses, other assets and cemetery inventory	82,480	96,937
Pledges receivable (operating only)	692,657	83,376
Accounts payable and accrued expenses	4,884,063	(984,391)
Grants payable	(1,899,025)	(536,802)
Deferred revenue	49,618	(292,744)
Accrued insurance claims	465,409	234,837
DS&L deposits held for related entities and funds held for others	(1,063,001)	3,149,912
Accrued pension and postretirement health benefits liability	(22,177,567)	(13,093,104)
Net cash used by operating activities	(7,146,509)	(2,790,393)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Payments received on notes receivable	26,452,325	13,959,325
Advances of notes receivable	(22,123,617)	(32,844,376)
Net purchases of money market mutual funds	(12,696,288)	29,971,146
Proceeds from sales of investments	46,049,489	34,241,903
Purchases of investments	(37,356,154)	(37,247,351)
Purchases of property	(3,893,296)	(7,330,059)
Proceeds from sales of property	8,054,903	5,430,245
Net cash provided by investing activities	4,487,362	6,180,833
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from contributions restricted for Ignite Campaign	3,229,473	2,434,889
Proceeds from contributions restricted for endowment	38,585	151,431
Proceeds from notes and bonds payable		560,000
Principal payments of notes and bonds payable	(1,023,451)	(6,177,394)
Net cash provided (used) by financing activities	2,244,607	(3,031,074)
NET CHANGE IN CASH	(414,540)	359,366
Cash, beginning of year	6,198,949	5,839,583
Cash, end of year	$ 5,784,409	$ 6,198,949
Summary of cash balances:		
Operating cash	$ 5,360,057	$ 5,773,358
Cash restricted for property improvements	424,352	425,591
Total cash	$ 5,784,409	$ 6,198,949

Supplemental disclosure of cash flow information:

Interest and letter of credit fees paid	$207,658	$311,803

See accompanying notes to financial statements.

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 1.6 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, Catholic Schools Office, and Judicial Affairs (Tribunal). Archdiocesan entities organized under these Secretariats include St. Mary's Seminary, four Catholic cemeteries, Catholic university student centers, Kamp Kappe, and Circle Lake Retreat Center. Additionally, 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.

Operating measure – The operating activities of the Archdiocese include revenue and expenses related to the operation of the Chancery Office and 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 concentration – Bank deposits exceed the federally insured limit per depositor per institution.

Accounts receivable from related entities are uncollateralized amounts due within 30 days for costs paid by the Archdiocese on behalf of parishes, schools, and other Diocesan organizations. The carrying amount of accounts receivable is reduced by an allowance for uncollectible accounts that reflects management's best estimate of the amounts that will not be collected. Balances exceeding 60 days from the invoice date are individually reviewed routinely by management. Based on management's assessment of the related entities' ability to make payments, an estimate is made of the portion, if any, of the balance that will not be collected. Receivables are written off as a charge to the allowance for uncollectible accounts when, in management's estimation, it is probable that the receivable will not be collected. It is possible that management's estimate regarding the collectability of these balances will change in the near term resulting in a change in the carrying value of accounts receivable.

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. An allowance for uncollectible pledges is estimated based upon management's analysis on an account-by-account basis.

Notes receivable are carried at unpaid principal balances, less an allowance for uncollectible notes. The amount of bad debt expense recognized each period and the resulting adequacy of the allowance at the end of each period is determined by management in their periodic evaluation of the adequacy of the allowance based on the Chancery Office's past loss experience, specific impaired notes, adverse situations that may affect the borrower's ability to repay, and current economic conditions. Past due status is determined based on contractual terms. Notes receivable are considered impaired if full principal or interest payments are not anticipated in accordance with the contractual terms. The Chancery Office's practice is to charge off any note or portion thereof when the note is determined by management to be uncollectible due to the borrower's failure to meet repayment terms, the borrower's deteriorating or deteriorated financial condition, or for other reasons. Due to the nature of notes receivable with related entities such as parishes, schools and other Diocesan organizations, it is possible that management's estimates regarding collectability of these amounts will change in the near term resulting in a change in the carrying value of the notes receivable.

Interest on notes receivable is recognized over the term of the note and is calculated using the simple-interest method on principal amounts outstanding. When management believes, after considering economic conditions, business conditions, and collection efforts that the notes are impaired or collection of interest is doubtful, the note and any interest previously accrued is charged off or an allowance is established by a charge to bad debt expense.

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

Investments in marketable securities are reported at fair value. Investments in the Catholic Endowment Foundation (the Foundation) and annuity contracts, which are not readily marketable, are reported at estimated fair values, as provided by the investment managers. Certain other investments are reported at the lower of cost or fair value.

Interest, dividends and royalties are recognized when earned. Purchases and sales of investments 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. 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.

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 10 to 40 years for buildings and improvements and 5 to 15 years for furnishings and equipment.

Grants made are recognized as expense at fair value when the Chancery Office approves an unconditional commitment to a grant recipient. Conditional grants are recognized in the same manner when the conditions are substantially met by the recipient or when the possibility that the conditions will not be met is deemed remote. Commitments made but not yet funded are reported as grants payable and are discounted to estimate the present value of future cash flows, if material. At June 30, 2018, grants payable are expected to be paid within one year.

Diocesan Savings and Loan (DS&L) deposits held for related entities represent amounts deposited with the Chancery Office by parishes, schools and other Diocesan 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 1.30% and 1.00% at June 30, 2018 and 2017, 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 the statement of financial position and recognizes changes in that funded status in the year in which the changes occur as changes in unrestricted net assets. The measurement date for recognizing the funded status of the plans is June 30.

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 contributions that donors have restricted in perpetuity. Investment return not restricted by donors in perpetuity may be expended to support specific activities of the Chancery Office.

Insurance premiums and expenses – The Chancery Office administers insurance plans as described in Note 8. 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 statement of activities.

Archdiocesan assessments – In support of operations 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.

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 classified 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 is 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.

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 a) create or enhance nonfinancial assets or, b) 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.

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

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.

Recent financial accounting pronouncements – In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities.* The amendments in the ASU are aimed at providing more useful information to users of not-for-profit financial statements. Under this ASU, net assets will be presented in two classes: *net assets with donor restrictions* and *net assets without donor restrictions* and underwater endowments will be grouped with *net assets with donor restrictions.* New or enhanced disclosures will be required about the nature and composition of net assets, and the liquidity and availability of resources for general operating expenditures within one year of the balance sheet date. Expenses will be required to be presented by both nature and function and investment return will be presented net of external and direct internal investment expenses. Absent explicit donor stipulations, restrictions on long-lived assets will expire when assets are placed in service. The Chancery Office is required to adopt this ASU for fiscal year 2019. Adoption of this ASU will impact the presentation and disclosures of the financial statements.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendments in this ASU clarify and improve current guidance about whether a transfer of assets (or the reduction, settlement, or cancellation of liabilities) is a contribution or an exchange transaction and provides additional guidance on determining whether a contribution is conditional or unconditional. This ASU could impact the timing of revenue recognition and the financial statement disclosures related to such transactions. The Chancery Office is required to apply the amendments in its fiscal year 2020 financial statements. The amendments should be applied on a modified prospective basis, but retrospective application also is permitted. Management has not determined the eventual method of adoption of the ASU or the impact on the financial statements.

NOTE 2 – ACCOUNTS RECEIVABLE FROM RELATED ENTITIES

Accounts receivable from related entities consist of the following:

	2018	2017
Total accounts receivable from related entities	$ 5,467,135	$ 6,682,797
Allowance for uncollectible accounts receivable	(3,343,188)	(3,877,729)
Accounts receivable from related entities, net	$ 2,123,947	$ 2,805,068

NOTE 3 – PLEDGES RECEIVABLE

Pledges receivable consist of the following:

	2018	2017
Ignite Campaign (capital and endowment)	$ 11,552,287	$ 10,326,074
Diocesan Services Fund	2,164,005	2,227,423
Corpus Christi Collection to benefit St. Mary's Seminary	920,413	1,079,638
St. Dominic Village Campaign	266,264	527,039
Other	72,322	290,472
Total pledges receivable	14,975,291	14,450,646
Discount to net present value at 1.62% to 1.89%	(326,083)	(366,395)
Allowance for uncollectible pledges	(611,257)	(1,296,887)
Pledges receivable, net	$ 14,037,951	$ 12,787,364

Pledges receivable at June 30, 2018 are expected to be collected as follows:

Within one year	$ 6,115,820
In one to five years	8,859,471
Total pledges receivable	$ 14,975,291

In 2017, the Chancery Office launched a capital campaign, *Ignite: Our Faith, Our Mission*, to raise $150,000,000. The goal of the campaign was to provide funds for individual parish needs, capital improvements at St. Mary's Seminary and to establish Catholic School Education Endowment Funds and the Faith Formation Endowment Fund. As a result of Hurricane Harvey's destruction, the campaign was temporarily placed on hold. Following extensive review and consultations, two new case elements were added to address the aftermath of Hurricane Harvey and prepare for future disasters. The campaign is being re-launched in Fall 2018 with six major elements: Future Disaster Recovery Fund, Rebuilding Our Parishes and Schools in Light of Hurricane Harvey, St. Mary's Seminary, Faith Formation Endowment Fund, Catholic School Education Endowments, and Individual Parish Needs.

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 one to nine years. Variable rate notes accrue interest based on average medium-term certificate of deposit rates offered nationally, plus a spread. At June 30, 2018, variable rate notes were accruing interest at 3.30%. At June 30, 2018, fixed-rate notes were generally accruing interest at rates between 3.30% and 7.30%.

Notes receivable from related entities consist of the following:

	2018	2017
Notes associated with Chancery notes and bonds payable	$ 8,900,703	$ 9,924,154
Other notes from related entities	96,215,189	99,520,446
Total notes receivable from related entities	$105,115,892	$109,444,600

NOTE 5 – INVESTMENTS AND 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, 2018 consist of the following:

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Short-term investments – money market mutual funds	$ 15,724,808	$ 0	$ 0	$ 15,724,808
Investments:				
Corporate bonds and notes		$ 51,528,016		$ 51,528,016
U. S. Government agency bonds		41,066,531		41,066,531
Invested with Catholic Endowment Foundation (a)		12,427,089		12,427,089
U. S. Treasury securities		11,649,729		11,649,729
Money market mutual funds	$ 1,288,751			1,288,751
Total investments measured at fair value	$ 1,288,751	$116,671,365	$ 0	117,960,116
Other investments (reported at the lower of cost or fair value)				1,549,439
Total investments				$119,509,555

Assets measured at fair value at June 30, 2017 consist of the following:

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Short-term investments – money market mutual funds	$ 3,919,820	$ 0	$ 0	$ 3,919,820
Investments:				
Corporate bonds and notes		$ 55,255,873		$ 55,255,873
U. S. Government agency bonds		42,410,237		42,410,237
Invested with Catholic Endowment Foundation (a)		15,799,333		15,799,333
U. S. Treasury securities		10,362,045		10,362,045
Money market mutual funds	$ 397,451			397,451
Annuity contracts			$ 3,699,741	3,699,741
Total investments measured at fair value	$ 397,451	$123,827,488	$ 3,699,741	127,924,680
Other investments (reported at the lower of cost or fair value)				1,873,255
Total investments				$129,797,935

(a) The Chancery Office invests with 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). Redemptions may be made on the first business day of each month, with a redemption notice of five business days.

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, U. S. Government agency bonds,* 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.
- *Invested with Catholic Endowment Foundation* is valued at the reported net asset value determined by the Foundation management based on the fair value of the underlying investments.
- *Annuity contracts* are valued using a quantitative model based on assumptions of future interest rates and related discounted cash flows.

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, 2018 and 2017 consist of the following:

Balance at June 30, 2016	$ 3,627,197
Unrealized gain	72,544
Balance at June 30, 2017	3,699,741
Sales	(3,700,745)
Net realized and unrealized gain	1,004
Balance at June 30, 2018	$ 0

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. 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.

Investment return, including earnings on cash, short-term and other investments, consists of the following:

	2018	2017
Interest, dividends and royalties	$ 3,928,025	$ 3,713,697
Net realized and unrealized loss	(2,228,845)	(1,559,150)
Investment custodial and management fees	(341,482)	(331,928)
Investment return, net	$ 1,357,698	$ 1,822,619

NOTE 6 – CHANCERY OFFICE PROPERTY

Chancery Office property is comprised of the following:

	2018	2017
Land	$ 7,270,262	$ 7,293,583
Buildings and improvements	44,091,158	43,130,817
Furnishings and equipment	20,652,724	10,772,796
Construction and projects in progress	541,289	9,537,561
Total Chancery Office property, at cost	72,555,433	70,734,757
Accumulated depreciation	(28,159,525)	(26,497,579)
Chancery Office property, net	$ 44,395,908	$ 44,237,178

NOTE 7 – OTHER PROPERTY

Other property is comprised of the following:

	2018	2017
Land and buildings used by related entities and others	$ 2,963,422	$ 2,963,422
Land held for anticipated future parish or school use	1,923,066	1,923,066
Other property, at cost	$ 4,886,488	$ 4,886,488

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.

NOTE 8 – 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, 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. At June 30, 2018 and 2017, approximately $1,400,000 and $1,500,000, respectively, in claims have been provided for as accrued insurance claims.

The Chancery Office also provides medical, dental, disability and life insurance plans for eligible employees of the Chancery Office, as well as for employees of parishes, schools and other related entities. The plans are primarily self-insured with additional third-party coverage provided by aggregate and specific stop-loss policies. Premiums for employee coverage are paid by the Chancery Office and participating employers. At June 30, 2018 and 2017, approximately $2,100,000 and $2,300,000, respectively, in claims under these plans are reported as accrued insurance claims.

Hurricane Recovery Loss

In August 2017, Hurricane Harvey caused damage to many parishes and schools. Revenue and expenses related to Hurricane Harvey were recognized as follows:

Claims incurred on behalf of parishes and schools	$ 15,477,993
Recoveries from third-party insurance providers	(2,067,719)
Claims expenses pertaining to Hurricane Harvey	13,410,274
Restricted contributions recognized for Hurricane Harvey recovery	(12,603,056)
Net impact of Hurricane Harvey on 2018 changes in net assets	$ 807,218

NOTE 9 – 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:

	2018	2017
Harris County Health Facilities Development Corporation, Adjustable Rate Demand Revenue Bonds (1.59% at June 30, 2018), St. Dominic Village Project Series 2000, $10,000,000, issued in July 2000, mandatory principal payments due through July 2025, secured by certain revenue of St. Dominic Village Corporation.	$ 4,400,000	$ 4,925,000
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% (3.25% at June 30, 2018), matures in March 2020.	2,741,953	2,995,404
Note payable with a bank for St. Albert Trapani Church construction, issued in May 2008, principal and interest due monthly, interest accrues at a fixed rate of 5.28%, matures in March 2021.	1,338,750	1,443,750
Note payable with a bank for St. Mary's – Plantersville land acquisition issued January 26, 2017. Principal and interest due annually starting January 2018, interest accrues at a fixed rate of 3.00%, matures in January 2021.	420,000	560,000
Total notes and bonds payable	$ 8,900,703	$ 9,924,154

Notes and bonds payable at June 30, 2018 are due as follows:

Fiscal year 2019	$ 1,053,452
Fiscal year 2020	1,088,452
Fiscal year 2021	1,128,452
Fiscal year 2022	1,033,452
Fiscal year 2023	1,083,452
Thereafter	3,513,443
Total notes and bonds payable	$ 8,900,703

Interest expense and letter of credit fees recognized and paid on notes and bonds payable were approximately $253,000 in 2018 and $312,000 in 2017.

NOTE 10 – 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

	PENSION BENEFITS		HEALTH BENEFITS	
	2018	2017	2018	2017
Fair value of plan assets	$ 158,144,715	$ 150,037,386		
Benefit obligation	(269,886,324)	(282,590,580)	$ (33,492,087)	$ (34,858,069)
Funded status of the plans	$(111,741,609)	$(132,553,194)	$ (33,492,087)	$ (34,858,069)
Liability from net periodic benefit cost	$ (47,025,064)	$ (39,214,192)	$ (32,246,671)	$ (30,251,393)
Accumulated other benefit-related changes:				
Actuarial loss	(64,716,545)	(93,339,002)	(1,245,416)	(4,606,676)
Accrued benefits liability	$(111,741,609)	$(132,553,194)	$ (33,492,087)	$ (34,858,069)
Accumulated benefit obligation	$(266,018,603)	$(257,928,232)	$ (33,492,087)	$ (34,858,069)

Net periodic benefit cost and other benefit-related changes

	PENSION BENEFITS		HEALTH BENEFITS	
	2018	2017	2018	2017
Net periodic benefit cost	$ 18,616,236	$ 21,703,748	$ 2,352,931	$ 2,796,088
Other benefit-related changes:				
Net (gain) loss arising during year	(3,247,962)	(10,133,425)	(3,347,810)	(2,572,086)
Amortization of net loss	(6,882,781)	(8,860,862)	(13,451)	(333,249)
Prior service cost	(17,905,780)			
Amortization of prior service credit	(585,934)	(585,934)		
Other benefit-related changes	(28,622,457)	(19,580,221)	(3,361,261)	(2,905,335)
Total benefit cost	(10,006,221)	2,123,527	(1,008,330)	(109,247)
Net periodic cost funded by related entities	(9,561,357)	(13,601,072)		
Benefit cost recognized by Chancery Office	$ (19,567,578)	$ (11,477,545)	$ (1,008,330)	$ (109,247)

The amount expected to be amortized from accumulated other benefit-related changes into net periodic benefit cost for pension benefits in 2019 is $4,026,000 of net loss. The amount expected to be amortized from accumulated other benefit-related changes into net periodic benefit cost for health benefits in 2019 is $0 of net loss.

In 2018, the Archdiocese amended the lay employee pension plan, which impacted the long-term benefit payments. The impact was a reduction in the pension liability of approximately $18 million.

Assumptions

	PENSION BENEFITS		HEALTH BENEFITS	
	2018	2017	2018	2017
Weighted-average actuarial assumptions used to determine benefit obligations at end of year:				
Discount rate	4.00%	3.75%	4.00%	3.75%
Rate of compensation increase	3.00%	3.00%		
Weighted-average actuarial assumptions used to determine net periodic cost for year:				
Discount rate	3.75%	3.50%	3.75%	3.50%
Expected return on plan assets	7.00%	7.00%		
Rate of compensation increase	3.00%	3.00%		

Assumed healthcare cost trend rate at June 30, 2018:	
Healthcare cost trend rate assumed for next year	5.50% - 6.20%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	4.00%
Years to reach the ultimate trend rate	56

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:

	ONE-PERCENTAGE POINT INCREASE	ONE-PERCENTAGE POINT DECREASE
Effect on total of service and interest cost components	$690,661	$(505,820)
Effect on postretirement benefit obligation	$7,298,617	$(5,675,698)

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:

	MINIMUM	MAXIMUM	TARGET
Equity securities	27%	67%	47%
Fixed-income investments	15%	45%	30%
Real assets	7.5%	18.5%	13%
Alternative investments	5%	15%	10%
Cash and cash equivalents	0%	0%	0%

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

	2018	2017
Equity securities	49%	48%
Fixed-income investments	31%	31%
Real assets	10%	11%
Alternative investments	9%	9%
Cash and cash equivalents	1%	1%
Total plan assets	100%	100%

Plan assets measured at fair value at June 30, 2018 were measured according to the three levels of the fair value hierarchy as follows:

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Equity securities:				
Large-cap securities	$ 72,840,529			$ 72,840,529
Pooled international and emerging markets funds	2,941,167	$ 326,692		3,267,859
International and emerging mutual fund	657,506			657,506
Fixed-income:				
Pooled fixed-income funds		28,243,270		28,243,270
Corporate bonds		14,528,615		14,528,615
U. S. Government agency securities		4,090,070		4,090,070
U. S. Treasury notes and bonds		2,629,600		2,629,600
Real assets:				
Global listed infrastructure mutual fund	8,175,014			8,175,014
Real estate investment trust			$ 8,033,623	8,033,623
Alternate investments:				
Strategies fund			11,218,153	11,218,153
Long and short private equity			2,179,123	2,179,123
Absolute return			760,425	760,425
Money market mutual funds	1,520,928			1,520,928
Total fair value of plan assets	$ 86,135,144	$ 49,818,247	$ 22,191,324	$158,144,715

Plan assets measured at fair value at June 30, 2017 were measured according to the three levels of the fair value hierarchy as follows:

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Equity securities:				
Large-cap securities	$ 32,568,522			$ 32,568,522
Pooled international and emerging markets funds	5,467,931	$ 11,914,067		17,381,998
International and emerging mutual fund	21,443,223			21,443,223
Fixed-income:				
Pooled fixed-income funds		25,091,321		25,091,321
Corporate bonds		13,826,322		13,826,322
U. S. Government agency securities		4,269,866		4,269,866
U. S. Treasury notes and bonds		2,710,949		2,710,949
Real assets:				
Global listed infrastructure mutual fund	9,568,646			9,568,646
Real estate investment trust			$ 7,510,609	7,510,609
Alternate investments:				
Strategies fund			9,565,633	9,565,633
Long and short private equity			1,984,965	1,984,965
Absolute return			2,333,391	2,333,391
Money market mutual funds	1,781,941			1,781,941
Total fair value of plan assets	$ 70,830,263	$ 57,812,525	$ 21,394,598	$150,037,386

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.
- *Pooled international and emerging markets funds* and *pooled fixed-income funds* are valued at net asset values as reported by the fund management.
- *Corporate bonds, U. S. Government agency securities* and *U. S. Treasury notes and bonds* 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.
- *Real estate investment trust* and *alternative investments* are valued at their net asset values as provided by the general partner or directors of each fund computed from the estimated fair value of the underlying securities. These types of investments are included in Level 3 and include funds where the fair value for portfolio investments is estimated by the general partner or fund manager using valuation methodologies that consider a range of factors, including but not limited to, the price at which the investment was acquired, the nature of the investment, local market conditions, trading values on public exchanges for comparable securities, current and projected operating performance, financial condition, and financing transactions subsequent to the acquisition of the investment. 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.
- *Mutual funds* are valued at 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 pension plan Level 3 assets for the years ended June 30, 2018 and 2017 consist of the following:

	STRATEGIES FUND	REAL ESTATE INVESTMENT TRUST	LONG AND SHORT PRIVATE EQUITY	ABSOLUTE RETURN	TOTAL
Balance at June 30, 2016	$ 9,028,205	$ 7,053,778	$ 1,635,407	$ 2,445,739	$ 20,163,129
Purchases	47,000	363,950			410,950
Sales	(88,738)				(88,738)
Unrealized gain (loss)	579,166	92,881	349,558	(112,348)	909,257
Balance at June 30, 2017	9,565,633	7,510,609	1,984,965	2,333,391	21,394,598
Purchases	1,200,000	291,177			1,491,177
Sales	(8,294)			(1,416,323)	(1,424,617)
Net realized and unrealized gain (loss)	460,814	231,837	194,158	(156,643)	730,166
Balance at June 30, 2018	$ 11,218,153	$ 8,033,623	$ 2,179,123	$ 760,425	$ 22,191,324

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.

Cash flows

The pension plan is funded by contributions from the Chancery Office and other Archdiocesan employers at the rate, during fiscal year 2018, of 7.5% of each eligible lay employee's gross salary and $5,500 annually for each Archdiocesan priest. The Chancery Office and related employers expect to contribute approximately $10 million to the pension plan and pay $0.5 million for other benefits during 2019.

Employer contributions paid to the pension plan are as follows:

	2018	2017
Chancery Office	$ 1,244,007	$ 1,176,779
Related employers	9,561,357	13,601,072
Total employer contributions	$ 10,805,364	$ 14,777,851

Pension benefits paid by the pension plan were approximately $10.3 million during 2018 and $9.8 million during 2017. Estimated future pension and health benefit payments for the next ten years as of June 30, 2018 are as follows:

	PENSION BENEFITS	HEALTH BENEFITS
2019	$12,869,452	$651,679
2020	$13,300,864	$702,408
2021	$13,838,100	$804,580
2022	$14,437,036	$915,454
2023	$14,954,521	$980,148
2024 through 2028	$81,876,006	$6,159,784

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 $358,000 during 2018 and $330,000 during 2017. The Chancery Office expects to fund health benefit costs of approximately $500,000 during 2019.

NOTE 11 – COMMITMENTS AND CONTINGENCIES

The Chancery Office maintains letters of credit totaling $460,000 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 $4 million at June 30, 2018.

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 totaling approximately $26 million at June 30, 2018. The outstanding balances of these notes are not reflected in these financial statements.

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), passed through from the Texas Department of Public Safety, Texas Division of Emergency Management (TDEM). Award amounts were 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, with a possibility for de-obligation of funds due to questioned activities or costs or for changes in estimates. Consequently, the awarding agencies may, at their discretion, request reimbursement of de-obligated amounts. FEMA initially approved 276 separate awards (each covered by a Project Worksheet). A large majority of the awards have now completed the review and audit phase and are either closed by FEMA and TDEM or in the closeout process. Management is in the process of working with FEMA on the remaining claims and is vigorously defending their use of federal funds during the hurricane recovery. The Chancery Office currently has a negative de-obligation balance of approximately $677,000 as a result of projects closed or in the closeout process, but a positive balance of approximately $1,300,000 associated with projects that are either awaiting final closeout or open. It is impossible to confirm the final result, but the Chancery Office believes that any final results will not have a material impact on its financial position.

In August 2017, Hurricane Harvey caused substantial damage to several parishes and schools. The Chancery Office is self-insured for much of the Hurricane Harvey loss. At June 30, 2018, the Chancery Office estimates Hurricane Harvey losses at approximately $27.8 million, and could potentially be higher as estimates are refined. The Chancery Office will fund these losses through access to its $10 million Disaster Recovery Fund, insurance proceeds, and Hurricane Harvey specific donations. Any unfunded loss will be further mitigated to the extent the Chancery Office qualifies for any federal funding, such as FEMA or other financial assistance available. If unfunded losses remain, the Chancery Office will manage the build back process by working collaboratively with each parish to prioritize repair and ultimately seek additional funds through future fundraising campaigns.

At June 30, 2018, the Chancery Office had outstanding commitments of approximately $2,600,000 to repair building damages caused by Hurricane Harvey at various parishes and schools.

The Archdiocese, as well as the related entities, participate in the Catholic Umbrella Pool for general liability coverage to cover losses that may result from asserted claims, as well as claims from unknown incidents that may be asserted in the future. The Archdiocese and the related entities are involved in various legal proceedings, disputes, and litigation that include both insured losses and potential uninsured losses. Management has estimated claim losses which are reported as accrued liabilities; however, there are asserted and unasserted claims for which it is not possible to estimate losses or a range of potential losses. It is possible that management's estimates regarding these potential losses will change in the near term resulting in a change in the value of the accrued liabilities.

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

NOTE 12 – UNRESTRICTED NET ASSETS

Unrestricted net assets consist of the following:

	2018	2017
Undesignated	$ 43,185,635	$ 44,443,804
Designated for Archbishop Fiorenza Priest Retirement Residence Endowment Fund	2,281,480	2,215,796
Invested in property	38,020,078	40,364,349
Pension and postretirement health benefits	(145,233,696)	(167,411,263)
Total unrestricted net assets	$ (61,746,503)	$ (80,387,314)

NOTE 13 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	2018	2017
Ignite capital and endowment campaign	$ 15,106,648	$ 10,313,045
Charitable grants primarily for the needs of the poor	7,270,811	7,165,766
Inner-City Catholic Schools	3,878,653	4,205,130
St. Mary's Seminary	3,515,246	3,961,210
Special program services	3,169,327	1,952,097
Restricted-purpose land and buildings	1,126,642	1,154,884
Chaplain Corps	872,694	382,932
Communication	484,597	407,207
Future parish sites	407,207	
Celebrating Our Faith capital campaign projects	307,312	311,153
Grants on behalf of underprivileged children		3,702,822
Other	241,942	1,802,691
Total temporarily restricted net assets	$ 36,381,079	$ 35,358,937

NOTE 14 – PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets are held in perpetuity for the following purposes:

	2018	2017
Circle Lake Retreat Center Endowment Fund	$ 1,643,406	$ 1,519,445
Land held for education of Seminarians	92,757	92,757
Archbishop Fiorenza Priest Retirement Residence Endowment Fund	87,229	76,249
Other	350	350
Total permanently restricted net assets	$ 1,823,742	$ 1,688,801

NOTE 15 – ENDOWMENT FUNDS

The Chancery Office holds endowment funds that were established with donor restricted contributions and internally designated balances for two purposes. The Chancery Office is subject to the Texas Uniform Prudent Management of Institutional Funds Act (TUPMIFA), which has been enacted by the State of Texas. The Board of Directors of the Chancery Office has interpreted TUPMIFA as requiring a focus on the entirety of donor-restricted endowment funds, including the original gift amount and net appreciation. TUPMIFA provides guidelines about what constitutes prudent spending and explicitly requires consideration of preservation of the fund.

As a result of this interpretation, the Chancery Office classifies amounts specified by explicit donor stipulation to be an endowment as permanently restricted net assets. This amount is not reduced by losses on investments in the endowment funds or by approved distributions from the funds. The portion of the endowment funds not classified as permanently restricted is classified as temporarily restricted net assets until appropriated for expenditure. Temporarily restricted net assets are reclassified to unrestricted net assets for the amount appropriated when the purpose restriction has been met.

Investment Policies

The endowment funds are invested with the Foundation (see Note 5). The Foundation has adopted investment policies for endowment investments. The goal of the policies is to preserve and enhance the real value of the principal and to provide the Foundation with a dependable source of revenue to support certain programs and institutions of the Chancery Office. To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment return is achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that ordinarily places a greater emphasis on equity based investments to achieve its long-term return objectives within prudent risk constraints.

The Circle Lake Retreat Center Endowment Fund investment return is required by the donor agreement to increase the permanent corpus of the fund during the donor’s lifetime.

Spending Policy

Appropriations are made annually to support various programs and institutions within the Chancery Office in accordance with explicit donor restrictions. The Foundation’s policy, absent explicit donor restrictions, is to appropriate 3% to 5% of the trailing three-year average calendar year-end market value of a donor-restricted endowment fund. The Foundation may appropriate unrestricted endowment funds as deemed necessary.

Endowment net asset composition as of June 30, 2018:

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
Circle Lake Retreat Center Endowment Fund			$ 1,643,406	$ 1,643,406
Hispanic Ministry Endowment Fund		$ 618,898		618,898
Archbishop Fiorenza Priest Retirement Residence Endowment Fund	$ 2,281,480	5,482	87,229	2,374,191
Endowment net assets	$ 2,281,480	$ 624,380	$ 1,730,635	$ 4,636,495

Endowment net asset composition as of June 30, 2017:

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
Circle Lake Retreat Center Endowment Fund			$ 1,519,445	$ 1,519,445
Hispanic Ministry Endowment Fund		$ 583,349		583,349
Archbishop Fiorenza Priest Retirement Residence Endowment Fund	$ 2,215,796		76,249	2,292,045
Endowment net assets	$ 2,215,796	$ 583,349	$ 1,595,694	$ 4,394,839

Changes in net assets of the donor-restricted endowment funds are as follows:

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
Endowment net assets, June 30, 2016	$ 2,098,706	$ 0	$ 1,310,483	$ 3,409,189
Contributions		543,700	151,431	695,131
Investment return:				
Interest and dividends	51,285	7,005	33,804	92,094
Net realized and unrealized gain	157,487	34,041	106,449	297,977
Investment management fees	(9,656)	(1,397)	(6,473)	(17,526)
Net investment return	199,116	39,649	133,780	372,545
Distributions	(82,026)			(82,026)
Endowment net assets, June 30, 2017	2,215,796	583,349	1,595,694	4,394,839
Contributions/transfers	14,112	2,932	38,585	55,629
Investment return:				
Interest and dividends	50,561	14,861	36,091	101,513
Net realized and unrealized gain	93,880	25,969	66,883	186,732
Investment management fees	(9,633)	(2,731)	(6,618)	(18,982)
Net investment return	134,808	38,099	96,356	269,263
Distributions	(83,236)			(83,236)
Endowment net assets, June 30, 2018	$ 2,281,480	$ 624,380	$ 1,730,635	$ 4,636,495

NOTE 16 – NET ASSET RELEASES

Net asset releases consist of the following:

	2018	2017
Hurricane Harvey recovery expenditures	$ 12,603,056	
Operating expenditures:		
St. Mary's Seminary	2,855,504	$ 2,994,409
Scholarships	2,331,501	2,201,142
Cardinal's Circle	1,516,094	1,539,167
Ignite campaign	1,000,080	1,068,012
Other	3,309,428	2,787,083
Transfer to Catholic Endowment Foundation	3,837,771	247,026
Distributions of the Estate of Frederick K. Fisher proceeds	1,691,040	
Total net asset releases	$ 29,144,474	$ 10,836,839

NOTE 17 – CONTRIBUTIONS

Non-operating contributions consist of the following:

	2018	2017
Contributions from related entities:		
Transfers from Catholic Endowment Foundation	$ 4,274,996	$ 2,325,830
Ignite campaign gifts from parishes and schools	5,067,062	11,346,057
Other contributions for Aid to Poor Parish	638,915	338,568
Contributions for Hurricane Harvey recovery	10,603,056	
Contributions from others	8,912,285	7,582,558
Total restricted contributions	$ 29,496,314	$ 21,593,013

NOTE 18 – GRANTS AND TRANSFERS

Operating and non-operating grants and transfers made to related and unrelated entities during the year ended June 30, 2018 consist of the following:

	RELATED ENTITIES	UNRELATED ENTITIES	TOTAL
Operating grants:			
Schools	$ 8,024,020		$ 8,024,020
Parishes	2,011,674		2,011,674
Diocesan Services Fund	1,913,340		1,913,340
Other	592,724	$ 743,367	1,336,091
Total operating grants	$ 12,541,758	$ 743,367	$ 13,285,125
Non-operating grants and transfers:			
Catholic Endowment Foundation	$ 11,969,742		$ 11,969,742
Distributions of the Estate of Frederick K. Fisher proceeds	835,358	$ 855,682	1,691,040
Assets transferred to Holy Family Parish, Galveston	476,296		476,296
Total non-operating grants and transfers	$ 13,281,396	$ 855,682	$ 14,137,078

Operating and non-operating grants and transfers made to related and unrelated entities during the year ended June 30, 2017 consist of the following:

	RELATED ENTITIES	UNRELATED ENTITIES	TOTAL
Operating grants:			
Schools	$ 7,811,997		$ 7,811,997
Parishes	1,614,460		1,614,460
Diocesan Services Fund	1,911,340		1,911,340
Other	288,943	$ 766,639	1,055,582
Total operating grants	$ 11,626,740	$ 766,639	$ 12,393,379
Non-operating grants and transfers:			
Catholic Endowment Foundation	$ 247,026		$ 247,026
Total non-operating grants and transfers	$ 247,026	$ 0	$ 247,026

NOTE 19 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 17, 2018, 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.