

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

Financial Statements  
and Single Audit Reports  
for the year ended June 30, 2020

# Chancery Office of the Archdiocese of Galveston-Houston

## Table of Contents

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	Page
<b>Independent Auditors' Report</b>	1
<b>Financial Statements:</b>	
Statements of Financial Position as of June 30, 2020 and 2019	3
Statement of Activities for the year ended June 30, 2020	4
Statement of Activities for the year ended June 30, 2019	5
Statement of Functional Expenses for the year ended June 30, 2020	6
Statement of Functional Expenses for the year ended June 30, 2019	7
Statements of Cash Flows for the years ended June 30, 2020 and 2019	8
Notes to Financial Statements for the years ended June 30, 2020 and 2019	9
<b>Supplementary Information:</b>	
Schedule of Expenditures of Federal Awards for the year ended June 30, 2020	28
Note to Schedule of Expenditures of Federal Awards for the year ended June 30, 2020	29
<b>Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i></b>	30
<b>Independent Auditors' Report on Compliance for Each Major Program and Report on Internal Control Over Compliance Required by the Uniform Guidance</b>	31
Schedule of Findings and Questioned Costs for the year ended June 30, 2020	33

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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, 2020 and 2019 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform our audits to obtain reasonable assurance about whether the financial statements are free 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*

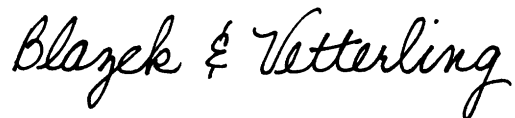
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Chancery Office of the Archdiocese of Galveston-Houston as of June 30, 2020 and 2019 and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information included in the schedule of expenditures of federal awards for the year ended June 30, 2020 as required by Title 2 U. S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

### **Report Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2020 on our consideration of the Chancery Office of the Archdiocese of Galveston-Houston's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Chancery Office of the Archdiocese of Galveston-Houston's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Chancery Office of the Archdiocese of Galveston-Houston's internal control over financial reporting and compliance.

The image shows a handwritten signature in black ink that reads "Blazek & Vetterling". The signature is written in a cursive, flowing style.

December 10, 2020

## Chancery Office of the Archdiocese of Galveston-Houston

Statements of Financial Position as of June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
ASSETS		
Cash	\$ 8,145,322	\$ 4,216,072
Short-term investments – money market mutual funds (Note 7)	30,148,179	18,963,824
Accounts receivable from related entities, net (Note 4)	3,508,322	3,643,896
Prepaid expenses and other receivables	1,409,664	939,880
Contributions receivable, net (Note 5)	2,642,690	3,572,442
Notes receivable from related entities (Note 6)	94,742,123	99,133,494
Cemetery inventory	1,994,403	2,012,065
Investment purchase pending		1,000,000
Investments (Note 7)	139,743,003	133,285,293
Contributions receivable restricted for Ignite Campaign, net (Note 5)	29,979,950	18,367,612
Contributions receivable restricted for endowment (Note 5)	786,277	
Chancery Office property, net (Note 8)	42,630,843	44,008,621
Other property (Note 9)	<u>4,524,043</u>	<u>4,524,043</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 360,254,819</u></b>	<b><u>\$ 333,667,242</u></b>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 6,832,706	\$ 4,847,064
Grants payable	3,279,227	3,257,726
Deferred revenue	1,028,928	1,431,999
Accrued insurance and other claims (Notes 10 and 14)	4,264,825	5,209,144
Funds held for others	2,533,049	2,142,466
DS&L deposits held for related entities	173,719,429	171,198,241
Paycheck Protection Program refundable advances (Note 11)	4,237,080	
Notes and bonds payable (Note 12)	1,268,624	7,848,052
Accrued pension and postretirement health benefits liability (Note 13)	<u>218,396,806</u>	<u>170,056,674</u>
Total liabilities	<u>415,560,674</u>	<u>365,991,366</u>
Commitments and contingencies (Note 14)		
Net assets (Note 17):		
Without donor restrictions (Note 15)	(113,415,694)	(73,416,427)
With donor restrictions (Note 16)	<u>58,109,839</u>	<u>41,092,303</u>
Total net assets	<u>(55,305,855)</u>	<u>(32,324,124)</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 360,254,819</u></b>	<b><u>\$ 333,667,242</u></b>

*See accompanying notes to financial statements.*

## Chancery Office of the Archdiocese of Galveston-Houston

Statement of Activities for the year ended June 30, 2020 (with comparative totals for the year ended June 30, 2019)

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	2020 TOTAL	2019 TOTAL
<b>OPERATING REVENUE:</b>				
Health insurance premiums (Note 10)	\$ 33,146,302		\$ 33,146,302	\$ 30,275,021
Archdiocesan assessments	18,279,498		18,279,498	18,169,420
Contributions without donor restrictions	15,596,522		15,596,522	14,041,934
Business insurance premiums (Note 10)	12,202,606		12,202,606	12,474,405
Program and service fees	2,619,435		2,619,435	3,210,116
Interest on notes receivable from related entities	3,279,432		3,279,432	3,238,205
Cemetery sales and services	<u>1,542,908</u>		<u>1,542,908</u>	<u>999,391</u>
Total operating revenue	86,666,703		86,666,703	82,408,492
Net assets released for operating purposes (Note 18)	<u>9,938,302</u>		<u>9,938,302</u>	<u>11,411,178</u>
Total	<u>96,605,005</u>		<u>96,605,005</u>	<u>93,819,670</u>
<b>OPERATING EXPENSES:</b>				
Program services:				
Health insurance program (Note 10)	28,218,198		28,218,198	31,867,183
Chancery services	15,073,883		15,073,883	14,911,187
Business insurance program (Note 10)	10,707,923		10,707,923	10,852,673
Pastoral and education	7,254,183		7,254,183	7,788,028
Catholic school office	6,702,336		6,702,336	6,682,696
Seminary	5,157,038		5,157,038	5,700,448
Clergy	4,106,071		4,106,071	4,590,311
Diocesan Savings and Loan	2,086,532		2,086,532	2,574,848
Cemetery operations	<u>1,704,924</u>		<u>1,704,924</u>	<u>1,118,389</u>
Total program services	81,011,088		81,011,088	86,085,763
Management and general	10,270,747		10,270,747	9,619,530
Fundraising	<u>4,220,605</u>		<u>4,220,605</u>	<u>4,040,400</u>
Total operating expenses	<u>95,502,440</u>		<u>95,502,440</u>	<u>99,745,693</u>
Changes in net assets from operations	1,102,565		1,102,565	(5,926,023)
<b>OTHER CHANGES IN NET ASSETS:</b>				
Contributions (Note 19)	66,000	\$ 31,112,042	31,178,042	23,583,191
Net investment return	5,134,380	766,106	5,900,486	6,784,267
Gain on sales of property				2,641,398
Net claims expenses – Hurricane Harvey (Note 10)	(960,867)		(960,867)	(7,511,404)
Other benefit-related changes (Note 13)	(43,487,921)		(43,487,921)	(20,420,214)
Other periodic benefit costs (Note 13)	(4,852,211)		(4,852,211)	(4,402,764)
Non-operating grants and transfers (Note 20)	(1,923,523)		(1,923,523)	
Net assets released for expenditures (Note 18)	1,365,479	(11,303,781)	(9,938,302)	(11,411,178)
Net assets released for capital expenditures (Note 18)	<u>3,556,831</u>	<u>(3,556,831)</u>		
<b>CHANGES IN NET ASSETS</b>	(39,999,267)	17,017,536	(22,981,731)	(16,662,727)
Net assets, beginning of year	<u>(73,416,427)</u>	<u>41,092,303</u>	<u>(32,324,124)</u>	<u>(15,661,397)</u>
Net assets, end of year	<u>\$(113,415,694)</u>	<u>\$ 58,109,839</u>	<u>\$(55,305,855)</u>	<u>\$(32,324,124)</u>

See accompanying notes to financial statements.

## Chancery Office of the Archdiocese of Galveston-Houston

Statement of Activities for the year ended June 30, 2019

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
<b>OPERATING REVENUE:</b>			
Health insurance premiums ( <i>Note 10</i> )	\$ 30,275,021		\$ 30,275,021
Archdiocesan assessments	18,169,420		18,169,420
Contributions without donor restrictions	14,041,934		14,041,934
Business insurance premiums ( <i>Note 10</i> )	12,474,405		12,474,405
Program and service fees	3,210,116		3,210,116
Interest on notes receivable from related entities	3,238,205		3,238,205
Cemetery sales and services	999,391		999,391
Total operating revenue	82,408,492		82,408,492
Net assets released for operating purposes ( <i>Note 18</i> )	11,411,178		11,411,178
Total	93,819,670		93,819,670
<b>OPERATING EXPENSES:</b>			
Program services:			
Health insurance program ( <i>Note 10</i> )	31,867,183		31,867,183
Chancery services	14,911,187		14,911,187
Business insurance program ( <i>Note 10</i> )	10,852,673		10,852,673
Pastoral and education	7,788,028		7,788,028
Catholic school office	6,682,696		6,682,696
Seminary	5,700,448		5,700,448
Clergy	4,590,311		4,590,311
Diocesan Savings and Loan	2,574,848		2,574,848
Cemetery operations	1,118,389		1,118,389
Total program services	86,085,763		86,085,763
Management and general	9,619,530		9,619,530
Fundraising	4,040,400		4,040,400
Total operating expenses	99,745,693		99,745,693
Changes in net assets from operations	(5,926,023)		(5,926,023)
<b>OTHER CHANGES IN NET ASSETS:</b>			
Contributions ( <i>Note 19</i> )	83,216	\$ 23,499,975	23,583,191
Net investment return	5,877,717	906,550	6,784,267
Gain on sales of property	2,641,398		2,641,398
Net claims expenses – Hurricane Harvey ( <i>Note 10</i> )	(7,511,404)		(7,511,404)
Other benefit-related changes ( <i>Note 13</i> )	(20,420,214)		(20,420,214)
Other periodic benefit costs ( <i>Note 13</i> )	(4,402,764)		(4,402,764)
Net assets released for expenditures ( <i>Note 18</i> )	3,336,468	(14,747,646)	(11,411,178)
Net assets released for capital expenditures ( <i>Note 18</i> )	6,771,397	(6,771,397)	
CHANGES IN NET ASSETS	(19,550,209)	2,887,482	(16,662,727)
Net assets, beginning of year	(53,866,218)	38,204,821	(15,661,397)
Net assets, end of year	\$ (73,416,427)	\$ 41,092,303	\$ (32,324,124)

See accompanying notes to financial statements.

## Chancery Office of the Archdiocese of Galveston-Houston

### Statement of Functional Expenses for the year ended June 30, 2020

	HEALTH INSURANCE PROGRAM	CHANCERY SERVICES	BUSINESS INSURANCE PROGRAM	PASTORAL AND EDUCATION	CATHOLIC SCHOOL OFFICE	SEMINARY	CLERGY	DIOCESAN SAVINGS AND LOAN	CEMETERY OPERATIONS	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL
Claims expense	\$ 26,230,219		\$ 3,101,864									\$ 29,332,083
Salaries and related benefits		\$ 4,060,656		\$ 4,573,889	\$ 1,571,456	\$ 1,292,711	\$ 2,333,769		\$ 576,267	\$ 7,679,715	\$ 923,327	23,011,790
Premium expense	4,029,913		7,659,880									11,689,793
Professional services	1,860,572	1,315,740	301,862	912,369	724,422	951,388	319,027	\$ 124,089	456,182	990,326	2,535,394	10,491,371
Grants		5,515,790	258,824	4,331	4,081,570	136,499	36,045					10,033,059
Interest paid to related entities on DS&L deposits								1,977,744	314,093	590,292		2,882,129
Depreciation		859,837		210,233		1,140,241	8,475		107,698	8,194		2,334,678
Assistance to individuals				88,350		921,934	883,315					1,893,599
Uncollectible accounts		1,756,182				(6,639)		(15,301)				1,734,242
Occupancy		649,403		497,204	17,232	326,197	85,751				21,358	1,597,145
Conferences and meetings		104,328		462,693	42,680	156,785	128,700		2,064	76,020	85,972	1,059,242
Supplies		69,051		335,521	243,248	152,322	73,075		106,423	36,086	18,647	1,034,373
Dues and assessments							171,522			766,835		938,357
Printing and publications		226,194		23,595	3,126	15,198	9,173		2,022	27,561	457,919	764,788
Postage and shipping		284,734		4,192	16	5,065	518		5,291	8,689	145,936	454,441
Local travel and automobile		42,795	76	67,311	9,975	45,042	31,532		7,748	61,197	7,353	273,029
Non-capital equipment and improvement				47,502	8,582	13,203	25,085		5,594	25,746	9,242	182,484
Interest expense		128,110										128,110
Rental and maintenance		13,533		26,993	29	7,092	84		5,773	86	15,457	69,047
Premium allocated to Chancery operations	(3,902,506)		(614,583)									(4,517,089)
Other									115,769			115,769
Total expenses	<u>\$ 28,218,198</u>	<u>\$ 15,073,883</u>	<u>\$ 10,707,923</u>	<u>\$ 7,254,183</u>	<u>\$ 6,702,336</u>	<u>\$ 5,157,038</u>	<u>\$ 4,106,071</u>	<u>\$ 2,086,532</u>	<u>\$ 1,704,924</u>	<u>\$ 10,270,747</u>	<u>\$ 4,220,605</u>	95,502,440
Claims expenses – Hurricane Harvey												1,352,612
Non-operating grants and transfers												<u>1,923,523</u>
Total												<u>\$ 98,778,575</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, 2019

	HEALTH INSURANCE PROGRAM	CHANCERY SERVICES	BUSINESS INSURANCE PROGRAM	PASTORAL AND EDUCATION	CATHOLIC SCHOOL OFFICE	SEMINARY	CLERGY	DIOCESAN SAVINGS AND LOAN	CEMETERY OPERATIONS	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL
Claims expense	\$ 29,614,737		\$ 3,133,140									\$ 32,747,877
Salaries and related benefits		\$ 4,087,140		\$ 4,554,425	\$ 1,621,211	\$ 1,424,114	\$ 2,355,758		\$ 423,194	\$ 6,960,386	\$ 843,656	22,269,884
Premium expense	3,827,142		7,280,052									11,107,194
Professional services	1,929,670	1,409,410	639,968	838,483	727,980	1,091,896	352,188	\$ 117,001	360,151	1,007,959	2,478,276	10,952,982
Grants		6,234,856	372,015	16,118	3,841,347	120,124	150,615		800			10,735,875
Interest paid to related entities on DS&L deposits								2,471,751				2,471,751
Depreciation		839,734		240,830		1,122,312	7,544		35,863	11,486		2,257,769
Assistance to individuals				45,102		961,454	1,021,445					2,028,001
Uncollectible accounts		533,373				(8,147)		(13,904)				511,322
Occupancy		811,747		874,879	47,672	492,894	109,451		77,569	614,905	27,015	3,056,132
Conferences and meetings		145,376	20,043	546,643	87,225	202,985	180,712		2,371	100,708	153,425	1,439,488
Supplies		60,223	1,073	433,699	321,188	175,003	100,799		163,420	31,731	24,138	1,311,274
Dues and assessments							229,443			779,873		1,009,316
Printing and publications		191,886		34,162	6,360	24,831	14,277		2,945	18,772	354,945	648,178
Postage and shipping		281,096		8,235		4,994	757		982	8,624	131,922	436,610
Local travel and automobile		39,157	11,696	112,902	18,943	64,985	47,056		8,919	62,053	11,680	377,391
Non-capital equipment and improvement			14,460	32,682	10,697	10,440	20,119		8,745	22,590	6,355	157,863
Interest expense		230,553										230,553
Rental and maintenance		14,861		49,868	73	12,563	147		1,511	443	8,988	88,454
Premium allocated to Chancery operations	(3,504,366)		(619,774)									(4,124,140)
Other									31,919			31,919
Total expenses	<u>\$ 31,867,183</u>	<u>\$ 14,911,187</u>	<u>\$ 10,852,673</u>	<u>\$ 7,788,028</u>	<u>\$ 6,682,696</u>	<u>\$ 5,700,448</u>	<u>\$ 4,590,311</u>	<u>\$ 2,574,848</u>	<u>\$ 1,118,389</u>	<u>\$ 9,619,530</u>	<u>\$ 4,040,400</u>	99,745,693
Claims expenses – Hurricane Harvey												<u>7,822,236</u>
Total												<u>\$107,567,929</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, 2020 and 2019

	<u>2020</u>	<u>2019</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Changes in net assets	\$ (22,981,731)	\$ (16,662,727)
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities:		
Contributions restricted for Ignite Campaign	(20,334,381)	(12,054,435)
Contributions restricted for endowment	(904,869)	(109,884)
Net realized and unrealized gain on investments	(2,182,812)	(2,726,930)
Depreciation	2,334,678	2,257,769
Proceeds from Paycheck Protection Program advances	4,237,080	
Net gain on sales of property		(2,641,398)
Changes in operating assets and liabilities:		
Accounts receivable from related entities	135,574	(1,519,949)
Prepaid expenses, other assets and cemetery inventory	(452,122)	100,097
Contributions receivable (operating only)	929,752	(388,903)
Accounts payable and accrued expenses	1,985,642	(3,844,549)
Grants payable	21,501	(252,362)
Deferred revenue	(403,071)	309,062
Accrued insurance and other claims	(944,319)	901,318
Funds held for others and DS&L deposits held for related entities	2,911,771	6,934,888
Accrued pension and postretirement health benefits liability	<u>48,340,132</u>	<u>24,822,978</u>
Net cash provided (used) by operating activities	<u>12,692,825</u>	<u>(4,875,025)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Payments received on notes receivable	17,327,489	16,841,634
Advances of notes receivable	(15,165,684)	(10,859,236)
Net purchases of money market mutual funds	(19,380,113)	(3,820,274)
Proceeds from sales of investments	95,272,871	35,014,477
Purchases of investments	(90,352,011)	(38,601,742)
Purchases of property	(956,900)	(2,039,213)
Proceeds from sales of property	<u>                    </u>	<u>3,172,574</u>
Net cash used by investing activities	<u>(13,254,348)</u>	<u>(291,780)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from contributions restricted for Ignite Campaign	8,722,043	4,541,235
Proceeds from contributions restricted for endowment	118,592	109,884
Principal payments of notes and bonds payable	<u>(4,349,862)</u>	<u>(1,052,651)</u>
Net cash provided by financing activities	<u>4,490,773</u>	<u>3,598,468</u>
<b>NET CHANGE IN CASH</b>	<b>3,929,250</b>	<b>(1,568,337)</b>
Cash, beginning of year	<u>4,216,072</u>	<u>5,784,409</u>
Cash, end of year	<u>\$ 8,145,322</u>	<u>\$ 4,216,072</u>
<i>Supplemental disclosure of cash flow information:</i>		
Interest and letter of credit fees paid	\$128,110	\$230,553
Release of note receivable	\$2,229,566	
Transfer of note payable to parish	\$(2,229,566)	

*See accompanying notes to financial statements.*

## Chancery Office of the Archdiocese of Galveston-Houston

Notes to Financial Statements for the years ended June 30, 2020 and 2019

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

Organization – The Roman Catholic Archdiocese of Galveston-Houston (the Archdiocese) is an ecclesiastical territory that encompasses ten counties in southeastern Texas in an area covering almost 9,000 square-miles. The Archdiocese serves approximately 1.7 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, Social Concerns, and Judicial Affairs (Tribunal). Archdiocesan entities organized under these Secretariats include St. Mary's Seminary, four Catholic cemeteries, Catholic university student centers, Camp 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 exclude donor-restricted revenue, investment return, and other transactions not in the normal course of operations (hurricane recovery). 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.

Contributions receivable that are expected to be collected within one year are reported at net realizable value. Amounts expected to be collected in future years are discounted to estimate the present value of future cash flows. 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 contributions receivable 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 are reported at fair value. Net investment return consists of interest and dividends, royalties, realized and unrealized gains and losses, net of external and direct internal investment expenses.

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. 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, 2020, 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 1.00% and 1.50% at June 30, 2020 and 2019, 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 *net assets without donor restrictions*. The measurement date for recognizing the funded status of the plans is June 30.

Net asset classification – Net assets, revenue, gains, and losses are classified based on the existence or absence of donor-imposed restrictions, as follows:

- *Net assets without donor restrictions* are not subject to donor-imposed restrictions even though their use may be limited in other respects such as by contract or board designation.
- *Net assets with donor restrictions* are subject to donor-imposed restrictions. Restrictions may be temporary in nature, such as those that will be met by the passage of time or use for a purpose specified by the donor, or may be perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Net assets are released from restrictions when the stipulated time has elapsed, or purpose has been fulfilled, or both. Contributions of long-lived assets and of assets restricted for acquisition of long-lived assets are released when those assets are placed in service. Donor-restricted endowment earnings are released when those earnings are appropriated in accordance with spending policies and are used for the stipulated purpose.

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 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 with donor restrictions. Conditional contributions are subject to one or more barriers that must be overcome before the Chancery Office is entitled to receive or retain funding. Conditional contributions are recognized as revenue at fair value when the conditions have been met. Funding received before conditions are met is reported as refundable advances and included in deferred revenue.

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.

Functional allocation of expenses – Expenses are reported by their functional classification. Program services are the direct conduct or supervision of activities that fulfill the purposes for which the organization exists. Fundraising activities include the solicitation of contributions of money, securities, materials, facilities, other assets, and time. Management and general activities are not directly identifiable with specific program or fundraising activities. Expenses that are attributable to more than one activity are allocated among the activities benefitted. Salaries and related costs are allocated on the basis of estimated time and effort expended. The Chancery Office property facility management costs and information technology costs are allocated based on number of employees in each department.

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 pronouncement – In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*, which replaces most existing revenue recognition guidance for exchange transactions not specifically covered by other guidance. This ASU does not apply to non-exchange transactions such as contributions. The core principle of the new guidance is that an entity should recognize revenue in an amount that reflects the consideration to which it expects to be entitled in exchange for transferred goods or services and establishes a 5-step process to determine when performance obligations are satisfied and revenue is recognized. The Chancery Office is required to adopt this ASU in fiscal year 2021 and must be applied retrospectively. Adoption of this ASU will impact the presentation and disclosures of the financial statements.

In June 2016, the FASB issued ASU 2016-13, *Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which (1) significantly changes the impairment model for most financial assets that are measured at amortized cost and certain other instruments from an incurred loss model to an expected loss model, and (2) provides for recording credit losses on available for sale debt securities through an allowance account. The update requires credit losses on most financial assets measured at amortized cost and certain other instruments to be measured using an expected credit loss model. The guidance will be effective for the Chancery Office beginning in fiscal year 2024. Early adoption is permitted. The Chancery Office is currently assessing the impact this standard will have on its financial statements.

## **NOTE 2 – ADOPTION OF ACCOUNTING STANDARD**

The Chancery Office adopted 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 provide additional guidance on determining whether a contribution is conditional or unconditional. The Chancery Office adopted the new standard effective July 1, 2019. Adoption of this ASU had no impact on total net assets or changes in net assets for 2019.

The Chancery Office also adopted ASU 2017-07, *Compensation Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. The amendments in this ASU require that the service cost component of net benefit cost be reported in the same line item as either compensation costs arising from services rendered by the pertinent employees during the period and present the other components of net benefit cost in the statement of activities separately from the service cost component and outside a subtotal of changes in operating net assets. The Chancery Office retrospectively adopted this new standard effective July 1, 2019, which resulted in reclassifications of other periodic benefit costs from operating expenses to other changes in net assets.

### NOTE 3 – LIQUIDITY AND AVAILABILITY OF RESOURCES

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use within one year of June 30 comprise the following:

	<u>2020</u>	<u>2019</u>
Financial assets:		
Cash	\$ 8,145,322	\$ 4,216,072
Short-term investments – money market mutual funds	30,148,179	18,963,824
Accounts receivable from related entities, net	3,508,322	3,643,896
Other receivables	521,234	43,593
Contributions receivable, net	2,642,690	3,572,442
Notes receivable from related entities	94,742,123	99,133,494
Investment purchase pending		1,000,000
Investments	139,743,003	133,285,293
Contributions receivable restricted for Ignite Campaign, net	29,979,950	18,367,612
Contributions receivable restricted for endowment	<u>786,277</u>	<u></u>
Total financial assets	<u>310,217,100</u>	<u>282,226,226</u>
Less financial assets not available for general expenditure:		
DS&L deposits held for related entities	(173,719,429)	(171,198,241)
Donor-restricted for Ignite Campaign	(33,270,188)	(18,367,612)
Restricted by donors for use in future periods or for future projects	(16,654,330)	(15,292,288)
Designated for Disaster Emergency Fund	(8,192,388)	(8,077,832)
Donor-restricted endowment funds	(3,786,613)	(2,673,792)
Notes receivable associated with Chancery notes and bonds payable	(1,268,624)	(6,759,600)
Funds held for others	(2,533,049)	(2,142,466)
Designated for Archbishop Fiorenza Priest Retirement Residence Endowment Fund	(2,456,191)	(2,365,103)
Designated for long-term plans of Newman Centers	<u>(141,000)</u>	<u>(75,000)</u>
Total financial assets available for general expenditure	<u>\$ 68,195,288</u>	<u>\$ 55,274,292</u>

For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Chancery Office considers all expenditures related to its ongoing programmatic activities, as well as the conduct of services undertaken to support these activities, to be general expenditures.

As part of the Chancery Office's liquidity management, financial assets have been structured to be available as its general expenditures, liabilities, and other obligations become due by maintaining a significant portion of its assets in cash and short-term investments. The Chancery Office has designated a portion of its unrestricted resources for endowment and other purposes. These designated funds are invested for long-term appreciation and current income, but remain available to be spent, if necessary.

Measures taken by various governments and county orders during 2020 to contain the new coronavirus COVID-19 have affected economic activity. The impact of COVID-19 has been significant on parishes, schools, related entities, and the Chancery Office itself. The Chancery Office has made financial support available for parishes, and has reduced assessments on parishes, as parish resources have been constrained. The net financial impact of this has been relatively small, since the expenses are absorbed by cost cutting measures at the Chancery Office level.

COVID-19 will continue to have an impact on parishes, and subsequently on the Chancery Office. The Chancery Office is experiencing a reduction in contributions, creating an environment in which parishes might not be able to pay their debt in full to the Chancery Office.

The extent of the impact of COVID-19 is uncertain and cannot be predicted. Currently, the Chancery Office does not foresee a material impact. Therefore, the financial statements do not include any additional or extraordinary write-offs and/or provisions for bad debt.

#### NOTE 4 – ACCOUNTS RECEIVABLE FROM RELATED ENTITIES

Accounts receivable from related entities consist of the following:

	<u>2020</u>	<u>2019</u>
Total accounts receivable from related entities	\$ 8,841,822	\$ 7,574,842
Allowance for uncollectible accounts receivable	<u>(5,333,500)</u>	<u>(3,930,946)</u>
Accounts receivable from related entities, net	<u>\$ 3,508,322</u>	<u>\$ 3,643,896</u>

#### NOTE 5 – CONTRIBUTIONS RECEIVABLE

Contributions receivable consist of the following:

	<u>2020</u>	<u>2019</u>
Ignite Campaign (capital and endowment)	\$ 31,480,582	\$ 19,580,642
Diocesan Services Fund	1,687,266	2,073,725
Corpus Christi Collection to benefit St. Mary's Seminary	886,916	1,533,847
Circle Lake Retreat Center Endowment Fund	786,277	
St. Dominic Village Campaign	73,523	99,277
Other	<u>164,170</u>	<u>53,464</u>
Total contributions receivable	35,078,734	23,340,955
Discount to net present value at 0.29% to 1.76%	(397,312)	(458,832)
Allowance for uncollectible contributions receivable	<u>(1,272,505)</u>	<u>(942,069)</u>
Contributions receivable, net	<u>\$ 33,408,917</u>	<u>\$ 21,940,054</u>

Contributions receivable at June 30, 2020 are expected to be collected as follows:

Fiscal year 2021	\$ 17,977,864
Fiscal year 2022	8,100,328
Fiscal year 2023	5,695,918
Fiscal year 2024	2,976,193
Fiscal year 2025	<u>328,431</u>
Total contributions receivable	<u>\$ 35,078,734</u>

In 2017, the Chancery Office launched a capital campaign, *Ignite: Our Faith, Our Mission*, to raise \$150,000,000. The goal of the campaign is 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 was 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. The campaign remains ongoing at this time.

#### NOTE 6 – 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 twenty years. Variable rate notes accrue interest based on average medium-term certificate of deposit rates offered nationally, plus a spread. At June 30, 2020, variable rate notes were accruing interest at an average rate of 3.00%. At June 30, 2020, fixed-rate notes were generally accruing interest at rates between 3.00% and 4.00%.



Notes receivable from related entities consist of the following:

	<u>2020</u>	<u>2019</u>
Notes associated with Chancery notes and bonds payable	\$ 1,268,624	\$ 8,198,052
Other notes from related entities	<u>93,473,499</u>	<u>90,935,442</u>
Total notes receivable from related entities	<u>\$ 94,742,123</u>	<u>\$ 99,133,494</u>

#### NOTE 7 – 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. The types of investments included in Level 1 are securities traded and valued based upon a public exchange.
- *Level 2* – Inputs are quoted prices in nonactive markets or in active markets for similar assets or liabilities, or inputs which are either directly or indirectly observable with 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, 2020 consist of the following:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Short-term investments – money market mutual funds	<u>\$ 30,148,179</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 30,148,179</u>
Investments:				
Corporate bonds and notes		\$ 45,216,196		\$ 45,216,196
U. S. Government agency bonds		33,045,057		33,045,057
U. S. Treasury securities	\$ 26,755,011			26,755,011
Invested with Catholic Endowment Foundation (a)		21,856,651		21,856,651
Money market mutual funds	10,065,767			10,065,767
Other		<u>2,804,321</u>		<u>2,804,321</u>
Total investments measured at fair value	<u>\$ 36,820,778</u>	<u>\$102,922,225</u>	<u>\$ 0</u>	<u>\$139,743,003</u>

Assets measured at fair value at June 30, 2019 consist of the following:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Short-term investments – money market mutual funds	<u>\$ 18,963,824</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 18,963,824</u>
Investments:				
Corporate bonds and notes		\$ 48,682,270		\$ 48,682,270
U. S. Government agency bonds		45,289,999		45,289,999
U. S. Treasury securities	\$ 14,836,897			14,836,897
Invested with Catholic Endowment Foundation (a)		21,145,977		21,145,977
Money market mutual funds	1,870,009			1,870,009
Other		<u>1,460,141</u>		<u>1,460,141</u>
Total investments measured at fair value	<u>\$ 16,706,906</u>	<u>\$116,578,387</u>	<u>\$ 0</u>	<u>\$133,285,293</u>

- (a) The Chancery Office invests with the Catholic Endowment Foundation (the Foundation), a related entity, in an investment pool that uses the market value unit method of accounting for investment transactions. The fair value of the Chancery Office's investment in the Foundation reflects the Chancery Office's share of the fair value of the total underlying investment portfolio managed by the Foundation. The Chancery Office's share of changes in the value of the pooled portfolio is included in net realized and unrealized gain (loss). 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* and *U. S. Government agency 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.
- *U. S. Treasury securities* are valued using prices obtained from active market maker and inter-dealer brokers on a daily basis.
- *Invested with Catholic Endowment Foundation* is valued at the reported net asset value determined by the Foundation's management based on the fair value of the underlying investment pools.

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.

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.

#### **NOTE 8 – CHANCERY OFFICE PROPERTY**

Chancery Office property is comprised of the following:

	<u>2020</u>	<u>2019</u>
Land	\$ 7,101,531	\$ 7,101,531
Buildings and improvements	44,288,522	44,278,357
Furnishings and equipment	21,743,778	21,438,781
Construction and projects in progress	<u>1,984,140</u>	<u>1,581,455</u>
Total Chancery Office property, at cost	75,117,971	74,400,124
Accumulated depreciation	<u>(32,487,128)</u>	<u>(30,391,503)</u>
Chancery Office property, net	<u>\$ 42,630,843</u>	<u>\$ 44,008,621</u>

#### **NOTE 9 – OTHER PROPERTY**

Other property is comprised of the following:

	<u>2020</u>	<u>2019</u>
Land and buildings used by related entities and others	\$ 2,963,422	\$ 2,963,422
Land held for anticipated future parish or school use	<u>1,560,621</u>	<u>1,560,621</u>
Other property, at cost	<u>\$ 4,524,043</u>	<u>\$ 4,524,043</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.

#### **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, 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, 2020 and 2019, approximately \$2,100,000 and \$2,300,000, respectively, in claims have been provided for as accrued insurance claims. 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 and has not been notified of any such losses that would result in a financial impact on the Chancery Office.

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, 2020 and 2019, approximately \$1,500,000 and \$2,100,000, 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:

	<u>2020</u>	<u>2019</u>
Claims incurred on behalf of parishes and schools	\$ 1,352,612	\$ 7,822,236
Recoveries from third-party insurance providers	<u>(391,745)</u>	<u>(310,832)</u>
Claims expenses pertaining to Hurricane Harvey	960,867	7,511,404
Restricted contributions recognized for Hurricane Harvey recovery:		
Federal Emergency Management Agency (FEMA)	(1,312,114)	(1,758,765)
Other	<u>(53,365)</u>	<u>(1,577,703)</u>
Net impact of Hurricane Harvey included in other changes in net assets	<u>\$ (404,612)</u>	<u>\$ 4,174,936</u>

#### **NOTE 11 – PAYCHECK PROTECTION PROGRAM REFUNDABLE ADVANCES**

In April 2020, the Chancery Office received unsecured bank loans of \$4,237,080 funded through the Federal Paycheck Protection Program (PPP). The loans bear interest at 1.0% and may be repaid over 2 years. PPP loan principal and interest may be forgiven, in whole or in part, if the Chancery Office meets eligibility requirements and uses the loans to fund qualified payroll and other eligible costs. The Chancery Office expects to qualify for forgiveness.

## NOTE 12 – NOTES AND BONDS PAYABLE

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

	<u>2020</u>	<u>2019</u>
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.	\$ 1,128,750	\$ 1,233,750
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.	139,874	275,800
Harris County Health Facilities Development Corporation, Adjustable Rate Demand Revenue Bonds (1.99% at June 30, 2020), 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. The bond was paid in full on July 2, 2019.		3,850,000
Note payable with a bank for St. Theresa Catholic School building construction issued on March 14, 2008. The note was refinanced on February 19, 2020 with St. Theresa Catholic School as primarily liable and the Chancery Office acts as guarantor on the note.		<u>2,488,502</u>
Total notes and bonds payable	<u>\$ 1,268,624</u>	<u>\$ 7,848,052</u>

At June 30, 2020 notes payable are expected to be paid within one year.

Interest expense and letter of credit fees recognized and paid on notes and bonds payable were approximately \$128,000 in 2020 and \$230,000 in 2019.

## NOTE 13 – PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS

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

### Obligations and funded status

	<u>PENSION BENEFITS</u>		<u>HEALTH BENEFITS</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Fair value of plan assets	\$ 169,165,874	\$ 165,799,660		
Benefit obligation	<u>(351,740,580)</u>	<u>(301,863,796)</u>	<u>\$ (35,822,100)</u>	<u>\$ (33,992,538)</u>
Funded status of the plans	<u>\$(182,574,706)</u>	<u>\$(136,064,136)</u>	<u>\$ (35,822,100)</u>	<u>\$ (33,992,538)</u>
Liability from net periodic benefit cost	\$ (53,183,974)	\$ (49,539,152)	\$ (36,301,464)	\$ (33,849,729)
Accumulated other benefit-related changes:				
Actuarial (gain) loss	<u>(129,390,732)</u>	<u>(86,524,984)</u>	<u>479,364</u>	<u>(142,809)</u>
Accrued benefits liability	<u>\$(182,574,706)</u>	<u>\$(136,064,136)</u>	<u>\$ (35,822,100)</u>	<u>\$ (33,992,538)</u>
Accumulated benefit obligation	<u>\$(351,740,580)</u>	<u>\$(301,863,796)</u>	<u>\$ (35,822,100)</u>	<u>\$ (33,992,538)</u>

## Net periodic benefit cost and other benefit-related changes

	PENSION BENEFITS		HEALTH BENEFITS	
	2020	2019	2020	2019
Net periodic benefit cost *	\$ 15,375,413	\$ 13,659,309	\$ 1,875,628	\$ 2,278,789
Other benefit-related changes:				
Net (gain) loss arising during year	48,775,796	26,204,968	292,181	(1,412,835)
Amortization of net (gain) loss	(7,191,672)	(5,678,153)	329,992	24,610
Prior service cost				
Amortization of prior service credit	1,281,624	1,281,624		
Other benefit-related changes	42,865,748	21,808,439	622,173	(1,388,225)
Total benefit cost	58,241,161	35,467,748	2,497,801	890,564
Net periodic cost funded by related entities	13,198,435	(9,698,167)		
Benefit cost recognized by Chancery Office	\$ 71,439,596	\$ 25,769,581	\$ 2,497,801	\$ 890,564

\* Includes service cost of \$10,275,545 at June 30, 2020 and \$9,168,254 at June 30, 2019.

In 2020, mortality assumptions used the mortality rates from the PRI-2012 mortality table projected with the MP-2019 projection scale for males and females. In 2019, mortality assumptions used the mortality rates from the RP-2014 mortality table adjusted backward to 2006 with MP-2014, and projected with the MP-2018 projection scale for males and females. The actuarial inflation rate assumptions were 2.30% in both 2020 and 2019. The normal retirement age assumption for 2020 and 2019 is age 70. The change in the discount rate used increased the projected benefit obligation at June 30, 2020 by approximately \$41,600,000.

The amount expected to be amortized from accumulated other benefit-related changes into net periodic benefit cost for pension benefits in 2021 is \$9,875,000 of net loss.

## Assumptions

	PENSION BENEFITS		HEALTH BENEFITS	
	2020	2019	2020	2019
Weighted-average actuarial assumptions used to determine benefit obligations at end of year:				
Discount rate	2.50%	3.50%	2.50%	3.50%
Rate of compensation increase *	-15% / 3.00%	3.00%		
Weighted-average actuarial assumptions used to determine net periodic cost for year:				
Discount rate	3.50%	4.00%	3.50%	4.00%
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, 2020:				
Healthcare cost trend rate assumed for next year			6.3% - 6.1%	
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)			3.7% - 3.7%	
Years to reach the ultimate trend rate			55	

\* For fiscal year 2021, the Chancery Office has reduced compensation by 15%.

## 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 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:

	<u>2020</u>	<u>2019</u>
Equity securities	46%	49%
Fixed-income investments	34%	31%
Real assets	10%	10%
Alternative investments	9%	9%
Cash and cash equivalents	<u>1%</u>	<u>1%</u>
Total plan assets	<u>100%</u>	<u>100%</u>

Plan assets measured at fair value at June 30, 2020 were measured according to the three levels of the fair value hierarchy as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Equity securities:				
Large-cap securities	\$ 74,321,410			\$ 74,321,410
Pooled international and emerging markets funds	3,023,049	\$ 481,919		3,504,968
International and emerging mutual fund	709,759			709,759
Fixed-income:				
Corporate bonds		24,894,361		24,894,361
Pooled fixed-income funds		17,789,661		17,789,661
U. S. Government agency securities		11,136,117		11,136,117
U. S. Treasury notes and bonds	3,569,458			3,569,458
Real assets:				
Global listed infrastructure mutual fund	8,202,370			8,202,370
Money market mutual funds	<u>1,939,339</u>			<u>1,939,339</u>
Total	<u>\$ 91,765,385</u>	<u>\$ 54,302,058</u>	<u>\$ 0</u>	146,067,443

Plan assets measured at net asset value using the practical expedient that are not required to be categorized by level:

Strategies fund	12,747,593
Real estate investment trust	8,703,627
Long and short private equity	836,411
Absolute return	<u>810,800</u>
Total fair value of plan assets	<u>\$169,165,874</u>

Plan assets measured at fair value at June 30, 2019 were measured according to the three levels of the fair value hierarchy as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Equity securities:				
Large-cap securities	\$ 73,339,780			\$ 73,339,780
Pooled international and emerging markets funds	3,229,248	\$ 514,790		3,744,038
International and emerging mutual fund	708,872			708,872
Fixed-income:				
Corporate bonds		21,383,122		21,383,122
Pooled fixed-income funds		18,679,408		18,679,408
U. S. Government agency securities		9,067,028		9,067,028
U. S. Treasury notes and bonds	5,872,787			5,872,787
Real assets:				
Global listed infrastructure mutual fund	8,813,670			8,813,670
Money market mutual funds	<u>1,822,659</u>			<u>1,822,659</u>
Total	<u>\$ 93,787,016</u>	<u>\$ 49,644,348</u>	<u>\$ 0</u>	143,431,364
Plan assets measured at net asset value using the practical expedient that are not required to be categorized by level:				
Strategies fund				12,315,808
Real estate investment trust				8,569,267
Long and short private equity				769,696
Absolute return				<u>713,525</u>
Total fair value of plan assets				<u>\$165,799,660</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.
- *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* and *U. S. Government agency 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.
- *U. S. Treasury notes and bonds* are valued using prices obtained from active market maker and inter-dealer brokers on a daily basis.
- *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.

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 of 7.5% of each eligible lay employee's gross salary and \$9,500 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 for the fiscal year ended June 30, 2021.

Employer contributions paid to the pension plan are as follows:

	<u>2020</u>	<u>2019</u>
Chancery Office	\$ 1,467,844	\$ 1,447,054
Related employers	<u>10,262,747</u>	<u>9,698,167</u>
Total employer contributions	<u>\$ 11,730,591</u>	<u>\$ 11,145,221</u>

Pension benefits paid by the pension plan were approximately \$11.5 million during 2020 and \$11 million during 2019. Estimated future pension and health benefit payments for the next ten years as of June 30, 2020 are as follows:

	<u>PENSION BENEFITS</u>	<u>HEALTH BENEFITS</u>
2021	\$14,065,877	\$690,419
2022	\$14,601,120	\$744,837
2023	\$14,978,625	\$804,121
2024	\$15,281,394	\$855,211
2025	\$15,698,323	\$927,927
2026 through 2030	\$80,245,522	\$5,555,801

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 \$668,000 during 2020 and \$390,000 during 2019. The Chancery Office expects to fund health benefit costs of approximately \$500,000 during 2021.

### NOTE 14 – 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 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, 2020. 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 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 has recorded a payable to the State of Texas for settlement of FEMA claims totaling \$631,000. The Chancery Office believes that any other 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, 2020, the Chancery Office has incurred Hurricane Harvey losses at approximately \$24.2 million, and has funded these losses through access to its self-insurance program, FEMA grants, insurance proceeds, and Hurricane Harvey specific donations. The Chancery Office has received approximately \$3.1 million in FEMA grants for Hurricane Harvey Recovery. FEMA awards are contractually subject to review and audit by awarding agencies which could result in denied cost reimbursement. Management does not believe that any disallowed costs would be material to the financial statements. Unfunded Hurricane Harvey losses that remain are estimated to be less than \$2.0 million, for which 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.

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.

At June 30, 2020, the Chancery Office had outstanding construction commitments of approximately \$670,000 for the St. Mary's Cathedral Basilica restoration project.

#### **NOTE 15 – NET ASSETS WITHOUT DONOR RESTRICTIONS**

Net assets without donor restrictions are comprised of the following:

	<u>2020</u>	<u>2019</u>
Undesignated	\$ 48,413,474	\$ 38,836,561
Invested in property	45,778,059	47,285,751
Designated for Disaster Emergency Fund	8,192,388	8,077,832
Designated for Archbishop Fiorenza Priest Retirement Residence Endowment Fund	2,456,191	2,365,103
Designated for long-term plans of Newman Centers	141,000	75,000
Pension and postretirement health benefits	<u>(218,396,806)</u>	<u>(170,056,674)</u>
Total net assets without donor restrictions	<u>\$ (113,415,694)</u>	<u>\$ (73,416,427)</u>

The Chancery Office does not have a specific policy in regards to establishing other reserves. However, the Chancery Office designates excess cash flows for reserves or specific projects as deemed prudent. The use of designated reserves must be approved by the Cardinal Archbishop.

**NOTE 16 – NET ASSETS WITH DONOR RESTRICTIONS**

Net assets with donor restrictions are restricted as follows:

	<u>2020</u>	<u>2019</u>
Subject to expenditure for specified purpose:		
Ignite Campaign (capital and endowment)	\$ 33,270,188	\$ 18,367,612
Charitable grants primarily for the needs of the poor	7,587,237	7,451,784
Inner-City Catholic Schools	4,270,943	3,978,334
St. Mary’s Seminary	3,470,893	3,443,101
Camp Kappe	1,416,561	1,247,845
Restricted-purpose land and buildings	1,097,116	1,112,521
Special program services	777,746	609,281
Scholarships	626,872	295,206
Catholic Chaplain Corps	540,971	687,262
Future parish sites	407,207	407,207
Ethnic Ministries	326,635	172,792
Celebrating Our Faith capital campaign projects	21,226	199,243
Other	<u>416,524</u>	<u>353,216</u>
Total subject to expenditure for specified purpose	<u>54,230,119</u>	<u>38,325,404</u>
Endowments:		
Subject to spending policy and appropriation:		
Circle Lake Retreat Center Endowment Fund	2,921,741	1,891,190
Hispanic Ministry Endowment Fund	722,449	671,357
Archbishop Fiorenza Priest Retirement Residence Endowment Fund	<u>142,423</u>	<u>111,245</u>
Total endowments	<u>3,786,613</u>	<u>2,673,792</u>
Not subject to appropriation or expenditure:		
Land held for education of Seminarians	92,757	92,757
Other	<u>350</u>	<u>350</u>
Total not subject to appropriation or expenditure	<u>93,107</u>	<u>93,107</u>
Total net assets with donor restrictions	<u>\$ 58,109,839</u>	<u>\$ 41,092,303</u>

**NOTE 17 – ENDOWMENT FUNDS**

The Chancery Office holds both donor-restricted and internally-designated endowment funds. Donor-restricted endowment funds are maintained in accordance with explicit donor stipulations and are subject to the Texas Uniform Prudent Management of Institutional Funds Act (TUPMIFA). In the absence of explicit donor stipulations, TUPMIFA provides guidelines about what constitutes prudent spending and explicitly requires consideration of preservation of the fund. The Chancery Office has interpreted TUPMIFA as requiring a focus on the entirety of donor-restricted endowment funds, excluding original gift amounts and net appreciation, allowing the Chancery Office to appropriate for expenditure or accumulate as much of an endowment fund as considered prudent for uses, benefits, purposes, and duration for which the fund was established, subject to explicit donor stipulations.

As a result of this interpretation, the Chancery Office classifies contributions specified as a perpetual endowment plus any donor-stipulated accumulations as *net assets with donor restrictions* required to be maintained in perpetuity. This amount is not reduced by investment losses or by appropriation and spending. Contributions not specified as a perpetual endowment and undistributed net investment return also are classified as *net assets with donor restrictions* until appropriated in accordance with spending policies and used for the stipulated purpose, if any.

An endowment fund is *underwater* if the fair value of the fund's investments fall below the amount required to be maintained in perpetuity because of declines in the fair value of investments and/or continued appropriation and spending in accordance with prudent spending. There were no such deficiencies at June 30, 2020 or 2019.

### Investment Policies

The endowment funds are invested with the Foundation (see Note 7). 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.

### 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.

Changes in endowment net assets are as follows:

	INTERNALLY- DESIGNATED ENDOWMENT	WITH DONOR RESTRICTIONS		TOTAL
		NOT REQUIRED TO BE MAINTAINED IN PERPETUITY	REQUIRED TO BE MAINTAINED IN PERPETUITY	
Endowment net assets, June 30, 2018	\$ 2,281,480	\$ 624,380	\$ 1,730,635	\$ 4,636,495
Net investment return	184,256	60,909	147,784	392,949
Contributions			110,084	110,084
Distributions	<u>(100,633)</u>			<u>(100,633)</u>
Endowment net assets, June 30, 2019	<u>2,365,103</u>	<u>685,289</u>	<u>1,988,503</u>	<u>5,038,895</u>
Net investment return	179,755	60,385	144,274	384,414
Contributions/transfers			908,162	908,162
Distributions	<u>(88,667)</u>			<u>(88,667)</u>
Endowment net assets, June 30, 2020	<u>\$ 2,456,191</u>	<u>\$ 745,674</u>	<u>\$ 3,040,939</u>	<u>\$ 6,242,804</u>

Endowment net asset composition as of June 30, 2020:

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
Donor-restricted endowment funds:			
Original donor-restricted gift and amounts required to be maintained in perpetuity		\$ 3,040,939	\$ 3,040,939
Accumulated net investment return and gifts		745,674	745,674
Internally-designated endowment funds	<u>\$ 2,456,191</u>		<u>2,456,191</u>
Endowment net assets	<u>\$ 2,456,191</u>	<u>\$ 3,786,613</u>	<u>\$ 6,242,804</u>

Endowment net asset composition as of June 30, 2019:

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
Donor-restricted endowment funds:			
Original donor-restricted gift and amounts required to be maintained in perpetuity		\$ 1,988,503	\$ 1,988,503
Accumulated net investment return and gifts		685,289	685,289
Internally-designated endowment funds	<u>\$ 2,365,103</u>	<u>                    </u>	<u>2,365,103</u>
Endowment net assets	<u>\$ 2,365,103</u>	<u>\$ 2,673,792</u>	<u>\$ 5,038,895</u>

#### NOTE 18 – NET ASSET RELEASES

Net asset releases consist of the following:

	<u>2020</u>	<u>2019</u>
Operating expenditures:		
St. Mary’s Seminary	\$ 2,509,329	\$ 3,030,512
Ignite Campaign	2,052,112	2,130,245
Cardinal’s Circle	1,282,149	1,312,606
Scholarships	1,061,310	1,144,008
Other	<u>3,033,402</u>	<u>3,793,807</u>
Total operating expenditures	<u>9,938,302</u>	<u>11,411,178</u>
Capital expenditures:		
Ignite Campaign	3,379,692	6,663,227
Other	<u>177,139</u>	<u>108,170</u>
Total capital expenditures	<u>3,556,831</u>	<u>6,771,397</u>
Hurricane Harvey related expenditures:		
FEMA funds for Hurricane Harvey	1,312,114	1,758,765
Hurricane Harvey recovery expenditures	<u>53,365</u>	<u>1,577,703</u>
Total Hurricane Harvey related expenditures	<u>1,365,479</u>	<u>3,336,468</u>
Total net asset releases	<u>\$ 14,860,612</u>	<u>\$ 21,519,043</u>

#### NOTE 19 – CONTRIBUTIONS

Non-operating contributions consist of the following:

	<u>2020</u>	<u>2019</u>
Contributions from related entities:		
Ignite Campaign gifts from parishes and schools	\$ 20,334,381	\$ 12,054,435
Transfers from Catholic Endowment Foundation	1,417,600	1,310,637
FEMA funds granted for Hurricane Harvey recovery	1,312,114	1,758,765
Contributions for Hurricane Harvey recovery	53,365	1,577,703
Contributions from others	<u>8,060,582</u>	<u>6,881,651</u>
Total non-operating contributions	<u>\$ 31,178,042</u>	<u>\$ 23,583,191</u>

## NOTE 20 – GRANTS AND TRANSFERS

Operating and non-operating grants and transfers made to related and unrelated entities during the year ended June 30, 2020 consist of the following:

	RELATED ENTITIES	UNRELATED ENTITIES	TOTAL
Operating grants:			
Schools	\$ 6,182,357		\$ 6,182,357
Diocesan Services Fund	1,803,340		1,803,340
Parishes	1,079,209		1,079,209
Other	<u>260,514</u>	<u>\$ 707,639</u>	<u>968,153</u>
Total operating grants	<u>\$ 9,325,420</u>	<u>\$ 707,639</u>	<u>\$ 10,033,059</u>
Non-operating grants and transfers:			
Assets transferred to St. Mary’s Cathedral Basilica	<u>\$ 1,923,523</u>	<u>                    </u>	<u>\$ 1,923,523</u>
Total non-operating grants and transfers	<u>\$ 1,923,523</u>	<u>\$ 0</u>	<u>\$ 1,923,523</u>

Operating and non-operating grants and transfers made to related and unrelated entities during the year ended June 30, 2019 consist of the following:

	RELATED ENTITIES	UNRELATED ENTITIES	TOTAL
Operating grants:			
Schools	\$ 6,386,148		\$ 6,386,148
Diocesan Services Fund	1,855,840		1,855,840
Parishes	1,500,464		1,500,464
Other	<u>275,823</u>	<u>\$ 717,600</u>	<u>993,423</u>
Total operating grants	<u>\$ 10,018,275</u>	<u>\$ 717,600</u>	<u>\$ 10,735,875</u>

## NOTE 21 – SUBSEQUENT EVENTS

Subsequent to year-end, the Chancery Office entered into a \$12 million contract for the construction of the dorms at St. Mary’s Seminary.

The Chancery Office is in the process of applying for forgiveness of the Paycheck Protection loans (see Note 11). Additionally, for further information on the expected impact of COVID-19 on the Chancery Office, see Note 3.

Management has evaluated subsequent events through December 10, 2020, which is the date that the financial statements were available for issuance. As a result of this evaluation, no other events were identified that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.

## Chancery Office of the Archdiocese of Galveston-Houston

Schedule of Expenditures of Federal Awards for the year ended June 30, 2020

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<u>FEDERAL GRANTOR</u> <u>Pass-through Grantor</u> <u>Program Title &amp; Period</u>	<u>CFDA</u> <u>Number</u>	<u>Pass-through</u> <u>Grantor</u> <u>Number</u>	<u>Revenue</u>	<u>Allowable</u> <u>Federal</u> <u>Expenditures</u>
U. S. DEPARTMENT OF AGRICULTURE				
Passed through The Texas Department of Agriculture:				
School Breakfast Program				
#1 07/01/19 – 06/30/20	10.553	N/A	\$ 32,681	\$ 87,810
National School Lunch Program				
#2 07/01/19 – 06/30/20	10.555	N/A	<u>163,657</u>	<u>439,728</u>
Total U. S. Department of Agriculture			<u>196,338</u>	<u>527,538</u>
U. S. DEPARTMENT OF HOMELAND SECURITY – FEDERAL EMERGENCY MANAGEMENT AGENCY				
Passed through The Texas Department of Public Safety, Texas Division of Emergency Management:				
Disaster Grants – Public Assistance (Presidentially Declared Disasters)				
#3 08/25/17 – 02/25/19	97.036	4332DRTXP0000001	<u>1,312,114</u>	<u>1,312,114</u>
Total U. S. Department of Homeland Security			<u>1,312,114</u>	<u>1,312,114</u>
TOTAL FEDERAL AWARDS			<u>\$ 1,508,452</u>	<u>\$ 1,839,652</u>

Federal funds expended by the Chancery Office, by CFDA number or CFDA cluster, are summarized as follows:

<u>CFDA Number(s)</u>	<u>Name of Program or Cluster</u>	<u>Federal</u> <u>Expenditures</u>
10.553, 10.555	Child Nutrition Cluster	\$ 527,538
97.036	Disaster Grants – Public Assistance (Presidentially Declared Disasters)	<u>1,312,114</u>
Total		<u>\$ 1,839,652</u>

*See accompanying note to schedule of expenditures of federal awards.*

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## Chancery Office of the Archdiocese of Galveston-Houston

Note to Schedule of Expenditures of Federal Awards for the year ended June 30, 2020

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### NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation – The schedule of expenditures of federal awards is prepared on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U. S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Federal expenditures include allowable costs funded by federal grants. Allowable costs are subject to the cost principles of the Uniform Guidance and include costs that are recognized as expenses in the Chancery Office’s financial statements in conformity with generally accepted accounting principles. The Chancery Office has not elected to use the 10% de minimis cost rate for indirect costs and does not have any subrecipients.

Because the schedule presents only a selected portion of the operations of the Chancery Office, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Chancery Office.

The Texas Department of Public Safety, Texas Division of Emergency Management awarded Federal Emergency Management Agency public assistance grants to the Chancery Office for reimbursement of certain repairs made to eligible properties for damages sustained as a result of Hurricane Harvey in August 2017. Although damage to properties and much of the repair work occurred during the year ended June 30, 2018, most of the reimbursements were obligated by the State of Texas and received during the years ended June 30, 2020 and 2019. Federal expenditures reported in the schedule of expenditures of federal awards for the year ended June 30, 2020 were recorded as expenses in the Chancery Office’s statement of activities for the year ended June 30, 2018 in accordance with generally accepted accounting principles.

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**Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards***

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Chancery Office of the Archdiocese of Galveston-Houston (the Chancery Office), which comprise the statement of financial position as of June 30, 2020 and the related statements of activities, of functional expenses, and of cash flows for the year then ended, and the related notes to the financial statements and have issued our report thereon dated December 10, 2020.

***Internal Control Over Financial Reporting***

In planning and performing our audit of the financial statements, we considered the Chancery Office's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Chancery Office's internal control. Accordingly, we do not express an opinion on the effectiveness of the Chancery Office's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

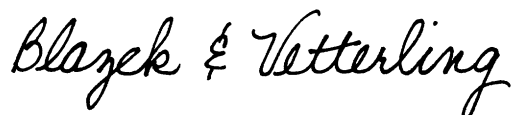
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the Chancery Office's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

***Purpose of this Report***

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Chancery Office's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



December 10, 2020



## **Independent Auditors' Report on Compliance for Each Major Program and Report on Internal Control Over Compliance Required by the Uniform Guidance**

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

### **Report on Compliance for Each Major Federal Program**

We have audited the Chancery Office of the Archdiocese of Galveston-Houston's (the Chancery Office) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Chancery Office's major federal programs for the year ended June 30, 2020. The Chancery Office's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

#### ***Management's Responsibility***

Management is responsible for compliance with the requirements of federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

#### ***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of the Chancery Office's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U. S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Chancery Office's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Chancery Office's compliance.

#### ***Opinion on Each Major Federal Program***

In our opinion, the Chancery Office complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2020.

### **Report on Internal Control Over Compliance**

Management of the Chancery Office is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Chancery Office's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Chancery Office's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Blazek & Vetterling*

December 10, 2020

# Chancery Office of the Archdiocese of Galveston-Houston

Schedule of Findings and Questioned Costs for the year ended June 30, 2020

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## Section I – Summary of Auditors’ Results

### Financial Statements

Type of auditors’ report issued:  unmodified  qualified  adverse  disclaimer

Internal control over financial reporting:

- Material weakness(es) identified?  yes  no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)?  yes  none reported

Noncompliance material to the financial statements noted?  yes  no

### Federal Awards

Internal control over major programs:

- Material weakness(es) identified?  yes  no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)?  yes  none reported

Type of auditors’ report issued on compliance for major programs:  unmodified  qualified  adverse  disclaimer

Any audit findings disclosed that are required to be reported in accordance with 2 CFR §200.516(a)?  yes  no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
10.553, 10.555	Child Nutrition Cluster
97.036	Disaster Grants – Public Assistance (Presidentially Declared Disasters)

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as a low-risk auditee?  yes  no

## Section II – Financial Statement Findings

There were no findings related to the financial statements which are required to be reported in accordance with *Government Auditing Standards*.

## Section III – Federal Award Findings and Questioned Costs

There were no findings for federal awards required to be reported in accordance with 2 CFR §200.516(a).