

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

Financial Statements  
and Independent Auditors' Report  
for the years ended June 30, 2021 and 2020

# Chancery Office of the Archdiocese of Galveston-Houston

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## Independent Auditors' Report

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

### Report on the Financial Statements

We have audited the accompanying financial statements of the Chancery Office of the Archdiocese of Galveston-Houston, which comprise the statements of financial position as of June 30, 2021 and 2020 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, 2021 and 2020 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.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2021 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.

*Blazek & Vetterling*

December 9, 2021

## Chancery Office of the Archdiocese of Galveston-Houston

Statements of Financial Position as of June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
ASSETS		
Cash	\$ 38,642,925	\$ 8,145,322
Short-term investments – money market mutual funds (Note 7)	24,178,916	30,148,179
Receivables from related entities, net (Note 4)	1,289,543	3,508,322
Prepaid expenses and other receivables	1,532,658	1,409,664
Contributions receivable, net (Note 5)	829,542	2,642,690
Notes receivable from related entities (Note 6)	76,856,640	94,742,123
Cemetery inventory	1,975,787	1,994,403
Investments (Note 7)	156,924,191	139,743,003
Contributions receivable restricted for Ignite Campaign, net (Note 5)	21,731,442	29,979,950
Contributions receivable restricted for endowment (Note 5)		786,277
Chancery Office property, net (Note 8)	47,784,536	42,630,843
Other property (Note 9)	<u>4,524,043</u>	<u>4,524,043</u>
TOTAL ASSETS	<u>\$ 376,270,223</u>	<u>\$ 360,254,819</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 8,288,391	\$ 6,832,706
Construction payable	3,252,119	
Grants payable	520,028	3,279,227
Deferred revenue:		
Cemetery sales and services	880,141	906,295
Other	65,295	122,633
Accrued insurance and other claims (Notes 10 and 13)	4,054,360	4,264,825
Funds held for others	2,083,661	2,533,049
DS&L deposits held for related entities	176,986,018	173,719,429
Paycheck Protection Program refundable advances (Note 3)		4,237,080
Notes payable (Note 11)		1,268,624
Accrued pension and postretirement health benefits liability (Note 12)	<u>168,609,613</u>	<u>218,396,806</u>
Total liabilities	<u>364,739,626</u>	<u>415,560,674</u>
Commitments and contingencies (Note 13)		
Net assets (Note 16):		
Without donor restrictions (Note 14)	(47,858,212)	(113,415,694)
With donor restrictions (Note 15)	<u>59,388,809</u>	<u>58,109,839</u>
Total net assets	<u>11,530,597</u>	<u>(55,305,855)</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 376,270,223</u>	<u>\$ 360,254,819</u>

*See accompanying notes to financial statements.*

## Chancery Office of the Archdiocese of Galveston-Houston

Statement of Activities for the year ended June 30, 2021 (with comparative totals for the year ended June 30, 2020)

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	2021 TOTAL	2020 TOTAL
<b>OPERATING REVENUE:</b>				
Health insurance premiums (Note 10)	\$ 31,171,770		\$ 31,171,770	\$ 33,146,302
Archdiocesan assessments	16,794,429		16,794,429	18,279,498
Contributions without donor restrictions	13,745,122		13,745,122	15,596,522
Business insurance premiums (Note 10)	10,385,275		10,385,275	12,202,606
Fees and program revenue:				
Cemetery sales and services	2,153,166		2,153,166	1,542,908
Other	1,078,744		1,078,744	2,619,435
Interest on notes receivable from related entities	<u>2,784,769</u>		<u>2,784,769</u>	<u>3,279,432</u>
Total operating revenue	78,113,275		78,113,275	86,666,703
Net assets released for operating purposes (Note 17)	<u>14,735,842</u>		<u>14,735,842</u>	<u>9,938,302</u>
Total	<u>92,849,117</u>		<u>92,849,117</u>	<u>96,605,005</u>
<b>OPERATING EXPENSES:</b>				
Program services:				
Health insurance program (Note 10)	28,675,179		28,675,179	28,218,198
Chancery services	12,150,639		12,150,639	15,073,883
Business insurance program (Note 10)	8,606,371		8,606,371	10,707,923
Pastoral and education	5,181,394		5,181,394	7,254,183
Seminary	5,114,733		5,114,733	5,157,038
Clergy	3,885,981		3,885,981	4,106,071
Catholic school office	3,694,708		3,694,708	6,702,336
Diocesan Savings and Loan	1,843,632		1,843,632	2,086,532
Cemetery operations	<u>1,457,321</u>		<u>1,457,321</u>	<u>1,704,924</u>
Total program services	70,609,958		70,609,958	81,011,088
Management and general	9,011,316		9,011,316	10,270,747
Fundraising	<u>3,094,336</u>		<u>3,094,336</u>	<u>4,220,605</u>
Total operating expenses	<u>82,715,610</u>		<u>82,715,610</u>	<u>95,502,440</u>
Changes in net assets from operations	10,133,507		10,133,507	1,102,565
<b>OTHER CHANGES IN NET ASSETS:</b>				
Contributions (Note 18)		\$ 19,266,784	19,266,784	31,178,042
Net investment return	1,400,764	2,643,851	4,044,615	5,900,486
Net claims expenses – Hurricane Harvey (Note 10)	(440,045)		(440,045)	(960,867)
Other benefit-related changes (Note 12)	60,343,702		60,343,702	(43,487,921)
Other periodic benefit costs (Note 12)	(10,556,509)		(10,556,509)	(4,852,211)
Non-operating grants and transfers (Note 19)	(1,219,760)		(1,219,760)	(1,923,523)
Net assets released for expenditures (Note 17)	<u>5,895,823</u>	<u>(20,631,665)</u>	<u>(14,735,842)</u>	<u>(9,938,302)</u>
<b>CHANGES IN NET ASSETS</b>	65,557,482	1,278,970	66,836,452	(22,981,731)
Net assets, beginning of year	<u>(113,415,694)</u>	<u>58,109,839</u>	<u>(55,305,855)</u>	<u>(32,324,124)</u>
Net assets, end of year	<u>\$ (47,858,212)</u>	<u>\$ 59,388,809</u>	<u>\$ 11,530,597</u>	<u>\$ (55,305,855)</u>

See accompanying notes to financial statements.

## Chancery Office of the Archdiocese of Galveston-Houston

Statement of Activities for the year ended June 30, 2020

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
<b>OPERATING REVENUE:</b>			
Health insurance premiums ( <i>Note 10</i> )	\$ 33,146,302		\$ 33,146,302
Archdiocesan assessments	18,279,498		18,279,498
Contributions without donor restrictions	15,596,522		15,596,522
Business insurance premiums ( <i>Note 10</i> )	12,202,606		12,202,606
Fees and program revenue:			
Cemetery sales and services	1,542,908		1,542,908
Other	2,619,435		2,619,435
Interest on notes receivable from related entities	<u>3,279,432</u>		<u>3,279,432</u>
Total operating revenue	86,666,703		86,666,703
Net assets released for operating purposes ( <i>Note 17</i> )	<u>9,938,302</u>		<u>9,938,302</u>
Total	<u>96,605,005</u>		<u>96,605,005</u>
<b>OPERATING EXPENSES:</b>			
Program services:			
Health insurance program ( <i>Note 10</i> )	28,218,198		28,218,198
Chancery services	15,073,883		15,073,883
Business insurance program ( <i>Note 10</i> )	10,707,923		10,707,923
Pastoral and education	7,254,183		7,254,183
Seminary	5,157,038		5,157,038
Clergy	4,106,071		4,106,071
Catholic school office	6,702,336		6,702,336
Diocesan Savings and Loan	2,086,532		2,086,532
Cemetery operations	<u>1,704,924</u>		<u>1,704,924</u>
Total program services	81,011,088		81,011,088
Management and general	10,270,747		10,270,747
Fundraising	<u>4,220,605</u>		<u>4,220,605</u>
Total operating expenses	<u>95,502,440</u>		<u>95,502,440</u>
Changes in net assets from operations	1,102,565		1,102,565
<b>OTHER CHANGES IN NET ASSETS:</b>			
Contributions ( <i>Note 18</i> )	66,000	\$ 31,112,042	31,178,042
Net investment return	5,134,380	766,106	5,900,486
Net claims expenses – Hurricane Harvey ( <i>Note 10</i> )	(960,867)		(960,867)
Other benefit-related changes ( <i>Note 12</i> )	(43,487,921)		(43,487,921)
Other periodic benefit costs ( <i>Note 12</i> )	(4,852,211)		(4,852,211)
Non-operating grants and transfers ( <i>Note 19</i> )	(1,923,523)		(1,923,523)
Net assets released for expenditures ( <i>Note 17</i> )	1,365,479	(11,303,781)	(9,938,302)
Net assets released for capital expenditures ( <i>Note 17</i> )	<u>3,556,831</u>	<u>(3,556,831)</u>	
CHANGES IN NET ASSETS	(39,999,267)	17,017,536	(22,981,731)
Net assets, beginning of year	<u>(73,416,427)</u>	<u>41,092,303</u>	<u>(32,324,124)</u>
Net assets, end of year	<u>\$ (113,415,694)</u>	<u>\$ 58,109,839</u>	<u>\$ (55,305,855)</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, 2021

	HEALTH INSURANCE PROGRAM	CHANCERY SERVICES	BUSINESS INSURANCE PROGRAM	PASTORAL AND EDUCATION	SEMINARY	CLERGY	CATHOLIC SCHOOL OFFICE	DIOCESAN SAVINGS AND LOAN	CEMETERY OPERATIONS	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL
Claims expense	\$ 27,171,921		\$ 444,196									\$ 27,616,117
Salaries and related benefits		\$ 3,676,492		\$ 3,578,280	\$ 979,940	\$ 2,081,239	\$ 1,022,350		\$ 611,236	\$ 6,581,097	\$ 732,459	19,263,093
Premium expense	3,521,212		8,249,656									11,770,868
Professional services	1,730,424	1,513,768	247,548	698,379	1,016,357	300,272	510,948	\$ 118,181	291,264	887,691	1,886,188	9,201,020
Grants		3,996,593	240,899	6,544	7,980	151,955	2,002,613					6,406,584
Occupancy		565,911		370,900	569,815	88,107	19,639		118,384	550,018	20,633	2,303,407
Depreciation		848,923		207,006	1,107,343	8,475			105,395			2,277,142
Assistance to individuals				51,590	978,195	898,931						1,928,716
Interest paid to related entities on DS&L deposits								1,741,670				1,741,670
Dues and assessments						202,359				767,425		969,784
Uncollectible accounts		865,447			(1,231)			(16,219)				847,997
Supplies		31,611		172,265	191,166	74,245	101,888		35,764	54,775	6,660	668,374
Conferences and meetings		74,114		48,275	206,531	49,038	26,236		409	95,206	52,167	551,976
Printing and publications		202,003		6,968	18,348	2,848	938		586	13,696	275,661	521,048
Postage and shipping		275,453		1,181	2,561	412	348		425	12,940	112,731	406,051
Non-capital equipment and improvement		36,362		31,477	8,141	21,166	7,598		4,884	19,538	6,513	135,679
Local travel and automobile		4,975		8,243	23,314	6,934	2,150		8,607	28,604	1,324	84,151
Interest expense		43,963										43,963
Rental and maintenance		15,024		286	6,273				1,218	326		23,127
Premium allocated to Chancery operations	(3,748,378)		(575,928)									(4,324,306)
Other									279,149			279,149
<b>Total expenses</b>	<b>\$ 28,675,179</b>	<b>\$ 12,150,639</b>	<b>\$ 8,606,371</b>	<b>\$ 5,181,394</b>	<b>\$ 5,114,733</b>	<b>\$ 3,885,981</b>	<b>\$ 3,694,708</b>	<b>\$ 1,843,632</b>	<b>\$ 1,457,321</b>	<b>\$ 9,011,316</b>	<b>\$ 3,094,336</b>	<b>82,715,610</b>
Claims expenses – Hurricane Harvey												440,045
Non-operating grants and transfers												1,219,760
<b>Total</b>												<b>\$ 84,375,415</b>

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	SEMINARY	CLERGY	CATHOLIC SCHOOL OFFICE	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	\$ 1,292,711	\$ 2,333,769	\$ 1,571,456		\$ 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	951,388	319,027	724,422	\$ 124,089	456,182	990,326	2,535,394	10,491,371
Grants		5,515,790	258,824	4,331	136,499	36,045	4,081,570					10,033,059
Occupancy		649,403		497,204	326,197	85,751	17,232		314,093	590,292	21,358	2,501,530
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
Interest paid to related entities on DS&L deposits								1,977,744				1,977,744
Dues and assessments						171,522				766,835		938,357
Uncollectible accounts		1,756,182			(6,639)			(15,301)				1,734,242
Supplies		69,051		335,521	152,322	73,075	243,248		106,423	36,086	18,647	1,034,373
Conferences and meetings		104,328		462,693	156,785	128,700	42,680		2,064	76,020	85,972	1,059,242
Printing and publications		226,194		23,595	15,198	9,173	3,126		2,022	27,561	457,919	764,788
Postage and shipping		284,734		4,192	5,065	518	16		5,291	8,689	145,936	454,441
Non-capital equipment and improvement		47,530		47,502	13,203	25,085	8,582		5,594	25,746	9,242	182,484
Local travel and automobile		42,795	76	67,311	45,042	31,532	9,975		7,748	61,197	7,353	273,029
Interest expense		128,110										128,110
Rental and maintenance		13,533		26,993	7,092	84	29		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>\$ 5,157,038</u>	<u>\$ 4,106,071</u>	<u>\$ 6,702,336</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

Statements of Cash Flows for the years ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Changes in net assets	\$ 66,836,452	\$ (22,981,731)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Contributions restricted for Ignite Campaign	(1,273,031)	(20,334,381)
Contributions restricted for endowment	(879,449)	(904,869)
Net realized and unrealized gain on investments	(906,855)	(2,182,812)
Depreciation	2,277,142	2,334,678
Changes in operating assets and liabilities:		
Receivables from related entities	2,218,779	135,574
Prepaid expenses, other receivables and cemetery inventory	(104,378)	(452,122)
Contributions receivable (operating only)	1,813,148	929,752
Accounts payable and accrued expenses	1,455,685	1,985,642
Grants payable	(2,759,199)	21,501
Deferred revenue	(83,492)	(403,071)
Accrued insurance and other claims	(210,465)	(944,319)
Funds held for others and DS&L deposits held for related entities	2,817,201	2,911,771
Paycheck Protection Program refundable advances	(4,237,080)	4,237,080
Accrued pension and postretirement health benefits liability	(49,787,193)	48,340,132
Net cash provided by operating activities	<u>17,177,265</u>	<u>12,692,825</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Payments received on notes receivable	31,581,128	17,327,489
Advances of notes receivable	(14,964,269)	(15,165,684)
Net purchases of money market mutual funds	12,202,528	(19,380,113)
Proceeds from sales of investments	79,189,926	95,272,871
Purchases of investments	(101,697,524)	(90,352,011)
Purchases of property	(4,178,716)	(956,900)
Net cash provided (used) by investing activities	<u>2,133,073</u>	<u>(13,254,348)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from contributions restricted for Ignite Campaign	9,521,539	8,722,043
Proceeds from contributions restricted for endowment	1,665,726	118,592
Principal payments of notes payable	—	(4,349,862)
Net cash provided by financing activities	<u>11,187,265</u>	<u>4,490,773</u>
<b>NET CHANGE IN CASH</b>	<b>30,497,603</b>	<b>3,929,250</b>
Cash, beginning of year	<u>8,145,322</u>	<u>4,216,072</u>
Cash, end of year	<u>\$ 38,642,925</u>	<u>\$ 8,145,322</u>
<i>Supplemental disclosure of cash flow information:</i>		
Interest and letter of credit fees paid	\$43,963	\$128,110
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, 2021 and 2020

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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.

Receivables 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 receivables is reduced by an allowance for uncollectible balances 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 receivables.

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 contributions revenue. An allowance for uncollectible contributions receivable is determined using a combination of historical loss experience and donor-by-donor analysis of balances.

The years to collect long-term contributions has been realized to be longer than expected, given interruptions, including the COVID-19 pandemic, incurred with the Ignite Campaign.

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, 2021, grants payable are expected to be paid within one year.

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.

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% at June 30, 2021 and 2020.

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.

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.

Fees and program revenue are derived primarily from cemetery sales and service fees, seminarian program fees, youth program fees, and workshop and training programs. The nature of these services does not give rise to contract costs, refunds, warranties or other related obligations. Revenue is due when the good and services are provided and are recognized at that time. At June 30, 2021, 2020 and 2019, accounts receivable from fees and program revenue was \$1,063,111, \$810,012 and \$624,059, respectively, and are included in other receivables. At June 30, 2021, 2020 and 2019, deferred revenue from fees and program revenue was \$945,436, \$1,028,928 and \$1,439,919, respectively.

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.



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.

The Chancery Office received Paycheck Protection Program loans of \$4,237,080 through the Small Business Administration in April 2020. In June 2021, the Chancery Office was notified that \$4,237,080 had been forgiven and that amount was recognized as a contribution.

Measures taken by various governments and county orders during 2021 and 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. Management has instituted cost saving measures to offset any increase in financial support for parishes and schools.

**NOTE 4 – RECEIVABLES FROM RELATED ENTITIES**

Receivables from related entities consist of the following:

	<u>2021</u>	<u>2020</u>
Archdiocesan assessments	\$ 1,815,438	\$ 2,342,660
Health insurance premiums	1,733,093	3,690,015
Business insurance premiums	1,092,490	1,500,531
Other	<u>827,122</u>	<u>1,308,616</u>
Total receivables from related entities	5,468,143	8,841,822
Allowance for uncollectible receivables	<u>(4,178,600)</u>	<u>(5,333,500)</u>
Receivables from related entities, net	<u>\$ 1,289,543</u>	<u>\$ 3,508,322</u>

**NOTE 5 – CONTRIBUTIONS RECEIVABLE**

Contributions receivable consist of the following:

	<u>2021</u>	<u>2020</u>
Ignite Campaign (capital and endowment)	\$ 22,793,319	\$ 31,480,582
Corpus Christi Collection to benefit St. Mary’s Seminary	803,131	886,916
St. Dominic Village Campaign	26,411	73,523
Diocesan Services Fund		1,687,266
Circle Lake Retreat Center Endowment Fund		786,277
Other		<u>164,170</u>
Total contributions receivable	23,622,861	35,078,734
Discount to net present value at 0.29% to 1.76%	(237,012)	(397,312)
Allowance for uncollectible contributions receivable	<u>(824,865)</u>	<u>(1,272,505)</u>
Contributions receivable, net	<u>\$ 22,560,984</u>	<u>\$ 33,408,917</u>

Contributions receivable at June 30, 2021 are expected to be collected as follows:

Fiscal year 2022	\$ 14,598,025
Fiscal year 2023	5,372,682
Fiscal year 2024	3,080,109
Fiscal year 2025	546,920
Fiscal year 2026	<u>25,125</u>
Total contributions receivable	23,622,861
Discount to net present value at 0.29% to 1.76%	(237,012)
Allowance for uncollectible contributions receivable	<u>(824,865)</u>
Contributions receivable, net	<u>\$ 22,560,984</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 severely suffered because of the listing of the credibly accused, the COVID-19 pandemic, as well as from the aftermath of the extraordinary local freeze and power outage in early 2021. The campaign remains ongoing at this time. The active campaign will end December 31, 2021 with the last pledges to be fulfilled towards the end of 2025. Pledges received for the Ignite Campaign are reported net of an 8% allowance for uncollectible pledges.

#### 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. Variable rate notes accrue interest based on average medium-term certificate of deposit rates offered nationally, plus a spread. At June 30, 2021, variable rate notes were accruing interest at an average rate of 3.00%. At June 30, 2021, 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>2021</u>	<u>2020</u>
Notes associated with Chancery notes payable		\$ 1,268,624
Other notes from related entities	\$ 76,856,640	<u>93,473,499</u>
Total notes receivable from related entities	<u>\$ 76,856,640</u>	<u>\$ 94,742,123</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, 2021 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>\$ 24,178,916</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 24,178,916</u>
Investments:				
Corporate bonds and notes		\$ 62,848,078		\$ 62,848,078
U. S. Government agency bonds and securities		52,346,777		52,346,777
Invested with Catholic Endowment Foundation (a)		26,382,961		26,382,961
U. S. Treasury securities	\$ 8,598,769			8,598,769
Money market mutual funds	3,832,502			3,832,502
Other		<u>2,915,104</u>		<u>2,915,104</u>
Total investments measured at fair value	<u>\$ 12,431,271</u>	<u>\$144,492,920</u>	<u>\$ 0</u>	<u>\$156,924,191</u>

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 and securities		53,566,750		53,566,750
Invested with Catholic Endowment Foundation (a)		21,856,651		21,856,651
U. S. Treasury securities	\$ 6,233,318			6,233,318
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>\$ 16,299,085</u>	<u>\$123,443,918</u>	<u>\$ 0</u>	<u>\$139,743,003</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 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 and securities* are valued using prices obtained from independent quotation bureaus that use computerized valuation formulas which may include market-corroborated inputs for credit risk factors, interest rate and yield curves and broker quotes, to calculate fair values.
- *Invested with Catholic Endowment Foundation* is valued at the reported net asset value determined by the Foundation's management based on the fair value of the underlying investment pools.
- *U. S. Treasury securities* are valued using prices obtained from active market maker and inter-dealer brokers on a daily basis.

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>2021</u>	<u>2020</u>
Land	\$ 7,101,531	\$ 7,101,531
Buildings and improvements	44,327,896	44,288,522
Furnishings and equipment	21,787,210	21,743,778
Construction and projects in progress	<u>9,332,169</u>	<u>1,984,140</u>
Total Chancery Office property, at cost	82,548,806	75,117,971
Accumulated depreciation	<u>(34,764,270)</u>	<u>(32,487,128)</u>
Chancery Office property, net	<u>\$ 47,784,536</u>	<u>\$ 42,630,843</u>

#### **NOTE 9 – OTHER PROPERTY**

Other property is comprised of the following:

	<u>2021</u>	<u>2020</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, 2021 and 2020, approximately \$1,800,000 and \$2,100,000, 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, 2021 and 2020, approximately \$1,700,000 and \$1,500,000, 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>2021</u>	<u>2020</u>
Claims incurred on behalf of parishes and schools	\$ 440,045	\$ 1,352,612
Recoveries from third-party insurance providers		<u>(391,745)</u>
Claims expenses pertaining to Hurricane Harvey	440,045	960,867
Restricted contributions recognized for Hurricane Harvey recovery:		
FEMA	(5,857,684)	(1,312,114)
Other	<u>(38,139)</u>	<u>(53,365)</u>
Net impact of Hurricane Harvey included in other changes in net assets	<u>\$ (5,455,778)</u>	<u>\$ (404,612)</u>

#### **NOTE 11 – NOTES PAYABLE**

At June 30, 2021, all notes payable were paid in full. Notes payable at June 30, 2020 consisted of the following:

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%, matured in March 2021.	\$ 1,128,750
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%, matured in January 2021.	<u>139,874</u>
Total notes payable	<u>\$ 1,268,624</u>

Interest expense and letter of credit fees recognized and paid on notes payable were approximately \$44,000 in 2021 and \$128,000 in 2020.

#### **NOTE 12 – PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS**

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

## Obligations and funded status

	PENSION BENEFITS		HEALTH BENEFITS	
	2021	2020	2021	2020
Fair value of plan assets	\$ 208,566,596	\$ 169,165,874		
Benefit obligation	<u>(343,167,917)</u>	<u>(351,740,580)</u>	<u>\$ (34,008,292)</u>	<u>\$ (35,822,100)</u>
Funded status of the plans	<u>\$ (134,601,321)</u>	<u>\$ (182,574,706)</u>	<u>\$ (34,008,292)</u>	<u>\$ (35,822,100)</u>
Liability from net periodic benefit cost	\$ (61,835,870)	\$ (53,183,974)	\$ (30,769,235)	\$ (36,301,464)
Accumulated other benefit-related changes:				
Actuarial (gain) loss	<u>(72,765,451)</u>	<u>(129,390,732)</u>	<u>(3,239,057)</u>	<u>479,364</u>
Accrued benefits liability	<u>\$ (134,601,321)</u>	<u>\$ (182,574,706)</u>	<u>\$ (34,008,292)</u>	<u>\$ (35,822,100)</u>
Accumulated benefit obligation	<u>\$ (339,739,642)</u>	<u>\$ (350,292,316)</u>	<u>\$ (34,008,292)</u>	<u>\$ (35,822,100)</u>

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

	PENSION BENEFITS		HEALTH BENEFITS	
	2021	2020	2021	2020
Net periodic benefit cost *	<u>\$ 19,247,538</u>	<u>\$ 15,375,413</u>	<u>\$ 2,408,410</u>	<u>\$ 1,875,628</u>
Other benefit-related changes:				
Net (gain) loss arising during year	(46,685,727)	48,775,796	(3,718,421)	292,181
Amortization of net (gain) loss	(11,221,179)	(7,191,672)		329,992
Prior service cost				
Amortization of prior service credit	<u>1,281,624</u>	<u>1,281,624</u>		
Other benefit-related changes	<u>(56,625,282)</u>	<u>42,865,748</u>	<u>(3,718,421)</u>	<u>622,173</u>
Total benefit cost	(37,377,744)	58,241,161	(1,310,011)	2,497,801
Net periodic cost funded by related entities	<u>(9,323,920)</u>	<u>(10,262,747)</u>		
Benefit (cost) recognized by Chancery Office	<u>\$ (46,701,664)</u>	<u>\$ 47,978,414</u>	<u>\$ (1,310,011)</u>	<u>\$ 2,497,801</u>

\* Includes service cost of \$11,184,191 at June 30, 2021 and \$10,275,545 at June 30, 2020.

In 2021 and 2020, mortality assumptions used the mortality rates from the PRI-2012 mortality table projected with the MP-2019 projection scale for males and females. The actuarial inflation rate assumptions were 2.20% in 2021 and 2.30% in 2020. The normal retirement age assumption for 2021 and 2020 is age 70. Higher than expected return on plan assets and the change in the discount rate used decreased the projected benefit obligation at June 30, 2021 by approximately \$49 million.

The amount expected to be amortized from accumulated other benefit-related changes into net periodic benefit cost for pension benefits in 2022 is \$3,806,000 of net loss.

## Assumptions

	PENSION BENEFITS		HEALTH BENEFITS	
	2021	2020	2021	2020
Weighted-average actuarial assumptions used to determine benefit obligations at end of year:				
Discount rate	2.75%	2.50%	2.75%	2.50%
Rate of compensation increase *	3.00%	-15% / 3.00%		
Weighted-average actuarial assumptions used to determine net periodic cost for year:				
Discount rate	2.50%	3.50%	2.50%	3.50%
Expected return on plan assets	6.50%	7.00%		
Rate of compensation increase	3.00%	3.00%		
Assumed healthcare cost trend rate at June 30, 2021:				
Healthcare cost trend rate assumed for next year			5.8%-5.5%	
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			54	

\* For fiscal year 2021, the Chancery Office 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:

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

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

	2021	2020
Equity securities	51%	46%
Fixed-income investments	30%	34%
Real assets	10%	10%
Alternative investments	7%	9%
Cash and cash equivalents	2%	1%
Total plan assets	100%	100%

Plan assets measured at fair value at June 30, 2021 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	\$102,004,559			\$102,004,559
Pooled international and emerging markets funds	3,303,464	\$ 651,621		3,955,085
International and emerging mutual fund	1,036,886			1,036,886
Fixed-income:				
Corporate bonds		28,087,862		28,087,862
Pooled fixed-income funds		20,513,563		20,513,563
U. S. Government agency securities		8,478,356		8,478,356
U. S. Treasury notes and bonds	5,906,437			5,906,437
Real assets:				
Global listed infrastructure mutual fund	11,041,019			11,041,019
Money market mutual funds	<u>2,974,332</u>			<u>2,974,332</u>
Total	<u>\$126,266,697</u>	<u>\$ 57,731,402</u>	<u>\$ 0</u>	183,998,099
Plan assets measured at net asset value using the practical expedient that are not required to be categorized by level:				
Strategies fund				15,163,415
Real estate investment trust				<u>9,405,082</u>
Total fair value of plan assets				<u>\$208,566,596</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>

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 \$8.6 million to the pension plan and pay \$0.7 million for other benefits for the fiscal year ended June 30, 2022.

Employer contributions paid to the pension plan are as follows:

	<u>2021</u>	<u>2020</u>
Chancery Office	\$ 1,271,719	\$ 1,467,844
Related employers	<u>9,323,923</u>	<u>10,262,747</u>
Total employer contributions	<u>\$ 10,595,642</u>	<u>\$ 11,730,591</u>

Pension benefits paid by the pension plan were approximately \$12.1 million during 2021 and \$11.5 million during 2020. Estimated future pension and health benefit payments for the next ten years as of June 30, 2021 are as follows:

	<u>PENSION BENEFITS</u>	<u>HEALTH BENEFITS</u>
2022	\$14,815,958	\$701,722
2023	\$15,163,979	\$757,924
2024	\$15,503,832	\$810,413
2025	\$15,845,941	\$887,948
2026	\$15,996,593	\$945,109
2027 through 2030	\$81,284,341	\$5,608,098

The health benefit plan is funded directly by the Chancery Office from insurance operations and various Archdiocesan revenues and reserves. The Chancery Office funded post-employment health benefit costs of approximately \$503,000 during 2021 and \$668,000 during 2020. The Chancery Office expects to fund post-employment health benefit costs of approximately \$700,000 during 2022.

#### **NOTE 13 – COMMITMENTS AND CONTINGENCIES**

The Chancery Office maintains letters of credit totaling \$258,000, set to expire on July 1, 2022, in favor of its 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 \$32 million at June 30, 2021. 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). 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. 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 approximately \$64,000.

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 losses. 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. As of June 30, 2021, all Hurricane Harvey losses are expected to have been funded and complete.

The Archdiocese, as well as the related entities, participate in the 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, 2021, the Chancery Office had outstanding construction commitments of approximately \$6 million related to the St. Mary's Seminary and St. Gregory the Great Catholic Church capital projects.

#### **NOTE 14 – NET ASSETS WITHOUT DONOR RESTRICTIONS**

Net assets without donor restrictions are comprised of the following:

	<u>2021</u>	<u>2020</u>
Undesignated	\$ 63,924,637	\$ 48,413,474
Invested in property	43,731,655	45,778,059
Designated for Disaster Emergency Fund	10,081,526	8,192,388
Designated for Archbishop Fiorenza Priest Retirement Residence Endowment Fund	2,931,672	2,456,191
Designated for long-term plans of Newman Centers	81,911	141,000
Pension and postretirement health benefits	<u>(168,609,613)</u>	<u>(218,396,806)</u>
Total net assets without donor restrictions	<u>\$ (47,858,212)</u>	<u>\$(113,415,694)</u>



The Chancery Office does not have a specific policy in regard 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 15 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted as follows:

	<u>2021</u>	<u>2020</u>
Subject to expenditure for specified purpose:		
Ignite Campaign (capital and endowment)	\$ 32,478,265	\$ 33,270,188
Charitable grants primarily for the needs of the poor	8,941,520	7,587,237
Inner-City Catholic Schools	4,112,609	4,270,943
St. Mary’s Seminary	2,834,737	3,470,893
Camp Kappe	1,535,812	1,416,561
Restricted-purpose land and buildings	1,081,711	1,097,116
Special program services	840,864	777,746
Scholarships	578,691	626,872
Catholic Chaplain Corps	416,483	540,971
Future parish sites	407,207	407,207
Ethnic Ministries	289,480	326,635
Celebrating Our Faith capital campaign projects	20,846	21,226
Other	<u>298,605</u>	<u>416,524</u>
Total subject to expenditure for specified purpose	<u>53,836,830</u>	<u>54,230,119</u>
Endowments:		
Subject to spending policy and appropriation:		
Circle Lake Retreat Center Endowment Fund	4,474,582	2,921,741
Hispanic Ministry Endowment Fund	893,238	722,449
Archbishop Fiorenza Priest Retirement Residence Endowment Fund	<u>183,809</u>	<u>142,423</u>
Total endowments	<u>5,551,629</u>	<u>3,786,613</u>
Not subject to appropriation or expenditure:		
Land held for education of Seminarians		92,757
Other	<u>350</u>	<u>350</u>
Total not subject to appropriation or expenditure	<u>350</u>	<u>93,107</u>
Total net assets with donor restrictions	<u>\$ 59,388,809</u>	<u>\$ 58,109,839</u>

#### NOTE 16 – 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, 2021 or 2020.

### 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, 2019	\$ 2,365,103	\$ 685,289	\$ 1,988,503	\$ 5,038,895
Net investment return	179,755	60,385	144,274	384,414
Contributions			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>
Net investment return	570,095	204,441	681,126	1,455,662
Contributions/transfers			879,449	879,449
Distributions	<u>(94,614)</u>			<u>(94,614)</u>
Endowment net assets, June 30, 2021	<u>\$ 2,931,672</u>	<u>\$ 950,115</u>	<u>\$ 4,601,514</u>	<u>\$ 8,483,301</u>

Endowment net asset composition as of June 30, 2021:

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
Donor-restricted endowment funds:			
Original donor-restricted gift and amounts required to be maintained in perpetuity		\$ 4,601,514	\$ 4,601,514
Accumulated net investment return and gifts		950,115	950,115
Internally-designated endowment funds	<u>\$ 2,931,672</u>		<u>2,931,672</u>
Endowment net assets	<u>\$ 2,931,672</u>	<u>\$ 5,551,629</u>	<u>\$ 8,483,301</u>

Endowment net asset composition as of June 30, 2020:

	<u>WITHOUT DONOR RESTRICTIONS</u>	<u>WITH DONOR RESTRICTIONS</u>	<u>TOTAL</u>
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>

#### NOTE 17 – NET ASSET RELEASES

Net asset releases consist of the following:

	<u>2021</u>	<u>2020</u>
Operating expenditures:		
Paycheck Protection Program	\$ 4,237,080	
St. Mary’s Seminary	3,731,793	\$ 2,509,329
Ignite Campaign	2,064,954	2,052,112
Cardinal’s Circle	1,425,828	1,282,149
Scholarships	1,079,775	1,061,310
Other	<u>2,196,412</u>	<u>3,033,402</u>
Total operating expenditures	<u>14,735,842</u>	<u>9,938,302</u>
Hurricane Harvey related expenditures:		
FEMA funds for Hurricane Harvey	5,857,684	1,312,114
Hurricane Harvey recovery expenditures	<u>38,139</u>	<u>53,365</u>
Total Hurricane Harvey related expenditures	<u>5,895,823</u>	<u>1,365,479</u>
Capital expenditures:		
Ignite Campaign		3,379,692
Other		<u>177,139</u>
Total capital expenditures		<u>3,556,831</u>
Total net asset releases	<u>\$ 20,631,665</u>	<u>\$ 14,860,612</u>

#### NOTE 18 – CONTRIBUTIONS

Non-operating contributions consist of the following:

	<u>2021</u>	<u>2020</u>
Contributions for Hurricane Harvey recovery:		
FEMA funds granted for Hurricane Harvey recovery	\$ 5,857,684	\$ 1,312,114
Other	38,139	53,365
Paycheck Protection Program loan forgiveness	4,237,080	
St. Mary’s Seminary	3,002,879	2,537,121
Contributions from related entities:		
Ignite Campaign gifts from parishes and schools	1,273,031	20,334,381
Transfers from Catholic Endowment Foundation	1,502,841	1,417,600
Cardinal’s Circle	1,267,494	1,574,758
Scholarships	1,031,594	1,392,976
Contributions from others	<u>1,056,042</u>	<u>2,555,727</u>
Total non-operating contributions	<u>\$ 19,266,784</u>	<u>\$ 31,178,042</u>

## NOTE 19 – GRANTS AND TRANSFERS

Operating and non-operating grants and transfers made to related and unrelated entities during the year ended June 30, 2021 consist of the following:

	<u>RELATED ENTITIES</u>	<u>UNRELATED ENTITIES</u>	<u>TOTAL</u>
Operating grants:			
Schools	\$ 4,216,976		\$ 4,216,976
Parishes	1,195,528		1,195,528
Other	<u>145,795</u>	\$ 848,285	<u>994,080</u>
Total operating grants	<u>\$ 5,558,299</u>	<u>\$ 848,285</u>	<u>\$ 6,406,584</u>
Non-operating grants and transfers:			
Assets transferred to St. Mary’s Cathedral Basilica	<u>\$ 1,219,760</u>		<u>\$ 1,219,760</u>
Total non-operating grants and transfers	<u>\$ 1,219,760</u>	<u>\$ 0</u>	<u>\$ 1,219,760</u>

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

	<u>RELATED ENTITIES</u>	<u>UNRELATED ENTITIES</u>	<u>TOTAL</u>
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>	\$ 707,639	<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>\$ 1,923,523</u>
Total non-operating grants and transfers	<u>\$ 1,923,523</u>	<u>\$ 0</u>	<u>\$ 1,923,523</u>

## NOTE 20 – SUBSEQUENT EVENTS

COVID-19 continues to have an impact on parishes and schools, and subsequently on the Chancery Office. The extent of the future 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.

Management has evaluated subsequent events through December 9, 2021, 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.