

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

Financial Statements
and Independent Auditors' Report
for the years ended June 30, 2022 and 2021

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 Audit of the Financial Statements

Opinion

We have audited the financial statements of the Chancery Office of the Archdiocese of Galveston-Houston, which comprise the statements of financial position as of June 30, 2022 and 2021, 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.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Chancery Office of the Archdiocese of Galveston-Houston as of June 30, 2022 and 2021, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of the Chancery Office of the Archdiocese of Galveston-Houston and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Chancery Office of the Archdiocese of Galveston-Houston's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Chancery Office of the Archdiocese of Galveston-Houston's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Chancery Office of the Archdiocese of Galveston-Houston's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Blazek & Vetterling

December 15, 2022

Chancery Office of the Archdiocese of Galveston-Houston

Statements of Financial Position as of June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
ASSETS		
Cash	\$ 81,115,603	\$ 38,642,925
Short-term investments – money market mutual funds (Note 6)	6,627,697	24,178,916
Receivables from related entities, net (Note 3)	1,816,056	1,289,543
Prepaid expenses and other receivables	1,632,947	1,532,658
Contributions receivable (Note 4)	1,649,443	829,542
Notes receivable from related entities (Note 5)	75,231,541	76,856,640
Cemetery inventory	1,960,609	1,975,787
Investments (Note 6)	150,487,219	156,924,191
Contributions receivable restricted for Ignite Campaign, net (Note 4)	13,469,330	21,731,442
Chancery Office property, net (Note 7)	51,181,217	47,784,536
Other property (Note 8)	<u>4,524,043</u>	<u>4,524,043</u>
TOTAL ASSETS	<u>\$ 389,695,705</u>	<u>\$ 376,270,223</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 5,873,901	\$ 8,288,391
Construction payable	148,378	3,252,119
Grants payable	651,845	520,028
Deferred revenue:		
Cemetery Sales and Services	848,358	880,141
Other	17,997	65,295
Accrued insurance and other claims (Notes 9 and 11)	4,139,018	4,054,360
Funds held for others	3,617,336	2,083,661
DS&L deposits held for related entities	200,964,573	176,986,018
Accrued pension and postretirement health benefits liability (Note 10)	<u>117,509,939</u>	<u>168,609,613</u>
Total liabilities	<u>333,771,345</u>	<u>364,739,626</u>
Commitments and contingencies (Note 11)		
Net assets:		
Without donor restrictions (Note 12)	12,971,857	(47,858,212)
With donor restrictions (Notes 13 and 14)	<u>42,952,503</u>	<u>59,388,809</u>
Total net assets	<u>55,924,360</u>	<u>11,530,597</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 389,695,705</u>	<u>\$ 376,270,223</u>

See accompanying notes to financial statements.

Chancery Office of the Archdiocese of Galveston-Houston

Statement of Activities for the year ended June 30, 2022 (with comparative totals for the year ended June 30, 2021)

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	2022 TOTAL	2021 TOTAL
OPERATING REVENUE:				
Health insurance premiums <i>(Note 9)</i>	\$ 31,826,471		\$ 31,826,471	\$ 31,171,770
Contributions without donor restrictions	15,322,648		15,322,648	13,745,122
Archdiocesan assessments	14,957,896		14,957,896	16,794,429
Business insurance premiums <i>(Note 9)</i>	11,321,334		11,321,334	10,385,275
Fees and program revenue:				
Cemetery sales and services	1,951,175		1,951,175	2,153,166
Other	2,033,544		2,033,544	1,078,744
Interest on notes receivable from related entities	<u>2,243,133</u>		<u>2,243,133</u>	<u>2,784,769</u>
Total operating revenue	79,656,201		79,656,201	78,113,275
Net assets released for operating purposes <i>(Note 15)</i>	<u>12,072,048</u>		<u>12,072,048</u>	<u>14,735,842</u>
Total	<u>91,728,249</u>		<u>91,728,249</u>	<u>92,849,117</u>
OPERATING EXPENSES:				
Program services:				
Health insurance program <i>(Note 9)</i>	27,272,677		27,272,677	28,675,179
Chancery services	13,255,578		13,255,578	12,150,639
Business insurance program <i>(Note 9)</i>	10,097,485		10,097,485	8,606,371
Seminary	5,611,388		5,611,388	5,114,733
Pastoral and education	5,482,816		5,482,816	5,181,394
Catholic school office	4,878,905		4,878,905	3,694,708
Clergy	4,692,600		4,692,600	3,885,981
Diocesan Savings and Loan	1,991,972		1,991,972	1,843,632
Cemetery operations	<u>1,372,997</u>		<u>1,372,997</u>	<u>1,457,321</u>
Total program services	74,656,418		74,656,418	70,609,958
Management and general	9,498,943		9,498,943	9,011,316
Fundraising	<u>3,127,570</u>		<u>3,127,570</u>	<u>3,094,336</u>
Total operating expenses	<u>87,282,931</u>		<u>87,282,931</u>	<u>82,715,610</u>
Changes in net assets from operations	4,445,318		4,445,318	10,133,507
OTHER CHANGES IN NET ASSETS:				
Contributions <i>(Note 16)</i>		\$ 13,428,370	13,428,370	19,266,784
Loss on valuation of contributions receivable restricted for Ignite Campaign <i>(Note 4)</i>		(2,759,147)	(2,759,147)	
Net investment return	(7,802,210)	(1,546,759)	(9,348,969)	4,044,615
Gain on sales of property	362,314		362,314	
Net claims expenses – hurricane recovery <i>(Note 9)</i>	(670,330)		(670,330)	(440,045)
Other benefit-related changes <i>(Note 10)</i>	51,280,268		51,280,268	60,343,702
Other periodic benefit costs <i>(Note 10)</i>	(180,594)		(180,594)	(10,556,509)
Non-operating grants and transfers <i>(Note 17)</i>	(91,419)		(91,419)	(1,219,760)
Net assets released for expenditures <i>(Note 15)</i>	103,077	(12,175,125)	(12,072,048)	(14,735,842)
Net assets released for capital expenditures <i>(Note 15)</i>	<u>13,383,645</u>	<u>(13,383,645)</u>		
CHANGES IN NET ASSETS	60,830,069	(16,436,306)	44,393,763	66,836,452
Net assets, beginning of year	<u>(47,858,212)</u>	<u>59,388,809</u>	<u>11,530,597</u>	<u>(55,305,855)</u>
Net assets, end of year	<u>\$ 12,971,857</u>	<u>\$ 42,952,503</u>	<u>\$ 55,924,360</u>	<u>\$ 11,530,597</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

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
OPERATING REVENUE:			
Health insurance premiums (<i>Note 9</i>)	\$ 31,171,770		\$ 31,171,770
Contributions without donor restrictions	13,745,122		13,745,122
Archdiocesan assessments	16,794,429		16,794,429
Business insurance premiums (<i>Note 9</i>)	10,385,275		10,385,275
Fees and program revenue:			
Cemetery sales and services	2,153,166		2,153,166
Other	1,078,744		1,078,744
Interest on notes receivable from related entities	<u>2,784,769</u>		<u>2,784,769</u>
Total operating revenue	78,113,275		78,113,275
Net assets released for operating purposes (<i>Note 15</i>)	<u>14,735,842</u>		<u>14,735,842</u>
Total	<u>92,849,117</u>		<u>92,849,117</u>
OPERATING EXPENSES:			
Program services:			
Health insurance program (<i>Note 9</i>)	28,675,179		28,675,179
Chancery services	12,150,639		12,150,639
Business insurance program (<i>Note 9</i>)	8,606,371		8,606,371
Seminary	5,114,733		5,114,733
Pastoral and education	5,181,394		5,181,394
Catholic school office	3,694,708		3,694,708
Clergy	3,885,981		3,885,981
Diocesan Savings and Loan	1,843,632		1,843,632
Cemetery operations	<u>1,457,321</u>		<u>1,457,321</u>
Total program services	70,609,958		70,609,958
Management and general	9,011,316		9,011,316
Fundraising	<u>3,094,336</u>		<u>3,094,336</u>
Total operating expenses	<u>82,715,610</u>		<u>82,715,610</u>
Changes in net assets from operations	10,133,507		10,133,507
OTHER CHANGES IN NET ASSETS:			
Contributions (<i>Note 16</i>)		\$ 19,266,784	19,266,784
Net investment return	1,400,764	2,643,851	4,044,615
Net claims expenses – hurricane recovery (<i>Note 9</i>)	(440,045)		(440,045)
Other benefit-related changes (<i>Note 10</i>)	60,343,702		60,343,702
Other periodic benefit costs (<i>Note 10</i>)	(10,556,509)		(10,556,509)
Non-operating grants and transfers (<i>Note 17</i>)	(1,219,760)		(1,219,760)
Net assets released for expenditures (<i>Note 15</i>)	<u>5,895,823</u>	<u>(20,631,665)</u>	<u>(14,735,842)</u>
CHANGES IN NET ASSETS	65,557,482	1,278,970	66,836,452
Net assets, beginning of year	<u>(113,415,694)</u>	<u>58,109,839</u>	<u>(55,305,855)</u>
Net assets, end of year	<u>\$ (47,858,212)</u>	<u>\$ 59,388,809</u>	<u>\$ 11,530,597</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, 2022

	HEALTH INSURANCE PROGRAM	CHANCERY SERVICES	BUSINESS INSURANCE PROGRAM	SEMINARY	PASTORAL AND EDUCATION	CATHOLIC SCHOOL OFFICE	CLERGY	DIOCESAN SAVINGS AND LOAN	CEMETERY OPERATIONS	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL
Claims expense	\$ 25,944,438		\$ 873,776									\$ 26,818,214
Salaries and related benefits		\$ 4,574,203		\$ 1,131,823	\$ 3,428,299	\$ 1,209,744	\$ 2,338,653		\$ 629,250	\$ 6,836,544	\$ 827,558	20,976,074
Premium expense	3,407,776		9,181,719									12,589,495
Grants		6,189,484	403,546	18,762	951	3,213,696	146,000					9,972,439
Professional services	1,554,397	1,191,597	212,125	1,293,869	888,372	156,517	426,631	\$ 143,799	340,348	1,054,723	1,695,526	8,957,904
Occupancy		607,175		448,438	405,171	28,548	112,328		68,774	586,515	18,989	2,275,938
Depreciation		799,267		1,102,119	232,506		8,475		44,192			2,186,559
Interest paid to related entities on DS&L deposits								1,864,703				1,864,703
Tuition and related expenses				1,103,890			150,456					1,254,346
Assistance to individuals		2,100			33,463		958,152			80		993,795
Dues and assessments							198,315			727,934		926,249
Conferences and meetings				179,644	147,167	39,371	224,732		3,799	153,816	84,711	922,423
Supplies		89,183		206,223	267,970	219,124	62,862		36,726	38,675	16,707	902,585
Printing and publications		217,930		44,109	11,856	2,302	10,755		1,675	25,373	307,510	621,510
Postage and shipping		269,586		2,320	626		517		892	4,830	151,963	430,734
Local travel and automobile		25,214		63,062	27,358	2,222	25,201		10,550	46,427	4,994	205,028
Non-capital equipment and improvement		49,652		10,065	34,220	7,381	29,523		5,368	23,035	8,052	167,296
Rental and maintenance		14,785		7,564	4,857				2,316		11,560	41,082
Premium allocated to Chancery operations	(3,633,934)		(573,681)									(4,207,615)
Uncollectible accounts		(828,896)		(500)				(16,530)		991		(844,935)
Other									229,107			229,107
Total expenses	\$ 27,272,677	\$ 13,255,578	\$ 10,097,485	\$ 5,611,388	\$ 5,482,816	\$ 4,878,905	\$ 4,692,600	\$ 1,991,972	\$ 1,372,997	\$ 9,498,943	\$ 3,127,570	87,282,931
Net claims expenses – hurricane recovery												670,330
Non-operating grants and transfers												91,419
Total												\$ 88,044,680

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	SEMINARY	PASTORAL AND EDUCATION	CATHOLIC SCHOOL OFFICE	CLERGY	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		\$ 979,940	\$ 3,578,280	\$ 1,022,350	\$ 2,081,239		\$ 611,236	\$ 6,581,097	\$ 732,459	19,263,093
Premium expense	3,521,212		8,249,656									11,770,868
Grants		3,996,593	240,899	7,980	6,544	2,002,613	151,955					6,406,584
Professional services	1,730,424	1,513,768	247,548	1,016,357	698,379	510,948	300,272	\$ 118,181	291,264	887,691	1,886,188	9,201,020
Occupancy		565,911		569,815	370,900	19,639	88,107		118,384	550,018	20,633	2,303,407
Depreciation		848,923		1,107,343	207,006		8,475		105,395			2,277,142
Interest paid to related entities on DS&L deposits								1,741,670				1,741,670
Tuition and related expenses				978,195			100,091					1,078,286
Assistance to individuals					51,590		798,840					850,430
Dues and assessments							202,359			767,425		969,784
Conferences and meetings		74,114		206,531	48,275	26,236	49,038		409	95,206	52,167	551,976
Supplies		31,611		191,166	172,265	101,888	74,245		35,764	54,775	6,660	668,374
Printing and publications		202,003		18,348	6,968	938	2,848		586	13,696	275,661	521,048
Postage and shipping		275,453		2,561	1,181	348	412		425	12,940	112,731	406,051
Local travel and automobile		4,975		23,314	8,243	2,150	6,934		8,607	28,604	1,324	84,151
Non-capital equipment and improvement		36,362		8,141	31,477	7,598	21,166		4,884	19,538	6,513	135,679
Rental and maintenance		15,024		6,273	286				1,218	326		23,127
Premium allocated to Chancery operations	(3,748,378)		(575,928)									(4,324,306)
Uncollectible accounts		865,447		(1,231)				(16,219)				847,997
Interest expense		43,963										43,963
Other									279,149			279,149
Total expenses	\$ 28,675,179	\$ 12,150,639	\$ 8,606,371	\$ 5,114,733	\$ 5,181,394	\$ 3,694,708	\$ 3,885,981	\$ 1,843,632	\$ 1,457,321	\$ 9,011,316	\$ 3,094,336	82,715,610
Net claims expenses – hurricane recovery												440,045
Non-operating grants and transfers												1,219,760
Total												\$ 84,375,415

See accompanying notes to financial statements.

Chancery Office of the Archdiocese of Galveston-Houston

Statements of Cash Flows for the years ended June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 44,393,763	\$ 66,836,452
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Contributions restricted for Ignite Campaign	(5,225,142)	(1,273,031)
Loss on valuation of contributions receivable restricted for Ignite Campaign	2,759,147	
Contributions restricted for endowment	(25,941)	(879,449)
Net realized and unrealized (gain) loss on investments	12,448,308	(906,855)
Depreciation	2,186,559	2,277,142
Net gain on sales of property	(362,314)	
Changes in operating assets and liabilities:		
Receivables from related entities	(526,513)	2,218,779
Prepaid expenses, other receivables and cemetery inventory	(85,111)	(104,378)
Contributions receivable (operating only)	(819,901)	1,813,148
Accounts payable and accrued expenses	(2,414,490)	1,455,685
Grants payable	131,817	(2,759,199)
Deferred revenue	(79,081)	(83,492)
Accrued insurance and other claims	84,658	(210,465)
Funds held for others and DS&L deposits held for related entities	25,512,230	2,817,201
Accrued pension and postretirement health benefits liability	(51,099,674)	(49,787,193)
Paycheck Protection Program refundable advances	_____	(4,237,080)
Net cash provided by operating activities	<u>26,878,315</u>	<u>17,177,265</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Payments received on notes receivable	14,786,563	31,581,128
Advances of notes receivable	(13,161,464)	(14,964,269)
Net purchases of money market mutual funds	19,920,384	12,202,528
Proceeds from sales of investments	53,718,963	79,189,926
Purchases of investments	(62,099,464)	(101,697,524)
Purchases of property	(8,858,971)	(4,178,716)
Proceeds from sales of property	534,304	_____
Net cash provided by investing activities	<u>4,840,315</u>	<u>2,133,073</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from contributions restricted for Ignite Campaign	10,728,107	9,521,539
Proceeds from contributions restricted for endowment	25,941	1,665,726
Net cash provided by financing activities	<u>10,754,048</u>	<u>11,187,265</u>
NET CHANGE IN CASH	42,472,678	30,497,603
Cash, beginning of year	<u>38,642,925</u>	<u>8,145,322</u>
Cash, end of year	<u>\$ 81,115,603</u>	<u>\$ 38,642,925</u>

Supplemental disclosure of cash flow information:

Interest and letter of credit fees paid	\$43,963
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See accompanying notes to financial statements.

Chancery Office of the Archdiocese of Galveston-Houston

Notes to Financial Statements for the years ended June 30, 2022 and 2021

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, five 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 Archdiocesan 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 Conference of Catholic Bishops.

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. 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 Archdiocesan organizations. The carrying amount of receivables is reduced by an allowance for uncollectible balances that reflects management's 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, 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 contribution 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 pledged in the Ignite Campaign have been extended, given interruptions in the campaign, by natural weather disasters and the COVID-19 pandemic.

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 are 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 Archdiocesan 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, 2022, 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 and deposits are payable upon demand by the depositor. Deposits were accruing interest at 1.00% at June 30, 2022 and 2021.

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 monthly based upon management’s estimate of annual 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 approved 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 goods and services are provided and are recognized at that time. At June 30, 2022, 2021 and 2020, accounts receivable from fees and program revenue were \$1,288,005, \$1,063,111 and \$810,012, respectively, and are included in other receivables. At June 30, 2022, 2021 and 2020, deferred revenue from fees and program revenue was \$866,355, \$945,436 and \$1,028,928, 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. 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's property facility management costs and information technology costs are allocated based on the 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 February 2016, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*. Under this ASU, a lessee should recognize in the statement of financial position a lease liability and a lease asset representing its right to use the underlying asset for the term of the lease for both finance and operating leases. An entity may make an accounting policy election not to recognize lease assets and lease liabilities for leases with a term of 12 months or less. Recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee have not changed significantly. Qualitative and quantitative disclosures are required by lessees and lessors to enable users of financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. The Chancery Office is required to adopt this ASU for fiscal year 2023.

NOTE 2 – 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>2022</u>	<u>2021</u>
Financial assets:		
Cash	\$ 81,115,603	\$ 38,642,925
Short-term investments – money market mutual funds	6,627,697	24,178,916
Receivables from related entities, net	1,816,056	1,289,543
Other receivables	1,438,420	1,431,091
Contributions receivable	1,649,443	829,542
Notes receivable from related entities	75,231,541	76,856,640
Investments	150,487,219	156,924,191
Contributions receivable restricted for Ignite Campaign, net	<u>13,469,330</u>	<u>21,731,442</u>
Total financial assets	<u>331,835,309</u>	<u>321,884,290</u>
Less financial assets not available for general expenditure:		
DS&L deposits held for related entities	(200,964,573)	(176,986,018)
Donor-restricted for Ignite Campaign	(19,527,766)	(32,478,265)
Restricted by donors for use in future periods or for future projects	(18,456,403)	(21,358,569)
Designated for Disaster Emergency Fund	(11,661,626)	(10,081,526)
Donor-restricted endowment funds	(4,967,888)	(5,551,629)
Funds held for others	(3,617,336)	(2,083,661)
Designated for Archbishop Fiorenza Priest Retirement Residence Endowment Fund	(2,523,199)	(2,931,672)
Designated for long-term plans of Newman Centers	<u>(35,617)</u>	<u>(81,911)</u>
Total financial assets available for general expenditure	<u>\$ 70,080,901</u>	<u>\$ 70,331,039</u>

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

NOTE 3 – RECEIVABLES FROM RELATED ENTITIES

Receivables from related entities consist of the following:

	<u>2022</u>	<u>2021</u>
Archdiocesan assessments	\$ 1,375,872	\$ 1,815,438
Health insurance premiums	1,867,362	1,733,093
Business insurance premiums	932,683	1,092,490
Other	<u>1,011,354</u>	<u>827,122</u>
Total receivables from related entities	5,187,271	5,468,143
Allowance for uncollectible receivables	<u>(3,371,215)</u>	<u>(4,178,600)</u>
Receivables from related entities, net	<u>\$ 1,816,056</u>	<u>\$ 1,289,543</u>

NOTE 4 – CONTRIBUTIONS RECEIVABLE

Contributions receivable consist of the following:

	<u>2022</u>	<u>2021</u>
Ignite Campaign (capital and endowment)	\$ 17,309,647	\$ 22,793,319
Corpus Christi Collection to benefit St. Mary’s Seminary	1,540,056	803,131
Other	<u>109,387</u>	<u>26,411</u>
Total contributions receivable	18,959,090	23,622,861
Discount to net present value from 0.3% to 3%	(256,134)	(237,012)
Allowance for uncollectible contributions receivable	<u>(3,584,183)</u>	<u>(824,865)</u>
Contributions receivable, net	<u>\$ 15,118,773</u>	<u>\$ 22,560,984</u>

Contributions receivable at June 30, 2022 are expected to be collected in the following fiscal years:

2023	\$ 12,779,496
2024	4,210,768
2025	1,680,562
2026	285,016
2027	<u>3,248</u>
Total contributions receivable	<u>\$ 18,959,090</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. Due to the numerous interruptions and challenges that occurred beyond our control, it is expected that the capital campaign will fall short of its goal. However, one of the key elements of the campaign, the construction of the new dormitory for the seminarians in formation for the priesthood at St. Mary’s Seminary, has been successfully achieved. His Eminence Daniel Cardinal DiNardo blessed the new dormitory on September 12, 2021. Although the active campaign ended with a few exceptions on December 31, 2021, the campaign remains ongoing at this time. Pledges are to be fulfilled through the end of 2025. Pledges received for the Ignite Campaign are reported net of an 8% allowance for uncollectible pledges, with an additional \$2.7 million recorded for pledges deemed uncollectible.

NOTE 5 – NOTES RECEIVABLE FROM RELATED ENTITIES

The Chancery Office provides loans to parishes, schools and other entities within the Archdiocese for capital projects and operating needs. Variable rate notes accrue interest based on average medium-term certificate of deposit rates offered nationally, plus a spread. At June 30, 2022, variable and fixed-rate notes were accruing interest at rates ranging from 3.00% and 4.00%.

NOTE 6 – 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, 2022 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	\$ 6,627,697	\$ 0	\$ 0	\$ 6,627,697
Investments:				
Corporate bonds and notes		\$ 60,008,485		\$ 60,008,485
U. S. Government agency bonds and securities		44,196,690		44,196,690
Invested with Catholic Endowment Foundation (a)		27,436,574		27,436,574
U. S. Treasury securities	\$ 15,620,319			15,620,319
Money market mutual funds	1,463,337			1,463,337
Other		1,761,814		1,761,814
Total investments measured at fair value	<u>\$ 17,083,656</u>	<u>\$133,403,563</u>	<u>\$ 0</u>	<u>\$150,487,219</u>

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	\$ 24,178,916	\$ 0	\$ 0	\$ 24,178,916
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		2,915,104		2,915,104
Total investments measured at fair value	<u>\$ 12,431,271</u>	<u>\$144,492,920</u>	<u>\$ 0</u>	<u>\$156,924,191</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 7 – CHANCERY OFFICE PROPERTY

Chancery Office property is comprised of the following:

	<u>2022</u>	<u>2021</u>
Land	\$ 7,000,251	\$ 7,101,531
Buildings and improvements	57,673,110	44,327,896
Furnishings and equipment	21,916,726	21,787,210
Construction and projects in progress	<u>1,530,900</u>	<u>9,332,169</u>
Total Chancery Office property, at cost	88,120,987	82,548,806
Accumulated depreciation	<u>(36,939,770)</u>	<u>(34,764,270)</u>
Chancery Office property, net	<u>\$ 51,181,217</u>	<u>\$ 47,784,536</u>

NOTE 8 – OTHER PROPERTY

Other property is comprised of the following:

	<u>2022</u>	<u>2021</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 9 – 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, 2022 and 2021, approximately \$2,300,000 and \$1,800,000, 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, 2022 and 2021, approximately \$1,800,000 and \$1,700,000, respectively, in claims under these plans are reported as accrued insurance claims.

Hurricane Recovery Loss

In September 2008, Hurricane Ike caused substantial damage to property held by the Chancery Office and to several parishes and schools of the Archdiocese. Additionally, in August 2017, Hurricane Harvey caused substantial damage to several parishes and schools. Revenue and expenses related to hurricane recovery were recognized as follows:

	<u>2022</u>	<u>2021</u>
Claims expenses pertaining to hurricane recovery	\$ 670,330	\$ 440,045
Restricted contributions recognized for hurricane recovery:		
Federal Emergency Management Agency (FEMA)	(103,077)	(5,857,684)
Other	<u> </u>	<u>(38,139)</u>
Net impact of hurricane recovery included in other changes in net assets	<u>\$ 567,253</u>	<u>\$ (5,455,778)</u>

NOTE 10 – PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS

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

As of October 1, 2022, the Archdiocese split the lay and priest pension plan into their own separate plan trusts. Each individual plan accounts for the assets and corresponding liabilities related to the defined benefits. In the weeks following the plan split, the Archdiocese advanced \$3.3 million out of operating funds to the new Priest Pension Plan, which brought the funding to 100%. Additionally, \$1.7 million was added by the Archdiocese from operating funds to the Lay Pension Plan.

Obligations and funded status

	PENSION BENEFITS		HEALTH BENEFITS	
	2022	2021	2022	2021
Fair value of plan assets	\$ 182,880,616	\$ 208,566,596		
Benefit obligation	<u>(280,528,227)</u>	<u>(343,167,917)</u>	<u>\$ (19,862,328)</u>	<u>\$ (34,008,292)</u>
Funded status of the plans	<u>\$ (97,647,611)</u>	<u>\$ (134,601,321)</u>	<u>\$ (19,862,328)</u>	<u>\$ (34,008,292)</u>
Liability from net periodic benefit cost	\$ (61,721,589)	\$ (61,835,870)	\$ (2,182,430)	\$ (30,769,235)
Accumulated other benefit-related changes:				
Actuarial loss	<u>(35,926,022)</u>	<u>(72,765,451)</u>	<u>(17,679,898)</u>	<u>(3,239,057)</u>
Accrued benefits liability	<u>\$ (97,647,611)</u>	<u>\$ (134,601,321)</u>	<u>\$ (19,862,328)</u>	<u>\$ (34,008,292)</u>
Accumulated benefit obligation	<u>\$ (277,287,382)</u>	<u>\$ (339,739,642)</u>	<u>\$ (19,862,328)</u>	<u>\$ (34,008,292)</u>

Net periodic benefit cost and other benefit-related changes

	PENSION BENEFITS		HEALTH BENEFITS	
	2022	2021	2022	2021
Net periodic benefit cost *	<u>\$ 10,745,740</u>	<u>\$ 19,247,538</u>	<u>\$ 755,348</u>	<u>\$ 2,408,410</u>
Other benefit-related changes:				
Net loss arising during year	(32,656,559)	(46,685,727)	(15,268,809)	(3,718,421)
Amortization of net (gain) loss	(5,464,493)	(11,221,179)	827,969	
Amortization of prior service credit	<u>1,281,624</u>	<u>1,281,624</u>		
Other benefit-related changes	<u>(36,839,428)</u>	<u>(56,625,282)</u>	<u>(14,440,840)</u>	<u>(3,718,421)</u>
Total benefit cost	(26,093,688)	(37,377,744)	(13,685,492)	(1,310,011)
Net periodic cost funded by related entities	<u>(9,503,618)</u>	<u>(9,323,920)</u>		
Benefit cost recognized by Chancery Office	<u>\$ (35,597,306)</u>	<u>\$ (46,701,664)</u>	<u>\$ (13,685,492)</u>	<u>\$ (1,310,011)</u>

* Includes service cost of \$10,268,092 at June 30, 2022 and \$11,184,191 at June 30, 2021.

In 2022 and 2021, mortality assumptions used the mortality rates from the PRI-2012 mortality table projected with the MP-2020 projection scale for males and females. The actuarial inflation rate assumptions were 2.40% in 2022 and 2.20% in 2021. The normal retirement age assumption for 2022 and 2021 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, 2022 by approximately \$51 million.

The amount expected to be amortized from accumulated other benefit-related changes into net periodic benefit cost for pension benefits in 2023 is \$1,091,000 of net gain.

Assumptions

	PENSION BENEFITS		HEALTH BENEFITS	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Weighted-average actuarial assumptions used to determine benefit obligations at end of year:				
Discount rate	4.50%	2.75%	4.50%	2.75%
Rate of compensation increase	3.00%	3.00%		
Weighted-average actuarial assumptions used to determine net periodic cost for year:				
Discount rate	2.75%	2.50%	2.75%	2.50%
Expected return on plan assets	6.50%	6.50%		
Rate of compensation increase	3.00%	3.00%		
Assumed healthcare cost trend rate at June 30, 2022:				
Healthcare cost trend rate assumed for next year			5.7% - 5.7%	
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)			3.8% - 3.8%	
Years to reach the ultimate trend rate				53

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>2022</u>	<u>2021</u>
Equity securities	49%	51%
Fixed-income investments	31%	30%
Real assets	11%	10%
Alternative investments	8%	7%
Cash and cash equivalents	<u>1%</u>	<u>2%</u>
Total plan assets	<u>100%</u>	<u>100%</u>

Plan assets measured at fair value at June 30, 2022 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	\$ 81,584,719			\$ 81,584,719
Pooled international and emerging markets funds	5,731,421	\$ 776,996		6,508,417
International and emerging mutual fund	1,013,646			1,013,646
Fixed-income:				
Corporate bonds		23,958,318		23,958,318
Pooled fixed-income funds		16,908,867		16,908,867
U. S. Government agency securities		9,709,693		9,709,693
U. S. Treasury notes and bonds	5,516,829			5,516,829
Real assets:				
Global listed infrastructure mutual fund	9,229,589			9,229,589
Money market mutual funds	<u>2,132,513</u>			<u>2,132,513</u>
Total	<u>\$105,208,717</u>	<u>\$ 51,353,874</u>	<u>\$ 0</u>	156,562,591
Plan assets measured at net asset value using the practical expedient that are not required to be categorized by level:				
Strategies fund				14,315,027
Real estate investment trust				<u>12,002,998</u>
Total fair value of plan assets				<u>\$182,880,616</u>

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>

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.
- *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 \$8.5 million to the pension plan and pay \$0.5 million for other benefits for the fiscal year ended June 30, 2023.

Employer contributions paid to the pension plan are as follows:

	<u>2022</u>	<u>2021</u>
Chancery Office	\$ 1,346,020	\$ 1,271,719
Related employers	<u>9,514,001</u>	<u>9,323,923</u>
Total employer contributions	<u>\$ 10,860,021</u>	<u>\$ 10,595,642</u>

Pension benefits paid by the pension plan were approximately \$12.6 million during 2022 and \$12.1 million during 2021. Estimated future pension and health benefit payments for the next ten years as of June 30, 2022 are as follows:

	<u>PENSION</u> <u>BENEFITS</u>	<u>HEALTH</u> <u>BENEFITS</u>
2023	\$15,466,244	\$548,773
2024	\$15,879,886	\$600,965
2025	\$16,340,910	\$672,547
2026	\$16,601,750	\$726,812
2027	\$16,840,071	\$792,340
2028 through 2032	\$89,460,258	\$4,687,676

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 \$460,000 during 2022 and \$503,000 during 2021. The Chancery Office expects to fund post-employment health benefit costs of approximately \$500,000 during 2023.

NOTE 11 – COMMITMENTS AND CONTINGENCIES

The Chancery Office maintains a letter of credit totaling \$15,000 in favor of its legacy workers' compensation insurance carrier for self-insured residual claims that may be drawn in the event the Chancery Office fails to fund them. The \$15,000 letter of credit is from Prosperity Bank for Church Mutual; Church Mutual reduced the collateral requirement from \$258,000 to \$15,000 effective July 1, 2021 following the change in coverage to a fully insured policy.

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 \$27 million at June 30, 2022. 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. Additionally, in August 2017, Hurricane Harvey caused substantial damage to several parishes and schools. Claims for both events were covered by the Chancery Office self-insurance 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. Subsequent to June 30, 2022, the Chancery Office received notification that FEMA has approved approximately \$493,000 in additional Hurricane Harvey funding.

The Archdiocese, as well as the related entities, participate in an insurance 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, 2022, the Chancery Office had an outstanding construction commitment of approximately \$1.8 million related to the St. Gregory the Great Catholic Church capital project.

NOTE 12 – NET ASSETS WITHOUT DONOR RESTRICTIONS

Net assets without donor restrictions are comprised of the following:

	<u>2022</u>	<u>2021</u>
Undesignated	\$ 61,439,350	\$ 63,924,637
Invested in property	54,822,004	43,731,655
Designated for Disaster Emergency Fund	11,661,626	10,081,526
Designated for Archbishop Fiorenza Priest Retirement Residence Endowment Fund	2,523,199	2,931,672
Designated for long-term plans of Newman Centers	35,617	81,911
Pension and postretirement health benefits	<u>(117,509,939)</u>	<u>(168,609,613)</u>
Total net assets without donor restrictions	<u>\$ 12,971,857</u>	<u>\$ (47,858,212)</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 13 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted as follows:

	<u>2022</u>	<u>2021</u>
Subject to expenditure for specified purpose:		
Ignite Campaign (capital and endowment)	\$ 19,527,766	\$ 32,478,265
Charitable grants primarily for the needs of the poor	7,600,444	8,941,520
Inner-City Catholic Schools/C.R.O.S.S. Academies	4,410,785	4,112,609
St. Mary's Seminary	2,551,289	2,834,737
Restricted-purpose land and buildings	883,256	1,081,711
Special program services	863,288	840,864
Scholarships	605,432	578,691
Future parish sites	407,207	407,207
Catholic Chaplain Corps	300,067	416,483
Ethnic Ministries	241,221	289,480
Camp Kappe	76,568	1,535,812
Other	<u>517,292</u>	<u>319,801</u>
Total subject to expenditure for specified purpose	<u>37,984,615</u>	<u>53,837,180</u>
Endowments:		
Subject to spending policy and appropriation:		
Circle Lake Retreat Center Endowment Fund	3,984,725	4,474,582
Hispanic Ministry Endowment Fund	795,176	893,238
Archbishop Fiorenza Priest Retirement Residence Endowment Fund	<u>187,987</u>	<u>183,809</u>
Total endowments	<u>4,967,888</u>	<u>5,551,629</u>
Total net assets with donor restrictions	<u>\$ 42,952,503</u>	<u>\$ 59,388,809</u>

NOTE 14 – 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, 2022 and 2021.

Investment Policies

The endowment funds are invested with the Foundation (see Note 6). 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, 2020	\$ 2,456,191	\$ 745,674	\$ 3,040,939	\$ 6,242,804
Net investment return	570,095	204,441	681,126	1,455,662
Contributions			879,449	879,449
Distributions	<u>(94,614)</u>	<u> </u>	<u> </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>
Net investment return	(307,061)	(119,754)	(489,928)	(916,743)
Contributions			25,941	25,941
Distributions	<u>(101,412)</u>	<u> </u>	<u> </u>	<u>(101,412)</u>
Endowment net assets, June 30, 2022	<u>\$ 2,523,199</u>	<u>\$ 830,361</u>	<u>\$ 4,137,527</u>	<u>\$ 7,491,087</u>

Endowment net asset composition as of June 30, 2022:

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
Donor-restricted endowment funds:			
Original donor-restricted gift and amounts required to be maintained in perpetuity		\$ 4,137,527	\$ 4,137,527
Accumulated net investment return and gifts		830,361	830,361
Internally-designated endowment funds	<u>\$ 2,523,199</u>	<u> </u>	<u>2,523,199</u>
Endowment net assets	<u>\$ 2,523,199</u>	<u>\$ 4,967,888</u>	<u>\$ 7,491,087</u>

Endowment net asset composition as of June 30, 2021:

	<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		\$ 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>

NOTE 15 – NET ASSET RELEASES

Net asset releases consist of the following:

	<u>2022</u>	<u>2021</u>
Operating expenditures:		
Ignite Campaign	\$ 3,471,739	\$ 2,064,954
St. Mary’s Seminary	3,364,347	3,731,793
Scholarships	1,273,405	1,079,775
Inner-City Catholic Schools/C.R.O.S.S. Academies	1,244,165	1,425,828
Paycheck Protection Program		4,237,080
Other	<u>2,718,392</u>	<u>2,196,412</u>
Total operating expenditures	<u>12,072,048</u>	<u>14,735,842</u>
Hurricane recovery related expenditures:		
FEMA funds for hurricane recovery	103,077	5,857,684
Other		<u>38,139</u>
Total hurricane recovery related expenditures	<u>103,077</u>	<u>5,895,823</u>
Capital expenditures:		
Ignite Campaign	11,944,753	
Other	<u>1,438,892</u>	
Total capital expenditures	<u>13,383,645</u>	
Total net asset releases	<u>\$ 25,558,770</u>	<u>\$ 20,631,665</u>

NOTE 16 – CONTRIBUTIONS

Non-operating contributions consist of the following:

	<u>2022</u>	<u>2021</u>
Contributions from related entities:		
Ignite Campaign gifts from parishes and schools	\$ 5,225,142	\$ 1,273,031
Transfers from Catholic Endowment Foundation	1,864,455	1,502,841
St. Mary’s Seminary	3,080,900	3,002,879
Inner-City Catholic Schools/C.R.O.S.S. Academies	1,542,340	1,267,494
Scholarships	1,300,146	1,031,594
Contributions for hurricane recovery:		
FEMA funds granted for hurricane recovery	103,077	5,857,684
Other		38,139
Paycheck Protection Program loan forgiveness		4,237,080
Contributions from others	<u>312,310</u>	<u>1,056,042</u>
Total non-operating contributions	<u>\$ 13,428,370</u>	<u>\$ 19,266,784</u>

NOTE 17 – GRANTS AND TRANSFERS

Operating and non-operating grants and transfers made to related and unrelated entities during the year ended June 30, 2022 consist of the following:

	<u>RELATED ENTITIES</u>	<u>UNRELATED ENTITIES</u>	<u>TOTAL</u>
Operating grants:			
Schools	\$ 5,054,953		\$ 5,054,953
Parishes	1,968,013		1,968,013
Other	<u>2,036,408</u>	\$ 913,065	<u>2,949,473</u>
Total operating grants	<u>\$ 9,059,374</u>	<u>\$ 913,065</u>	<u>\$ 9,972,439</u>
Non-operating grants and transfers:			
Assets transferred to St. Mary’s Cathedral Basilica	<u>\$ 91,419</u>		<u>\$ 91,419</u>
Total non-operating grants and transfers	<u>\$ 91,419</u>	<u>\$ 0</u>	<u>\$ 91,419</u>

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>

NOTE 18 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 15, 2022, which is the date that the financial statements were available for issuance. No events, other than as disclosed in Note 10 and Note 11, were identified that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.