

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

Financial Statements
and Independent Auditors' Report
for the years ended June 30, 2024 and 2023

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, 2024 and 2023, 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, 2024 and 2023, 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 2, 2024

Chancery Office of the Archdiocese of Galveston-Houston

Statements of Financial Position as of June 30, 2024 and 2023

	<u>2024</u>	<u>2023</u>
ASSETS		
Cash	\$ 8,257,475	\$ 11,888,184
Short-term investments – money market mutual funds (Note 6)	92,452,721	80,587,264
Receivables from related entities, net (Note 3)	1,680,971	1,736,277
Contributions receivable (Note 4)	1,330,110	1,485,946
Prepaid expenses and other receivables	2,144,687	1,538,528
Notes receivable from related entities (Note 5)	62,161,751	65,185,524
Cemetery inventory and other assets	2,153,332	2,121,011
Investments (Note 6)	147,991,544	144,568,083
Short-term investments – money market mutual funds restricted for Ignite Campaign (Note 6)	14,198,117	12,278,136
Contributions receivable restricted for Ignite Campaign, net (Note 4)	2,440,568	6,746,360
Investments held for endowments (Note 6)	8,674,199	8,117,625
Chancery Office property, net (Note 7)	49,791,832	51,054,056
Other property (Note 8)	<u>4,481,565</u>	<u>4,524,043</u>
TOTAL ASSETS	<u>\$ 397,758,872</u>	<u>\$ 391,831,037</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 9,448,798	\$ 7,816,738
Grants payable	2,212,758	868,817
Deferred revenue:		
Cemetery sales and services	792,436	826,484
Other	112,691	137,319
Accrued insurance, claims and other liabilities (Notes 9 and 11)	2,703,398	3,202,324
Funds held for others	4,012,318	33,944,746
DS&L deposits held for related entities	207,339,372	208,968,192
Accrued pension and postretirement health benefits liability (Note 10)	<u>82,949,675</u>	<u>87,138,348</u>
Total liabilities	<u>309,571,446</u>	<u>312,902,968</u>
Commitments and contingencies (Note 11)		
Net assets:		
Without donor restrictions (Note 12)	47,072,318	37,270,598
With donor restrictions (Notes 13 and 14)	<u>41,115,108</u>	<u>41,657,471</u>
Total net assets	<u>88,187,426</u>	<u>78,928,069</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 397,758,872</u>	<u>\$ 391,831,037</u>

See accompanying notes to financial statements.

Chancery Office of the Archdiocese of Galveston-Houston

Statement of Activities for the year ended June 30, 2024 (with comparative totals for the year June 30, 2023)

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	2023 TOTAL	2023 TOTAL
OPERATING REVENUE:				
Health insurance premiums (Note 9)	\$ 33,974,979		\$ 33,974,979	\$ 32,885,912
Contributions without donor restrictions	17,188,859		17,188,859	17,352,102
Archdiocesan assessments	16,565,433		16,565,433	13,950,799
Business insurance premiums (Note 9)	13,724,090		13,724,090	12,178,321
Fees and program revenue:				
Cemetery sales and services	1,858,753		1,858,753	1,820,379
Other	2,839,865		2,839,865	2,824,453
Interest on notes – related entities	<u>1,932,135</u>		<u>1,932,135</u>	<u>2,075,722</u>
Total operating revenue	88,084,114		88,084,114	83,087,688
Net assets released for operations (Note 15)	<u>11,220,603</u>		<u>11,220,603</u>	<u>11,241,243</u>
Total	<u>99,304,717</u>		<u>99,304,717</u>	<u>94,328,931</u>
OPERATING EXPENSES:				
Program services:				
Health insurance program (Note 9)	33,047,865		33,047,865	30,584,109
Chancery services	16,578,068		16,578,068	16,488,800
Business insurance program (Note 9)	14,373,303		14,373,303	11,622,296
Pastoral and education	6,618,386		6,618,386	6,409,988
Catholic school office	5,189,845		5,189,845	5,221,568
Clergy	4,890,535		4,890,535	4,385,485
Seminary	4,521,410		4,521,410	4,638,059
Diocesan Savings and Loan	3,807,855		3,807,855	2,585,908
Vocations	2,135,553		2,135,553	2,009,762
Cemetery operations	<u>1,577,377</u>		<u>1,577,377</u>	<u>1,356,159</u>
Total program services	92,740,197		92,740,197	85,302,134
Management and general	10,604,675		10,604,675	10,246,005
Fundraising	<u>2,154,989</u>		<u>2,154,989</u>	<u>2,881,716</u>
Total operating expenses	<u>105,499,861</u>		<u>105,499,861</u>	<u>98,429,855</u>
Changes in net assets from operations	(6,195,144)		(6,195,144)	(4,100,924)
OTHER CHANGES IN NET ASSETS:				
Contributions (Note 16)		\$ 9,328,908	9,328,908	9,814,564
Loss on valuation of contributions receivable				(850,740)
Net investment return	10,875,445	1,385,362	12,260,807	4,060,907
Net gain on sales of property	3,266,913		3,266,913	
Net claims expenses – hurricane recovery	(45,522)		(45,522)	(20,000)
Other benefit-related changes (Note 10)	(1,286,721)		(1,286,721)	17,975,460
Other periodic benefit costs (Note 10)	5,475,394		5,475,394	7,396,131
Non-operating grants and transfers (Note 17)	(2,324,675)		(2,324,675)	(30,446)
Net assets released from restrictions (Note 15)	<u>36,030</u>	<u>(11,256,633)</u>	<u>(11,220,603)</u>	<u>(11,241,243)</u>
CHANGES IN NET ASSETS	9,801,720	(542,363)	9,259,357	23,003,709
Net assets, beginning of year	<u>37,270,598</u>	<u>41,657,471</u>	<u>78,928,069</u>	<u>55,924,360</u>
Net assets, end of year	<u>\$ 47,072,318</u>	<u>\$ 41,115,108</u>	<u>\$ 88,187,426</u>	<u>\$ 78,928,069</u>

See accompanying notes to financial statements.

Chancery Office of the Archdiocese of Galveston-Houston

Statement of Activities for the year ended June 30, 2023

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
OPERATING REVENUE:			
Health insurance premiums (Note 9)	\$ 32,885,912		\$ 32,885,912
Contributions without donor restrictions	17,352,102		17,352,102
Archdiocesan assessments	13,950,799		13,950,799
Business insurance premiums (Note 9)	12,178,321		12,178,321
Fees and program revenue:			
Cemetery sales and services	1,820,379		1,820,379
Other	2,824,453		2,824,453
Interest on notes – related entities	<u>2,075,722</u>		<u>2,075,722</u>
Total operating revenue	83,087,688		83,087,688
Net assets released for operations (Note 15)	<u>11,241,243</u>		<u>11,241,243</u>
Total	<u>94,328,931</u>		<u>94,328,931</u>
OPERATING EXPENSES:			
Program services:			
Health insurance program (Note 9)	30,584,109		30,584,109
Chancery services	16,488,800		16,488,800
Business insurance program (Note 9)	11,622,296		11,622,296
Pastoral and education	6,409,988		6,409,988
Catholic school office	5,221,568		5,221,568
Clergy	4,385,485		4,385,485
Seminary	4,638,059		4,638,059
Diocesan Savings and Loan	2,585,908		2,585,908
Vocations	2,009,762		2,009,762
Cemetery operations	<u>1,356,159</u>		<u>1,356,159</u>
Total program services	85,302,134		85,302,134
Management and general	10,246,005		10,246,005
Fundraising	<u>2,881,716</u>		<u>2,881,716</u>
Total operating expenses	<u>98,429,855</u>		<u>98,429,855</u>
Changes in net assets from operations	(4,100,924)		(4,100,924)
OTHER CHANGES IN NET ASSETS:			
Contributions (Note 16)		\$ 9,814,564	9,814,564
Loss on valuation of contributions receivable		(850,740)	(850,740)
Net investment return	2,874,404	1,186,503	4,060,907
Net claims expenses – hurricane recovery	(20,000)		(20,000)
Other benefit-related changes (Note 10)	17,975,460		17,975,460
Other periodic benefit costs (Note 10)	7,396,131		7,396,131
Non-operating grants and transfers (Note 17)	(30,446)		(30,446)
Net assets released from restrictions (Note 15)	<u>204,116</u>	<u>(11,445,359)</u>	<u>(11,241,243)</u>
CHANGES IN NET ASSETS	24,298,741	(1,295,032)	23,003,709
Net assets, beginning of year	<u>12,971,857</u>	<u>42,952,503</u>	<u>55,924,360</u>
Net assets, end of year	<u>\$ 37,270,598</u>	<u>\$ 41,657,471</u>	<u>\$ 78,928,069</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, 2024

	HEALTH INSURANCE PROGRAM	CHANCERY SERVICES	BUSINESS INSURANCE PROGRAM	PASTORAL AND EDUCATION	CATHOLIC SCHOOL OFFICE	CLERGY	SEMINARY	DIOCESAN SAVINGS AND LOAN	VOCATIONS	CEMETERY OPERATIONS	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL
Claims expense	\$31,562,046		\$ 606,515										\$32,168,561
Salaries and related benefits		\$ 5,449,546		\$ 3,748,023	\$ 1,208,210	\$ 2,686,420	\$ 901,721		\$ 391,772	\$ 608,918	\$ 7,358,790	\$ 863,970	23,217,370
Premium expense	3,751,921		13,968,425										17,720,346
Grants		7,502,313	136,894	2,500	3,343,639	231,076	46,300		10,000				11,272,722
Professional services	1,758,030	1,762,322	380,507	1,294,317	259,852	407,998	1,115,898		242,351	461,409	1,435,246	594,977	9,712,907
Interest paid to related entities on DS&L deposits								\$ 3,863,618					3,863,618
Occupancy		586,869		478,688	32,141	118,097	725,665		15,700	158,192	733,980	14,273	2,863,605
Depreciation		781,314		282,741		15,274	1,334,605			32,928			2,446,862
Tuition and related expenses		385				104,974			1,327,573				1,432,932
Supplies		128,888		418,999	220,225	72,653	216,056		43,266	61,415	42,220	25,907	1,229,629
Conferences and meetings		95,529		241,257	89,068	275,926	86,439		53,320	4,645	79,936	191,598	1,117,718
Dues and assessments						140,968					838,133		979,101
Assistance to individuals		414		8,500		740,393							749,307
Printing and publications		290,738		19,416	4,641	13,524	34,964		7,299	2,507	39,717	311,557	724,363
Postage and shipping		390,096	43	1,691		540	2,423		250	276	12,937	134,843	543,099
Local travel and automobile		33,666		89,782	26,518	63,489	46,624		38,932	7,996	48,449	13,237	368,693
Non-capital equipment and improvement		37,096		25,926	5,551	18,534	6,014		5,090	3,701	15,267	4,627	121,806
Rental and maintenance		14,116		6,546		4,701				5,970			31,333
Premium/claims allocated to Chancery operations	(4,024,132)		(719,081)										(4,743,213)
Uncollectible accounts recovery		(495,224)						(55,763)					(550,987)
Other						669				229,420			230,089
Total expenses	<u>\$33,047,865</u>	<u>\$16,578,068</u>	<u>\$14,373,303</u>	<u>\$ 6,618,386</u>	<u>\$ 5,189,845</u>	<u>\$ 4,890,535</u>	<u>\$ 4,521,410</u>	<u>\$ 3,807,855</u>	<u>\$ 2,135,553</u>	<u>\$ 1,577,377</u>	<u>\$10,604,675</u>	<u>\$ 2,154,989</u>	105,499,861
Non-operating grants and transfers													2,324,675
Net claims expenses – hurricane recovery													<u>45,522</u>
Total													<u>\$107,870,058</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, 2023

	HEALTH INSURANCE PROGRAM	CHANCERY SERVICES	BUSINESS INSURANCE PROGRAM	PASTORAL AND EDUCATION	CATHOLIC SCHOOL OFFICE	CLERGY	SEMINARY	DIOCESAN SAVINGS AND LOAN	VOCATIONS	CEMETERY OPERATIONS	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL
Claims expense	\$29,619,781		\$ 1,523,326										\$31,143,107
Salaries and related benefits		\$ 5,068,637		\$ 3,584,838	\$ 1,106,101	\$ 2,400,111	\$ 859,793		\$ 361,090	\$ 586,791	\$ 7,193,106	\$ 857,137	22,017,604
Premium expense	3,209,205		10,524,305										13,733,510
Grants		7,601,782	58,901	2,500	3,350,703	152,000	45,100		9,325				11,220,311
Professional services	1,692,657	1,640,203	171,442	1,185,272	196,683	460,221	1,382,260	\$ 139,568	130,917	409,659	1,226,515	943,306	9,578,703
Interest paid to related entities on DS&L deposits								2,466,791					2,466,791
Occupancy		615,699		520,024	30,171	101,064	585,245		7,520	69,457	658,721	17,341	2,605,242
Depreciation		750,438		261,478		11,460	1,347,086			33,877			2,404,339
Tuition and related expenses						88,860			1,353,428		1,047		1,443,335
Supplies		87,222		391,999	366,887	89,658	206,925		27,482	49,975	51,277	29,787	1,301,212
Conferences and meetings		94,251		323,019	145,249	150,175	111,802		44,644	2,896	89,784	570,454	1,532,274
Dues and assessments						198,033					877,880		1,075,913
Assistance to individuals		184		9,449		644,947					30		654,610
Printing and publications		248,964		16,151	6,622	10,999	13,592		30,522	1,650	40,402	371,495	740,397
Postage and shipping		334,563		731		994	2,324		253	324	3,555	69,346	412,090
Local travel and automobile		37,405		50,406	8,924	39,652	57,628		36,102	12,901	73,992	4,016	321,026
Non-capital equipment and improvement		71,598		52,071	10,228	37,311	14,877		5,579	5,579	28,992	10,228	236,463
Rental and maintenance		19,168		12,050			11,427		2,900	706	704	8,606	55,561
Premium/claims allocated to Chancery operations	(3,937,534)		(655,678)										(4,593,212)
Uncollectible accounts recovery		(81,314)						(20,451)					(101,765)
Other										182,344			182,344
Total expenses	<u>\$30,584,109</u>	<u>\$16,488,800</u>	<u>\$11,622,296</u>	<u>\$ 6,409,988</u>	<u>\$ 5,221,568</u>	<u>\$ 4,385,485</u>	<u>\$ 4,638,059</u>	<u>\$ 2,585,908</u>	<u>\$ 2,009,762</u>	<u>\$ 1,356,159</u>	<u>\$10,246,005</u>	<u>\$ 2,881,716</u>	98,429,855
Non-operating grants and transfers													30,446
Net claims expenses – hurricane recovery													<u>20,000</u>
Total													<u>\$98,480,301</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, 2024 and 2023

	<u>2024</u>	<u>2023</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 9,259,357	\$ 23,003,709
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Contributions restricted for Ignite Campaign	(248,654)	(967,453)
Loss on valuation of contributions receivable restricted for Ignite Campaign		850,740
Contributions restricted for endowment	(7,450)	(71,096)
Net realized and unrealized (gain) loss on investments	(2,842,433)	1,202,617
Depreciation	2,446,862	2,404,337
Net gain on sales of property	(3,266,913)	
Transfer of assets to related entities	2,324,675	
Changes in operating assets and liabilities:		
Receivables from related entities	55,306	79,779
Contributions receivable (operating only)	155,836	163,497
Prepaid expenses and other receivables	(606,159)	94,419
Cemetery inventory and other assets	(32,321)	(160,402)
Accounts payable and accrued expenses	1,899,168	1,675,729
Grants payable	1,343,941	216,972
Accrued insurance, claims and other liabilities	(498,926)	(936,694)
Deferred revenue	(58,676)	97,448
Funds held for others	67,572	327,410
DS&L deposits held for related entities	(1,628,820)	8,003,619
Accrued pension and postretirement health benefits liability	(4,188,673)	(30,371,591)
Net cash provided by operating activities	<u>4,173,692</u>	<u>5,613,040</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Payments received on notes receivable	19,534,736	17,330,345
Advances of notes receivable	(16,510,963)	(7,284,328)
Net purchases of money market mutual funds	(9,995,836)	(88,568,430)
Proceeds from sales of investments	110,553,115	54,959,629
Purchases of investments	(115,480,319)	(56,030,008)
Purchases of property	(3,776,621)	(2,158,446)
Proceeds from sales of property	<u>3,309,591</u>	
Net cash used by investing activities	<u>(12,366,297)</u>	<u>(81,751,238)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from contributions restricted for Ignite Campaign	4,554,446	6,839,683
Proceeds from contributions restricted for endowment	<u>7,450</u>	<u>71,096</u>
Net cash provided by financing activities	<u>4,561,896</u>	<u>6,910,779</u>
NET CHANGE IN CASH	(3,630,709)	(69,227,419)
Cash, beginning of year	<u>11,888,184</u>	<u>81,115,603</u>
Cash, end of year	<u>\$ 8,257,475</u>	<u>\$ 11,888,184</u>

See accompanying notes to financial statements.

Chancery Office of the Archdiocese of Galveston-Houston

Notes to Financial Statements for the years ended June 30, 2024 and 2023

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.

Notes receivable from related entities are carried at unpaid principal balances plus accrued interest, less an allowance for uncollectible notes. Interest on notes receivable is recognized over the term of the note and is calculated using the simple-interest method on principal amounts outstanding. 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 its 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. 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. 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.

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, 2024, all 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 based on published certificate of deposit rates. Interest and deposits are payable upon demand by the depositor. Deposits were accruing interest at 1.85% and 1.80% at June 30, 2024 and 2023, respectively.

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 9. 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.

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.

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.

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, 2024, 2023 and 2022, amounts receivable from fees and program revenue were \$1,415,613, \$1,365,793, and \$1,288,005, respectively, and are included in other receivables. At June 30, 2024, 2023 and 2022, deferred revenue from fees and program revenue was \$905,127, \$963,803, and \$866,355, 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.

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>2024</u>	<u>2023</u>
Financial assets:		
Cash	\$ 8,257,475	\$ 11,888,184
Short-term investments – money market mutual funds	106,650,838	92,865,400
Receivables from related entities, net	1,680,971	1,736,277
Other receivables	1,564,713	1,485,509
Contributions receivable	1,330,110	1,485,946
Notes receivable from related entities	62,161,751	65,185,524
Investments	156,665,743	152,685,708
Contributions receivable restricted for Ignite Campaign, net	<u>2,440,568</u>	<u>6,746,360</u>
Total financial assets	340,752,169	334,078,908
Less financial assets not available for general expenditure:		
DS&L deposits held for related entities	(207,339,372)	(208,968,192)
Donor-restricted for Ignite Campaign	(16,638,685)	(19,024,496)
Restricted by donors for use in future periods or for future projects	(19,005,832)	(17,317,069)
Designated for Disaster Emergency Fund	(13,747,716)	(12,370,345)
Donor-restricted endowment funds	(5,725,400)	(5,346,860)
Funds held for others	(4,012,318)	(3,944,745)
Designated for Archbishop Fiorenza Priest Retirement Residence Endowment Fund	<u>(2,948,799)</u>	<u>(2,770,765)</u>
Total financial assets available for general expenditure	<u>\$ 71,334,047</u>	<u>\$ 64,336,436</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>2024</u>	<u>2023</u>
Health insurance premiums	\$ 2,974,946	\$ 2,152,264
Retirement pension contributions	1,028,903	804,144
Archdiocesan assessments	826,540	882,861
Business insurance premiums	791,652	802,327
Other	<u>215,566</u>	<u>349,365</u>
Total receivables from related entities	5,837,607	4,990,961
Allowance for uncollectible receivables	<u>(4,156,636)</u>	<u>(3,254,684)</u>
Receivables from related entities, net	<u>\$ 1,680,971</u>	<u>\$ 1,736,277</u>

NOTE 4 – CONTRIBUTIONS RECEIVABLE

Contributions receivable consist of the following:

	<u>2024</u>	<u>2023</u>
Ignite Campaign (capital and endowment)	\$ 6,529,094	\$ 11,055,889
Corpus Christi Collection to benefit St. Mary's Seminary	1,324,200	1,480,036
Other	<u>5,910</u>	<u>5,910</u>
Total contributions receivable	7,859,204	12,541,835
Discount to net present value from 0.30% to 4.33%	(34,588)	(114,686)
Allowance for uncollectible contributions receivable	<u>(4,053,938)</u>	<u>(4,194,843)</u>
Contributions receivable, net	<u>\$ 3,770,678</u>	<u>\$ 8,232,306</u>

Contributions receivable at June 30, 2024 are due in the following fiscal years:

2025	\$ 3,519,521
2026	<u>251,157</u>
Total contributions receivable	<u>\$ 3,770,678</u>

In 2017, the Chancery Office launched a capital campaign, Ignite: Our Faith, Our Mission, to provide funds for individual parish needs, capital improvements at St. Mary's Seminary, to increase Catholic School Education Endowment Funds and establish the Faith Formation Endowment Fund. The campaign ended in 2021 and pledges are being fulfilled through the end of 2026.

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 published certificate of deposit rates offered nationally, plus a spread. At June 30, 2024, the standard and applicable variable and fixed interest rate ranges were from 3.85% to 4.85%.

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, 2024 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>\$106,650,838</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$106,650,838</u>
Investments:				
Corporate bonds and notes		\$ 81,564,978		\$ 81,564,978
Invested with Catholic Endowment Foundation (a)		31,574,070		31,574,070
Asset backed securities		28,281,981		28,281,981
U. S. Treasury securities	\$ 13,177,854			13,177,854
Money market mutual funds	4,462			4,462
Other		2,062,398		2,062,398
Total investments measured at fair value	<u>\$ 13,182,316</u>	<u>\$143,483,427</u>	<u>\$ 0</u>	<u>\$156,665,743</u>

Assets measured at fair value at June 30, 2023 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>\$ 92,865,400</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 92,865,400</u>
Investments:				
Corporate bonds and notes		\$ 56,357,329		\$ 56,357,329
Invested with Catholic Endowment Foundation (a)		29,145,418		29,145,418
Asset backed securities		40,911,415		40,911,415
U. S. Treasury securities	\$ 17,120,016			17,120,016
Money market mutual funds	3,794,064			3,794,064
Municipal bonds		3,404,521		3,404,521
Other		1,952,945		1,952,945
Total investments measured at fair value	<u>\$ 20,914,080</u>	<u>\$131,771,628</u>	<u>\$ 0</u>	<u>\$152,685,708</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, asset backed securities and municipal bonds* are valued using prices obtained from independent quotation bureaus that use computerized valuation formulas which may include market-corroborated inputs for credit risk factors, interest rate and yield curves and broker quotes, to calculate fair values.
- *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>2024</u>	<u>2023</u>
Land	\$ 7,686,639	\$ 7,000,251
Buildings and improvements	59,403,139	58,933,516
Furnishings and equipment	22,467,842	22,232,262
Construction and projects in progress	<u>2,025,183</u>	<u>2,232,134</u>
Total Chancery Office property, at cost	91,582,803	90,398,163
Accumulated depreciation	<u>(41,790,971)</u>	<u>(39,344,107)</u>
Chancery Office property, net	<u>\$ 49,791,832</u>	<u>\$ 51,054,056</u>

NOTE 8 – OTHER PROPERTY

Other property is comprised of the following:

	<u>2024</u>	<u>2023</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>1,518,143</u>	<u>1,560,621</u>
Other property, at cost	<u>\$ 4,481,565</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, 2024 and 2023, approximately \$540,000 and \$950,000, 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, 2024 and 2023, approximately \$1,900,000 and \$2,000,000, respectively, in claims under these plans are reported as accrued insurance claims.

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. Until October 2022, the pension plan covered Archdiocesan priests and lay employees who work a minimum of 20 hours per week for at least five consecutive months. Beginning October 2022, the Archdiocese created two separate defined benefit pension plans, one for priests only and one for lay employees only. The lay plan provides pension benefits that are based on an employee's average monthly compensation and length of credited service. The priest plan provides a fixed pension benefit. Assets of the pension plans are held in separate lay and priest trust funds, both managed by the same independent third party. Each individuals' plan accounts for the assets and corresponding liabilities related to the defined benefits. The Archdiocese also sponsors a noncontributory health benefit plan that provides healthcare benefits for Archdiocesan priests upon retirement, including those Archdiocesan priests not employed directly by the Chancery Office.

Obligations and funded status

	<u>PENSION BENEFITS – LAY</u>		<u>PENSION BENEFITS – PRIEST</u>		<u>HEALTH BENEFITS</u>	
	<u>2024</u>	<u>2023</u>	<u>2024</u>	<u>2023</u>	<u>2024</u>	<u>2023</u>
Fair value of plan assets	\$ 190,518,803	\$ 179,704,647	\$ 21,875,344	\$ 20,527,105		
Benefit obligation	<u>(248,995,225)</u>	<u>(248,317,603)</u>	<u>(20,975,582)</u>	<u>(18,827,067)</u>	<u>\$(25,373,015)</u>	<u>\$(20,225,430)</u>
Funded status of the plans	<u>\$ (58,476,422)</u>	<u>\$ (68,612,956)</u>	<u>\$ 899,762</u>	<u>\$ 1,700,038</u>	<u>\$(25,373,015)</u>	<u>\$(20,225,430)</u>
Liability from net periodic benefit cost	\$ (52,922,012)	\$ (58,509,897)	\$ 4,319,968	\$ 3,927,849	\$(12,955,785)	\$ (3,165,225)
Accumulated other benefit-related changes:						
Prior service (cost) credit	5,537,274	6,818,898	(1,884,717)			
Net loss	<u>(11,091,684)</u>	<u>(16,921,957)</u>	<u>(1,535,489)</u>	<u>(2,227,811)</u>	<u>(12,417,230)</u>	<u>(17,060,205)</u>
Accrued benefits (liability) asset	<u>\$ (58,476,422)</u>	<u>\$ (68,612,956)</u>	<u>\$ 899,762</u>	<u>\$ 1,700,038</u>	<u>\$(25,373,015)</u>	<u>\$(20,225,430)</u>
Accumulated benefit obligation	<u>\$(241,727,874)</u>	<u>\$(242,385,582)</u>	<u>\$(20,975,582)</u>	<u>\$(18,827,067)</u>	<u>\$(25,373,015)</u>	<u>\$(20,225,430)</u>

Net periodic benefit cost and other benefit-related changes

	PENSION BENEFITS – LAY		PENSION BENEFITS – PRIEST		HEALTH BENEFITS	
	<u>2024</u>	<u>2023</u>	<u>2024</u>	<u>2023</u>	<u>2024</u>	<u>2023</u>
Net period benefit cost*	\$ 5,719,475	\$ 8,908,526	\$ 374,927	\$ 475,587	\$ 1,046,223	\$ 219,269
Other benefit-related charges:						
Net (gain) loss arising during year	(5,830,273)	(24,412,358)	(543,402)	2,338,835	3,867,391	(605,329)
Amortization of net gain (loss) prior service credit	1,281,624	(1,262,191)	(148,920)	(111,024)	775,584	1,225,021
New prior service cost			1,884,717			
Net settlement loss		(1,430,038)				
Other benefit-related changes	(4,548,649)	(25,822,963)	1,192,395	2,227,811	4,642,975	619,692
Total benefit cost	1,170,826	(16,914,437)	1,567,322	2,703,398	5,689,198	838,961
Net periodic cost funded by related entities	(9,852,937)	(9,031,664)	(767,046)	(1,131,593)		
Benefit cost recognized by Chancery Office	\$ (8,682,111)	\$ (25,946,101)	\$ 800,276	\$ 1,571,805	\$ 5,689,198	\$ 838,961

* Includes service cost of \$7,448,409 at June 30, 2024 and \$7,607,565 at June 30, 2023.

In 2024 and 2023, mortality assumptions used the mortality rates from the PRI-2012 mortality table projected with the MP-2021 projection scale for males and females. The actuarial inflation rate assumptions were 2.31% in 2024 and 2.33% in 2023. The normal retirement age assumption for 2024 and 2023 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, 2024 by approximately \$4 million.

The amount expected to be amortized from accumulated other benefit-related changes into net periodic benefit cost for pension benefits in 2025 is approximately \$1.9 million of net gain.

Assumptions

	PENSION BENEFITS		HEALTH BENEFITS	
	<u>2024</u>	<u>2023</u>	<u>2024</u>	<u>2023</u>
Weighted-average actuarial assumptions used to determine benefit obligations at end of year:				
Discount rate	5.25%	5.00%	5.25%	5.00%
Rate of compensation increase	3.00%	3.00%		
Weighted-average actuarial assumptions used to determine net periodic cost for year:				
Discount rate	5.00%	4.50%	5.00%	4.50%
Expected return on plan assets	6.50%	6.50%		
Rate of compensation increase	3.00%	3.00%		

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.

As of June 30, 2024, the assets of the lay employee pension plan are invested in accordance with the following allocation guidelines:

	<u>MINIMUM</u>	<u>MAXIMUM</u>	<u>TARGET</u>
Equity securities	20%	65%	40%
Fixed-income investments	20%	40%	25%
Real assets	7%	17%	12%
Return-Seeking Credit	6%	20%	13%
Alternative Investments	5%	15%	10%
Cash and cash equivalents	0%	0%	0%

As of June 30, the lay employee pension plan's actual asset allocation by type of asset is as follows:

	<u>2024</u>	<u>2023</u>
Equity securities	41%	45%
Fixed-income investments	27%	22%
Return-Seeking Credit	13%	13%
Real assets	10%	12%
Alternative investments	8%	7%
Cash and cash equivalents	<u>1%</u>	<u>1%</u>
Total plan assets	<u>100%</u>	<u>100%</u>

As of June 30, 2024, the assets of the priest pension plan are invested in accordance with the following allocation guidelines:

	<u>MINIMUM</u>	<u>MAXIMUM</u>	<u>TARGET</u>
Fixed-income investments	55%	65%	60%
Equity securities	15%	35%	25%
Real assets	3%	13%	8%
Return-Seeking Credit	2%	12%	7%
Cash and cash equivalents	0%	0%	0%

As of June 30, the priest pension plan's actual asset allocation by type of asset is as follows:

	<u>2024</u>	<u>2023</u>
Fixed-income investments	58%	25%
Equity securities	25%	42%
Real assets	8%	11%
Return Seeking Credit	8%	14%
Alternative investments	0%	7%
Cash and cash equivalents	<u>1%</u>	<u>1%</u>
Total plan assets	<u>100%</u>	<u>100%</u>

Plan assets measured at fair value at June 30, 2024 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	\$ 81,380,264			\$ 81,380,264
Pooled international and emerging markets funds	7,761,277			7,761,277
International and emerging mutual fund	831,846			831,846
Fixed-income:				
Corporate bonds		\$ 45,926,151		45,926,151
Pooled fixed-income funds		19,742,518		19,742,518
U. S. Treasury notes and bonds	11,947,097			11,947,097
U. S. Government agency securities		3,212,926		3,212,926
Real assets:				
Global listed infrastructure mutual fund	9,131,620			9,131,620
Money market mutual funds	<u>5,792,231</u>			<u>5,792,231</u>
Total	<u>\$116,844,335</u>	<u>\$ 68,881,595</u>	<u>\$ 0</u>	185,725,930
Plan assets measured at net asset value using the practical expedient that are not required to be categorized by level:				
Strategies fund				16,328,559
Real estate investment trust				<u>10,339,658</u>
Total fair value of plan assets				<u>\$212,394,147</u>

Plan assets measured at fair value at June 30, 2023 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	\$ 91,795,871			\$ 91,795,871
Pooled international and emerging markets funds	6,793,387	\$ 959,696		7,753,083
International and emerging mutual fund	1,241,109			1,241,109
Fixed-income:				
Corporate bonds		27,354,346		27,354,346
Pooled fixed-income funds		19,758,454		19,758,454
U. S. Treasury notes and bonds	8,850,120			8,850,120
U. S. Government agency securities		5,756,089		5,756,089
Real assets:				
Global listed infrastructure mutual fund	10,205,370			10,205,370
Money market mutual funds	<u>2,163,975</u>			<u>2,163,975</u>
Total	<u>\$121,049,832</u>	<u>\$ 53,828,585</u>	<u>\$ 0</u>	174,878,417
Plan assets measured at net asset value using the practical expedient that are not required to be categorized by level:				
Strategies fund				14,579,606
Real estate investment trust				<u>10,773,729</u>
Total fair value of plan assets				<u>\$200,231,752</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 plans are funded by contributions from the Chancery Office and other Archdiocesan employers at the rate of 7.5% of each eligible lay employee's gross salary and \$9,500 annually for each Archdiocesan priest. The Chancery Office and related employers expect to contribute approximately \$10.7 million to the pension plan and pay \$700,000 for other benefits for the fiscal year ended June 30, 2025.

Employer contributions paid to the pension plan are as follows:

	<u>2024</u>	<u>2023</u>
Chancery Office	\$ 1,454,423	\$ 6,360,397
Related employers	<u>10,619,983</u>	<u>10,163,257</u>
Total employer contributions	<u>\$ 12,074,406</u>	<u>\$ 16,523,654</u>

Pension benefits paid by the lay pension plan were approximately \$12.3 million during 2024 and \$11.8 million during 2023. Pension benefits paid by the priest pension plan were approximately \$1.0 million during 2024 and during 2023. Estimated future pension and health benefit payments for the next ten years as of June 30, 2024 are as follows:

	<u>PENSION BENEFITS</u>	<u>HEALTH BENEFITS</u>
2025	\$16,447,941	\$749,591
2026	\$16,763,217	\$833,805
2027	\$17,060,889	\$933,223
2028	\$17,530,885	\$1,044,192
2029	\$17,864,444	\$1,129,289
2030 through 2034	\$95,011,974	\$6,693,417

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 \$542,000 during 2024 and \$476,000 during 2023. The Chancery Office expects to fund post-employment health benefit costs of approximately \$700,000 during 2025.

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.

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 \$13.7 million at June 30, 2024 and \$22 million at June 30, 2023. 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 Federal Emergency Management Agency (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 the date of the financial statements, in July 2024, Hurricane Beryl caused damage to some Chancery Office and parish properties. The extent of that damage is not yet conclusive, but not estimated to be significantly above the insurance deductibles.

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.

NOTE 12 – NET ASSETS WITHOUT DONOR RESTRICTIONS

Net assets without donor restrictions are comprised of the following:

	<u>2024</u>	<u>2023</u>
Invested in property	\$ 53,418,383	\$ 54,708,964
Undesignated	59,907,095	54,558,872
Designated for Disaster Emergency Fund	13,747,716	12,370,345
Designated for Archbishop Fiorenza Priest Retirement Residence Endowment Fund	2,948,799	2,770,765
Pension and postretirement health benefits	<u>(82,949,675)</u>	<u>(87,138,348)</u>
Total net assets without donor restrictions	<u>\$ 47,072,318</u>	<u>\$ 37,270,598</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>2024</u>	<u>2023</u>
Subject to expenditure for specified purpose:		
Ignite Campaign	\$ 16,383,426	\$ 18,529,669
Charitable grants primarily for the needs of the poor	8,316,837	7,907,788
Inner-City Catholic Schools/C.R.O.S.S. Academies	3,305,477	3,204,387
St. Mary's Seminary	3,043,085	2,645,591
Special program services	1,075,199	805,425
Restricted-purpose land and buildings	855,014	869,135
Galveston area missions	679,829	598,302
Scholarships	489,623	452,960
Future parish sites	407,207	407,207
Ethnic Ministries	246,012	287,668
Camp Kappe	19,141	43,188
Catholic Chaplain Corps	9,182	72,565
Other	<u>559,676</u>	<u>486,726</u>
Total subject to expenditure for specified purpose	<u>35,389,708</u>	<u>36,310,611</u>
Endowments:		
Subject to spending policy and appropriation:		
Circle Lake Retreat Center Endowment Fund	4,440,955	4,196,511
Hispanic Ministry Endowment Fund	969,118	872,602
Archbishop Fiorenza Priest Retirement Residence Endowment Fund	<u>315,327</u>	<u>277,747</u>
Total endowments	<u>5,725,400</u>	<u>5,346,860</u>
Total net assets with donor restrictions	<u>\$ 41,115,108</u>	<u>\$ 41,657,471</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, 2024 and 2023.

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		
		NOT REQUIRED TO BE MAINTAINED IN PERPETUITY	REQUIRED TO BE MAINTAINED IN PERPETUITY	TOTAL
Endowment net assets, June 30, 2022	\$ 2,523,199	\$ 830,361	\$ 4,137,527	\$ 7,491,087
Net investment return	247,566	96,089	379,066	722,721
Contributions			71,096	71,096
Distributions			(167,279)	(167,279)
Endowment net assets, June 30, 2023	2,770,765	926,450	4,420,410	8,117,625
Net investment return	296,047	126,847	445,466	868,360
Contributions			7,450	7,450
Distributions	(118,013)		(201,223)	(319,236)
Endowment net assets, June 30, 2024	<u>\$ 2,948,799</u>	<u>\$ 1,053,297</u>	<u>\$ 4,672,103</u>	<u>\$ 8,674,199</u>

Endowment net asset composition as of June 30, 2024:

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
Donor-restricted endowment funds:			
Original donor-restricted gift and amounts required to be maintained in perpetuity		\$ 4,672,103	\$ 4,672,103
Accumulated net investment return and gifts		1,053,297	1,053,297
Internally-designated endowment funds	<u>\$ 2,948,799</u>		<u>2,948,799</u>
Endowment net assets	<u>\$ 2,948,799</u>	<u>\$ 5,725,400</u>	<u>\$ 8,674,199</u>

Endowment net asset composition as of June 30, 2023:

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
Donor-restricted endowment funds:			
Original donor-restricted gift and amounts required to be maintained in perpetuity		\$ 4,420,410	\$ 4,420,410
Accumulated net investment return and gifts		926,450	926,450
Internally-designated endowment funds	<u>\$ 2,770,765</u>		<u>2,770,765</u>
Endowment net assets	<u>\$ 2,770,765</u>	<u>\$ 5,346,860</u>	<u>\$ 8,117,625</u>

NOTE 15 – NET ASSET RELEASES

Net asset releases consist of the following:

	<u>2024</u>	<u>2023</u>
Operating expenditures:		
St. Mary's Seminary and Seminarian Support	\$ 3,415,797	\$ 3,602,457
Ignite Campaign	2,130,473	931,104
Scholarships	1,280,724	1,228,520
Inner-City Catholic Schools/C.R.O.S.S. Academies	1,251,392	2,633,935
Other	<u>3,142,217</u>	<u>2,845,227</u>
Total operating expenditures	<u>11,220,603</u>	<u>11,241,243</u>
Capital expenditures:		
St. Mary's Seminary	31,930	183,707
Other	<u>4,100</u>	<u>20,409</u>
Total capital expenditures	<u>36,030</u>	<u>204,116</u>
Total net asset releases	<u>\$ 11,256,633</u>	<u>\$ 11,445,359</u>

NOTE 16 – CONTRIBUTIONS

Non-operating contributions consist of the following:

	<u>2024</u>	<u>2023</u>
St. Mary's Seminary	\$ 3,845,221	\$ 3,706,759
Contributions from others	2,565,164	954,488
Inner-City Catholic Schools/C.R.O.S.S. Academies	1,543,482	1,236,538
Scholarships	1,126,387	1,267,048
Contributions from related entities:		
Ignite Campaign gifts from parishes and schools	248,654	967,453
Transfers from Catholic Endowment Foundation	<u> </u>	<u>1,682,278</u>
Total non-operating contributions	<u>\$ 9,328,908</u>	<u>\$ 9,814,564</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, 2024 consist of the following:

	<u>RELATED ENTITIES</u>	<u>UNRELATED ENTITIES</u>	<u>TOTAL</u>
Operating grants:			
Schools	\$ 5,766,731		\$ 5,766,731
Parishes	1,742,828		1,742,828
Other	<u>3,081,426</u>	<u>\$ 681,737</u>	<u>3,763,163</u>
Total operating grants	<u>\$ 10,590,985</u>	<u>\$ 681,737</u>	<u>\$ 11,272,722</u>
Non-operating grants and transfers:			
Assets transferred to St. Gregory the Great Catholic Church	<u>\$ 2,324,675</u>	<u> </u>	<u>\$ 2,324,675</u>
Total non-operating grants and transfers	<u>\$ 2,324,675</u>	<u>\$ 0</u>	<u>\$ 2,324,675</u>

Operating and non-operating grants and transfers made to related and unrelated entities during the year ended June 30, 2023 consist of the following:

	RELATED ENTITIES	UNRELATED ENTITIES	TOTAL
Operating grants:			
Schools	\$ 5,844,501		\$ 5,844,501
Parishes	2,159,965		2,159,965
Other	<u>2,372,889</u>	<u>\$ 842,956</u>	<u>3,215,845</u>
Total operating grants	<u>\$ 10,377,355</u>	<u>\$ 842,956</u>	<u>\$ 11,220,311</u>
Non-operating grants and transfers:			
Assets transferred to St. Mary's Cathedral Basilica	<u>\$ 30,446</u>	<u> </u>	<u>\$ 30,446</u>
Total non-operating grants and transfers	<u>\$ 30,446</u>	<u>\$ 0</u>	<u>\$ 30,446</u>

The Chancery Office provided a newly constructed church to St. Gregory the Great Catholic Church as a grant of approximately \$2.3 million in 2024.

NOTE 18 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 2, 2024, which is the date that the financial statements were available for issuance. As a result of this evaluation, no events other than in 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.