Chancery Office of the Archdiocese of Galveston-Houston

Financial Statements
and Independent Auditors' Report
for the years ended June 30, 2017 and 2016

Chancery Office of the Archdiocese of Galveston-Houston

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Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Chancery Office of the Archdiocese of Galveston-Houston, which comprise the statements of financial position as of June 30, 2017 and 2016 and the related statements of activities, of functional expenses, and of cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform our audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Chancery Office of the Archdiocese of Galveston-Houston as of June 30, 2017 and 2016 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.

Emphasis of Matter – Reclassification of 2016 Operating Expenses

As described in Note 2 to the financial statements, operating expenses by functional category for the year ended June 30, 2016 were reclassified to conform to the 2017 presentation. There was no change to total operating expenses. Our opinion is not modified with respect to this matter.

Blazek & Vetterling

December 20, 2017

Chancery Office of the Archdiocese of Galveston-Houston

Statements of Financial Position as of June 30, 2017 and 2016

	2017	2016
ASSETS		
Cash	$ 5,773,358	$ 5,574,411
Short-term investments – money market mutual funds *(Note 6)*	3,919,820	26,416,040
Accounts receivable from related entities, net *(Note 3)*	2,805,068	2,399,470
Prepaid expenses and other assets	1,084,310	1,133,762
Pledges receivable, net *(Note 4)*	3,876,196	3,959,572
Notes receivable from related entities *(Note 5)*	109,444,600	90,559,549
Cemetery inventory	2,050,212	2,097,697
Investments *(Note 6)*	129,797,935	135,826,563
Cash restricted for property improvements	425,591	265,172
Pledges receivable restricted for Ignite Campaign, net *(Note 4)*	8,911,168	
Chancery Office property, net *(Note 7)*	44,237,178	37,138,752
Other property *(Note 8)*	4,886,488	4,704,106
TOTAL ASSETS	$ 317,211,924	$ 310,075,094
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	$ 3,807,550	$ 4,791,941
Construction payable	1,614,864	
Grants payable	5,409,113	5,945,915
Deferred revenue	1,073,319	1,366,063
Accrued insurance claims *(Note 9)*	3,842,417	3,607,580
DS&L deposits held for related entities	163,813,082	160,129,599
Funds held for others	3,655,738	4,189,309
Notes and bonds payable *(Note 10)*	9,924,154	15,541,548
Accrued pension and postretirement health benefits liability *(Note 11)*	167,411,263	180,504,367
Total liabilities	360,551,500	376,076,322
Commitments and contingencies *(Note 12)*		
Net assets:		
Unrestricted *(Note 13)*	(80,387,314)	(90,989,799)
Temporarily restricted *(Note 14)*	35,358,937	23,584,981
Permanently restricted *(Note 15)*	1,688,801	1,403,590
Total net assets	(43,339,576)	(66,001,228)
TOTAL LIABILITIES AND NET ASSETS	$ 317,211,924	$ 310,075,094

See accompanying notes to financial statements.

Chancery Office of the Archdiocese of Galveston-Houston

Statement of Activities for the year ended June 30, 2017 (with comparative totals for the year ended June 30, 2016)

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL	2016 TOTAL
OPERATING REVENUE:					
Health insurance premiums *(Note 9)*	$ 25,805,847			$ 25,805,847	$ 23,376,750
Archdiocesan assessments	18,987,554			18,987,554	17,635,898
Unrestricted contributions	14,530,572			14,530,572	14,024,532
Business insurance premiums *(Note 9)*	9,944,928			9,944,928	10,223,056
Program and service fees	3,494,558			3,494,558	3,239,199
Interest on notes receivable from related entities	2,651,380			2,651,380	2,564,879
Cemetery sales and services	1,311,903			1,311,903	1,125,136
Other income	367,451			367,451	396,324
Total operating revenue	77,094,193			77,094,193	72,585,774
Net assets released for operating purposes	9,768,827			9,768,827	9,697,913
Total	86,863,020			86,863,020	82,283,687
OPERATING EXPENSES:					
Program services:					
Health insurance program *(Note 9)*	28,092,386			28,092,386	27,331,989
Chancery services	17,079,353			17,079,353	17,897,439
Pastoral and education	9,004,525			9,004,525	8,443,371
Catholic school office	7,285,617			7,285,617	7,300,640
Business insurance program *(Note 9)*	6,297,832			6,297,832	7,338,771
Seminary	5,745,064			5,745,064	5,781,995
Clergy	4,545,628			4,545,628	4,096,104
Diocesan Savings & Loan	1,457,818			1,457,818	1,377,399
Cemetery operations	1,264,383			1,264,383	1,308,972
Total program services	80,772,606			80,772,606	80,876,680
Administrative and general	10,239,241			10,239,241	9,211,185
Unallocated net periodic benefit costs – pension and postretirement	9,392,452			9,392,452	4,622,127
Fundraising	4,792,602			4,792,602	2,532,681
Total operating expenses	105,196,901			105,196,901	97,242,673
Changes in net assets from operations	(18,333,881)			(18,333,881)	(14,958,986)
OTHER CHANGES IN NET ASSETS:					
Contributions		$ 21,441,582	$ 151,431	21,593,013	10,534,308
Investment return, net *(Note 6)*	519,626	1,169,213	133,780	1,822,619	3,017,333
Gain on sales of property	5,110,198			5,110,198	4,829,062
Other benefit-related changes *(Note 11)*	22,485,556			22,485,556	(41,415,166)
Non-operating grants and transfers *(Note 16)*	(247,026)			(247,026)	(3,140,278)
Net assets released for Ignite Campaign expenditures	1,068,012	(1,068,012)			
Net assets released for operating purposes		(9,768,827)		(9,768,827)	(9,697,913)
CHANGES IN NET ASSETS	10,602,485	11,773,956	285,211	22,661,652	(50,831,640)
Net assets, beginning of year	(90,989,799)	23,584,981	1,403,590	(66,001,228)	(15,169,588)
Net assets, end of year	$(80,387,314)	$ 35,358,937	$ 1,688,801	$(43,339,576)	$(66,001,228)

See accompanying notes to financial statements.

Chancery Office of the Archdiocese of Galveston-Houston

Statement of Activities for the year ended June 30, 2016

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
OPERATING REVENUE:				
Health insurance premiums *(Note 9)*	$ 23,376,750			$ 23,376,750
Archdiocesan assessments	17,635,898			17,635,898
Unrestricted contributions	14,024,532			14,024,532
Business insurance premiums *(Note 9)*	10,223,056			10,223,056
Program and service fees	3,239,199			3,239,199
Interest on notes receivable from related entities	2,564,879			2,564,879
Cemetery sales and services	1,125,136			1,125,136
Other income	396,324			396,324
Total operating revenue	72,585,774			72,585,774
Net assets released for operating purposes	9,697,913			9,697,913
Total	82,283,687			82,283,687
OPERATING EXPENSES:				
Program services:				
Health insurance program *(Note 9)*	27,331,989			27,331,989
Chancery services	17,897,439			17,897,439
Pastoral and education	8,443,371			8,443,371
Catholic school office	7,300,640			7,300,640
Business insurance program *(Note 9)*	7,338,771			7,338,771
Seminary	5,781,995			5,781,995
Clergy	4,096,104			4,096,104
Diocesan Savings & Loan	1,377,399			1,377,399
Cemetery operations	1,308,972			1,308,972
Total program services	80,876,680			80,876,680
Administrative and general	9,211,185			9,211,185
Unallocated net periodic benefit costs – pension and postretirement	4,622,127			4,622,127
Fundraising	2,532,681			2,532,681
Total operating expenses	97,242,673			97,242,673
Changes in net assets from operations	(14,958,986)			(14,958,986)
OTHER CHANGES IN NET ASSETS:				
Contributions		$ 10,412,422	$ 121,886	10,534,308
Investment return, net *(Note 6)*	2,696,070	299,325	21,938	3,017,333
Gain on sales of property	4,829,062			4,829,062
Other benefit-related changes *(Note 11)*	(41,415,166)			(41,415,166)
Non-operating grants and transfers *(Note 16)*	(3,140,278)			(3,140,278)
Net assets released for capital expenditures	9,767,112	(9,767,112)		
Net assets released for operating purposes		(9,697,913)		(9,697,913)
CHANGES IN NET ASSETS	(42,222,186)	(8,753,278)	143,824	(50,831,640)
Net assets, beginning of year	(48,767,613)	32,338,259	1,259,766	(15,169,588)
Net assets, end of year	$ (90,989,799)	$ 23,584,981	$ 1,403,590	$ (66,001,228)

See accompanying notes to financial statements.

Chancery Office of the Archdiocese of Galveston-Houston

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

	HEALTH INSURANCE PROGRAM	CHANCERY SERVICES	PASTORAL AND EDUCATION	CATHOLIC SCHOOL OFFICE	BUSINESS INSURANCE PROGRAM	SEMINARY	CLERGY	DIOCESAN SAVINGS AND LOAN	CEMETERY	ADMINISTRATIVE AND GENERAL	FUNDRAISING	TOTAL
Claims expense	$ 25,384,146				$ 1,041,077							$ 26,425,223
Salaries and related benefits		$ 3,740,885	$ 4,516,480	$ 1,542,766		$ 1,383,681	$ 1,922,618		$ 466,573	$ 6,349,942	$ 914,652	20,837,597
Pension and post retirement		1,531,460	1,161,644	397,591		388,686	571,232		120,669	544,792	234,770	4,950,844
Grants		7,298,233	11,834	4,761,501	86,926	128,270	106,615					12,393,379
Premium expense	3,886,692				5,453,236							9,339,928
Professional services	1,891,931	807,144	743,586	91,639	288,225	1,084,811	353,078	$ 118,499	174,589	1,648,544	2,859,724	10,061,770
Interest paid to related entities on DSL deposits								1,545,721				1,545,721
Interest expense		311,796										311,796
Uncollectible accounts		787,095				(38,835)		(206,402)				541,858
Occupancy		767,289	853,233	48,277		497,579	204,168		207,466	587,969	20,582	3,186,563
Assistance to individuals			103,452			1,122,398	742,810					1,968,660
Supplies		89,923	496,656	280,377	211	192,762	80,018		211,461	29,457	21,424	1,402,289
Depreciation		851,398	242,984			665,119	3,497		16,212	67,286		1,846,496
Conferences and meetings		143,831	583,041	70,786		137,035	177,397		1,928	108,211	198,474	1,420,703
Dues and assessments						100	258,774			680,437	1,194	940,505
Printing and publications		240,701	55,090	12,135		30,796	21,897		6,378	40,643	370,875	778,515
Postage and shipping		305,174	6,603	56		5,942	724		782	7,877	140,584	467,742
Local travel and automobile		32,833	126,010	66,935		82,178	53,590		15,482	86,842	9,021	472,891
Non-capital equipment and improvement		35,376	85,387	13,084		39,092	21,091		4,361	21,065	8,663	228,119
Rental and maintenance		12,490	11,637	170		12,249	1,011		2,282	265	12,639	52,743
Cost of goods sold									36,200			36,200
Premium allocated to Chancery operations	(3,070,383)				(571,843)							(3,642,226)
Other		123,725	6,888	300		13,201	27,108			65,911		237,133
Total expenses	$ 28,092,386	$ 17,079,353	$ 9,004,525	$ 7,285,617	$ 6,297,832	$ 5,745,064	$ 4,545,628	$ 1,457,818	$ 1,264,383	$ 10,239,241	$ 4,792,602	95,804,449
Unallocated net periodic benefit costs – pension and postretirement												9,392,452
Non-operating grants and transfers												247,026
Total												$105,443,927

See accompanying notes to consolidated financial statements.

Chancery Office of the Archdiocese of Galveston-Houston

Statement of Functional Expenses for the year ended June 30, 2016

	HEALTH INSURANCE PROGRAM	CHANCERY SERVICES	PASTORAL AND EDUCATION	CATHOLIC SCHOOL OFFICE	BUSINESS INSURANCE PROGRAM	SEMINARY	CLERGY	DIOCESAN SAVINGS AND LOAN	CEMETERY	ADMINISTRATIVE AND GENERAL	FUNDRAISING	TOTAL
Claims expense	$ 24,685,846				$ 1,638,585							$ 26,324,431
Salaries and related benefits		$ 3,326,789	$ 4,095,783	$ 1,298,406		$ 1,274,503	$ 1,704,967		$ 544,828	$ 5,324,999	$ 942,576	18,512,851
Pension and post retirement		1,168,911	1,000,416	308,291		322,812	369,095		142,940	662,782	246,292	4,221,539
Grants		7,646,682	27,098	5,027,999	175,335	120,602	32,150					13,029,866
Premium expense	3,422,410				5,813,416							9,235,826
Professional services	1,811,110	904,703	653,168	188,275	299,650	1,040,115	440,286	$ 105,142	137,196	1,330,898	544,628	7,455,171
Interest paid to related entities on DSL deposits								1,404,122				1,404,122
Interest expense		459,487										459,487
Uncollectible accounts		2,031,515				(32,126)		(131,865)			167,137	2,034,661
Occupancy		810,608	857,944	45,223		535,984	189,778		258,092	678,319	22,468	3,398,416
Assistance to individuals			85,035			1,305,716	696,412					2,087,163
Supplies		93,810	512,132	336,894	95	195,332	86,824		149,393	40,700	25,688	1,440,868
Depreciation		533,742	181,710			664,856	1,794		15,454	67,286		1,464,842
Conferences and meetings		129,480	687,359	33,503	151	157,430	198,583		3,606	148,630	171,277	1,530,019
Dues and assessments			9,848			1,300	205,564			667,264		883,976
Printing and publications		265,648	62,806	24,290		37,284	27,216		9,465	58,446	278,716	763,871
Postage and shipping		338,466	6,151	55		4,748	2,152		837	7,895	108,141	468,445
Local travel and automobile		22,558	103,112	26,507	6	94,723	44,488		11,462	139,591	3,122	445,569
Non-capital equipment and improvement		33,601	89,958	10,953		14,981	71,357		4,286	22,680	6,191	254,007
Rental and maintenance		15,968	59,908	83		14,108	1,753		1,426	151	16,098	109,495
Cost of goods sold									29,987			29,987
Premium allocated to Chancery operations	(2,587,377)				(588,467)							(3,175,844)
Other		115,471	10,943	161		29,627	23,685			61,544	347	241,778
Total expenses	$ 27,331,989	$ 17,897,439	$ 8,443,371	$ 7,300,640	$ 7,338,771	$ 5,781,995	$ 4,096,104	$ 1,377,399	$ 1,308,972	$ 9,211,185	$ 2,532,681	92,620,546
Unallocated net periodic benefit costs – pension and postretirement												4,622,127
Non-operating grants and transfers												3,140,278
Total												$100,382,951

See accompanying notes to consolidated financial statements.

Chancery Office of the Archdiocese of Galveston-Houston

Statements of Cash Flows for the years ended June 30, 2017 and 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	$ 22,661,652	$ (50,831,640)
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities:		
Contributions restricted for Ignite Campaign	(11,346,057)	
Contributions restricted for endowment	(151,431)	(121,886)
Net realized and unrealized (gain) loss on investments	1,559,150	(121,534)
Depreciation	1,846,497	1,464,846
Net gain on sales of property	(5,110,198)	(4,829,062)
Transfers of property		36,647
Contributed property	(502,429)	
Changes in operating assets and liabilities:		
Accounts receivable from related entities	(405,598)	1,152,709
Prepaid expenses, other assets and cemetery inventory	96,937	38,648
Pledges receivable (operating only)	83,376	808,809
Accounts payable and accrued expenses	(984,391)	(2,338,545)
Grants payable	(536,802)	1,997,553
Deferred revenue	(292,744)	229,205
Accrued insurance claims	234,837	(16,773)
DS&L deposits held for related entities and funds held for others	3,149,912	20,564,834
Accrued pension and postretirement health benefits liability	(13,093,104)	46,037,593
Net cash provided (used) by operating activities	(2,790,393)	14,071,404
CASH FLOWS FROM INVESTING ACTIVITIES:		
Payments received on notes receivable	13,959,325	18,384,791
Advances of notes receivable	(32,844,376)	(23,289,542)
Net purchases of money market mutual funds	29,971,146	33,113,749
Proceeds from sales of investments	34,241,903	52,421,100
Purchases of investments	(37,247,351)	(90,559,198)
Purchases of property	(7,330,059)	(6,550,399)
Proceeds from sales of property	5,430,245	5,479,054
Net cash provided (used) by investing activities	6,180,833	(11,000,445)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from contributions restricted for Ignite Campaign	2,434,889	1,507,466
Proceeds from contributions restricted for endowment	151,431	121,886
Proceeds from notes and bonds payable	560,000	
Principal payments of notes and bonds payable	(6,177,394)	(5,131,801)
Net cash used by financing activities	(3,031,074)	(3,502,449)
NET CHANGE IN CASH	359,366	(431,490)
Cash, beginning of year	5,839,583	6,271,073
Cash, end of year	$ 6,198,949	$ 5,839,583

Supplemental disclosure of cash flow information:

Interest and letter of credit fees paid	$311,803	$465,606

See accompanying notes to financial statements.

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization – The Roman Catholic Archdiocese of Galveston-Houston (the Archdiocese) is an ecclesiastical territory that encompasses ten counties in southeastern Texas in an area covering almost 9,000 square-miles. The Archdiocese serves approximately 1.6 million Catholics with over 200 parishes, missions and schools. The Chancery Office of the Archdiocese (the Chancery Office) includes administrative and program services of the Archdiocese that are fiscally and operationally responsible directly to the Office of the Cardinal Archbishop of the Archdiocese. The operations of the Chancery Office are organized under Secretariats with Secretariat Directors who, as a cabinet under the Cardinal Archbishop, oversee the activities of the Chancery Office. The Secretariats include Communications, Finance, Administration, Pastoral and Educational Ministries, Clergy Formation and Chaplaincy Services, and Catholic Schools. Archdiocesan entities organized under these Secretariats include St. Mary's Seminary, four Catholic cemeteries, Catholic university student centers, Kamp Kappe, and Circle Lake Retreat Center. Additionally, the Tribunal and Ethnic offices are included in this organizational body.

Basis of presentation – These financial statements include only the assets, liabilities, and activities of the Chancery Office. All significant balances and transactions between operating units included in these financial statements have been eliminated. The accompanying financial statements do not include the assets, liabilities, and activities of the individual parishes, schools, and Diocesan organizations that operate within the Archdiocese. Each of these related entities, although ultimately responsible to the Cardinal Archbishop, is an operating entity distinct from the Chancery Office, maintains separate financial records, and administers its own services and programs. Additionally, various religious orders, lay societies, and religious organizations that operate within the Archdiocese, but which are not fiscally responsible to the Cardinal Archbishop, are not included in the accompanying financial statements.

Federal income tax status – The Archdiocese is exempt from federal income tax under §501(c)(3) of the Internal Revenue Code and is classified as a public charity under §170(b)(1)(A)(i) under the group exemption of the United States Catholic Conference.

Operating measure – The operating activities of the Archdiocese include revenue and expenses related to the operation of the Chancery Office and excludes donor-restricted revenue, investment return, and other transactions not in the normal course of operations. Net assets restricted for operating purposes are reclassified as operating in the period the purpose restriction is accomplished or time restriction ends.

Cash concentration – Bank deposits exceed the federally insured limit per depositor per institution.

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

Pledges receivable that are expected to be collected within one year are reported at net realizable value. Pledges receivable that are expected to be collected in future years are discounted to estimate the present value of future cash flows, if material. Discounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of discounts is included in contribution revenue. An allowance for uncollectible pledges is estimated based upon management's analysis on an account-by-account basis.

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

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

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

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

Interest, dividends and royalties are recognized when earned. Purchases and sales of investments are recorded on a trade-date basis. Net realized and unrealized gains and losses on investments are determined by comparison of average costs of acquisitions to proceeds at the time of disposal or fair value at the last day of the fiscal year. Investment return is reported in the statement of activities as an increase in unrestricted net assets unless the use of the income is limited by donor-imposed restrictions.

Property is reported at cost, if purchased and at fair value at the date of gift, if donated. The Chancery Office capitalizes major expenditures to acquire property and those which substantially increase the useful lives of assets. Routine maintenance and repairs, as well as equipment and improvements with a future economic life of less than five years, are expensed as incurred. The Chancery Office provides for depreciation of property using the straight-line method based on estimated useful lives of 10 to 40 years for buildings and improvements and 5 to 15 years for furnishings and equipment.

Grants made are recognized as expense at fair value when the Chancery Office approves an unconditional commitment to a grant recipient. Conditional grants are recognized in the same manner when the conditions are substantially met by the recipient or when the possibility that the conditions will not be met is deemed remote. Commitments made but not yet funded are reported as grants payable and are discounted to estimate the present value of future cash flows, if material. At June 30, 2017, grants payable are expected to be paid within one year.

Diocesan Savings and Loan (DS&L) deposits held for related entities represent amounts deposited with the Chancery Office by parishes, schools and other Diocesan entities through the Archdiocesan savings and loan program. Deposits accrue interest at the average of select certificate of deposit rates offered by local banks. Interest is payable upon demand by the depositor. Deposits were accruing interest at 1% and 0.95% at June 30, 2017 and 2016, respectively.

Funds held for others consist primarily of amounts collected by parishes on behalf of unrelated charitable beneficiaries that have been forwarded to the Chancery Office for disbursement to the specified beneficiary. The Chancery Office acts as an agent in collecting and disbursing these funds and such transactions are not reflected as revenue or expenses in the statement of activities.

Accrued pension and postretirement health benefits liability – The Chancery Office recognizes the actuarially-determined overfunded or underfunded status of the defined benefit postretirement plans as an asset or liability in the statement of financial position and recognizes changes in that funded status in the year in which the changes occur as changes in unrestricted net assets. The measurement date for recognizing the funded status of the plans is June 30.

Net asset classification – Revenue and the related net assets are classified based on the existence or absence of donor-imposed restrictions, as follows:

- *Unrestricted net assets* include those net assets whose use is not restricted by donor-imposed stipulations, even though their use may be limited in other respects, such as by contract or board designation.
- *Temporarily restricted net assets* include revenue restricted by the donor for specific purposes or time periods. When a purpose restriction is accomplished or a time restriction ends, temporarily restricted net assets are released to unrestricted net assets.
- *Permanently restricted net assets* include contributions that donors have restricted in perpetuity. Investment return not restricted by donors in perpetuity may be expended to support specific activities of the Chancery Office.

Contributions are recognized as revenue at fair value when an unconditional commitment is received from the donor. Contributions received with donor stipulations that limit their use are classified as restricted support. Conditional contributions are recognized in the same manner when the conditions are substantially met. A portion of contributions to the annual Diocesan Services Fund in excess of a parish's goal are paid to the parish in the form of a rebate. Contributions are recognized net of estimated rebates. Rebates payable at year end are included in accounts payable and accrued expenses.

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.

Archdiocesan assessments – In support of operations of the Chancery Office, the Archdiocese levies assessments on the revenue of its parishes adjusted for certain excludable items and deductions. These assessments are computed from financial information submitted by the parishes using formulas established by the Cardinal Archbishop. Revenue from these assessments is recognized in the period in which they are levied.

Insurance premiums and expenses – The Chancery Office administers insurance plans as described in Note 9. Premiums are assessed annually based upon management's estimate of claims, deductibles, and premiums for third-party coverage and administrative costs. The Chancery Office recognizes revenue for premiums billed to participating entities in the year for which coverage is provided. The Chancery Office recognizes expenses for actual claims paid plus management's estimate of additional claims and losses for the self-insured portion of plans, premiums for excess loss and catastrophic coverage, and administrative costs. Claims expense is recognized net of estimated reimbursements from third-party providers. Management's estimate of additional claims and losses for the self-insured portion of plans is reflected in the statement of financial position as accrued insurance claims. It is possible that management's estimate of claims and losses could change in the near term and that such changes could affect the amounts reported in the statement of financial position and statement of activities.

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

Estimates – Management must make estimates and assumptions to prepare financial statements in accordance with generally accepted accounting principles. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, the amounts reported as revenue and expenses, and the allocation of expenses among various functions. Actual results could vary from the estimates that were used.

Recent financial accounting pronouncement – In August 2016, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities.* The amendments in the ASU are the first phase of changes aimed at providing more useful information to users of not-for-profit financial statements. Under this ASU, net assets will be presented in two classes: *net assets with donor restrictions* and *net assets without donor restrictions* and underwater endowments will be grouped with *net assets with donor restrictions.* New or enhanced disclosures will be required about the nature and composition of net assets, and the liquidity and availability of resources for general operating expenditures within one year of the balance sheet date. Expenses will be required to be presented by both nature and function and investment return will be presented net of external and direct internal investment expenses. Absent explicit donor stipulations, restrictions on long-lived assets will expire when assets are placed in service. The ASU is effective for fiscal periods beginning after December 15, 2017, but early adoption is permitted. Adoption of this ASU will impact the presentation and disclosures of the financial statements.

NOTE 2 – RECLASSIFICATION OF 2016 OPERATING EXPENSES

In 2017, management has re-evaluated the functional reporting categories for operating expenses in anticipation of the adoption of ASU 2016-14 and reclassified operating expenses reported in the statement of activities for the year ended June 30, 2016 from those previously reported to conform to the 2017 presentation period. Additionally, the Chancery Office has elected to include a functional expense statement for both 2017 and 2016.

NOTE 3 – ACCOUNTS RECEIVABLE FROM RELATED ENTITIES

Accounts receivable from related entities consist of the following:

	2017	2016
Total accounts receivable from related entities	$ 6,682,797	$ 5,879,502
Allowance for uncollectible accounts receivable	(3,877,729)	(3,480,032)
Accounts receivable from related entities, net	$ 2,805,068	$ 2,399,470

NOTE 4 – PLEDGES RECEIVABLE

Pledges receivable consist of the following:

	2017	2016
Ignite Campaign (capital and endowment)	$ 10,326,074	
Diocesan Services Fund	2,227,423	$ 2,379,076
Corpus Christi Collection to benefit St. Mary's Seminary	1,079,638	295,554
St. Dominic Village Campaign	527,039	1,000,145
St. Mary's Seminary Campaign	234,800	507,693
Inner-City Catholic Schools	55,672	56,715
Total pledges receivable	14,450,646	4,239,183
Discount to net present value at 1.62% to 1.89%	(366,395)	(13,669)
Allowance for uncollectible pledges	(1,296,887)	(265,942)
Pledges receivable, net	$ 12,787,364	$ 3,959,572

Pledges receivable at June 30, 2017 are expected to be collected as follows:

Within one year	$ 7,008,165
In one to five years	7,442,481
Total pledges receivable	$ 14,450,646

In 2017, the Chancery Office launched a capital campaign, *Ignite: Our Faith, Our Mission*, to raise $150,000,000. The goal of the campaign was to provide funds for individual parish needs, capital improvements at St. Mary's Seminary and to establish Catholic School Education Endowment Funds and the Faith Formation Endowment Fund. Through June 30, 2017, contributions to the campaign totaled approximately $13 million before pledge allowances and discounts.

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. Interest rates and principal and interest payment terms on the notes associated with Chancery notes and bonds payable are substantially similar to the terms for the respective notes and bonds payable. Interest rates on other notes from related entities vary and repayment terms generally require periodic payments of principal and interest over periods ranging from one to nine years. Variable rate notes accrue interest based on average medium-term certificate of deposit rates offered nationally, plus a spread. At June 30, 2017, variable rate notes were accruing interest at 2.50%. At June 30, 2017, fixed-rate notes were generally accruing interest at rates between 2.50% and 6.50%.

Notes receivable from related entities consist of the following:

	2017	2016
Notes associated with Chancery notes and bonds payable	$ 9,924,154	$ 11,491,548
Other notes from related entities	99,520,446	79,068,001
Total notes receivable from related entities	$109,444,600	$ 90,559,549

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.
- *Level 2* – Inputs are other than quoted prices included in Level 1, which are either directly observable or can be derived from or corroborated by observable market data at the reporting date.
- *Level 3* – Inputs are not observable and are based on the reporting entity's assumptions about the inputs market participants would use in pricing the asset or liability.

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

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

Assets measured at fair value at June 30, 2016 consist of the following:

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Short-term investments – money market mutual funds	$ 26,416,040	$ 0	$ 0	$ 26,416,040
Investments:				
Corporate bonds and notes		$ 51,408,285		$ 51,408,285
U. S. Government agency bonds		44,084,408		44,084,408
Invested with Catholic Endowment Foundation (a)		14,369,077		14,369,077
U. S. Treasury securities		12,581,287		12,581,287
Annuity contracts (b)			$ 3,627,197	3,627,197
Money market mutual funds	$ 7,872,377			7,872,377
Total investments measured at fair value	$ 7,872,377	$122,443,057	$ 3,627,197	133,942,631
Other investments (reported at the lower of cost or fair value)				1,883,932
Total investments				$135,826,563

(a) The Chancery Office invests with the Foundation, a related entity, in an investment pool that uses the market value unit method of accounting for investment transactions. The fair value of the Chancery Office's investment in the Foundation reflects the Chancery Office's share of the fair value of the total underlying investment portfolio managed by the Foundation. The Chancery Office's share of changes in the value of the pooled portfolio is included in net realized and unrealized gain (loss). Redemptions may be made on the first business day of each month, with a redemption notice of five business days.

(b) The Chancery Office has an investment in two life annuity contracts. Guaranteed payments are for a period of 120 months with payouts commencing in 2012 and 2026.

Valuation methods used for assets measured at fair value are as follows:

- *Mutual funds* are valued at the reported net asset value.
- *Corporate bonds and notes, U. S. Government agency bonds,* and *U. S. Treasury securities* are valued using prices obtained from independent quotation bureaus that use computerized valuation formulas which may include market-corroborated inputs for credit risk factors, interest rate and yield curves and broker quotes to calculate fair values.
- *Invested with Catholic Endowment Foundation* is valued at the reported net asset value determined by the Foundation management based on the fair value of the underlying investments.
- *Annuity contracts* are valued using a quantitative model based on assumptions of future interest rates and related discounted cash flows.

These valuation methods may produce a fair value that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Chancery Office believes its valuation methods are appropriate, the use of different methods or assumptions could result in a different fair value measurement at the reporting date.

Changes in the fair value of Level 3 assets during the years ended June 30, 2017 and 2016 consist of the following:

	ANNUITY CONTRACTS	OTHER	TOTAL
Balance at June 30, 2015	$ 3,556,076	$ 16,422	$ 3,572,498
Net realized and unrealized gain (loss)	71,121	(9,782)	61,339
Purchases, issuances, sales and settlements, net		(6,640)	(6,640)
Balance at June 30, 2016	3,627,197	0	3,627,197
Unrealized gain	72,544		72,544
Balance at June 30, 2017	$ 3,699,741	$ 0	$ 3,699,741

Investments are exposed to various risks such as interest rate, market and credit risks. In addition to risks associated with other investments, alternative investments in securities other than stocks and bonds include additional risks because of their complex nature and limited regulations resulting in a greater risk of losing invested capital. Because of these risks, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position and statement of activities.

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

	2017	2016
Interest, dividends and royalties	$ 3,713,697	$ 3,179,784
Net realized and unrealized gain (loss)	(1,559,150)	121,534
Investment custodial and management fees	(331,928)	(283,985)
Investment return, net	$ 1,822,619	$ 3,017,333

NOTE 7 – CHANCERY OFFICE PROPERTY

Chancery Office property is comprised of the following:

	2017	2016
Land	$ 7,293,583	$ 7,293,583
Buildings and improvements	43,130,817	42,728,741
Furnishings and equipment	10,772,796	9,736,180
Construction and projects in progress	9,537,561	2,031,330
Total Chancery Office property, at cost	70,734,757	61,789,834
Accumulated depreciation	(26,497,579)	(24,651,082)
Chancery Office property, net	$ 44,237,178	$ 37,138,752

NOTE 8 – OTHER PROPERTY

Other property is comprised of the following:

	2017	2016
Land and buildings used by related entities and others	$ 2,963,422	$ 2,460,993
Land held for anticipated future parish or school use	1,923,066	2,243,113
Other property, at cost	$ 4,886,488	$ 4,704,106

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, 2017 and 2016, approximately $1,500,000 in claims have been provided for as accrued insurance claims.

The Chancery Office also provides medical, dental, disability and life insurance plans for eligible employees of the Chancery Office, as well as for employees of parishes, schools and other related entities. The plans are primarily self-insured with additional third-party coverage provided by aggregate and specific stop-loss policies. Premiums for employee coverage are paid by the Chancery Office and participating employers. At June 30, 2017 and 2016, approximately $2,300,000 and $2,100,000, respectively, in claims under these plans are reported as accrued insurance claims.

NOTE 10 – NOTES AND BONDS PAYABLE

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

	2017	2016
Harris County Health Facilities Development Corporation, Adjustable Rate Demand Revenue Bonds (0.95% at June 30, 2017), St. Dominic Village Project Series 2000, $10,000,000, issued July 2000, mandatory principal payments due through July 2025, secured by certain revenue of St. Dominic Village Corporation.	$ 4,925,000	$ 5,425,000
Note payable with a bank for St. Theresa Catholic School building construction, issued March 14, 2008, interest due monthly, interest accrues at prime less 1.75% (2.50% at June 30, 2017), matures in March 2020.	2,995,404	3,248,855
Note payable with a bank for St. Albert Trapani Church construction, issued May 2008, principal and interest due monthly, interest accrues at a fixed rate of 5.28%, matures in March 2021.	1,443,750	1,548,750
Note payable with a bank for St. Mary's – Plantersville land acquisition issued January 26, 2017. Principal and interest due annually starting January 2018, interest accrues at a fixed rate of 3.00%, matures in January 2021.	560,000	
Beasley Higher Education Finance Corporation, Education Revenue Bonds, St. Anthony of Padua Project, $10,000,000, issued February 17, 2006, 4.10% interest and principal due monthly through February 2018, secured by tuition and other revenue of St. Anthony of Padua Catholic School.		4,833,333
Manvel Education Facilities Corporation, Education Revenue Bonds, St. Mary's Magdalene Catholic School refinancing, $2,813,233, issued in May 2007, 4.25% interest and scheduled principal payments due monthly through December 2017, secured by revenue derived from the operation of St. Mary's Magdalene Catholic School.		390,119
Manvel Education Facilities Corporation, Education Revenue Bonds, St. Martha Catholic School Capital Improvements, $4,000,000, issued in July 2001, 5.25% interest and scheduled principal due quarterly through September 2016, secured by revenue derived from the operation of St. Martha Catholic School.		95,491
Total notes and bonds payable	$ 9,924,154	$ 15,541,548

Notes and bonds payable at June 30, 2017 are due as follows:

Fiscal year 2018	$ 1,023,452
Fiscal year 2019	1,053,452
Fiscal year 2020	1,088,452
Fiscal year 2021	1,128,452
Fiscal year 2022	1,033,452
Thereafter	4,596,894
Total notes and bonds payable	$ 9,924,154

Interest expense and letter of credit fees recognized and paid on notes and bonds payable was approximately $312,000 in 2017 and $459,000 in 2016.

NOTE 11 – PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS

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

Obligations and funded status

	PENSION BENEFITS		HEALTH BENEFITS	
	2017	2016	2017	2016
Fair value of plan assets	$ 150,037,386	$ 129,648,036		
Benefit obligation	(282,590,580)	(274,855,554)	$ (34,858,069)	$ (35,296,849)
Funded status of the plans	$(132,553,194)	$(145,207,518)	$ (34,858,069)	$ (35,296,849)
Liability from net periodic benefit cost	$ (39,214,192)	$ (32,288,295)	$ (30,251,393)	$ (27,784,838)
Accumulated other benefit-related changes:				
Actuarial loss	(93,339,002)	(112,919,223)	(4,606,676)	(7,512,011)
Accrued benefits liability	$(132,553,194)	$(145,207,518)	$ (34,858,069)	$ (35,296,849)
Accumulated benefit obligation	$(257,928,232)	$(253,589,756)	$ (34,858,069)	$ (35,296,849)

Net periodic benefit cost and other benefit-related changes

	PENSION BENEFITS		HEALTH BENEFITS	
	2017	2016	2017	2016
Net periodic benefit cost	$ 21,703,748	$ 14,451,119	$ 2,796,088	$ 2,277,926
Other benefit-related changes:				
Net (gain) loss arising during year	(10,133,425)	39,618,278	(2,572,086)	1,339,755
Amortization of net loss	(8,860,862)	(5,393,497)	(333,249)	
Amortization of prior service credit	(585,934)	5,850,630		
Other benefit-related changes	(19,580,221)	40,075,411	(2,905,335)	1,339,755
Total benefit cost	2,123,527	54,526,530	(109,247)	3,617,681
Net periodic cost funded by related entities	(13,601,072)	(10,952,067)		
Benefit cost recognized by Chancery Office	$ (11,477,545)	$ 43,574,463	$ (109,247)	$ 3,617,681

The amount expected to be amortized from accumulated other benefit-related changes into net periodic benefit cost for pension benefits in 2018 is $8,544,000 of net loss. The amount expected to be amortized from accumulated other benefit-related changes into net periodic benefit cost for health benefits in 2018 is $447,000 of net loss.

Assumptions

	PENSION BENEFITS		HEALTH BENEFITS	
	2017	2016	2017	2016
Weighted-average actuarial assumptions used to determine benefit obligations at end of year:				
Discount rate	3.75%	3.50%	3.75%	3.50%
Rate of compensation increase	3.00%	3.00%		
Weighted-average actuarial assumptions used to determine net periodic cost for year:				
Discount rate	3.50%	4.25%	3.50%	4.25%
Expected return on plan assets	7.00%	7.00%		
Rate of compensation increase	3.00%	3.00%		

Assumed healthcare cost trend rate at June 30, 2017:	
Healthcare cost trend rate assumed for next year	5.00% - 7.20%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	4.00%
Years to reach the ultimate trend rate	58

Assumed healthcare cost trend rates have a significant effect on the amounts reported for the health benefit plan. A one-percentage point change in assumed healthcare cost trend rates would have the following effect:

	ONE-PERCENTAGE POINT INCREASE	ONE-PERCENTAGE POINT DECREASE
Effect on total of service and interest cost components	$776,018	$(561,833)
Effect on postretirement benefit obligation	$7,890,718	$(6,082,358)

Plan assets

The primary objective in the management of the pension plan assets is to meet the plan's liabilities of paying pension benefit obligations to its participants. The secondary objective is to minimize and control the difference between the plan's assets and liabilities, evaluated on an on-going basis, through the asset allocation guidelines, as well as by setting the target duration of assets in line with the plan's liabilities. Over a rolling five-year basis, the plan's objective is to match or exceed its actuarial long-term rate of return while maintaining the liquidity needed to meet benefit payment requirements. The expected long-term rate of return on assets is established taking into account the intended asset mix and historical rates of return on comparable assets.

The assets of the pension plan are invested in accordance with the following allocation guidelines:

	MINIMUM	MAXIMUM	TARGET
Equity investments	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:

	2017	2016
Equity investments	48%	48%
Fixed-income investments	31%	30%
Real assets	11%	11%
Alternative investments	9%	10%
Cash and cash equivalents	1%	1%
Total plan assets	100%	100%

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

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

Plan assets measured at fair value at June 30, 2016 were measured according to the three levels of the fair value hierarchy as follows:

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Equity securities:				
Large-cap securities	$ 20,210,160			$ 20,210,160
International and emerging mutual fund	16,794,351			16,794,351
Pooled international and emerging markets funds	7,986,494	$ 9,389,652		17,376,146
Pooled small-cap fund		7,555,422		7,555,422
Fixed-income:				
Pooled fixed-income funds		17,849,388		17,849,388
Corporate bonds		15,057,754		15,057,754
U. S. Government agency securities		3,601,654		3,601,654
U. S. Treasury notes and bonds		2,805,215		2,805,215
Real assets:				
Global listed infrastructure mutual fund	7,561,608			7,561,608
Real estate investment trust			$ 7,053,778	7,053,778
Alternate investments:				
Strategies fund			9,028,205	9,028,205
Absolute return			2,445,739	2,445,739
Long and short private equity			1,635,407	1,635,407
Money market mutual funds	673,209			673,209
Total fair value of plan assets	$ 53,225,822	$ 56,259,085	$ 20,163,129	$129,648,036

Valuation methods used for pension plan assets measured at fair value are as follows:

- *Equity securities* are valued at the closing price reported on the active market on which the individual securities are traded.
- *Pooled international and emerging markets funds* and *pooled fixed-income funds* are valued at net asset values as reported by the fund management.
- *Corporate bonds, U. S. Government agency securities* and *U. S. Treasury notes and bonds* are valued using prices obtained from independent quotation bureaus that use computerized valuation formulas which may include market-corroborated inputs for credit risk factors, interest rate and yield curves and broker quotes to calculate fair values.
- *Real estate investment trust* and *alternative investments* are valued at their net asset values as provided by the general partner or directors of each fund computed from the estimated fair value of the underlying securities. These types of investments are included in Level 3 and include funds where the fair value for portfolio investments is estimated by the general partner or fund manager using valuation methodologies that consider a range of factors, including but not limited to, the price at which the investment was acquired, the nature of the investment, local market conditions, trading values on public exchanges for comparable securities, current and projected operating performance, financial condition, and financing transactions subsequent to the acquisition of the investment. Inputs are not observable and are based on the reporting entity's assumptions about the inputs market participants would use in pricing the asset or liability.
- *Mutual funds* are valued at reported net asset value.

These valuation methods may produce a fair value that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Chancery Office believes its valuation methods are appropriate, the use of different methods or assumptions could result in a different fair value measurement at the reporting date.

Changes in the fair value of pension plan Level 3 assets for the years ended June 30, 2017 and 2016 consist of the following:

	STRATEGIES FUND	REAL ESTATE INVESTMENT TRUST	ABSOLUTE RETURN	LONG AND SHORT PRIVATE EQUITY	TOTAL
Balance at June 30, 2015	$ 8,299,912	$ 6,384,679	$ 2,278,291	$ 1,822,070	$ 18,784,952
Purchases	900,000				900,000
Unrealized gain (loss)	(171,707)	669,099	167,448	(186,663)	478,177
Balance at June 30, 2016	9,028,205	7,053,778	2,445,739	1,635,407	20,163,129
Purchases	47,000	363,950			410,950
Sales	(88,738)				(88,738)
Net realized and unrealized gain (loss)	579,166	92,881	(112,348)	349,558	909,257
Balance at June 30, 2017	$ 9,565,633	$ 7,510,609	$ 2,333,391	$ 1,984,965	$ 21,394,598

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 $3,500 annually for each Archdiocesan priest. The Chancery Office and related employers expect to contribute approximately $10 million to the pension plan and pay $0.5 million for other benefits during 2018.

Employer contributions paid to the pension plan during 2017 and 2016 are as follows:

	2017	2016
Chancery Office	$ 1,176,779	$ 872,719
Related employers	13,601,072	10,952,067
Total employer contributions	$ 14,777,851	$ 11,824,786

Pension benefits paid by the pension plan were approximately $9.8 million during 2017 and $9.2 million during 2016. Estimated future pension and health benefit payments for the next ten years as of June 30, 2017 are as follows:

	PENSION BENEFITS	HEALTH BENEFITS
2018	$11,849,983	$522,393
2019	$12,375,624	$665,617
2020	$12,711,584	$716,650
2021	$13,200,854	$815,464
2022	$13,864,065	$900,764
2023 through 2027	$77,995,474	$5,739,518

The health benefit plan is funded directly by the Chancery Office from insurance operations and various Archdiocesan revenues and reserves. The Chancery Office funded health benefit costs of approximately $330,000 during 2017 and $282,000 during 2016. The Chancery Office expects to fund health benefit costs of approximately $500,000 during 2018.

NOTE 12 – COMMITMENTS AND CONTINGENCIES

The Chancery Office maintains letters of credit totaling $750,000 in favor of their workers' compensation insurance carrier that may be drawn in the event the Chancery Office fails to fund claims. The Chancery Office also maintains a letter of credit in favor of the trustee of one of their bonds payable that may be drawn in the event the Chancery Office fails to make required bond payments. This letter of credit was approximately $5 million at June 30, 2017.

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 $11 million at June 30, 2017. The outstanding balances of these notes are not reflected in these financial statements.

In September 2008, Hurricane Ike caused substantial damage to property held by the Chancery Office and to several parishes and schools of the Archdiocese. Claims were covered by the Chancery Office with some recoveries from third-party insurance providers and from the Federal Emergency Management Agency (FEMA), passed through from the Texas Department of Public Safety, Texas Division of Emergency Management. Award amounts were determined based upon estimated project costs and third-party insurance recoveries, as well as allowable use of facilities. Awards are subject to review and audit by the awarding agencies, and the Chancery Office has received notice that such reviews are ongoing. Such reviews and audits could result in de-obligation of funds for unallowable activities or costs or for changes in estimates. Consequently, the awarding agencies may, at their discretion, request reimbursement of de-obligated amounts. Management is in the process of working with FEMA regarding claims of potentially de-obligated funds and is vigorously defending their use of federal funds during the hurricane recovery.

The Archdiocese, as well as the related entities, participate in the Catholic Umbrella Pool for general liability coverage to cover losses that may result from asserted claims, as well as claims from unknown incidents that may be asserted in the future. The Archdiocese is involved in various legal proceedings, disputes, and litigation. Additionally, the Archdiocese may be held liable for claims, disputes, and legal actions brought against related entities. In the opinion of management, uninsured losses, if any, resulting from resolution of these matters will not have a material effect on the financial position of the Chancery Office.

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

At June 30, 2017, the Chancery Office had outstanding commitments of approximately $3,100,000 related to a project to update the heating, ventilating, and air conditioning at St. Mary's Seminary.

NOTE 13 – UNRESTRICTED NET ASSETS

Unrestricted net assets consist of the following:

	2017	2016
Undesignated	$ 44,443,804	$ 46,422,338
Designated for Archbishop Fiorenza Priest Retirement Residence Endowment Fund	2,215,796	2,098,706
Invested in property	40,364,349	40,993,524
Pension and postretirement health benefits	(167,411,263)	(180,504,367)
Total unrestricted net assets	$ (80,387,314)	$ (90,989,799)

NOTE 14 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	2017	2016
Ignite Campaign	$ 10,313,045	
Charitable grants primarily for the needs of the poor	7,165,766	$ 6,877,368
Inner-City Catholic Schools	4,205,130	4,391,790
St. Mary's Seminary	3,961,210	4,188,289
Grants on behalf of underprivileged children	3,702,822	3,378,361
Special program services	2,742,236	2,226,873
Restricted-purpose land and buildings	1,154,884	756,577
Celebrating Our Faith capital campaign projects	311,153	312,688
Other	1,802,691	1,453,035
Total temporarily restricted net assets	$ 35,358,937	$ 23,584,981

NOTE 15 – PERMANENTLY RESTRICTED NET ASSETS

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

	2017	2016
Circle Lake Retreat Center Endowment Fund	$ 1,519,445	$ 1,288,597
Archbishop Fiorenza Priest Retirement Residence Endowment Fund	76,249	21,886
Land held for education of Seminarians	92,757	92,757
Other	350	350
Total permanently restricted net assets	$ 1,688,801	$ 1,403,590

Both endowment funds are invested with the Foundation. The Circle Lake Retreat Center Endowment investment return is required by the donor to increase the permanent corpus of the fund during its lifetime.

NOTE 16 – GRANTS AND TRANSFERS

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

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

Operating and non-operating grants and transfers made to related and unrelated entities during the year ended June 30, 2016 consist of the following:

	RELATED ENTITIES	UNRELATED ENTITIES	TOTAL
Operating grants:			
Schools	$ 7,390,937		$ 7,390,937
Diocesan Services Fund	2,402,340		2,402,340
Parishes	1,634,270		1,634,270
Other	386,373	$ 1,449,268	1,835,641
Total operating grants	$ 11,813,920	$ 1,449,268	$ 13,263,188
Non-operating grants and transfers:			
Distributions of St. Theresa Thrift Shop sale proceeds	$ 2,978,631	$ 125,000	$ 3,103,631
Assets transferred to St. Thomas the Apostle	36,647		36,647
Total non-operating grants and transfers	$ 3,015,278	$ 125,000	$ 3,140,278

NOTE 17 – SUBSEQUENT EVENTS

In August 2017, Hurricane Harvey caused damage to many parishes and schools. The Archdiocese is self-insured for much of the Hurricane Harvey loss. At December 18, 2017, the Archdiocese estimates Hurricane Harvey losses at approximately $20.2 million, and could potentially be higher as estimates are refined. The Archdiocese will fund these losses through access to its $10 million Disaster Recovery Fund, insurance proceeds, and Hurricane Harvey specific donations. Any unfunded loss will be further mitigated to the extent the Archdiocese qualifies for any federal funding such as FEMA or other financial assistance available. If unfunded losses remain, the Archdiocese will manage the build back process by working collaboratively with each Parish to prioritize repair and ultimately seek additional funds through future fundraising campaigns.

Management has evaluated subsequent events through December 20, 2017, which is the date that the financial statements were available for issuance. As a result of this evaluation, no other events were identified that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.