

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

Financial Statements
and Independent Auditors' Report
for the years ended June 30, 2008 and 2007

Independent Auditors' Report

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

We have audited the accompanying statements of financial position of the Chancery Office of the Archdiocese of Galveston-Houston as of June 30, 2008 and 2007 and the related statements of activities, of cash flows, and of functional expenses for the years then ended. These financial statements are the responsibility of the management of the Chancery Office of the Archdiocese of Galveston-Houston. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2008 and 2007 and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Blazek & Vetterling

December 15, 2008

Chancery Office of the Archdiocese of Galveston-Houston

Statements of Financial Position as of June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
ASSETS		
Cash and cash equivalents (<i>Note 2</i>)	\$ 1,510,317	\$ 7,946,565
Short-term investments (<i>Note 3</i>)	36,436,840	32,393,284
Accounts receivable from related entities, net (<i>Note 4</i>)	4,354,507	3,882,330
Prepaid expenses and other assets	1,909,479	1,708,073
Pledges receivable, net (<i>Note 5</i>)	9,630,957	10,517,359
Bequest receivable	1,512,736	
Notes receivable from related entities, net (<i>Note 6</i>)	68,590,718	66,452,446
Notes receivable from others, net (<i>Note 7</i>)	5,060,616	5,332,247
Cemetery inventory	2,255,890	2,287,906
Investments (<i>Note 8</i>)	72,978,931	70,952,346
Equity in Catholic Umbrella Pool and Catholic Wind Pool	881,451	1,047,926
Chancery Office property, net (<i>Note 9</i>)	25,333,144	23,536,853
Other property, net (<i>Note 10</i>)	<u>22,429,827</u>	<u>77,463,232</u>
TOTAL ASSETS	<u>\$ 252,885,413</u>	<u>\$ 303,520,567</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 2,516,348	\$ 2,961,651
Construction payable	1,039,156	4,249,469
Diocesan services fund rebates payable to parishes	723,291	617,658
Grants payable to related entities	3,605,524	3,060,691
Deferred revenue	1,353,811	1,249,760
Accrued insurance claims (<i>Note 11</i>)	4,718,700	4,051,269
Life annuities payable	46,294	85,622
DS&L deposits held for related entities	109,082,471	104,683,125
Funds held for others	1,422,363	2,192,819
Notes and bonds payable (<i>Note 12</i>)	32,026,172	31,254,362
Accrued pension benefits liability (<i>Note 13</i>)	29,309,504	20,064,537
Accrued postretirement health benefits liability (<i>Note 13</i>)	<u>17,357,454</u>	<u>18,796,714</u>
Total liabilities	<u>203,201,088</u>	<u>193,267,677</u>
Commitments and contingencies (<i>Note 14</i>)		
Net assets:		
Unrestricted	26,970,622	69,007,892
Temporarily restricted (<i>Note 15</i>)	22,514,713	41,139,838
Permanently restricted for Circle Lake	<u>198,990</u>	<u>105,160</u>
Total net assets	<u>49,684,325</u>	<u>110,252,890</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 252,885,413</u>	<u>\$ 303,520,567</u>

See accompanying notes to financial statements.

Chancery Office of the Archdiocese of Galveston-Houston

Statement of Activities for the year ended June 30, 2008

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
OPERATING REVENUE:				
Insurance premiums	\$ 24,326,569			\$ 24,326,569
Diocesan assessments	13,577,424			13,577,424
Unrestricted contributions	12,567,721			12,567,721
Program and service fees	3,012,179			3,012,179
Cemetery sales and services	996,101			996,101
Interest on notes receivable from related entities	<u>3,625,441</u>			<u>3,625,441</u>
Total operating revenue	58,105,435			58,105,435
Net assets released for program services	<u>6,283,110</u>			<u>6,283,110</u>
Total	<u>64,388,545</u>			<u>64,388,545</u>
OPERATING EXPENSES:				
Program services:				
Insurance programs	26,156,032			26,156,032
Pastoral and education	6,154,706			6,154,706
Clergy formation and chaplaincy	6,461,590			6,461,590
Diocesan savings & loan	5,357,438			5,357,438
Communication	1,498,242			1,498,242
Social concerns	1,519,533			1,519,533
Cemetery operations	1,103,440			1,103,440
Ethnic/multicultural	228,477			228,477
Catholic Schools	833,212			833,212
Other program services	<u>4,881,126</u>			<u>4,881,126</u>
Total program services	54,193,796			54,193,796
Supporting services:				
Administrative and general	11,472,683			11,472,683
Finance	1,566,415			1,566,415
Fundraising	<u>1,732,534</u>			<u>1,732,534</u>
Total expenses	<u>68,965,428</u>			<u>68,965,428</u>
Changes in net assets from operations	(4,576,883)			(4,576,883)
OTHER CHANGES IN NET ASSETS:				
Restricted contributions		\$ 15,606,318	\$ 100,000	15,706,318
Investment return (<i>Note 8</i>)	1,769,479	(25,135)	(6,170)	1,738,174
Restricted fees and interest on notes receivable		372,113		372,113
Transfer of Co-Cathedral to Sacred Heart Parish	(61,590,579)			(61,590,579)
Other benefit-related changes (<i>Note 13</i>)	(5,934,598)			(5,934,598)
Net assets released for program services		(6,283,110)		(6,283,110)
Net assets released for capital expenditures	<u>28,295,311</u>	<u>(28,295,311)</u>		
CHANGES IN NET ASSETS	(42,037,270)	(18,625,125)	93,830	(60,568,565)
Net assets, beginning of year	<u>69,007,892</u>	<u>41,139,838</u>	<u>105,160</u>	<u>110,252,890</u>
Net assets, end of year	<u>\$ 26,970,622</u>	<u>\$ 22,514,713</u>	<u>\$ 198,990</u>	<u>\$ 49,684,325</u>

See accompanying notes to financial statements.

Chancery Office of the Archdiocese of Galveston-Houston

Statement of Activities for the year ended June 30, 2007

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
OPERATING REVENUE:				
Insurance premiums	\$ 21,981,378			\$ 21,981,378
Diocesan assessments	11,880,709			11,880,709
Unrestricted contributions	10,869,979			10,869,979
Program and service fees	3,088,716			3,088,716
Cemetery sales and services	1,141,641			1,141,641
Interest on notes receivable from related entities	<u>3,440,451</u>			<u>3,440,451</u>
Total revenue	52,402,874			52,402,874
Net assets released for program services	<u>5,776,356</u>			<u>5,776,356</u>
Total	<u>58,179,230</u>			<u>58,179,230</u>
OPERATING EXPENSES:				
Program services:				
Insurance programs	21,468,055			21,468,055
Pastoral and education	7,531,691			7,531,691
Clergy formation and chaplaincy	6,464,781			6,464,781
Diocesan savings & loan	4,638,718			4,638,718
Communication	1,463,033			1,463,033
Social concerns	1,593,634			1,593,634
Cemetery operations	1,118,850			1,118,850
Ethnic/multicultural	209,216			209,216
Other program services	<u>3,108,817</u>			<u>3,108,817</u>
Total program services	47,596,795			47,596,795
Supporting services:				
Administrative and general	11,124,725			11,124,725
Finance	1,370,668			1,370,668
Fundraising	<u>1,663,180</u>			<u>1,663,180</u>
Total expenses	<u>61,755,368</u>			<u>61,755,368</u>
Changes in net assets from operations	(3,576,138)			(3,576,138)
OTHER CHANGES IN NET ASSETS:				
Restricted contributions		\$ 24,229,230	\$ 101,000	24,330,230
Investment return (<i>Note 8</i>)	5,785,552	483,308	4,160	6,273,020
Restricted fees and interest on notes receivable		393,868		393,868
Equity in earnings of Catholic Umbrella Pool	103,241			103,241
Gain on sale of other property	325,572			325,572
Other benefit-related changes (<i>Note 13</i>)	(9,329,443)			(9,329,443)
Net assets released for program services		(5,776,356)		(5,776,356)
Net assets released for capital expenditures	<u>19,380,877</u>	<u>(19,380,877)</u>		
CHANGES IN NET ASSETS	12,689,661	(50,827)	105,160	12,743,994
Net assets, beginning of year	<u>56,318,231</u>	<u>41,190,665</u>		<u>97,508,896</u>
Net assets, end of year	<u>\$ 69,007,892</u>	<u>\$ 41,139,838</u>	<u>\$ 105,160</u>	<u>\$ 110,252,890</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, 2008 and 2007

	<u>2008</u>	<u>2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ (60,568,565)	\$ 12,743,994
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Contributions restricted for long-term purposes	(6,051,362)	(20,299,258)
Net realized and unrealized (gain) loss on investments	1,704,562	(2,251,999)
Gain on sale of property		(325,572)
Net change in allowance for uncollectible notes receivable	838,578	(500,348)
Depreciation expense	911,641	1,032,144
Other benefit-related changes	5,934,598	9,329,443
Transfer of Co-Cathedral to Sacred Heart Parish	61,590,579	
Changes in operating assets and liabilities:		
Accounts receivable from related entities	(472,177)	1,201,512
Prepaid expenses and other assets	(201,406)	(1,262,763)
Pledges receivable not restricted for long-term purposes	5,403	1,357,011
Bequest receivable	(1,512,736)	
Cemetery inventory	32,016	29,076
Equity in Catholic Umbrella Pool and Catholic Wind Pool	166,475	(253,356)
Accounts payable and accrued expenses	2,204,375	5,892,320
Deferred revenue	104,051	71,518
DS&L deposits and funds held for others	<u>3,628,890</u>	<u>17,951,813</u>
Net cash provided by operating activities	<u>8,814,922</u>	<u>24,715,535</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net purchases of short-term investments	(1,276,269)	(318,220)
Payments received on notes receivable	13,409,033	16,982,599
Additions of notes receivable	(10,877,557)	(22,455,112)
Proceeds from sales of investments	10,162,556	15,181,927
Purchases of investments	(16,660,990)	(31,870,785)
Proceeds from sales of property		334,654
Purchases of property	<u>(17,712,114)</u>	<u>(24,329,110)</u>
Net cash used by investing activities	<u>(22,955,341)</u>	<u>(46,474,047)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from contributions restricted for long-term purposes	6,932,361	15,756,173
Proceeds from note and bond issuance	2,745,766	6,073,304
Payment of note and bond principal	<u>(1,973,956)</u>	<u>(1,634,224)</u>
Net cash provided by financing activities	<u>7,704,171</u>	<u>20,195,253</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(6,436,248)	(1,563,259)
Cash and cash equivalents, beginning of year	<u>7,946,565</u>	<u>9,509,824</u>
Cash and cash equivalents, end of year	<u>\$ 1,510,317</u>	<u>\$ 7,946,565</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, 2008

	PROGRAM SERVICES									SUPPORTING SERVICES			TOTAL FUNCTIONAL EXPENSES	
	INSURANCE PROGRAMS	PASTORAL & EDUCATION	CLERGY FORMATION & CHAPLAINCY	DIOCESAN SAVINGS & LOAN	COMMUNICATION	SOCIAL CONCERNS	CEMETERY OPERATIONS	ETHNIC/MULTI- CULTURAL	CATHOLIC SCHOOLS	OTHER PROGRAM SERVICES	ADMINISTRATIVE & GENERAL	FINANCE		FUNDRAISING
Salaries and benefits		\$ 3,424,360	\$ 3,344,109		\$ 571,479	\$ 186,332	\$ 536,382	\$ 180,241	\$ 478,971	\$ 53,213	\$ 3,691,218	\$ 1,307,947	\$ 827,519	\$14,601,771
Claims expense	\$18,434,872													18,434,872
Grant expense:														
Related entities	340,795	833,757	143,328			1,113,811		1,500	3,592,356					6,025,547
Unrelated entities	5,026	2,000	22,700			215,286	6,581		776,515	57,150				1,085,258
Unallocated pension and postretirement costs										1,871,109				1,871,109
Interest expense:														
Related entities				\$ 4,689,308										4,689,308
Unrelated entities										1,300,796				1,300,796
Premium expense	6,668,414													6,668,414
Professional fees	1,635,662	273,636	150,066		102,580		62,533	5,992	259,656	232,389	615,696	208,620	441,590	3,988,420
Occupancy	27,972	636,491	645,841		821		177,086	833	15,249	54,684	1,271,057		445	2,830,479
Assistance to individuals		11,410	1,044,665							74,627	52,681			1,183,383
Depreciation							14,006				897,635			911,641
Supplies		453,465	293,767		9,162	1,025	142,518	4,447	3,560	2,434	112,624	18,619	24,596	1,066,217
Printing and publications	146	54,479	23,598		391,868		11,442	15,334	1,756		12,543		181,160	692,326
Meetings and events	1,392	261,892	174,863		6,652	1,822	4,430	4,283	48,388	3,503	188,797	6,265	19,281	721,568
Dues and assessments of support organizations			125	5,000							488,209			493,334
Postage and shipping		16,356	10,385		269,380	296	2,539	4,718	1,503		21,057	8,663	211,218	546,115
Special programs	18,904	12,176	104,217		110,572			512			535,264		20,226	801,871
Local travel	496	72,423	159,352		4,215	797	32,619	2,674	9,603		66,735	4,559	1,492	354,965
Non-capital equipment and improvements		35,137	69,177		3,996			781	3,694	21,103	70,860	2,175	1,116	208,039
Communications		33,051	95,161		10,951	164	14,258	2,081	902	1,242	82,658	9,567	3,724	253,759
Equipment rental and maintenance		27,028	125,332		16,566				8,430		19,005		167	217,858
Provision for losses and uncollectible receivables	1,450,384		49,107	668,130			52,281			69,060	107,183			2,396,145
Cost of sales							32,016							32,016
Other expenses		6,920	922								10,406			18,248
Premiums allocated to salaries and benefits and occupancy	(2,428,031)													(2,428,031)
Total expenses	\$26,156,032	\$ 6,154,706	\$ 6,461,590	\$ 5,357,438	\$ 1,498,242	\$ 1,519,533	\$ 1,103,440	\$ 228,477	\$ 833,212	\$ 4,881,126	\$11,472,683	\$ 1,566,415	\$ 1,732,534	\$68,965,428

See accompanying notes to financial statements.

Chancery Office of the Archdiocese of Galveston-Houston

Statement of Functional Expenses for the year ended June 30, 2007

	PROGRAM SERVICES								SUPPORTING SERVICES			TOTAL FUNCTIONAL EXPENSES	
	INSURANCE PROGRAMS	PASTORAL & EDUCATION	CLERGY FORMATION & CHAPLAINCY	DIOCESAN SAVINGS & LOAN	COMMUNICATION	SOCIAL CONCERNS	CEMETERY OPERATIONS	ETHNIC/MULTI- CULTURAL	OTHER PROGRAM SERVICES	ADMINISTRATIVE & GENERAL	FINANCE		FUNDRAISING
Salaries and benefits		\$ 3,714,770	\$ 3,155,278		\$ 583,112	\$ 241,810	\$ 529,028	\$ 172,816	\$ 90,878	\$ 3,371,691	\$ 1,098,614	\$ 813,171	\$13,771,168
Claims expense	\$15,609,410												15,609,410
Grant expense:													
Related entities	271,301	1,973,208	161,264			1,113,811			2,021,096				5,540,680
Unrelated entities		4,151	227,500			227,425		4,391	722,686				1,186,153
Unallocated pension and postretirement costs										2,420,198			2,420,198
Interest expense:													
Related entities				\$ 5,470,204									5,470,204
Unrelated entities										1,251,685			1,251,685
Premium expense	5,745,965												5,745,965
Professional fees	1,341,282	231,526	209,942	50	139,975		90,194	1,850	31,210	611,835	230,681	339,894	3,228,439
Occupancy	57	583,413	625,848		559		175,581	53	61,454	1,233,966		420	2,681,351
Assistance to individuals		14,423	971,852						60,503	5,457			1,052,235
Depreciation							31,496			1,000,648			1,032,144
Supplies		368,812	277,903		3,148	1,931	143,132	2,785	5,113	114,864	15,414	30,367	963,469
Printing and publications		71,201	31,729		351,274	266	7,077	11,155		29,401	4,144	235,366	741,613
Meetings and events	2,164	335,649	183,117		4,074	2,893	3,466	4,670	265	101,253	4,114	82,571	724,236
Dues and assessments of support organizations		3,042	10,000							549,079			562,121
Postage and shipping	54	28,066	15,448		232,627	143	2,661	4,569	156	26,761	11,021	151,930	473,436
Special programs	74,081	12,697	97,711		96,170	500				116,806		1,799	399,764
Local travel		84,348	133,258		6,179	2,941	21,128	3,168		43,916	1,299	3,322	299,559
Non-capital equipment and improvements	3,012	30,269	69,231					1,277		114,272	356	2,231	220,648
Communications		46,847	35,182		10,075	1,794	13,534	2,403	2,411	77,665	4,803	2,004	196,718
Equipment rental and maintenance		23,431	100,370		35,743	120	11,599			19,740	85	65	191,153
Provision for losses and uncollectible receivables	563,265		157,015	(831,536)			61,128		113,045	27,209			90,126
Cost of sales							28,826						28,826
Other expenses	1,933	5,838	2,133		97			79		8,279	137	40	18,536
Premiums allocated to salaries and benefits and occupancy	(2,144,469)												(2,144,469)
Total expenses	\$21,468,055	\$ 7,531,691	\$ 6,464,781	\$ 4,638,718	\$ 1,463,033	\$ 1,593,634	\$ 1,118,850	\$ 209,216	\$ 3,108,817	\$11,124,725	\$ 1,370,668	\$ 1,663,180	\$61,755,368

See accompanying notes to financial statements.

Chancery Office of the Archdiocese of Galveston-Houston

Notes to Financial Statements for the years ended June 30, 2008 and 2007

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. Its approximate 1.3 million Catholics are served by over 150 parishes and missions. The Chancery Office of the Archdiocese of Galveston-Houston (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 seven Secretariats with Secretariat Directors who, as in a cabinet under the Cardinal Archbishop, oversee the activities of the Chancery Office. The Secretariats include Communications, Finance, Administration, Social Concerns, 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, the Bishop’s Palace Historic Home, Catholic university student centers, and retreat centers. Additionally, the Tribunal and Ethnic offices are included in this organizational body. The Chancery Office also administers insurance plans and an employee pension plan on behalf of itself and parishes, schools and other related entities.

Basis of presentation – These financial statements include only the assets, liabilities, net assets 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, net assets, and financial 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.

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 contributions and related 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. The donor requires the investment return to be added to the corpus of the fund during his lifetime.

Changes in net assets from operations excludes restricted contributions and investment return. Net assets released for program services are classified as operating in the period the purpose restriction is accomplished or time restriction ends.

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.

Cash and cash equivalents include deposits in checking and savings accounts and short-term, highly liquid investments that are readily convertible to cash and have maturities of three months or less when acquired. Cash and cash equivalents that are invested for long-term purposes are grouped with investments.

Allowance for uncollectible receivables – Allowances for accounts and notes receivable are provided when it is believed they may not be collected in full. The amount of bad debt expense recorded each period and the resulting adequacy of the allowance at the end of each period are determined using a combination of historical loss experience and customer-by-customer analysis of receivable balances each period. It is possible that management's estimate regarding the collectibility of these balances will change in the near term resulting in a change in the carrying value of these receivables.

Pledges receivable that are expected to be collected within one year are recorded 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. It is possible that management's estimate regarding the collectibility of these balances will change in the near term resulting in a change in the carrying value of these receivables.

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

Investments in marketable securities with readily determinable fair values and investments in debt securities are recorded at fair value as determined from quoted exchange market prices. Investments in real property are recorded at the lower of cost or fair value estimated from property tax records and independent appraisals. Investments in Catholic Endowment Foundation, hedge funds, Real estate investment trust, and family limited partnerships, which are not readily marketable, are recorded at estimated fair values, as provided by the investment managers. Those estimated values may differ significantly from the values that would have been used had a ready market for these investments existed.

Investment return includes interest, dividends, and net realized and unrealized gains and losses. Interest and dividends are recognized when earned. Transactions 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 recorded 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.

Equity in Catholic Umbrella and Wind Pools – The Chancery Office accounts for its participation interest (3.3% at June 30, 2008 and 3.7% at June 30, 2007) in the Catholic Umbrella Pool, and its participation interest in the Catholic Wind Pool (the Pools), under the equity method. The Pools are nonprofit corporations that were formed as self-insurance funds for Dioceses and Archdioceses of the Roman Catholic Church in North America. The Pools provide excess liability coverage for participating Dioceses and Archdioceses. Participants share in the operating and investment income and expenses of the Pools based on their contributions to the Pools.

Property is recorded 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 upon estimated useful lives of ten to forty years for buildings and improvements and five to fifteen years for furnishings and equipment.

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 expense in the statement of activities.

DS&L deposits held for related entities represent amounts deposited with the Chancery Office by parishes, schools and other related entities through the Archdiocesan savings and loan program. Deposits accrue interest at the

average of select certificate of deposit rates offered by local banks, adjusted quarterly. Interest is payable upon demand by the depositor. At June 30, 2008, and June 30, 2007, deposits were accruing interest at 3.25% and 4.9%, respectively.

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

Contributions are recorded as revenue at fair value when an unconditional commitment is received from the donor. Contributions received with donor stipulations that limit their use are recorded as restricted support. Conditional contributions are recognized in the same manner when the conditions are substantially met.

Donated materials, use of facilities and services – Donated materials and use of facilities are recorded 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 create or enhance non-financial assets or 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.

Insurance premiums and expenses – The Chancery Office administers insurance plans as described in Note 11. Premiums are assessed annually based upon management’s estimate of claims, deductibles, and premiums for third-party coverage and of 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. 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 will change in the near future resulting in a change in the carrying value of this liability.

Archdiocesan assessments – In order to provide funds for the operation 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.

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

Reclassifications – Certain reclassifications have been made to previously reported amounts to conform with the current year presentation.

NOTE 2 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

	<u>2008</u>	<u>2007</u>
U.S. depository accounts	\$ 1,087,895	\$ 1,501,963
Money market funds	<u>422,422</u>	<u>6,444,602</u>
Total cash and cash equivalents	<u>\$ 1,510,317</u>	<u>\$ 7,946,565</u>

Bank deposits exceed the federally insured limit of \$100,000 per depositor per institution.

NOTE 3 – SHORT-TERM INVESTMENTS

Short-term investments consist of the following:

	<u>2008</u>	<u>2007</u>
Money market funds	\$ 32,436,840	\$ 25,426,885
Loan participations	<u>4,000,000</u>	<u>6,966,399</u>
Total short-term investments	<u>\$ 36,436,840</u>	<u>\$ 32,393,284</u>

NOTE 4 – ACCOUNTS RECEIVABLE FROM RELATED ENTITIES

Accounts receivable from related entities are comprised of the following:

	<u>2008</u>	<u>2007</u>
Total accounts receivable from related entities	\$ 14,180,320	\$ 13,810,790
Allowance for uncollectible accounts receivable	<u>(9,825,813)</u>	<u>(9,928,460)</u>
Accounts receivable from related entities, net	<u>\$ 4,354,507</u>	<u>\$ 3,882,330</u>

NOTE 5 – PLEDGES RECEIVABLE

Pledges receivable are comprised of the following:

	<u>2008</u>	<u>2007</u>
Co-Cathedral and dome campaigns	\$ 5,322,259	\$ 6,567,450
Catholic Endowment Foundation grant for Co-Cathedral	2,943,229	3,059,464
Diocesan services fund	<u>2,261,236</u>	<u>2,149,216</u>
Total pledges receivable	10,526,724	11,776,130
Discount on pledges receivable at 5%	(302,903)	(481,081)
Allowance for uncollectible amounts	<u>(592,864)</u>	<u>(777,690)</u>
Pledges receivable, net	<u>\$ 9,630,957</u>	<u>\$ 10,517,359</u>

Pledges receivable at June 30, 2008 are expected to be collected as follows:

Within one year	\$ 7,413,631
In one to five years	<u>3,113,093</u>
Total pledges receivable	<u>\$ 10,526,724</u>

NOTE 6 – NOTES RECEIVABLE FROM RELATED ENTITIES

The Chancery Office provides loans to parishes, schools and other entities within the Archdiocese for capital projects and operating needs. Notes receivable from related entities consist of the following:

	<u>2008</u>	<u>2007</u>
Notes provided as security for Chancery notes and bonds payable	\$ 32,026,172	\$ 31,254,362
Unsecured notes from related entities	<u>39,006,046</u>	<u>36,971,454</u>
Total notes receivable from related entities	71,032,218	68,225,816
Allowance for uncollectible amounts	<u>(2,441,500)</u>	<u>(1,773,370)</u>
Notes receivable from related entities, net	<u>\$ 68,590,718</u>	<u>\$ 66,452,446</u>

Interest rates and principal and interest payment terms on the notes provided as security for Chancery notes and bonds payable are identical to the terms for the respective notes and bonds payable described in Note 12. Interest rates on unsecured notes from related entities vary and repayment terms generally require periodic payments of principal and interest over periods ranging from five to seven years. Variable rate notes accrue interest based on average medium term certificate of deposit rates offered by local banks, adjusted quarterly. At June 30, 2008, variable rate notes were accruing interest at 5.5%. Fixed rate notes accrue interest based on Treasury securities with similar maturities plus a spread that varies. At June 30, 2008, fixed rate notes were generally accruing interest at rates between 4.5% and 6.7%.

NOTE 7 – NOTES RECEIVABLE FROM OTHERS

Notes receivable from others consist of the following:

	<u>2008</u>	<u>2007</u>
Mortgage notes secured by real property, 5%-11% annual interest rates	\$ 4,631,208	\$ 4,905,916
Unsecured notes receivable	1,134,894	897,002
Cemetery sales payment plans	<u>798,559</u>	<u>920,109</u>
Total notes receivable from others	6,564,661	6,723,027
Allowance for doubtful accounts	<u>(1,504,045)</u>	<u>(1,390,780)</u>
Notes receivable from others, net	<u>\$ 5,060,616</u>	<u>\$ 5,332,247</u>

Notes receivable from others are expected to be collected as follows:

Fiscal year 2009	\$ 391,590
Fiscal year 2010	360,700
Fiscal year 2011	302,090
Fiscal year 2012	318,710
Fiscal year 2013	283,000
Thereafter	2,975,118
Unscheduled	<u>1,933,453</u>
Total notes receivable from others	<u>\$ 6,564,661</u>

NOTE 8 – INVESTMENTS

Investments consist of the following:

	<u>2008</u>	<u>2007</u>
Mortgage-backed securities	\$ 20,586,633	\$ 15,559,252
Equity securities	12,995,600	13,433,134
Deferred annuity contracts	9,904,755	9,651,026
Invested with Catholic Endowment Foundation:		
Interest in pooled portfolio	3,036,526	3,199,659
U.S. Treasury securities, cash and cash equivalents	2,329,595	2,265,578
Equity mutual funds	4,618,353	9,721,601
Corporate bonds and notes	4,466,087	4,113,996
Hedge funds	3,092,175	2,966,318
U.S. Treasury notes	2,976,287	3,253,159
Bond mutual funds	2,954,708	186,104
International equity securities	1,831,943	1,362,422
Money market funds	1,501,893	2,915,940
Real property	1,078,295	1,119,591
Real estate investment trust	1,006,081	604,566
Family limited partnerships	<u>600,000</u>	<u>600,000</u>
Total investments	<u>\$ 72,978,931</u>	<u>\$ 70,952,346</u>

Investments are exposed to various risks such as interest rate, market and credit risks. 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.

The Chancery Office invests in a private hedge fund company. The fund's investment managers invest in U.S. and foreign companies, over-the-counter markets, financial futures and options thereon, foreign currency forward contracts, and in private asset-based investments such as real estate mortgages and tax liens. These instruments may contain additional elements of both credit and market risk. Such risks include, but are not limited to, limited liquidity and nondisclosure of portfolio composition. Foreign investments may present certain risks not associated with domestic investments, including currency fluctuation, political and economic instability, and different accounting standards.

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 reflected as a component of investment return. Investment management and custodial fees allocable to Chancery Office's investments are deducted from the Chancery Office's share of investment return of the pooled portfolio.

At June 30, 2008, the Foundation's pooled portfolio was invested approximately 61% in equity securities, 19% in U. S. Treasury securities, 10% in mortgage-backed securities, 4% in corporate bonds and notes and 6% in cash and cash equivalents. At June 30, 2007, the Foundation's pooled portfolio was invested approximately 64% in equity securities, 16% in U.S. Treasury securities, 10% in mortgage-backed securities, 4% in corporate bonds and notes and 6% in cash and cash equivalents.

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

	<u>2008</u>	<u>2007</u>
Interest and dividends	\$ 3,540,841	\$ 3,310,402
Net realized and unrealized gain (loss)	(1,704,562)	2,251,999
Chancery Office's share of investment gain (loss) of Foundation	<u>(98,105)</u>	<u>710,619</u>
Total investment return	<u>\$ 1,738,174</u>	<u>\$ 6,273,020</u>

NOTE 9 – CHANCERY OFFICE PROPERTY

Chancery Office property is comprised of the following:

	<u>2008</u>	<u>2007</u>
Land	\$ 11,286,380	\$ 11,381,815
Buildings and improvements	22,915,177	21,695,664
Furnishings and equipment	6,533,200	6,182,517
Construction and projects in progress	<u>1,393,487</u>	<u>304,747</u>
Total Chancery Office property, at cost	42,128,244	39,564,743
Accumulated depreciation	<u>(16,795,100)</u>	<u>(16,027,890)</u>
Chancery Office property, net	<u>\$ 25,333,144</u>	<u>\$ 23,536,853</u>

NOTE 10 – OTHER PROPERTY

Other property is comprised of the following:

	<u>2008</u>	<u>2007</u>
Land and buildings used by related entities and others	\$ 17,982,210	\$ 17,982,210
Land held for anticipated future parish or school use	4,102,782	9,773,943
Co-Cathedral land and construction in progress	<u>1,132,133</u>	<u>50,229,829</u>
Total other property, at cost	23,217,125	77,985,982
Accumulated depreciation	<u>(787,298)</u>	<u>(522,750)</u>
Other property, net	<u>\$ 22,429,827</u>	<u>\$ 77,463,232</u>

Other property includes properties owned by the Cardinal Archbishop that are used by related entities and others. It does not include properties held in trust by the Cardinal Archbishop on behalf 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 in exchange for a note receivable.

The Chancery Office oversaw the acquisition of land and construction and furnishing of the new Co-Cathedral. The new Co-Cathedral was substantially completed during 2008 and the property was transferred without consideration to Sacred Heart Co-Cathedral parish. Construction of an organ for the Co-Cathedral is in progress at June 30, 2008 and is expected to be completed during 2009.

NOTE 11 – INSURANCE PLANS

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 and the Catholic Wind Pool.

The Chancery Office also provides medical, dental, disability and life insurance plans for eligible employees of the Chancery Office as well as employees of parishes, schools and other related entities. The plan is primarily self-insured with additional third-party coverage provided by aggregate stop-loss policies. Premiums for employee coverage are paid by the Chancery Office and participating employers.

NOTE 12 – NOTES AND BONDS PAYABLE

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

	<u>2008</u>	<u>2007</u>
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 beginning February 17, 2006 through February 17, 2018, secured by tuition and other revenue of St. Anthony of Padua Catholic School, a related entity.	\$ 8,833,333	\$ 9,333,333

Harris County Health Facilities Development Corporation, Adjustable Rate Demand Revenue Bonds (1.85% at June 30, 2008), St. Dominic Village Project, Series 2000, \$10,000,000, issued July 2000, mandatory principal payments due June 2005 through July 2025, secured by certain revenue of St. Dominic Village Corporation, a related entity.	8,735,000	9,070,000
Hilshire Village Cultural Education Facilities Finance Corporation, Demand Revenue Bonds, Co-Cathedral of the Sacred Heart Parish Project, \$5,300,000 available to draw by October 2008, variable interest due monthly (2.19% at June 30, 2008), principal payments due monthly beginning November 2008 through November 10, 2015, secured by certain revenue of the Co-Cathedral of the Sacred Heart Parish, a related entity.	4,875,837	3,260,071
Manvel Education Facilities Corporation, Education Revenue Bonds, St. Martha Catholic School Capital Improvements, \$4,000,000, issued July 1, 2001, 5.25% interest and scheduled principal due quarterly through September 1, 2016, secured by revenue derived from the operation of St. Martha Catholic School, a related entity.	2,577,499	2,821,102
Manvel Education Facilities Corporation, Education Revenue Bonds, St. Mary Magdalene Catholic School refinancing, \$2,813,233, issued May 23, 2007, 4.25% interest and scheduled principal payments due monthly through December 1, 2017, secured by revenue derived from the operation of St. Mary Magdalene Catholic School, a related entity.	2,525,264	2,791,082
Wallis Higher Education Facilities Corporation, Education Revenue Bonds, St. Laurence Catholic School Project, \$4,825,000, issued March 1, 1999, 4.91% interest and principal due quarterly through March 1, 2014, secured by tuition and other revenue of St. Laurence Catholic School, a related entity.	2,275,000	2,609,000
Revolving line of credit with a bank for St. Laurence Church construction, issued January 8, 2008, interest due quarterly, interest accrues at LIBOR (3.4176% at June 30, 2008) plus .70%, matures on December 31, 2010.	1,130,000	
Wallis Higher Education Facilities Corporation, Education Revenue Bonds, St. Laurence Catholic School Project, \$2,800,000, issued July 1, 2001, 5.25% interest and principal due quarterly through September 1, 2011, secured by tuition and other revenue of St. Laurence Catholic School, a related entity.	<u>1,074,239</u>	<u>1,369,774</u>
Total notes and bonds payable	<u>\$ 32,026,172</u>	<u>\$ 31,254,362</u>

Notes and bonds payable are due as follows:

Fiscal year 2009	\$ 2,272,423
Fiscal year 2010	3,583,635
Fiscal year 2011	2,518,676
Fiscal year 2012	2,311,587
Fiscal year 2013	2,279,403
Thereafter	<u>19,060,448</u>
Total notes and bonds payable	<u>\$ 32,026,172</u>

Interest expense recognized and paid on notes and bonds payable was approximately \$1,300,000 in 2008 and \$1,200,000 in 2007.

NOTE 13 – PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS

The Archdiocese sponsors a noncontributory, defined benefit pension plan for employees of the Chancery Office as well as employees of parishes, schools and other related entities. The pension plan covers lay employees and Archdiocesan priests who work a minimum of 20 hours per week for at least five consecutive months. The plan provides pension benefits that are based on an employee's average monthly compensation and length of credited service. Assets of the pension plan are held in trust funds and managed by independent third parties. The Archdiocese also sponsors a noncontributory health benefit plan that provides healthcare benefits for Archdiocesan priests upon retirement including those Archdiocesan priests not employed directly by the Chancery Office. Effective June 30, 2007, the Chancery adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*.

Obligations and funded status

	PENSION BENEFITS		HEALTH BENEFITS	
	2008	2007	2008	2007
Fair value of plan assets	\$ 95,521,402	\$100,429,471		
Benefit obligation	<u>(124,830,906)</u>	<u>(120,494,008)</u>	<u>\$(17,357,454)</u>	<u>\$(18,796,714)</u>
Funded status of the plans	<u>\$(29,309,504)</u>	<u>\$(20,064,537)</u>	<u>\$(17,357,454)</u>	<u>\$(18,796,714)</u>
Liability from net periodic benefit cost	\$ (11,836,652)	\$ (11,612,406)	\$ (20,288,870)	\$ (12,779,175)
Accumulated other benefit-related changes:				
Actuarial gain (loss)	(20,452,721)	(11,995,958)	2,931,416	(6,017,539)
Prior service cost	<u>2,979,869</u>	<u>3,543,827</u>		
Accrued benefits liability	<u>\$(29,309,504)</u>	<u>\$(20,064,537)</u>	<u>\$(17,357,454)</u>	<u>\$(18,796,714)</u>
Accumulated benefit obligation	<u>\$114,216,795</u>	<u>\$109,321,261</u>	<u>\$ 17,357,454</u>	<u>\$ 18,796,714</u>

Net periodic benefit cost and other benefit-related changes

	PENSION BENEFITS		HEALTH BENEFITS	
	2008	2007	2008	2007
Net periodic benefit cost	<u>\$ 5,967,672</u>	<u>\$ 5,960,790</u>	<u>\$ 2,080,581</u>	<u>\$ 2,064,056</u>
Other benefit-related changes:				
Net (gain) loss arising during year	8,824,062	(7,112,366)	(2,750,672)	3,241,497
Amortization of net (gain) loss	(367,299)	(684,012)	(335,451)	(504,834)
Amortization of prior service cost	563,958	563,958		
Adoption of SFAS No. 158		15,684,551		3,280,876
Minimum pension liability adjustment		<u>(5,140,227)</u>		
Other benefit-related changes	<u>9,020,721</u>	<u>3,311,904</u>	<u>(3,086,123)</u>	<u>6,017,539</u>
Total benefit cost	14,988,393	9,272,694	(1,005,542)	8,081,595
Net periodic cost funded by related entities	<u>(5,047,269)</u>	<u>(4,569,578)</u>		
Total benefit cost recognized by Chancery Office	<u>\$ 9,941,124</u>	<u>\$ 4,703,116</u>	<u>\$ (1,005,542)</u>	<u>\$ 8,081,595</u>

The estimated amounts that will be amortized from accumulated other benefit-related changes into net periodic benefit cost in 2009 is \$160,554 which is comprised of \$724,512 of net loss and (\$563,958) of prior service cost. The estimated net loss for health benefits that will be amortized from accumulated other benefit-related changes into net periodic pension costs in 2009 is \$71,972.

Assumptions

	<u>PENSION BENEFITS</u>		<u>HEALTH BENEFITS</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Weighted average actuarial assumptions used to determine benefit obligations at end of year:				
Discount rate	6.75%	6.25%	6.75%	6.25%
Rate of compensation increase	3.75%	3.75%		
Weighted average actuarial assumptions used to determine net periodic costs for year:				
Discount rate	6.25%	6.25%	6.25%	6.25%
Expected return on plan assets	7.00%	7.00%		
Rate of compensation increase	3.75%	3.75%		
Assumed healthcare cost trend rates at June 30, 2008:				
Healthcare cost trend rate assumed for next year				7.2%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)				4.0%
Year that the rate reaches the ultimate trend rate				2079

Plan assets

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

	<u>2008</u>	<u>2007</u>
Equity securities:		
Domestic	35.43%	45.13%
Global	<u>15.30%</u>	<u>18.60%</u>
Total equity securities	50.73%	63.73%
Fixed income – bond and notes	24.84%	18.54%
Alternative investments	13.48%	
Cash and cash equivalents	<u>10.95%</u>	<u>17.73%</u>
Total plan assets	<u>100.00%</u>	<u>100.00%</u>

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 five-year market cycle, the plan's objective is to match or exceed its actuarial long-term rate of return while maintaining the liquidity needed to meet benefit payment requirements. The expected long-term rate of return on assets is established taking into account the intended asset mix and historical rates of return on comparable assets.

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

	<u>MINIMUM</u>	<u>MAXIMUM</u>	<u>TARGET</u>
Equity securities:			
Domestic	30%	60%	49%
Global	0%	25%	15%
Fixed income	15%	60%	20%
Market neutral	10%	30%	15%
Cash and cash equivalents	0%	10%	1%

Cash flows

The pension plan is funded by contributions from the Chancery Office and other Archdiocesan employers at the rate of 6.5% of each eligible lay employee's gross salary and \$1,000 annually for each Archdiocesan priest. The Chancery and related employers expect to contribute approximately \$6 million to the pension plan during 2009. Employer contributions paid to the pension plan were as follows:

	<u>2008</u>	<u>2007</u>
Chancery Office	\$ 696,157	\$ 695,055
Related employers	<u>5,047,269</u>	<u>4,569,578</u>
Total employer contributions paid during the year	<u>\$ 5,743,426</u>	<u>\$ 5,264,633</u>

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 \$434,000 during 2008 and \$340,000 during 2007. The Chancery expects to fund health benefit costs of approximately \$500,000 during 2009.

Pension benefits paid by the pension plan were \$5,058,615 during 2008 and \$4,889,787 during 2007. Estimated future pension and health benefit payments for the next ten years as of June 30, 2008 are as follows:

	<u>PENSION</u>	<u>HEALTH</u>
2009	\$6,046,921	\$529,392
2010	\$6,492,888	\$582,534
2011	\$6,821,689	\$700,760
2012	\$7,185,608	\$764,410
2013	\$7,654,168	\$729,275
2014 through 2018	\$47,324,202	\$4,502,042

NOTE 14 – COMMITMENTS AND CONTINGENCIES

In April 2008, the Archdiocese announced plans to cease operating Mount Carmel High School and to transfer the property to an unrelated entity that plans to operate a high school. Although Mount Carmel High School is not an operating unit of the Chancery Office, commitments and liabilities incurred by the Archdiocese in connection with the closing will be satisfied by the Chancery Office. During 2008, the Chancery Office recognized grant expenses of approximately \$1.3 million for commitments made in connection with closing the school including scholarship commitments to students planning to attend other Catholic high schools.

The Chancery Office maintains a letter of credit for \$650,000 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 \$9.2 million at June 30, 2008. There were no outstanding balances on letters of credit at June 30, 2008.

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. The outstanding balances of these notes of approximately \$22 million at June 30, 2008 are not reflected in these financial statements.

The Archdiocese is involved in various legal proceedings, disputes, and litigation. 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 Catholic Umbrella Pool, the Chancery may, in certain circumstances, be required to participate in losses in excess of their equity. Management is not aware of any pending claims at this time that would result in additional material loss to the Chancery.

NOTE 15 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted assets are available for the following purposes:

	<u>2008</u>	<u>2007</u>
Loans to minority individuals and businesses	\$ 8,170,012	\$ 8,611,384
Aid to poor parishes	4,110,975	
Grants on behalf of underprivileged children	3,270,096	3,475,736
St. Mary's Seminary	2,511,631	2,274,537
Celebrating Our Faith capital campaign projects	1,535,309	24,179,387
Restricted-purpose land	1,430,521	1,487,475
Special program services	<u>1,486,169</u>	<u>1,111,319</u>
Total temporarily restricted net assets	<u>\$ 22,514,713</u>	<u>\$ 41,139,838</u>

NOTE 16 – SUBSEQUENT EVENTS

Investment Valuations – Certain information in the accompanying financial statements is reported based on the market value of securities held for investment by the Chancery Office at June 30, 2008. This information includes the fair value of marketable securities held for investment and the fair value of plan assets in the pension plan that represents amounts available to fund projected benefits accumulated by plan participants. Subsequent to June 30, 2008, domestic and global economic conditions deteriorated substantially resulting in a significant decline in the market value of most publicly-traded securities. Were the Chancery Office financial statements prepared at December 11, 2008 rather than June 30, 2008, the value of these investments would be substantially lower which would have resulted in a significant reduction in the Chancery Office's financial position. Management does not believe that this reduction would affect the financial viability of the Chancery Office.

Hurricane Ike – In September 2008, Hurricane Ike caused substantial damage to many parishes and schools. Estimated costs are expected to reach at least \$15 million. The Chancery estimates that approximately \$1.6 million of these claims will be recoverable from third-parties.

Mount Carmel High School – Effective October 1, 2008, the Chancery transferred ownership of land and buildings previously used for Mount Carmel High School and having a book value of \$4.8 million to the school's new operator for no monetary consideration.