



**CHANCERY OF THE DIOCESE OF
CHARLESTON**

FINANCIAL STATEMENTS

As of and for the Years Ended June 30, 2014 and 2013

And Report of Independent Auditor

CHANCERY OF THE DIOCESE OF CHARLESTON

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Report of Independent Auditor

To Bishop Robert E. Guglielmone
Bishop of Charleston
Chancery of the Diocese of Charleston
Charleston, South Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of the Chancery of the Diocese of Charleston (a South Carolina corporation), which comprise the statements of financial position as of June 30, 2014 and 2013, and the related statements of activities and changes in net assets and 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.

Auditor's 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 the 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 auditor's 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 of the Diocese of Charleston as of June 30, 2014 and 2013, and the changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



Greenville, South Carolina
October 9, 2014

CHANCERY OF THE DIOCESE OF CHARLESTON
STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
ASSETS		
Cash and cash equivalents	\$ 14,820,128	\$ 14,941,054
Investments	40,265,304	40,439,974
Receivables from other Diocesan entities:		
Loans receivable, net	24,468,336	23,668,783
Other receivables, net	642,251	338,000
Other receivables	169,037	516,248
Cash restricted for property projects	460,000	470,000
Bonds debt service fund	-	678,557
Other assets	1,557,397	1,379,631
Property and equipment, net	<u>19,591,035</u>	<u>16,943,870</u>
Total Assets	<u><u>\$ 101,973,488</u></u>	<u><u>\$ 99,376,117</u></u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 1,287,974	\$ 504,997
Savings deposits	40,409,454	40,522,970
Due to other diocesan or Catholic Church entities	2,006,554	1,351,628
Interest rate swap agreement	273,771	400,522
Bonds payable	<u>-</u>	<u>4,415,000</u>
Total Liabilities	<u>43,977,753</u>	<u>47,195,117</u>
Net assets:		
Unrestricted:		
Designated	34,396,879	32,062,640
Operating	<u>9,218,679</u>	<u>6,039,957</u>
Total unrestricted	43,615,558	38,102,597
Temporarily restricted	6,081,096	5,904,322
Permanently restricted	<u>8,299,081</u>	<u>8,174,081</u>
Total Net Assets	<u>57,995,735</u>	<u>52,181,000</u>
Total Liabilities and Net Assets	<u><u>\$ 101,973,488</u></u>	<u><u>\$ 99,376,117</u></u>

The accompanying notes to the financial statements are an integral part of these statements.

CHANCERY OF THE DIOCESE OF CHARLESTON
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

YEAR ENDED JUNE 30, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support and revenue:				
Parish assessment income	\$ 5,798,060	\$ -	\$ -	\$ 5,798,060
Contributions and grants	119,320	3,934,645	125,000	4,178,965
Interest and dividend income	1,672,592	237,298	-	1,909,890
Net realized gain on investments	2,444,393	984,680	-	3,429,073
Net unrealized gain on investments	1,563,534	229,312	-	1,792,846
Supporting services fees	4,022,244	-	-	4,022,244
Other revenue	2,958,228	-	-	2,958,228
Total support and revenue	<u>18,578,371</u>	<u>5,385,935</u>	<u>125,000</u>	<u>24,089,306</u>
Net assets released from restrictions	<u>5,209,161</u>	<u>(5,209,161)</u>	<u>-</u>	<u>-</u>
Total support, revenue and reclassifications	<u>23,787,532</u>	<u>176,774</u>	<u>125,000</u>	<u>24,089,306</u>
Expenses:				
Program services:				
Pastoral	5,281,871	-	-	5,281,871
Church personnel development	1,874,548	-	-	1,874,548
Education	1,289,968	-	-	1,289,968
Cemeteries	488,773	-	-	488,773
Deposit and loan, including interest of \$906,663	1,126,963	-	-	1,126,963
Diocesan supporting services	5,839,720	-	-	5,839,720
Total program services	<u>15,901,843</u>	<u>-</u>	<u>-</u>	<u>15,901,843</u>
Supporting services:				
General and administration	2,217,142	-	-	2,217,142
Institutional advancement	282,337	-	-	282,337
Total supporting services	<u>2,499,479</u>	<u>-</u>	<u>-</u>	<u>2,499,479</u>
Total expenses	<u>18,401,322</u>	<u>-</u>	<u>-</u>	<u>18,401,322</u>
Change in net assets before derivative adjustment	5,386,210	176,774	125,000	5,687,984
Adjustment on interest rate swap agreement	126,751	-	-	126,751
Change in net assets	5,512,961	176,774	125,000	5,814,735
Net assets, beginning of year	<u>38,102,597</u>	<u>5,904,322</u>	<u>8,174,081</u>	<u>52,181,000</u>
Net assets, end of year	<u>\$ 43,615,558</u>	<u>\$ 6,081,096</u>	<u>\$ 8,299,081</u>	<u>\$ 57,995,735</u>

The accompanying notes to the financial statements are an integral part of these statements.

CHANCERY OF THE DIOCESE OF CHARLESTON
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS (CONTINUED)

YEAR ENDED JUNE 30, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support and revenue:				
Parish assessment income	\$ 5,059,035	\$ -	\$ -	\$ 5,059,035
Contributions and bequests	103,068	4,149,897	125,000	4,377,965
Interest and dividend income	1,577,058	227,843	-	1,804,901
Net realized gain on investments	1,527,791	616,578	-	2,144,369
Net unrealized gain on investments	586,514	265,072	-	851,586
Supporting services fees	3,786,989	-	-	3,786,989
Other revenue	2,750,482	-	-	2,750,482
Total support and revenue	15,390,937	5,259,390	125,000	20,775,327
Net assets released from restrictions	4,984,107	(4,984,107)	-	-
Total support, revenue and reclassifications	20,375,044	275,283	125,000	20,775,327
Expenses:				
Program services:				
Pastoral	4,706,326	-	-	4,706,326
Church personnel development	1,603,524	-	-	1,603,524
Education	1,186,554	-	-	1,186,554
Cemeteries	494,486	-	-	494,486
Deposit and loan, including interest of \$901,246	1,136,861	-	-	1,136,861
Diocesan supporting services	5,636,373	-	-	5,636,373
Total program services	14,764,124	-	-	14,764,124
Supporting services:				
General and administration	1,935,945	-	-	1,935,945
Institutional advancement	262,785	-	-	262,785
Total supporting services	2,198,730	-	-	2,198,730
Total expenses	16,962,854	-	-	16,962,854
Change in net assets before derivative adjustment	3,412,190	275,283	125,000	3,812,473
Adjustment on interest rate swap agreement	178,807	-	-	178,807
Change in net assets	3,590,997	275,283	125,000	3,991,280
Net assets, beginning of year	34,511,600	5,629,039	8,049,081	48,189,720
Net assets, end of year	<u>\$ 38,102,597</u>	<u>\$ 5,904,322</u>	<u>\$ 8,174,081</u>	<u>\$ 52,181,000</u>

The accompanying notes to the financial statements are an integral part of these statements.

CHANCERY OF THE DIOCESE OF CHARLESTON
STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2014 AND 2013

	2014	2013
Cash flows from operating activities:		
Changes in net assets	\$ 5,814,735	\$ 3,991,280
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Amortization of bond issue costs	43,699	8,740
Net realized and unrealized gains on investments	(5,221,919)	(2,995,955)
Depreciation	312,037	299,809
Loss on disposal of property and equipment	97,524	-
Changes in assets and liabilities:		
(Increase) decrease in other receivables - Diocesan entities	(304,251)	10,569
Decrease in other receivables	347,211	81,404
Increase in other assets	(221,465)	(57,890)
Increase in accounts payable and accrued expenses	782,977	171,283
Fair value adjustment on interest rate swap agreement	(126,751)	(178,807)
Net cash provided by operating activities	<u>1,523,797</u>	<u>1,330,433</u>
Cash flows from investing activities:		
Proceeds from investment transactions	28,066,798	27,599,155
Purchases of investments	(22,670,209)	(24,786,926)
Funding of loans receivable, net of repayments	(799,553)	(2,689,572)
Purchases of property and equipment	(3,283,633)	(2,591,771)
Proceeds from sale of property and equipment	226,907	-
Net cash provided by (used in) investing activities	<u>1,540,310</u>	<u>(2,469,114)</u>
Cash flows from financing activities:		
Decrease in cash restricted for property projects	10,000	-
Decrease in savings deposits, net	(113,516)	(397,707)
Decrease (increase) in bonds debt service fund	678,557	(15,000)
Increase (decrease) in payables to other Diocesan entities, net	654,926	(198,594)
Principal payments on bonds payable	(4,415,000)	(735,000)
Principal payments on notes payable	-	(655,849)
Net cash used in financing activities	<u>(3,185,033)</u>	<u>(2,002,150)</u>
Decrease in cash and cash equivalents	(120,926)	(3,140,831)
Cash and cash equivalents, beginning of year	14,941,054	18,081,885
Cash and cash equivalents, end of year	<u>\$ 14,820,128</u>	<u>\$ 14,941,054</u>
Supplemental cash flow information:		
Cash paid for interest	<u>\$ 1,218,942</u>	<u>\$ 1,236,536</u>
Net non-cash acquisition of net assets	<u>\$ 43,876</u>	<u>\$ -</u>

The accompanying notes to the financial statements are an integral part of these statements.

CHANCERY OF THE DIOCESE OF CHARLESTON

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

Note 1—Organization

The Catholic Diocese of Charleston (the “Diocese”), a unit of the Roman Catholic Church, is a corporation sole, organized under the laws of the State of South Carolina under the name Bishop of Charleston. The Diocese comprises the entire state of South Carolina with Charleston as its See city. Founded on July 11, 1820 by Pope Pius VII, it is one of the oldest Catholic dioceses in the United States. There are currently 116 active Catholic parishes and missions across the state and 33 Catholic schools with 28 elementary schools, 3 diocesan high schools, and 2 private Catholic high schools. There are no shareholders to the corporation, only the holder of the office of Bishop.

The Diocese consists of various distinct operating entities administered through the Diocesan structure. Each entity maintains its own separate accounts and carries on specific services and programs. The various entities can be categorized as follows: the Chancery of the Diocese of Charleston (the “Chancery”), which includes various diocesan level programs or activities (pastoral, church personnel development, educational support and the Diocesan educational offices for Catholic Youth Ministry, Religious Education, and the Catholic Schools Office, Diocesan cemeteries, cooperative investment and lending program, and supporting services involving certain insurance activities and the Diocesan newspaper, The Miscellany) and diocesan level administrative support offices; Parishes and Missions; Diocesan Educational Entities; Catholic Charities of the Diocese of Charleston; and others. The accompanying financial statements include only the programs and administrative support offices of the Chancery.

Note 2—Summary of significant accounting policies

Basis of Accounting - The financial statements of the Chancery have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Accordingly, revenue is recognized when earned rather than when received and expenses are recognized when incurred rather than when paid.

Financial Statement Presentation - The Chancery follows the provisions of Accounting Standards Codification (ASC) 958-605, *Not-for-Profit Entities - Revenue Recognition*, and ASC 958-205, *Not-for-Profit Entities - Presentation of Financial Statements*.

Revenues are reported as increases in unrestricted net assets unless use of the related asset is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

As required by ASC 958, the accompanying financial statements have been prepared to present balances and transactions according to the existence or absence of donor-imposed restrictions. This presentation has been accomplished by classification of fund balances and transactions into the following classes of net assets:

Unrestricted Net Assets - Net assets not subject to donor-imposed stipulations.

Temporarily Restricted Net Assets - Net assets subject to donor-imposed stipulations that will be met by actions of the Chancery and/or the passage of time. Restrictions may include support of a particular activity, investment for a specified term or use in a specified future period. When a donor-imposed restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets. It is the Chancery’s policy to record temporarily restricted contributions received, for which the restriction expires in the same year, as unrestricted support.

CHANCERY OF THE DIOCESE OF CHARLESTON

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

Note 2—Summary of significant accounting policies (continued)

Permanently Restricted Net Assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Chancery. The donors of these assets permit the Chancery to use all or part of the income earned on related investments for general or specific purposes.

Cash and Cash Equivalents - For purposes of the Statements of Cash Flows, the Chancery considers all highly liquid temporary cash investments with a maturity of three months or less when purchased to be cash equivalents, except for the cash investments in the funds managed by investment companies and cash held by the bond trustee.

Receivables from Other Diocesan Entities and Other Receivables - Receivables are stated at amounts the Chancery expects to collect (unpaid principal balances less estimated allowances for doubtful accounts) based on the Chancery's assessment of the financial stability of the respective debtors. Receivables determined by the Chancery not to be collectible are charged off against the respective allowances.

Investments - The Chancery follows the provisions of ASC 958-320, *Not-for-Profit Entities - Investments*. Under ASC 958-320, investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the changes in net assets. Donor restricted interest and dividend income are reported as increases in unrestricted net assets if the restrictions are met in the reporting period in which the income and gains are recognized. Investment appreciation (depreciation) and income that is not donor restricted is reported in the unrestricted fund.

Bond Issuance Costs - Costs incurred in connection with the issuance of bonds were amortized over the term of the bonds. Net capitalized bond issue costs are included in Other Assets on the Statement of Activities. Bond issuance costs were fully amortized in 2014.

Property and Equipment - Purchases of property and equipment having a unit cost of \$5,000 or more are capitalized at cost. Donated property and equipment are capitalized at their estimated fair value at the date of donation. Depreciation is computed primarily by using the straight-line method of depreciation based on the estimated useful lives of the assets ranging from three to forty years.

Interest Rate Swap Agreement - The Chancery uses an interest rate swap agreement to manage its exposure to interest rate changes with respect to its bonds payable. The interest rate swap agreement is a derivative instrument and as required by ASC 815, *Derivatives and Hedging*, has been reported in the accompanying financial statements at fair value.

Parish Assessment Income - Parish assessment income is recorded as revenue in the year the parishes are assessed. Such revenue is calculated and assessed based upon an approved percentage of each parish's offertory revenue for the preceding year.

Contributions - Contributions are considered to be unrestricted unless specifically restricted by the donors. Contributions that are restricted by the donors are reported as increases in the temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statements of Activities as net assets released from restrictions.

Investment Income - Investment income consists of the interest income, dividend income and the realized gains/losses within equities from assets classified as investments in the accompanying financial statements. Interest income consists of the interest earned on assets, other than investments.

CHANCERY OF THE DIOCESE OF CHARLESTON

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

Note 2—Summary of significant accounting policies (continued)

Functional Classification of Expenses - Directly identifiable expenses are charged to programs and supporting services and have been summarized on a functional basis in the Statements of Activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Income Taxes - The Diocese, and accordingly the Chancery, is exempt from federal and state income taxes under certain provisions of Section 501(c)(3) of the Internal Revenue Code and the South Carolina Code of Laws; therefore, no provisions for income taxes have been included in these financial statements.

The Financial Accounting Standards Board (FASB) provides guidance on the Chancery's evaluation of accounting for uncertainty in income taxes. Management evaluated the Chancery's tax position and concluded that no uncertain tax positions exist that require adjustment to the financial statements to comply with the provisions of this guidance.

Estimates - The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. Areas requiring significant estimates include the allowance for doubtful accounts and the functional allocation of expenses. It is at least reasonably possible that the significant estimates used will change within the next year.

Advertising - Advertising costs are expensed as incurred. Advertising expenses for the years ended June 30, 2014 and 2013 totaled \$42,999 and \$37,285, respectively.

Note 3—Cash and cash equivalents

Cash consists of interest-bearing checking accounts, savings accounts, money-market accounts, and certificates of deposit with a maturity of three months or less when purchased. The Chancery places its cash and cash equivalents on deposit with financial institutions in the United States. The Federal Deposit Insurance Corporation ("FDIC") covers \$250,000 for substantially all depository accounts. The Chancery from time to time may have amounts on deposit in excess of the insured limits. As of June 30, 2014 and 2013, the Chancery had \$15,338,206 and \$15,363,310, respectively, which exceed these insured amounts.

Note 4—Investments

In accordance with ASC 820, *Fair Value Measures and Disclosures*, the Chancery's investments are stated at fair value. Fair value is defined as 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. ASC 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The Chancery's investments are valued at fair value under Level 1 inputs at June 30, 2014 and 2013.

CHANCERY OF THE DIOCESE OF CHARLESTON
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

Note 4—Investments (continued)

Investments along with their cost, fair value and net unrealized gain at June 30, 2014 are as follows:

	<u>Cost</u>	<u>Fair Value</u>	<u>Net Unrealized Gain</u>
Cash with investment companies	\$ 1,158,251	\$ 1,157,675	\$ 576
Mutual funds	13,502,213	13,839,234	337,021
Corporate and government debt securities	2,243,087	2,282,215	39,128
Equity securities	19,398,631	22,986,180	3,587,549
	<u>\$ 36,302,182</u>	<u>\$ 40,265,304</u>	<u>\$ 3,964,274</u>

Investments along with their cost, fair value and net unrealized gain at June 30, 2013 are as follows:

	<u>Cost</u>	<u>Fair Value</u>	<u>Net Unrealized Gain</u>
Cash with investment companies	\$ 1,123,856	\$ 1,123,856	\$ -
Mutual funds	15,675,344	15,901,801	226,457
Corporate and government debt securities	3,228,458	3,291,467	63,009
Equity securities	17,499,968	20,122,850	2,622,882
	<u>\$ 37,527,626</u>	<u>\$ 40,439,974</u>	<u>\$ 2,912,348</u>

Certain of the Chancery's investments are maintained in funds managed by investment companies. Other Diocesan entities (e.g. - parishes, schools, etc.) and affiliates also participate in these investment funds. Investment income and realized and unrealized gains and losses are allocated monthly to the respective Chancery and other Diocesan entity accounts maintained for these pooled investments. Only the Chancery's share of these pooled investments is reflected in the accompanying financial statements.

A recap of these pooled investments at June 30 is as follows:

	<u>2014</u>	<u>2013</u>
Chancery of the Diocese of Charleston	\$ 33,712,516	\$ 34,055,399
Other Diocesan entities and affiliates	13,822,676	13,763,170
	<u>\$ 47,535,192</u>	<u>\$ 47,818,569</u>

The Chancery's share of these pooled investments has been allocated to the respective classifications of investments as of June 30, 2014 and 2013 detailed previously in this note.

CHANCERY OF THE DIOCESE OF CHARLESTON
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

Note 5—Receivables from other diocesan entities

Loans Receivable - Loans receivable consist of the loans made under the lending program of the Chancery. The loans are primarily due from parishes and schools in varying amounts through 2027 and bear interest at fixed and variable rates which range from 2.15% to 6.28% at June 30, 2014 and 2013. The Chancery's current lending program primarily issues new loans with interest rates based upon the one month LIBOR rate plus 1.5%; these new loans generally also bear a floor to the variable rate which is generally 4.5%. The loans are stated at their unpaid balances less estimated allowances for doubtful accounts of approximately \$286,000 at June 30, 2014 and 2013, respectively. The Chancery has approximately 40 loans to parishes, which are payable on a monthly basis. The Chancery was not aware of any of these loans that were delinquent at June 30, 2014 and 2013.

Scheduled future principal payments under loans due from parishes and schools at June 30, 2014 are as follows:

<u>Years Ending June 30:</u>	
2015	\$ 5,630,981
2016	2,454,123
2017	2,310,331
2018	2,270,338
2019	2,311,966
Thereafter	8,487,959
Undetermined*	<u>1,288,559</u>
	24,754,257
Less allowance for doubtful accounts	<u>285,921</u>
	<u><u>\$ 24,468,336</u></u>

* Balances with undetermined payment dates are associated with parish construction loans that will amortize at the completion of construction.

Other Receivables - The Diocese obtains blanket property and liability insurance, and contracts for health insurance for the Chancery and certain other Diocesan entities and affiliates. The Chancery pays the premiums and bills the Diocesan entities for their portion of the property and liability insurance premiums. In addition, the Chancery bills parishes for their annual parish assessments. Receivables related to these billings and accrued interest on loans receivable principally comprise the other receivables from other Diocesan entities. These receivables are stated at their unpaid balances less estimated allowances for doubtful accounts of \$6,260 and \$66,710 at June 30, 2014 and 2013, respectively.

CHANCERY OF THE DIOCESE OF CHARLESTON
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

Note 6—Other receivables

Other receivables are comprised of the following at June 30:

	<u>2014</u>	<u>2013</u>
Mortgage note receivable	\$ 97,117	\$ 183,284
Cemetery and miscellaneous other receivables	174,045	426,171
	271,162	609,455
Less allowance for doubtful accounts	<u>(102,125)</u>	<u>(93,207)</u>
	<u>\$ 169,037</u>	<u>\$ 516,248</u>

Included in other receivables, the mortgage note receivable is secured by property in Charleston, South Carolina; due in monthly installments of \$7,871 and includes interest at 5.75%. The note matures in July 2015. Scheduled future principal payments to be received under the mortgage note receivable are as follows at June 30, 2014:

<u>Years Ending June 30:</u>	
2015	\$ 91,251
2016	5,866
	<u>\$ 97,117</u>

Note 7—Bonds debt service fund

In conjunction with the issuance of certain bonds (see the note, "Bonds payable," for a further discussion of same), a bonds debt retirement fund, consisting of an interest reserve account and a redemption account, was established in the custody of the bonds' trustee. Monthly interest payments were made to the interest reserve account by the Chancery and disbursed by the trustee to the bondholders on the first day of the month. Additionally, monthly principal payments were made to the redemption account by the Chancery to fund the bonds to be redeemed annually by the trustee on September 1. The bond debt service fund was closed in conjunction with the payoff of the bond during 2014. The balance of \$678,557 at June 30, 2013 consisted of the monthly principal redemption payments made by the Chancery, plus the accumulated interest earned on same.

CHANCERY OF THE DIOCESE OF CHARLESTON
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

Note 8—Other assets

Other assets are comprised of the following at June 30:

	<u>2014</u>	<u>2013</u>
Cash surrender value life insurance	\$ 314,057	\$ 307,249
Prepaid insurance and expenses	296,002	240,867
Unamortized bond issuance costs, net	-	43,699
Accrued interest	134,558	89,343
Other assets	812,780	698,473
	<u>\$ 1,557,397</u>	<u>\$ 1,379,631</u>

Note 9—Property and equipment

Property and equipment consist of the following at June 30:

	<u>2014</u>	<u>2013</u>
Land and land improvements	\$ 8,228,235	\$ 8,505,160
Buildings	12,945,586	12,101,111
Furniture, equipment and vehicles	738,300	562,229
Construction in progress	3,864,358	1,675,511
	<u>25,776,479</u>	<u>22,844,011</u>
Less accumulated depreciation	6,185,444	5,900,141
	<u>\$ 19,591,035</u>	<u>\$ 16,943,870</u>

Depreciation expense recognized for the years ended June 30, 2014 and 2013 was \$312,037 and \$299,809, respectively.

Note 10—Bonds payable

On September 1, 1998, tax-exempt bonds in the aggregate principal amount of \$12,500,000 were issued on behalf of the Diocese through the South Carolina Jobs - Economic Development Authority to finance the acquisition, construction, equipping and furnishing of certain educational facilities in the Diocese. As more fully discussed in the note, "Organization," the Diocese consists of various distinct operating entities, including the Chancery. The bonds payable are included in the financial statements of the Chancery, as part of its cooperative investment and lending program. However, the construction projects funded by the bonds involve certain other diocesan educational entities. As such, these construction projects are included as property and equipment on these other diocesan entities' records. Accordingly, the Chancery's financial statements reflect assets, consisting of notes receivable from other diocesan entities, relative to the use of the bond proceeds. The Chancery paid off the bonds payable during the year ended June 30, 2014.

CHANCERY OF THE DIOCESE OF CHARLESTON

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

Note 10—Bonds payable (continued)

The bonds accrued interest at the “weekly rate,” as defined in the bond document, which was 0.49% as of June 30, 2013. Under the weekly rate, interest was payable monthly, in arrears, on the first day of each month. Beginning in October 2001, monthly principal payments to the bond fund held by the trustee were also required. As of June 30, 2014 and 2013 the bond principal balance was zero and \$4,415,000, respectively. Total interest charged to expense for the years ended June 30, 2014 and 2013 was \$1,218,942 and \$1,236,536, respectively.

In conjunction with the issuance of the bonds, the Diocese entered into a letters of credit agreement with Bank of America, N.A. to secure the principal balance of the outstanding bonds plus an interest component thereof. The letter of credit, as amended in August 2003, expired on September 15, 2009. In July 2010, the letter of credit was amended to extend the stated expiration date to September 15, 2013.

The bonds, including the various related agreements, provided for certain covenants including (1) the maintenance of unrestricted net assets that are 50% of the aggregate current borrowing; and (2) certain limitations on encumbrances of diocesan property, transfers of diocesan property outside the ordinary course of business, and additional indebtedness. The Chancery was in compliance with these covenants at June 30, 2013.

Note 11—Interest rate swap agreement

In February 2001, the Diocese entered into an interest rate swap agreement with Bank of America having a stated fixed interest rate of 3.96% on the outstanding bonds payable for the period from February 15, 2001 through September 1, 2018. Interest expense on the bonds under the bond document and interest rate swap agreement is included as part of the deposit and loan interest expense in the accompanying Statements of Changes in Unrestricted Net Assets.

The Chancery uses the interest rate swap agreement to manage its exposure to interest rate changes with respect to its bonds payable. It is not intended for speculative purposes. The interest rate swap is a derivative instrument, which matures in September 2018. ASC 815, *Derivatives and Hedging*, requires that all derivative instruments be reported at fair value. At June 30, 2014 and 2013, the fair values of the swap agreement were liabilities of \$273,771 and \$400,522, respectively, and are reflected in the accompanying Statements of Financial Position as liabilities. The changes in the fair value of the swap agreement for 2014 and 2013 are reflected in the Statements of Activities as increases in unrestricted net assets of \$126,751 and \$178,807, respectively, and identified as “adjustment on interest rate swap agreement”. Although the interest rate swap agreement is still outstanding, the related bond has been paid off.

This interest rate swap agreement requires the Diocese and, effectively, the Chancery to maintain unrestricted cash and equivalents, government-backed securities and equities in an amount not less than \$1,000,000.

Note 12—Investment expenses

Expenses relating to investment income, including custodial fees and investment advisory fees, were \$190,525 and \$152,620 for 2014 and 2013, respectively, and have been netted against investment income in the accompanying Statements of Activities and Changes in Unrestricted Net Assets.

CHANCERY OF THE DIOCESE OF CHARLESTON

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

Note 13—Retirement plan

The Diocese has a contributory retirement plan covering substantially all lay Diocesan employees, including Chancery employees. After one year of service, the employer contributes 5% of the employee's monthly pay for a participating employee contributing a minimum of 3% of monthly pay. The contributions are limited to the maximum annual amounts allowed by the Internal Revenue Service. In 2014 and 2013, the Chancery made contributions to the lay retirement plan for its employees approximating \$115,163 and \$98,866, respectively.

In addition, the Diocese maintains the Diocesan Priests' Retirement Plan (the "Plan") for the benefit of all eligible priests, as defined in the Plan provisions, working in the Diocese. The Plan is a defined benefit plan providing benefits to eligible participants in accordance with the Plan provisions. Effective January 1, 2007, the Plan was amended to (a) conform to Section 401(a) of the Internal Revenue Code; (b) allow international priests to be eligible to participate in the Plan; (c) reduce the vesting period; (d) reduce the required number of years for normal retirement benefits; and (e) provide for the proration of normal retirement benefits for years less than 20. The Plan was also amended in 2011 and again in 2012, to include a burial benefit.

The funding of the Plan is provided by the respective Diocesan entities (Chancery, parishes and missions, and other Diocesan entities) which are served by the eligible priests of the Diocese. For 2014, the funding for the Plan was \$700 per month through June 30, 2014, for each active eligible priest. For 2013, the funding established for the Plan was \$650 per month through December 31, 2012, and \$700 per month through June 30, 2013, for each active eligible priest. In 2014 and 2013, the Chancery made contributions to the Plan of \$109,381 and \$75,859, respectively, for the eligible priests assigned to the Chancery. The Chancery recognizes pension expense based upon the funding established for the Plan.

ASC 715-20, *Compensation-Retirement Plan, Defined Benefit Plan*, requires certain reporting and disclosures with respect to defined benefit plans such as the Diocesan Priests' Retirement Plan. The Plan involves the Diocese as a whole which consists of various distinct operating entities, including the Chancery. It is not practical to separate such reporting and disclosures for the Chancery or the other Diocesan operating entities participating in the Plan. For purposes of the Chancery's financial statements, the Plan is considered a multi-employer pension plan and the reporting and disclosures limited to the information provided in the preceding paragraph. The Diocese did obtain an actuarial valuation of the Plan as of June 30, 2014 which reported that the present value of the accumulated plan benefits was exceeded by the Plan's assets by \$1,417,579 as of the date. Based on the funding of \$700 per month for each eligible and active priest, contributions to the Plan for the year ending June 30, 2015 are estimated at approximately \$798,000 and exceed the estimated benefit payments of approximately \$570,000. Effectively, the Chancery is a guarantor of the Plan's obligations.

CHANCERY OF THE DIOCESE OF CHARLESTON
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

Note 14—Limitations on unrestricted net assets

The Bishop has chosen to place the following limitations on unrestricted net assets at June 30:

	<u>2014</u>	<u>2013</u>
Designated reserve for property insurance deductible/self insured retention	\$ 3,082,960	\$ 2,785,977
Designated for perpetual care of the St. Lawrence and Holy Cross cemeteries	4,711,808	4,466,404
Designated for long-term investments	15,191,439	16,323,677
Designated for buildings and equipment	11,410,672	8,486,582
	<u>\$ 34,396,879</u>	<u>\$ 32,062,640</u>

Note 15—Temporarily restricted net assets

Temporarily restricted net assets consist of the following at June 30:

	<u>2014</u>	<u>2013</u>
Restricted for use in subsequent year	\$ 1,491,281	\$ 1,093,059
Restricted for construction of Diocesan conference and retreat center	460,000	470,000
Restricted for various other Chancery programs	1,742,729	2,166,848
Restricted for endowments	2,387,086	2,174,415
	<u>\$ 6,081,096</u>	<u>\$ 5,904,322</u>

Note 16—Endowments

The Chancery's endowments consist of several funds established for a variety of purposes. The endowments include donor-restricted endowments funds. As required by accounting principles generally accepted in the United States of America, the net assets associated with the endowments are classified and reported based on the existence or absence of donor imposed restrictions.

Interpretation of Relevant Law - The Chancery has interpreted the State of South Carolina's enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift, as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Chancery classifies as permanently restricted net assets the original value of the gifts donated to the endowment and the original value of subsequent gifts to the endowment. The remaining portion of the donor-restricted fund that is not classified as permanently restricted net assets is classified as temporarily restricted until those amounts are appropriated for expenditure by the Chancery in a manner consistent with the standards of prudence prescribed by UPMIFA.

CHANCERY OF THE DIOCESE OF CHARLESTON
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

Note 16—Endowments (continued)

In accordance with UPMIFA, the Chancery considered the following factors in making their determination to appropriate or accumulate endowment funds:

1. The duration and preservation of the funds
2. The purpose of the donor restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and appreciation of investments
6. Other resources of the Chancery
7. Investment policies of the Chancery

The following tables present the Chancery's endowment net asset classification and composition:

Endowment net assets composition by type of fund at June 30, 2014:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 2,387,086	\$ 8,299,081	\$ 10,686,167
Total funds	<u>\$ -</u>	<u>\$ 2,387,086</u>	<u>\$ 8,299,081</u>	<u>\$ 10,686,167</u>

Endowment net assets composition by type of fund at June 30, 2013:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 2,174,415	\$ 8,174,081	\$ 10,348,496
Total funds	<u>\$ -</u>	<u>\$ 2,174,415</u>	<u>\$ 8,174,081</u>	<u>\$ 10,348,496</u>

CHANCERY OF THE DIOCESE OF CHARLESTON
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

Note 16—Endowments (continued)

Permanently restricted net assets consist of the following at June 30:

	<u>2014</u>	<u>2013</u>
Third world ministry endowment	\$ 647,769	\$ 647,769
Synod endowment	1,500,000	1,500,000
St. Mary's education fund endowment	50,000	50,000
Miscellaneous endowment fund	56,026	56,026
Cathedral maintenance and endowment	540,427	540,427
Infirm priests endowment	57,359	57,359
Hispanic ministry endowment	2,000,000	2,000,000
Seminarian education fund	1,010,000	1,010,000
Catholic education endowment	2,437,500	2,312,500
	<u>\$ 8,299,081</u>	<u>\$ 8,174,081</u>

Funds with Deficiencies - From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Chancery to retain as a fund of perpetual duration. No such deficiencies existed at June 30, 2014 or 2013.

Strategies Employed for Achieving Investment Objectives - The Chancery follows an investment policy with long-term growth as the main objective. The Chancery relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Chancery utilizes a diversified asset allocation, with greater emphasis on equity-based investments, to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy - The Chancery has a policy of appropriating for distribution each year, as determined by the investment committee and approved by the Bishop, 5% of its endowment funds' average fair value over the prior 36 months (or since inception if shorter) as of June 30th (measurement date) each year. In establishing these policies, the Chancery considered the expected return on its endowment. Accordingly, the Chancery expects the current spending policy to allow its endowment to maintain its purchasing power by growing at a rate equal to planned payouts. Additional real growth will be provided through new gifts and excess investment return.

CHANCERY OF THE DIOCESE OF CHARLESTON
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

Note 16—Endowments (continued)

Changes in endowment net assets for the year ended June 30, 2014 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 2,174,415	\$ 8,174,081	\$ 10,348,496
Total investment return	-	1,451,290	-	1,451,290
Contributions	-	-	125,000	125,000
Appropriation of endowment assets for expenditure	-	(1,238,619)	-	(1,238,619)
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 2,387,086</u>	<u>\$ 8,299,081</u>	<u>\$ 10,686,167</u>

Changes in endowment net assets for the year ended June 30, 2013 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 1,405,102	\$ 8,049,081	\$ 9,454,183
Total investment return	-	1,109,493	-	1,109,493
Contributions	-	-	125,000	125,000
Appropriation of endowment assets for expenditure	-	(340,180)	-	(340,180)
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 2,174,415</u>	<u>\$ 8,174,081</u>	<u>\$ 10,348,496</u>

Note 17—Related-party transactions

The Chancery has entered into an agreement to lease certain land in Mt. Pleasant, South Carolina to East Cooper Community Outreach (ECCO), a non-profit organization associated with a Diocesan parish. The land lease is for a period of 50 years, ending in 2052, at \$1 per year, with ECCO being responsible for all costs relative to the property and the operation of an ecumenical outreach center thereon.

CHANCERY OF THE DIOCESE OF CHARLESTON

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

Note 18—Contingencies

Various legal and other actions are pending against the Diocese and, effectively, the Chancery which involve claims for damages, as well as other types of relief, relative to the actions of certain personnel of the Diocese of Charleston. Counsel for the Diocese has advised that there are significant uncertainties with respect to these legal and other actions; and that the ultimate outcome from such legal and other actions pending against the Diocese cannot presently be determined. Accordingly, no provision for any liability that may result from these matters has been made in the accompanying financial statements.

As more fully discussed in the note, "Retirement Plan," the Diocese obtained an actuarial valuation of the Diocesan Priests' Retirement Plan (the "Plan") which reported that the Plan's assets exceeded liabilities at June 30, 2014 by \$1,417,579. Effectively, the Chancery is a guarantor of the Plan's obligations and the impact of future market, credit and other conditions could impact the excess or deficit of these Plan's assets to Plan liabilities.

The Diocese obtains blanket property and liability insurance coverage for the Chancery and certain other Diocesan entities and affiliates. The Chancery pays the premiums and bills the Diocesan entities for their portion of the premiums. Under the Diocese's property and liability insurance coverage, the self-insured retention of the Chancery has an annual aggregate ("stop loss") of \$750,000. The Chancery has designated net assets in the amount of \$3,082,960 for property insurance deductible and self-insurance reserves at June 30, 2014 (see Note 14).

Note 19—Subsequent events

In accordance with accounting principles generally accepted in the United States of America, management has evaluated subsequent events through October 9, 2014, the date these financial statements were available to issue. There were no material subsequent events that required recognition or additional disclosure in these financial statements.