



**CHANCERY OF THE DIOCESE OF
CHARLESTON**

FINANCIAL STATEMENTS

As of and for the Years Ended June 30, 2013 and 2012

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
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 statement of financial position as of June 30, 2013, and the related statements of activities and cash flows for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit 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, 2013, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The financial statements of the Chancery of the Diocese of Charleston as of June 30, 2012, were audited by other auditors whose report dated August 22, 2012, expressed an unmodified opinion on those statements.



Greenville, South Carolina
October 22, 2013

CHANCERY OF THE DIOCESE OF CHARLESTON
STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
ASSETS		
Cash and cash equivalents	\$ 14,941,054	\$ 18,081,885
Investments	40,439,974	40,256,249
Receivables from other Diocesan entities:		
Loans receivable, net	23,668,783	20,979,211
Other receivables, net	344,150	354,719
Other receivables	510,098	591,502
Cash restricted for property projects	470,000	470,000
Bonds debt service fund	678,557	663,556
Other assets	1,379,631	1,330,481
Property and equipment, net	<u>16,943,870</u>	<u>14,651,908</u>
Total Assets	<u>\$ 99,376,117</u>	<u>\$ 97,379,511</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 504,997	\$ 333,714
Savings deposits	40,522,970	40,920,677
Due to other diocesan or Catholic Church entities	1,351,628	1,550,222
Interest rate swap agreement	400,522	579,329
Note payable	-	655,849
Bonds payable	<u>4,415,000</u>	<u>5,150,000</u>
Total Liabilities	<u>47,195,117</u>	<u>49,189,791</u>
Net assets:		
Unrestricted:		
Designated for insurance reserve	2,785,977	2,870,976
Designated for cemeteries care	4,466,404	4,502,794
Designated for investments	16,323,677	13,333,318
Designated for buildings and equipment	8,486,582	6,924,109
Operating	<u>6,039,957</u>	<u>6,880,403</u>
Total unrestricted	38,102,597	34,511,600
Temporarily restricted	5,904,322	5,629,039
Permanently restricted	<u>8,174,081</u>	<u>8,049,081</u>
Total Net Assets	<u>52,181,000</u>	<u>48,189,720</u>
Total Liabilities and Net Assets	<u>\$ 99,376,117</u>	<u>\$ 97,379,511</u>

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

CHANCERY OF THE DIOCESE OF CHARLESTON
STATEMENT OF ACTIVITIES

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 grants	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
	<u>15,390,937</u>	<u>5,259,390</u>	<u>125,000</u>	<u>20,775,327</u>
Net assets released from restrictions	<u>4,984,107</u>	<u>(4,984,107)</u>	<u>-</u>	<u>-</u>
Total support, revenue and reclassifications	<u>20,375,044</u>	<u>275,283</u>	<u>125,000</u>	<u>20,775,327</u>
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
	<u>14,764,124</u>	<u>-</u>	<u>-</u>	<u>14,764,124</u>
Supporting services:				
General and administration	1,935,945	-	-	1,935,945
Institutional advancement	262,785	-	-	262,785
	<u>2,198,730</u>	<u>-</u>	<u>-</u>	<u>2,198,730</u>
Total expenses	<u>16,962,854</u>	<u>-</u>	<u>-</u>	<u>16,962,854</u>
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	<u>34,511,600</u>	<u>5,629,039</u>	<u>8,049,081</u>	<u>48,189,720</u>
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
STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support and revenue:				
Parish assessment income	\$ 4,914,573	\$ -	\$ -	\$ 4,914,573
Contributions and bequests	187,441	3,215,343	135,000	3,537,784
Interest and dividend income	1,487,625	158,136	-	1,645,761
Net realized gain on investments	435,972	170,682	-	606,654
Net unrealized (loss) on investments	(628,494)	(296,130)	-	(924,624)
Supporting services fees	3,738,831	-	-	3,738,831
Other revenue	2,353,779	-	-	2,353,779
Total support and revenue	12,489,727	3,248,031	135,000	15,872,758
Net assets released from restrictions	3,341,676	(3,341,676)	-	-
Total support, revenue and reclassifications	15,831,403	(93,645)	135,000	15,872,758
Expenses:				
Program services:				
Pastoral	3,569,185	-	-	3,569,185
Church personnel development	1,602,192	-	-	1,602,192
Education	1,101,070	-	-	1,101,070
Cemeteries	472,300	-	-	472,300
Deposit and loan, including interest of \$884,358	1,249,353	-	-	1,249,353
Diocesan supporting services	5,406,630	-	-	5,406,630
Total program services	13,400,730	-	-	13,400,730
Supporting services:				
General and administration	1,777,462	-	-	1,777,462
Institutional advancement	301,153	-	-	301,153
Total supporting services	2,078,615	-	-	2,078,615
Total expenses	15,479,345	-	-	15,479,345
Change in net assets before derivative adjustment	352,058	(93,645)	135,000	393,413
Adjustment on interest rate swap agreement	9,577	-	-	9,577
Change in net assets	361,635	(93,645)	135,000	402,990
Net assets, beginning of year	34,149,965	5,722,684	7,914,081	47,786,730
Net assets, end of year	\$ 34,511,600	\$ 5,629,039	\$ 8,049,081	\$ 48,189,720

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, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Changes in net assets	\$ 3,991,280	\$ 402,990
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Amortization of bond issue costs	8,740	8,739
Investment income - bonds debt service fund	(15,001)	(15,000)
Net realized and unrealized (gains) losses on investments	(2,995,955)	317,970
Depreciation	299,809	336,795
Bad debts	-	4,950
Loss on disposal of property and equipment	-	34,269
Changes in assets and liabilities:		
Decrease in other receivables - Diocesan entities	10,569	79,985
(Increase) decrease in other receivables	81,404	(147,605)
(Increase) decrease in other assets	(57,890)	222,722
Increase (decrease) in accounts payable and accrued expenses	171,283	(499,429)
Fair value adjustment on interest rate swap agreement	(178,807)	(9,577)
Net cash provided by operating activities	<u>1,315,432</u>	<u>736,809</u>
Cash flows from investing activities:		
Proceeds from investment transactions	27,599,155	18,827,034
Purchases of investments	(24,786,925)	(29,873,373)
(Funding) proceeds of loans receivable, net of repayments	(2,689,572)	2,428,650
Purchases of property and equipment	(2,591,771)	(220,997)
Net cash used for investing activities	<u>(2,469,113)</u>	<u>(8,838,686)</u>
Cash flows from financing activities:		
Decrease in cash restricted for property projects	-	30,000
(Decrease) increase in savings deposits, net	(397,707)	6,973,040
Decrease in payables to other Diocesan entities, net	(198,594)	(218,082)
Principal payments on bonds payable	(735,000)	(735,000)
Principal payments on notes payable	(655,849)	(55,000)
Net cash provided by (used for) financing activities	<u>(1,987,150)</u>	<u>5,994,958</u>
Decrease in cash and cash equivalents	(3,140,831)	(2,106,919)
Cash and cash equivalents, beginning of year	<u>18,081,885</u>	<u>20,188,804</u>
Cash and cash equivalents, end of year	<u>\$ 14,941,054</u>	<u>\$ 18,081,885</u>
Supplemental cash flow information:		
Cash paid for interest	<u>\$ 1,236,536</u>	<u>\$ 1,075,210</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, 2013 AND 2012

Note 1—Organization

The Catholic Diocese of Charleston (the “Diocese”), a unit of the Roman Catholic Church, is a non-profit corporation solely organized under the laws of the State of South Carolina under the name of 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 32 Catholic schools with 28 Elementary Schools, 2 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; and others. The accompanying financial statements include only the programs and administrative support offices of the Chancery of the Diocese of Charleston.

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, 2013 AND 2012

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 are being amortized over the term of the bonds. Net capitalized bond issue costs are included in Other Assets on the Statement of Activities.

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 3 to 40 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, 2013 AND 2012

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 Catholic Charities' evaluation of accounting for uncertainty in income taxes. Management evaluated the Catholic Charities' 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, 2013 and 2012 totaled \$37,285 and \$25,161, respectively.

New Accounting Pronouncements - The FASB has issued Accounting Standards Update (ASU) No. 2012-02, *Intangibles—Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment*. This ASU states that an entity has the option first to assess qualitative factors to determine whether the existence of events and circumstances indicates that it is more likely than not that the indefinite-lived intangible asset is impaired. If, after assessing the totality of events and circumstances, an entity concludes that it is not more likely than not that the indefinite-lived intangible asset is impaired, then the entity is not required to take further action. However, if an entity concludes otherwise, then it is required to determine the fair value of the indefinite-lived intangible asset and perform the quantitative impairment test by comparing the fair value with the carrying amount in accordance with Codification Subtopic 350-30, *Intangibles—Goodwill and Other, General Intangibles Other than Goodwill*. The amendments in the ASU are effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012, and management is not anticipating any significant impact from its implementation.

The FASB has issued Accounting Standards Update (ASU) No. 2011-09, *Compensation-Retirement Benefits-Multiemployer Plans (Subtopic 715-80): Disclosures about an Employer's Participation in a Multi-employer Plan*. ASU 2011-09 is intended to address concerns from various users of financial statements on the lack of transparency about an employer's participation in a multi-employer pension plan. Users of financial statements have requested additional disclosure to increase awareness of the commitments and risks involved with participating in multi-employer pension plans. The amendments in this ASU will require additional disclosures about an employer's participation in a multi-employer pension plan. Previously, disclosures were limited primarily to the historical contributions made to the plans. For nonpublic entities, ASU 2011-09 is effective for annual periods for fiscal years ending after December 15, 2012 and management is not anticipating any significant impact from its implementation.

The FASB has issued Accounting Standards Update (ASU) No. 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*. This ASU represents the converged guidance of the FASB and the IASB (the Boards) on fair value measurement. The collective efforts of the Boards and their staffs, reflected in ASU 2011-04, have resulted in common requirements for measuring fair value and for disclosing information about fair value measurements,

CHANCERY OF THE DIOCESE OF CHARLESTON
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

Note 2—Summary of significant accounting policies (continued)

including a consistent meaning of the term “fair value.” The Boards have concluded the common requirements will result in greater comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with U.S. GAAP and IFRSs. For nonpublic entities, the amendments are effective for annual periods beginning after December 15, 2011, and management is not anticipating any significant impact from its implementation.

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, 2013 and 2012, the Chancery had \$15,363,310 and \$17,110,852, 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, 2013 and 2012.

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>

CHANCERY OF THE DIOCESE OF CHARLESTON
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

Note 4—Investments (continued)

Investments along with their cost, fair value and net unrealized gain (loss) at June 30, 2012 are as follows:

	<u>Cost</u>	<u>Fair Value</u>	<u>Net Unrealized Gain</u>
Cash with investment companies	\$ 1,693,612	\$ 1,693,612	\$ -
Mutual funds	4,464,640	4,885,977	421,337
Corporate and government debt securities	15,691,165	16,346,611	655,446
Equity securities	15,835,610	17,330,049	1,494,439
	<u>\$ 37,685,027</u>	<u>\$ 40,256,249</u>	<u>\$ 2,571,222</u>

Certain of the Chancery's investments are maintained in funds managed by investment companies. Other Diocesan entities (e.g. - parishes, schools, etc.) 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>2013</u>	<u>2012</u>
Chancery of the Diocese of Charleston	\$ 34,055,399	\$ 30,054,079
Other Diocesan entities	13,763,170	10,268,432
	<u>\$ 47,818,569</u>	<u>\$ 40,322,511</u>

The Chancery's share of these pooled investments has been allocated to the respective classifications of investments as of June 30, 2013 and 2012 detailed previously in this note.

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 are 2.25% to 6.25% at June 30, 2013 and 2012. 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 and \$300,000 at June 30, 2013 and 2012, 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, 2013 and 2012.

CHANCERY OF THE DIOCESE OF CHARLESTON
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

Note 5—Receivables from other diocesan entities (continued)

Scheduled future principal payments under loans due from parishes and schools at June 30, 2013 are as follows:

<u>Years Ending June 30:</u>		
2014	\$	2,805,842
2015		2,748,702
2016		2,763,139
2017		2,711,828
2018		1,623,372
Thereafter		10,013,263
Undetermined*		1,288,558
		<u>23,954,704</u>
Less allowance for doubtful accounts		285,921
	\$	<u><u>23,668,783</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. 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 \$66,710 and \$69,737 at June 30, 2013 and 2012, respectively.

Note 6—Other receivables

Other receivables are comprised of the following at June 30:

	<u>2013</u>	<u>2012</u>
Mortgage note receivable	\$ 183,284	\$ 287,091
Cemetery and miscellaneous other receivables	420,021	397,618
	<u>603,305</u>	<u>684,709</u>
Less allowance for doubtful accounts	(93,207)	(93,207)
	<u><u>\$ 510,098</u></u>	<u><u>\$ 591,502</u></u>

CHANCERY OF THE DIOCESE OF CHARLESTON
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

Note 6—Other receivables (continued)

Included in other receivables, 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, 2013:

<u>Years Ending June 30:</u>	
2014	\$ 86,164
2015	91,251
2016	5,869
	<u>\$ 183,284</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 are 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 are 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 balances of \$678,557 and \$663,556 at June 30, 2013 and 2012, respectively, consist of the monthly principal redemption payments made by the Chancery, plus the accumulated interest earned on same.

Note 8—Other assets

Other assets are comprised of the following at June 30:

	<u>2013</u>	<u>2012</u>
Cash surrender value life insurance	\$ 307,249	\$ 293,246
Prepaid insurance and expenses	240,867	249,091
Unamortized bond issuance costs, net	43,699	52,439
Accrued interest	89,343	85,406
Other assets	698,473	650,299
	<u>\$ 1,379,631</u>	<u>\$ 1,330,481</u>

CHANCERY OF THE DIOCESE OF CHARLESTON
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

Note 8—Other assets (continued)

Future amortization expense on bond issuance costs at June 30, 2013 is as follows:

<u>Years Ending June 30:</u>	
2014	\$ 8,740
2015	8,740
2016	8,740
2017	8,740
2018	8,739
	<u>\$ 43,699</u>

Note 9—Property and equipment

Property and equipment consist of the following at June 30:

	<u>2013</u>	<u>2012</u>
Land and land improvements	\$ 8,505,160	\$ 7,469,684
Buildings	12,101,111	12,101,111
Furniture, equipment and vehicles	562,229	596,521
Construction in progress	1,675,511	119,216
	<u>22,844,011</u>	<u>20,286,532</u>
Less accumulated depreciation	5,900,141	5,634,624
	<u>\$ 16,943,870</u>	<u>\$ 14,651,908</u>

Depreciation expense recognized for the years ended June 30, 2013 and 2012 was \$299,809 and \$336,795, respectively.

Note 10—Notes payable

Notes payable consist of the following at June 30:

	<u>2013</u>	<u>2012</u>
Note payable	\$ -	\$ 655,849
	<u>\$ -</u>	<u>\$ 655,849</u>

The note payable was unsecured and was payable in monthly principal installments of \$4,583, plus interest at the LIBOR daily floating rate plus .85% (1.097% at June 30, 2012), with a final payment of all unpaid principal and interest due in October 2012. The note payable was paid in full during the year ended June 30, 2013 via an internal loan through the Deposit and Loan program.

CHANCERY OF THE DIOCESE OF CHARLESTON

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

Note 11—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 bonds bear interest at the "weekly rate," as defined in the bond document, which was 0.24% and 0.49% as of June 30, 2013 and 2012, respectively. Under the weekly rate, interest is 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, 2013 and 2012 the bond principal balance was \$4,415,000 and \$5,150,000, respectively. Total interest charged to expense for the years ended June 30, 2013 and 2012 was \$1,236,536 and \$1,346,797, respectively.

Principal payments to the bondholders are payable on September 1 of each of the following years:

<u>Years Ending June 30:</u>	
2014	\$ 735,000
2015	735,000
2016	735,000
2017	735,000
2018	735,000
Thereafter	740,000
	<u>\$ 4,415,000</u>

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, provide 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.

Note 12—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.

CHANCERY OF THE DIOCESE OF CHARLESTON

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

Note 12—Interest rate swap agreement (continued)

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. ASC 815, *Derivatives and Hedging*, requires that all derivative instruments be reported at fair value. At June 30, 2013 and 2012, the fair values of the swap agreement were liabilities of \$400,522 and \$579,329, respectively, and are reflected in the accompanying Statements of Financial Position as liabilities. The changes in the fair value of the swap agreement for 2013 and 2012 are reflected in the Statements of Activities as increases in unrestricted net assets of \$178,807 and \$9,577, respectively, and identified as "adjustment on interest rate swap agreement".

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 13—Investment expenses

Expenses relating to investment income, including custodial fees and investment advisory fees, were \$152,620 and \$148,366 for 2013 and 2012, respectively, and have been netted against investment income in the accompanying Statements of Activities and Changes in Unrestricted Net Assets.

Note 14—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 2013 and 2012, the Chancery made contributions to the lay retirement plan for its employees approximating \$98,866 and \$101,988, 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 2013, the funding for the Plan was \$650 per month through December 31, 2012, and \$700 per month through June 30, 2013, for each active eligible priest. For 2012, the funding established for the Plan was \$600 per month through December 31, 2011, and \$650 per month through June 30, 2012, for each active eligible priest. In 2013 and 2012, the Chancery made contributions to the Plan of \$75,859 and \$80,675, respectively, for the eligible priests assigned to the Chancery. The Chancery recognizes pension expense based upon the funding established for the Plan.

CHANCERY OF THE DIOCESE OF CHARLESTON
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

Note 14—Retirement plan (continued)

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, 2013 which reported that the present value of the accumulated plan benefits was exceeded by the Plan's assets by approximately \$159,889 as of the date. Based on the funding of \$650 to \$700 per month for each eligible priest, contributions to the Plan for the year ending June 30, 2013 are estimated at approximately \$615,600 and exceed the estimated benefit payments of approximately \$486,000. Effectively, the Chancery is a guarantor of the Plan's obligations.

Note 15—Limitations on unrestricted net assets

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

	<u>2013</u>	<u>2012</u>
Designated reserve for property insurance deductible/self insured retention	\$ 2,785,977	\$ 2,870,976
Designated for perpetual care of the St. Lawrence and Holy Cross cemeteries	4,466,404	4,502,794
Designated for long-term investments	16,323,677	13,333,318
Designated for buildings and equipment	8,486,582	6,924,109
	<u>\$ 32,062,640</u>	<u>\$ 20,707,088</u>

Note 16—Temporarily restricted net assets

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

	<u>2013</u>	<u>2012</u>
Restricted for use in subsequent year	\$ 1,093,059	\$ 1,180,595
Restricted for construction of Diocesan conference and retreat center	470,000	470,000
Restricted for various other Chancery programs	2,166,848	2,573,342
Restricted for endowments	2,174,415	1,405,102
	<u>\$ 5,904,322</u>	<u>\$ 5,629,039</u>

CHANCERY OF THE DIOCESE OF CHARLESTON
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

Note 17—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.

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, 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>

Endowment net assets composition by type of fund at June 30, 2012:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 1,405,102	\$ 8,049,081	\$ 9,454,183
Total funds	<u>\$ -</u>	<u>\$ 1,405,102</u>	<u>\$ 8,049,081</u>	<u>\$ 9,454,183</u>

CHANCERY OF THE DIOCESE OF CHARLESTON
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

Note 17—Endowments (continued)

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

	<u>2013</u>	<u>2012</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	2,312,500	2,187,500
	<u>\$ 8,174,081</u>	<u>\$ 8,049,081</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, 2013 or 2012.

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, 2013 AND 2012

Note 17—Endowments (continued)

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>

Changes in endowment net assets for the year ended June 30, 2012 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 1,573,294	\$ 7,914,081	\$ 9,487,375
Total investment return	-	32,688	-	32,688
Contributions	-	-	135,000	135,000
Appropriation of endowment assets for expenditure	-	(200,880)	-	(200,880)
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 1,405,102</u>	<u>\$ 8,049,081</u>	<u>\$ 9,454,183</u>

Note 18—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, 2013 AND 2012

Note 19—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, 2013 by \$159,889. 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. 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 \$2,785,977 for property insurance deductible and self-insurance reserves at June 30, 2013 (see Note 15).

Note 20—Subsequent events

In accordance with accounting principles generally accepted in the United States of America, management has evaluated subsequent events through October 22, 2013, 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.