



**CHANCERY OF THE DIOCESE
OF CHARLESTON**

FINANCIAL STATEMENTS

*As of and for the Years Ended June 30, 2016
and 2015*

And Report of Independent Auditor

CHANCERY OF THE DIOCESE OF CHARLESTON

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Report of Independent Auditor

To Bishop Robert E. Guglielmono
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, 2016 and 2015, and the related statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to 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, 2016 and 2015, 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.



CHANCERY OF THE DIOCESE OF CHARLESTON
STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
Cash and cash equivalents	\$ 9,610,794	\$ 17,760,840
Investments	37,748,851	39,334,552
Receivables from other Diocesan entities:		
Loans receivable, net	42,529,753	33,142,551
Other receivables, net	498,654	761,193
Other receivables	149,593	82,409
Other assets	2,193,464	1,763,830
Property and equipment, net	<u>33,560,708</u>	<u>32,242,228</u>
Total Assets	\$ 126,291,817	\$ 125,087,603
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 565,510	\$ 1,968,132
Deposits and loan funds payable	37,601,335	41,236,907
Due to other Diocesan or Catholic Church entities	2,046,150	3,005,260
Interest rate swap agreement	100,783	176,201
Construction loans	6,696,328	9,744,290
Bonds payable	<u>21,420,497</u>	<u>10,449,089</u>
Total Liabilities	68,430,603	66,579,879
Net Assets:		
Unrestricted:		
Designated	33,979,626	29,742,604
Operating	<u>10,619,247</u>	<u>14,816,892</u>
Total Unrestricted	44,598,873	44,559,496
Temporarily restricted	4,663,260	5,499,147
Permanently restricted	<u>8,599,081</u>	<u>8,449,081</u>
Total Net Assets	57,861,214	58,507,724
Total Liabilities and Net Assets	\$ 126,291,817	\$ 125,087,603

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

YEAR ENDED JUNE 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support and Revenue:				
Parish assessment income	\$ 6,230,162	\$ -	\$ -	\$ 6,230,162
Contributions and grants	374,118	4,986,963	150,000	5,511,081
Interest and dividend income	2,092,541	208,861	-	2,301,402
Net realized loss on investments	(153,798)	(145,750)	-	(299,548)
Net unrealized loss on investments	(422,342)	(67,738)	-	(490,080)
Supporting services fees	4,381,086	-	-	4,381,086
Other revenue	2,533,974	-	-	2,533,974
	<u>15,035,741</u>	<u>4,982,336</u>	<u>150,000</u>	<u>20,168,077</u>
Net assets released from restrictions	<u>5,818,223</u>	<u>(5,818,223)</u>	<u>-</u>	<u>-</u>
Total Support and Revenue	<u>20,853,964</u>	<u>(835,887)</u>	<u>150,000</u>	<u>20,168,077</u>
Expenses:				
Program Services:				
Pastoral	6,560,143	-	-	6,560,143
Church personnel development	2,062,686	-	-	2,062,686
Education	1,404,639	-	-	1,404,639
Cemeteries	445,121	-	-	445,121
Deposit and loan, including interest of \$914,384	1,459,478	-	-	1,459,478
Diocesan supporting services	6,282,289	-	-	6,282,289
Total Program Services	<u>18,214,356</u>	<u>-</u>	<u>-</u>	<u>18,214,356</u>
Supporting Services:				
General and administration	2,459,698	-	-	2,459,698
Institutional advancement	215,951	-	-	215,951
Total Supporting Services	<u>2,675,649</u>	<u>-</u>	<u>-</u>	<u>2,675,649</u>
Total Expenses	<u>20,890,005</u>	<u>-</u>	<u>-</u>	<u>20,890,005</u>
Change in net assets before derivative adjustment	(36,041)	(835,887)	150,000	(721,928)
Adjustment on interest rate swap agreement	<u>75,418</u>	<u>-</u>	<u>-</u>	<u>75,418</u>
Change in net assets	39,377	(835,887)	150,000	(646,510)
Net assets, beginning of year	<u>44,559,496</u>	<u>5,499,147</u>	<u>8,449,081</u>	<u>58,507,724</u>
Net assets, end of year	<u>\$ 44,598,873</u>	<u>\$ 4,663,260</u>	<u>\$ 8,599,081</u>	<u>\$ 57,861,214</u>

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

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

YEAR ENDED JUNE 30, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support and Revenue:				
Parish assessment income	\$ 6,058,215	\$ -	\$ -	\$ 6,058,215
Contributions and bequests	314,364	3,935,994	150,000	4,400,358
Interest and dividend income	1,731,671	256,911	-	1,988,582
Net realized gain on investments	1,480,471	599,046	-	2,079,517
Net unrealized loss on investments	(3,271,681)	(467,959)	-	(3,739,640)
Supporting services fees	4,325,108	-	-	4,325,108
Other revenue	4,344,856	-	-	4,344,856
	<u>14,983,004</u>	<u>4,323,992</u>	<u>150,000</u>	<u>19,456,996</u>
Net assets released from restrictions	<u>4,905,941</u>	<u>(4,905,941)</u>	<u>-</u>	<u>-</u>
Total Support and Revenue	<u>19,888,945</u>	<u>(581,949)</u>	<u>150,000</u>	<u>19,456,996</u>
Expenses:				
Program Services:				
Pastoral	5,887,101	-	-	5,887,101
Church personnel development	2,042,882	-	-	2,042,882
Education	1,200,633	-	-	1,200,633
Cemeteries	409,892	-	-	409,892
Deposit and loan, including interest of \$907,819	1,090,033	-	-	1,090,033
Diocesan supporting services	5,908,520	-	-	5,908,520
Total Program Services	<u>16,539,061</u>	<u>-</u>	<u>-</u>	<u>16,539,061</u>
Supporting services:				
General and administration	2,293,947	-	-	2,293,947
Institutional advancement	209,569	-	-	209,569
Total Supporting Services	<u>2,503,516</u>	<u>-</u>	<u>-</u>	<u>2,503,516</u>
Total Expenses	<u>19,042,577</u>	<u>-</u>	<u>-</u>	<u>19,042,577</u>
Change in net assets before derivative adjustment	846,368	(581,949)	150,000	414,419
Adjustment on interest rate swap agreement	<u>97,570</u>	<u>-</u>	<u>-</u>	<u>97,570</u>
Change in net assets	943,938	(581,949)	150,000	511,989
Net assets, beginning of year	<u>43,615,558</u>	<u>6,081,096</u>	<u>8,299,081</u>	<u>57,995,735</u>
Net assets, end of year	<u>\$ 44,559,496</u>	<u>\$ 5,499,147</u>	<u>\$ 8,449,081</u>	<u>\$ 58,507,724</u>

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

CHANCERY OF THE DIOCESE OF CHARLESTON
STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Change in net assets	\$ (646,510)	\$ 511,989
Adjustments to reconcile change in net assets to net cash from operating activities:		
Net realized and unrealized loss on investments	789,628	1,660,123
Depreciation	1,070,177	331,002
Bad debts	3,345	1,030
(Gain) loss on disposal of property and equipment	479,038	(259,782)
Changes in assets and liabilities:		
Other receivables - Diocesan entities	259,194	(119,972)
Other receivables	(67,184)	86,628
Other assets	(377,050)	(37,036)
Accounts payable and accrued expenses	(1,402,622)	680,158
Interest rate swap agreement	(75,418)	(97,570)
Net cash from operating activities	<u>32,598</u>	<u>2,756,570</u>
Cash flows from investing activities:		
Proceeds from investment transactions	22,124,413	19,358,074
Purchases of investments	(21,328,340)	(20,087,445)
Funding of loans receivable, net of repayments	(9,387,202)	(8,674,215)
Purchases of property and equipment	(2,909,413)	(13,346,853)
Proceeds from sale of property and equipment	41,718	624,440
Net cash from investing activities	<u>(11,458,824)</u>	<u>(22,125,999)</u>
Cash flows from financing activities:		
Change in cash restricted for property projects	-	460,000
Change in deposits and loan funds payable	(3,635,572)	827,453
Change in payables to other Diocesan entities, net	(959,110)	998,706
Bond issuance costs	(52,584)	(169,397)
Proceeds from construction loans	2,755,710	9,744,290
Payments on construction loans	(5,803,672)	-
Proceeds from bonds payable	10,971,408	10,449,089
Net cash from financing activities	<u>3,276,180</u>	<u>22,310,141</u>
Change in cash and cash equivalents	(8,150,046)	2,940,712
Cash and cash equivalents, beginning of year	17,760,840	14,820,128
Cash and cash equivalents, end of year	<u>\$ 9,610,794</u>	<u>\$ 17,760,840</u>
Supplemental cash flow information:		
Cash paid for interest	<u>\$ 1,766,529</u>	<u>\$ 1,199,785</u>

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

CHANCERY OF THE DIOCESE OF CHARLESTON

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

Note 1—Organization

The Roman 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 34 Catholic schools with 28 elementary schools, 4 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, Inc. ("Catholic Charities"); and others. The accompanying financial statements include only the programs and administrative support offices of the Chancery.

At the time of issuance of the prior year audited financial statements, the Board of Directors of Catholic Charities had voted to transfer the administration of certain programs and related activities to the Chancery. During the year ended June 30, 2016, that decision had been reversed, such that Catholic Charities currently operates as an independent organization.

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 assets 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.

CHANCERY OF THE DIOCESE OF CHARLESTON

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

Note 2—Summary of significant accounting policies (continued)

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. Contributions received with temporary restrictions that are met in the same reporting period are reported as unrestricted support and increase unrestricted net assets.

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 statements of financial position.

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.

CHANCERY OF THE DIOCESE OF CHARLESTON

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

Note 2—Summary of significant accounting policies (continued)

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. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized.

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.

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 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 requires 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.

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 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, 2016 and 2015, the Chancery had \$9,851,298 and \$18,116,956, respectively, which exceed these insured amounts.

CHANCERY OF THE DIOCESE OF CHARLESTON
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

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, 2016 and 2015.

Investments along with their cost, fair value and net unrealized gain at June 30, 2016 are as follows:

	<u>Cost</u>	<u>Fair Value</u>	<u>Net Unrealized Gain (Loss)</u>
Cash with investment companies	\$ 2,730,550	\$ 2,730,550	\$ -
Mutual funds	12,891,946	12,268,580	(623,366)
Corporate and government debt securities	4,278,752	4,330,081	51,329
Equity securities	17,352,152	18,419,640	1,067,488
	<u>\$ 37,253,400</u>	<u>\$ 37,748,851</u>	<u>\$ 495,451</u>

Investments along with their cost, fair value and net unrealized gain at June 30, 2015 are as follows:

	<u>Cost</u>	<u>Fair Value</u>	<u>Net Unrealized Gain (Loss)</u>
Cash with investment companies	\$ 1,179,438	\$ 1,179,438	\$ -
Mutual funds	12,755,275	12,370,910	(384,365)
Corporate and government debt securities	4,359,442	4,336,705	(22,737)
Equity securities	19,910,645	21,447,499	1,536,854
	<u>\$ 38,204,800</u>	<u>\$ 39,334,552</u>	<u>\$ 1,129,752</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.

CHANCERY OF THE DIOCESE OF CHARLESTON
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

Note 4—Investments (continued)

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

	<u>2016</u>	<u>2015</u>
Chancery of the Diocese of Charleston	\$ 30,895,044	\$ 32,665,503
Other Diocesan entities and affiliates	14,029,162	13,891,714
	<u>\$ 44,924,206</u>	<u>\$ 46,557,217</u>

The Chancery's share of these pooled investments has been allocated to the respective classifications of investments as of June 30, 2016 and 2015 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 range from 2.25% to 6.28% at June 30, 2016 and 2015. 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 \$285,921 June 30, 2016 and 2015. The Chancery has approximately forty loans to parishes and schools, which are payable on a monthly basis. The Chancery was not aware of any of these loans that were delinquent at June 30, 2016 and 2015.

Scheduled future principal payments under loans due from parishes and schools at June 30, 2016 are as follows:

Years Ending June 30:

2017	\$ 2,619,515
2018	2,473,417
2019	2,335,383
2020	1,360,315
2021	1,018,087
Thereafter	31,720,398
Undetermined*	1,288,559
	<u>42,815,674</u>
Less allowance for doubtful accounts	285,921
	<u>\$ 42,529,753</u>

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

CHANCERY OF THE DIOCESE OF CHARLESTON
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

Note 5—Receivables from other Diocesan entities (continued)

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 \$12,877 and \$14,086 at June 30, 2016 and 2015, respectively.

Note 6—Other receivables

Other receivables are comprised of the following at June 30:

	<u>2016</u>	<u>2015</u>
Cemetery and miscellaneous other receivables	\$ 233,775	\$ 167,957
Less allowance for doubtful accounts	(84,182)	(85,548)
	<u>\$ 149,593</u>	<u>\$ 82,409</u>

Note 7—Other assets

Other assets are comprised of the following at June 30:

	<u>2016</u>	<u>2015</u>
Cash surrender value life insurance	\$ 345,129	\$ 329,295
Prepaid insurance and expenses	442,250	338,475
Unamortized bond issuance costs, net	221,981	169,397
Accrued interest	376,815	122,548
Catholic Umbrella Pool member balance	798,147	801,210
Security deposits	9,142	2,905
	<u>\$ 2,193,464</u>	<u>\$ 1,763,830</u>

CHANCERY OF THE DIOCESE OF CHARLESTON
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

Note 8—Property and equipment

Property and equipment consist of the following at June 30:

	<u>2016</u>	<u>2015</u>
Land and land improvements	\$ 9,010,087	\$ 8,228,235
Buildings	28,257,760	12,938,086
Leasehold improvements	480,259	-
Furniture, equipment, and vehicles	2,729,319	779,748
Construction in progress	62,084	16,609,886
	<u>40,539,509</u>	<u>38,555,955</u>
Less accumulated depreciation	6,978,801	6,313,727
	<u>\$ 33,560,708</u>	<u>\$ 32,242,228</u>

Depreciation expense recognized for the years ended June 30, 2016 and 2015 was \$1,070,177 and \$331,002, respectively. Construction was in process at June 30, 2016 and 2015. Interest capitalized was \$59,543 and \$91,566 for the years ended June 30, 2016 and 2015, respectively.

Note 9—Indebtedness

In November 2013, the Chancery entered into a loan to finance the construction of new administrative buildings and a chapel. According to the terms of the loan, the Chancery may draw up to \$12,500,000. Monthly payments of accrued interest are due, with the total unpaid principal balance due in one lump sum payment at maturity in December 2014. In September 2015, the maturity date was extended to December 2016. Interest accrues on the outstanding balance at the floating rate of the one month London Interbank Offering Rate plus 2.0% (2.45% and 2.19% at June 30, 2016 and 2015, respectively). The balance of the loan was \$6,696,328 and \$9,744,290 at June 30, 2016 and 2015, respectively.

In January 2015, a tax-exempt bond in the principal amount of up to \$25,000,000 was issued on behalf of the Diocese through the South Carolina Jobs - Economic Development Authority to South State Bank in order to finance the acquisition, construction, equipping and furnishing of certain educational facilities in the Diocese. See Note 1 for information on the Diocese organizational structure.

The bond bears interest at a rate of 2.49% per annum from January 2015 through January 2025. The bond bears interest at 3.49% from February 2025 through August 2026. At June 30, 2016 and 2015, the interest rate was 2.49%. From February 1, 2015 through August 1, 2016, the Diocese will only be making interest payments. From September 1, 2016 through February 1, 2025, monthly payments of \$135,799 will be applied to interest and principal. On August 1, 2026, one final payment will be made for any accrued interest and the remaining principal balance. As of June 30, 2016 and 2015, the bond principal balance was \$21,420,497 and \$10,449,089, respectively. Total interest charged to expense for the years ended June 30, 2016 and 2015 was \$442,284 and zero, respectively.

Subsequent to June 30, 2016, the bank committed to modify the bond agreement as detailed in Note 18.

CHANCERY OF THE DIOCESE OF CHARLESTON
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

Note 9—Indebtedness (continued)

Future maturities of the note at June 30, 2016, are as follows:

Years Ending June 30:

2017	\$ 922,094
2018	1,132,042
2019	1,160,554
2020	1,189,783
2021	1,219,750
Thereafter	15,796,274
Present value of future maturities	<u>\$ 21,420,497</u>

The bond is secured by a first lien mortgage on the related construction premises, and is subjected to certain restrictive covenants. As of June 30, 2016, the Diocese was not aware of any violations of the covenants.

Note 10—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, 2016 and 2015, the fair value of the swap agreement was a liability of \$100,783 and \$176,201, respectively, and is reflected in the accompanying statements of financial position as a liability. The changes in the fair value of the swap agreement for 2016 and 2015 are reflected in the statements of activities as an increase in unrestricted net assets of \$75,418 and \$97,570, respectively, and identified as “adjustment on interest rate swap agreement.” Although the interest rate swap agreement is still outstanding, the related bond has been repaid.

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

Note 11—Investment expenses

Expenses relating to investment income, including custodial fees and investment advisory fees, were \$171,555 and \$182,899 for 2016 and 2015, 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, 2016 AND 2015

Note 12—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 2016 and 2015, the Chancery made contributions to the lay retirement plan for its employees of \$145,263 and \$141,855, 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 twenty. The Plan was also amended in 2011 and again in 2012, to include a burial benefit. The Plan was amended again in 2015 to be in compliance with IRS Publication 794.

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 2016 and 2015, the funding for the Plan was \$700 per month for each active eligible priest. In 2016 and 2015, the Chancery made contributions to the Plan of \$87,300 and \$88,700, 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, which was restated in January 2015 primarily to increase the monthly benefit level from \$2,035 to \$2,065, 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, 2016, which reported that the present value of the accumulated plan benefits was exceeded by the Plan's assets by \$850,653 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, 2017 are estimated at approximately \$814,800 and exceed the estimated benefit payments of approximately \$595,424. Effectively, the Chancery is a guarantor of the Plan's obligations. See Note 7 for balances at June 30, 2016 and 2015 included in other assets.

CHANCERY OF THE DIOCESE OF CHARLESTON
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

Note 13—Limitations on unrestricted net assets

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

	<u>2016</u>	<u>2015</u>
Designated reserve for property insurance deductible/self insured retention	\$ 3,223,525	\$ 3,291,316
Designated for perpetual care of the St. Lawrence and Holy Cross cemeteries	4,520,641	4,736,424
Designated for long-term investments	13,399,601	14,262,885
Designated for buildings and equipment	12,835,859	7,451,979
	<u>\$ 33,979,626</u>	<u>\$ 29,742,604</u>

Note 14—Temporarily restricted net assets

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

	<u>2016</u>	<u>2015</u>
Restricted for use in subsequent year	\$ 2,369,166	\$ 1,794,349
Restricted for various other Chancery programs	1,427,392	1,327,042
Restricted for endowments	866,702	2,377,756
	<u>\$ 4,663,260</u>	<u>\$ 5,499,147</u>

Note 15—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, 2016 AND 2015

Note 15—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, 2016:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 866,702	\$ 8,599,081	\$ 9,465,783
Total funds	<u>\$ -</u>	<u>\$ 866,702</u>	<u>\$ 8,599,081</u>	<u>\$ 9,465,783</u>

Endowment net assets composition by type of fund at June 30, 2015:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 2,377,756	\$ 8,449,081	\$ 10,826,837
Total funds	<u>\$ -</u>	<u>\$ 2,377,756</u>	<u>\$ 8,449,081</u>	<u>\$ 10,826,837</u>

CHANCERY OF THE DIOCESE OF CHARLESTON
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

Note 15—Endowments (continued)

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

	<u>2016</u>	<u>2015</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	2,737,500	2,587,500
	<u>\$ 8,599,081</u>	<u>\$ 8,449,081</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, 2016 or 2015.

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, 2016 AND 2015

Note 15—Endowments (continued)

Changes in endowment net assets for the year ended June 30, 2016 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 2,377,756	\$ 8,449,081	\$ 10,826,837
Total investment return	-	(4,627)	-	(4,627)
Contributions	-	-	150,000	150,000
Appropriation of endowment assets for expenditure	-	(1,506,427)	-	(1,506,427)
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 866,702</u>	<u>\$ 8,599,081</u>	<u>\$ 9,465,783</u>

Changes in endowment net assets for the year ended June 30, 2015 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 2,387,086	\$ 8,299,081	\$ 10,686,167
Total investment return	-	387,998	-	387,998
Contributions	-	-	150,000	150,000
Appropriation of endowment assets for expenditure	-	(397,328)	-	(397,328)
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 2,377,756</u>	<u>\$ 8,449,081</u>	<u>\$ 10,826,837</u>

Note 16—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.

Catholic Charities leases certain office space in Greenville, South Carolina from the Chancery. Total rental income recorded for this property is \$36,000 for June 30, 2016 and 2015, and is included in other revenue in the statements of activities.

The Chancery provides administrative, professional, and other support to Catholic Charities which is not reflected in these financial statements. The Chancery also provides direct financial support to Catholic Charities through the Bishop’s stewardship appeal of \$875,000 and \$849,996 for the years ended June 30, 2016 and 2015, respectively, and is included in pastoral program expense in the statements of activities.

CHANCERY OF THE DIOCESE OF CHARLESTON

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

Note 16—Related party transactions (continued)

The Chancery provides administrative support for St. Thomas Aquinas Funding Organization, which is a 501(c)(3) organization, which a Diocesan entity. Income related to this administrative support totaled \$18,905 and \$17,515 for the years ended June 30, 2016 and 2015, respectively, and is included in other revenue in the statements of activities.

Note 17—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 12, 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, 2016 by \$850,653. 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 \$3,223,525 for property insurance deductible and self-insurance reserves at June 30, 2016 (see Note 13).

Note 18—Subsequent events

In accordance with accounting principles generally accepted in the United States of America, management has evaluated subsequent events through November 3, 2016, the date these financial statements were available to issue.

As referenced in Note 9, the bank has agreed to modify the bond agreement as follows: monthly payments of interest only will be due through June 2018, at which time a principal payment in the amount of \$3,000,000 will be due. In subsequent months, payments will resume in accordance with the amortization schedule presented in Note 9. Under this payment plan, future maturities of the note at June 30, 2016, would be as follows:

Years Ending June 30:

2017	\$	-
2018		3,000,000
2019		1,178,087
2020		1,207,031
2021		1,239,003
Thereafter		14,796,376
Present value of future maturities	\$	<u>21,420,497</u>