



**CHANCERY OF THE DIOCESE OF  
CHARLESTON**

**FINANCIAL STATEMENTS**

*As of and for the Years Ended June 30, 2015 and 2014*

*And Report of Independent Auditor*

**CHANCERY OF THE DIOCESE OF CHARLESTON**

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## Report of Independent Auditor

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

### Report on the Financial Statements

We have audited the accompanying financial statements of the Chancery of the Diocese of Charleston (a South Carolina corporation), which comprise the statements of financial position as of June 30, 2015 and 2014, and the related statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Chancery of the Diocese of Charleston as of June 30, 2015 and 2014, and the changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



Greenville, South Carolina  
September 29, 2015

**CHANCERY OF THE DIOCESE OF CHARLESTON**  
**STATEMENTS OF FINANCIAL POSITION**

*JUNE 30, 2015 AND 2014*

	<u>2015</u>	<u>2014</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 17,760,840	\$ 14,820,128
Investments	39,334,552	40,265,304
Receivables from other Diocesan entities:		
Loans receivable, net	33,142,551	24,468,336
Other receivables, net	761,193	642,251
Other receivables	82,409	169,037
Cash restricted for property projects	-	460,000
Other assets	1,763,830	1,557,397
Property and equipment, net	32,242,228	19,591,035
	<u>32,242,228</u>	<u>19,591,035</u>
<b>Total Assets</b>	<u>\$ 125,087,603</u>	<u>\$ 101,973,488</u>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 1,968,132	\$ 1,287,974
Savings deposits	41,236,907	40,409,454
Due to other diocesan or Catholic Church entities	3,005,260	2,006,554
Interest rate swap agreement	176,201	273,771
Construction loan	9,744,290	-
Bonds payable	10,449,089	-
	<u>10,449,089</u>	<u>-</u>
<b>Total Liabilities</b>	<u>66,579,879</u>	<u>43,977,753</u>
Net assets:		
Unrestricted:		
Designated	29,742,604	34,396,879
Operating	14,816,892	9,218,679
	<u>14,816,892</u>	<u>9,218,679</u>
Total unrestricted	44,559,496	43,615,558
Temporarily restricted	5,499,147	6,081,096
Permanently restricted	8,449,081	8,299,081
	<u>8,449,081</u>	<u>8,299,081</u>
<b>Total Net Assets</b>	<u>58,507,724</u>	<u>57,995,735</u>
<b>Total Liabilities and Net Assets</b>	<u>\$ 125,087,603</u>	<u>\$ 101,973,488</u>

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

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 grants	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
<b>Total support and revenue</b>	<b>14,983,004</b>	<b>4,323,992</b>	<b>150,000</b>	<b>19,456,996</b>
Net assets released from restrictions	4,905,941	(4,905,941)	-	-
<b>Total support, revenue and reclassifications</b>	<b>19,888,945</b>	<b>(581,949)</b>	<b>150,000</b>	<b>19,456,996</b>
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
<b>Total program services</b>	<b>16,539,061</b>	<b>-</b>	<b>-</b>	<b>16,539,061</b>
Supporting services:				
General and administration	2,293,947	-	-	2,293,947
Institutional advancement	209,569	-	-	209,569
<b>Total supporting services</b>	<b>2,503,516</b>	<b>-</b>	<b>-</b>	<b>2,503,516</b>
<b>Total expenses</b>	<b>19,042,577</b>	<b>-</b>	<b>-</b>	<b>19,042,577</b>
Change in net assets before derivative adjustment	846,368	(581,949)	150,000	414,419
Adjustment on interest rate swap agreement	97,570	-	-	97,570
Change in net assets	943,938	(581,949)	150,000	511,989
Net assets, beginning of year	43,615,558	6,081,096	8,299,081	57,995,735
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 the financial statements are an integral part of these statements.

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

YEAR ENDED JUNE 30, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support and revenue:				
Parish assessment income	\$ 5,798,060	\$ -	\$ -	\$ 5,798,060
Contributions and bequests	119,320	3,934,645	125,000	4,178,965
Interest and dividend income	1,672,592	237,298	-	1,909,890
Net realized gain on investments	2,444,393	984,680	-	3,429,073
Net unrealized gain on investments	1,563,534	229,312	-	1,792,846
Supporting services fees	4,022,244	-	-	4,022,244
Other revenue	2,958,228	-	-	2,958,228
Total support and revenue	<u>18,578,371</u>	<u>5,385,935</u>	<u>125,000</u>	<u>24,089,306</u>
Net assets released from restrictions	<u>5,209,161</u>	<u>(5,209,161)</u>	<u>-</u>	<u>-</u>
Total support, revenue and reclassifications	<u>23,787,532</u>	<u>176,774</u>	<u>125,000</u>	<u>24,089,306</u>
Expenses:				
Program services:				
Pastoral	5,281,871	-	-	5,281,871
Church personnel development	1,874,548	-	-	1,874,548
Education	1,289,968	-	-	1,289,968
Cemeteries	488,773	-	-	488,773
Deposit and loan, including interest of \$901,246	1,126,963	-	-	1,126,963
Diocesan supporting services	5,839,720	-	-	5,839,720
Total program services	<u>15,901,843</u>	<u>-</u>	<u>-</u>	<u>15,901,843</u>
Supporting services:				
General and administration	2,217,142	-	-	2,217,142
Institutional advancement	282,337	-	-	282,337
Total supporting services	<u>2,499,479</u>	<u>-</u>	<u>-</u>	<u>2,499,479</u>
Total expenses	<u>18,401,322</u>	<u>-</u>	<u>-</u>	<u>18,401,322</u>
Change in net assets before derivative adjustment	5,386,210	176,774	125,000	5,687,984
Adjustment on interest rate swap agreement	<u>126,751</u>	<u>-</u>	<u>-</u>	<u>126,751</u>
Change in net assets	5,512,961	176,774	125,000	5,814,735
Net assets, beginning of year	<u>38,102,597</u>	<u>5,904,322</u>	<u>8,174,081</u>	<u>52,181,000</u>
Net assets, end of year	<u>\$ 43,615,558</u>	<u>\$ 6,081,096</u>	<u>\$ 8,299,081</u>	<u>\$ 57,995,735</u>

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

**CHANCERY OF THE DIOCESE OF CHARLESTON**  
**STATEMENTS OF CASH FLOWS**

YEARS ENDED JUNE 30, 2015 AND 2014

	<b>2015</b>	<b>2014</b>
<b>Cash flows from operating activities:</b>		
Changes in net assets	\$ 511,989	\$ 5,814,735
Adjustments to reconcile increase in net assets to net cash from operating activities:		
Amortization of bond issue costs	-	43,699
Net realized and unrealized gains on investments	1,660,123	(5,221,919)
Depreciation	331,002	312,037
Bad debts	1,030	-
(Gain) Loss on disposal of property and equipment	(259,782)	97,524
Changes in assets and liabilities:		
Other receivables - Diocesan entities	(119,972)	(304,251)
Other receivables	86,628	347,211
Other assets	(37,036)	(221,465)
Accounts payable and accrued expenses	680,158	782,977
Interest rate swap agreement	(97,570)	(126,751)
Net cash from operating activities	<u>2,756,570</u>	<u>1,523,797</u>
<b>Cash flows from investing activities:</b>		
Proceeds from investment transactions	19,358,074	28,066,798
Purchases of investments	(20,087,445)	(22,670,209)
Funding of loans receivable, net of repayments	(8,674,215)	(799,553)
Purchases of property and equipment	(13,346,853)	(3,283,633)
Proceeds from sale of property and equipment	624,440	226,907
Net cash from investing activities	<u>(22,125,999)</u>	<u>1,540,310</u>
<b>Cash flows from financing activities:</b>		
Decrease in cash restricted for property projects	460,000	10,000
Increase (decrease) in savings deposits, net	827,453	(113,516)
Decrease in bonds debt service fund	-	678,557
Increase in payables to other Diocesan entities, net	998,706	654,926
Bond issuance costs	(169,397)	-
Proceeds from construction loans	9,744,290	-
Principal payments on bonds payable	-	(4,415,000)
Proceeds from bonds payable	10,449,089	-
Net cash from financing activities	<u>22,310,141</u>	<u>(3,185,033)</u>
Change in cash and cash equivalents	2,940,712	(120,926)
Cash and cash equivalents, beginning of year	14,820,128	14,941,054
Cash and cash equivalents, end of year	<u>\$ 17,760,840</u>	<u>\$ 14,820,128</u>
<b>Supplemental cash flow information:</b>		
Cash paid for interest	<u>\$ 1,199,785</u>	<u>\$ 1,218,942</u>
Net non-cash acquisition of net assets	<u>\$ -</u>	<u>\$ 43,876</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, 2015 AND 2014

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### 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 117 active Catholic parishes and missions across the state and 33 Catholic schools with 28 elementary schools, 3 diocesan high schools, and 2 private Catholic high schools. There are no shareholders to the corporation, only the holder of the office of Bishop.

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

### Note 2—Summary of significant accounting policies

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

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

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

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

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

*Temporarily Restricted Net Assets* - Net assets subject to donor-imposed stipulations that will be met by actions of the Chancery and/or the passage of time. Restrictions may include support of a particular activity, investment for a specified term or use in a specified future period. When a donor-imposed restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets. Contributions received with temporary restrictions that are met in the same reporting period are reported as unrestricted support and increase unrestricted net assets



# CHANCERY OF THE DIOCESE OF CHARLESTON

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

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### Note 2—Summary of significant accounting policies (continued)

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

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

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

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

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

*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, 2015 AND 2014

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### 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 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, 2015 and 2014, the Chancery had \$18,116,956 and \$15,338,206, 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, 2015 and 2014.

**CHANCERY OF THE DIOCESE OF CHARLESTON**  
**NOTES TO FINANCIAL STATEMENTS**

*JUNE 30, 2015 AND 2014*

**Note 4—Investments (continued)**

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>

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

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

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

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

	<u>2015</u>	<u>2014</u>
Chancery of the Diocese of Charleston	\$ 32,665,503	\$ 33,712,516
Other Diocesan entities and affiliates	13,891,714	13,822,676
	<u>\$ 46,557,217</u>	<u>\$ 47,535,192</u>

The Chancery's share of these pooled investments has been allocated to the respective classifications of investments as of June 30, 2015 and 2014 detailed previously in this note.

**CHANCERY OF THE DIOCESE OF CHARLESTON**  
**NOTES TO FINANCIAL STATEMENTS**

JUNE 30, 2015 AND 2014

**Note 5—Receivables from other diocesan entities**

*Loans Receivable* - Loans receivable consist of the loans made under the lending program of the Chancery. The loans are primarily due from parishes and schools in varying amounts through 2027 and bear interest at fixed and variable rates which range from 2.15% to 6.28% at June 30, 2015 and 2014. The Chancery's current lending program primarily issues new loans with interest rates based upon the one month LIBOR rate plus 1.5%; these new loans generally also bear a floor to the variable rate which is generally 4.5%. The loans are stated at their unpaid balances less estimated allowances for doubtful accounts of approximately \$286,000 at June 30, 2015 and 2014, 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, 2015 and 2014.

Scheduled future principal payments under loans due from parishes and schools at June 30, 2015 are as follows:

<u>Years Ending June 30:</u>	
2016	\$ 2,502,916
2017	2,364,142
2018	2,341,808
2019	2,382,569
2020	1,718,979
Thereafter	20,829,499
Undetermined*	1,288,559
	<u>33,428,472</u>
Less allowance for doubtful accounts	285,921
	<u><u>\$ 33,142,551</u></u>

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

*Other Receivables* - The Diocese obtains blanket property and liability insurance, and contracts for health insurance for the Chancery and certain other Diocesan entities and affiliates. The Chancery pays the premiums and bills the Diocesan entities for their portion of the property and liability insurance premiums. In addition, the Chancery bills parishes for their annual parish assessments. Receivables related to these billings and accrued interest on loans receivable principally comprise the other receivables from other Diocesan entities. These receivables are stated at their unpaid balances less estimated allowances for doubtful accounts of \$14,086 and \$6,260 at June 30, 2015 and 2014, respectively.

**CHANCERY OF THE DIOCESE OF CHARLESTON**  
**NOTES TO FINANCIAL STATEMENTS**

*JUNE 30, 2015 AND 2014*

**Note 6—Other receivables**

Other receivables are comprised of the following at June 30:

	<u>2015</u>	<u>2014</u>
Mortgage note receivable	\$ -	\$ 97,117
Cemetery and miscellaneous other receivables	167,957	174,045
	<u>167,957</u>	<u>271,162</u>
Less allowance for doubtful accounts	(85,548)	(102,125)
	<u>\$ 82,409</u>	<u>\$ 169,037</u>

Included in other receivables, the mortgage note receivable was repaid during the year ended June 30, 2015 prior to its maturity date in July 2015.

**Note 7—Other assets**

Other assets are comprised of the following at June 30:

	<u>2015</u>	<u>2014</u>
Cash surrender value life insurance	\$ 329,295	\$ 314,057
Prepaid insurance and expenses	338,475	296,002
Unamortized bond issuance costs, net	169,397	-
Accrued interest	122,548	134,558
Other assets	804,115	812,780
	<u>\$ 1,763,830</u>	<u>\$ 1,557,397</u>

**Note 8—Property and equipment**

Property and equipment consist of the following at June 30:

	<u>2015</u>	<u>2014</u>
Land and land improvements	\$ 8,228,235	\$ 8,228,235
Buildings	12,938,086	12,945,586
Furniture, equipment and vehicles	779,748	738,300
Construction in progress	16,609,886	3,864,358
	<u>38,555,955</u>	<u>25,776,479</u>
Less accumulated depreciation	6,313,727	6,185,444
	<u>\$ 32,242,228</u>	<u>\$ 19,591,035</u>

**CHANCERY OF THE DIOCESE OF CHARLESTON**  
**NOTES TO FINANCIAL STATEMENTS**

*JUNE 30, 2015 AND 2014*

**Note 8—Property and equipment (continued)**

Depreciation expense recognized for the years ended June 30, 2015 and 2014 was \$331,002 and \$312,037, respectively. Construction was in process at June 30, 2015.

**Note 9—Long-term debt**

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. Subsequent to year-end (as further detailed in Note 18), 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% (2.19% and 2.15% at June 30, 2015 and 2014, respectively). The balance of the loan was \$9,744,290 and zero at June 30, 2015 and 2014, 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 and administrative 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, 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, 2015, the bond principal balance was \$20,193,379. Total interest charged to expense for the years ended June 30, 2015 and 2014 was zero. Future maturities of the note at June 30, 2015, are as follows:

<u>Years Ending June 30:</u>	
2016	\$ -
2017	10,095,470
2018	431,132
2019	442,143
2020	452,814
Thereafter	<u>8,771,820</u>
Present Value of future maturities	20,193,379
Less current portion of long-term note	-
Long-term note, net of current portion	<u><u>\$ 20,193,379</u></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, 2015, the Diocese was not aware of any violations of the covenants.

# CHANCERY OF THE DIOCESE OF CHARLESTON

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

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### **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, 2015 and 2014, the fair values of the swap agreement were liabilities of \$176,201 and \$273,771, respectively, and are reflected in the accompanying Statements of Financial Position as liabilities. The changes in the fair value of the swap agreement for 2015 and 2014 are reflected in the Statements of Activities as an increase in unrestricted net assets of \$97,570 and \$126,751, 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 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 \$182,899 and \$190,525 for 2015 and 2014, respectively, and have been netted against investment income in the accompanying Statements of Activities and Changes in Unrestricted Net Assets.

### **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 2015 and 2014, the Chancery made contributions to the lay retirement plan for its employees of \$141,855 and \$115,163, 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 2015 and 2014, the funding for the Plan was \$700 per month for each active eligible priest. In 2015 and 2014, the Chancery made contributions to the Plan of \$88,700 and \$109,381, 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, 2015 AND 2014

**Note 12—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, which was restated in January 2015 primarily to increase the monthly benefit level from \$2,035 to \$2,060, 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, 2015 which reported that the present value of the accumulated plan benefits was exceeded by the Plan's assets by \$649,078 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, 2016 are estimated at approximately \$814,800 and exceed the estimated benefit payments of approximately \$614,348. Effectively, the Chancery is a guarantor of the Plan's obligations.

**Note 13—Limitations on unrestricted net assets**

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

	<u>2015</u>	<u>2014</u>
Designated reserve for property insurance deductible/self insured retention	\$ 3,291,316	\$ 3,082,960
Designated for perpetual care of the St. Lawrence and Holy Cross cemeteries	4,736,424	4,711,808
Designated for long-term investments	14,262,885	15,191,439
Designated for buildings and equipment	7,451,979	11,410,672
	<u>\$ 29,742,604</u>	<u>\$ 34,396,879</u>

**Note 14—Temporarily restricted net assets**

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

	<u>2015</u>	<u>2014</u>
Restricted for use in subsequent year	\$ 1,794,349	\$ 1,491,281
Restricted for construction of Diocesan conference and retreat center	-	460,000
Restricted for various other Chancery programs	1,327,042	1,742,729
Restricted for endowments	2,377,756	2,387,086
	<u>\$ 5,499,147</u>	<u>\$ 6,081,096</u>



**CHANCERY OF THE DIOCESE OF CHARLESTON**  
**NOTES TO FINANCIAL STATEMENTS**

JUNE 30, 2015 AND 2014

**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.

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, 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>

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

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

**CHANCERY OF THE DIOCESE OF CHARLESTON**  
**NOTES TO FINANCIAL STATEMENTS**

*JUNE 30, 2015 AND 2014*

**Note 15—Endowments (continued)**

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

	<u>2015</u>	<u>2014</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	2,587,500	2,437,500
	<u>\$ 8,449,081</u>	<u>\$ 8,299,081</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, 2015 or 2014.

*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 30<sup>th</sup> (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, 2015 AND 2014*

**Note 15—Endowments (continued)**

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	-	378,668	150,000	528,668
Appropriation of endowment assets for expenditure	-	-	-	-
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 2,377,756</u>	<u>\$ 8,449,081</u>	<u>\$ 10,826,837</u>

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

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

**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.

# CHANCERY OF THE DIOCESE OF CHARLESTON

## NOTES TO FINANCIAL STATEMENTS

*JUNE 30, 2015 AND 2014*

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### **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, "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, 2015 by \$649,078. 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 \$3,291,316 for property insurance deductible and self-insurance reserves at June 30, 2015 (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 September 29, 2015, the date these financial statements were available to issue.

In September 2015, the construction loan detailed above in Note 9 was amended to extend the maturity date to December 31, 2016.

Effective July 1, 2015, the Board of Directors of Catholic Charities of the Diocese of Charleston, Inc. voted to transfer the administration of certain programs and related activities to the Diocese.