



**CHANCERY OF THE ROMAN
CATHOLIC DIOCESE OF CHARLESTON**

FINANCIAL STATEMENTS

*As of and for the Years Ended June 30, 2017
and 2016*

And Report of Independent Auditor

CHANCERY OF THE ROMAN CATHOLIC 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 Roman Catholic Diocese of Charleston (a South Carolina corporation), which comprise the statements of financial position as of June 30, 2017 and 2016, 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, 2017 and 2016, 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 ROMAN CATHOLIC DIOCESE OF CHARLESTON
STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2017 AND 2016

	2017	2016
ASSETS		
Cash and cash equivalents	\$ 17,415,476	\$ 9,610,794
Investments	39,917,955	37,748,851
Receivables from other Diocesan entities:		
Loans receivable, net	42,388,645	42,529,753
Other receivables, net	506,358	498,654
Other receivables	137,706	149,593
Other assets	2,090,464	1,971,483
Property and equipment, net	33,270,366	33,560,708
Total Assets	\$ 135,726,970	\$ 126,069,836
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 793,604	\$ 565,510
Deposits and loan funds payable	44,505,800	37,601,335
National Collections and other payables	1,856,619	2,046,150
Interest rate swap agreement	34,484	100,783
Construction loans	-	6,696,328
Bonds payable, net	23,943,959	21,198,516
Total Liabilities	71,134,466	68,208,622
Net Assets:		
Unrestricted:		
Designated	35,188,036	33,979,626
Operating	15,844,791	10,619,247
Total Unrestricted	51,032,827	44,598,873
Temporarily restricted	4,760,596	4,663,260
Permanently restricted	8,799,081	8,599,081
Total Net Assets	64,592,504	57,861,214
Total Liabilities and Net Assets	\$ 135,726,970	\$ 126,069,836

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

CHANCERY OF THE ROMAN CATHOLIC DIOCESE OF CHARLESTON
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

YEAR ENDED JUNE 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support and Revenue:				
Parish assessment income	\$ 6,489,301	\$ -	\$ -	\$ 6,489,301
Contributions and grants	156,752	5,377,438	200,000	5,734,190
Interest and dividend income	1,994,119	189,528	-	2,183,647
Net realized gain on investments	1,435,108	509,400	-	1,944,508
Net unrealized gain on investments	759,141	236,421	-	995,562
Supporting services fees	4,533,072	-	-	4,533,072
Other revenue	6,857,575	-	-	6,857,575
	<u>22,225,068</u>	<u>6,312,787</u>	<u>200,000</u>	<u>28,737,855</u>
Net assets released from restrictions	<u>6,215,451</u>	<u>(6,215,451)</u>	<u>-</u>	<u>-</u>
Total Support and Revenue	<u>28,440,519</u>	<u>97,336</u>	<u>200,000</u>	<u>28,737,855</u>
Expenses:				
Program Services:				
Pastoral	6,882,536	-	-	6,882,536
Church personnel development	1,787,935	-	-	1,787,935
Education	1,660,003	-	-	1,660,003
Cemeteries	491,796	-	-	491,796
Deposit and loan, including interest of \$961,381	1,580,303	-	-	1,580,303
Diocesan supporting services	6,628,448	-	-	6,628,448
Total Program Services	<u>19,031,021</u>	<u>-</u>	<u>-</u>	<u>19,031,021</u>
Supporting Services:				
General and administration	2,761,121	-	-	2,761,121
Institutional advancement	280,722	-	-	280,722
Total Supporting Services	<u>3,041,843</u>	<u>-</u>	<u>-</u>	<u>3,041,843</u>
Total Expenses	<u>22,072,864</u>	<u>-</u>	<u>-</u>	<u>22,072,864</u>
Change in net assets before derivative adjustment	6,367,655	97,336	200,000	6,664,991
Adjustment on interest rate swap agreement	<u>66,299</u>	<u>-</u>	<u>-</u>	<u>66,299</u>
Change in net assets	6,433,954	97,336	200,000	6,731,290
Net assets, beginning of year	<u>44,598,873</u>	<u>4,663,260</u>	<u>8,599,081</u>	<u>57,861,214</u>
Net assets, end of year	<u>\$ 51,032,827</u>	<u>\$ 4,760,596</u>	<u>\$ 8,799,081</u>	<u>\$ 64,592,504</u>

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

CHANCERY OF THE ROMAN CATHOLIC DIOCESE OF CHARLESTON
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS (CONTINUED)

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 bequests	374,118	4,986,963	150,000	5,511,081
Interest and dividend income	2,092,541	208,861	-	2,301,402
Net realized gain 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 ROMAN CATHOLIC DIOCESE OF CHARLESTON
STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Change in net assets	\$ 6,731,290	\$ (646,510)
Adjustments to reconcile change in net assets to net cash from operating activities:		
Net realized and unrealized (gain) loss on investments	(2,940,070)	789,628
Depreciation	1,241,294	1,070,177
Bad debts	-	3,345
(Gain) loss on disposal of property and equipment	(795,902)	479,038
Changes in assets and liabilities:		
Other receivables - Diocesan entities	(7,704)	259,194
Other receivables	11,887	(67,184)
Other assets	(118,981)	(377,050)
Accounts payable and accrued expenses	228,094	(1,402,622)
Interest rate swap agreement	(66,299)	(75,418)
Net cash from operating activities	<u>4,283,609</u>	<u>32,598</u>
Cash flows from investing activities:		
Proceeds from investment transactions	31,911,080	22,124,413
Purchases of investments	(31,140,114)	(21,328,340)
Funding of loans receivable, net of repayments	141,108	(9,387,202)
Purchases of property and equipment	(1,118,203)	(2,909,413)
Proceeds from sale of property and equipment	963,153	41,718
Net cash from investing activities	<u>757,024</u>	<u>(11,458,824)</u>
Cash flows from financing activities:		
Change in deposits and loan funds payable	6,904,465	(3,635,572)
Change in payables to other Diocesan entities, net	(189,531)	(959,110)
Bond issuance costs	41,495	(52,584)
Proceeds from construction loans	-	2,755,710
Payments on construction loans	(6,696,328)	(5,803,672)
Payments on bonds payable	(875,555)	-
Proceeds from bonds payable	3,579,503	10,971,408
Net cash from financing activities	<u>2,764,049</u>	<u>3,276,180</u>
Change in cash and cash equivalents	7,804,682	(8,150,046)
Cash and cash equivalents, beginning of year	9,610,794	17,760,840
Cash and cash equivalents, end of year	<u>\$ 17,415,476</u>	<u>\$ 9,610,794</u>
Supplemental cash flow information:		
Cash paid for interest	<u>\$ 1,953,181</u>	<u>\$ 1,766,529</u>

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

CHANCERY OF THE ROMAN CATHOLIC DIOCESE OF CHARLESTON

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

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 115 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 Roman Catholic 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”); Catholic Community Foundation of South Carolina (“Foundation”); 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 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 ROMAN CATHOLIC DIOCESE OF CHARLESTON

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

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 and presented with the statements of financial position as a direct deduction from the carrying amount of debt liability, consistent with debt discounts or premiums.

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 ROMAN CATHOLIC DIOCESE OF CHARLESTON

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

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.

Recent Issued Accounting Pronouncements Not Yet Adopted - In May 2014, the Financial Accounting Standard Board ("FASB") issued Accounting Standards Updates ("ASU") No. 2014-09 – (*Topic 606*), which creates a principles-based approach for recognizing revenue replacing all of the existing industry-based U.S. GAAP guidance. Under this new standard, an entity shall recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration in which the entity expects to be entitled in exchange for those goods or services. Revenue recognition will be determined by applying a five-step process, including:

1. Identify the contract(s) with a customer,
2. Identify the performance obligations in the contract,
3. Determine the transaction price,
4. Allocate the transaction price to the performance obligations in the contract, and
5. Recognize revenue when (or as) the entity satisfies a performance obligation.

CHANCERY OF THE ROMAN CATHOLIC DIOCESE OF CHARLESTON

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

Note 2—Summary of significant accounting policies (continued)

ASU No. 2014-09 established the effective date as follows: for nonpublic entities, the ASU is effective for annual reporting periods beginning after December 15, 2017 and interim periods within annual periods beginning after December 15, 2018. A nonpublic entity may early adopt in limited situations.

In August 2015, the FASB issued ASU No. 2015-14 - *Revenue from Contracts with Customers (Topic 960): Deferral of the Effective Date*, which delays the effective date by one year. As such, the guidance provided by ASU No. 2014-09, *Revenue from Contracts with Customers* is effective for annual reporting periods beginning after December 15, 2018 and interim periods within annual periods beginning after December 15, 2019. The Chancery is currently in the process of evaluating the impact of adoption of this ASU on the financial statements.

ASU Nos. 2016-08 - *Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*, 2016-10 - *Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing*, and 2016-12 - *Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients*, issued at various times during 2016, clarified the guidance of ASU No. 2014-09 without changing the substance or the effective date.

In February 2016, the FASB issued ASU 2016-02, *Leases*. The standard requires all leases with lease terms over 12 months to be capitalized as a right-of-use asset and lease liability on the combined balance sheet at the date of lease commencement. Leases will be classified as either finance or operating. This distinction will be relevant for the pattern of expense recognition in the income statement. This standard will be effective for the calendar year ending December 31, 2020. The Chancery is currently in the process of evaluating the impact of adoption of this ASU on the financial statements.

On August 18, 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958) - Presentation of Financial Statements of Not-for-Profit Entities*. The ASU provides for a variety of changes to the presentation of the financial statements of not-for-profit entities, including changing from three classes of net assets to two classes of net assets, enhancing disclosure requirements related to liquidity concerns and endowment management, a requirement to present expenses classified by both their nature and their function and other changes to presentation and disclosure. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017, and early adoption is permitted. The Chancery is presently evaluating the impact of the ASU on the financial statements of the Chancery.

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, 2017 and 2016, the Chancery had \$18,058,254 and \$9,851,298, respectively, which exceed these insured amounts.

CHANCERY OF THE ROMAN CATHOLIC DIOCESE OF CHARLESTON
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

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, 2017 and 2016.

Investments along with their cost, fair value and net unrealized gain at June 30, 2017 are as follows:

	<u>Cost</u>	<u>Fair Value</u>	<u>Net Unrealized Gain (Loss)</u>
Cash with investment companies	\$ 486,068	\$ 486,068	\$ -
Mutual funds	7,328,842	7,102,769	(226,073)
Corporate and government debt securities	9,217,053	9,189,121	(27,932)
Equity securities	20,168,299	23,137,223	2,968,924
Publicly traded partnerships	3,094	2,774	(320)
	<u>\$ 37,203,356</u>	<u>\$ 39,917,955</u>	<u>\$ 2,714,599</u>

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>

Chancery investments totaling \$32,815,186 are maintained in funds managed by the Foundation and \$7,102,769 are managed by other investment companies.

CHANCERY OF THE ROMAN CATHOLIC DIOCESE OF CHARLESTON
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

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 2032 and bear interest at fixed and variable rates which range from 2.25% to 6.28% at June 30, 2017 and 2016. 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 at June 30, 2017 and 2016. 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, 2017 and 2016.

Scheduled future principal payments under loans due from parishes and schools at June 30, 2017 are as follows:

Years Ending June 30,

2018	\$	2,776,192
2019		3,019,891
2020		2,542,130
2021		2,289,414
2022		2,303,050
Thereafter		27,686,159
Undetermined*		2,057,730
		<u>42,674,566</u>
Less allowance for doubtful accounts		<u>285,921</u>
		<u>\$ 42,388,645</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 \$3,911 and \$12,877 at June 30, 2017 and 2016, respectively.

Note 6—Other receivables

Other receivables are comprised of the following at June 30:

	<u>2017</u>	<u>2016</u>
Cemetery and miscellaneous other receivables	\$ 232,534	\$ 233,775
Less allowance for doubtful accounts	(94,828)	(84,182)
	<u>\$ 137,706</u>	<u>\$ 149,593</u>

CHANCERY OF THE ROMAN CATHOLIC DIOCESE OF CHARLESTON
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

Note 7—Other assets

Other assets are comprised of the following at June 30:

	<u>2017</u>	<u>2016</u>
Cash surrender value life insurance	\$ 360,133	\$ 345,129
Prepaid insurance and expenses	386,078	442,250
Accrued interest	452,213	376,815
Catholic Umbrella Pool member balance	884,898	798,147
Security deposits	7,142	9,142
	<u>\$ 2,090,464</u>	<u>\$ 1,971,483</u>

Note 8—Property and equipment

Property and equipment consist of the following at June 30:

	<u>2017</u>	<u>2016</u>
Land and land improvements	\$ 8,875,682	\$ 9,010,087
Buildings	29,145,254	28,257,760
Leasehold improvements	510,259	480,259
Furniture, equipment, and vehicles	2,867,522	2,729,319
Projects in progress	91,744	62,084
	<u>41,490,461</u>	<u>40,539,509</u>
Less accumulated depreciation	8,220,095	6,978,801
	<u>\$ 33,270,366</u>	<u>\$ 33,560,708</u>

Depreciation expense recognized for the years ended June 30, 2017 and 2016 was \$1,241,294 and \$1,070,177, respectively. Projects were in process at June 30, 2017 and 2016. Interest capitalized was zero and \$59,543 for the years ended June 30, 2017 and 2016, respectively.

Note 9—Indebtedness

In November 2013, the Chancery entered into a loan to finance the construction of new administrative buildings and a chapel. This total unpaid principal balance associated with this loan was paid during the 2017 year.

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 (“JEDA”) 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.

Total interest charged to expense for the years ended June 30, 2017 and 2016 was \$733,565 and \$643,545, respectively.

CHANCERY OF THE ROMAN CATHOLIC DIOCESE OF CHARLESTON
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

Note 9—Indebtedness (continued)

The balances of construction loans and bonds payable consist of the following at June 30:

	<u>2017</u>	<u>2016</u>
The Chancery entered into this construction loan in November of 2013. The Chancery may draw up to \$12,500,000 with monthly payments made for accrued interest. A lump sum payment of all unpaid principal is due at maturity. The total unpaid balance of principal and interest associated with this loan was paid off in total during the 2017 year.	\$ -	\$ 6,696,328
\$25,000,000 tax-exempt JEDA bond with a maturity date of August 1, 2026. The annual interest rate is 2.49% from January of 2015 to January of 2025 and 3.49% from February of 2025 to August of 2026. Interest only payments are made monthly through August 1, 2016. Monthly principal and interest payments of \$135,799 are made from September 1, 2016 to February 1, 2025. One final payment will be made for all unpaid principal and accrued interest at maturity on August 1, 2026.	24,124,445	21,420,497
	24,124,445	28,116,825
Less unamortized debt issuance costs	(180,486)	(221,981)
	23,943,959	27,894,844
Less current maturities	(1,032,373)	(922,094)
Total	<u>\$ 22,911,586</u>	<u>\$ 26,972,750</u>

Future maturities of the note at June 30, 2017, are as follows:

Years Ending June 30,

2018	\$ 1,032,373
2019	1,058,727
2020	1,084,274
2021	1,113,460
2022	1,141,897
Thereafter	18,693,714
Present value of future maturities	<u>\$ 24,124,445</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, 2017, the Diocese was not aware of any violations of the covenants.

CHANCERY OF THE ROMAN CATHOLIC DIOCESE OF CHARLESTON

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

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, 2017 and 2016, the fair value of the swap agreement was a liability of \$34,484 and \$100,783, 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 2017 and 2016 are reflected in the statements of activities as an increase in unrestricted net assets of \$66,299 and \$75,418, 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 \$191,134 and \$171,555 for 2017 and 2016, 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 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 2017 and 2016, the Chancery made contributions to the lay retirement plan for its employees of \$162,766 and \$145,263, respectively.

In addition, the Diocese maintains the Diocese of Charleston Pension Plan for Priests (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 2017 and 2016, the funding for the Plan was \$700 per month for each active eligible priest. In 2017 and 2016, the Chancery made contributions to the Plan of \$52,239 and \$87,300, 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 ROMAN CATHOLIC DIOCESE OF CHARLESTON
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

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 \$2,065, 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, 2017, which reported that the present value of the accumulated plan benefits was exceeded by the Plan's assets by \$1,868,525 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 \$545,980. Effectively, the Chancery is a guarantor of the Plan's obligations. See Note 7 for balances at June 30, 2017 and 2016 included in other assets.

Note 13—Limitations on unrestricted net assets

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

	<u>2017</u>	<u>2016</u>
Designated reserve for property insurance deductible/self insured retention	\$ 3,667,467	\$ 3,223,525
Designated for perpetual care of the St. Lawrence and Holy Cross cemeteries	4,953,454	4,520,641
Designated for long-term investments	13,690,849	13,399,601
Designated for buildings and equipment	12,876,266	12,835,859
	<u>\$ 35,188,036</u>	<u>\$ 33,979,626</u>

Note 14—Temporarily restricted net assets

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

	<u>2017</u>	<u>2016</u>
Restricted for use in subsequent year	\$ 1,901,006	\$ 2,369,166
Restricted for various other Chancery programs	1,564,385	1,427,392
Restricted for endowments	1,295,205	866,702
	<u>\$ 4,760,596</u>	<u>\$ 4,663,260</u>

CHANCERY OF THE ROMAN CATHOLIC DIOCESE OF CHARLESTON
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

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, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 1,295,205	\$ 8,799,081	\$ 10,094,286
Total funds	<u>\$ -</u>	<u>\$ 1,295,205</u>	<u>\$ 8,799,081</u>	<u>\$ 10,094,286</u>

Endowment net assets composition by type of fund at June 30, 2016:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
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>

CHANCERY OF THE ROMAN CATHOLIC DIOCESE OF CHARLESTON
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

Note 15—Endowments (continued)

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

	<u>2017</u>	<u>2016</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
St. Elizabeth Ann Seton Catholic education endowment	2,937,500	2,737,500
	<u>\$ 8,799,081</u>	<u>\$ 8,599,081</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, 2017 or 2016.

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 ROMAN CATHOLIC DIOCESE OF CHARLESTON
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

Note 15—Endowments (continued)

Changes in endowment net assets for the year ended June 30, 2017 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 866,702	\$ 8,599,081	\$ 9,465,783
Total investment return	-	935,349	-	935,349
Contributions	-	-	200,000	200,000
Appropriation of endowment assets for expenditure	-	(506,846)	-	(506,846)
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 1,295,205</u>	<u>\$ 8,799,081</u>	<u>\$ 10,094,286</u>

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>

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 Columbia, South Carolina from the Chancery. Total rental income recorded for this property is \$36,000 for June 30, 2017 and 2016, 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 \$900,000 and \$875,000 for the years ended June 30, 2017 and 2016, respectively, and is included in pastoral program expense in the statements of activities.

CHANCERY OF THE ROMAN CATHOLIC DIOCESE OF CHARLESTON

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

Note 16—Related party transactions (continued)

The Chancery provides administrative support for St. Thomas Aquinas Funding Organization, St. Clare's Home and the Catholic Community Foundation of South Carolina, which are 501(c)(3) organizations. Income from administrative support for St. Thomas Aquinas Funding Organization was \$3,073 and \$18,905 for the years ended June 30, 2017 and 2016, respectively. Administrative support for St. Clare's Home and the Catholic Community Foundation of South Carolina was provided at no charge.

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, 2017 by \$1,868,525. 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 \$3,667,467 for property insurance deductible and self-insurance reserves at June 30, 2017 (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 October 3, 2017, the date these financial statements were available to issue.