

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

**FINANCIAL STATEMENTS**

*As of and for the Years Ended June 30, 2018  
and 2017*

*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. Guglielmone  
Bishop of Charleston  
Chancery of the Diocese of Charleston  
Charleston, South Carolina

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, 2018 and 2017, 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 Roman Catholic Diocese of Charleston as of June 30, 2018 and 2017, and the changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



Greenville, South Carolina  
October 15, 2018

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

*JUNE 30, 2018 AND 2017*

	<u>2018</u>	<u>2017</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 20,317,895	\$ 17,415,476
Investments	14,724,656	7,102,769
Funds held in trust by affiliate:		
Pooled investments	34,285,932	32,815,186
Receivables from other Diocesan entities:		
Loans receivable, net	39,938,488	42,388,645
Other receivables, net	872,861	506,358
Other receivables	207,631	137,706
Other assets	2,053,533	2,090,464
Property and equipment, net	38,285,124	33,270,366
<b>Total Assets</b>	<u><u>\$ 150,686,120</u></u>	<u><u>\$ 135,726,970</u></u>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 870,057	\$ 793,604
Deposits and loan funds payable	57,802,487	44,505,800
National Collections and other payables	1,855,023	1,856,619
Interest rate swap agreement	5,022	34,484
Bonds payable, net	22,931,348	23,943,959
<b>Total Liabilities</b>	<u>83,463,937</u>	<u>71,134,466</u>
Net Assets:		
Unrestricted:		
Designated	36,769,496	35,188,036
Operating	15,712,385	15,844,791
<b>Total Unrestricted</b>	<u>52,481,881</u>	<u>51,032,827</u>
Temporarily restricted	5,741,221	4,760,596
Permanently restricted	8,999,081	8,799,081
<b>Total Net Assets</b>	<u>67,222,183</u>	<u>64,592,504</u>
<b>Total Liabilities and Net Assets</b>	<u><u>\$ 150,686,120</u></u>	<u><u>\$ 135,726,970</u></u>

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

YEAR ENDED JUNE 30, 2018

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support and Revenue:				
Parish assessment income	\$ 6,750,179	\$ -	\$ -	\$ 6,750,179
Contributions and grants	162,759	5,000,404	200,000	5,363,163
Interest and dividend income	1,759,426	137,703	-	1,897,129
Net realized gain on investments	982,416	384,445	-	1,366,861
Net unrealized gain on investments	810,775	362,772	-	1,173,547
Supporting services fees	4,413,550	-	-	4,413,550
Other revenue	4,444,452	-	-	4,444,452
	<u>19,323,557</u>	<u>5,885,324</u>	<u>200,000</u>	<u>25,408,881</u>
Net assets released from restrictions	4,904,699	(4,904,699)	-	-
Total Support and Revenue	<u>24,228,256</u>	<u>980,625</u>	<u>200,000</u>	<u>25,408,881</u>
Expenses:				
Program Services:				
Pastoral	6,862,362	-	-	6,862,362
Church personnel development	1,807,229	-	-	1,807,229
Education	1,638,223	-	-	1,638,223
Cemeteries	659,956	-	-	659,956
Deposit and loan, including interest of \$1,148,613	1,801,534	-	-	1,801,534
Diocesan supporting services	6,944,085	-	-	6,944,085
Total Program Services	<u>19,713,389</u>	<u>-</u>	<u>-</u>	<u>19,713,389</u>
Supporting Services:				
General and administration	2,743,706	-	-	2,743,706
Institutional advancement	351,569	-	-	351,569
Total Supporting Services	<u>3,095,275</u>	<u>-</u>	<u>-</u>	<u>3,095,275</u>
Total Expenses	<u>22,808,664</u>	<u>-</u>	<u>-</u>	<u>22,808,664</u>
Change in net assets before derivative adjustment	1,419,592	980,625	200,000	2,600,217
Adjustment on interest rate swap agreement	29,462	-	-	29,462
Change in net assets	1,449,054	980,625	200,000	2,629,679
Net assets, beginning of year	51,032,827	4,760,596	8,799,081	64,592,504
Net assets, end of year	<u>\$ 52,481,881</u>	<u>\$ 5,741,221</u>	<u>\$ 8,999,081</u>	<u>\$ 67,222,183</u>

The accompanying notes to the financial statements are an 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, 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 bequests	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 loss 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	66,299	-	-	66,299
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 the financial statements are an integral part of these statements.

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

YEARS ENDED JUNE 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ 2,629,679	\$ 6,731,290
Adjustments to reconcile change in net assets to net cash from operating activities:		
Amortization of bond issue costs	19,869	41,495
Investment income:		
Net realized and unrealized (gain) loss on investments	(2,540,408)	(2,940,070)
Depreciation	1,282,047	1,241,294
(Gain) loss on disposal of property and equipment	-	(795,902)
Changes in assets and liabilities:		
Other receivables - Diocesan entities	(366,503)	(7,704)
Other receivables	(69,925)	11,887
Other assets	36,931	(118,981)
Accounts payable and accrued expenses	76,453	228,094
Interest rate swap agreement	(29,462)	(66,299)
Net cash from operating activities	<u>1,038,681</u>	<u>4,325,104</u>
<b>Cash flows from investing activities:</b>		
Proceeds from investment transactions	14,075,983	31,911,080
Purchases of investments	(20,628,208)	(31,140,114)
Funding of loans receivable, net of repayments	2,450,157	141,108
Purchases of property and equipment	(6,296,805)	(1,118,203)
Proceeds from sale of property and equipment	-	963,153
Net cash from investing activities	<u>(10,398,873)</u>	<u>757,024</u>
<b>Cash flows from financing activities:</b>		
Change in deposits and loan funds payable	13,296,687	6,904,465
Change in payables to other Diocesan entities, net	(1,596)	(189,531)
Payments on construction loans	-	(6,696,328)
Payments on bonds payable	(1,032,480)	(875,555)
Proceeds from bonds payable	-	3,579,503
Net cash from financing activities	<u>12,262,611</u>	<u>2,722,554</u>
Change in cash and cash equivalents	2,902,419	7,804,682
Cash and cash equivalents, beginning of year	17,415,476	9,610,794
Cash and cash equivalents, end of year	<u>\$ 20,317,895</u>	<u>\$ 17,415,476</u>
<b>Supplemental cash flow information:</b>		
Cash paid for interest	<u>\$ 2,145,559</u>	<u>\$ 1,953,181</u>

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

# CHANCERY OF THE ROMAN CATHOLIC DIOCESE OF CHARLESTON

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

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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 115 active Catholic parishes and missions across the state and 34 Catholic schools with 28 parochial schools, 4 Diocesan high schools, and one private Catholic high school. 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 South Carolina (“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 (“U.S. GAAP”). 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 the Financial Accounting Standards Board (“FASB”) 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.

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.



# CHANCERY OF THE ROMAN CATHOLIC DIOCESE OF CHARLESTON

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

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

*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.

*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.

# CHANCERY OF THE ROMAN CATHOLIC DIOCESE OF CHARLESTON

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

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

*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 FASB provides guidance on the Chancery's evaluation of accounting for uncertainty in income taxes. Management evaluated the Chancery's tax position and concluded that no uncertain tax positions exist that requires adjustment to the financial statements to comply with the provisions of this guidance.

*Estimates* - The preparation of the financial statements in conformity with U.S. GAAP 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.

*Reclassifications* – A reclassification has been made to the June 30, 2017 financial statement presentation to correspond to the current year's format. In order to provide a more accurate presentation of funds held in trust by affiliate, \$32,815,186 of investments were reclassified to pooled investments (funds held in trust by affiliate). Total assets, liabilities, net assets, and change in net assets are unchanged due to this reclassification.

*Recent Accounting Pronouncements* – In May 2014, the FASB issued Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers*. The standard's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. This standard also includes expanded disclosure requirements that result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing, and uncertainty of revenue and cash flows arising from the entity's contracts with customers. The standard is effective for annual reporting periods beginning after December 15, 2018. The Chancery is currently in the process of evaluating the impact of adoption of this ASU on the financial statements.

# CHANCERY OF THE ROMAN CATHOLIC DIOCESE OF CHARLESTON

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

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

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, 2018, the Chancery had \$20,481,479, which exceeded these insured amounts.

### Note 4—Investments and funds held in trust by affiliate

At June 30, 2018 and 2017, Chancery investments totaling \$34,285,932 and \$32,815,186, respectively, are maintained in funds managed by the Foundation and \$14,724,656 and \$7,102,769, respectively, are managed by other investment companies.

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, 2018 and 2017.

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

JUNE 30, 2018 AND 2017

**Note 4—Investments and funds held in trust by affiliate (continued)**

Investments along with their cost, fair value, and net unrealized gain at June 30, 2018 are as follows:

	<u>Cost</u>	<u>Fair Value</u>	<u>Net Unrealized Gain (Loss)</u>
Cash with investment companies	\$ 667,016	\$ 667,016	\$ -
Mutual funds	15,274,963	14,724,656	(550,307)
Corporate and government debt securities	9,292,966	9,151,494	(141,472)
Equity securities	20,267,088	24,467,422	4,200,334
	<u>\$ 45,502,033</u>	<u>\$ 49,010,588</u>	<u>\$ 3,508,555</u>

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>

**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, 2018 and 2017. 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, 2018 and 2017. The Chancery has approximately 40 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, 2018 and 2017.

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

*JUNE 30, 2018 AND 2017*

**Note 5—Receivables from other Diocesan entities (continued)**

Scheduled future principal payments under loans due from parishes and schools at June 30, 2018 are as follows:

**Years Ending June 30,**

2019	\$ 1,873,894
2020	1,716,354
2021	1,534,730
2022	1,362,232
2023	1,242,131
Thereafter	24,843,684
Undetermined*	7,651,384
	<u>40,224,409</u>
Less allowance for doubtful accounts	285,921
	<u><u>\$ 39,938,488</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 \$3,450 and \$3,911 at June 30, 2018 and 2017, respectively.

**Note 6—Other receivables**

Other receivables are comprised of the following at June 30:

	<u>2018</u>	<u>2017</u>
Cemetery and miscellaneous other receivables	\$ 275,032	\$ 232,534
Less allowance for doubtful accounts	(67,401)	(94,828)
	<u><u>\$ 207,631</u></u>	<u><u>\$ 137,706</u></u>

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

*JUNE 30, 2018 AND 2017*

**Note 7—Other assets**

Other assets are comprised of the following at June 30:

	<b>2018</b>	<b>2017</b>
Cash surrender value life insurance	\$ 375,142	\$ 360,133
Prepaid insurance and expenses	429,334	386,078
Accrued interest	321,121	452,213
Catholic Umbrella Pool member balance	927,331	884,898
Security deposits	605	7,142
	<u>\$ 2,053,533</u>	<u>\$ 2,090,464</u>

**Note 8—Property and equipment**

Property and equipment consist of the following at June 30:

	<b>2018</b>	<b>2017</b>
Land and land improvements	\$ 13,369,047	\$ 8,875,682
Buildings	29,870,469	29,145,254
Leasehold improvements	654,871	510,259
Furniture, equipment, and vehicles	3,101,615	2,867,521
Projects in progress	791,262	91,744
	<u>47,787,264</u>	<u>41,490,460</u>
Less accumulated depreciation	9,502,140	8,220,094
	<u>\$ 38,285,124</u>	<u>\$ 33,270,366</u>

Depreciation expense recognized for the years ended June 30, 2018 and 2017 was \$1,282,047 and \$1,241,294, respectively. Projects were in process at June 30, 2018 and 2017. No interest was capitalized for the years ended June 30, 2018 and 2017.

**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, 2018 and 2017 was \$597,110 and \$733,565, respectively.

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

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**Note 9—Indebtedness (continued)**

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

	<u>2018</u>	<u>2017</u>
\$25,000,000 tax-exempt JEDA bond with a maturity date of August 1, 2026. The annual interest rate is 2.49% through January 2025 and 3.49% from February 2025 to August 2026. Interest only payments were made monthly through August 1, 2016. Monthly principal and interest payments of \$135,799 are made through February 1, 2025. One final payment will be made for all unpaid principal and accrued interest at maturity on August 1, 2026.	\$ 23,091,965	\$ 24,124,445
	23,091,965	24,124,445
Less unamortized debt issuance costs	(160,617)	(180,486)
	22,931,348	23,943,959
Less current maturities	(1,058,727)	(1,032,373)
	<u>\$ 21,872,621</u>	<u>\$ 22,911,586</u>

Future maturities of the note at June 30, 2018 are as follows:

**Years Ending June 30,**

2019	\$ 1,058,727
2020	1,084,274
2021	1,113,460
2022	1,141,897
2023	1,171,061
Thereafter	<u>17,522,546</u>
Present value of future maturities	<u>\$ 23,091,965</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, 2018, the Diocese was not aware of any violations of the covenants.

**Note 10—Interest rate swap agreement**

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

# CHANCERY OF THE ROMAN CATHOLIC DIOCESE OF CHARLESTON

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

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### **Note 10—Interest rate swap agreement (continued)**

The Chancery uses the interest rate swap agreement to manage its exposure to interest rate changes with respect to its bonds payable and 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, 2018 and 2017, the fair value of the swap agreement was a liability of \$5,022 and \$34,484, 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 2018 and 2017 are reflected in the statements of activities as an increase in unrestricted net assets of \$29,462 and \$66,299, 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 \$222,968 and \$191,134 for 2018 and 2017, respectively, and have been netted against investment income in the accompanying statements of activities and changes in 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 (“IRS”). In 2018 and 2017, the Chancery made contributions to the lay retirement plan for its employees of \$161,345 and \$162,766, 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 20. 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 2018 and 2017, the funding for the Plan was \$700 per month for each active eligible priest. In 2018 and 2017, the Chancery made contributions to the Plan of \$46,000 and \$52,239, 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 THE FINANCIAL STATEMENTS**

JUNE 30, 2018 AND 2017

**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. 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, 2018 and 2017, which reported that the present value of the accumulated plan benefits was exceeded by the Plan's assets by \$2,191,860 and \$1,868,525, respectively. Based on the funding of \$700 per month for each eligible and active priest, contributions to the Plan for the year ended June 30, 2018 and 2017 are estimated at approximately \$840,000 and \$814,800, respectively, and exceed the estimated benefit payments of approximately \$543,705 and \$545,980, respectively. Effectively, the Chancery is a guarantor of the Plan's obligations. See Note 7 for balances at June 30, 2018 and 2017 included in other assets.

**Note 13—Designations of unrestricted net assets**

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

	<u>2018</u>	<u>2017</u>
Designated reserve for property insurance deductible/self insured retention	\$ 3,819,591	\$ 3,667,467
Designated for perpetual care of the St. Lawrence and Holy Cross cemeteries	5,151,080	4,953,454
Designated for long-term investments	14,175,260	13,690,849
Designated for buildings and equipment	13,623,565	12,876,266
	<u>\$ 36,769,496</u>	<u>\$ 35,188,036</u>

**Note 14—Temporarily restricted net assets**

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

	<u>2018</u>	<u>2017</u>
Restricted for use in subsequent year	\$ 2,486,571	\$ 1,901,006
Restricted for various other Chancery programs	1,551,142	1,564,385
Restricted for endowments	1,703,508	1,295,205
	<u>\$ 5,741,221</u>	<u>\$ 4,760,596</u>

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

JUNE 30, 2018 AND 2017

**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 U.S. GAAP, 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, 2018:

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Donor-restricted endowment funds	\$ -	\$ 1,703,508	\$ 8,999,081	\$ 10,702,589
Total funds	<u>\$ -</u>	<u>\$ 1,703,508</u>	<u>\$ 8,999,081</u>	<u>\$ 10,702,589</u>

Endowment net assets composition by type of fund at June 30, 2017:

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
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>

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

*JUNE 30, 2018 AND 2017*

**Note 15—Endowments (continued)**

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

	<b>2018</b>	<b>2017</b>
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	3,137,500	2,937,500
	<u>\$ 8,999,081</u>	<u>\$ 8,799,081</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, 2018 or 2017.

*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 (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 THE FINANCIAL STATEMENTS**

*JUNE 30, 2018 AND 2017*

**Note 15—Endowments (continued)**

Changes in endowment net assets for the year ended June 30, 2018 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 1,295,205	\$ 8,799,081	\$ 10,094,286
Total investment return	-	884,921	-	884,921
Contributions	-	-	200,000	200,000
Appropriation of endowment assets for expenditure	-	(476,618)	-	(476,618)
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 1,703,508</u>	<u>\$ 8,999,081</u>	<u>\$ 10,702,589</u>

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>

**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 \$- and \$36,000 for June 30, 2018 and 2017, respectively, 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 \$985,000 and \$900,000 for the years ended June 30, 2018 and 2017, respectively, and is included in pastoral program expense in the statements of activities and changes in net assets.

# CHANCERY OF THE ROMAN CATHOLIC DIOCESE OF CHARLESTON

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

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### **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 \$-0- and \$3,073 for the years ended June 30, 2018 and 2017, respectively. Administrative support for St. Clare's Home and the Catholic Community Foundation of South Carolina was provided at no charge.

As described in Note 4, the Foundation holds certain investments in trust on behalf of the Chancery. The Foundation is an affiliate and related party.

### **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, 2018 by \$2,191,860. 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 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 at June 30, 2018 and 2017. The Chancery has designated net assets in the amount of \$3,819,591 and \$3,667,467 for property insurance deductible and self-insurance reserves at June 30, 2018 and 2017, respectively (see Note 13).

### **Note 18—Subsequent events**

In August 2018 certain real estate located in downtown Charleston, South Carolina owned by the Chancery was sold for \$6,250,000.

The Chancery has evaluated subsequent events through October 15, 2018, which is the date these financial statements were available to be issued.