

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

FINANCIAL STATEMENTS

As of and for the Years Ended June 30, 2021 and 2020

And Report of Independent Auditor

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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, 2021 and 2020, 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Chancery of the Roman Catholic Diocese of Charleston as of June 30, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Effect of Adopting New Accounting Standard

As discussed in Note 2, in May 2014, the Financial Accounting Standards Board issued Accounting Standards Update (“ASU”) 2016-09, *Revenue from Contracts with Customers (Topic 606)*. The ASU provides that an organization will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the organization expects to be entitled in exchange for those goods or services. This standard also includes expanded disclosure requirements that result in an organization 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 ASU has been adopted effective July 1, 2020 using the modified retrospective approach and resulted in reclassifications of expenses with associated revenues, as further disclosed in Note 2. Our conclusion is not modified with respect to this matter.

Cherry Bekaert LLP

Greenville, South Carolina
October 26, 2021

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

JUNE 30, 2021 AND 2020

	2021	2020
ASSETS		
Cash and cash equivalents	\$ 14,310,496	10,064,547
Investments	40,382,545	36,820,237
Funds held in trust by affiliate:		
Pooled investments	37,555,681	30,760,376
Receivables from other Diocesan entities:		
Loans receivable, net	43,544,098	43,872,296
Other receivables, net	773,545	880,944
Other receivables	252,812	332,808
Other assets	2,604,018	2,299,428
Property and equipment, net	36,562,306	38,156,128
Total Assets	\$ 175,985,501	\$ 163,186,764
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 958,153	\$ 1,314,231
Deposits and loan funds payable	73,015,277	66,255,937
National Collections and other payables	2,072,184	1,902,428
SBA Payroll Protection Program loan	-	3,033,297
Bonds payable, net	19,826,319	20,919,939
Total Liabilities	<u>95,871,933</u>	<u>93,425,832</u>
Net Assets:		
Without Donor Restrictions:		
Designated	39,360,469	35,510,228
Undesignated operating	23,953,028	21,889,327
	<u>63,313,497</u>	<u>57,399,555</u>
With Donor Restrictions	<u>16,800,071</u>	<u>12,361,377</u>
Total Net Assets	<u>80,113,568</u>	<u>69,760,932</u>
Total Liabilities and Net Assets	\$ 175,985,501	\$ 163,186,764

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

YEAR ENDED JUNE 30, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Support and Revenue:			
Parish assessment income	\$ 7,312,243	\$ -	\$ 7,312,243
Contributions and grants	1,069,699	7,486,436	8,556,135
Investment return, net	7,262,325	3,081,909	10,344,234
Supporting services fees, net	1,505,201	-	1,505,201
Other revenue	2,463,173	-	2,463,173
	<u>19,612,641</u>	<u>10,568,345</u>	<u>30,180,986</u>
Net assets released from restrictions	<u>6,129,651</u>	<u>(6,129,651)</u>	<u>-</u>
Total Support and Revenue	<u>25,742,292</u>	<u>4,438,694</u>	<u>30,180,986</u>
Expenses:			
Program Services:			
Pastoral	7,672,789	-	7,672,789
Church personnel	1,835,701	-	1,835,701
Diocesan services	3,311,706	-	3,311,706
Property, liability, and health insurance programs	9,669	-	9,669
Education	1,438,773	-	1,438,773
Cemeteries	699,588	-	699,588
Deposit and loan	23,690	-	23,690
Interest expense	1,203,260	-	1,203,260
Total Program Services	<u>16,195,176</u>	<u>-</u>	<u>16,195,176</u>
Supporting Services:			
General and administration	2,912,108	-	2,912,108
Institutional advancement	230,170	-	230,170
Total Supporting Services	<u>3,142,278</u>	<u>-</u>	<u>3,142,278</u>
Total Expenses	<u>19,337,454</u>	<u>-</u>	<u>19,337,454</u>
Change in net assets before loss on sale	6,404,838	4,438,694	10,843,532
Loss of sale of land	<u>(490,896)</u>	<u>-</u>	<u>(490,896)</u>
Change in net assets	5,913,942	4,438,694	10,352,636
Net assets, beginning of year	<u>57,399,555</u>	<u>12,361,377</u>	<u>69,760,932</u>
Net assets, end of year	<u>\$ 63,313,497</u>	<u>\$ 16,800,071</u>	<u>\$ 80,113,568</u>

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

YEAR ENDED JUNE 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Support and Revenue:			
Parish assessment income	\$ 7,018,105	\$ -	\$ 7,018,105
Contributions and bequests	254,094	4,884,514	5,138,608
Investment return, net	2,284,588	(24,958)	2,259,630
Supporting services fees, net	542,730	-	542,730
Other revenue	3,065,929	-	3,065,929
	<u>13,165,446</u>	<u>4,859,556</u>	<u>18,025,002</u>
Net assets released from restrictions	<u>6,327,057</u>	<u>(6,327,057)</u>	<u>-</u>
Total Support and Revenue	<u>19,492,503</u>	<u>(1,467,501)</u>	<u>18,025,002</u>
Expenses:			
Program Services:			
Pastoral	8,842,070	-	8,842,070
Church personnel	2,100,666	-	2,100,666
Diocesan services	3,068,546	-	3,068,546
Property, liability, and health insurance programs	9,183	-	9,183
Education	1,592,825	-	1,592,825
Cemeteries	651,969	-	651,969
Deposit and loan	40,411	-	40,411
Interest expense	1,871,918	-	1,871,918
Total Program Services	<u>18,177,588</u>	<u>-</u>	<u>18,177,588</u>
Supporting Services:			
General and administration	2,948,719	-	2,948,719
Institutional advancement	195,386	-	195,386
Total Supporting Services	<u>3,144,105</u>	<u>-</u>	<u>3,144,105</u>
Total Expenses	<u>21,321,693</u>	<u>-</u>	<u>21,321,693</u>
Change in net assets before gain on sale and other expenses	(1,829,190)	(1,467,501)	(3,296,691)
Other expense	(578,671)	-	(578,671)
Gain on sale of property and equipment	957,454	-	957,454
Change in net assets	(1,450,407)	(1,467,501)	(2,917,908)
Net assets, beginning of year	<u>58,849,962</u>	<u>13,828,878</u>	<u>72,678,840</u>
Net assets, end of year	<u>\$ 57,399,555</u>	<u>\$ 12,361,377</u>	<u>\$ 69,760,932</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, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities:		
Change in net assets	\$ 10,352,636	\$ (2,917,908)
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Amortization of bond issue costs	19,870	19,870
Net realized and unrealized (gains) losses on investments	(8,257,675)	443,699
Depreciation	1,472,124	1,522,549
Bad debts	84,778	-
Loss (gain) on sale of land, property, and equipment	490,896	(957,454)
Changes in operating assets and liabilities:		
Other receivables - Diocesan entities	107,399	1,528,931
Other receivables	(4,782)	(13,971)
Other assets	(304,590)	(162,432)
Accounts payable and accrued expenses	(356,078)	213,609
Net cash flows from operating activities	<u>3,604,578</u>	<u>(323,107)</u>
Cash flows from investing activities:		
Proceeds from investment transactions	51,711,678	83,000,898
Purchases of investments	(53,811,616)	(78,061,878)
Funding of loans receivable	(4,187,205)	(6,189,825)
Repayments of loans receivable	4,515,403	3,567,751
Purchases of property and equipment	(900,826)	(561,480)
Proceeds from sale of land, property, and equipment	240,916	20,670
Net cash flows from investing activities	<u>(2,431,650)</u>	<u>1,776,136</u>
Cash flows from financing activities:		
Change in deposits and loan funds payable	7,050,052	1,358,367
Change in National Collections and other payables	169,756	(978,793)
Proceeds from SBA Payroll Protection Program loan	-	3,033,297
Payments on SBA Payroll Protection Program loan	(3,033,297)	-
Payments on bonds payable	(1,113,490)	(992,236)
Net cash flows from financing activities	<u>3,073,021</u>	<u>2,420,635</u>
Change in cash and cash equivalents	4,245,949	3,873,664
Cash and cash equivalents, beginning of year	10,064,547	6,190,883
Cash and cash equivalents, end of year	<u>\$ 14,310,496</u>	<u>\$ 10,064,547</u>
Supplemental cash flow information:		
Cash paid for interest	<u>\$ 1,468,230</u>	<u>\$ 2,170,151</u>
Land sold and financed with loan receivable	<u>\$ -</u>	<u>\$ 2,197,192</u>
Forgiveness of loan funds payable associated with sale of land	<u>\$ 290,712</u>	<u>\$ -</u>

CHANCERY OF THE ROMAN CATHOLIC DIOCESE OF CHARLESTON

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

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 33 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.

Basis of Presentation – Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The Bishop may designate, from net assets without donor restrictions, net assets for an operating reserve and other reserves.

Net Assets With Donor Restrictions – Net assets subject to donor (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

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.

CHANCERY OF THE ROMAN CATHOLIC DIOCESE OF CHARLESTON

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

Note 2—Summary of significant accounting policies (continued)

Investments – The Chancery follows the provisions of Accounting Standards Codification (“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 statements of financial position. Unrealized gains and losses are included in the statements of activities and changes in net assets. Donor-restricted interest and dividend income are reported as increases in net assets without restrictions 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 net assets without restrictions.

Contributions Receivable – Contributions receivable are recognized as an asset and as revenue in the year received. The Chancery does not have any contributions receivable as of June 30, 2021 and 2020.

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.

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 bonds payable, consistent with debt discounts or premiums.

Property and Equipment – Purchases of property and equipment having a unit cost of \$5,000 or more and a useful life of more than one year are capitalized at cost. Donated property and equipment are capitalized at their estimated fair value at the date of donation. Depreciation is computed using the straight-line method of depreciation based on the estimated useful lives of the assets ranging from 3 to 40 years.

Contributions – Contributions are considered to be without donor restrictions unless specifically restricted by the donors. Contributions that are restricted by the donors are reported as increases in net assets with donor restriction. When a restriction expires (that is, when the stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities and changes in net assets as net assets released from restrictions.

The Bishop’s Annual Appeal (the “Appeal”) is a primary source of funding that helps sustain Catholic schools, parishes, programs of religious education and campus ministry, and initiatives to foster vocations as well as respect for life. Additionally, through its support of Catholic Charities, the Appeal serves people in South Carolina and abroad whose lives are affected by natural disasters, illnesses, hunger, and economic hardship.

Bishop’s Annual Appeal contributions included in contributions and grants with donor restrictions totaled \$5,869,076 and \$3,757,768 for the years ended June 30, 2021 and 2020. Net assets released from restrictions attributed to the Appeal were \$4,792,132 and \$4,931,617 for the years ended June 30, 2021 and 2020, respectively.

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.

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

JUNE 30, 2021 AND 2020

Note 2—Summary of significant accounting policies (continued)

Revenue Recognition – The Chancery has analyzed the provisions of the Financial Accounting Standards Board’s (“FASB”) ASC Topic 606, *Revenue from Contracts with Customers*, and has adopted the new standard using the modified retrospective method. Management has determined that with the adoption of Topic 606, expenses associated with agency transactions should be presented net against the revenues.

Revenues determined to be included within the scope of Topic 606 primarily include insurance products that the Chancery arranges for affiliated entities and then bills the end user. These insurance products include workers’ compensation, priest health, property, and general liability coverage. Management has determined that the insurance carrier is responsible for providing the insurance coverage and the Chancery acts as an agent to facilitate buying power for affiliated organizations. In this case, the Chancery records the insurance revenues net of the associated cost of the insurance premiums and includes the net revenue in the statement of activities as supporting services fees, net.

Other revenues included within the scope of Topic 606 include cemetery, newspaper, and fees for services. Management has determined that no change to the Chancery’s financial statements are necessary for these other revenues. Performance obligations associated with these revenue streams are satisfied at a point in time through the provision of cemetery plots, delivery of newspapers, or completion of services. All of the Chancery’s revenues are based on fixed prices.

As part of the adoption of Topic 606, the Chancery reclassified expenses associated with agency transactions and presented them net of revenue for comparative presentation in 2020. Changes in amounts previously presented are disclosed below:

	<u>As Previously Reported</u>	<u>Restated</u>
Support and Revenue:		
Supporting services fees, net	\$ 4,840,735	\$ 542,730
Other revenue	3,471,570	3,065,929
	<u>8,312,305</u>	<u>3,608,659</u>
Expenses:		
Program Services:		
Diocesan services	4,055,021	3,068,546
Property, liability, and health insurance programs	3,320,713	9,183
Education	1,700,233	1,592,825
Supporting Services:		
General and administration	3,246,949	2,948,716
	<u>12,322,916</u>	<u>7,619,270</u>
Net Impact	<u>\$ (4,010,611)</u>	<u>\$ (4,010,611)</u>

Investment Return – Investment return consists of the interest income, dividend income, and unrealized and realized gains/losses within investments in the accompanying financial statements. Interest income consists of the interest earned on assets, other than investments.

CHANCERY OF THE ROMAN CATHOLIC DIOCESE OF CHARLESTON

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

Note 2—Summary of significant accounting policies (continued)

Income Taxes – The Diocese and, accordingly, the Chancery are exempt from federal and state income taxes under certain provisions of Section 501(c)(3) of the Internal Revenue Code (“IRC”) and the South Carolina Code of Laws; therefore, no provisions for income taxes have been included in these financial statements. 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, 2020 financial statements presentation to correspond to the current year’s format. In order to provide a more accurate classification of cash held with investment companies, \$9,228,515 of cash was reclassified to investments. Total assets, liabilities, net assets, and change in net assets unchanged due to this reclassification.

Recently Issued Accounting Pronouncement Adopted – On May 28, 2014, FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The core principle is that an entity will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This standard was adopted for the Chancery’s fiscal year ended June 30, 2021. The Chancery has determined that certain revenue generating activities with affiliated entities are agency transactions.

Recently Issued Accounting Pronouncements Not Yet Adopted – In February 2016, 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 statement of financial position 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 statements of activities. This standard will be effective for the Chancery’s year ending June 30, 2023. Management is currently in the process of evaluating the impact of adoption of this ASU on the financial statements.

In September 2020, FASB issued ASU 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The standard requires presentation of contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash and other financial assets. It also requires a disclosure of disaggregated contributions of nonfinancial assets by category that depicts the type of contributed nonfinancial assets. This distinction will increase transparency of contributions recognized. This standard will be effective for the fiscal year ending June 30, 2022. Management is currently evaluating the impact the pending adoption will have on the financial statements.

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

JUNE 30, 2021 AND 2020

Note 3—Functional expenses

The costs of providing the various programs have been summarized on a functional basis in the statements of activities and changes in net assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Such allocations are determined by management on an equitable basis, which generally include space occupied on a square footage basis and/or time incurred for employees.

Expenses by function and nature consist of the following for the year ended June 30, 2021:

	2021							
	Personnel Expense	Occupancy Expense	Office/ Program Expense	Professional and Contracted Services	Education, Professional Development, and Travel	Grants and Other Assistance	Other	Total
Program Services:								
Pastoral	\$ 2,260,157	\$ 381,488	\$ 305,026	\$ 257,372	\$ 204,122	\$ 3,882,323	\$ 382,301	\$ 7,672,789
Church personnel	594,526	40,506	65,522	93,450	992,116	8,511	41,070	1,835,701
Diocesan services	2,019,538	166,835	167,996	504,598	65,155	100,000	287,584	3,311,706
Property, liability, and health insurance programs	-	460	-	-	52	-	9,157	9,669
Education	862,678	65,903	35,756	181,431	160,505	50,360	82,140	1,438,773
Cemeteries	258,083	182,087	136,698	35,395	9,186	-	78,139	699,588
Deposit and loan	-	-	-	23,690	-	-	-	23,690
Interest expense	-	-	-	-	-	-	1,203,260	1,203,260
Total Program Expenses	<u>5,994,982</u>	<u>837,279</u>	<u>710,998</u>	<u>1,095,936</u>	<u>1,431,136</u>	<u>4,041,194</u>	<u>2,083,651</u>	<u>16,195,176</u>
Administrative:								
General and administrative	1,296,104	243,876	153,792	350,061	65,491	1,511	801,273	2,912,108
Institutional advancement	71,201	13,032	70,016	41,278	18,215	-	16,428	230,170
Total Administrative Expenses	<u>1,367,305</u>	<u>256,908</u>	<u>223,808</u>	<u>391,339</u>	<u>83,706</u>	<u>1,511</u>	<u>817,701</u>	<u>3,142,278</u>
	<u>\$ 7,362,287</u>	<u>\$ 1,094,187</u>	<u>\$ 934,806</u>	<u>\$ 1,487,275</u>	<u>\$ 1,514,842</u>	<u>\$ 4,042,705</u>	<u>\$ 2,901,352</u>	<u>\$ 19,337,454</u>

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

JUNE 30, 2021 AND 2020

Note 3—Functional expenses (continued)

Expenses by function and nature consist of the following for the year ended June 30, 2020:

	2020							
	Personnel Expense	Occupancy Expense	Office/ Program Expense	Professional and Contracted Services	Education, Professional Development, and Travel	Grants and Other Assistance	Other	Total
Program Services:								
Pastoral	\$ 2,435,829	\$ 395,998	\$ 273,771	\$ 271,649	\$ 981,626	\$ 4,157,744	\$ 325,453	\$ 8,842,070
Church personnel	797,072	55,966	45,213	139,682	1,006,483	11,616	44,634	2,100,666
Diocesan services	1,704,143	147,616	163,532	619,309	129,222		304,724	3,068,546
Property, liability, and health insurance programs	-	-	-	-	-	-	9,183	9,183
Education	846,698	62,176	47,096	139,990	362,975	44,622	89,268	1,592,825
Cemeteries	274,327	164,959	115,815	22,765	9,657	-	64,446	651,969
Deposit and loan	-	-	-	40,411	-	-	-	40,411
Interest expense	-	-	-	-	-	-	1,871,918	1,871,918
Total Program Expenses	<u>6,058,069</u>	<u>826,715</u>	<u>645,427</u>	<u>1,233,806</u>	<u>2,489,963</u>	<u>4,213,982</u>	<u>2,709,626</u>	<u>18,177,588</u>
Administrative:								
General and administrative	1,323,125	204,170	157,269	360,736	88,305	-	815,114	2,948,719
Institutional advancement	71,894	14,247	49,612	23,719	18,063	-	17,851	195,386
Total Administrative Expenses	<u>1,395,019</u>	<u>218,417</u>	<u>206,881</u>	<u>384,455</u>	<u>106,368</u>	<u>-</u>	<u>832,965</u>	<u>3,144,105</u>
	<u>\$ 7,453,088</u>	<u>\$ 1,045,132</u>	<u>\$ 852,308</u>	<u>\$ 1,618,261</u>	<u>\$ 2,596,331</u>	<u>\$ 4,213,982</u>	<u>\$ 3,542,591</u>	<u>\$ 21,321,693</u>

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

JUNE 30, 2021 AND 2020

Note 4—Cash and cash equivalents, liquidity, and availability

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, 2021, the Chancery had \$6,154,584 which exceeded these insured amounts.

For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Chancery considers all expenditures related to program and supporting services to be general expenditures. Financial assets available within one year as of June 30, without donor or other restrictions limiting their use, comprise the following:

	2021	2020
Cash and cash equivalents	\$ 4,794,797	\$ 3,992,890
Investments	24,089,761	20,170,958
Endowment investments available for general purposes and for distribution in accordance with the spending rate policy	401,769	368,485
Spending policy for designated funds	882,634	884,841
Total cash, cash equivalents, and investments	<u>30,168,961</u>	<u>25,417,174</u>
Receivables, due within one year	946,475	1,099,943
	<u>31,115,436</u>	<u>26,517,117</u>
Less amounts not available to be used within one year:		
Required to satisfy donor restrictions	(3,334,151)	(1,771,959)
Required to satisfy management designations	(23,527,375)	(19,730,476)
Financial assets available to meet cash needs for general expenditures	<u>\$ 4,253,910</u>	<u>\$ 5,014,682</u>

Income from donor-restricted endowments is restricted for specific purposes, with the exception of the amounts available for general use. Donor-restricted endowment funds are not available for general expenditures and, thus, are not included above. All endowments are subject to an annual spending rate of 4% 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. Only the funds available for distribution in accordance with the spending rate policy are included above.

The Chancery manages its liquidity by developing and adopting annual operating and capital budgets that provide sufficient funds for general expenditures in meeting its liabilities and other obligations as they come due. Actual performance is reported and monitored monthly in comparison to the budgets. Adjustments are made to plan as needed to ensure adequate liquidity. As part of the liquidity management plan, cash balances are invested in short-term investments.

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

JUNE 30, 2021 AND 2020

Note 5—Investments and funds held in trust by affiliate

At June 30, 2021 and 2020, the Chancery's investments totaling \$37,555,681 and \$30,760,376, respectively, are maintained in funds managed by the Foundation and \$40,977,285 and \$36,820,231, 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, 2021 and 2020. Investments along with their cost, fair value, and net unrealized gain at June 30, 2021 are as follows:

	<u>Cost</u>	<u>Fair Value</u>	<u>Net Unrealized Gains (Losses)</u>
Cash with investment companies	\$ 858,205	\$ 858,205	\$ -
Mutual funds	40,382,944	40,382,544	(400)
Corporate and government debt securities	10,880,824	11,035,610	154,786
Equity securities	17,766,380	25,661,867	7,895,487
	<u>\$ 69,888,353</u>	<u>\$ 77,938,226</u>	<u>\$ 8,049,873</u>

Investments along with their cost, fair value and net unrealized gain at June 30, 2020 are as follows:

	<u>Cost</u>	<u>Fair Value</u>	<u>Net Unrealized Gains</u>
Cash with investment companies	\$ 10,379,632	\$ 10,379,632	\$ -
Mutual funds	27,303,194	27,591,719	288,525
Corporate and government debt securities	9,258,310	9,339,685	81,375
Equity securities	17,742,976	20,269,577	2,526,601
	<u>\$ 64,684,112</u>	<u>\$ 67,580,613</u>	<u>\$ 2,896,501</u>

Expenses relating to investment return, including custodial fees and investment advisory fees, were \$204,863 and \$216,590 for the years ended June 30, 2021 and 2020, respectively, and have been netted against investment return, net 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, 2021 AND 2020

Note 6—Receivables from other Diocesan entities

Loans Receivable – Loans receivable consist of the loans made under the co-operative deposit and loan program administered by 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 2.75% to 5.00% at June 30, 2021 and 2020. The co-operative deposit and loan 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%. In April 2020, the Bishop of Charleston changed the floor on all active loans from 4.5% to 3.25% due to the coronavirus pandemic until December 31, 2021, at which time the rates will be re-evaluated. In addition, entities were given the option to make interest only payments through December 31, 2020. Entities participating in the loan program have the option to make scheduled principal payments but are not required to. The loans are stated at their unpaid balances less estimated allowances for doubtful accounts of \$285,921 at June 30, 2021 and 2020. There are approximately 51 loans to parishes and schools, which are payable on a monthly basis. The Chancery was not aware of any of these loans that were materially delinquent at June 30, 2021 and 2020.

Scheduled future principal payments under loans due from parishes and schools at June 30, 2021 are as follows:

Years Ending June 30,

2022	\$ 5,416,310
2023	4,810,956
2024	4,536,239
2025	4,622,246
2026	3,786,778
Thereafter	13,126,976
Undetermined*	7,530,514
	<u>43,830,019</u>
Less allowance for doubtful accounts	<u>(285,921)</u>
	<u><u>\$ 43,544,098</u></u>

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

Other Receivables from Other Diocesan Entities – 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 invoices the Diocesan entities for their portion of the property and liability insurance premiums. In addition, the Chancery invoices parishes for their annual parish assessments. Receivables related to these billings 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 \$19,956 and \$14,988 at June 30, 2021 and 2020, respectively.

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

JUNE 30, 2021 AND 2020

Note 7—Other receivables

Other receivables are comprised of the following at June 30:

	<u>2021</u>	<u>2020</u>
Cemetery and miscellaneous other receivables	\$ 264,678	\$ 345,222
Less allowance for doubtful accounts	(11,866)	(12,414)
	<u>\$ 252,812</u>	<u>\$ 332,808</u>

Note 8—Other assets

Other assets are comprised of the following at June 30:

	<u>2021</u>	<u>2020</u>
Cash surrender value of life insurance policies	\$ 421,829	\$ 406,586
Prepaid insurance and expenses	502,648	373,103
Accrued interest	376,216	404,954
Catholic Umbrella Pool member balance	1,125,402	935,537
Inventory	-	3,643
Security deposits	177,923	175,605
	<u>\$ 2,604,018</u>	<u>\$ 2,299,428</u>

Note 9—Property and equipment

Property and equipment consist of the following at June 30:

	<u>2021</u>	<u>2020</u>
Land and land improvements	\$ 13,672,419	\$ 14,624,947
Buildings	30,152,377	29,765,873
Leasehold improvements	675,743	675,743
Furniture, equipment, and vehicles	3,786,001	3,737,288
Projects in progress	483,174	87,551
	48,769,714	48,891,402
Less accumulated depreciation	(12,207,408)	(10,735,274)
	<u>\$ 36,562,306</u>	<u>\$ 38,156,128</u>

Depreciation expense recognized for the years ended June 30, 2021 and 2020 was \$1,472,124 and \$1,522,549, respectively. Projects were in process at June 30, 2021 and 2020. No interest was capitalized for the years ended June 30, 2021 and 2020.

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

JUNE 30, 2021 AND 2020

Note 10—Deposits and loan funds payable

The Chancery administers a co-operative deposit and loan program for the benefit of parishes and schools within the purview of the Diocese (see Note 6). This program accepts deposits from qualified entities within the Diocesan structure.

Interest is accrued monthly on deposits at one-month LIBOR with a floor (1% at June 30, 2021) and deposits are available on-demand or as specified in accordance with arrangements made with the account holder. In April 2020, the Bishop of Charleston changed the floor on all depository accounts from 2.25% to 1% until December 31, 2021 due to the coronavirus pandemic, at which time the rates will be re-evaluated. Monthly statements are provided to program participants. At June 30, 2021 and 2020, the co-operative deposit and loan program held deposits of \$73,015,277 and \$66,255,937, respectively, shown on the statements of financial position as deposits and loan funds payable.

Note 11—Indebtedness

The balances of indebtedness consists of the following at June 30:

	<u>2021</u>	<u>2020</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.	\$ 19,927,325	\$ 21,040,815
\$3,033,297 PPP loan maturing on April 11, 2022. The annual interest rate is 1% per annum, and may be prepaid by the Chancery at any time prior to maturity with no prepayment penalties. This loan was paid off in full during 2021.	-	3,033,297
	<u>19,927,325</u>	<u>24,074,112</u>
Less unamortized debt issuance costs	<u>(101,006)</u>	<u>(120,876)</u>
	<u>\$ 19,826,319</u>	<u>\$ 23,953,236</u>

Bonds Payable – 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 JEDA bonds for the years ended June 30, 2021 and 2020 was \$518,437 and \$547,562, respectively.

CHANCERY OF THE ROMAN CATHOLIC DIOCESE OF CHARLESTON

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

Note 11—Indebtedness (continued)

SBA Paycheck Protection Program (“PPP”) Loan – On April 11, 2020, the Chancery received a loan from a financial institution pursuant to the PPP under Division A, Title I of the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”), which was enacted March 27, 2020. The Chancery used this loan amount for qualifying expenses. Under the terms of the PPP, certain amounts of the loan may be forgiven if they are used for qualifying expenses as described in the CARES Act; however, the Chancery opted not to request loan forgiveness, and the loan and all accrued interest was fully repaid as of June 30, 2021. This loan was obtained due to the uncertainties related to the coronavirus disease (“COVID-19”) as discussed in Note 17.

Future maturities of the note at June 30, 2021 are as follows:

Years Ending June 30,

2022	\$	1,141,897
2023		1,171,061
2024		1,171,061
2025		1,189,896
2026		15,253,410
Present value of future maturities	\$	<u>19,927,325</u>

The JEDA bonds are secured by a first lien mortgage on the related construction premises and is subjected to certain restrictive covenants. As of June 30, 2021, the Diocese was not aware of any violations of the covenants.

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 2021 and 2020, the Chancery made contributions to the lay retirement plan for its employees of \$178,979 and \$196,900, 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 IRC; (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 Plan was amended again in 2020 to increase the monthly benefit amount.

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

JUNE 30, 2021 AND 2020

Note 12—Retirement plan (continued)

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 2021 and 2020, the funding for the Plan was \$750 (increased from \$700 on January 1, 2020) and \$700 per month, respectively, for each active eligible priest. In 2021 and 2020, the Chancery made contributions to the Plan of \$90,600 and \$103,850, respectively, for the eligible priests assigned to the Chancery. The Chancery recognizes pension expense based upon the funding established for the Plan.

ASC 715-20, *Compensation-Retirement Plan, Defined Benefit Plan*, requires certain reporting and disclosures with respect to defined benefit plans such as the Diocesan Priests' Retirement Plan. 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, 2021 and 2020, which reported that the present value of the accumulated plan benefits was exceeded by the Plan's assets by \$5,031,546 and \$858,468, respectively. Based on the funding of \$750 per month (increased from \$700 on January 1, 2020) for each eligible and active priest, contributions to the Plan for the year ended June 30, 2021 and 2020 are estimated at approximately \$882,000 and \$861,300, respectively, and exceed the estimated benefit payments of approximately \$833,272 and \$770,273, respectively. Effectively, the Chancery is a guarantor of the Plan's obligations.

Note 13—Designations of net assets without donor restrictions

The Bishop has chosen to place the following designations on net assets without donor restrictions at June 30:

	<u>2021</u>	<u>2020</u>
Designated reserves for insurance programs administered by the Chancery	\$ 5,362,942	\$ 3,881,865
Designated for perpetual long-term care of Diocesan Cemeteries	6,236,114	4,848,559
Designated for long-term investments	11,928,319	11,000,052
Designated for buildings and equipment	15,833,094	15,779,752
	<u>\$ 39,360,469</u>	<u>\$ 35,510,228</u>

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

JUNE 30, 2021 AND 2020

Note 14—Net assets with donor restrictions

Net assets with donor restrictions consist of the following at June 30:

	<u>2021</u>	<u>2020</u>
Restricted for use in subsequent year	\$ 1,382,539	\$ 326,271
Restricted for various other Chancery programs	1,951,612	1,445,688
Restricted for various endowments:		
Third World Ministry endowment	900,193	738,201
Synod endowment	1,849,447	1,479,324
St. Mary's education fund endowment	62,528	50,226
Miscellaneous endowment fund	176,352	137,698
Cathedral maintenance and endowment	961,201	769,142
Infirm priests endowment	116,205	92,949
Hispanic ministry endowment	2,901,462	2,320,097
Seminarian education fund	1,635,616	1,306,888
St. Elizabeth Ann Seton Catholic education endowment	4,862,916	3,694,893
Total restricted for various endowments	<u>13,465,920</u>	<u>10,589,418</u>
	<u>\$ 16,800,071</u>	<u>\$ 12,361,377</u>

Note 15—Endowments

The Chancery's endowments consist of several funds established for a variety of purposes. The endowments include donor-restricted endowments funds. As required by 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. At June 30, 2021 and 2020, there were no such donor stipulations. As a result of this interpretation, the Chancery retains in perpetuity (a) the original value of initial and subsequent gift amounts (including promises to give net of discount and allowance for doubtful accounts donated to the endowment and (b) any accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure by the Chancery in a manner consistent with the standard 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

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

JUNE 30, 2021 AND 2020

Note 15—Endowments (continued)

The following tables present the Chancery’s endowment net asset classification and composition. Endowment net assets composition by type of fund at June 30, 2021:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 13,465,920	\$ 13,465,920
Total funds	<u>\$ -</u>	<u>\$ 13,465,920</u>	<u>\$ 13,465,920</u>

Endowment net assets composition by type of fund at June 30, 2020:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 10,589,418	\$ 10,589,418
Total funds	<u>\$ -</u>	<u>\$ 10,589,418</u>	<u>\$ 10,589,418</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.

At June 30, 2020, funds with original gift values of \$1,500,000 and deficiencies of \$20,676 were reported in net assets with donor restrictions. During the year ended June 30, 2020, the Board of Directors appropriated \$57,513 from underwater endowment funds. No such deficiencies existed at June 30, 2021.

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, 4% 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 and allows spending from underwater endowments. 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, 2021 AND 2020

Note 15—Endowments (continued)

Changes in endowment net assets for the year ended June 30, 2021 are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 10,589,418	\$ 10,589,418
Investment return, net	-	3,081,909	3,081,909
Contributions	-	200,000	200,000
Appropriation of endowment assets for expenditure	-	(405,407)	(405,407)
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 13,465,920</u>	<u>\$ 13,465,920</u>

Changes in endowment net assets for the year ended June 30, 2020 are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 10,898,793	\$ 10,898,793
Investment return, net	-	(45,634)	(45,634)
Contributions	-	200,000	200,000
Appropriation of endowment assets for expenditure	-	(463,741)	(463,741)
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 10,589,418</u>	<u>\$ 10,589,418</u>

Note 16—Related party relationships and 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 the land its Greenville office is located on from a local parish of the Diocese of Charleston for an annual rent of \$100. The low country office of Catholic Charities are leased from a Diocesan parish for no rent.

Catholic Charities occupied the Carter May Home/St. Joseph Residence and certain office space owned by the Diocese of Charleston. No rental payments were charged for the use of the Carter May Home/St. Joseph Residence and Catholic Charities Central office space from the Diocese of Charleston.

The Chancery provides administrative, professional, and other support to Catholic Charities which are expenses recorded in the Chancery’s financial statements. The Chancery also provides direct financial support to Catholic Charities through the Bishop’s Annual Appeal of \$1,010,000 for the years ended June 30, 2021 and 2020, and is included in pastoral program expense in the statements of activities and changes in net assets.

Catholic Charities occupied and operated the Hardeeville Thrift Store facility during the year which is owned by the Diocese of Charleston. No rental payments were charged for the use of this office space from the Diocese of Charleston.

CHANCERY OF THE ROMAN CATHOLIC DIOCESE OF CHARLESTON

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

Note 16—Related party relationships and transactions (continued)

In June 2019, Catholic Charities executed a promissory note and loan agreement for \$500,000 with the Diocesan co-operative deposit and loan program administered by the Chancery. The promissory note requires monthly payments of interest at the one-month LIBOR rate plus 1.5% not to be less than 4.5% (4.5% at June 30, 2021 and 2020) beginning in July 2019 and lasting through the note's maturity in June 2024, when all principal and interest is due. At June 30, 2021 and 2020, the outstanding balance of this note amounted to \$500,000 and is shown in the balance of the statements of financial position as loans receivable, net from other Diocesan entities.

The Diocese of Charleston provides administrative support at no charge to St. Clare's Home, a 501(c)(3) organization operated to directly benefit expectant mothers. The Chancery issued a line of credit of \$1,000,000 from the co-operative deposit and loan program of which \$516,405 has been advanced to fund the purchase of a home, with the remainder of the funds to fund operations. The balance of the line of credit is shown on the statements of financial position as loans receivable, net from other Diocesan entities.

In December 2020, the Chancery became an obligor on debt for St. Clare of Assisi Catholic Church ("St. Clare of Assisi"), as further described in Note 17.

The Foundation operates as the community foundation and fundraising vehicle of the Roman Catholic Diocese of Charleston. The Chancery provides management services to the Foundation for accounting, administrative, and other essential services at no charge. Expenses paid by the Chancery on the Foundation's behalf are recorded as expenses on the Foundation's financial statements when incurred, with amounts due from the Foundation recorded on the Chancery's statements of financial position as other receivables, net from other Diocesan entities. For the years ended June 30, 2021 and 2020, amounts paid on the Foundation's behalf by the Chancery totaled \$3,593,424 and \$3,259,259, respectively. Amounts due from the Foundation at June 30, 2021 and 2020 amounted to \$179,784 and \$410,184, respectively. Amounts due from the Foundation are repaid from time to time upon approval of the Foundation's Board of Directors.

As described in Note 5, the Foundation holds certain investments in trust on behalf of the Chancery. The Foundation is an affiliate and related party.

Note 17—Commitments and 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, 2021 by \$5,031,546. 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 invoices 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, 2021 and 2020. The Chancery has designated net assets in the amount of \$5,362,942 and \$3,881,865 for property, liability, health, workers' compensation, and self-insurance reserves at June 30, 2021 and 2020, respectively (see Note 13).

CHANCERY OF THE ROMAN CATHOLIC DIOCESE OF CHARLESTON

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

Note 17—Commitments and contingencies (continued)

The Chancery has committed to providing financial support and resources to Catholic Charities on an as-needed basis over the next 12 months. The Chancery's historical support of Catholic Charities is critical to serving the mission of the Diocese in South Carolina and actual funding requirements will vary from year to year.

In December 2020, the Chancery became an obligor through the execution of a security agreement on a \$12,600,000 construction loan agreement for St. Clare of Assisi. The construction loan is intended to finance the development of a church sanctuary for the St. Clare of Assisi parish. The Chancery would be obligated to perform under the security agreement if St. Clare of Assisi failed to pay principal and interest payments to the lender when due. The lender's recourse under the construction loan agreement against the Chancery are limited in all instances to a maximum aggregate amount of \$2,200,000. As the outstanding balance of the construction loan agreement is reduced to \$6,900,000, the maximum resource against the Chancery is further limited so that it equals the difference between the outstanding principal balance as of the date of the event of default and \$4,700,000. Once the outstanding principal balance of the construction loan is reduced to \$4,700,000 the lender's recourse against the Chancery is reduced to \$-0- and the lender will have no further recourse. Management of the Chancery has evaluated the need to record a guarantee liability, which would represent the fair value of its obligation to stand ready to perform under the guarantee and has determined that the entities are under common control and no liability exists. As of June 30, 2021, St. Clare of Assisi is not under an event of default and all payments are current.

On January 30, 2020, the World Health Organization declared the coronavirus COVID-19 outbreak a Public Health Emergency of International Concern and on March 11, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of COVID-19 include restrictions on travel, quarantines, or stay-at-home restrictions in certain areas and forced closures for certain types of public places and businesses. COVID-19 and actions taken to mitigate it have had and are expected to continue to have an adverse impact on the economies and financial markets globally, including the geographical areas in which Catholic Charities operates.

While it is unknown how long these conditions will last and what the complete financial impact will be, the Chancery is closely monitoring the impact of the COVID-19 pandemic on all aspects of the programming and operations and are unable at this time to predict the continued impact COVID-19 will have on its operations, financial position, and operating results in future periods due to numerous uncertainties.

Note 18—Subsequent events

The Chancery has evaluated subsequent events through October 26, 2021, which is the date these financial statements were available to be issued.