Cherry Bekaert LLP
CPAs & Advisors

Diocesan Finance Council
Administrative Offices of the Diocese of Raleigh
Raleigh, North Carolina

We have audited the consolidated financial statements of the Administrative Offices of the Diocese of Raleigh (the "Diocese") for the year ended June 30, 2018 and have issued our report thereon dated November 5, 2018. Professional standards require we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you March 1, 2018. Professional standards also require we communicate to you the following information related to our audit.

SIGNIFICANT AUDIT FINDINGS

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Diocese are described in the notes to the consolidated financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the Diocese during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the consolidated financial statements in the proper period.

Accounting estimates are an integral part of the consolidated financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the consolidated financial statements and because of the possibility future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the consolidated financial statements were:

> Obligations for future benefits associated with postretirement plans other than pensions are based on an actuarially determined present value as of a particular date of the postretirement benefits expected to be paid pursuant to the terms of the plans. Measurement of the expected postretirement benefit obligation is based on the expected amount and timing of the future benefits, taking into consideration the expected future costs of providing the benefits. We evaluated the key factors and assumptions used to develop the obligation to determine it seemed reasonable in relation to the consolidated financial statements taken as a whole.
>
> Management's estimates of the allowances for uncollectible promises to give related to the Bishop's Annual Appeal and the Cathedral Campus Campaign, and the allowance for doubtful loans are based on historical collections and an analysis of the collectability of individual promises and loans. We evaluated the key factors and assumptions used to develop the allowances in determining they are reasonable in relation to the consolidated financial statements taken as a whole.
>
> Management's estimates of the discount on promises to give related to the Cathedral Campus Campaign is based on the expected period for the receipt of payments and the Diocese's anticipated risk-free rate of return this period. We evaluated the key factors and assumptions used to develop the discount in determining it is reasonable in relation to the consolidated financial statements taken as a whole.
>
> Management's estimate of depreciation expense is based on an analysis of useful lives of property and equipment. We evaluated the key factors and assumptions used to develop this estimate in determining it is reasonable in relation to the consolidated financial statements taken as a whole.
>
> Management's estimate of the fair value of and input level that is used to measure investments is based on valuation techniques using available inputs, such as readily available quoted market prices, credit risk of issues, maturity, current yield, and other terms and conditions. We evaluated the key factors and assumptions used to develop this estimate in determining it is reasonable in relation to the consolidated financial statements taken as a whole.

The consolidated financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. No such misstatements were noted during the course of the audit.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 5, 2018.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Diocese's consolidated financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Diocese's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

With respect to the supplementary information accompanying the consolidated financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine the information complies with U.S. generally accepted accounting principles, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the consolidated financial statements or to the consolidated financial statements themselves.

This information is intended solely for the use of management, the Diocese finance council, and others within the Diocese, and is not intended to be and should not be used by anyone other than these specified parties.

Cherry Bekaert LLP

Raleigh, North Carolina
November 5, 2018

Report of Independent Accountant

Diocesan Finance Council
Administrative Offices of the Diocese of Raleigh
Raleigh, North Carolina

We have examined management of the Administrative Offices of the Diocese of Raleigh and Affiliate (the "Diocese") assertion listed below. The Diocese's management is responsible for its assertion. Our responsibility is to express an opinion on management's assertion based on our examination.

> *"During the fiscal year ended June 30, 2018, no funds from the Bishop's Annual Appeal, Our Cathedral: One Faith, One People, or parish savings accounts in the Diocesan Deposit and Loan Program were used to pay any child sexual misconduct claims, legal fees, or counseling costs. If funds were paid, unrestricted reserves or the Diocesan self-insurance fund would cover these and any other liability and casualty claims."*

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require we plan and perform the examination to obtain reasonable assurance about whether management's assertion is fairly stated, in all material respects. An examination involves performing procedures to obtain evidence about management's assertion. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material misstatement of management's assertion, whether due to fraud or error. We believe the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

In our opinion, management's assertion referred to above is fairly stated, in all material respects, based on our examination of the accounting records and based on the nature of the Bishop's Annual Appeal, Our Cathedral: One Faith, One People, or parish savings accounts in the Diocesan Deposit and Loan Program as defined in the footnotes to the consolidated financial statements of the Administrative Offices of the Diocese of Raleigh as of and for the year ended June 30, 2018.

Cherry Bekaert LLP

Raleigh, North Carolina
November 5, 2018

ADMINISTRATIVE OFFICES OF THE DIOCESE OF RALEIGH

CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTAL SCHEDULE

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

And Report of Independent Auditor

Cherry Bekaert LLP
CPAs & Advisors

ADMINISTRATIVE OFFICES OF THE DIOCESE OF RALEIGH

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Cherry Bekaert LLP
CPAs & Advisors

Report of Independent Auditor

Diocesan Finance Council
Administrative Offices of the Diocese of Raleigh
Raleigh, North Carolina

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of the Administrative Offices of the Diocese of Raleigh and affiliate (the "Diocese"), which comprise the consolidated statements of financial position as of June 30, 2018 and 2017, and the related consolidated statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audit. We conducted our audit 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Diocese's preparation and fair presentation of the consolidated 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 Diocese'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 consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Diocese as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements of the Diocese as a whole. The consolidated schedule of functional expenses is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Cherry Bekaert LLP

Raleigh, North Carolina
November 5, 2018

ADMINISTRATIVE OFFICES OF THE DIOCESE OF RALEIGH
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2018 AND 2017

	2018	2017
ASSETS		
Cash and cash equivalents	$ 56,336,556	$ 58,244,246
Investments	59,208,757	51,845,499
Accounts receivable:		
Assessments	2,249,488	2,173,280
Bishop's Annual Appeal, net	494,890	367,259
Cathedral Campus Campaign, net	2,332,629	5,038,336
Other, net	757,885	848,732
Prepaid expenses and other assets	810,432	535,623
Loans receivable, parishes, and institutions, less allowance for doubtful loans of $200,000 at June 30, 2018 and 2017:		
Interest bearing	36,259,992	39,248,999
Non-interest bearing	4,067,357	4,101,115
Beneficial interests in perpetual trusts	5,770,293	5,698,825
Beneficial interests in charitable remainder trusts	159,773	598,228
Licenses and rights	1,003,375	1,003,375
Property held for sale	-	225,000
Property and equipment:		
Operating properties	10,090,705	10,774,610
Other properties	7,966,477	50,743,759
Total Assets	$ 187,508,609	$ 231,446,886

JUNE 30, 2018 AND 2017

	2018	2017
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable:		
Funds held for others	$ 19,428,744	$ 16,835,233
Cathedral construction payable	18,380	1,361,176
Supplies and expenses	3,388,201	715,987
Accrued expenses	1,437,357	1,444,530
Split-interest obligations	891,050	726,327
Deferred revenue and support	37,632	-
Deposits payable:		
Parishes	64,240,928	60,534,678
Catholic Charities of the Diocese of Raleigh, Inc.	429,356	18,344
Obligations for post-retirement benefits:		
Health care plan, current portion	400,144	365,076
Health care plan, long-term portion	11,147,487	12,431,502
Long-term care plan, current portion	101,043	88,672
Long-term care plan, noncurrent portion	4,531,589	5,564,828
Interest rate swap liability	-	4,976
Notes payable:		
Notes payable, current portion	-	1,141,222
Notes payable, long-term portion	-	14,400,932
Bonds payable:		
Bonds payable, current	1,258,303	1,219,613
Bonds payable, long-term	4,354,992	5,613,295
Total Liabilities	111,665,206	122,466,391
Net Assets:		
Unrestricted:		
Invested accounts	3,595,490	3,577,721
Property and equipment accounts	17,749,404	61,435,591
Deposit and loan accounts	(395,236)	(1,407,498)
Designated unrestricted	10,694,841	3,523,276
Total Unrestricted	31,644,499	67,129,090
Temporarily restricted	33,285,369	32,554,690
Permanently restricted	10,913,535	9,296,715
Total Net Assets	75,843,403	108,980,495
Total Liabilities and Net Assets	$ 187,508,609	$ 231,446,886

ADMINISTRATIVE OFFICES OF THE DIOCESE OF RALEIGH
CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

YEAR ENDED JUNE 30, 2018

	2018			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total All Funds
Support and Revenue:				
Contributions:				
Gifts and bequests	$ 67,157	$ 417,717	$ 1,520,583	$ 2,005,457
Bishop's Annual Appeal	161,523	6,921,435	-	7,082,958
Capital campaigns	-	538,086	-	538,086
Departmental and project fees	3,862,680	-	-	3,862,680
Diocesan assessments	4,200,145	-	-	4,200,145
Investment income - interest, dividends, and rent	1,932,259	660,400	-	2,592,659
Interest on parish loans	2,054,097	-	-	2,054,097
Insurance department	3,110,754	-	-	3,110,754
Gain on sale of assets	6,060,287	785,418	-	6,845,705
Unrealized gain on investments	99,712	239,036	24,769	363,517
Total Support and Revenue Before Release of Restrictions	21,548,614	9,562,092	1,545,352	32,656,058
Net assets released from restrictions	8,777,441	(8,777,441)	-	-
Total Support and Revenues	30,326,055	784,651	1,545,352	32,656,058
Expenses:				
Offices of:				
Bishop	1,927,901	-	-	1,927,901
Vicar General	1,149,365	-	-	1,149,365
Judicial Vicar/Chancellor	499,939	-	-	499,939
Chief Financial Officer/Chief Operating Officer	2,608,247	-	-	2,608,247
Catholic Formation and Education	1,685,101	-	-	1,685,101
Secretariat	1,707,711	-	-	1,707,711
Catholic Charities Subsidies	1,391,082	-	-	1,391,082
Grants	879,632	-	-	879,632
Deposits and Loans	1,310,585	-	-	1,310,585
Insurance	1,033,836	-	-	1,033,836
Priest Welfare	3,803,214	-	-	3,803,214
Capital Campaign	643,047	-	-	643,047
High School Tuition Assistance	228,642	-	-	228,642
Parishes and Other Subsidies	1,905,016	-	-	1,905,016
Diocesan Development Trust	10,023	-	-	10,023
Catholic Voice North Carolina	2,646	-	-	2,646
Human Resources	2,783,399	-	-	2,783,399
Total Expenses	23,569,386	-	-	23,569,386
Increase in net assets from operations	6,756,669	784,651	1,545,352	9,086,672
Change in fair value of rate swap	4,976	-	-	4,976
Change in obligations for priest post-retirement benefits other than pensions	2,269,815	-	-	2,269,815
Change in value of split-interest agreements	134,142	(53,972)	-	80,170
Change in beneficial interests in perpetual trusts	-	-	71,468	71,468
Transfer of Holy Name of Jesus Cathedral to the parish	(44,650,193)	-	-	(44,650,193)
Change in net assets	(35,484,591)	730,679	1,616,820	(33,137,092)
Net assets, beginning of year	67,129,090	32,554,690	9,296,715	108,980,495
Net assets, end of year	$ 31,644,499	$ 33,285,369	$ 10,913,535	$ 75,843,403

ADMINISTRATIVE OFFICES OF THE DIOCESE OF RALEIGH

CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS (CONTINUED)

YEAR ENDED JUNE 30, 2017

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total All Funds
Support and Revenue:				
Contributions:				
Gifts and bequests	$ 317,167	$ 710,059	$ 719,699	$ 1,746,925
Bishop's Annual Appeal	216,120	6,622,025	-	6,838,145
Capital campaigns	-	2,669,547	-	2,669,547
Departmental and project fees	4,537,499	-	-	4,537,499
Diocesan assessments	4,130,533	-	-	4,130,533
Investment income - interest, dividends, and rent	1,872,163	594,653	-	2,466,816
Interest on parish loans	2,084,618	-	-	2,084,618
Insurance department	3,154,836	-	-	3,154,836
Gain on sale of assets	247,681	278,959	-	526,640
Unrealized gain on investments	996,063	1,467,239	41,664	2,504,966
Total Support and Revenue Before Release of Restrictions	17,556,680	12,342,482	761,363	30,660,525
Net assets released from restrictions	24,464,656	(24,464,656)	-	-
Total Support and Revenues	42,021,336	(12,122,174)	761,363	30,660,525
Expenses:				
Offices of:				
Bishop	1,893,642	-	-	1,893,642
Vicar General	1,111,375	-	-	1,111,375
Judicial Vicar/Chancellor	440,157	-	-	440,157
Chief Financial Officer/Chief Operating Officer	2,708,056	-	-	2,708,056
Catholic Formation and Education	1,830,737	-	-	1,830,737
Secretariat	1,800,546	-	-	1,800,546
Catholic Charities Subsidies	1,062,862	-	-	1,062,862
Grants	647,460	-	-	647,460
Deposits and Loans	1,980,456	-	-	1,980,456
Insurance	1,206,499	-	-	1,206,499
Priest Welfare	3,133,875	-	-	3,133,875
Capital Campaign	115,216	-	-	115,216
High School Tuition Assistance	294,354	-	-	294,354
Parishes and Other Subsidies	495,848	-	-	495,848
Diocesan Development Trust	13,190	-	-	13,190
Catholic Voice North Carolina	29,926	-	-	29,926
Human Resources	2,880,138	-	-	2,880,138
Total Expenses	21,644,337	-	-	21,644,337
Increase (decrease) in net assets from operations	20,376,999	(12,122,174)	761,363	9,016,188
Change in fair value of rate swap	912,594	-	-	912,594
Change in obligations for priest post-retirement benefits other than pensions	(1,093,198)	-	-	(1,093,198)
Change in value of split-interest agreements	(45,490)	(39,292)	-	(84,782)
Change in beneficial interests in perpetual trusts	-	-	199,453	199,453
Realized loss on sale of non-operating property	(1,219)	-	-	(1,219)
Change in net assets	20,149,686	(12,161,466)	960,816	8,949,036
Net assets, beginning of year	46,979,404	44,716,156	8,335,899	100,031,459
Net assets, end of year	$ 67,129,090	$ 32,554,690	$ 9,296,715	$ 108,980,495

ADMINISTRATIVE OFFICES OF THE DIOCESE OF RALEIGH
CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
Cash flows from operating activities:		
Change in net assets	(33,137,092)	8,949,036
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	517,241	573,530
Gain on disposal of assets	(6,805,730)	(525,421)
Transfer of cathedral to the parish	44,650,193	-
Unrealized gain on sale of assets	(363,517)	(2,504,966)
Dividends and interest reinvested	(716,747)	(598,592)
Change in fair value of rate swap	(4,976)	(912,594)
Change in licenses and rights	-	(358,000)
Change in beneficial interests of perpetual trusts	(71,468)	(199,453)
Change in beneficial interests of charitable remainder trusts	438,455	(423,066)
Change in reserve for doubtful accounts	(1,830,274)	1,546,567
Change in discount on Cathedral promises to give	(202,058)	(39,472)
Change in obligations for post-retirement benefits other than pensions	(2,269,815)	1,093,198
Change in assets and liabilities:		
Accounts receivable	4,625,047	4,029,263
Prepaid expenses and other assets	(274,809)	153,629
Accounts payable: supplies and expenses	1,311,038	(5,455,924)
Accounts payable: funds held for others	177,842	135,723
Accrued expenses	(7,173)	101,689
Split-interest obligations	164,723	(46,474)
Deferred revenue and support	37,632	(583,796)
Net cash from operating activities	6,238,512	4,934,877
Cash flows from investing activities:		
Proceeds from sale of investments	1,226,420	1,195,453
Purchase of investments	(3,805,754)	(852,330)
Purchases of property and equipment	(2,682,814)	(19,487,911)
Proceeds from sale of property and equipment	6,737,686	378,163
New loans funded	(18,253,612)	(10,237,860)
Collections on loans	21,276,377	10,336,940
Net cash from investing activities	4,498,303	(18,667,545)
Cash flows from financing activities:		
Parish deposits and other deposits	4,117,262	3,106,198
Repayment of bonds and notes payable	(16,761,767)	(2,350,863)
Net cash from financing activities	(12,644,505)	755,335
Net decrease in cash and cash equivalents	(1,907,690)	(12,977,333)
Cash and cash equivalents at beginning of year	58,244,246	71,221,579
Cash and cash equivalents at end of year	$ 56,336,556	$ 58,244,246
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 929,336	$ 1,599,979
Construction in Progress acquired through Cathedral construction payable	$ 18,380	$ 1,361,176

Note 1—Description of the organization

Organization – The Catholic Diocese of Raleigh serves the Catholic Church in eastern North Carolina. The Administrative Offices of the Catholic Diocese of Raleigh (the "Diocese") includes the Office of the Bishop as well as various ministerial and administrative offices and, until March 15, 2018, Domicile Property, Inc. The offices exist to help the mission of the Catholic Church to be a community of faith, a community of grace, a community of charity, and a community of missionary service.

The accompanying consolidated financial statements exclude the financial transactions of the parishes and missions, schools, cemeteries, individual campus ministries, and residences of priests and religious clergy. These statements also exclude property beneficially owned by parishes and schools although the properties are titled to the Bishop and his successors in office.

Note 2—Summary of significant accounting policies

Basis of Accounting – The consolidated financial statements of the Diocese have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP").

Basis of Consolidation – The accompanying consolidated financial statements include the accounts of Domicile Property, Inc., through March 15, 2018, at which time Domicile Property, Inc. was dissolved. All significant inter-organizational transactions and balances have been eliminated in consolidation.

Basis of Presentation – As required by GAAP, the Diocese reports information regarding its financial position and activities in the following three net asset classes:

Unrestricted Net Assets – Net assets that are not subject to donor-imposed stipulations are classified as unrestricted net assets.

Temporarily Restricted Net Assets – Net assets that are subject to donor-imposed stipulations that may or will be met either by action of the Diocese and/or the passage of time are classified as temporarily restricted net assets.

Permanently Restricted Net Assets – Net assets that are required by donor-imposed stipulations to be maintained permanently by the Diocese are classified as permanently restricted net assets.

Note 2—Summary of significant accounting policies (continued)

In February 2016, the FASB, issued a new accounting standard, ASU 2016-02, *Leases (Topic 842)*, which says Lessees will be required to recognize a lease liability and a right-of-use asset for all leases, operating and capital, at the commencement date. The new standard will be effective for the Diocese on July 1, 2020. Early adoption is permitted. The Diocese is currently evaluating the effect that the standard will have on its financial statements and related disclosures.

In August 2016, the FASB issued a new accounting standard, ASU 2016-14, *Not-for-Profit Entities: Presentation of Financial Statements of Not-for-Profit Entities (Topic 958)*, which changes presentation and disclosure requirements to provide more relevant information about their resources to donors, grantors, creditors and other users. These changes include qualitative and quantitative requirements within net assets classes, investment returns, expenses, liquidity, and availability of resources and presentation of operating cash flows. The new standard will be effective for the Diocese on July 1, 2018. The Diocese is currently evaluating the effect that the standard will have on its financial statements and related disclosures.

In June 2018, the FASB issued a new accounting standard, ASU 2018-08, *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made (Topic 958)*, which is intended to clarify issues that have been faced when characterizing grants and similar contracts with government agencies and others as reciprocal transactions or nonreciprocal transactions. The new standard is also intended to help with difficulties in distinguishing between conditional and unconditional contributions for reporting purposes. The new standard will be effective for the organization on July 1, 2019. The Diocese is currently evaluating the effect that the standard will have on its financial statements and related disclosures.

Cash and Cash Equivalents – The Diocese considers all short-term securities purchased with an original maturity of 12 months or less to be cash equivalents.

Revenue Recognition – Contributions are recognized when the donor makes an unconditional promise to transfer assets. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Amounts received that are designated for future periods or restricted by the donor for a specific purpose are reported as temporarily restricted or permanently restricted support and as an increase to the related net asset class. If a restriction is fulfilled in the same period in which the contribution is received, the Diocese reports the support as unrestricted. In the event that both temporarily restricted and unrestricted monies are available for use for activities that comply with donor restrictions, the Diocese will use temporarily restricted funds first. Promises to give that are expected to be collected within one year are recorded at net realizable value. Promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The Diocese reviews pledge and other receivables for collectability on a recurring basis and, based on an assessment of credit worthiness, estimates the portion, if any, of the balance that will not be collected. Such amounts are recorded as an allowance, if necessary.

Note 2—Summary of significant accounting policies (continued)

Property and Equipment – Property and equipment acquisitions are capitalized at cost when purchased, or if received as a gift, acquisitions are capitalized at fair value on the date of donation, with a capitalization threshold of $1,000. Expenditures for maintenance and repairs are charged against operations. Renewals and betterments that materially extend the life of the assets are capitalized. In accordance with Diocesan policy, property and equipment, and proceeds from the sale of property and equipment are categorized within net assets based on the presence or absence of donor restrictions. Depreciation on buildings and equipment is determined under the straight-line method based on the following estimated useful lives.

Buildings and improvements	5 - 41 years
Furniture and equipment	3 - 8 years
Automobiles	3 - 5 years

Derivative Instrument – During the years ended June 30, 2018 and 2017, the Diocese's risk management strategy included the use of an interest rate swap agreement to reduce the impact of changes in interest rates on its floating rate long-term debt. Interest rate swap agreements are derivatives and are accounted for in accordance with GAAP, which requires that an entity recognize its interest rate swap agreement at fair value in the consolidated financial statements.

Contributed Services – A substantial number of unpaid volunteers have made significant contributions of their time to develop the Diocese's programs. The value of this contributed time is not reflected in these consolidated statements as it is not susceptible to objective measurement or valuation.

Compensated Absences – During 2017, compensated absences such as vacation were not subject to carryover for employees of the Diocese except under special pre-approved situations. Effective for fiscal year 2018, employees are permitted to carry over up to five days of vacation time earned. As of June 30, 2018, and 2017, the Diocese had $60,722 and $35,588 accrued for compensated absences, respectively.

Estimates – The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results will differ from those estimates

Income Taxes – The Diocese is exempt from federal and state income tax under provisions of Section 501(c)(3) of the Internal Revenue Code and is not subject to the filing requirements of the Form 990. The Diocese may be subject to tax to the extent it has taxable unrelated business income. The Diocese has no unrelated business income and, accordingly, no provision for income taxes has been reflected in the accompanying consolidated financial statements. The Diocese believes it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the consolidated financial statements. The Diocese is not classified as a private foundation.

Beneficial Interests in Perpetual Trusts – Beneficial interests in perpetual trusts represent irrevocable interests in assets held by third parties under perpetual trust agreements. They are measured at fair value, with the change in fair value reported as a change in beneficial interests in perpetual trusts in the consolidated statements of activities and changes in net assets. Because the Diocese is only entitled to income generated by the trusts and not the underlying investments, the interests are included in permanently restricted net assets. The income generated by the trusts, if not expended during the current year and if subject to donor restrictions, is included as temporarily restricted investment income in the accompanying consolidated statements of activities until such time that the donor restrictions have been met.

Note 2—Summary of significant accounting policies (continued)

Life Annuities and Charitable Remainder Trusts – The Diocese is the beneficiary of several irrevocable remainder interests of one-life and two-life annuities. These interests are measured at fair value. In circumstances where the Diocese acts as the trustee of the underlying assets, the value of the trust assets are reported as part of investments and the annuity liability is reported as split-interest obligations in the accompanying consolidated statements of financial position. The change in fair value of the annuity liabilities are reported as a change in split-interest agreements in the consolidated statements of activities and changes in net assets. In the event the underlying trust assets are administered by a third party, the remainder interest is recorded as beneficial interests in charitable remainder trusts in the accompanying consolidated statements of financial position and the change in fair value is reported as a change in split-interest agreements in the consolidated statements of activities and changes in net assets. The interests are classified in net assets according to the presence or absence of donor restrictions.

Note 3—Financial instruments

Financial instruments which potentially subject the Diocese to a concentration of credit risk consist principally of cash and cash equivalents, accounts receivable, and loans receivable. The activity of the Diocese is primarily with the parishes within the Diocese. The accounts receivable, promises-to-give receivable, and loans receivables are associated with the parishes or other Diocesan activities. Any off-balance sheet risk or credit risk is dependent on the financial support of the parishioners to their local parish and the parish's subsequent support of the Diocese.

The Diocese 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. During the year, the Diocese from time to time may have had amounts on deposit in excess of the insured limits. The cash balances are maintained at financial institutions with high credit quality ratings and the Diocese believes no significant risk of loss exists with respect to those balances.

At June 30, 2018 and 2017, the Diocese also held $46,684,155 and $49,290,656, respectively, of fully insured funds in the Certificate of Deposit Account Registry Service network and the Insured Cash Sweep network.

Note 4—Fair value measurements

GAAP defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. GAAP also establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy consists of three broad levels of inputs that may be used to measure fair value is as follows:

Level 1 – Inputs to the valuation methodology are quoted prices available in active markets for identical assets and are given the highest priority;

Level 2 – Inputs consist of observable inputs other than quoted prices for identical assets; and

Level 3 – Inputs consist of unobservable inputs and are given the lowest priority.

Note 4—Fair value measurements (continued)

Below are the Diocese's financial instruments carried at fair value on a recurring basis by the fair value hierarchy levels:

	As of June 30, 2018			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	**Significant Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total Fair Value**
Assets:				
Investments:				
Mutual Funds - Domestic	$ 41,408,148	$ -	$ -	$ 41,408,148
Mutual Funds - International	146,229	-	-	146,229
Bond funds	10,514,842	-	-	10,514,842
Cash and Cash Equivalents	-	713,142	-	713,142
Total Investments at fair value	52,069,219	713,142	-	52,782,361
Investments valued at NAV [(a)]	-	-	-	6,426,396
Total Investments	$ 52,069,219	$ 713,142	$ -	$ 59,208,757
Beneficial interests in perpetual trusts	$ -	$ 5,770,293		$ 5,770,293
Beneficial interests in charitable remainder trusts	$ -	$ -	$ 159,773	$ 159,773
Liabilities:				
Split-interest obligations	$ -	$ -	$ 891,050	$ 891,050
Obligations for post retirement benefits other than pensions:				
Health care plan	$ -	$ -	$ 11,547,631	$ 11,547,631
Long-term care plan	$ -	$ -	$ 4,632,632	$ 4,632,632

Note 4—Fair value measurements (continued)

	As of June 30, 2017			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Assets:				
Investments, at fair value:				
Mutual funds - domestic	$ 34,456,479	$ -	$ -	$ 34,456,479
Mutual funds - international	100,423	-	-	100,423
Bond funds	10,825,487	-	-	10,825,487
Real estate investment trusts	30,962	-	-	30,962
Cash and cash equivalents	-	1,451,478	-	1,451,478
Investments, at fair value	45,413,351	1,451,478	-	46,864,829
Investments valued at NAV [(a)]	-	-	-	4,980,670
Total Investments	$ 45,413,351	$ 1,451,478	$ -	$ 51,845,499
Beneficial interests in perpetual trusts	$ -	$ 5,698,825	$ -	$ 5,698,825
Beneficial interests in charitable remainder trusts	$ -	$ -	$ 598,228	$ 598,228
Liabilities:				
Split-interest obligations	$ -	$ -	$ 726,327	$ 726,327
Interest rate swap	$ -	$ 4,976	$ -	$ 4,976
Obligations for post retirement benefits other than pensions:				
Health care plan	$ -	$ -	$ 12,796,578	$ 12,796,578
Long-term care plan	$ -	$ -	$ 5,653,500	$ 5,653,500

(a) In accordance with FASB Accounting Standards Codification Subtopic 820-10, certain investments that were measured at NAV per share (or its equivalent) have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented in the consolidated statements of financial position.

Note 4—Fair value measurements (continued)

The following tables reconcile the beginning and ending balances of financial assets measured at fair value on a recurring basis using significant unobservable (Level 3) inputs during the years ended June 30, 2018 and 2017:

	2018 Fair Value Measurements Using Significant Unobservable Inputs (Level 3)				
	Beginning Balance	**Contributions**	**Distributions**	**Change in Value**	**Ending Balance**
Beneficial Interests in					
Charitable remainder trusts	$ 598,228	$ -	$ (432,196)	$ (6,259)	$ 159,773
Split-Interest agreements	(726,327)	373,985	(122,833)	86,429	(891,050)
Obligations for post-retirement benefits other than pensions:					
Health care plan	(12,796,578)	-	-	1,248,947	(11,547,631)
Long-term care plan	(5,653,500)	-	-	1,020,868	(4,632,632)

	2017 Fair Value Measurements Using Significant Unobservable Inputs (Level 3)				
	Beginning Balance	**Contributions**	**Distributions**	**Change in Value**	**Ending Balance**
Beneficial Interests in					
Charitable remainder trusts	$ 175,162	$ 432,196	$ -	$ (9,130)	$ 598,228
Split-Interest Agreements	(772,801)	-	(122,127)	(75,653)	(726,327)
Obligations for post-retirement benefits other than pensions:					
Health care plan	(12,190,780)	-	-	(605,798)	(12,796,578)
Long-term care plan	(5,166,100)	-	-	(487,400)	(5,653,500)

The Diocese uses appropriate valuation techniques based on the available inputs. When available, the Diocese measures fair value using Level 1 inputs as they generally provide the most reliable evidence of fair value. Level 2 and Level 3 inputs were only used when Level 1 inputs were not available. The market approach was used for assets and liabilities classified as Level 1 and Level 2 while the income approach was used for those classified as Level 3. The Diocese relies on fair value measurement calculations performed by third-party pricing services for the majority of instruments reported in Level 2 and Level 3. Inputs, even if determined by the Diocese, include the credit risk of the issuer, maturity, current yield, and other terms and conditions of each instrument. The fair value of beneficial interests in perpetual trusts is measured based on the fair values of the underlying assets, which consist primarily of marketable debt and equity securities. There were no changes to valuation techniques during the years ended June 30, 2018 and 2017.

The following table summarizes investments measured at fair value based on NAV per share as of June 30:

June 30, 2018

Asset	**Fair Value**	**Unfunded Commitments**	**Redemption Frequency**	**Redemption Period**
Global hedge funds [(a)]	$ 6,426,396	N/A	Daily and Monthly	5 - 65 days' Notice

Note 4—Fair value measurements (continued)

June 30, 2017

Asset	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Period
Global hedge funds [(a)]	$ 4,329,949	N/A	Daily and Monthly	5 - 65 days' Notice
Equity hedge funds [(b)]	3,155	N/A	Fund in Liquidation	Fund in Liquidation
Relative value hedge funds [(c)]	287,451	N/A	Fund in Liquidation	Fund in Liquidation
Relative value and event driven hedge funds [(d)]	360,115	N/A	Fund in Liquidation	Fund in Liquidation
	$ 4,980,670			

(a) The Fund allocates assets to investment funds in four broad investment categories: event-driven, credit, equity market neutral, and absolute return multi-strategy managers. Some or all of the marketable alternative strategies may be deployed across U.S. and non-U.S. markets. The Fund seeks to provide investors with a consistent source of absolute return that is uncorrelated to traditional equity and credit markets through strategies with minimal correlation to each other and to traditional risk factors.

(b) This class includes investments in equity hedge funds. Investment strategy involves a long and short strategy with active stock selection and diverse directional biases.

(c) This class includes investments in distressed and current pay bonds, bank debt mortgage-backed securities, both residential and commercial, as well as post-reorganization equity liquidations. A range of 0.27% to 4.94% of investment funds has side pocket arrangements.

(d) This class includes investments in common and preferred equities and various types of debt often based on the probability that an event will occur, as well as, investments in global macro, equity, and relative value hedge funds. Restrictions are based on shareholders' capital of investment strategy. A range of 0.27% to 4.94% of investment funds has side pocket arrangements.

The related realized and unrealized gains (losses) are reported in the consolidated statements of activities and changes in net assets as gain (loss) on sale of assets, unrealized gains (losses) on investments, change in value of split-interest agreements, beneficial interests in perpetual trusts, priest welfare program expenses, as well as change in obligations for priest post-retirement benefits other than pensions. Investment activity related to custodial assets held on behalf of others at June 30, 2018 and 2017, of $18,708,101 and $16,292,432, respectively, are not recorded within the consolidated statements of activities and instead are recorded as a payable to the owners of those assets in the consolidated statements of financial position.

Note 5—Investments

The Diocese maintains investments in equity, debt securities, and private equity funds. Investment income, realized gains and losses, and unrealized gains and losses from these securities are allocated to the various unrestricted, temporarily restricted, and permanently restricted funds based on each fund's percentage ownership of total invested assets.

Investments are stated at their readily determinable fair value and are summarized by major type as follows as of June 30:

	2018		2017	
	Cost	Fair Value	Cost	Fair Value
Mutual Funds - Domestic	$ 36,369,424	$ 41,408,148	$ 31,593,261	$ 34,456,479
Mutual Funds - International	154,555	146,229	99,204	100,423
Alternative Investments	10,792,400	10,514,842	4,970,441	4,980,670
Bond funds	6,259,043	6,426,396	10,846,635	10,825,487
Real estate investment trusts	-	-	29,719	30,962
Cash and cash equivalents	713,142	713,142	1,451,478	1,451,478
Total Assets	$ 54,288,564	$ 59,208,757	$ 48,990,738	$ 51,845,499

Investment revenues are reported net of investment fees of $235,506 and $159,685 for the years ended June 30, 2018 and 2017, respectively.

Diocesan endowments consist of approximately 144 individual funds established for a variety of purposes. The endowments include donor-restricted endowment funds, funds designated by the Diocesan Finance Council to function as endowments, and funds held in custody on behalf of related organizations. As required by GAAP, net assets associated with Diocesan endowment funds, including funds designated by the Diocesan Finance Council to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions in the accompanying consolidated statements of financial position and activities and changes in net assets.

The Diocesan Finance Council has implemented policies 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 these policies, the Diocese classifies the following as permanently restricted assets:

a) the original value of gifts donated to the permanent endowment;

b) the original value of subsequent gifts to the permanent endowment; and

c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

Note 5—Investments (continued)

The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Diocese. The Diocese considers the following factors in making decisions related to appropriations for expenditures or accumulations of donor-restricted endowment funds:

a) the duration and preservation of the various funds;

b) the purposes of the donor-restricted endowment funds;

c) general economic conditions;

d) the possible effect of inflation and deflation;

e) the expected total return from income and the appreciation of investments;

f) other resources of the Diocese; and

g) the Diocese's investment policies.

Investment Return Objectives, Risk Parameters, and Strategies – The Diocese has adopted investment policies, approved by the Diocesan Finance Council, that attempt to emphasize total return. While shorter-term investment results are monitored, adherence to the sound long-term investment policy balancing short-term spending needs with the preservation of the real inflation-adjusted value of assets is of primary importance. The Diocese expects to attain an inflation-adjusted minimum average annual return, net of fees, over a rolling ten-year period. This real return is defined as the sum of capital appreciation (loss) and current income (interest and dividends) adjusted for inflation as measured by the Consumer Price Index. Investment policies are based on principles of responsible financial stewardship, as well as ethical and social stewardship. The Diocese is committed to a diversified asset allocation strategy, consisting primarily of domestic equities, international equities, domestic fixed income, international fixed income, and alternative investments.

Spending Policy – The Diocesan policy is that the annual income distribution available from endowment funds is a maximum of 4.00% of the three-year average fair value of the endowment, measured at December 31 of the prior fiscal year.

Endowment composition by type of fund is as follows as of June 30:

June 30, 2018	**Unrestricted - Custodial Endowments held on Behalf of Others**	**Unrestricted**	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Donor-restricted endowment funds	$ -	$ -	$ 18,978,515	$ 5,143,242	$ 24,121,757
Board-designated endowment and other funds	18,708,101	16,378,899	-	-	35,087,000
Total	$ 18,708,101	$ 16,378,899	$ 18,978,515	$ 5,143,242	$ 59,208,757
June 30, 2017					
Donor-restricted endowment funds	$ -	$ -	$ 18,049,634	$ 3,597,890	$ 21,647,524
Board-designated endowment and other funds	16,292,432	13,905,543	-	-	30,197,975
Total	$ 16,292,432	$ 13,905,543	$ 18,049,634	$ 3,597,890	$ 51,845,499

Note 5—Investments (continued)

Changes in endowment for the years ended June 30:

June 30, 2018	Unrestricted - Custodial Endowments held on Behalf of Others	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment beginning of year	$ 16,292,432	$ 13,905,543	$ 18,049,634	$ 3,597,890	$ 51,845,499
Contributions	1,650,033	2,069,751	215,420	1,520,583	5,455,787
Investment income	329,033	284,993	431,754	-	1,045,780
Realized gain on disposal of securities	555,747	542,938	745,053	-	1,843,738
Net appreciation of securities	187,879	99,712	239,036	24,769	551,396
Amounts expended	(307,023)	(524,038)	(702,382)	-	(1,533,443)
Total	$ 18,708,101	$ 16,378,899	$ 18,978,515	$ 5,143,242	$ 59,208,757
June 30, 2017					
Endowment beginning of year	$ 14,324,907	$ 12,837,025	$ 16,669,452	$ 2,836,527	$ 46,667,911
Contributions	644,948	73,883	36,001	719,699	1,474,531
Investment income	274,572	236,172	362,419	-	873,163
Realized gain on disposal of securities	216,027	170,669	278,959	-	665,655
Net appreciation of securities	1,124,069	996,063	1,467,239	41,664	3,629,035
Amounts expended	(292,091)	(408,269)	(764,436)	-	(1,464,796)
Total	$ 16,292,432	$ 13,905,543	$ 18,049,634	$ 3,597,890	$ 51,845,499

The activity of custodial endowments held on behalf of others are reported for informational purposes only and are not reported in the consolidated statements of activities and changes in net assets. Amounts owed to related organizations for these custodial endowments are reported within accounts payable - funds held for others in the accompanying consolidated statements of financial position.

Note 6—Nature and amount of restricted net assets

Temporarily restricted net assets are as follows at June 30:

	2018	2017
Undistributed Bishop's Annual Appeal	$ 6,921,435	$ 6,739,250
Horne Memorial Revolving Fund	4,765,520	4,568,012
Land Trust	706,611	725,885
Seminarian Endowments	2,365,720	2,304,282
Priest Education	472,248	432,196
Early Childhood Development	1,730,713	1,759,689
Miscellaneous Endowment	1,242,015	983,126
Miscellaneous Other	719,536	1,177,374
Charitable Trust	145,048	126,837
Catholic School Endowments	81,633	81,633
God's Work - Our Challenge:		
Endowment for the Poor	564,406	549,221
Tuition Assistance	2,141,491	2,088,189
Parish Assistance	1,185,979	1,155,219
Seminarian Education	1,986,704	1,935,028
Hispanic Ministry	2,586,603	2,519,405
Lay Leadership Formation	1,118,308	1,089,222
Mary Dowling Endowment	1,064,617	1,036,925
Diocesan Development Trust	2,848,946	2,684,179
Small Campus Assistance Fund	637,836	599,018
Total temporarily restricted net assets	$ 33,285,369	$ 32,554,690

Permanently restricted net assets are as follows at June 30:

	2018	2017
Campus Ministry Endowments	$ 976,678	$ 976,678
Seminarian Education Funds	107,308	107,308
Miscellaneous Endowments	4,059,256	2,513,904
Beneficial Interest in Perpetual Trusts	5,770,293	5,698,825
Total permanently restricted net assets	$ 10,913,535	$ 9,296,715

Note 7—Bishop's Annual Appeal

The Bishop's Annual Appeal ("BAA") is an annual campaign, conducted in the parishes, which raises operating funds for use by the Diocese in its upcoming fiscal year to support numerous evangelization, worship, and charitable programs. As the funds can only be used to support these programs beginning in the next fiscal year, they are considered temporarily restricted until the time and purpose restrictions have been met. Each parish is assigned a designated funding goal based on its pro rata share of total offertory income within the Diocese. Parishes with elementary or middle schools and parishes with capital campaigns who guarantee their BAA goal receive a 100% rebate for funds collected in excess of their BAA goal. All others receive an 80% rebate for funds collected in excess of their goal.

The following unconditional promises to give were outstanding as of June 30:

	2018	2017
Bishop's Annual Appeal:		
Promises to give receivable in less than one year	$ 1,570,572	$ 1,333,325
Less rebates to parishes	(720,406)	(603,852)
Less allowance for doubtful promises	(355,276)	(362,214)
Total	$ 494,890	$ 367,259

Note 8—Cathedral campus campaign

In January 2010, the Diocese commissioned a Feasibility Study to gauge the support of a capital campaign to develop a new Cathedral Campus to meet the needs of a growing Catholic Community. Based on these results, the Diocese announced plans in September 2011 to move forward with a campaign to build a Cathedral Campus. From January through July 2012, the first phase of the parish portion of the Our Cathedral: One Faith, One People campaign began with 41 parishes taking part in Block 1. In August 2012, the second phase of the parish portion of the Our Cathedral: One Faith, One People campaign began with 49 parishes taking part in Block 2. The majority of these parishes conducted their campaigns until December 2012. Because of delays in the timing of their campaigns, 4 parishes began in the spring of 2013 and are considered to be in Block 3.

Parish financial goals were determined using a formula based on their 2011 fiscal year offertory. The campaign split the 94 Diocese parishes into 3 blocks. The financial target for each of the four parishes included in Block 3 of the campaign also included their portion of the BAA for 2013.

Parishes were permitted to pick one of the two following campaign options: A Good Faith Effort or a Combined Campaign. A parish selecting the Good Faith Effort campaign guaranteed its 2012 BAA Goal and is receiving 20% of the net funds collected up to its Total Campaign Goal. If a parish exceeds its Total Campaign Goal, it then receives 50% of funds raised above and beyond its Total Campaign Goal. A parish selecting the Combined Campaign guaranteed the 2012 and 2013 BAA, as applicable, and 80% of the Cathedral Project Goal. The Parish retains everything raised over the guaranteed amount. Promises to give are receivable over four years. As of June 30, 2018, and 2017, all net pledges receivable directly from parishes who participated in the combined campaigns were paid in full.

Note 8—Cathedral Campus Campaign (continued)

The following unconditional promises to give were outstanding as of June 30:

	2018	2017
Cathedral Campus Campaign:		
Promises to give receivable over five years	$ 3,180,677	$ 7,926,720
Less discount at rates between .72% and 2.77%	(109,373)	(311,431)
Less rebates to parishes	(9,799)	(24,742)
Less allowance for doubtful promises	(728,876)	(2,552,211)
Total	$ 2,332,629	$ 5,038,336

Note 9—Transfer of the Cathedral to the parish

On July 26, 2017, the Holy Name of Jesus Cathedral was officially dedicated, marking the substantial completion of the Cathedral Campus project. All capital assets of the Cathedral, excluding the organ, which is not expected to be completed until January 2019, were transferred to the parish as of June 30, 2018. The amount transferred to the parish totaled $44,650,193, which is presented separately on the consolidated statements of activities and changes in net assets. The Diocese expects to transfer the organ to the parish in fiscal year 2019 upon its completion.

Note 10—Intentions to give

The Diocese is named as a beneficiary in numerous wills and last testaments. However, because these gifts may be changed during the lifetime of the donors, they are not recorded as revenue in consolidated financial statements. The amounts of these intentions to give is indeterminable.

Note 11—Parish deposit and loan program

The Diocese sponsors a deposit and loan program whereby diocesan parishes, schools, and other entities deposit excess funds and diocesan parishes can obtain loans for approved construction or operating needs. Interest rates for deposits and loans are reviewed semi-annually and adjusted as necessary. At June 30, 2018 and 2017, Parish deposits earned interest at a rate of 0.75%, and can be withdrawn as requested. At June 30, 2018 and 2017, Parish loans bore an interest rate of 5.50%, with the exception of loans used for the purchase of land, and certain other loans, which are non-interest bearing. The Diocese reviews loans receivable on a recurring basis and based on an assessment of credit worthiness, estimates the portion, if any, of the balance that will not be collected. Such amounts are recorded as an allowance, if necessary. As of June 30, 2018 and 2017, the allowance totaled $200,000.

Additional information about the loan program is as follows:

	Interest-Bearing Loans	Non-Interest Bearing Loans
Number of loans outstanding at June 30, 2018	43	24
Average face amount at origination	$ 1,069,542	$ 269,856
Number of loans outstanding at June 30, 2017	45	25
Average face amount at origination	$ 939,325	$ 270,470

Note 12—Licenses and rights

The Diocese has the perpetual use of 12 living units at Saint Joseph of the Pines, Inc. ("Saint Joseph") to serve as residential facilities for retired priests. Although legal title to the units and all improvements thereon remains with Saint Joseph, the Diocese is responsible for all major repairs and replacements to the units.

Note 13—Property and equipment

Property and equipment consisted of the following as of June 30:

	2018	2017
Land, buildings, and improvements	$ 16,950,112	$ 18,278,393
Furniture and equipment	4,063,666	4,009,645
Automobiles	406,694	431,566
	21,420,472	22,719,604
Less accumulated depreciation	(6,201,104)	(6,501,331)
	15,219,368	16,218,273
Construction in progress, Cathedral	2,837,814	45,300,096
Property and equipment, net	$ 18,057,182	$ 61,518,369

Property and equipment are included in the accompanying consolidated statements of financial position under the following captions at June 30:

	2018	2017
Operating properties	$ 10,090,705	$ 10,774,610
Other properties	7,966,477	50,743,759
Property and equipment, net	$ 18,057,182	$ 61,518,369

In January 2016, the Diocese received a donation of ½ interest in land located in Raleigh, North Carolina. The donation was recorded at the estimated fair value on the date of the donation of $1,311,153 and is included in operating properties on the consolidated statements of financial position. The land, income earned, and any proceeds in the event it is sold, are temporarily restricted for use for early childhood development programs.

Depreciation expense for the years ended June 30, 2018 and 2017, totaled $517,241 and $573,530, respectively.

Note 14—Life annuities and charitable remainder trusts

The Diocese is the beneficiary of several one-life and two-life annuities for which it is the trustee. During the year ended June 30, 2018, the Diocese received unrestricted contribution revenue of $373,985 and no temporarily restricted contributions related to these annuities. During the year ended June 30, 2017, the Diocese received no unrestricted or temporarily restricted contribution revenue related to these annuities. Under terms of these split-interest agreements, the Diocese is required to pay the various donors an annuity until the donors' death at which time the remaining assets are to be distributed to the Diocese for use in accordance with the donor agreements.

Note 14—Life annuities and charitable remainder trusts (continued)

Actuarial assumptions published by the Department of Health and Human Services and a discount rate of 6.5% were used in calculating the present value of the amounts to be received upon termination of the individual annuities.

The Diocese is the trustee and beneficiary of a charitable remainder unitrust. Under the agreement, the Diocese is to pay the donor an amount equal to 7.5% of the trust value as of the first day of the trust year in quarterly installments.

The Diocese is the beneficiary of the remainder interest in an irrevocable charitable remainder trust, the assets of which are held in a trust by a third party. Under the agreement, the trustee will pay the beneficiary monthly distributions of $1,600 and $5,000 twice annually for life.

During fiscal years 2017 and 2018, The Diocese was the beneficiary of the remainder interest in an irrevocable charitable remainder trust, the assets of which consisted of land and buildings held in trust by a third party. Under the agreement, the beneficiary had use of the property for life. However, during 2018, the Diocese and the beneficiary entered into an agreement whereby the underlying property was sold and the Diocese compensated the beneficiary for his life interest using a portion of the proceeds.

A discount rate of 6.5% and actuarial assumptions published by the Department of Health and Human Services were used in calculating the present value of the amounts to be received upon termination of the trusts described above.

The fair value of assets held in trust, included in investments in the accompanying consolidated statements of financial position, and corresponding liability to the donors, included in split-interest obligations, is as follows as of June 30:

June 30, 2018	**Beneficial Interests in Charitable Remainder Trusts**	**Assets Held in Trust**	**Liability to Donors**	**Net Asset (Liability)**
Life Annuities	$ -	$ 938,237	$ 708,740	$ 229,497
Charitable Remainder Trust	159,773	327,358	182,310	304,821
	$ 159,773	$ 1,265,595	$ 891,050	$ 534,318
June 30, 2017				
Life Annuities	$ -	$ 613,879	$ 545,042	$ 68,837
Charitable Remainder Trust	598,228	308,149	181,285	725,092
	$ 598,228	$ 922,028	$ 726,327	$ 793,929

Note 15—Post-retirement benefits other than pensions

The Diocese sponsors two single-employer, noncontributory, defined benefit health plans providing post-retirement health care benefits and long-term care benefits for its retired diocesan priests. In accordance with GAAP, the Diocese records a provision each year for future obligations under the plans.

The accumulated post-retirement benefit obligations associated with the health care plan and long-term care plan as of June 30, 2018 and 2017, included in the consolidated statements of financial position are calculated as follows:

	Health Care	Long-term Care
Benefit obligation at June 30, 2016	$ 12,190,780	$ 5,166,100
Service cost	476,970	207,043
Interest cost	480,850	205,074
Plan participants' contributions	-	39,746
Actuarial loss	79,842	124,038
Benefit payments	(431,864)	(88,501)
Benefit obligation at June 30, 2017	12,796,578	5,653,500
Service cost	505,408	220,917
Interest cost	501,952	224,487
Plan participants' contributions	-	41,167
Actuarial gain	(1,811,196)	(1,384,518)
Benefit payments	(445,111)	(122,921)
Benefit obligation at June 30, 2018	$ 11,547,631	$ 4,632,632

The related net periodic post-retirement benefit costs are reported in the consolidated statements of activities and changes in net assets as priest welfare program expenses as well as change in obligations for priest post-retirement benefits other than pensions. Amounts recognized in the consolidated statements of activities and changes in net assets related to the health care plan and long-term care plan for the years ended June 30, 2018 and 2017, consisted of:

	2018		2017	
	Health Care	Long-term Care	Health Care	Long-term Care
Service cost	$ 505,408	$ 220,917	$ 476,970	$ 207,043
Interest cost	501,952	224,487	480,850	205,074
Actuarial loss (gain)	(1,811,196)	(1,384,518)	79,842	124,038
Net periodic post-retirement cost	$ (803,836)	$ (939,114)	$ 1,037,662	$ 536,155

Note 15—Post-retirement benefits other than pensions (continued)

Assumed health care cost trend rates significantly impact reported amounts. The assumed health care cost trend rate used to measure the expected cost of benefits for the health care plan was assumed to increase by 8.00% and 7.00%, respectively, for the years ended June 30, 2018 and 2017. Thereafter, the rate was assumed to gradually decrease to a rate of 5.00% in 2024 for the fiscal years ended June 30, 2018 and 2017. The assumed health care cost trend rate used to measure the expected cost of benefits for the long-term care plan was assumed to increase by 5.00% for the years ended June 30, 2018 and 2017, respectively, and remain at 5.00% on an ongoing basis.

Expected benefit payments related to the health care plan and long-term care plan are as follows:

Years Ending June 30,	Health Care	Long-Term Care
2019	$ 400,144	$ 101,043
2020	421,826	107,241
2021	435,126	117,709
2022	450,933	123,738
2023	462,873	129,366
Thereafter	2,455,631	819,368
	$ 4,626,533	$ 1,398,465

As both plans are unfunded, expected contributions for the year ended June 30, 2018 are equal to expected benefit payments above.

The discount rate used in the measurement of the Diocese's benefit obligation for both the health care plan and the long-term care plan was increased from 3.88% to 4.12% during the current year.

Note 16—Notes and bonds payable

During the fiscal year ended June 30, 2013, in connection with a $16,400,000 expansion/construction project by Cardinal Gibbons High School, the Diocese obtained $12,550,000 of unsecured financing with a bank through a series of ten year non-taxable bonds bearing a coupon rate of 3.10%. The proceeds are being used to expand, equip, and furnish a 67,700 square foot addition to the high school. Costs associated with the issuance of these bonds totaled $113,550 and are being amortized on a straight-line basis over the terms of the debt and are presented as a direct deduction from the carrying amount of the debt liability on the consolidated statements of financial position. The straight-line basis approximates the interest expense utilizing the effective interest method. Interest expense charged during each of the years ended June 30, 2018 and 2017, with respect to the bonds was $11,355.

Also during the fiscal year ended June 30, 2013, the Diocese entered into an agreement with a bank to obtain additional unsecured financing of $20,000,000 through a taxable, variable rate note payable. The proceeds of this note are being used to support operations and finance various capital projects. The note bore interest at a rate equal to LIBOR (1.01% at June 30, 2017) plus 3.17 percentage points. In order to mitigate its exposure to interest rate fluctuations, the Diocese entered into an interest rate swap agreement to obtain a fixed 5.16% rate of interest associated with the taxable note payable. The Diocese used the interest rate swap contract as a cash flow hedge to eliminate the cash flow exposure of the interest rate movements on variable rate debt. At June 30, 2017, the total fair value of the swap was a liability of $4,976. In February 2018, the Diocese paid off the entire balance owed on the note payable and terminated the interest rate swap agreement.

Note 16—Notes and bonds payable (continued)

The terms of financing agreements for the non-taxable bonds and taxable note payable require that the Diocese comply with certain debt covenants and submit audited financial statements within 150 days after the end of the fiscal year. The Diocese is in compliance with the performance ratios outlined in the agreements as of June 30, 2018 and 2017.

Interest expense incurred related to notes and bonds payable during the years ended June 30, 2018 and 2017, was $397,586 and $1,089,419, respectively.

Bonds and notes payable consisted of the following at June 30:

	2018	2017
Tax-free bonds, original principal value of $12,550,000, interest and principal payable in annual installments of $1,447,574 through September 2022. The Bonds bear interest at a coupon rate of 3.10%	$ 5,660,608	$ 6,891,575
Taxable notes, original principal value of $20,000,000, interest payable monthly at a variable rate, principal payable in monthly installments, paid off in February 2018	-	15,542,154
	5,660,608	22,433,729
Less unamortized debt issuance costs	(47,313)	(58,667)
Long-term debt less unamortized issuance costs	5,613,295	22,375,062
Less current maturity	(1,258,303)	(2,360,835)
	$ 4,354,992	$ 20,014,227

Future principal payments are as follows:

Principal Maturities	Total
2019	$ 1,258,303
2020	1,298,209
2021	1,339,010
2022	1,425,601
2023	292,172
	$ 5,613,295

During the fiscal year 2017, the Diocese maintained a line of credit agreement with a maximum limit of $3,250,000. Interest was payable quarterly at the LIBOR rate plus 1.50% on the used portion and 0.20% for the unused portion. On February 21, 2018, the unsecured line of credit was amended and increased to $10,000,000 with interest payable quarterly at the LIBOR rate plus 1.50% on the used portion and 0.20% on the unused portion. The balance of the line of credit was $0 as of June 30, 2018 and 2017.

Note 17—Defined benefit pension plans

The Diocese participates in a multi-employer noncontributory defined benefit retirement plan for lay employees entitled the "Retirement Plan for Lay Employees of the Bishop of the Roman Catholic Diocese, North Carolina" for which the EIN number is 56-0591293 ("Lay Plan"). The Lay Plan is separately valued and funded by contributions from various employing units throughout the Diocese. Substantially, all lay employees of the Administrative Offices were covered under this Lay Plan. Pension benefits provided under the Lay Plan allow for a monthly annuity payment equal to 1/12 of the product of the years of qualified benefit service not to exceed 40 years and 1% of the final average compensation as defined by the Lay Plan. Participants are eligible to begin receiving benefits no earlier than age 65 and the Lay Plan contains provisions for payments to surviving spouses in certain circumstances. In substantially all circumstances, a participant in the Lay Plan becomes fully vested after five years of eligible service. The risks of participating in this multi-employer Lay Plan are different from a single employer Lay Plan in the following aspects:

a) Assets contributed to the multi-employer Lay Plan by one employer may be used to provide benefits to employees of other participating parishes, schools, and other entities;

b) If a participating employer stops contributing to the Lay Plan, the unfunded obligations of the Lay Plan may be borne by the remaining participating parishes, schools, and other entities; and

c) If the Diocese stops participating in the Lay Plan, it could be required to pay an amount, referred to as withdrawal liability, based on the unfunded status of the Lay Plan. The Diocese has no intention of stopping its participation in the Lay Plan.

During the year ended June 30, 2010, the Diocesan Finance Council approved a recommendation by management to execute a hard freeze of the Lay Plan as of January 2011. The various employing units throughout the Diocese continue to fund existing obligations of the Lay Plan from before the hard freeze was executed. The Diocese contributed $166,277 and $168,042 to the Lay Plan for the years ended June 30, 2018 and 2017, respectively, which represented more than 5% of the total contributions of all employing units to the Lay Plan in both years.

The actuarial present value of vested and non-vested accumulated Lay Plan benefits and net assets available for benefits is not determined for the individual entities participating in this multi-employer Lay Plan and, accordingly, such information is not presented herein. Because the employing units participating in the Lay Plan are parishes and related organizations of the Diocese, the Diocese relies upon each employing unit to contribute their required contribution to ensure that pension obligations under the Lay Plan are met. In the event that individual employers of the Lay Plan are unable to make their required contributions, the obligations would be reallocated to the remaining contributing units.

Lay Plan level information is as follows as of the valuation dates noted:

	As of January 1, 2018	As of January 1, 2017
Market value of Lay Plan assets	$ 38,668,201	$ 33,772,592
Present value of accrued Lay Plan benefits	$ 43,556,546	$ 42,371,204
Percent funded	88.80%	79.70%
Total contributions to the Lay Plan	$ 2,285,198	$ 2,173,079
Total employees covered under the Lay Plan	1,631	1,628
Discount rate used to value the Lay Plan liability	6.50%	6.50%

Note 17—Defined benefit pension plans (continued)

The Diocese also administers the Clergy Retirement Plan ("Clergy Plan") which is supported solely by the parishes through offertory assessments, some of which are funded by parish special collections. The actuarial present value of vested and non-vested accumulated Clergy Plan benefits and net assets available for benefits are not presented herein. Participation in the Clergy Plan is automatic upon priestly ordination or incardination in the Diocese of Raleigh unless a priest elects in writing to waive participation in the Clergy Plan. A priest becomes fully vested in his accrued benefit upon completion of five years of service and upon reaching age 70, unless he elects early retirement at age 65, in which case he will receive a reduced benefit. Benefits consist of a set dollar monthly annuity for life based upon years of service and adjusted for inflation as provided for under the Clergy Plan.

Clergy Plan level information is as follows as of the valuation dates noted:

	As of July 1, 2018	As of July 1, 2017
Present value of accrued Clergy Plan benefits	$ 21,287,719	$ 20,867,118
Market value of Clergy Plan assets	$ 19,518,131	$ 19,215,118
Percent funded	91.7%	92.1%
Total contributions to the Clergy Plan	$ -	$ 3,362,366
Total employees covered under the Clergy Plan	103	99
Discount rate used to value the Clergy Plan liability	6.50%	6.50%

Note 18—Investment savings plan

The Diocese offers its employees a pretax Internal Revenue Code Section 403(b) Plan ("403(b) Plan"). Under the provisions of the 403(b) Plan, substantially all employees of the Diocese, parishes, schools, and other related entities as well as Diocesan priests are covered. For the years ended June 30, 2018 and 2017, the Diocese contributed $0.50 for each $1 invested by employees on the first 5% of qualified compensation, plus a non-contributory deferral of 4% of qualified compensation into accounts of all eligible employees, up to a maximum of 6.5% of qualified compensation per employee. Participants in the 403(b) Plan are immediately vested in their employee contributions and in the basic matching contribution provided by the Diocese. Employees are vested in the Diocese's non-contributory deferral contribution after five years of service. Diocesan priests are not eligible for the noncontributory deferral of 4%. Contributions to the 403(b) Plan for the years ended June 30, 2018 and 2017, totaled $234,483 and $237,777, respectively.

Note 19—Fundraising

The Diocese conducts certain fundraising activities to generate revenues to assist in supporting its programs and activities. During the years ended June 30, 2018 and 2017, fundraising expense totaled $825,551 and $864,516, respectively, which is included in Offices of the Chief Financial Officer/Chief Operating Officer and Capital Campaign on the consolidated statements of activities and changes in net assets.

Note 20—Leases

Rental Income – The Diocese has entered into a long-term, noncancellable operating lease for real estate. The term of the lease runs until June 30, 2044, at which time the lease can be renewed for another 50-year term.

The following is a schedule of future minimum rent receivable for this lease:

Years Ending June 30,		
2019	$	569,776
2020		569,776
2021		569,776
2022		569,776
2023		569,776
Thereafter		11,965,296
	$	14,814,176

Annual rental amounts are subject to change every ten years upon completion of a fair market appraisal of the leased property.

The net book value of the related real estate at June 30, 2018 and 2017, was $290,343.

In January 2016, the Diocese received ½ interest in property subject to a long-term, cancellable operating land lease. The term of the lease runs until October 31, 2033, at which time the lease can be renewed for another 20-year term, to expire on October 31, 2053.

The following is a schedule of future minimum rent receivable for this lease:

Years Ending June 30,		
2019	$	20,012
2020		20,012
2021		20,012
2022		20,012
2023		20,012
Thereafter		186,780
	$	286,840

Rental income is temporarily restricted by the donor for use in early childhood development programs. The real estate consists of land and is not subject to depreciation. The carrying value of the related real estate at June 30, 2018 and 2017 was $1,311,153.

Note 21—Related party transactions

The Diocese transferred $1,462,389 and $1,620,693 in support and revenue to Catholic Charities of the Diocese of Raleigh, Inc. (“Catholic Charities”) during the years ended June 30, 2018 and 2017, respectively, including $1,391,082 and $1,062,772, respectively, in allocations from the Bishop’s Annual Appeal. Catholic Charities reimbursed the Diocese $71,702 and $182,332 for rent, accounting, fundraising and stewardship efforts, and other fiscal services during the years ended June 30, 2018 and 2017, respectively. As of June 30, 2018 and 2017, Catholic Charities owed the Diocese $63,018 and $48,967, respectively, which is included in Accounts receivable – Other, net in the accompanying consolidated statements of financial position.

The Diocese recognized revenue from the Diocesan parishes, schools, and other related organizations in the amounts of $9,121,403 and $9,031,718 for the years ended June 30, 2018 and 2017, respectively, for assessments, priest welfare, and interest. Of these amounts, $2,249,488 and $2,173,280 were due from the related organizations at June 30, 2018 and 2017, respectively, and are recorded in the accompanying consolidated statements of financial position. The Diocese incurred interest expense related to the parish loan and deposit program in the amount of $459,975 and $432,345 during the years ended June 30, 2018 and 2017, respectively, which is recorded in the accompanying consolidated statements of activities and changes in net assets. At June 30, 2018 and 2017, the Diocese owed $692,738 and $198,250, respectively, to parishes, schools, and other related organizations.

Note 22—Commitments and contingencies

At June 30, 2018 and 2017, respectively, the Diocese had outstanding purchase commitments of $291,327 and $1,670,891 related to the construction of the cathedral.

The Diocese is sometimes subject to litigation or the threat of litigation in the conduct of its operations. The Diocese’s policy is to recognize such costs when it is both probable that a material liability has occurred and the amount can be reasonably estimated.

The Diocese entered into a Pullen Road Extension/Bilyeu Street Extension Joint Venture Road Project agreement with the City of Raleigh and North Carolina State University to perform road improvements near the Cathedral. Under the agreement, the cost of constructing the project is allocated 50% to the City, 25% to University and 25% to the Diocese. The Diocese estimates their portion of the costs $1,000,000. The City has the right to terminate the agreement if the total cost of the project exceeds $4,000,000. The Diocese is not obligated to pay any construction costs under the agreement until it is completed. The Diocese has accrued $415,096 for its share of expenses incurred through June 30, 2018 which is included in accounts payable – supplies and expenses in the consolidated statements of financial position.

Note 23—Subsequent events

Effective July 1, 2018 the interest rate on parish loans decreased from 5.50% to 4%. The financial impact on the parish loan and deposit program is a reduction of interest revenue received which is offset by a decrease in interest paid due to the pay-off of a $15,542,154 note payable by the Diocese in February of 2018. The Diocese has evaluated subsequent events for disclosure and recognition through November 5, 2018, the date on which these consolidated financial statements were available to be issued.

SUPPLEMENTAL SCHEDULE

ADMINISTRATIVE OFFICES OF THE DIOCESE OF RALEIGH

CONSOLIDATED SCHEDULE OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2018

	Salaries and Fringe Benefits	Purchased Services	Supplies, Materials and Expenses	Interest	Contributions	2018 Total
Bishop	$ 361,289	$ 1,430,092	$ 136,520	$ -	$ -	$ 1,927,901
Vicar General	890,626	199,491	59,248	-	-	1,149,365
Judicial Vicar/Chancellor	411,678	49,790	38,471	-	-	499,939
Chief Financial Officer/Chief Operating Officer	1,614,892	876,604	116,751	-	-	2,608,247
Catholic Formation and Education	690,284	414,786	145,887	-	434,144	1,685,101
Secretariat	1,063,981	550,203	76,048	-	17,479	1,707,711
Catholic Charities Subsidies	-	-	-	-	1,391,082	1,391,082
Grants	19,009	-	-	-	860,623	879,632
Deposits and Loans	-	418,064	-	892,521	-	1,310,585
Insurance	-	1,033,836	-	-	-	1,033,836
Priest Welfare	73,860	3,719,182	10,172	-	-	3,803,214
Capital Campaign	84,517	550,603	7,927	-	-	643,047
High School Tuition Assistance	-	-	-	-	228,642	228,642
Parishes and Other Subsidies	4,442	1,553,051	23,769	-	323,754	1,905,016
Diocesan Development Trust	-	-	-	10,023	-	10,023
Catholic Voice North Carolina	-	2,624	22	-	-	2,646
Human Resources	1,228,478	845,208	709,713	-	-	2,783,399
	$ 6,443,056	$ 11,643,534	$ 1,324,528	$ 902,544	$ 3,255,724	$ 23,569,386