ADMINISTRATIVE OFFICES OF THE DIOCESE OF RALEIGH

CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTAL SCHEDULE

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

And Report of Independent Auditor

Cherry Bekaert LLP
CPAs & Advisors

ADMINISTRATIVE OFFICES OF THE DIOCESE OF RALEIGH

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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, 2017 and 2016, 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, 2017 and 2016, 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 1, 2017

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

JUNE 30, 2017 AND 2016

	2017	2016
ASSETS		
Cash and cash equivalents	$ 58,244,246	$ 71,221,579
Investments	51,845,499	46,667,911
Accounts Receivable:		
Cathedral Campus Campaign, net	5,038,336	11,095,598
Bishop's Annual Appeal, net	367,259	341,884
Assessments	2,173,280	1,456,445
Other, net	848,732	1,070,038
Prepaid expenses and other assets	535,623	689,252
Loans receivable, parishes, and institutions, less allowance for doubtful loans of $200,000 at June 30, 2017 and 2016:		
Interest bearing	39,248,999	39,556,997
Non-interest bearing	4,101,115	3,892,197
Beneficial interests in perpetual trusts	5,698,825	5,499,372
Beneficial interests in charitable remainder trusts	598,228	175,162
Licenses and rights	1,003,375	645,375
Property held for sale	225,000	-
Property and equipment:		
Operating properties	10,774,610	11,555,911
Other properties	50,743,759	30,214,271
Total Assets	$ 231,446,886	$ 224,081,992

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

ADMINISTRATIVE OFFICES OF THE DIOCESE OF RALEIGH
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONTINUED)

JUNE 30, 2017 AND 2016

	2017	2016
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts Payable:		
Funds held for others	$ 16,835,233	$ 14,731,985
Cathedral construction payable	1,361,176	2,964,042
Supplies and expenses	715,987	3,207,869
Accrued expenses	1,444,530	1,342,841
Split-interest obligations	726,327	772,801
Deferred revenue and support	-	583,796
Deposits Payable:		
Parishes	60,534,678	57,428,617
Catholic Charities of the Diocese of Raleigh, Inc.	18,344	18,207
Obligations for Post-retirement Benefits:		
Health care plan, current portion	365,076	339,058
Health care plan, long-term portion	12,431,502	11,851,722
Long-term care plan, current portion	88,672	78,498
Long-term care plan, long-term portion	5,564,828	5,087,602
Interest rate swap liability	4,976	917,570
Notes Payable:		
Notes payable, current portion	1,141,222	1,169,528
Notes payable, long-term portion	14,400,932	15,542,154
Bonds Payable:		
Bonds payable, current	1,219,613	1,181,337
Bonds payable, long-term	5,613,295	6,832,906
Total Liabilities	122,466,391	124,050,533
Net Assets:		
Unrestricted:		
Invested accounts	3,577,721	3,694,313
Property and equipment accounts	61,435,591	41,104,405
Deposit and loan accounts	(1,407,498)	(2,649,132)
Designated unrestricted	3,523,276	4,829,818
Total Unrestricted	67,129,090	46,979,404
Temporarily restricted	32,554,690	44,716,156
Permanently restricted	9,296,715	8,335,899
Total Net Assets	108,980,495	100,031,459
Total Liabilities and Net Assets	$ 231,446,886	$ 224,081,992

ADMINISTRATIVE OFFICES OF THE DIOCESE OF RALEIGH

CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

JUNE 30, 2017 AND 2016

	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 gains on investments	996,063	1,467,239	41,664	2,504,966
Total Support and Revenue Before Release 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:				
Priest Welfare	3,133,875	-	-	3,133,875
Human Resources	2,880,138	-	-	2,880,138
Chief Financial Officer/Chief Operating Officer	2,708,056	-	-	2,708,056
Deposits and Loans	1,980,456	-	-	1,980,456
Bishop	1,893,642	-	-	1,893,642
Catholic Formation and Education	1,830,737	-	-	1,830,737
Secretariat	1,800,546	-	-	1,800,546
Insurance	1,206,499	-	-	1,206,499
Vicar General	1,111,375	-	-	1,111,375
Catholic Charities Subsidies	1,062,862	-	-	1,062,862
Grants	647,460	-	-	647,460
Parishes and Other Subsidies	495,848	-	-	495,848
Judicial Vicar/Chancellor	440,157	-	-	440,157
High School Tuition Assistance	294,354	-	-	294,354
Capital Campaign	115,216	-	-	115,216
Catholic Voice North Carolina	29,926	-	-	29,926
Diocesan Development Trust	13,190	-	-	13,190
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 interest 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

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

ADMINISTRATIVE OFFICES OF THE DIOCESE OF RALEIGH

CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

JUNE 30, 2017 AND 2016

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total All Funds
Support and Revenue:				
Contributions:				
Gifts and bequests	$ 70,635	$ 1,908,508	$ 9,760	$ 1,988,903
Bishop's Annual Appeal	216,120	6,668,908	-	6,885,028
Capital campaigns	-	3,005,849	-	3,005,849
Departmental and project fees	3,843,669	-	-	3,843,669
Diocesan assessments	4,002,159	-	-	4,002,159
Investment income - interest, dividends, and rent	1,905,263	589,149	-	2,494,412
Interest on parish loans	2,160,617	-	-	2,160,617
Insurance department	3,146,512	-	-	3,146,512
Gain on sale of assets	2,392,362	3,646,904	-	6,039,266
Unrealized losses on investments	(2,809,123)	(4,278,678)	(10,629)	(7,098,430)
Total Support and Revenue Before Release Restrictions	14,928,214	11,540,640	(869)	26,467,985
Net assets released from restrictions	24,889,495	(24,889,495)	-	-
Total Support and Revenues	39,817,709	(13,348,855)	(869)	26,467,985
Expenses:				
Offices of:				
Priest Welfare	3,667,641	-	-	3,667,641
Human Resources	2,919,116	-	-	2,919,116
Chief Financial Officer/Chief Operating Officer	2,787,081	-	-	2,787,081
Deposits and Loans	2,069,859	-	-	2,069,859
Bishop	2,082,805	-	-	2,082,805
Catholic Formation and Education	1,785,248	-	-	1,785,248
Secretariat	1,667,137	-	-	1,667,137
Insurance	2,142,398	-	-	2,142,398
Vicar General	1,107,254	-	-	1,107,254
Catholic Charities Subsidies	1,031,817	-	-	1,031,817
Grants	523,233	-	-	523,233
Parishes and Other Subsidies	652,943	-	-	652,943
Judicial Vicar/Chancellor	401,961	-	-	401,961
High School Tuition Assistance	356,357	-	-	356,357
Capital Campaign	167,427	-	-	167,427
Catholic Voice North Carolina	24,116	-	-	24,116
Diocesan Development Trust	16,858	-	-	16,858
Total Expenses	23,403,251	-	-	23,403,251
Increase (decrease) in net assets from operations	16,414,458	(13,348,855)	(869)	3,064,734
Change in fair value of interest rate swap	(991,446)	-	-	(991,446)
Change in obligations for priest post-retirement benefits other than pensions	(26,744)	-	-	(26,744)
Change in value of split-interest agreements	(19,110)	(34,123)	-	(53,233)
Change in beneficial interests in perpetual trusts	-	-	(317,846)	(317,846)
Change in net assets	15,377,158	(13,382,978)	(318,715)	1,675,465
Net assets, beginning of year	31,602,246	58,099,134	8,654,614	98,355,994
Net assets, end of year	$ 46,979,404	$ 44,716,156	$ 8,335,899	$ 100,031,459

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

JUNE 30, 2017 AND 2016

	2017	2016
Cash flows from operating activities:		
Change in net assets	$ 8,949,036	$ 1,675,465
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	573,530	642,660
Contribution of land	-	(1,311,153)
Gain on sale of assets	(525,421)	(6,039,266)
Unrealized (gains) losses on investments	(2,504,966)	7,098,430
Dividends and interest reinvested	(598,592)	(589,020)
Change in fair value of rate swap	(912,594)	991,446
Change in licenses and rights	(358,000)	-
Change in beneficial interests of perpetual trusts	(199,453)	317,846
Change in beneficial interests of charitable remainder trusts	(423,066)	(175,162)
Change in reserve for doubtful accounts	1,546,567	(546,386)
Change in discount on Cathedral Campus Campaign promises to give	(39,472)	(242,135)
Change in obligations for post-retirement benefits other than pensions	1,093,198	26,744
Change in assets and liabilities:		
Accounts receivable	4,029,263	6,649,445
Prepaid expenses and other assets	153,629	(227,932)
Accounts payable: supplies and expenses	(5,455,924)	(163,399)
Accounts payable: funds held for others	135,723	16,536
Accrued expenses	101,689	85,411
Split-interest obligations	(46,474)	(48,823)
Deferred revenue and support	(583,796)	212,176
Net cash provided by operating activities	4,934,877	8,372,883
Cash flows from investing activities:		
Proceeds from sale of investments	1,195,453	1,316,928
Purchase of investments	(852,330)	(40,073)
Purchases of property and equipment	(19,487,911)	(14,660,141)
Proceeds from sale of property and equipment	378,163	200,154
New loans funded	(10,237,860)	(3,668,534)
Collections on loans	10,336,940	9,619,038
Net cash used by investing activities	(18,667,545)	(7,232,628)
Cash flows from financing activities:		
Parish deposits and other deposits	3,106,198	4,863,932
Repayment of bonds and notes payable	(2,350,863)	(3,177,929)
Net cash provided by financing activities	755,335	1,686,003
Net change in cash and cash equivalents	(12,977,333)	2,826,258
Cash and cash equivalents, beginning of year	71,221,579	68,395,321
Cash and cash equivalents, end of year	$ 58,244,246	$ 71,221,579
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 1,599,979	$ 1,694,387
Construction in progress acquired through Cathedral construction payable	$ 1,361,176	$ 2,964,042

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 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 consolidated 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. All significant interorganizational 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.

In May 2015, the FASB issued Accounting Standards Update ("ASU") No. 2015-07, *Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent) (Topic 820)*. This ASU removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value ("NAV") per share practical expedient. The ASU is effective for fiscal years beginning after December 15, 2016, with early adoption permitted. As permitted, the Diocese has elected early adoption of this ASU and has applied the ASU retrospectively for all periods presented. Accordingly, investments measured using the NAV practical expedient have been removed from the categorization in the prior period disclosure of the fair value hierarchy (see Note 4).

Effective July 1, 2016, the Diocese retrospectively adopted ASU 2015-03, *Simplifying the Presentation of Debt Issuance Costs*. This guidance requires the Diocese to present the debt issuance costs related to a recognized debt liability in the statement of financial position as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The guidance also requires the Diocese to report, for presentation purposes, amortization of discount or premium as interest expense in the case of liabilities or as interest income in the case of assets. As required by this guidance the prior year financial information for June 30, 2016 has been changed to reflect the current year presentation.

Note 2—Summary of significant accounting policies (continued)

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.

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, 2017 and 2016, 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 – Compensated absences such as vacation are not subject to carryover for employees of the Diocese except under special pre-approved situations. As of June 30, 2017 and 2016, the Diocese had $35,588 and $-0- 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.

Note 2—Summary of significant accounting policies (continued)

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.

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, 2017 and 2016, the Diocese also held $49,290,656 and $63,121,787, 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.

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, 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:				
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

Note 4—Fair value measurements (continued)

	As of June 30, 2016			
	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	$ 31,828,324	$ -	$ -	$ 31,828,324
Mutual funds - international	96,131	-	-	96,131
Bond funds	9,355,415	-	-	9,355,415
Real estate investment trusts	32,985	-	-	32,985
Cash and cash equivalents	-	347,048	-	347,048
Investments at fair value	41,312,855	347,048	-	41,659,903
Investments valued at NAV [(a)]	-	-	-	5,008,008
Total Investments	$ 41,312,855	$ 347,048	$ -	$ 46,667,911
Beneficial interests in perpetual trusts	$ -	$ 5,499,372	$ -	$ 5,499,372
Beneficial interests in charitable remainder trusts	$ -	$ -	$ 175,162	$ 175,162
Liabilities:				
Split-interest obligations	$ -	$ -	$ 772,801	$ 772,801
Interest rate swap	$ -	$ 917,570	$ -	$ 917,570
Obligations for post retirement benefits other than pensions:				
Health care plan	$ -	$ -	$ 12,190,780	$ 12,190,780
Long-term care plan	$ -	$ -	$ 5,166,100	$ 5,166,100

[(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.

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, 2017 and 2016.

Note 4—Fair value measurements (continued)

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

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			

June 30, 2016

Asset	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Period
Global macro hedge funds [e]	$ 987,549	N/A	Daily and Monthly	15 - 30 days' Notice
Equity hedge funds [b]	1,718,871	N/A	Monthly and Quarterly	5 - 65 days' Notice
Relative value hedge funds [c]	983,203	N/A	Monthly and Annual	45 - 60 days' Notice
Relative value and event driven hedge funds [d]	1,231,748	N/A	Monthly, Quarterly and Annual	45 - 90 days' Notice
Multi-strategy hedge fund [f]	86,637	N/A	Quarterly	100 days' Written Notice
	$ 5,008,008			

(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.

Note 4—Fair value measurements (continued)

(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 .27% to 4.94% of investment funds has side pocket arrangements.

(e) This class includes investment in diversified third party investment funds with selection based on shifts in markets arising from economic, political, or government-related events. Asset classes include stocks, bonds, currencies and commodities. Global macro strategies are typically market directional, and often characterized by relatively high degrees of portfolio turnover and volatility.

(f) This class includes investments in an actively managed, opportunistic multi-strategy portfolio of hedge funds. The investment strategy is to seek to achieve capital appreciation with limited volatility through an actively managed, opportunistic multi-strategy portfolio of hedge fund investments. Redemption amounts are restricted if redemption requests received represent, in the aggregate, more than 25% of the fund's net assets as of the last day of the calendar year. Requests may be reduced on a pro rata basis among all of the investors requesting redemptions so that no more than 25% of the fund's net assets will be paid out. A waiver is required if redeeming less than 100% of shares, if net asset value of shares held is less than $1,000,000.

The related realized and unrealized gains (losses) are reported in the consolidated statements of activities and changes in net assets as gain on sale of assets, unrealized (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, 2017 and 2016, of $16,292,432 and $14,327,907, 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:

	2017		2016	
	Cost	**Fair Value**	**Cost**	**Fair Value**
Mutual funds - domestic	$ 31,593,261	$ 34,456,479	$ 32,688,034	$ 31,828,324
Mutual funds - international	99,204	100,423	116,063	96,131
Alternative investments	4,970,441	4,980,670	5,122,339	5,008,008
Bond funds	10,846,635	10,825,487	9,140,598	9,355,415
Real estate investment trusts	29,719	30,962	29,719	32,985
Cash and cash equivalents	1,451,478	1,451,478	347,048	347,048
Total Assets	$ 48,990,738	$ 51,845,499	$ 47,443,801	$ 46,667,911

Investment revenues are reported net of investment fees of $159,685 and $220,102 for the years ended June 30, 2017 and 2016, respectively.

Diocesan endowments consist of approximately 140 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 (depreciation) 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:

	2017				
	Unrestricted - Custodial Endowments Held on Behalf of Others	**Unrestricted**	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Donor-restricted endowment funds	$ -	$ -	$ 18,049,634	$ 3,597,890	$ 21,647,524
Board-restricted 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)

2016	Unrestricted - Custodial Endowments Held on Behalf of Others	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ (78)	$ 16,669,452	$ 2,836,527	$ 19,505,901
Board-restricted endowment and other funds	14,324,907	12,837,103	-	-	27,162,010
Total	$ 14,324,907	$ 12,837,025	$ 16,669,452	$ 2,836,527	$ 46,667,911

Changes in endowment for the years ended June 30:

2017	Unrestricted - Custodial Endowments Held on Behalf of Others	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
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

2016	Unrestricted - Custodial Endowments Held on Behalf of Others	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment beginning of year	$ 13,313,454	$ 13,519,086	$ 17,745,000	$ 2,837,397	$ 47,414,937
Contributions	1,456,512	25,000	22,225	9,760	1,513,497
Investment income	247,139	233,077	355,943	-	836,159
Realized gain on disposal of securities	2,460,772	2,380,883	3,646,904	-	8,488,559
Net depreciation of securities	(2,842,737)	(2,809,122)	(4,278,678)	(10,630)	(9,941,167)
Amounts expended	(310,233)	(511,899)	(821,942)	-	(1,644,074)
Total	$ 14,324,907	$ 12,837,025	$ 16,669,452	$ 2,836,527	$ 46,667,911

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:

	2017	2016
Undistributed Bishop's Annual Appeal	$ 6,739,250	$ 6,668,908
Cathedral Campus Campaign	-	14,465,129
Horne Memorial Revolving Fund	4,568,012	4,359,074
Land Trust	725,885	733,481
Seminarian Endowments	2,304,282	2,158,437
Priest Education	432,196	-
Early Childhood Development	1,759,689	1,796,315
Miscellaneous Endowment	983,126	855,902
Miscellaneous Other	1,177,374	762,081
Charitable Trust	126,837	111,385
Catholic School Endowments	81,633	77,692
God's Work ~ Our Challenge:		
Endowment for the Poor	549,221	513,713
Tuition Assistance	2,088,189	1,958,155
Parish Assistance	1,155,219	1,102,104
Seminarian Education	1,935,028	1,812,579
Hispanic Ministry	2,519,405	2,359,995
Lay Leadership Formation	1,089,222	1,020,133
Mary Dowling Endowment	1,036,925	971,267
Diocesan Development Trust	2,684,179	2,428,739
Small Campus Assistance Fund	599,018	561,067
Total Temporarily Restricted Net Assets	$ 32,554,690	$ 44,716,156

Permanently restricted net assets are as follows at June 30:

	2017	2016
Campus Ministry Endowments	$ 976,678	$ 976,678
Seminarian Education Funds	107,308	102,308
Miscellaneous Endowments	2,513,904	1,757,541
Beneficial Interests in Perpetual Trusts	5,698,825	5,499,372
Total Permanently Restricted Net Assets	$ 9,296,715	$ 8,335,899

As of June 30, 2017, the Diocese has $1,581,192 of unrestricted net assets which management has designated for the creation of a priest long-term care endowment. After formal approval is obtained, the endowment will become board restricted.

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:

	2017	2016
Bishop's Annual Appeal:		
Promises to give receivable in less than one year	$ 1,333,325	$ 1,297,304
Less rebates to parishes	(603,852)	(576,386)
Less allowance for doubtful promises	(362,214)	(379,034)
Total	$ 367,259	$ 341,884

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, four 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 three 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, 2017 and 2016, the Diocese had net pledges receivable directly from parishes who are participating in the combined campaigns of $-0- and $1,437,732, respectively, which are included in the accompanying consolidated statements of financial position.

Note 8—Cathedral Campus Campaign (continued)

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

	2017	2016
Cathedral Campus Campaign:		
Promises to give receivable over five years	$ 7,926,720	$ 12,768,604
Less discount at rates between 0.72% and 1.89%	(311,431)	(350,902)
Less rebates to parishes	(24,742)	(333,279)
Less allowance for doubtful promises	(2,552,211)	(988,825)
Total	$ 5,038,336	$ 11,095,598

Note 9—Intentions to give and conditional promises to give

During the year ended June 30, 2012, the Diocese received a promise to give totaling $700,000 that contained donor conditions. Since this promise represented a conditional promise to give, it was not recorded as contribution revenue until donor conditions were met. At June 30, 2016, $400,000 had been received towards this pledge that is included in the consolidated statements of financial position as deferred revenue and support. During fiscal year 2017, all the conditions were met and the remaining pledge contribution was received. All $700,000 of this pledge is recorded in the consolidated statements of activities as contributions to capital campaigns as of June 30, 2017.

Note 10—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, 2017 and 2016, Parish deposits earned interest at a rate of 0.75% and can be withdrawn as requested. At June 30, 2017 and 2016, 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 noninterest 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, 2017 and 2016, the allowance totaled $200,000.

Additional information about the loan program is as follows:

	Interest Bearing Loans	Noninterest Bearing Loans
Number of loans outstanding at June 30, 2017	45	25
Average face amount at origination	$ 939,325	$ 270,470

	Interest Bearing Loans	Noninterest Bearing Loans
Number of loans outstanding at June 30, 2016	44	26
Average face amount at origination	$ 1,075,980	$ 277,375

Note 11—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 12—Property and equipment

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

	2017	2016
Land, buildings, and improvements	$ 18,278,393	$ 18,768,596
Furniture and equipment	4,009,645	4,012,982
Automobiles	431,566	454,605
	22,719,604	23,236,183
Less accumulated depreciation	(6,501,331)	(6,011,609)
	16,218,273	17,224,574
Construction in progress, Cathedral	45,300,096	24,545,608
Property and equipment, net	$ 61,518,369	$ 41,770,182

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

	2017	2016
Operating properties	$ 10,774,610	$ 11,555,911
Other properties	50,743,759	30,214,271
Property and equipment, net	$ 61,518,369	$ 41,770,182

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, 2017 and 2016, totaled $573,530 and $642,660, respectively.

Note 13—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, 2017, the Diocese received no unrestricted or temporarily restricted contribution revenue related to these annuities. During the year ended June 30, 2016, the Diocese received unrestricted contribution revenue of $25,000 and no temporarily restricted contributions 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.

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.

The Diocese is the beneficiary of the remainder interest in an irrevocable charitable remainder trust, the assets of which consist of land and buildings held in trust by a third party. Under the agreement, the beneficiary has use of the property for life.

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:

	2017			
	Beneficial Interests in Charitable Remainder Trust	**Assets Held in Trust**	**Liability to Donors**	**Net Asset**
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 13—Life annuities and charitable remainder trusts (continued)

	2016			
	Beneficial Interests in Charitable Remainder Trust	Assets Held in Trust	Liability to Donors	Net Asset
Life Annuities	$ -	$ 650,265	$ 601,240	$ 49,025
Charitable Remainder Trust	175,162	282,946	171,561	286,547
	$ 175,162	$ 933,211	$ 772,801	$ 335,572

Note 14—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, 2017 and 2016, included in the consolidated statements of financial position are calculated as follows:

	Health Care	Long-Term Care
Benefit obligation at June 30, 2015	$ 12,574,657	$ 4,755,479
Service cost	360,003	150,490
Interest cost	549,563	209,586
Actuarial (gain) loss	(1,092,670)	50,545
Benefit payments	(200,773)	-
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

Note 14—Post-retirement benefits other than pensions (continued)

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, 2017 and 2016 consist of:

	2017		2016	
	Health Care	Long-Term Care	Health Care	Long-Term Care
Service cost	$ 476,970	$ 207,043	$ 360,003	$ 150,490
Interest cost	480,850	205,074	549,563	209,586
Actuarial (gain) loss	79,842	124,038	(1,092,670)	50,545
Net periodic post-retirement cost (income)	$ 1,037,662	$ 536,155	$ (183,104)	$ 410,621

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 7.00% and 7.50%, respectively, for the years ended June 30, 2017 and 2016. Thereafter, the rate was assumed to gradually decrease to a rate of 5.00% in 2021 for the fiscal years ended June 30, 2017 and 2016. 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, 2017 and 2016, 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:

<u>Years Ending June 30,</u>	Health Care	Long-Term Care
2018	$ 365,076	$ 88,672
2019	405,480	105,770
2020	405,897	112,063
2021	424,334	122,699
2022	435,595	128,918
Thereafter	2,384,493	3,201,304
	$ 4,420,875	$ 3,759,426

As both plans are unfunded, expected contributions for the year ended June 30, 2017 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 decreased from 4.00% to 3.88% during the current year.

Note 15—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, 2017 and 2016, 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 bears interest at a rate equal to LIBOR (1.01% and 0.47% at June 30, 2017 and 2016, respectively) 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 uses 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 and 2016, the total fair value of the swap was a liability of $4,976 and $917,570.

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, 2017 and 2016.

Interest expense incurred related to notes and bonds payable during the years ended June 30, 2017 and 2016 was $1,089,419 and $1,173,696, respectively.

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

	2017	2016
Tax-free bonds, original principal value of $12,550,000, interest and principal payable in annual installments of $1,482,120 through September 2022. The bonds bear interest at a coupon rate of 3.10%.	$ 6,891,575	$ 8,084,266
Taxable notes, original principal value of $20,000,000, interest payable monthly at a variable rate (LIBOR + 3.17%), principal payable in variable monthly installments through December 2027.	15,542,154	16,711,682
	22,433,729	24,795,948
Less unamortized debt issuance costs	(58,667)	(70,023)
Long-term debt less unamortized issuance costs	22,375,062	24,725,925
Less current maturity	(2,360,835)	(2,350,865)
	$ 20,014,227	$ 22,375,060

Note 15—Notes and bonds payable (continued)

Future principal payments are as follows:

Years Ending June 30,	
2018	$ 2,360,835
2019	2,460,682
2020	2,563,227
2021	2,673,616
2022	2,831,727
Thereafter	9,484,975
	$ 22,375,062

During the fiscal year 2016, the Diocese maintained a line of credit agreement with a maximum limit of $10,000,000. Interest was payable quarterly at the LIBOR rate plus 1.30% on the used portion and .25% for the unused portion. The balance of the line of credit was $-0- as of June 30, 2016. On February 28, 2017, the unsecured line of credit was amended and reduced to $3,250,000 with interest payable quarterly at the LIBOR rate plus 1.50% on the used portion and .20% for the unused portion. The balance of the line of credit was $-0- as of June 30, 2017.

Note 16—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 plan. Pension benefits provided under the 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 plan. Participants are eligible to begin receiving benefits no earlier than age 65 and the plan contains provisions for payments to surviving spouses in certain circumstances. In substantially all circumstances, a participant in the plan becomes fully vested after five years of eligible service. The risks of participating in this multi-employer plan are different from a single employer plan in the following aspects:

a) Assets contributed to the multi-employer 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 plan, the unfunded obligations of the Plan may be borne by the remaining participating parishes, schools, and other entities; and

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

Note 16—Defined benefit pension plans (continued)

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 $168,042 and $160,263 to the Lay Plan for the years ended June 30, 2017 and 2016, respectively, which represented more than 5% of the total contributions of all employing units to the plan in both years.

The actuarial present value of vested and non-vested accumulated plan benefits and net assets available for benefits is not determined for the individual entities participating in this multi-employer 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.

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

	As of January 1, 2017	As of January 1, 2016
Market value of plan assets	$ 33,772,592	$ 31,602,929
Present value of accrued plan benefits	$ 42,371,204	$ 39,249,306
Percent funded	79.70%	80.50%
Total contributions to the plan	$ 2,173,079	$ 1,881,762
Total employees covered under the plan	1,628	1,646
Discount rate used to value the plan liability	6.50%	7.00%

The Diocese also administers the Clergy Retirement 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 plan benefits and net assets available for benefits are not presented herein. Participation in the plan is automatic upon priestly ordination or incardination in the Diocese of Raleigh unless a priest elects in writing to waive participation in the 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 plan.

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

	As of July 1, 2017	As of July 1, 2016
Market value of plan assets	$ 20,867,118	$ 17,600,822
Present value of accrued plan benefits	$ 19,215,118	$ 18,733,110
Percent funded	92.10%	94.00%
Total contributions to the plan	$ 3,362,366	$ 2,792,352
Total employees covered under the plan	99	96
Discount rate used to value the plan liability	6.50%	7.00%

Note 17—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, 2017 and 2016, 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 100% 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, 2017 and 2016, totaled $237,777and $225,447, respectively.

Note 18—Fundraising

The Diocese conducts certain fundraising activities to generate revenues to assist in supporting its programs and activities. During the years ended June 30, 2017 and 2016, fundraising expense totaled $864,516 and $1,036,242, 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 19—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,	
2018	$ 569,776
2019	569,776
2020	569,776
2021	569,776
2022	569,776
Thereafter	12,535,072
	$ 15,383,952

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, 2017 and 2016 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.

Note 19—Leases (continued)

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

Years Ending June 30,	
2018	$ 20,012
2019	20,012
2020	20,012
2021	20,012
2022	20,012
Thereafter	206,792
	$ 306,852

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 value of the related real estate at June 30, 2017 and 2016 was $1,311,153.

Note 20—Related party transactions

The Diocese transferred $1,620,693 and $1,166,034 in support and revenue to Catholic Charities of the Diocese of Raleigh, Inc. ("Catholic Charities") during the years ended June 30, 2017 and 2016, respectively, including $1,062,772 and $1,031,817, respectively, in allocations from the Bishop's Annual Appeal. Catholic Charities reimbursed the Diocese $182,332 and $181,349 for rent, accounting, fundraising and stewardship efforts, and other fiscal services during the years ended June 30, 2017 and 2016, respectively. As of June 30, 2017 and 2016, Catholic Charities owed the Diocese $48,967 and $55,061, 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 $9,031,718 and $8,897,505 for the years ended June 30, 2017 and 2016, respectively, for assessments, priest welfare, and interest. Of these amounts, $2,173,280 and $1,724,298 were due from the related organizations at June 30, 2017 and 2016, 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 $432,345 and $411,649 during the years ended June 30, 2017 and 2016, respectively, which is recorded in the accompanying consolidated statements of activities and changes in net assets. At June 30, 2017 and 2016, the Diocese owed $74,388 and $177,655, respectively, to parishes, schools, and other related organizations.

Note 21—Commitments and contingencies

At June 30, 2017 and 2016, respectively, the Diocese had outstanding purchase commitments of $1,670,891 and $20,551,420 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.

Note 21—Commitments and contingencies (continued)

In an agreement dated October 4, 2017, the Diocese committed to sell land with a carrying value of $225,000. The sale is expected to close in February 2018. Accordingly, the carrying value of the land is included in assets held for sale on the consolidated statements of financial position.

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 the University, and 25% to the Diocese. The Diocese estimates their portion of the costs to be $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 and construction is expected to begin in 2018.

Note 22—Subsequent events

On July 5, 2017, Pope Francis announced the appointment of Bishop Luis Rafael Zarama, an auxiliary bishop of the Archdiocese of Atlanta, to serve as the 6th bishop of the Diocese of Raleigh. He was installed on August 29, 2017. The amount of financial impact on the Diocese cannot be reasonably estimated.

On July 26, 2017, the Holy Name of Jesus Cathedral was officially dedicated, marking the substantial completion of the Cathedral Campus project. Though some residual work remains, the Diocese anticipates transferring the capital assets of the Cathedral to the parish during fiscal year 2018, which will reduce the unrestricted net assets of the Diocese as of June 30, 2018 by amounts in excess of $45 million. The Diocese expects to provide ongoing support to the Cathedral parish until such time that it is determined that the parish is sustainable.

The Diocese has evaluated subsequent events for disclosure and recognition through November 1, 2017, 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, 2017

	Salaries and Fringe Benefits	Purchased Services	Supplies, Materials, and Expenses	Interest	Contributions	2017 Total
Priest Welfare	$ 25,391	$ 3,108,484	$ -	$ -	$ -	$ 3,133,875
Human Resources	1,308,381	808,088	763,669	-	-	2,880,138
Chief Financial Officer/Chief Operating Officer	1,734,713	842,113	131,230	-	-	2,708,056
Deposits and Loans	-	421,397	-	1,559,059	-	1,980,456
Bishop	431,672	1,336,026	125,944	-	-	1,893,642
Catholic Formation and Education	688,652	525,716	179,951	-	436,418	1,830,737
Secretariat	1,072,182	639,807	67,592	-	20,965	1,800,546
Insurance	-	1,206,499	-	-	-	1,206,499
Vicar General	888,050	160,244	63,081	-	-	1,111,375
Catholic Charities Subsidies	-	-	-	-	1,062,862	1,062,862
Grants	20,926	-	-	-	626,534	647,460
Parishes and Other Subsidies	4,638	93,700	28,096	-	369,414	495,848
Judicial Vicar/Chancellor	340,401	56,443	43,313	-	-	440,157
High School Tuition Assistance	-	-	-	-	294,354	294,354
Capital Campaign	-	79,932	35,284	-	-	115,216
Catholic Voice North Carolina	-	29,798	128	-	-	29,926
Diocesan Development Trust	-	-	-	13,190	-	13,190
	$ 6,515,006	$ 9,308,247	$ 1,438,288	$ 1,572,249	$ 2,810,547	$ 21,644,337

Cherry Bekaert LLP
CPAs & Advisors

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, 2017, 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 that 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 that 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 Capital Campaign Fund, and 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, 2017.

Cherry Bekaert LLP

Raleigh, North Carolina
December 7, 2017