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 and affiliates (the "Diocese") for the year ended June 30, 2019 and have issued our report thereon dated December 2, 2019. 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 April 11, 2019. 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.

As described in notes to financial statements the Diocese adopted Accounting Standards Update ("ASU") 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. In addition as a result of the implementation of this new standard the Diocese reclassified an amount related to constructing long-term assets with donor-restricted funds between net asset classifications as of July 1, 2018. There was no impact to net assets as a whole. We have included an Emphasis of Matter paragraph in our report of independent auditor concerning these matters.

During the year, the Diocese formed two separate legal entities, The Foundation of the Roman Catholic Diocese of Raleigh, Inc. and The Catholic Community Deposit and Loan Fund, Inc. The activities of these two entities have been consolidated into the financial statements of the Diocese and all material inter-entity transactions have been eliminated accordingly.

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 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 consolidated 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 December 2, 2019.

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.

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
December 2, 2019

Cherry Bekaert LLP
CPAs & Advisors

Report of Independent Accountant

To the 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, 2019, no funds from the Bishop's Annual Appeal, God's Work ~ Our Challenge, Our Cathedral: One Faith, One People, or parish savings accounts in the Catholic Community Deposit and Loan Fund, Inc. were used to pay any child sexual misconduct claims, legal fees, or counseling costs. If funds were paid, unrestricted reserves, the Diocesan insurance policy, 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, or parish savings accounts in the Catholic Community Deposit and Loan Fund, Inc. 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, 2019.

Cherry Bekaert LLP

Raleigh, North Carolina
December 2, 2019

ADMINISTRATIVE OFFICES OF THE DIOCESE OF RALEIGH

CONSOLIDATED FINANCIAL STATEMENTS

As of and for the Year Ended June 30, 2019

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

We have audited the accompanying consolidated financial statements of the Administrative Offices of the Diocese of Raleigh and affiliates (the "Diocese"), which comprise the consolidated statement of financial position as of June 30, 2019, and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the year 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, 2019, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Effect of Adopting New Accounting Standard

As described in Note 26, during the year, the Diocese adopted Accounting Standards Update ("ASU") 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The ASU has been applied retrospectively to all periods presented. Our opinion is not modified with respect to this matter.

Additionally, as discussed in Note 26, the Diocese reclassified various amounts between net asset classifications as of July 1, 2018. There was no impact to net assets as a whole. Our opinion was not modified with respect to this matter.

Cherry Bekaert LLP

Raleigh, North Carolina
December 2, 2019

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

JUNE 30, 2019

ASSETS	
Cash and cash equivalents	$ 66,226,569
Investments	62,667,016
Accounts receivable:	
Assessments	1,767,878
Bishop's Annual Appeal, net	438,959
Cathedral Campus Campaign, net	1,366,805
Other, net	1,699,388
Prepaid expenses and other assets	958,863
Loans receivable, parishes and institutions, less allowance for doubtful loans of $200,000 at June 30, 2019:	
Interest bearing	31,307,201
Non-interest bearing	3,925,585
Beneficial interests in perpetual trusts	5,765,594
Beneficial interests in charitable remainder trusts	152,329
Licenses and rights	1,003,375
Property held for sale	1,721,266
Property and equipment:	
Operating properties	9,958,088
Other properties	3,431,957
Total Assets	$ 192,390,873

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

JUNE 30, 2019

LIABILITIES AND NET ASSETS	
Liabilities:	
Accounts payable:	
Funds held for others	$ 484,908
Supplies and expenses	4,151,880
Accrued expenses	968,111
Split interest obligations	832,119
Deferred revenue and support	12,900
Deposits payable:	
Parishes	68,932,447
Catholic Charities of the Diocese of Raleigh, Inc.	432,588
Obligations for post-retirement benefits:	
Health care plan, current portion	399,852
Health care plan, long-term portion	13,532,116
Long-term care plan, current portion	107,312
Long-term care plan, long-term portion	5,536,053
Bonds payable, current	4,354,991
Total Liabilities	99,745,277
Net Assets:	
Without Donor Restrictions:	
Unrestricted, undesignated	3,987,755
Designated, property and equipment accounts	14,803,533
Designated, deposit and loan accounts	883,337
Designated, unrestricted	4,447,876
Total Without Donor Restrictions	24,122,501
With Donor Restrictions:	
Perpetual in nature	34,279,755
Restricted subject to endowment spending policy	19,820,947
Purpose restrictions	7,671,341
Time-restricted for future periods	6,751,052
Total With Donor Restrictions	68,523,095
Total Net Assets	92,645,596
Total Liabilities and Net Assets	$ 192,390,873

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

YEAR ENDED JUNE 30, 2019

	Without Donor Restrictions	With Donor Restrictons	Total
Support and Revenue:			
Contributions:			
Gifts and bequests	$ 1,502,970	$ 522,303	$ 2,025,273
Bishop's Annual Appeal	213,596	6,376,159	6,589,755
Capital campaigns	-	787,952	787,952
Departmental and project fees	3,860,988	-	3,860,988
Administrative fees received	421,821	-	421,821
Diocesan assessments	4,441,956	-	4,441,956
Rental income	887,480	20,000	907,480
Investment income, parish loans	1,362,204	-	1,362,204
Insurance department	2,991,534	-	2,991,534
Insurance proceeds	7,983,388	-	7,983,388
Investment income, other	1,513,607	2,126,652	3,640,259
Realized gain on sale of assets	22,847	-	22,847
Total Support and Revenue Before Release of Restrictions	25,202,391	9,833,066	35,035,457
Releases of Restrictions:			
Appropriation from donor endowment and subsequent satisfaction of any related donor restrictions	1,143,473	(1,143,473)	-
Expirations of time restrictions	6,921,435	(6,921,435)	-
Satisfaction of property and equipment acquisition restrictions	3,045,702	(3,045,702)	-
Satisfaction of program restrictions	527,364	(527,364)	-
Total Support and Revenue	36,840,365	(1,804,908)	35,035,457

ADMINISTRATIVE OFFICES OF THE DIOCESE OF RALEIGH

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

YEAR ENDED JUNE 30, 2019

	Without Donor Restrictions	With Donor Restrictons	Total
Expenses:			
Offices of:			
Bishop	$ 2,070,903	$ -	$ 2,070,903
Vicar General	1,154,293	-	1,154,293
Judicial Vicar/Chancellor	533,740	-	533,740
Chief Financial Officer/Chief Operating Officer	2,577,481	-	2,577,481
Catholic Formation and Education	2,004,330	-	2,004,330
Evangelization and Discipleship	1,339,819	-	1,339,819
Catholic Charities Subsidies	1,444,820	-	1,444,820
Grants	887,215	-	887,215
Deposits and Loans	716,831	-	716,831
Insurance Department	10,433,719	-	10,433,719
Priest Welfare	2,481,531	-	2,481,531
Capital Campaign	767,575	-	767,575
High School Tuition Assistance	228,642	-	228,642
Parishes and Other Subsidies	742,914	-	742,914
Diocesan Development Trust	3,493	-	3,493
Human Resources	2,930,460	-	2,930,460
Total Expenses	30,317,766	-	30,317,766
Increase (decrease) in net assets from operations	6,522,599	(1,804,908)	4,717,691
Change in obligations for priest post-retirement benefits other than pensions	(3,395,070)	-	(3,395,070)
Change in value of split-interest agreements	(31,776)	(51,821)	(83,597)
Change in beneficial interests in perpetual trusts	-	(4,699)	(4,699)
Transfer of the organ to the Holy Name of Jesus Cathedral parish	(3,045,702)	-	(3,045,702)
Realized gain (loss) on formation of the Foundation	(4,734,236)	23,347,806	18,613,570
Change in net assets	(4,684,185)	21,486,378	16,802,193
Net assets, beginning of year	31,644,499	44,198,904	75,843,403
Change in accounting principle (Note 26)	(2,837,813)	2,837,813	-
Net assets, beginning of year (as restated)	28,806,686	47,036,717	75,843,403
Net assets, end of year	$ 24,122,501	$ 68,523,095	$ 92,645,596

ADMINISTRATIVE OFFICES OF THE DIOCESE OF RALEIGH

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2019

	Salaries and Fringe Benefits	Purchased Services	Supplies, Materials, and Expenses	Interest	Contributions	Total
Bishop	$ 428,986	$ 1,520,256	$ 121,661	$ -	$ -	$ 2,070,903
Vicar General	931,790	159,145	63,358	-	-	1,154,293
Judicial Vicar/Chancellor	431,610	51,986	50,144	-	-	533,740
Chief Financial Officer/ Chief Operating Officer	1,781,640	713,035	82,806	-	-	2,577,481
Catholic Formation and Education	864,383	560,404	145,348	-	434,195	2,004,330
Evangelization and Discipleship	897,364	377,029	53,076	-	12,350	1,339,819
Catholic Charities Subsidies	-	-	-	-	1,444,820	1,444,820
Grants	-	-	-	-	887,215	887,215
Deposits and Loans	-	23,448	-	693,383	-	716,831
Insurance	-	10,433,719	-	-	-	10,433,719
Priest Welfare	45,318	2,427,236	8,977	-	-	2,481,531
Capital Campaign	-	762,692	4,883	-	-	767,575
High School Tuition Assistance	-	-	-	-	228,642	228,642
Parishes and Other Subsidies	148,084	298,211	38,146	-	258,473	742,914
Diocesan Development Trust	-	-	-	3,493	-	3,493
Human Resources	1,344,118	924,128	662,214	-	-	2,930,460
	$ 6,873,293	$ 18,251,289	$ 1,230,613	$ 696,876	$ 3,265,695	30,317,766

Nonoperating Expenses:	
Change in obligations for priest post-retirement benefits other than pensions	3,395,070
Change in value of split-interest agreements	83,597
Change in beneficial interests in perpetual trusts	4,699
Transfer of the organ to the Holy Name of Jesus Cathedral parish	3,045,702
Total Expenses on Consolidated Statement of Activities and Changes in Net Assets	$ 36,846,834

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

YEAR ENDED JUNE 30, 2019

Cash flows from operating activities:	
Cash received from contributions, net of amounts restricted for endowment	$ 7,852,850
Cash received from departmental and project fees	3,851,704
Cash received for administrative services provided	421,821
Cash received for Diocesan assessments	4,923,566
Cash received from rent collected	907,480
Cash received from interest earned on parish loans	1,362,204
Cash received from operation of the insurance department	10,617,094
Cash payments to employees and vendors	(25,452,534)
Grants disbursed	(3,265,695)
Interest paid	(726,806)
Investment income received	1,497,246
Net cash flows from operating activities	1,988,930
Cash flows from investing activities:	
Purchases of property and equipment	(595,662)
Proceeds from sales of property and equipment	41,237
Purchases of investments	(3,833,164)
Proceeds from sales of investments	1,776,056
New loans funded	(3,830,291)
Collections on loans	8,924,854
Net cash flows from investing activities	2,483,030
Cash flows from financing activities:	
Contributions restricted for investment in endowment	1,981,606
Parish deposits and other deposits	4,694,751
Repayment of bonds payable	(1,258,304)
Net cash flows from financing activities	5,418,053
Net change in cash and cash equivalents	9,890,013
Cash and cash equivalents, beginning of year	56,336,556
Cash and cash equivalents, end of year	$ 66,226,569

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, and its affiliates as described below, (collectively, the "Diocese") includes the Office of the Bishop as well as various ministerial and administrative offices. 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 consolidated financial statements of the Diocese include the books and records of the Foundation of the Roman Catholic Diocese of Raleigh, Inc. ("Foundation"), incorporated on August 14, 2018. The Foundation's role is to cultivate endowed and major gifts for the long-term benefit of the Diocese, parishes, schools, programs, and ministries while providing effective and efficient management and distribution of invested funds.

Additionally, the consolidated financial statements of the Diocese include the books and records of the Catholic Community Deposit and Loan Fund, Inc. ("Deposit and Loan"), incorporated on December 4, 2018. The Deposit and Loan's role is to provide a means through which parishes and schools can safely and securely invest excess operating funds and obtain loans to provide for capital investment and support program ministries.

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 ("U.S. GAAP").

Basis of Consolidation – The accompanying consolidated financial statements include the Office of the Bishop as well as various ministerial and administrative offices, and the accounts of the Foundation and the Deposit and Loan. All significant inter-organizational transactions and balances have been eliminated in consolidation.

Basis of Presentation – As required by U.S. GAAP, the Diocese classifies revenues, expenses, gains, and losses based on the existence or absence of donor-imposed restrictions. As a result, the net assets of the Diocese and the changes therein are classified and reported as either with or without donor restrictions.

> *Net Assets Without Donor Restrictions* – Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of the Diocese's management, the Diocesan Finance Council, and the Board of Directors of the Foundation.

> *Net Assets With Donor Restrictions* – Net assets that are subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Diocese or by the passage of time. Other donor restrictions are perpetual in nature, where the donor has stipulated the funds be maintained in perpetuity.

In February 2016, the Financial Accounting Standards Board ("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. Implementation of the new standard has been delayed and will be effective for the Diocese on July 1, 2021. Early adoption is permitted. The Diocese is currently evaluating the effect that the standard will have on its consolidated financial statements and related disclosures.

Note 2—Summary of significant accounting policies (continued)

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 became effective for the Diocese 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 with or without donor restrictions, depending on the existence and/or nature of any donor stipulations. Amounts received that are designated for future periods or restricted by the donor for a specific purpose are reported as support with donor restrictions 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 monies both with and without donor restrictions are available for use for activities that comply with donor restrictions, the Diocese will use funds having donor restrictions 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

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 – Employees are permitted to carry over up to five days of vacation time earned. As of June 30, 2019, the Diocese had $73,495 accrued for compensated absences.

Estimates – The preparation of consolidated financial statements in conformity with U.S. 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 the fair value of the underlying trust assets in the consolidated statement of financial position, with the change in fair value reported as a change in beneficial interests in perpetual trusts in the consolidated statement 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 as net assets with donor restrictions. The income generated by the trusts, if not expended during the current year and if subject to donor restrictions, is included as investment income with donor restrictions in the accompanying consolidated statement of activities and changes in net assets 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 statement of financial position. The change in fair value of the annuity liabilities are reported as a change in split-interest agreements in the consolidated statement 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 statement of financial position and the change in fair value is reported as a change in split-interest agreements in the consolidated statement of activities and changes in net assets. The interests are classified in net assets according to the presence or absence of donor restrictions.

Expense Recognition and Functional Allocation – The cost of providing the Diocese's programs and other activities is summarized on a functional basis in the consolidated statement of functional expenses. Substantially all expenses can be identified with a specific program and are directly charged to the applicable program. Any remaining costs common to multiple functions have been allocated among the various functions benefited and consist primarily of salaries and related fringe benefits, which have been allocated based on estimates of time and effort.

Note 3—Liquidity and availability

Financial assets available for general expenditure that is without donor or other restrictions limiting their use, within one year of the date of the consolidated statement of financial position are as follows:

Cash and cash equivalents	$ 52,674,712
Accounts receivable	3,378,445
Promises to give	2,146,306
Endowment spending-rate distributions and appropriations	1,114,654
	$ 59,314,117

Note 3—Liquidity and availability (continued)

Endowment funds consist of donor-restricted endowments and funds designated by the Diocesan Finance Council to function as endowments. Income from donor-restricted endowments is restricted for specific purposes, except for the amounts available for general use. Donor-restricted endowment funds are not available for general expenditure.

The board-designated endowment of $10,264,105 is subject to an annual spending rate of 4% as described in Note 7. Although the Diocese does not intend to spend from this board-designated endowment (other than amounts appropriated for general expenditure as part of the Board of Directors' annual budget approval and appropriation), these amounts could be made available, if necessary.

The Diocese's liquidity management plan includes investing cash in excess of daily requirements in the Certificate of Deposit Account Registry Service network and the Insured Cash Sweep network. Furthermore, as discussed in Note 19, the Diocese maintains a $10,000,000 unsecured line of credit, which is available to provide additional liquidity, if necessary.

Note 4—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 receivable 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, 2019, the Diocese also held $58,197,727 of fully insured funds in the Certificate of Deposit Account Registry Service network and the Insured Cash Sweep network.

Note 5—Fair value measurements

U.S. 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. U.S. 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 5—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:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Investments:				
Mutual funds - domestic	$ 42,888,320	$ 42,888,320	$ -	$ -
Mutual funds - international	141,305	141,305	-	-
Bond funds	12,197,978	12,197,978	-	-
Real estate investment trusts	41,515	41,515	-	-
Cash and cash equivalents	619,474	-	619,474	-
Total investments at fair value	55,888,592	55,269,118	619,474	-
Investments measured at net asset value (a)	6,778,424	-	-	-
Total Investments	62,667,016	55,269,118	619,474	-
Beneficial interests in perpetual trusts	5,765,594	-	5,765,594	-
Beneficial interests in charitable remainder trusts	152,329	-	-	152,329
Total Assets	$ 68,584,939	$ 55,269,118	$ 6,385,068	$ 152,329
Liabilities:				
Split-interest obligations	$ 832,119	$ -	$ -	$ 832,119
Obligations for post-retirement benefits other than pensions:				
Health care plan	13,931,968	-	-	13,931,968
Long-term care plan	5,643,365	-	-	5,643,365
	$ 20,407,452	$ -	$ -	$ 20,407,452

[a] In accordance with FASB Accounting Standards Codification Subtopic 820-10, certain investments that were measured at net asset value ("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 statement of financial position.

Note 5—Fair value measurements (continued)

The following table reconciles the beginning and ending balances of financial assets measured at fair value on a recurring basis using significant unobservable (Level 3) inputs during the year ended June 30, 2019:

	Beginning Balance	Contributions	Distributions	Change in Value	Ending Balance
Beneficial Interests in:					
Charitable remainder trusts	$ 159,773	$ -	$ -	$ (7,444)	$ 152,329
Split-interest agreements	(891,050)	5,000	(140,084)	(76,153)	(832,119)
Obligations for post-retirement benefits other than pensions:					
Health care plan	(11,547,631)	-	-	(2,384,337)	(13,931,968)
Long-term care plan	(4,632,632)	-	-	(1,010,733)	(5,643,365)

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 year ended June 30, 2019.

The following table summarizes investments measured at fair value based on NAV per share as of June 30, 2019:

Asset	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Period
Global hedge funds (a)	$ 6,778,424	N/A	Quarterly	5-65 days' notice

[a] The global hedge funds allocate assets to investment funds in four broad investment categories: event-driven, credit, equity market neutral, and absolute return multi-strategy managers. Some or all the marketable alternative strategies may be deployed across U.S. and non-U.S. markets. The global hedge funds seek 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.

The related net investment income is reported in the consolidated statement of activities and changes in net assets as net investment income, 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. Net investment loss related to custodial assets held on behalf of others of $194,777 was not recorded within the consolidated statement of activities and changes in net assets and instead was recorded as a payable to the owners of those assets in the consolidated statement of financial position. That payable was liquidated upon formation of the Foundation.

Note 6—Formation of the Foundation of the Roman Catholic Diocese of Raleigh, Inc.

In order to financially sustain and enhance the spiritual, charitable, and educational ministries of the Diocese, on August 14, 2018, the Diocese separately incorporated the Foundation of the Roman Catholic Diocese of Raleigh, Inc. The purpose of the Foundation is to raise, hold, and invest assets for the Diocese and its parishes, schools and other ministries. In June 2019, the Diocese transferred 113 individual endowment funds which consisted of all Diocesan endowment funds except for those endowments held under split-interest agreements. The total value of investments transferred was $59,400,004, which included $18,613,570 of assets which were being held by the Diocese in custody on behalf of related organizations and had previously been offset with a custodial liability in the consolidated statement of financial position.

With the formation of the Foundation, the Diocese and the owners of the endowments for which the Diocese had custody, granted variance power to the Foundation, which allows the Foundation to modify any condition or restriction on its distribution for any specified charitable purpose or to any specified organization, if, in the sole judgment of the Foundation's Board of Directors, such restrictions or conditions become unnecessary, incapable of fulfillment, or inconsistent with the charitable purposes for which the Foundation was established.

Accordingly, due to granting of variance power, on the consolidated statement of activities and changes in net assets, the custodial liability was removed, which resulted in an increase in total net assets of $18,613,570, representing the recognition of the contribution of custodial assets and elimination of the custodial liability in accordance with U.S. GAAP. Additionally, upon transfer of the assets to the Foundation, a comprehensive review of all endowment agreements was performed. This review led to additional transfers and reclassifications of individual endowments between net asset classifications. The impact of these transfers and the allocation of custodial assets was to decrease net assets without donor restrictions by $4,734,236 and increase net assets with donor restrictions by $23,347,806.

Note 7—Investments

The Diocese maintains investments in equity, debt securities, and private equity funds. Net investment income, which consists of interest and dividends, realized gains and losses, and unrealized gains and losses, from these securities are allocated to the various funds with and without donor restrictions based on each fund's percentage ownership of total invested assets. Net investment income is reported net of investment fees in the consolidated statement of activities and changes in net assets.

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

	Cost	Market Value	Unrealized Appreciation
Mutual funds - domestic	$ 40,657,548	$ 42,888,320	$ 2,230,772
Mutual funds - international	154,555	141,305	(13,250)
Bond funds	12,102,146	12,197,978	95,832
Alternative investments	6,718,837	6,778,424	59,587
Real estate investment trusts	40,014	41,515	1,501
Cash and cash equivalents	619,474	619,474	-
	$ 60,292,574	$ 62,667,016	$ 2,374,442

Note 7—Investments (continued)

Diocesan endowments consist of approximately 149 individual funds established for a variety of purposes. As described in Note 6, the ownership of all funds, except for those associated with split-interest agreements, were transferred to the Foundation for administration in June 2019. The endowments included donor-restricted endowment funds, funds designated by the Diocesan Finance Council and the Board of Directors of the Foundation to function as endowments, and funds held in custody on behalf of related organizations. As required by U.S. GAAP, because variance power was granted to the Foundation for all the endowments transferred, funds previously reported as custodial in nature, which had related custodial liabilities, were reclassified to net assets and recorded according to the presence or absence of donor restrictions. All net assets associated with Diocesan endowment funds, including funds designated by the Diocesan Finance Council and the Board of Directors of the Foundation 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 Board of Directors of the Foundation, and prior to the transfer of endowments, the Diocesan Finance Council, have 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 net assets with donor restrictions in perpetuity:

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.

Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditures by the Diocese in a manner consistent with the standard of prudence prescribed by the North Carolina Uniform Prudent Management of Institutional Funds Act (UPMIFA). 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 investment policies of the organization.

Investment Return Objectives, Risk Parameters, and Strategies – The Diocese has adopted investment policies, approved by the Board of Directors of the Foundation, and previously 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.

Note 7—Investments (continued)

Spending Policy – The Diocesan policy is that the annual income distribution available from endowment funds is a maximum of 4% 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, 2019:

	Custodial Endowments Held on Behalf of Others	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds:				
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	$ -	$ -	$ 21,161,797	$ 21,161,797
Accumulated investment gains	-	-	7,352,365	7,352,365
Amounts held in term endowments	-	-	19,854,342	19,854,342
Assets related to donor-restricted split interest agreements	-	-	434,638	434,638
Board-designated endowment and other funds	-	13,863,874	-	13,863,874
Total	$ -	$ 13,863,874	$ 48,803,142	$ 62,667,016

Changes in endowment for the year ended June 30, 2019:

	Custodial Endowments Held on Behalf of Others	Without Donor Restrictions	With Donor Restrictions	Total
Endowment, beginning of year	$ 18,708,101	$ 16,378,899	$ 24,121,757	$ 59,208,757
Conversion of custodial liability and other transfers (Note 6)	(18,613,570)	(4,734,236)	23,347,806	-
Contributions	280,338	2,514,536	596,923	3,391,797
Net investment income	(194,777)	477,345	1,880,128	2,162,696
Administrative fee	-	(89,514)	(332,307)	(421,821)
Amounts expended	(180,092)	(683,156)	(811,165)	(1,674,413)
Endowment, end of year	$ -	$ 13,863,874	$ 48,803,142	$ 62,667,016

The activity of custodial endowments held on behalf of others prior to the transfer to the Foundation are reported for informational purposes only and are not reported in the consolidated statement of activities and changes in net assets. Amounts owed to related organizations for these custodial endowments were reclassified to net assets with and without donor restrictions as discussed in Note 6.

Note 8—Net assets with donor restrictions

Net assets with donor restrictions are restricted for the following purposes or periods at June 30, 2019:

Subject to expenditure for a specified purpose:	
Horne Memorial Revolving Fund	$ 4,988,582
Land Trust	661,738
Early Childhood Development	1,601,372
Other ministries and programs	333,790
Promises to give, the proceeds from which have been restricted by donors for seminarian education and welfare	85,859
	7,671,341
Subject to the passage of time:	
Undistributed Bishop's Annual Appeal	6,376,159
Contributions receivable, the proceeds from which have been restricted by donors for seminarian education and welfare	146,399
Hurricane relief	210,494
Clergy and religious welfare	18,000
	6,751,052
Endowments:	
Subject to the passage of time:	
Net assets held under split-interest agreements	163,154
Underwater split-interest agreement	(196,549)
	(33,395)
Subject to appropriation and expenditure for a specific purpose:	
Restricted by donors for:	
Assistance for the needy	557,679
Capital investment	2,917,158
Child and family programs	1,406,209
Lay formation and education	2,153,230
Parish support and assistance	1,169,038
Seminarian education	5,120,738
Tuition assistance and scholarships	3,207,972
Other ministries and programs	3,322,318
	19,854,342
Perpetual in nature, earnings from which are subject to endowment spending policy and appropriation:	
Assistance for the needy	5,077,209
Catholic schools and education initiatives	5,341,014
Cemetery maintenance	941,515
Diocesan support and assistance	3,296,465
Lay formation and education	1,049,335
Seminarian education	4,324,059
Tuition assistance and scholarships	5,955,386
Other ministries and programs	2,529,178
	28,514,161
Perpetual in nature, not subject to spending policy or appropriation:	
Beneficial interests in charitable trusts held by others	5,765,594
Total Net Assets With Donor Restrictions	$ 68,523,095

Note 9—Net assets with board designations

The following net assets without donor restrictions have been designated by the Board for the following purposes or periods at June 30, 2019:

Invested in property and equipment, net of related debt	$ 14,803,533
Assets designated to function as an endowment subject to the passage of time:	
Assets held under split-interest agreements	467,341
Subject to appropriation and expenditure for a specific purpose:	
For the benefit of:	
Seminarian education	2,352,417
Capital investment	2,876,552
Catholic Charities of the Diocese of Raleigh, Inc.	1,739,886
Catholic schools and education initiatives	487,581
Cathedral operations	551,458
Clergy and religious welfare	4,310,482
Parish support and assistance	229,867
Other ministries and programs	484,205
	13,032,448
Board designated without donor restrictions:	
Deposit and loan accounts	883,337
Priest long-term care and health care accounts	(19,575,333)
Priest welfare	563,180
Insurance reserve	8,712,314
Cathedral support	148,330
Seminarian education	199,596
Land trust	900,000
	(8,168,576)
Total Board Designated Net Assets	$ 20,134,746

Note 10—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 to be donor-restricted until the time and purpose restrictions have been met. Historically, each parish was assigned a designated funding goal based on its pro rata share of total offertory income within the Diocese. Effective with the 2017 and 2018 campaigns' funding for 2018 and 2019 operations, respectively, the parish goals were unadjusted. All parishes and schools receive a 100% rebate for funds collected in excess of their BAA goal.

The following unconditional promises to give were outstanding as of June 30, 2019:

Promises to give receivable in less than one year	$ 1,290,560
Less rebates to parishes	(509,538)
Less allowance for doubtful promises	(342,063)
	$ 438,959

Note 11—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, 2019, all net pledges receivable directly from parishes who participated in the combined campaigns were paid in full.

Note 11—Cathedral Campus Campaign (continued)

On July 26, 2017, the Holy Name of Jesus Cathedral (the "Cathedral") was officially dedicated, marking the substantial completion of the Cathedral Campus project. All capital assets of the Cathedral, excluding the organ, which was not yet completed, were transferred to the parish as of June 30, 2018. During the fiscal year ended June 30, 2019, the organ was completed and was transferred to the parish. The amount transferred to the parish totaled $3,045,702, which is presented separately on the consolidated statement of activities and changes in net assets.

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

Promises to give receivable over four years	$ 2,079,005
Less discount at rates between 1.44% and 2.77%	(63,983)
Less rebates to parishes	(6,374)
Less allowance for doubtful promises	(641,843)
	$ 1,366,805

Note 12—Insurance proceeds

In September 2018, Hurricane Florence hit the coast of North Carolina causing widespread flooding and setting rain records in many areas of North Carolina. Many parishes and schools of the Diocese located in eastern North Carolina sustained extensive damage due to flooding. The parishes, schools, and administrative offices of the Diocese participate in a self-insurance pool whereby the Diocese self-insures property claims and maintains commercial insurance above certain limits. During the year ended June 30, 2019, the Diocese received $7,983,388 in insurance proceeds related to hurricane claims, which is presented separately on the consolidated statement of activities and changes in net assets. Paid hurricane claims through June 30, 2019 were $8,536,470 and are included within the expenses of the insurance department on the consolidated statement of activities and changes in net assets.

Note 13—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 the consolidated financial statements. The amounts of these intentions to give is indeterminable.

Note 14—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. On December 4, 2018, the Diocese separately incorporated its deposit and loan program to form the Catholic Community Deposit and Loan Fund, Inc. As part of the separate incorporation, a new internal Board of Directors was established to act upon the recommendations of the Diocesan Finance Council. Interest rates for deposits and loans are reviewed semi-annually and adjusted as necessary. At June 30, 2019, Parish deposits earned interest at a rate of 0.75%, and can be withdrawn as requested. At June 30, 2019, Parish loans bore an interest rate of 4.00%, 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, 2019, the allowance totaled $200,000.

Note 14—Parish deposit and loan program (continued)

As of June 30, 2019, loans receivable consisted of the following:

Interest bearing	$ 31,507,201
Non-interest bearing	3,925,585
Total loans outstanding	35,432,786
Less allowance for uncollectible loans	(200,000)
	$ 35,232,786

Current changes in the loans receivable accounts are summarized as follows:

Beginning balance, June 30, 2018	$ 40,527,349
New loans made	3,830,292
Payments received	(8,924,855)
Ending balance, June 30, 2019	$ 35,432,786

A loan is defined as impaired when, based on current information and events, it is probable that a parish or school will be unable to pay all amounts due under the contractual terms of the loan agreement. The Diocese does not generally evaluate loans for impairment, unless there is an event that arises that brings in to question a parish's ability to pay. Those loans are evaluated for impairment on an individual basis, as needed. Due to the relationship of the parishes and schools with the Diocese, loans are very seldom uncollectible.

At June 30, 2019, the delinquencies of loans receivable consisted of the following:

Current	0-30 Days Past Due	31-60 days Past Due	Over 60 Days Past Due	Total Past Due	Total Loans Receivable
$ 35,365,127	$ 59,790	$ 924	$ 6,945	$ 67,659	$ 35,432,786

Additional information about the loan program is as follows:

	Number of Loans Outstanding	Average Face Amount at Origination
Interest bearing loans receivable	35	$ 1,257,645
Non-interest bearing loans receivable	29	$ 226,503
	64	

Note 15—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 16—Property and equipment

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

Land, buildings, and improvements	$ 17,187,841
Furniture and equipment	3,851,969
Automobiles	214,397
	21,254,207
Less accumulated depreciation	(6,167,456)
	15,086,751
Construction in progress	24,560
Property and equipment, net	$ 15,111,311

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

Property held for sale	$ 1,721,266
Operating properties	9,958,088
Other properties	3,431,957
Property and equipment, net	$ 15,111,311

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 statement of financial position. The land, income earned, and any proceeds in the event it is sold are donor restricted for use for early childhood development programs.

Depreciation expense for the year ended June 30, 2019, totaled $478,059.

Note 17—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, 2019, the Diocese received contribution revenue without donor restrictions of $5,000 and no donor 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.

Note 17—Life annuities and charitable remainder trusts (continued)

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 statement of financial position, and corresponding liability to the donors, included in split-interest obligations, is as follows as of June 30, 2019:

	Beneficial Interests in Charitable Remainder Trusts	Assets Held in Trust	Liability to Donors	Net Asset (Liability)
Life Annuities	$ -	$ 928,318	$ 657,526	$ 270,792
Charitable Remainder Trust	152,329	337,747	174,593	315,483
	$ 152,329	$ 1,266,065	$ 832,119	$ 586,275

The Diocese currently has one pool of donor restricted split-interest annuity agreements whereby the annuity liabilities exceed the market value of the assets supporting them by $196,549. If assets supporting the liabilities become entirely depleted prior to the extinguishment of the liability, the Diocese may be required to fund the annuity liabilities from net assets without donor restrictions.

Note 18—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 U.S. 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, 2019, included in the consolidated statement of financial position, are calculated as follows:

	Health Care	Long-term Care
Benefit obligation at July 1, 2018	$ 11,547,631	$ 4,632,632
Service cost	530,119	199,950
Interest cost	481,713	194,939
Plan participants' contributions	-	54,521
Actuarial loss	1,613,350	743,373
Benefit payments	(240,845)	(182,050)
Benefit obligation at June 30, 2019	$ 13,931,968	$ 5,643,365

Note 18—Post-retirement benefits other than pensions (continued)

The related net periodic post-retirement benefit costs are reported in the consolidated statement 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 statement of activities and changes in net assets related to the health care plan and long-term care plan for the year ended June 30, 2019 consisted of:

	Health Care	Long-term Care
Service cost	$ 530,119	$ 199,950
Interest cost	481,713	194,939
Actuarial loss	1,613,350	743,373
Net periodic post-retirement cost	$ 2,625,182	$ 1,138,262

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% for the year ended June 30, 2019. Thereafter, the rate was assumed to gradually decrease to a rate of 5.00% in 2025 for the fiscal year ended June 30, 2019. 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 year ended June 30, 2019, 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
2020	$ 399,852	$ 107,312
2021	423,186	117,861
2022	438,267	123,975
2023	456,019	129,699
2024	469,975	149,904
Thereafter	2,619,957	867,761
	$ 4,807,256	$ 1,496,512

As both plans are unfunded, expected contributions for the year ended June 30, 2019 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 4.12% to 3.49% during the current year.

Note 19—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 were 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 statement of financial position. The straight-line basis approximates interest expense utilizing the effective interest method. Interest expense charged during the year ended June 30, 2019, with respect to the bonds, was $11,355.

Note 19—Bonds payable (continued)

The terms of financing agreement for the non-taxable bonds 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, 2019.

Interest expense incurred related to bonds payable during the year ended June 30, 2019 was $159,341.

Bonds payable consisted of the following at June 30, 2019:

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%	$	4,390,948
Less unamortized debt issuance costs		(35,957)
Current debt less unamortized issuance costs	$	4,354,991

During the fiscal year ended June 30, 2019, the Diocese maintained an unsecured line of credit agreement with a maximum limit of $10,000,000. Interest is 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, 2019.

Note 20—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 $180,001 to the Lay Plan for the year ended June 30, 2019, which represented more than 5% of the total contributions of all employing units to the Lay Plan during the year.

Note 20—Defined benefit pension plans (continued)

The actuarial present value of vested and nonvested 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. If 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, 2019
Market value of plan assets	$ 34,819,218
Present value of accrued plan benefits	$ 45,781,289
Percent funded	76.1%
Total contributions to the plan	$ 2,122,987
Total employees covered under the plan	1,603
Discount rate used to value the plan liability	6.50%

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 nonvested 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, 2019
Market value of plan assets	$ 20,033,298
Present value of accrued plan benefits	$ 22,259,220
Percent funded	90.0%
Total contributions to the plan	$ 1,006,330
Total employees covered under the plan	105
Discount rate used to value the plan liability	6.50%

Note 21—Investment savings plan

The Diocese offers its employees a pre-tax 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 year ended June 30, 2019, the Diocese contributed $0.50 for each $1 invested by employees on the first 5% of qualified compensation, plus a noncontributory 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 noncontributory 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 year ended June 30, 2019 totaled $239,603.

Note 22—Fundraising

The Diocese conducts certain fundraising activities to generate revenues to assist in supporting its programs and activities. During the year ended June 30, 2019, fundraising expense totaled $735,745, which is included in Offices of the Chief Financial Officer/Chief Operating Officer, Capital Campaign, and Parishes and Other Subsidies on the consolidated statement of activities and changes in net assets.

Note 23—Leases

Rental Income – The Diocese has entered a long-term, noncancelable 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 rents receivable for this lease:

Years Ending June 30,	
2020	$ 569,776
2021	569,776
2022	569,776
2023	569,776
2024	569,776
Thereafter	11,395,520
	$ 14,244,400

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, 2019 was $290,343.

In January 2016, the Diocese received ½ interest in property subject to a long-term, cancelable 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 23—Leases (continued)

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

Years Ending June 30,		
2020	$	20,012
2021		20,012
2022		20,012
2023		20,012
2024		20,012
Thereafter		186,779
	$	286,839

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 ½ interest in the related real estate at June 30, 2019 was $1,311,153.

Rental Expense – The Foundation entered into a two-year noncancelable operating lease for office space beginning on July 1, 2019.

Future minimum rental commitments under the lease is as follows:

Years Ending June 30,		
2020	$	39,613
2021		40,801
	$	80,414

Note 24—Related party transactions

The Diocese transferred $1,949,870 in support and revenue to Catholic Charities of the Diocese of Raleigh, Inc. ("Catholic Charities") during the year ended June 30, 2019, including $1,343,970 in allocations from the Bishop's Annual Appeal. Catholic Charities reimbursed the Diocese $81,642 for rent, accounting, and other fiscal services during the year ended June 30, 2019. As of June 30, 2019, Catholic Charities owed the Diocese $54,945, which is included in accounts receivable – other, net in the accompanying consolidated statement of financial position.

The Diocese recognized revenue from the Diocesan parishes, schools, and other related organizations in the amount of $8,836,613 for the year ended June 30, 2019, for assessments, priest welfare, and interest. Of this amount, $1,767,878 was due from the related organizations at June 30, 2019, and are recorded in the accompanying consolidated statement of financial position. The Diocese incurred interest expense related to the parish loan and deposit program in the amount of $510,477 during the year ended June 30, 2019, which is recorded in the accompanying consolidated statement of activities and changes in net assets. At June 30, 2019, the Diocese owed $132,999 to parishes, schools, and other related organizations.

Note 25—Commitments and contingencies

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 (the "City") 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 $1,000,000 for its share of expenses incurred through June 30, 2019 which is included in accounts payable – supplies and expenses in the consolidated statement of financial position.

Note 26—Change in accounting principle

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 changed presentation and disclosure requirements to provide more relevant information about their resources to donors, grantors, creditors, and other users. The new standard was effective for the Diocese beginning on July 1, 2018. The changes outlined in the standard included qualitative and quantitative requirements within net assets classes, investment returns, expenses, liquidity, and availability of resources and presentation of operating cash flows. Additionally, the standard changed the manner in which the Diocese could release donor restrictions when constructing long-term assets utilizing donor restricted funds. Accordingly, the Diocese has recorded a change in accounting principle in the consolidated statement of activities and changes in net assets of $2,837,813, representing amounts that were released from donor restrictions in the prior year during the construction of the organ for the Holy Name of Jesus Cathedral. This change in accounting principle has no impact on total net assets or total change in net assets and represents only a change in classification between net asset classes.

Note 27—Subsequent events

Effective October 1, 2019, the interest rate on parish loans decreased from 4.00% to 3.50% and the interest rate paid on deposits was increased from .75% to 1.25%. The financial impact on the parish loan and deposit program will be an overall decrease in net interest income in fiscal year 2020, though the program is expected to operate at a surplus.

In September 2019, the Diocese paid off the entire balance of its bonds payable of $4,354,991. The bonds were originally due to mature in September 2022.

On August 31, 2019, the Diocese closed the Avila Retreat Center. The Diocese entered into a purchase agreement to sell the property and its contents for $1,375,000, which is scheduled to close in December 2019.

Subsequent to June 30, 2019, the Diocese entered into a contract for $3,250,000 to purchase a parcel of land in Durham, North Carolina for the purpose of building a Catholic high school. The sale is pending the approval of Durham County to issue a special use permit to build and operate a high school on the property.

Note 27—Subsequent events (continued)

Subsequent to June 30, 2019, the Investment Committee of the Diocese approved a new investment firm for the management of the pension and Foundation investments currently managed by Commonfund. The transition of investment advisors is expected to occur on January 1, 2020. The transfer could result in a substantial gain or loss on the liquidation of the investments prior to reinvestment.

The Diocese has evaluated subsequent events for disclosure and recognition through December 2, 2019, the date on which these consolidated financial statements were available to be issued.