



**CATHOLIC CHARITIES OF THE  
DIOCESE OF RALEIGH, INC.**

FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION

*As of and for the Years Ended June 30, 2016  
and 2015*

*And Report of Independent Auditor*

**CATHOLIC CHARITIES OF THE DIOCESE OF RALEIGH, INC.**

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## **Report of Independent Auditor**

Board of Directors  
Catholic Charities of the Diocese of Raleigh, Inc.  
Raleigh, North Carolina

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Catholic Charities of the Diocese of Raleigh, Inc. (“Catholic Charities”), which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to financial statements.

### **Management’s Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor’s Responsibility**

Our responsibility is to express an opinion on these financial statements based on our 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 financial statements are free from material misstatement.

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

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

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Catholic Charities as of June 30, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matter**

Our audit was conducted for the purpose of forming an opinion on the financial statements of Catholic Charities as a whole. The schedule of functional expenses is presented for purposes of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

Handwritten signature in cursive script that reads "Cherry Ruchman LLP".

Raleigh, North Carolina  
January 3, 2017

**CATHOLIC CHARITIES OF THE DIOCESE OF RALEIGH, INC.**  
**STATEMENTS OF FINANCIAL POSITION**

*JUNE 30, 2016 AND 2015*

	<u>2016</u>	<u>2015</u>
<b>ASSETS</b>		
Cash	\$ 425,263	\$ 1,382,052
Diocesan savings	18,207	654,806
Certificate of deposit and other savings	145,994	144,151
Pooled investment fund	2,821,965	2,249,648
Accounts receivable	75,700	125,524
Prepaid expenses	81,244	727
Inventory	441,183	459,304
Fixed assets (net of accumulated depreciation of \$432,189 and \$400,092, respectively)	57,487	74,580
Security deposits	28,253	21,283
<b>Total Assets</b>	<u>\$ 4,095,296</u>	<u>\$ 5,112,075</u>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities:		
Accounts payable and other liabilities	<u>\$ 379,786</u>	<u>\$ 291,506</u>
Net assets:		
Unrestricted	1,801,592	2,580,292
Temporarily restricted	1,913,918	2,240,277
<b>Total Net Assets</b>	<u>3,715,510</u>	<u>4,820,569</u>
<b>Total Liabilities and Net Assets</b>	<u>\$ 4,095,296</u>	<u>\$ 5,112,075</u>

**CATHOLIC CHARITIES OF THE DIOCESE OF RALEIGH, INC.**  
**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**

YEAR ENDED JUNE 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support and revenue:			
Diocese of Raleigh allocations	\$ 1,031,817	\$ -	\$ 1,031,817
Grants received	633,232	22,500	655,732
Federal commodities received	610,444	-	610,444
United Way allocations	149,829	-	149,829
Donated materials	2,585,745	-	2,585,745
Gifts and bequests	1,094,116	48,249	1,142,365
Program service fees	316,938	-	316,938
Special events	169,370	-	169,370
Interest and dividends	55,481	-	55,481
Gain on sale of investments	414,260	-	414,260
Unrealized loss on investments	(461,180)	-	(461,180)
Other income	2,501	-	2,501
Total support and revenue before release of restrictions	<u>6,602,553</u>	<u>70,749</u>	<u>6,673,302</u>
Net assets released from restrictions	397,108	(397,108)	-
Total support and revenue after release of restrictions	<u>6,999,661</u>	<u>(326,359)</u>	<u>6,673,302</u>
Expenses:			
Program areas:			
Immigration Services	352,557	-	352,557
Raleigh Office	471,729	-	471,729
Catholic Parish Outreach	3,611,637	-	3,611,637
Centro para Familias Hispanas	105,157	-	105,157
Smart Start Wake	132,915	-	132,915
Albemarle Office	186,769	-	186,769
Cape Fear Office	265,015	-	265,015
Fayetteville Office	346,989	-	346,989
Tar River Office	213,820	-	213,820
New Bern Office	213,145	-	213,145
Senior Pharmacy Program	99,555	-	99,555
Piedmont Office	484,331	-	484,331
Centro: la Comunidad	106,782	-	106,782
Newton Grove Office	182,895	-	182,895
Disaster Response	35,272	-	35,272
Support Circles	277,491	-	277,491
Total program areas	<u>7,086,059</u>	<u>-</u>	<u>7,086,059</u>
Administrative	692,302	-	692,302
Total expenses	<u>7,778,361</u>	<u>-</u>	<u>7,778,361</u>
Change in net assets	(778,700)	(326,359)	(1,105,059)
Net assets, beginning of year	2,580,292	2,240,277	4,820,569
Net assets, end of year	<u>\$ 1,801,592</u>	<u>\$ 1,913,918</u>	<u>\$ 3,715,510</u>

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

**CATHOLIC CHARITIES OF THE DIOCESE OF RALEIGH, INC.**  
**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**

YEAR ENDED JUNE 30, 2015

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Total</b>
Support and revenue:			
Diocese of Raleigh allocations	\$ 1,011,387	\$ -	\$ 1,011,387
Grants received	518,858	380,849	899,707
Emergency Food Shelter Program/FEMA	48,245	-	48,245
Federal commodities received	296,952	-	296,952
United Way allocations	184,667	-	184,667
Donated materials	3,147,610	-	3,147,610
Gifts and bequests	1,525,851	429,718	1,955,569
Program service fees	284,280	-	284,280
Special events	333,587	-	333,587
Interest and dividends	62,870	-	62,870
Gain on sale of investments	57,447	-	57,447
Unrealized loss on investments	(90,082)	-	(90,082)
Other income	6,446	-	6,446
Total support and revenue before release of restrictions	<u>7,388,118</u>	<u>810,567</u>	<u>8,198,685</u>
Net assets released from restrictions	<u>230,425</u>	<u>(230,425)</u>	<u>-</u>
Total support and revenue after release of restrictions	<u>7,618,543</u>	<u>580,142</u>	<u>8,198,685</u>
Expenses:			
Program areas:			
Immigration Services	209,792	-	209,792
Raleigh Office	403,179	-	403,179
Catholic Parish Outreach	3,817,240	-	3,817,240
Centro para Familias Hispanas	86,194	-	86,194
Smart Start Wake	115,243	-	115,243
Albemarle Office	123,162	-	123,162
Cape Fear Office	213,372	-	213,372
Fayetteville Office	319,656	-	319,656
Tar River Office	170,337	-	170,337
New Bern Office	123,705	-	123,705
Senior Pharmacy Program	93,245	-	93,245
Piedmont Office	527,197	-	527,197
Centro: la Comunidad	131,350	-	131,350
Newton Grove Office	187,626	-	187,626
Disaster Response	56,686	-	56,686
Support Circles	173,331	-	173,331
Total program areas	<u>6,751,315</u>	<u>-</u>	<u>6,751,315</u>
Administrative	<u>641,854</u>	<u>-</u>	<u>641,854</u>
Total expenses	<u>7,393,169</u>	<u>-</u>	<u>7,393,169</u>
Change in net assets	225,374	580,142	805,516
Net assets, beginning of year	<u>2,354,918</u>	<u>1,660,135</u>	<u>4,015,053</u>
Net assets, end of year	<u>\$ 2,580,292</u>	<u>\$ 2,240,277</u>	<u>\$ 4,820,569</u>

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

**CATHOLIC CHARITIES OF THE DIOCESE OF RALEIGH, INC.**  
**STATEMENTS OF CASH FLOWS**

YEARS ENDED JUNE 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
<b>Cash flows from operating activities:</b>		
Cash received from grantors, donors, and clients	\$ 3,545,427	\$ 4,647,401
Cash paid to suppliers and employees	(4,546,012)	(3,862,619)
Net cash and cash equivalents provided by (used by) operating activities	<u>(1,000,585)</u>	<u>784,782</u>
<b>Cash flows from investing activities:</b>		
Net redemption of investments	71,000	84,000
Purchase of investments	(643,686)	-
Purchase of fixed assets	(18,274)	(25,916)
Net cash and cash equivalents provided by (used by) investing activities	<u>(590,960)</u>	<u>58,084</u>
Net change in cash and cash equivalents	(1,591,545)	842,866
Cash and cash equivalents, beginning of year	2,181,009	1,338,143
Cash and cash equivalents, end of year	<u>\$ 589,464</u>	<u>\$ 2,181,009</u>
<b>Reconciliation of change in net assets to net cash and cash equivalents provided by (used by) operating activities:</b>		
Change in net assets	\$ (1,105,059)	\$ 805,516
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by (used by) operating activities:		
Interest and dividends reinvested	(46,551)	(16,403)
Realized gain on investments	(414,260)	(57,447)
Unrealized loss on investments	461,180	90,082
Increase (decrease) in donated materials inventory	18,121	(45,389)
Amortization of note receivable	-	(4,354)
Allowance for uncollectible note receivable	-	(16,421)
Depreciation	35,367	50,304
Decrease (increase) in:		
Accounts receivable	49,824	(73,211)
Prepaid expenses	(80,517)	141
Security deposits	(6,970)	(6,245)
Increase (decrease) in:		
Accounts payable and other liabilities	88,280	58,209
Net cash and cash equivalents provided by (used by) operating activities	<u>\$ (1,000,585)</u>	<u>\$ 784,782</u>
<b>Summarized data:</b>		
Cash	\$ 425,263	\$ 1,382,052
Diocesan savings	18,207	654,806
Certificate of deposit and other savings	145,994	144,151
	<u>\$ 589,464</u>	<u>\$ 2,181,009</u>

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



# CATHOLIC CHARITIES OF THE DIOCESE OF RALEIGH, INC.

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

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### Note 1—Description of the organization

*Organization* – The mission of Catholic Charities of the Diocese of Raleigh, Inc. (“Catholic Charities”) is to assist the parishes, communities, and the Diocese of Raleigh (the “Diocese”) in accomplishing the social mission of the church. In its roles of servant, advocate, facilitator, and convener, Catholic Charities acts in the parish and community-at-large to heighten awareness of issues and, when appropriate, provides services to fulfill unmet needs. Catholic Charities serves people in need through advocating for social and economic justice as well as addressing immediate needs with emergency resources or direct service.

### Note 2—Summary of significant accounting policies

*Basis of Accounting* – The financial statements of Catholic Charities have been prepared on the accrual basis of accounting. The significant accounting policies are described below to enhance the usefulness of the financial statements to the reader.

*Basis of Presentation* – Catholic Charities’ financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”). Accordingly, revenues, expenses, gains, and losses are classified based on the existence or absence of donor imposed restrictions. As a result, the net assets of Catholic Charities and changes therein are classified and reported as either unrestricted net assets, temporarily restricted net assets, or permanently restricted net assets.

#### Unrestricted net assets

Net assets that are not subject to donor imposed stipulations.

#### Temporarily restricted net assets

Net assets that are subject to donor imposed stipulations that may or will be met either by actions of Catholic Charities and/or by the passage of time.

#### Permanently restricted net assets

Net assets subject to donor imposed stipulations that require funds to be permanently maintained by Catholic Charities.

In May 2015, the Financial Accounting Standards Board (“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 Catholic Charities 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 5).

*Cash and Cash Equivalents* – Catholic Charities considers temporary deposits in financial institutions, Diocesan savings and all certificates of deposit accessible with little to no penalty to be cash equivalents.

*Receivables* – Catholic Charities periodically evaluates the receivable balances as well as the status of any significant past due accounts to determine if any balances are uncollectible. When management determines that a receivable is uncollectible, the balance is removed from the receivables balance and is charged directly against earnings. Subsequent recoveries of amounts previously written off are credited directly to earnings.

**CATHOLIC CHARITIES OF THE DIOCESE OF RALEIGH, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

*JUNE 30, 2016 AND 2015*

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

*Inventory* – Catholic Charities’ inventory consists of donated and purchased food as well as donated clothing and household goods on hand at the end of the fiscal year. Catholic Charities values inventory at cost or, if donated, a stated value determined by Feeding America, Inc. for food inventory and at estimated thrift store values for clothing and household goods. The value of food, clothing and household goods donated is recorded as a contribution when received and reported as an expense when distributed in the statement of activities and changes in net assets.

*Fixed Assets* – Fixed assets, primarily consisting of leasehold improvements, office furniture, and equipment, are recorded at cost using a capitalization threshold of \$500 and are depreciated over the estimated useful lives of the assets. In accordance with Catholic Charities’ policy, fixed assets are included in unrestricted net assets. Depreciation is computed using the straight-line method with estimated useful lives ranging from three to ten years. Of total depreciation expense of \$35,367 and \$50,304 for the years ended June 30, 2016 and 2015, respectively, \$21,000 and \$17,855 is reflected in administrative expenses and \$14,367 and \$32,449 is included in program expenses, respectively. Maintenance and repairs are charged to expense while major renewals are capitalized. The cost of equipment retired and disposed of, as well as related accumulated depreciation, is eliminated from the accounts with the resulting gain or loss included in operations.

*Revenue Recognition* – Contributions are recognized when the donor makes an unconditional promise to transfer assets. Catholic Charities reports gifts of cash and other assets as temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets for time or for purpose. When a donor restriction expires, whether a stipulated time restriction ends and/or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. If a restriction is fulfilled in the same period in which the contribution is received, Catholic Charities 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, Catholic Charities 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.

*Intentions-to-Give* – From time to time, Catholic Charities is notified that it is named as a beneficiary in a will or trust document. To the extent that these bequests are revocable during the lifetime of the donor, these intentions-to-give are not recorded in the financial statements of Catholic Charities.

*Compensated Absences* – Compensated absences such as vacation are not subject to carryover for employees of Catholic Charities except under special pre-approved situations. Accordingly, no accrual is provided for compensated absences as of June 30, 2016 and 2015.

*Contributed Services* – A substantial number of unpaid volunteers have made significant contributions of their time to develop Catholic Charities’ programs. The value of this contributed time is not reflected in the financial statements as it is not susceptible to objective measurement or valuation.

# CATHOLIC CHARITIES OF THE DIOCESE OF RALEIGH, INC.

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

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

*Expense Recognition and Allocation* – The cost of providing Catholic Charities' programs and other activities is summarized on a functional basis in the statements of activities and changes in net assets. Expenses that can be identified with a specific program or support service are charged directly to that program or support service. Costs common to multiple functions have been allocated among the various functions benefited. Administrative expenses include those costs that are not directly identifiable with any specific program, but which provide for the overall support and direction of Catholic Charities.

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

*Income Taxes* – Catholic Charities is a non-profit organization as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal and state income taxes on activities which are consistent with its mission. Accordingly, no income taxes have been provided in the accompanying financial statements.

Management has evaluated the effect of the guidance provided by the provisions of GAAP for Uncertainty in Income Taxes. Management believes that Catholic Charities continues to satisfy the requirements of a tax-exempt organization at June 30, 2016 and 2015. Management has evaluated all other tax positions that could have a significant effect on the financial statements and determined Catholic Charities had no uncertain income tax positions at June 30, 2016 and 2015. Catholic Charities is not classified as a private foundation.

*Other Matters* – Ordinary income and gains and losses arising from the sale, collection, or other disposition of investments, receivables, and the like are accounted for in the net asset group owning such assets. Income derived from investments of restricted net assets is unrestricted unless the income has been restricted by the donor.

*Reclassifications* – Certain reclassifications have been made to prior year financial statement amounts and disclosures to conform with current year presentation. These reclassifications had no impact on total assets, total liabilities, or net assets nor did they have any impact on the change in net assets.

### Note 3—Financial instruments

Catholic Charities places its cash and cash equivalents on deposit with financial institutions in the United States. The Federal Deposit Insurance Corporation ("FDIC") covers \$250,000 for substantially all depository accounts. During the year, Catholic Charities from time to time may have had amounts on deposit in excess of the insured limits. Additionally, at June 30, 2016 and 2015, Catholic Charities had balances in excess of FDIC of \$159,088 and \$1,058,215, respectively. The cash balances are maintained at financial institutions with high credit quality ratings and Catholic Charities believes no significant risk of loss exists with respect to those balances. Catholic Charities also maintains a savings account with the Diocese. While these deposits are not subject to FDIC insurance, Catholic Charities believes no significant risk of loss exists with respect to those balances.

**CATHOLIC CHARITIES OF THE DIOCESE OF RALEIGH, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

JUNE 30, 2016 AND 2015

**Note 4—Inventory**

Inventory composition by type is as follows as of June 30:

	<u>2016</u>	<u>2015</u>
Donated and purchased food	\$ 311,342	\$ 309,533
Clothing and household goods	129,841	149,771
	<u>\$ 441,183</u>	<u>\$ 459,304</u>

**Note 5—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 are 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 Catholic Charities' financial instruments carried at fair value on a recurring basis by the fair value hierarchy levels:

	<u>At June 30, 2016</u>			
	<u>Quoted Prices in Active Markets for Identical Assets Level 1</u>	<u>Observable Inputs Level 2</u>	<u>Significant Unobservable Inputs Level 3</u>	<u>Total Fair Value</u>
Pooled investment funds:				
Mutual funds - domestic	\$ 1,924,629	\$ -	\$ -	\$ 1,924,629
Mutual funds - international	5,813	-	-	5,813
Bond funds	565,713	-	-	565,713
REITs	1,994	-	-	1,994
Cash and cash equivalents	-	20,986	-	20,986
Total investments in the fair value hierarchy	2,498,149	20,986	-	2,519,135
Investments measured at net asset value <sup>(a)</sup>	-	-	-	302,830
Investments at fair value	2,498,149	20,986	-	2,821,965
Inventory	-	441,183	-	441,183
Total assets	<u>\$ 2,498,149</u>	<u>\$ 462,169</u>	<u>\$ -</u>	<u>\$ 3,263,148</u>

**CATHOLIC CHARITIES OF THE DIOCESE OF RALEIGH, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

JUNE 30, 2016 AND 2015

**Note 5—Fair value measurements (continued)**

	At June 30, 2015			Total Fair Value
	Quoted Prices in Active Markets for Identical Assets Level 1	Observable Inputs Level 2	Significant Unobservable Inputs Level 3	
Pooled investment funds:				
Common stocks - domestic	\$ 143,849	\$ -	\$ -	\$ 143,849
Common stocks - international	267,705	-	-	267,705
Mutual funds - domestic	657,626	-	-	657,626
Mutual funds - international	366,902	-	-	366,902
Bond funds	639,149	-	-	639,149
REITs	1,740	-	-	1,740
Cash and cash equivalents	86,792	-	-	86,792
Total investments in the fair value hierarchy	2,163,763	-	-	2,163,763
Investments measured at net asset value <sup>(a)</sup>	-	-	-	85,885
Investments at fair value	2,163,763	-	-	2,249,648
Inventory		459,304	-	459,304
Total assets	\$ 2,163,763	\$ 459,304	\$ -	\$ 2,708,952

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

Catholic Charities uses appropriate valuation techniques based on the available inputs. When available, Catholic Charities measures fair value using Level 1 inputs as they generally provide the most reliable evidence of fair value. Level 2 and Level 3 inputs are only used when Level 1 inputs were not available. The market approach was used for all assets classified as Level 1 and Level 2. Catholic Charities relies on fair value measurement calculations performed by third-party pricing services for the portion of the pooled investment fund classified as Level 2. Inputs include the credit risk of the issuer, maturity, current yield, and other terms and conditions of each instrument.

Level 2 assets also include food, clothing and household goods inventories. Donated and purchased food inventories are presented at the standard cost that is influenced by product mix as determined by Feeding America, Inc. The standard cost was \$1.67 and \$1.70 per pound at June 30, 2016 and 2015, respectively. The fair value of donated clothing and household goods inventories are estimated using thrift shop values published by leading national organizations for similar items based on their condition.

There were no changes to valuation techniques during the years ended June 30, 2016 and 2015.

**CATHOLIC CHARITIES OF THE DIOCESE OF RALEIGH, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

JUNE 30, 2016 AND 2015

**Note 5—Fair value measurements (continued)**

The following table summarizes investments measured at fair value based on NAV per share as of June 30, 2016 and 2015:

<b>June 30, 2016</b>				
<b>Asset</b>	<b>Fair Value</b>	<b>Unfunded Commitments</b>	<b>Redemption Frequency</b>	<b>Redemption Period</b>
Global macro hedge funds {a}	\$ 59,716	N/A	Daily and Monthly	15 - 30 days' notice
Equity hedge funds {b}	103,939	N/A	Monthly and Quarterly	5 - 65 days' notice
Relative value hedge funds {c}	59,453	N/A	Monthly and Annual	45 - 60 days' notice
Relative value and event driven hedge funds {d}	74,483	N/A	Monthly, Quarterly, and Annual	45 - 90 days' notice
Multi-strategy hedge fund {e}	5,239	N/A	Quarterly	100 days' written notice
	<u>\$ 302,830</u>			
<b>June 30, 2015</b>				
<b>Asset</b>	<b>Fair Value</b>	<b>Unfunded Commitments</b>	<b>Redemption Frequency</b>	<b>Redemption Period</b>
Multi-strategy hedge fund {e}	<u>\$ 85,885</u>	N/A	Quarterly	100 days' written notice

{a} This class includes investments 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.

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

{c} This class includes investments in distressed and current pay bonds, bank debt mortgage-backed securities, both residential and commercial, as well as post-reorganization equity liquidations. A range of .27% to 4.94% of investment funds have 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 have side pocket arrangements.

{e} 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.

**CATHOLIC CHARITIES OF THE DIOCESE OF RALEIGH, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

*JUNE 30, 2016 AND 2015*

**Note 5—Fair value measurements (continued)**

The related realized and unrealized net gains and losses are reported in the statement of activities and changes in net assets as gain on sale of investments and unrealized loss on investments.

**Note 6—Investments**

Catholic Charities participates in a pooled investment fund that is administered by the Diocese of Raleigh and managed by a fiscal agent. As of June 30, 2016 and 2015, Catholic Charities' portion of the Diocese's pooled investment fund consisted of the following:

	2016		2015	
	Cost	Market Value	Cost	Market Value
Common stocks - domestic	\$ -	\$ -	\$ 94,544	\$ 143,849
Common stocks - international	-	-	199,167	267,705
Mutual funds - domestic	1,976,615	1,924,629	422,032	657,626
Mutual funds - international	7,018	5,813	297,031	366,902
Bond funds	552,723	565,713	646,936	639,149
Alternative investments	309,743	302,830	66,424	85,885
REITs	1,797	1,994	1,866	1,740
Cash and cash equivalents	20,986	20,986	86,792	86,792
Total Assets	<u>\$ 2,868,882</u>	<u>\$ 2,821,965</u>	<u>\$ 1,814,792</u>	<u>\$ 2,249,648</u>

Investment revenues are reported net of investment fees of \$13,309 and \$7,455 for the years ended June 30, 2016 and 2015, respectively.

**Note 7—Funds functioning as endowment (“endowment”)**

The Catholic Charities endowment consists of approximately three individual funds established primarily for children and family programs that are included in the pooled investment fund described in Note 6 as well as the balance of a saving account held at the Diocese. The endowment includes donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. As required by GAAP, net assets associated with Catholic Charities' endowment funds, including funds designated by the Diocesan Finance Council (“Council”) of the Diocese of Raleigh to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions in the accompanying statement of financial position and activities and changes in net assets. Catholic Charities has delegated the administration of the endowments to the Council and the endowments are held in custody by the Diocese.

Catholic Charities has no permanently restricted endowment funds and all donor-restricted endowment funds are classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Council. The Council considers the following factors in making decisions related to appropriations for expenditures or accumulations of donor-restricted endowment funds:

- (1) the duration and preservation of the various funds;
- (2) the purposes of the donor-restricted endowment funds;
- (3) general economic conditions;
- (4) the possible effect of inflation and deflation;
- (5) the expected total return from income and the appreciation of investments;
- (6) other resources of Catholic Charities; and
- (7) Catholic Charities' investment policies.

**CATHOLIC CHARITIES OF THE DIOCESE OF RALEIGH, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

JUNE 30, 2016 AND 2015

**Note 7—Funds functioning as endowment (continued)**

*Investment Return Objectives, Risk Parameters, and Strategies:*

Catholic Charities has adopted investment policies, directed by the 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. Catholic Charities 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. Catholic Charities and the Council are 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* – Catholic Charities’ policy is that the annual income distribution available from endowment funds is a maximum of 4.0% and 4.25% for the fiscal years ended June 30, 2016 and 2015, respectively, 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:

	<b>2016</b>		
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Total</b>
Donor-restricted endowment funds	\$ -	\$ 1,215,536	\$ 1,215,536
Board-restricted endowment	1,606,429	-	1,606,429
Total	<u>\$ 1,606,429</u>	<u>\$ 1,215,536</u>	<u>\$ 2,821,965</u>

  

	<b>2015</b>		
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Total</b>
Donor-restricted endowment funds	\$ -	\$ 1,286,536	\$ 1,286,536
Board-restricted endowment	1,599,847	-	1,599,847
Total	<u>\$ 1,599,847</u>	<u>\$ 1,286,536</u>	<u>\$ 2,886,383</u>



**CATHOLIC CHARITIES OF THE DIOCESE OF RALEIGH, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

JUNE 30, 2016 AND 2015

**Note 7—Funds functioning as endowment (continued)**

Changes in endowment for the year ended June 30:

	<b>2016</b>		
	<b>Temporarily</b>		<b>Total</b>
	<b>Unrestricted</b>	<b>Restricted</b>	
Endowment beginning of year	\$ 1,599,847	\$ 1,286,536	\$ 2,886,383
Investment income	53,502	-	53,502
Realized gain on disposal of securities	414,260	-	414,260
Net unrealized depreciation of securities	(461,180)	-	(461,180)
Amounts expended	-	(71,000)	(71,000)
<b>Total</b>	<b>\$ 1,606,429</b>	<b>\$ 1,215,536</b>	<b>\$ 2,821,965</b>

  

	<b>2015</b>		
	<b>Temporarily</b>		<b>Total</b>
	<b>Unrestricted</b>	<b>Restricted</b>	
Endowment beginning of year	\$ 1,575,892	\$ 1,370,536	\$ 2,946,428
Investment income	56,590	-	56,590
Realized gain on disposal of securities	57,447	-	57,447
Net unrealized depreciation of securities	(90,082)	-	(90,082)
Amounts expended	-	(84,000)	(84,000)
<b>Total</b>	<b>\$ 1,599,847</b>	<b>\$ 1,286,536</b>	<b>\$ 2,886,383</b>

**Note 8—Temporarily restricted net assets**

Temporarily restricted net assets are made up of funds given by donors with restrictions that they be used at a particular time and/or for a particular purpose. Temporarily restricted net assets consisted of the following as of June 30:

	<b>2016</b>	<b>2015</b>
Children and Family Programs	\$ 1,215,536	\$ 1,286,536
CPO/CFH Programs	17,493	20,493
Disaster Response	55,352	55,352
Piedmont Deanery bequests	5,315	26,602
Cape Fear bequests	376	9,445
Fayetteville bequests	253,303	300,000
Holy Family Assistance	350	5,755
Assistance Funded by the Endowment for the Poor	182,531	302,700
Keck Estate	-	13,439
Kathleen Walsh Charitable Fund	92,267	99,241
Support Circle program	84,905	120,714
Other programs	6,490	-
<b>Total</b>	<b>\$ 1,913,918</b>	<b>\$ 2,240,277</b>

# CATHOLIC CHARITIES OF THE DIOCESE OF RALEIGH, INC.

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

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### Note 9—Governmental assistance

Catholic Charities received governmental revenues at a federal, state, county and local level totaling \$871,999 and \$579,291 for the years ended June 30, 2016 and 2015, respectively. Of these amounts, \$610,444 and \$296,952, respectively, represented federal commodities received and recorded.

### Note 10—Related party transactions

Catholic Charities maintains a savings account with the Diocese. Catholic Charities earned \$7,087 and \$19,546 in interest on this account for the years ended June 30, 2016 and 2015, respectively. Catholic Charities had \$18,207 and \$654,806, respectively, invested in the account bearing an interest rate of 3.10% at June 30, 2016 and 2015.

In addition to interest, Catholic Charities received in support and revenue from the Diocese the amount of \$1,164,934 and \$1,531,571 during the years ended June 30, 2016 and 2015, respectively. This included \$1,031,817 and \$1,011,387, respectively, in allocations from the Bishop's Annual Appeal for the year ended June 30, 2016 and 2015. Catholic Charities incurred charges from the Diocese of \$171,354 and \$178,403 for rent, accounting, stewardship and development and other fiscal services during the years ended June 30, 2016 and 2015, respectively. Included in accounts payable and other liabilities on the accompanying statements of financial position are \$55,061 and \$28,248 of amounts payable to the Diocese as of June 30, 2016 and 2015, respectively.

### Note 11—Defined benefit pension plans

Catholic Charities participates in a multi-employer noncontributory defined benefit retirement plan entitled the Retirement Plan for Lay Employees of the Bishop of the Roman Catholic Diocese of Raleigh, 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 employees of Catholic Charities 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 companies;
- 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 Catholic Charities 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. Catholic Charities has no intention of stopping its participation in the Plan.

**CATHOLIC CHARITIES OF THE DIOCESE OF RALEIGH, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

*JUNE 30, 2016 AND 2015*

**Note 11—Defined benefit pension plans (continued)**

During the year ended June 30, 2010, the Council approved a recommendation by management of the Diocese 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. Catholic Charities contributed \$68,922 and \$60,786 to the Lay Plan for the years ended June 30, 2016 and 2015, respectively, which represented approximately 3.6% and 2.6%, respectively, of the total contributions of all employing units to the Lay Plan.

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 Plan are parishes and related organizations of the Diocese, Catholic Charities relies upon each employing unit to contribute their required contribution to ensure that pension obligations under the Plan are met. In the event that individual employers of the Plan are unable to make their required contributions, the obligations would be reallocated to the remaining contributing units.

	<b>As of January 1, 2016</b>	<b>As of January 1, 2015</b>
Market value of plan assets	\$ 31,602,929	\$ 31,940,401
Present value of accrued plan benefits	\$ 39,249,306	\$ 37,697,246
Percent funded	80.5%	84.7%
Total contributions to the Plan	\$ 1,881,762	\$ 2,343,497
Total employees covered under the Plan	1,646	1,659
Discount rate used to value the Plan liability	7%	7%

**Note 12—Investment savings plan**

Catholic Charities 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 are covered. For the years ended June 30, 2016 and 2015, Catholic Charities 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 Catholic Charities. Employees are vested in Catholic Charities’ non-contributory deferral contribution after five years of service. Contributions to the 403(b) Plan for the years ended June 30, 2016 and 2015 totaled \$109,048 and \$84,192, respectively.

**CATHOLIC CHARITIES OF THE DIOCESE OF RALEIGH, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

*JUNE 30, 2016 AND 2015*

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**Note 13—Leases**

Catholic Charities leases various office spaces under non-cancelable leases with various expiration dates through 2022. Catholic Charities' rental expense was \$365,711 and \$321,120 for the years ended June 30, 2016 and 2015, respectively.

Future minimum rental commitments under the leases are as follows:

<u>Years Ending June 30</u>	
2017	\$ 353,747
2018	358,021
2019	314,409
2020	215,402
2021	173,035
Thereafter	114,319
	<u>\$ 1,528,933</u>

**Note 14—Fundraising**

Catholic Charities conducts certain fundraising activities in order to generate revenues to assist in supporting its programs and activities. Fundraising expenses of \$95,057 and \$160,843 are included in administrative expense for the years ended June 30, 2016 and 2015, respectively.

**Note 15—Contributed goods**

Catholic Charities receives donated goods, primarily groceries, clothing and household goods, from organizations, schools, individuals, and other sources. Catholic Charities accepts and distributes these donations to needy families and individuals in the community. During the years ended June 30, 2016 and 2015, Catholic Charities recorded receipts of donated food, clothing and other goods with a value of \$3,196,189 and \$3,444,562 and disbursements of \$3,214,310 and \$3,746,808, respectively.

Catholic Charities' primary facility for the receipt and subsequent distribution of donated groceries is Catholic Parish Outreach. Catholic Parish Outreach received and distributed approximately 841 and 895 tons of donated groceries during the years ended June 30, 2016 and 2015, respectively.

**Note 16—Subsequent events**

On October 4, 2016, Bishop Michael F. Burbidge was appointed by Pope Francis to serve as the Bishop of the Diocese of Arlington, Virginia. Bishop Burbidge served as Diocesan Administrator for the Diocese of Raleigh until he was officially installed as Bishop of Arlington on December 6, 2016. On December 9, 2016, the College of Consultors elected Monsignor Michael P. Shugrue to serve as Diocesan Administrator for the Diocese of Raleigh until a new bishop is installed. The amount of financial impact on Catholic Charities, if any, cannot be reasonably determined.

Catholic Charities has evaluated subsequent events for disclosure and recognition through January 3, 2017, the date on which these financial statements were available to be issued.

## **SUPPLEMENTARY INFORMATION**

**CATHOLIC CHARITIES OF THE DIOCESE OF RALEIGH, INC.**  
**SCHEDULE OF FUNCTIONAL EXPENSES**

YEAR ENDED JUNE 30, 2016

	<u>Immigration Services</u>	<u>Raleigh Office</u>	<u>Catholic Parish Outreach</u>	<u>Centro para Familias Hispanas</u>	<u>Smart Start Wake</u>	<u>Albemarle Office</u>
Salaries and fringe benefits	\$ 290,554	\$ 302,410	\$ 155,323	\$ 61,627	\$ 117,822	\$ 115,959
Equipment and supplies	4,056	2,351	5,170	2,220	-	1,056
Depreciation	-	-	14,367	-	-	-
Repairs and maintenance	38	1,209	28,120	8,737	1,600	1,139
Telephone	898	6,908	5,525	3,962	-	2,006
Utilities	94	-	15,923	3,552	725	3,798
Rent	-	27,778	104,074	17,225	8,794	-
Auto and travel	11,092	5,685	1,098	1,165	1,667	9,388
Postage and printing	1,443	1,840	3,816	545	-	374
Conferences and meetings	2,800	873	658	200	-	36
Dues and subscriptions	1,810	1,080	-	-	-	320
Program expenses	26,832	104,463	3,270,719	3,176	2,307	47,106
Professional services	10,789	15,917	2,082	1,362	-	4,291
Other	2,151	1,215	4,762	1,386	-	1,296
	<u>\$ 352,557</u>	<u>\$ 471,729</u>	<u>\$ 3,611,637</u>	<u>\$ 105,157</u>	<u>\$ 132,915</u>	<u>\$ 186,769</u>

**CATHOLIC CHARITIES OF THE DIOCESE OF RALEIGH, INC.**  
**SCHEDULE OF FUNCTIONAL EXPENSES**

*YEAR ENDED JUNE 30, 2016*

	<b>Cape Fear Office</b>	<b>Fayetteville Office</b>	<b>Tar River Office</b>	<b>New Bern Office</b>	<b>Senior Pharmacy Program</b>	<b>Piedmont Office</b>
Salaries and fringe benefits	\$ 180,817	\$ 119,973	\$ 124,052	\$ 147,570	\$ 28,206	\$ 230,717
Equipment and supplies	2,398	6,847	2,519	1,790	436	1,572
Depreciation	-	-	-	-	-	-
Repairs and maintenance	1,739	7,707	1,547	3,339	-	2,943
Telephone	8,190	6,160	3,337	4,344	1,137	4,785
Utilities	1,917	5,586	2,028	4,224	-	4,983
Rent	21,670	45,100	24,000	13,200	-	43,801
Auto and travel	9,648	5,368	7,781	22,549	364	3,367
Postage and printing	1,442	1,081	788	639	567	440
Conferences and meetings	837	1,193	386	363	116	2,267
Dues and subscriptions	-	150	295	-	545	225
Program expenses	24,965	143,506	42,703	9,220	67,646	176,788
Professional services	9,821	3,316	3,300	5,040	440	11,489
Other	1,571	1,002	1,084	867	98	954
	<u>\$ 265,015</u>	<u>\$ 346,989</u>	<u>\$ 213,820</u>	<u>\$ 213,145</u>	<u>\$ 99,555</u>	<u>\$ 484,331</u>

**CATHOLIC CHARITIES OF THE DIOCESE OF RALEIGH, INC.**  
**SCHEDULE OF FUNCTIONAL EXPENSES**

*YEAR ENDED JUNE 30, 2016*

	<u>Centro: la Comunidad</u>	<u>Newton Grove Office</u>	<u>Disaster Response</u>	<u>Support Circles</u>	<u>Administrative</u>	<u>Total</u>
Salaries and fringe benefits	\$ 78,898	\$ 100,740	\$ 24,306	\$ 121,388	\$ 423,664	\$ 2,624,026
Equipment and supplies	4,187	2,785	-	1,370	4,584	43,341
Depreciation	-	-	-	-	21,000	35,367
Repairs and maintenance	4,263	-	-	843	-	63,224
Telephone	1,988	5,251	1,064	2,202	3,975	61,732
Utilities	1,662	4,351	-	-	-	48,843
Rent	10,100	19,140	-	11,729	19,100	365,711
Auto and travel	1,647	5,479	2,414	6,101	13,473	108,286
Postage and printing	157	368	14	304	6,973	20,791
Conferences and meetings	218	420	125	135	10,326	20,953
Dues and subscriptions	-	66	200	-	5,462	10,153
Program expenses	2,400	39,062	7,019	127,857	18,011	4,113,780
Professional services	776	3,672	-	5,187	79,101	156,583
Other	486	1,561	130	375	86,633	105,571
	<u>\$ 106,782</u>	<u>\$ 182,895</u>	<u>\$ 35,272</u>	<u>\$ 277,491</u>	<u>\$ 692,302</u>	<u>\$ 7,778,361</u>