

**THE FOUNDATION OF THE ROMAN
CATHOLIC DIOCESE OF RALEIGH, INC.**

FINANCIAL STATEMENTS

*As of and for the Period from Inception (August 14, 2018)
through June 30, 2019*

And Report of Independent Auditor

THE FOUNDATION OF THE ROMAN CATHOLIC DIOCESE OF RALEIGH, INC.

TABLE OF CONTENTS

REPORT OF INDEPENDENT AUDITOR 1

FINANCIAL STATEMENTS

Statement of Financial Position 2

Statement of Activities and Changes in Net Assets 3

Statement of Functional Expenses 4

Statement of Cash Flows 5

Notes to the Financial Statements 6-16

Report of Independent Auditor

To the Board of Directors
The Foundation of the Roman Catholic Diocese of Raleigh, Inc.
Raleigh, North Carolina

We have audited the accompanying financial statements of The Foundation of the Roman Catholic Diocese of Raleigh, Inc. (the "Foundation"), which comprise the statement of financial position as of June 30, 2019, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the period from inception (August 14, 2018) through June 30, 2019, and the related notes to the financial statements.

Management's Responsibility for the financial statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of June 30, 2019, and the changes in its net assets and its cash flows for the period from inception (August 14, 2018) through June 30, 2019 in accordance with accounting principles generally accepted in the United States of America.



Raleigh, North Carolina
December 19, 2019

THE FOUNDATION OF THE ROMAN CATHOLIC DIOCESE OF RALEIGH, INC.
STATEMENT OF FINANCIAL POSITION

JUNE 30, 2019

ASSETS

Cash and cash equivalents	\$ 231,508
Accounts receivable	140
Investments	61,400,951
Property and equipment, net	<u>3,090</u>
Total Assets	<u><u>\$ 61,635,689</u></u>

LIABILITIES AND NET ASSETS

Liabilities:

Accounts payable	\$ 38,961
Accrued expenses	<u>17,955</u>
Total Liabilities	<u>56,916</u>

Net Assets:

Without donor restrictions:

Designated for endowment	13,032,448
Invested in property and equipment	3,090
Undesignated	<u>174,732</u>
Total Without Donor Restrictions	<u>13,210,270</u>

With donor restrictions:

Restricted in perpetuity - endowment	28,514,161
Restricted subject to the Foundation's spending policy	<u>19,854,342</u>
Total With Donor Restrictions	<u>48,368,503</u>

Total Net Assets	<u>61,578,773</u>
Total Liabilities and Net Assets	<u><u>\$ 61,635,689</u></u>

THE FOUNDATION OF THE ROMAN CATHOLIC DIOCESE OF RALEIGH, INC.
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

FOR THE PERIOD FROM INCEPTION (AUGUST 14, 2018) THROUGH JUNE 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, Gains, and Other Support:			
Gifts and bequests	\$ 10,375	\$ 43,761	\$ 54,136
Investment income, net	559,616	2,077,489	2,637,105
Administrative fees received	421,821	-	421,821
Net assets released from restrictions	546,410	(546,410)	-
Total Revenues, Gains, and Other Support	<u>1,538,222</u>	<u>1,574,840</u>	<u>3,113,062</u>
Expenses:			
Program Areas:			
Grant disbursements	258,473	-	258,473
Other program expenses	151,121	-	151,121
Total Program Areas	<u>409,594</u>	<u>-</u>	<u>409,594</u>
Support Services:			
Management and general	516,241	-	516,241
Fundraising and development	8,458	-	8,458
Total Support Services	<u>524,699</u>	<u>-</u>	<u>524,699</u>
Total Expenses	<u>934,293</u>	<u>-</u>	<u>934,293</u>
Increase in net assets from operations	<u>603,929</u>	<u>1,574,840</u>	<u>2,178,769</u>
Contribution of endowment assets by the Catholic Diocese of Raleigh	<u>12,606,341</u>	<u>46,793,663</u>	<u>59,400,004</u>
Change in net assets	13,210,270	48,368,503	61,578,773
Net assets, beginning of period	-	-	-
Net assets, end of year	<u>\$ 13,210,270</u>	<u>\$ 48,368,503</u>	<u>\$ 61,578,773</u>

THE FOUNDATION OF THE ROMAN CATHOLIC DIOCESE OF RALEIGH, INC.
STATEMENT OF FUNCTIONAL EXPENSES

FOR THE PERIOD FROM INCEPTION (AUGUST 14, 2018) THROUGH JUNE 30, 2019

	Program Services		Management and	Fundraising and	Total
	Grants	Other	General	Development	
Grants disbursed:					
Assistance for the needy	\$ 200	\$ -	\$ -	\$ -	\$ 200
Catholic schools and education initiatives	3,750	-	-	-	3,750
Cemetery maintenance	675	-	-	-	675
Diocesan support and assistance	31,800	-	-	-	31,800
Lay formation and education	47,046	-	-	-	47,046
Parish support and assistance	22,700	-	-	-	22,700
Church expansion	20,598	-	-	-	20,598
Seminarian education and welfare	68,700	-	-	-	68,700
Tuition assistance and scholarships	26,530	-	-	-	26,530
Special ministries	24,625	-	-	-	24,625
Other	11,849	-	-	-	11,849
Administrative fees	-	127,390	294,431	-	421,821
Salaries and fringe benefits	-	-	115,657	8,458	124,115
Supplies and office expenses	-	-	10,421	-	10,421
Travel and training	-	-	4,307	-	4,307
Purchased services	-	23,714	89,927	-	113,641
Occupancy expenses	-	-	880	-	880
Depreciation	-	-	618	-	618
Other expenses	-	17	-	-	17
Total Functional Expenses	\$ 258,473	\$ 151,121	\$ 516,241	\$ 8,458	\$ 934,293

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

THE FOUNDATION OF THE ROMAN CATHOLIC DIOCESE OF RALEIGH, INC.
STATEMENT OF CASH FLOWS

FOR THE PERIOD FROM INCEPTION (AUGUST 14, 2018) THROUGH JUNE 30, 2019

Cash flows from operating activities:

Cash received from contributions, net of amounts restricted for endowment	\$ 10,000
Cash received for administrative services provided	421,821
Cash payments to employees and vendors	(196,605)
Grants disbursed	(258,473)
Net investment income received	<u>2,637,105</u>
Net cash flows from operating activities	<u>2,613,848</u>

Cash flows from investing activities:

Purchases of property and equipment	(3,708)
Net purchases of investments	<u>(2,422,769)</u>
Net cash flows from investing activities	<u>(2,426,477)</u>

Cash flows from financing activities:

Contributions restricted for investment in endowment	<u>44,137</u>
Net change in cash and cash equivalents	231,508
Cash and cash equivalents, beginning of period	<u>-</u>
Cash and cash equivalents, end of year	<u>\$ 231,508</u>

Noncash Transactions:

Transfer of securities into the Foundation from the Catholic Diocese of Raleigh	<u>\$ 59,400,004</u>
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THE FOUNDATION OF THE ROMAN CATHOLIC DIOCESE OF RALEIGH, INC.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019

Note 1—Nature of the Organization

The Foundation of the Roman Catholic Diocese of Raleigh, Inc. (the “Foundation”) was established on August 14, 2018 as a North Carolina nonprofit corporation with a transfer of approximately \$59.4 million (See Note 3). The Foundation, headquartered in Raleigh, North Carolina, was formed to cultivate endowed and major gifts for the long-term benefit of the administrative offices, parishes, schools, programs, and ministries of the Catholic Diocese of Raleigh while providing effective and efficient management and distribution of invested funds. Because the Catholic Diocese of Raleigh (the “Diocese”) effectively controls the Foundation and the entities are financially interrelated, the Diocese consolidates these separately issued financial statements with those of the Diocese.

Note 2—Summary of significant accounting policies

Basis of Accounting – The accompanying financial statements 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”). The Financial Accounting Standards Board (“FASB”) has established the Accounting Standards Codification (“ASC”) as the source of authoritative accounting principles to be applied in the preparation of financial statements in accordance with U.S. GAAP.

Basis of Presentation – As required by U.S. GAAP, the Foundation classifies revenues, expenses, gains, and losses based on the existence or absence of donor-imposed restrictions. As a result, the net assets of the Foundation 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 Foundation’s management and the Board of Directors.

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 Foundation 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 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 Foundation upon inception. 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.

In February 2016, the FASB, issued a new accounting standard, ASU 2016-02, *Leases (Topic 842)*, which says Lessees will be required to recognize a lease liability and a right-of-use asset for all leases, operating and capital, at the commencement date. Implementation of the new standard has been delayed and will be effective for the Foundation on July 1, 2021. Early adoption is permitted. The Foundation is currently evaluating the effect that the standard will have on its financial statements and related disclosures.

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

THE FOUNDATION OF THE ROMAN CATHOLIC DIOCESE OF RALEIGH, INC.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019

Note 2—Summary of significant accounting policies (continued)

Cash and Cash Equivalents – The Foundation considers short-term investments with original maturities of three months or less to be cash equivalents, except for those short-term investments managed as part of investment management strategies.

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 Foundation 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 Foundation 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 Foundation 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.

Administrative Fees Received – The Foundation administers endowment funds contributed by various donors, parishes, schools, ministries and the Diocese. These funds are managed through pools of assets and are charged an annual administrative fee, assessed on a quarterly basis, based on a percentage of the average three-year fair value of the assets of the fund. Administrative fees are recognized in the fiscal year in which they occur. In accordance with practices that are common among community foundations, the Foundation presents administrative fees received from entities on a gross basis. The Foundation recognized administrative fees of \$421,821 for the period of inception (August 14, 2018) through June 30, 2019.

Donated Services – The Foundation records contributed services if the services received create or enhance long-lived assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. A number of unpaid volunteers, who serve primarily in the capacity of board members, have made significant contributions of their time in the furtherance of the Foundation's programs. The value of this contributed time is not reflected in these financial statements since it does not meet the above recognition criteria.

Compensated Absences – Employees are permitted to carry over up to five days of vacation time earned. As of June 30, 2019, no employees of the Foundation had any earned but unpaid vacation time, and thus the Foundation had \$-0- accrued for compensated absences.

Estimates – The preparation of 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.

Income Taxes – The Foundation is exempt from federal and state income tax under the provisions of Section 501(c)(3) of the Internal Revenue Code ("IRC"). In accordance with IRC regulations, the Foundation is taxed on unrelated business income, which consists of earnings from activities not related to the exempt purpose of the Foundation. The Foundation has evaluated all its tax positions and determined that it had no uncertain income tax positions as of June 30, 2019 and, accordingly, no provision for income taxes has been reflected in the accompanying financial statements. The Foundation is not classified as a private foundation.

THE FOUNDATION OF THE ROMAN CATHOLIC DIOCESE OF RALEIGH, INC.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019

Note 2—Summary of significant accounting policies (continued)

Property and Equipment, Net – 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 Foundation 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.

Computer equipment	3 years
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Long-lived assets held and used by the Foundation are reviewed for impairment whenever changes in circumstances indicate the carrying value of an asset may not be recoverable.

Expense Recognition and Functional Allocation – The cost of providing the Foundation’s programs and other activities is summarized on a functional basis in the statement of functional expenses. 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 benefitted. These expenses, excluding depreciation and grant disbursements, are allocated on the basis of estimates of time and effort except for supplies and office expenses, which are allocated based on the percentage of usage.

Note 3—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. The total value of investments transferred was \$59,400,004. The equity transaction from the Diocese is reported on a separate line in the statement of activities and changes in net assets and has been recorded based upon the absence or presence of donor restrictions.

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.

Note 4—Liquidity and availability

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

Cash and cash equivalents	\$	231,508
Accounts receivable and other assets		140
	\$	<u>231,648</u>

THE FOUNDATION OF THE ROMAN CATHOLIC DIOCESE OF RALEIGH, INC.
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019

Note 4—Liquidity and availability (continued)

Endowment funds consist of donor-restricted endowments and board-designated endowments. Income from donor-restricted endowments that are restricted for specific purposes and board designated endowments held on behalf of others are not available for general expenditure.

As part the Foundation’s liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations become due. To meet this objective, the Foundation has obtained the commitment of the Diocese to provide short-term cash flow assistance to address cash shortages in the event that they occur. The Foundation invests cash in excess of daily requirements in short-term investments and money market funds.

Note 5—Financial instruments and other concentrations

The Foundation 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 period from inception, the Foundation 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 Foundation believes no significant risk of loss exists with respect to those balances.

A substantial amount of the Foundation’s support is generated through contributions and pledges from other organizations or individuals, primarily in eastern North Carolina and the surrounding area. Changes in economic conditions can directly affect a donor’s ability and willingness to make future contributions to the Foundation. Also, the limited geographic area in which the Foundation’s contributors reside, increases the Foundation’s exposure to certain business concentrations.

Note 6—Investments and fair value measurements

The Foundation 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 on a separate line in the 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 (Losses)
Mutual Funds - Domestic	\$ 40,066,286	\$ 42,067,054	\$ 2,000,768
Bond funds	11,863,623	11,955,084	91,461
Alternative investments	6,718,837	6,778,424	59,587
Cash and equivalents	600,389	600,389	-
	\$ 59,249,135	\$ 61,400,951	\$ 2,151,816

THE FOUNDATION OF THE ROMAN CATHOLIC DIOCESE OF RALEIGH, INC.
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019

Note 6—Investments and fair value measurements (continued)

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.

Below are the Foundation’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	\$ 42,067,054	\$ 42,067,054	\$ -	\$ -
Bond funds	11,955,084	11,955,084	-	-
Cash and cash equivalents	600,389	-	600,389	-
Total investments at fair value	54,622,527	54,022,138	600,389	-
Investments measured at net asset value (a)	6,778,424	-	-	-
Total Investments	61,400,951	54,022,138	600,389	-
Total Assets	\$ 61,400,951	\$ 54,022,138	\$ 600,389	\$ -

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

The Foundation uses appropriate valuation techniques based on the available inputs. When available, the Foundation 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. The Foundation relies on fair value measurement calculations performed by third-party pricing services for the majority of instruments reported in Level 2. Inputs, even if determined by the Foundation, include the credit risk of the issuer, maturity, current yield, and other terms and conditions of each instrument.

THE FOUNDATION OF THE ROMAN CATHOLIC DIOCESE OF RALEIGH, INC.
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019

Note 6—Investments and fair value measurements (continued)

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

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

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

The related net investment income is reported on a separate line in the statement of activities and changes in net assets.

Note 7—Endowment

The Foundation's endowments consist of approximately 113 individual funds established for a variety of purposes. As described in Note 3, the ownership of these funds were transferred to the Foundation for administration in June 2019. The endowments include donor-restricted endowment funds and funds designated by the Diocesan Finance Council and the Board of Directors of the Foundation to function as endowments and all net assets are classified and reported based on the existence or absence of donor-imposed restrictions in the accompanying statements of financial position and activities and changes in net assets.

The Board of Directors of the Foundation has implemented policies requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of these policies, the Foundation 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.

THE FOUNDATION OF THE ROMAN CATHOLIC DIOCESE OF RALEIGH, INC.
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019

Note 7—Endowment (continued)

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

Investment Return Objectives, Risk Parameters, and Strategies – The Foundation has adopted investment policies, approved by the Board of Directors of the Foundation, 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 Foundation 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 Foundation is committed to a diversified asset allocation strategy, consisting primarily of domestic equities, international equities, domestic fixed income, international fixed income, and alternative investments.

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

Endowment composition by type of fund is as follows as of June 30, 2019:

	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	-	7,352,364	7,352,364
Amounts held in term endowments	-	19,854,342	19,854,342
Board-designated endowment and other funds	13,032,448	-	13,032,448
Total	<u>\$ 13,032,448</u>	<u>\$ 48,368,503</u>	<u>\$ 61,400,951</u>

THE FOUNDATION OF THE ROMAN CATHOLIC DIOCESE OF RALEIGH, INC.
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019

Note 7—Endowment (continued)

Changes in endowment for the period of asset transfer through June 30, 2019:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment, beginning of year	\$ -	\$ -	\$ -
Transfer from the Catholic Diocese of Raleigh	12,606,341	46,793,663	59,400,004
Contributions	375	43,761	44,136
Net investment income	559,616	2,077,489	2,637,105
Administrative fee	(89,514)	(332,307)	(421,821)
Amounts expended	(44,370)	(214,103)	(258,473)
Endowment, end of year	<u>\$ 13,032,448</u>	<u>\$ 48,368,503</u>	<u>\$ 61,400,951</u>

Funds with Deficiencies – From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). The Foundation has interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. The Foundation had no underwater endowments as of June 30, 2019.

Note 8—Property and equipment, net

The following is a summary of property and equipment as of June 30, 2019:

Computer equipment	<u>\$ 3,708</u>
	3,708
Less accumulated depreciation	<u>(618)</u>
	<u>\$ 3,090</u>

Depreciation expense for the period from inception through June 30, 2019 totaled \$618.

Note 9—Net assets released from restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by the occurrence of the passage of time or other events specified by the donors as follows for the period of inception through June 30, 2019:

Release of appropriated endowment amounts	<u>\$ 546,410</u>
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THE FOUNDATION OF THE ROMAN CATHOLIC DIOCESE OF RALEIGH, INC.
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019

Note 10—Net assets with donor restrictions

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

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
	<u>\$ 28,514,161</u>

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
	<u>\$ 19,854,342</u>

Note 11—Net assets with board designations

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

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
	<u>\$ 13,032,448</u>

THE FOUNDATION OF THE ROMAN CATHOLIC DIOCESE OF RALEIGH, INC.
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019

Note 12—Investment savings plan

The Foundation offers its employees a pretax Internal Revenue Code Section 403(b) Plan (“403(b) Plan”) that is administered through the Diocese. Under the provisions of the 403(b) Plan, substantially all employees of the Foundation, Diocese, parishes, schools, and other related entities as well as Diocesan priests are covered. For the period from inception through June 30, 2019, the Foundation contributed \$0.50 for each \$1 invested by employees on the first 5% of qualified compensation, plus a non-contributory deferral of 4% of qualified compensation into accounts of all eligible employees, up to a maximum of 6.5% of qualified compensation per employee. Participants in the 403(b) Plan are immediately vested in their employee contributions and in the basic matching contribution provided by the Foundation. Employees are vested in the Foundation’s non-contributory deferral contribution after five years of service. Contributions to the 403(b) Plan for the year ended June 30, 2019 totaled \$1,305.

Note 13—Fundraising

The Foundation conducts certain fundraising activities to generate revenues to assist in supporting its programs and activities. From the period of inception through June 30, 2019, fundraising expense totaled \$8,458.

Note 14—Leases

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
	<u>\$ 80,414</u>

THE FOUNDATION OF THE ROMAN CATHOLIC DIOCESE OF RALEIGH, INC.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019

Note 15—Related party transactions

As discussed in Note 3, the Foundation was formed through a transfer of endowment assets from the Diocese having a market value of \$59,400,004 on the date of transfer. Of this amount, \$12,606,341 of the endowments had no donor stipulations restricting their use and \$46,793,663 were subject to donor restrictions. During the period from inception through June 30, 2019, the Foundation made grant distributions of \$258,473, of which \$202,398 were distributed to the Diocese and \$56,075 were distributed to parishes, schools and other related organizations of the Foundation. The Foundation recognized administrative services revenue from the period of inception through June 30, 2019 in the amount of \$285,933 from the Diocesan endowments and \$135,066 from of endowments of the parishes, schools and other related organizations of the Foundation. Additionally, the Foundation received of contributions to board-designated endowments of the Diocese and the parishes, schools and other related organizations during the period from inception through June 30, 2019 of \$375.

The Diocese performs certain administrative tasks such as payroll processing and accounting services for the Foundation. From the period of inception through June 30, 2019, the Diocese charged the Foundation \$78,512 for these services. At June 30, 2019, the Foundation owed the Diocese \$38,962, which is included in accounts payable on the statement of financial position.

Note 16—Subsequent events

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

The Foundation has evaluated subsequent events through December 19, 2019, in connection with the preparation of these financial statements, which is the date the financial statements were available to be issued.