# ADMINISTRATIVE OFFICES OF THE ARCHDIOCESE OF ATLANTA

## Consolidated Financial Statements

**June 30, 2016 and 2015**

**Administrative Offices of the Archdiocese of Atlanta**
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**June 30, 2016 and 2015**

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## INDEPENDENT AUDITORS' REPORT

His Excellency
The Most Reverend Wilton D. Gregory
Archbishop of Atlanta
Atlanta, Georgia

We have audited the accompanying consolidated financial statements of the Administrative Offices of the Archdiocese of Atlanta and Subsidiaries (Administrative Offices), which comprise the consolidated statements of financial position as of June 30, 2016 and 2015, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### Management's Responsibility for the 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.

### Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of 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 auditors' 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 auditors consider internal control relevant to the Administrative Offices 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 Administrative Offices 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 that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Opinion**

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

Carr, Riggs & Ingram, L.L.C.

Atlanta, Georgia
December 7, 2016

| *June 30,* | **2016** | | | | 2015 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Unrestricted** | **Temporarily Restricted** | **Permanently Restricted** | **Total** | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| **Assets** | | | | | | | | |
| Cash and cash equivalents | **$ 22,561,546** | **$ -** | **$ -** | **$ 22,561,546** | $ 13,641,030 | $ - | $ - | $ 13,641,030 |
| Investments at fair value | **128,744,798** | **23,629,643** | **71,595,456** | **223,969,897** | 116,953,057 | 25,840,826 | 69,496,411 | 212,290,294 |
| Escrowed deposits | **1,492,156** | **-** | **-** | **1,492,156** | 965,757 | - | - | 965,757 |
| Accounts receivable | **7,181,796** | **-** | **-** | **7,181,796** | 6,905,380 | - | - | 6,905,380 |
| Promises to give | **4,891,122** | **-** | **-** | **4,891,122** | 4,829,729 | - | - | 4,829,729 |
| Loans receivable-parishes and agencies | **42,269,201** | **-** | **-** | **42,269,201** | 46,304,892 | - | - | 46,304,892 |
| Property and equipment, net | **151,433,133** | **-** | **-** | **151,433,133** | 152,227,293 | - | - | 152,227,293 |
| Other assets | **9,388,582** | **-** | **-** | **9,388,582** | 9,533,011 | - | - | 9,533,011 |
| Total assets | **$ 367,962,334** | **$ 23,629,643** | **$ 71,595,456** | **$ 463,187,433** | $ 351,360,149 | $ 25,840,826 | $ 69,496,411 | $ 446,697,386 |
| **Liabilities and net assets** | | | | | | | | |
| Liabilities | | | | | | | | |
| Accounts payable and accrued expenses | **$ 25,916,468** | **$ -** | **$ -** | **$ 25,916,468** | $ 19,106,267 | $ - | $ - | $ 19,106,267 |
| Custodial funds payable | **-** | **-** | **12,563,048** | **12,563,048** | - | - | 11,458,234 | 11,458,234 |
| Deposits payable | **105,755,630** | **-** | **-** | **105,755,630** | 90,126,933 | - | - | 90,126,933 |
| Interest rate swap liability | **5,945,812** | **-** | **-** | **5,945,812** | 5,594,941 | - | - | 5,594,941 |
| Deferred revenue | **11,481,264** | **-** | **-** | **11,481,264** | 11,323,871 | - | - | 11,323,871 |
| Refundable entrance fees | **42,261,202** | **-** | **-** | **42,261,202** | 40,341,774 | - | - | 40,341,774 |
| Bonds payable | **63,440,000** | **-** | **-** | **63,440,000** | 67,375,000 | - | - | 67,375,000 |
| Total liabilities | **254,800,376** | **-** | **12,563,048** | **267,363,424** | 233,868,786 | - | 11,458,234 | 245,327,020 |
| Net assets | | | | | | | | |
| Designated | | | | | | | | |
| Investment funds | **19,263,618** | **-** | **-** | **19,263,618** | 20,233,525 | - | - | 20,233,525 |
| Insurance funds | **30,073,782** | **-** | **-** | **30,073,782** | 33,989,803 | - | - | 33,989,803 |
| Plant funds | **25,777,713** | **-** | **-** | **25,777,713** | 8,731,011 | - | - | 8,731,011 |
| Undesignated | **38,046,845** | **-** | **-** | **38,046,845** | 54,537,024 | - | - | 54,537,024 |
| Restricted | **-** | **23,629,643** | **59,032,408** | **82,662,051** | - | 25,840,826 | 58,038,177 | 83,879,003 |
| Total net assets | **113,161,958** | **23,629,643** | **59,032,408** | **195,824,009** | 117,491,363 | 25,840,826 | 58,038,177 | 201,370,366 |
| Total liabilities and net assets | **$ 367,962,334** | **$ 23,629,643** | **$ 71,595,456** | **$ 463,187,433** | $ 351,360,149 | $ 25,840,826 | $ 69,496,411 | $ 446,697,386 |

*The accompanying notes are an integral part of these statements .*

## Administrative Offices of the Archdiocese of Atlanta
## Consolidated Statements of Activities

| *Years ended June 30,* | 2016 | | | | 2015 | | | |
|---|---|---|---|---|---|---|---|---|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| **Revenues** | | | | | | | | |
| Parishes and missions | | | | | | | | |
| Contributions | $ 7,943,414 | $ - | $ - | $ 7,943,414 | $ 7,706,876 | $ - | $ - | $ 7,706,876 |
| Assessments | 21,576,475 | - | - | 21,576,475 | 20,879,189 | - | - | 20,879,189 |
| Continuing care | 11,296,279 | - | - | 11,296,279 | 10,799,331 | - | - | 10,799,331 |
| Education | 40,196,638 | - | - | 40,196,638 | 39,583,253 | - | - | 39,583,253 |
| Insurance premiums | 21,313,803 | - | - | 21,313,803 | 20,734,045 | - | - | 20,734,045 |
| Other contributions | 2,912,782 | 290,606 | 1,011,313 | 4,214,701 | 3,878,504 | 367,060 | 1,522,629 | 5,768,193 |
| Investment return | 1,145,165 | 1,315,610 | 539 | 2,461,314 | 988,227 | 1,674,930 | 733 | 2,663,890 |
| Other | 2,637,856 | - | - | 2,637,856 | 3,358,665 | - | - | 3,358,665 |
| Net assets released from restrictions | 2,246,869 | (2,246,869) | - | - | 4,063,301 | (4,063,301) | - | - |
| Total revenues | 111,269,281 | (640,653) | 1,011,852 | 111,640,480 | 111,991,391 | (2,021,311) | 1,523,362 | 111,493,442 |
| **Expenses** | | | | | | | | |
| Administrative support | 8,219,249 | - | - | 8,219,249 | 8,445,686 | - | - | 8,445,686 |
| Pastoral | 10,937,928 | - | - | 10,937,928 | 10,129,977 | - | - | 10,129,977 |
| Education | 48,309,396 | - | - | 48,309,396 | 48,795,544 | - | - | 48,795,544 |
| Social services | 769,167 | - | - | 769,167 | 841,608 | - | - | 841,608 |
| Insurance services | 17,816,227 | - | - | 17,816,227 | 15,620,359 | - | - | 15,620,359 |
| Continuing Care | 10,250,499 | - | - | 10,250,499 | 9,788,556 | - | - | 9,788,556 |
| Other | 2,740,785 | - | - | 2,740,785 | 2,551,181 | - | - | 2,551,181 |
| Depreciation and amortization | 6,993,943 | - | - | 6,993,943 | 7,095,074 | - | - | 7,095,074 |
| Total expenses | 106,037,194 | - | - | 106,037,194 | 103,267,985 | - | - | 103,267,985 |
| Excess of revenues over expenses before gains and (losses) | 5,232,087 | (640,653) | 1,011,852 | 5,603,286 | 8,723,406 | (2,021,311) | 1,523,362 | 8,225,457 |
| Gains and (losses) | | | | | | | | |
| Investments - realized and unrealized | (1,544,715) | (1,570,530) | (242,141) | (3,357,386) | 39,107 | (44,660) | (46,743) | (52,296) |
| Interest rate swap agreements | (350,871) | - | - | (350,871) | 794,523 | - | - | 794,523 |
| Disposal of property and equipment | (21,912) | - | - | (21,912) | (239,387) | - | - | (239,387) |
| Change in value of charitable gift annuities | 2,294 | - | (21,480) | (19,186) | - | - | - | - |
| Loss on refinancing of debt | - | - | - | - | (518,605) | - | - | (518,605) |
| Total gains and (losses) | (1,915,204) | (1,570,530) | (263,621) | (3,749,355) | 75,638 | (44,660) | (46,743) | (15,765) |
| Change in net assets | 3,316,883 | (2,211,183) | 748,231 | 1,853,931 | 8,799,044 | (2,065,971) | 1,476,619 | 8,209,692 |
| Other ASC 715 pension charge | (7,400,288) | - | - | (7,400,288) | (2,602,975) | - | - | (2,602,975) |
| Net assets transfers | (246,000) | - | 246,000 | - | (3,560,923) | 462,658 | 3,098,265 | - |
| Net assets at beginning of year | 117,491,363 | 25,840,826 | 58,038,177 | 201,370,366 | 114,856,217 | 27,444,139 | 53,463,293 | 195,763,649 |
| Net assets at end of year | $ 113,161,958 | $ 23,629,643 | $ 59,032,408 | $ 195,824,009 | $ 117,491,363 | $ 25,840,826 | $ 58,038,177 | $ 201,370,366 |

*The accompanying notes are an integral part of these statements.*

**Administrative Offices of the Archdiocese of Atlanta**
**Consolidated Statements of Cash Flows**

| *Years ended June 30,* | 2016 | 2015 |
|---|---|---|
| **Operating activities** | | |
| Change in net assets | **$ 1,853,931** | $ 8,209,692 |
| Adjustments to reconcile change in net assets to cash provided by operating activities | | |
| Depreciation and amortization | **6,993,943** | 7,095,074 |
| Amortization of entrance fees | **(624,299)** | (672,403) |
| Gain on disposal of property and equipment | **21,912** | 239,387 |
| Realized and unrealized (gain) loss on investments | **3,361,498** | 52,296 |
| (Gain) loss on interest rate swap agreements | **350,871** | (794,523) |
| Loss on debt refinancing | **-** | 518,605 |
| Restricted contributions | **(1,011,313)** | (1,522,629) |
| (Increase) decrease in accounts receivable | **206,731** | 754,897 |
| (Increase) decrease in promises to give | **(61,393)** | 827,648 |
| (Increase) decrease in other assets | **104,969** | (576,646) |
| Increase (decrease) in accounts payable and accrued expenses | **(1,890,087)** | (4,417,155) |
| Increase (decrease) in deferred revenue | **(158,030)** | 435,532 |
| Net cash provided by operating activities | **9,148,733** | 10,149,775 |
| **Investing activities** | | |
| Proceeds from sale and maturity of investments | **13,588,815** | 87,328,843 |
| Purchase of investments | **(28,632,283)** | (122,125,124) |
| Net increase in entrance fee escrow fund | **(526,399)** | (757,517) |
| Parish and mission loans | **(2,048,723)** | (5,823,573) |
| Parish and mission loan repayments | **7,384,414** | 10,118,142 |
| Proceeds from sale of property and equipment | **36,501** | 2,498,955 |
| Purchase of property and equipment | **(6,032,173)** | (9,098,375) |
| Net cash used in investing activities | **(16,229,848)** | (37,858,649) |
| **Financing activities** | | |
| Payments on bonds and notes payable | **(3,935,000)** | (3,235,000) |
| Net proceeds (refunds) from residents entrance fees | **2,376,003** | (610,822) |
| Restricted contributions received | **1,011,313** | 1,522,629 |
| Payments on interest rate swap | **-** | (1,734,600) |
| Payments on debt issuance costs | **-** | (262,813) |
| Parish and mission deposits received | **34,569,520** | 41,155,845 |
| Parish and mission deposits paid | **(19,974,029)** | (32,409,149) |
| Increase in custodial funds payable | **1,953,824** | 1,260,034 |
| Net cash provided by financing activities | **16,001,631** | 5,686,124 |
| Net increase (decrease) in cash and cash equivalents | **8,920,516** | (22,022,750) |
| Cash and cash equivalents, beginning of year | **13,641,030** | 35,663,780 |
| Cash and cash equivalents, end of year | **$ 22,561,546** | $ 13,641,030 |

*The accompanying notes are an integral part of these statements.*

## NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### *Basis of Reporting*

The accompanying consolidated financial statements include the accounts and transactions of the Administrative Offices of the Archdiocese of Atlanta and the accounts and transactions of the following separate entities which are affiliated with or related to the Administrative Offices of the Archdiocese of Atlanta:

AoA Properties Holding, Inc.
AoA Deposit and Loan Fund, LLC
Catholic Construction Services, Inc.
Catholic Continuing Care Retirement Communities, Inc. (CCCRC)
Catholic Education of North Georgia, Inc. (CENGI)
The Catholic Foundation of North Georgia, Inc.

All of the consolidated organizations are collectively referred to in this report as the Archdiocese. All significant intercompany transactions have been eliminated in consolidation.

Subsidies to auxiliary services and programs are included but detailed operations of such subsidized activities are not included in the accounts of the Administrative Offices and, accordingly, are not included in the accompanying consolidated financial statements. Moreover, this report does not include the financial statements of the parishes and missions of the Archdiocese of Atlanta.

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements. Actual results could differ from those estimates.

A summary of the significant accounting principles the Archdiocese applied in the preparation of the accompanying consolidated financial statements follows.

### *Financial Statement Presentation*

The Archdiocese is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

*Unrestricted Net Assets*
Unrestricted net assets are utilized to account for support from parishes and missions and other revenues that are unrestricted in nature. Donor-restricted contributions whose restrictions are met in the year of contribution are reported as unrestricted support.

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***Financial Statement Presentation (continued)***

*Temporarily Restricted Net Assets*
Temporarily restricted net assets are utilized to account for contributions that are donor-restricted for uses which have not yet been fulfilled either in time or by purpose.

*Permanently Restricted Net Assets*
Permanently restricted net assets are utilized to account for true endowments whereby the donor has permitted the Archdiocese to use the income for operations, but has prohibited the use of principal.

***Income Taxes***

The Archdiocese is a religious organization exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been included in the consolidated financial statements. Income from certain activities not directly related to the tax-exempt purpose of nonprofit entities is subject to taxation as unrelated business income. The Archdiocese considers all of its activities to be directly related to its exempt purpose in 2016 and 2015.

***Cash and Cash Equivalents***

For purposes of the consolidated statements of cash flows, the Archdiocese considers all unrestricted highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

***Investments***

The Archdiocese carries investments in marketable securities with readily determinable fair values and all investments in debt securities at their fair values in the consolidated statements of financial position. Unrealized gains and losses are recognized as changes in net assets in the periods they occur. Investment income and realized and unrealized gains and losses are included in the change in net assets in the accompanying consolidated statements of activities.

***Accounts Receivable***

Accounts receivable are primarily due from Archdiocesan parishes, missions, and schools for insurance premiums and assessments owed to the Administrative Offices. The carrying amounts of receivables have been reduced by a valuation allowance of approximately $5,370,000 and $5,120,000 at June 30, 2016 and 2015, respectively.

## NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### *Promises to Give*

Promises to give that are scheduled to be received after the end of the reporting period are shown as increases in temporarily restricted net assets and reclassified to unrestricted net assets when the purpose or time restriction is met. Promises to give subject to donor-imposed restrictions that the corpus is maintained permanently are recognized as increases in permanently restricted net assets. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions to be received after one year are discounted and carried at the present value of estimated future cash flows. Amortization of the discount is recorded as contribution revenue.

The Archdiocese uses the allowance method to determine uncollectible unconditional promises receivable. The allowance is based on prior years' experience and management's analysis of specific promises made.

### *Property and Equipment*

Property and equipment are recorded at cost if acquired by purchase and at fair market value at the date of receipt if acquired by gift. Maintenance and repairs are charged to operations and major improvements are capitalized. Upon retirement, sale or other disposition, the cost and accumulated depreciation are eliminated from the accounts and any gain or loss is included in the consolidated statements of activities.

Depreciation is computed using the straight-line method. Property and equipment at June 30, 2016 and 2015, consisted of the following:

| | Useful Lives (years) | **2016** | 2015 |
|---|---|---|---|
| Land | | **$ 28,688,889** | $ 28,002,346 |
| Land improvements | 15 | **12,098,410** | 11,826,819 |
| Buildings | 40-50 | **152,874,019** | 151,294,308 |
| Furniture and equipment | 3-10 | **36,812,136** | 34,537,532 |
| Automobiles | 5-7 | **1,663,793** | 1,564,074 |
| Construction in progress | | **3,279,851** | 2,518,642 |
| | | **235,417,098** | 229,743,721 |
| Less accumulated depreciation | | **(83,983,965)** | (77,516,428) |
| Property and equipment, net | | **$ 151,433,133** | $ 152,227,293 |

Depreciation expense for 2016 and 2015 was $6,881,480 and $7,024,103, respectively.

## NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### *Property and Equipment (continued)*

Construction in progress consists of costs incurred on construction projects that have not been completed and placed in service as of year-end.

### *Deferred Charges*

Costs incurred for issuance of bonds to finance schools and a life care facility are included in other assets in the consolidated statements of financial position. Bond issuance cost of $1,162,089 have been capitalized as of June 30, 2016 and 2015 and are being amortized over the life of the bonds using the interest method. Amortization of bond issuance costs for the years ended June 30, 2016 and 2015, totaled $77,463 and $79,043 and accumulated amortization at June 30, 2016 and 2015, totaled $620,541 and $543,078, respectively.

### *Interest Rate Swap Agreements*

The Archdiocese holds derivative financial instruments for the purpose of hedging the risk of certain identifiable and anticipated transactions. In general, the types of risks hedged are those relating to the variability of LIBOR-based variable payments on bonds payable. In hedging the transactions, the Archdiocese, in the normal course of business, holds interest rate swap agreements whose purpose is to fix interest payments. Interest rate swaps are further discussed in Note 6.

### *Self-Insurance Program*

The Archdiocese self-insures for certain levels of property, liability, workers' compensation and employee medical coverage. The self-insurance program is operated by the Administrative Offices and covers substantially all of the parishes and agencies within the Archdiocese. The Archdiocese collects premiums from the parishes and agencies to fund the program and limits its losses through the use of stop-loss policies through reinsurers. Self-insurance costs are accrued based on claims reported as well as an estimated liability for claims incurred but not reported. The total accrued liability for self-insurance costs was approximately $2,456,000 and $1,666,000 at June 30, 2016 and 2015, respectively.

In order to help manage self-insurance risks related to property and liability the Archdiocese participates in a protected captive insurance cell within the Catholic Relief Insurance Company of America II (CRIC II). The Administrative office obtains insurance coverage from the protected cell and bears a risk of loss from claims in excess of premiums paid to the cell. Based on the control of the protected cell and the structure of CRIC II, the assets and liabilities of the captive cell have been consolidated within the Administrative offices. Insurance premium payments to the protected cell were approximately $2,970,000 during the years ended June 30, 2016 and 2015.

## NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### *Contributions*

Contribution revenues are recorded as increases in unrestricted net assets unless use of the related asset is limited by donor-imposed restrictions that are not fulfilled in the accounting period. Contributions subject to donor-imposed restrictions are recorded as temporarily restricted support and are reclassified to unrestricted support when the donor-imposed restriction has been fulfilled or the stipulated time period has elapsed.

### *Revenue Recognition - Catholic Continuing Care Retirement Communities, Inc.*

Revenues for Catholic Continuing Care Retirement Communities, Inc. are primarily generated from monthly fees for the independent living units, amortization of entrance fees, and monthly fees and per diem charges for personal care units and skilled nursing beds. Additional revenue is also generated from ancillary services such as activity fees, additional housekeeping and dietary services.

Entrance fees that are expected to be non-refundable to the resident are recorded as deferred revenue and are amortized into revenue using the straight-line method over the estimated remaining life expectancy of the resident, as determined by actuarial life expectancy tables. The remaining life expectancy is re-evaluated annually and amortization periods adjusted accordingly.

### *Residency Agreements*

All residents at Catholic Continuing Care Retirement Communities are required to sign a residency agreement that defines the terms of their residency at the Community. The residency agreement requires an entrance fee ranging from approximately $215,000 to $600,000. The entrance fee is generally 80% or 90% refundable depending on the level of lifecare. Except under special circumstances stipulated in the agreement, residents receive their refund after receipt of sufficient proceeds to fully refund the obligation from the next remarketing and occupancy of a similar residence.

## NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### *Adoption of New Accounting Standard*

In May 2015, the FASB issued ASU 2015-07, *Disclosures for Investments in Certain Entities That Calculate Net Assets Value per Share (or Its Equivalent).* ASU 2015-07 removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. It also removes the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value per share practical expedient. Rather, those disclosures are limited to investments for which the entity has elected to measure the fair value using that practical expedient. ASU 2015-07 is effective for entities (other than public business entities) for fiscal years beginning after December 15, 2016, with retrospective application to all periods presented. Early application is permitted. The Archdiocese has elected to early adopt ASU 2015-07 as of June 30, 2016, as permitted.

## NOTE 2: INVESTMENTS

At June 30, 2016 and 2015, investments consisted of the following:

| | **2016** | | 2015 | |
|---|---|---|---|---|
| | **Fair Value** | **Cost** | Fair Value | Cost |
| Short-term investments | **$ 24,952,071** | **$ 24,267,594** | $ 18,904,256 | $ 18,902,345 |
| Corporate obligations | **3,944,546** | **3,648,158** | 6,782,649 | 6,912,608 |
| Equity securities | **46,679,101** | **41,255,485** | 59,122,401 | 51,551,573 |
| Equity funds | **83,677,938** | **75,036,449** | 50,242,022 | 42,213,857 |
| Debt mutual funds | **34,089,861** | **34,135,144** | 38,109,545 | 38,919,078 |
| U.S. Government obligations | **23,291,928** | **28,420,190** | 39,129,421 | 39,276,144 |
| Alternative Funds | **7,334,452** | **6,555,844** | - | - |
| | **$ 223,969,897** | **$ 213,318,864** | $ 212,290,294 | $ 197,775,605 |

## NOTE 3: PROMISES TO GIVE

Promises to give of $4,891,122 and $4,829,729 at June 30, 2016 and 2015, respectively, represent unconditional promises to give. Substantially all of the promises to give are due in less than one year. Promises to give at June 30, 2016 and 2015, have been reduced by a valuation allowance of $490,000 and $445,000, respectively.

## NOTE 4: LOANS RECEIVABLE AND DEPOSITS PAYABLE

The amounts due from parishes relate primarily to interest-bearing loans made to parishes and agencies by the Administrative Offices. Interest rates ranged from 0% to 4.5%. Loans receivable have been reduced by an allowance for uncollectible loans of $472,000 as of June 30, 2016 and 2015.

The Archdiocese administers a deposit and loan fund for the parishes. Parishes may deposit any excess funds with the Administrative Office. The Administrative Office uses the funds on deposit to loan to other parishes. Interest on these deposits is credited at the rate of 2.25%.

## NOTE 5: BONDS AND NOTES PAYABLE

Bonds payable consist of the following at June 30, 2016 and 2015:

| | **2016** | 2015 |
|---|---|---|
| Tax-Exempt Adjustable Mode Educational Facilities Revenue Bonds dated February 1, 1999, and maturing April 1, 2024. | **$ 12,900,000** | $ 14,300,000 |
| Tax-Exempt Adjustable Mode Educational Facilities Revenue Bonds dated March 1, 1999, and maturing April 1, 2024. | **8,000,000** | 9,000,000 |
| Tax-Exempt Adjustable Mode Educational Facilities Revenue Bonds dated December 19, 2002, and maturing April 1, 2028. | **17,450,000** | 17,785,000 |
| Tax-Exempt Adjustable Mode Educational Facilities Revenue Bonds dated December 19, 2002, and maturing April 1, 2028. | **6,240,000** | 6,340,000 |
| Development Authority of Fulton County Tax-Exempt Variable Rate Revenue Bonds (CCCRC bonds) dated September 1, 2014, and maturing April 1, 2034. | **18,850,000** | 19,950,000 |
| | **$ 63,440,000** | $ 67,375,000 |

**NOTE 5: BONDS AND NOTES PAYABLE (CONTINUED)**

Maturities of bonds payable are as follows:

| *Year ending June 30,* | |
|---|---|
| 2017 | $ 3,050,000 |
| 2018 | 3,655,000 |
| 2019 | 3,845,000 |
| 2020 | 4,010,000 |
| 2021 | 4,140,000 |
| 2022-2034 | 44,740,000 |
| | $ 63,440,000 |

Effective January 26, 2012, the CENGI bond debt was modified whereby the bank that originally issued a letter of credit securing the bonds purchased the outstanding bonds. As part of the restructuring, the variable interest rate on the bonds was modified and the letter of credit was cancelled. Interest at 67% of LIBOR plus 1.25% is payable monthly. All of the educational bonds require monthly interest payments and mature in varying annual amounts through April 1, 2028. The interest rate at June 30, 2016, was 1.56%.

On November 1, 2016, all of the CENGI bonds were acquired by a different bank and the interest rate was changed to 68% of LIBOR plus .78%.

In September 2014, the proceeds of Series 2014 refunding bonds issued by the Development Authority of Fulton County (the Authority) were used to retire a 2004 series bonds. The Series 2014 Bonds include interest initially at 67% times the sum of 1-month LIBOR and 1.85% (1.54% at June 30, 2016) and annual principal payments, with final maturity in September 2034. The Authority loaned the proceeds of the 2014 Bonds to CCCRC under a Loan Agreement, and CCCRC is required to make loan payments equal to debt service on the 2014 Bonds. CCCRC has pledged virtually all assets as collateral for its repayment obligations. CCCRC also entered into a Credit Agreement with the holder of the 2014 Bonds, which includes certain financial covenants to be maintained by CCCRC. As of June 30, 2016, CCCRC is in compliance with the required financial covenants.

As discussed in Note 6, the Archdiocese has entered into various interest rate swap agreements that provide for fixed rates of interest on the bonds.

At June 30, 2016, the Archdiocese had one unsecured bank line of credit totaling $5,000,000. This line of credit is payable on demand and bears an interest rate of monthly LIBOR plus 1%. The applicable interest rate at June 30, 2016 was 1.51%. There were no amounts due under the demand note at June 30, 2016 and 2015. There were no outstanding letters of credit as of June 30, 2016. There was $707,000 associated with the letters of credit as of June 30, 2015. These letters of credit were used to secure collateral requirements required by casualty insurance programs and a construction project.

**NOTE 5: BONDS AND NOTES PAYABLE (CONTINUED)**

Interest expense to the Archdiocese on bonds and interest rate swap agreements and interest paid on deposits from parishes and agencies (Note 4) totaled $5,112,378 and $5,511,039 for the years ended June 30, 2016 and 2015, respectively. Cash payments for interest totaled $5,123,027 and $5,594,558 for fiscal years 2016 and 2015, respectively.

Interest expense for the years ended June 30, 2016 and 2015, is reported in the consolidated statements of activities as follows:

| | | **2016** | | 2015 |
|---|---|---|---|---|
| Interest included in school operations | **$** | **2,242,445** | $ | 2,367,772 |
| Interest included in CCCRC operations | | **269,386** | | 449,790 |
| Interest charged against loan fund income (Note 4) | | **2,600,547** | | 2,693,477 |
| | **$** | **5,112,378** | $ | 5,511,039 |

Under the debt and swap agreements, the Archdiocese is required to maintain certain financial covenants, including ratios of unrestricted cash and marketable securities to consolidated funded debt and unrestricted net assets to consolidated funded debt. The Archdiocese is in compliance with these requirements as of June 30, 2016 and 2015.

**NOTE 6: INTEREST RATE SWAP AGREEMENTS**

In order to mitigate its exposure to interest rate fluctuations, the Archdiocese entered into various interest rate swap agreements that provide for fixed rates of interest on the school bonds and CCCRC bonds. The purpose of entering into these swaps is to eliminate long-term interest rate variability by converting LIBOR-based variable-rate payments to fixed-rate payments. The Archdiocese's interest rate swap agreements have been designed and qualify as cash flow hedging instruments. The fair value of the liabilities represents the discounted amount the Archdiocese would have to pay the bank to terminate the agreements at the respective balance sheet dates. The change in fair value of the interest rate swap agreements is recorded in the consolidated statements of activities as a gain or loss on interest rate swap agreements. During 2015, the CCCRC swap agreement was terminated as part of the debt refinancing (Note 5). CCCRC made a payment of $1,734,600 in order to terminate the agreement. The Archdiocese has no plans to terminate the other interest rate swap agreements prior to the expiration date of the agreements.

In 2014, CENGI entered into a forward swap with an effective date of July 1, 2020. The notional amount is for exactly half the expected bond payable amount on that date. Collateral cash for this swap at June 30, 2016 and 2015 was $1,120,000 and $800,000, respectively.

**NOTE 6: INTEREST RATE SWAP AGREEMENTS (CONTINUED)**

By using a derivative financial instrument to hedge its exposure to changes in interest rates, the Archdiocese exposes itself to credit and market risk. Credit risk is the failure of the counter party to perform under the terms of the derivative contract. When the fair value of a derivative contract is positive, the counter party owes the Archdiocese, which creates credit risk for the Archdiocese. When the fair value of a derivative contract is negative the Archdiocese owes the counter party and, therefore, it does not possess credit risk. The Archdiocese minimized the credit risk in derivative instruments by entering into transactions with high-quality counter parties.

Market risk is an adverse effect on the value of a financial instrument that results from a change in interest rates. The market risk associated with interest rate contracts is managed by establishing the monitoring parameters that limit the types and degree of market risk may be undertaken.

The table below summarizes the swap information reported in the consolidated financial statements as of June 30, 2016.

***Year ended June 30, 2016***

| Issue | Effective Date | Expiration Date | Notional Amount | Fixed Interest Rate | Variable Interest Rate | Fair Value of Liability in Statement of Financial Position | Gain (loss) on interest rate swap agreements in Statement of Activities |
|---|---|---|---|---|---|---|---|
| School Bonds | 1/26/2012 | 7/1/2020 | $ 44,590,000 | 3.55% | 0.29% | $(4,846,450) | $ 278,018 |
| School Bonds | 7/1/2020 | 7/1/2025 | 16,065,000 | 2.90% | 0.29% | (1,099,362) | (628,889) |
| | | | $ 60,655,000 | | | $(5,945,812) | $ (350,871) |

**NOTE 6: INTEREST RATE SWAP AGREEMENTS (CONTINUED)**

The table below summarizes the swap information reported in the consolidated financial statements as of June 30, 2015.

*Year ended June 30, 2015*

| Issue | Effective Date | Expiration Date | Notional Amount | Fixed Interest Rate | Variable Interest Rate | Fair Value of Liability in Statement of Financial Position | Gain (loss) on interest rate swap agreements in Statement of Activities |
|---|---|---|---|---|---|---|---|
| CCCRC Bonds | 5/15/2007 | 5/1/2017 | $ - | - | - | $ - | $ 145,538 |
| School Bonds | 1/26/2012 | 7/1/2020 | 47,425,000 | 3.55% | 0.11% | (5,124,467) | 880,832 |
| School Bonds | 7/1/2020 | 7/1/2025 | 16,065,000 | 2.90% | 0.11% | (470,474) | (231,847) |
| | | | $ 63,490,000 | | | $(5,594,941) | $ 794,523 |

**NOTE 7: CONTINGENCIES**

The Archdiocese has been named defendant in various civil lawsuits. The Archdiocese considers all of these suits to be without basis and plans to vigorously contest the claims. The likely outcome of the various lawsuits cannot be determined.

**NOTE 8: ENDOWMENT AND DESIGNATED INVESTMENT FUNDS**

Permanently restricted net assets include donor-restricted endowment funds. Unrestricted net assets include funds that have been designated by the Archbishop (board-designated) to function as endowments. The donor-restricted endowment funds and the board designated funds are collectively referred to as endowment funds. The endowment funds are restricted or designated for a variety of purposes. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Archdiocese has interpreted Georgia's Uniform Prudent Management of Institutional Funds Act (UPMIFA) as 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 this interpretation, the Archdiocese classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Archdiocese in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Archdiocese considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the Archdiocese and the donor-restricted endowment fund
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 the Archdiocese
7. The investment policies of the Archdiocese

## NOTE 8: ENDOWMENT AND DESIGNATED INVESTMENT FUNDS (CONTINUED)

Endowment net assets composition by type of fund as of June 30, 2016:

| *June 30, 2016* | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| **Donor-restricted endowment funds** | | | | |
| Campus ministry | $ - | $ 41,741 | $ 168,345 | $ 210,086 |
| Cemeteries | - | 374,426 | 50,000 | 424,426 |
| Community Service | (24,918) | 743,873 | 3,691,573 | 4,410,528 |
| Dependent children | - | 866,482 | 387,207 | 1,253,689 |
| Education | (4,793) | 13,912,312 | 38,049,352 | 51,956,871 |
| Elderly | - | 391,350 | 1,211,810 | 1,603,160 |
| Operations | (73,671) | 886,285 | 7,539,097 | 8,351,711 |
| Parishes | (7,059) | 890,129 | 4,276,974 | 5,160,044 |
| Seminary | - | 3,134,616 | 3,658,050 | 6,792,666 |
| | (110,441) | 21,241,214 | 59,032,408 | 80,163,181 |
| **Board-designated endowment funds** | | | | |
| Charitable gift annuities | 585,633 | - | - | 585,633 |
| Clergy welfare | 174,326 | - | - | 174,326 |
| Donor-advised fund | 2,254,478 | - | - | 2,254,478 |
| Education | 2,593,075 | - | - | 2,593,075 |
| Operations | 1,515,239 | - | - | 1,515,239 |
| Parishes | 8,327,767 | - | - | 8,327,767 |
| Retired priests | 351,469 | - | - | 351,469 |
| Seminary | 3,461,631 | - | - | 3,461,631 |
| | 19,263,618 | - | - | 19,263,618 |
| | $ 19,153,177 | $ 21,241,214 | $ 59,032,408 | $ 99,426,799 |

**NOTE 8: ENDOWMENT AND DESIGNATED INVESTMENT FUNDS (CONTINUED)**

Endowment net assets composition by type of fund as of June 30, 2015:

| *June 30, 2015* | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Donor-restricted endowment funds | | | | |
| Campus ministry | $ - | $ 56,064 | $ 167,835 | $ 223,899 |
| Cemeteries | - | 356,840 | 50,000 | 406,840 |
| Community Service | (8,015) | 1,033,077 | 3,690,267 | 4,715,329 |
| Dependent children | - | 892,865 | 387,207 | 1,280,072 |
| Education | - | 14,527,992 | 37,177,982 | 51,705,974 |
| Elderly | - | 493,997 | 1,209,235 | 1,703,232 |
| Operations | - | 1,348,981 | 7,486,172 | 8,835,153 |
| Parishes | (2,924) | 1,098,028 | 4,211,429 | 5,306,533 |
| Seminary | - | 3,617,004 | 3,658,050 | 7,275,054 |
| | (10,939) | 23,424,848 | 58,038,177 | 81,452,086 |
| Board-designated endowment funds | | | | |
| Charitable gift annuities | 581,632 | - | - | 581,632 |
| Clergy welfare | 173,486 | - | - | 173,486 |
| Dependent children | 66,312 | - | - | 66,312 |
| Donor-advised fund | 2,456,673 | - | - | 2,456,673 |
| Education | 2,580,739 | - | - | 2,580,739 |
| Operations | 1,639,893 | - | - | 1,639,893 |
| Parishes | 8,877,117 | - | - | 8,877,117 |
| Retired priests | 349,693 | - | - | 349,693 |
| Seminary | 3,507,980 | - | - | 3,507,980 |
| | 20,233,525 | - | - | 20,233,525 |
| | $ 20,222,586 | $ 23,424,848 | $ 58,038,177 | $ 101,685,611 |

**NOTE 8: ENDOWMENT AND DESIGNATED INVESTMENT FUNDS (CONTINUED)**

Changes in endowment net assets for the year ended June 30, 2016:

| *Year ended June 30, 2016* | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| **Endowment net assets, beginning of year** | $ 20,222,586 | $ 23,424,848 | $ 58,038,177 | $ 101,685,611 |
| **Contributions** | - | 103,557 | 1,011,313 | 1,114,870 |
| **Transfers to increase board designated funds** | 57,790 | - | - | 57,790 |
| **Net assets transfer** | - | - | 246,000 | 246,000 |
| **Investment return** | | | | |
| **Investment income** | 333,291 | 1,315,610 | 539 | 1,649,440 |
| **Net realized and unrealized depreciation** | (380,303) | (1,570,530) | (242,141) | (2,192,974) |
| **Change in value of charitable gift annuities** | - | - | (21,480) | (21,480) |
| **Appropriation of endowment net assets for expenditure** | (980,685) | (2,131,773) | - | (3,112,458) |
| **Restoration of deficiencies in donor-restricted endowment funds** | (99,502) | 99,502 | - | - |
| **Endowment net assets, end of year** | $ 19,153,177 | $ 21,241,214 | $ 59,032,408 | $ 99,426,799 |

**NOTE 8: ENDOWMENT AND DESIGNATED INVESTMENT FUNDS (CONTINUED)**

Changes in endowment net assets for the year ended June 30, 2015:

| *Year ended June 30, 2015* | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Endowment net assets, beginning of year | $ 24,914,264 | $ 24,709,750 | $ 53,463,293 | $ 103,087,307 |
| Contributions | - | 201,013 | 1,522,629 | 1,723,642 |
| Transfers to increase board designated funds | 578,423 | - | - | 578,423 |
| Net assets transfer | - | 462,658 | 3,098,265 | 3,560,923 |
| Investment return | | | | |
| Investment income | 392,870 | 1,674,930 | 733 | 2,068,533 |
| Net realized and unrealized appreciation (depreciation) | 73,194 | (44,660) | (46,743) | (18,209) |
| Appropriation of endowment net assets for expenditure | (5,725,226) | (3,589,782) | - | (9,315,008) |
| Recovery of deficiencies in donor-restricted endowment funds | (10,939) | 10,939 | - | - |
| Endowment net assets, end of year | $ 20,222,586 | $ 23,424,848 | $ 58,038,177 | $ 101,685,611 |

The Archdiocese has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowments while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Archdiocese must hold in perpetuity or for a donor-specified period as well as board-designated funds. Under this policy the endowment assets are invested in a manner that is intended to produce a reasonable rate of return under current market conditions with minimal risk.

## NOTE 8: ENDOWMENT AND DESIGNATED INVESTMENT FUNDS (CONTINUED)

The Archdiocese's spending policy reflects the fundamental objective of preserving and enhancing the resources of the Archdiocese, both at present and in the future. Current spending and the long term objectives of preserving and enhancing the assets are balanced by considerations given to reasonable expectations of investment returns, contributions, operating expenses, and inflation. The Archdiocese has a policy of appropriating for distribution each year amounts that are required to be distributed under the terms of donor-restricted endowment agreements and amounts needed to fund and subsidize Archdiocesan programs and agencies. In establishing this policy, the Archdiocese considered the long-term expected return on its endowment. Accordingly, over the long term, the Archdiocese expects the current spending policy to allow its endowment to grow at a rate that will maintain the purchasing power of the endowment assets held in perpetuity as well as to provide additional real growth through new gifts and investment return.

## NOTE 9: RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets and permanently restricted net assets, including donor-restricted endowment funds, are available for the following purposes at June 30, 2016:

| *June 30, 2016* | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|
| Campus ministry | $ 41,741 | $ 168,345 | $ 210,086 |
| Cemeteries | 374,426 | 50,000 | 424,426 |
| Community service | 743,873 | 3,691,573 | 4,435,446 |
| Dependent children | 866,482 | 387,207 | 1,253,689 |
| Education | 13,912,312 | 38,049,352 | 51,961,664 |
| Elderly | 391,350 | 1,211,810 | 1,603,160 |
| Operations | 886,285 | 7,539,097 | 8,425,382 |
| Parishes | 890,129 | 4,276,974 | 5,167,103 |
| Religious purposes | 2,012,299 | - | 2,012,299 |
| School operations | 376,130 | - | 376,130 |
| Seminary | 3,134,616 | 3,658,050 | 6,792,666 |
| | $ 23,629,643 | $ 59,032,408 | $ 82,662,051 |

**NOTE 9: RESTRICTIONS ON NET ASSETS (CONTINUED)**

Temporarily restricted net assets and permanently restricted net assets, including donor-restricted endowment funds, are available for the following purposes at June 30, 2015:

| *June 30, 2015* | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|
| Campus ministry | $ 56,064 | $ 167,835 | $ 223,899 |
| Cemeteries | 356,840 | 50,000 | 406,840 |
| Community service | 1,033,077 | 3,690,267 | 4,723,344 |
| Dependent children | 892,865 | 387,207 | 1,280,072 |
| Education | 14,527,992 | 37,177,982 | 51,705,974 |
| Elderly | 493,997 | 1,209,235 | 1,703,232 |
| Operations | 1,348,981 | 7,486,172 | 8,835,153 |
| Parishes | 1,098,028 | 4,211,429 | 5,309,457 |
| Religious purposes | 2,012,299 | - | 2,012,299 |
| School operations | 403,679 | - | 403,679 |
| Seminary | 3,617,004 | 3,658,050 | 7,275,054 |
| | $ 25,840,826 | $ 58,038,177 | $ 83,879,003 |

**NOTE 10: FINANCIAL INSTRUMENTS**

The Financial Accounting Standards Board (FASB) requires disclosure about financial instruments and related off-balance sheet risk and concentrations of credit risk. The activity of the Administrative Offices of the Archdiocese of Atlanta and its subsidiaries is primarily with the parishes and missions within the Archdiocese, which covers approximately fifty percent of the State of Georgia. The accounts receivable, promises to give, and loans receivable from parishes and bonds payable are all associated with the parishes or other Archdiocesan activities. Any off-balance sheet risk or credit risk is dependent on the financial support of the parishioners to their local parish and the parishes subsequent support of the Archdiocese.

The Archdiocese has cash deposits and investment accounts with financial institutions, which fluctuate from time to time in excess of the insured limitation of the Federal Deposit Insurance Corporation. If these financial institutions were not to honor their contractual liability, the Archdiocese could incur losses. Management is of the opinion that there is no risk of loss because of the financial strength of these financial institutions.

**NOTE 11: FAIR VALUE MEASUREMENTS**

Generally accepted accounting principles require that certain assets and liabilities be measured at fair value on a recurring basis. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. Additionally, the inputs used to measure fair value are prioritized based on a three-level hierarchy. This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

*Level 1* - Valuations based on unadjusted quoted prices for identical instruments in active markets that are available as of the measurement date.

*Level 2* - Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

*Level 3* - Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

Cash and cash equivalents, accounts receivable, loans receivable, accounts payable, and deposits payable - carrying amounts approximate fair value based upon the nature of the instrument.

Promises to give are valued at estimated net realizable value discounted to present value at 5.0%. Change in value includes changes in discount and adjustments to the allowance for uncollectible promises to give.

Interest rate swap liability - fair value determined using a discounted cash flow method based on forward interest rates and expected cash flows.

**NOTE 11: FAIR VALUE MEASUREMENTS (CONTINUED)**

The following table presents the Archdiocese's fair value hierarchy for the financial assets and liabilities measured at fair value on a recurring basis as of June 30, 2016:

| *June 30, 2016* | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Investments** | | | | |
| Short-term investments | $ - | $ 23,644,822 | $ - | $ 23,644,822 |
| Corporate obligations - domestic bonds | - | 3,534,416 | - | 3,534,416 |
| Equity securities - domestic | 40,220,268 | - | - | 40,220,268 |
| Equity securities - international | 770,462 | - | - | 770,462 |
| Equity funds - domestic | 3,464,724 | 17,290,980 | - | 20,755,704 |
| Equity funds - international | 57,094,420 | - | - | 57,094,420 |
| Debt funds - domestic and international | 32,296,541 | - | - | 32,296,541 |
| U. S. agency funds | - | 9,804,574 | - | 9,804,574 |
| U. S. agency securities | 6,686,786 | - | - | 6,686,786 |
| U. S. treasury notes | 4,378,811 | - | - | 4,378,811 |
| Equity Securities - REIT | 1,320,818 | - | - | 1,320,818 |
| Total Investment at FMV | $ 146,232,830 | $ 54,274,792 | $ - | 200,507,622 |
| **Investments measured at net asset value** | | | | |
| Other investments measured at net asset value | | | | 16,680,214 |
| Investments in limited partnership | | | | 6,782,061 |
| | | | | $ 223,969,897 |
| **Promises to give** | $ - | $ - | $ 4,891,122 | $ 4,891,122 |
| **Interest rate swap liability** | $ - | $ - | $ 5,945,812 | $ 5,945,812 |
| **Post retirement obligation** | $ - | $ - | $ 9,998,787 | $ 9,998,787 |

**NOTE 11: FAIR VALUE MEASUREMENTS (CONTINUED)**

The following table presents the Archdiocese's fair value hierarchy for the financial assets and liabilities measured at fair value on a recurring basis as of June 30, 2015:

| *June 30, 2015* | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Investments | | | | |
| Short-term investments | $ - | $ 18,377,886 | $ - | $ 18,377,886 |
| Corporate obligations - domestic bonds | - | 5,415,178 | - | 5,415,178 |
| Corporate obligations - international bonds | 778,452 | - | - | 778,452 |
| Equity securities - domestic | 53,041,124 | - | | 53,041,124 |
| Equity securities - international | 508,195 | - | - | 508,195 |
| Equity funds - domestic | 4,651,966 | 16,902,314 | - | 21,554,280 |
| Equity securities - international | 26,762,040 | - | - | 26,762,040 |
| Debt funds - domestic and international | 36,302,153 | - | - | 36,302,153 |
| U. S. agency funds | - | 13,072,781 | - | 13,072,781 |
| U. S. agency securities | 6,066,548 | - | - | 6,066,548 |
| U. S. treasury notes | 12,010,968 | - | - | 12,010,968 |
| Equity Securities - REIT | 822,421 | - | - | 822,421 |
| Total Investment at FMV | $ 140,943,867 | $ 53,768,159 | $ - | 194,712,026 |
| Investments measured at net asset value | | | | |
| Other investments measured at net asset value | | | | 12,997,226 |
| Investments in limited partnership | | | | 4,581,042 |
| | | | | $ 212,290,294 |
| Promises to give | $ - | $ - | $ 4,829,729 | $ 4,829,729 |
| Interest rate swap liability | $ - | $ - | $ 5,594,941 | $ 5,594,941 |
| Post retirement obligation | $ - | $ - | $ 5,787,517 | $ 5,787,517 |

## NOTE 11: FAIR VALUE MEASUREMENTS (CONTINUED)

The following is a reconciliation of the change in fair value for the years ended June 30, 2016 and 2015, for Level 3:

| *Years ended June 30,* | **2016** | 2015 |
|---|---|---|
| Interest rate swap liability | | |
| Liability at beginning of year | **$ 5,594,941** | $ 8,124,064 |
| Settlement on interest rate swap | **-** | (1,734,600) |
| Change in value | **350,871** | (794,523) |
| Liability at end of year | **$ 5,945,812** | $ 5,594,941 |
| Promises to give | | |
| Receivables at beginning of year | **$ 4,829,729** | $ 5,657,377 |
| New pledges received | **6,673,679** | 6,279,596 |
| Payments on pledges | **(6,628,418)** | (6,777,939) |
| Change in value of pledges | **16,132** | (329,305) |
| Receivable at end of year | **$ 4,891,122** | $ 4,829,729 |
| Post retirement obligation | | |
| Balance at beginning of year | **$ 5,787,517** | $ 6,812,972 |
| Increase in accumulated postretirement benefit obligation | **7,330,264** | 2,627,470 |
| Increase in fair value of assets | **(3,118,994)** | (3,652,925) |
| Post retirement obligation at end of year | **$ 9,998,787** | $ 5,787,517 |

The change in value of the interest rate swap agreements in 2016 and 2015, is attributable to the revaluation of the interest rate swap agreements based on the current market conditions and is included in the change in net assets for the years ended June 30, 2016 and 2015.

Considerable judgment is required in interpreting market data to develop the estimates of fair value and, accordingly, the estimates are not necessarily indicative of the amount that the Archdiocese could realize in a current market exchange.

**NOTE 12: POST RETIREMENT BENEFITS**

***Clergy Retirement Plan***

On July 1, 1969, the Archdiocese adopted a retirement plan which covers all priests incardinated in the Archdiocese of Atlanta. The Archdiocese's funding policy is to make contributions to the plan at such times and in such amounts required to keep the plan actuarially sound. Benefits are based on years of service. Contributions are intended to provide not only for benefits attributed to service to-date, but also for those expected to be earned in the future. The Archdiocese expects to contribute approximately $979,000 to the Plan during the fiscal year ending June 30, 2017.

The annual measurement date is June 30, for the pension benefits. The following table provides further information about the Archdiocese's clergy retirement plan:

| *Years ended June 30,* | **2016** | 2015 |
|---|---|---|
| Obligation and funded status | | |
| Projected benefit obligation | **$ (29,081,946)** | $ (23,534,616) |
| Plan assets at fair value | **20,371,455** | 17,502,959 |
| Funded status | **$ (8,710,491)** | $ (6,031,657) |
| Accumulated benefit obligation | **$ 29,081,946** | $ 23,534,616 |
| Employer contribution | **4,000,000** | 4,344,796 |
| Benefits paid | **1,050,230** | 954,151 |
| Amounts recognized in the consolidated statements of financial position | | |
| Noncurrent liabilities | **8,710,491** | 6,031,657 |
| Amounts recognized in the consolidated statements of activities | | |
| Service cost | **949,468** | 756,545 |
| Interest cost | **998,438** | 862,625 |
| Expected return on plan assets | **(1,191,886)** | (1,007,048) |
| Amortization of prior service cost and net (gain)/loss | **571,424** | 390,718 |
| Net periodic pension cost | **$ 1,327,444** | $ 1,002,840 |
| Other changes in net assets | | |
| Actuarial gain (loss) | **$ (5,992,814)** | $ (2,554,674) |
| Amortization of prior service cost | **571,424** | 390,718 |
| | **$ (5,421,390)** | $ (2,163,956) |

**NOTE 12: POST RETIREMENT BENEFITS (CONTINUED)**

The estimated net loss and prior service cost that will be amortized from changes in unrestricted net assets into net periodic benefit cost in 2017 are $878,061 and $0, respectively.

The following assumptions were used in accounting for the plan:

| Weighted-average assumptions used to determine benefit obligations: | **2016** | 2015 |
|---|---|---|
| Discount rate | **3.6%** | 4.3% |
| Expected return on plan assets | **7.0%** | 7.5% |
| Future cost of living adjustments | **2.5%** | 2.5% |

| Weighted-average assumptions used to determine net periodic benefit cost | **2016** | 2015 |
|---|---|---|
| Discount rate | **4.3%** | 4.2% |
| Expected return on plan assets | **7.0%** | 7.5% |
| Future cost of living adjustments | **2.5%** | 2.5% |

Retirement Age: Age based on retirement rates are given below

| Age | Probability of Retirement |
|---|---|
| 65 | 100.00% |

Mortality Rates (per 1,000 lives)- IRS 2016 Static Mortality Table for Males:

| Age | **2016** | 2015 |
|---|---|---|
| 20 | **0.28** | 0.26 |
| 35 | **0.66** | 0.72 |
| 50 | **1.32** | 1.63 |
| 60 | **4.48** | 5.3 |

Disability: Rates varying by age and service:

| Age | Male | Female |
|---|---|---|
| N/A | N/A | N/A |

**NOTE 12: POST RETIREMENT BENEFITS (CONTINUED)**

The Archdiocese's overall investment strategy is to achieve a mix of investments for long-term growth and near-term benefit payments with a diversification of asset types, fund strategies, and fund managers. The target allocation for plan assets is 65% equity securities and 35% corporate bonds and U.S. Treasury securities.

The Archdiocese's expected rate of return on plan assets is determined by the plan assets' historical long-term investment performance, current asset allocation, and estimates of future long-term returns by asset class.

No plan assets are expected to be returned to the Archdiocese during the fiscal year ending June 30, 2017.

The following benefits are expected to be paid:

| *Year ending June 30,* | | |
|---|---|---|
| 2017 | $ | 979,319 |
| 2018 | | 987,672 |
| 2019 | | 1,002,808 |
| 2020 | | 1,047,408 |
| 2021 | | 1,083,927 |
| 2022-2026 | | 6,328,980 |
| | $ | 11,430,114 |

Billings to the parishes and agencies for clergy retirement are reported in insurance revenues and totaled $838,490 and $844,796 for the years ended June 30, 2016 and 2015, respectively.

| *Years ended June 30,* | | **2016** | | 2015 |
|---|---|---|---|---|
| Pension and administrative expenses | **$** | **1,434,170** | $ | 1,047,090 |
| Billings to parishes and agencies | | **(838,490)** | | (844,796) |
| | **$** | **595,680** | $ | 202,294 |

**NOTE 12: POST RETIREMENT BENEFITS (CONTINUED)**

The fair values of the Archdiocese's clergy retirement plan assets at June 30, 2016 and 2015, by asset category are as follows:

| ***June 30, 2016*** | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| **Investments** | | | | |
| **Short-term investments** | **$ 1,411,257** | **$ -** | **$ -** | **$ 1,411,257** |
| **U.S. Treasury obligations** | **1,476,939** | **1,411,729** | **-** | **2,888,668** |
| **Marketable debt securities** | **-** | **466,486** | **-** | **466,486** |
| **Marketable equity securities** | **5,981,419** | **-** | **-** | **5,981,419** |
| **Equity mutual funds** | **8,758,753** | **-** | **-** | **8,758,753** |
| | **$ 17,628,368** | **$ 1,878,215** | **$ -** | **19,506,583** |
| **Investments measured at net asset value** | | | | |
| **Alternative Funds** | | | | **864,872** |
| | | | | **$ 20,371,455** |

| *June 30, 2015* | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Investments | | | | |
| Short-term investments | $ 1,052,287 | $ - | $ - | $ 1,052,287 |
| U.S. Treasury obligations | 1,494,528 | 1,088,292 | - | 2,582,820 |
| Marketable debt securities | - | 433,664 | - | 433,664 |
| Marketable equity securities | 7,833,990 | - | - | 7,833,990 |
| Equity mutual funds | 4,853,362 | - | - | 4,853,362 |
| | $ 15,234,167 | $ 1,521,956 | $ - | 16,756,123 |
| Investments measured at net asset value | | | | |
| Alternative Funds | | | | 746,836 |
| | | | | $ 17,502,959 |

***Clergy long-term care plan***

On January 1, 2012, the Archdiocese adopted a long-term care plan covering priests within the Archdiocese. To be eligible for the plan, a priest must be incardinated within the Archdiocese and must be an active participant in the clergy retirement plan. There are no minimum age or service requirements to qualify for benefits under the plan.

## NOTE 12: POST RETIREMENT BENEFITS (CONTINUED)

The following table provides further information about the clergy long-term care plan:

| *Years ended June 30,* | | **2016** | | 2015 |
|---|---|---|---|---|
| Obligation and funded status | | | | |
| Projected benefit obligation | **$** | **(7,027,057)** | $ | (5,244,123) |
| Plan assets at fair value | | **5,738,761** | | 5,488,263 |
| Funded/(Underfunded) status | **$** | **(1,288,296)** | $ | 244,140 |
| | | | | |
| Accumulated benefit obligation | **$** | **7,027,057** | $ | 5,244,123 |
| Employer contribution | | **470,400** | | 214,200 |
| Benefits paid | | **184,815** | | 178,050 |
| | | | | |
| Amounts recognized in the consolidated statements of financial position: | | | | |
| Noncurrent asset/(liability) | | **(1,288,296)** | | 244,140 |
| | | | | |
| Amounts recognized in the consolidated statements of activities: | | | | |
| Service cost | | **125,296** | | 108,989 |
| Interest cost | | **224,537** | | 212,699 |
| Expected return on plan assets | | **(395,895)** | | (393,962) |
| Net periodic pension cost (income) | **$** | **(46,062)** | $ | (72,274) |
| | | | | |
| Other changes in net assets: | | | | |
| Actuarial gain (loss) | **$** | **(2,048,898)** | $ | (439,019) |

**NOTE 12: POST RETIREMENT BENEFITS (CONTINUED)**

The following assumptions were used in accounting for the plan:

| Weighted-average assumptions used to determine benefit obligations: | **2016** | 2015 |
|---|---|---|
| Discount rate | **3.65%** | 4.46% |
| Expected return on plan assets | **7.00%** | 7.50% |
| Future cost of living adjustments | **2.50%** | 2.60% |

| Weighted-average assumptions used to determine net periodic benefit cost: | **2016** | 2015 |
|---|---|---|
| Discount rate | **4.46%** | 4.38% |
| Expected return on plan assets | **7.00%** | 7.50% |
| Future cost of living adjustments | **2.50%** | 2.60% |

Long-term care incidence rates:

| Age | Probability of |
|---|---|
| 60-64 | 0.49% |
| 65-69 | 0.62% |
| 70-74 | 1.01% |
| 75-79 | 2.09% |
| 80-84 | 4.60% |
| 85-89 | 8.00% |
| 90-99 | 11.55% |
| 100+ | 100.00% |

Mortality Rates (per 1,000 lives):

| Age | Not on long term care | On long-term care |
|---|---|---|
| 20 | 0.19 | N/A |
| 35 | 0.662 | N/A |
| 50 | 1.217 | 76.12 |
| 60 | 4.892 | 150.42 |

No plan assets are expected to be returned to the Archdiocese during the fiscal year ending June 30, 2017.

**NOTE 12: POST RETIREMENT BENEFITS (CONTINUED)**

The following benefits are expected to be paid:

| *Year ending June 30,* | | |
|---|---|---|
| 2017 | $ | 273,534 |
| 2018 | | 238,008 |
| 2019 | | 217,246 |
| 2020 | | 205,637 |
| 2021 | | 200,952 |
| 2022-2026 | | 1,089,747 |
| | $ | 2,225,124 |

Billings to parishes and agencies for clergy long-term care are reported in insurance revenues and totaled $219,400 and $214,200 for the years ended June 30, 2016 and 2015, respectively.

The fair values of the Archdiocese's long-term care plan assets at June 30, 2016 and 2015, by asset category are as follows:

| ***June 30, 2016*** | | **Level 1** | | **Level 2** | | **Level 3** | | **Total** |
|---|---|---|---|---|---|---|---|---|
| **Short-term investments** | **$** | **232,531** | **$** | **-** | **$** | **-** | **$** | **232,531** |
| **Marketable equity securities** | | **5,506,230** | | **-** | | **-** | | **5,506,230** |
| | **$** | **5,738,761** | **$** | **-** | **$** | **-** | **$** | **5,738,761** |

| *June 30, 2015* | | Level 1 | | Level 2 | | Level 3 | | Total |
|---|---|---|---|---|---|---|---|---|
| Short-term investments | $ | 331,882 | $ | - | $ | - | $ | 331,882 |
| Marketable equity securities | | 5,156,381 | | - | | - | | 5,156,381 |
| | $ | 5,488,263 | $ | - | $ | - | $ | 5,488,263 |

***Lay employee retirement plan***

The Archdiocese sponsors a defined contribution retirement plan that covers substantially all lay employees within the Archdiocese. Contributions to the plan are predetermined amounts based on compensation paid to each lay employee. Benefits under the plan are computed based on the pension fund assets.

## NOTE 12: POST RETIREMENT BENEFITS (CONTINUED)

***Lay employee retirement plan (continued)***

The parishes and agencies were billed for their respective share of pension and administrative costs which are included in insurance revenue and expenses as follows:

| *Years ended June 30,* | **2016** | 2015 |
|---|---|---|
| Pension and administrative expenses | **$ 3,915,688** | $ 3,767,579 |
| Billings to parishes and agencies | **(3,821,833)** | (3,727,311) |
| | **$ 93,855** | $ 40,268 |

## NOTE 13: DEVELOPMENT AND FUNDRAISING COST

The Archdiocese incurred fund raising costs related to the annual appeal campaign of $625,815 and $563,871 for the years ended June 30, 2016 and 2015, respectively. Catholic Education of North Georgia incurred development and fundraising costs totaling $963,541 and $1,166,422 for the years ended June 30, 2016 and 2015.

## NOTE 14: SUBSEQUENT EVENTS

Subsequent events have been evaluated through December 7, 2016, which is the date that the consolidated financial statements were available to be issued. As discussed in Note 5, the CENGI bonds were acquired by another bank on November 1, 2016, and the interest rate on the bonds was modified.