

Chimbote Foundation

Financial Statements

Years Ended June 30, 2016 and 2015 with
Independent Auditor's Report

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CHIMBOTE FOUNDATION

YEARS ENDED JUNE 30, 2016 AND 2015

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Independent Auditor's Report

Most Reverend David A. Zubik
Bishop of the Catholic Diocese of Pittsburgh

We have audited the accompanying financial statements of the Chimbote Foundation (Foundation), which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities and cash flows for the years then ended, 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 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 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, 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.

Emphasis of Matter

The accompanying financial statements are not intended to present all funds and related entities of the Catholic Diocese of Pittsburgh at June 30, 2016 and 2015, and, thus, do not represent a comprehensive financial report. This report includes only the financial statements for the Foundation. Our opinion is not modified with respect to this matter.

Restriction of Use

This report is intended solely for the information and use of the Bishop of the Catholic Diocese of Pittsburgh and management, and is not intended to be, and should not be, used by anyone other than these specified parties.

Maher Duessel

Pittsburgh, Pennsylvania
October 11, 2016

CHIMBOTE FOUNDATION

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
Assets		
<hr/>		
Assets:		
Cash and cash equivalents	\$ 14,456	\$ 6,141
Investment in Institutional Common Fund	1,921,034	1,869,837
Short-term investments	420,170	104,825
Accounts receivable	8,214	3,756
Pledges receivable	175,217	-
Accrued interest receivable	14,336	12,457
	<hr/>	<hr/>
Total Assets	<u>\$ 2,553,427</u>	<u>\$ 1,997,016</u>
Liabilities and Net Assets		
<hr/>		
Liabilities:		
Accounts payable	\$ 11,876	\$ 2,248
Net Assets:		
Unrestricted	2,366,334	1,994,768
Temporarily restricted	175,217	-
	<hr/>	<hr/>
Total net assets	<u>2,541,551</u>	<u>1,994,768</u>
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Total Liabilities and Net Assets	<u>\$ 2,553,427</u>	<u>\$ 1,997,016</u>

See accompanying notes to financial statements.

CHIMBOTE FOUNDATION

STATEMENTS OF ACTIVITIES

YEARS ENDED JUNE 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
Changes in Unrestricted Net Assets:		
Revenues:		
Interest and dividends	\$ 46,407	\$ 43,446
Donations	230,567	178,232
Fundraising income:		
Peru Mission Dinner income	163,899	121,450
Golf outing	47,639	60,676
Mission Milestone donations	377,071	-
Other	11,067	-
Net assets released from restrictions	<u>10,000</u>	<u>-</u>
Total revenues	886,650	403,804
Expenses:		
Program:		
Chimbote Mission subsidy disbursements	250,000	250,000
Mission Milestone disbursements	100,000	-
Medical equipment expense	41,300	60,783
Support Services:		
General and administrative expenses	37,591	12,732
Fundraising:		
Peru Mission Dinner expense	45,876	28,626
Golf outing expense	20,601	23,728
Mission Milestone expense	18,387	3,183
Other expense	<u>8,378</u>	<u>-</u>
Total expenses	<u>522,133</u>	<u>379,052</u>
Change in net assets from operations	364,517	24,752
Unrealized appreciation (depreciation) on investments	<u>7,049</u>	<u>15,976</u>
Change in Unrestricted Net Assets	371,566	40,728
Changes in Temporarily Restricted Net Assets:		
Mission Milestone donations	185,217	-
Net assets released from restrictions	<u>(10,000)</u>	<u>-</u>
Change in Temporarily Restricted Net Assets	<u>175,217</u>	<u>-</u>
Change in Net Assets	546,783	40,728
Net Assets:		
Beginning of year	<u>1,994,768</u>	<u>1,954,040</u>
End of year	<u>\$ 2,541,551</u>	<u>\$ 1,994,768</u>

See accompanying notes to financial statements.

CHIMBOTE FOUNDATION

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
Cash Flows From Operating Activities:		
Change in net assets	\$ 546,783	\$ 40,728
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Unrealized (appreciation) depreciation on investments	(7,049)	(15,976)
Changes in operating assets:		
Accrued interest receivable	(1,879)	(288)
Accounts receivable	(4,458)	5,144
Pledges receivable	(175,217)	-
Accounts payable	9,628	2,248
	<u>367,808</u>	<u>31,856</u>
Net cash provided by (used in) operating activities	367,808	31,856
Cash Flows From Investing Activities:		
Proceeds from sale or maturity of investments	35,000	50,035
Purchases of investments	(394,493)	(93,157)
	<u>(359,493)</u>	<u>(43,122)</u>
Net cash provided by (used in) investing activities	(359,493)	(43,122)
Net Increase (Decrease) in Cash and Cash Equivalents	8,315	(11,266)
Cash and Cash Equivalents:		
Beginning of year	<u>6,141</u>	<u>17,407</u>
End of year	<u>\$ 14,456</u>	<u>\$ 6,141</u>

See accompanying notes to financial statements.

CHIMBOTE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2016 AND 2015

1. ORGANIZATION

The Chimbote Foundation (the Foundation) was created in December 1991 to support the charitable and educational works of the Social Works Center in Chimbote, Peru, known as the Centro de Obras Sociales. The goal and purpose of the Foundation is to provide quality health care for the poor and needy in Chimbote, Peru, especially in the maternal-child health care field.

During fiscal year 2016, the Foundation announced the Mission Milestone Investment, a plan created to raise and invest up to \$1 million for one-time capital, equipment, and programming priorities identified through the Chimbote strategic planning process. The program will run from 2016-2018 and will target funds in addition to the Foundation's current operating subsidy.

The Foundation is listed in the Official Catholic Directory (OCD). This listing provides exemption from federal income tax for all Catholic institutions listed in the OCD for that year.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of the Foundation have been prepared on the accrual basis of accounting. Expenses are recognized in the period incurred. Revenues are recognized in the period in which they are earned.

Basis of Presentation

The Foundation's resources are classified for accounting and reporting purposes into classes of net assets established according to their nature and purpose. There are three types of net assets:

Unrestricted Net Assets – Net assets that are not subject to donor-imposed stipulations.

Temporarily Restricted Net Assets – Net assets whose use is limited by donor-imposed stipulations that either expire with the passage of time or can be fulfilled and removed by actions of the Foundation pursuant to those stipulations. The Foundation had temporarily restricted net assets totaling \$175,217 at June 30, 2016 that represent pledges receivable that

CHIMBOTE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2016 AND 2015

will be available for use by the Foundation with the passage of time. The Foundation had no temporarily restricted net assets at June 30, 2015.

Permanently Restricted Net Assets – Net assets whose use is limited by donor-imposed stipulations that neither expire with the passage of time nor can be fulfilled or otherwise removed by the actions of the Foundation. At June 30, 2016 and 2015, the Foundation had no permanently restricted net assets.

Cash and Cash Equivalents and Short-Term Investments

Cash and cash equivalents include currency on hand, demand deposits, and money market funds with financial institutions. Short-term investments, held by external investment managers, include money market funds and debt securities with maturities less than one year at date of purchase. The carrying values of cash and cash equivalents are reasonable estimates of fair value due to the short-term nature of these financial instruments.

Pledges Receivable

The Foundation records the receivable for unconditional pledges and corresponding revenue at estimated net realizable value when the commitment is made. Pledges receivable are recorded based on written commitments of the donors. Of the total pledges receivable balance of \$175,217 at June 30, 2016, \$65,217 is due in one year and \$110,000 is due in two to five years. All pledges are deemed fully collectible and, as such, no allowance has been recorded. The effect of a present valuation of the pledges receivable has been deemed by management as immaterial.

Investments

The Foundation is a participant in the Institutional Common Fund Trust, which was established by the Catholic Diocese of Pittsburgh on June 9, 2006 as a Delaware Statutory Trust. The Institutional Common Fund serves as an investment vehicle for various participating religious institutions within the Catholic Diocese of Pittsburgh and is comprised of a diversified portfolio of equity securities, government and corporate debt securities, and mutual funds. The Foundation's investment in the Institutional Common Fund is reported at fair value based upon a daily net asset value (NAV) as calculated by the investment custodian. The NAV is calculated as assets of the fund less the fund's liabilities. The share reported by the Foundation is proportionate to the Foundation's relative capital contributions to the fund. Shares are redeemable upon request and are available the next business day.

CHIMBOTE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2016 AND 2015

Currently, the Foundation has no intentions on liquidating the investment in the Institutional Common Fund held at year-end.

Dividend income is recorded by the Institutional Common Fund on the ex-dividend date. Interest income is recorded on the accrual basis. Net investment income is distributed to Institutional Common Fund participants semi-annually. Net realized gains or losses on the sale of securities are accumulated and distributed to participants upon redemption of their investments in the Institutional Common Fund.

The composition of the total investments within the Institutional Common Fund at fair value, based on quoted market prices at June 30, 2016, is as follows: Short-Term Cash (1%), Commercial Paper (1%), U.S. Government Securities (5%), Mortgage-Backed Securities (7%), Corporate Bonds (13%), Equity Index funds (57%), and International Equity Index Funds (16%).

The composition of the total investments within the Institutional Common Fund at fair value, based on quoted market prices at June 30, 2015, is as follows: Short-Term Cash (1%), Commercial Paper (3%), U.S. Government Securities (2%), Mortgage-Backed Securities (6%), Corporate Bonds (12%), Equity Index funds (56%), and International Equity Index Funds (20%).

Use of Estimates

The preparation of 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 financial statements and accompanying notes. Actual results could differ from those estimates.

Concentration of Credit Risk

Financial instruments, which potentially expose the Foundation to a concentration of credit risk, include cash and cash equivalents and short-term investments. As a matter of policy, the Foundation only maintains cash balances with financial institutions having a high credit quality. Concentration of credit risk for short-term investments is mitigated by the distribution of investment funds among asset managers; however, due to the risks and the level of uncertainty related to changes in the value of individual investments, it is at least reasonably possible that significant changes can occur in fair value that may materially affect the amounts reported in the financial statements.

CHIMBOTE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2016 AND 2015

Donations and Net Assets

The Foundation receives donations on behalf of fundraising efforts in support of the Social Works Center in Chimbote, Peru. Donations are recorded as unrestricted revenue when pledged or otherwise received. Donations received with a donor stipulation that limits their use are reported as temporarily or permanently restricted revenue and net assets. When a donor-stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities of net assets released from restrictions.

Since the sole purpose of the Foundation is to support the Social Works Center in Chimbote, Peru, all general donations are recorded as unrestricted. The Chimbote Mission, which acts to support the Social Works Center in Peru, periodically makes requests of the Foundation for the funding of operating activities and/or capital improvements. Such amounts are recorded as Chimbote Mission subsidy disbursements in the statements of activities. Additionally, funds collected under the Mission Milestone Investment for capital, equipment, and programming priorities are disbursed to the Chimbote Mission.

Administrative Services

The Foundation receives administrative services including budget development, financial and accounting services, administration of the multi-employer, defined benefit retirement and 403(b) plan, and assistance with investment administration from the Catholic Diocese of Pittsburgh (Diocese). No formal agreement between the Diocese and the Foundation exists related to such services. The costs of employee benefits, insurance and investment expenses are included in the fees charged by the Diocese to administer such services. Other administrative services are provided by the Diocese at no charge and are not recorded by the Foundation on the statement of activities. Such administrative services are not considered to be significant to the Foundation.

Pending Pronouncement

The Financial Accounting Standards Board (FASB) has issued the following amendments of the FASB Accounting Standard Codification that will become effective in future years as shown below. Management has not yet determined the impact of these statements on the Foundation's financial statements:

ASU-2015-07, "*Fair Value Measurement – Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or its Equivalent)*," effective for the

CHIMBOTE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2016 AND 2015

Foundation's financial statements for the year ending June 30, 2018. This amendment removes the requirement to categorize investments for which the fair value is measured using the net asset value per share practical expedient. The amendment also removes certain disclosures for all investments that are eligible to be measured at fair value using the net asset value per share practical expedient.

In August 2016, the FASB issued ASU No. 2016-14, "*Not-for-Profit Entities (Topic 958)*," which aims to improve how a nonprofit organization classifies its net assets and provides information in its financial statements and notes about its financial performance, cash flow, and liquidity. The ASU changes the net asset classification, requires presentation of expenses both by nature and function, requires investment return reported net of investment expenses, requires placed-in-service approach for gifts of/for long-lived assets and provides enhanced disclosures for: governing body restrictions; composition of net assets with donor restrictions; qualitative and quantitative information on liquidity; methods to allocate costs among program and support functions; and underwater donor-restricted endowment. The changes in the standard are effective for the Foundation's financial statements for the year ending June 30, 2019.

Subsequent Events

Subsequent events have been evaluated through the Independent Auditor's Report date, which is the date the financial statements were available to be issued.

3. FAIR VALUE OF FINANCIAL INSTRUMENTS

In accordance with the accounting principles generally accepted in the United States of America, all investments of the Foundation as of June 30, 2016 and 2015 are measured at Level 1 and Level 3 fair value. Level 1 fair value is defined as inputs based upon "measuring the value at quoted prices available in active markets for identical assets or liabilities as of the report date. A quoted price for an identical asset or liability in an active market provides the most reliable fair value measurement because it is directly observable to the market." Level 2 is defined as inputs based upon "measuring pricing units other than at quoted prices in active markets, which are either directly or indirectly observable as of the report date. The nature of these securities includes investments for which quoted prices are available but traded less frequently and investments that are fair valued using other securities, the parameters of which can be directly observed." Level 3 is defined as inputs based upon "significant unobservable inputs, as they trade infrequently or not at all." The investment strategies of the underlying investment funds of investments reported at NAV include capital appreciation and current

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income. In addition, there are no unfunded commitments of the Foundation related to such investments.

The following table summarizes investments as of June 30, 2016:

Description	Fair Value Measurements at Reporting Date Using			Total
	(Level 1)	(Level 2)	(Level 3)	
Short-Term Investments	\$ 420,170	\$ -	\$ -	\$ 420,170
Common Fund	-	-	1,921,034	1,921,034
Totals	<u>\$ 420,170</u>	<u>\$ -</u>	<u>\$ 1,921,034</u>	<u>\$ 2,341,204</u>

The following table summarizes investments as of June 30, 2015:

Description	Fair Value Measurements at Reporting Date Using			Total
	(Level 1)	(Level 2)	(Level 3)	
Short-Term Investments	\$ 104,825	\$ -	\$ -	\$ 104,825
Common Fund	-	-	1,869,837	1,869,837
Totals	<u>\$ 104,825</u>	<u>\$ -</u>	<u>\$ 1,869,837</u>	<u>\$ 1,974,662</u>

The following table summarizes the changes in fair values associated with Level 3, Common Fund investments:

Institutional Common Fund Investment		
	2016	2015
Beginning of the year balance	\$ 1,869,837	\$ 1,810,733
Sale or maturity of investments	-	(50,029)
Purchases of investments	44,148	93,157
Total gains (losses)	<u>7,049</u>	<u>15,976</u>
End of the year balance	<u>\$ 1,921,034</u>	<u>\$ 1,869,837</u>

CHIMBOTE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

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Determination of Fair Value

The Foundation reports investments at fair value in accordance with fair value accounting standards. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. These standards require an entity to maximize the use of observable inputs and minimize the use of unobservable inputs. Fair value for Level 3 investments in Institutional Common Fund is recorded based upon the value at which participant units in the Institutional Common Fund are purchased or redeemed and is determined monthly by adding the per unit cost and the per unit realized and unrealized gain or loss of investments owned. Participants purchasing/redeeming units are also charged/credited a proportionate share of net investment income, which has been received or accrued since the last income distribution date. The Common Fund per unit value is based upon the fair value of the underlying assets held.

The investments of the Institutional Common Fund are recorded at fair value. The fair values are determined by the custodian holding the investments and are based on closing prices at year-end. Realized gains and losses are computed using the specific identification method. Investment transactions are recorded as of the trade date reference to quoted prices for comparable market transactions.

The following table represents the valuation techniques used to measure the fair value of Level 3 investments, and the significant unobservable inputs and the ranges of values of those inputs:

<u>Description</u>	<u>Fair Value as of 6/30/16</u>	<u>Principal Valuation Technique</u>	<u>Unobservable Inputs</u>	<u>Significant Input Values</u>
Institutional Common Fund	<u>\$ 1,921,034</u>	Market Value of Underlying Investments	Calculated Unit Value	Participant Units & Value per Share

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YEARS ENDED JUNE 30, 2016 AND 2015

Description	Fair Value as of 6/30/15	Principal Valuation Technique	Unobservable Inputs	Significant Input Values
Institutional Common Fund	<u>\$ 1,869,837</u>	Market Value of Underlying Investments	Calculated Unit Value	Participant Units & Value per Share

For Level 3 items, the Foundation’s valuation is determined in good faith by the Institutional Common Fund Trust, as they have no significant observable inputs. Quantitative unobservable inputs of Level 3 items are not developed by the Foundation for measuring fair value.