

THE DIOCESE OF TRENTON
FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

THE DIOCESE OF TRENTON

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INDEPENDENT AUDITORS' REPORT

Most Reverend David M. O'Connell, C.M., J.C.D.
Bishop of The Diocese of Trenton
Trenton, New Jersey

Report on Financial Statements

We have audited the accompanying financial statements of The Diocese of Trenton (a nonprofit organization) which comprise the statements of financial position as of June 30, 2017 and 2016, 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; 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. 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 Diocese of Trenton as of June 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States.

Philadelphia, Pennsylvania
November 28, 2017

THE DIOCESE OF TRENTON
STATEMENTS OF FINANCIAL POSITION

	JUNE 30,	
	2017	2016
ASSETS		
Cash and cash equivalents	\$ 11,781,820	\$ 14,162,132
Assessments, notes and other receivables, net	29,276,361	29,897,649
Pledges receivable, net	30,832,739	21,447,069
Prepaid expenses	1,291,322	2,112,464
Investments	13,945,569	15,236,784
Property and equipment, net	22,582,039	26,086,054
TOTAL ASSETS	\$ 109,709,850	\$ 108,942,152
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and other accrued liabilities	\$ 1,730,726	\$ 1,932,823
Claims payable	7,706,799	7,380,174
Funds held for others	34,981,055	31,731,601
Postretirement benefits obligation	17,495,420	15,212,363
Total Liabilities	61,914,000	56,256,961
NET ASSETS		
Unrestricted:		
Property and equipment, net	22,625,028	26,121,349
Designated for insurance funds	(12,945,914)	(11,869,673)
Designated for capital and financing expenditures	594,000	581,000
Undesignated	25,895,820	27,101,340
Total unrestricted	36,168,934	41,934,016
Temporarily restricted	10,814,871	9,939,130
Permanently restricted	812,045	812,045
Total Net Assets	47,795,850	52,685,191
TOTAL LIABILITIES AND NET ASSETS	\$ 109,709,850	\$ 108,942,152

See accompanying notes.

THE DIOCESE OF TRENTON
STATEMENTS OF ACTIVITIES

	YEAR ENDED JUNE 30, 2017				YEAR ENDED JUNE 30, 2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	TOTAL	Unrestricted	Temporarily Restricted	Permanently Restricted	TOTAL
Operating activities:								
Operating revenues, gains and other support:								
Assessments	\$ 9,078,308	\$ -	\$ -	\$ 9,078,308	\$ 9,112,609	\$ -	\$ -	\$ 9,112,609
Insurance and employee benefit programs	42,475,392	-	-	42,475,392	42,066,302	-	-	42,066,302
Interest and dividend income	283,589	170,002	-	453,591	415,400	210,378	-	625,778
Donations and pledges	490,248	5,710,971	-	6,201,219	1,043,194	4,719,453	-	5,762,647
Other	1,359,724	-	-	1,359,724	1,572,256	-	-	1,572,256
	<u>53,687,261</u>	<u>5,880,973</u>	<u>-</u>	<u>59,568,234</u>	<u>54,209,761</u>	<u>4,929,831</u>	<u>-</u>	<u>59,139,592</u>
Net Assets released from restriction:								
Satisfaction of program restrictions	5,365,498	(5,365,498)	-	-	5,791,049	(5,791,049)	-	-
Total operating revenues, gains and other support	<u>59,052,759</u>	<u>515,475</u>	<u>-</u>	<u>59,568,234</u>	<u>60,000,810</u>	<u>(861,218)</u>	<u>-</u>	<u>59,139,592</u>
Operating expenses:								
Grants and subsidies	2,710,363	-	-	2,710,363	3,286,856	-	-	3,286,856
Seminary tuition and support	713,807	-	-	713,807	965,319	-	-	965,319
Claims incurred	4,895,172	-	-	4,895,172	3,529,666	-	-	3,529,666
Insurance premiums	34,381,367	-	-	34,381,367	34,269,261	-	-	34,269,261
Legal and professional	1,706,198	-	-	1,706,198	1,703,675	-	-	1,703,675
Provision for doubtful accounts	4,659,644	-	-	4,659,644	4,098,889	-	-	4,098,889
Personnel	7,993,063	-	-	7,993,063	9,568,677	-	-	9,568,677
Facilities	2,025,444	-	-	2,025,444	1,942,944	-	-	1,942,944
Depreciation	1,168,351	-	-	1,168,351	1,191,753	-	-	1,191,753
Administrative and other costs	2,492,883	-	-	2,492,883	3,050,208	-	-	3,050,208
Total operating expenses	<u>62,746,292</u>	<u>-</u>	<u>-</u>	<u>62,746,292</u>	<u>63,607,248</u>	<u>-</u>	<u>-</u>	<u>63,607,248</u>
Excess (deficiency) of operating revenues, gains and other support over operating expenses	<u>(3,693,533)</u>	<u>515,475</u>	<u>-</u>	<u>(3,178,058)</u>	<u>(3,606,438)</u>	<u>(861,218)</u>	<u>-</u>	<u>(4,467,656)</u>
Nonoperating items:								
Amortization of discount and change in actuarial assumption on split-interest agreements	(15,333)	-	-	(15,333)	(16,629)	-	-	(16,629)
Net loss on sales of properties	(1,117,932)	-	-	(1,117,932)	-	-	-	-
Net realized and unrealized gain (loss) on investments	286,739	360,266	-	647,005	(62,346)	(150,025)	-	(212,371)
Postretirement benefit changes other than net periodic postretirement benefit cost	(1,225,023)	-	-	(1,225,023)	(817,279)	-	-	(817,279)
Total nonoperating items	<u>(2,071,549)</u>	<u>360,266</u>	<u>-</u>	<u>(1,711,283)</u>	<u>(896,254)</u>	<u>(150,025)</u>	<u>-</u>	<u>(1,046,279)</u>
Change in net assets	(5,765,082)	875,741	-	(4,889,341)	(4,502,692)	(1,011,243)	-	(5,513,935)
Net assets - beginning of year	41,934,016	9,939,130	812,045	52,685,191	46,436,708	10,950,373	812,045	58,199,126
Net assets - end of year	<u>\$ 36,168,934</u>	<u>\$ 10,814,871</u>	<u>\$ 812,045</u>	<u>\$ 47,795,850</u>	<u>\$ 41,934,016</u>	<u>\$ 9,939,130</u>	<u>\$ 812,045</u>	<u>\$ 52,685,191</u>

See accompanying notes.

THE DIOCESE OF TRENTON
STATEMENTS OF CASH FLOWS

	FOR THE YEARS ENDED	
	JUNE 30,	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (4,889,341)	\$ (5,513,935)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	1,168,351	1,191,753
Provision for doubtful accounts	4,659,644	4,098,889
Net loss on sales of properties	1,117,932	-
Net (gain) loss on investments	(647,005)	212,371
Changes in assets and liabilities:		
Assessments and other receivables	(5,413,730)	(6,456,062)
Pledges receivable	(9,385,670)	(12,819,632)
Prepaid expenses	821,142	(628,408)
Accounts payable and other accrued liabilities	(202,097)	(25,921)
Claims payable	326,625	(1,737,311)
Funds held for others	3,249,454	19,542,636
Postretirement benefits obligation	2,283,057	1,464,968
Net Cash Used in Operating Activities	<u>(6,911,638)</u>	<u>(670,652)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(415,721)	(673,364)
Proceeds from sale of investments	2,324,265	7,929,331
Purchase of investments	(386,045)	(2,649,043)
Notes and loans receivable	1,375,374	(602,105)
Proceeds from sale of property	1,633,453	-
Net Cash Provided by Investing Activities	<u>4,531,326</u>	<u>4,004,819</u>
 NET CHANGE IN CASH AND CASH EQUIVALENTS	 (2,380,312)	 3,334,167
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>14,162,132</u>	<u>10,827,965</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 11,781,820</u>	<u>\$ 14,162,132</u>
 SUPPLEMENTAL DISCLOSURE OF NON-CASH OPERATING AND INVESTING ACTIVITY:		
Transfer of Assessments and other receivables to Notes receivable	\$ 964,531	\$ -

See accompanying notes.

THE DIOCESE OF TRENTON
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

1. Summary of Significant Accounting Policies

General

The Diocese of Trenton (the "Diocese"), a nonprofit organization, is affiliated with Catholic parishes, schools and various other social service agencies in Burlington, Mercer, Monmouth and Ocean counties - New Jersey, which provide services to the communities located within these counties. Funding to support the Diocese and its programs is primarily received from assessments, insurance and employee benefit program fees, donations and income on investments. The accompanying financial statements include the assets, liabilities, net assets, revenues and expenses of the Diocese of Trenton Operating Fund, Trust Funds, Seminary Funds, Plant Fund, Insurance Funds, Custodial Funds, Annual Catholic Appeal Fund and Endowment Campaign Fund which are not separately incorporated under civil law.

Certain organizations within the Diocese are not included in the accompanying financial statements because they operate independent of the Diocese, maintain separate accounts and operate their own services and programs. Some of these organizations are as follows:

- Priests' and Lay Retirement Funds
- Catholic Charities
- Health Care Facilities
- Cemeteries
- Parish and Diocesan Schools
- Campus Ministries
- Special Catholic Ministries
- Diocesan Parishes
- Diocesan Charitable Trusts

The Diocese has financial transactions with these organizations consisting primarily of grants, subsidies for operations, new equipment, certain receivables and is a guarantor for certain notes and mortgages payable by these organizations (see Note 7).

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting. Additionally, the Diocese reports 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.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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.

Cash and Cash Equivalents

All highly liquid investments with maturity dates of three months or less when purchased are considered cash equivalents.

THE DIOCESE OF TRENTON
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

1. Summary of Significant Accounting Policies (continued)

Allowance for Doubtful Accounts

The Diocese provides allowances for each type of receivable reported in its financial statements. These allowances are maintained at a level management considers adequate to provide for subsequent adjustments and potential uncollectible accounts. The allowance is increased by provisions charged to the statements of activities and reduced by the amount of receivables written-off. Management has determined the allowance by considering the type of receivables, responsible party, historical collection patterns and comparative aging. These estimates are reviewed periodically and as changes become necessary, they are charged or credited to operations in the periods in which they become known.

Investments

The Diocese carries investments in equity securities with readily determinable fair values and all investments in debt securities at their fair values in the statements of financial position. Realized and unrealized gains and losses are included in the statements of activities. Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the date the dividends are payable.

Investment income earned on permanently restricted net assets and certain temporarily restricted net assets is restricted as to use. All other investment income is unrestricted as to use.

Property and Equipment

Real estate development sites have been purchased for future parishes, schools and similar purposes, and are carried at cost. Carrying costs on such non-operating properties are expensed. When such properties are transferred to recipients, the Diocese treats such transfers as outright grants in cases where such amounts will not be reimbursed by the Diocesan organization. All other property and equipment are also carried at cost.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets, as follows:

Buildings and improvements	5 - 74 years
Furniture and equipment	3 - 10 years

Donations and Pledges

Donations received, including unconditional promises to give, are recognized as revenue in the period received at fair value. The Diocese reports gifts of cash and other assets as restricted revenue if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a 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 as net assets released from restrictions. Support, as well as any related investment income, that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized.

THE DIOCESE OF TRENTON
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

1. Summary of Significant Accounting Policies (continued)

The Diocese reports gifts of land, buildings and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Diocese reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Fair Value Measurements

Fair value is defined as 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. Accounting standards set a framework for measuring fair value using a three-tier hierarchy based on the extent to which inputs used in measuring fair value are observable in the market.

Level 1: Quoted prices in active markets for identical assets or liabilities.

Level 2: Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or inputs (interest rates, currency exchange rates, commodity rates and yield curves) that are observable or corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3: Inputs that are not observable in the market and reflect management's judgment about the assumptions that market participants would use in pricing the asset or liability.

Tax Status

The Diocese qualifies as an organization described in Internal Revenue Code Section 501(c)(3) and, accordingly, is exempt from federal taxes on income. The Diocese is also exempt from state income taxes.

Funds Held For Others

The Diocese receives assets from donors and agrees to use the assets on behalf of or to transfer the assets, the return from investment of those assets, or both to a specified beneficiary. Resources received under those types of agreements are measured at fair value and reported as Funds held for others in the statements of financial position.

Insurance Funds

The Diocese maintains Insurance Funds which are unrestricted net assets and account for the financial activity of its two insurance programs (see Note 9). The activity in these funds consists primarily of insurance and employee benefit program fees from affiliated organizations, investment income, cost of insurance, claims incurred and administrative fees. The assets of the Insurance Funds are currently internally designated to the insurance programs and are currently not available for any other Diocesan purposes. Claims are recognized in the accompanying financial statements at the time the loss is incurred. The provision for claims is based on the best estimate of the ultimate cost of the claims which includes a provision for claims incurred but not recorded (IBNR).

Reclassification

Certain items reported in the prior year's financial statements have been reclassified to conform to the current year's classification. The changes primarily relate to reclassifying expenses from administrative and other costs to grants and subsidies.

THE DIOCESE OF TRENTON
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

1. Summary of Significant Accounting Policies (continued)

Recently Issued Accounting Standards

On August 18, 2016, the FASB issued ASU No. 2016-14 (Topic 958), *Presentation of Financial Statements of Not-for-Profit Entities* (“Update”). The Update reduces the number of net asset classes from three to two, those with donor restrictions and those without, requires all nonprofit organizations to report expenses by nature and function and improves information presented in financial statements and notes that is useful in assessing a not-for-profit’s liquidity, financial performance, and cash flows. The guidance in this ASU is effective for the Diocese’s year ending June 30, 2019, and for interim periods within fiscal years beginning after December 15, 2018. Early application of the amendments in this Update is permitted. The Diocese is currently in the process of determining the impact of the new standard, and has not elected to early implement the amendments.

2 . Fair Value Measurements

The following table sets forth by level, within the fair value hierarchy, the Diocese’s financial instruments carried at fair value:

	June 30, 2017			Total
	Level 1	Level 2	Level 3	
Investments:				
Mutual funds				
Equity	\$ 2,588,467	\$ -	\$ -	\$ 2,588,467
International equity	410,678	-	-	410,678
Fixed income	8,380,488	-	-	8,380,488
Common stocks				
Consumer goods and services	73,201	-	-	73,201
Business products and services	237,482	-	-	237,482
Energy	4,361	-	-	4,361
Financial	68,787	-	-	68,787
Healthcare	85,650	-	-	85,650
Industrials and materials	66,912	-	-	66,912
Information technology	74,359	-	-	74,359
Certificates of deposit	-	828,978	-	828,978
Total investments in the fair value hierarchy	<u>\$ 11,990,385</u>	<u>\$ 828,978</u>	<u>\$ -</u>	12,819,363
Investments measured at NAV				<u>1,126,206</u>
Total investments at fair value				<u>\$ 13,945,569</u>

THE DIOCESE OF TRENTON
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

2. Fair Value Measurements (continued)

	June 30, 2016			
	Level 1	Level 2	Level 3	Total
Investments:				
Mutual funds				
Equity	\$ 2,094,829	\$ -	\$ -	\$ 2,094,829
International equity	467,283	-	-	467,283
Fixed Income	8,745,490	-	-	8,745,490
Common stocks				
Consumer goods and services	79,440	-	-	79,440
Business products and services	344,615	-	-	344,615
Capital goods	37,951	-	-	37,951
Energy	2,028	-	-	2,028
Financial	147,394	-	-	147,394
Other	34,078	-	-	34,078
International	25,857	-	-	25,857
U.S. government agency issues	-	900,324	-	900,324
Certificates of deposit	-	827,971	-	827,971
Total investments in the fair value hierarchy	<u>\$ 11,978,965</u>	<u>\$ 1,728,295</u>	<u>\$ -</u>	13,707,260
Investments measured at NAV				<u>1,529,524</u>
Total investments at fair value				<u>\$ 15,236,784</u>

The following table sets forth additional disclosures for the investments whose fair value is estimated using net asset value (NAV) as of June 30, 2017 and 2016:

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
2017				
Blackrock Equity Index Non-lendable Fund	\$ 1,126,206	\$ -	Daily	1 day
2016				
Blackrock Equity Index Non-lendable Fund	\$ 1,529,524	\$ -	Daily	1 day

The Blackrock Equity Index Non-lendable Fund ("Fund") is a privately-held commingled vehicle consisting of US large cap equities. It is passively-managed with the goal of replicating the performance of the S&P 500 Index. The Fund has daily liquidity with a one-day notice period and has a T+3 settlement process before releasing funds to the client.

The following is a description of the valuation methodologies used for investments measured at fair value:

Mutual funds - Valued at the net asset value of shares held by the Diocese at year-end. Mutual funds held by the Diocese are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily NAV and to transact at that price. These mutual funds held by the Diocese are deemed to be actively traded.

Mutual fund - Blackrock Equity Index fund is a mutual fund that is not actively traded; valued at the net asset value of shares held by the Diocese at year-end.

Common stocks - Shares in companies traded on national securities exchanges are valued at the closing price reported in the active market in which the individual securities are traded.

THE DIOCESE OF TRENTON
NOTES TO FINANCIAL STATEMENTS
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2. Fair Value Measurements (continued)

U.S. government agency issues - are based on institutional bond quotes and evaluations based on various market and industry inputs.

Certificates of deposit - Fair value of fixed-maturity certificates of deposit are estimated using rates currently offered for deposits of similar remaining maturities.

3. Assessments, Notes and Other Receivables

Assessments, notes and other receivables consist of the following:

	June 30,	
	2017	2016
Assessments	\$ 16,622,686	\$ 15,366,424
Due from participating organizations for insurance	28,386,368	24,887,728
Notes	12,024,273	13,094,101
Loans	6,482,272	5,823,287
Seminary tuition	1,418,953	1,315,725
Due from charitable trusts	1,135,825	1,877,974
Accrued interest	40,869	20,123
Other	1,326,704	2,390,765
	67,437,950	64,776,127
Less allowance for doubtful accounts	(38,161,589)	(34,878,478)
	\$ 29,276,361	\$ 29,897,649

As of June 30, 2017, notes totaling approximately \$200,000 are collectible in the next year and the remainder are collectible in 2 - 8 years; loans are collectible in 2 - 5 years. As of June 30, 2016, notes totaling approximately \$1,688,000 are collectible in the next year and the remainder are collectible in 2 - 9 years; loans are collectible in 2 - 6 years.

Notes and loans receivable are funds advanced to parishes and other affiliates for various purposes. Interest on interest-bearing notes and loans is recognized over the term of the note or loan and is calculated monthly using the simple-interest method on principal amounts outstanding. Generally, the notes and loans are not considered past due or delinquent. Management considers the notes and loans to be impaired when the note or loan, or a portion of the note or loan, is deemed uncollectible based on: the Diocese's historical collection patterns, the borrower's failure to repay the note or loan, adverse situations that may affect the borrower's ability to repay, the estimated value of underlying or potential collateral, and current economic conditions.

Activity in the allowance for doubtful accounts for notes and loans is as follows:

	2017	2016
Balance - beginning of year	\$ 4,332,319	\$ 4,354,144
Increase in allowance for specific notes and loans	18,000	18,175
Decrease in allowance for specific notes and loans	(1,077,391)	(40,000)
Balance - end of year	\$ 3,272,928	\$ 4,332,319

THE DIOCESE OF TRENTON
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

4 . Pledges Receivable, net

Pledges receivable consist of the following at June 30, 2017 and 2016:

Faith to Move Mountains Endowment Campaign

In 2015, the Diocese embarked on a Diocesan-wide campaign, "Faith to Move Mountains", seeking to raise contributions to secure sustainable endowments needed to support the following needs: Diocesan Parish Assistance, Catechesis and Evangelization, Ordained Ministry, Catholic Schools, and Social Services. Additionally, Parishes will receive 30% of the cash raised from their parishioners up to their goal amount, and 70% will be transferred to charitable trusts to establish endowments for the aforementioned purposes. Once their goal has been reached, parishes will receive 70% of the amount over their goal, with the trusts receiving the remaining 30%.

As of June 30, 2017 and 2016, there are unpaid pledges of approximately \$32,244,000 and \$22,321,000, respectively. As of June 30, 2017 and 2016 approximately \$33 million and \$29 million, respectively, of cash and pledges receivable not yet transferred to parishes and charitable trusts is included in Funds held for others in the statements of financial position.

Annual Catholic Appeal Fund

The Diocese conducts its Annual Catholic Appeal each year beginning in January and ending in December. The proceeds of the Appeal are used to support various social service and other programs administered by the Diocese and affiliated organizations. The goal of the 2017 and 2016 Appeals was to raise \$7,000,000 each year. Each parish receives 15% of its goal if its goal is reached, and an additional 50% of the amount realized in excess of its target goal.

As of June 30, 2017, the Diocese raised 2017 Appeal pledges of approximately \$4,700,000 of which approximately \$491,000 remained unpaid at that date. As of June 30, 2016, the Diocese raised 2016 Appeal pledges of approximately \$4,700,000 of which approximately \$488,000 remained unpaid at that date. As of June 30, 2017 and 2016, approximately \$108,000 and \$799,000, respectively, of cash and pledges receivable not yet transferred to parishes is included in Funds held for others in the statements of financial position.

Amounts to be received under the Faith to Move Mountains Endowment Campaign and the Annual Catholic Appeal Fund as of June 30, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Receivable in less than one year	\$ 12,984,710	\$ 8,008,483
Receivable in one year to five years	18,682,177	14,650,816
Receivable in five years or more	<u>1,068,588</u>	<u>149,329</u>
Total unconditional promises to give	<u>32,735,475</u>	22,808,628
Less: Effect of discount to net present value	<u>(1,902,736)</u>	<u>(1,361,559)</u>
Unconditional Promises to Give - Net	<u>\$ 30,832,739</u>	<u>\$ 21,447,069</u>

Pledges that are due beyond one year are discounted using a discount rate of 2.9%. Pledges receivable at June 30, 2017 and 2016 are reported at net realizable value which is the amount the Diocese expects to collect.

THE DIOCESE OF TRENTON
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

5 . Investments

A summary of investments by type is reported below:

	<u>June 30, 2017</u>		<u>June 30, 2016</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Mutual funds:				
Equity	\$ 2,580,208	\$ 3,714,673	\$ 2,823,142	\$ 3,624,353
International equity	298,477	410,678	424,733	467,283
Fixed income	8,323,391	8,380,488	8,562,395	8,745,490
Common stocks	288,148	610,752	344,057	671,363
U.S. government agency issues	-	-	900,286	900,324
Certificates of deposit	828,978	828,978	827,971	827,971
	<u>\$ 12,319,202</u>	<u>\$ 13,945,569</u>	<u>\$ 13,882,584</u>	<u>\$ 15,236,784</u>

Net unrealized gain on investments of \$272,167 in 2017 and net unrealized loss on investments of \$(1,288,246) in 2016 are included in net realized and unrealized gain (loss) on investments in the statements of activities. Investment expense of \$10,386 and \$14,738 for the years ended June 30, 2017 and 2016, respectively, are included in legal and professional fee expense in the statements of activities.

These investments are exposed to various risks such as market volatility, interest rate and credit risks. Due to the level of risk associated with investments, it is at least reasonably possible that changes in the values of these securities will occur in the near term and that such changes could materially affect the amounts reported in the statements of financial position.

6. Property and Equipment

A summary of property and equipment is as follows:

	<u>June 30,</u>	
	<u>2017</u>	<u>2016</u>
Real estate development sites	\$ 12,250,866	\$ 14,835,883
Land, buildings and improvements	18,957,241	18,869,180
Furniture and equipment	<u>6,298,062</u>	<u>6,136,770</u>
	<u>37,506,169</u>	<u>39,841,833</u>
Less accumulated depreciation	<u>(14,924,130)</u>	<u>(13,755,779)</u>
Property and equipment, net	<u>\$ 22,582,039</u>	<u>\$ 26,086,054</u>

THE DIOCESE OF TRENTON
NOTES TO FINANCIAL STATEMENTS
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7. Commitments and Contingencies

The Diocese is a guarantor of debt represented by certain bonds, notes, mortgages and letters of credit of parishes and other Catholic agencies and institutions with various financial institutions with maturities up to 20 years. The Diocese would be obligated to perform under these guarantees if the parishes and other Catholic agencies failed to pay principal and interest payments to the financial institutions when due, meet debt service coverage ratios or, in the case of construction projects, would fail to have sufficient funds to complete the projects. As of June 30, 2017, the Diocese has not been required to perform under these guarantees. Such guarantees approximated **\$78,000,000** in principal at June 30, 2017. The Diocese is also a limited guarantor for one of its Catholic agencies' construction projects. These amounts are not included in the accompanying financial statements.

The Diocese had a contract with a consultant, which expired in 2017, to provide comprehensive campaign planning, direction, and implementation services in connection with the Faith to Move Mountains Campaign. The consultant received approximately \$3,760,000 plus reimbursement of certain expenses during the term of the contract. These payments will be offset against the funds raised and transferred to the parishes and charitable trusts in connection with the campaign. For the years ended June 30, 2017 and 2016, total payments of approximately \$946,000 and \$1,751,000, respectively, were made toward the contract.

8. Notes Payable to Bank

The Diocese had a bank line of credit in the amount of \$2,000,000 which expired on April 30, 2016 and was not renewed. The bank had a security interest in the Diocese deposit accounts and investments with the bank. The interest charged equaled the lesser of the bank's prime rate less 1.5% or LIBOR plus 1.25%.

9. Insurance Funds

The Diocese's Insurance Funds consist of the following:

Loss Payment Fund: The Diocese has a modified protected liability and casualty, workers' compensation and property self-insurance program for affiliated organizations described as a "loss payment fund." Under this program, the Diocese has obtained insurance coverage of \$40,000,000 for most liability and casualty claims with a deductible of \$250,000 per occurrence during the policy period. The Diocese has insurance coverage for property claims to a blanket limit of \$75,000,000 per occurrence, with a deductible of \$500,000 per occurrence. Actual claims not covered by insurance are funded by the affiliated organizations' contributions and the assets of the loss payment fund.

The Diocese is involved in several pending legal matters. In the opinion of the Diocese's management, the final resolution of these matters will not have a material adverse effect on the Diocese's financial position. To the extent a liability has been determined, a reserve has been accrued at June 30, 2017 and 2016.

Medical Fund: The Diocese's medical benefit plan provides reimbursement for the cost of medical expenses, subject to various limits, for Diocesan clergy and lay employees. The Diocese has obtained insurance coverage for these medical costs. The plan also includes a provision for life insurance benefits of \$2,000, plus modest disability and dental benefits for Diocesan clergy. Additionally, the plan provides for Long-Term Disability for lay employees. The benefits paid by these funds and the insurance premiums are funded by assessments to the participating organizations.

THE DIOCESE OF TRENTON
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

9. Insurance Funds (continued)

Revenues and expenses for the years ended June 30, 2017 and 2016 and deficit in net assets at June 30, 2017 and 2016 for the loss payment fund and the medical fund, which include the other post-retirement benefit obligation costs (see Note 15), are as follows:

	<u>2017</u>		<u>2016</u>	
	<u>Loss Payment Fund</u>	<u>Medical Fund</u>	<u>Loss Payment Fund</u>	<u>Medical Fund</u>
Operating and nonoperating:				
Revenues	\$ 10,869,175	\$ 31,607,465	\$ 10,050,648	\$ 32,020,214
Expenses	8,803,599	34,718,881	7,675,017	33,558,257
Transfers between funds	(30,401)	-	(28,700)	-
Deficit in net assets	(4,450,134)	(8,495,780)	(6,485,309)	(5,384,364)

10. Temporarily Restricted and Permanently Restricted Net Assets

Temporarily restricted net assets are restricted for the following purposes and amounts:

	<u>June 30,</u>	
	<u>2017</u>	<u>2016</u>
Trust Funds:		
Catholic missions	\$ 6,834	\$ 7,347
Senior citizens	2,522,909	2,166,102
Others	1,103,620	1,032,119
	<u>3,633,363</u>	<u>3,205,568</u>
Annual Catholic Appeal:		
Apostolic ministry and priestly support	1,318,000	1,545,000
Evangelization and family life	1,259,000	948,000
Catholic education	2,346,000	1,993,000
Charitable works and parish needs	1,427,000	1,413,000
Other	105,939	73,814
	<u>6,455,939</u>	<u>5,972,814</u>
Seminary Funds:		
Education of Diocesan seminarians	<u>367,352</u>	402,531
Operating Funds:		
Priests' retirement	60,791	60,791
Catholic schools	290,000	290,000
Morris Hall/Villa Neumann	7,426	7,426
	<u>358,217</u>	<u>358,217</u>
	<u>\$ 10,814,871</u>	<u>\$ 9,939,130</u>

THE DIOCESE OF TRENTON
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10. Temporarily Restricted and Permanently Restricted Net Assets (continued)

Permanently restricted net assets are restricted to investment in perpetuity for the following purposes and amounts:

	June 30,	
	2017	2016
Trust Funds:		
Catholic missions	\$ 21,467	\$ 21,467
Senior citizens	296,037	296,037
Others	267,668	267,668
	585,172	585,172
Seminary Funds:		
Education of Diocesan seminarians	226,873	226,873
	\$ 812,045	\$ 812,045

11. Net Assets Released from Restriction

Net assets were released from donor restrictions by incurring expenses to satisfy the restricted program purposes as follows:

	June 30,	
	2017	2016
Trust Funds	\$ 128,743	\$ 127,746
Annual Catholic Appeal	5,227,615	5,654,797
Seminary Funds	9,140	8,506
	\$ 5,365,498	\$ 5,791,049

12. Endowment Funds

Accounting standards for the classification and disclosure of endowments of not-for-profit organizations provide guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) and require additional disclosures about an organization's endowment funds. The state of New Jersey has adopted UPMIFA. The following disclosures are made as required by accounting standards. The endowment of the Diocese of Trenton consists of 15 donor-restricted endowment funds established for various purposes.

Management has interpreted New Jersey 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 Diocese 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 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 Diocese in a manner consistent with the standard of prudence prescribed by New Jersey UPMIFA.

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NOTES TO FINANCIAL STATEMENTS
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12. Endowment Funds (continued)

In accordance with New Jersey UPMIFA, the Diocese 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 Diocese 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 Diocese
- (7) the investment policies of the Diocese

Endowment net assets composition by type of fund as of June 30, 2017 is as follows:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	<u>\$ 2,072,579</u>	<u>\$ 812,045</u>	<u>\$ 2,884,624</u>

Changes in endowment net assets for the year ended June 30, 2017 are as follows

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 1,794,772	\$ 812,045	\$ 2,606,817
Interest and dividend income	33,332	-	33,332
Net realized and unrealized gain	264,869	-	264,869
Amounts appropriated for expenditure	<u>(20,394)</u>	<u>-</u>	<u>(20,394)</u>
Endowment net assets, end of year	<u>\$ 2,072,579</u>	<u>\$ 812,045</u>	<u>\$ 2,884,624</u>

THE DIOCESE OF TRENTON
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

12. Endowment Funds (continued)

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

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	<u>\$ 1,794,772</u>	<u>\$ 812,045</u>	<u>\$ 2,606,817</u>

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

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 1,907,736	\$ 812,045	\$ 2,719,781
Interest and dividend income	72,213	-	72,213
Net realized and unrealized loss	(166,017)	-	(166,017)
Amounts appropriated for expenditure	<u>(19,160)</u>	<u>-</u>	<u>(19,160)</u>
Endowment net assets, end of year	<u>\$ 1,794,772</u>	<u>\$ 812,045</u>	<u>\$ 2,606,817</u>

Funds with Deficiencies

At times, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the Diocese to retain as a fund of perpetual duration. There were no such deficiencies of this nature as of June 30, 2017 and 2016.

Return Objectives and Risk Parameters

The Diocese has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Diocese must hold in perpetuity. The primary long-term management objective is the preservation of principal, both in nominal and real terms.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate of return objectives, the Diocese relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). At a minimum, the investment performance of endowment assets should achieve an annual return of at least inflation (as measured by the Consumer Price Index [CPI]) plus four (4) percentage points. This should be averaged over rolling three-year periods.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Diocese has a spending policy that is primarily demand driven. In determining the amounts appropriated for expenditure, the Diocese considers the accumulated earnings on each of the endowment gifts. In establishing this policy, the Diocese considers the long-term expected return on its endowment.

The target spending rate is that which, as part of total return, satisfies these conditions - (a) permits reinvestment of enough total return to preserve the real purchasing power of current funds, (b) permits a level of consistency and stability in the programs of the Diocese, (c) is sustainable over time regardless of periodic variations in the levels required to satisfy (a), and (d) recognizes that circumstances may preclude achievement of all three objectives in any one year.

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13. Defined Contribution Plan

Full-time employees hired after the effective date of October 1, 2005, are eligible to participate in a Section 403(b)(7) Pension Trust and can contribute up to the Internal Revenue Service's dollar limit set by law, which is \$18,000 for the years 2017 and 2016. Participants who have completed one year of employment are eligible for matching contributions by the Diocese of up to 5% of the participant's gross salary. Total employer contributions to the plan was approximately \$72,000 and \$63,000 for the years ended June 30, 2017 and 2016, respectively.

14. Multiemployer Pension Plans

The Diocese of Trenton is a participating employer in two separate multiemployer defined benefit pension plans providing benefits for lay employees and priest personnel. The Pension Plan of The Diocese of Trenton, Its Churches, Institutions and Agencies (Lay Plan) EIN: 21-0634970 Plan: 001 and The Diocese of Trenton Pension Plan for Priests (Priest Plan) EIN: 21-0634970 Plan: 003 qualify as church institutions under the Internal Revenue Code and are, therefore, not subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA), nor are the Plan's benefits guaranteed by the Pension Benefit Guarantee Corporation. Plan information is not publicly available.

The Lay Plan is a defined benefit pension plan covering substantially all lay employees of the Diocese. Prior service costs are amortized over a period of twenty-five years. The Lay Plan provides for 100% vesting of benefits after five years of credited service. The Diocese's policy is to fund pension costs currently. The Lay Plan provides retirement benefits to eligible lay personnel based on employee's compensation and years of service. Effective October 1, 2005, the Lay Plan was frozen for, and excludes, employees hired on or after the effective date.

The Priest Plan provides retirement benefits to priest personnel for life based on age and years of service. Contributions to the Lay and Priest Plans are made by the parish or organization that employs the lay employee or to which the priest is assigned.

The plans are managed by the Diocese. The total pension and retirement plan expense included in these financial statements for these plans was approximately \$537,000 and \$621,000 for the years ended June 30, 2017 and 2016, respectively.

The risks of participating in these multiemployer defined benefit pension plans are different from single-employer plans because: (a) assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers and (b) if a participating employer stops contributing to the plan, the unfunded obligations of the plan may be required to be borne by the Diocese and the remaining participating employers. There is currently no provision in the plans to recognize an employer withdrawal.

The following table presents information about the Diocese's multiemployer pension plans as of and for the years ended June 30, 2017 and 2016:

Pension Fund	Contributions for the years ended June 30,		Total contributions from all employers in the Plan for the years ended December 31,		Present value of accumulated plan benefits as of January 1,		Total plan assets as of December 31,	
	2017	2016	2016	2015	2017	2016	2016	2015
Lay Plan	\$ 420,506	\$ 491,395	\$ 11,726,866	\$ 12,156,970	\$ 214,792,431	\$ 206,235,954	\$ 199,882,019	\$ 184,857,148
Priest Plan	115,636	129,707	1,384,661	1,334,957	20,894,790	20,873,620	18,917,407	17,321,214

The funding ratio for the Lay Plan as of January 1, 2017 and 2016, was 93% and 90%, respectively. The funding ratio for the Priest Plan as of January 1, 2017 and 2016, was 91% and 83%, respectively. The Diocese was not subject to any surcharges from either plan for the years ended June 30, 2017 and 2016. The Diocese's contributions to the Priest Plan were over 5% of total plan contributions based upon the plan's years ended December 31, 2016 and 2015.

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15. Other Postretirement Benefit Plans

In addition to the Diocese's defined benefit pension plan, the Diocese sponsors an unfunded defined benefit health care and life insurance benefits plan to retired priests who have been incardinated prior to their 65th birthday and have worked 10 years and attained age 70 while in service with the Diocese and lay people who have worked 20 years and attained age 65. The plan is noncontributory and contains cost-sharing features such as deductibles and coinsurance. The accounting for the plan anticipates future cost-sharing changes to the written plan that are consistent with the Diocese's expressed intent to increase the cost-sharing annually for the expected general inflation rate for that year. The Diocese's policy is to fund the cost of medical benefits in amounts determined at the discretion of management.

The annual measurement date is June 30 for other postretirement benefits. The following tables provide further information about the Diocese's postretirement benefit plans:

Obligations and Funded Status

	June 30,	
	2017	2016
Benefit obligation	\$ 17,495,420	\$ 15,212,363
Fair value of plan assets	-	-
Funded status - reported as postretirement benefits obligation in the statements of financial position	\$ (17,495,420)	\$ (15,212,363)
Employer contributions	\$ 415,382	\$ 516,399
Participant contributions	-	-
Benefits paid	(415,382)	(516,399)

Amounts recognized in the statements of activities for the years ended June 30, consist of:

	2017	2016
Net loss	\$ 1,372,350	\$ 862,860
Amortization of prior service cost and net gain	(147,327)	(45,581)
Total postretirement benefit changes other than periodic postretirement benefit cost	1,225,023	817,279
Net periodic postretirement benefit cost	1,473,416	1,164,088
	\$ 2,698,439	\$ 1,981,367

Net loss (gain) and net prior service cost recognized as changes in unrestricted net assets but not yet included in net periodic benefit cost:

	2017	2016
Net loss	\$ 1,675,352	\$ 388,658
Prior service cost	150,472	212,143
Amounts previously recognized in unrestricted net assets, not yet recognized as periodic postretirement benefit cost	\$ 1,825,824	\$ 600,801

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15. Other Postretirement Benefit Plans (continued)

The estimated net loss, and prior service cost that will be amortized from changes in unrestricted net assets to net periodic benefit cost in 2018 are \$69,201 and \$61,671, respectively.

Assumptions:

The discount rate used to determine the postretirement benefit cost was 3.29% and 4.15% for the years ended June 30, 2017 and 2016, respectively.

The discount rate used to determine the postretirement benefit obligation was 3.64% and 3.29% for the years ended June 30, 2017 and 2016, respectively.

The health care cost trend rates used to measure the expected cost of benefits covered by the plan are as follows: fiscal year 2018 - 6%, and 2019 and thereafter - 4.5%.

Cash Flows:

The Diocese expects to contribute approximately \$695,000 to the postretirement benefit plans in the next fiscal year.

The following benefits, which reflect expected future service, as appropriate, are expected to be paid for the years ending June 30:

2018	\$	695,000
2019		767,000
2020		847,000
2021		896,000
2022		958,000
2023 to 2027		<u>5,420,000</u>
Total	\$	<u>9,583,000</u>

16. Functional Expenses

The costs of providing the Diocese's programs and activities have been summarized on a functional basis below. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

	<u>For the Years Ended June 30,</u>	
	<u>2017</u>	<u>2016</u>
Program Services	\$ 51,312,477	\$ 51,501,471
Management and General	10,071,897	10,759,298
Fundraising	<u>1,361,918</u>	<u>1,346,479</u>
Total Operating Expenses	<u>\$ 62,746,292</u>	<u>\$ 63,607,248</u>

17. Related Entities

The Diocese and the Diocese of Trenton Charitable Trusts for Catholic Education and Religious Formation, and Seminary and Diaconate Formation share a common purpose of supporting the religious education programs and the seminary and diaconate programs of the Diocese. In 2017 and 2016, the Trusts contributed approximately \$465,000 and \$67,000, respectively, to the Diocese for education and religious formation programs, and for the seminarian and diaconate programs administered by the Diocese.

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18. Financial Instruments - Concentrations of Credit Risk

As of June 30, 2017, the Diocese held financial instruments, which exceeded federally insured deposits by approximately \$11,560,000. The financial instruments consist primarily of savings and checking accounts which are insured by the Federal Deposit Insurance Corporation and money market accounts that are not federally insured by the Federal Deposit Insurance Corporation. The Diocese has not experienced any losses in such financial instruments. Management believes the Diocese is not exposed to any significant credit risk related to cash and cash equivalents.

19. Subsequent Events

Subsequent to June 30, 2017, the Diocese transferred \$1,200,000 to the Diocese of Trenton Charitable Trust for Seminary and Diaconate Formation, and \$950,000 to the Diocese of Trenton Charitable Trust for Catholic Education and Religious Formation, as part of the Faith to Move Mountains Endowment Campaign (see Note 4).

In preparing these financial statements, management has evaluated events and transactions for potential recognition or disclosure through November 28, 2017, the date the financial statements were available to be issued.