Combined Financial Statements Together with
Report of Independent Certified Public Accountants

CHANCERY OFFICE OF THE ROMAN CATHOLIC DIOCESE OF PATERSON AND AFFILIATE

June 30, 2014 and 2013

CHANCERY OFFICE OF THE ROMAN CATHOLIC DIOCESE OF PATERSON AND AFFILIATE

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Most Reverend Arthur J. Serratelli
Bishop of the Roman Catholic Diocese of Paterson:

We have audited the accompanying combined financial statements of the Chancery Office of the Roman Catholic Diocese of Paterson and Affiliate (collectively, the "Chancery") which comprise the combined statements of financial position as of June 30, 2014 and 2013, and the related combined statements of activities and cash flows for the years then ended and the related notes to the combined financial statements.

Management's responsibility for the combined financial statements
Management is responsible for the preparation and fair presentation of these combined 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 combined 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 combined 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 audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Chancery's preparation and fair presentation of the combined 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 Chancery'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 combined 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 combined financial statements referred to above present fairly, in all material respects, the combined financial position of the Chancery Office of the Roman Catholic Diocese of Paterson and Affiliate as of June 30, 2014 and 2013, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Grant Thornton LLP

Iselin, New Jersey
November 27, 2014

CHANCERY OFFICE OF THE ROMAN CATHOLIC DIOCESE OF PATERSON AND AFFILIATE

Combined Statements of Financial Position

As of June 30, 2014 and 2013

ASSETS	2014	2013
Cash and cash equivalents	$ 7,173,021	$ 4,695,005
Accounts and loans receivable, net	13,295,924	15,712,620
Contributions receivable, net	404,128	406,006
Investments, at fair value	21,161,128	17,313,870
Mortgage receivables	385,515	398,350
Crypt inventory	11,820,148	11,954,905
Land, buildings and equipment, net	17,473,930	17,634,433
Other assets	1,795,699	1,064,504
Total assets	$ 73,509,493	$ 69,179,693
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	$ 2,640,492	$ 3,327,380
Amounts payable to related parties	28,287,623	25,779,018
Debt obligations	1,142,908	3,686,902
Conditional asset retirement obligations	5,897,699	5,512,385
Reserves for self-insurance	6,334,371	6,682,950
Obligations due under split-interest agreements	204,710	216,498
Liability for postretirement benefits	24,953,746	26,450,376
Total liabilities	69,461,549	71,655,509
Commitments and contingencies		
NET ASSETS		
Unrestricted	3,467,317	(2,951,726)
Temporarily restricted	580,627	412,010
Permanently restricted	-	63,900
Total net assets	4,047,944	(2,475,816)
Total liabilities and net assets	$ 73,509,493	$ 69,179,693

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

CHANCERY OFFICE OF THE ROMAN CATHOLIC DIOCESE OF PATERSON AND AFFILIATE

Combined Statement of Activities

For the year ended June 30, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS AND OTHER SUPPORT				
Parish assessments	$ 6,073,634	$ -	$ -	$ 6,073,634
Annual appeal	4,000,000	-	-	4,000,000
Contributions	1,429,705	239,313	-	1,669,018
Rental income	2,508,497	-	-	2,508,497
Cemetery income	994,509	-	-	994,509
Property and liability insurance program	7,613,553	-	-	7,613,553
Employee benefits program	19,070,106	-	-	19,070,106
Other	1,268,669	-	-	1,268,669
Centeral lending agency program	835,985	-	-	835,985
Interest and dividend income	672,658	2,051	-	674,709
Net unrealized and realized gains	2,580,591	9,705	-	2,590,296
Recovery of uncollectible accounts, net	1,272,597	-	-	1,272,597
Gain on sale of equipment	8,959	-	-	8,959
	48,329,463	251,069	-	48,580,532
Net assets released from restriction	111,352	(111,352)	-	-
Total revenues, gains and other support	48,440,815	139,717	-	48,580,532
EXPENSES				
Programs:				
Evangelization	2,079,730	-	-	2,079,730
Social ministry	1,796,637	-	-	1,796,637
Pastoral	4,448,345	-	-	4,448,345
Communications	63,212	-	-	63,212
Schools subsidies and other educational expenses	1,670,779	-	-	1,670,779
Cemetery - cost of sales and expenses	859,667	-	-	859,667
Property and liability insurance program	6,437,451	-	-	6,437,451
Employee benefits program	19,731,434	-	-	19,731,434
Central lending agency program	355,203	-	-	355,203
Property rental	515,068	-	-	515,068
Total program expenses	37,957,526	-	-	37,957,526
Supporting services:				
General and administration	6,601,420	35,000	-	6,636,420
Fundraising	334,744	-	-	334,744
Total supporting services expenses	6,936,164	35,000	-	6,971,164
Total expenses	44,893,690	35,000	-	44,928,690
Change in net assets before postretirement-related changes other than net periodic benefit cost	3,547,125	104,717	-	3,651,842
Transfers	-	63,900	(63,900)	-
Postretirement-related changes other than net periodic benefit cost	2,871,918	-	-	2,871,918
Change in net assets	6,419,043	168,617	(63,900)	6,523,760
Net assets, beginning of year	(2,951,726)	412,010	63,900	(2,475,816)
Net assets, end of year	$ 3,467,317	$ 580,627	$ -	$ 4,047,944

The accompanying notes are an integral part of this combined statement.

CHANCERY OFFICE OF THE ROMAN CATHOLIC DIOCESE OF PATERSON AND AFFILIATE
Combined Statement of Activities
For the year ended June 30, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS AND OTHER SUPPORT				
Parish assessments	$ 5,718,143	$ -	$ -	$ 5,718,143
Annual appeal	3,058,719	-	-	3,058,719
Contributions	386,842	59,859	65,400	512,101
Rental income	2,731,264	-	-	2,731,264
Cemetery income	1,277,426	-	-	1,277,426
Property and liability insurance program	6,766,172	-	-	6,766,172
Employee benefits program	18,470,827	-	-	18,470,827
Other	1,270,554	-	-	1,270,554
Centeral lending agency program	849,011	-	-	849,011
Interest and dividend income	618,960	7,922	-	626,882
Net unrealized and realized gains	492,803	139,656	-	632,459
Recovery of uncollectible accounts, net	4,373,293	-	-	4,373,293
Gain on sale of land	181,969	-	-	181,969
	46,195,983	207,437	65,400	46,468,820
Net assets released from restriction	245,078	(245,078)	-	-
Total revenues, gains and other support	46,441,061	(37,641)	65,400	46,468,820
EXPENSES				
Programs:				
Evangelization	1,960,816	-	-	1,960,816
Social ministry	1,646,644	-	-	1,646,644
Pastoral	4,142,796	-	-	4,142,796
Communications	119,809	-	-	119,809
Annual appeal	244,244	-	-	244,244
Schools subsidies and other educational expenses	2,226,914	-	-	2,226,914
Cemetery - cost of sales and expenses	1,101,539	-	-	1,101,539
Property and liability insurance program	6,270,310	-	-	6,270,310
Employee benefits program	19,885,050	-	-	19,885,050
Central lending agency program	329,523	-	-	329,523
Property rental	645,373	-	-	645,373
Total program expenses	38,573,018	-	-	38,573,018
Supporting services:				
General and administration	6,676,983	50,000	-	6,726,983
Fundraising	386,672	-	-	386,672
Total supporting services expenses	7,063,655	50,000	-	7,113,655
Total expenses	45,636,673	50,000	-	45,686,673
Change in net assets before postretirement-related changes other than net periodic benefit cost	804,388	(87,641)	65,400	782,147
Postretirement-related changes other than net periodic benefit cost	(1,591,779)	-	-	(1,591,779)
Endowment assets transferred to Catholic Foundation	-	(185,222)	(4,230,223)	(4,415,445)
Change in net assets	(787,391)	(272,863)	(4,164,823)	(5,225,077)
Net assets, beginning of year	(2,164,335)	684,873	4,228,723	2,749,261
Net assets, end of year	$ (2,951,726)	$ 412,010	$ 63,900	$ (2,475,816)

The accompanying notes are an integral part of this combined statement.

CHANCERY OFFICE OF THE ROMAN CATHOLIC DIOCESE OF PATERSON AND AFFILIATE

Combined Statements of Cash Flows

For the years ended June 30, 2014 and 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 6,523,760	$ (5,225,077)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	668,605	672,778
Recovery on uncollectible accounts and loans receivable, net	(1,272,597)	(4,373,293)
Change in discount allowance on contributions receivable	(1,677)	(25,063)
Change in provision for allowance on uncollectible contributions receivable	-	15,204
Unrealized and realized appreciation in fair value of investments	(2,590,296)	(632,459)
Contributions restricted for endowment	-	(65,400)
Transfer of endowment assets to Catholic Foundation	-	4,415,445
Gain on sale of land, buildings and equipment	(8,959)	(181,969)
Accretion of interest on conditional asset retirement obligations	385,314	360,142
Changes in assets and liabilities:		
Decrease in accounts and loans receivable	1,145,299	1,824,666
Decrease in contributions receivable	3,555	245,078
Decrease in crypt inventory	134,757	186,132
(Increase) decrease in other assets	(731,195)	627,252
(Decrease) increase in accounts payable and accrued expenses	(686,888)	192,169
(Decrease) increase in reserves for self-insurance	(348,579)	182,881
(Decrease) increase in obligations due under split-interest agreements	(11,788)	216,498
(Decrease) increase in liability for postretirement benefits	(1,496,630)	2,649,956
Net cash provided by operating activities	1,712,681	1,084,940
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	454,098	1,050,809
Purchase of investments	(1,711,060)	(6,657,071)
Payments received on mortgage receivable	12,835	5,102,588
Proceeds from sale of land, buildings and equipment	14,888	220,722
Purchase of land, buildings and equipment	(514,031)	(544,138)
Net cash used in investing activities	(1,743,270)	(827,090)
CASH FLOWS FROM FINANCING ACTIVITIES		
Deposits received from related parties	7,995,730	4,499,257
Repayment of deposits received from related parties	(5,487,125)	(3,150,407)
Contributions restricted for endowment	-	65,400
Net cash provided by financing activities	2,508,605	1,414,250
Net increase in cash and cash equivalents	2,478,016	1,672,100
Cash and cash equivalents, beginning of year	4,695,005	3,022,905
Cash and cash equivalents, end of year	$ 7,173,021	$ 4,695,005

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

1. NATURE OF THE ENTITY

The accompanying combined financial statements reflect the financial activities of the Chancery Office of the Roman Catholic Diocese of Paterson which includes the assets, liabilities, net assets, and activities of the central business operations, the self-insurance programs, the catastrophic healthcare plan for Diocesan priests, and Calvary Cemetery (collectively referred to as the "Chancery"). The Chancery's accounts do not include the assets, liabilities, net assets, or activities of individual parishes, missions, schools, and social service organizations, among others.

The Chancery provides financing, investing, employee benefit programs and other services to various Diocesan affiliated organizations that include, but are not limited to Diocesan parishes, educational institutions, social service agencies, and cemeteries, which share a common mission with the Bishop of Paterson.

The Roman Catholic Diocese of Paterson (the "Diocese") is a separately incorporated entity in the State of New Jersey. The Diocese has ultimate responsibility and oversight of all Roman Catholic Church entities in the counties of Passaic, Morris, and Sussex in Northern New Jersey. The Diocese is under the leadership of Bishop Arthur Joseph Serratelli and provides oversight to the parishes, schools, agencies, and ministries that serve the 425,000 Catholics who live in the geographic area of the Diocese. These entities may or may not be separately incorporated; however, each is distinct from the Chancery and maintains separate financial records. This oversight comes from both civil law and Canon Law declaring the authority and responsibilities of the Diocese.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying combined financial statements have been prepared under accounting principles generally accepted in the United States of America ("US GAAP"). All inter-entity transactions have been eliminated in combination. The following represents the Chancery's significant accounting policies.

Classifications of Net Assets

The Chancery reports its net assets and changes therein based on the existence or absence of donor-imposed restrictions as follows:

Unrestricted Net Assets consist of the following subcategories:

<u>Undesignated Net Assets</u> - includes all funds that are expendable, at the discretion of the Chancery, for carrying on daily operations. These funds have neither been restricted by donors nor set aside for any specific purpose.

<u>Designated Net Assets</u> - includes amounts set aside for specific program service needs and used at the sole discretion of the Bishop of Paterson. The operating use of these resources, however, is not externally restricted.

As of June 30, 2014 and 2013, the Chancery's unrestricted undesignated net assets reflected a deficit of $24,462,078 and $28,390,020, respectively, which is largely the result of obligations due under the priests' postretirement welfare benefit plan and provisions for loan losses related to amounts owed to the Chancery by parishes, schools and social service agencies in the Diocese.

Unrestricted designated net assets at June 30, 2014 and 2013 consisted of the following:

	2014	2013
Prepare The Way	$ 17,375,601	$ 15,104,027
Other designated funds	219,527	-
Perpetual care of cemetery property	10,334,267	10,334,267
Total designated net assets	$ 27,929,395	$ 25,438,294

Designated net assets are set aside to address the pastoral, charitable and financial needs of parishes, schools and Diocesan ministries and to be used for the long-term care and maintenance of lots and mausoleums.

Temporarily Restricted Net Assets - net assets subject to donor-imposed stipulations that either expire with the passage of time or can be fulfilled by the actions of the Chancery pursuant to those stipulations. 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. However, when restrictions on donor-restricted contributions are met in the same accounting period, such amounts are reported as part of unrestricted net assets.

Temporarily restricted net assets at June 30, 2014 and 2013 consisted of the following:

	2014	2013
For use in the subsequent fiscal periods	$ 267,335	$ 412,010
For support of specific programs	313,292	-
Total temporarily restricted net assets	$ 580,627	$ 412,010

Permanently Restricted Net Assets - includes funds wherein donors have stipulated that the principal contributed be invested and maintained in perpetuity. Income earned from these investments is available for expenditures according to restrictions imposed by the donors. As of June 30, 2013, permanently restricted net assets of $63,900 consisted principally of support for Catholic education. During fiscal 2014, this balance was reclassified to temporarily restricted net assets in accordance with approval obtained from the Superior Court of New Jersey.

Cash and Cash Equivalents

The Chancery considers all highly liquid investments with original maturities of three months or less from the date of purchase to be cash and cash equivalents, except for those cash equivalents which are included in the Chancery's investment portfolio which are held for long-term investment purposes.

Investments

Investments in equity and debt securities with readily determinable fair values are recorded at fair value determined on the basis of quoted market values. Investments in alternative investments are recorded at the Chancery's unit value in these funds as reported by the respective external investment managers. All investments are managed by outside investment advisors subject to the review, approval, and control by the Chancery. Such valuations involve assumptions and methods that are reviewed by the Chancery.

Purchases and sales of securities are reflected on a trade-date basis. Gains and losses on sales of securities are determined based on average cost and are recorded in the statement of activities in the period in which the securities are sold. Dividends and interest are recognized as earned.

Investment securities, in general, are exposed to various risks, such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the amounts reported in the accompanying combined financial statements.

Fair Value Measurements

The Chancery follows guidance that defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. This standard provides a consistent definition of fair value, which focuses on an exit price between market participants in an orderly transaction. The standard also prioritizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that observable inputs be used when available.

Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from independent sources. Unobservable inputs reflect assumptions that market participants would use in pricing the asset or liability based on the best information available in the circumstances. The hierarchy is categorized into three levels based on the transparency of inputs as follows:

Level 1 - Quoted prices are 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 - Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the report date. The nature of these securities include 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. Also included in Level 2 are investments measured using a net asset value ("NAV") per share, or its equivalent, that may be redeemed at NAV at the date of the statement of financial position or in the near term, which the Chancery has determined to be within 90 days.

Level 3 - Securities that have little to no pricing observability as of the report date. These securities are measured using management's best estimate of fair value, where the inputs into the determination of fair value are not observable and require significant management judgment or estimation. Also included in Level 3 are investments measured using a NAV per share, or its equivalent, that can never be redeemed at NAV or for which redemption at NAV is uncertain due to lockup periods or other investment restrictions.

Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Inputs may include price information, volatility statistics, specific and broad credit data, liquidity statistics, and other factors. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. However, the determination of what constitutes "observable" requires significant judgment by the Chancery. The Chancery considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market. The categorization of a financial instrument within the hierarchy is based upon the pricing transparency of the instrument and does not necessarily correspond to the Chancery's perceived risk of that instrument.

Concentration of Market and Credit Risks

Cash, cash equivalents and investments are exposed to interest rate, market, and credit risks. The Chancery maintains its cash and cash equivalents in various bank deposit accounts that, at times, may exceed federally insured limits. To minimize risk, the Chancery's cash accounts are placed with high-credit quality financial institutions, and the Chancery's investment portfolio is diversified with several investment managers in a variety of asset classes. The Chancery regularly evaluates its depository arrangements and investments, including performance thereof.

The Chancery has loaned funds to parishes and other affiliated entities in excess of $1 million, and these loans are generally unsecured.

Split-Interest Agreements

Assets held under charitable gift annuities, with the Chancery acting as trustee, are included in investments. A portion of the contributed assets is considered to be a charitable contribution and has been recognized as an unrestricted contribution at the date of the gift unless otherwise stipulated by the donor. When the terms of the gift annuity have been met, the remaining amount of the gift may be used for general or specific purposes as stipulated by the respective donor and will be recognized as a contribution at that time. Under the Chancery's charitable gift annuities program where the Chancery is the trustee, liabilities are recorded for the present value of the estimated future payments expected to be made to the donors and/or other life beneficiaries. The discount rates used in the calculation of all obligations due to annuitants under split-interest agreements at June 30, 2014 and 2013 ranged from 1.20% to 1.40%.

As of June 30, 2014 and 2013, all of the Chancery's charitable gift annuities are administered on behalf of The Catholic Foundation of the Diocese of Paterson, Inc. (the "Foundation"). The Foundation, an affiliate of the Chancery, is a separately incorporated entity in the State of New Jersey that was established in fiscal 2012 for the purpose of raising funds to provide grants to Diocesan sponsored programs and causes. In connection with these charitable gift annuities, the Chancery has obligations due under split-interest agreements to annuitants of $204,710 and $216,498 as of June 30, 2014 and 2013, respectively. Additionally, as the Foundation has been specified as the residuary beneficiary of the gift annuity arrangements, the Chancery also has a liability of $115,188 due to the Foundation as of June 30, 2014 and 2013, which is included within amounts payable to related parties on the accompanying statements of financial position.

In connection with these charitable gift annuities, the Chancery has established annuity funds which are invested in fixed income, exchange traded funds and money market funds. The assets of the annuity funds at June 30, 2014 and 2013 totaled $437,587 and $403,607, respectively, and include additional amounts set aside by the Chancery for state-mandated insurance reserves, which are maintained at the required level.

Accounts, Loans and Contributions Receivable

Accounts and loans receivable relate primarily to amounts due from parish assessments, employee benefits, and insurance premiums and loans to parishes, educational institutions, and other Diocesan affiliated organizations that are in financial need bearing interest at a fixed rate of 3.31% for both years ending as of June 30, 2014 and 2013. Contributions receivable relate primarily to unconditional promises to give to be received in future periods. Because of the uncertainty surrounding the collection, management provides an allowance for doubtful accounts based on consideration of the type of receivable, responsible party, the known financial condition of the respective parish or Diocesan affiliated organization, historical collection patterns and comparative aging. These allowances are maintained at a level management considers adequate to provide for subsequent adjustments and potential uncollectible accounts. These estimates are reviewed periodically and if the financial condition of the responsible party changes significantly, the Chancery will re-evaluate the recoverability of any accounts, loans and contributions receivable from that organization. The Chancery writes off any amounts that are no longer considered to be recoverable, and any payments subsequently received on such receivables are recorded as income in the period received.

Land, Buildings, and Equipment

Land, buildings, and equipment are stated at cost, or in the case of donations, at fair value on the date of the gift. Additions and improvements costing more than $2,000 and with useful lives greater than one year are capitalized. Maintenance and repairs are expensed as incurred. Depreciation expense is calculated using the straight-line method over the following useful lives:

	Years
Buildings	40
Building and land improvements	10 - 20
Furniture and fixtures	10
Machinery and equipment	5

Crypt Inventory

Crypt inventory, which represents the cost of each unsold space, is stated at the lower of cost (computed based on the allocation of total costs incurred in the construction of the mausoleums) or market. As sales are made, inventory is reduced by the cost of the space sold.

Amounts Payable to Related Parties

Amounts received and held by the Chancery on behalf of related parties are recorded as amounts payable to related parties on the accompanying combined statement of financial position. These amounts primarily relate to deposits from parishes, schools, social service agencies and various Diocesan affiliated organizations to the Central Lending Agency program administered by the Chancery, bearing interest at a fixed rate of 1.31% for both years ending as of June 30, 2014 and 2013.

Contributions and Other Revenue

Contributions and unconditional promises to give are recognized as revenue in the period received. Conditional contributions and promises to give are recorded as revenue when the conditions on which they depend have been substantially met. Contributions of non-monetary assets are recorded at the estimated fair value of the assets contributed at the date of the gift. Contributions to be received after one year are recorded at the present value of their estimated future cash flows using an appropriate rate of return. Amortization of discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any.

Contributions are reported as increase in unrestricted net assets unless use of the related assets are limited by donor-imposed restrictions. Contributions that are permanently restricted by donors for use as endowments are invested in perpetuity. The income is used for operating purposes when expenditures satisfy the donors' restrictions and such amounts are appropriated for expenditure. Income amounts that exceed related expenditures during a fiscal period remain as temporarily restricted net assets.

Calvary sells rights to graves and crypts for which revenue is recognized upon date of sale. Other unrestricted revenues and support and gains are recorded as income when earned or realized.

Donated Materials and Services

The Chancery recognizes in its combined financial statements the fair value of donated materials and services. Donated materials are recorded as contributions at their estimated fair value at the date of receipt. The Chancery recognizes donated services provided by individuals possessing specialized skills which would typically need to be purchased if not provided by donation.

Bishop's Annual Appeal Contributions

During September of each calendar year, a direct appeal is made to the people of the Diocese for operating support. Annual appeal contributions are recognized as unrestricted operating support in the year received.

Program Services

Included in operating expenses are the costs of evangelization, social ministry, pastoral, communications, educational, property and liability insurance, employee benefits and other program services provided directly by the Chancery, including subsidies given to Diocesan related organizations providing such services. These costs have been summarized on a functional basis. Accordingly, certain costs have been allocated amongst the programs and supporting services benefited.

Special Collections

Parishes throughout the Diocese conduct special offertory collections on designated days for the benefit of other non-Diocesan Catholic entities at the direction of the U.S. Conference of Catholic Bishops. The amounts collected by the parishes are remitted to the Chancery and then transferred to the entities for whom the collections were conducted. The parishes and the Chancery act as agents for the collections and the amounts collected are not revenues to the parishes or the Chancery. As of June 30, 2014 and 2013, special collections of approximately $557,000 and $472,000, respectively, have been reflected within accounts payable and accrued expenses in the accompanying combined statement of financial position.

Use of Estimates

The preparation of the combined financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the combined statement of financial position and the reported amounts of revenues and expenses during the reporting period. The most significant management judgments and estimates used in the preparation of the accompanying combined financial statements relate to the determination of depreciation expense, the reported fair value of certain financial instruments, the actuarial assumptions used to determine the reserves for self-insurance and liability for postretirement benefits, provision for operating accruals and the collectability of accounts, loans and contributions receivable. Actual results could differ from those estimates.

Fair Value of Financial Instruments

The estimated fair values of the Chancery’s financial instruments have been determined by the Chancery, using appropriate market information and valuation methodologies. Considerable judgment is required to develop the estimates of fair value; thus, the estimates provided herein are not necessarily indicative of the amounts that could be realized in a current market exchange.

The carrying value of cash, cash equivalents, accounts payable and accrued expenses, and other liabilities is a reasonable estimate of their fair value due to their short-term nature. The carrying value of accounts and loans receivables has been reduced by an appropriate allowance for uncollectible accounts, based on historical collection experience and therefore approximates net realizable value. The carrying value of contributions receivable is estimated based on the present value of expected future cash flows from these receivables, and thus approximates fair value.

Income Taxes

The Chancery recognizes an individual tax position in its combined financial statements based upon whether a tax position is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The Chancery has processes presently in place to ensure the maintenance of its tax-exempt status; to identify and report unrelated income; determine its filing and tax obligations in jurisdictions for which it has nexus; and to review other matters that may be considered tax positions. As of June 30, 2014, management has determined that the Chancery has no uncertain tax positions that would require recognition or disclosure in the combined financial statements.

In an annually updated ruling, the Internal Revenue Service has held that agencies, instrumentalities and educational, charitable, and religious institutions operated, supervised, or controlled by or in connection with the Roman Catholic Church in the United States, its territories or possessions appearing in "The Official Catholic Directory" are exempt from federal income tax under provisions of Section 501(c)(3) of the Internal Revenue Code. The Diocese is listed in "The Official Catholic Directory" and therefore is exempt from income tax. Accordingly, the accompanying combined financial statements reflect no provision for income taxes. The tax years ending June 30, 2011, 2012, 2013 and 2014 are still open to audit for both federal and state purposes.

Subsequent Events

The Chancery evaluated its June 30, 2014 combined financial statements for subsequent events through November 27, 2014, the date the combined financial statements were available to be issued. The Chancery is not aware of any material subsequent events which would require recognition or disclosure in the accompanying combined financial statements.

3. ACCOUNTS AND LOANS RECEIVABLE, NET

As of June 30, 2014 and 2013, accounts and loans receivable, net, consisted of the following:

	2014	2013
Parishes and schools	$ 31,685,866	$ 39,503,071
Social service agencies	2,716,397	2,084,807
Other	1,190,903	1,091,800
	35,593,166	42,679,678
Less: Allowance for doubtful accounts	(22,297,242)	(26,967,058)
Accounts and loans receivable, net	$ 13,295,924	$ 15,712,620

The activity for the allowance for impaired loans to parishes and schools, social service agencies and other is as follows as of June 30, 2014 and 2013:

	2014			
	Parishes and Schools	Social Service Agencies	Other	Total
Allowance for doubtful accounts, beginning of year	$ 25,375,881	$ 1,480,263	$ 110,914	$ 26,967,058
Change in allowance	276,029	186,214	21,851	484,094
Recoveries of amounts previously reserved	(1,756,691)	-	-	(1,756,691)
Write-offs	(3,397,219)	-	-	(3,397,219)
Allowance for doubtful accounts, end of year	$ 20,498,000	$ 1,666,477	$ 132,765	$ 22,297,242

	2013			
	Parishes and Schools	Social Service Agencies	Other	Total
Allowance for doubtful accounts, beginning of year	$ 29,675,779	$ 1,939,428	$ 110,914	$ 31,726,121
Change in allowance	(2,202,231)	(299,897)	-	(2,502,128)
Recoveries of amounts previously reserved	(1,711,897)	(159,268)	-	(1,871,165)
Write-offs	(385,770)	-	-	(385,770)
Allowance for doubtful accounts, end of year	$ 25,375,881	$ 1,480,263	$ 110,914	$ 26,967,058

At June 30, 2014 and 2013, included in accounts and loans receivables are $34,747,716 and $41,986,389 due from related parties, less an allowance for doubtful accounts of $22,164,478 and $26,854,544, respectively.

4. CONTRIBUTIONS RECEIVABLE, NET

Contributions receivable, net, consisted of the following unconditional promises to give at June 30, 2014 and 2013:

	2014	2013
Amounts expected to be collected in:		
Less than one year	$ 353,393	$ 241,948
One to five years	78,000	193,000
	431,393	434,948
Less:		
Reserve for uncollectible pledges	(25,000)	(25,000)
Discount for present value	(2,265)	(3,942)
	$ 404,128	$ 406,006

A discount for pledges to be received over periods longer than one year from date of contribution is provided using appropriate credit-adjusted discount rate assigned in the year the pledge originates and ranged from approximately 2.23% to 2.26% at June 30, 2014 and 2013.

5. INVESTMENTS, AT FAIR VALUE

As of June 30, 2014 and 2013, investments, at fair value, by fair value hierarchy, consisted of the following:

	2014			
	Level 1	**Level 2**	**Level 3**	**Total**
Equities	$ 10,888,104	$ -	$ -	$ 10,888,104
Fixed income	4,014,653	-	-	4,014,653
Exchange traded funds	1,017,901	-	-	1,017,901
Money market funds	337,838	-	-	337,838
Participation in investment pool	-	-	2,619,484	2,619,484
Limited partnership interests	-	-	436,923	436,923
Hedge funds	-	965,067	881,158	1,846,225
	$ 16,258,496	$ 965,067	$ 3,937,565	$ 21,161,128

	2013			
	Level 1	**Level 2**	**Level 3**	**Total**
Equities	$ 10,246,533	$ -	$ -	$ 10,246,533
Fixed income	4,817,270	-	-	4,817,270
Exchange traded funds	66,444	-	-	66,444
Money market funds	304,047	-	-	304,047
Limited partnership interests	-	-	166,598	166,598
Hedge funds	-	905,661	807,317	1,712,978
	$ 15,434,294	$ 905,661	$ 973,915	$ 17,313,870

The following table summarizes the changes in Chancery's Level 3 investments for the years ended June 30, 2014 and 2013:

Balance as of July 1, 2012	$ 1,389,577
Purchases	100,000
Net depreciation of investments	(515,662)
Balance as of June 30, 2013	973,915
Purchases	2,619,484
Net appreciation of investments	344,166
Balance as of June 30, 2014	$ 3,937,565

The Chancery's policy is to recognize transfers in and transfers out at the end of the reporting period.

The Chancery uses NAV per share, or its equivalent, to determine the fair value of all the underlying investments which: (a) do not have a readily determinable fair value and (b) prepare its financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company. The following table lists such investments by major category:

2014

Type	Strategy	NAV in funds	# of Funds	Remaining Life	$ Amount of Unfunded Commitments	Redemption Terms	Redemption Restrictions	Redemption Restrictions in Place at Year End
Hedge fund	Invests primarily in illiquid portfolio funds that offer the potential for higher long-term returns	$ 881,158	1	Subject to the determination of the respective fund manager	N/A	Semi-annually as of June 30 or December 31 upon 30 days notice	Redemption may not be requested prior to the 12th month-end after a subscription dealing day	N/A
Hedge fund	Seeks long-term capital appreciation thru investments in US fixed income instruments and non-US sovereign debt securities	$ 965,067	1	Subject to the determination of the respective fund manager	N/A	Daily upon 10 days notice	N/A	N/A

2013

Type	Strategy	NAV in funds	# of Funds	Remaining Life	$ Amount of Unfunded Commitments	Redemption Terms	Redemption Restrictions	Redemption Restrictions in Place at Year End
Hedge fund	Invests primarily in illiquid portfolio funds that offer the potential for higher long-term returns	$ 807,317	1	Subject to the determination of the respective fund manager	N/A	Semi-annually as of June 30 or December 31 upon 30 days notice	Redemption may not be requested prior to the 12th month-end after a subscription dealing day	N/A
Hedge fund	Seeks long-term capital appreciation thru investments in US fixed income instruments and non-US sovereign debt securities	$ 905,661	1	Subject to the determination of the respective fund manager	N/A	Daily upon 10 days notice	N/A	N/A

Since hedge funds and limited partnership interests may not be readily marketable, the estimated fair value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for such investments existed, and the differences could be material. The values assigned to these holdings do not necessarily represent amounts which might ultimately be realized upon sale or other disposition since such amounts depend on future circumstances and cannot reasonably be determined until the actual liquidation occurs.

During fiscal 2014, the Diocese of Paterson Catholic Cemetery Perpetual Care Trust (the "Trust") was formed for the purpose of safeguarding the perpetual care funds of Catholic Cemeteries. The Trust's investment pool consists of investments carried at fair value generally determined on the basis of quoted market prices on active exchanges as of the reporting date. These investments are primarily held in money market funds and fixed income mutual funds which are measured at fair value based on Level 1 inputs. Calvary's participation in the Institute's investment pool is determined based on its pro-rata share of the entire pool and totaled $2,619,484 as of June 30, 2014.

Investment management fees approximated $40,000 and $20,000 in fiscal years 2014 and 2013, respectively, and were expensed on the accompanying combined statement of activities.

6. MORTGAGE RECEIVABLES

In October 2002, the Chancery extended a $8,000,000 mortgage note to Martin De Porres Village, Inc., a related party of the Diocese, to operate a low-income housing project for senior citizens, families, and disabled individuals, among others. The mortgage bears interest at a fixed rate of 7.00% per annum. Principal and interest are payable monthly over a twenty-five (25) year period and the mortgage is secured by the assignment of leases covering the property. During fiscal 2013, the mortgage was paid in full.

In June 2011, the Chancery sold property located in Clifton, New Jersey to Zion Church of God, Inc. ("Zion"), an unrelated third party, for $619,000. In connection with the sale, the Chancery extended a $419,000 mortgage note to Zion. The mortgage bears interest at a fixed rate of 5.75% per annum and is secured by the property. Principal and interest commenced in August 2011 and are payable monthly over a twenty (20) year period. As of June 30, 2014 and 2013, the outstanding mortgage receivable was $385,515 and $398,350, respectively.

7. CRYPT INVENTORY

As of June 30, 2014 and 2013, crypt inventory, consisted of the following:

	2014	2013
Mausoleum Unit I	$ 127,698	$ 126,409
Mausoleum Unit II	119,662	121,743
Mausoleum Unit IIII	997,504	1,014,920
Mausoleum Unit IV	10,575,284	10,691,833
Crypt inventory	$ 11,820,148	$ 11,954,905

8. LAND, BUILDINGS AND EQUIPMENT, NET

The principal properties owned by the Chancery reflected in the accompanying combined statement of financial position include Nazareth Village Priests' Retirement Home, Pope John Paul II Elementary School, and the following high schools: DePaul Catholic, Morris Catholic, Paterson Catholic, Pope John XXIII, Neumann Preparatory, and Bayley-Ellard.

Land, buildings and equipment, net, consisted of the following as of June 30, 2014 and 2013:

	2014	2013
Buildings and improvements	$ 27,925,872	$ 27,634,594
Machinery, equipment and furniture	1,500,240	1,493,218
	29,426,112	29,127,812
Less: Accumulated depreciation and amortization	(17,036,192)	(16,421,389)
	12,389,920	12,706,423
Land	3,056,799	2,900,799
Undeveloped land	2,027,211	2,027,211
Land, buildings and equipment, net	$ 17,473,930	$ 17,634,433

At June 30, 2014 and 2013, included in buildings and improvements are capitalized conditional asset retirement obligations at a cost of approximately $423,000 that were fully depreciated. At June 30, 2014 and 2013, included in machinery, equipment and furniture are assets acquired under capital lease arrangements at a cost of approximately $157,000 with accumulated amortization of approximately $78,000 and $47,000, respectively.

9. DEBT OBLIGATIONS

The Chancery has entered into various credit facility agreements with certain lending institutions on behalf of Pope John XXIII ("PJ XXIII") high school. Accordingly, as of June 30, 2014 and 2013, the Chancery has recorded a receivable of $1,019,712 and $3,502,660, respectively, due from PJ XXIII corresponding to the debt obligations. These receivables are included within accounts and loans receivable in the accompanying combined statement of financial position. Repayments on these credit facilities are made by PJ XXIII and paid directly to the respective lender.

Such debt obligations consisted of the following at June 30, 2014 and 2013:

	2014	2013
Lakeland Bank - term loan (a)	$ 556,566	$ 652,334
Lakeland Bank - term loan (b)	463,146	516,315
Wells Fargo Bank - term loan (c)	-	2,334,011
	$ 1,019,712	$ 3,502,660

Lakeland Bank - Term Loan (a)

On August 18, 1999, the Chancery entered into a term loan agreement with Lakeland Bank on behalf of PJ XXIII for the purpose of constructing additional classroom space at the high school. The amount of this loan was $1,800,000 with payments for a period of 240 months. Principal and interest are payable monthly commencing on September 1, 1999 and the first day of each month through maturity on September 1, 2019. Lakeland Bank has been granted a security interest in the land and buildings at 28 Andover Rd., Sparta N.J. which is the physical location of PJ XXIII. As of June 30, 2014 and 2013, the rate of this loan was 2.93% and 4.52%, respectively.

Lakeland Bank - Term Loan (b)

On April 27, 2001, the Chancery entered into a term loan agreement with Lakeland Bank on behalf of PJ XXIII for the purpose of constructing a new gymnasium at the school. The amount of this loan was $1,500,000 with payments for a period of 240 months. Principal and interest are payable monthly commencing on September 1, 1999 and the first day of each month through maturity on April 27, 2022. Lakeland Bank has been granted a security interest in the land and buildings at 28 Andover Rd., Sparta N.J. which is the physical location of PJ XXIII. As of June 30, 2014 and 2013, the rate of this loan was 2.62%.

Wells Fargo Bank – Term Loan (c)

In May 2012, the Chancery amended its existing $4,000,000 line of credit facility agreement with Wells Fargo Bank on behalf of PJ XXIII to an unsecured term loan agreement. The total amount of the loan is approximately $2,630,000 and matured on May 31, 2014. Upon maturity, the loan was modified whereby PJ XXIII entered into the credit facility agreement as the primary borrower and accordingly, the Chancery's debt obligation was discharged as of June 30, 2014.

At June 30, 2014, aggregate principal payments due over each of the next five fiscal years and thereafter follow:

Year Ending June 30,		
2015	$	183,672
2016		193,579
2017		204,037
2018		215,070
2019		223,354
	$	1,019,712

Interest expense on long-term debt for the years ended June 30, 2014 and 2013 totaled approximately $39,000 and $76,000, respectively.

Capital Lease and Other Obligations

At June 30, 2014, future minimum payments due under the Chancery's capital lease obligations and other financing arrangements for equipment and automobiles follow:

Year Ending June 30,		
2015	$	54,579
2016		46,856
2017		27,983
2018		4,142
Total minimum lease payments		133,560
Less: amount representing interest		(10,364)
Present value of minimum lease payments	$	123,196

10. CONDITIONAL ASSET RETIREMENT OBLIGATIONS

The Chancery is required to recognize a conditional asset retirement obligation ("CARO") related to the cost associated with the eventual remediation and abatement of asbestos located within the construct of certain buildings. The total CARO liability at June 30, 2014 and 2013 totaled $5,897,699 and $5,512,385, respectively. For the years ended June 30, 2014 and 2013, the accretion of interest related to these obligations totaled $385,314 and $360,142, respectively.

11. SELF-INSURANCE PROGRAMS

The Chancery participates and maintains self-insurance programs for medical, pharmacy, general liability, property damage, automobile damage, unemployment compensation, workers' compensation and long-term disability. The participants of these programs also include the parishes, institutions and agencies owned by or related to the Diocese. Premiums charged to the various, non-Chancery, participating organizations and payments made on insurance claims are reported as revenues and expenses, respectively, within the employee benefits and property and liability insurance programs in the accompanying combined statement of activities. Insurance program costs for Chancery departments are reflected in the accompanying combined statement of activities within their respective functional classification.

Employee Benefits

Employees of the participating organizations are provided health benefits under the self-insured program which is administered by a third party claims administrator. As of June 30, 2014 and 2013, the Chancery had deposited approximately $537,000 and $520,000, respectively, with the claims administrator as a good faith deposit against these payments. These deposits are included as other assets in the accompanying combined statement of financial position.

Property and Liability Insurance

Under this program, the Chancery is liable for the first $250,000 of a property damage claim, as well as the first $250,000 of a general liability or auto claim, with additional coverage in excess of the above amounts purchased through outside insurance agencies. Self-insurance reserves have been developed based on an actuarial model based on historical claims and industry experience.

As of June 30, 2014 and 2013, the actuarially determined liabilities for employee benefits and property and liability insurance consisted of the following:

	2014		
	Case Reserve	Incurred but not Reported	Total
Employee medical and pharmacy plan	$ -	$ 1,205,456	$ 1,205,456
General liability, automobile, workers' compensation and property coverage	2,195,967	2,621,410	4,817,377
Total liability for self-insurance claims	$ 2,195,967	$ 3,826,866	$ 6,022,833

	2013		
	Case Reserve	**Incurred But Not Reported**	**Total**
Employee medical and pharmacy plan	$ -	$ 1,329,612	$ 1,329,612
General liability, automobile, workers' compensation and property coverage	2,313,007	2,658,898	4,971,905
Total liability for self-insurance claims	$ 2,313,007	$ 3,988,510	$ 6,301,517

Additionally, the Chancery has recorded a liability for unemployment benefits and long-term disability of $311,538 and $381,433 as of June 30, 2014 and 2013, respectively.

12. POSTRETIREMENT BENEFITS

Lay Pension Plan

The Chancery participates in a noncontributory defined benefit pension plan which covers substantially all full-time lay employees. Under this plan the employer contributions are made by the Chancery, Diocesan High Schools and other Diocesan organizations and parishes, which employ covered plan members. Upon retirement, participants will receive 1) a pension of 1.25% of their average earnings for the highest three years in the plan, multiplied by their years of participation in the plan, 2) enrollment in the American Association of Retired Persons' Medicare Supplement Health Insurance program and 3) certain specified death benefits. Contributions to the lay pension plan by the Chancery for the years ended June 30, 2014 and 2013 totaled approximately $343,000 and $353,000, respectively.

Priests' Pension Plan

The Chancery also participates in a noncontributory priests' pension plan covering all priests. Upon retirement each priest will receive a pension of $3,150 per month. The priests' pension plan does not cover normal medical, dental and automobile insurance benefits for retired priests. Such costs are assumed by the priests' postretirement welfare benefit plan which is administered by the Chancery. Annual contribution rates for the years ended June 30, 2014 and 2013 were $18,100 a year per priest. Contributions to the priests' pension plan by the Chancery for the years ended June 30, 2014 and 2013 totaled approximately $386,000 and $416,000, respectively.

The Lay and Priest pension plans are considered church plans and are therefore exempt from the provisions of the Employee Retirement Income Security Act of 1974 ("ERISA"), as amended. Due to the nature of these plans, it is not practicable to determine the extent to which the assets of the plans cover the actuarially computed value of vested benefits for the Chancery as a standalone operation. As such, the actuarial present value of accumulated plan benefits and the fair value of plan assets have not been recorded in the accompanying combined statement of financial position. In addition, because the plans are considered multiemployer plans, they are only subject to certain minimum reporting requirements.

As of July 1, 2014 and 2013, the following is a summary of the accumulated Plan benefits covering all participants (unaudited):

	2014	
	Lay	**Priest**
Vested benefits:		
Participants currently receiving payments	$ 72,095,202	$ 22,121,346
Other participants	59,998,187	10,013,591
	132,093,389	32,134,937
Non-vested benefits	1,320,062	520,546
Total actuarial present value of accumulated plan benefits	$ 133,413,451	$ 32,655,483
Fair value of plan assets	$ 110,272,604	$ 17,034,225
Funded status	$ (23,140,847)	$ (15,621,258)

	2013	
	Lay	**Priest**
Vested benefits:		
Participants currently receiving payments	$ 67,631,548	$ 22,424,189
Other participants	55,169,910	9,667,290
	122,801,458	32,091,479
Non-vested benefits	1,520,804	630,098
Total actuarial present value of accumulated plan benefits	$ 124,322,262	$ 32,721,577
Fair value of plan assets	$ 96,442,868	$ 14,936,071
Funded status	$ (27,879,394)	$ (17,785,506)

Priests' Postretirement Welfare Benefit Plan

The Chancery administers and participates in a postretirement welfare benefit plan covering all Diocesan priests. The priests' postretirement welfare benefit plan pays for normal medical, dental and automobile insurance benefits for retired priests. The Chancery contributes 100% of dental and automobile benefits and all medical benefits in excess of the priest's annual contribution of $2,721 toward their medical benefits.

This plan also provides long-term catastrophic healthcare. This coverage is self-funded by premiums charged to the various parishes and Diocesan organizations which employ Diocesan priests. For the years ended June 30, 2014 and 2013, approximately $471,000 and $410,000, respectively, was billed and included as employee benefits program revenue in the accompanying combined statement of activities. Upon admission into a long-term healthcare facility, the Chancery contributes approximately 75% of the cost for long term healthcare with the priest responsible for the remaining balance.

Effective in 2018, the Affordable Care Act and Health Care and Education Reconciliation Act of 2010 will impose an excise tax on high-cost employer health plans. Accordingly, the accumulated benefit obligation was increased by approximately $1,012,000 as of June 30, 2013 to account for the impact of the health care reform legislation.

In fiscal 2014, the Chancery changed its post-65 medical plan from a self-insured plan to a fully insured Medicare Advantage plan that resulted in a lower per capital claims cost. Accordingly, the accumulated benefit obligation was decreased by approximately $4,830,000 as of June 30, 2014 due to the change in medical plans.

The accumulated benefit obligation recognized in the accompanying combined statements of financial position at June 30, 2014 and 2013, is as follows:

	2014	2013
Accumulated benefit obligation, beginning of fiscal year	$ 24,454,581	$ 21,323,659
Interest cost	1,118,918	840,776
Service cost	86,385	174,022
Benefits paid	(1,059,727)	(531,917)
Actuarial (gain) loss	(1,711,322)	1,636,121
Addition of high cost plan excise tax	-	1,011,920
Accumulated benefit obligation, end of fiscal year	$ 22,888,835	$ 24,454,581
Funded status of plan at fiscal year end	$ (22,888,835)	$ (24,454,581)
Amounts not yet reflected in net periodic benefit cost and included in unrestricted net assets:		
Unrecognized prior service cost	$ 1,107,775	$ 1,462,713
Unrecognized actuarial loss	14,113,070	16,630,050
	$ 15,220,845	$ 18,092,763

The weighted average rates used to determine the accumulated benefit obligation as of June 30, 2014 and 2013, were:

	2014	2013
Discount rate	4.18%	4.66%
Health-care cost trend rate assumed for next year	8.00%	7.50%
Ultimate health-care cost trend rate	5.00%	5.00%
Year ultimate health-care cost trend rate is achieved	2020	2018

Components of net periodic benefit cost in the combined statement of activities consisted of the following:

	2014	2013
Service cost	$ 86,385	$ 174,022
Interest cost	1,118,918	840,776
Amortization of actuarial loss	805,657	701,323
Amortization of prior service cost	354,939	354,939
Net periodic benefit cost	$ 2,365,899	$ 2,071,060

The weighted-average rates used to determine net periodic benefit cost for the years ended June 30, 2014 and 2013, were:

	2014	2013
Discount rate	4.66%	3.96%
Health-care cost trend rate assumed for next year	8.00%	7.50%
Ultimate health-care cost trend rate	5.00%	5.00%

Other changes in the accumulated benefit obligation recognized in unrestricted net assets were as follows:

	2014	2013
Net actuarial (gain) loss arising during measurement period	$ (1,711,322)	$ 1,636,121
Amortization of actuarial loss	(805,657)	(701,323)
Amortization of prior service cost	(354,939)	(354,939)
Addition of high cost plan excise tax	-	1,011,920
Postretirement-related changes other than net periodic benefit cost	$ (2,871,918)	$ 1,591,779

For the year ended June 30, 2014, the effect of a 1% change in the health care cost trend rate is as follows:

	1% Increase	1% Decrease
Effect on net periodic benefit cost	$ 310,351	$ (229,025)
Effect on accumulated benefit obligation	4,191,513	(3,385,525)

The estimated prior service cost and actuarial loss that will be amortized into net periodic benefit cost during fiscal 2014 are $354,939 and $669,546, respectively.

Plan benefits expected to be paid in the following fiscal years are as follows:

2015	$ 1,029,627
2016	650,089
2017	695,313
2018	754,626
2019	890,579
2020 - 2024	5,507,456

Because the plan is unfunded, the future benefit payments also represent the expected contributions to the plan for that year.

Other

The Chancery also provided postretirement benefits to certain priests and lay employees outside of the plans noted above. As of June 30, 2014 and 2013, the Chancery has recorded a liability of $2,064,911 and $1,995,795, respectively, for those benefits, and is included within liability for postretirement benefits in the accompanying combined statement of financial position.

13. ENDOWMENT

The Chancery's donor-restricted (gifted) endowment consists of donor-restricted endowment funds established principally for the support of priestly formation and Catholic education, and it excludes permanently restricted contributions receivable. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Chancery has interpreted the New Jersey 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 respective donor-restricted endowment fund absent explicit donor stipulations to the contrary. As a result of this interpretation, the Chancery 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 of income to the permanent endowment made in accordance with the direction of the applicable donor gift instrument. Therefore, permanently restricted endowment net assets represent the original corpus of gifts given to the Chancery for which the gift instruments stipulate that the principal be invested in perpetuity and only income be used for donor intended purposes, if any.

Net appreciation earned on the corpus of permanently restricted endowment net assets, under New Jersey UPMIFA, is spendable, and, accordingly, the Chancery classifies the appreciation as temporarily restricted net assets, pending appropriation for expenditure by the Bishop of Paterson.

The Chancery's endowment was $63,900 at June 30, 2013, and consisted of the following net asset classes:

2013	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds	$ -	$ -	$ 63,900	$ 63,900

The Chancery's individual endowment funds are managed separately for investment purposes. The investment portfolio is managed to achieve a prudent long-term total return. The Chancery 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). The Chancery targets a diversified asset allocation that places an equal emphasis on equity-based and fixed income investments to achieve its long-term return objectives within prudent risk constraints.

During fiscal 2013, the Chancery transferred $4,415,445 of its endowment funds to the Foundation, consisting of $4,217,314 of investments and $198,131 of pledges receivable, which will continue to be administered in accordance with the donor's intent and restrictions.

During fiscal 2014, the remaining endowment fund of $63,900 was transferred to temporarily restricted net assets in accordance with approval obtained from the Superior Court of New Jersey.

The following tables summarize the Chancery's total return on endowment investments and the changes in endowment net assets for the year ended June 30, 2014 and 2013:

2014	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ -	$ -	$ 63,900	$ 63,900
Dividends and interest on endowment investments	-	-	-	-
Net realized and unrealized appreciation in fair value of endowment investments	-	-	-	-
New gifts and pledges	-	-	-	-
Assets transferred from endowment	-	-	(63,900)	(63,900)
Endowment net assets, end of year	$ -	$ -	$ -	$ -

2013	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ (95,869)	$ 43,648	$ 4,030,592	$ 3,978,371
Dividends and interest on endowment investments	71,008	7,922	-	78,930
Net realized and unrealized appreciation in fair value of endowment investments	24,861	139,656	-	164,517
New gifts and pledges	-	-	65,400	65,400
Endowment return used for operations	-	(6,004)	-	(6,004)
Endowment assets transferred to Catholic Foundation	-	(185,222)	(4,032,092)	(4,217,314)
Endowment net assets, end of year	$ -	$ -	$ 63,900	$ 63,900

14. GUARANTEES

The Chancery has guaranteed the repayment of certain loans obtained directly by parishes and social service agencies related to the Diocese. At June 30, 2014 and 2013, outstanding amounts due to lenders approximated $7,027,000 and $8,014,000, respectively. Should the Diocesan related organizations default on the loans, the Chancery would become liable for all remaining payments due to the lender. Management is currently not aware of any defaults or circumstances that would require the Chancery to perform under such guarantees and as such, no loss provision has been recognized as of June 30, 2014 and 2013.

15. COMMITMENTS AND CONTINGENCIES

The Chancery, in the ordinary course of business, is a party to various litigation involving contract and conduct related claims, and other miscellaneous causes of action arising from Diocesan activities. While it is not feasible to predict the ultimate outcomes of such matters, management of the Chancery is not aware of any claims or contingencies, which are not covered by insurance that would have a material adverse effect on the Chancery's combined financial position, changes in net assets and cash flows.

Various school, parish and mission properties are not included in the property accounts, nor are the operations of these entities reflected in the accompanying combined financial statements. In the event that any of the entities fiscally responsible to the Chancery, are unable to fulfill their operating commitment, any liens or claims against these properties and/or deficits from their operations, if any, would become a liability to the Chancery. Management is currently not aware of any events that would require the Chancery to accrue for such financial commitments as of June 30, 2014 and 2013.

The Chancery has entered into various non-cancellable operating leases primarily for office equipment.

Future minimum lease payments due under these arrangements are as follows:

Year Ending June 30:	
2015	$ 7,978
2016	7,121
2017	5,407
2018	3,828
2019	1,914
	$ 26,248

Rent expense for the years ended June 30, 2014 and 2013 totaled approximately $78,000 and $47,000, respectively.