

Combined Financial Statements Together with  
Report of Independent Certified Public Accountants

**CHANCERY OFFICE OF THE ROMAN CATHOLIC  
DIOCESE OF PATERSON AND AFFILIATES**

June 30, 2016 and 2015

# CHANCERY OFFICE OF THE ROMAN CATHOLIC DIOCESE OF PATERSON AND AFFILIATES

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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 Affiliates (collectively, the “Chancery”) which comprise the combined statements of financial position as of June 30, 2016 and 2015, 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 Affiliates as of June 30, 2016 and 2015, 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 29, 2016

**CHANCERY OFFICE OF THE ROMAN CATHOLIC  
DIOCESE OF PATERSON AND AFFILIATES**  
**Combined Statements of Financial Position**  
**As of June 30, 2016 and 2015**

<b>ASSETS</b>	<u><b>2016</b></u>	<u><b>2015</b></u>
Cash and cash equivalents	\$ 12,722,159	\$ 10,574,830
Accounts and loans receivable, net	13,461,783	14,937,032
Contributions receivable, net	142,833	145,030
Investments, at fair value	43,681,428	45,266,170
Mortgage receivable	357,615	371,938
Crypt inventory	11,453,563	11,596,856
Land, buildings and equipment, net	15,976,378	16,351,853
Other assets	<u>1,283,730</u>	<u>1,283,637</u>
Total assets	<u>\$ 99,079,489</u>	<u>\$ 100,527,346</u>
 <b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 3,164,545	\$ 2,677,120
Amounts payable to related parties	30,387,979	27,726,577
Debt obligations	726,385	939,771
Conditional asset retirement obligations	4,812,280	4,497,878
Reserves for self-insurance	7,039,837	6,502,644
Obligations due under split-interest agreements	186,931	195,727
Liability for postretirement benefits	<u>27,100,295</u>	<u>22,747,240</u>
Total liabilities	<u>73,418,252</u>	<u>65,286,957</u>
 Commitments and contingencies		
<b>NET ASSETS</b>		
Unrestricted	25,024,819	34,863,856
Temporarily restricted	382,066	376,533
Permanently restricted	<u>254,352</u>	<u>-</u>
Total net assets	<u>25,661,237</u>	<u>35,240,389</u>
Total liabilities and net assets	<u>\$ 99,079,489</u>	<u>\$ 100,527,346</u>

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

**CHANCERY OFFICE OF THE ROMAN CATHOLIC  
DIOCESE OF PATERSON AND AFFILIATES**  
**Combined Statement of Activities**  
**For the year ended June 30, 2016**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>REVENUES, GAINS AND OTHER SUPPORT</b>				
Parish assessments	\$ 6,061,734	\$ -	\$ -	\$ 6,061,734
Annual appeal	3,219,517	-	-	3,219,517
Contributions	1,497,398	-	254,352	1,751,750
Rental income	1,109,635	-	-	1,109,635
Cemetery income	1,075,212	-	-	1,075,212
Property and liability insurance program	8,299,853	-	-	8,299,853
Employee benefits program	18,963,463	-	-	18,963,463
Other	1,016,686	-	-	1,016,686
Central lending agency program	788,858	-	-	788,858
Interest and dividend income	1,393,516	7,467	-	1,400,983
Net unrealized and realized (loss) gain	(1,358,844)	263	-	(1,358,581)
	<u>42,067,028</u>	<u>7,730</u>	<u>254,352</u>	<u>42,329,110</u>
Net assets released from restriction	2,197	(2,197)	-	-
Total revenues, gains and other support	<u>42,069,225</u>	<u>5,533</u>	<u>254,352</u>	<u>42,329,110</u>
<b>EXPENSES</b>				
Programs:				
Evangelization	1,850,602	-	-	1,850,602
Social ministry	1,469,950	-	-	1,469,950
Pastoral	5,310,172	-	-	5,310,172
Communications	85,780	-	-	85,780
Annual appeal	233,550	-	-	233,550
Schools subsidies and other educational expenses	1,874,041	-	-	1,874,041
Cemetery - cost of sales and expenses	910,160	-	-	910,160
Property and liability insurance program	6,951,873	-	-	6,951,873
Employee benefits program	20,672,841	-	-	20,672,841
Central lending agency program	377,699	-	-	377,699
Property rental	348,593	-	-	348,593
Total program expenses	<u>40,085,261</u>	<u>-</u>	<u>-</u>	<u>40,085,261</u>
Supporting services:				
General and administration	8,103,566	-	-	8,103,566
Fundraising	373,163	-	-	373,163
Total supporting services expenses	<u>8,476,729</u>	<u>-</u>	<u>-</u>	<u>8,476,729</u>
Total expenses	<u>48,561,990</u>	<u>-</u>	<u>-</u>	<u>48,561,990</u>
Change in net assets before postretirement-related changes other than net periodic benefit cost	(6,492,765)	5,533	254,352	(6,232,880)
Postretirement-related changes other than net periodic benefit cost	<u>(3,346,272)</u>	<u>-</u>	<u>-</u>	<u>(3,346,272)</u>
Change in net assets	(9,839,037)	5,533	254,352	(9,579,152)
Net assets, beginning of year	34,863,856	376,533	-	35,240,389
Net assets, end of year	<u>\$ 25,024,819</u>	<u>\$ 382,066</u>	<u>\$ 254,352</u>	<u>\$ 25,661,237</u>

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

**CHANCERY OFFICE OF THE ROMAN CATHOLIC  
DIOCESE OF PATERSON AND AFFILIATES**  
**Combined Statement of Activities**  
**For the year ended June 30, 2015**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b>REVENUES, GAINS AND OTHER SUPPORT</b>			
Parish assessments	\$ 6,070,306	\$ -	\$ 6,070,306
Annual appeal	2,960,617	-	2,960,617
Contributions	688,189	-	688,189
Rental income	2,309,326	-	2,309,326
Cemetery income	1,346,943	-	1,346,943
Property and liability insurance program	8,134,313	-	8,134,313
Employee benefits program	18,562,027	-	18,562,027
Other	1,100,178	-	1,100,178
Central lending agency program	839,276	-	839,276
Interest and dividend income	714,538	2,001	716,539
Net unrealized and realized losses	(1,004,674)	(2,491)	(1,007,165)
Recovery of uncollectible accounts, net	1,285,034	-	1,285,034
Gain on sale of property	30,889,445	-	30,889,445
	<u>73,895,518</u>	<u>(490)</u>	<u>73,895,028</u>
Net assets released from restriction	203,604	(203,604)	-
Total revenues, gains and other support	<u>74,099,122</u>	<u>(204,094)</u>	<u>73,895,028</u>
<b>EXPENSES</b>			
Programs:			
Evangelization	1,925,258	-	1,925,258
Social ministry	1,401,140	-	1,401,140
Pastoral	5,774,506	-	5,774,506
Communications	84,021	-	84,021
Annual appeal	247,954	-	247,954
Schools subsidies and other educational expenses	1,913,985	-	1,913,985
Cemetery - cost of sales and expenses	981,377	-	981,377
Property and liability insurance program	7,274,890	-	7,274,890
Employee benefits program	18,251,482	-	18,251,482
Central lending agency program	373,980	-	373,980
Property rental	436,703	-	436,703
Total program expenses	<u>38,665,296</u>	<u>-</u>	<u>38,665,296</u>
Supporting services:			
General and administration	6,759,495	-	6,759,495
Fundraising	391,457	-	391,457
Total supporting services expenses	<u>7,150,952</u>	<u>-</u>	<u>7,150,952</u>
Total expenses	<u>45,816,248</u>	<u>-</u>	<u>45,816,248</u>
Change in net assets before postretirement-related changes other than net periodic benefit cost	28,282,874	(204,094)	28,078,780
Postretirement-related changes other than net periodic benefit cost	<u>3,113,665</u>	<u>-</u>	<u>3,113,665</u>
Change in net assets	31,396,539	(204,094)	31,192,445
Net assets, beginning of year	<u>3,467,317</u>	<u>580,627</u>	<u>4,047,944</u>
Net assets, end of year	<u>\$ 34,863,856</u>	<u>\$ 376,533</u>	<u>\$ 35,240,389</u>

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

**CHANCERY OFFICE OF THE ROMAN CATHOLIC  
DIOCESE OF PATERSON AND AFFILIATES**  
**Combined Statements of Cash Flows**  
**For the years ended June 30, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ (9,579,152)	\$ 31,192,445
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation and amortization	587,544	656,096
Recovery on uncollectible accounts and loans receivable, net	-	(1,285,034)
Bad debt expense	669,788	-
Change in discount allowance on contributions receivable	(553)	(1,712)
Provision for allowance on uncollectible contributions receivable	(4,000)	19,500
Unrealized and realized depreciation in fair value of investments	1,358,581	1,004,674
Contributions restricted for endowment	(254,352)	-
Gain on sale of land, buildings and equipment	-	(30,889,445)
Accretion of interest on conditional asset retirement obligations	314,402	412,249
Changes in assets and liabilities:		
Decrease (increase) in accounts and loans receivable	635,576	(510,792)
Decrease in contributions receivable	6,750	241,310
Decrease in crypt inventory	143,293	223,292
(Increase) decrease in other assets	(93)	357,562
Increase in accounts payable and accrued expenses	487,425	36,628
Increase in reserves for self-insurance	537,193	168,273
Decrease in obligations due under split-interest agreements	(8,796)	(8,983)
Increase (decrease) in liability for postretirement benefits	4,353,055	(2,206,506)
Net cash used in operating activities	<u>(753,339)</u>	<u>(590,443)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sales of investments	4,209,624	459,165
Purchases of investments	(3,983,463)	(25,568,881)
Payments received on mortgage receivable	14,323	13,577
Proceeds from sale of land, buildings and equipment	-	30,000,000
Purchases of land, buildings and equipment	<u>(212,069)</u>	<u>(302,144)</u>
Net cash provided by investing activities	<u>28,415</u>	<u>4,601,717</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Deposits received from related parties	6,300,310	4,282,983
Repayment of deposits received from related parties	(3,638,907)	(4,844,029)
Principal repayments of capital lease obligations	(43,502)	(48,419)
Contributions restricted for endowment	<u>254,352</u>	<u>-</u>
Net cash provided by (used in) financing activities	<u>2,872,253</u>	<u>(609,465)</u>
Net increase in cash and cash equivalents	2,147,329	3,401,809
Cash and cash equivalents, beginning of year	<u>10,574,830</u>	<u>7,173,021</u>
Cash and cash equivalents, end of year	<u>\$ 12,722,159</u>	<u>\$ 10,574,830</u>

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



# **CHANCERY OFFICE OF THE ROMAN CATHOLIC DIOCESE OF PATERSON AND AFFILIATES**

## **Notes to Combined Financial Statements**

**June 30, 2016 and 2015**

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### **1. NATURE OF THE ENTITY**

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. This oversight comes from both civil law and Canon Law declaring the authority and responsibilities of the Diocese.

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), the Diocese of Paterson Mission Fund, Inc., the Diocese of Paterson Catholic Education Trust 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. These entities may or may not be separately incorporated; however, each is distinct from the Chancery and maintains separate financial records.

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 Diocese of Paterson Mission Fund, Inc. (“Mission Fund”) commenced operations in May 2015. The Mission Fund is a separately incorporated 501(c)(3) organization that was funded through proceeds received from the sale of Paterson Catholic High School (see Note 8) and was created to assist the Diocese in fulfilling its religious, charitable and educational mission by providing funding for education, religious personnel development, health care needs, poor parishes and long term capital needs. The Diocese is the sole member of the Mission Fund.

The Diocese of Paterson Catholic Education Trust (“Education Trust”) was also established in May 2015 with proceeds received from the sale of Paterson Catholic High School (see Note 8) to hold in trust, funds designated for Catholic education as well as for the maintenance of the infrastructure which supports education in Diocesan parishes, schools and other Diocesan organizations located within the Diocese. The Bishop of Paterson serves as trustee of the Education Trust.

### **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.

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**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:

Undesignated Net Assets - 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.

Designated Net Assets - 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.

Unrestricted designated net assets at June 30, 2016 and 2015 consisted of the following:

	<u>2016</u>	<u>2015</u>
Prepare The Way	\$ 15,070,187	\$ 16,681,941
Diocese of Paterson Mission Fund, Inc.	14,871,381	14,654,389
Diocese of Paterson Catholic Education Trust	10,107,290	10,098,322
Other designated funds	359,499	364,442
Perpetual care of cemetery property	<u>10,334,267</u>	<u>10,334,267</u>
Total designated net assets	<u>\$ 50,742,624</u>	<u>\$ 52,133,361</u>

Designated net assets are 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, 2016 and 2015 consisted of the following:

	<u>2016</u>	<u>2015</u>
For use in the subsequent fiscal periods	\$ 142,833	\$ 145,030
For support of specific programs	<u>239,233</u>	<u>231,503</u>
Total temporarily restricted net assets	<u>\$ 382,066</u>	<u>\$ 376,533</u>

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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, 2016, permanently restricted net assets of \$254,352 were restricted for Catholic education.

**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.

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- 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.
- 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.

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.

**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, 2016 and 2015 ranged from 1.20% to 1.40%.

As of June 30, 2016 and 2015, 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-

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interest agreements to annuitants of \$186,931 and \$195,727 as of June 30, 2016 and 2015, respectively. Additionally, amounts received by the Chancery for the benefit of other Diocesan entities are recorded as agency transactions, by increasing cash and recognizing an off-setting payable due to the stipulated entity to which the proceeds pertain. As the Foundation has been specified as the residuary beneficiary of the gift annuity arrangements, the Chancery also has recorded a liability of \$115,188 due to the Foundation as of June 30, 2016 and 2015, which is included within amounts payable to related parties on the accompanying combined 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, 2016 and 2015 totaled \$407,722 and \$421,534, 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, 2016 and 2015. 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:

	<u>Years</u>
Buildings	40
Building and land improvements	10 - 20
Furniture and fixtures	10
Machinery and equipment	3 - 10

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**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 statements 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 the years ended June 30, 2016 and 2015.

**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.

During the year ended June 30, 2016, the Chancery received approximately \$962,000 from the Foundation restricted for seminarian education and healthcare costs for priests. As the restrictions on these contributions were met in the same accounting period, the Chancery recorded these amounts as part of unrestricted contributions and pastoral and employee benefit expenses in the accompanying 2016 combined statement of activities.

Calvary Cemetery sells rights to graves and crypts for which revenue is recognized upon date of sale. Rental income and 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.

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**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. These costs can generally be identified with the program service to which they relate and are charged accordingly. Other expenses, by function, have been allocated amongst the programs and supporting services benefited on the basis of square footage of office space occupied, salaries, and other bases as determined by management of the Chancery to be reasonable and appropriate.

**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, 2016 and 2015, special collections of approximately \$509,000 and \$518,000, respectively, have been reflected within accounts payable and accrued expenses in the accompanying combined statements 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 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.

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**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, 2016, 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 ended June 30, 2013, 2014, 2015 and 2016 are still open to audit for both federal and state purposes.

**Reclassifications**

Certain reclassifications were made to the 2015 combined financial statements to conform to the 2016 presentation. Such reclassifications did not change total assets, liabilities, or changes in net assets as previously reflected in the 2015 combined financial statements.

**Subsequent Events**

The Chancery evaluated its June 30, 2016 combined financial statements for subsequent events through November 29, 2016, 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, 2016 and 2015, accounts and loans receivable, net, consisted of the following:

	<u>2016</u>	<u>2015</u>
Parishes and schools	\$ 29,581,244	\$ 31,390,692
Social service agencies	3,238,957	2,924,797
Other	<u>992,542</u>	<u>825,753</u>
	33,812,743	35,141,242
Less: Allowance for doubtful accounts	<u>(20,350,960)</u>	<u>(20,204,210)</u>
Accounts and loans receivable, net	<u>\$ 13,461,783</u>	<u>\$ 14,937,032</u>



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The activity for the allowance for impaired loans to parishes and schools, social service agencies and other is as follows as of June 30, 2016 and 2015:

	<b>2016</b>			
	<b>Parishes and Schools</b>	<b>Social Service Agencies</b>	<b>Other</b>	<b>Total</b>
<b>Allowance for doubtful accounts, beginning of year</b>	\$ 18,436,015	\$ 1,547,059	\$ 221,136	\$ 20,204,210
Change in allowance	707,681	24,172	204,705	936,558
Recoveries of amounts previously reserved	(262,770)	-	-	(262,770)
Write-offs	-	(527,038)	-	(527,038)
<b>Allowance for doubtful accounts, end of year</b>	<u>\$ 18,880,926</u>	<u>\$ 1,044,193</u>	<u>\$ 425,841</u>	<u>\$ 20,350,960</u>
	<b>2015</b>			
	<b>Parishes and Schools</b>	<b>Social Service Agencies</b>	<b>Other</b>	<b>Total</b>
<b>Allowance for doubtful accounts, beginning of year</b>	\$ 20,498,000	\$ 1,666,477	\$ 132,765	\$ 22,297,242
Change in allowance	(239,353)	(119,418)	88,371	(270,400)
Recoveries of amounts previously reserved	(1,014,634)	-	-	(1,014,634)
Write-offs	(807,998)	-	-	(807,998)
<b>Allowance for doubtful accounts, end of year</b>	<u>\$ 18,436,015</u>	<u>\$ 1,547,059</u>	<u>\$ 221,136</u>	<u>\$ 20,204,210</u>

At June 30, 2016 and 2015, included in accounts and loans receivables are \$33,387,098 and \$34,743,853 due from related parties, less an allowance for doubtful accounts of \$19,925,119 and \$20,104,097, respectively.

**4. CONTRIBUTIONS RECEIVABLE, NET**

Contributions receivable, net, consisted of the following unconditional promises to give at June 30, 2016 and 2015:

	<b>2016</b>	<b>2015</b>
Amounts expected to be collected in:		
Less than one year	\$ 183,333	\$ 165,083
One to five years	-	25,000
	<u>183,333</u>	<u>190,083</u>
Less:		
Reserve for uncollectible pledges	(40,500)	(44,500)
Discount for present value	-	(553)
	<u>\$ 142,833</u>	<u>\$ 145,030</u>

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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 (2.26% at June 30, 2015).

**5. INVESTMENTS, AT FAIR VALUE**

As of June 30, 2016 and 2015, investments, at fair value, by fair value hierarchy, consisted of the following:

	<u>Level 1</u>	<u>Level 3</u>	<u>Net Asset Value<sup>(a)</sup></u>	<u>Total</u>
Equities	\$ 29,165,834	\$ -	\$ -	\$ 29,165,834
Fixed income	9,797,465	-	-	9,797,465
Exchange traded funds	17,893	-	-	17,893
Money market funds	564,792	-	-	564,792
Participation in investment pool	-	2,590,797	-	2,590,797
Hedge funds <sup>(a)</sup>	-	-	1,544,647	1,544,647
	<u>\$ 39,545,984</u>	<u>\$ 2,590,797</u>	<u>\$ 1,544,647</u>	<u>\$ 43,681,428</u>

<sup>(a)</sup> In accordance with ASU 2015-07, investments measured at fair value using the NAV per share practical expedient have not been categorized in the fair value hierarchy.

	<u>2015</u>			
	<u>Level 1</u>	<u>Level 3</u>	<u>Net Asset Value<sup>(a)</sup></u>	<u>Total</u>
Equities	\$ 28,751,681	\$ -	\$ -	\$ 28,751,681
Fixed income	11,215,930	-	-	11,215,930
Exchange traded funds	18,418	-	-	18,418
Money market funds	415,483	-	-	415,483
Participation in investment pool	-	2,619,099	-	2,619,099
Limited partnership interests	-	416,000	-	416,000
Hedge funds <sup>(a)</sup>	-	-	1,829,559	1,829,559
	<u>\$ 40,401,512</u>	<u>\$ 3,035,099</u>	<u>\$ 1,829,559</u>	<u>\$ 45,266,170</u>

<sup>(a)</sup> In accordance with ASU 2015-07, investments measured at fair value using the NAV per share practical expedient have not been categorized in the fair value hierarchy.

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The following table summarizes the changes in Chancery's Level 3 investments for the year ended June 30, 2016:

	<b>Participation in Investment Pool</b>	<b>Limited Partnership Interests</b>
<b>Balance as of June 30, 2015</b>	\$ 2,619,099	\$ 416,000
Purchases	67,061	-
Sales	-	(420,864)
Net unrealized and realized (loss) gain	(95,363)	4,864
<b>Balance as of June 30, 2016</b>	<b>\$ 2,590,797</b>	<b>\$ -</b>

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:

2016								
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	\$ 872,022	1	Subject to the determination of the respective fund manager	N/A	Quarterly with 100 days notice	N/A	N/A
Hedge fund	Seeks long-term capital appreciation thru investments in US fixed income instruments and non-US sovereign debt securities	\$ 672,625	1	Subject to the determination of the respective fund manager	N/A	Daily upon 10 days notice	N/A	N/A
2015								
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	\$ 914,623	1	Subject to the determination of the respective fund manager	N/A	Quarterly with 100 days notice	N/A	N/A
Hedge fund	Seeks long-term capital appreciation thru investments in US fixed income instruments and non-US sovereign debt securities	\$ 914,936	1	Subject to the determination of the respective fund manager	N/A	Daily upon 10 days notice	N/A	N/A

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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 2015, 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 Cemetery’s participation in the Institute’s investment pool is determined based on its pro-rata share of the entire pool which totaled \$2,590,797 and \$2,619,099 as of June 30, 2016 and 2015, respectively.

Investment management fees approximated \$71,000 and \$41,000 in fiscal years 2016 and 2015, respectively, and were expensed on the accompanying combined statement of activities.

**6. MORTGAGE RECEIVABLE**

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, 2016 and 2015, the outstanding mortgage receivable was \$357,615 and \$371,938, respectively.

**7. CRYPT INVENTORY**

As of June 30, 2016 and 2015, crypt inventory, consisted of the following:

	<u>2016</u>	<u>2015</u>
Mausoleum Unit I	\$ 126,409	\$ 126,409
Mausoleum Unit II	119,663	122,784
Mausoleum Unit III	960,090	976,744
Mausoleum Unit IV	<u>10,247,401</u>	<u>10,370,919</u>
Crypt inventory	<u>\$ 11,453,563</u>	<u>\$ 11,596,856</u>

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**8. LAND, BUILDINGS AND EQUIPMENT, NET**

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

During fiscal 2015, the Chancery entered and closed on an agreement to sell Paterson Catholic to the New Jersey Schools Development Authority for \$30 million that resulted in a gain on sale of approximately \$29.2 million. In connection with the sale, the Chancery wrote off its remaining conditional asset retirement obligation and deferred rent receivable associated with Paterson Catholic of approximately \$1.8 million and \$154,000, respectively, which is included as part of gain on sale of property in the accompanying 2015 statement of activities.

Land, buildings and equipment, net, consisted of the following as of June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Buildings and improvements	\$ 25,899,244	\$ 25,687,175
Machinery, equipment and furniture	<u>1,457,360</u>	<u>1,457,360</u>
	27,356,604	27,144,535
Less: Accumulated depreciation and amortization	<u>(16,064,237)</u>	<u>(15,476,693)</u>
	11,292,367	11,667,842
Land	2,656,800	2,656,800
Undeveloped land	<u>2,027,211</u>	<u>2,027,211</u>
Land, buildings and equipment, net	<u>\$ 15,976,378</u>	<u>\$ 16,351,853</u>

At June 30, 2016 and 2015, included in buildings and improvements are capitalized conditional asset retirement obligations at a cost of approximately \$301,000 that were fully depreciated. At June 30, 2016 and 2015, 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 \$141,000 and \$110,000, 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, 2016 and 2015, the Chancery has recorded a receivable of \$695,110 and \$864,995, 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.

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Such debt obligations consisted of the following at June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Lakeland Bank - term loan <sup>(a)</sup>	\$ 344,507	\$ 455,101
Lakeland Bank - term loan <sup>(b)</sup>	<u>350,603</u>	<u>409,894</u>
	<u>\$ 695,110</u>	<u>\$ 864,995</u>

**Lakeland Bank - Term Loan <sup>(a)</sup>**

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, 2016 and 2015, the rate of this loan was 2.93%.

**Lakeland Bank - Term Loan <sup>(b)</sup>**

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 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, 2016 and 2015, the rate of this loan was 2.62%.

At June 30, 2016, aggregate principal payments due over each of the next five fiscal years and thereafter follow:

<b>Year Ending June 30,</b>	
2017	\$ 165,712
2018	172,275
2019	179,112
2020	67,922
Thereafter	<u>110,089</u>
	<u>\$ 695,110</u>

Interest expense on long-term debt for the years ended June 30, 2016 and 2015 totaled approximately \$11,000 and \$13,000, respectively.

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**Capital Lease and Other Obligations**

At June 30, 2016, future minimum payments due under the Chancery's capital lease obligations and other financing arrangements for equipment and automobiles follow:

**Year Ending June 30,**

2017	\$ 27,983
2018	<u>4,142</u>
Total minimum lease payments	32,125
Less: amount representing interest	<u>(850)</u>
Present value of minimum lease payments	<u>\$ 31,275</u>

**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, 2016 and 2015 totaled \$4,812,280 and \$4,497,878, respectively. For the years ended June 30, 2016 and 2015, the accretion of interest related to these obligations totaled \$314,402 and \$412,249, 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 statements 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, 2016 and 2015, the Chancery had deposited approximately \$494,000 and \$485,000, respectively, with the claims administrator as a good faith deposit against these payments. These deposits are included as other assets in the accompanying combined statements 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.

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As of June 30, 2016 and 2015, the actuarially determined liabilities for employee benefits and property and liability insurance consisted of the following:

	<b>2016</b>		
	<b>Case Reserve</b>	<b>Incurred but not Reported</b>	<b>Total</b>
Employee medical and pharmacy plan	\$ -	\$ 1,203,733	\$ 1,203,733
General liability, automobile, workers' compensation and property coverage	<u>2,156,173</u>	<u>3,068,953</u>	<u>5,225,126</u>
Total liability for self-insurance claims	<u>\$ 2,156,173</u>	<u>\$ 4,272,686</u>	<u>\$ 6,428,859</u>
	<b>2015</b>		
	<b>Case Reserve</b>	<b>Incurred but not Reported</b>	<b>Total</b>
Employee medical and pharmacy plan	\$ -	\$ 1,014,539	\$ 1,014,539
General liability, automobile, workers' compensation and property coverage	<u>2,322,871</u>	<u>3,025,844</u>	<u>5,348,715</u>
Total liability for self-insurance claims	<u>\$ 2,322,871</u>	<u>\$ 4,040,383</u>	<u>\$ 6,363,254</u>

Additionally, the Chancery has recorded a liability for unemployment benefits and long-term disability of \$610,978 and \$139,390 as of June 30, 2016 and 2015, 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, 2016 and 2015 totaled approximately \$360,000 and \$346,000, 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, 2016 and 2015 were \$20,000 a year per priest. Contributions to the priests' pension plan by the Chancery for the years ended June 30, 2016 and 2015 totaled approximately \$412,000 and \$408,000, respectively.



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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, 2016 and 2015, the following is a summary of the accumulated Plan benefits covering all participants (unaudited):

	<b>2016</b>	
	<b>Lay</b>	<b>Priest</b>
Vested benefits:		
Participants currently receiving payments	\$ 99,881,788	\$ 23,217,002
Other participants	<u>53,388,320</u>	<u>13,078,870</u>
	153,270,108	36,295,872
Non-vested benefits	<u>1,019,751</u>	<u>687,069</u>
Total actuarial present value of accumulated plan benefits	<u>\$ 154,289,859</u>	<u>\$ 36,982,941</u>
Fair value of plan assets	<u>\$ 100,210,207</u>	<u>\$ 15,444,959</u>
Funded status	<u>\$ (54,079,652)</u>	<u>\$ (21,537,982)</u>
	<b>2015</b>	
	<b>Lay</b>	<b>Priest</b>
Vested benefits:		
Participants currently receiving payments	\$ 76,028,076	\$ 23,426,448
Other participants	<u>76,759,299</u>	<u>13,622,441</u>
	152,787,375	37,048,889
Non-vested benefits	<u>3,977,641</u>	<u>978,056</u>
Total actuarial present value of accumulated plan benefits	<u>\$ 156,765,016</u>	<u>\$ 38,026,945</u>
Fair value of plan assets	<u>\$ 105,750,030</u>	<u>\$ 15,974,857</u>
Funded status	<u>\$ (51,014,986)</u>	<u>\$ (22,052,088)</u>

**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

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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, 2016 and 2015, approximately \$482,000 and \$474,000, 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.

The accumulated benefit obligation recognized in the accompanying combined statements of financial position at June 30, 2016 and 2015, is as follows:

	<u>2016</u>	<u>2015</u>
<b>Accumulated benefit obligation, beginning of fiscal year</b>	\$ 20,488,380	\$ 22,888,835
Interest cost	887,602	1,044,057
Service cost	305,398	30,641
Benefits paid	(813,774)	(1,029,626)
Actuarial gain	<u>3,683,541</u>	<u>(2,445,527)</u>
<b>Accumulated benefit obligation, end of fiscal year</b>	<u>\$ 24,551,147</u>	<u>\$ 20,488,380</u>
Funded status of plan at fiscal year end	<u>\$ (24,551,147)</u>	<u>\$ (20,488,380)</u>
Amounts not yet reflected in net periodic benefit cost and included in unrestricted net assets:		
Unrecognized prior service cost	\$ 397,897	\$ 752,836
Unrecognized actuarial loss	<u>14,272,765</u>	<u>11,015,178</u>
	<u>\$ 14,670,662</u>	<u>\$ 11,768,014</u>

The weighted average rates used to determine the accumulated benefit obligation as of June 30, 2016 and 2015, were:

	<u>2016</u>	<u>2015</u>
Discount rate	3.73%	4.42%
Health-care cost trend rate assumed for next year	6.00%	6.00%
Ultimate health-care cost trend rate	5.00%	5.00%
Year ultimate health-care cost trend rate is achieved	2020	2019

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

	<u>2016</u>	<u>2015</u>
Service cost	\$ 305,398	\$ 30,641
Interest cost	887,602	1,044,057
Amortization of actuarial loss	425,954	652,365
Amortization of prior service cost	<u>354,939</u>	<u>354,939</u>
Net periodic benefit cost	<u>\$ 1,973,893</u>	<u>\$ 2,082,002</u>

The weighted-average rates used to determine net periodic benefit cost for the years ended June 30, 2016 and 2015, were:

	<u>2016</u>	<u>2015</u>
Discount rate	4.22%	4.18%
Health-care cost trend rate	6.00%	8.00%
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:

	<u>2016</u>	<u>2015</u>
Net actuarial gain arising during measurement period	\$ 3,683,541	\$ (2,445,527)
Amortization of actuarial loss	(425,954)	(652,365)
Amortization of prior service cost	<u>(354,939)</u>	<u>(354,939)</u>
Postretirement-related changes other than net periodic benefit cost	<u>\$ 2,902,648</u>	<u>\$ (3,452,831)</u>

For the year ended June 30, 2016, the effect of a 1% change in the health care cost trend rate is as follows:

	<u>1% Increase</u>	<u>1% Decrease</u>
Effect on net periodic benefit cost	\$ 375,460	\$ 263,937
Effect on accumulated benefit obligation	5,354,615	3,993,806

The estimated prior service cost and actuarial loss that will be amortized into net periodic benefit cost during fiscal 2017 are \$354,939 and \$538,635, respectively.

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

2017	\$ 1,019,029
2018	1,088,611
2019	763,338
2020	818,252
2021	862,701
2022 - 2026	5,108,097

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, 2016 and 2015, the Chancery has recorded a liability of \$2,549,148 and \$2,258,860, respectively, for those benefits, and is included within liability for postretirement benefits in the accompanying combined statement of financial position. For the years ended June 30, 2016 and 2015, net periodic benefit cost associated with these other postretirement benefits totaled \$78,930 and \$87,723, respectively, and is included within employee benefits program expense on the accompanying combined statement of activities. For the years ended June 30, 2016 and 2015, postretirement-related changes other than net periodic benefit cost totaled \$443,624 and \$339,166, respectively.

**13. ENDOWMENT**

The Chancery's donor-restricted (gifted) endowment consists of one (1) donor-restricted endowment fund established principally for the support of Catholic education. 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.

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The Chancery's endowment was \$264,256 at June 30, 2016 and consisted of the following net asset classes:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted endowment funds	\$ -	\$ 9,904	\$ 254,352	\$ 264,256

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.

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, 2016:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Endowment net assets, beginning of year</b>	\$ -	\$ -	\$ -	\$ -
Dividends and interest on endowment investments	-	7,055	-	7,055
Net realized and unrealized appreciation in fair value of endowment investments	-	2,849	-	2,849
New gifts and pledges	-	-	254,352	254,352
Endowment return used for operations	-	-	-	-
<b>Endowment net assets, end of year</b>	<u>\$ -</u>	<u>\$ 9,904</u>	<u>\$ 254,352</u>	<u>\$ 264,256</u>

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level the Chancery is required to maintain as a fund of permanent duration. Deficiencies of this nature generally result from unfavorable market fluctuations or prudent appropriations by the Bishop that reduce the fair value of individual endowment funds below historical dollar value, as permitted by the State of New Jersey UPMIFA. In accordance with US GAAP, such amounts would be charged to unrestricted net assets. Subsequent investment earnings on such funds which restore the fair value of individual endowment funds back to their original corpus value are reported in unrestricted net assets, with earnings in excess of this amount reported in temporarily restricted net assets. As of June 30, 2016, there were no endowment funds below the historical dollar value.

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**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, 2016 and 2015, outstanding amounts due to lenders approximated \$9,793,000 and \$6,127,000, 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, 2016 and 2015.

**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, 2016 and 2015.

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

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

**Year Ending June 30:**

2017	\$ 8,035
2018	6,204
2019	4,290
2020	2,376
2021	1,782
	<u>\$ 22,687</u>

Rent expense for the years ended June 30, 2016 and 2015 totaled approximately \$63,000 and \$62,000, respectively.