Combined Financial Statements Together with
Report of Independent Certified Public Accountants

CHANCERY OFFICE OF THE ROMAN CATHOLIC DIOCESE OF PATERSON AND AFFILIATES

June 30, 2018 and 2017

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, 2018 and 2017, 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 as of June 30, 2018 and 2017, 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
January 25, 2019

CHANCERY OFFICE OF THE ROMAN CATHOLIC DIOCESE OF PATERSON AND AFFILIATES
Combined Statements of Financial Position
As of June 30, 2018 and 2017

	2018	2017
ASSETS		
Cash and cash equivalents	$ 15,134,252	$ 10,354,744
Accounts and loans receivable, net	10,518,597	13,001,621
Contributions receivable, net	-	116,333
Investments, at fair value	43,174,493	47,932,373
Mortgage receivable	324,728	340,922
Crypt inventory	10,986,639	11,201,967
Land, buildings and equipment, net	15,711,742	16,037,954
Other assets	1,069,969	1,553,196
Total assets	$ 96,920,420	$ 100,539,110
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	$ 4,171,113	$ 3,853,364
Amounts payable to related parties	29,978,511	27,976,942
Debt obligations	457,275	622,169
Conditional asset retirement obligations	5,508,549	5,148,658
Reserves for self-insurance	5,257,872	5,872,767
Obligations due under split-interest agreements	169,911	178,944
Liability for postretirement benefits	16,078,393	18,744,859
Total liabilities	61,621,624	62,397,703
Commitments and contingencies		
NET ASSETS		
Unrestricted	34,636,559	37,501,109
Temporarily restricted	407,885	385,946
Permanently restricted	254,352	254,352
Total net assets	35,298,796	38,141,407
Total liabilities and net assets	$ 96,920,420	$ 100,539,110

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

CHANCERY OFFICE OF THE ROMAN CATHOLIC DIOCESE OF PATERSON AND AFFILIATES
Combined Statement of Activities
For the year ended June 30, 2018

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS AND OTHER SUPPORT				
Parish assessments	$ 5,822,561	$ -	$ -	$ 5,822,561
Annual appeal	3,526,389	-	-	3,526,389
Contributions	1,777,155	-	-	1,777,155
Rental income	1,179,331	-	-	1,179,331
Cemetery income	1,313,604	-	-	1,313,604
Property and liability insurance program	8,588,737	-	-	8,588,737
Employee benefits program	20,579,085	-	-	20,579,085
Other	1,308,448	-	-	1,308,448
Centeral lending agency program	732,439	-	-	732,439
Interest and dividend income	1,352,554	8,975	-	1,361,529
Net unrealized and realized gain	2,178,196	12,964	-	2,191,160
Gain on sale of property/land	931	-	-	931
	48,359,430	21,939	-	48,381,369
Net assets released from restriction	-	-	-	-
Total revenues, gains and other support	48,359,430	21,939	-	48,381,369
EXPENSES				
Programs:				
Evangelization	1,536,589	-	-	1,536,589
Social ministry	1,456,778	-	-	1,456,778
Pastoral	5,036,601	-	-	5,036,601
Communications	88,932	-	-	88,932
Annual appeal	208,816	-	-	208,816
Schools subsidies and other educational expenses	2,000,553	-	-	2,000,553
Cathedral subsidy	7,615,570	-	-	7,615,570
Cemetery - cost of sales and expenses	1,002,386	-	-	1,002,386
Property and liability insurance program	6,170,302	-	-	6,170,302
Employee benefits program	20,923,906	-	-	20,923,906
Central lending agency program	424,741	-	-	424,741
Property rental	360,669	-	-	360,669
Total program expenses	46,825,843	-	-	46,825,843
Supporting services:				
General and administration	6,782,383	-	-	6,782,383
Fundraising	422,617	-	-	422,617
Total supporting services expenses	7,205,000	-	-	7,205,000
Total expenses	54,030,843	-	-	54,030,843
Change in net assets before postretirement-related changes other than net periodic benefit cost	(5,671,413)	21,939	-	(5,649,474)
Postretirement-related changes other than net periodic benefit cost	(2,806,863)	-	-	(2,806,863)
Change in net assets	(2,864,550)	21,939	-	(2,842,611)
Net assets, beginning of year	37,501,109	385,946	254,352	38,141,407
Net assets, end of year	$ 34,636,559	$ 407,885	$ 254,352	$ 35,298,796

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

CHANCERY OFFICE OF THE ROMAN CATHOLIC DIOCESE OF PATERSON AND AFFILIATES

Combined Statement of Activities

For the year ended June 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS AND OTHER SUPPORT				
Parish assessments	$ 5,921,488	$ -	$ -	$ 5,921,488
Annual appeal	3,403,649	-	-	3,403,649
Contributions	1,843,371	-	-	1,843,371
Rental income	1,106,881	-	-	1,106,881
Cemetery income	1,185,594	-	-	1,185,594
Property and liability insurance program	8,684,295	-	-	8,684,295
Employee benefits program	21,417,101	-	-	21,417,101
Other	1,129,119	-	-	1,129,119
Centeral lending agency program	743,714	-	-	743,714
Interest and dividend income	1,355,905	7,438	-	1,363,343
Net unrealized and realized gain	3,975,257	26,842	-	4,002,099
	50,766,374	34,280	-	50,800,654
Net assets released from restriction	30,400	(30,400)	-	-
Total revenues, gains and other support	50,796,774	3,880	-	50,800,654
EXPENSES				
Programs:				
Evangelization	1,839,370	-	-	1,839,370
Social ministry	1,376,332	-	-	1,376,332
Pastoral	4,936,795	-	-	4,936,795
Communications	92,456	-	-	92,456
Annual appeal	203,240	-	-	203,240
Schools subsidies and other educational expenses	2,013,493	-	-	2,013,493
Cemetery - cost of sales and expenses	999,718	-	-	999,718
Property and liability insurance program	5,770,777	-	-	5,770,777
Employee benefits program	21,460,314	-	-	21,460,314
Central lending agency program	400,068	-	-	400,068
Property rental	343,924	-	-	343,924
Total program expenses	39,436,487	-	-	39,436,487
Supporting services:				
General and administration	7,858,309	-	-	7,858,309
Fundraising	369,102	-	-	369,102
Total supporting services expenses	8,227,411	-	-	8,227,411
Total expenses	47,663,898	-	-	47,663,898
Change in net assets before postretirement-related changes other than net periodic benefit cost	3,132,876	3,880	-	3,136,756
Postretirement-related changes other than net periodic benefit cost	9,343,414	-	-	9,343,414
Change in net assets	12,476,290	3,880	-	12,480,170
Net assets, beginning of year	25,024,819	382,066	254,352	25,661,237
Net assets, end of year	$ 37,501,109	$ 385,946	$ 254,352	$ 38,141,407

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

CHANCERY OFFICE OF THE ROMAN CATHOLIC DIOCESE OF PATERSON AND AFFILIATES
Combined Statements of Cash Flows
For the years ended June 30, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ (2,842,611)	$ 12,480,170
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities		
Depreciation and amortization	577,132	579,729
Bad debt (recovery) expense	(555,179)	152,964
Unrealized and realized (appreciation) depreciation in fair value of investments	(2,191,160)	(4,002,099)
Gain on sale of land, building and equipment	(931)	-
Accretion of interest on conditional asset retirement obligations	359,891	336,378
Changes in assets and liabilities:		
Decrease in accounts and loans receivable	3,124,036	135,738
Decrease in contributions receivable	30,500	36,500
Decrease in crypt inventory	215,328	251,596
Decrease (increase) in other assets	483,227	(269,466)
Increase in accounts payable and accrued expenses	317,749	688,819
Decrease in reserves for self-insurance	(614,895)	(1,167,070)
Increase (decrease) in obligations due under split-interest agreements	(9,033)	(7,987)
Increase (decrease) in liability for postretirement benefits	(2,666,466)	(8,355,436)
Net cash (used in) provided by operating activities	(3,772,412)	859,836
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of investments	28,031,609	12,787,150
Purchases of investments	(21,082,569)	(13,035,996)
Proceeds from sale of land, building and equipment	500	-
Payments received on mortgage receivable	16,194	16,693
Purchases of land, buildings and equipment	(224,924)	(538,143)
Net cash provided by (used in) investing activities	6,740,810	(770,296)
CASH FLOWS FROM FINANCING ACTIVITIES		
Deposits received from related parties	5,533,493	5,516,182
Repayment of deposits received from related parties	(3,531,924)	(7,927,219)
Principal repayments of capital lease obligations	(190,459)	(45,918)
Net cash provided by (used in) financing activities	1,811,110	(2,456,955)
Net increase (decrease) in cash and cash equivalents	4,779,508	(2,367,415)
Cash and cash equivalents, beginning of year	10,354,744	12,722,159
Cash and cash equivalents, end of year	$ 15,134,252	$ 10,354,744
Supplemental data:		
Assets acquired under capital lease arrangements	$ -	$ 103,162

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

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 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 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.

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, 2018 and 2017 consisted of the following:

	2018	2017
Prepare The Way	$ 17,342,259	$ 16,537,472
Diocese of Paterson Mission Fund, Inc.	10,038,240	16,481,046
Diocese of Paterson Catholic Education Trust	11,003,528	10,131,035
Other designated funds	426,209	403,992
Perpetual care of cemetery property	10,334,267	10,334,267
Total designated net assets	$ 49,144,503	$ 53,887,812

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.

During fiscal 2018, the net change in the Diocese of Paterson Mission Fund, Inc. included an expenditure of approximately $7,600,000 for the improvement of the St. John the Baptist Cathedral located in Paterson, New Jersey, which is recorded within cathedral subsidy on the accompanying combined statement of activities.

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, 2018 and 2017 consisted of the following:

	2018	2017
For use in the subsequent fiscal periods	$ 116,333	$ 116,333
For support of specific programs	291,552	269,613
Total temporarily restricted net assets	$ 407,885	$ 385,946

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, 2018 and 2017, 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.

The Chancery's alternative investments in certain not-readily-marketable securities consist of hedge funds for which market values are not readily obtainable. The estimated value provided by these managers may differ from actual values had a ready market for these investments existed. The Chancery follows guidance on measuring the fair value of alternative investments, which offers investors a practical expedient for measuring the fair value of investments in certain entities that calculate net asset value ("NAV"). Under this practical expedient, entities are permitted to use NAV without adjustment for certain investments which: (a) do not have a readily determinable fair value and (b) prepare their financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company. Additionally, the Chancery follows guidance that removes the requirement to categorize, within the fair value hierarchy, all investments for which the fair value is measured using NAV.

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.

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.

Investments for which fair value is measured using NAV per share as a practical expedient have not been categorized within the fair-value hierarchy, and certain related tables have been properly excluded from the combined financial statements.

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, 2018 and 2017 ranged from 1.20% to 1.40%.

As of June 30, 2018 and 2017, 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 $169,911 and $178,944 as of June 30, 2018 and 2017, respectively. 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, 2018 and 2017, 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, 2018 and 2017 totaled $445,949 and $424,725, 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 the years ended June 30, 2018 and 2017. 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	3 - 10

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, 2018 and 2017.

Contributions, Parish Assessments, Insurance Premiums 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 years ended June 30, 2018 and 2017, the Chancery received approximately $879,000 and $1,023,000, respectively, 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 combined statements of activities.

Annual parish assessments are paid by the parishes and billed by the Chancery over an 8 month period and are recognized as revenue in the period to which they pertain. Premiums for property and liability insurance and employee benefits are billed by the Chancery on a quarterly and monthly basis, respectively, to parishes, institutions and agencies owned by or related to the Diocese and are recognized as revenue in the period for which the coverage pertains.

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.

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, 2018 and 2017, special collections of approximately $541,000 and $500,000, 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.

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, 2018 and 2017, 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.

Subsequent Events

The Chancery evaluated its June 30, 2018 combined financial statements for subsequent events through January 25th, 2019, 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, 2018 and 2017, accounts and loans receivable, net, consisted of the following:

	2018	2017
Parishes and schools	$ 26,604,900	$ 28,918,411
Social service agencies	3,051,065	3,815,142
Other	707,244	781,992
	30,363,209	33,515,545
Less: Allowance for doubtful accounts	(19,844,612)	(20,513,924)
Accounts and loans receivable, net	$ 10,518,597	$ 13,001,621

The activity for the allowance for impaired loans to parishes and schools, social service agencies and other is as follows as of June 30, 2018 and 2017:

	2018			
	Parishes and Schools	Social Service Agencies	Other	Total
Allowance for doubtful accounts, beginning of year	$ 18,525,938	$ 1,831,196	$ 156,790	$ 20,513,924
Change in allowance	(367,984)	(259,403)	(41,925)	(669,312)
Recoveries of amounts previously reserved	-	-	-	-
Write-offs	-	-	-	-
Allowance for doubtful accounts, end of year	$ 18,157,954	$ 1,571,793	$ 114,865	$ 19,844,612

	2017			
	Parishes and Schools	Social Service Agencies	Other	Total
Allowance for doubtful accounts, beginning of year	$ 19,158,142	$ 1,047,628	$ 145,190	$ 20,350,960
Change in allowance	(626,008)	783,568	11,600	169,160
Recoveries of amounts previously reserved	(6,196)	-	-	(6,196)
Write-offs	-	-	-	-
Allowance for doubtful accounts, end of year	$ 18,525,938	$ 1,831,196	$ 156,790	$ 20,513,924

At June 30, 2018 and 2017, included in accounts and loans receivables are $29,943,934 and $33,103,100 due from related parties, less an allowance for doubtful accounts of $19,729,746 and $20,357,133, respectively.

4. CONTRIBUTIONS RECEIVABLE, NET

Contributions receivable, net, consisted of the following unconditional promises to give at June 30, 2018 and 2017:

	2018	2017
Amounts expected to be collected in:		
Less than one year	$ 116,333	$ 146,833
Less: Reserve for uncollectible pledges	(116,333)	(30,500)
	$ -	$ 116,333

5. INVESTMENTS, AT FAIR VALUE

As of June 30, 2018 and 2017, investments, at fair value, by fair value hierarchy, consisted of the following:

	2018			
	Level 1	Level 3	Net Asset Value [(a)]	Total
Equities	$ 28,291,524	$ -	$ -	$ 28,291,524
Fixed income	8,026,290	-	-	8,026,290
Money market funds	531,446	-	-	531,446
Participation in investment pool	-	3,080,837	-	3,080,837
Hedge funds [(a)]	-	-	3,244,396	3,244,396
	$ 36,849,260	$ 3,080,837	$ 3,244,396	$ 43,174,493

	2017			
	Level 1	Level 3	Net Asset Value [(a)]	Total
Equities	$ 32,856,738	$ -	$ -	$ 32,856,738
Fixed income	8,991,495	-	-	8,991,495
Money market funds	755,583	-	-	755,583
Participation in investment pool	-	2,886,534	-	2,886,534
Hedge funds [(a)]	-	-	2,442,023	2,442,023
	$ 42,603,816	$ 2,886,534	$ 2,442,023	$ 47,932,373

[(a)] 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.

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 Trust's investment pool is determined based on its pro-rata share of the entire pool which totaled $3,080,837 and $2,886,534 as of June 30, 2018 and 2017, respectively.

The following table summarizes the changes in Chancery's Level 3 investments for the years ended June 30, 2018 and 2017:

	Participation in Investment Pool
Balance as of July 1, 2016	$ 2,590,797
Purchases	73,194
Sales	-
Net unrealized and realized loss	222,543
Balance as of June 30, 2017	2,886,534
Purchases	76,765
Sales	-
Net unrealized and realized gain	117,538
Balance as of June 30, 2018	$ 3,080,837

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:

2018

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	Seeks stable returns by allocation of assets to a wide range of alternative investment strategies across global financial markets	$ 2,754,038	1	Subject to the determination of the respective fund manager	N/A	Monthly with 90 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	$ 490,358	1	Subject to the determination of the respective fund manager	N/A	Daily upon 10 days notice	N/A	N/A

2017

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	Seeks stable returns by allocation of assets to a wide range of alternative investment strategies across global financial markets	$ 1,955,270	1	Subject to the determination of the respective fund manager	N/A	Monthly with 90 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	$ 486,753	1	Subject to the determination of the respective fund manager	N/A	Daily upon 10 days notice	N/A	N/A

Since hedge funds 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.

Investment management fees approximated $111,000 and $103,000 in fiscal years 2018 and 2017, 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, 2018 and 2017, the outstanding mortgage receivable was $324,728 and $340,922, respectively.

7. CRYPT INVENTORY

As of June 30, 2018 and 2017, crypt inventory, consisted of the following:

	2018	2017
Mausoleum Unit I	$ 126,409	$ 124,689
Mausoleum Unit II	118,622	120,703
Mausoleum Unit IIII	921,810	932,786
Mausoleum Unit IV	9,819,798	10,023,789
Crypt inventory	$ 10,986,639	$ 11,201,967

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.

Land, buildings and equipment, net, consisted of the following as of June 30, 2018 and 2017:

	2018	2017
Buildings and improvements	$ 26,058,319	$ 26,058,319
Machinery, equipment and furniture	1,494,204	1,457,360
	27,552,523	27,515,679
Less: Accumulated depreciation and amortization	(17,036,448)	(16,502,760)
	10,516,075	11,012,919
Land	2,656,800	2,656,800
Undeveloped land	2,027,211	2,027,211
Construction-in-progress	511,656	341,024
Land, buildings and equipment, net	$ 15,711,742	$ 16,037,954

At June 30, 2018 and 2017, 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, 2018 and 2017, included in machinery, equipment and furniture are assets acquired under capital lease arrangements at a cost of approximately $29,000 and $103,000, respectively, with accumulated amortization of approximately $4,800 and $21,000, 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, 2018 and 2017, the Chancery has recorded a receivable of $368,291 and $533,650, 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, 2018 and 2017:

	2018	2017
Lakeland Bank - term loan (a)	$ 130,645	$ 239,155
Lakeland Bank - term loan (b)	237,646	294,495
	$ 368,291	$ 533,650

(a) Lakeland Bank - Term Loan

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, New Jersey which is the physical location of PJ XXIII. As of June 30, 2018 and 2017, the rate of this loan was 2.93%.

(b) Lakeland Bank - Term Loan

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, New Jersey which is the physical location of PJ XXIII. As of June 30, 2018 and 2017, the rate of this loan was 3.53%.

At June 30, 2018, aggregate principal payments due over each of the next five fiscal years and thereafter follow:

Year Ending June 30,	
2019	$ 161,371
2020	89,173
2021	63,259
2022	54,488
	$ 368,291

Capital Lease and Other Obligations

At June 30, 2018, future minimum payments due under the Chancery's capital lease obligations and other financing arrangements for equipment and automobiles follow:

Year Ending June 30,	
2019	$ 29,433
2020	29,433
2021	29,433
2022	6,213
2023	1,035
Total minimum lease payments	95,547
Less: amount representing interest	(6,563)
Present value of minimum lease payments	$ 88,984

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, 2018 and 2017 totaled $5,508,549 and $5,148,658, respectively. For the years ended June 30, 2018 and 2017, the accretion of interest related to these obligations totaled $359,891 and $336,378, 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, 2018 and 2017, the Chancery had deposited approximately $493,700 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.

As of June 30, 2018 and 2017, the actuarially determined liabilities for employee benefits and property and liability insurance consisted of the following:

	2018		
	Case Reserve	**Incurred but not Reported**	**Total**
Employee medical and pharmacy plan	$ -	$ 879,690	$ 879,690
General liability, automobile, workers' compensation and property coverage	1,708,116	2,487,839	4,195,955
Total liability for self-insurance claims	$ 1,708,116	$ 3,367,529	$ 5,075,645

	2017		
	Case Reserve	**Incurred but not Reported**	**Total**
Employee medical and pharmacy plan	$ -	$ 928,613	$ 928,613
General liability, automobile, workers' compensation and property coverage	2,076,499	2,670,205	4,746,704
Total liability for self-insurance claims	$ 2,076,499	$ 3,598,818	$ 5,675,317

Additionally, the Chancery has recorded a liability for unemployment benefits and long-term disability of $182,227 and $197,450 as of June 30, 2018 and 2017, 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, 2018 and 2017 totaled approximately $254,000 and $272,000, respectively. Effective June 30, 2016, the Diocese froze the plan. Accordingly, employees will no longer become eligible to participate in the Plan and vested employees in the plan prior to June 30, 2016 will no longer accrue additional benefits.

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, 2018 and 2017 were $20,000 a year per priest. Contributions to the priests' pension plan by the Chancery for the years ended June 30, 2018 and 2017 totaled approximately $422,000 and $321,000, 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, 2018 and 2017, the following is a summary of the accumulated plan benefits covering all participants (unaudited):

	2018	
	Lay	**Priest**
Vested benefits:		
Participants currently receiving payments	$ 108,972,890	$ 22,872,142
Other participants	50,748,730	13,335,381
	159,721,620	36,207,523
Non-vested benefits	774,164	1,343,980
Total actuarial present value of accumulated plan benefits	$ 160,495,784	$ 37,551,503
Fair value of plan assets	$ 104,904,255	$ 17,316,399
Funded status	$ (55,591,529)	$ (20,235,104)

	2017	
	Lay	**Priest**
Vested benefits:		
Participants currently receiving payments	$ 103,203,354	$ 24,562,137
Other participants	52,488,391	12,456,339
	155,691,745	37,018,476
Non-vested benefits	865,653	1,506,735
Total actuarial present value of accumulated plan benefits	$ 156,557,398	$ 38,525,211
Fair value of plan assets	$ 104,908,021	$ 17,031,203
Funded status	$ (51,649,377)	$ (21,494,008)

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 maximum annual contribution of $3,888 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, 2018 and 2017, approximately $588,000 and $499,000, 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, 2018 and 2017, is as follows:

	2018	2017
Accumulated benefit obligation, beginning of fiscal year	$ 16,544,420	$ 24,551,147
Interest cost	637,702	896,753
Service cost	157,200	364,333
Benefits paid	(718,185)	(1,019,030)
Actuarial gain	(2,391,493)	(8,248,783)
Accumulated benefit obligation, end of fiscal year	$ 14,229,644	$ 16,544,420
Funded status of plan at fiscal year end	$ (14,229,644)	$ (16,544,420)
Amounts not yet reflected in net periodic benefit cost and included in unrestricted net assets:		
Unrecognized prior service cost	$ -	$ 42,959
Unrecognized actuarial loss	2,927,653	5,485,346
	$ 2,927,653	$ 5,528,305

The weighted average rates used to determine the accumulated benefit obligation as of June 30, 2018 and 2017, were:

	2018	2017
Discount rate	4.22%	3.94%
Health-care cost trend rate assumed for next year	5.00%	6.00%
Ultimate health-care cost trend rate	4.00%	5.00%
Year ultimate health-care cost trend rate is achieved	2022	2021

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

	2018	2017
Service cost	$ 157,200	$ 364,333
Interest cost	637,702	896,753
Amortization of actuarial loss	166,200	538,635
Amortization of prior service cost	42,958	354,939
Net periodic benefit cost	$ 1,004,060	$ 2,154,660

The weighted-average rates used to determine net periodic benefit cost for the years ended June 30, 2018 and 2017 were:

	2018	2017
Discount rate	3.94%	3.73%
Health-care cost trend rate	6.00%	6.00%
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:

	2018	2017
Net actuarial (gain) loss arising during measurement period	$ (2,391,493)	$ (8,248,783)
Amortization of actuarial loss	(166,200)	(538,635)
Amortization of prior service cost	(42,958)	(354,939)
Postretirement-related changes other than net periodic benefit cost	$ (2,600,651)	$ (9,142,357)

The amount reflected above as net actuarial gain, which served to decrease the fiscal 2018 benefit obligation by $2,391,493, is primarily due to a) less than expected increase in premiums and retiree contributions, b) changes in the census population, c) increase in the discount rate from 3.94% to 4.22%, and d) updating the mortality table with the new projection scale MP-2018 slightly offset by a change in the Health Care Cost Trend Rates. The amount reflected above as net actuarial gain, which served to decrease the fiscal 2017 benefit obligation by $8,248,783, is primarily due to a) less than expected increase in premiums and retiree contributions as a result of a change in medical plan from Medicare Advantage to Medicare Supplemental Wrap Plan and Part D prescription and b) changes in the census population.

For the year ended June 30, 2018, 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	$ 193,540	$ 137,271
Effect on accumulated benefit obligation	3,231,420	2,355,500

The estimated prior service cost and actuarial loss that will be amortized into net periodic benefit cost during fiscal 2019 are $0 and $64,746, respectively.

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

2019	$ 675,283
2020	738,578
2021	518,615
2022	550,481
2023	586,476
2024 - 2027	3,308,617

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

Retirement Savings Plan

The Chancery also administers and participates in a 403(b) salary reduction plan that was established by the Diocese on July 1, 2016, which covers substantially all full-time lay employees and certain part-time employees who meet the eligibility requirements. Under this plan, the Chancery bills Diocesan High Schools and other Diocesan organizations and parishes 3% of gross salary for their eligible employees. The Diocese provides a 50% discretionary matching contribution up to 6% of each employee's salary. Certain full time employees may also be eligible to receive additional employer contributions up to a maximum of 8% of their gross salary (inclusive of the employer match). The Chancery's revenues and expenses associated with the administration of this plan for the years ended June 30, 2018 and 2017 totaled $2,274,896 and $2,199,194, and $2,297,867 and $2,323,834, respectively, and are included as part of employee benefits program revenues and expenses in the accompanying combined statements of activities.

Other

The Chancery also provided postretirement benefits to certain priests and lay employees outside of the plans noted above. As of June 30, 2018 and 2017, the Chancery has recorded a liability of $1,848,749 and $2,200,439, 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, 2018 and 2017, net periodic benefit cost associated with these other postretirement benefits totaled $70,396 and $75,758, respectively, and is included within employee benefits program expense on the accompanying combined statement of activities. For the years ended June 30, 2018 and 2017, postretirement-related changes other than net periodic benefit cost totaled $(206,212) and $(201,057), 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.

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 Chancery's endowment at June 30, 2018 and 2017 consisted of the following net asset classes:

	2018			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds	$ -	$ 63,813	$ 254,352	$ 318,165

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds	$ -	$ 42,614	$ 254,352	$ 296,966

The following tables summarize the Chancery's total return on endowment investments and the changes in endowment net assets for the years ended June 30, 2018 and 2017:

	2018			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ -	$ 42,614	$ 254,352	$ 296,966
Dividends and interest on endowment investments	-	8,672	-	8,672
Net realized and unrealized appreciation in fair value of endowment investments	-	12,527	-	12,527
New gifts and pledges	-	-	-	-
Endowment return used for operations	-	-	-	-
Endowment net assets, end of year	$ -	$ 63,813	$ 254,352	$ 318,165

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ -	$ 9,904	$ 254,352	$ 264,256
Dividends and interest on endowment investments	-	7,098	-	7,098
Net realized and unrealized appreciation in fair value of endowment investments	-	25,612	-	25,612
New gifts and pledges	-	-	-	-
Endowment return used for operations	-	-	-	-
Endowment net assets, end of year	$ -	$ 42,614	$ 254,352	$ 296,966

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, 2018, there were no endowment funds below the historical dollar value.

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, 2018 and 2017, outstanding amounts due to lenders approximated $8,896,000 and $9,433,000, 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, 2018 and 2017.

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, 2018 and 2017.

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:	
2019	$ 6,464
2020	4,550
2021	3,956
2022	2,174
2023	181
	$ 17,325

Rent expense for the years ended June 30, 2018 and 2017 totaled approximately $71,000 and $57,000, respectively.