

Combined Financial Statements
Together with Report of Independent
Certified Public Accountants

**Chancery Office of the Roman Catholic
Diocese of Paterson and Affiliates**

June 30, 2019 and 2018

Contents

	Page
Report of Independent Certified Public Accountants	1
Financial Statements	
Combined Statements of Financial Position as of June 30, 2019 and 2018	3
Combined Statement of Activities for the year ended June 30, 2019	4
Combined Statement of Activities for the year ended June 30, 2018	5
Combined Statements of Cash Flows for the years ended June 30, 2019 and 2018	6
Notes to Combined Financial Statements	7 - 32

GRANT THORNTON LLP

186 Wood Avenue South
Iselin, NJ 08830-2725

D +1 732.516.5000

F +1 732.516.5502

GrantThornton.com

[Linkd.in/GrantThorntonUS](https://www.linkedin.com/company/grant-thornton-us)

[Twitter.com/GrantThorntonUS](https://twitter.com/GrantThorntonUS)

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, 2019 and 2018, 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 audit 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 financial statements referred to above present fairly, in all material respects, the combined financial position of the Chancery as of June 30, 2019 and 2018, 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 22, 2020

**Chancery Office of The Roman Catholic
Diocese of Paterson and Affiliates**

COMBINED STATEMENTS OF FINANCIAL POSITION

As of June 30, 2019 and 2018

	2019	2018
ASSETS		
Cash and cash equivalents	\$ 5,787,676	\$ 15,134,252
Accounts and loans receivable, net	9,980,719	10,518,597
Investments, at fair value	51,404,219	43,174,493
Mortgage receivable	307,551	324,728
Crypt inventory	10,782,265	10,986,639
Land, buildings and equipment, net	15,180,592	15,711,742
Other assets	1,125,410	1,069,969
	\$ 94,568,432	\$ 96,920,420
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	\$ 3,354,447	\$ 4,171,113
Independent victim compensation program accrual	9,310,000	-
Amounts payable to related parties	29,634,223	29,978,511
Debt obligations	333,789	457,275
Conditional asset retirement obligations	5,893,597	5,508,549
Reserves for self-insurance	5,198,430	5,257,872
Obligations due under split-interest agreements	135,114	169,911
Liability for postretirement benefits	15,144,417	16,078,393
	69,004,017	61,621,624
Commitments and contingencies		
NET ASSETS		
Without donor restrictions	24,883,893	34,636,559
With donor restrictions	680,522	662,237
	25,564,415	35,298,796
	\$ 94,568,432	\$ 96,920,420

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

**Chancery Office of The Roman Catholic
Diocese of Paterson and Affiliates**

COMBINED STATEMENT OF ACTIVITIES

For the year ended June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES, GAINS AND OTHER SUPPORT			
Parish assessments	\$ 6,193,993	\$ -	\$ 6,193,993
Annual appeal	3,380,086	-	3,380,086
Contributions	3,485,238	-	3,485,238
Rental income	1,410,348	-	1,410,348
Cemetery income	1,028,262	-	1,028,262
Property and liability insurance program	8,814,236	-	8,814,236
Employee benefits program	20,431,342	-	20,431,342
Other	1,349,068	-	1,349,068
Central lending agency program	639,162	-	639,162
Interest and dividend income	1,215,736	8,408	1,224,144
Net unrealized and realized gain	1,522,754	9,877	1,532,631
Recovery of uncollectible accounts allowance, net	1,319,823	-	1,319,823
Gain on sale of property/land	779,850	-	779,850
Total revenues, gains and other support	51,569,898	18,285	51,588,183
EXPENSES			
Programs:			
Evangelization	1,550,867	-	1,550,867
Social ministry	1,385,354	-	1,385,354
Pastoral	5,763,112	-	5,763,112
Communications	127,893	-	127,893
Annual appeal	226,053	-	226,053
Schools subsidies and other educational expenses	1,706,549	-	1,706,549
Cathedral renovation subsidy	1,142,826	-	1,142,826
Cemetery - cost of sales and expenses	805,750	-	805,750
Property and liability insurance program	6,979,985	-	6,979,985
Employee benefits program	23,048,968	-	23,048,968
Central lending agency program	405,836	-	405,836
Property rental	473,928	-	473,928
Total program expenses	43,617,121	-	43,617,121
Supporting services:			
General and administration	8,841,383	-	8,841,383
Fundraising	460,856	-	460,856
Total supporting services expenses	9,302,239	-	9,302,239
Total expenses	52,919,360	-	52,919,360
Change in net assets before postretirement-related changes other than net periodic benefit cost and other expense (income)	(1,349,462)	18,285	(1,331,177)
Independent victim compensation program	9,310,000	-	9,310,000
Postretirement-related changes other than net periodic benefit cost	(906,796)	-	(906,796)
Change in net assets	(9,752,666)	18,285	(9,734,381)
Net assets, beginning of year	34,636,559	662,237	35,298,796
Net assets, end of year	\$ 24,883,893	\$ 680,522	\$ 25,564,415

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

**Chancery Office of The Roman Catholic
Diocese of Paterson and Affiliates**

COMBINED STATEMENT OF ACTIVITIES

For the year ended June 30, 2018

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
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
Central 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
Recovery of uncollectible accounts allowance, net	669,312	-	669,312
Gain on sale of property/land	931	-	931
Total revenues, gains and other support	<u>49,028,742</u>	<u>21,939</u>	<u>49,050,681</u>
EXPENSES			
Programs:			
Evangelization	1,536,589	-	1,536,589
Social ministry	1,456,778	-	1,456,778
Pastoral	5,558,839	-	5,558,839
Communications	88,932	-	88,932
Annual appeal	208,816	-	208,816
Schools subsidies and other educational expenses	2,000,553	-	2,000,553
Cathedral renovation subsidy	7,663,093	-	7,663,093
Cemetery - cost of sales and expenses	1,002,387	-	1,002,387
Property and liability insurance program	6,170,302	-	6,170,302
Employee benefits program	20,923,905	-	20,923,905
Central lending agency program	1,649,685	-	1,649,685
Property rental	375,855	-	375,855
Total program expenses	<u>48,635,734</u>	<u>-</u>	<u>48,635,734</u>
Supporting services:			
General and administration	5,509,889	-	5,509,889
Fundraising	554,532	-	554,532
Total supporting services expenses	<u>6,064,421</u>	<u>-</u>	<u>6,064,421</u>
Total expenses	<u>54,700,155</u>	<u>-</u>	<u>54,700,155</u>
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	<u>(2,806,863)</u>	<u>-</u>	<u>(2,806,863)</u>
Change in net assets	(2,864,550)	21,939	(2,842,611)
Net assets, beginning of year	37,501,109	640,298	38,141,407
Net assets, end of year	<u>\$ 34,636,559</u>	<u>\$ 662,237</u>	<u>\$ 35,298,796</u>

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

**Chancery Office of The Roman Catholic
Diocese of Paterson and Affiliates**

COMBINED STATEMENTS OF CASH FLOWS

For the years ended June 30, 2019 and 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (9,734,381)	\$ (2,842,611)
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation and amortization	575,890	577,132
Recovery of uncollectible accounts allowance, net	(1,319,823)	(669,312)
Unrealized and realized appreciation in fair value of investments	(1,532,631)	(2,191,160)
Gain on sale of land, building and equipment	(779,850)	(931)
Accretion of interest on conditional asset retirement obligations	385,048	359,891
Changes in assets and liabilities:		
Accounts and loans receivable	1,857,701	3,238,169
Contributions receivable	-	30,500
Crypt inventory	204,374	215,328
Other assets	(55,441)	483,227
Accounts payable and accrued expenses	(816,666)	317,749
Independent victim compensation program	9,310,000	-
Reserves for self-insurance	(59,442)	(614,895)
Obligations due under split-interest agreements	(34,797)	(9,033)
Liability for postretirement benefits	(933,976)	(2,666,466)
Net cash used in operating activities	(2,933,994)	(3,772,412)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of investments	11,443,176	28,031,609
Purchases of investments	(18,140,271)	(21,082,569)
Proceeds from sale of land, building and equipment	825,000	500
Payments received on mortgage receivable	17,177	16,194
Purchases of land, buildings and equipment	(89,890)	(224,924)
Net cash (used in) provided by investing activities	(5,944,808)	6,740,810
CASH FLOWS FROM FINANCING ACTIVITIES		
Deposits received from related parties	3,435,173	5,533,493
Repayment of deposits received from related parties	(3,779,461)	(3,531,924)
Issuance of loans to related parties	73,763	-
Principal repayments of debt/ capital lease obligations	(197,249)	(190,459)
Net cash (used in) provided by financing activities	(467,774)	1,811,110
Net (decrease) increase in cash and cash equivalents	(9,346,576)	4,779,508
Cash and cash equivalents, beginning of year	15,134,252	10,354,744
Cash and cash equivalents, end of year	\$ 5,787,676	\$ 15,134,252

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

**Chancery Office of The Roman Catholic
Diocese of Paterson and Affiliates**

NOTES TO COMBINED FINANCIAL STATEMENTS

June 30, 2019 and 2018

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.

In August 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities (“ASU 2016-14”). The ASU amends the current reporting model for not-for-profit organizations and requires certain additional disclosures. The significant changes include:

- Requiring the presentation of two net asset classes classified as “net assets without donor restrictions” and “net assets with donor restrictions”;

**Chancery Office of The Roman Catholic
Diocese of Paterson and Affiliates**

NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED

June 30, 2019 and 2018

- Modifying the presentation of underwater endowment funds and related disclosures;
- Requiring the use of the placed in service approach to recognize the satisfaction of restrictions on gifts used to acquire or construct long-lived assets, absent explicit donor stipulations otherwise;
- Requiring that all not-for-profits present an analysis of expenses by function and nature in a separate statement or in the notes to the combined financial statements;
- Requiring disclosure of quantitative and qualitative information on liquidity;
- Presenting investment return net of external and direct internal investment expenses; and
- Modifying other financial statement reporting requirements and disclosures intended to increase the usefulness to the reader.

ASU 2016-14 is effective for the Chancery's fiscal year beginning July 1, 2018, and the Chancery has applied the amendments retrospectively as required by the standard. A presentation of net assets as previously reported as of June 30, 2018, and as required under ASU 2016-14 follows:

	June 30, 2018			
	Presentation under ASU 2016-14			
	As Previously Presented	Without Donor Restrictions	With Donor Restrictions	Total
Net assets:				
Unrestricted	\$ 34,636,559	\$ 34,636,559	\$ -	\$ 34,636,559
Temporarily restricted	407,885	-	407,885	407,885
Permanently restricted	254,352	-	254,352	254,352
	<u>\$ 35,298,796</u>	<u>\$ 34,636,559</u>	<u>\$ 662,237</u>	<u>\$ 35,298,796</u>

The Chancery's net assets, revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Chancery and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions

Represent net assets which are not restricted by donors. Net assets without donor restrictions are funds that are fully available, at the discretion of the Board of Trustees and management, for the Chancery to utilize in any of its programs or supporting services. Net assets without donor restrictions may also be designated for specific purposes by the Chancery's Board of Trustees or may be limited by legal requirements or contractual agreements with outside parties.

Net Assets With Donor Restrictions

Represent net assets which are subject to donor-imposed restrictions whose use is restricted by time and/or purpose. Net assets with donor restrictions are subject to donor-imposed restrictions that require the Chancery to use or expend the gifts as specified, based on purpose or passage of time. When a donor restrictions expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, the donor-restricted net assets are reclassified to net assets without donor restrictions. However, when restrictions on donor-restricted contributions are met in the same accounting period, such amounts are reported as part of net assets without donor restrictions.

**Chancery Office of The Roman Catholic
Diocese of Paterson and Affiliates**

NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED

June 30, 2019 and 2018

Net assets with donor restrictions also includes the corpus of gifts, which must be maintained in perpetuity, but allows for the expenditure of net investment income and gains earned on the corpus for either specified or unspecified purposes in accordance with donor stipulations.

Net assets without donor restrictions consist of the following subcategories:

- **Undesignated Net Assets** - include 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(s).
- **Designated Net Assets** - include amounts set aside for specific program service needs and used at the sole discretion of the Bishop of Paterson. However, the operating use of these resources is not externally restricted.

Net assets without donor restrictions at June 30, 2019 and 2018 consist of the following:

	2019	2018
Prepare The Way	\$ 16,308,601	\$ 17,342,259
Diocese of Paterson Mission Fund, Inc.	9,450,096	10,038,240
Diocese of Paterson Catholic Education Trust	10,997,282	11,003,528
Other designated funds	449,965	426,209
Perpetual care of cemetery property	10,334,267	10,334,267
Total designated net assets	47,540,211	49,144,503
Undesignated net assets	(22,656,318)	(14,507,944)
Total net assets without donor restrictions	\$ 24,883,893	\$ 34,636,559

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.

Net assets with donor restrictions at June 30, 2019 and 2018 consisted of the following:

	2019	2018
For use in the subsequent fiscal periods	\$ 116,333	\$ 116,333
For support of specific programs	309,837	291,552
Endowment gift invested and maintained in perpetuity	254,352	254,352
Total net assets with donor restriction	\$ 680,522	\$ 662,237

**Chancery Office of The Roman Catholic
Diocese of Paterson and Affiliates**

NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED

June 30, 2019 and 2018

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 combined 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

**Chancery Office of The Roman Catholic
Diocese of Paterson and Affiliates**

NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED

June 30, 2019 and 2018

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 a contribution without donor restrictions 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, 2019 and 2018 ranged from 1.20% to 1.40%.

As of June 30, 2019 and 2018, 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 \$135,114 and \$169,911 as of June 30, 2019 and 2018, 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, 2019 and 2018, which is included within amounts payable to related parties on the accompanying combined statements of financial position.

**Chancery Office of The Roman Catholic
Diocese of Paterson and Affiliates**

NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED

June 30, 2019 and 2018

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, 2019 and 2018 totaled \$466,052 and \$445,949, 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, 2019 and 2018. 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, 2019 and 2018.

**Chancery Office of The Roman Catholic
Diocese of Paterson and Affiliates**

NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED

June 30, 2019 and 2018

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 net assets without donor restrictions unless use of the related assets are limited by donor-imposed restrictions. Contributions that are 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 net assets with donor restrictions.

During the years ended June 30, 2019 and 2018, the Chancery received approximately \$875,000 and \$879,000, 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 contributions without donor restriction 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 revenues without donor restrictions 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 operating support without donor restrictions 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.

**Chancery Office of The Roman Catholic
Diocese of Paterson and Affiliates**

NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED

June 30, 2019 and 2018

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, 2019 and 2018, special collections of approximately \$480,000 and \$541,000, 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 statements 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.

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, 2019 and 2018, 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.

Reclassifications

Certain information in the fiscal 2018 combined financial statements have been reclassified to conform to the fiscal 2019 presentation. There were no changes in total assets, liabilities, or changes in net assets as reflected in the 2018 combined financial statements.

Subsequent Events

The Chancery evaluated its June 30, 2019 combined financial statements for subsequent events through January 22, 2020, 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 other than noted below.

**Chancery Office of The Roman Catholic
Diocese of Paterson and Affiliates**

NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED

June 30, 2019 and 2018

On May 13, 2019, the Child Victims Act was signed into law by the New Jersey Governor effectively reforming the statute of limitations for child sexual abuse survivors in New Jersey. Beginning December 1, 2019, the Child Victims Act permits a two-year look-back period for victims who were previously prohibited by the statute of limitations to file claims. As of January 22, 2020, 7 claims have been filed naming the Chancery. At this time, management cannot determine the extent of the liability, if any, potentially impacting the Chancery, pertaining to the Child Victims Act. (See Note 18)

3. LIQUIDITY AND AVAILABILITY

The following reflects Chancery's financial assets as of the combined statement of financial position date, reduced by amounts not available for general use because of contractual, donor-imposed restrictions, or internal designations within one year of the combined statement of financial position date.

	2019
Cash and cash equivalents	\$ 5,787,676
Investments	51,404,219
Accounts and loans receivable, net, due within one year	3,076,139
Total financial assets	60,268,034
Less: Contractual or donor-imposed restrictions:	
Endowment funds	(335,836)
Other donor-restricted funds	(344,687)
Amounts held on behalf of others	(29,634,223)
Total	(30,314,746)
Financial assets available to meet cash needs for general expenditures within one year before internally designated net assets	29,953,288
Internally designated net assets	(47,540,211)
Financial assets available to meet cash needs for general expenditures within one year	\$ (17,586,923)

Although the Chancery does not intend to spend amounts from its net assets designated by the Bishop, if necessary, these funds could be made available by the Bishop of Paterson with the exception of certain assets held in an irrevocable trust and for perpetual care of cemetery property, of approximately \$21,300,000.

The Chancery manages its liquid resources by focusing on investing excess cash in investments that maximize earnings potential while balancing the amount of risk the Chancery is comfortable with. Additionally, the Chancery prepares detailed budgets which are approved by the Diocesan Finance Council and monitors performance against the budget. As part of the Chancery's liquidity management, it also regularly monitors its financial assets available to meet general expenditures and other obligations as they become due.

**Chancery Office of The Roman Catholic
Diocese of Paterson and Affiliates**

NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED

June 30, 2019 and 2018

4. ACCOUNTS AND LOANS RECEIVABLE, NET

As of June 30, 2019 and 2018, accounts and loans receivable, net, consisted of the following:

	2019	2018
Parishes and schools	\$ 26,097,785	\$ 26,604,900
Social service agencies	1,781,761	3,051,065
Other	625,962	707,244
	28,505,508	30,363,209
Less: Allowance for doubtful accounts	(18,524,789)	(19,844,612)
Accounts and loans receivable, net	\$ 9,980,719	\$ 10,518,597

Accounts and loans receivable due within one year, net totaled \$3,076,139 as of June 30, 2019.

The activity for the allowance for impaired loans to parishes and schools, social service agencies and other is as follows as of June 30, 2019 and 2018:

	2019			
	Parishes and Schools	Social Service Agencies	Other	Total
Allowance for doubtful accounts, beginning of year	\$18,157,954	\$1,571,793	\$ 114,865	\$19,844,612
Change in allowance	(141,025)	(1,168,698)	(10,100)	(1,319,823)
Allowance for doubtful accounts, end of year	\$18,016,929	\$ 403,095	\$ 104,765	\$ 18,524,789
	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)
Allowance for doubtful accounts, end of year	\$ 18,157,954	\$ 1,571,793	\$ 114,865	\$ 19,844,612

At June 30, 2019 and 2018, included in accounts and loans receivables are \$28,147,005 and \$29,943,934 due from related parties, less an allowance for doubtful accounts of \$18,420,024 and \$19,729,746, respectively.

**Chancery Office of The Roman Catholic
Diocese of Paterson and Affiliates**

NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED

June 30, 2019 and 2018

5. CONTRIBUTIONS RECEIVABLE, NET

Contributions receivable, net, consisted of the following unconditional promises to give at June 30, 2019 and 2018:

	2019	2018
Amounts expected to be collected in:		
Less than one year	\$ 146,833	\$ 116,333
Less: Reserve for uncollectible pledges	(146,833)	(116,333)
	\$ -	\$ -

6. INVESTMENTS, AT FAIR VALUE

As of June 30, 2019 and 2018, investments, at fair value, by fair value hierarchy, consisted of the following:

	2019			
			Net Asset	
	Level 1	Level 3	Value ^(a)	Total
Equities	\$ 27,112,569	\$ -	\$ -	\$ 27,112,569
Fixed income	7,607,079	-	-	7,607,079
Money market funds	994,853	-	-	994,853
Cash equivalents	10,022,208	-	-	10,022,208
Participation in investment pool	-	3,283,752	-	3,283,752
Hedge funds ^(a)	-	-	2,383,758	2,383,758
	\$ 45,736,709	\$ 3,283,752	\$ 2,383,758	\$ 51,404,219
	2018			
			Net Asset	
	Level 1	Level 3	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

^(a) Investments measured at fair value using the NAV per share practical expedient have not been categorized in the fair value hierarchy.

**Chancery Office of The Roman Catholic
Diocese of Paterson and Affiliates**

NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED

June 30, 2019 and 2018

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 \$3,283,752 and \$3,080,837 as of June 30, 2019 and 2018, respectively.

The following table summarizes the changes in Chancery's Level 3 investments for the years ended June 30, 2019 and 2018:

	Participation in Investment Pool
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
Purchases	90,779
Sales	-
Net unrealized and realized loss	112,136
Balance as of July 1, 2019	\$ 3,283,752

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:

2019								
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	\$2,383,758	1	Subject to the determination of the respective fund manager	N/A	Monthly with 90 days notice	N/A	N/A

**Chancery Office of The Roman Catholic
Diocese of Paterson and Affiliates**

NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED

June 30, 2019 and 2018

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 U.S. fixed income instruments and non-U.S. 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

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 \$124,089 and \$111,000 in fiscal years 2019 and 2018, respectively, and reduced the net unrealized and realized gains on the accompanying combined statements of activities.

7. 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, 2019 and 2018, the outstanding mortgage receivable was \$307,551 and \$324,728, respectively.

8. CRYPT INVENTORY

As of June 30, 2019 and 2018, crypt inventory, consisted of the following:

	2019	2018
Mausoleum Unit I	\$ 126,409	\$ 126,409
Mausoleum Unit II	117,581	118,622
Mausoleum Unit III	917,254	921,810
Mausoleum Unit IV	9,621,021	9,819,798
Crypt inventory	\$ 10,782,265	\$ 10,986,639

**Chancery Office of The Roman Catholic
Diocese of Paterson and Affiliates**

NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED

June 30, 2019 and 2018

9. 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, 2019 and 2018:

	2019	2018
Buildings and improvements	\$ 26,065,278	\$ 26,058,319
Machinery, equipment and furniture	1,577,135	1,494,204
	27,642,413	27,552,523
Less: Accumulated depreciation and amortization	(17,612,338)	(17,036,448)
	10,030,075	10,516,075
Land	2,611,650	2,656,800
Undeveloped land	2,027,211	2,027,211
Mausoleum improvements	511,656	511,656
	5,150,517	5,195,667
Land, buildings and equipment, net	\$ 15,180,592	\$ 15,711,742

At June 30, 2019 and 2018, included in buildings and improvements are capitalized conditional asset retirement obligations at a cost of approximately \$385,000 and \$360,000, respectively, which are fully depreciated. At June 30, 2019 and 2018, included in machinery, equipment and furniture are assets acquired under capital lease arrangements at a cost of approximately \$131,797, with accumulated amortization of approximately \$71,088 and \$46,043, respectively.

10. 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, 2019 and 2018, the Chancery has recorded a receivable of \$197,602 and \$368,291, respectively, due from PJ XXIII corresponding to the debt obligations. These receivables are included within accounts and loans receivable in the accompanying combined statements 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, 2019 and 2018:

	2019	2018
Lakeland Bank - term loan (a)	\$ 18,869	\$ 130,645
Lakeland Bank - term loan (b)	178,733	237,646
	\$ 197,602	\$ 368,291

**Chancery Office of The Roman Catholic
Diocese of Paterson and Affiliates**

NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED

June 30, 2019 and 2018

(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, 2019 and 2018, 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, 2019 and 2018, the rate of this loan was 3.53%.

At June 30, 2019, aggregate principal payments are due as follows:

<u>Year ending June 30,</u>	
2020	\$ 79,894
2021	63,259
2022	<u>54,449</u>
	<u>\$ 197,602</u>

Capital Lease and Other Obligations

At June 30, 2019, future minimum payments due under the Chancery's capital lease obligations and other financing arrangements for equipment and automobiles follow:

<u>Year ending June 30,</u>	
2020	\$ 29,433
2021	29,433
2022	6,213
2023	<u>1,035</u>
	66,114
Total minimum lease payment	
Less: amount representing interest	<u>(3,223)</u>
Present value of minimum lease payments	<u>\$ 62,890</u>

Valley Bank Priest Loans

During the year ended June 30, 2019, the Chancery invested in \$73,297 in certificates of deposit with Valley Bank so that Valley Bank would loan those funds directly to 5 priests. The priests are obligated to repay the loans to the bank but the loans are guaranteed by the Chancery. At June 30, 2019, the Chancery is obligated to repay \$73,297 in the event of a default and due to uncertainty of payment by the priests has recorded a liability for the amount of the guarantee.

**Chancery Office of The Roman Catholic
Diocese of Paterson and Affiliates**

NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED

June 30, 2019 and 2018

11. 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, 2019 and 2018 totaled \$5,893,597 and \$5,508,549, respectively. For the years ended June 30, 2019 and 2018, the accretion of interest related to these obligations totaled \$385,048 and \$359,891, respectively.

12. 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, 2019 and 2018, the Chancery had deposited approximately \$349,036 and \$493,700, 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.

As of June 30, 2019 and 2018, the actuarially determined liabilities for employee benefits and property and liability insurance consisted of the following:

	2019		
	Case Reserve	Incurred but not Reported	Total
Employee medical and pharmacy plan	\$ -	\$ 913,117	\$ 913,117
General liability, automobile, workers’ compensation and property coverage	1,395,214	2,517,710	3,912,924
Total liability for self-insurance claims	\$ 1,395,214	\$ 3,430,827	\$ 4,826,041

**Chancery Office of The Roman Catholic
Diocese of Paterson and Affiliates**

NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED

June 30, 2019 and 2018

	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

Additionally, the Chancery has recorded a liability for unemployment benefits and long-term disability of \$372,389 and \$182,227 as of June 30, 2019 and 2018, respectively.

13. 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, 2019 and 2018 totaled approximately \$233,000 and \$254,000, 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, 2019 and 2018 were \$20,000 a year per priest. Contributions to the priests' pension plan by the Chancery for the years ended June 30, 2019 and 2018 totaled approximately \$415,000 and \$422,000, 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 statements of financial position. In addition, because the plans are considered multiemployer plans, they are only subject to certain minimum reporting requirements.

**Chancery Office of The Roman Catholic
Diocese of Paterson and Affiliates**

NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED

June 30, 2019 and 2018

As of July 1, 2019 and 2018, the following is a summary of the accumulated plan benefits covering all participants (unaudited):

	2019	
	<u>Lay</u>	<u>Priest</u>
Vested benefits:		
Participants currently receiving payments	\$ 110,699,191	\$ 25,933,796
Other participants	50,366,856	10,101,278
	<u>161,066,047</u>	<u>36,035,074</u>
Non-vested benefits	<u>689,311</u>	<u>1,262,235</u>
Total actuarial present value of accumulated plan benefits	<u>\$ 161,755,358</u>	<u>\$ 37,297,309</u>
Fair value of plan assets	<u>\$ 100,957,314</u>	<u>\$ 17,920,395</u>
Funded status	<u>\$ (60,798,04)</u>	<u>\$ (19,376,914)</u>
	2018	
	<u>Lay</u>	<u>Priest</u>
Vested benefits:		
Participants currently receiving payments	\$ 108,972,890	\$ 22,872,142
Other participants	50,748,730	13,335,381
	<u>159,721,620</u>	<u>36,207,523</u>
Non-vested benefits	<u>774,164</u>	<u>1,343,980</u>
Total actuarial present value of accumulated plan benefits	<u>\$ 160,495,784</u>	<u>\$ 37,551,503</u>
Fair value of plan assets	<u>\$ 104,904,255</u>	<u>\$ 17,316,399</u>
Funded status	<u>\$ (55,591,529)</u>	<u>\$ (20,235,104)</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 and all medical benefits in excess of the priest's maximum annual contribution of \$3,888 toward their medical benefits.

**Chancery Office of The Roman Catholic
Diocese of Paterson and Affiliates**

NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED

June 30, 2019 and 2018

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, 2019 and 2018, approximately \$563,000 and \$588,000, respectively, was billed and included as employee benefits program revenue in the accompanying combined statements 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, 2019 and 2018, is as follows:

	2019	2018
Accumulated benefit obligation, beginning of fiscal year	\$ 14,229,644	\$ 16,544,420
Interest cost	586,243	637,702
Service cost	122,891	157,200
Benefits paid	(675,283)	(718,185)
Actuarial gain	(954,138)	(2,391,493)
Accumulated benefit obligation, end of fiscal year	\$ 13,309,357	\$ 14,229,644
Funded status of plan at fiscal year end	\$ (13,309,357)	\$ (14,229,644)
Amounts not yet reflected in net periodic benefit cost and included in net assets without donor restriction:		
Unrecognized prior service cost	\$ -	\$ -
Unrecognized actuarial loss	1,908,769	2,927,653
	\$ 1,908,769	\$ 2,927,653

The weighted average rates used to determine the accumulated benefit obligation as of June 30, 2019 and 2018, were:

	2019	2018
Discount rate	3.65%	4.22%
Healthcare cost trend rate assumed for next year	5.00%	5.00%
Ultimate healthcare cost trend rate	4.00%	4.00%
Year ultimate healthcare cost trend rate is achieved	2023	2022

**Chancery Office of The Roman Catholic
Diocese of Paterson and Affiliates**

NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED

June 30, 2019 and 2018

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

	2019	2018
Service cost	\$ 122,891	\$ 157,200
Interest cost	586,243	637,702
Amortization of actuarial loss	64,746	166,200
Amortization of prior service cost	-	42,958
	\$ 773,880	\$ 1,004,060

The weighted-average rates used to determine net periodic benefit cost for the years ended June 30, 2019 and 2018 were:

	2019	2018
Discount rate	4.22%	3.94%
Healthcare cost trend rate	5.00%	6.00%
Ultimate healthcare cost trend rate	4.00%	5.00%

Other changes in the accumulated benefit obligation recognized in net assets without donor restrictions were as follows:

	2019	2018
Net actuarial (gain) loss arising during measurement period	\$ (954,138)	\$ (2,391,493)
Amortization of actuarial loss	(64,746)	(166,200)
Amortization of prior service cost	-	(42,958)
Postretirement-related changes other than net periodic benefit cost	\$ (1,018,884)	\$ (2,600,651)

The amount reflected above as net actuarial gain, which served to decrease the fiscal 2019 benefit obligation by \$954,138 is primarily due to a) less than expected increase in premiums and retiree contributions, b) changes in the census population, c) decrease in the discount rate from 4.22% to 3.65%. 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 discount rate from 3.94% to 4.22%, and d) updating the mortality table with new projection scale MP-2018 slightly offset by a change in the Health Care Cost Trend Rates.

**Chancery Office of The Roman Catholic
Diocese of Paterson and Affiliates**

NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED

June 30, 2019 and 2018

For the year ended June 30, 2019, the effect of a 1% change in the healthcare cost trend rate is as follows:

	<u>1% Increase</u>	<u>1% Decrease</u>
Effect on net periodic benefit cost	\$ 377,652	\$ 252,158
Effect on accumulated benefit obligation	3,524,304	2,503,235

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.

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

2020	\$ 599,027
2021	419,815
2022	445,998
2023	473,320
2024 - 2028	2,609,055

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 associated with the administration of this plan for the years ended June 30, 2019 and 2018 totaled \$2,239,323 and \$2,274,896, respectively, the Chancery's expenses associated with the administration of this plan for the years ended June 30, 2019 and 2018 totaled \$2,093,377 and \$2,199,194, 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, 2019 and 2018, the Chancery has recorded a liability of \$1,835,060 and \$1,848,749, respectively, for those benefits, and is included within liability for postretirement benefits in the accompanying combined statements of financial position. For the years ended June 30, 2019 and 2018, net periodic benefit cost associated with these other postretirement benefits totaled \$55,271 and \$70,396, respectively, and is included within employee benefits program expense on the accompanying combined statement of activities. For the years ended June 30, 2019 and 2018, postretirement-related changes (loss/(gain)) other than net periodic benefit cost totaled \$112,088 and \$(206,212), respectively.

**Chancery Office of The Roman Catholic
Diocese of Paterson and Affiliates**

NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED

June 30, 2019 and 2018

14. 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 net assets with donor restrictions: (a) the original value of gifts donated to the endowment; (b) the original value of subsequent gifts to the endowment; and (c) accumulations of income to the endowment made in accordance with the direction of the applicable donor gift instrument. Therefore, endowment net assets with donor restrictions 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 endowment net assets with donor restrictions, under New Jersey UPMIFA, is spendable, and, accordingly, the Chancery classifies the appreciation as net assets with donor restriction, 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, 2019 and 2018 consisted of the following net asset classes:

	2019			
	Without Donor Restrictions	With Donor Restrictions		Total
		Accumulated Gains	Original Gift	
Donor restricted endowment funds	\$ -	\$ 81,484	\$ 254,352	\$ 335,836

	2018			
	Without Donor Restrictions	With Donor Restrictions		Total
		Accumulated Gains	Original Gift	
Donor restricted endowment funds	\$ -	\$ 63,813	\$ 254,352	\$ 318,165

**Chancery Office of The Roman Catholic
Diocese of Paterson and Affiliates**

NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED

June 30, 2019 and 2018

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, 2019 and 2018:

	2019			
	Without Donor Restrictions	With Donor Restrictions		Total
		Accumulated Gains	Original Gift	
Endowment net assets, beginning of year	\$ -	\$ 63,813	\$ 254,352	\$ 318,165
Dividends and interest on endowment investments	-	8,124	-	8,124
Net realized and unrealized appreciation in fair value of endowment investments	-	9,547	-	9,547
New gifts and pledges	-	-	-	-
Endowment return used for operations	-	-	-	-
Endowment net assets, end of year	\$ -	\$ 81,484	\$ 254,352	\$ 335,836

	2018			
	Without Donor Restrictions	With Donor Restrictions		Total
		Accumulated Gains	Original Gift	
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

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 net assets without donor restrictions. Subsequent investment earnings on such funds which restore the fair value of individual endowment funds back to their original corpus value are reported in net assets without donor restrictions, with earnings in excess of this amount reported in net assets with donor restrictions. As of June 30, 2019, there were no endowment funds below the historical dollar value.

**Chancery Office of The Roman Catholic
Diocese of Paterson and Affiliates**

NOTES TO COMBINED FINANCIAL STATEMENTS

June 30, 2019 and 2018

15. SCHEDULE OF FUNCTIONAL EXPENSES

The following table presents the Chancery's expenses by functional and natural category for the year ended June 30, 2019:

	<u>Evangelization</u>	<u>Social Ministry</u>	<u>Pastoral</u>	<u>Communications</u>	<u>Annual Appeal</u>	<u>School Subsidies & Other Education</u>	<u>Cathedral Subsidy</u>	<u>Cemetery</u>
Salaries and benefits	\$ 827,311	\$ 110,938	\$ 2,958,554	\$ 83,578	\$ -	\$ 648,380	\$ -	\$ 365,431
Insurance	99,255	1,520	307,252	-	-	1,520	-	-
Dues, Fees & Memberships	9,182	-	3,367	-	-	1,073	-	-
Professional services & claims	12,041	-	48,137	-	86,239	27,888	-	-
Tuition & Occupancy	8,304	-	1,503,453	-	-	-	500	-
Operations & general	594,774	1,272,896	942,349	44,315	139,814	1,027,688	1,142,326	439,087
Interest Expense	-	-	-	-	-	-	-	-
Depreciation	-	-	-	-	-	-	-	1,232
	<u>\$ 1,550,867</u>	<u>\$ 1,385,354</u>	<u>\$ 5,763,112</u>	<u>\$ 127,893</u>	<u>\$ 226,053</u>	<u>\$ 1,706,549</u>	<u>\$ 1,142,826</u>	<u>\$ 805,750</u>

	<u>Property & Liability Insurance</u>	<u>Employee Benefit Program</u>	<u>CILA</u>	<u>Property Rental</u>	<u>Total Program</u>	<u>Administration</u>	<u>Fundraising</u>	<u>Total 2019</u>	<u>Total 2018</u>
Salaries and benefits	\$ 184,724	\$ -	\$ -	\$ -	\$ 5,178,916	\$ 4,048,089	\$ 418,478	\$ 9,645,483	\$ 9,273,818
Insurance	5,547,540	22,589,891	-	175,870	28,722,848	48,382	-	28,771,230	25,640,440
Dues, Fees & Memberships	-	-	-	-	13,622	11,319	3,034	27,975	39,334
Professional services & claims	260,319	249,716	-	7,427	691,767	712,976	1,015	1,405,758	967,991
Tuition & Occupancy	-	-	-	-	1,512,257	9,216	-	1,521,473	1,486,374
Operations & general	944,868	154,090	14,272	290,631	7,007,110	3,433,352	38,329	10,478,791	16,222,194
Interest Expense	42,534	55,271	391,564	-	489,369	3,390	-	492,759	492,874
Depreciation	-	-	-	-	1,232	574,659	-	575,891	577,130
	<u>\$ 6,979,985</u>	<u>\$ 23,048,968</u>	<u>\$ 405,836</u>	<u>\$ 473,928</u>	<u>\$ 43,617,121</u>	<u>\$ 8,841,383</u>	<u>\$ 460,856</u>	<u>\$ 52,919,360</u>	<u>\$ 54,700,155</u>

**Chancery Office of The Roman Catholic
Diocese of Paterson and Affiliates**

NOTES TO COMBINED FINANCIAL STATEMENTS

June 30, 2019 and 2018

16. 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, 2019 and 2018, outstanding amounts due to lenders approximated \$8,383,559 and \$8,896,000, 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, 2019 and 2018.

17. INDEPENDENT VICTIM COMPENSATION PROGRAM

In June 2019, the Diocese, along with three other dioceses in New Jersey and the Archdiocese of Newark, announced an Independent Victim Compensation Program (“IVCP”) to victims-survivors of sexual abuse by Diocesan clergy when they were minors as a tangible sign of the church’s outreach and reparation that will seek to promote healing and bring closure by providing compensation to victims-survivors of abuse by priests or deacons of the Diocese similar to programs administered by other diocesan organizations throughout the United States.

Beginning on June 15, 2019 all victims-survivors of clergy abuse by Diocesan clergy could begin registering for the IVCP with a registration deadline of January 31, 2020, after an extension of the original deadline. All registered victims-survivors have until February 15, 2020, after an extension of the original deadline, to submit their claim to the administrators of the IVCP. The Diocese engaged an independent administrator for the IVCP who reviews claims and may make settlement offers based on the merits of the claims. The settlement offers are capped at \$500,000 and once made by the IVCP administrator they are binding offers that the victims-survivors can accept or reject and that the Chancery must pay on acceptance.

As of January 22, 2020, \$9,310,000 has been paid or accrued based on estimated claims from current registrations to date and is reflected in the accompanying combined financial statements relating to the IVCP, including \$660,000 of estimated legal costs, and it is unknown whether additional amounts will be incurred under the IVCP for additional claims submitted through February 15, 2020.

18. COMMITMENTS AND CONTINGENCIES

In addition to the IVCP noted above, on May 13, 2019 the Child Victims Act (“Act”) was signed into law by the New Jersey Governor, effectively reforming the statute of limitations for child sexual abuse survivors in New Jersey. As a result, beginning December 1, 2019, the Act permits a two-year look-back period for adult victims who were previously prohibited by the statute of limitations to file claims. As of January 22, 2020, 7 claims have been filed under this Act naming the Chancery and there is a potential for additional claims that are now allowable under the Act, for individuals that did not utilize the IVCP. Diocese management maintains that it has been diligent in reporting each and every claim of sexual abuse to prosecutors pursuant to the 2002 NJ MOU and in settling all such claims when possible. At this time, management cannot determine the extent of the liability, if any, potentially impacting the Chancery resulting from this Act, however such claims could have a material effect on the Chancery’s financial condition and results of operations.

The Chancery, in the ordinary course of business, is also a party to various other 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 other litigation, 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 for these other matters.

**Chancery Office of The Roman Catholic
Diocese of Paterson and Affiliates**

NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED

June 30, 2019 and 2018

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. However, 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, 2019 and 2018 other than related to the IVCP.

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,

2020	\$ 8,832
2021	7,788
2022	6,006
2023	3,832
2024	1,597
	<hr/>
	\$ 28,055

Rent expense for the years ended June 30, 2019 and 2018 totaled approximately \$98,000 and \$71,000, respectively.