

Financial Statements Together with  
Report of Independent Certified Public Accountants

**ROMAN CATHOLIC ARCHDIOCESE OF NEWARK  
CHANCERY OFFICE**

June 30, 2018 and 2017

# ROMAN CATHOLIC ARCHDIOCESE OF NEWARK CHANCERY OFFICE

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## REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To His Eminence, Joseph W. Cardinal Tobin C.Ss.R, D.D.  
**Archbishop of the Roman Catholic Archdiocese of Newark:**

We have audited the accompanying financial statements of the Roman Catholic Archdiocese of Newark Chancery Office (the “Chancery”), which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities and changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

### Management’s responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor’s responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Roman Catholic Archdiocese of Newark Chancery Office as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in cursive script, appearing to read "Brent G. Horton CPA".

Arlington, Virginia  
November 20, 2018

**ROMAN CATHOLIC ARCHDIOCESE OF NEWARK CHANCERY OFFICE**  
**Statements of Financial Position**  
**As of June 30, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
<b>ASSETS</b>		
Cash and cash equivalents, including custodial funds of \$14,738,213 and \$15,240,765 as of June 30, 2018 and 2017, respectively	\$ 25,757,590	\$ 25,850,212
Contributions and pledges receivable, net	8,211,495	12,466,173
Accounts and loans receivable, net	13,464,888	12,706,130
Prepaid expenses and other assets	1,602,881	1,807,556
Mortgage receivables	2,067,595	2,981,647
Long-term investments, including custodial funds of \$291,380,929 and \$269,969,393 as of June 30, 2018 and 2017, respectively	506,435,893	475,601,929
Property and equipment, net	<u>32,384,547</u>	<u>33,771,054</u>
Total assets	<u>\$ 589,924,889</u>	<u>\$ 565,184,701</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 6,821,175	\$ 5,559,133
Accrued subsidies to affiliates	7,175,795	7,892,751
Amounts due to affiliates - campaign activities	426,805	838,680
Obligations due under split-interest agreements	682,274	879,706
Custodial funds	306,119,142	285,210,158
Conditional asset retirement obligations	<u>2,340,287</u>	<u>2,170,384</u>
Total liabilities	<u>323,565,478</u>	<u>302,550,812</u>
Commitments and contingencies		
<b>NET ASSETS</b>		
Unrestricted	84,871,583	84,712,129
Temporarily restricted	70,245,316	66,439,367
Permanently restricted	<u>111,242,512</u>	<u>111,482,393</u>
Total net assets	<u>266,359,411</u>	<u>262,633,889</u>
Total liabilities and net assets	<u>\$ 589,924,889</u>	<u>\$ 565,184,701</u>

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

**ROMAN CATHOLIC ARCHDIOCESE OF NEWARK CHANCERY OFFICE**  
**Statements of Activities and Changes in Net Assets**  
**For the years ended June 30, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
<b>CHANGES IN UNRESTRICTED NET ASSETS</b>		
Operating support and revenue:		
Archdiocesan assessments	\$ 18,397,802	\$ 18,510,436
Cemeteries assessments	3,586,308	3,652,063
Campaign contributions	164,016	611,958
Other contributions, bequests, and collections	5,786,970	1,865,464
Interest and dividends	3,797,967	3,313,854
Rental income	4,845,975	4,948,575
Other revenue	6,351,489	6,595,221
Total operating support and revenue	<u>42,930,527</u>	<u>39,497,571</u>
Net assets released from restrictions due to satisfaction of time and program restrictions:		
Annual Appeal	4,212,912	2,488,299
Campaign - Works of Mercy	670,234	5,924,425
Endowment fund earnings	2,301,896	2,191,017
Other	1,325,219	1,321,792
Total net assets released from restrictions	<u>8,510,261</u>	<u>11,925,533</u>
Total operating support, revenue and net assets released from restrictions	<u>51,440,788</u>	<u>51,423,104</u>
<b>OPERATING EXPENSES</b>		
Pastoral	15,759,196	13,658,134
Educational	14,200,018	12,786,371
Health care and social services	6,253,114	5,495,459
Priestly ministry and formation	3,547,171	3,468,020
Public affairs/information services	1,283,337	1,297,102
Other program services	4,845,669	4,943,326
Program expenses	45,888,505	41,648,412
Management and general	7,085,524	9,243,184
Fundraising	1,864,664	1,744,065
Total operating expenses	<u>54,838,693</u>	<u>52,635,661</u>
Decrease in unrestricted net assets from operations	<u>(3,397,905)</u>	<u>(1,212,557)</u>
<b>NONOPERATING ACTIVITIES</b>		
Net realized and unrealized gain on investments	2,176,329	14,057,308
Gain on sale of properties	1,381,030	-
Increase in unrestricted net assets from nonoperating activities	<u>3,557,359</u>	<u>14,057,308</u>
Increase in unrestricted net assets	<u>\$ 159,454</u>	<u>\$ 12,844,751</u>

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

**ROMAN CATHOLIC ARCHDIOCESE OF NEWARK CHANCERY OFFICE**  
**Statements of Activities and Changes in Net Assets (Continued)**  
For the years ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<b>CHANGES IN TEMPORARILY RESTRICTED NET ASSETS</b>		
Annual Appeal	\$ 6,385,906	\$ 4,212,912
Campaign contributions	-	1,241,324
Other contributions	582,993	404,795
Interest and dividends	2,607,321	2,404,237
Change in donor intent	(54,028)	-
Reclassification	(65,349)	-
Change in present value of charitable gift future annuities	(254,545)	14,601
Total contributions and other	<u>9,202,298</u>	<u>8,277,869</u>
Net assets released from restrictions due to satisfaction of time and program restrictions:		
Annual Appeal	(4,212,912)	(2,488,299)
Campaign - Works of Mercy	(670,234)	(5,924,425)
Endowment fund earnings	(2,301,896)	(2,191,017)
Other	(1,325,219)	(1,321,792)
Total net assets released from restrictions	<u>(8,510,261)</u>	<u>(11,925,533)</u>
Net realized and unrealized gain on investments	3,113,912	9,245,423
Recovery of bad debt expense	-	195,592
Increase in temporarily restricted net assets	<u>3,805,949</u>	<u>5,793,351</u>
<b>CHANGES IN PERMANENTLY RESTRICTED NET ASSETS</b>		
Campaign contributions	-	2,284,359
Other contributions	237,627	108,668
Change in donor intent	(216,114)	-
Reclassification	(261,394)	-
Recovery of bad debt expense	-	782,367
(Decrease) increase in permanently restricted net assets	<u>(239,881)</u>	<u>3,175,394</u>
Changes in net assets	<u>3,725,522</u>	<u>21,813,496</u>
Net assets, beginning of year	<u>262,633,889</u>	<u>240,820,393</u>
Net assets, end of year	<u>\$ 266,359,411</u>	<u>\$ 262,633,889</u>

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

**ROMAN CATHOLIC ARCHDIOCESE OF NEWARK CHANCERY OFFICE**  
**Statements of Cash Flows**  
**For the years ended June 30, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Changes in net assets	\$ 3,725,522	\$ 21,813,496
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	1,812,259	1,543,749
Accretion of interest on conditional asset retirement obligations	169,903	124,971
Change in allowance on uncollectible accounts and loans receivable	(199,044)	(2,200,000)
Change in allowance on uncollectible contributions receivable	-	(977,959)
Net realized and unrealized gain on investments	(5,290,241)	(23,302,731)
Write-off of note/mortgage receivable	156,437	995,395
Gain on disposition of properties	(1,381,030)	-
Contributions restricted for endowments	(237,627)	(108,668)
Changes in assets and liabilities:		
(Increase) decrease in accounts and loans receivable	(559,714)	4,652,494
Decrease (increase) in contributions receivable	4,254,678	(346,917)
Decrease in prepaid expenses and other assets	204,675	216,681
Increase (decrease) in accounts payable and accrued expenses	1,262,042	(851,346)
(Increase) decrease in accrued subsidies to affiliates	(716,956)	182,490
Decrease in amounts due to affiliates - campaign activities	(411,875)	(229,114)
Decrease in obligations due under split-interest agreements	(197,432)	(148,563)
Increase in custodial funds	<u>20,908,984</u>	<u>18,829,181</u>
Net cash provided by operating activities	<u>23,500,581</u>	<u>20,193,159</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(425,752)	(2,993,968)
Proceeds from sale of properties	20,939	-
Issuance of note receivable	-	3,004,605
Payments received on mortgages receivable	2,117,706	26,238
Proceeds from sales of investments	253,523,431	77,156,958
Purchases of investments	<u>(279,067,154)</u>	<u>(96,966,195)</u>
Net cash used in investing activities	<u>(23,830,830)</u>	<u>(19,772,362)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Contributions restricted for endowments	<u>237,627</u>	<u>5,638,687</u>
Net (decrease) increase in cash and cash equivalents	(92,622)	6,059,484
Cash and cash equivalents, beginning of year	<u>25,850,212</u>	<u>19,790,728</u>
Cash and cash equivalents, end of year	<u>\$ 25,757,590</u>	<u>\$ 25,850,212</u>
<b>Supplemental data:</b>		
Mortgage receivable received from sale of property	<u>\$ 1,360,000</u>	<u>\$ -</u>

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

**ROMAN CATHOLIC ARCHDIOCESE OF NEWARK CHANCERY OFFICE**  
**Notes to Financial Statements**  
**June 30, 2018 and 2017**

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**1. NATURE OF THE ENTITY**

The accompanying financial statements include the accounts of the Chancery Office of the Roman Catholic Archdiocese of Newark (the “Chancery”). The Chancery provides planning and direction in the administration of pastoral, vocational, educational, and other services to the parish communities in Essex, Hudson, Union and Bergen counties in New Jersey. The Chancery also provides financing, investing and other advisory services to affiliated organizations, which share a common mission with the Archbishop of the Archdiocese of Newark (the “Archdiocese”).

The Chancery enters into financial transactions with affiliates that include, but are not limited to Archdiocesan parishes, educational institutions, hospitals, cemeteries, insurance offices, and health and social service organizations. These entities may or may not be separately incorporated; however, each is distinct from the Chancery and maintains separate financial records.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Accounting**

The accompanying financial statements have been prepared under accounting principles generally accepted in the United States of America (“US GAAP”). The following are the more significant accounting policies consistently applied in the preparation of the accompanying financial statements.

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:

Unrestricted Net Assets 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 Archbishop of Newark. However, the operating use of these resources is not externally restricted.

Unrestricted net assets at June 30, 2018 and 2017 consist of the following:

	<u>2018</u>	<u>2017</u>
Amounts designated for schools and education	\$ 21,170,667	\$ 19,959,837
Amounts designated for Cathedral Health Pension	13,500,000	-
Parish Loan Fund	11,000,000	11,000,000
Net investment in property and equipment	10,316,435	11,872,845
Undesignated	<u>28,884,481</u>	<u>41,879,447</u>
Total unrestricted net assets	<u>\$ 84,871,583</u>	<u>\$ 84,712,129</u>

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The Parish Loan Fund represents operating resources designated for a lending program established primarily for the benefit of Archdiocesan parishes.

Temporarily Restricted Net Assets - net assets that have been limited by 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 and reported on the statement of activities and changes in net assets as net assets released from restrictions.

Temporarily restricted net assets at June 30, 2018 and 2017 consist of the following:

	<u>2018</u>	<u>2017</u>
For use in the subsequent fiscal periods	\$ 6,385,906	\$ 4,212,912
For support of specific programs	59,603,241	57,180,675
For support of Campaign activities - Works of Mercy	2,875	670,234
For support of Campaign activities - Parish renewal	<u>4,253,294</u>	<u>4,375,546</u>
Total temporarily restricted net assets	<u>\$ 70,245,316</u>	<u>\$ 66,439,367</u>

Permanently Restricted Net Assets - include funds wherein donors have stipulated that the principal contributed be invested and maintained in perpetuity. Income earned from these investments is available for expenditure according to restrictions imposed by donors and consideration of the appropriation criteria by the Chancery pursuant to the New Jersey Uniform Prudent Management of Institutional Funds Act ("UPMIFA"). Permanently restricted net assets at June 30, 2018 and 2017 consist of the following:

	<u>2018</u>	<u>2017</u>
For support of priestly ministry and formation	\$ 31,072,901	\$ 30,835,274
For support of Catholic education	17,550,526	17,550,526
For support of social ministry	5,245,237	5,245,237
For support of the Cathedral Basilica	8,622,295	8,622,295
For support of youth ministries	2,279,420	2,279,420
For support of pastoral and other programs	11,718,860	11,718,860
Property and equipment	19,727,825	19,727,825
For support of Campaign activities - Tuition assistance	8,451,299	8,720,413
For support of Campaign activities - Retired priest care	2,817,787	2,906,804
For support of Campaign activities - Seminarian support	<u>3,756,362</u>	<u>3,875,739</u>
Total permanently restricted net assets	<u>\$ 111,242,512</u>	<u>\$ 111,482,393</u>

# ROMAN CATHOLIC ARCHDIOCESE OF NEWARK CHANCERY OFFICE

## Notes to Financial Statements

### June 30, 2018 and 2017

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#### **Cash and Cash Equivalents**

Cash and cash equivalents are defined as cash balances held in bank accounts and short-term investments held by the Chancery for operating use with original maturities of three months or less from the date of purchase, except for those cash equivalents which are included in the Chancery's investment portfolio which are held for long-term investment purposes.

#### **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 may exceed federally insured limits at times. To minimize risk, the Chancery's cash accounts are placed with high-credit quality financial institutions.

As of June 30, 2018, approximately 97% of the Chancery's investments were held in the custody of Bank of New York Mellon. As of June 30, 2018, individual investment positions that exceeded 10% of the investment balance consisted of three (3) funds that totaled approximately \$287 million or approximately 57% of the Chancery's investments.

The Chancery regularly evaluates its depository arrangements and investments, including performance thereof.

#### **Investments**

Investments in publicly traded debt and equity securities are recorded at fair value determined on the basis of quoted market prices as of the reporting date. Investments in commingled funds and other investments that are not readily marketable are reported at fair value as determined by the respective investment manager as of the reporting date. Such valuations involve assumptions and methods that are reviewed by the Chancery and which have been concluded to be reasonable and appropriate. Because such investments are not readily marketable, their estimated value is subject to uncertainty and therefore may differ from the value that would have been reported had a ready market for such investments existed. Such difference could be material. However, the risk to the Chancery is limited to the amount of the Chancery's investment in each of the respective funds with respect to its ownership interests.

Purchases and sales of securities are reflected on a trade-date basis. Gains and losses on sales of securities are based on the first-in, first-out method and are recorded on the statement of activities and changes in net assets in the period in which the securities are sold. Dividends and interest are recognized as earned.

#### **Fair Value Measurements**

The Financial Accounting Standards Board ("FASB") Topic 820, under the FASB Accounting Standards Codification ("ASC") 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

# ROMAN CATHOLIC ARCHDIOCESE OF NEWARK CHANCERY OFFICE

## Notes to Financial Statements

### June 30, 2018 and 2017

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circumstances. The hierarchy is broken down 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 reporting 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 measurement 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 reporting 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.

The Chancery also measures certain investments using a net asset value ("NAV") per share for purposes of reporting the fair value of all its underlying 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. Investment meeting such criteria are exempted from categorization within the fair value hierarchy and related disclosures. Instead, the Chancery separately discloses the information required for assets measured using the NAV practical expedient, and discloses a reconciling item between the total amount of investments categorized within the fair value hierarchy and total investments measured at fair value on the face of the 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 an entity. 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.

#### **Split-Interest Agreements**

Assets held under charitable gift annuities and life income funds with the Chancery acting as trustee are included in investments. A portion of the contributed assets is considered to be a charitable contribution at the date of gift. 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.

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 stipulated life beneficiaries. Under the life income funds, deferred revenue is recorded representing the amount of the discount for future interests.

**ROMAN CATHOLIC ARCHDIOCESE OF NEWARK CHANCERY OFFICE**  
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Upon termination of a life interest, the share of the corpus attributable to the life tenant becomes available to the Chancery. Changes in the life expectancy of the donor or beneficiary(ies), amortization of the discount, and other changes in the estimates of future payments are recognized annually by the Chancery based on actuarially determined valuations. The discount rates used to value split-interest agreements range from 2.2% to 3.4% at June 30, 2018, and from 1.4% to 2.6% at June 30, 2017.

The Chancery has established an annuity fund and pooled life income fund which are invested in fixed income securities, mutual funds, and money market funds. The assets of the annuity and pooled life income funds at June 30, 2018 and 2017 totaled \$1,134,373 and \$1,415,141, respectively. Obligations due under split-interest agreements totaled \$682,274 and \$879,706 as of June 30, 2018 and 2017, respectively.

**Accounts and Loans Receivable**

Accounts receivable relate primarily to amounts due from parish assessments as well as interest receivable from the Chancery's investment portfolio. Loans receivables consist of amounts loaned to parishes and other affiliated organizations that are in financial need or that require capital repairs or improvements. Interest income on loans receivables accrued at rates ranging from 2.25% to 5.75% on the respective unpaid principal balance during each of the years ended June 30, 2018 and 2017. Loans may not have specific repayment terms, but management expects repayment when the parish or other affiliated organization has financial resources available. The Chancery considers a loan to be impaired when, based on current information, it determines that it is probable that the Chancery will be unable to collect all amounts due in accordance with the terms of the original loan agreement. In this regard, impaired loans include loans where a significant delay in collection is expected and/or there is a shortfall in the amount of contractual payments paid to the Chancery.

Because of the uncertainty surrounding collection, management provides an allowance for doubtful accounts based on the known financial condition of the respective parish or other affiliate organization, as well as historical collection experience. These allowances are maintained at a level management considers adequate to provide for potentially uncollectible accounts. These estimates are reviewed periodically and, if the financial condition of a parish or other affiliate organization changes significantly, the Chancery will evaluate the recoverability of any accounts or loans receivable from that organization and write-off any amounts that are no longer considered to be recoverable. Subsequent collections of receivables previously written-off are credited to income.

**Property and Equipment**

Property and equipment are stated at cost, if purchased, or at fair value as determined on the date of gift if donated. Additions and improvements costing more than \$10,000 and with useful lives greater than three years are capitalized. Maintenance and repairs are expensed as incurred. Depreciation expense is calculated using the straight-line method over the following useful lives:

	<u>Years</u>
Buildings and building and land improvements	15 - 35
Machinery, equipment and vehicles	3 - 15
Furniture and fixtures	10
Computers	3 - 7

# ROMAN CATHOLIC ARCHDIOCESE OF NEWARK CHANCERY OFFICE

## Notes to Financial Statements

### June 30, 2018 and 2017

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Leasehold improvements are depreciated over the shorter of the respective lease agreement to which they pertain or the economic life of the related betterment.

#### **Contributions, Other Revenue, Support and Gains**

Contributions and unconditional promises to give are recorded as revenue when received. Conditional contributions are recorded as revenue when the conditions on which they depend have been substantially met. Donor pledges to be paid to the Chancery over a period of years are recorded at the present value of their estimated future cash flows using a credit adjusted discount rate assigned in the year the respective pledge originates. A discount pertaining to pledges receivable was determined not to be required at June 30, 2018 and 2017. Other unrestricted revenues, support and gains are recorded as income when earned or realized.

Contributions that are permanently restricted by donors for use as endowments are invested in perpetuity. Earnings therefrom are used for operating purposes when expenditures satisfy the donors' restrictions and such amounts have been appropriated for expenditure. Earnings in excess of related expenditures and appropriations during a fiscal year are added to temporarily restricted net assets.

#### **Annual Appeal Contributions**

During the first quarter of each calendar year, a direct appeal is made to the people of the Archdiocese for operating support. Contributions received through the end of the applicable June 30<sup>th</sup> fiscal year are temporarily restricted for operating support of the following fiscal year.

#### **Expense Allocations**

Included in operating expenses are the costs of health care and social services, pastoral, priestly ministry and formation, educational, public affairs/information services and other program services provided directly by the Chancery and subsidies given to Archdiocesan affiliates providing such services. 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 appropriate.

#### **Custodial Funds**

Amounts received and held by the Chancery as a fiscal agent for others are recorded as custodial liabilities. Included in these funds are: (a) proceeds of special collections made by parishes and transferred to the Chancery for forwarding to the proper recipient; and (b) deposits from affiliated entities to the Investment Management Program and Cash Management Program administered by the Chancery, and other amounts held in safekeeping for affiliated entities.

#### **Conditional Asset Retirement Obligations**

Asset retirement obligations include, but are not limited to, certain types of environmental issues that are legally required for remediation upon an asset's retirement as well as contractually required asset retirement obligations. Conditional asset retirement obligations ("CARO") are legal obligations associated with the eventual retirement of tangible long-lived assets in which the timing and/or method of settlement is conditioned on a future event that may or may not be within the control of the entity. An entity is required to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value of the

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liability can be reasonably estimated, even if conditioned on a future event. The Chancery has conditional asset retirement obligations primarily associated with the eventual remediation and abatement of asbestos located within the construct of certain of its buildings. As of June 30, 2018 and 2017, the CARO totaled \$2,340,287 and \$2,170,384, respectively. For the years ended June 30, 2018 and 2017, the accretion of interest related to the CAROs totaled \$169,903 and \$124,971, respectively.

#### **Operating Measure**

The Chancery classifies its statement of activities and changes in net assets into operating and nonoperating activities. Operating activities principally include all income and expenses related to carrying out the Chancery's mission, including interest and dividend and rental income. Nonoperating activities include realized and unrealized return (losses) on investments, gain or loss on disposition of assets and other activities considered to be of a more unusual or nonrecurring nature, if any.

#### **Tax Status and Income Taxes**

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 ("Code"). The Archdiocese of Newark is listed in "The Official Catholic Directory" and therefore is exempt from income tax. Accordingly, the accompanying financial statements reflect no provision for income taxes.

The Chancery follows guidance that established criterion that an individual tax position must meet for some or all of the benefits of that position to be recognized in an entity's financial statements. This standard requires the Chancery to determine 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 material uncertain tax positions that would require recognition or disclosure in the accompanying financial statements.

#### **Estimates**

The preparation of financial statements in conformity with US GAAP requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, 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 financial statements relate to the determination of depreciation expense, obligations under split-interest agreements, the reported fair value of certain financial instruments, and the collectibility of accounts, loans and contributions receivable. Actual results could differ from those estimates.

#### **Fair Value of Financial Instruments**

The estimated fair values of the Chancery's financial instruments have been determined by the Chancery using appropriate market information and valuation methodologies. Considerable judgment is required to

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develop the estimates of fair value; thus, the estimates provided herein are not necessarily indicative of the amounts that could be realized in a current market exchange.

The carrying value of cash, cash equivalents, accounts and loans receivable, accounts payable and accrued expenses, custodial funds and other liabilities is a reasonable estimate of their fair value due to their short-term nature. The carrying amounts of the Chancery's investments approximate fair value. The carrying value of contributions receivable is estimated based on the present value of expected future cash flows, and thus approximates fair value.

#### **Reclassifications**

Certain prior period amounts have been reclassified in order to conform to the 2018 presentation. Such reclassifications did not change total assets, liabilities, revenues, expenses or changes in net assets as reflected in the 2017 financial statements.

#### **Recently Issued Accounting Pronouncements**

In August 2016, the FASB issued Accounting Standards Update ("ASU") No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statement of Not-for-Profit Entities*. The new guidance improves and simplifies the current net asset classification requirements and information presented in financial statements and notes that is useful in assessing a not-for-profit's liquidity, financial performance and cash flows. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017 (i.e., fiscal year ending June 30, 2019), with early adoption permitted. ASU 2016-14 is to be applied retroactively with transition provisions.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*, which supersedes most of the current revenue recognition requirements. The underlying principle is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of time value of money in the transaction price, and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The guidance also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. In August 2015, the FASB issued ASU No. 2015-14, *Revenue from Contracts with Customers: Deferral of the Effective Date*, which deferred the effective date of ASU 2014-09 by one year. The guidance is effective for the interim and annual periods on or after December 15, 2017 (i.e., fiscal year ending June 30, 2019). The guidance permits the use of either a retrospective or cumulative effect transition method.

In June 2018, the FASB issued ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which requires organizations to determine whether a contribution is conditional based on whether an agreement includes a barrier that must be overcome and either a right of return of assets transferred or a right of release of a promisor's obligation to transfer assets. If the agreement (or a referenced document) includes both, the recipient is not entitled to the transferred assets (or a future transfer of assets) until it has overcome the barriers in the agreement. For recipients, the effective date is for annual periods beginning after December 15, 2018 (i.e., fiscal year ending June 30, 2020).

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In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which requires organizations that lease assets (lessees) to recognize the assets and related liabilities for the rights and obligations created by the leases on the statements of financial position for leases with terms exceeding 12 months. ASU No. 2016-02 defines a lease as a contract or part of a contract that conveys the right to control the use of identified assets for a period of time in exchange for consideration. The lessee in a lease will be required to initially measure the right-of-use asset and the lease liability at the present value of the remaining lease payments, as well as capitalize initial direct costs as part of the right-of-use asset. ASU No. 2016-02 is effective for the Chancery for fiscal year 2020. Early adoption is permitted.

In March 2017, the FASB issued final guidance on the presentation of net periodic pension and postretirement benefit cost (“Benefit Cost”). The guidance requires bifurcation whereby the service cost component will be presented with the other components of employee compensation costs in operating expenses while the other components will be reported in nonoperating activities. While this guidance changes the presentation of Benefit Costs in the statement of activities, it will not change the rules over how the costs are measured. This guidance will be effective for annual periods beginning after December 15, 2018 (i.e., fiscal year ending 2020), with early adoption permitted.

**Subsequent Events**

The Chancery evaluated its June 30, 2018 financial statements for subsequent events through November 20, 2018, the date the financial statements were available to be issued. The Chancery is not aware of any subsequent events which would require recognition or disclosure in the accompanying financial statements.

**3. ACCOUNTS AND LOANS RECEIVABLE, NET**

As of June 30, 2018 and 2017, accounts and loans receivable, net, consist of the following:

	<u>2018</u>	<u>2017</u>
Parishes and schools	\$ 30,540,468	\$ 29,180,156
Interest and dividends	664,233	1,897,583
Other notes and loans	<u>1,675,865</u>	<u>1,692,510</u>
Total accounts and loans receivable	32,880,566	32,770,249
Allowance for doubtful accounts - Other	<u>(19,415,678)</u>	<u>(20,064,119)</u>
Total allowance for doubtful accounts	<u>(19,415,678)</u>	<u>(20,064,119)</u>
Accounts and loans receivable, net	<u>\$ 13,464,888</u>	<u>\$ 12,706,130</u>

A significant portion of the accounts receivable balance has accumulated over several years and relates to financial transactions with affiliates. Such transactions include assessment billings as well as loans to fund the respective affiliate’s operations in furtherance of pastoral, vocational, educational, and other services to parish communities.

**4. INVESTMENTS**

As of June 30, 2018 and 2017, investments (including investments held pursuant to split-interest agreements) consist of the following:

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	2018		2017	
	Cost Basis	Fair Value	Cost Basis	Fair Value
Cash and cash equivalents	\$ 3,309,998	\$ 3,309,998	\$ 4,587,081	\$ 4,587,081
Fixed income	15,852,841	15,709,705	15,938,764	15,845,258
Equities	127,163,234	153,127,335	151,783,890	186,656,641
Common trust funds	45,116,319	47,604,555	-	-
Commingled funds	<u>291,138,523</u>	<u>286,791,610</u>	<u>267,035,637</u>	<u>268,387,125</u>
Subtotal	482,580,915	506,543,203	439,345,372	475,476,105
Less: Trades not yet settled - due (to) from custodian	<u>(107,310)</u>	<u>(107,310)</u>	<u>125,824</u>	<u>125,824</u>
Investments	<u>\$ 482,473,605</u>	<u>\$ 506,435,893</u>	<u>\$ 439,471,196</u>	<u>\$ 475,601,929</u>

For the years ended June 30, 2018 and 2017, approximately \$5,778,000 and \$5,279,000, respectively, of investment return related to custodial funds administered by the Chancery for others has not been reflected on the accompanying statements of activities and changes in net assets.

In general, investment securities 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 financial statements.

The following table prioritizes the inputs used by the Chancery to report the fair value of its investments, excluding commingled funds, in the fair value hierarchy at June 30, 2018 and 2017:

	2018		
	Level 1	Net Asset Value	Total
Cash and cash equivalents	\$ 3,309,998	\$ -	\$ 3,309,998
Fixed income	15,709,705	-	15,709,705
Equities	153,127,335	-	153,127,335
Common trust funds *	-	47,604,555	47,604,555
Commingled funds*	-	286,791,610	286,791,610
Total investments**	<u>\$ 172,147,038</u>	<u>\$ 334,396,165</u>	<u>\$ 506,543,203</u>

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	<b>2017</b>		
	<b>Level 1</b>	<b>Net Asset Value</b>	<b>Total</b>
Cash and cash equivalents	\$ 4,587,081	\$ -	\$ 4,587,081
Fixed income	15,845,258	-	15,845,258
Equities	186,656,641	-	186,656,641
Commingled funds*	-	<u>268,387,125</u>	<u>268,387,125</u>
Total investments**	<u>\$ 207,088,980</u>	<u>\$ 268,387,125</u>	<u>\$ 475,476,105</u>

\* In accordance with ASC Subtopic 820-10, investments measured at fair value using NAV per share as a practical expedient have not been categorized in the fair value hierarchy.

\*\* Excludes trades not yet settled, due (to) from custodian as of June 30, 2018 and 2017.

The classification of investments, excluding commingled funds, within the fair value hierarchy, as presented above, is not intended to correspond to the level of perceived risk associated with such financial instruments. The Chancery's policy is to recognize transfers in and transfers out of levels at the end of each respective reporting period.

The Chancery uses NAV to determine and report the fair value of all the underlying 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, as defined by ASC Topic 740. The following table lists such investments by major category:

<b>2018</b>							
<b>Type</b>	<b>Strategy</b>	<b>NAV In Funds</b>	<b># of Funds</b>	<b>Remaining Life</b>	<b>\$ Amount of Unfunded Commitments</b>	<b>Redemption Terms</b>	<b>Redemption Restrictions</b>
Commingled funds	Seeks to track and/or outperform the Barclays Capital U.S. Aggregate Bond Index.	\$ 286,791,610	3	To be determined by the investment fund managers.	N/A	All funds have daily redemption with no advance notice.	N/A
Common trust funds	Seeks to track the performance of the Russell 1000 Growth Index	\$ 47,604,555	1	To be determined by the investment fund managers.	N/A	All funds have daily redemption with no advance notice.	N/A

  

<b>2017</b>							
<b>Type</b>	<b>Strategy</b>	<b>NAV In Funds</b>	<b># of Funds</b>	<b>Remaining Life</b>	<b>\$ Amount of Unfunded Commitments</b>	<b>Redemption Terms</b>	<b>Redemption Restrictions</b>
Commingled funds	Seeks to track and/or outperform the Barclays Capital U.S. Aggregate Bond Index.	\$ 268,387,125	3	To be determined by the investment fund managers.	N/A	All funds have daily redemption with no advance notice.	N/A

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**5. ENDOWMENT**

The Chancery’s donor-restricted (gifted) endowment consists of approximately 30 individual funds established for a variety of purposes, principally in support of priestly ministry and formation, Catholic education, and pastoral and other programs; it excludes permanently restricted property and equipment and the pooled life income fund. 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 its permanent endowment; (b) the original value of subsequent gifts to its permanent endowment; and (c) accumulations of income to its 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 earnings therefrom be used for donor intended purposes, if any.

Net appreciation and interest and dividends earned on the corpus of permanently restricted endowment net assets, under UPMIFA, is spendable, and, accordingly, the Chancery classifies such return as temporarily restricted net assets, pending appropriation for expenditure by the Archbishop of Newark.

The Chancery’s endowment totals \$140,301,122 and \$136,644,158 at June 30, 2018 and 2017, respectively, and consists of the following net assets:

	<b>June 30, 2018</b>			
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Donor restricted endowment funds	\$ -	\$ 58,447,891	\$ 85,459,465	\$ 143,907,356

  

	<b>June 30, 2017</b>			
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Donor restricted endowment funds	\$ -	\$ 55,028,554	\$ 81,615,604	\$ 136,644,158

Excluded from permanently restricted net assets, in the tables, above at June 30, 2018 and 2017 are \$164,950 and \$166,026 of pooled life income funds, respectively, \$5,889,196 and \$9,972,938 of pledges receivable, net, respectively, and \$19,727,825 of property and equipment each year.

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The Chancery's individual endowment funds are pooled 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 return is achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Chancery targets a diversified asset allocation that places an equal emphasis on equity-based and fixed income investments to achieve its long-term return objectives within prudent risk constraints.

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

	<b>2018</b>			
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
<b>Endowment net assets, beginning of year</b>	\$ -	\$ 55,028,554	\$ 81,615,604	\$ 136,644,158
Dividends and interest on endowment investments	-	2,607,321	-	2,607,321
Net realized and unrealized depreciation in fair value of endowment investments	-	3,113,912	-	3,113,912
New gifts	-	-	237,627	237,627
Collection of pledges receivable	-	-	3,606,234	3,606,234
Endowment return used for operations	-	(2,301,896)	-	(2,301,896)
<b>Endowment net assets, end of year</b>	<b>\$ -</b>	<b>\$ 58,447,891</b>	<b>\$ 85,459,465</b>	<b>\$ 143,907,356</b>

  

	<b>2017</b>			
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
<b>Endowment net assets, beginning of year</b>	\$ -	\$ 45,569,911	\$ 75,981,131	\$ 121,551,042
Dividends and interest on endowment investments	-	2,404,237	-	2,404,237
Net realized and unrealized depreciation in fair value of endowment investments	-	9,245,423	-	9,245,423
New gifts	-	-	104,454	104,454
Collection of pledges receivable	-	-	5,530,019	5,530,019
Endowment return used for operations	-	(2,191,017)	-	(2,191,017)
<b>Endowment net assets, end of year</b>	<b>\$ -</b>	<b>\$ 55,028,554</b>	<b>\$ 81,615,604</b>	<b>\$ 136,644,158</b>

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level the donor or UPMIFA requires the Chancery to retain as a fund of perpetual duration. Deficiencies of this nature generally result from unfavorable market fluctuations or prudent board appropriations that reduce the fair value of individual endowment funds below their respective historical dollar value. In accordance with US GAAP, such amounts are charged to unrestricted net assets.

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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 and 2017, there were no endowment funds below the level required to be maintained by law or donor restriction.

**6. CONTRIBUTIONS AND PLEDGES RECEIVABLE, NET**

Contributions and pledges receivable, net, consist of unconditional promises to give cash, which are reported as either temporarily or permanently restricted net assets based on donor-imposed stipulations.

During fiscal year 2015, the Archdiocese commenced a campaign (“We Are Living Stones” or the “Campaign”) aimed to raise a minimum of \$80 million for various Diocesan programs including but not limited to providing support directly to parishes, continuing education and training for priests and laity, and the establishment of endowments to support tuition assistance, retired priest care and medical needs, and seminarian support. As of June 30, 2018, unconditional promises to give received on behalf of the Campaign totaled approximately \$7,361,000, net of a reserve for uncollectible pledges of approximately \$2,736,000, included in contributions and pledges receivable, net on the statement of financial position. As of June 30, 2017, unconditional promises to give received on behalf of the Campaign totaled approximately \$12,466,000, net of a reserve for uncollectible pledges of approximately \$2,736,000. Such amounts are included within contributions and pledges receivable, net, on the accompanying statements of financial position. The additional approximately \$850,000 of contributions and pledges receivable, net, included on the statement of financial position consist of pledges received not relating to the Campaign.

In connection with the Archdiocese’s on-going Campaign activities, amounts received by the Chancery for the benefit of other Diocesan entities are recorded as agency transactions, by increasing cash and recognizing an off-setting payable due to the stipulated entity to which the proceeds pertain. It is the policy of the Chancery to only recognize cash amounts received for the benefit of the other named beneficiaries. As of June 30, 2018 and 2017, the Chancery had cash collections totaling approximately \$427,000 and \$839,000, respectively, for the benefit of other Diocesan entities which will be paid in the subsequent fiscal year and have been reported as amounts due to affiliates - campaign activities on the accompanying statements of financial position. In addition to the cash amounts received, as of June 30, 2018 and 2017, the Chancery also received total commitments from donors to be paid to named beneficiaries, other than the Chancery, totaling approximately \$10,110,000 and \$14,223,000, respectively. Such commitments have not been recognized in the accompanying financial statements.

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The following table presents a summary of the Campaign activities as of and for the years ended June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>	<u>Inception to Date</u>
Pledges receivable <sup>(a)</sup>	\$ 557,165	\$ 6,784,813	\$ 64,622,246
Less: cash received on pledges receivable <sup>(b)</sup>	<u>10,084,810</u>	<u>16,466,808</u>	<u>44,724,108</u>
Gross pledges receivable	<u>\$ (9,527,645)</u>	<u>\$ (9,681,995)</u>	<u>\$ 19,898,138</u>
Amounts due to other beneficiaries <sup>(c)</sup>	\$ 990,035	\$ 2,673,121	\$ 27,698,559
Less: amounts not collected <sup>(d)</sup>	(4,422,967)	(4,498,894)	9,800,371
Less: amounts paid to other beneficiaries <sup>(e)</sup>	<u>5,477,350</u>	<u>7,401,129</u>	<u>17,123,856</u>
Amounts received by Chancery due to affiliates	<u>\$ (64,348)</u>	<u>\$ (229,114)</u>	<u>\$ 774,332</u>
Pledges receivable due to Chancery <sup>(f)</sup>	<u>\$ (5,104,678)</u>	<u>\$ (5,183,101)</u>	<u>\$ 10,097,767</u>
Allowance for doubtful pledges			<u>\$ (2,736,440)</u>
Other pledge receivables			<u>\$ 850,168</u>
Contributions and pledges receivable, net			<u>\$ 8,211,495</u>
Campaign revenue by program <sup>(g)</sup>			
Reimbursement of campaign costs	\$ 164,016	\$ 611,958	\$ 6,465,013
Works of Mercy	2,875	670,234	8,719,885
Parish Renewal	(122,252)	571,090	4,300,648
Endowments	(477,508)	2,284,359	17,214,091

<sup>(a)</sup> Represent pledges due to the Chancery and other beneficiaries

<sup>(b)</sup> Represent cash received by the Chancery on pledges

<sup>(c)</sup> Represent amounts payable to other beneficiaries upon collection

<sup>(d)</sup> Amounts due to other beneficiaries are reduced to the extent cash is not received

<sup>(e)</sup> Represent amounts paid to other beneficiaries

<sup>(f)</sup> Represent gross pledges receivable less amounts due to other beneficiaries that have not been collected

<sup>(g)</sup> Represent revenues recorded by Chancery by program purpose

During fiscal year 2018, the Chancery received notification of certain intentions to give. However, due to their conditional nature, these gifts have not been reflected on the accompanying financial statements.

**7. PROPERTY AND EQUIPMENT, NET**

The principal properties owned by the Archdiocese and included on the accompanying financial statements of the Chancery are the Cathedral Basilica of the Sacred Heart, the Redemptoris Mater House of Formation, the St. John Vianney Residence for retired priests and the Archdiocesan Center. Property is stated at cost, or if donated, at estimated fair value determined at the date of gift, less accumulated depreciation. Property

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acquired with applicable donor-restricted contributions are recorded as permanently restricted. The proceeds from the sale of permanently restricted property are restricted to the subsequent acquisition of other property and equipment intended for a similar purpose.

Property and equipment, net, consists of the following as of June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Buildings and building and land improvements	\$ 62,215,020	\$ 62,185,040
Machinery, equipment, vehicles, furniture and computers	5,447,468	5,051,696
Leasehold improvements	5,275,904	5,275,904
	72,938,392	72,512,640
Less: Accumulated depreciation	<u>(48,682,751)</u>	<u>(46,870,492)</u>
	24,255,641	25,642,148
Land	8,000,497	8,000,497
Construction/work-in-process	<u>128,409</u>	<u>128,409</u>
Property and equipment, net	<u>\$ 32,384,547</u>	<u>\$ 33,771,054</u>

Depreciation expense of \$1,812,259 and \$1,543,749 for the years ended June 30, 2018 and 2017, respectively, was provided for on a straight-line basis. At June 30, 2018 and 2017, property and equipment and accumulated depreciation includes a capitalized conditional asset retirement obligation at a cost of \$174,108, which has been fully depreciated.

**8. PENSION AND POSTRETIREMENT BENEFIT PLANS**

**Lay and Priest Pension Plans**

The Chancery participates in a noncontributory defined benefit pension plan covering substantially all full-time lay employees. To become eligible for the Lay Pension Plan, employees must have at least three years of service. The lay pension plan provides for 100% vesting after five years of service. Benefits are based on the final five-year average earnings prior to retirement. Contribution rates applied to earnings are determined annually using the aggregate cost method and a 7% return on investments compounded annually.

The Chancery also participates in a noncontributory Priests' Retirement Program covering priests assigned to the Chancery. At retirement, benefits are based on a flat dollar amount. Annual contribution rates are actuarially determined using the aggregate cost method, assuming no decrements and a 7% return on investments compounded annually.

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, on a standalone basis. In addition, because the plans are considered multi-employer plans, they are only subject to certain minimum reporting requirements. Pension expense allocated to the Chancery for both plans for the years ended June 30, 2018 and 2017 amounted to approximately \$1,365,000 and \$1,372,000, respectively.

The plans are considered church plans and are therefore exempt from the provisions of the Employee Retirement Income Security Act of 1974 ("ERISA"), as amended.

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**9. GUARANTEES**

Under a March 2004 agreement with the Knights of Columbus, a fraternal benefit society chartered by the General Assembly of the State of Connecticut, the Archdiocese has guaranteed a mortgage loan made to the Friends of the Newark Monastery, Inc., a New Jersey not-for-profit corporation, for the purchase of a monastery in Newark, New Jersey in the amount of \$1,230,000. Payments on this mortgage by the Friends of the Newark Monastery, Inc. commenced April 1, 2004 in the amount of \$6,896 per month, with the final payment due on March 1, 2024. Should the Friends of the Newark Monastery, Inc. default on this loan, the Chancery would become liable for all remaining payments due to the lender. Management has determined the fair value of this guarantee to be immaterial to its financial statements as of June 30, 2018 and 2017.

**10. LOANS TO AFFILIATES**

As of June 30, 2016, the accounts and loans receivable balance includes a loan advanced during 2006 of \$1,250,000 and a previously outstanding loan of \$7,337,719 to Catholic Charities (“CC”) of the Archdiocese of Newark for working capital purposes. The balances are due on demand. These balances were fully reserved for as of June 30, 2016. During fiscal 2017, the Chancery determined that such amounts were no longer recoverable and accordingly, wrote-off the loan receivables and related allowances for doubtful account in their entirety.

In addition, on April 27, 2005, the Chancery entered into a loan agreement with Cathedral Healthcare for \$7,500,000 for working capital purposes, maturing on April 26, 2020. As of June 30, 2012, the outstanding balance of such loan receivable, including accrued interest, totaled \$6,200,643. In October 2012, the Chancery entered into an agreement with University Heights Property Company (“UHPC”), a corporation of Cathedral Healthcare, to purchase an office building, parking garage and related air rights for approximately \$9.2 million. The purchase consisted of a payment by the Chancery in satisfaction of the first mortgage held by UHPC, of approximately \$3 million, owed to Sovereign Bank and a transfer of Cathedral Healthcare’s secondary mortgage rights, of approximately \$6.2 million, to the Chancery, in satisfaction of a loan receivable. In October 2012, the Chancery entered into an agreement to sell this property to AES 1160 Partners, LLC, for approximately \$8.8 million. The sale closed in July 2013. In conjunction with the sale, the Chancery received a five-year mortgage receivable of \$2.25 million, which requires monthly interest payments that accrue at 3% per annum. The mortgage receivable which matures on July 31, 2018, was fully paid during fiscal year 2018.

**11. MORTGAGE NOTE RECEIVABLE**

In May 2017, the Chancery extended a \$1,360,000 mortgage note to 395-403 University Avenue, LLC to fund the purchase of property located in Newark, New Jersey. The mortgage note bears interest at a fixed rate of 4.00% per annum through May 22, 2020 at which date the principal and all accrued interest becomes due. As of June 30, 2018, the mortgage note has a balance of \$1,360,000.

**12. CONTINGENCIES**

The Chancery, in the normal course of its operations, is a party to various legal proceedings and complaints, some of which are covered by insurance. 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 financial position, changes in net assets or cash flows.