Financial Statements Together with
Report of Independent Certified Public Accountants

ROMAN CATHOLIC ARCHDIOCESE OF NEWARK
CHANCERY OFFICE

June 30, 2017 and 2016

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:

Report on the financial statements
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, 2017 and 2016, 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 Chancery'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 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 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, 2017 and 2016, 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.

Grant Thornton LLP

Iselin, New Jersey
November 13, 2017

ROMAN CATHOLIC ARCHDIOCESE OF NEWARK CHANCERY OFFICE
Statements of Financial Position
As of June 30, 2017 and 2016

ASSETS	2017	2016
Cash and cash equivalents, including custodial funds of $15,240,765 and $10,720,579 as of June 30, 2017 and 2016, respectively	$ 25,850,212	$ 19,790,728
Contributions and pledges receivable, net	12,466,173	16,671,316
Accounts and loans receivable, net	12,706,130	15,158,624
Prepaid expenses and other assets	1,807,556	2,024,237
Mortgage receivables	2,981,647	3,007,885
Note receivable	-	4,000,000
Long-term investments, including custodial funds of $269,969,393 and $255,660,398 as of June 30, 2017 and 2016, respectively	475,601,929	432,489,961
Property and equipment, net	33,771,054	32,320,835
Total assets	$ 565,184,701	$ 525,463,586
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	$ 5,559,133	$ 6,410,479
Accrued subsidies to affiliates	7,892,751	7,710,261
Amounts due to affiliates - campaign activities	838,680	1,067,794
Obligations due under split-interest agreements	879,706	1,028,269
Custodial funds	285,210,158	266,380,977
Conditional asset retirement obligations	2,170,384	2,045,413
Total liabilities	302,550,812	284,643,193
Contingencies		
NET ASSETS		
Unrestricted	84,712,129	71,867,378
Temporarily restricted	66,439,367	60,646,016
Permanently restricted	111,482,393	108,306,999
Total net assets	262,633,889	240,820,393
Total liabilities and net assets	$ 565,184,701	$ 525,463,586

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, 2017 and 2016

	2017	2016
CHANGE IN UNRESTRICTED NET ASSETS		
Operating support and revenue:		
Archdiocesan assessments	$ 18,510,436	$ 18,603,722
Cemeteries assessments	3,652,063	3,914,254
Campaign contributions	611,958	3,641,287
Other contributions, bequests, and collections	1,865,464	1,258,054
Interest and dividends	3,313,854	3,126,518
Rental income	4,948,575	4,371,770
Other revenue	6,595,221	5,537,372
Total operating support and revenue	39,497,571	40,452,977
Net assets released from restrictions due to satisfaction of time and program restrictions:		
Annual Appeal	2,488,299	4,543,712
Campaign - Works of Mercy	5,924,425	1,622,545
Endowment fund earnings	2,191,017	2,406,541
Other	1,321,792	195,986
Total net assets released from restrictions	11,925,533	8,768,784
Total operating support, revenue and net assets released from restrictions	51,423,104	49,221,761
OPERATING EXPENSES		
Pastoral	13,658,134	13,656,982
Educational	12,786,371	11,753,475
Health care and social services	5,495,459	5,647,634
Priestly ministry and formation	3,468,020	3,449,313
Public affairs/information services	1,297,102	530,036
Other program services	4,943,326	4,925,188
Program expenses	41,648,412	39,962,628
Management and general	9,243,184	7,779,752
Fundraising	1,744,065	4,924,793
Total operating expenses before environmental remediation	52,635,661	52,667,173
Environmental remediation	-	582,103
Decrease in unrestricted net assets from operations	(1,212,557)	(4,027,515)
NONOPERATING ACTIVITIES		
Net realized and unrealized gain (loss) on investments	14,057,308	(2,360,910)
Gain on sale of properties	-	2,081,348
Increase (decrease) in unrestricted net assets from nonoperating activities	14,057,308	(279,562)
Increase (decrease) in unrestricted net assets	$ 12,844,751	$ (4,307,077)

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, 2017 and 2016

	2017	2016
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS		
Annual Appeal	$ 4,212,912	$ 2,488,299
Campaign contributions	1,241,324	9,663,534
Other contributions	404,795	543,684
Interest and dividends	2,404,237	2,357,609
Change in present value of charitable gift future annuities	14,601	92,860
Total contributions and other	8,277,869	15,145,986
Net assets released from restrictions due to satisfaction of time and program restrictions:		
Annual Appeal	(2,488,299)	(4,543,712)
Campaign - Works of Mercy	(5,924,425)	(1,622,545)
Endowment fund earnings	(2,191,017)	(2,406,541)
Other	(1,321,792)	(195,986)
Total net assets released from restrictions	(11,925,533)	(8,768,784)
Net realized and unrealized gain (loss) on investments	9,245,423	(2,305,914)
Change in allowance for doubtful accounts on campaign pledges receivable	195,592	(644,153)
Increase in temporarily restricted net assets	5,793,351	3,427,135
CHANGE IN PERMANENTLY RESTRICTED NET ASSETS		
Campaign contributions	2,284,359	12,957,213
Other contributions	108,668	110,768
Change in allowance for doubtful accounts on campaign pledges receivable	782,367	(2,576,609)
Increase in permanently restricted net assets	3,175,394	10,491,372
Changes in net assets	21,813,496	9,611,430
Net assets, beginning of year	240,820,393	231,208,963
Net assets, end of year	$ 262,633,889	$ 240,820,393

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, 2017 and 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	$ 21,813,496	$ 9,611,430
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Depreciation	1,543,749	1,423,015
Accretion of interest on conditional asset retirement obligations	124,971	117,896
Change in allowance on uncollectible accounts and loans receivable	(2,200,000)	477,099
Change in allowance on uncollectible contributions receivable	(977,959)	3,220,762
Net realized and unrealized (gain) loss on investments	(23,302,731)	4,666,824
Write-off of note receivable	995,395	-
Gain on disposition of properties	-	(2,081,348)
Contributions restricted for endowments	(108,668)	(110,768)
Changes in assets and liabilities:		
Decrease (increase) in accounts and loans receivable	4,652,494	(86,670)
Increase in contributions receivable	(346,917)	(15,308,000)
Decrease (increase) in prepaid expenses and other assets	216,681	(576,756)
Decrease in accounts payable and accrued expenses	(851,346)	(1,297,418)
Increase (decrease) in accrued subsidies to affiliates	182,490	(1,223,212)
(Decrease) increase in amounts due to affiliates - campaign activities	(229,114)	617,094
(Decrease) increase in obligations due under split-interest agreements	(148,563)	190,944
Decrease in conditional asset retirement obligations	-	(38,523)
Net cash provided by (used in) operating activities	1,363,978	(397,631)
CASH FLOWS FROM INVESTING ACTIVITIES		
Increase in custodial funds	18,829,181	6,683,002
Purchase of property and equipment	(2,993,968)	(1,749,008)
Proceeds from sale of properties	-	1,378,181
Repayment of note receivable	3,004,605	-
Payments received on mortgages receivable	26,238	17,115
Proceeds from sales of investments	77,156,958	141,324,037
Purchases of investments	(96,966,195)	(146,143,519)
Net cash (used in) provided by investing activities	(943,181)	1,509,808
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions restricted for endowments	5,638,687	110,768
Net increase in cash and cash equivalents	6,059,484	1,222,945
Cash and cash equivalents, beginning of year	19,790,728	18,567,783
Cash and cash equivalents, end of year	$ 25,850,212	$ 19,790,728
Supplemental data:		
Mortgage receivable received from sale of property	$ -	$ 775,000

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

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:

<u>Unrestricted Net Assets consist of the following subcategories</u>:

<u>Undesignated Net Assets</u> - 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).

<u>Designated Net Assets</u> - 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, 2017 and 2016 consist of the following:

	2017	2016
Amounts designated for schools and education	$ 19,959,837	$ 18,158,895
Parish Loan Fund	11,000,000	11,000,000
Net investment in property and equipment	11,872,845	10,547,597
Undesignated	41,879,447	32,160,886
Total unrestricted net assets	$ 84,712,129	$ 71,867,378

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, 2017 and 2016 consist of the following:

	2017	2016
For use in the subsequent fiscal periods	$ 4,212,912	$ 2,488,299
For support of specific programs	57,180,675	48,624,428
For support of Campaign activities - Works of Mercy	670,234	5,924,425
For support of Campaign activities - Parish renewal	4,375,546	3,608,864
Total temporarily restricted net assets	$ 66,439,367	$ 60,646,016

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, 2017 and 2016 consist of the following:

	2017	2016
For support of priestly ministry and formation	$ 30,835,274	$ 30,795,809
For support of Catholic education	17,550,526	17,486,326
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	11,713,856
Property and equipment	19,727,825	19,727,825
For support of Campaign activities - Tuition assistance	8,720,413	6,995,380
For support of Campaign activities - Retired priest care	2,906,804	2,331,793
For support of Campaign activities - Seminarian support	3,875,739	3,109,058
Total permanently restricted net assets	$ 111,482,393	$ 108,306,999

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, 2017 and 2016, approximately 96% of the Chancery's investments were held in the custody of Bank of New York Mellon. As of June 30, 2017, individual investment positions that exceeded 10% of the investment balance consisted of three (3) funds that totaled approximately $268 million or approximately 56% of the Chancery's investments. As of June 30, 2016, individual investment positions that exceeded 10% of the investment balance consisted of three (3) funds that totaled approximately $242 million or approximately 56% 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 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.

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.

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 1.4% to 8.0% at June 30, 2017 and 2016.

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, 2017 and 2016 totaled $1,415,141 and $1,595,553, respectively. Obligations due under split-interest agreements totaled $879,706 and $1,028,269 as of June 30, 2017 and 2016, 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 2.75% to 5.75% on the respective unpaid principal balance during each of the years ended June 30, 2017 and 2016. 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:

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

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, 2017 and 2016. 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 30th 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 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, 2017 and 2016, the CARO totaled

$2,170,384 and $2,045,413, respectively. For the years ended June 30, 2017 and 2016, the accretion of interest related to the CAROs totaled $124,971 and $117,896, 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, 2017 and 2016, 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 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.

Subsequent Events

The Chancery evaluated its June 30, 2017 financial statements for subsequent events through November 13, 2017, the date the 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 financial statements.

3. ACCOUNTS AND LOANS RECEIVABLE, NET

As of June 30, 2017 and 2016, accounts and loans receivable, net, consist of the following:

	2017	2016
Parishes and schools	$ 29,180,156	$ 30,402,415
Interest and dividends	1,897,583	1,924,388
Notes receivable - Catholic Charities (Note 10)	-	8,587,719
Other notes and loans	1,692,510	5,095,940
Total accounts and loans receivable	32,770,249	46,010,462
Allowance for doubtful accounts - Catholic Charities	-	(8,587,719)
Allowance for doubtful accounts - Other	(20,064,119)	(22,264,119)
Total allowance for doubtful accounts	(20,064,119)	(30,851,838)
Accounts and loans receivable, net	$ 12,706,130	$ 15,158,624

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, 2017 and 2016, investments (including investments held pursuant to split-interest agreements) consist of the following:

	2017		2016	
	Cost Basis	**Fair Value**	**Cost Basis**	**Fair Value**
Cash and cash equivalents	$ 4,587,081	$ 4,587,081	$ 7,193,044	$ 7,193,044
Fixed income	15,938,764	15,845,258	16,682,618	16,599,597
Equities	151,783,890	186,656,641	155,274,454	169,054,456
Commingled funds	267,035,637	268,387,125	235,102,399	241,588,736
Subtotal	439,345,372	475,476,105	414,252,515	434,435,833
Less: Trades not yet settled - due (to) from custodian	125,824	125,824	(1,945,872)	(1,945,872)
Investments	$ 439,471,196	$ 475,601,929	$ 412,306,643	$ 432,489,961

For the years ended June 30, 2017 and 2016, approximately $5,279,000 and $5,123,000, 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, 2017 and 2016:

	2017		
	Level 1	**Net Asset Value**	**Total**
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*	-	268,387,125	268,387,125
Total investments**	$ 207,088,980	$ 268,387,125	$ 475,476,105

	2016		
	Level 1	**Net Asset Value**	**Total**
Cash and cash equivalents	$ 7,193,044	$ -	$ 7,193,044
Fixed income	16,599,597	-	16,599,597
Equities	169,054,456	-	169,054,456
Commingled funds*	-	241,588,736	241,588,736
Total investments**	$ 192,847,097	$ 241,588,736	$ 434,435,833

* In accordance with ASC Subtopic 820-10, investments measured at fair value using net asset value (“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, 2017 and 2016.

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:

2017

Type	Strategy	NAV In Funds	# of Funds	Remaining Life	$ Amount of Unfunded Commitments	Redemption Terms	Redemption Restrictions
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

2016

Type	Strategy	NAV In Funds	# of Funds	Remaining Life	$ Amount of Unfunded Commitments	Redemption Terms	Redemption Restrictions
Commingled funds	Seeks to track and/or outperform the Barclays Capital U.S. Aggregate Bond Index.	$ 241,588,736	3	To be determined by the investment fund managers.	N/A	All funds have daily redemption with no advance notice.	N/A

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 New Jersey 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 $136,644,158 and $121,551,042 at June 30, 2017 and 2016, respectively, and consists of the following net assets:

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

	June 30, 2016			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Donor restricted endowment funds	$ -	$ 45,569,911	$ 75,981,131	$ 121,551,042

Excluded from permanently restricted net assets, in the tables, above at June 30, 2017 and 2016 are $166,026 and $161,812 of pooled life income funds, respectively, $9,972,938 and $12,436,231 of pledges receivable, net, respectively, and $19,727,825 of property and equipment each year.

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, 2017 and 2016:

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ -	$ 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 appreciation 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)
Endowment net assets, end of year	$ -	$ 55,028,554	$ 81,615,604	$ 136,644,158

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ -	$ 47,924,757	$ 75,868,771	$ 123,793,528
Dividends and interest on endowment investments	-	2,357,609	-	2,357,609
Net realized and unrealized depreciation in fair value of endowment investments	-	(2,305,914)	-	(2,305,914)
New gifts	-	-	112,360	112,360
Endowment return used for operations	-	(2,406,541)	-	(2,406,541)
Endowment net assets, end of year	$ -	$ 45,569,911	$ 75,981,131	$ 121,551,042

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level the donor or State of New Jersey 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. 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, 2017 and 2016, 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, 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. As of June 30, 2016, unconditional promises to give received on behalf of the Campaign totaled approximately $16,671,000, net of a reserve for uncollectible pledges of approximately $3,714,000. Such amounts are included within contributions and pledges receivable, net, on the accompanying statements of financial position.

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, 2017 and 2016, the Chancery had cash collections totaling approximately $839,000 and $1,068,000, 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, 2017 and 2016, the Chancery also received total commitments from donors to be paid to named beneficiaries, other than the Chancery, totaling approximately $14,223,000 and $18,722,000, respectively. Such commitments have not been recognized in the accompanying financial statements.

The following table presents a summary of the Campaign activities as of and for the years ended June 30, 2017 and 2016:

	For the year ended June 30		As of June 30	
	2017	**2016**	**2017**	**2016**
Pledges receivable [a]	$ 6,784,813	$ 45,530,521	$ 64,065,081	$ 57,280,268
Less: cash received on pledges receivable [b]	16,466,808	15,925,329	34,639,298	18,172,490
Gross pledges receivable	$ (9,681,995)	$ 29,605,192	$ 29,425,783	$ 39,107,778
Amounts due to other beneficiaries [c]	$ 2,673,121	$ 19,018,487	$ 26,708,524	$ 24,035,403
Less: amounts not collected [d]	(4,498,894)	14,156,016	14,223,338	18,722,232
Less: amounts paid to other beneficiaries [e]	7,401,129	4,245,377	11,646,506	4,245,377
Amounts received by Chancery due to affiliates	$ (229,114)	$ 617,094	$ 838,680	$ 1,067,794
Pledges receivable due to Chancery [f]	$ (5,183,101)	$ 15,449,176	$ 15,202,445	$ 20,385,546
Campaign revenue by program [g]				
Reimbursement of campaign costs	$ 611,958	$ 3,641,287	$ 6,300,997	$ 5,689,039
Works of Mercy	670,234	6,424,231	8,717,010	8,046,776
Parish Renewal	571,090	3,239,303	4,422,900	3,851,810
Endowments	2,284,359	12,957,213	17,691,599	15,407,240

[a] Represent pledges due to the Chancery and other beneficiaries
[b] Represent cash received by the Chancery on pledges
[c] Represent amounts payable to other beneficiaries upon collection
[d] Amounts due to other beneficiaries are reduced to the extent cash is not received
[e] Represent amounts paid to other beneficiaries
[f] Represent gross pledges receivable less amounts due to other beneficiaries that have not been collected (d)
[g] Represent revenues recorded by Chancery by program purpose

During fiscal year 2017, 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 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, 2017 and 2016:

	2017	2016
Buildings and building and land improvements	$ 62,185,040	$ 57,910,301
Machinery, equipment, vehicles, furniture and computers	5,051,696	4,946,085
Leasehold improvements	5,275,904	6,968,844
	72,512,640	69,825,230
Less: Accumulated depreciation	(46,870,492)	(45,633,301)
	25,642,148	24,191,929
Land	8,000,497	8,000,497
Construction/work-in-process	128,409	128,409
Property and equipment, net	$ 33,771,054	$ 32,320,835

Depreciation expense of $1,543,749 and $1,423,015 for the years ended June 30, 2017 and 2016, respectively, was provided for on a straight-line basis. At June 30, 2017 and 2016, property and equipment and accumulated depreciation includes a capitalized conditional asset retirement obligation at a cost of $174,108, which has been fully depreciated.

During fiscal year 2016, the Chancery incurred approximately $582,000, respectively, of costs associated with the remediation of certain environmental obligations at one of its properties. Such costs have been charged against operations on the accompanying statements activities in accordance with US GAAP.

In June 2016, the Chancery closed on the sale of a parcel of property located in Newark, New Jersey for $1,200,000. The Chancery recognized gains totaling approximately $2,100,000 on these sales and such gains have been reported as gain on sale of properties on the accompanying 2016 statement of activities and changes in net assets.

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, 2017 and 2016 amounted to approximately $1,372,000 and $1,349,000, 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.

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, 2017 and 2016.

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 matures on July 31, 2018, at which time the entire principal balance is due and is included in mortgage receivables on the accompanying statements of financial position.

11. NOTE RECEIVABLE

In August 2014, the Chancery extended a $4,000,000 promissory note to Starboard Media Foundation, Inc. ("Starboard") to fund the purchase of equipment, a Federal Communications Commission radio license and other necessary materials to operate a not-for-profit radio network (d/b/a Relevant Radio) focused on evangelization. The note bears interest at a fixed rate of 3.00% per annum through July 31, 2017 during which only interest payments are required. The note is secured by the assignment of equipment and other assets as defined within the promissory note agreement. In connection with the terms of the promissory note, the Chancery and Starboard also entered into a lease agreement for office space at $1 per annum. The lease will expire at the earlier of full payment of the note receivable or the maturity date of the promissory note. In December 2016, Starboard made a payment of $3,004,605 and the remaining balance of $995,395 was written off by the Chancery and included as part of management and general expense in the accompanying 2017 statement of activities and changes in net assets. Accordingly, there is no outstanding balance as of June 30, 2017.

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.