



Diocese of Fall River

Financial Transparency Report - 2017 Chancery Office



THE ROMAN CATHOLIC BISHOP OF FALL RIVER
CHANCERY OFFICE
FINANCIAL TRANSPARENCY REPORT

MARCH 2018

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Diocese of Fall River
Office of the Bishop
Most Reverend Edgar M. da Cunha, S.D.V., D.D.

February 22, 2018

Dear Sisters and Brothers in Christ,

When I came to the Diocese of Fall River a little over three years ago, financial transparency was often brought to my attention as urgently needed and I could not agree more. Given the myriad of challenges we have addressed and are addressing, as well as the complexity of our finances, it is only now we are able to provide a report of our financial condition. The report is a comparative look at Fiscal Year 2017 versus Fiscal Year 2016 for Chancery operations.

Last year we contracted with Grant Thornton, a global accounting firm with a great reputation and much experience working in the non-profit and diocesan worlds, to conduct the audit of the Chancery Office. After more than a year of hard work by our staff and the auditors, I am glad to issue our first audited financial report. I am happy to report that the audits performed for FY 2016 and FY 2017 received unqualified or “clean” opinions indicating our financial statements are fairly and appropriately presented and in accordance with Generally Accepted Accounting Principles (GAAP). I want to thank all who participated in these audits, who were truly instrumental in their successful completion.

To make our Diocese more sustainable many successful efforts have begun, including a reconstituted Finance Council, new Audit, Investment and Real Estate Committees, the new Catholic Schools Board, the new Catholic Foundation for Southeastern Massachusetts (Cape & Islands), the Lay Pension Task Force, the Pastoral Planning Process and, most importantly, our new Strategic Planning Process for the Diocese. I want to thank the many people who participated in and continue to participate in all of these much needed efforts. Your work has borne much fruit.

As I mentioned in my Pastoral Letter, *Rebuilding in Faith and Hope*, parishes, schools and leadership formation will continue to be a high priority for the Diocese. To be successful, we must embrace these opportunities and challenges together. My hope, as this report begins an era of financial transparency in the Diocese, is that trust will again be built and a spirit of collaboration and participation by all our faithful will support all our efforts now and in the future. There are so many areas that need attention where intentional disciples have and will continue to contribute their time, talent and treasure. The time to start is now and I invite you to journey with us as our Diocese continues to not only Rebuild in Faith and Hope but change lives in this corner of Massachusetts. Any questions should be directed to the Chancellor’s Office at 508-675-1311.

Praying for a successful future for our Diocese, we call upon Our Lady of the Assumption to guide us and protect us. May God bless you and your families.

Sincerely Yours in Christ,

Most Reverend Edgar M. da Cunha, S.D.V.
Bishop of Fall River



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THE CHANCERY

February 22, 2018

To the Catholic Community of the Diocese of Fall River,

Under Bishop da Cunha's direction and commitment to financial transparency, the Diocese presents its **Financial Transparency Report** along with the audited financial statements of the Roman Catholic Bishop of Fall River (A Corporation Sole) – **Chancery Office** for the period ended June 30, 2017, with comparative statements for fiscal 2016.

Over the past two years, there have been a variety of accomplishments and challenges. The main priority has been to build a culture of service outwardly to our parishes, schools and affiliates. The mission of our Diocesan Service Team reflects that as "*Pastorally serving and expertly guiding so as to foster Christ's work on Earth*". As you will see with the organization and ministry charts included in this report, the Diocese is complex and multi-faceted. There are various ministries, departments and separately incorporated entities or affiliates. That said, much good work is done day in and day out with a limited number of staff given the size and scope of what we do. Areas within the Chancery that needed immediate attention and support were Finance, Financial Planning and Human Resources. We sought and were successful at hiring a new Director of Finance, Director of Financial Planning for Parishes and Schools and an Executive Director of Human Resources and Administration. These positions [while new] have accomplished much including two audits of Chancery operations, new financial plans for our diocesan schools, and human resources support for our Pastors and Principals.

We have also benefited from active lay volunteer involvement. Our Finance Council, led by Bishop da Cunha and Vice Chairman Mr. E. Dennis Kelly has added members and **new** committees to assist their efforts:

- The **Audit Committee** receives the reports of the external auditor and presents these to the Council. The committee is beginning to monitor the Diocese's system of internal controls and financial reporting process and will evaluate annually the results of the external audit as well as make recommendations to the Bishop, Chancellor and Council about the appointment of the external auditors. The committee is chaired by Mr. Dennis F. Leahy, CPA.
- The **Investment Committee** is beginning to oversee the investment management of all Diocesan funds, including the approval of investment policies and allocations. The committee is chaired by Ms. Sandra L. Sevigney.
- The **Real Estate Committee** is beginning to advise on the acquisition, disposition, and leasing of properties. It will review existing policies regarding the sale, management, and construction of real estate and recommend actions where needed. The committee is chaired by Mr. David T. Gay, Esq.
- The **Lay Pension Task Force** was successful at developing a twenty year sustainability plan for our frozen lay pension plan. Had we not acted, the plan would have been insolvent by 2030.

The budget for Chancery's main operations is approximately \$11M (excluding our self-insurance program activities for employee benefits and our property/liability insurance programs, both included in the audit of the Chancery Office). The presentation of the budget continues to evolve but a one page

forecast for Fiscal 2018 is part of this report and includes activities of the following operational areas; Bishop's Office, Chancellor's Office, Finance, Human Resources, Legal, Development, Tribunal, Pastoral Planning and other support areas. We continue to work towards a balanced budget through expense reductions while not diminishing the level of service needed as well as enhancements to revenue where appropriate. The parish assessment instituted in January 2016 provides for 35% of the operating budget and is sorely needed. At the same time, the assessment puts added pressure on parish budgets with already thin margins or budgets in the red. We know this has been a burden which led to a freezing of the current assessment amounts for three years. More has to be done to provide the knowledge, procedures and technology in order for parishes and schools to be financially sustainable. The Catholic Charities Appeal makes up an additional 44% of the budget. We are grateful to the over 25,000 parishioners that contribute to the Appeal annually which supports many good works in the Diocese.

We continue to review all aspects of the operations to strive for more efficient work processes at lower cost. The following changes are taking place that will save the Diocese well over \$1M annually:

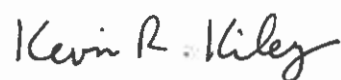
- New plan for more efficient and effective investment management
- Merger of our existing Diocesan workers' compensation program with *Massachusetts Catholic Self-Insurance Group, Inc.*
- Restructuring of our existing prescription drug program through Blue Cross Blue Shield
- Implementation of a Medicare Primary Program
- Energy cost savings initiatives with a focus on solar programs, energy audits and commodities pricing

As Bishop mentioned in his letter, the new Catholic Foundation is rapidly forming which will operate as the main fundraising arm of the Diocese. The Foundation will assume responsibilities of the Development Office, including the Annual Appeal and eventually will manage the FACE scholarship fund. We have started to recruit an Executive Director to lead this important effort.

Meeting with Pastors, Council members, parishioners, volunteers, etc., they are excited about all we are doing in our Diocese but there is an urgency to do more. I completely empathize with and understand your concerns and want to do more as our capacity builds. We do not want to risk becoming an organization "a mile wide and an inch deep". We can all be proud of the unprecedented positive changes taking place. What has already been accomplished in such a short period is time is extraordinary.

In my almost two years as Chancellor and CFO, I have been touched by and grateful for the generous support offered by the many people of our Diocese. The resilience and resolve shown by our employees, religious, lay volunteers and our Priests (especially) are inspiring and all are important members of our Church in the Diocese of Fall River. With God's grace and the continued leadership provided by Bishop da Cunha, there is no doubt we will be successful; *Rebuilding in Faith and Hope*. Thank you.

Sincerely,



Kevin R. Kiley
Chancellor and Chief Financial Officer

A Brief History of the Fall River Diocese



The Second Vatican Council describes a diocese as "that portion of God's people which is entrusted to a bishop to be shepherded by him with the cooperation of the presbyterium (the priests of the diocese.) Adhering thus to its pastor and gathered together through the gospel and the Eucharist this portion constitutes a particular Church in which the One, Holy, Catholic and Apostolic Church of Christ is truly present and cooperative." (*Christus Dominus*)

In 1904 Pope St. Pius X set apart as a distinct portion of God's people the parishes of Southeastern Massachusetts and gave them a bishop who would have his Cathedral in the City of Fall River.

This of course was not the beginning of the Catholic Church in this area. Since 1872 the territory of the new Diocese of Fall River had been a part of the Diocese of Providence and previous to that part of the Diocese of Boston.

Although Catholics may have come briefly to the area during the days of colonial exploration, it wasn't until the early nineteenth century that Catholic history in Southeastern Mass. really began. The first documented evidence of Catholic life in what is now the Diocese of Fall River is the record of the transfer of a parcel of land at Allen and Dartmouth Streets in New Bedford on March 19, 1821 to John Cheverus, first Bishop of Boston. Here Father Philip Lariscy, an Irish Augustinian, was able to build a small frame Church with the aid of a band of Irish parishioners and Portuguese seamen. This church was one of only six Catholic Churches in all of New England and it has given to St. Lawrence Parish in New Bedford the singular distinction of tracing its origin to Bishop Cheverus.

Soon other Catholic Communities began to spring up. At Sandwich on Cape Cod, St. Peter's Church was dedicated in 1830 to serve the Catholics who had come to work at the famous glass works; in Taunton, an enterprising group of Catholics settled after the opening of the Taunton Print Works. Due to their efforts, the first St. Mary's Church was dedicated in 1832. Fall River received its first Catholic family in 1822 with the arrival of Patrick and Helen Kennedy and their five children. In their home Father Robert Woodley, who traveled throughout the area, offered Mass for the first time in 1828 but it wasn't until 1837 that the small wooden church of St. John the Baptist was erected on the site of the present St. Mary's Cathedral. In North Easton the Ames family gave land for a small chapel in 1850 and in 1859 St. Mary's in North Attleboro was dedicated, the first church in that area.

From these early centers priests tended to Catholics in neighboring and even distant towns such as Dartmouth, Somerset, Norton, Attleboro, Mansfield, Wareham, Harwich, Provincetown, Woods Hole, Martha's Vineyard and Nantucket.

After the Civil War, immigration to the area increased substantially. In 1869 a Portuguese priest was sent to New Bedford to care for the congregation that would become the parish of St. John the Baptist, the first in the United States founded for Portuguese Catholics; in the same year St. Anne's Parish in Fall River was established for French

A Brief History of the Fall River Diocese

Canadians. In future decades parishes would be formed for Polish, Italian, German, Cape Verdean and Lebanese Catholics so that Bishop William O. Brady could accurately say in his sermon on the occasion of the Diocesan Golden Jubilee that "the people of God in the Diocese of Fall River make up a Pentecostal list."

There were however only nine parishes in this portion of Massachusetts when it became part of the newly created Diocese of Providence in 1872, but by 1904 when the Diocese of Fall River was established there were forty-four parishes serving 130,000 Catholics. The new diocese received an outstanding priest as its first Bishop. The Most Reverend William Stang, was born in Germany, taught at the University of Louvain in Belgium and had served with distinction in parishes, in the curia and on the mission band of the Diocese of Providence. Bishop Stang was recognized by all as a man of learning and holiness. During the episcopate, which was cut short by his untimely death in 1907, he established parishes, zealously implemented the directives of the pope on catechetical instruction and encouraged the founding of St. Anne's Hospital.

Bishop Stang was succeeded by the Most Reverend Daniel F. Feehan, a priest of the Springfield Diocese who was pastor of St. Bernard's parish in Fitchburgh at the time of his nomination as bishop. During his twenty-seven years as ordinary, Bishop Feehan established thirty-six parishes and was especially devoted to children, giving much attention to the childcare institutions of the diocese.

When Bishop Feehan died in 1934, he was succeeded by the Most Reverend James E. Cassidy, his Coadjutor Bishop and Vicar General for many years. Bishop Cassidy is remembered as a stern supporter of temperance and a staunch advocate of the rights of working men and women. He was concerned for the needs of the elderly and founded homes for the aged, which became model institutions of their kind. In 1945 Bishop Cassidy received the assistance of a Coadjutor Bishop, the Most Reverend James L. Connolly, a Fall River priest who had served for many years as a professor and then rector of the seminary in the Archdiocese of St. Paul.

Bishop Connolly encouraged vocations to the diocesan priesthood and was devoted to the sick, especially the incurably ill, and to exceptional children. He founded four regional high schools and the diocesan newspaper, *The Anchor*. In 1959 the Most Reverend James J. Gerrard was appointed Auxiliary Bishop. Bishop Connolly attended all four sessions of the Second Vatican Council. In 1966 the diocesan chancellor, Monsignor Humberto S. Medeiros, was ordained Bishop of Brownsville, Texas. Bishop Medeiros became Archbishop of Boston in 1970 and three years later he was named a Cardinal.

The Most Reverend Daniel A. Cronin became the fifth Bishop of Fall River in December 1970, upon the retirement of Bishop Connolly. Bishop Cronin had previously served the Holy See in Ethiopia and at the Vatican Secretariat of State before returning to Boston as Auxiliary Bishop in 1968. Bishop Cronin faithfully and carefully carried on the work of implementing the decrees of the Second Vatican Council. He supported liturgical renewal, continuing education of the clergy and the restoration of the permanent diaconate. In addition he devoted himself to the pastoral care of the sick in hospitals, to the expansion of Catholic Counseling and Social Services, to the Family Life Ministry program and to Pro-life activities. Late in 1991 Pope John Paul II appointed Bishop Cronin Archbishop of Hartford.

A Brief History of the Fall River Diocese

On August 11, 1992 the Most Reverend Sean O'Malley, OFM Cap., Bishop of St. Thomas in the Virgin Islands, was installed sixth Bishop of Fall River.

The new bishop had to deal immediately with a serious case of clergy sexual abuse. This he did forthrightly showing great compassion and pastoral sensitivity. He reached out to victims and, with their input, developed specific policies to follow in response to any future allegations of sexual abuse by a cleric or by any employee or volunteer of the diocese.

Bishop O'Malley, a zealous advocate of Catholic education, opened four new schools and established an office for AIDS ministry, expanded Catholic Social Services, and opened a retirement home for priests. He dedicated himself to the needs of immigrant communities, fostered vocations to the priesthood and reorganized the diocesan curia or organizational structure. Bishop O'Malley was transferred to the Diocese of Palm Beach in Florida in October 2002.

Following his transfer, the College of Consultors elected Monsignor George W. Coleman, Vicar General and Moderator of the Curia under Bishop O'Malley, Diocesan Administrator. Monsignor Coleman worked closely with the consultors in the governance of the vacant diocese, and shortly after Easter on April 30, 2003 Monsignor Coleman was named seventh Bishop of Fall River. His ordination took place at St. Mary's Cathedral on July 22, 2003. The ordaining prelate was Archbishop Gabriel Montalvo, Apostolic Nuncio to the United States. Archbishop Daniel F. Cronin and Archbishop-designate of Boston Sean O'Malley assisted Archbishop Montalvo. Bishop Coleman was ordained a priest of the Diocese of Fall River in Rome in 1964. He had several pastoral assignments and served as Diocesan Director of Education. He was pastor of Corpus Christi Parish in East Sandwich when appointed Vicar General and Moderator of the Curia in 1994. After some study Bishop Coleman made some structural changes in the Department of Education appointing a director of Faith Formation to oversee catechetics, youth ministry, RCIA, and Marriage and Family Ministry. The Bishop also worked closely with the Office of Pastoral Planning in the difficult work of configuring parishes and dealing with unused church property. In September 2007 Bishop Coleman was able to dedicate Pope John Paul II High School in Hyannis fulfilling the long-held dream of many for a Catholic High School on Cape Cod.

On July 3, 2014 it was announced that Pope Francis had accepted the resignation of Bishop Coleman, then 75, and appointed Bishop Edgar Moreira da Cunha, SDV, a native of Brazil and Auxiliary Bishop in Newark, New Jersey, as eighth Bishop of Fall River. He was installed in St. Mary's Cathedral on September 24, 2014 by Cardinal Sean O'Malley, Archbishop of Boston and Archbishop Carlo Maria Vigano, Apostolic Nuncio to the United States.

As the leader of the Fall River Diocesan Church he shepherds a community of faith now numbering approximately 285,000 persons who worship in 82 parishes throughout Southeastern Massachusetts, Cape Cod and the Islands.

Compiled by Reverend Monsignor Barry W. Wall

Organizational Structure of the Roman Catholic Bishop of Fall River, a Corporation Sole

Terms

The Diocese of Fall River operates under both civil law and Canon (Church) Law:

- The Roman Catholic Bishop of Fall River, a Corporation Sole (under civil law)

This is a legal entity created under Massachusetts law in 1904 to provide the Roman Catholic Bishop of Fall River with a means to operate under civil law. For financial reporting purposes, Corporation Sole consists of: Parishes, Schools, Chancery Office, and other Entities. Under Massachusetts civil law, the legal entity of Corporation Sole has ownership of assets of these divisions.

- The Roman Catholic Bishop of Fall River, a Corporation Sole (under Canon Law)

The person holding the office of the Roman Catholic Bishop of Fall River (without the Corporation Sole) holds the responsibilities established by Canon Law. The Bishop is the representative of the Holy Father here in Fall River and, as such, leads and guides Catholics and Catholic institutions.

Corporation Sole

Corporation Sole includes:

- Parishes and schools: As of June 30, 2017, there were 82 parishes located within the geographical boundaries of the Diocese. Each parish is a separate entity under Canon Law, known as a public Juridic Person. Each person is operated by its Pastor in ordinary matters subject to the norms of Church law.

Within the parishes, Mass attendance ranges from 100 to 3,400 parishioners. The parishes range in annual collections (offertory, grand annual, tithing, and other donations) from \$150,000 to \$1.5 million. Some parishes have elementary schools, middle schools, cemeteries and/or multiple worship sites. As of June 30, 2017, there were 14 parish schools with a collective enrollment of 3,061 students, and 25 cemeteries. Parishes range in the number of full-time lay employees from 1 to 12. There are approximately 2,300 full-time and 1,050 part-time and seasonal employees throughout the Diocesan network. Each parish is under the direction of its Pastor and maintains its own bank account and, for payroll purposes, its own employer tax identification number. Many parishes may have their own perpetual care funds, endowment funds, scholarship funds, and restricted funds. Likewise, parishes range in financial viability from one that has approximately \$4.7 million in cash and investments to a parish that has approximately \$4.2 million in debt. The parishes report their financial activity to the Chancery Office of Corporation Sole monthly.

- Chancery Office: Includes operations of the offices of the Bishop, Chancery, Finance, Insurance, Legal, Development, Tribunal, Pastoral Planning, Communications, management of Medical, Dental, Property/Liabilities programs, and all other support areas. **The Chancery Office represents the operations and assets of the central administration for Corporation Sole.** It also supports through the annual Catholic Charities Appeal many of the Diocese’s ministries, such as *Catholic Social Services, Inc.*, Pastoral Care of the Sick, Pro-Life Office, the Office of Hispanic Ministries, Communications Office, Religious Education, Vocations Office, Clergy Formation, and Campus Ministries. The Chancery also provides services in the areas of financial management, human resources, benefit and insurance administration, information technology, facilities management, and parish-support systems. Lastly, the audited financials include activities of a savings-and-loan fund, which effectively serves as a “mutual” savings-and-loan fund, with parishes its principal depositors and borrowers. **The Chancery Office operations are the only operations included in the Audited Financial Statements at this time.**

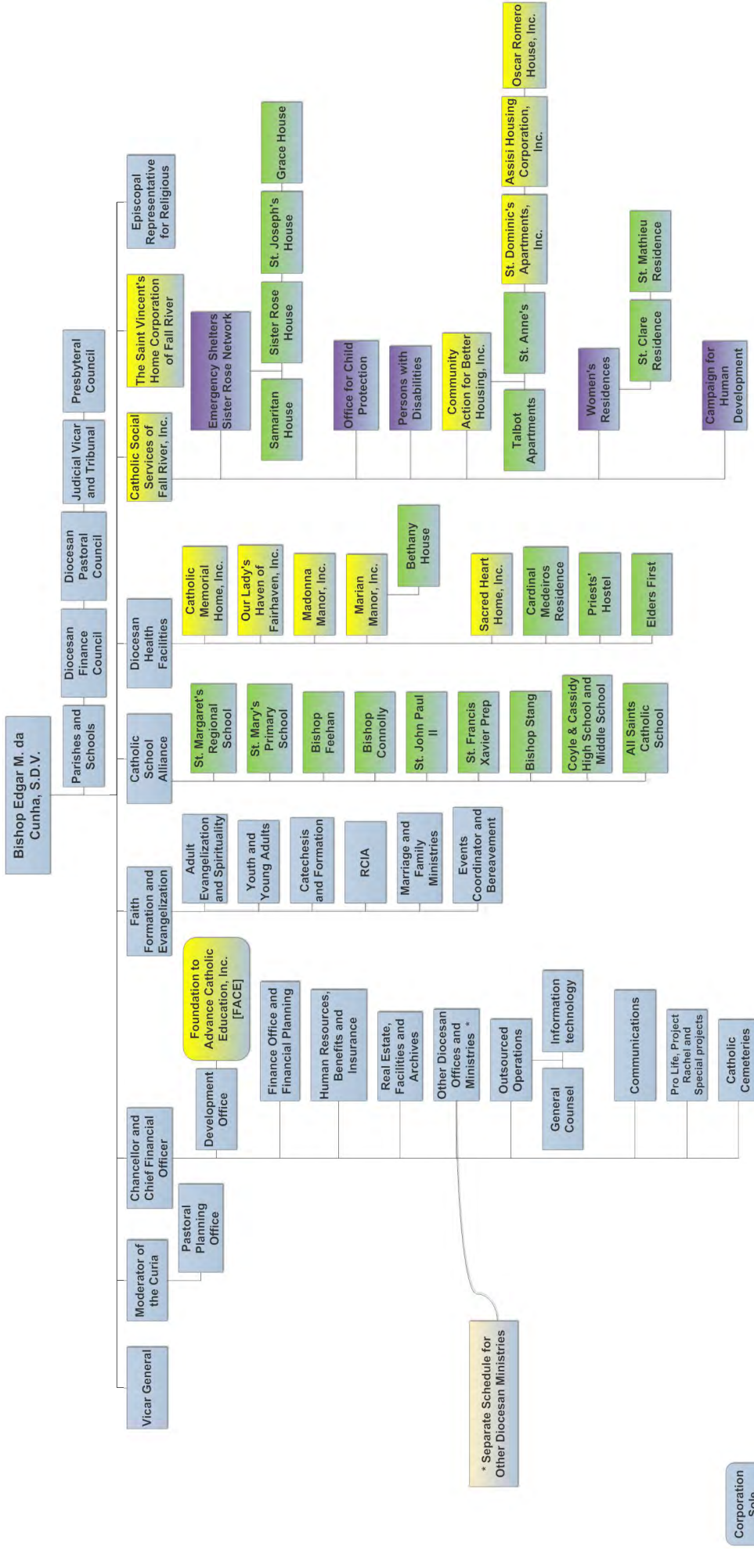
All of the above activities are funded by the parish assessment, the annual Catholic Charities Appeal, and reimbursement in the form of premiums for the Diocese’s self-insurance programs offered to employees and clergy members. The Chancery office also receives income from bequests and contributions, investment interest, rental income, and program fees.

- Diocesan Health Facilities Organization: includes direct oversight of five separately incorporated nursing homes, a priest’s retirement home and three additional care programs. For more information, please visit: dhfo.org.
- Catholic Schools Alliance: includes three high schools, two high school/middle school combinations, and three elementary schools with a collective enrollment of 3,230 students. Through the Catholic Schools Alliance which includes administrators, teachers, staff, parents, and clergy throughout the Diocese, the CSA promulgates policies for all 22 schools and 6,291 students in the Diocese. For more information, please visit: catholicschoolsalliance.org.

Diocese of Fall River
Corporation Sole
(Main Components)

Chancery Office Operations	Parishes, Parish Schools, and Cemeteries
Catholic Schools Alliance	Diocesan Health Facilities Organization

Diocese of Fall River Organization Chart

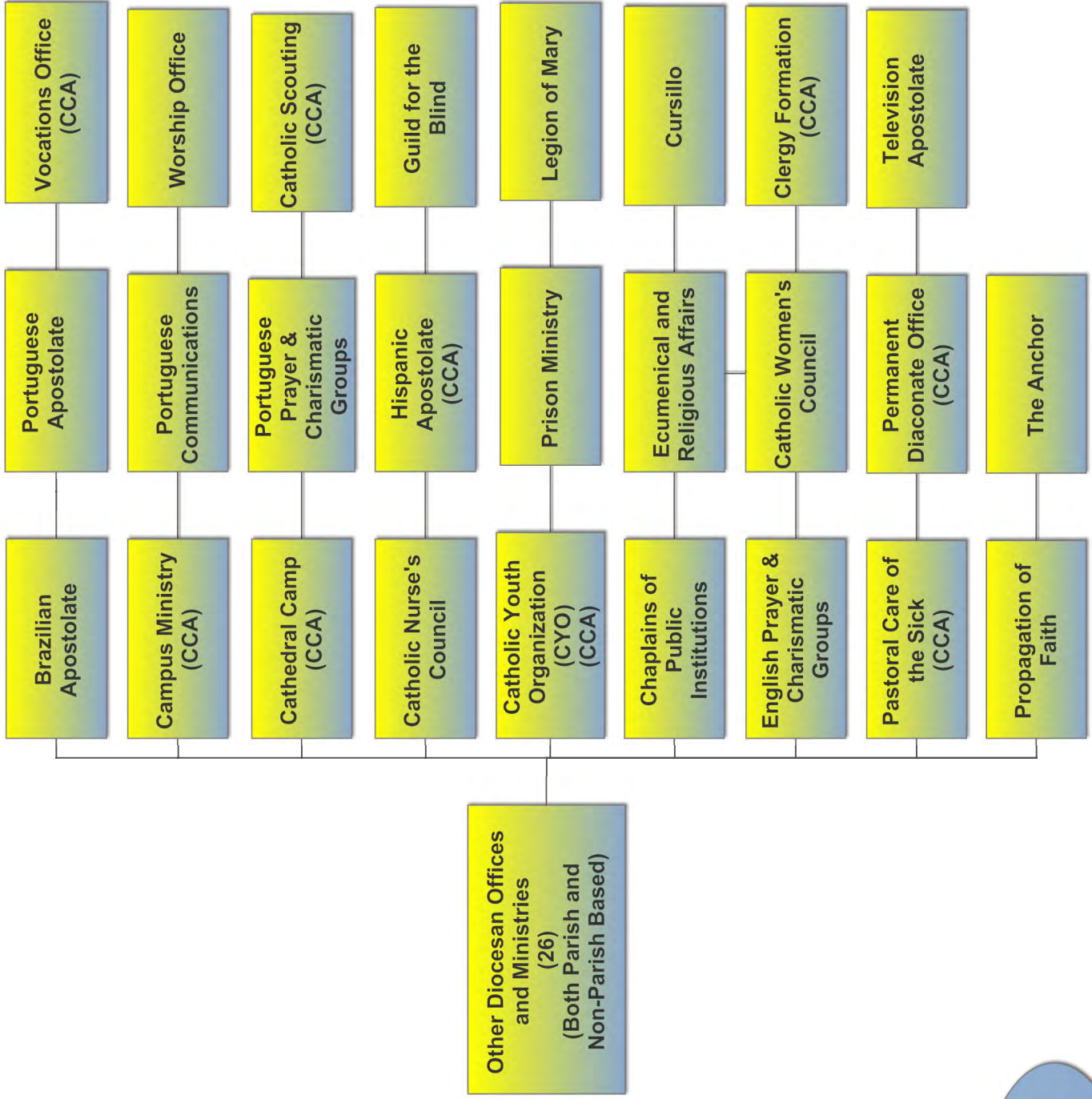


Corporation Sole

Separately Incorporated

Separate Organizations Beneath a Parent Organization

Operation of Catholic Social Services



CCA = 9 Ministries receive Support from Catholic Charities Appeal

Management Discussion & Analysis of the Financial Statements

Introduction

The only audited financial statements of the Roman Catholic Bishop of Fall River, a Corporation Sole (Corporation Sole) – Chancery Office available are for the two fiscal years ended June 30, 2017 and June 30, 2016. These statements are included in the Appendix of this report. The purpose of this report is to explain what these financial statements are telling us and provide context to help readers further their understanding of them. This is done by answering a series of key questions about the financial statements, with a focus on the following concepts:

- What does Corporation Sole – Chancery Office own?
- How is it owned, or who has an interest in it?
- How did that ownership change during the year?
- What is the assessment of its financial condition?

Some underlying principles are important to understand in order to use this analysis effectively. Corporation Sole – Chancery Office follows the accounting practices used by not-for-profit organizations. Ownership or equity is defined for a not-for-profit organization as “Net Assets”, that is, the amount by which assets held exceed the recorded liabilities of the organization. If these assets were received from donors with restrictions on their use, then they are “restricted” or “temporarily restricted net assets”. Some restrictions are imposed in perpetuity (e.g. the establishment of a permanent endowment fund), in which case the net assets are “permanently restricted”. Donor-imposed restrictions that can be fulfilled with the passage of time or by using the net assets for the specified purpose are reported as net assets that are “temporarily restricted” until the restriction is met and those net assets are released from restrictions. All other net assets resulting from the excess of revenue over expenses are considered to be “unrestricted net assets”, that is, there are no external restrictions on how they can be used.

Finally, even though there may be no external restrictions on net assets, the amounts may be internally designated for a specific purpose. Some designations result from the nature of the assets involved and some designations result from the activity with which the net assets are associated (e.g. assets associated directly with endowment funds of the Diocese have been segregated).

The financial statement highlights on the following page summarize the financial picture of the Corporation Sole – Chancery Office at June 30, 2017 and 2016.

2017 and 2016 Financial Highlights

- Net assets totaled \$14.8 million at June 30, 2017 and \$15.3 at June 30, 2016 with restricted net assets of \$4.9 million and \$4.9 million, respectively.
- Net assets decreased \$0.5 million in 2017, primarily from settlement and related costs in fiscal year 2017 and decreased \$4.0 million in fiscal year 2016, primarily from a provision for bad debt of \$3.9 million.
- Reserves provided in 2017 for the handling of old clergy misconduct claims were \$0.4 million.
- Benefits/insurance activities provided an increase to net assets of \$2.9 million in fiscal year 2017 and \$2.7 million in fiscal year 2016. These increases do not reflect payroll and other costs to manage these programs. The Diocese is a self-insured entity, and net surpluses in benefits/insurance activities are used to offset any future years (as a result of high claim activity).

Key Questions

- 1) *What was the financial position of Corporation Sole – Chancery Office at June 30, 2017?*

Corporation Sole – Chancery Office					
2017 Statement of Financial Position					
(in millions)					
	<u>Assets</u>	(minus)	<u>Liabilities</u>	(equal)	<u>Net Assets</u>
2017	\$90.0	-	\$75.2	=	\$14.8
2016	\$85.0	-	\$69.7	=	\$15.3

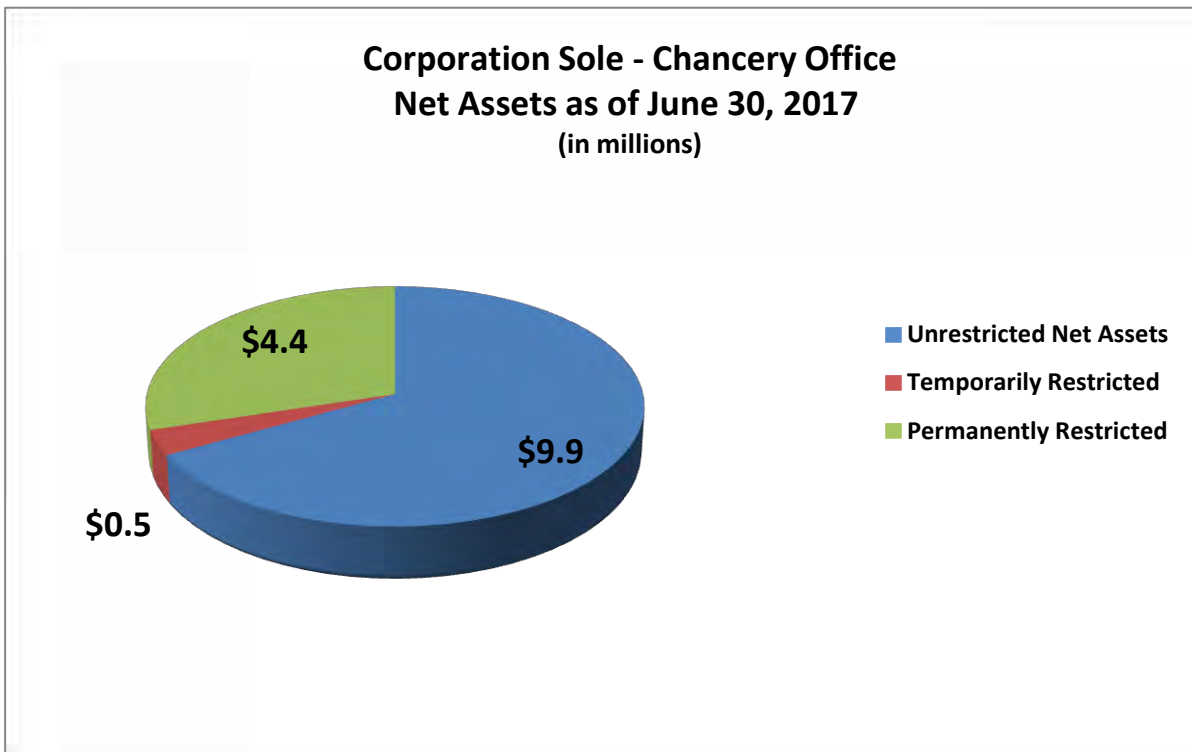
The pie chart on the following page shows the \$14.8 million of Chancery 2017 net assets separated into its unrestricted, temporarily restricted, and permanently restricted segments. Unrestricted net assets of \$9.9 million account for 66.8% of the total, with temporarily restricted net assets of \$486 thousand accounting for 3.3% of the total, and permanently restricted net assets of \$4.4 million accounting for the remaining 29.9% of the total.

Additional information about the elements of the Corporation Sole – Chancery Office assets and liabilities will be provided in Questions #4 and #5.

2) *How much of the 2017 Net Assets are subject to external restrictions or designations?*

It is important to understand some of what is owned by Corporation Sole – Chancery Office, is subject to restrictions or designations. Only the undesignated resources are readily available to meet its many financial challenges. The following table shows the portion of the restricted net assets of \$4.9 million that is subject to temporary vs. permanent restrictions as of June 30, 2017 and 2016.

Corporation Sole – Chancery Office			
Net Assets as of June 30, 2017 and 2016			
(in millions)			
		<u>2017</u>	<u>2016</u>
<u>Unrestricted Net Assets</u>			
Unrestricted Net Assets		<u>\$ 9.9</u>	<u>\$10.4</u>
	Total	<u>\$ 9.9</u>	<u>\$10.4</u>
<u>Restricted Net Assets</u>			
Temporarily Restricted		\$ 0.5	\$ 0.5
Permanently Restricted		<u>4.4</u>	<u>4.4</u>
	Total	<u>\$ 4.9</u>	<u>\$ 4.9</u>
TOTAL NET ASSETS		<u>\$14.8</u>	<u>\$15.3</u>



3) *How have Net Assets changed during the year?*

Overview of Changes in Net Assets

Overall, net assets decreased by \$0.5 million during 2017.

The Diocese made a step-up contribution of \$3.0 million to the frozen lay pension plan. This additional cost was offset by a gain on sale of property of \$0.38 million and by a net surplus of \$2.9 million in the Diocese's self-insured risk activities. The Diocese also incurred an additional \$0.4 million reserve for potential settlement of old clergy misconduct claims.

The **Statement of Activities** explains the changes in net assets. Changes in net assets result from operating and non-operating activities of the Corporation Sole -- Chancery Office. Operating activities are summarized as revenues (increases) and expenses (decreases) in net assets. A more detailed explanation of the revenues, expenses, and non-operating activities follows:

Operating Activities-Revenues

The table below summarizes the comparable revenues, gains, and other support for fiscal 2017 and 2016.

Corporation Sole – Chancery Office		
Operating Activities - Revenues		
(in millions)		
	<u>2017</u>	<u>2016</u>
Medical, dental, and other benefit premiums	\$23.2	\$24.7
Catholic Charities Appeal	4.7	4.5
Parish assessment	4.1	2.0
Contributions, interest income, investment income	3.2	1.8
Rental income and other	<u>0.7</u>	<u>0.6</u>
TOTAL	<u>\$35.9</u>	<u>\$33.6</u>

Overall, revenues increased \$2.3 million between the two years, primarily from a full year's collection of the parish assessment in 2017. Medical and dental benefit premiums decreased \$.05 million from 2016 to 2017 due to fewer employees paying for and receiving health care benefits, and a decrease of employee pension contributions of \$0.9 million over the same period due to the freezing of the lay plan December 31, 2015.

The Catholic Charities Appeal revenues as presented here are for the fiscal years ending in June. The Catholic Charities Appeal measures its performance on an appeal campaign year which ends in June, so the FY 17 amount differs by \$129 thousand from the published results of the Catholic Charities Appeal.

Operating Activities – Expenses

Operating expenses decreased \$1.2 million or 3.2% in fiscal year 2017, primarily from a decrease in self-insurance risk management activities and a decrease in parish bad debt expense while offset by an increase for the contribution to the lay pension plan.

Corporation Sole – Chancery Office		
Operating Activities - Expenses		
(in millions)		
	<u>2017</u>	<u>2016</u>
Insurance activities	\$20.2	\$21.8
Program activities (see table below)	6.0	6.3
Supporting services (see table below)	7.6	3.2
Interest paid on deposits and loans	1.8	1.6
Bad debt expense	0.1	3.9
Depreciation	0.3	0.3
Other operating expenses	<u>0.4</u>	<u>0.5</u>
	<u>\$36.4</u>	<u>\$37.6</u>

The composition of The Corporation Sole – Chancery Office programs and other expenses include:

Corporation Sole – Chancery Office		
Program and Supporting Services - Expenses		
(in thousands)		
	<u>2017</u>	<u>2016</u>
<u>Program Activities:</u>		
Pastoral*	\$3,038	\$3,118
Education	479	479
Communication & Faith Formation	447	454
Seminarian Support	329	265
Support for retired and inactive clergy	<u>1,678</u>	<u>1,965</u>
Total Program Activities	<u>\$5,971</u>	<u>\$6,281</u>
*Includes support to Catholic Social Services of \$1.3M in both FY 17 and FY 16.		
<u>Supporting Services:</u>		
Management and general	\$1,805	\$1,620
Pension contribution	3,000	0
Professional fees	1,290	503
Development	244	193
Other support expenses	<u>1,300</u>	<u>874</u>
Total Supporting Services	<u>\$7,639</u>	<u>\$3,190</u>

Support for retired and inactive clergy declined by \$287 thousand from 2016 to 2017 due to a reduction in stipends and paid medical premiums for inactive clergy.

Professional fees increased by \$787 thousand in fiscal year 2017 due to a \$625 thousand increase in settlement and related costs, a \$67 thousand increase in accounting fees for the new audit process, and a \$47 thousand increase in expenses for pastoral planning, etc.

Other Support Services increased \$426 thousand in fiscal year 2017 as shown below. The primary increases were \$80 thousand in contract services, \$103 thousand for new events and programs, \$44 thousand in real estate taxes, and \$68 thousand in printing and postage costs.

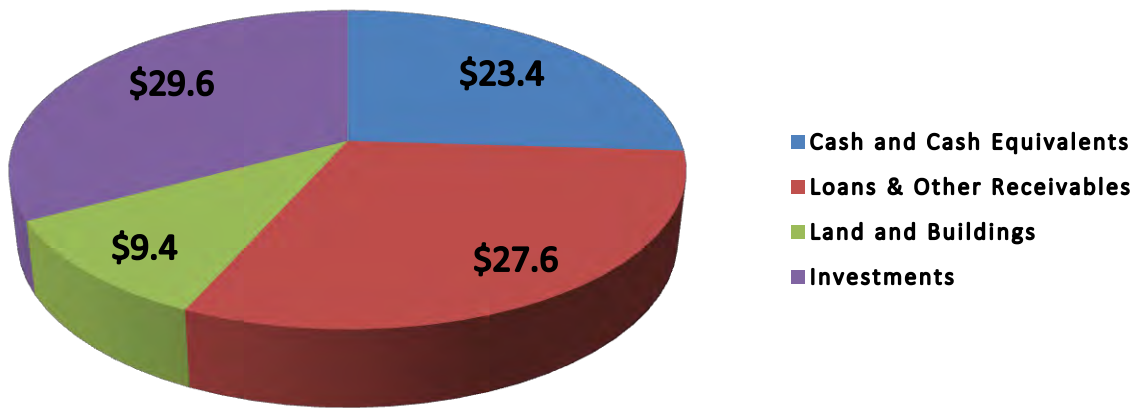
Corporation Sole – Chancery Office		
Other Expense (within Supporting Services)		
(in thousands)		
	<u>2017</u>	<u>2016</u>
<u>Other Expense:</u>		
Real Estate taxes	\$ 123	\$ 79
Contributed Services	119	6
Contract services	178	98
Conferences planning and management	106	3
Utilities, supplies, and maintenance of grounds	290	239
Postage and printing	146	78
Dues and subscriptions	69	72
Other	<u>269</u>	<u>299</u>
Total Other Expense	<u>\$1,300</u>	<u>\$ 874</u>

4) What assets did we have and why did they change during the year?

For the fiscal year ending June 30, 2017 and 2016, total assets within the Chancery Office were \$90.0 million, and \$85.0 million respectively, an increase of \$5.0 million or 5.9%.

Corporation Sole – Chancery Office		
Total Assets		
(in millions)		
	<u>2017</u>	<u>2016</u>
Cash	\$23.4	\$ 16.5
Loans and Other Receivables, net	29.6	27.7
Land, Buildings, and Equip., net	9.4	9.7
Investments	<u>27.6</u>	<u>31.1</u>
Total Assets	<u>\$90.0</u>	<u>\$85.0</u>

**Corporation Sole - Chancery Office
Total Assets
June 30, 2017
(in millions)**



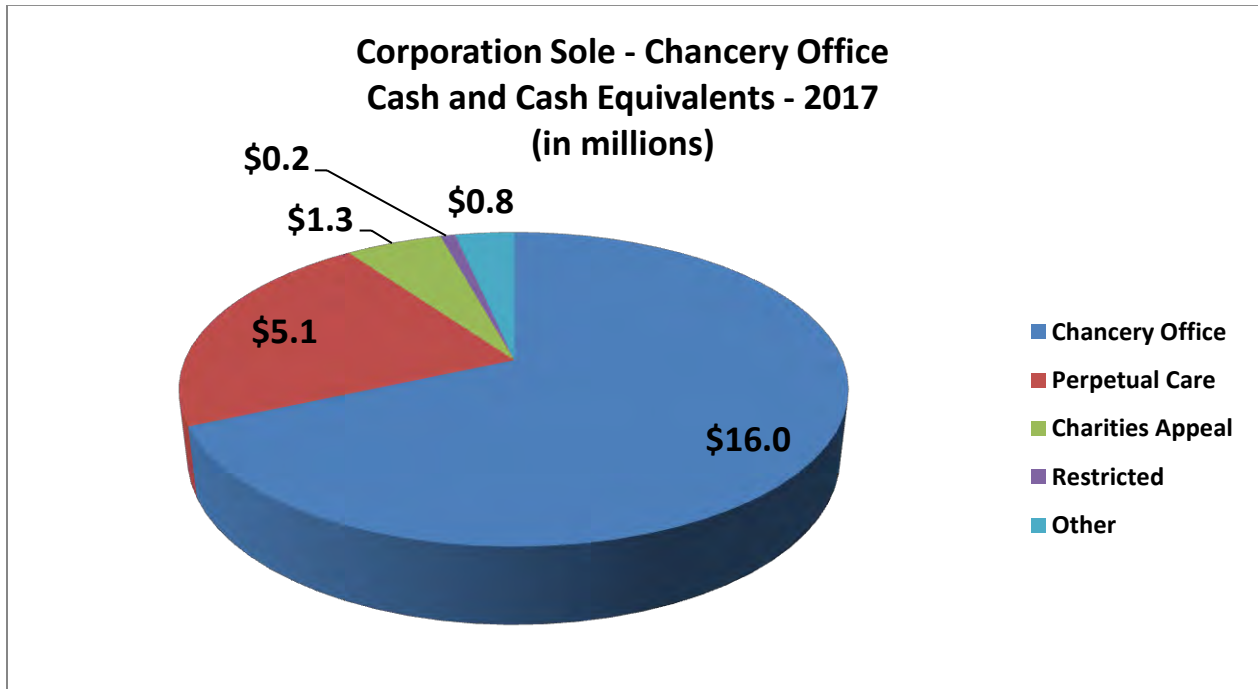
Asset Changes Fiscal 2017 versus Fiscal 2016

Cash and Cash Equivalents include the operating cash accounts as well as cash designated for several other purposes. This cash is deposited in various banks throughout the Diocese.

Corporation Sole – Chancery Office		
Cash and Cash Equivalents		
(in millions)		
	2017	2016
Chancery Office	\$16.0	\$11.3
Perpetual Care	5.1	3.1
Charities Appeal	1.3	1.2
Restricted	0.2	0.2
Other	<u>0.8</u>	<u>0.7</u>
TOTAL	<u>\$23.4</u>	<u>\$16.5</u>

The most significant changes in cash in 2017 resulted from an increase in payments from parishes and schools for the assessment and other accounts receivable and an increase in operating cash from the

proceeds of the sale of investments. Perpetual care cash increased in fiscal 2017 from \$2.0 million of corporate bonds maturing and converted to cash.



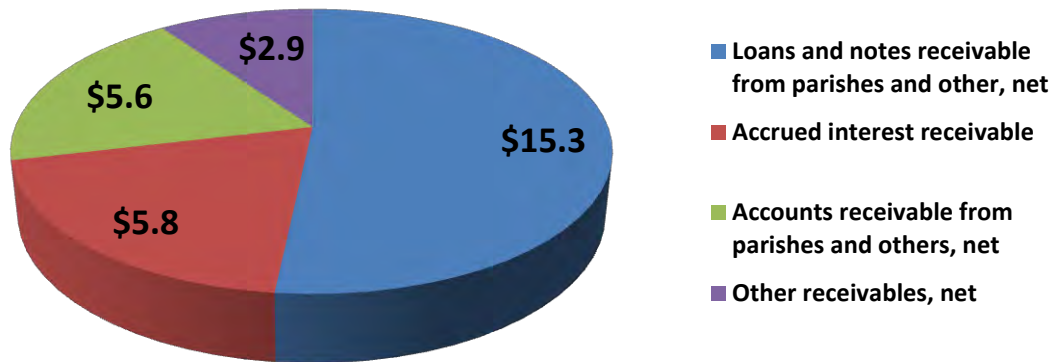
Total receivables, net, increased \$1.9 million from 2016 to 2017. The increase was primarily from a \$1.1 million increase in medical receivables from parishes and schools and a \$0.6 million increase in prepaid medical claims to Blue Cross.

Corporation Sole – Chancery Office
Total receivables, net
(in millions)

	<u>2017</u>	<u>2016</u>
Loans and notes receivables from parishes and other, net	\$15.3	\$16.2
Accrued interest receivable, net	5.8	5.6
Accounts receivable from parishes and others, net	5.6	3.0
Other receivables, net	<u>2.9</u>	<u>2.9</u>
Total receivables, net*	<u>\$29.6</u>	<u>\$27.7</u>

*Net of \$6.0 million in cash deposits with the Chancery Office from parishes and schools that also have loans with the Chancery Office.

**Corporation Sole - Chancery Office
Total Receivables, Net - 2017
(in millions)**



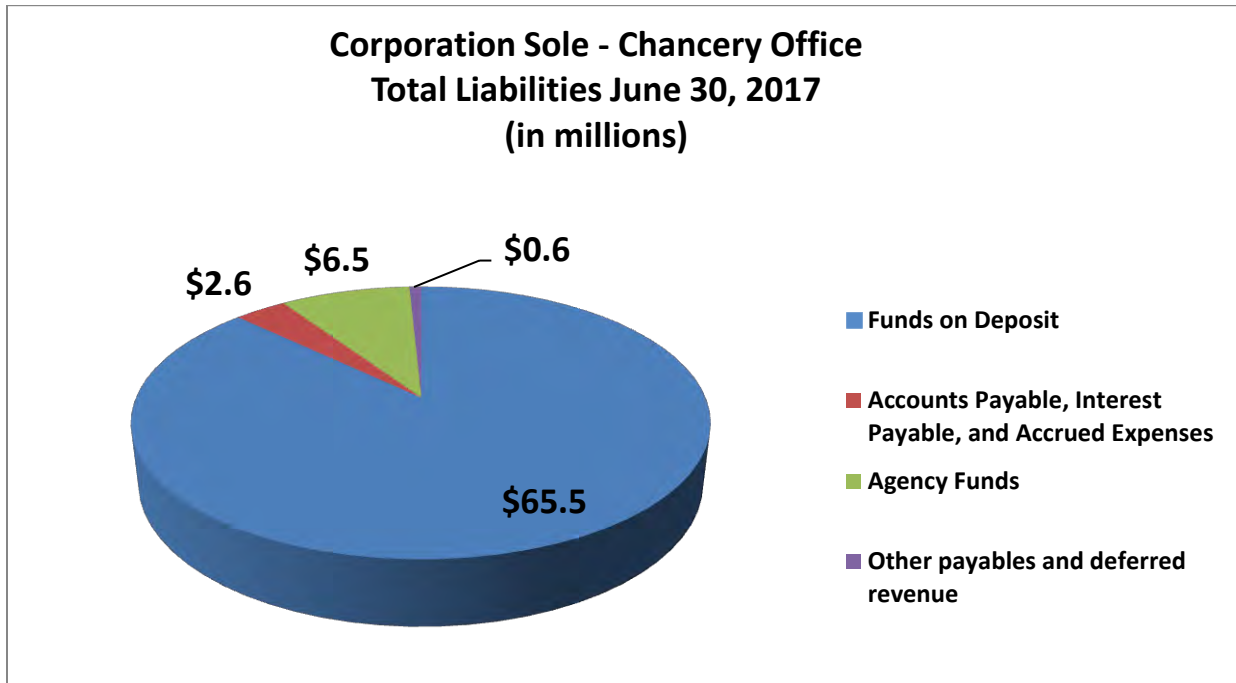
Land, buildings, and equipment are recorded at historical cost (original acquisition cost plus the cost of improvements) less accumulated depreciation in accordance with generally accepted accounting principles. This recorded amount bears no relationship to the actual value of the properties or to the estimated replacement cost in the event the properties had to be rebuilt. There are 11 buildings recorded as part of the net assets of the Corporation Sole – Chancery Office, most of which house Chancery support departments and are insured at an estimated reconstruction cost for the structures (excluding land) of \$11.7 million.

Investments were \$27.6 million at June 30, 2017, reflecting a decrease of \$3.5 million from the prior year, primarily from a \$3 million transfer of investments to the lay pension fund.

5) *What liabilities did we have and why did they change during the year?*

Total liabilities were \$75.2 million and \$69.7 million at June 30, 2017 and 2016, respectively, an increase of \$5.5 million or 7.9%.

Corporation Sole – Chancery Office		
Total Liabilities - June 30, 2017		
(in millions)		
	<u>2017</u>	<u>2016</u>
Funds on Deposit	\$65.5	\$61.2
Accounts Payable, Interest Payable, and Accrued Expenses	2.6	2.0
Agency Funds	6.5	6.3
Other payables and deferred revenue	<u>0.6</u>	<u>0.2</u>
Total Liabilities	<u>\$75.2</u>	<u>\$69.7</u>



Special collections for various annual charities, such as Peter's Pence, and catastrophic events, such as Hurricane Harvey, are accumulated in Agency Fund accounts on the records of the Chancery Office. The Agency Funds balance shown here is the accumulation of funds collected and not remitted as yet to the designated collection agency for that charity.

Liability Changes Fiscal 2017 versus Fiscal 2016

Accounts payable increased by \$.05 million primarily due to an increase in trade payables for Chancery operations. Other payables increased \$0.4 million due to a reserve established for future costs of potential settlements arising from old clergy misconduct claims occurring prior to June 30, 2017.

Funds on deposit increased \$4.3 million from fiscal year 2016 to 2017. This increase resulted primarily from a \$3.1 million deposit from one parish into the Deposit and Loan Fund account and a \$0.3 million increase in Perpetual Care funds on deposit.

Pension Plans

The Chancery Office participates with its other related and affiliated non-profit entities in contributory, defined-benefit plans covering substantially all full-time lay and Clergy employees. Effective December 31, 2015, the Diocese froze the lay plan. Accordingly, no new participants were able to be admitted to the plan after this date, and current participants will not earn future benefits, or be required to make contributions to the plan after this date. The accumulated benefit obligations of all pension plans are not reflected in the combined statement of financial position.

Based on the January 1, 2016 valuation by the plan's actuary, the lay plan was 58% funded and despite this underfunding, additional contributions (i.e. from entities or general operations) had not been made since the freeze of plan benefits. In the fall of 2016, an outside advisory committee [Lay Pension Task Force] was convened to assist the Bishop in reviewing the status of the plan and develop possible options for improving the funded status of the lay plan. A variety of reasons contributed to the underfunded status, including the great recession of 2008, changing mortality tables, demographic changes, and not being able to keep up with plan contributions. The Task Force considered several options, including terminating the plan, but first and foremost understood that doing nothing was not an option. It was determined that a restart of historic ongoing contributions into the frozen plan was imperative but could present some financial challenges to parishes, schools, and affiliates.

The Diocese began to reinforce contributing to the frozen plan effective July 1, 2017. With these required contributions, as well as selective contributions from Diocesan operations from property sales, for example, and effective management of our pension investments, it is hoped the lay plan will be fully funded by 2040 or earlier. The Diocese will be creating separate pension trusts for the lay and clergy plans and will report that financial information when available. With regard to the clergy plan, that plan is underfunded as well and we have begun to address this now that the substantially larger lay plan sustainability has been addressed.

Corporation Sole - Chancery Office Main Operations *
Fiscal 2018 Forecast

	June 30, 2018
	Forecast
<u>Revenue:</u>	
Catholic Charities Appeal ^(A)	\$ 4,800,000
Parish Assessment	3,900,000
Special Collections	630,000
Bequests and Contributions	140,000
Investment and Interest Income	700,000
Rental Income	190,000
All Other	260,000
Total Revenue	\$ 10,620,000
<u>Expense:</u>	
Lay Compensation and Benefits	\$ 2,700,000
Clergy and Religious	160,000
Professional and Legal	1,050,000
Real Estate Taxes	70,000
Office and Related	170,000
Buildings, Grounds, and Utilities	240,000
Support to U.S. Catholic Conference and MA Catholic Conference	110,000
Ecclesiastical Fund	540,000
Cardinal Medeiros Residence	540,000
Clergy Fund	700,000
Savings and Loan Net Interest Expense	1,050,000
Catholic Charities Appeal External Support ^(A)	3,300,000
All Other	300,000
Total Expense	\$ 10,930,000
Net Surplus/(Deficit)	\$ (310,000)

*Main Operations includes: The offices of the Bishop, Chancery, Finance, Insurance, Legal, Development, Tribunal, Pastoral Planning, and other support areas; excludes self-insurance risk activities.

^(A) A portion of Catholic Charities Appeal revenue supports ministries and efforts now centralized with Chancery Operations (i.e. Pro-Life Office, Project Rachel, Hispanic Ministries, Communications Office, Episcopal Representative for Religious, Tribunal Office).

Members of the Diocese of Fall River Finance Council

Most Reverend Edgar M. da Cunha, S.D.V., D.D., Bishop of Fall River

E. Dennis Kelly, Vice-Chair, Retired

Very Reverend Gregory A. Mathias, Vicar General

Reverend John M. Murray, Moderator of the Curia

Paula Freitas, Vice President and Regional Branch Manager, Baycoast Bank

David T. Gay, Esq., Counsel for the Diocese

John J. Holiver, CEO, CharterCARE Health Partners

Richard A. Kelley, Retired

Dennis F. Leahy, Treasurer and Chief Financial Officer, Bristol County Savings Bank

Reverend Michael K. McManus, Pastor, St. Mary's Mansfield

Sandra L. Sevigney, Retired

Staff:

Kevin R. Kiley, Chancellor and Chief Financial Officer

Stuart R. MacDonald, Director of Finance

Appendix

Combined Financial Statements and Report of
Independent Certified Public Accountants

ROMAN CATHOLIC BISHOP OF FALL RIVER
(A Corporation Sole) - Chancery Office

June 30, 2017 and 2016

**ROMAN CATHOLIC BISHOP OF FALL RIVER
(A Corporation Sole) - Chancery Office**

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Most Reverend Edgar M. da Cunha, S.D.V
Bishop of Fall River

Report on the financial statements

We have audited the accompanying combined financial statements of the Roman Catholic Bishop of Fall River (A Corporation Sole) - Chancery Office (the "Chancery"), which comprise the combined statements of financial position as of June 30, 2017 and 2016, and the related combined statements of activities and cash flows for the years then ended, and the related notes to the combined financial statements.

Management's responsibility for the financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of the Roman Catholic Bishop of Fall River (A Corporation Sole) - Chancery Office as of June 30, 2017 and 2016, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in cursive script that reads "Grant Thornton LLP".

Boston, Massachusetts

February 27, 2018

ROMAN CATHOLIC BISHOP OF FALL RIVER
(A Corporation Sole) - Chancery Office
Combined Statements of Financial Position
As of June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
Cash and cash equivalents	\$ 23,421,179	\$ 16,455,461
Accounts receivable from parishes and others, net	5,611,238	2,996,050
Loans receivable from parishes and others, net	15,075,243	15,907,741
Other receivables, net	2,865,429	2,945,208
Accrued interest on loans and notes receivable, net	5,781,381	5,510,620
Note receivable, net	244,555	292,835
Prepaid expenses	43,662	83,247
Investments	27,578,614	31,106,793
Land, buildings, and equipment, net	<u>9,382,329</u>	<u>9,678,065</u>
Total assets	<u>\$ 90,003,630</u>	<u>\$ 84,976,020</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	\$ 2,045,250	\$ 1,499,790
Funds on deposit from parishes and others	65,543,385	61,148,860
Interest payable to parishes and others	507,768	476,531
Other payables	561,658	118,921
Deferred revenue	-	125,026
Agency funds	<u>6,530,369</u>	<u>6,325,649</u>
Total liabilities	<u>75,188,430</u>	<u>69,694,777</u>
NET ASSETS		
Unrestricted	9,894,238	10,389,457
Temporarily restricted	486,226	457,050
Permanently restricted	<u>4,434,736</u>	<u>4,434,736</u>
Total net assets	<u>14,815,200</u>	<u>15,281,243</u>
Total liabilities and net assets	<u>\$ 90,003,630</u>	<u>\$ 84,976,020</u>

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

ROMAN CATHOLIC BISHOP OF FALL RIVER
(A Corporation Sole) - Chancery Office
Combined Statement of Activities
For the year ended June 30, 2017
with summarized comparative information for the year ended June 30, 2016

	2017			2016	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
REVENUES AND OTHER SUPPORT					
Program fees:					
Medical and dental premiums	\$ 18,221,961	\$ -	\$ -	\$ 18,221,961	\$ 18,692,570
Other benefits and insurance premiums	4,948,533	-	-	4,948,533	5,954,682
Contributions and bequests:					
Catholic Charities Appeal	4,759,352	-	-	4,759,352	4,506,414
Special collections	230,559	-	-	230,559	232,378
Bequests	440,410	-	-	440,410	23,254
Parish assessments	4,071,441	-	-	4,071,441	2,035,719
Interest on loans and notes	797,523	-	-	797,523	813,194
Earnings on investments and savings	965,444	136,730	-	1,102,174	1,259,423
Unrealized gains (losses) on investments	642,717	20,272	-	662,989	(533,474)
Rental income	205,930	-	-	205,930	260,935
Other revenue	506,654	-	-	506,654	368,333
Net assets released from restrictions	127,826	(127,826)	-	-	-
Total revenues and other support	<u>35,918,350</u>	<u>29,176</u>	<u>-</u>	<u>35,947,526</u>	<u>33,613,428</u>
EXPENSES AND LOSSES					
Program services:					
Medical and dental premiums, claims and expenses	16,800,827	-	-	16,800,827	19,281,593
Other insurance premiums, claims and expenses	3,431,050	-	-	3,431,050	2,568,646
Program activities:					
Pastoral ministries	3,038,331	-	-	3,038,331	3,119,186
Education and Grants	479,000	-	-	479,000	479,500
Communications and faith formation	446,573	-	-	446,573	453,438
Support for matriculating seminarians	328,128	-	-	328,128	264,335
Clergy retirement and other support costs	1,678,258	-	-	1,678,258	1,964,598
Supporting services:					
Chancery office	4,804,580	-	-	4,804,580	1,620,728
Professional fees and settlement costs	1,290,597	-	-	1,290,597	503,308
Development	243,589	-	-	243,589	192,853
Other	1,300,477	-	-	1,300,477	873,870
Interest paid on deposits and loans	1,838,004	-	-	1,838,004	1,646,168
Bad debt expense	3,452	-	-	3,452	3,867,301
Depreciation	295,736	-	-	295,736	314,810
Other operating expenses	434,967	-	-	434,967	494,859
Total expenses	<u>36,413,569</u>	<u>-</u>	<u>-</u>	<u>36,413,569</u>	<u>37,645,193</u>
Change in net assets	(495,219)	29,176	-	(466,043)	(4,031,765)
Net assets, beginning of year	10,389,457	457,050	4,434,736	15,281,243	19,313,008
Net assets, end of year	<u>\$ 9,894,238</u>	<u>\$ 486,226</u>	<u>\$ 4,434,736</u>	<u>\$ 14,815,200</u>	<u>\$ 15,281,243</u>

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

ROMAN CATHOLIC BISHOP OF FALL RIVER
(A Corporation Sole) - Chancery Office
Combined Statement of Activities
For the year ended June 30, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES AND OTHER SUPPORT				
Program fees:				
Medical and dental premiums	\$ 18,692,570	\$ -	\$ -	\$ 18,692,570
Other	5,954,682	-	-	5,954,682
Contributions and bequests:				
Catholic Charities Appeal	4,506,414	-	-	4,506,414
Special collections	232,378	-	-	232,378
Bequests	23,254	-	-	23,254
Parish assessments	2,035,719	-	-	2,035,719
Interest on loans and notes	813,194	-	-	813,194
Earnings on investments and savings	1,154,645	104,778	-	1,259,423
Unrealized gains (losses) on investments	(512,608)	(20,866)	-	(533,474)
Rental income	260,935	-	-	260,935
Other revenue	368,333	-	-	368,333
Net assets released from restrictions	146,808	(146,808)	-	-
Total revenues and other support	<u>33,676,324</u>	<u>(62,896)</u>	<u>-</u>	<u>33,613,428</u>
EXPENSES AND LOSSES				
Program services:				
Medical and dental premiums, claims and expenses	19,281,593	-	-	19,281,593
Other insurance premiums, claims and expenses	2,568,646	-	-	2,568,646
Program activities:				
Pastoral ministries	3,119,186	-	-	3,119,186
Education and Grants	479,500	-	-	479,500
Communications and faith formation	453,438	-	-	453,438
Seminarians' tuition, fees and other expenses	264,335	-	-	264,335
Clergy retirement and other support costs	1,964,598	-	-	1,964,598
Supporting services:				
Chancery office	1,620,728	-	-	1,620,728
Professional fees	503,308	-	-	503,308
Development	192,853	-	-	192,853
Other	873,870	-	-	873,870
Interest on deposits and loans	1,646,168	-	-	1,646,168
Bad debt expense	3,867,301	-	-	3,867,301
Depreciation	314,810	-	-	314,810
Other	494,859	-	-	494,859
Total expenses	<u>37,645,193</u>	<u>-</u>	<u>-</u>	<u>37,645,193</u>
Change in net assets	<u>(3,968,869)</u>	<u>(62,896)</u>	<u>-</u>	<u>(4,031,765)</u>
Net assets, beginning of year	<u>14,358,326</u>	<u>519,946</u>	<u>4,434,736</u>	<u>19,313,008</u>
Net assets, end of year	<u>\$ 10,389,457</u>	<u>\$ 457,050</u>	<u>\$ 4,434,736</u>	<u>\$ 15,281,243</u>

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

ROMAN CATHOLIC BISHOP OF FALL RIVER
(A Corporation Sole) - Chancery Office
Combined Statements of Cash Flows
For the years ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (466,043)	\$ (4,031,765)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities		
Unrealized (gains) losses on investments	(662,989)	533,474
Change in provision for uncollectible accounts	3,452	3,867,301
Depreciation	295,736	314,810
Changes in operating assets and liabilities		
Accounts receivable from parishes and others	(2,718,088)	4,506,921
Other receivables	1,322,669	62,579
Accrued interest receivable	(1,312,480)	122,667
Prepaid expenses	39,585	26,150
Accounts payable and accrued expenses	545,460	(432,772)
Deferred revenue	(125,026)	125,026
Interest payable to parishes and others	31,237	90,526
Agency funds	204,720	267,704
Other payables	442,737	41,743
Net cash (used in) provided by operating activities	<u>(2,399,030)</u>	<u>5,494,364</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Change in net loans receivable from parishes and others	730,774	(1,172,438)
Net payments received on notes receivable	48,279	45,929
Proceeds from sales of investments	36,710,319	14,443,669
Purchases of investments	<u>(32,519,149)</u>	<u>(17,107,086)</u>
Net cash provided by (used in) investing activities	<u>4,970,223</u>	<u>(3,789,926)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Change in funds on deposit from parishes and others	<u>4,394,525</u>	<u>(6,923,101)</u>
Net cash provided by (used in) financing activities	<u>4,394,525</u>	<u>(6,923,101)</u>
Net change in cash and cash equivalents	6,965,718	(5,218,663)
Cash and cash equivalents, at beginning of year	<u>16,455,461</u>	<u>21,674,124</u>
Cash and cash equivalents, end of year	<u>\$ 23,421,179</u>	<u>\$ 16,455,461</u>
Supplemental disclosures of cash flow information:		
Cash paid for interest	<u>\$ 1,042,930</u>	<u>\$ 1,555,642</u>

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

ROMAN CATHOLIC BISHOP OF FALL RIVER
(A Corporation Sole) - Chancery Office
Notes to Combined Financial Statements
June 30, 2017 and 2016

1. ORGANIZATION

Organization

The Roman Catholic Bishop of Fall River, a Massachusetts corporation sole, was founded in 1904, and together with the parishes, schools, cemeteries or other affiliated agencies and entities in south eastern Massachusetts, operate as the Roman Catholic Diocese of Fall River (the "Diocese"). Refer to www.fallriverdiocese.org for a complete list of entities included in the Diocese.

The Chancery Office (the "Chancery Office") is an entity within the Diocese that provides administrative services and programmatic and financial support to those Diocesan entities, institutions, and associations identified above, each of which operate independently and account for their operations separately.

These financial statements include the assets, liabilities, and net assets of the Chancery Office only. These financial statements do not include the assets, liabilities, and net assets of the parishes, schools, cemeteries or other affiliated agencies and entities of the Diocese.

The Chancery Office administers the various employee benefits programs of the Diocese, including the medical and dental self-insurance programs, and other purchased insurance coverages in addition to providing administrative, legal and human resources support as needed. In addition, the Chancery Office provides loans to and holding deposits of excess funds for the parishes, schools, cemeteries and other affiliated agencies and entities of the Diocese. Substantially all program fee revenue is derived from parishes, schools, cemeteries and other affiliated agencies and entities of the Diocese.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("US GAAP").

Use of Estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions 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. Actual results could differ from those estimates.

Basis of Presentation

The Chancery Office reports its financial position and activities within three classes of net assets:

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for a specific purpose by action of the Chancery Office or may otherwise be limited by contractual agreements with outside parties.

ROMAN CATHOLIC BISHOP OF FALL RIVER
(A Corporation Sole) - Chancery Office
Notes to Combined Financial Statements
June 30, 2017 and 2016

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that will be met either by actions of the Chancery Office and/or the passage of time.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Chancery Office. Generally, the donors of these assets permit the Chancery Office to use all or part of the investment income on related investments for general or specific purposes.

Liquidity and Management's Plans

As of June 30, 2017 and 2016, the Chancery had unrestricted net assets of \$9,894,238 and \$10,389,457, respectively. This positive net position reflects the accumulation of revenues in excess of expenses over a period of years. The changes in net assets for the years ended June 30, 2017 and 2016 were reductions of \$466,043 and \$4,031,765, respectively. There were several factors contributing to the improved financial results in 2017 compared to 2016. One of the larger expenses in 2016 that created the loss as an increase in the bad debt reserve of \$3,900,000. The Chancery also benefitted from a full year's assessment to parishes and other entities. The Chancery is focused on continuing to reduce expenses and also increase revenues, which has had a positive effect on results of operations in 2017.

Revenue Recognition

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulations or law. Upon the expirations of temporary restrictions on net assets; that is, the donor-imposed stipulated purpose has been accomplished and/or the stipulated time period has elapsed, such net assets are released from restrictions and reclassified to unrestricted and reported in the combined statement of activities as net assets released from restrictions. Restrictions on gifts of fixed assets or cash for the purchase of fixed assets expire when the asset is purchased.

Program fees - the Chancery Office acts on behalf of participating parishes and other related entities to procure insurance coverage. The costs of the premiums and related expenses are billed to the participating entities. Unpaid insurance billings are included in amounts due from related entities.

Parish assessments - Parishes within the Diocese are assessed a fee to help support the mission of the Church in Fall River as permitted by canon law. The annual parish assessment is based upon a percentage of the parish operating income, which primarily consists of parish offertory.

Contributions consist of annual appeal, bequests, and special collections. The annual Charities Appeal of the Diocese begins in May and concludes at the end of the fiscal year. The appeal provides financial support for various programs and agencies of the Diocese. Bequests received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Donor-restricted contributions are reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction.

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Cash and Cash Equivalents and Investments

Cash and cash equivalents consist of operating funds deposited in cash management accounts, and other investments with maturities at the time of purchase of 90 days or less, and are carried at market value. Cash and cash equivalents held in the investment portfolio are reported as investments.

The Chancery Office maintains cash balances at several banks in excess of federally insured limits. The Chancery Office also maintains cash balances in money market funds which are not insured. The Chancery Office has not experienced any losses in these accounts and believes it is not exposed to any significant credit risk.

The Chancery Office reports investments at fair value. The fair value of publicly-traded securities is based upon quoted market prices as of the measurement date. Purchases and sales of investments are recorded on a trade-date basis. Gains or losses from the sale of investment securities are computed on the specific identification method, or on the average cost basis.

Investments are exposed to various risks, such as interest rate, credit, and overall market volatility.

Accounts Receivable, Loans Receivable, Other Receivables, and Accrued Interest

Accounts receivable from parishes and others include amounts due from related organizations for insurance and other central services and have been reduced to their estimated net realizable value through an allowance for doubtful accounts. Accounts receivable are shown net of any depository savings held on their behalf by the Chancery Office.

Loans receivable from parishes and others represent advances to related organizations. Loans receivable are stated at the amount of unpaid principal, reduced by an allowance for loan losses. Generally, loans are granted for specific periods of time and contain specific provisions regarding payment terms and collateral. Interest income on loans is accrued on the respective unpaid principal balance.

The allowances for doubtful accounts for accounts receivable, loans receivable, other receivables, and accrued interest are maintained at a level believed by management to be representative of inherent losses estimated on the basis of factors such as risk characteristics of the borrowers, potential collateral and current economic conditions that may affect the borrower's ability to pay. Loans, accounts receivable, other receivables, and accrued interest are written off in whole or in part when, in management's opinion, collectability is considered remote. Subsequent recoveries, if any, are recorded as an increase to income.

While management uses available information to establish the allowances for accounts receivable, loans receivable, other receivables and accrued interest, future additions or reductions to the allowances may become necessary if circumstances differ from the assumptions used in making the evaluation as of each reporting date.

Land, Buildings, and Equipment

Land, buildings and building improvements, and equipment are stated at cost at date of acquisition or, if donated, at the market value on the date of the gift, less accumulated depreciation. Equipment includes vehicles. Maintenance repairs and minor renewals are expensed as incurred and renewals and betterments are capitalized. When an asset is retired or disposed of, the related costs and allowances for depreciation

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are removed from the accounts and any gain or loss on the disposition is reflected in the combined statement of activities. Provision for depreciation is made on the straight-line method by annual charges to the combined statement of activities.

Perpetual Care Funds on Deposit

The Chancery Office receives deposits from cemetery entities within the Diocese and pays a stated rate of interest on these deposits. The funds are available to pay for the future care of these cemeteries when needed.

Reserve for Losses

Property and General Liability Insurance

The Diocese is insured for various risks incidental to the normal course of its activities. Such risks include fire damage, general liability claims, theft losses and sudden accidental occurrences to boilers and related equipment.

The Diocese also permits related organizations within the Diocese of Fall River to participate in its risk management program. A charge is assessed to these entities based on the type of risks shared among these organizations. The typical risk areas in which the other organizations participate include automobile liability, physical property damage and general liability.

Health and Dental Insurance

The Diocese is self-insured for losses related to health benefits for its employees. The program is administered by the Chancery Office. Medical claim losses in excess of the self-insured retention level are insured under a commercial excess policy. A provision for estimated health and dental claims payable is provided for in the financial statements in the amount of \$1,105,000 and \$1,191,000 for the years ended June 30, 2017 and 2016, respectively, and is included in accounts payable and accrued expenses on the combined statement of financial position.

A reserve for health and dental claims incurred but not reported is based on claims reported, historical experience and estimates of future trends claim severity and frequency and other factors, which could vary as claims are ultimately settled. The actual amount of losses and loss adjustment expenses may vary from the estimated amounts included in the combined financial statements.

Income Taxes

The Diocese is a religious organization as described in Section 501(c)(3) of the Internal Revenue Code, as amended (the "Code"), and is generally exempt from income taxes pursuant to Section 501(a) of the Code. The Diocese is included in the United States Conference of Catholic Bishops (USCCB) group ruling and listing in the Official Catholic Directory. The Diocese is required to assess uncertain tax positions and has determined that there were no such positions that are material to the financial statements.

Reclassification of Reserves

During the fiscal year 2017 close process, management identified an error in the classification of reserves for bad debt in 2016 which was corrected in the current year financial statements. Refer to Note 3 for additional information.

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Subsequent Events

The Chancery Office has evaluated the impact of all subsequent events through February 27, 2018, the date the financial statements were available to be issued, and has determined that there were no additional subsequent events requiring adjustment or disclosure in the financial statements.

3. ACCOUNTS RECEIVABLE, LOANS RECEIVABLE, OTHER RECEIVABLES AND ACCRUED INTEREST

At June 30, the amounts receivable from parishes and others, net, consists of the following:

	2017			
	Accounts Receivable	Loans Receivable	Other Receivable	Accrued Interest
Gross receivable	\$ 11,188,709	\$ 26,962,364	\$ 4,729,413	\$ 8,503,694
Less: Allowance for doubtful accounts	<u>2,485,834</u>	<u>9,769,840</u>	<u>1,242,890</u>	<u>2,519,720</u>
Subtotal	8,702,875	17,192,524	3,486,523	5,983,974
Depository savings payable to those entities with accounts receivable	<u>(3,091,637)</u>	<u>(2,117,281)</u>	<u>(621,094)</u>	<u>(202,593)</u>
Net receivable	<u>\$ 5,611,238</u>	<u>\$ 15,075,243</u>	<u>\$ 2,865,429</u>	<u>\$ 5,781,381</u>
	2016			
	Accounts Receivable	Loans Receivable	Other Receivable	Accrued Interest
Gross receivable	\$ 9,725,898	\$ 27,893,233	\$ 4,860,240	\$ 8,439,414
Less: Allowance for doubtful accounts*	<u>2,485,834</u>	<u>9,769,840</u>	<u>1,242,890</u>	<u>2,753,370</u>
Subtotal	7,240,064	18,123,393	3,617,350	5,686,044
Depository savings payable to those entities with accounts receivable	<u>(4,244,014)</u>	<u>(2,215,652)</u>	<u>(672,142)</u>	<u>(175,424)</u>
Net receivable	<u>\$ 2,996,050</u>	<u>\$ 15,907,741</u>	<u>\$ 2,945,208</u>	<u>\$ 5,510,620</u>

* During 2017, management identified an immaterial error in the presentation of the allowance between the four categories above for the year ended June 30, 2016. The balances in the 2016 table above related to allowances for doubtful accounts have been corrected to reflect the proper allocation of the allowance between the four categories. Refer to the rollforward of the allowance on the next page for further details.

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A roll forward of the allowance for doubtful accounts related to the above receivables for the years ended June 30, 2017 and 2016, is as follows:

	2017			
	Accounts Receivable	Loans Receivable	Other Receivable	Accrued Interest
Beginning of year	\$ 2,485,834	\$ 9,769,840	\$ 1,242,890	\$ 2,753,370
Write-offs net of recoveries	-	-	-	(233,650)
End of year	<u>\$ 2,485,834</u>	<u>\$ 9,769,840</u>	<u>\$ 1,242,890</u>	<u>\$ 2,519,720</u>
	2016			
	Accounts Receivable	Loans Receivable	Other Receivable	Accrued Interest
Beginning of year	\$ 8,888,957	\$ 8,195,688	\$ 10,236,611	\$ 3,326,449
Write-offs net of recoveries	(6,300,223)	(2,194,878)	(10,236,611)	468,640
Reclassification of provision*	(102,900)	(98,271)	1,242,890	(1,041,719)
Current year provision	-	3,867,301	-	-
End of year	<u>\$ 2,485,834</u>	<u>\$ 9,769,840</u>	<u>\$ 1,242,890</u>	<u>\$ 2,753,370</u>

* During 2017, management identified an immaterial error in the presentation of the allowance between the four categories above for the year ended June 30, 2016. The reclassification of provision in the 2016 table above reflects the correction of this error between the four categories.

The Chancery Office uses three categories to calculate the allowance. Category 1 indicates the parish or other religious organization is deemed financially sound. Category 3 indicates there is substantial doubt that the parish or religious organization will be able to repay the loan. Category 2 indicates there is some level of doubt the parish or religious organization will be able to repay the loan.

The gross receivable by credit worthiness category as of June 30 is as follows:

	2017			
Creditworthiness category:	Accounts Receivable	Loans Receivable	Other Receivable	Accrued Interest
1	\$ 5,016,338	\$ 13,410,898	\$ 3,143,237	\$ 4,946,825
2	6,084,424	11,757,411	1,586,176	3,556,869
3	<u>87,947</u>	<u>1,794,055</u>	<u>-</u>	<u>-</u>
End of year	<u>\$ 11,188,709</u>	<u>\$ 26,962,364</u>	<u>\$ 4,729,413</u>	<u>\$ 8,503,694</u>

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Creditworthiness category:	2016			
	<u>Accounts Receivable</u>	<u>Loans Receivable</u>	<u>Other Receivable</u>	<u>Accrued Interest</u>
1	\$ 3,445,774	\$ 14,278,373	\$ 3,299,762	\$ 5,169,824
2	6,240,021	11,820,805	1,560,478	3,269,590
3	40,103	1,794,055	-	-
End of year	<u>\$ 9,725,898</u>	<u>\$ 27,893,233</u>	<u>\$ 4,860,240</u>	<u>\$ 8,439,414</u>

4. INVESTMENTS

Investments consist of the following at June 30:

	<u>2017</u>	<u>2016</u>
Money market funds	\$ 667,225	\$ 2,152,424
Mutual funds	3,903,084	3,256,192
Government obligations	7,540,405	15,248,274
Corporate bonds	7,123,222	2,537,905
Common stock	<u>8,344,678</u>	<u>7,911,999</u>
	<u>\$ 27,578,614</u>	<u>\$ 31,106,794</u>

Net investment return for the years ended June 30, is as follows:

	<u>2017</u>	<u>2016</u>
Interest and dividends	\$ 1,076,280	\$ 1,243,396
Realized gains on investments	25,894	16,027
Unrealized gains/(losses) on investments	<u>662,989</u>	<u>(533,474)</u>
Total investment income	<u>\$ 1,765,163</u>	<u>\$ 725,949</u>

For the years ended June 30, 2017 and 2016, the Chancery Office paid \$31,250 and \$31,250, respectively, in investment management fees, which are presented net of interest and dividend income in the table above.

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5. LAND, BUILDINGS, AND EQUIPMENT

Land, buildings, and equipment recorded by the Chancery Office at June 30 consist of the following:

	Estimated Useful Life	2017 Cost	2016 Cost
Land	N/A	\$ 4,175,827	\$ 4,175,827
Buildings and improvements	20 - 40 years	10,796,274	10,796,274
Equipment	3 years	121,036	121,036
		<u>15,093,137</u>	<u>15,093,137</u>
Less: Accumulated depreciation		<u>5,710,808</u>	<u>5,415,072</u>
		<u>\$ 9,382,329</u>	<u>\$ 9,678,065</u>

6. RELATED PARTY TRANSACTIONS

The Chancery Office, by its nature, engages in transactions with other Diocesan entities which are considered to be related party transactions.

Included in accounts receivable from parishes and others, net, on the combined statements of financial position are insurance, medical and dental premiums receivable from related Diocesan parishes, schools, cemeteries, agencies and other related entities of the Diocese totaling \$5,231,911 and \$4,772,639 at June 30, 2017 and 2016, respectively.

Included in other accounts receivable, net, on the combined statements of financial position are receivables from Diocesan parishes of \$165,335 and \$144,077 at June 30, 2017 and 2016, respectively, related to amounts due to the Diocese from the parishes for pension plan contributions.

Included in loans receivable from parishes and others, net, on the combined statements of financial position are related receivables from two priests of the Diocese in the aggregate amount of \$205,072 and \$76,037 at June 30, 2017 and 2016, respectively.

Included in loans receivable from parishes and others, net, on the combined statements of financial position are related receivables from various Diocesan parishes, schools and other related entities of the Diocese of \$15,075,243 and \$14,745,956 at June 30, 2017 and 2016, respectively.

Included in other receivables, net, on the combined statements of financial position are related receivables from various Diocesan parishes, schools and other related entities of the Diocese in the amount of \$2,873,853 and \$2,867,541 at June 30, 2017 and 2016, respectively.

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Included in accrued interest, net, on the combined statements of financial position are related receivables from various Diocesan parishes, schools and other related entities of the Diocese of \$4,848,498 and \$4,886,364 at June 30, 2017 and 2016, respectively.

Included in note receivable on the combined statements of financial position is a receivable from a related entity of the Diocese in the amount of \$244,555 and \$292,835 at June 30, 2017 and 2016, respectively.

Included in funds on deposit from parishes and others are related payables to various Diocesan parishes, schools, cemeteries, agencies and other related entities of the Diocese of \$47,525,475 and \$43,044,963, net of associated receivables at June 30, 2017 and 2016, respectively.

Included in interest payable to parishes and others on the combined statements of financial position are related amounts due to various Diocesan parishes, schools, cemeteries, agencies and other related entities of the Diocese of \$380,073 and \$631,647 at June 30, 2017 and 2016, respectively.

The medical and dental premiums on the combined statements of activities of \$18,221,961 and \$18,692,570 for the years ended June 30, 2017 and 2016, respectively are from various Diocesan parishes, schools, cemeteries, agencies and other related entities of the Diocese.

The other insurance premiums on the combined statements of activities of \$3,046,451 and \$3,607,212 for the years ended June 30, 2017 and 2016, respectively, are from various Diocesan parishes, schools, cemeteries, agencies and other related entities of the Diocese.

The interest on loans to parishes on the combined statements of activities of \$729,091 and \$790,522 for the years ended June 30, 2017 and 2016, respectively, is from various Diocesan parishes, schools, cemeteries, agencies and other related entities of the Diocese.

The interest on notes on the combined statements of activities of \$68,432 and \$15,915 for the years ended June 30, 2017 and 2016, respectively, is from various Diocesan parishes, schools, cemeteries, agencies and other related entities of the Diocese.

The rental income on the combined statements of activities of \$205,930 and \$260,935 for the years ended June 30, 2017 and 2016, respectively is from various Diocesan agencies, other related entities of the Diocese, and retired priests of the Diocese.

For the years ended June 30, 2017 and 2016, the Chancery Office paid \$1,316,750 and \$1,506,561, respectively, in interest to various Diocesan parishes, schools, cemeteries, agencies and other related entities of the Diocese related to the funds on deposit held by the Chancery Office on their behalf. This interest expense is included in the combined statement of activities as interest on deposits and loans.

Included in other expenses on the combined statements of activities are contributions made to a related entity in the amount of \$119,107 and \$6,000 for the years ended June 30, 2017 and 2016, respectively for donated services to an affiliated charitable organization.

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For the years ended June 30, 2017 and 2016, a member of the Chancery Office's Finance Council was employed as a partner at a law firm, which provides legal counsel to the Chancery Office. During the years ended June 30, 2017 and 2016, the Chancery Office paid professional fees totaling \$218,000 and \$251,000, respectively to the firm.

7. FAIR VALUE MEASUREMENTS

The Chancery Office measures the fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). A fair value hierarchy has been established to prioritize the inputs used in valuation techniques to measure fair value. The three levels of the fair value hierarchy are described below.

Level 1 - inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets as of the measurement date.

Level 2 - inputs to the valuation methodology are other observable inputs, including quoted prices for similar assets and liabilities in active or non-active markets, inputs other than quoted prices that are observable for the asset or liability, and inputs that are not directly observable, but are corroborated by observable market data.

Level 3 - inputs to the valuation methodology are unobservable for the asset or liability.

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. As of June 30 assets and liabilities measured at fair value on a recurring basis are summarized as follows:

	2017			
	Level 1	Level 2	Level 3	Total
Government obligations	\$ -	\$ 7,540,405	\$ -	\$ 7,540,405
Money market funds	667,225	-	-	667,225
Corporate bonds	-	7,123,222	-	7,123,222
Mutual funds	3,903,084	-	-	3,903,084
Common stock	8,344,678	-	-	8,344,678
Total	<u>\$ 12,914,987</u>	<u>\$ 14,663,627</u>	<u>\$ -</u>	<u>\$ 27,578,614</u>

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	2016			Total
	Level 1	Level 2	Level 3	
Government obligations	\$ -	\$ 15,248,274	\$ -	\$ 15,248,274
Money market funds	2,152,424	-	-	2,152,424
Corporate bonds	-	2,537,905	-	2,537,905
Mutual funds	3,256,192	-	-	3,256,192
Common stock	7,911,999	-	-	7,911,999
Total	<u>\$ 13,320,615</u>	<u>\$ 17,786,179</u>	<u>\$ -</u>	<u>\$ 31,106,794</u>

8. ENDOWMENTS

Endowment Investment and Spending Policies

The Chancery Office's endowment consists principally of funds that are set aside as donor-restricted endowment funds. As of June 30, 2017 and 2016, endowment only consisted of donor-restricted funds. Net assets associated with endowment funds, including funds designated by the Chancery Office to function as endowments (if any), are classified and reported based on the existence or absence of donor-imposed restrictions. The Chancery Office follows the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as adopted in the Commonwealth of Massachusetts and its own governing documents. The Chancery Office has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Chancery Office classifies as permanently restricted net assets: (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Chancery Office in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Chancery Office considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Chancery Office, and (7) the Chancery Office's investment policies.

Funds with Deficiencies

From time to time, the fair value of assets associated with the donor-restricted endowment funds may fall below the level that the donors require the Chancery Office to retain as a fund of perpetual duration. Losses on investments of donor-restricted endowment funds reduce temporarily restricted net assets to the extent of net accumulated appreciation on these funds. Any remaining losses reduce unrestricted net assets. Future gains, if any, that restore the assets of the endowment fund to the original level will increase unrestricted net assets. As of June 30, 2017 and 2016, there were no funds with deficiencies.

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Investment Return Objectives, Risk Parameters and Strategies

The Chancery Office has adopted an investment policy for endowment assets that attempts to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds any distributions made with acceptable levels of risk.

Spending Policy

Presently, the Chancery Office has no formal spending policy related to its endowment funds. There were no amounts released from temporarily restricted net assets related to endowment funds other than the prior year earnings on the Duchaine endowment of \$108,757 in 2017 and \$95,695 in 2016.

At June 30 endowment net asset composition by type of fund is as follows:

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	<u>\$ -</u>	<u>\$ 104,387</u>	<u>\$ 4,434,736</u>	<u>\$ 4,539,123</u>
	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	<u>\$ -</u>	<u>\$ 75,021</u>	<u>\$ 4,434,736</u>	<u>\$ 4,509,757</u>

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Changes in endowment net assets are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, June 30, 2015	\$ -	\$ 93,559	\$ 4,434,736	\$ 4,528,295
Investment income	-	97,126	-	97,126
Net depreciation	-	(19,969)	-	(19,969)
Amounts appropriated for expenditure	-	(95,695)	-	(95,695)
Endowment net assets, June 30, 2016	-	75,021	4,434,736	4,509,757
Investment income	-	109,503	-	109,503
Net depreciation	-	28,620	-	28,620
Amounts appropriated for expenditure	-	(108,757)	-	(108,757)
Endowment net assets, June 30, 2017	<u>\$ -</u>	<u>\$ 104,387</u>	<u>\$ 4,434,736</u>	<u>\$ 4,539,123</u>

9. TEMPORARILY RESTRICTED NET ASSETS

At June 30, temporarily restricted net assets consist of the following:

	<u>2017</u>	<u>2016</u>
Parks fund	\$ 155,716	\$ 155,711
Appreciation on endowment - O'Donnell fund	47,812	43,973
Appreciation on endowment - Duchaine fund	56,258	30,731
Various contributions for use in future periods	226,439	226,635
	<u>\$ 486,225</u>	<u>\$ 457,050</u>

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For the years ended June 30, net assets released from restrictions consist of the following:

	<u>2017</u>	<u>2016</u>
Purpose restriction:		
Duchaine endowment fund	\$ 108,757	\$ 95,695
Other	<u>19,070</u>	<u>51,113</u>
	<u>\$ 127,827</u>	<u>\$ 146,808</u>

10. CONTINGENCIES

The Diocese is involved in various other legal proceedings in the normal course of business that are generally incidental to its business, including claims related to clergy misconduct. The Diocese has recorded an estimate to reserve for loss based on misconduct claims. As it relates to any other potential unknown claims, while it is not feasible to predict or determine the outcome of the proceedings at this time, management does not believe that they will result in a material adverse effect on the Chancery's financial position, changes in net assets, or liquidity.

11. PENSION PLANS

Lay Plan

The Chancery Office participates with other related and affiliated non-profit entities in a contributory, defined-benefit plan covering substantially all full-time lay employees. The risks of participating in multiemployer plans differ from single-employer plans in various ways:

- a. Assets contributed to multiemployer plans by one employer may be used to provide benefits to employees of other participating employers.
- b. If a participating employer stops contributing to a multiemployer plan, generally the unfunded obligations of the multiemployer plan may be borne by the remaining participating employers, on a case by case basis.
- c. If a participating entity chooses to stop participating in a multiemployer plan, the participating entity may be required to pay the multiemployer plan an amount based on the underfunded status of the multiemployer plan, referred to as a withdrawal liability.

The plan in which the Chancery Office participates is the Retirement Plan for Full-Time Lay Employees of Roman Catholic Bishop of Fall River, Corporation Sole (the "Lay Plan"). Benefits under the Lay Plan are provided through a pension plan administered by the Chancery Office. For the years ended June 30, 2017 and 2016, Chancery pension contributions were \$3,000,000 and \$34,000, respectively, and are reported as Chancery Office expenses.

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The Lay Plan provides retirement payments to employees on the basis of the credits earned by those participating employees. To the extent that the Lay Plan is underfunded, future contributions by the Chancery Office to the Lay Plan may or may not be impacted depending upon how the Lay Plan decides to address the underfunding. The Lay Plan does not require withdrawing participants to pay a withdrawal liability or other penalty.

Effective December 31, 2015, the Diocese froze the Lay Plan. Accordingly, no new participants were able to be admitted to the plan after this date, and current participants will not earn future benefits, or be required to make contributions to the plan after this date.

For financial reporting purposes within these financial statements, the Lay Plan is accounted for as a multiemployer plan and as such the accumulated benefit obligation is not reflected in the accompanying combined statement of financial position.

Priests Plan

The Diocese has a pension plan (the "Priests' Plan") which is administered by the Chancery Office covering substantially all priests who are incardinated in the Diocese. As of October 31, 2013, accumulated funding was utilized to purchase annuity contracts for the retired clergy of the Diocese receiving benefit payments at that time. Effective November 1, 2013, a new plan was created for future retirees. Funding of the Priests' Plan is assumed by the parishes or the affiliated agency or entity to which a priest is assigned.

At June 30, 2017 and 2016, the agencies and other related entities owed the Chancery Office \$220,916 and \$229,571, respectively for Plan contributions paid on their behalf. This amount is included in other receivables, net, on the combined statement of financial position. During the years ended June 30, 2017 and 2016, the Chancery contributed \$167,400 and \$194,400, respectively to the Plan.

For financial reporting purposes within these financial statements, the Priests' Plan is accounted for as multiemployer plans and as such the accumulated benefit obligation is not reflected in the accompanying combined statement of financial position.

Defined Contribution Plan

The Diocese offers a defined contribution deferred retirement savings option to various Diocesan agencies and other related entities of the Diocese. The Roman Catholic Bishop of Fall River, Corporation Sole Voluntary 403(b) Plan and the Diocesan Separately-Incorporated Entities Voluntary 403(b) Plan (collectively the "Plans") are administered by the Chancery Office. The Plans are based on total compensation and qualify under Section 403(b) of the Internal Revenue Service Code. All employees of the participating Diocesan agencies and other related entities are eligible to make contributions immediately upon employment. During the years ended June 30, 2017 and 2016, the Chancery contributed \$27,653 and \$30,000 to these Plans, respectively.