

**THE ROMAN CATHOLIC DIOCESE OF
ALBANY, NEW YORK**

**Financial Statements as of
June 30, 2016
Together with
Independent Auditor's Report**

Bonadio & Co., LLP
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

February 28, 2017

To The Most Reverend Edward B. Scharfenberger
The Roman Catholic Diocese of Albany,
New York:

Report on the Financial Statements

We have audited the accompanying financial statements of The Roman Catholic Diocese of Albany, New York (a New York State not-for-profit corporation) (Diocesan Corporation), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of The Diocesan Investment and Loan Trust, a separate legal entity within the Roman Catholic Diocese of Albany, New York, of which the Diocesan Corporation holds a retained interest that constitutes 44% of total assets and 67% of net assets of the Diocesan Corporation at June 30, 2016. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for The Diocesan Investment and Loan Trust, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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INDEPENDENT AUDITOR'S REPORT

(Continued)

Auditor's Responsibility (Continued)

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, based upon our audit and the report of the other auditors, the 2016 financial statements referred to above present fairly, in all material respects, the financial position of The Roman Catholic Diocese of Albany, New York as of June 30, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

The 2015 financial statements of The Roman Catholic Diocese of Albany, New York, were previously audited by other auditors whose report dated February 29, 2016, expressed an unmodified opinion on those audited financial statements. The summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Report of Supplemental Information

Our audit was conducted for the purpose of forming an opinion on the 2016 financial statements as a whole. The schedule of sources and uses – general fund is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The 2016 information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

The 2015 information included in the schedule of sources and uses – general fund was subjected to the auditing procedures applied in the 2015 audit of the financial statements by other auditors, whose report on such information stated that it was fairly stated in all material respects in relation to the 2015 financial statements as a whole.

THE ROMAN CATHOLIC DIOCESE OF ALBANY, NEW YORK

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2016

(With Comparative Totals For 2015)

| | <u>2016</u> | <u>2015</u> |
|--|----------------------|----------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 4,261,199 | \$ 4,155,534 |
| Investments | 13,914,168 | 14,774,833 |
| Accounts receivable, net | 3,567,109 | 3,296,064 |
| Interest in Diocesan Investment and Loan Trust | 19,588,543 | 19,384,204 |
| Prepaid expenses and other assets | 1,145,779 | 614,363 |
| Land, buildings and equipment, net | <u>1,809,859</u> | <u>1,982,501</u> |
| Total assets | <u>\$ 44,286,657</u> | <u>\$ 44,207,499</u> |
| LIABILITIES AND NET ASSETS | | |
| LIABILITIES: | | |
| Accounts payable and accrued expenses | \$ 12,284,057 | \$ 11,677,761 |
| Deferred revenue - | | |
| Bishop's Appeal | 393,708 | 345,644 |
| National collections | 86,356 | 93,628 |
| Custodian funds held | <u>2,462,919</u> | <u>2,531,583</u> |
| Total liabilities | <u>15,227,040</u> | <u>14,648,616</u> |
| NET ASSETS: | | |
| Unrestricted - | | |
| Undesignated | 8,159,664 | 7,746,477 |
| Designated | <u>12,434,476</u> | <u>12,680,597</u> |
| Total unrestricted net assets | 20,594,140 | 20,427,074 |
| Temporarily restricted | 2,956,915 | 3,623,247 |
| Permanently restricted | <u>5,508,562</u> | <u>5,508,562</u> |
| Total net assets | <u>29,059,617</u> | <u>29,558,883</u> |
| | <u>\$ 44,286,657</u> | <u>\$ 44,207,499</u> |

The accompanying notes are an integral part of these statements.

THE ROMAN CATHOLIC DIOCESE OF ALBANY, NEW YORK

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016**
(With Comparative Totals for 2015)

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total | |
|--|----------------------|---------------------------|---------------------------|----------------------|----------------------|
| | | | | 2016 | 2015 |
| REVENUE, GAINS, AND OTHER SUPPORT: | | | | | |
| Parish support and Bishop's Appeal | \$ 7,901,959 | \$ - | \$ - | \$ 7,901,959 | \$ 7,749,195 |
| Insurance premiums | 5,086,633 | - | - | 5,086,633 | 4,792,995 |
| Legacies, bequests, and miscellaneous | 1,006,881 | 6,327 | - | 1,013,208 | 1,173,978 |
| Other revenue | 932,840 | - | - | 932,840 | 733,491 |
| Interest and dividend income | 565,484 | 180,406 | - | 745,890 | 707,003 |
| Contributions from Roman Catholic Diocesan Cemeteries | 60,000 | - | - | 60,000 | 60,000 |
| Net gains (losses) on investments | (202,932) | (11,740) | - | (214,672) | 323,235 |
| Net assets released from restrictions | <u>841,325</u> | <u>(841,325)</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total revenue, gains, and other support | <u>16,192,190</u> | <u>(666,332)</u> | <u>-</u> | <u>15,525,858</u> | <u>15,539,897</u> |
| EXPENSES: | | | | | |
| Insurance programs - Operating expenditures: | | | | | |
| Property and liability | 3,941,137 | - | - | 3,941,137 | 4,302,456 |
| Health | 171,704 | - | - | 171,704 | 167,507 |
| Provision for doubtful insurance receivables | <u>1,230,028</u> | <u>-</u> | <u>-</u> | <u>1,230,028</u> | <u>85,608</u> |
| Total insurance programs | 5,342,869 | - | - | 5,342,869 | 4,555,571 |
| Administration | 5,598,771 | - | - | 5,598,771 | 5,236,641 |
| Education | 1,404,779 | - | - | 1,404,779 | 1,563,345 |
| Pastoral | 1,228,714 | - | - | 1,228,714 | 1,108,622 |
| Health and social services | 956,611 | - | - | 956,611 | 951,196 |
| Religious personal development | 767,553 | - | - | 767,553 | 726,898 |
| Seminary | <u>725,827</u> | <u>-</u> | <u>-</u> | <u>725,827</u> | <u>582,941</u> |
| Total expenses | <u>16,025,124</u> | <u>-</u> | <u>-</u> | <u>16,025,124</u> | <u>14,725,214</u> |
| CHANGE IN NET ASSETS | 167,066 | (666,332) | - | (499,266) | 814,683 |
| NET ASSETS - beginning of year | <u>20,427,074</u> | <u>3,623,247</u> | <u>5,508,562</u> | <u>29,558,883</u> | <u>28,744,200</u> |
| NET ASSETS - end of year | <u>\$ 20,594,140</u> | <u>\$ 2,956,915</u> | <u>\$ 5,508,562</u> | <u>\$ 29,059,617</u> | <u>\$ 29,558,883</u> |

The accompanying notes are an integral part of these statements.

THE ROMAN CATHOLIC DIOCESE OF ALBANY, NEW YORK

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2016

(With Comparative Totals For 2015)

| | <u>2016</u> | <u>2015</u> |
|---|---------------------|---------------------|
| CASH FLOW FROM OPERATING ACTIVITIES: | | |
| Change in net assets | \$ (499,266) | \$ 814,683 |
| Adjustments to reconcile change in net assets to net cash flow from operating activities: | | |
| Depreciation | 192,386 | 202,818 |
| Loss on disposal of equipment | 15,713 | 14,319 |
| Realized and unrealized loss (gains) on investments, net | 214,672 | (323,235) |
| Bad debt expense | 1,627,404 | 525,360 |
| Changes in: | | |
| Accounts receivable | (1,898,449) | (371,298) |
| Prepaid expenses and other assets | (531,416) | 32,585 |
| Accounts payable and accrued expenses | 606,296 | (55,412) |
| Deferred revenue | 40,792 | 76,739 |
| Custodian funds held | (68,664) | 135,120 |
| Net cash flow from operating activities | <u>(300,532)</u> | <u>1,051,679</u> |
| CASH FLOW FROM INVESTING ACTIVITIES: | | |
| Purchases of land, buildings and equipment | (35,457) | (87,868) |
| Purchases of investment securities | (957,319) | (790,725) |
| Proceeds from sales and maturities of investment securities | 1,603,312 | 3,290,201 |
| Change in interest in Diocesan Investment and Loan Trust | (204,339) | (3,785,297) |
| Net cash flow from investing activities | <u>406,197</u> | <u>(1,373,689)</u> |
| CHANGE IN CASH AND CASH EQUIVALENTS | 105,665 | (322,010) |
| CASH AND CASH EQUIVALENTS - beginning of year | <u>4,155,534</u> | <u>4,477,544</u> |
| CASH AND CASH EQUIVALENTS - end of year | <u>\$ 4,261,199</u> | <u>\$ 4,155,534</u> |

The accompanying notes are an integral part of these statements.

THE ROMAN CATHOLIC DIOCESE OF ALBANY, NEW YORK

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

1. THE ORGANIZATION

The corporation of The Roman Catholic Diocese of Albany, New York is the Central Administrative Office of the Diocese of Albany and provides programs and services to parishes, schools and other related Catholic organizations within the geographic boundaries of the Diocese. The accompanying financial statements include the accounts and funds maintained by The Roman Catholic Diocese of Albany, New York, hereinafter referred to as the Diocesan Corporation.

The Diocesan Corporation excludes the activities of the parishes, schools, cemeteries, homes, hospitals, trusts, and auxiliary enterprises, which are separately incorporated, have separate governing boards, maintain separate accounts, and carry on their own services and programs.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Diocesan Corporation's financial statements have been prepared in conformity with accounting principles generally accepted in the United States. Net assets and support, revenue, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Diocesan Corporation and changes therein are classified and reported as follows:

- *Unrestricted Net Assets* - Net assets that are not subject to donor-imposed stipulations. Unrestricted net assets may be designated by the Diocesan Corporation for specific purposes.
- *Designated Net Assets* - Unrestricted assets which have been designated for a particular purpose by the Diocesan Corporation are recorded as designated unrestricted net assets in the financial statements.
- *Temporarily Restricted Net Assets* - Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Diocesan Corporation and/or the passage of time. Temporarily restricted net assets also include unspent accumulated endowment earnings.
- *Permanently Restricted Net Assets* - Net assets subject to donor-imposed stipulations that they be maintained into perpetuity by the Diocesan Corporation. Generally, the donors permit the Diocesan Corporation to use all or part of the income earned on these assets for a general or specific purpose.

Generally accepted accounting principles require the portion of a donor restricted endowment fund that is not classified in permanently restricted net assets to be classified as temporarily restricted net assets until those amounts are appropriated for spending. See Note 6 for further discussion of endowment funds.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting (Continued)

Expenses are generally reported as decreases in unrestricted net assets. Expirations of donor imposed stipulations that simultaneously increase one class of net assets and decrease another are reported as reclassifications between the applicable classes of net assets.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

Comparative Financial Information

The financial statements include certain prior-year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the Diocesan Corporation's financial statements for the year ended June 30, 2015, from which the summarized information was derived.

Cash and Cash Equivalents

The Diocesan Corporation considers all bank demand deposit accounts, money market accounts and highly liquid debt instruments with original maturities of three months or less to be cash equivalents. The Diocesan Corporation's cash balances may at times exceed federally insured limits. The Diocesan Corporation has not experienced any losses in these accounts and believes it is not exposed to any significant risk with respect to cash and cash equivalents.

Investments

Investments are recorded at fair value, except for certain investments which are stated at Net Asset Value (NAV). Net appreciation or depreciation in the fair value of investments, which consists of the realized gains or losses and the unrealized appreciation or depreciation on those investments, is recognized in the statement of activities.

Investments are exposed to various risks, such as interest rate, market and credit risk. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the values of investments will occur in the near term and that such could materially affect the amounts reported in the accompanying financial statements.

Fair value represents the price that would be received upon the sale of an asset or paid upon the transfer of a liability in an orderly transaction between market participants as of the measurement date. Financial instruments are measured and reported at fair value and are classified and disclosed in one of the following categories based on the lowest level input that is significant to the fair value management in its entirety:

- Level 1 inputs are quoted prices (unadjusted) in active markets that are accessible at the measurement date for assets or liabilities.

The Diocesan Corporation's mutual funds, stocks, short-term investments and money market funds are primarily valued utilizing Level 1 inputs.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments (Continued)

- Level 2 inputs are observable prices that are based on inputs not quoted in active markets, but corroborated by market data.

The Diocesan Corporation's government obligations and corporate bonds are primarily valued utilizing Level 2 inputs.

- Level 3 inputs are unobservable inputs that are used when little or no market data is available.

The Diocesan Corporation does not have any Level 3 investments as of June 30, 2016 and 2015.

The fair values of debt and equity securities with readily determinable fair values are generally based on quoted market prices obtained from active markets. Shares in mutual funds are based on share values reported by the funds as of the last business day of the fiscal year. When quoted market prices are not available, including government obligations and corporate bonds, fair values are based on quoted market prices of comparable instruments or, when necessary, the Diocesan Corporation utilizes matrix pricing from a third-party pricing vendor to determine fair value pricing. Matrix prices are based on quoted prices for securities with similar coupons, ratings, and maturities, rather than on specific bids and offers for the designated security.

Donor Restricted Gifts

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Accounts Receivable

Receivables represent assessments, insurance and other amounts due from various related Diocesan entities. Receivables are recorded at the invoiced amount and do not bear interest as they are due on demand. The allowance for doubtful receivables is the Diocesan Corporation's best estimate of the amount of probable credit losses in the existing receivables. The allowance is based on historical analysis and current economic conditions. Receivables net of allowance for doubtful accounts presented on the statement of financial position represent balances that are three years old or less. Accounts receivable are stated net of allowance for doubtful accounts in the amounts. The allowance amounts were \$3,758,795 and \$3,824,505 as of June 30, 2016 and 2015, respectively.

Land, Buildings and Equipment

Land, buildings and equipment, including improvements thereto, are stated at cost or, if acquired by gift or bequest, at the estimated fair value at date of receipt, less accumulated depreciation. Depreciation is recognized using the straight-line method over the estimated useful lives of the assets ranging from 5 years to 40 years.

Custodian Funds Held

Custodian funds held represent amounts collected on behalf of other Catholic organizations to be remitted to those organizations for their specified purposes.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition

Parishes support the Diocese through the payment of an annual assessment which is funded by amounts collected through the annual Bishop's Appeal. For fiscal years 2016 and 2015, any Bishop's Appeal amount raised in excess of a parish's assessment was shared equally between the parish and the Diocese. The Bishop's Appeal year runs April to March of the subsequent fiscal year of the Diocesan Corporation. Bishop's Appeal revenue is recognized in the year that the Bishop's Appeal ends. Amounts received for the next Bishop's Appeal are reported as deferred revenue.

Income Taxes

The Diocesan Corporation is a not-for-profit organization as described in Section 501(c)(3) of the Internal Revenue Code and is generally exempt from income tax on related income.

Relationship to The Foundation of the Roman Catholic Diocese of Albany, New York, Inc. and Other Catholic Sponsored Organizations

The Diocesan Corporation is affiliated with The Foundation of the Roman Catholic Diocese of Albany, New York, Inc. (Foundation). There are numerous other religious and nonprofit organizations sponsored by or affiliated with the Diocesan Corporation. In addition, there are many other religious and nonprofit organizations in the United States that are sponsored by or affiliated with the Roman Catholic Church and other dioceses.

During the normal course of operations, the Diocesan Corporation will have transactions and/or enter into agreements with several of these entities. All significant transactions with the Diocesan Corporation are disclosed in the accompanying financial statements (see Note 9). In the opinion of management, the organizational structure of most other Catholic sponsored organizations does not satisfy the definition of controlled or affiliated entities under generally accepted accounting principles, and, therefore, these other organizations are not considered related parties for financial statement reporting purposes.

3. INVESTMENTS

Implementation of New Accounting Standard

In May 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2015-07, "Fair Value Measurement (Topic 820) Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or its Equivalent)" (ASU 2015-07), ASU 2015-07 clarifies that investments for which fair value is measured at net asset value per share (or its equivalent) using the practical expedient should not be categorized in the fair value hierarchy. This change was applied retrospectively as of June 30, 2016 and 2015.

Investments

The following tables set forth the Diocesan Corporation's investments that were accounted for at fair value on a recurring basis at June 30, 2016 and 2015. Investments are classified in their entirety based on the lowest level of input that is significant to the fair value measurement:

3. INVESTMENTS (Continued)

| | Level 1 <u>Inputs</u> | Level 2 <u>Inputs</u> | Level 3 <u>Inputs</u> | <u>Total</u> |
|---|--------------------------|--------------------------|--------------------------|----------------------|
| June 30, 2016: | | | | |
| U.S Government obligations | \$ - | \$ 1,470,156 | \$ - | \$ 1,470,156 |
| Corporate bonds | - | 130,747 | - | 130,747 |
| Mutual funds - equities | 1,867,848 | - | - | 1,867,848 |
| Common stocks | 44,618 | - | - | 44,618 |
| Money market funds | 69,741 | - | - | 69,741 |
| | <u>1,982,207</u> | <u>1,600,903</u> | <u>-</u> | <u>3,583,110</u> |
| Investments measured at fair value | 1,982,207 | 1,600,903 | - | 3,583,110 |
| Investments measured at net asset value | <u>-</u> | <u>-</u> | <u>-</u> | <u>10,331,058</u> |
| | <u>\$ 1,982,207</u> | <u>\$ 1,600,903</u> | <u>\$ -</u> | <u>\$ 13,914,168</u> |

| | Level 1 <u>Inputs</u> | Level 2 <u>Inputs</u> | Level 3 <u>Inputs</u> | <u>Total</u> |
|---|--------------------------|--------------------------|--------------------------|----------------------|
| June 30, 2015: | | | | |
| U.S. Government obligations | \$ - | \$ 1,379,575 | \$ - | \$ 1,379,575 |
| Corporate bonds | - | 178,756 | - | 178,756 |
| Mutual funds - equities | 1,994,792 | - | - | 1,994,792 |
| Common stocks | 26,572 | - | - | 26,572 |
| Money market funds | 103,608 | - | - | 103,608 |
| | <u>2,124,972</u> | <u>1,558,331</u> | <u>-</u> | <u>3,683,303</u> |
| Investments measured at fair value | 2,124,972 | 1,558,331 | - | 3,683,303 |
| Investments measured at net asset value | <u>-</u> | <u>-</u> | <u>-</u> | <u>11,091,530</u> |
| | <u>\$ 2,124,972</u> | <u>\$ 1,558,331</u> | <u>\$ -</u> | <u>\$ 14,774,833</u> |

There were no changes in valuation techniques during 2016 and 2015, except for the changes related to NAV investments.

During 2016 and 2015, net realized gains on sales of investments were \$57,113 and \$331,091 and net change in unrealized losses on investments were \$271,785 and \$7,856, respectively. The investment managers for mutual funds allocate and report earnings net of investment fees. As a result, the fees paid by the Diocesan Corporation are not readily determinable for 2016 and 2015.

The following investments are valued at net asset values per share (unitized basis) as of June 30, 2016 and 2015:

| | Fair Value at 6/30/16 | Fair Value at 6/30/15 | 2016 Unfunded Commitments | 2015 Unfunded Commitments | Redemption Frequency (if currently eligible) | Redemption Notice Period |
|--------------------------------------|--------------------------|--------------------------|---------------------------------|---------------------------------|--|-----------------------------|
| Investments in an investment pool | <u>\$ 10,331,058</u> | <u>\$ 11,091,530</u> | <u>\$ -</u> | <u>\$ -</u> | Daily | 7 days |

3. INVESTMENTS (Continued)

Investment in an Investment Pool

This actively managed fund is a commingled trust which focuses on large and mid-cap equities across global growth industries. The value of this investment has been estimated using the daily net asset value per share of the investments.

The investment pool was organized by the Foundation of the Roman Catholic Diocese of Albany, New York, Inc. (Foundation) for the purpose of offering Diocesan organizations the opportunity to invest collectively to maximize investment opportunities and returns consistent with duties of stewardship following the mandates of The Code of Canon Law of the Roman Catholic Church. The investments are managed by professional investment management firms and are overseen by the Foundation's Board of Directors. Income is allocated to investors based on the percentage of the net asset value of their individual funds to the total investment balance.

The Diocesan Corporation utilizes information received from the Foundation regarding the composition of the pooled investment fund and the value of securities held in the fund. The Foundation values the securities in the fund based on quoted market prices or dealer quotes, where available. When quoted market prices are not available, including fixed income and foreign bonds, fair values are based on quoted market prices of comparable instruments or, when necessary, the Foundation utilizes matrix pricing from a third-party pricing vendor to determine fair value pricing. Matrix prices are based on quoted prices for securities with similar coupons, ratings, and maturities, rather than on specific bids and offers for the designated security. Shares in mutual funds are based on share values reported by the funds as of the last business day of the fiscal year.

The Foundation utilizes the NAV reported by alternative investment fund managers, including common collective trust funds, as a practical expedient for determining the value of the investment. These investments are redeemable at NAV under the original terms of the subscription agreements and operations of the underlying funds. However, it is possible that these redemption rights may be restricted or eliminated by the funds in the future in accordance with the underlying fund agreements. Due to the nature of the investments held by these funds, changes in market conditions and the economic environment may significantly impact the NAV of the funds and, consequently, the recorded value of the Foundation's interests in the funds. Furthermore, changes to the liquidity provisions of the funds may significantly impact the value of the Foundation's interest in the funds. Additionally, although certain investments may be sold in a secondary market transaction, subject to meeting certain requirements of the governing documents of the funds, the secondary market is not active and individual transactions are not necessarily observable. It is therefore reasonably possible that if the Foundation were to sell a fund in the secondary market, the sale could occur at an amount different from the reported value, and the difference could be material. The Foundation has no plans to sell a fund in a secondary market.

There have been no changes to valuation techniques during 2016 and 2015.

Of the \$10,331,058 and \$11,091,530 included in the investment pool of the Foundation in 2016 and 2015, \$5,508,562 is the Diocesan Corporation's restricted endowment (see Note 6) as of June 30, 2016 and 2015, respectively.

4. INTEREST IN DIOCESAN INVESTMENT AND LOAN TRUST

The Diocesan Corporation has an interest in a separate legal entity known as the Diocesan Investment and Loan Trust (Trust). The Trustee is designated as the Vicar General of The Roman Catholic Diocese of Albany, New York. The Diocesan Corporation's interest in the Trust as a depositor has been included in the accompanying statements of financial position, net of borrowings from the Trust, was \$19,588,543 and \$19,384,204 at June 30, 2016 and 2015, respectively. The Trust's investments consist of cash and cash equivalents, fixed income mutual funds and equity mutual funds for both fiscal years 2016 and 2015, and are redeemable on a daily basis.

5. LAND, BUILDINGS AND EQUIPMENT

Land, buildings and equipment consisted of the following at June 30:

| | <u>2016</u> | <u>2015</u> |
|--------------------------------|---------------------|---------------------|
| Land | \$ 70,590 | \$ 70,590 |
| Building and improvements | 4,448,022 | 4,518,169 |
| Equipment and furnishings | 1,006,925 | 961,612 |
| Vehicles | 138,745 | 148,745 |
| | <u>5,664,282</u> | <u>5,699,116</u> |
| Less: Accumulated depreciation | <u>(3,854,423)</u> | <u>(3,716,615)</u> |
| | <u>\$ 1,809,859</u> | <u>\$ 1,982,501</u> |

Depreciation expense of \$192,386 and \$202,818 was recorded during the years ended June 30, 2016 and 2015, respectively.

6. NET ASSETS

Unrestricted net assets have been designated by the Diocesan Corporation Trustees or Bishop of the Diocese for the following purposes at June 30, 2016 and 2015:

| | <u>2016</u> | <u>2015</u> |
|-------------------------|----------------------|----------------------|
| Insurance | \$ 6,265,605 | \$ 5,647,543 |
| Diocesan initiatives | 4,359,012 | 5,050,553 |
| Buildings and equipment | <u>1,809,859</u> | <u>1,982,501</u> |
| | <u>\$ 12,434,476</u> | <u>\$ 12,680,597</u> |

6. NET ASSETS (Continued)

Temporarily restricted net assets were available for the following purposes at June 30, 2016 and 2015:

| | <u>2016</u> | <u>2015</u> |
|--------------------------------|---------------------|---------------------|
| Endowments: | | |
| Diocesan | \$ 549,785 | \$ 664,414 |
| Faith Formation | 918,853 | 1,097,562 |
| Leadership | 605,184 | 625,828 |
| Seminary | 423,662 | 402,054 |
| Called to be church properties | 16,298 | 387,459 |
| Other | <u>443,133</u> | <u>445,930</u> |
| | <u>\$ 2,956,915</u> | <u>\$ 3,623,247</u> |

In 2000, the Diocesan Corporation initiated a capital campaign for the Diocese and its parishes. The campaign resulted in the formation of endowments for Faith Formation (Evangelization and Catechesis), Leadership Development and Diocesan (Future Needs), of which the original contribution is included in permanently restricted net assets, and the unspent accumulated investment return on these gifts is included in temporarily restricted net assets. Permanently restricted net assets consisted of the following at June 30, 2016 and 2015:

| | |
|-----------------|---------------------|
| Diocesan | \$ 2,000,000 |
| Faith Formation | 2,000,000 |
| Leadership | 1,000,000 |
| Seminary | <u>508,562</u> |
| | <u>\$ 5,508,562</u> |

Endowments

The Diocesan Corporation follows the New York Uniform Prudent Management of Institutional Funds Act (NYPMIFA) in the management of its endowment. The Diocesan Corporation has interpreted NYPMIFA as allowing the Diocesan Corporation to spend or accumulate the amount of an endowment fund that the Diocesan Corporation determines is prudent for the uses, benefits, purposes and duration for which the endowment fund is established, subject to the intent of the donor as expressed in the gift instrument. The Diocesan Corporation classifies as permanently restricted net assets (a) the original values of gifts donated to permanent endowments, (b) the original values of subsequent gifts to permanent endowments, and (c) accumulations to permanent endowments made in accordance with the directions of the applicable donors' gift instruments at the times the accumulations are added to the funds.

6. NET ASSETS (Continued)

In accordance with NYPMIFA, the Diocesan Corporation considers various factors in making a determination to appropriate or accumulate endowment funds, including:

- The duration and preservation of the fund
- The purpose, mission, and activities of Diocese and the endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other available resources
- The investment policies of the Diocesan Corporation

Spending Policy

Permanently restricted funds of the Diocesan Corporation, with the exception of the Seminary endowment funds, are invested with the Foundation of the Roman Catholic Diocese of Albany, New York, Inc. (the Foundation). For such endowments, the Diocesan Corporation applies the Foundation's Investment and Distribution Policy (Policy). In accordance with the Policy, distributions are determined annually by the board of trustees of the Foundation subsequent to year-end based upon the policy and spending rate approved by the trustees (4.5% and 5.5% for 2016 and 2015, respectively). The Policy allows for a maximum distribution of the lesser of the earned income amount or the calculated distribution utilizing the previous three fiscal years average quarterly market values of the individual donor fund accounts multiplied by the approved spending rate. The Seminary endowment fund spending policy has been determined to be limited to the annual investment earnings of the underlying investments.

Return Objectives and Risk Parameters

Investment objectives focus on generating a return sufficient to cover the spending rate, inflation, and preserving and enhancing over time, the purchasing power of investments while minimizing investment risk in the portfolio. Total return, utilizing a balanced portfolio, is the primary goal of the Foundation. Total return, includes income plus realized and unrealized gains and losses on fund assets, which are expected to meet or exceed various industry benchmarks by fund asset class. Sector and total portfolio risk exposure and risk-adjusted returns will be regularly evaluated and compared with other comparable funds.

6. NET ASSETS (Continued)

Changes in endowment net assets for the year ended June 30, 2016 and 2015 are as follows:

| | Temporarily <u>Restricted</u> | Permanently <u>Restricted</u> | <u>Total</u> |
|--|----------------------------------|----------------------------------|---------------------|
| Endowment net assets - July 1, 2014 | <u>\$ 2,690,331</u> | <u>\$ 5,508,562</u> | <u>\$ 8,198,893</u> |
| Investment return: | | | |
| Investment income | 171,365 | - | 171,365 |
| Net appreciation (realized and unrealized) | <u>192,268</u> | <u>-</u> | <u>192,268</u> |
| Total investment return | <u>363,633</u> | <u>-</u> | <u>363,633</u> |
| Appropriation of assets for expenditure | <u>(264,106)</u> | <u>-</u> | <u>(264,106)</u> |
| Endowment net assets - June 30, 2015 | <u>\$ 2,789,858</u> | <u>\$ 5,508,562</u> | <u>\$ 8,298,420</u> |
| Investment return: | | | |
| Investment income | 178,632 | - | 178,632 |
| Net depreciation (realized and unrealized) | <u>(11,739)</u> | <u>-</u> | <u>(11,739)</u> |
| Total investment return | <u>166,893</u> | <u>-</u> | <u>166,893</u> |
| Appropriation of assets for expenditure | <u>(459,267)</u> | <u>-</u> | <u>(459,267)</u> |
| Endowment net assets - June 30, 2016 | <u>\$ 2,497,484</u> | <u>\$ 5,508,562</u> | <u>\$ 8,006,046</u> |

At June 30, 2016 and 2015, no endowment balances were less than their original donated value.

7. CASUALTY AND LIABILITY INSURANCE PROGRAM

The Diocesan Corporation maintains a casualty and liability insurance program for the Central Administrative Office, parishes and other departments within the Diocese. The program is administered by a third party administrator. The Diocese is self-insured for each claim up to \$250,000 for general and auto claims, \$500,000 for workers compensation claims, and \$1,000,000 for real property claims. Insurance coverage has been purchased by the Diocesan Corporation to cover costs of claims in excess of these amounts. The Diocesan Corporation has recorded a liability for estimated auto, general and workers compensation liability claims of \$4,131,258 and \$4,459,788 at June 30, 2016 and 2015, respectively, which is included in accounts payable and accrued expenses in the accompanying statements of financial position.

Premiums are collected from participating Diocesan entities to cover claims and the estimated cost of the casualty and liability insurance coverage described above.

8. PENSION PLANS

The Diocesan Corporation has a contributory multi-employer defined benefit pension plan which covers substantially all lay employees of the Diocese, as well as lay employees of the individual parishes and other institutions and organizations which have elected to participate in the Plan (Lay Employees' Pension Plan of the Roman Catholic Diocese of Albany). Total pension expense recognized by the Diocesan Corporation for its employees in this Plan during 2016 and 2015 was \$127,184 and \$118,060, respectively. The Diocesan Corporation's policy is to generally fund pension costs as costs accrue.

In addition, the Diocesan Corporation sponsors a contributory defined benefit plan covering any priest ordained for the Roman Catholic Diocese of Albany or any priest incardinated into the Diocese. Organizations participating in the Plan include the Diocesan Corporation and other participating Diocesan entities (Retirement Plan for the Priests of the Roman Catholic Diocese of Albany). The Plan is funded from payments made to it by the Diocesan Corporation and other participating Diocesan entities. Total pension expense paid by the Diocesan Corporation into this Plan during 2016 and 2015 was \$55,650 and \$58,500, respectively. The Diocesan Corporation's policy is to fund pension costs as costs accrue.

Both Plans are Church plans which are not subject to ERISA and its minimum funding requirements. Because these are multi-employer plans and certain participating employers are not included in the accompanying financial statements (see Note 1), information as to vested and nonvested accumulated plan benefits, as well as plan assets, as they relate to employees of the Diocesan Corporation, is not readily available.

9. RELATED PARTY TRANSACTIONS

As described in Notes 3 and 4, the Diocesan Corporation has certain investments held in the Foundation of the Roman Catholic Diocese of Albany, Inc. (Foundation) and has an interest as a depositor in the Diocesan Investment and Loan Trust.

Certain services are provided to the Foundation by the Diocesan Corporation. The Diocesan Corporation has provided in-kind services in the amount of \$31,132 and \$37,879 for the years ended June 30, 2016 and 2015, respectively.

At June 30, 2016, the Diocesan Corporation has a promissory note receivable in the amount of \$500,000, plus accrued interest receivable of \$17,459 from Burke Community Service Corporation (Burke), an affiliated Catholic entity. This promissory note is unsecured and bears interest at the rate of 4.75%. Burke will begin making monthly payments of principal and interest on October 1, 2016. Monthly payments are based upon a stated percentage of net rental income to be received by Burke in connection with a specific property. It is estimated that this loan will be repaid over a period of five years. This note receivable is included in prepaid expenses and other assets in the accompanying financial statements.

10. COMMITMENTS AND CONTINGENCIES

Litigation

In the normal course of business, the Diocesan Corporation is subject to litigation. Although there can be no assurance as to the eventual outcome of litigation in which the Diocesan Corporation has been named as a defendant or otherwise has possible exposure, the Diocesan Corporation has provided for these actions and all probable adverse matters. Although further losses are possible, based upon the advice of counsel, management does not believe that such litigation and/or legal claims will in, the aggregate, have a material adverse effect on the Diocesan Corporation's financial position.

Letter of Credit

The Diocesan Corporation obtained a letter of credit for \$2,403,161 from Trustco Bank for the benefit of The New York State Workers' Compensation Board. The Diocesan Corporation has agreed to pledge its monies on deposit with the Diocesan Investment and Loan Trust in support of the letter of credit. The letter of credit has been renewed several times and is currently extended through December 19, 2017. This letter of credit is scheduled to renew annually through 2020.

Unemployment Fund Trust

Assets held in a nondiscretionary trust for the reimbursement of unemployment benefits to New York State are not included in the accompanying Diocesan Corporation financial statements. The assets are maintained in the name of the Roman Catholic Diocese of Albany, New York for the Diocesan Corporation, and participating Diocesan entities.

11. PROGRAM EXPENSES

Total program expenses for the years ended June 30, 2016 and 2015 were \$10,426,353 and \$9,488,573, respectively. Program expenses include the following program areas: insurance, seminary, pastoral, religious personnel development, education, and health and social services.

12. SUBSEQUENT EVENTS

The Diocesan Corporation considers events or transactions that occur after the statement of financial position date, but before the financial statements are issued, to provide additional evidence relative to certain estimates or to identify matters that require additional disclosure. These financial statements were available to be issued on February 28, 2017 and subsequent events have been evaluated through that date.

THE ROMAN CATHOLIC DIOCESE OF ALBANY, NEW YORK

SCHEDULE OF SOURCES AND USES - GENERAL FUND FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

| | <u>2016</u> | <u>2015</u> |
|---|-------------------|-------------------|
| REVENUE, GAINS, AND OTHER SUPPORT: | | |
| Parish support and Bishop's Appeal | \$ 7,901,959 | \$ 7,749,195 |
| Legacies, bequests, and miscellaneous | 1,006,881 | 1,013,968 |
| Interest and dividend income | 305,207 | 268,284 |
| Net unrealized and realized (loss)/gains on investments | (106,549) | 72,500 |
| Contributions from Roman Catholic Diocesan Cemeteries | 60,000 | 60,000 |
| Administrative fees, transfers, and other | <u>1,052,736</u> | <u>1,063,122</u> |
| Total revenue, gains, and other support | <u>10,220,234</u> | <u>10,227,069</u> |
| EXPENSES: | | |
| Seminary - | | |
| Vocations office/program | 63,044 | 85,958 |
| Education and formation | <u>662,667</u> | <u>496,880</u> |
| Total seminary expenses | <u>725,711</u> | <u>582,838</u> |
| Pastoral - | | |
| Amazing God | - | 209 |
| Apostolate and ethnic ministries | 94,868 | 103,874 |
| Campus ministry and other | 312,452 | 289,255 |
| Catholic media | 127,337 | 79,017 |
| Capital region ecumenical organization | 16,950 | 16,950 |
| Ecumenical commission | 24,147 | 20,543 |
| Pastoral health care | 200,853 | 217,382 |
| Pastoral council | 1,593 | 2,903 |
| Pastoral planning | 88,623 | 59,103 |
| Prayer and worship | 108,984 | 96,627 |
| Scouting | 2,312 | 5,578 |
| Tribunal | 238,828 | 207,240 |
| Youth recreation | <u>10,078</u> | <u>10,294</u> |
| Total pastoral | <u>1,227,025</u> | <u>1,108,975</u> |
| Religious personnel development - | | |
| Clergy benefits and retirement | 256,813 | 202,409 |
| Consultation services | 52,735 | 54,212 |
| Initial ongoing formation | 320,636 | 329,301 |
| Permanent diaconate | 45,630 | 44,767 |
| Vicar for clergy | 92,763 | 94,095 |
| Vicar for religious | <u>954</u> | <u>1,762</u> |
| Total religious personnel development | <u>769,531</u> | <u>726,546</u> |

(Continued)

THE ROMAN CATHOLIC DIOCESE OF ALBANY, NEW YORK

**SCHEDULE OF SOURCES AND USES - GENERAL FUND (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**

| | <u>2016</u> | <u>2015</u> |
|--|-------------------|-------------------|
| Education - | | |
| Diocesan school office | 1,203,939 | 1,096,248 |
| Evangelization and Catechesis | <u>199,834</u> | <u>467,097</u> |
| Total education | <u>1,403,773</u> | <u>1,563,345</u> |
| Health and social service - | | |
| Health and social services | 922,871 | 920,728 |
| Human development | <u>33,740</u> | <u>30,468</u> |
| Total health and social services | <u>956,611</u> | <u>951,196</u> |
| Administration - | | |
| Architecture and building commission | 52,125 | 60,233 |
| Archives | 34,788 | 27,713 |
| Bishop's charity account | 25,704 | 6,606 |
| Building and property expense | 675,492 | 734,916 |
| Cathedral | 212,680 | 210,796 |
| Chancery operations | 1,259,294 | 1,518,171 |
| Bishop's appeal/stewardship | 491,160 | 494,785 |
| Holy Father | 76,517 | 84,333 |
| Information resources | 487,991 | 415,694 |
| Investment advisory fee and bank service charges | 29,733 | 35,437 |
| NYS Catholic conference | 77,098 | 73,901 |
| Office of human resources | 137,168 | 146,420 |
| Professional fees | 396,292 | 445,472 |
| U.S. Catholic Conference | 77,304 | 94,008 |
| Provision for doubtful receivables | <u>378,416</u> | <u>449,858</u> |
| Total administration | <u>4,411,762</u> | <u>4,798,343</u> |
| Capital purchases | <u>35,460</u> | <u>77,217</u> |
| Total expenses | <u>9,529,873</u> | <u>9,808,460</u> |
| Net surplus | <u>\$ 690,361</u> | <u>\$ 418,609</u> |

The accompanying notes are an integral part of this schedule.