

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

**Financial Statements as of  
June 30, 2018  
Together with  
Independent Auditor's Report**

**Bonadio & Co., LLP**  
Certified Public Accountants

## INDEPENDENT AUDITOR'S REPORT

February 12, 2019

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

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, 2018, 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 48% of total assets and 69% of net assets of the Diocesan Corporation at June 30, 2018. 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.

(Continued)

## **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 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, 2018, 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.

### **Correction of Error**

As discussed in Note 12 to the financial statements, certain errors resulting in understatement of amounts previously reported for investments as of June 30, 2017, were discovered by management of the Diocese during the current year. Accordingly, amounts reported for investments and related earnings have been restated in the 2017 financial statements now presented, and an adjustment has been made to retained earnings as of July 1, 2016 to correct the error. Our opinion is not modified with respect to that matter.

### **Report on Summarized Comparative Information**

We have previously audited The Roman Catholic Diocese of Albany, New York's 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated February 13, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017 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 2018 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 2018 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 2017 supplementary information 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 2017 financial statements. The information has been subjected to the auditing procedures applied in the audit of those 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 2017 supplementary information is fairly stated in all material respects in relation to the financial statements from which is has been derived.

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

**STATEMENT OF FINANCIAL POSITION**

**JUNE 30, 2018**

(With Comparative Totals For 2017)

	<u>2018</u>	(Restated) <u>2017</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 3,884,168	\$ 4,030,612
Investments	12,622,849	14,215,721
Accounts receivable, net	3,491,318	3,463,324
Net depositor in Diocesan Investment and Loan Trust	24,032,901	21,774,833
Prepaid expenses and other assets	4,349,008	1,040,734
Property and equipment, net	<u>2,219,419</u>	<u>1,732,312</u>
Total assets	<u>\$ 50,599,663</u>	<u>\$ 46,257,536</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES:</b>		
Accounts payable and accrued expenses	\$ 13,322,170	\$ 12,128,435
Deferred revenue -		
Bishop's Appeal	346,932	366,536
National collections	82,162	93,199
Custodian funds held	<u>1,933,336</u>	<u>1,896,083</u>
Total liabilities	<u>15,684,600</u>	<u>14,484,253</u>
<b>NET ASSETS:</b>		
Unrestricted -		
Undesignated	9,487,928	8,423,628
Designated	<u>15,859,748</u>	<u>14,140,568</u>
Total unrestricted net assets	25,347,676	22,564,196
Temporarily restricted	4,058,825	3,700,525
Permanently restricted	<u>5,508,562</u>	<u>5,508,562</u>
Total net assets	<u>34,915,063</u>	<u>31,773,283</u>
	<u>\$ 50,599,663</u>	<u>\$ 46,257,536</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, 2018**

(With Comparative Totals for 2017)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>	
				<u>2018</u>	<u>(Restated) 2017</u>
<b>REVENUE, GAINS, AND OTHER SUPPORT:</b>					
Parish support and Bishop's Appeal	\$ 7,900,795	\$ -	\$ -	\$ 7,900,795	\$ 7,900,078
Insurance premiums	5,019,808	-	-	5,019,808	4,972,013
Legacies, bequests, and miscellaneous	799,730	9,801	-	809,531	1,137,123
Other revenue	854,354	-	-	854,354	1,202,750
Interest and dividend income	704,484	190,312	-	894,796	784,308
Contributions from Roman Catholic Diocesan Cemeteries	60,000	-	-	60,000	60,000
Net gains on investments	291,144	459,556	-	750,700	1,135,788
Net assets released from restrictions	<u>301,369</u>	<u>(301,369)</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total revenue, gains, and other support</b>	<u>15,931,684</u>	<u>358,300</u>	<u>-</u>	<u>16,289,984</u>	<u>17,192,060</u>
<b>EXPENSES:</b>					
Insurance programs -					
Operating expenditures:					
Property and liability	2,880,080	-	-	2,880,080	3,459,560
Health	141,975	-	-	141,975	157,925
Provision for doubtful insurance receivables	<u>162,689</u>	<u>-</u>	<u>-</u>	<u>162,689</u>	<u>350,864</u>
<b>Total insurance programs</b>	<u>3,184,744</u>	<u>-</u>	<u>-</u>	<u>3,184,744</u>	<u>3,968,349</u>
Administration	4,568,369	-	-	4,568,369	5,960,596
Education	1,687,086	-	-	1,687,086	1,235,622
Pastoral	1,035,714	-	-	1,035,714	1,115,997
Health and social services	905,510	-	-	905,510	965,207
Religious personal development	712,770	-	-	712,770	814,888
Seminary	<u>1,054,011</u>	<u>-</u>	<u>-</u>	<u>1,054,011</u>	<u>730,283</u>
<b>Total expenses</b>	<u>13,148,204</u>	<u>-</u>	<u>-</u>	<u>13,148,204</u>	<u>14,790,942</u>
<b>CHANGE IN NET ASSETS</b>	<u>2,783,480</u>	<u>358,300</u>	<u>-</u>	<u>3,141,780</u>	<u>2,401,118</u>
<b>NET ASSETS - beginning of year, as previously stated</b>	<u>22,564,196</u>	<u>3,700,525</u>	<u>5,508,562</u>	<u>31,773,283</u>	<u>29,059,617</u>
<b>PRIOR PERIOD ADJUSTMENT</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>312,548</u>
<b>NET ASSETS - beginning of year</b>	<u>22,564,196</u>	<u>3,700,525</u>	<u>5,508,562</u>	<u>31,773,283</u>	<u>29,372,165</u>
<b>NET ASSETS - end of year</b>	<u>\$ 25,347,676</u>	<u>\$ 4,058,825</u>	<u>\$ 5,508,562</u>	<u>\$ 34,915,063</u>	<u>\$ 31,773,283</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, 2018

(With Comparative Totals For 2017)

	<u>2018</u>	(Restated) <u>2017</u>
CASH FLOW FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 3,141,780	\$ 2,713,666
Adjustments to reconcile change in net assets to net cash flow from operating activities:		
Depreciation	194,658	190,829
Loss on disposal of equipment	327	12,198
Realized and unrealized (gains) loss on investments, net	(750,700)	(1,135,788)
Bad debt expense	345,118	1,405,919
Changes in:		
Accounts receivable	(373,112)	(1,302,136)
Prepaid expenses and other assets	(3,308,274)	105,045
Accounts payable and accrued expenses	1,193,735	(155,624)
Deferred revenue	(30,641)	(20,329)
Custodian funds held	<u>37,253</u>	<u>(566,836)</u>
Net cash flow from operating activities	<u>450,144</u>	<u>1,246,944</u>
CASH FLOW FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(682,092)	(125,480)
Purchases of investment securities	(687,270)	(1,286,928)
Proceeds from sales and maturities of investment securities	3,030,842	1,992,557
Change in interest in Diocesan Investment and Loan Trust	<u>(2,258,068)</u>	<u>(2,057,680)</u>
Net cash flow from investing activities	<u>(596,588)</u>	<u>(1,477,531)</u>
CHANGE IN CASH AND CASH EQUIVALENTS	(146,444)	(230,587)
CASH AND CASH EQUIVALENTS - beginning of year	<u>4,030,612</u>	<u>4,261,199</u>
CASH AND CASH EQUIVALENTS - end of year	<u>\$ 3,884,168</u>	<u>\$ 4,030,612</u>
NON CASH INVESTING ACTIVITIES:		
Accounts payable owed for property and equipment	<u>\$ 488,044</u>	<u>\$ -</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, 2018**

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### 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 accordance with accounting principles generally accepted in the United States.

#### **Use of Estimates**

The preparation of financial statements in accordance 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, 2017, 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.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### **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, common stocks, short-term investments and money market funds are primarily valued utilizing Level 1 inputs.

- 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 U.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, 2018 and 2017.

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.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### **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. The allowance amounts are \$5,332,781 and \$4,643,316 as of June 30, 2018 and 2017, respectively.

### **Property and equipment**

Property 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.

### **Net Assets**

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.

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.

## 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 2018 and 2017, 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

### 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, 2018 and 2017. Investments are classified in their entirety based on the lowest level of input that is significant to the fair value measurement:

	Level 1 <u>Inputs</u>	Level 2 <u>Inputs</u>	Level 3 <u>Inputs</u>	<u>Total</u>
<b>June 30, 2018:</b>				
U.S Government obligations	\$ -	\$ 1,347,359	\$ -	\$ 1,347,359
Corporate bonds	-	79,829	-	79,829
Mutual funds - equities	1,732,431	-	-	1,732,431
Common stocks	44,990	-	-	44,990
Money market funds	<u>213,562</u>	<u>-</u>	<u>-</u>	<u>213,562</u>
Investments measured at fair value	<u>\$ 1,990,983</u>	<u>\$ 1,427,188</u>	<u>\$ -</u>	3,418,171
Investments measured at net asset value				<u>9,204,678</u>
				<u>\$12,622,849</u>

### 3. INVESTMENTS (Continued)

	Level 1 <u>Inputs</u>	Level 2 <u>Inputs</u>	Level 3 <u>Inputs</u>	<u>Total</u>
<b>June 30, 2017:</b>				
U.S. Government obligations	\$ -	\$ 1,363,392	\$ -	\$ 1,363,392
Corporate bonds	-	71,762	-	71,762
Mutual funds - equities	1,628,071	-	-	1,628,071
Common stocks	44,196	-	-	44,196
Money market funds	<u>159,056</u>	<u>-</u>	<u>-</u>	<u>159,056</u>
Investments measured at fair value	<u>\$ 1,831,323</u>	<u>\$ 1,435,154</u>	<u>\$ -</u>	3,266,477
Investments measured at net asset value				<u>10,949,244</u>
				<u>\$ 14,215,721</u>

There were no changes in valuation techniques during 2018 and 2017.

During 2018 and 2017, net realized gains on sales of investments were \$459,567 and \$423,788 and net change in unrealized gains (losses) on investments were \$276,350 and \$711,388, respectively. The investment managers for mutual funds allocate and report earnings net of investment fees. As a result, the total fees paid by the Diocesan Corporation are not readily determinable for 2018 and 2017.

The following investments are valued at net asset values per share (unitized basis) as of June 30, 2018 and 2017:

	Fair Value at 6/30/18	Fair Value at 6/30/17	2018 Unfunded Commitments	2017 Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period
Investments in an investment pool	<u>\$ 9,204,678</u>	<u>\$ 10,949,244</u>	<u>\$ -</u>	<u>\$ -</u>	Daily	7 days

#### 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.

### **3. INVESTMENTS (Continued)**

#### Investment in an Investment Pool (Continued)

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 2018 and 2017.

Of the \$9,204,678 and \$10,949,244 included in the investment pool of the Foundation in 2018 and 2017, respectively, the Diocesan Corporation's restricted endowment is \$5,508,652 (see Note 6) as of June 30, 2018 and 2017.

### **4. NET DEPOSITOR 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 \$24,032,901 and \$21,774,833 at June 30, 2018 and 2017, respectively. The Trust's investments consist of cash and cash equivalents, fixed income mutual funds and equity mutual funds for both fiscal years 2018 and 2017, and are redeemable on a daily basis.

## 5. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30:

	<u>2018</u>	<u>2017</u>
Land	\$ 70,590	\$ 70,590
Building and improvements	4,722,821	4,529,705
Property and equipment	977,624	972,371
Vehicles	114,362	114,362
Construction in progress	<u>460,525</u>	<u>-</u>
	6,345,922	5,687,028
Less: Accumulated depreciation	<u>(4,126,503)</u>	<u>(3,954,716)</u>
	<u>\$ 2,219,419</u>	<u>\$ 1,732,312</u>

Depreciation expense of \$194,658 and \$190,829 was recorded during the years ended June 30, 2018 and 2017, 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, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Insurance	\$ 9,217,585	\$ 7,787,982
Diocesan initiatives	4,422,744	4,620,274
Buildings and equipment	<u>2,219,419</u>	<u>1,732,312</u>
	<u>\$ 15,859,748</u>	<u>\$ 14,140,568</u>

Temporarily restricted net assets were available for the following purposes at June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Endowments:		
Diocesan	\$ 814,986	\$ 737,792
Faith Formation	1,240,172	1,207,130
Leadership	829,709	737,996
Seminary	465,204	445,863
Other	<u>708,754</u>	<u>571,744</u>
	<u>\$ 4,058,825</u>	<u>\$ 3,700,525</u>

## 6. NET ASSETS (Continued)

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, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Diocesan	\$ 2,000,000	\$ 2,000,000
Faith Formation	2,000,000	2,000,000
Leadership	1,000,000	1,000,000
Seminary	<u>508,562</u>	<u>508,562</u>
	<u>\$ 5,508,562</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.

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).

## 6. NET ASSETS (Continued)

### Spending Policy (Continued)

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% for 2018 and 2017). 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.

Changes in endowment net assets for the year ended June 30, 2018 and 2017 are as follows:

	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Endowment net assets - July 1, 2016	<u>\$ 2,497,484</u>	<u>\$ 5,508,562</u>	<u>\$ 8,006,046</u>
Investment return:			
Investment income	170,503	-	170,503
Net depreciation (realized and unrealized)	<u>653,719</u>	<u>-</u>	<u>653,719</u>
Total investment return	<u>824,222</u>	<u>-</u>	<u>824,222</u>
Contributions	43,365	-	43,365
Appropriation of assets for expenditure	<u>(236,290)</u>	<u>-</u>	<u>(236,290)</u>
Endowment net assets - June 30, 2017	<u>\$ 3,128,781</u>	<u>\$ 5,508,562</u>	<u>\$ 8,637,343</u>
Investment return:			
Investment income	187,533	-	187,533
Net appreciation (realized and unrealized)	<u>459,556</u>	<u>-</u>	<u>459,556</u>
Total investment return	<u>647,089</u>	<u>-</u>	<u>647,089</u>
Contributions	1,031	-	1,031
Appropriation of assets for expenditure	<u>(426,830)</u>	<u>-</u>	<u>(426,830)</u>
Endowment net assets - June 30, 2018	<u>\$ 3,350,071</u>	<u>\$ 5,508,562</u>	<u>\$ 8,858,633</u>

At June 30, 2018 and 2017, 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 worker's 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 \$3,228,277 and \$3,811,197 at June 30, 2018 and 2017, 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). Employees who work at least 20 hours per week (1,000 hours per year) are eligible to participate in this Plan at their own cost of 2% based upon their rate of pay effective July 1 of each Plan year as described in the Summary Plan Description. Management has established employer contributions based on 7% of employees' salaries upon completion of three years of participant's service. Total pension expense recognized by the Diocesan Corporation for its employees in this Plan during 2018 and 2017 was \$114,877 and \$122,902, 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 (The Priest's Post-Retirement Benefits Plan for the Diocese of Albany) include the Diocesan Corporation and other participating Diocesan entities. The Plan is funded from a contribution of 2% of the pay of participating priests as described in the Summary Plan Description and 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 2018 and 2017 was \$59,400 and \$93,100, 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 non-vested 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 net depositor in the Diocesan Investment and Loan Trust.

## **9. RELATED PARTY TRANSACTIONS (Continued)**

Certain services are provided to the Foundation by the Diocesan Corporation. The Diocesan Corporation has provided in-kind services in the amount of \$30,820 and \$30,817 for the years ended June 30, 2018 and 2017, respectively.

At June 30, 2018, the Diocesan Corporation has a promissory note receivable in the amount of \$444,821, plus accrued interest receivable of \$1,761 from Burke Community Service Corporation (Burke), an affiliated Catholic entity. This promissory note is unsecured and bears interest at the rate of 4.75%. Monthly payments of principal and interest began 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.

In September 2018 the New York State Attorney General commenced a civil investigation of the eight Catholic Dioceses of New York State regarding their handling of past sexual abuse allegations. As a result, the Diocese has received a subpoena requesting historical information related to such matters. The Diocese is presently in the process of responding to the subpoena request. The potential financial impact of this matter on the Diocese, if any, is not presently determinable.

### **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, 2019. 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. FUNCTIONAL EXPENSES

Functional expenses were as follows for the years ended June 30:

	<u>2018</u>	<u>2017</u>
Program	\$ 8,579,835	\$ 8,830,240
Administration	4,095,222	5,430,261
Fundraising	<u>473,147</u>	<u>530,441</u>
	<u>\$ 13,148,204</u>	<u>\$ 14,790,942</u>

## 12. PRIOR PERIOD ADJUSTMENT

During the year, management determined certain cash and investments were not included in financial statements issued for prior years. The accompanying financial statements have been restated to include these investments and the related earnings for previous reporting years. The effect of this restatement is an increase in cash of approximately \$163,600, increase in investments of approximately \$39,500 and an increase in the Interest in Diocesan Investment and Loan Trust of approximately \$128,600.

The cumulative effect of this adjustment on the previously issued financial statements is summarized as follows as of June 30, 2017:

### Statement of Financial Position

	<u>Previously Reported</u>	<u>Increase/ Decrease</u>	<u>Restated</u>
Cash and cash equivalents	\$ 3,866,934	\$ 163,678	\$ 4,030,612
Investments	14,176,260	39,461	14,215,721
Interest in Diocesan Investment and Loan Trust	21,646,223	128,610	21,774,833
Other assets	<u>6,236,370</u>	<u>-</u>	<u>6,236,370</u>
Total assets	<u>\$45,925,787</u>	<u>\$ 331,749</u>	<u>\$46,257,536</u>
Total liabilities	\$14,484,253	\$ -	\$14,484,253
Total net assets	<u>\$31,441,534</u>	<u>\$ 331,749</u>	<u>\$31,773,283</u>
Total net assets and liabilities	<u>\$45,925,787</u>	<u>\$ 331,749</u>	<u>\$46,257,536</u>

### Statement of Activities

The restatement also increased revenue by \$19,304 of investment earnings on the statement of activities for 2017.

## 13. 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 12, 2019 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, 2018 AND 2017

	<u>2018</u>	(Restated) <u>2017</u>
<b>REVENUE, GAINS, AND OTHER SUPPORT:</b>		
Parish support and Bishop's Appeal	\$ 7,900,795	\$ 7,900,078
Legacies, bequests, and miscellaneous	804,470	1,039,887
Interest and dividend income	391,012	323,125
Net unrealized and realized gains/(loss) on investments	221,998	344,198
Contributions from Roman Catholic Diocesan Cemeteries	60,000	60,000
Administrative fees, transfers, and other	<u>1,190,000</u>	<u>1,160,573</u>
 Total revenue, gains, and other support	 <u>10,568,275</u>	 <u>10,827,861</u>
<b>EXPENSES:</b>		
Seminary -		
Vocations office/program	81,424	93,286
Education and formation	<u>974,303</u>	<u>636,894</u>
 Total seminary expenses	 <u>1,055,727</u>	 <u>730,180</u>
Pastoral -		
Apostolate and ethnic ministries	93,657	80,178
Campus ministry and other	235,271	294,136
Catholic media	133,539	123,094
Capital region ecumenical organization	-	8,475
Ecumenical commission	16,832	23,142
Pastoral health care	157,223	163,109
Pastoral council	1,015	5,645
Pastoral planning	67,425	59,596
Prayer and worship	111,229	125,577
Scouting	2,559	7,580
Tribunal	206,541	214,077
Youth recreation	<u>9,994</u>	<u>10,962</u>
 Total pastoral	 <u>1,035,285</u>	 <u>1,115,571</u>
Religious personnel development -		
Clergy benefits and retirement	101,845	209,457
Consultation services	54,924	60,070
Initial ongoing formation	468,473	355,307
Permanent diaconate	36,182	44,440
Vicar for clergy	51,714	98,539
Vicar for religious	<u>61</u>	<u>694</u>
 Total religious personnel development	 <u>713,199</u>	 <u>768,507</u>

(Continued)

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

**SCHEDULE OF SOURCES AND USES - GENERAL FUND (CONTINUED)  
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

	<u>2018</u>	(Restated) <u>2017</u>
Education -		
Diocesan school office	1,471,279	1,167,502
Evangelization and Catechesis	<u>215,807</u>	<u>114,814</u>
Total education	<u>1,687,086</u>	<u>1,282,316</u>
Health and social service -		
Health and social services	875,563	934,265
Human development	<u>29,947</u>	<u>30,942</u>
Total health and social services	<u>905,510</u>	<u>965,207</u>
Administration -		
Architecture and building commission	93,732	91,009
Archives	33,588	38,305
Bishop's charity account	15,266	20,978
Building and property expense	616,469	738,718
Cathedral	220,750	213,471
Chancery operations	1,295,950	1,421,669
Bishop's appeal/stewardship	473,147	530,441
Holy Father	80,040	78,089
Information resources	534,378	540,908
Investment advisory fee and bank service charges	35,989	30,958
NYS Catholic conference	63,850	80,407
Office of human resources	180,197	174,174
Professional fees	324,711	356,585
U.S. Catholic Conference	79,874	79,065
Provision for doubtful receivables	<u>182,372</u>	<u>1,056,223</u>
Total administration	<u>4,230,313</u>	<u>5,451,000</u>
Capital purchases	<u>221,567</u>	<u>124,965</u>
Total expenses	<u>9,848,687</u>	<u>10,437,746</u>
Net surplus	<u>\$ 719,588</u>	<u>\$ 390,115</u>

The accompanying notes are an integral part of this schedule.