

**ROMAN CATHOLIC DIOCESE OF HARRISBURG
CHARITABLE TRUST AND AFFILIATES**

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2018 AND 2017
AND
INDEPENDENT AUDITOR'S REPORT



McKONLY & ASBURY

**ROMAN CATHOLIC DIOCESE OF HARRISBURG
CHARITABLE TRUST AND AFFILIATES**

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INDEPENDENT AUDITOR'S REPORT

Most Reverend Ronald W. Gainer, D.D., J.C.L.
Bishop of the Roman Catholic Diocese of Harrisburg
Harrisburg, Pennsylvania

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the Roman Catholic Diocese of Harrisburg Charitable Trust (a Pennsylvania Charitable Trust) and Affiliates, which comprise the consolidated statements of financial position as of June 30, 2018 and 2017, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Roman Catholic Diocese of Harrisburg Charitable Trust and Affiliates as of June 30, 2018 and 2017, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

We draw attention to Note 1 of the consolidated financial statements, which describes the reporting entity. Our opinion is not modified with respect to this matter.

McKonly & Asbury, LLP

Camp Hill, Pennsylvania
November 19, 2018

**ROMAN CATHOLIC DIOCESE OF HARRISBURG
CHARITABLE TRUST AND AFFILIATES**

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2018 AND 2017

ASSETS

	<u>2018</u>	<u>2017</u>
Cash and cash equivalents	\$ 3,666,781	\$ 3,910,830
Accounts receivable, net	71,766	382,020
Mortgage and lots receivable	702,547	776,773
Accrued interest receivable	847,662	779,977
Inventory	409,940	453,953
Prepaid expenses	173,115	115,166
Investments	143,833,565	139,342,998
Funds held in trust by others	<u>406,432</u>	<u>394,178</u>
	<u>150,111,808</u>	<u>146,155,895</u>
Notes and loans receivable	24,306,138	24,664,395
Less allowance for doubtful loans	<u>(10,446,284)</u>	<u>(9,337,063)</u>
Notes and loans receivable, net	<u>13,859,854</u>	<u>15,327,332</u>
Property, equipment, and software less accumulated depreciation	19,337,735	20,396,633
	<u>183,309,397</u>	<u>181,879,860</u>
Total assets	<u>\$ 183,309,397</u>	<u>\$ 181,879,860</u>

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

LIABILITIES AND NET ASSETS

	2018	2017
Accounts payable and accrued expenses	\$ 3,888,285	\$ 2,826,945
Deferred revenue	6,501,215	6,327,485
	10,389,500	9,154,430
Deposits payable		
Parishes	50,527,515	50,964,202
Schools	16,820,666	17,540,651
Parish perpetual care	3,682,968	3,629,739
Other sources and related entities	7,128,468	6,409,739
Total deposits payable	78,159,617	78,544,331
Accrued priests' pension and postretirement benefits	21,998,501	22,715,833
Estimated liability for self-insurance	5,668,296	5,871,042
Funds held in custody for others	1,766,953	1,856,859
Mortgage payable	447,036	488,778
Liability for future memorial purchases	325,289	298,628
Annuities payable on behalf of others	1,678,100	1,813,336
Total liabilities	120,433,292	120,743,237
Net assets		
Unrestricted		
Undesignated	(14,413,377)	(12,617,815)
Designated	32,695,616	32,107,979
Total unrestricted	18,282,239	19,490,164
Temporarily restricted	392,392	392,392
Permanently restricted	44,201,474	41,254,067
Total net assets	62,876,105	61,136,623
Total liabilities and net assets	\$ 183,309,397	\$ 181,879,860

**ROMAN CATHOLIC DIOCESE OF HARRISBURG
CHARITABLE TRUST AND AFFILIATES**

CONSOLIDATED STATEMENTS OF ACTIVITIES

YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
Changes in unrestricted net assets		
Revenues and gains		
Intradiocesan billings, primarily self-insurance premiums	\$ 18,713,268	\$ 17,936,410
Lenten appeal	7,054,200	6,982,260
Contributions, bequests, and program service fees	2,184,433	2,223,549
Interest and dividends	4,386,426	4,638,523
Cemetery sales	2,352,608	2,359,008
Rental income	395,727	381,498
Other	971,503	345,427
Total unrestricted revenues and gains	36,058,165	34,866,675
Expenses and losses		
Supporting services		
General secretariat	1,488,094	2,075,891
Temporalities		
Administrative support		
Plant operation	1,670,566	1,493,735
Other administrative support	3,446,850	3,142,356
Fund raising	328,698	304,615
Diocesan support for parishes and schools	845,816	746,472
Diocesan support for Catholic Charities	842,786	842,786
Cemetery operations	1,853,634	1,874,578
Insurance	15,905,531	14,715,557
Programs		
Education	1,285,208	1,178,411
Clergy and religious life	2,151,569	2,374,972
Catholic life and evangelization	1,618,544	1,564,407
Canonical services	693,425	699,054
Communications	779,314	842,324
Interest expense	1,260,187	1,299,081
Bad debt - notes and loans receivable	1,111,487	1,144,852
Total expenses and losses	35,281,709	34,299,091

(continued)

**ROMAN CATHOLIC DIOCESE OF HARRISBURG
CHARITABLE TRUST AND AFFILIATES**

CONSOLIDATED STATEMENTS OF ACTIVITIES (Cont'd)

YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
Change in unrestricted net assets, before other changes	776,456	567,584
Other changes		
Net gains (losses) on investments	(1,982,360)	1,618,132
Depreciation and amortization	(938,274)	(956,013)
Change in obligations for priests' pension and postretirement benefits	513,865	(580,211)
Net gain on disposal of property, equipment, and software	422,388	-
Change in unrestricted net assets	(1,207,925)	649,492
Changes in permanently restricted net assets		
Contributions	436,915	346,601
FOCUS interest distributions	(530,675)	(442,135)
Interest and dividends	757,191	518,367
Net gains on investments	2,639,107	3,942,073
Withdrawals by beneficiaries	(355,131)	(509,904)
Change in permanently restricted net assets	2,947,407	3,855,002
Change in net assets	1,739,482	4,504,494
Net assets, beginning of year	61,136,623	56,632,129
Net assets, end of year	\$ 62,876,105	\$ 61,136,623

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

**ROMAN CATHOLIC DIOCESE OF HARRISBURG
CHARITABLE TRUST AND AFFILIATES**

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
Cash flows from operating activities		
Change in net assets	\$ 1,739,482	\$ 4,504,494
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by operating activities		
Depreciation and amortization	938,274	956,013
Net gains on investments	(656,747)	(5,560,205)
Gain on disposal of property and equipment	(422,388)	-
Allowance for doubtful accounts	2,266	6,928
Allowance for doubtful loans	1,109,221	1,138,312
Forgiveness of loans receivable	110,326	283,537
(Increase) decrease in		
Accounts receivable	307,988	(172,302)
Accrued interest receivable	(67,685)	74,494
Inventory	44,013	(24,599)
Prepaid expenses	(57,949)	52,302
Increase (decrease) in		
Accounts payable and accrued expenses	1,061,340	50,214
Deferred revenue	173,730	(792,886)
Accrued priests' pension and postretirement benefits	(717,332)	1,111,791
Estimated liability for self-insurance	(202,746)	203,499
Funds held in custody for others	(89,906)	(114,138)
Liability for future memorial purchases	26,661	20,754
Annuities payable on behalf of others	(135,236)	312,541
	3,163,312	2,050,749
Net cash and cash equivalents provided by operating activities		
Cash flows from investing activities		
Purchase of property, equipment, and software	(331,963)	(475,929)
Proceeds from sale of property and equipment	874,975	-
Issuance of notes and loans receivable	(3,546,213)	(2,286,721)
Proceeds from payments on notes and loans receivable	3,794,144	3,794,277
Mortgage receivable payments received	74,226	185,183
Proceeds from sale or maturity of investments	87,648,372	91,185,376
Purchase and reinvestment of investments	(91,494,446)	(95,316,504)
	(2,980,905)	(2,914,318)
Net cash and cash equivalents used in investing activities		
Cash flows from financing activities		
Payments on mortgage payable	(41,742)	(43,153)
Increase in deposits payable	(384,714)	1,058,590
	(426,456)	1,015,437
Net cash and cash equivalents provided by financing activities		
Net increase (decrease) in cash and cash equivalents	(244,049)	151,868
Cash and cash equivalents, beginning of year	3,910,830	3,758,962
Cash and cash equivalents, end of year	\$ 3,666,781	\$ 3,910,830

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

**ROMAN CATHOLIC DIOCESE OF HARRISBURG
CHARITABLE TRUST AND AFFILIATES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Roman Catholic Diocese of Harrisburg (Diocese) is a nonprofit religious organization established in 1868 located in Central Pennsylvania that includes 98 parishes, mission churches, and communities and 39 schools in 15 counties.

The accompanying consolidated financial statements of the Roman Catholic Diocese of Harrisburg Charitable Trust and Affiliates include the assets, liabilities, net assets, and financial activities of the Roman Catholic Diocese of Harrisburg Charitable Trust (“Charitable Trust”), Diocesan Savings and Loan Fund (“Savings and Loan Fund”), Roman Catholic Diocese of Harrisburg Irrevocable Trust (“Irrevocable Trust”), Harrisburg Catholic Administrative Services, Inc. (“HCAS”), Roman Catholic Diocese of Harrisburg Real Estate Trust (“Real Estate Trust”), Kolbe Catholic Publishing, Inc. (“KOLBE”), Foundation of Catholics United in Service Trust (“FOCUS”), and Harrisburg Catholic Publishing Associates (“Catholic Witness”) (collectively, the “Diocesan Administrative Entities or DAE”). The accompanying consolidated financial statements exclude the assets, liabilities, net assets, and financial activities of parishes, schools, parish cemeteries, and certain other related entities, except insofar as financial transactions have taken place between them and the DAE (i.e. subsidies, loans, and deposits).

The Irrevocable Trust was established to formalize the historical practices of the Diocese with respect to deposits payable and notes and loans receivable accounted for in the Savings and Loan Fund. See Note 10 for additional information.

Deposits payable are monies owed to parishes, schools, or other related entities. These monies are either loaned to parishes, schools, priests, and seminarians as notes or loans receivable or are pooled with other DAE investments to maximize investment return.

The Bishop of the Diocese (“Bishop”) exercises significant influence over all related entities as Bishop or trustee, including those entities excluded from the accompanying consolidated financial statements. These entities may or may not be separate corporations under civil or canon law; however, each is an operating entity distinct from the DAE and carries on its own services and programs. Likewise, the accompanying consolidated financial statements are not intended to present all funds and related entities of the Diocese at June 30, 2018 and 2017, and, thus, do not present the comprehensive financial position and results of activities for the entire Diocese.

Significant balances and transactions among the entities comprising the DAE included in the consolidated financial statements have been eliminated. Intradiocesan billings and corresponding insurance expenses have not been eliminated as these items represent transactions between the DAE and unconsolidated related parties.

Basis of Presentation

The consolidated financial statements of the DAE have been prepared on the accrual basis of accounting. Under not-for-profit financial reporting standards, net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the DAE and changes therein are classified and reported as follows:

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**ROMAN CATHOLIC DIOCESE OF HARRISBURG
CHARITABLE TRUST AND AFFILIATES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Permanently restricted – Net assets subject to donor-imposed stipulations that they be maintained permanently by the DAE. Generally, the donors of these assets permit the DAE to use all or part of the investment income on related investments for general or specific purposes. Such assets include primarily the DAE’s permanent endowment fund, perpetual care funds for cemeteries, FOCUS, and funds held in trust by others.

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

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

Revenues from sources other than contributions are reported as increases in unrestricted net assets. Contributions are reported as increases in the appropriate category of net assets. Expenses are generally reported as decreases in unrestricted net assets. Gains and losses on investments are reported as other changes in unrestricted net assets unless their use is restricted by explicit donor stipulations or by law. Expirations of temporary restrictions recognized on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications from temporarily restricted net assets to unrestricted net assets.

Cash and Cash Equivalents

Cash and cash equivalents include cash on deposit with financial institutions and other highly liquid investments with maturities of three months or less. At times, cash and cash equivalents may be in excess of federal deposit insurance limits. Cash and cash equivalents held in the investment portfolio are recorded as investments in the consolidated statements of financial position.

Monies of the DAE, which are not held in a separate trust, are pooled with deposits of related parishes and entities for investment purposes. Participants in the pool are provided a specified return on their investment in the pool. Realized and unrealized gains and losses are allocated to the current operations of the DAE.

Inventory

Inventory is stated at the lower of cost or market. Cost is determined using the first-in, first-out method.

Investments

Investments are stated at fair value. Fair values are based on readily available market quotes, when available.

(continued)

**ROMAN CATHOLIC DIOCESE OF HARRISBURG
CHARITABLE TRUST AND AFFILIATES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Funds Held in Trust by Others

The DAE is the beneficiary of various trusts created by donors, the assets of which are not in the possession of the DAE. The DAE has legally enforceable rights or claims to receive income in perpetuity from the corpus of the trusts. The DAE records the portion of assets of the trusts that were donated to the DAE in its books. The value of the assets is considered to be materially consistent with the present value of the future cash flows to be received from the trusts. Because of the permanent right of the DAE to its share of certain trusts' earnings, the DAE reports its share of these trusts on its consolidated financial statements as funds held in trust by others.

Mortgage and Lots Receivable

On March 27, 2014, the DAE sold property to a real estate developer and provided financing in the form of a \$551,000 promissory note and \$105,000 in deferred lot payments. The note is secured by a second mortgage on the related property. The note carries an interest rate of 4.5% and was interest only for twenty-four months. On August 23, 2016, the promissory note was modified to extend the term of the note to March 1, 2018. On June 5, 2018, the promissory note was modified to extend the term of the note to December 31, 2019. A waiver of default was also provided. Interest income is recognized over the life of the loan.

On July 25, 2014, the DAE sold property to a real estate developer and provided \$325,000 of financing at an interest rate of 5.0% that requires principal and interest payments of \$2,145 per month until July 25, 2020. Interest income is recognized annually through the maturity date.

On a periodic basis the DAE evaluates the collectability of its receivable and adjusts the allowance for loan losses to state the receivable at net realizable value. As of both June 30, 2018 and 2017, the allowance for loan losses associated with this receivable was zero.

The deferred lot payments represent the future sale of 35 lots by the developer at \$3,000 each. In addition, the DAE is entitled to receive a bonus payment equal to 10% of the selling price of a home in excess of \$300,000, less any extras or builder's incentives. As of June 30, 2018 and 2017, sixteen and nine lots, respectively, have been sold.

Accounts Receivable

Accounts receivable are stated net of an allowance for doubtful accounts, which at June 30, 2018 and 2017, was \$34,490 and \$32,224, respectively. Management determines the allowance based on management's analysis of outstanding balances and historical trends.

Notes and Loans Receivable

The DAE receives deposits, titled within the Irrevocable Trust in 2018 and Saving and Loan Fund in 2017, from parishes, schools, and other related entities that, in turn, are loaned or available for loan to parishes, schools, priests, and seminarians. The DAE generally charges interest rates ranging from 4.5% to 6% depending on the length of the loan; however, some are non-interest bearing.

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**ROMAN CATHOLIC DIOCESE OF HARRISBURG
CHARITABLE TRUST AND AFFILIATES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

An allowance for doubtful accounts is recorded for parish and other notes and loans receivable, which are deemed to be uncollectible. This estimate is based on management's analysis of the uncollectible accounts and prior history. Bad debt expense for the years ended June 30, 2018 and 2017, was \$1,111,487 and \$1,144,852, respectively.

Property, Equipment, and Software

Property, equipment, and software are stated at cost or at estimated fair value at the time of receipt if acquired by donation, less accumulated depreciation. Maintenance and repairs are charged to expense as incurred; major renewals and betterments are capitalized. Depreciation of the DAE's plant assets is computed using a straight-line method over 25 to 40 years for buildings and improvements and 3 to 10 years for furnishings, equipment, and software. Depreciation expense is not allocated amongst the programs since fixed assets are primarily used for administrative purposes.

Software Development

The DAE capitalizes certain costs incurred in the purchase and customization of internal-use computer software related to its operating and accounting processes in accordance with FASB ASC 350-40, *Internal-Use Software*. During the years ended June 30, 2018 and 2017, the DAE capitalized \$92,056 and \$57,271, respectively, related to obtaining internal-use computer software. As various modules of the software become operational, the DAE will place them in service, and will begin amortizing at that time. Capitalized internal-use computer software is included in property and equipment in the consolidated statements of financial position. Capitalized software costs are amortized using the straight-line method over 5 years.

Impairment of Long-Lived Assets

Management evaluates its long-lived assets for financial impairment whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable. An impairment loss is recognized when the estimated undiscounted future cash flows from the assets are less than the carrying value of the assets. Assets to be disposed of are reported at the lower of their carrying amount or fair value, less cost to sell. Management is of the opinion that the carrying amount of its long-lived assets at June 30, 2018 and 2017, does not exceed their estimated recoverable amount.

Deposits Payable and Parish Perpetual Care

Deposits payable represent interest-bearing and non-interest-bearing amounts on deposit with the DAE received from parishes, schools, and other sources and related entities, including funds titled within the Irrevocable Trust in 2018 and within Savings and Loan Fund in 2017. These amounts are pooled with other DAE investments to maximize investment return. Interest allocated to the parishes, schools and other sources are presented as a program expense. Parish Perpetual Care represents amounts on deposit with the DAE received from parishes to maintain those parishes' respective cemeteries.

(continued)

**ROMAN CATHOLIC DIOCESE OF HARRISBURG
CHARITABLE TRUST AND AFFILIATES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Annuities Payable on Behalf of Others

Annuities payable represent the value of the assets held by the DAE that, at the termination of annuity contracts, will be paid to the beneficiary, generally a parish or school. The DAE acts as an administrator of these various annuity contracts and records the assets held and associated liabilities using deposit accounting. Changes in the value of the assets and payments made on the liabilities are all recorded on the consolidated statements of financial position, and the DAE does not recognize any gain or expense related to this service. Assets held under these agreements are included in investments.

Funds Held In Custody for Others

Funds held in custody for others principally represent amounts collected at parishes for national collections in which the Diocese acts as the custodian until funds are remitted to their respective national agencies. It also represents assessments to parishes and schools for hospital and prison chaplaincy expenses.

Fair Value of Financial Instruments

The DAE's financial instruments consist of cash and cash equivalents, accounts receivable, investments, notes and loans receivable, deposits payable, and accounts payable. The recorded values of cash and cash equivalents, accounts receivable, deposits payable, and accounts payable approximate their fair values based on their short-term nature and/or affiliate relationship. The recorded values of notes and loans receivable approximate their fair values based on their long-term nature and/or affiliate relationship. Investments are carried at fair value with unrealized gains and losses reflected in the consolidated statements of activities.

Self-insurance Programs

a. Property, Casualty, and Workers' Compensation Plan

Facilities of the DAE and related entities, including the central administrative offices, parishes, and other facilities, are included in a combined plan for hazard and comprehensive liability insurance. The plan includes coverage for loss to the DAE's property and the DAE's exposure to Workers' Compensation, Auto, and certain other liability claims. The DAE is self-insured for the first tier of certain losses up to a range of \$150,000 to \$250,000 per incident, but also maintains first dollar coverage in certain of its insurance policies. For those losses for which self-insured retention applies, losses above the range (per occurrence or per claim) are insured with commercial insurance companies under claims-made and occurrence policies. The DAE records the estimated liability for claims reported but not paid at year-end under the self-insured retention amount, as well as an estimated liability for claims incurred but not reported. Due to the complexities and uncertainties involved in these evaluations, actual results could vary significantly from the estimated projections.

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**ROMAN CATHOLIC DIOCESE OF HARRISBURG
CHARITABLE TRUST AND AFFILIATES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

b. Comprehensive Medical Plan

The DAE is a Plan sponsor for a medical and prescription drug plan which covers substantially all priests and lay employees of the Diocese. The Plan is exempted from ERISA regulation and is filed as an official Church Plan for regulatory purposes. Further, the Plan is considered compliant with all of the required provisions of the Patient Protection and Affordable Care Act (PPACA). As the Plan sponsor, the DAE accepts covered and approved risks as outlined in its Plan document, and secures stop loss coverage for claimant losses in excess of \$175,000 per individual claim. Beginning with the plan year ended June 30, 2017, the stop loss coverage was modified to include a \$177,000 aggregate deductible per year. At the close of each plan year, the DAE records an estimated liability for claims incurred but not reported as well as those reported but not yet paid.

c. Unemployment Compensation

The DAE self funds unemployment compensation liability claims.

Intradiocesan billings represent insurance premiums for self-insurance coverage under all of the above programs.

Lenten Appeal, Contributions, and Bequests

The annual Lenten Appeal proceeds are used, in part, to support DAE activities for the fiscal year commencing on July 1 following the Lenten season in which the Appeal is made. Lenten Appeal proceeds received in each year presented are recorded as deferred revenue. The annual amount of the Appeal is based on parish goals, requiring each parish to raise a specific amount based on the individual parish's specific factors. Parish goals for the years ended June 30, 2018 and 2017, were \$7,054,200 and \$6,982,200, respectively.

Contributions, including unconditional promises to give, are recognized as revenue in the period received and recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and nature of any donor restrictions. Contributions received with donor restrictions that are satisfied in the same fiscal year are reported as unrestricted contributions.

When a donor restriction is satisfied or expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

Donated marketable securities and other non-cash donations are recorded as contributions at their estimated fair values at the date of donation.

No amounts have been reflected in the consolidated financial statements for donated services. The DAE pays for most services requiring specialized expertise.

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**ROMAN CATHOLIC DIOCESE OF HARRISBURG
CHARITABLE TRUST AND AFFILIATES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Investment Income

Investment income includes interest and dividends on investments, as well as both the realized gains and losses on investment transactions and unrealized gains and losses from changes in the market value of investments.

Realized gains and losses on disposition of investment securities are determined using average cost, and transactions are recorded on a trade date basis.

Future Memorial Purchases

At the time of entering into agreements to provide memorial plaques and foundations, an amount representing the present cost of the plaques sold is recorded as the cost of sale and as a liability for future memorial purchases.

Cemetery Lot Sales

Sales of cemetery lots and crypts are recorded when contracts of sale are signed. The cost of each lot sold is computed based on an allocation of total expenses incurred in developing the cemetery. Approximately 17% of the sales price of cemetery lot sales is included in permanently restricted net assets for the provision of perpetual care.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Recently Issued Accounting Pronouncements

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958)*. The amendments of this ASU include two classes of net asset classifications, options for presenting cash flow from operations, and a number of additional requirements. The changes became effective for DAE on July 1, 2018. Management has not determined the impact of these changes on the DAE's consolidated financial statements.

In March 2017, the FASB issued ASU 2017-07, *Compensation – Retirement Benefits (Topic 715)*. The changes with this ASU include requiring that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The changes became effective for the DAE on July 1, 2018. Management has not determined the impact of these changes on the DAE's consolidated financial statements.

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**ROMAN CATHOLIC DIOCESE OF HARRISBURG
CHARITABLE TRUST AND AFFILIATES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The pronouncement, and the related subsequent pronouncements, requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The changes become effective for DAE on July 1, 2019. Management has not determined the impact of these changes on DAE's consolidated financial statements.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958), Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendments in this ASU clarify and improve current guidance about whether a transfer of assets (or the reduction, settlement, or cancellation of liabilities) is a contribution or an exchange transaction, and how an entity determines whether a resource provider is participating in an exchange transaction. The amendments also require that an entity determine whether a contribution is conditional on the basis of whether an agreement includes a barrier that must be overcome and either a right of return of assets transferred or a right of release of a promisor's obligation to transfer assets is present. The changes become effective for DAE on July 1, 2019. Management has not determined the impact of these changes on DAE's consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The changes associated with this ASU include the requirement for lessees to recognize the underlying assets and liabilities associated with all operating leases with terms greater than 12 months. The changes become effective for DAE on July 1, 2020. Management has not determined the impact of these changes on the DAE's consolidated financial statements.

Subsequent Events

Management evaluated subsequent events through November 19, 2018, the date the consolidated financial statements were available to be issued. See Note 14 for details to subsequent events.

2. INVESTMENTS

A summary of the fair values of investments at June 30, 2018 and 2017, is as follows:

Description	2018	2017
Cash and cash equivalents	\$ 7,421,735	\$ 4,175,299
Certificates of deposits	774,300	1,042,547
Equity securities	41,155,978	36,376,445
Bonds and notes	89,231,987	94,303,934
Alternative assets	1,341,167	-
Equity in captive insurance investments	1,769,138	1,862,868
Other	2,139,260	1,581,905
	<u>\$ 143,833,565</u>	<u>\$ 139,342,998</u>

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**ROMAN CATHOLIC DIOCESE OF HARRISBURG
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Aggregate cost of the above investments was approximately \$137.6 million and \$128.6 million for the years ended June 30, 2018 and 2017, respectively.

Monies held in investments are designated for the following purposes:

	<u>2018</u>	<u>2017</u>
Savings and Loan Fund	\$ -	\$ 63,216,999
Irrevocable Trust	49,348,121	-
FOCUS	35,851,001	33,492,964
Diocesan perpetual care funds	6,775,346	6,199,007
Endowment funds	1,168,695	1,167,918
Bishop's Designated Fund	<u>32,695,616</u>	<u>32,107,979</u>
	<u>\$ 125,838,779</u>	<u>\$ 136,184,867</u>

Investment income for the years ended June 30, 2018 and 2017, is reported as follows:

	<u>2018</u>	<u>2017</u>
Interest and dividends – unrestricted	\$ 4,386,426	\$ 4,638,523
Interest and dividends – permanently restricted	<u>757,191</u>	<u>518,367</u>
Total interest and dividends	<u>5,143,617</u>	<u>5,156,890</u>
Net gains (losses) on investments – unrestricted	(1,982,360)	1,618,132
Net gains on investments – permanently restricted	<u>2,639,107</u>	<u>3,942,073</u>
Net realized and unrealized gains	<u>656,747</u>	<u>5,560,205</u>
Total investment income	<u>\$ 5,800,364</u>	<u>\$ 10,717,095</u>

3. FAIR VALUE MEASUREMENTS

FASB ASC 820, *Fair Value Measurements and Disclosures*, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

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Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the DAE has the ability to access.

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets.
- Quoted prices for identical or similar assets or liabilities in inactive markets.
- Inputs other than quoted prices that are observable for the asset or liability.
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2018 and 2017.

Certificates of deposit: Valued at the underlying instrument, which does not significantly vary from cash and cash equivalents.

Equity securities: Valued at the closing price reported on the active market on which the individual securities are traded.

Bonds and notes: Valued at the closing price reported on the active market on which the individual securities are traded.

Alternative assets: Comprised mainly of hard assets and hedge funds, value is estimated based on the latest information received from each underlying fund and adjusted for any activity prior to the reporting date.

Equity in captive insurance investment: Valued based on the amount at which the DAE is contractually obligated to redeem its shares, which approximates cost.

Funds held in trust by others: Valued based on the DAE's contractual share of the trust balance as determined primarily through quoted market prices.

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**ROMAN CATHOLIC DIOCESE OF HARRISBURG
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The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the DAE believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following tables set forth by level, within the fair value hierarchy, the DAE's assets at fair value at June 30, 2018 and 2017.

Assets at fair value at June 30, 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments				
Cash and cash equivalents	\$ 7,421,735	\$ -	\$ -	\$ 7,421,735
Certificates of deposit	-	774,300	-	774,300
Equity securities				
U.S. large cap	31,543,501	-	-	31,543,501
U.S. small/mid cap	2,062,972	-	-	2,062,972
Global	6,129,694	-	-	6,129,694
Emerging market	280,311	-	-	280,311
EAFE	955,812	-	-	955,812
European large cap	183,688	-	-	183,688
Bonds and notes				
Short-term	4,155,219	-	-	4,155,219
U.S. fixed income	85,076,768	-	-	85,076,768
Equity in captive insurance investment				
Other	-	1,769,138	-	1,769,138
Alternative assets	2,139,260	-	-	2,139,260
	-	1,341,167	-	1,341,167
Subtotal of investments	139,948,960	3,884,605	-	143,833,565
Funds held in trust by others				
	-	406,432	-	406,432
Total assets at fair value	<u>\$ 139,948,960</u>	<u>\$ 4,291,037</u>	<u>\$ -</u>	<u>\$ 144,239,997</u>

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**ROMAN CATHOLIC DIOCESE OF HARRISBURG
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Assets at fair value at June 30, 2017:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments				
Cash and cash equivalents	\$ 4,175,299	\$ -	\$ -	\$ 4,175,299
Certificates of deposit	-	1,042,547	-	1,042,547
Equity securities				
U.S. large cap	27,159,108	-	-	27,159,108
U.S. small/mid cap	973,355	-	-	973,355
Global	6,497,465	-	-	6,497,465
Emerging market	530,966	-	-	530,966
EAFE	1,215,551	-	-	1,215,551
Bonds and notes				
Short-term	1,642,200	-	-	1,642,200
U.S. fixed income	53,363,235	-	-	53,363,235
U.S. government agency obligations	8,727,767	-	-	8,727,767
Corporate bonds and notes	27,850,356	-	-	27,850,356
Foreign bonds and notes	2,720,376	-	-	2,720,376
Equity in captive insurance investment	-	1,862,868	-	1,862,868
Other	1,581,905	-	-	1,581,905
Subtotal of investments	<u>136,437,583</u>	<u>2,905,415</u>	-	<u>139,342,998</u>
Funds held in trust by others	<u>-</u>	<u>394,178</u>	-	<u>394,178</u>
Total assets at fair value	<u>\$ 136,437,583</u>	<u>\$ 3,299,593</u>	<u>\$ -</u>	<u>\$ 139,737,176</u>

(continued)

**ROMAN CATHOLIC DIOCESE OF HARRISBURG
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. PROPERTY, EQUIPMENT, AND SOFTWARE

Property, equipment, and software at June 30, 2018 and 2017, consist of the following:

	2018	2017
Land	\$ 12,696,465	\$ 13,097,441
Buildings and improvements	25,365,932	25,105,059
Furnishings, equipment, and software	7,927,053	7,889,970
Software development	138,676	127,783
	46,128,126	46,220,253
Accumulated depreciation and amortization	(26,790,391)	(25,823,620)
Property, equipment, and software, net	\$ 19,337,735	\$ 20,396,633

Depreciation and amortization expense was \$938,274 in 2018 and \$956,013 in 2017. Included in buildings and improvements is zero and \$247,647 of construction in progress at June 30, 2018 and 2017.

5. IRREVOCABLE TRUST AND SAVINGS AND LOAN FUND

The Irrevocable Trust at June 30, 2018 and Savings and Loan Fund at June 30, 2017 consists of the following:

	2018	2017
Assets		
Cash and cash equivalents	\$ 3,648,137	\$ 3,910,355
Accrued interest receivable	528,919	-
Investments	49,348,121	52,465,340
	53,525,177	56,375,695
Notes and loans receivable	24,306,138	24,664,395
Less allowance for doubtful accounts	(10,446,284)	(9,337,063)
	13,859,854	15,327,332
Total assets	\$ 67,385,031	\$ 71,703,027

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**ROMAN CATHOLIC DIOCESE OF HARRISBURG
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	2018	2017
Liabilities and net assets		
Deposits payable	\$ 67,385,031	\$ 71,703,027
Total liabilities	67,385,031	71,703,027
Net assets	-	-
Total liabilities and net assets	\$ 67,385,031	\$ 71,703,027

Included within deposits payable at June 30, 2018 is \$15,603,601 payable to the Charitable Trust relating to the funding of the Irrevocable Trust.

6. PENSION AND RETIREMENT PLANS

The DAE sponsors the Priests' Pension Plan of the Diocese (the Plan) to provide retirement benefits for diocesan priests. The Plan is operated as a Church plan exempt from federal pension law known as the Employee Retirement Income Security Act of 1974 (ERISA). Church plans are not required to comply with ERISA's funding, disclosure, and other provisions. In addition, the DAE also provides retired diocesan priests certain postretirement benefits.

Priests' Pension Plan

The following table sets forth the funded status of the Plan and the amounts included in the accompanying consolidated statements of financial position for the years ended June 30, 2018 and 2017:

	2018	2017
Accumulated benefit obligation (vested)	\$ (27,606,452)	\$ (26,102,320)
Projected benefit obligation	\$ (27,606,452)	\$ (26,102,320)
Fair value of plan assets	16,163,346	14,800,033
Funded status	\$ (11,443,106)	\$ (11,302,287)
Accrued pension liability	\$ (11,443,106)	\$ (11,302,287)

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**ROMAN CATHOLIC DIOCESE OF HARRISBURG
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Net periodic pension cost includes the following components for the years ended June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Service cost of the current period	\$ 894,051	\$ 742,162
Interest cost on projected benefit obligation	1,159,680	898,292
Expected return on Plan assets	(1,110,002)	(977,429)
Net amortization of prior service cost, transition obligation, and net gain	<u>768,852</u>	<u>720,456</u>
Net periodic pension cost	<u>\$ 1,712,581</u>	<u>\$ 1,383,481</u>

Included in unrestricted net assets at June 30, 2018 and 2017, are the following amounts that have not yet been recognized in net periodic pension cost:

	<u>2018</u>	<u>2017</u>
Net transition obligation	\$ 1,537,711	\$ 2,306,563
Net (gain) or loss	<u>(1,407,855)</u>	<u>(1,622,163)</u>
	<u>\$ 129,856</u>	<u>\$ 684,400</u>

The net transition obligation and net gain included in unrestricted net assets and expected to be recognized in net periodic pension cost during the year ended June 30, 2019, are \$768,852 and zero, respectively.

	<u>2018</u>	<u>2017</u>
Contributions to the plan	\$ 1,017,218	\$ 843,520
Benefits paid	\$ 806,669	\$ 843,520

The following table summarizes key actuarial assumptions:

	<u>2018</u>	<u>2017</u>
Discount rate	4.50%	4.25%
Expected return on plan assets	7.50%	7.50%
Rate of compensation increase	0.00%	0.00%

Based on actuarial assumptions, contributions of \$1,059,278 are expected to be made to the Plan for the year ended June 30, 2019.

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**ROMAN CATHOLIC DIOCESE OF HARRISBURG
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Rate of retirement for participants eligible to retire:

<u>Age</u>	<u>2018</u>	<u>2017</u>
Less than 65	-	-
66-74	10%	10%
75+	100%	100%

The expected long-term rate of return on the Plan assets reflects the average rate of earnings expected on the funds invested or to be invested to provide for the benefits included in the projected benefit obligation. The selected rate considers the historical and expected future investment trends of the present and expected assets in the Plan.

The mortality table used for the years ended June 30, 2018 and 2017, was the Adjusted RP-2014 White Collar Mortality Table.

Benefits expected to be paid in each of the next five fiscal years and in the aggregate for the five fiscal years thereafter are as follows:

Fiscal Years Ended June 30,

2019	\$ 1,059,278
2020	\$ 1,124,975
2021	\$ 1,146,890
2022	\$ 1,192,699
2023	\$ 1,259,192
2024 through 2028	\$ 7,250,948

The DAE uses the straight-line method to amortize the net transition obligation and net gain over the average remaining service periods of priests expected to receive benefits under the Plan.

The investment allocation of plan assets is as follows at June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Cash	0.6%	0.0%
Money markets	0.8%	1.4%
Common trust funds		
Equity securities	67.8%	68.9%
Fixed income securities	24.4%	23.2%
Real estate	6.4%	6.5%

The Plan's investment guidelines are to achieve long-term growth through a diversified portfolio of investments.

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**ROMAN CATHOLIC DIOCESE OF HARRISBURG
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Postretirement Benefits

The following table sets forth the funded status of the postretirement benefits and the amounts included in the accompanying consolidated statements of financial position at June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Accumulated postretirement benefit obligation	<u>\$ (10,555,395)</u>	<u>\$ (11,413,546)</u>
Accrued postretirement liability	<u>\$ (10,555,395)</u>	<u>\$ (11,413,546)</u>

The net periodic postretirement benefit cost included the following components for the years ended June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Service cost	\$ 382,427	\$ 327,039
Interest cost	450,461	361,313
Net amortization of transition obligation	<u>281,464</u>	<u>281,464</u>
Net periodic postretirement benefit cost	<u>\$ 1,114,352</u>	<u>\$ 969,816</u>

Included in unrestricted net assets at June 30, 2018 and 2017, are the following amounts that have not yet been recognized in net periodic postretirement benefits cost:

	<u>2018</u>	<u>2017</u>
Net transition obligation	\$ 562,932	\$ 844,396
Net (gain) loss	<u>(432,698)</u>	<u>1,021,025</u>
	<u>\$ 130,234</u>	<u>\$ 1,865,421</u>

The net transition obligation and net gain included in unrestricted net assets and expected to be recognized in net periodic postretirement benefit cost during the year ended June 30, 2019, are \$281,464 and zero respectively.

Benefits expected to be paid in each of the next five fiscal years and in the aggregate for the five fiscal years thereafter are as follows:

Fiscal Years Ended June 30,

2019	\$ 310,355
2020	\$ 336,576
2021	\$ 349,787
2022	\$ 369,029
2023	\$ 395,037
2024 through 2028	\$ 2,368,022

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**ROMAN CATHOLIC DIOCESE OF HARRISBURG
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The assumed healthcare cost trend rate is 5.5% and 6.0% for each of the years ended June 30, 2018 and 2017, respectively. The ultimate healthcare trend rate is assumed to be 5.5% in 2018 to 2020. Rates gradually decrease from 5.4% in 2024 to 3.9% in 2075 and later based on the Society of Actuaries Long-Run Medical Cost Trend Model.

A one-percentage point increase in the assumed healthcare trend rates would have increased the Accumulated Postretirement Benefit Obligation (APBO) by \$2,413,539 at June 30, 2018, and the aggregate service cost components of postretirement benefit cost for the year ended June 30, 2018, by \$231,484. A one-percentage point decrease would have decreased the APBO by \$1,657,571 and the aggregate service and interest cost components of postretirement benefit cost for the year ended June 30, 2018, by \$169,034.

401(k) Plan

The DAE also sponsors a contributory retirement savings 401(k) plan for all eligible lay employees and priests. Eligible participants may elect to defer from 1% to 75% of their total income under this plan, subject to certain limitations. The DAE matches eligible employee contributions up to an established ceiling. The DAE contributed \$379,089 and \$361,214 to the 401(k) plan for the years ended June 30, 2018 and 2017, respectively.

7. MORTGAGE PAYABLE

A mortgage loan payable in the original amount of \$685,000 is payable to Pope Family Limited Partnership. The loan bears interest at an annual rate of 4.5%. Payments of principal and interest are due for 15 years, with any unpaid principal and unpaid accrued interest due and payable on February 3, 2027. The St. Samuel Center property is pledged as collateral for the mortgage.

Maturities of mortgage loan principal in each of the next five years are as follows:

2019	\$	43,659
2020	\$	45,665
2021	\$	47,762
2022	\$	49,957
2023	\$	52,252

The DAE incurred interest costs of \$21,141 and \$22,974 for the years ended June 30, 2018 and 2017, respectively. The DAE paid interests costs of \$24,480 and \$24,969 for the years ended June 30, 2018 and 2017, respectively.

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**ROMAN CATHOLIC DIOCESE OF HARRISBURG
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. RESTRICTED NET ASSETS

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

	<u>2018</u>	<u>2017</u>
Rygeil future parish	\$ 392,392	\$ 392,392
Total temporarily restricted net assets	<u>\$ 392,392</u>	<u>\$ 392,392</u>

Permanently restricted net assets are invested in perpetuity. The income generated by these assets is used to support donor-specified programs or general activities of the DAE. At June 30, 2018 and 2017, the DAE held the following permanently restricted net assets:

	<u>2018</u>	<u>2017</u>
FOCUS	\$ 35,851,001	\$ 33,492,964
Funds held in trust by others	406,432	394,178
Endowment funds	1,168,695	1,167,918
Diocesan perpetual care funds	<u>6,775,346</u>	<u>6,199,007</u>
Total permanently restricted net assets	<u>\$ 44,201,474</u>	<u>\$ 41,254,067</u>

FOCUS allows parishes and other parties to make contributions in order to establish an endowment for serving educational, charitable, pastoral, and other programs identified by the donor. The FOCUS Trustee (the Bishop) exercises certain powers and limited discretion over FOCUS funds and can only distribute FOCUS funds based on original intent of the donating party, unless it becomes impossible or impractical to do so. It has been the practice of the Trustee to only distribute FOCUS funds based on original intent of the donating party. Distributions from FOCUS funds totaled \$530,675 and \$442,135 for the years ended June 30, 2018 and 2017, respectively.

Activity in the FOCUS funds for the years ended June 30, 2018 and 2017, is as follows:

	<u>2018</u>	<u>2017</u>
Beginning balance	\$ 33,492,964	\$ 30,389,506
Contributions	338,211	249,963
Interest and dividends	785,633	530,801
Net gain on investments	2,272,845	3,420,135
Interest distribution	(530,675)	(442,135)
Withdrawal by beneficiaries	(355,131)	(509,904)
Management fee	(157,303)	(142,723)
Change in accrued interest receivable	<u>4,457</u>	<u>(2,679)</u>
Ending balance	<u>\$ 35,851,001</u>	<u>\$ 33,492,964</u>

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**ROMAN CATHOLIC DIOCESE OF HARRISBURG
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9. UNRESTRICTED DESIGNATED NET ASSETS

Unrestricted designated net assets represent funds designated for use by the Bishop (Bishop's Designated Fund). Bishop's Designated Funds are included in the DAE's total investment balance at June 30, 2018 and 2017.

As further described in Note 13, pursuant to the Financing Agreement, the DAE is required to maintain in the Bishop's Designated Fund unrestricted cash and investments as of each June 30 and December 31 an amount not less than \$25,000,000.

Activity in the designated funds for the years ended June 30, 2018 and 2017, is as follows:

	2018	2017
Beginning balance	\$ 32,107,979	\$ 29,765,439
Interest and dividends	1,261,774	1,265,044
Net gain (loss) on investments	(539,749)	1,205,059
Management fee	(134,388)	(127,563)
Ending balance	\$ 32,695,616	\$ 32,107,979

10. RELATED PARTY TRANSACTIONS

The DAE receives deposits from parishes, schools and other sources and related entities that, in turn, are loaned or available for loan to parishes, schools, priests, and seminarians. For the years ended June 30, 2018 and 2017, loans receivable outstanding from Diocesan entities totaled \$24,306,138 and \$24,664,395 respectively. The DAE generally charges interest rates ranging from 4.5% to 6.0% depending on the length of the loan. However, some are non-interest bearing. Interest received on loans receivable amounted to \$823,862 and \$1,024,971 for the years ended June 30, 2018 and 2017, respectively.

The deposits payable are due to parishes, schools and other sources and related entities on demand. At June 30, 2018 and 2017, the savings deposits payable to parishes and schools including perpetual care totaled \$78,159,617 and \$78,544,331, respectively. Included in deposits payable is amount due to/due from related entities that arise in the normal course of business.

In accordance with the service agreement entered into on August 24, 2009, the DAE provided financial support to Catholic Charities for its programs. The financial support allocation by the DAE to Catholic Charities was \$842,786 and \$842,786 for the years ended June 30, 2018 and 2017, respectively.

Amounts due from the DAE to Catholic Charities was \$1,409,480 and \$1,031,902 at June 30, 2018 and 2017, respectively. For the years ended June 30, 2018 and 2017, the DAE received rental income from Catholic Charities in the amounts of \$150,573 and \$147,858, respectively.

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**ROMAN CATHOLIC DIOCESE OF HARRISBURG
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As discussed the purpose of the Irrevocable Trust is to memorialize and formalize the arrangements that are already in effect and that are reflected in the consolidated financial statements of the Diocese.

There are numerous parishes, schools, and other related entities within the Diocese. Over a period of years, some of those parishes, schools, and other related entities (“Depositors”) have deposited funds belonging to them with the Diocese, in keeping with the ecclesiastical laws of the Roman Catholic Church, so that investment of those funds could be done on a unified and more efficient basis, and so that the funds deposited could be loaned to parishes, schools, and other related entities for development projects. The entity holding title to these assets is the Irrevocable Trust.

This Irrevocable Trust shall function and shall at all times be operated exclusively for charitable, religious, or educational purposes by conducting or supporting activities exclusively for the benefit of the Depositors.

11. OPERATING LEASES

The DAE and Catholic Charities have a non-cancelable operating lease for building space. The DAE’s allocation of rental expense for the operating lease during 2018 and 2017 was \$100,453 and \$97,527.

12. INCOME TAXES

The DAE entities, unless otherwise noted, are exempt from federal income tax under provisions of Section 501(c)(3) of the Internal Revenue Code through its inclusion in the 1946 United States Catholic Bishops (USCCB) group ruling determination and listing in the Official Catholic Directory. In 2018, the Irrevocable Trust applied for inclusion in the USCCB group ruling.

The DAE adheres to the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification 740, Income Taxes (ASC 740). ASC 740 establishes rules for recognizing and measuring tax positions taken in an income tax return, including disclosures of uncertain tax positions (UTPs). ASC 740 mandates that organizations evaluate all material income tax positions for periods that remain open under applicable statutes of limitation, as well as positions expected to be taken in future returns. The UTP rules then impose a recognition threshold on each tax position. An entity can recognize an income tax benefit only if the position has a “more likely than not” (i.e., more than 50 percent) chance to being sustained on the technical merits. For the years ended June 30, 2018 and 2017, the DAE has taken no material tax positions that do not meet the more likely than not threshold. As a result, no amounts for uncertain tax positions have been included in the consolidated financial statements.

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**ROMAN CATHOLIC DIOCESE OF HARRISBURG
CHARITABLE TRUST AND AFFILIATES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13. COMMITMENTS AND CONTINGENCIES

The DAE is a party to various litigation and other claims in the ordinary course of business. In September 2016, the Bishop was served with a subpoena in connection with a Pennsylvania Grand Jury investigation of the Diocese. The ultimate outcome of this matter cannot be determined at this time, nor can an estimate of costs. See Note 14 for related information. However, the outcome and related costs could ultimately have a material adverse effect on the results of operations and of cash flows for the Diocese. Total legal costs for the Grand Jury investigation for the years ended June 30, 2018 and 2017, were \$962,542 and \$1,183,389, respectively.

The DAE has a \$1,000,000 standby letter of credit with PNC Bank which is required to comply with Pennsylvania self-insurance guidelines. The standby letter of credit expires on March 29, 2020, and is for the benefit of the Commonwealth of Pennsylvania Department of Transportation Bureau of Motor Vehicles.

The DAE has standby letters of credit totaling \$1,728,360 with PNC Bank relating to ongoing parish and school construction projects. These letters of credit have various expiration dates through November 23, 2019, and are for the benefit of various Pennsylvania municipalities.

Bishop McDevitt High School of Harrisburg, (the School), in connection with the DAE (Borrowers) undertook a project consisting of the acquisition of real estate, construction and equipping of the School. The DAE executed a Financing and Security Agreement (Financing Agreement) by and among the Pennsylvania Economic Development Financing Authority (Authority), PNC Bank – National Association, PNC Capital Markets, LLC, the Diocese, the Charitable Trust and the School on December 30, 2009. The Financing Agreement provided for the Authority to issue two notes (Notes) in the aggregated principal amount up to \$45,000,000 for the purpose of financing the project's costs.

The Notes are amortized as set forth in the Financing Agreement, and bear interest from the Date of Issuance at the Bank Qualified Tax Exempt Rate, which is a variable rate of interest and mature on January 1, 2040.

PNC Bank as the Agent, for the benefit of a consortium of Banks, (the Banks), shall have the right to tender the Notes to the School for payment of the Tender Price on each Optional Purchase Dates (December 1, 2019, and December 1, 2024) upon giving not less than thirteen (13) months' prior written notice to the Borrowers.

The School has the liability and primary responsibility for repayment of the Notes. However, in the event of a default by the School, the Diocese and the Charitable Trust would have an obligation under the Notes. In the event of a default by the School, the liquidity and financial resources of the DAE could be materially affected.

Pursuant to the Financing Agreement, the DAE is required to maintain in the Bishop's Designated Fund unrestricted cash and investments as of each June 30 and December 31 an amount not less than \$25,000,000. Additionally, the DAE is subject to certain other reporting and financial covenants as well as certain restrictions on additional indebtedness. As of June 30, 2018 and 2017, all covenants and restrictions have been met.

(continued)

**ROMAN CATHOLIC DIOCESE OF HARRISBURG
CHARITABLE TRUST AND AFFILIATES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In June 2017, the Borrowers executed a Waiver and Fourth Amendment to the Financing Agreement (Fourth Amendment) which, among other provisions, amended the principal payments due under the Notes. The Fourth Amendment provides for no principal payments under the Notes for the period of July 1, 2017, through June 1, 2020. Interest remains due and payable under the original provisions on the Notes.

Aggregate borrowings outstanding under the Financing Agreement were approximately \$35,403,000 at June 30, 2018 and 2017, and are not reflected on the consolidated financial statements of the DAE.

14. SUBSEQUENT EVENT

In August 2018, the Diocese released a list of clergy and seminarians accused of sexual abuse of minors. This list is available on the Diocese's new website, www.youthprotectionhbg.com. The Diocese emphasizes that this is a list of accusations and made no assessments of credibility or guilt in creating this list. The Diocese updates the list of accusations as calls have been reported since the initial release date. Those new accusations that have been made are included in the updated list.

The Diocese has also released a document outlining the years of service and assignment locations, within the Diocese, for all individuals on the list. All new allegations, as of August 2018, were reported directly to law enforcement immediately.

Additionally, at the same time, the Bishop announced that those who have been accused of sexual misconduct, and appear on our list, will have their names removed from any position of honor throughout the Diocese. The Bishop has directed that the name of every bishop since 1947, the beginning date of the Grand Jury's investigation, be removed from any building, facility, or room in the Diocese. Because there are no records of these matters during the tenure of Bishop McDevitt, and since the investigation extended back to 1947, twelve years after his death, there will be no change to the naming of the Bishop McDevitt High School.

Also during August 2018, the Diocese reviewed its historical files and learned that prior to 2002, the Diocese from time-to-time entered into settlement agreements with survivors of child sexual abuse and that some of those settlement agreements contained confidentiality provisions. Though it has been the Diocese's policy for some time not to enforce those confidentiality provisions, the Bishop learned that some survivors still feel constrained to them. Accordingly, on behalf of the Diocese, the Bishop waived any remaining confidentiality rights the Diocese has in those confidentiality provisions, while retaining all other rights the Diocese has under those agreements.

The Diocese's new website, www.youthprotection.hbg.com, also contains information on how to report child sexual abuse, contact information for Victim Assistance Office and detailed information on how our Diocese as confronted this issue.

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**ROMAN CATHOLIC DIOCESE OF HARRISBURG
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The Diocese takes the protection of youth in Diocese related activities and programs very seriously. We have an aggressive Safe Environment Program with a comprehensive set of procedures for addressing allegations of sexual abuse of minors by Catholic clergy, employees, or volunteers and give guidelines for reconciliation, healing, accountability, and prevention of future acts of abuse.

On August 14, 2018, the Pennsylvania Attorney General released the findings of a two-year Grand Jury investigation into child sex abuse by catholic priests in six Pennsylvania dioceses, including the Diocese. As mentioned in Note 13, the ultimate outcome of the release of the Grand Jury Report cannot be determined at this time, nor can an estimate of costs. However, the outcome and related costs could have a material adverse effect on the results of operations and of cash flows for the Diocese.

In October 2018, the Bishop was served with a subpoena in connection with an investigation by the U.S. Department of Justice. The Diocese, along with six other Roman Catholic Dioceses and two Eastern Catholic Dioceses in Pennsylvania, are part of the investigation.

The Diocese will cooperate fully with this investigation. The Diocese has worked to be open and transparent regarding the issue of child sexual abuse and its' past.

This new development is not a continuation of the Pennsylvania Grand Jury, but rather a separate investigation by the U.S Department of Justice system. How this investigation will be conducted, as well as the ultimate outcome of this matter, cannot be determine at this time, nor can an estimate of the costs. However, the outcome and related costs could ultimately have a material adverse effect on the results of operations and of cash flows for the Diocese.

On November 8, 2018, the Bishop issued a statement announcing the development of the Diocese's Survivor's Compensation Program ("Program") to honor the commitment to provide compensation to those who have been abused by clergy. The Program will be operational early in 2019 and will be led by attorney Kenneth Feinberg who administered the Independent Reconciliation and Compensation Fund for the Archdiocese of New York and the 9/11 Victim Compensation Fund.

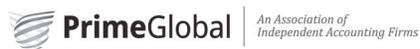
It is anticipated that the Program will begin providing financial resources and other assistance to survivors, in addition to the services already being provided. It is anticipated that the funding for the Program will come from unrestricted Diocesan accounts. The Diocese will also work with our insurers who are anticipated to be another source of funding for the Program.

The ultimate cost of the Program cannot be determined at this time; however, these costs are likely to have a material adverse effect on the results of operations and of cash flows of the Diocese.

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