

ROMAN CATHOLIC BISHOP OF WORCESTER

(A CORPORATION SOLE)

FINANCIAL STATEMENTS

AUGUST 31, 2017 AND 2016

O'CONNOR, MALONEY & COMPANY, P.C.

Certified Public Accountants

446 MAIN STREET, WORCESTER, MASSACHUSETTS 01608-2370

Telephone 508/757-6391 Facsimile 508/797-9307

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

January 23, 2018

Most Reverend Robert J. McManus
Roman Catholic Bishop of Worcester

We have audited the accompanying financial statements of the Roman Catholic Bishop of Worcester (a Corporation Sole) (the "Diocese"), which comprise the statement of financial position as of August 31, 2017 and 2016, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Roman Catholic Bishop of Worcester (a Corporation Sole) as of August 31, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As explained in Note 14 to the financial statements, the 2016 financial statements have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

O'Connor, Maloney and Company

Certified Public Accountants

**ROMAN CATHOLIC BISHOP OF WORCESTER
(A CORPORATION SOLE)
STATEMENTS OF FINANCIAL POSITION
AUGUST 31, 2017 AND 2016**

ASSETS

	2017	2016
Cash and Cash Equivalents	\$ 19,495,830	\$ 12,924,121
Investments	65,135,608	63,388,952
Accounts Receivable, Net	4,528,652	4,734,147
Loans Receivable, Net	7,524,481	8,699,107
Other Receivables	145,539	712,766
Other Assets	343,504	239,255
Land, Buildings and Equipment, Net	<u>8,358,377</u>	<u>8,631,872</u>
Total Assets	<u><u>\$ 105,531,991</u></u>	<u><u>\$ 99,330,220</u></u>

LIABILITIES AND NET ASSETS

Liabilities

Accounts Payable and Accrued Expenses	\$ 1,121,300	\$ 1,680,038
Deferred Revenue	1,491,999	1,719,745
Diocesan Expansion Fund Deposits Payable	43,374,314	40,051,501
Deferred Tuition and Fees	3,402,884	3,396,016
Annuities Payable	2,207,420	2,322,595
Funds Held For Others	<u>17,595,165</u>	<u>16,657,529</u>
Total	<u>69,193,082</u>	<u>65,827,424</u>

Net Assets

Unrestricted	4,348,867	3,231,982
Temporarily Restricted	30,533,794	28,814,566
Permanently Restricted	<u>1,456,248</u>	<u>1,456,248</u>
Total	<u>36,338,909</u>	<u>33,502,796</u>

Total Liabilities and Net Assets

	<u><u>\$ 105,531,991</u></u>	<u><u>\$ 99,330,220</u></u>
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See accompanying notes to financial statements.

**ROMAN CATHOLIC BISHOP OF WORCESTER
(A CORPORATION SOLE)
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED AUGUST 31, 2017 AND 2016**

	2017				2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and Revenue								
Contributions:								
Partners in Charity		\$ 5,125,528		\$ 5,125,528		\$ 5,044,850		\$ 5,044,850
Priest Care (Support)	\$ 600,000			600,000	\$ 250,000			250,000
Celebrate Priesthood	191,520			191,520	280,000			280,000
Central Catholic Schools' Tuition and Fees	12,038,329			12,038,329	12,066,940			12,066,940
Cemetery Fees	941,742	64,194		1,005,936	902,838	51,026		953,864
Diocesan Expansion Fund:								
Interest on Loans	751,924			751,924	846,442			846,442
Central Administration:								
Cathedraticum	2,204,080			2,204,080	2,202,919			2,202,919
Priest Retirement Assessments	672,816			672,816	687,803			687,803
Insurance Program, Net	736,220			736,220	680,868			680,868
Investment Income	702,197	422,009		1,124,206	786,936	233,216		1,020,152
Other Revenues	697,747	122		697,869	422,939	427		423,366
Use of Funds as Designated:								
Restricted Funds Released		(6,099,480)		(6,099,480)		(5,917,705)		(5,917,705)
Support of Ministries and Education	5,044,850			5,044,850	4,881,860			4,881,860
Cemetery Improvements	371,071			371,071	347,836			347,836
Capital Campaign Commitments	524,788			524,788	524,274			524,274
Donor Designated Support of Ministries	158,771			158,771	163,735			163,735
Total	\$ 25,636,055	\$ (487,627)	\$ -	\$ 25,148,428	\$ 25,045,390	\$ (588,186)	\$ -	\$ 24,457,204

(Continued . . .)

ROMAN CATHOLIC BISHOP OF WORCESTER
(A CORPORATION SOLE)
STATEMENTS OF ACTIVITIES (CONTINUED)
FOR THE YEARS ENDED AUGUST 31, 2017 AND 2016

	2017				2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Expenses								
Programs:								
Social Service Programs	\$ 1,043,340			\$ 1,043,340	\$ 1,114,578			\$ 1,114,578
Priestly Care	3,296,446			3,296,446	3,306,284			3,306,284
Religious Development	980,742			980,742	955,731			955,731
Education	13,258,127			13,258,127	13,289,269			13,289,269
Diocesan Cemeteries	1,429,754			1,429,754	1,330,155			1,330,155
Communications	337,254			337,254	310,117			310,117
Diocesan Expansion Fund:								
Interest on Deposits	1,517,955			1,517,955	1,386,492			1,386,492
General Administration	2,006,384			2,006,384	2,141,927			2,141,927
Provision for Doubtful Accounts	380,000			380,000	545,665			545,665
Capital Campaign Commitments	524,788			524,788	524,274			524,274
Use of Restricted Funds as Designated	470,510			470,510	206,167			206,167
Annuity and Endowment Expenses	497,921			497,921	499,253			499,253
Other	426,408			426,408	392,993			392,993
Total	<u>26,169,629</u>	<u>-</u>	<u>-</u>	<u>26,169,629</u>	<u>26,002,905</u>	<u>-</u>	<u>-</u>	<u>26,002,905</u>
Change in Net Assets before Relized Gain (Loss) and Unrealized Gain (Loss) on Investments and Bequests	<u>(533,574)</u>	<u>\$ (487,627)</u>	<u>-</u>	<u>(1,021,201)</u>	<u>(957,515)</u>	<u>\$ (588,186)</u>	<u>-</u>	<u>(1,545,701)</u>
Gain (Loss) on Investments	(20,214)	50,534		30,320	(231,485)	(82,398)		(313,883)
Unrealized Gain (Loss) on Investments	1,395,687	2,156,321		3,552,008	642,332	1,145,575		1,787,907
Bequests	274,986			274,986	512,379			512,379
Total	<u>1,650,459</u>	<u>2,206,855</u>	<u>-</u>	<u>3,857,314</u>	<u>923,226</u>	<u>1,063,177</u>	<u>-</u>	<u>1,986,403</u>
Change in Net Assets, as Restated for 2016	<u>1,116,885</u>	<u>1,719,228</u>	<u>-</u>	<u>2,836,113</u>	<u>(34,289)</u>	<u>474,991</u>	<u>-</u>	<u>440,702</u>
Net Assets, Beginning, As Originally Reported	<u>3,231,982</u>	<u>28,814,566</u>	<u>\$ 1,456,248</u>	<u>33,502,796</u>	<u>1,951,542</u>	<u>29,654,304</u>	<u>\$ 1,456,248</u>	<u>33,062,094</u>
Prior Period Adjustment					<u>1,314,729</u>	<u>(1,314,729)</u>		<u>-</u>
Net Assets, Beginning, As Restated	<u>3,231,982</u>	<u>28,814,566</u>	<u>1,456,248</u>	<u>33,502,796</u>	<u>3,266,271</u>	<u>28,339,575</u>	<u>1,456,248</u>	<u>33,062,094</u>
Net Assets, Ending	<u>\$ 4,348,867</u>	<u>\$ 30,533,794</u>	<u>\$ 1,456,248</u>	<u>\$ 36,338,909</u>	<u>\$ 3,231,982</u>	<u>\$ 28,814,566</u>	<u>\$ 1,456,248</u>	<u>\$ 33,502,796</u>

See accompanying notes to financial statements.

(Concluded)

ROMAN CATHOLIC BISHOP OF WORCESTER
(A CORPORATION SOLE)
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED AUGUST 31, 2017 AND 2016

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

	2017	2016
Cash Flows from Operating Activities		
Increase in Net Assets	<u>\$ 2,836,113</u>	<u>\$ 440,702</u>
Adjustments to Reconcile Increase in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation Expense	496,770	486,541
Investment Gains	(3,582,328)	(1,474,024)
Decrease in Accounts Receivable, Net	205,495	1,016,369
Decrease in Loans Receivable, Net	1,174,626	1,136,687
(Increase) Decrease in Other Receivables	567,227	(534,809)
(Increase) Decrease in Other Assets	(104,249)	26,977
Increase (Decrease) in Accounts Payable and Accrued Expenses	(558,738)	505,579
Decrease in Deferred Revenue	(227,746)	(310,436)
Increase (Decrease) in Diocesan Expansion Fund Deposits Payable	3,322,813	(552,304)
Decrease in Annuities Payable	(115,175)	(114,156)
Increase (Decrease) in Deferred Tuition and Fees	6,868	(10,349)
Increase in Funds Held For Others	<u>937,636</u>	<u>387,724</u>
Total Adjustments	<u>2,123,199</u>	<u>563,799</u>
Net Cash Provided by Operating Activities	<u>4,959,312</u>	<u>1,004,501</u>
Cash Flows from Investing Activities		
Net Decreases in Land, Buildings and Equipment	10,142	9,220
Purchases of Land, Buildings and Equipment	(233,417)	(264,521)
Net Sales of Investments	<u>1,835,672</u>	<u>858,434</u>
Net Cash Provided by Investing Activities	<u>1,612,397</u>	<u>603,133</u>
Net Increase in Cash and Equivalents	6,571,709	1,607,634
Cash and Equivalents, Beginning	<u>12,924,121</u>	<u>11,316,487</u>
Cash and Equivalents, Ending	<u><u>\$ 19,495,830</u></u>	<u><u>\$ 12,924,121</u></u>

See accompanying notes to financial statements.

ROMAN CATHOLIC BISHOP OF WORCESTER
(A CORPORATION SOLE)
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2017 AND 2016

Note 1. Organization

The financial statements have been prepared on the accrual basis of accounting and include all administrative and program offices and departments of the Diocese which are either located at the Diocesan Central Administration or come under its direct jurisdiction. The financial statements also include the accounts of The Diocesan Expansion Fund, Central Catholic Schools, The Catholic Free Press and Diocesan Cemeteries.

The Central Catholic Schools include St. Peter-Marian Junior/Senior High School, Holy Name Junior/Senior High School, St. Bernard's High School, and St. Peter Elementary School. Total student enrollment was 1,495 in 2017 and 1,562 in 2016.

The accompanying financial statements exclude Diocesan parishes, parish cemeteries and schools, and Catholic Charities. These activities may or may not be separately incorporated under civil law. However, each is an operating entity distinct from the Diocesan Central Administration, maintains separate accounts, and carries on its own services and programs.

Note 2. Summary of Significant Accounting Policies

The Diocese presents its financial statements in accordance with U.S. generally accepted accounting principles which requires classification of net assets and revenue, expenses, gains and losses based on the existence or absence of donor-imposed restrictions. It requires that the amounts for each of three classes of net assets - permanently restricted, temporarily restricted, and unrestricted be displayed in a statement of activities.

Contributions are reported as temporarily 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 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. Net assets are typically restricted for various operating activities of the Diocese, such as the promotion of educational and evangelical activities.

Cathedraticum, included in support and revenue, represents assessments on all Diocesan parishes of 7.5% of their unrestricted support. These funds are used by the Diocese to carry on the mission of the Church, pay the operating expenses of the Diocese, provide for donations to Church-related organizations, and to fund extraordinary expenses.

ROMAN CATHOLIC BISHOP OF WORCESTER
(A CORPORATION SOLE)
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2017 AND 2016

Note 2. Summary of Significant Accounting Policies (cont.)

Permanently restricted net assets are subject to donor imposed stipulations that they be maintained by the Diocese in perpetuity. Generally all or part of the income can be used for specific purposes.

Unconditional promises to give with due dates scheduled after the balance sheet date are shown as increases in temporarily restricted net assets and are reclassified to unrestricted net assets when the related purpose or time restrictions are met. The Diocese's policy with respect to unconditional promises not received by the scheduled due date is to imply a new time restriction of one additional year. Promises to give, subject to donor-imposed stipulations that the corpus be maintained permanently, are recognized as increase in permanently restricted net assets. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value at the date of gift. Contributions to be received after one year are discounted at rates commensurate with the risks involved. Amortization of the discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions.

Management uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

The Diocese considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Investments are stated at fair value based on quotations from a national securities exchange or at redemption value for non-traded securities. Unrealized gains and losses are allocated to unrestricted assets. U.S. generally accepted accounting principles established a single definition of fair value, with a framework for measuring fair value and an expansion of disclosure requirements regarding assets and liabilities measured at fair value. They also require fair value to be determined as the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date (Note 4). Investments are based on quoted market prices in active markets for identical assets and liabilities.

**ROMAN CATHOLIC BISHOP OF WORCESTER
(A CORPORATION SOLE)
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2017 AND 2016**

Note 2. Summary of Significant Accounting Policies (cont.)

Land, Buildings and Equipment are stated at cost and depreciated on the straight-line method over the estimated useful lives of the assets. Land, Buildings and Equipment consist of:

	2017	2016
Land, Buildings and Improvements	\$ 23,082,347	\$ 22,848,930
Equipment	1,335,332	1,335,332
Furniture and Fixtures	151,029	151,029
	24,568,708	24,335,291
Less: Accumulated Depreciation	16,210,331	15,703,419
Net	\$ 8,358,377	\$ 8,631,872

The Diocesan Central Administration does not have a defined pension program covering the priests. It does provide an annual subsidy based on available current funding (Note 8). The Diocesan Central Administration provides a defined contribution retirement plan which covers all eligible lay people employed by the Diocese (Note 9).

Twenty-five percent (25%) and twenty percent (20%) of the proceeds from the sale of crypts and lot sales were set aside for perpetual care for the years ended August 31, 2017 and August 31, 2016, respectively.

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Fundraising expenses were \$322,220 in 2017 and \$331,692 in 2016.

Advertising Costs are expensed as incurred and totaled \$63,575 in 2017 and \$61,451 in 2016.

The Diocese is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code under the group exemption of the United States Conference of Catholic Bishops and, accordingly, is not required to file federal or state information returns. Management does not believe the financial statements contain any uncertain tax positions.

Certain reclassifications have been made to the 2016 financial statements to conform them to the 2017 presentation.

ROMAN CATHOLIC BISHOP OF WORCESTER
(A CORPORATION SOLE)
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2017 AND 2016

Note 3. Accounts and Loans Receivables

Accounts Receivable are stated net of an allowance for doubtful parish assessments of \$3,238,687 and \$3,228,533 at August 31, 2017 and 2016, respectively. Loans Receivable are stated net of an allowance for doubtful loans of \$3,515,632 and \$3,488,282 at August 31, 2017 and 2016, respectively.

Note 4. Investments

Investments are recorded at market value determined from quoted market prices. Unrealized gains and losses are allocated to unrestricted assets. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e. the "exit price") in an orderly transaction between market participants at the measurement date.

In determining fair value, the Diocese uses various valuation approaches. U.S. generally accepted accounting principles establishes a fair value hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and maximizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Diocese. Unobservable inputs reflect the Diocese's assumption about the inputs market participants would use in pricing the asset or liability developed on the best information available in the circumstances. The fair value hierarchy is categorized into three levels based on the inputs as follows:

Level 1 – Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Diocese has the ability to access. Valuation adjustments and block discounts are not applied to Level 1 securities. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these securities does not entail a significant degree of judgment.

Level 2 – Valuations based on quoted prices in the markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3 – Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

ROMAN CATHOLIC BISHOP OF WORCESTER
(A CORPORATION SOLE)
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2017 AND 2016

Note 4. Investments (cont.)

The following is a summary of cost and fair values of investments at August 31:

	2017		2016	
	Cost	Fair Value	Cost	Fair Value
Level 1				
Money Market Funds	\$ 21,266	\$ 21,266	\$ 21,241	\$ 21,241
Government Debt Securities	22,942,035	23,769,754	23,176,305	23,643,697
Domestic Corporate Stock	11,649,580	15,878,402	12,366,818	16,221,790
Foreign Corporate Stock	9,424,870	11,578,342	9,851,209	10,312,705
	<u>44,037,751</u>	<u>51,247,764</u>	<u>45,415,573</u>	<u>50,199,433</u>
Level 2				
Corporate Debt Securities	10,817,532	10,716,748	10,221,185	10,227,781
Level 3				
Real Estate Limited Partnership	<u>2,050,000</u>	<u>3,171,096</u>	<u>2,050,000</u>	<u>2,961,738</u>
Total	<u><u>\$56,905,283</u></u>	<u><u>\$65,135,608</u></u>	<u><u>\$57,686,758</u></u>	<u><u>\$63,388,952</u></u>

The Diocese's investments, recorded at fair market value, have been categorized based upon a fair value hierarchy in accordance with U.S. generally accepted accounting principles.

The investments had unrealized gains of \$3,552,008 and \$1,787,907 for the years ended August 31, 2017 and 2016, respectively.

The Diocese invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the amounts reported in the statement of financial position.

**ROMAN CATHOLIC BISHOP OF WORCESTER
(A CORPORATION SOLE)
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2017 AND 2016**

Note 4. Investments (cont.)

The following is a summary of changes in the balances of investments measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

	2017	2016
Balance – Beginning of Year	\$ 2,961,738	\$ 2,659,034
Dividends and Interest	133,699	129,724
Investment Expense	(33,731)	(31,100)
Total Realized and Unrealized Gains	109,390	204,080
Balance – End of Year	\$ 3,171,096	\$ 2,961,738

The Barings Core Property Fund LP is a Delaware limited partnership. It operates as a commingled open-end real estate fund structured as a private real estate investment trust and operating partnership managed by Barings Real Estate Advisers LLC. The Diocese may contribute capital from time to time based upon the partnerships admission policy, which is within the sole discretion of the partnership's manager, Barings Real Estate Advisers LLC, the General Partner. The Diocese receives units based upon the unit value of the partnership at its immediately preceding valuation date. The units are not registered nor approved, disapproved, or passed by any federal or state agency, commission or exchange. The units are not publicly traded and have limited transferability. The Diocese may redeem units upon timely application to the General Partner and restricted to the availability of funds on the next valuation date.

Note 5. Central Insurance Program

A Central Insurance Program is operated by the Diocesan Central Administration in an effort to secure uniformity and adequacy of coverage at minimum cost for all the institutions and parishes of the Diocese. This coverage extends to all insurance risks. Fire and extended coverage and general liability are written on a self-insured basis on the first \$50,000 of each loss with an aggregate of \$450,000; losses in excess of this amount are covered by the insurance carrier. Claim expense paid by the Diocesan Central Administration under the terms of coverage amounted to \$450,000 in 2017 and \$311,294 in 2016.

ROMAN CATHOLIC BISHOP OF WORCESTER
(A CORPORATION SOLE)
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2017 AND 2016

Note 6. Diocesan Expansion Fund

The Diocesan Central Administration operates the Diocesan Expansion Fund (DEF) as an independent, self-supporting, revolving fund. In connection with Diocesan policy, a Board of Governors is charged with the responsibility for recommending all loans, all interest rates and generally monitoring all of the activities of the fund.

As with most large dioceses, the Diocese has in operation a central financing program. Interest charged on variable rate loans is 3% higher than the interest rate paid on deposits and is adjusted quarterly. At August 31, 2017, the interest rate paid on savings accounts was 3.0%, and the interest rate charged on variable rate loans was 6.0%. The interest differential is designed to enable the Diocese to cover administrative costs and losses on collection. Outstanding loans to parishes and institutions amounted to \$11,040,113 and \$12,147,389 at August 31, 2017 and 2016, respectively.

Loans totaling \$1,693,440 and \$2,012,860 as of August 31, 2017 and 2016, respectively, were accounted for on a non-accrual of interest basis. The difference between interest income that would have been recorded under the original terms of the loans and actual interest income recorded for these loans for the years ended August 31, 2017 and 2016 was approximately \$86,387 and \$112,458, respectively.

The following is a summary of DEF assets and liabilities, including interfund receivables of \$18,255,820 and \$22,313,726 and deposits payable of \$14,109,255 and \$15,055,490 at August 31, 2017 and 2016, respectively, that have been eliminated in the accompanying combined statement of financial position:

	2017	2016
Cash and Cash Equivalents	\$12,393,168	\$ 6,024,509
Investments	24,312,244	23,390,941
Receivables, Net	25,876,537	31,075,919
Total Assets	62,581,949	60,491,369
Deposits Payable	(57,483,571)	(55,106,991)
Fund Balance/Net Assets	\$ 5,098,378	\$ 5,384,378

**ROMAN CATHOLIC BISHOP OF WORCESTER
(A CORPORATION SOLE)
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2017 AND 2016**

Note 7. Annuities Payable

The Diocese has entered into several charitable gift annuity agreements with various contributors. Cumulative amounts received under these agreements totaled \$5,102,604 through August 31, 2017. The agreements call for the Diocese to make annuity payments over the lives of the donors or their designated beneficiaries at rates ranging from 7% to 9%. Future annual amounts the Diocese was committed to pay totaled \$2,207,420 and \$2,322,595 at August 31, 2017 and 2016, respectively.

The present value of the total future payments anticipated to be made under these agreements is reported as Annuities Payable in the accompanying statements of financial position. The present value has been determined using life expectancy and discount rates (ranging from 5.6% to 7.2%) as issued by the Internal Revenue Service. The change in value of this liability is \$109,791 in 2017 and \$114,156 in 2016 and is reported as revenue in the accompanying Statements of Activities.

Note 8. Temporarily Restricted Net Assets

	2017	2016
Temporarily Restricted Net Assets consist of:		
Purpose Restrictions		
School Support and Scholarships	\$12,924,863	\$12,059,096
Priests' Care	5,217,748	4,335,932
St. John's Cemetery Perpetual Care	3,024,169	3,246,542
Religious Education	2,396,102	2,163,248
Other	1,845,384	1,964,898
	25,408,266	23,769,716
Time Restrictions		
Partners in Charity	5,125,528	5,044,850
Total	\$30,533,794	\$28,814,566

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Note 9. Permanently Restricted Net Assets

	2017	2016
Permanently Restricted Net Assets consist of:		
Endowments for:		
Seminarian Education	\$ 707,404	\$ 707,404
School Support and Scholarships	225,000	225,000
Other	523,844	523,844
Total	\$1,456,248	\$1,456,248

Note 10. Priest Retirement Programs

The Diocese provides a subsidy for retired priests who are incardinated in the Diocese and had been in active ministry immediately prior to their retirement. The amount of this subsidy is set annually based on the current available funding. Funding is derived primarily from parish and agency assessments and Partners in Charity contributions.

The Partners in Charity campaign allocated \$550,000 in both fiscal years 2017 and 2016. Each retired priest received a stipend of \$2,152 per month in 2017 and \$2,092 per month during 2016. The total annual payment for these years was \$1,640,763 in fiscal year 2017 and \$1,545,948 in fiscal year 2016.

Retirement is ordinarily at age 75 for all diocesan priests in active ministry for the Diocese.

The Diocese also provides certain health care benefits on a discretionary basis for retired priests. The cost of retiree health care benefits is paid by the Diocese.

Long-term custodial care expenses are funded in part by the Diocese and from a long-term care insurance policy. This policy pays retired priests a maximum of \$4,000 per month for 36 months after the first 60 days in residence in a skilled nursing facility. The first 60 days are paid by the Diocese. This insurance is funded primarily through assessments on the parish, department, and agency where each priest is assigned in active ministry.

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Note 11. Lay Employees' Pension Plan

The Diocese provides a 403(b) salary deferral plan that covers all eligible employees of the Diocese. Those who have at least 3 years of credited service at the beginning of a plan year are eligible to receive an employer matching contribution to their account in the 403(b) plan. The employer will contribute an equal amount for deferrals up to 2%. For deferrals of 3% or more, the employer will contribute 4%. Diocesan contributions to the plan totaled \$241,597 in 2017 and \$249,039 in 2016. During the year ended August 31, 2014, the Diocese froze its defined contribution money purchase plan and expanded the coverage of its section 403(b) salary deferral plan.

Note 12. Commitments and Contingencies

Due to the nature of its operations, The Roman Catholic Bishop of Worcester, (A Corporation Sole), may be exposed to various liability claims for which it carries insurance. Management is not aware of any uninsured claims or other matters that would have a material effect on the financial statements or its liability coverage.

In the ordinary course of operations, the Diocese has, at various times, cash deposits with various local banks that are in excess of federally insured limits. The Diocese has not experienced any losses on its cash and cash equivalents.

Diocesan parishes, whose finances are not included in the accompanying financial statements, are an integral part of the Corporation Sole. Extraordinary financial obligations that are beyond an individual parish's ability to pay could occur and they could ultimately become the obligation of the Diocese.

At August 31, 2017, the Diocesan Expansion Fund had total open loan commitments outstanding of \$528,954.

Note 13. Date Through Which Subsequent Events Have Been Evaluated

The Diocese has evaluated all material subsequent events from the end of the fiscal year through January 23, 2018, the date the financial statements were available to be issued.

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Note 14. Prior Period Adjustment

During the year ended August 31, 2017, the Diocese discovered that funds received for restricted purposes had been expended in prior years in accordance with their restrictions. However, those expenditures had not been properly reflected on the financial statements as net assets released from restrictions. In addition, it was determined that one restricted account had been expended beyond its original donations and reported as net assets released from restrictions, when in fact, unrestricted net assets had been used to fund the expenditures. Consequently, net assets at September 1, 2015, and the change in net assets for 2016 have been restated to correct these misstatements. The effect of the prior period adjustment was to increase unrestricted net assets by \$1,314,729 and decrease temporarily restricted net assets by \$1,314,729 as of September 1, 2015, and to decrease unrestricted net assets by \$244,662 and increase restricted net assets by \$244,662 for 2016. There was no effect on total net assets or the total change in net assets.