Diocesan Administrative Offices Combined Financial Statements

June 30, 2017 and 2016

Dear Friends,

As the Bishop of Scranton, I am presenting to the faithful of the Diocese the audited financial statements of the Administrative Offices of the Diocese of Scranton for the 2016-2017 fiscal year. As in the prior year the statements reflect improvement in our overall financial status reflected by the overall increase in net assets. The statements also reflect an excess of revenues over expenses from operations.

Total revenues, gains and other support decreased by $1,400,000 in the 2016-2017 year. This resulted mostly from significant non-recurring items.

• Donations were $5,000,000 in the 2015-2016 period, due primarily to a very large restricted donation. In 2016-2017 donations were $400,000.

• Due to favorable markets, investment income was $700,000 higher in the 2016-2017 period than the prior period.

• There were property sales totaling $2,000,000 in 2016-2017 that mostly resulted from the sale of the Fatima Center. In 2015-2016 property sales resulted in a loss of $350,000.

Total operating expenses reflected an increase of $3,200,000. The following items contributed to the net increase:

• General liability self- insurance claims were up $1,500,000 in 2016-2017. The total claims paid is in line with amounts paid in prior years. For 2015-2016, however, the claims paid were $92,000. This lower amount resulted from the Diocese collecting significant recoveries that had been outstanding from excess insurance carriers.

• An increase in professional fees and a decrease in educational grants caused a net increase in expenses of $600,000

• Contributions were up $1,500,000 due to the contribution to the renovations and long overdue structural facelift at the Cathedral of Saint Peter.

Some other items of note include the following:

• The 2016-2017 fiscal period was the first year for the consolidated parish payrolls and the first year for the consolidated schools business office. These endeavors have proven most successful.

• Having had no other Information Technology support other than a part-time consultant, the Diocese made a significant investment in IT by hiring two full-time employees. This has produced significant improvement in security and better use of existing IT resources. This also allows the Diocese to develop a thoughtful and long term strategy with regards to IT needs.

Please know the Diocese is constantly vigilant regarding its finances, including all funds entrusted to it. All hires are carefully scrutinized for need and where possible replacements are very often made by consolidating and streamlining positions. Thoughtful, careful budgets are prepared for all Diocesan entities and the same are constantly monitored throughout the year.

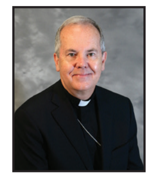
I am most grateful for the prayers and generous efforts of the faithful from throughout the eleven counties of northeastern and north central Pennsylvania that make up the Diocese of Scranton. Because of your continued support of your parishes and our Diocesan Annual Appeal, along with your willingness to give back to God gratefully for all that you have been given, we are able to continue to fulfill our mission of service to our brothers and sisters.

May God continue to bless you and your families.

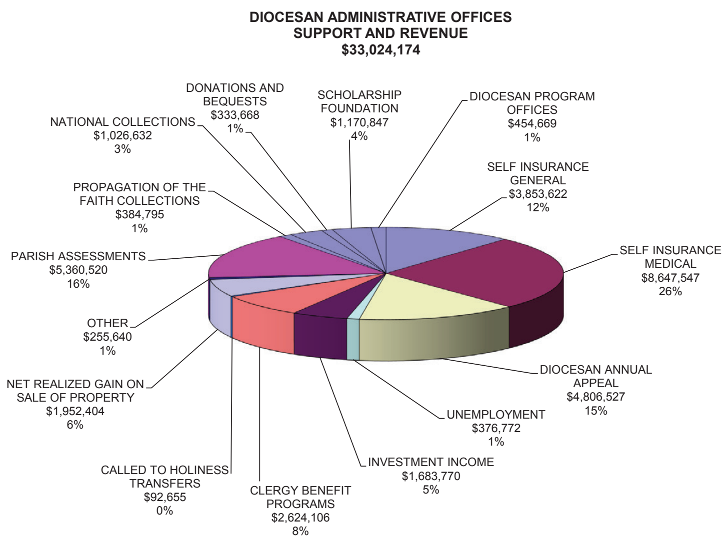
Faithfully yours in Christ,

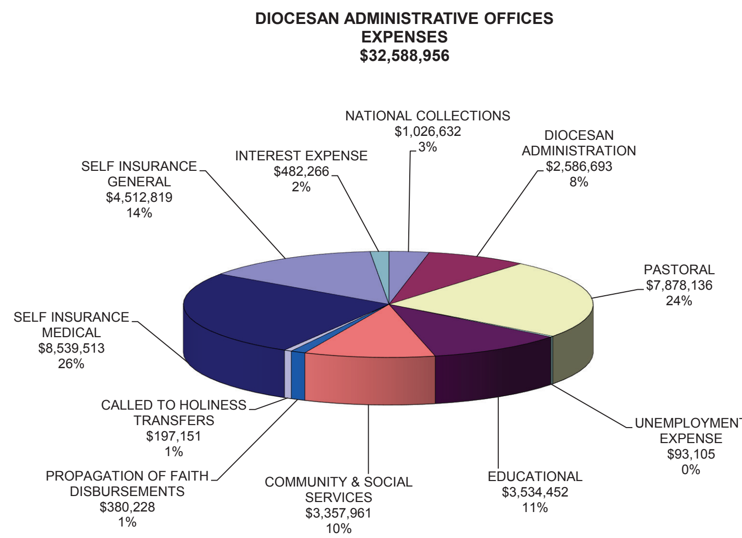
†*Joseph C. Bambera*

Most Reverend Joseph C. Bambera, D.D., J.C.L.
Bishop of Scranton



Operating Funds





Independent Auditor's Report

We have audited the accompanying financial statements of the Diocesan Administrative Offices of the Diocese of Scranton which comprise the statements of financial position as of June 30, 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 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.

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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Diocesan Administrative Offices of the Diocese of Scranton as of June 30, 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.

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information in Schedules 1 to 5 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

McGrail Merkel Quinn & Associates, P.C.
December 6, 2017

Statements of Activities – Years Ended June 30, 2017 and 2016

	2017				2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains and other support								
Parish assessments								
Diocesan	$ 4,433,197	$ -	$ -	$ 4,433,197	$ 4,366,553	$ -	$ -	$ 4,366,553
Clergy Care and Wellness	927,323	-	-	927,323	887,665	-	-	887,665
Intra-Diocesan billings								
Self-insurance premiums - General	3,853,622	-	-	3,853,622	3,845,367	-	-	3,845,367
Self-insurance premiums - Medical	8,647,547	-	-	8,647,547	8,274,411	-	-	8,274,411
Clergy benefit programs	2,624,106	-	-	2,624,106	2,569,271	-	-	2,569,271
Diocesan Program Revenues - Schedule 1	454,669	-	-	454,669	743,382	-	-	743,382
Diocesan Annual Appeal	-	4,806,527	-	4,806,527	-	4,807,193	-	4,807,193
Special collections	-	42,967	-	42,967	-	39,445	-	39,445
Donations and bequests	145,915	187,753	-	333,668	1,761,444	3,233,636	-	4,995,080
Scholarship Foundation contributions	-	1,170,847	-	1,170,847	-	1,116,292	-	1,116,292
Custodial receipts								
National collections	-	1,026,632	-	1,026,632	-	835,214	-	835,214
Unemployment	376,772	-	-	376,772	466,834	-	-	466,834
Called to Holiness transfers	92,655	-	-	92,655	144,691	-	-	144,691
Propagation collections	384,795	-	-	384,795	491,396	-	-	491,396
Other revenue	212,673	-	-	212,673	181,315	-	-	181,315
Investment income	1,125,446	111,677	7,677	1,244,800	976,691	85,740	8,266	1,070,697
Net realized gain (loss) on sale of investments	438,970	-	-	438,970	(92,300)	-	-	(92,300)
Net realized gain (loss) on sale of property	1,952,404	-	-	1,952,404	(353,641)	-	-	(353,641)
Net assets released from restrictions (Note 5):								
Satisfaction of program restrictions	7,494,374	(7,494,374)	-	-	7,651,408	(7,651,408)	-	-
Total revenues, gains and other support	$ 33,164,468	$ (147,971)	$ 7,677	$ 33,024,174	$ 31,914,487	$ 2,466,112	$ 8,266	$ 34,388,865
Expenses								
Pastoral - Schedule 2	7,878,136	-	-	7,878,136	7,801,221	-	-	7,801,221
Educational - Schedule 3	3,534,452	-	-	3,534,452	4,072,499	-	-	4,072,499
Community and Social Service - Schedule 4	3,738,189	-	-	3,738,189	2,483,354	-	-	2,483,354
Administrative - Schedule 5	15,639,025	-	-	15,639,025	13,402,879	-	-	13,402,879
Called to Holiness transfers	197,151	-	-	197,151	128,603	-	-	128,603
Custodial disbursements								
National collections	1,026,632	-	-	1,026,632	835,214	-	-	835,214
Unemployment	93,105	-	-	93,105	162,815	-	-	162,815
Interest expense	482,266	-	-	482,266	476,796	-	-	476,796
Total expenses	32,588,956	-	-	32,588,956	29,363,381	-	-	29,363,381
Excess of revenues over expenses	575,512	(147,971)	7,677	435,218	2,551,106	2,466,112	8,266	5,025,484
Other changes								
Provision for bad debt	(224,431)	-	-	(224,431)	(70,404)	-	-	(70,404)
Pension-related changes other than net periodic pension cost	2,841,930	-	-	2,841,930	(2,288,344)	-	-	(2,288,344)
Transfer to lay pension plan	(3,734,604)	-	-	(3,734,604)	(1,463,264)	-	-	(1,463,264)
Change in net unrealized gains and losses on investments	2,496,033	-	-	2,496,033	221,703	-	-	221,703
Increase (decrease) in net assets	1,954,440	(147,971)	7,677	1,814,146	(1,049,203)	2,466,112	8,266	1,425,175
Net assets, beginning	(4,118,463)	4,626,258	3,065,020	3,572,815	(3,069,260)	2,160,146	3,056,754	2,147,640
Net assets, ending	$ (2,164,023)	$ 4,478,287	$ 3,072,697	$ 5,386,961	$ (4,118,463)	$ 4,626,258	$ 3,065,020	$ 3,572,815

Statements of Financial Position

June 30, 2017 and 2016

Assets

	2017	2016
Cash and equivalents	$ 6,175,488	$ 5,928,135
Certificates of deposit	4,460,000	6,045,741
Accounts receivable, less allowance for doubtful accounts of $3,009,579 in 2017 and $2,996,312 in 2016	3,777,533	2,654,220
Accrued interest receivable	104,005	106,281
Contributions receivable	69,285	45,323
Due from Catholic Cemeteries	75,038	586,452
Prepaid expense	686,203	512,994
Cash subject to program restrictions	5,327,584	5,750,950
Notes and loans receivable	3,678,968	3,834,941
Investments	58,672,278	55,845,582
Land, buildings and equipment, net	6,598,244	6,679,017
Assets held for sale	-	1,142,028
Other assets	563,975	380,917
Total assets	$ 90,188,601	$ 89,512,581

Liabilities and Net Assets

	2017	2016
Accounts payable	$ 719,919	$ 781,262
Custodial funds payable	683,262	609,440
Accrued interest expense	149,684	155,029
Contributions payable	2,200,972	690,643
Scholarships payable	849,296	1,124,692
Liability for pension benefits	11,003,576	13,041,882
Accrued claim expense	2,095,087	1,887,580
Accrued postretirement benefit obligation	11,052,447	11,812,012
Loan payable	3,678,968	3,834,941
Due to Diocese of Scranton Institute	22,404,334	22,326,564
Funds on deposit		
Catholic Cemeteries Perpetual Care	17,413,932	17,257,294
Other Diocesan organizations Perpetual Care	12,550,163	12,418,427
Total liabilities	84,801,640	85,939,766
Net assets		
Unrestricted	(2,164,023)	(4,118,463)
Temporarily restricted (Note 5)	4,478,287	4,626,258
Permanently restricted (Note 6)	3,072,697	3,065,020
Total net assets	5,386,961	3,572,815
Total liabilities and net assets	$ 90,188,601	$ 89,512,581

Statement of Cash Flows

June 30, 2017 and 2016

	2017	2016
Operating activities		
Increase in net assets	$ 1,814,146	$ 1,425,175
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Net realized (gain) loss on sale of investments	(438,970)	92,300
Net unrealized gain on investments	(2,496,033)	(221,703)
Net realized (gain) loss on sale of property	(1,952,404)	353,641
Amortization on investments	54,107	118,828
Depreciation expense	381,049	351,985
Provision for bad debt	224,431	70,404
(Increase) decrease in accounts receivable	(1,347,744)	161,584
Decrease in accrued interest receivable	2,276	5,437
(Increase) decrease in contributions receivable	(23,962)	98,085
Decrease (increase) in due from Catholic Cemeteries	511,414	(396,407)
(Increase) decrease in prepaid expense	(173,209)	382,172
(Increase) decrease in other assets	(183,058)	1,196
(Decrease) increase in accounts payable	(61,343)	239,304
Increase (decrease) in custodial funds payable	73,822	(85,243)
(Decrease) increase in accrued interest expense	(5,345)	14,831
Increase in contributions and scholarships payable	1,234,933	596,953
(Decrease) increase in liability for pension benefits	(2,038,306)	1,386,865
Increase (decrease) in accrued claim expense	207,507	(509,091)
(Decrease) increase in accrued postretirement benefit obligation	(759,565)	975,540
Increase (decrease) in due to Diocese of Scranton Institute	77,770	(3,452,765)
Contributions and interest restricted for long-term investment	(7,677)	(8,266)
Net cash (used in) provided by operating activities	(4,906,161)	1,600,825
Investing activities		
Change in temporarily restricted cash	$ 423,366	$ (2,941,976)
Change in permanently restricted cash	(7,677)	(8,266)
Purchase of fixed assets	(345,441)	(393,639)
Proceeds from sale of property	3,139,597	2,149
Principal collected-loans receivable	155,973	150,985
Purchase of investments	(40,458,846)	(48,958,111)
Proceeds from sale of investments	42,106,464	44,845,174
Net cash provided by (used in) investing activities	5,013,436	(7,303,684)
Financing activities		
Proceeds from interest and contributions restricted for:		
Investment in endowment	7,677	8,266
Principal payments on loan	(155,973)	(150,985)
Funds on deposit		
Additions	288,374	147,642
Withdrawals	-	(10,500)
Net cash provided by (used in) financing activities	140,078	(5,577)
Net increase (decrease) in cash	247,353	(5,708,436)
Cash and equivalents, beginning	5,928,135	11,636,571
Cash and equivalents, ending	$ 6,175,488	$ 5,928,135

The accompanying Notes are an integral part of these Financial Statements.

Note 1 - Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

The accompanying financial statements are limited to reporting financial transactions of the Diocesan Administrative Offices of the Diocese of Scranton (the Diocese). Other organizations, which are owned and operated by the Diocese of Scranton and maintained separately from the Administrative Offices, are not reported on in these financial statements, including Little Flower Manor, Catholic Schools, Catholic Youth Center, Catholic Social Services, Diocese of Scranton Institute and other Diocesan service organizations. These statements also exclude the financial transactions of the parishes and the Diocesan and parish cemeteries.

The accompanying financial statements have been prepared in accordance with generally accepted accounting principles; the more significant of which are described below.

Use of Estimates

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

Notes to Financial Statements

Public Support and Revenue

Contributions of cash and other assets 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 Statements of Activities as net assets released from restrictions.

Endowment contributions and investments are permanently restricted by the donor. Investment earnings that are available to be distributed are recorded as temporarily restricted support.

Contributions of donated non-cash assets are recorded at their fair values in the period received.

Accounts Receivable

Accounts receivable consists of assessments billed to parishes and other Diocesan organizations for insurance, priests' pension and health insurance and Diocesan programs and operations. Based on management's evaluation of collectibility, the Diocese has established an allowance for uncollectible accounts.

Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the Statements of Financial Position. Investment income or loss (including realized gains and losses on investments, interest and dividends) is reported in the Statements of Activities as increases or decreases in unrestricted net assets unless the income is restricted by donor or law.

Land, Buildings and Equipment

Land, buildings and equipment are recorded at cost less accumulated depreciation. Donations of land, buildings or equipment are recorded at estimated fair value and are included in support unless restricted to a specific purpose. If donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted support. Depreciation is computed on the straight-line method over the estimated useful lives of assets.

Long-Lived Assets

The Diocese reviews the carrying value of long-lived assets for impairment whenever events or changes in circumstances indicate that carrying amounts of the assets might not be recoverable.

Contributions Payable

Contributions made and unconditional promises to make future contributions to other organizations are recognized when made or the promise conveyed. Contributions payable over more than one year are recorded at their discounted present value. Changes in discounts are recognized over the period of the promise as adjustments to contributions expense.

Excess of Revenues Over Expenses

The Statements of Activities include excess of revenues over expenses. Changes in unrestricted net assets which are excluded from excess of revenues over expenses include provision for bad debt, unrealized gains and losses on investments and transfers of assets to and from affiliates for other than goods and services.

Self-Insurance Programs

Diocesan organizations, including the Diocesan Administrative Offices, parishes and other institutions, are included in a combined plan for property, workers compensation and comprehensive liability insurance. Losses above a specific amount are insured with commercial insurance companies but losses below that amount are self-insured by the Diocese. The Diocese has a standby letter of credit in the amount of $2,800,000 to provide security for future workers' compensation claim payments. The Diocese records as a liability amounts determined by its insurance administrator as the estimated liability for claims filed for insured losses under the program. The actual liability paid may be in excess of or less than the amounts provided. Refer to Note 9 for additional information.

Defined Benefit Plans

The Diocese recognizes the overfunded or underfunded status of its defined benefit plans as an asset or liability in its statement of financial position and recognizes changes in that funded status in the year in which the changes occur through other changes in net assets. Refer to Note 8.

Funds on Deposit and Notes and Loans Receivable

The funds on deposit are Catholic Cemeteries and other Diocesan organizations perpetual care funds. Interest rates range from 1.0% to 2.0%. The funds are invested in separate trust accounts at Merrill Lynch.

Advertising

All advertising costs are expensed as incurred. For the years ended June 30, 2017 and 2016, advertising expense amounted to $70,298 and $87,946, respectively.

Cash Flows

For the purpose of the Statements of Cash Flows, the Diocese considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Cash is held in interest-bearing demand accounts and trust accounts at banks. Cash and cash equivalents for the purposes of the Statements of Cash Flows exclude temporarily and permanently restricted cash and cash equivalents.

During the years ended June 30, 2017 and 2016, the Diocese paid interest in the amounts of $487,611 and $¬¬¬¬461,965, respectively.

Income Tax Status

The Diocese is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

In accordance with the Financial Accounting Standards Board guidance on accounting for uncertainty in income taxes, management evaluated the Diocese's tax positions and concluded that the Diocese had taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance. With few exceptions, the Diocese is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for years before 2013.

Subsequent Events

The Diocese has evaluated subsequent events through December 6, 2017, the date the financial statements were available to be issued.

Reclassifications

Certain items on the prior year's financial statements have been reclassified to conform to the current year's format.

Note 2 - Cash and Equivalents

Cash and equivalents at June 30, 2017, consisted of the following:

First National Community Bank	$ 4,887,853
Community Bank	486,719
Citibank self-insurance checking	5,035
PNC Bank	4,613,309
Fidelity Deposit and Discount Bank – Self-insurance	735,166
Integrity Bank	535,933
KeyBank	10,693
Merrill Lynch	2,437,412
Fidelity Deposit and Discount Bank trust account	11,212
Petty cash	3,141
Less: Restricted cash	(7,550,985)
Total cash and equivalents	$ 6,175,488

Note 3 - Investments

Investments at June 30, 2017 and 2016 are summarized as follows:

	2017		2016	
	Cost	Fair Value (Carrying Value)	Cost	Fair Value (Carrying Value)
Unrestricted				
U.S. Obligations	$ 12,410,754	$ 12,382,731	$ 16,111,962	$ 16,360,343
Corporate Bonds	6,901,640	6,926,206	8,550,547	8,724,921
Corporate Equities	26,418,369	31,515,759	24,009,825	26,166,015
Mutual Funds	4,878,856	4,774,885	1,614,299	1,529,283
	50,609,619	55,599,581	50,286,633	52,780,562
Permanently restricted				
Cash	3,072,697	3,072,697	3,065,020	3,065,020
Total investments	$ 53,682,316	$ 58,672,278	$ 53,351,653	$ 55,845,582

As of June 30, 2017 and 2016, the above investments were deposited with Merrill Lynch and Fidelity Deposit and Discount Bank.

Unrestricted investment income and gains and losses consisted of the following:

	2017	2016
Income		
Interest and dividends	$ 1,125,446	$ 976,691
Net realized gain (loss) on investment transactions	$ 438,970	$ (92,300)
Other Changes in Net Assets		
Net unrealized gains on investments	$ 2,496,033	$ 221,703

Note 4 - Land, Buildings and Equipment

Land, buildings and equipment consisted of the following at June 30, 2017 and 2016:

	2017	2016	Depreciable Lives
Land, buildings and improvements	$ 9,917,681	$ 9,835,985	20-40 Years
Equipment	3,531,944	3,563,036	3-10 Years
	13,449,625	13,399,021	
Less: Accumulated depreciation	6,851,381	6,720,004	
Total	$ 6,598,244	$ 6,679,017	

Depreciation expense amounted to $381,049 and $351,985 for the years ended June 30, 2017 and 2016.

At June 30, 2016, the Diocese entered into an agreement for the sale of the St. Pius X Seminary building. The net book value of the property amounted to $1,142,028 and was recorded as "Assets held for sale" on the Statement of Financial Position. During the year ended June 30, 2017, the building was sold and the Diocese recorded a net gain in the amount of $1,722,335 included in the Statement of Activities.

Note 5 - Temporarily Restricted Net Assets

Temporarily restricted net assets, as of June 30, 2017 and 2016, are available for the following purposes:

	Net Assets	
	2017	2016
Saint Pius X Seminary/St. John Vianney	$ 1,342,072	$ 1,269,855
Villa St. Joseph	249,733	228,276
Diocese of Scranton Scholarship Foundation	78,664	52,562
Msgr. Paul F. Terracciano Tuition Trust Fund	5,290	4,635
Reverend Niebrzydowski Tuition Fund	12,683	12,518
Msgr. Jordan Tuition Fund	19,594	19,339
Christie D. Shull Fund	2,446,288	2,739,332
Stanley F. Abramek Fund	125,709	124,848
Campaign for Human Development Program	19,178	20,916
Restricted for program and educational expenditures	179,076	153,977
Total temporarily restricted net assets	$ 4,478,287	$ 4,626,258

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes specified by donors as follows:

	Net Assets	
	2017	2016
Diocesan Annual Appeal Program costs	$ 4,804,543	$ 4,797,735
Campaign for Human Development Program costs	20,916	-
National Collections - collections remitted	1,026,632	835,214
Beatrice M. Eck Endowment Fund Scholarship	52,000	94,600
Villa St. Joseph Capital improvements	10,023	36,837
Seminary/St. John Vianney Fund improvements	70,212	65,591
Diocese of Scranton Scholarship Foundation Scholarships and program costs	1,510,048	1,821,431
Total restrictions released	$ 7,494,374	$ 7,651,408

Note 6 - Permanently Restricted Net Assets

Permanently restricted net assets, as of June 30, 2017 and 2016, are restricted to the following:

	Net Assets	
	2017	2016
Permanent Endowment Funds		
Reverend Charles J. O'Donnell Scholarship Fund The income derived from invested funds is to be distributed for Mass stipends and seminarian training. Any remaining income is to be reinvested and become part of the principal.	$ 106,365	$ 106,365
Msgr. Paul F. Terracciano Tuition Trust Fund The income derived from invested funds is to be distributed for tuition to students attending Diocesan schools.	45,000	45,000
Beatrice M. Eck Endowment Fund 85% of the income derived from invested funds is to be distributed for Catholic education in Lycoming County.	2,708,515	2,700,838
Fanucci Trust Fund The income derived from invested funds is to be distributed for Priest educational or career development including continuing education or Priestly formation.	212,817	212,817
Total permanently restricted net assets	$ 3,072,697	$ 3,065,020

Note 7 - Contributions Payable

At June 30, 2017, contributions payable amounted to $2,200,972. For the preceding year, contributions payable amounted to $690,643.

Amounts due in:

Less than one year	$ 2,195,972
One to five years	5,000
Total contributions payable	$ 2,200,972

Note 8 - Retirement Plans

Priests' Pension Plan

There is a defined benefit pension plan in effect for all incardinated priests in good standing or priests in good standing permanently assigned to the Diocese. The entire cost of the Plan is paid by the parish or institution to which each eligible priest is assigned. The Plan is administered by the Bishop with advisory and consulting services available to him from a Retirement Board.

The Diocesan funding policy is to contribute annually amounts determined by actuarial estimates. Contributions are intended to provide not only for benefits attributed to service to date but also for those expected to be earned in the future.

Lay Employee Pension Plan

There is a defined benefit pension plan for the lay employees of the Diocesan Administrative Offices. Prior to June 30, 2009, the cost of the Plan was paid jointly by the Diocesan offices and the employees. The employee contribution was 3% of base salary each year and the employer contribution rate was 7%. In May, 2008, the decision was made to freeze the pension plan as of June 30, 2009. After that date, no further benefits will accrue in the plan.

Postretirement Medical Benefits

The Diocese provides certain health care benefits for all retired priests. The Diocese's share of the estimated costs of benefits that will be paid after retirement is generally being accrued by charges to expense over the priests' service periods to the dates they are fully eligible for benefits.

	Pension Benefits		Postretirement Medical Benefits	
	2017	2016	2017	2016
Obligations and funded status at June 30:				
Fair value of plan assets	$ 13,518,367	$ 12,756,187	$ -	$ -
Projected benefit obligations	24,521,943	25,798,069	11,052,447	11,812,012
Funded status at end of years	$(11,003,576)	$(13,041,882)	$(11,052,447)	$(11,812,012)
Amounts recognized in the Statements of Financial Position consist of:				
Liability for benefits	$(11,003,576)	$(13,041,882)	$(11,052,447)	$(11,812,012)
Net amount recognized	$(11,003,576)	$(13,041,882)	$(11,052,447)	$(11,812,012)

The accumulated benefit obligation for both defined benefit pension plans was $24,521,943 and $25,798,069 at June 30, 2017 and 2016, respectively. Both plans had accumulated benefit obligations in excess of plan assets at June 30, 2017 and 2016.

Other Changes and Plan Assets and Benefit Obligations Recognized in Pension-related Changes Other Than Net Periodic Pension Cost:

	Pension Benefits		Postretirement Medical Benefits	
	2017	2016	2017	2016
Net (gain) loss	$ (1,263,940)	$ 351,723	$ 50,205	$ 140,869
Prior service cost	(97,004)	(97,004)	(47,179)	(157,292)
Change in assumptions	(573,334)	1,200,505	(910,678)	849,543
	(1,934,278)	1,455,224	(907,652)	833,120
Net periodic benefit cost	1,307,903	1,079,696	148,087	142,420
Total	$ (626,375)	$ 2,534,920	$ (759,565)	$ 975,540

The estimated net loss and prior service cost for the defined benefit pension plans that will be amortized from net assets into net periodic benefit cost over the next fiscal year are $663,026 and $97,004, respectively. The estimated net gain and prior service cost for the other defined benefit postretirement plan that will be amortized from net assets into net periodic benefit cost over the next fiscal year is $128,241 and $47,179, respectively.

	Pension Benefits		Postretirement Medical Benefits	
	2017	2016	2017	2016
Assumptions				
Weighted-average assumptions used in computing ending obligations:				
Discount rate	4.25%	4.00%	4.25%	4.00%
Rate of compensation increase	N/A	N/A	-	-
Weighted-average assumptions used in computing net cost:				
Discount rate	4.25%	4.00%	4.25%	4.00%
Expected long-term return on plan assets	7.50%	7.50%	-	-
Rate of compensation increase	N/A	N/A	-	-

The expected long-term return on plan assets was determined using average historical returns of the Diocese's plan assets.

Assumed health care cost trend rates at June 30:

	2017	2016
Health care cost trend rate assumed for next year	5.50%	6.00%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	5.50%	5.50%
Year that the rate reaches the ultimate trend rate	2018	2018

Plan Assets

The assets of the Plans are deposited in separate Merrill Lynch trust accounts for the Diocese of Scranton's lay and priest pension plans.

In determining fair value for pension plan assets, the Diocese uses various methods including market, income and cost approaches. The Diocese utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Financial assets carried at fair value will be classified and disclosed in one of the following three categories:

Level I – Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange.

Level II – Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party pricing services for identical or similar assets or liabilities.

Level III – Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker traded transactions. Level III valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

The asset's 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:

Common Stocks, Corporate bonds, U.S. Government and Agencies obligations, and Money Markets: Valued at the closing price reported on the active market on which the individual securities are traded.

The following tables set forth by level, within the fair value hierarchy, the assets at fair value as of June 30, 2017 and 2016.

	June 30, 2017			
Assets:	Level I	Level II	Level III	Total
U.S. Obligations	$ 1,609,878	$ -	$ -	$ 1,609,878
Corporate bonds	661,227	-	-	661,227
Common stocks	8,521,956	-	-	8,521,956
Money markets	2,725,306	-	-	2,725,306
	$ 13,518,367	$ -	$ -	$ 13,518,367

	June 30, 2016			
Assets:	Level I	Level II	Level III	Total
U.S. Obligations	$ 2,229,050	$ -	$ -	$ 2,229,050
Corporate bonds	1,146,264	-	-	1,146,264
Common stocks	7,676,211	-	-	7,676,211
Money markets	1,704,662	-	-	1,704,662
	$ 12,756,187	$ -	$ -	$ 12,756,187

The Diocese's pension plan weighted-average asset allocations at June 30, 2017 and 2016, by asset category, are as follows:

	Pension Benefits	
	2017	2016
Equity securities	63.00%	60.00%
Debt securities	17.00%	27.00%
Other	20.00%	13.00%
Total	100.00%	100.00%

The Diocese's investment policies and strategies include:

1) The Diocese, in keeping with Canon Law and Catholic philosophy, excludes investments in companies whose products or performances are inconsistent with Catholic teaching.

2) Bonds must be rated "A" or better and maturities are limited to a maximum of ten years. Purchases of preferred stock are not permitted.

3) The asset allocation policy is 60% for equities and 40% for cash and fixed income.

Cash Flows

Contributions

Diocesan contributions:

	Pension Benefits	Other Benefits
2016 (actual)	$1,148,055	$ -
2017 (actual)	1,411,931	-
2018 (estimated)	1,000,000	-

There are no participant contributions after June 30, 2009.

Benefit Payments

Benefit payments:

	Pension Benefits	Other Benefits
2016	$1,683,617	$486,057
2017	1,817,279	457,223

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

	Pension Benefits	Other Benefits
2018	$2,031,283	$ 501,649
2019	2,007,052	513,594
2020	1,951,946	524,591
2021	1,899,730	549,741
2022	1,879,757	567,590
Years 2023-2027	8,792,743	3,100,991

403(b) Plan

On July 1, 2009, the Diocese established a 403(b) Plan for employees. The Diocese contributes 2% of gross earnings to all employees and also matches employee deferral contributions up to 4%. For the years ended June 30, 2017 and 2016, the Diocese contributed $167,879 and $155,935 respectively, to the 403(b) Plan for the employees of the Administrative Offices.

Note 9 - Self-Insurance Program

General

Under the terms of the general insurance plan, individual claims above a specific amount ($500,000 for property claims, $250,000 for liability claims, and $500,000 for workers compensation claims in 2017 and 2016) are insured with commercial insurance companies. Prior to July 1, 1993, an aggregate loss fund ($1,250,000 for 1993) was also in place to limit claim expenses for the Diocese to that amount for the claim year. For the years ended June 30, 1994 and thereafter, the loss fund protection was eliminated to reduce excess commercial insurance premium expense.

Medical

As of July 1, 2005, the Diocese instituted a self-insurance medical plan. Under the terms of the plan, there is insurance coverage for individual claims exceeding $185,000 with a maximum annual reimbursement of $1,815,000.

Note 10 - Loan Payable

In December, 2004, the Diocese entered into a loan agreement with the Monroe County Industrial Development Authority (the Authority) to provide funding for a construction project at Notre Dame Junior Senior High School (the School). The Authority issued a revenue note in the amount of $7,500,000 and subsequently sold the note to PNC Bank, NA. The proceeds were then loaned to the Diocese, and the Diocese agreed to pay all amounts due by the Authority under the note to the Bank. The note called for monthly payments of $35,531, including principal and interest of 3.88%, until December, 2015, at which time the note was refinanced. The note was refinanced with the Authority in the amount of $4,048,000 and was subsequently sold to First National Community Bank. The note calls for payments of $22,539, including principal and interest of 3.00%, until January 2025. The Bank has a security interest in the property, and the Diocese is subject to various covenants; refer to the agreements for details. As disclosed in Note 1 to the financial statements, the School is an organization not reported on in these financial statements. Therefore, a loan receivable from the School has been recorded in the Statement of Financial Position in the same amount as the Loan Payable. The balance at June 30, 2017 and 2016 amounted to $3,678,968 and $3,834,941, respectively.

Note 11 - Diocesan Annual Appeal

The Diocesan Annual Appeal is a Diocesan program started as a means of supporting the charitable, educational and pastoral services of the Diocese. Campaigns for the years ended June 30, 2017 and 2016 had budget goals of $5,000,000, respectively, which would be used to finance various Diocesan programs.

Based on the terms of the Appeal, each parish was assigned a "Parish Goal", which represented its portion of the overall Diocesan goal. Parishes shared in the success of the campaign to the extent that they received seventy-five percent of the funds which were raised in excess of their goal.

Funds raised by the 2016 Diocesan Annual Appeal totaled $5,055,657. The Diocese returned to parishes $249,130 representing seventy-five percent of the funds raised in excess of the individual parish goals for the 2016 campaign. Also, contributions receivable of $69,285 were recorded at their net realizable value in connection with the 2016 campaign; these contributions were collected within one year.

Funds raised by the 2015 Diocesan Annual Appeal totaled $5,045,080. The Diocese returned to parishes $237,887 representing seventy-five percent of the funds raised in excess of the individual parish goals for the 2015 campaign. Also, contributions receivable of $45,323 were recorded at their net realizable value in connection with the 2015 campaign; these contributions were collected within one year.

Appeal contributions were committed to the following Diocesan programs and expenditures were made accordingly:

	2017		2016	
	Budgeted	Actual	Budgeted	Actual
Direct aid to schools and Religious Education Grants	$ 850,000	$ 816,772	$ 850,000	$ 815,615
Communication and Evangelization	850,000	816,772	850,000	815,615
Social services	600,000	576,545	600,000	575,728
Clergy formation, education and Retirement	1,200,000	1,153,091	1,200,000	1,151,457
Parish Ministries	1,100,000	1,057,000	1,100,000	1,055,502
Campaign Cost	400,000	384,363	400,000	383,819
	$ 5,000,000	$4,804,543	$ 5,000,000	$4,797,736

Interest income earned on Appeal funds amounted to $7,233 and $4,718 for the years ended June 30, 2017 and 2016.

Note 12 - Called to Holiness

Parish Restructuring

Called to Holiness is the consolidation of parishes within the Diocese. Through this consolidation, whenever an ethnic parish closes and has net assets, part of the net assets will be given to the territorial parish which has assumed care of the former members of the closed parish. The part of the net assets not passed on, approximately 42%, will be retained by the Diocese to cover the net liabilities of closed ethnic parishes which become the responsibility of the Diocese. During the years ended June 30, 2017 and 2016, the Diocese received assets in the amount of $92,655 and $144,691, respectively, and made transfers and debt reductions in the amount of $197,151 and $128,603, respectively.

Note 13 - Cash Subject to Program Restrictions

Cash subject to program restrictions consists of the cash held to meet the requirements of temporarily restricted net assets.

Note 14 - Contingencies

Related Party Loans

The Diocese has agreed to guarantee repayment of principal and interest on the following bank loans of Diocesan organizations:

	Balances at June 30, 2017
Little Flower Manor	$ 1,531,567
Catholic Social Services	$ 1,404,709

Litigation

The Diocese has several claims and pending legal proceedings that generally involve personal liability and employment issues. In the opinion of management and outside legal counsel, such proceedings are substantially covered by insurance, and the ultimate disposition of such proceedings are not expected to have a material adverse effect on the Diocese's financial position, results of operations or cash flows.

In August, 2016, the Diocese was one of six Roman Catholic Dioceses in the Commonwealth of Pennsylvania to be served with a subpoena from the Pennsylvania Attorney General's Office requiring production of documents related to allegations of childhood sexual abuse. The Diocese has provided documentation in response to the subpoena and has had no subsequent, substantive contact from the Attorney General's Office.

Note 15 - Fair Value Measurements

Fair value is 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. In determining fair value, the Diocese uses various methods including market, income and cost approaches. Based on these approaches, the Diocese often utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable inputs. The Diocese utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation techniques, the Diocese is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

Level I – Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange.

Level II – Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party pricing services for identical or similar assets or liabilities.

Level III – Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker traded transactions. Level III valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

The asset's 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:

Common Stocks, Corporate bonds, U.S. Government and Agencies obligations and Money Markets: Valued at the closing price reported on the active market on which the individual securities are traded.

The preceding methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Diocese believes it 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 assets at fair value as of June 30, 2017 and 2016.

	June 30, 2017			
Assets:	Level I	Level II	Level III	Total
U.S. Obligations	$ 12,382,731	$ -	$ -	$ 12,382,731
Corporate bonds				
Aaa credit rating	-	324,265	-	324,265
Aa1 credit rating	-	624,705	-	624,705
Aa2 credit rating	-	361,392	-	361,392
Aa3 credit rating	-	339,221	-	339,221
A1 credit rating	-	718,632	-	718,632
A2 credit rating	-	1,346,221	-	1,346,221
A3 credit rating	-	1,330,504	-	1,330,504
Baa1 credit rating	-	1,318,391	-	1,318,391
Baa2 credit rating	-	375,091	-	375,091
Baa3 credit rating	-	187,784	-	187,784
Total Corporate Bonds	-	6,926,206	-	6,926,206
Equities				
Industrials	2,816,421	-	-	2,816,421
Consumer Discretionary	3,503,813	-	-	3,503,813
Consumer Staples	2,859,644	-	-	2,859,644
Energy	2,539,504	-	-	2,539,504
Financial	4,664,547	-	-	4,664,547
Materials	1,211,339	-	-	1,211,339
Information Technology	6,929,059	-	-	6,929,059
Utilities	1,581,645	-	-	1,581,645
Health Care	3,007,839	-	-	3,007,839
Telecommunication Services	1,397,347	-	-	1,397,347
Real Estate	1,004,601	-	-	1,004,601
Total Equities	31,515,759	-	-	31,515,759
Mutual Funds	4,774,885	-	-	4,774,885
Restricted cash	3,072,697	-	-	3,072,697
	$ 51,746,072	$ 6,926,206	$ -	$ 58,672,278

	June 30, 2016			
Assets:	Level I	Level II	Level III	Total
U.S. Obligations	$ 16,360,343	$ -	$ -	$ 16,360,343
Corporate bonds				
Aaa credit rating	-	221,236	-	221,236
Aa1 credit rating	-	356,809	-	356,809
Aa2 credit rating	-	710,854	-	710,854
Aa3 credit rating	-	413,116	-	413,116
A1 credit rating	-	1,233,416	-	1,233,416
A2 credit rating	-	1,752,218	-	1,752,218
A3 credit rating	-	2,124,384	-	2,124,384
Baa1 credit rating	-	1,465,049	-	1,465,049
Baa2 credit rating	-	447,839	-	447,839
Total Corporate Bonds	-	8,724,921	-	8,724,921
Equities				
Industrials	1,799,489	-	-	1,799,489
Consumer Discretionary	3,232,051	-	-	3,232,051
Consumer Staples	3,068,809	-	-	3,068,809
Energy	2,403,978	-	-	2,403,978
Financial	3,850,954	-	-	3,850,954
Materials	912,620	-	-	912,620
Information Technology	5,609,374	-	-	5,609,374
Utilities	1,216,222	-	-	1,216,222
Health Care	2,732,289	-	-	2,732,289
Telecommunication Services	1,340,229	-	-	1,340,229
Total Equities	26,166,015	-	-	26,166,015
Mutual Funds	1,529,283	-	-	1,529,283
Restricted cash	3,065,020	-	-	3,065,020
	$ 47,120,661	$ 8,724,921	$ -	$ 55,845,582

Note 16 - Endowments

The Diocese's endowment funds consist of approximately 9 individual funds established primarily for student scholarships that are donor-restricted funds. As required by accounting principles generally accepted in the United States, net assets associated with endowment funds are classified and reported based on existence or absence of donor-imposed restrictions.

Endowment Net Asset Composition by type of fund as of June 30, 2017 and 2016 is as follows:

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment Funds	$ -	$ 2,730,795	$ 3,072,697	$5,803,492

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment Funds	$ -	$ 3,002,814	$ 3,065,020	$6,067,834

Changes in Endowment Net Assets for the years ended June 30, 2017 and 2016, are as follows:

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ -	$ 3,002,814	$ 3,065,020	$ 6,067,834
Investment return:				
Investment income	-	91,597	7,677	99,274
Total investment return	-	91,597	7,677	99,274
Contributions	-	1,170,847	-	1,170,847
Appropriation of endowment assets for expenditure	-	(1,534,463)	-	(1,534,463)
Endowment net assets, end of year	$ -	$ 2,730,795	$ 3,072,697	$ 5,803,492

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ -	$ 659,950	$ 3,056,754	$ 3,716,704
Investment return:				
Investment income	-	74,372	8,266	82,638
Total investment return	-	74,372	8,266	82,638
Contributions	-	4,165,994	-	4,165,994
Appropriation of endowment assets for expenditure	-	(1,897,502)	-	(1,897,502)
Endowment net assets, end of year	$ -	$ 3,002,814	$ 3,065,020	$ 6,067,834

The Diocese has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets.

The donor-restricted endowment assets earn a fixed rate of return in the Diocesan Deposit Fund.