

**THE DIOCESE OF ROCHESTER
PASTORAL CENTER
OPERATIONS AND ASSOCIATED FUNDS**

**Financial Statements as of
June 30, 2017
Together with
Independent Auditor's Report**

Bonadio & Co., LLP
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

October 16, 2017

To the Bishop's Stewardship Council of
The Diocese of Rochester:

Report on the Financial Statements

We have audited the accompanying financial statements of The Diocese of Rochester (a New York religious corporation) Pastoral Center Operations and Associated Funds (the Organization) which comprise the balance sheet as of June 30, 2017, and the related statements of activities and change in net assets and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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 Diocese of Rochester Pastoral Center Operations and Associated Funds as of June 30, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT
(Continued)

Report on Summarized Comparative Information

We have previously audited the Organization's 2016 financial statements and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 17, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

THE DIOCESE OF ROCHESTER PASTORAL CENTER OPERATIONS AND ASSOCIATED FUNDS

BALANCE SHEET

JUNE 30, 2017

(With Comparative Totals for 2016)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>	
				<u>2017</u>	<u>2016</u>
ASSETS					
CURRENT ASSETS:					
Cash and equivalents	\$ 6,593,421	\$ 1,551,264	\$ -	\$ 8,144,685	\$ 6,319,589
Cash - insurance proceeds	-	-	-	-	2,059,618
Accounts receivable	358,582	-	-	358,582	396,229
Current portion of contributions receivable, net	-	105,738	-	105,738	60,031
Agency fund cash and investments	324,523	-	-	324,523	229,280
Cash and investments - insurance reserves	3,698,000	-	-	3,698,000	3,720,000
Second collection assets	650,183	-	-	650,183	636,889
Other current assets	<u>328,140</u>	<u>-</u>	<u>-</u>	<u>328,140</u>	<u>213,279</u>
Total current assets	11,952,849	1,657,002	-	13,609,851	13,634,915
CONTRIBUTIONS RECEIVABLE, net of current portion	-	49,419	-	49,419	248,578
INVESTMENTS	17,608,475	24,878,524	7,792,566	50,279,565	48,873,845
FIXED ASSETS, net	714,663	5,569	-	720,232	644,753
OTHER ASSETS	<u>21,877</u>	<u>492,250</u>	<u>-</u>	<u>514,127</u>	<u>485,072</u>
	<u>\$ 30,297,864</u>	<u>\$ 27,082,764</u>	<u>\$ 7,792,566</u>	<u>\$ 65,173,194</u>	<u>\$ 63,887,163</u>
LIABILITIES AND NET ASSETS					
CURRENT LIABILITIES:					
Accounts payable	\$ 320,358	\$ -	\$ -	\$ 320,358	\$ 407,205
Accrued payroll and benefits	625,484	-	-	625,484	570,956
Liability for insurance proceeds	-	-	-	-	2,059,618
Liability for agency fund cash and investments	324,523	-	-	324,523	229,280
Accrued insurance claims	3,698,000	-	-	3,698,000	3,720,000
Liability for second collections	650,183	-	-	650,183	636,889
Due to Lay Pension Trust	160,817	-	-	160,817	158,153
Due to Priests' Pension Trust	-	-	-	-	386,779
Current portion of postretirement benefit liability	311,654	-	-	311,654	327,604
Due to (from) other funds	(476,861)	476,861	-	-	-
Other current liabilities	<u>58,230</u>	<u>-</u>	<u>-</u>	<u>58,230</u>	<u>56,716</u>
Total current liabilities	5,672,388	476,861	-	6,149,249	8,553,200
POSTRETIREMENT BENEFIT LIABILITY, net of current portion	6,014,221	-	-	6,014,221	6,668,953
OTHER LONG-TERM LIABILITIES	<u>-</u>	<u>187,671</u>	<u>-</u>	<u>187,671</u>	<u>211,169</u>
Total liabilities	11,686,609	664,532	-	12,351,141	15,433,322
NET ASSETS	<u>18,611,255</u>	<u>26,418,232</u>	<u>7,792,566</u>	<u>52,822,053</u>	<u>48,453,841</u>
	<u>\$ 30,297,864</u>	<u>\$ 27,082,764</u>	<u>\$ 7,792,566</u>	<u>\$ 65,173,194</u>	<u>\$ 63,887,163</u>

The accompanying notes are an integral part of these statements.

THE DIOCESE OF ROCHESTER PASTORAL CENTER OPERATIONS AND ASSOCIATED FUNDS

**STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2017
(With Comparative Totals for 2016)**

	Unrestricted						Total	
	Operations Supported by Annual Appeal	School Operations	Other	Total	Temporarily Restricted	Permanently Restricted	2017	2016
REVENUE:								
Annual appeal	\$ 6,466,642	\$ -	\$ -	\$ 6,466,642	\$ -	\$ -	\$ 6,466,642	\$ 6,336,150
Capital campaign contributions	-	-	-	-	7,871	3,640	11,511	154,972
Gifts and bequests	-	-	24,840	24,840	279,581	-	304,421	581,787
Fees and charges	2,486,872	3,364,637	147,922	5,999,431	83,839	-	6,083,270	6,195,660
Self-insurance program premiums	-	-	4,330,226	4,330,226	-	-	4,330,226	3,682,632
Employee benefit program premiums	-	-	1,580,624	1,580,624	-	-	1,580,624	1,555,340
Investment income, net	50,443	149,302	2,294,859	2,494,604	3,741,532	-	6,236,136	(92,152)
Grants and aid	50,250	330,418	-	380,668	290,750	-	671,418	659,530
Other revenue	74,264	901	382,268	457,433	102,661	-	560,094	259,423
Net assets released from - Program restrictions	1,961,712	18,084	(120,262)	1,859,534	(1,859,534)	-	-	-
Total revenue	11,090,183	3,863,342	8,640,477	23,594,002	2,646,700	3,640	26,244,342	19,333,342
EXPENSES:								
Personnel costs	6,421,522	1,012,823	904,865	8,339,210	-	-	8,339,210	8,077,423
Subsidies and contributions	1,422,944	833,341	1,000,772	3,257,057	-	-	3,257,057	3,856,218
Insurance program expenses	109,913	19,623	2,792,232	2,921,768	-	-	2,921,768	3,131,394
Professional services	487,766	10,595	334,413	832,774	-	-	832,774	580,481
Ministerial education and formation	727,599	-	-	727,599	-	-	727,599	786,423
Overhead expenses	907,946	59,203	(200,013)	767,136	-	-	767,136	1,094,075
Sponsored programs	236,530	258,938	62,297	557,765	-	-	557,765	902,004
Retired priests' benefits	257,126	-	77,218	334,344	-	-	334,344	567,805
Marketing and advertising	237,785	20,606	4,242	262,633	-	-	262,633	214,147
Mileage, travel and conferences	194,166	836	-	195,002	-	-	195,002	231,485
Depreciation	-	9,994	118,748	128,742	-	-	128,742	129,169
Total expenses	11,003,297	2,225,959	5,094,774	18,324,030	-	-	18,324,030	19,570,624
CHANGE IN NET ASSETS BEFORE DISCRETIONARY CONTRIBUTION TO PENSION TRUSTS AND CHANGE IN FUNDED STATUS OF POSTRETIREMENT LIABILITY	86,886	1,637,383	3,545,703	5,269,972	2,646,700	3,640	7,920,312	(237,282)
DISCRETIONARY CONTRIBUTION TO PENSION TRUSTS	(1,100,000)	(2,000,000)	(1,200,000)	(4,300,000)	-	-	(4,300,000)	(1,600,000)
CHANGE IN FUNDED STATUS OF POSTRETIREMENT LIABILITY	-	-	747,900	747,900	-	-	747,900	1,260,808
CHANGE IN NET ASSETS	\$ (1,013,114)	\$ (362,617)	\$ 3,093,603	1,717,872	2,646,700	3,640	4,368,212	(576,474)
NET ASSETS - beginning of year				16,893,383	23,771,532	7,788,926	48,453,841	49,030,315
NET ASSETS - end of year				\$ 18,611,255	\$ 26,418,232	\$ 7,792,566	\$ 52,822,053	\$ 48,453,841

The accompanying notes are an integral part of these statements.

THE DIOCESE OF ROCHESTER PASTORAL CENTER OPERATIONS AND ASSOCIATED FUNDS

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2017**
(With Comparative Totals for 2016)

	<u>2017</u>	<u>2016</u>
CASH FLOW FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 4,368,212	\$ (576,474)
Adjustments to reconcile change in net assets to net cash flow from operating activities:		
Discretionary pension contributions	4,300,000	1,600,000
Net (gain) loss on investments	(6,213,203)	376,061
Depreciation	128,742	129,169
Loss on disposal of fixed assets	1,750	4,834
Net change in contribution receivable discount	(3,026)	(2,611)
Bad debt (recovery) expense	(273,859)	88,626
Change in funded status of postretirement benefit plan	(747,900)	(1,260,808)
Changes in:		
Accounts receivable	37,647	148,465
Contributions receivable	430,337	569,730
Other current assets	(114,861)	318,697
Other assets	(29,055)	(23,786)
Accounts payable	(86,847)	150,171
Accrued payroll and benefits	54,528	243,193
Accrued insurance claims	(22,000)	(190,000)
Other current liabilities	1,514	(119,089)
Due to Lay Pension Trust	2,664	(13,929)
Due to Priests' Pension Trust	(386,779)	386,779
Accrued postretirement benefits	77,218	267,603
Other long-term liabilities	(23,498)	39,668
	<u>1,501,584</u>	<u>2,136,299</u>
Discretionary pension contributions	<u>(4,300,000)</u>	<u>(1,600,000)</u>
Net cash flow from operating activities	<u>(2,798,416)</u>	<u>536,299</u>
CASH FLOW FROM INVESTING ACTIVITIES:		
Purchases of investments	(27,740,695)	(1,699,009)
Proceeds from sales of investments	32,570,178	2,929,024
Proceeds on sales of fixed assets	13,850	-
Purchases of fixed assets	(219,821)	(207,699)
Net cash flow from investing activities	<u>4,623,512</u>	<u>1,022,316</u>
CASH FLOW FROM FINANCING ACTIVITIES:		
Payments of notes payable	-	(25,000)
Net cash flow from financing activities	<u>-</u>	<u>(25,000)</u>
CHANGE IN CASH AND EQUIVALENTS	1,825,096	1,533,615
CASH AND EQUIVALENTS - beginning of year	<u>6,319,589</u>	<u>4,785,974</u>
CASH AND EQUIVALENTS - end of year	<u>\$ 8,144,685</u>	<u>\$ 6,319,589</u>
SUPPLEMENTAL DISCLOSURE OF NON-CASH ACTIVITIES		
Fixed asset additions attributable to accounts payable	<u>\$ -</u>	<u>\$ 17,880</u>

The accompanying notes are an integral part of these statements.

THE DIOCESE OF ROCHESTER PASTORAL CENTER OPERATIONS AND ASSOCIATED FUNDS

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

1. THE ORGANIZATION

The Bishop of the Roman Catholic Diocese of Rochester (the Diocese), which is located in Rochester, New York, directly or indirectly supervises all of the affiliated churches and organizations (most of which are separately incorporated) within the Diocese. However, the accompanying financial statements include only those funds of the Pastoral Center Operations, Siena Catholic Academy and associated funds and activities (the Pastoral Center) over which the Diocese exercises direct control.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting

The Pastoral Center prepares its financial statements in conformity with accounting principles generally accepted in the United States of America. Resources for various purposes are classified into net asset categories in accordance with specified activities or objectives based on the presence or absence of donor restrictions. Contributions are reported as restricted if they are received with donor stipulations that limit their use. When the 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 and change in net assets as net assets released from restrictions. The Pastoral Center's financial statements include the following classifications of net assets:

- **Unrestricted**
Funds available for use without any donor-imposed restrictions.
- **Temporarily Restricted**
Funds which have donor-imposed restrictions that permit the Pastoral Center to use up or expend the donated asset as specified and are satisfied either by the passage of time or by actions of the Pastoral Center as well as unrestricted investment earnings on permanently restricted endowment funds not yet appropriated for expenditure by the Stewardship Council. The Pastoral Center's temporarily restricted net assets are to be used primarily for benefits, education and training expenses for priests.
- **Permanently Restricted**
Funds which have donor-imposed restrictions that stipulate that resources be maintained permanently, but permit the Pastoral Center to use up or expend part or all of the income derived from the donated assets. Income on permanently restricted net assets is to be used primarily for Catholic education, faith formation, support of specific parishes and other purposes of the Pastoral Center and is classified as temporarily restricted until appropriated by the Stewardship Council.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Comparative Information

The financial statements include certain prior year summarized comparative information in total, but not by net asset category. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Pastoral Center's financial statements for the year ended June 30, 2016, from which the summarized information was derived.

Cash and Equivalents

Cash and equivalents include bank demand deposit accounts and money market accounts and exclude cash under investment management. The bank demand deposit accounts may, at times, exceed federally insured limits. The money market accounts are not federally insured. The Pastoral Center believes it is not exposed to any significant credit risk with respect to cash and equivalents and has not experienced any losses in such accounts.

Cash - Insurance Proceeds

The Pastoral Center held the insurance proceeds resulting from a fire at one of the parishes. These proceeds were being held for the related parish and were disbursed as repairs were being made to the damaged property.

Accounts Receivable

The Pastoral Center advances credit, primarily to parishes, in the normal course of business. Accounts for which no payments have been received for several months are considered delinquent and customary collection efforts commence. The Pastoral Center records an allowance for doubtful accounts in anticipation of future write-offs. The allowance for doubtful accounts is established based on a review of specific accounts outstanding and the Pastoral Center's historical collection experience. At June 30, 2017 and 2016, no allowance for doubtful accounts was deemed necessary.

Investments

The Pastoral Center invests in the Communis Fund of the Diocese of Rochester, Inc. (Communis), a related party through common board members and management. Communis was organized by the Diocese for the purpose of offering Diocesan organizations the opportunity to invest collectively to maximize investment opportunities and returns consistent with the duties of stewardship following the mandates of The Code of Canon Law of the Roman Catholic Church. The investments are managed by a professional investment management firm and are overseen by Communis' Board of Directors. Income is allocated to investors based on the percentage of the ownership interest of their individual funds to the total investment balance. Investments are stated at fair value as determined by quoted market prices and Communis' investment managers.

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

Fair Value Measurement

Fair value is defined 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurement (Continued)

The Pastoral Center uses various valuation techniques in determining fair value. ASC Section 820 establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Pastoral Center. Unobservable inputs are inputs that reflect the Pastoral Center's assumptions about the assumption market participants would use in pricing the asset or liability, based on the best information available in the circumstances.

The hierarchy is broken down into three levels based on the reliability of inputs as follows:

- Level 1 Inputs - Valuations are based on quoted prices in active markets for identical assets or liabilities that the Pastoral Center has the ability to access. Valuation adjustments are not applied to Level 1 instruments. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these items does not entail a significant degree of judgment.
- Level 2 Inputs - Valuations are based on quoted prices in markets that are not active or for which all significant inputs are observable, directly, or indirectly.
- Level 3 Inputs - Valuations are based on inputs that are unobservable and significant to the overall fair value measurement.

The availability of observable inputs can vary and is affected by a wide variety of factors. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety. There were no changes to the valuation techniques during the current year.

Land and Fixed Assets

Land and fixed assets held by the Pastoral Center are recorded at the appraised value at the time of donation or original cost if purchased. Depreciation and amortization of buildings and equipment is provided on a straight-line basis over the estimated useful lives of the respective assets which range from three (3) to thirty (30) years. The Pastoral Center capitalizes all fixed asset additions greater than \$10,000.

Advertising

All advertising costs are expensed as incurred.

Income Taxes

The Diocese is a religious corporation and is exempt from income taxes as an organization qualified under Section 501(c)(3) of the Internal Revenue Code.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reclassifications

Certain reclassifications have been made to the 2016 financial statements to conform to the current year presentation.

3. ACCOUNTS RECEIVABLE

Accounts receivable are as follows at June 30:

	<u>2017</u>	<u>2016</u>
Annual appeal	\$ 62,490	\$ 109,601
Parish subsidy	47,829	9,417
Self-insurance program	47,570	85,716
Information Technology	112,350	99,171
Other	<u>88,343</u>	<u>92,324</u>
Total	<u>\$ 358,582</u>	<u>\$ 396,229</u>

4. CONTRIBUTIONS RECEIVABLE

In 2011, the Diocese initiated a \$14 million capital campaign called "Our Legacy, Our Future, Our Hope" (Legacy) for the benefit of priests' formation and retirement. Pledges were generally expected to be received over a five-year period. Contributions receivable at June 30, 2017 consist primarily of pledges receivable from this campaign.

Payments to be received on contributions receivable are expected to be as follows for the years ending June 30:

2018	\$ 117,264
2019	59,216
2020	18,370
2021	5,100
2022	5,100
Thereafter	<u>56,198</u>
	261,248
Less: Unamortized pledge discount	(715)
Allowance for uncollectible contributions	(105,376)
Amounts due within one year, net	<u>(105,738)</u>
	<u>\$ 49,419</u>

5. INVESTMENTS

Investments were comprised of the following at June 30:

	<u>2017</u>	<u>2016</u>
Communis investment fund	\$ 53,977,565	\$ 34,566,673
Cash and equivalents	-	170,970
Equity mutual funds	-	2,792,185
Fixed income mutual funds	-	5,571,597
Exchange traded funds	<u>-</u>	<u>9,492,420</u>
	53,977,565	52,593,845
Less: Investments held for insurance reserves	<u>(3,698,000)</u>	<u>(3,720,000)</u>
	<u>\$ 50,279,565</u>	<u>\$ 48,873,845</u>

Investment income from all sources consisted of the following for the years ended June 30:

	<u>2017</u>	<u>2016</u>
Interest and dividends	\$ 292,797	\$ 504,714
Net investment gain (loss)	6,213,203	(376,061)
Management fees	<u>(269,864)</u>	<u>(220,805)</u>
	<u>\$ 6,236,136</u>	<u>\$ (92,152)</u>

Fair Value

The Pastoral Center's investments, excluding cash and equivalents held in the portfolio, are measured at fair value on a recurring basis at June 30, 2017, utilizing the following input levels:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Communis investment fund	\$ -	\$ 53,977,565	\$ -	\$ 53,977,565
Total	<u>\$ -</u>	<u>\$ 53,977,565</u>	<u>\$ -</u>	<u>\$ 53,977,565</u>

The Pastoral Center's investments, excluding cash and equivalents held in the portfolio, are measured at fair value on a recurring basis at June 30, 2016, utilizing the following input levels:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Communis investment fund	\$ -	\$ 34,566,673	\$ -	\$ 34,566,673
Equity mutual funds	2,792,185	-	-	2,792,185
Fixed income mutual funds	5,571,597	-	-	5,571,597
Exchange traded funds	<u>9,492,420</u>	<u>-</u>	<u>-</u>	<u>9,492,420</u>
Total	<u>\$ 17,856,202</u>	<u>\$ 34,566,673</u>	<u>\$ -</u>	<u>\$ 52,422,875</u>

5. INVESTMENTS (Continued)

Fair Value (Continued)

Investments with fund managers other than Communis were held in mutual funds and exchange traded funds. Fair value of these investments was based on quoted market prices as these funds were actively traded on major exchanges.

6. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets were restricted for the following purposes as of the years ended June 30:

	<u>2017</u>	<u>2016</u>
Seminarian, Diaconate, and Priest education	\$ 9,096,615	\$ 8,113,042
Priest welfare benefits	5,707,261	5,316,441
Parish support	5,370,910	4,894,902
Catholic education	3,641,010	2,962,508
Faith formation	693,498	590,384
Other	<u>1,908,938</u>	<u>1,894,255</u>
Total	<u>\$ 26,418,232</u>	<u>\$ 23,771,532</u>

7. ENDOWMENT FUNDS

Interpretation of Relevant Law

The Stewardship Council of the Diocese of Rochester has interpreted the applicable provisions of New York Not-for-Profit Corporation Law (Corporation Law) to mean that the classification of appreciation on permanently restricted endowment gifts, beyond the original gift amount, follows the donor's restrictions on the use of the related income (interest and dividends) and income is classified as temporarily restricted until appropriated by the Stewardship Council for expenditure.

Endowment net asset composition by type of fund as of June 30, 2017, is as follows:

	<u>Board Designated</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 3,497,710	\$ 7,792,566	\$ 11,290,276
Designated endowment funds	<u>5,443,559</u>	-	-	<u>5,443,559</u>
Total	<u>\$ 5,443,559</u>	<u>\$ 3,497,710</u>	<u>\$ 7,792,566</u>	<u>\$ 16,733,835</u>

Endowment net asset composition by type of fund as of June 30, 2016, is as follows:

	<u>Board Designated</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 2,590,516	\$ 7,788,926	\$ 10,379,442
Designated endowment funds	<u>5,035,991</u>	-	-	<u>5,035,991</u>
Total	<u>\$ 5,035,991</u>	<u>\$ 2,590,516</u>	<u>\$ 7,788,926</u>	<u>\$ 15,415,433</u>

7. ENDOWMENT FUNDS (Continued)

Interpretation of Relevant Law (Continued)

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

	<u>Board Designated</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, July 1, 2016	\$ 5,035,991	\$ 2,590,516	\$ 7,788,926	\$ 15,415,433
Contributions	-	-	3,640	3,640
Investment return: Net appreciation	645,568	1,337,564	-	1,983,132
Appropriation of endowment assets for expenditure	<u>(238,000)</u>	<u>(430,370)</u>	<u>-</u>	<u>(668,370)</u>
Endowment net assets, June 30, 2017	<u>\$ 5,443,559</u>	<u>\$ 3,497,710</u>	<u>\$ 7,792,566</u>	<u>\$ 16,733,835</u>

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

	<u>Board Designated</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, July 1, 2015	\$ 5,292,732	\$ 3,128,011	\$ 7,788,926	\$ 16,209,669
Investment return: Net depreciation	(28,341)	(55,925)	-	(84,266)
Appropriation of endowment assets for expenditure	<u>(228,400)</u>	<u>(481,570)</u>	<u>-</u>	<u>(709,970)</u>
Endowment net assets, June 30, 2016	<u>\$ 5,035,991</u>	<u>\$ 2,590,516</u>	<u>\$ 7,788,926</u>	<u>\$ 15,415,433</u>

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level required by New York Not-for-Profit Corporation Law. In accordance with generally accepted accounting principles, deficiencies of this nature that are reported in unrestricted net assets were \$27,798 as of June 30, 2016. These deficiencies resulted from unfavorable market fluctuations that occurred. There were no such deficiencies as of June 30, 2017.

Return Objectives and Risk Parameters

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. Endowment assets include those assets of donor-restricted funds that the Diocese must hold in perpetuity for a donor-specified period as well as board-designated funds. In accordance with the concept of the Prudent Investor, the Diocese's investment policy applies a flexible, balanced and diversified approach to yield an appropriate return while controlling the risk that is inherent in any investment program.

7. ENDOWMENT FUNDS (Continued)

Strategies Employed for Achieving Objectives

The Diocese's strategy is to invest its endowment assets in Communis. Communis seeks long-term capital growth while attaining a rate of return greater than the rate of inflation. The Communis investment portfolio includes equity securities, fixed income securities, and cash and equivalents.

Spending Policy and How the Investment Objectives Relate to Spending Policy

With regard to certain net assets restricted to or designated for long-term investment, the Diocese allocates an amount of investment income to support purpose restrictions generally based on 5.0% of a twenty-quarters rolling average of the fair value of these investments. During periods when investment income exceeds the distribution, such excess income is added to temporarily restricted accumulated unappropriated endowment earnings. Likewise, when investment income is less than the distribution, such deficit is funded by accumulated excess income or accumulated realized gains.

New York State law allows the Stewardship Council to expend net appreciation of endowment investments and in certain circumstances the principal of the gift. The Stewardship Council must consider the long and short-term needs of the Diocese in carrying out its purposes, its present and anticipated financial requirements, expected return on its investments, and general economic conditions when determining the amount to spend. The Diocese believes its spending policy meets New York State requirements.

8. FIXED ASSETS

Fixed assets at June 30 are as follows:

	<u>2017</u>	<u>2016</u>
Land	\$ 19,602	\$ 35,202
Buildings and improvements	9,535,608	9,338,288
Furniture, fixtures and equipment	206,508	184,008
Becket Hall	22,277	22,277
Vehicles	<u>113,781</u>	<u>113,781</u>
	9,897,776	9,693,556
Less: Accumulated depreciation and amortization	<u>(9,177,544)</u>	<u>(9,048,803)</u>
	<u>\$ 720,232</u>	<u>\$ 644,753</u>

9. INSURANCE FUNDING

The Diocese is self-insured to certain deductible limits for property, liability, disability and unemployment insurances. Minimum funding requirements for the Diocesan self-insurance programs are determined annually. These amounts are then billed to the participating parishes and other organizations.

9. INSURANCE FUNDING (Continued)

Liabilities established for claims made or anticipated to be made under the self-insured insurance program totaled \$3,698,000 and \$3,720,000 at June 30, 2017 and 2016, respectively.

The Diocese has an \$844,000 letter-of-credit outstanding with M&T Bank. This letter-of-credit represents a security deposit required of self-insured plans by the New York State Workers' Compensation Board. The Diocese was self-insured for workers' compensation prior to July 1, 2009. The current agreement expires in June 2018.

10. FINANCING ARRANGEMENTS

Line-of-Credit

The Diocese may borrow up to \$1,000,000 under the terms of an annually renewable discretionary line-of-credit agreement with a bank. Amounts borrowed bear interest at a variable rate based on the prime rate (4.25% at June 30, 2017). There were no amounts outstanding under the terms of this agreement at June 30, 2017 and 2016.

11. RELATED PARTY TRANSACTIONS

Transactions with Communis

Certain investments are held in Communis. The Pastoral Center provides Communis with administrative and financial services. Communis reimburses the Pastoral Center for the salaries, benefits and related expenses incurred for these services. The amount reimbursed to the Pastoral Center for these services was \$151,836 and \$151,666 for the years ended June 30, 2017 and 2016, respectively. At June 30, 2017 and 2016, Communis owed the Pastoral Center \$18,545 and \$16,587, respectively, for administrative expenses. This amount is included in accounts receivable in the accompanying balance sheet.

Transactions with Pension Trusts

At June 30, 2017 and 2016, the Pastoral Center had \$160,817 and \$158,153, respectively, related to the Lay Pension Trust funds held by the Pastoral Center that had not yet been transferred to the Trust. The asset and related liability are included in cash and equivalents and due to Lay Pension Trust, respectively, in the accompanying balance sheet.

At June 30, 2016, the Pastoral Center had \$386,779 due to the Priest Pension Trust related to funds held by the Pastoral Center that had not yet been transferred to the Trust. The asset and related liability are included in cash and equivalents and due to Priests' Pension Trust, respectively, in the accompanying balance sheet. There was no such amount due at June 30, 2017.

At June 30, 2017 and 2016, the Lay Pension Trust owed the Pastoral Center \$12,042 and \$6,251, respectively, for administrative expenses. This amount is included in accounts receivable.

At June 30, 2017 and 2016, the Priests' Pension Trust owed the Pastoral Center \$2,851 and \$1,213, respectively, for administrative expenses. This amount is included in accounts receivable.

12. PENSION AND RETIREMENT PLANS

Lay Pension Plan

The Pastoral Center participates with parishes, parochial schools and affiliated organizations in the Diocese of Rochester Lay Employees Retirement Accumulation Plan (the Plan), a multi-employer non-qualified defined benefit pension plan for lay employees who work a minimum of 1,000 hours per year and attain age 21, with vesting after 3 years of service. In 2017, the organizations participating in the plan were charged an annual amount of 12% of gross wages for each participant in the plan.

The Pastoral Center recorded pension expense related to the Plan of approximately \$544,000 and \$545,000 for the years ended June 30, 2017 and 2016, respectively. Total employer contributions to the Plan were \$8,372,575 and \$5,968,871 for the years ended June 30, 2017 and 2016, respectively.

Because the Plan is a multi-employer plan, the amount of accumulated benefits and net assets available for benefits related solely to the Pastoral Center is not determinable. However, net assets for the Plan as a whole were approximately \$111.4 million and \$97.8 million at June 30, 2017 and 2016, respectively, and the projected benefit obligation (PBO) was \$126.4 million and \$127.3 million, respectively as of June 30, 2017 and 2016, the date of the most recent actuarial valuation. The actuaries represented that a 1% increase in the discount rate would decrease the lay pension plan PBO by approximately \$12.9 million.

Priests' Pension Plan

The Pastoral Center currently sponsors a multi-employer, non-qualified defined benefit pension plan for all incardinated priests of the Diocese. The plan provides maximum monthly benefits of \$1,400 and assumes retirement at age 70 with 30 years of service, with vesting after 3 years of service, with prorated benefits based on years of service. In 2017, the organizations participating in the plan were charged an annual amount of 12% of gross wages for each participant in the plan.

The Pastoral Center recorded pension expense related to the Priest's Pension Plan of approximately \$31,000 and \$29,000 for the years ended June 30, 2017 and 2016, respectively. Total employer contributions to the plan were \$697,232 and \$140,326 for the years ended June 30, 2017 and 2016, respectively.

Because the Plan is a multi-employer plan, the amount of accumulated benefits and net assets available for benefits related solely to the Pastoral Center is not determinable. However, net assets for the Plan as a whole were approximately \$17.2 and \$16.2 million as of June 30, 2017 and 2016, respectively, and the projected benefit obligation was \$20.4 and \$22.0 million as of June 30, 2017 and 2016, respectively, the date of the most recent actuarial valuation. The actuaries represented that a 1% increase in the discount rate would decrease the priests' pension plan PBO by approximately \$1.6 million.

Retirement Plan

The Pastoral Center also sponsors a 403(b) Plan that covers substantially all employees who have attained 1,000 hours of service annually and are age 21 or older. Effective January 1, 2016, the Pastoral Center employer matching contribution was made to the 403(b) Plan. This contribution was formerly made to the Lay Pension Plan. The matching contribution is equal to 100% of elective employee salary deferrals into the 403(b) Plan capped at 2% of employee compensation. Retirement plan expense associated with the 403(b) Plan was \$410,000 and \$200,000 for the years ended June 30, 2017 and 2016, respectively.

13. OTHER POSTRETIREMENT BENEFITS

The Pastoral Center provides health and dental benefits for retired priests who meet certain eligibility criteria. Priests who retire after age 70, or after age 67 with 30 years of service, are eligible for medical and dental benefits.

The components of net periodic postretirement benefit expense for the years ended June 30 are estimated as follows:

	<u>2017</u>	<u>2016</u>
Service cost	\$ 157,000	\$ 193,000
Interest cost	<u>342,000</u>	<u>391,000</u>
Net periodic postretirement benefit expense	<u>\$ 499,000</u>	<u>\$ 584,000</u>

The assumptions used to develop the net periodic postretirement benefit expense were:

	<u>2017</u>	<u>2016</u>
Discount rate	5.25%	5.00%
Medical care cost trend rate	5.50%	6.10%

The medical care cost trend rate used in the computation ultimately reduces to 3.8%.

The accumulated, unfunded postretirement benefit obligation at June 30, 2017 and 2016, was \$6,325,875 and \$6,996,557, respectively. It is the Diocese's intention to meet this future funding requirement, in part, with donor restricted net assets available for this purpose. The balance of the designated fund expected to be used is \$6,202,731 at June 30, 2017. Employer contributions and benefit payments made were \$234,562 and \$316,165 in 2017 and 2016, respectively.

Estimated future benefit payments are anticipated as follows:

2018	\$ 306,200
2019	\$ 332,600
2020	\$ 348,200
2021	\$ 369,900
2022	\$ 390,800
2023 - 2027	\$ 2,100,900

The effect of a one percentage point increase in each future year's assumed medical care cost trend rate, holding all other assumptions constant, would have resulted in an increase in the net periodic postretirement cost of less than \$100,000 and in the accumulated benefit obligation of approximately \$835,000.

The effect of a one percentage point decrease in each future year's assumed medical care cost trend rate, holding all other assumptions constant, would have resulted in a decrease in the net periodic postretirement cost of less than \$100,000 and in the accumulated benefit obligation of approximately \$697,000.

14. FUNCTIONAL EXPENSES

Expenses on a functional basis are as follows for the years ending June 30:

	<u>2017</u>	<u>2016</u>
Program	\$ 15,081,352	\$ 16,601,992
General and administrative	2,728,045	2,483,722
Development	<u>514,633</u>	<u>484,910</u>
	<u>\$ 18,324,030</u>	<u>\$ 19,570,624</u>

Program expenses include Catholic education, faith formation, support of parishes, employee benefits, insurance, subsidies and assessments, and capital campaign.

15. COMMITMENTS AND CONTINGENCIES

Legal Proceedings

The Diocese has been named as a party in legal proceedings brought against it and other parties. Diocesan management has reviewed these matters with legal counsel and in its opinion, these actions are defensible insofar as the Pastoral Center is concerned and settlement of these matters should have no material effect on the Pastoral Center's financial position or its results of operations.

16. SUBSEQUENT EVENTS

Subsequent events have been evaluated through October 16, 2017, which is the date the financial statements were available to be issued.