THE DIOCESE OF ROCHESTER
PASTORAL CENTER
OPERATIONS AND ASSOCIATED FUNDS

Financial Statements as of
June 30, 2016
Together with
Independent Auditor's Report

Bonadio & Co., LLP
Certified Public Accountants

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Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

October 17, 2016

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, 2016, 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, 2016, 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.

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INDEPENDENT AUDITOR'S REPORT
(Continued)

Report on Summarized Comparative Information

We have previously audited the Organization's 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 19, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Bonadio & Co., LLP

THE DIOCESE OF ROCHESTER PASTORAL CENTER OPERATIONS AND ASSOCIATED FUNDS

BALANCE SHEET
JUNE 30, 2016
(With Comparative Totals for 2015)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2016	Total 2015
ASSETS					
CURRENT ASSETS:					
Cash and equivalents	$ 4,411,777	$ 1,907,812	$ -	$ 6,319,589	$ 4,785,974
Cash - insurance proceeds	2,059,618	-	-	2,059,618	2,839,440
Accounts receivable	396,229	-	-	396,229	544,694
Current portion of contributions receivable, net	-	60,031	-	60,031	535,845
Agency fund cash and investments	229,280	-	-	229,280	248,514
Cash and investments - insurance reserves	3,720,000	-	-	3,720,000	3,910,000
Second collection assets	636,889	-	-	636,889	589,563
Other current assets	213,279	-	-	213,279	531,976
Total current assets	11,667,072	1,967,843	-	13,634,915	13,986,006
CONTRIBUTIONS RECEIVABLE, net of current portion	-	248,578	-	248,578	428,509
INVESTMENTS	19,331,741	21,753,178	7,788,926	48,873,845	50,289,921
FIXED ASSETS, net	621,356	23,397	-	644,753	553,177
OTHER ASSETS	21,877	463,195	-	485,072	461,286
	$ 31,642,046	$ 24,456,191	$ 7,788,926	$ 63,887,163	$ 65,718,899
LIABILITIES AND NET ASSETS					
CURRENT LIABILITIES:					
Accounts payable	$ 407,205	$ -	$ -	$ 407,205	$ 239,154
Accrued payroll and benefits	570,956	-	-	570,956	327,763
Liability for insurance proceeds	2,059,618	-	-	2,059,618	2,839,440
Liability for agency fund cash and investments	229,280	-	-	229,280	248,514
Accrued insurance claims	3,720,000	-	-	3,720,000	3,910,000
Liability for second collections	636,889	-	-	636,889	589,563
Current portion notes payable	-	-	-	-	25,000
Due to Lay Pension Trust	158,153	-	-	158,153	172,082
Due to Priests' Pension Trust	386,779	-		386,779	-
Current portion of postretirement benefit liability	327,604	-	-	327,604	327,593
Due to (from) other funds	(473,490)	473,490	-	-	-
Other current liabilities	56,716	-	-	56,716	175,805
Total current liabilities	8,079,710	473,490	-	8,553,200	8,854,914
POSTRETIREMENT BENEFIT LIABILITY, net of current portion	6,668,953	-	-	6,668,953	7,662,169
OTHER LONG-TERM LIABILITIES	-	211,169	-	211,169	171,501
Total liabilities	14,748,663	684,659	-	15,433,322	16,688,584
NET ASSETS	16,893,383	23,771,532	7,788,926	48,453,841	49,030,315
	$ 31,642,046	$ 24,456,191	$ 7,788,926	$ 63,887,163	$ 65,718,899

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, 2016
(With Comparative Totals for 2015)

	Unrestricted						Total	
	Operations Supported by Annual Appeal	School Operations	Other	Total	Temporarily Restricted	Permanently Restricted	2016	2015
REVENUE:								
Annual appeal	$ 6,336,150	$ -	$ -	$ 6,336,150	$ -	$ -	$ 6,336,150	$ 6,132,875
Capital campaign contributions	-	-	-	-	154,972	-	154,972	263,954
Gifts and bequests	430	-	130,948	131,378	450,409	-	581,787	1,029,988
Fees and charges	2,464,195	3,475,054	182,371	6,121,620	74,040	-	6,195,660	5,912,255
Self-insurance program premiums	-	-	3,682,632	3,682,632	-	-	3,682,632	3,494,006
Employee benefit program premiums	-	-	1,555,340	1,555,340	-	-	1,555,340	1,588,797
Investment income, net	(28,269)	4,681	2,899	(20,689)	(110,181)	-	(130,870)	369,126
Grants and aid	53,500	310,925	-	364,425	295,105	-	659,530	326,539
Other revenue	53,433	-	164,443	217,876	41,547	-	259,423	341,762
Net assets released from -								
Time restrictions	2,772	-	-	2,772	(2,772)	-	-	-
Program restrictions	2,096,882	14,255	185,952	2,297,089	(2,297,089)	-	-	-
Total revenue	10,979,093	3,804,915	5,904,585	20,688,593	(1,393,969)	-	19,294,624	19,459,302
EXPENSES:								
Personnel costs	6,213,829	951,466	912,128	8,077,423	-	-	8,077,423	7,650,523
Subsidies and contributions	1,415,385	809,140	1,631,693	3,856,218	-	-	3,856,218	3,433,109
Insurance program expenses	108,269	15,897	3,007,228	3,131,394	-	-	3,131,394	2,894,647
Overhead expenses	821,018	74,493	159,846	1,055,357	-	-	1,055,357	905,867
Professional services	423,913	34,904	121,664	580,481	-	-	580,481	496,535
Depreciation	-	16,882	112,287	129,169	-	-	129,169	121,743
Ministerial education and formation	786,423	-	-	786,423	-	-	786,423	863,222
Retired priests' benefits	300,201	-	267,604	567,805	-	-	567,805	466,478
Sponsored programs	277,173	276,837	347,994	902,004	-	-	902,004	596,295
Marketing and advertising	189,144	21,547	3,456	214,147	-	-	214,147	205,107
Mileage, travel and conferences	227,713	3,174	598	231,485	-	-	231,485	201,706
Total expenses	10,763,068	2,204,340	6,564,498	19,531,906	-	-	19,531,906	17,835,232
CHANGE IN NET ASSETS BEFORE DISCRETIONARY CONTRIBUTION TO PENSION TRUSTS AND CHANGE IN FUNDED STATUS OF POSTRETIREMENT LIABILITY	216,025	1,600,575	(659,913)	1,156,687	(1,393,969)	-	(237,282)	1,624,070
DISCRETIONARY CONTRIBUTION TO PENSION TRUSTS	-	(1,300,000)	(300,000)	(1,600,000)	-	-	(1,600,000)	(7,000,000)
CHANGE IN FUNDED STATUS OF POSTRETIREMENT LIABILITY	-	-	1,260,808	1,260,808	-	-	1,260,808	(1,590,073)
CHANGE IN NET ASSETS	$ 216,025	$ 300,575	$ 300,895	817,495	(1,393,969)	-	(576,474)	(6,966,003)
NET ASSETS - beginning of year				16,075,888	25,165,501	7,788,926	49,030,315	55,996,318
NET ASSETS - end of year				$ 16,893,383	$ 23,771,532	$ 7,788,926	$ 48,453,841	$ 49,030,315

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, 2016
(With Comparative Totals for 2015)

	2016	2015
CASH FLOW FROM OPERATING ACTIVITIES:		
Change in net assets	$ (576,474)	$ (6,966,003)
Adjustments to reconcile change in net assets to net cash flow from operating activities:		
Net loss (gain) on investments	376,061	(52,559)
Depreciation	129,169	121,743
Loss on disposal of fixed assets	4,834	-
Net change in contribution receivable discount	(2,611)	(10,693)
Bad debt expense (recovery)	88,626	(86,187)
Change in funded status of postretirement benefit plan	(1,260,808)	1,590,073
Changes in:		
Accounts receivable	148,465	158,908
Contributions receivable	569,730	894,612
Other current assets	318,697	(4,385)
Other assets	(23,786)	39,198
Accounts payable	150,171	(187,725)
Accrued payroll and benefits	243,193	2
Accrued insurance claims	(190,000)	60,000
Other current liabilities	(119,089)	(85,634)
Other long-term liabilities	39,668	(15,824)
Accrued postretirement benefits	267,603	182,351
Net cash flow from operating activities	163,449	(4,362,123)
CASH FLOW FROM INVESTING ACTIVITIES:		
Purchases of investments	(1,699,009)	(2,013,826)
Proceeds from sales of investments	2,929,024	5,111,411
Due to Lay Pension Trust	(13,929)	(2,416)
Due to Priests' Pension Trust	386,779	-
Collection of notes receivable	-	10,094
Purchases of fixed assets	(207,699)	(81,075)
Net cash flow from investing activities	1,395,166	3,024,188
CASH FLOW FROM FINANCING ACTIVITIES:		
Payments of notes payable	(25,000)	(25,000)
Net cash flow from financing activities	(25,000)	(25,000)
CHANGE IN CASH AND EQUIVALENTS	1,533,615	(1,362,935)
CASH AND EQUIVALENTS - beginning of year	4,785,974	6,148,909
CASH AND EQUIVALENTS - end of year	$ 6,319,589	$ 4,785,974
SUPPLEMENTAL DISCLOSURE OF NON-CASH ACTIVITIES		
Fixed asset additions attributable to accounts payable	$ 17,880	$ -

The accompanying notes are an integral part of these statements.

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, 2015, 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 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 holds the insurance proceeds resulting from a fire at one of the parishes. These proceeds are being held for the related parish and will be disbursed as repairs are 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, 2016 and 2015, 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 professional investment management firms 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.

The Diocese invests in various types of investment securities. 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 2015 financial statements to conform to the current year presentation.

3. ACCOUNTS RECEIVABLE

Accounts receivable consist primarily of amounts due from parishes for parish participation in the Diocesan Annual Appeal and Self-insurance program. Accounts receivable are as follows at June 30:

	2016	2015
Annual appeal	$ 109,601	$ 269,687
Parish subsidy	9,417	22,333
Self-insurance program	85,716	53,330
Information Technology	99,171	28,064
Other	92,324	171,280
Total	$ 396,229	$ 544,694

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 are generally expected to be received over a five-year period. Contributions receivable at June 30, 2016 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:

2017	$ 70,229
2018	338,561
2019	202,269
2020	75,351
2021	25,500
Thereafter	71,600
	783,510
Less: Unamortized pledge discount	(3,741)
Allowance for uncollectible contributions	(471,160)
Amounts due within one year, net	(60,031)
	$ 248,578

5. INVESTMENTS

Investments were comprised of the following at June 30:

	2016	2015
Communis investment fund	$ 34,566,673	$ 35,999,189
Cash and equivalents	170,970	157,317
Equity mutual funds	2,792,185	2,639,659
Fixed income mutual funds	5,571,597	5,822,371
Exchange traded funds	9,492,420	9,581,385
	52,593,845	54,199,921
Less: Investments held for insurance reserves	(3,720,000)	(3,910,000)
	$ 48,873,845	$ 50,289,921

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

	2016	2015
Interest and dividends	$ 504,714	$ 583,371
Net investment gain (loss)	(376,061)	52,559
Management fees	(259,523)	(266,804)
	$ (130,870)	$ 369,126

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, 2016, utilizing the following input levels:

	Level 1	Level 2	Level 3	Total
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	9,492,420	-	-	9,492,420
Total	$ 17,856,202	$ 34,566,673	$ -	$ 52,422,875

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, 2015, utilizing the following input levels:

	Level 1	Level 2	Level 3	Total
Communis investment fund	$ -	$ 35,999,189	$ -	$ 35,999,189
Equity mutual funds	2,639,695	-	-	2,639,659
Fixed income mutual funds	5,822,371	-	-	5,822,371
Exchange traded funds	9,581,385	-	-	9,581,385
Total	$ 18,043,415	$ 35,999,189	$ -	$ 54,042,604

5. INVESTMENTS (Continued)

Fair Value (Continued)
Investments with fund managers other than Communis are held in mutual funds and exchange traded funds. Fair value of these investments is based on quoted market prices as these funds are actively traded on major exchanges.

6. TEMPORARILY RESTRICTED NET ASSETS

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

	2016	2015
Seminarian, Diaconate, and Priest education	$ 8,113,042	$ 8,003,210
Priest welfare benefits	5,316,441	5,591,227
Parish support	4,894,902	5,059,080
Catholic education	2,962,508	3,407,269
Faith formation	590,384	647,667
Other	1,894,255	2,457,048
Total	$ 23,771,532	$ 25,165,501

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, 2016, is as follows:

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

Endowment net asset composition by type of fund as of June 30, 2015, is as follows:

	Board Designated	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 3,128,011	$ 7,788,926	$ 10,916,937
Designated endowment funds	5,292,732	-	-	5,292,732
Total	$ 5,292,732	$ 3,128,011	$ 7,788,926	$ 16,209,669

7. ENDOWMENT FUNDS (Continued)

Interpretation of Relevant Law (Continued)
Changes in endowment net assets for the fiscal year ended June 30, 2016, is as follows:

	Board Designated	Temporarily Restricted	Permanently Restricted	Total
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	(228,400)	(481,570)	-	(709,970)
Endowment net assets, June 30, 2016	$ 5,035,991	$ 2,590,516	$ 7,788,926	$ 15,415,433

Changes in endowment net assets for the fiscal year ended June 30, 2015, is as follows:

	Board Designated	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, July 1, 2014	$ 5,481,043	$ 3,518,252	$ 7,788,926	$ 16,788,221
Investment return:				
Net appreciation	23,389	47,029	-	70,418
Appropriation of endowment assets for expenditure	(211,700)	(437,270)	-	(648,970)
Endowment net assets, June 30, 2015	$ 5,292,732	$ 3,128,011	$ 7,788,926	$ 16,209,669

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 and $27,056 as of June 30, 2016 and 2015, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred.

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 cash and equivalents, Communis Investment Fund, equity mutual funds, fixed income mutual funds and other exchange traded funds.

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:

	2016	2015
Land	$ 35,202	$ 35,202
Buildings and improvements	9,338,288	9,160,408
Furniture, fixtures and equipment	184,008	184,008
Becket Hall	22,277	22,277
Vehicles	113,781	125,591
	9,693,556	9,527,486
Less: Accumulated depreciation and amortization	(9,048,803)	(8,974,309)
	$ 644,753	$ 553,177

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 $3,720,000 and $3,910,000 at June 30, 2016 and 2015, 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 2017.

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 (3.50% at June 30, 2016). There were no amounts outstanding under the terms of this agreement at June 30, 2016 and 2015.

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 $151,666 and $156,312 for the years ended June 30, 2016 and 2015, respectively. At June 30, 2016 and 2015, Communis owed the Pastoral Center $16,587 and $16,037, respectively, for administrative expenses. This amount is included in accounts receivable in the accompanying balance sheet.

Transactions with Pension Trusts

At June 30, 2016 and 2015, the Pastoral Center had $158,153 and $172,082, 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 and 2015, the Pastoral Center had $386,779 and $0, respectively, 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.

At June 30, 2016 and 2015, the Lay Pension Trust owed the Pastoral Center $6,251 and $6,855, respectively, for administrative expenses. This amount is included in accounts receivable.

At June 30, 2016 and 2015, the Priests' Pension Trust owed the Pastoral Center $1,213 and $5,035, 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 2016, 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 $545,000 and $516,000 for the years ended June 30, 2016 and 2015, respectively. Total employer contributions to the plan were $5,968,871 and $10,627,231 for the years ended June 30, 2016 and 2015, 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 $97.8 million and $99.6 million and the projected benefit obligation (PBO) was $127.3 million and $126.8 million as of June 30, 2016 and 2015, respectively, 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 $13.2 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 2016, 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 $29,000 and $42,000 for the years ended June 30, 2016 and 2015, respectively. Total employer contributions to the plan were $140,392 and $2,266,922 for the years ended June 30, 2016 and 2015, 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 $16.2 and $18.1 million as of June 30, 2016 and 2015, respectively, and the projected benefit obligation was $22.0 and $22.7 million as of June 30, 2016 and 2015, 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 $1.8 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 will be 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 for the year ended June 30, 2016, was $200,000.

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:

	2016	2015
Service cost	$ 193,000	$ 127,000
Interest cost	391,000	304,000
Gain amortization	-	(30,000)
Net periodic postretirement benefit expense	$ 584,000	$ 401,000

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

	2016	2015
Discount rate	5.00%	5.00%
Medical care cost trend rate	6.10%	7.20%

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

The accumulated, unfunded postretirement benefit obligation at June 30, 2016 and 2015, was $6,996,557 and $7,989,762, 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 $5,846,848 at June 30, 2016. Employer contributions and benefit payments made were $316,165 and $248,520 in 2016 and 2015, respectively.

Estimated future benefit payments are anticipated as follows:

2017	312,000
2018	328,000
2019	356,000
2020	373,000
2021	396,000
2022 - 2026	2,228,000

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 $964,000.

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 $803,000.

14. FUNCTIONAL EXPENSES

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

	2016	2015
Program	$ 16,601,992	$ 15,241,917
General and administrative	2,445,004	2,102,999
Development	484,910	490,316
	$ 19,531,906	$ 17,835,232

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 17, 2016 which is the date the financial statements were available to be issued.