THE DIOCESE OF ROCHESTER
PASTORAL CENTER
OPERATIONS AND ASSOCIATED FUNDS
(Debtor in Possession)

Financial Statements as of
June 30, 2022
Together with
Independent Auditor's Report

Bonadio & Co., LLP
Certified Public Accountants

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Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

October 18, 2022

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

Opinion
We have audited the accompanying financial statements of The Diocese of Rochester (a New York religious corporation) Pastoral Center Operations and Associated Funds (the Pastoral Center) which comprise the balance sheet as of June 30, 2022, and the related statement of activities and change in net assets and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Pastoral Center as of June 30, 2022, 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.

Basis for Opinion
We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Pastoral Center and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Substantial Doubt about the Organization's Ability to Continue as a Going Concern
The accompanying financial statements have been prepared assuming the Pastoral Center will continue as a going concern. As described in Note 2, the Roman Catholic Diocese of Rochester (the Diocese and debtor in possession) has been the subject of material claims associated with alleged inappropriate conduct on the part of its employees. As a result of the significant number and dollar value of claims, the Pastoral Center believes that these conditions raise substantial doubt about its ability to continue as a going concern. Management's evaluation of the events and conditions and management's plans regarding those matters are also described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to that matter.

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(Continued)

INDEPENDENT AUDITOR'S REPORT
(Continued)

Responsibilities of Management for the Financial Statements
Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Pastoral Center's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit 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 Pastoral Center's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Pastoral Center's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Bonadio & Co., LLP

THE DIOCESE OF ROCHESTER PASTORAL CENTER OPERATIONS AND ASSOCIATED FUNDS
(Debtor in Possession)
BALANCE SHEET
JUNE 30, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
ASSETS			
CURRENT ASSETS:			
Cash and equivalents	$ 3,622,831	$ 1,431,874	$ 5,054,705
Accounts receivable	275,294	-	275,294
Agency fund investments	455,541	-	455,541
Cash - insurance reserves	2,054,726	-	2,054,726
Investments - insurance reserves	266,274	-	266,274
Second collection assets	251,688	-	251,688
Other current assets	652,570	-	652,570
Total current assets	7,578,924	1,431,874	9,010,798
INVESTMENTS	25,666,266	38,520,595	64,186,861
FIXED ASSETS, net	763,797	-	763,797
LIMITED USE ASSETS	2,917,590	-	2,917,590
OTHER ASSETS	115,423	151,416	266,839
Total assets	$ 37,042,000	$ 40,103,885	$ 77,145,885
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES:			
Accounts payable	$ 2,055,429	$ -	$ 2,055,429
Accrued payroll and benefits	500,366	-	500,366
Liability for agency fund investments	455,541	-	455,541
Accrued insurance claims	2,321,000	-	2,321,000
Liability for second collections	251,688	-	251,688
Due to Lay Pension Trust	131,518	-	131,518
Current portion of postretirement benefit liability	308,105	-	308,105
Due to (from) other funds	(1,502,594)	1,502,594	-
Other current liabilities	48,462	-	48,462
Total current liabilities	4,569,515	1,502,594	6,072,109
POSTRETIREMENT BENEFIT LIABILITY, net of current portion	4,785,257	-	4,785,257
OTHER LONG-TERM LIABILITIES	-	124,367	124,367
Total liabilities	9,354,772	1,626,961	10,981,733
NET ASSETS	27,687,228	38,476,924	66,164,152
Total net assets and liabilities	$ 37,042,000	$ 40,103,885	$ 77,145,885

The accompanying notes are an integral part of these statements.

THE DIOCESE OF ROCHESTER PASTORAL CENTER OPERATIONS AND ASSOCIATED FUNDS

(Debtor in Possession)

STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2022

	Without Donor Restrictions				
	Operations Supported by Annual Appeal	Other	Total	With Donor Restrictions	Total
REVENUE:					
Annual appeal	$ 6,650,696	$ -	$ 6,650,696	$ -	$ 6,650,696
Capital campaign contributions	-	-	-	11,601	11,601
Gifts and bequests	8,369	51,952	60,321	205,149	265,470
Fees and charges	2,382,755	1,560,430	3,943,185	-	3,943,185
Self-insurance program premiums	-	4,592,411	4,592,411	-	4,592,411
Employee benefit program premiums	-	135,086	135,086	-	135,086
Investment income (loss), net	9,926	(993,495)	(983,569)	(5,364,000)	(6,347,569)
Grants and aid	40,500	-	40,500	-	40,500
Other revenue	64,866	185,508	250,374	(61,865)	188,509
Net assets released from donor restrictions	1,193,063	399,337	1,592,400	(1,592,400)	-
Total revenue	10,350,175	5,931,229	16,281,404	(6,801,515)	9,479,889
EXPENSES:					
Personnel costs	6,210,439	14,410	6,224,849	-	6,224,849
Insurance program expenses	121,316	3,029,349	3,150,665	-	3,150,665
Subsidies and contributions	1,319,122	1,269,983	2,589,105	-	2,589,105
Overhead expenses	1,261,217	8,742	1,269,959	-	1,269,959
Sponsored programs	318,798	4,350	323,148	-	323,148
Ministerial education and formation	339,046	-	339,046	-	339,046
Professional services	470,069	3,370,986	3,841,055	-	3,841,055
Retired priests' benefits	169,895	(475,787)	(305,892)	-	(305,892)
Marketing and advertising	185,703	-	185,703	-	185,703
Mileage, travel and conferences	154,339	4,891	159,230	-	159,230
Depreciation	-	214,394	214,394	-	214,394
Total expenses	10,549,944	7,441,318	17,991,262	-	17,991,262
CHANGE IN NET ASSETS BEFORE CHANGE IN FUNDED STATUS OF POSTRETIREMENT LIABILITY	(199,769)	(1,510,089)	(1,709,858)	(6,801,515)	(8,511,373)
CHANGE IN FUNDED STATUS OF POSTRETIREMENT LIABILITY	-	(471,816)	(471,816)	-	(471,816)
CHANGE IN NET ASSETS	$ (199,769)	$ (1,981,905)	(2,181,674)	(6,801,515)	(8,983,189)
NET ASSETS - beginning of year			29,868,902	45,278,439	75,147,341
NET ASSETS - end of year			$ 27,687,228	$ 38,476,924	$ 66,164,152

The accompanying notes are an integral part of these statements.

THE DIOCESE OF ROCHESTER PASTORAL CENTER OPERATIONS AND ASSOCIATED FUNDS
(Debtor in Possession)
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2022

CASH FLOW FROM OPERATING ACTIVITIES:	
Change in net assets	$ (8,983,189)
Adjustments to reconcile change in net assets to net cash flow from operating activities:	
Net loss on investments	6,347,568
Depreciation	214,394
Change in funded status of postretirement benefit plan	471,816
Changes in:	
Accounts receivable	(195,794)
Other current assets	239,282
Other assets	135,982
Accounts payable	(129,857)
Accrued payroll and benefits	58,638
Accrued insurance claims	98,000
Due to Lay Pension Trust	12,365
Accrued postretirement benefits	(475,787)
Other current liabilities	(18,218)
Other long-term liabilities	(30,819)
Net cash flow from operating activities	(2,255,619)
CASH FLOW FROM INVESTING ACTIVITIES:	
Purchases of investments	(25,047,044)
Proceeds from sales of investments	25,415,465
Purchases of fixed assets	(207,897)
Net cash flow from investing activities	160,524
CHANGE IN CASH, EQUIVALENTS AND RESTRICTED CASH	(2,095,095)
CASH, EQUIVALENTS AND RESTRICTED CASH - beginning of year	9,204,526
CASH, EQUIVALENTS AND RESTRICTED CASH - end of year	$ 7,109,431
CASH AND EQUIVALENTS	$ 5,054,705
CASH-INSURANCE RESERVES	2,054,726
TOTAL CASH, EQUIVALENTS AND RESTRICTED CASH	$ 7,109,431

The accompanying notes are an integral part of these statements.

1. THE ORGANIZATION

The Pastoral Center of the Roman Catholic Diocese of Rochester (the Pastoral Center) is primarily responsible for performing the administrative functions associated with the operation of the Roman Catholic Diocese of Rochester (the Diocese and debtor in possession). The accompanying financial statements include funds and activities of the Pastoral Center. The Bishop of the Roman Catholic Diocese of Rochester, which is located in Rochester, New York, directly oversees the operation of the Pastoral Center.

2. GOING CONCERN UNCERTAINTY

On February 14, 2019, New York State signed into law the Child Victims Act (CVA). This legislation provided for the following:

- Extended New York State's statute of limitations for child abuse claims;
- Allowed for criminal charges against abusers of children until their victims turn 28 years of age, vs. the previous law which provided that right up to age 23;
- Allowed for civil actions against abusers, and institutions where they were abused, until their victims turn 55; and
- Opened a one-year window beginning on August 14, 2019, permitting any victim of child abuse to take civil action, regardless of when the abuse occurred;
- Although the CVA was extended for one year by New York State, the Diocese's bar date, in accordance with their bankruptcy filing, was August 13, 2020. This ended the window for filing of any future claims.

As a result of the passage of the CVA, the Diocese has been notified of a significant number of abuse related claims for alleged inappropriate conduct. Aggregate demands for damages from these claims and lawsuits are material. During the timeframe of the alleged abuses, the Diocese had a combination of commercial insurance coverage and self-insurance programs. At present, the Diocese is not certain as to the amount of commercial coverage available to assist it in meeting its ultimate obligations for these matters.

In response to the magnitude of both the number of claims and lawsuits and alleged damages, on September 12, 2019, the Diocese filed a voluntary petition for reorganization under Chapter 11 of the Federal Bankruptcy Code and was authorized to continue managing and operating as a debtor in possession subject to the control and supervision of the Bankruptcy Court. The Diocese believes that this filing best allows the Diocese to manage the claims adjudication process in an orderly manner as well as to ensure the equitable treatment of all claimants. The Diocese believes that this process will result in the eventual settlement of the claims and ultimately in the Diocese's ability to conduct ongoing business operations consistent with its recent historical practices. The ability of the Diocese to remain as a going concern and meet its obligations as they become due is dependent on the outcome of the bankruptcy proceeding and the settlement of abuse claims and lawsuits filed. These factors create substantial doubt about the Diocese's ability to continue as a going concern for the year following the date the financial statements are available to be issued. The financial statements do not include any adjustments that might be necessary if the Diocese is unable to continue as a going concern.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting
The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America.

Financial Reporting
The Pastoral Center classifies its operations into the following net asset categories:

- **Net Assets Without Donor Restrictions** - Net assets without donor restrictions are net assets that are not subject to donor-imposed stipulations.

- **Net Assets With Donor Restrictions** - Net assets with donor restrictions are net assets whose use by the Pastoral Center is limited by donor-imposed stipulations. This includes stipulations that can be fulfilled or removed by actions of the Pastoral Center and time restrictions, including donor-imposed stipulations that do not expire. In cases where the donor-imposed stipulation does not expire, generally the donor of these net assets permits the Pastoral Center to use all or part of the investment return on the related assets to support program activities. Gifts with donor restrictions whose restriction is met within the same year as the gift recognition are reported as gifts without donor restrictions.

Cash and Equivalents
Cash and equivalents include bank demand deposit accounts and money market accounts, excluding 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.

Fees, Charges and Accounts Receivable
Fees and charges include services billed to the parishes for information technology, office supplies, and other mutually agreed upon charges. The Pastoral Center recognizes fees and charges revenue in the period in which it satisfies its performance obligations by transferring services to the parishes. The Pastoral Center bills for actual charges incurred. The Pastoral Center's performance obligation relative to fees and charges is a bundled obligation to provide services mutually agreed upon by both parties. Payments for fees and charges are recognized at the amount in which it expects to be entitled.

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, 2022, no allowance for doubtful accounts was deemed necessary.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments

The Pastoral Center invests in the Communis Fund of the Diocese of Rochester, Inc. (Communis) and various investments through Tompkins Financial Advisors (Tompkins). 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.

Tompkins holds funds that the Diocese expects to be liquidated in the short-term. As such, the aim is to shield them from significant market fluctuations based on 70% of the fund being invested in cash equivalents.

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.

Limited Use Assets

Limited use assets consist of investment funds that are restricted, as a result of a New York State Supreme Court order dated August 1982, related to the sale of the St. Bernard's property. The funds are to be used in support of programs for the education of seminarians and priests of the Diocese.

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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurement (Continued)
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.

Fixed Assets
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 fixed assets 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. The Diocese has also been classified as an organization that is not a private foundation.

Estimates
The preparation of financial statements in accordance 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.

4. LIQUIDITY AND AVAILABILITY OF RESOURCES

The Pastoral Center's financial assets available within one year of the balance sheet date to meet cash needs for general expenditures were as follows at June 30, 2022:

Financial assets at year-end	$ 75,462,679
Less those unavailable for general expenditure within one year:	
Agency fund investments	(455,541)
Second collection assets	(251,688)
Cash and investments – insurance reserves	(2,321,000)
Collateralized cash	(501,363)
Funds restricted by donor with time or purpose restrictions	(38,325,509)
Board designated fund	(768,276)
Limited use assets	(2,917,590)
Financial assets available to meet cash needs for general expenditures within one year	$ 29,921,712

As part of the Pastoral Center's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The Pastoral Center is supported by donor-restricted contributions. Donor restrictions require resources be used in a particular manner or in a future period; therefore, the Pastoral Center must maintain sufficient resources to meet those responsibilities to its donors. Thus, financial assets may not be available for general expenditure within one year. See Note 8 for disclosure on endowment spending policy.

5. ACCOUNTS RECEIVABLE

Accounts receivable were as follows at June 30, 2022:

Annual appeal	$ 83,000
Self-Insurance Program	1,386
Information technology	24,160
Other	166,748
Total	$ 275,294

6. INVESTMENTS

Investments were comprised of the following at June 30, 2022:

Communis investment fund	$ 42,472,735
Cash equivalents	17,491,720
Equity exchange traded funds	4,956,655
Fixed income exchange traded funds	2,449,615
	67,370,725
Less: Investments held for insurance reserves	(266,274)
Limited use assets	(2,917,590)
	$ 64,186,861

6. INVESTMENTS (Continued)

Fair Value Measurement

The Pastoral Center's investments are measured at fair value on a recurring basis at June 30, 2022, utilizing the following input levels:

	Level 1	Level 2	Level 3	Total
Communis investment fund	$ -	$ 42,472,735	$ -	$ 42,472,735
Cash equivalents	17,491,720	-	-	17,491,720
Equity exchange traded funds	4,956,655	-	-	4,956,655
Fixed income exchange traded funds	2,449,615	-	-	2,449,615
	$ 24,897,990	$ 42,472,735	$ -	$ 67,370,725

7. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions were restricted for the following purposes as of June 30, 2022:

Seminarian, Diaconate, and Priest education	$ 11,070,414
Priest welfare benefits	6,253,253
Parish support	5,827,476
Catholic education	5,071,890
Faith formation	780,245
Other	1,642,111
Net assets restricted to remain in perpetuity	7,831,535
Total	$ 38,476,924

Net assets were released from donor restrictions in 2022 as follows:

Seminarian, Diaconate, and Priest education	$ 262,132
Priest welfare benefits	181,145
Parish support	734,106
Catholic education	150,868
Faith formation	172,566
Other	91,583
Total	$ 1,592,400

8. 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 endowment gifts that are donor restricted in perpetuity, 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 with donor restriction until appropriated by the Stewardship Council for expenditure.

Changes in endowment consisted of the following for the year ended June 30, 2022:

	Board Designated	With Donor Restrictions	With Donor Restrictions to Remain in Perpetuity	Total
Endowment net assets, June 30, 2021	$ 7,222,308	$ 6,935,802	$ 7,801,516	$ 21,959,626
Contributions	-	-	30,019	30,019
Investment return: Net depreciation	(86,962)	(1,808,538)	-	(1,895,500)
Appropriation of endowment assets for expenditure	(28,600)	(239,315)	-	(267,915)
Interfund transfers	(6,338,470)	-	-	(6,338,470)
Endowment net assets, June 30, 2022	$ 768,276	$ 4,887,949	$ 7,831,535	$13,487,760

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 are reported in net assets with donor restrictions. There were two funds with deficiencies totaling approximately $22,000 as of June 30, 2022.

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 funds with donor restrictions 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.

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.

8. ENDOWMENT FUNDS (Continued)

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 accumulated unappropriated endowment earnings with restriction. 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.

9. FIXED ASSETS

Fixed assets were as follows at June 30, 2022:

Buildings and improvements	$ 10,084,764
Furniture, fixtures and equipment	548,666
Vehicles	240,053
Construction-in-progress	29,175
	10,902,658
Less: Accumulated depreciation	(10,138,861)
	$ 763,797

10. 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.

Liabilities established for claims made or anticipated to be made under the self-insured insurance program totaled $2,321,000 at June 30, 2022. The Diocese has cash of approximately $2,055,000 and investments of approximately $266,000 reserved at June 30, 2022 to cover these liabilities.

The Diocese has a $460,842 letter-of-credit outstanding with Tompkins Community Bank. This letter-of-credit represents a security deposit required of self-insured plans by the New York State Workers' Compensation Board. The current agreement expires in June 2023. The Diocese was self-insured for workers' compensation prior to July 1, 2009.

11. TRANSACTIONS WITH AFFILIATES

Transactions with Communis

Certain investments are held in Communis. The Pastoral Center provides Communis with administrative and financial services under the terms of an administrative contract approved by the Communis Board of Directors. 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 $86,900 in fiscal 2022.

Transactions with Pension Trusts

At June 30, 2022, the Pastoral Center had $131,518 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.

12. PENSION AND RETIREMENT PLANS

Lay Pension Plan

The Pastoral Center participates in the Diocese of Rochester Lay Employees Retirement Accumulation Plan (the Plan), a multi-employer, non-qualified defined benefit pension plan. In 2022, the organizations participating in the plan were charged an annual amount of 12% of gross wages for each participant in the plan. Effective June 1, 2021, benefits earned in the Plan were frozen and no additional new credits or benefit accruals will occur after that date.

The Pastoral Center recorded pension expense related to the Plan of approximately $438,000 in fiscal 2022.

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 $112.1 million at June 30, 2022 and the projected benefit obligation (PBO) was $116.4 million as of June 30, 2022, the date of the most recent actuarial valuation.

The actuaries indicated that a 1% increase in the discount rate would decrease the lay pension plan PBO by approximately $10.5 million.

Priests' Pension Plan

The Pastoral Center participates in the Priests' Retirement Plan, a multi-employer, non-qualified defined benefit pension plan for all incardinated priests of the Diocese. The plan provides maximum monthly benefits of $1,500 which are paid from the pension plan at age 70. In 2022, 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 $37,000 in fiscal 2022.

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 million as of June 30, 2022 and the PBO was $18.1 million as of June 30, 2022, the date of the most recent actuarial valuation.

The actuaries indicated that a 1% increase in the discount rate would decrease the priests' pension plan PBO by approximately $1.3 million.

12. PENSION AND RETIREMENT PLANS (Continued)

Retirement Plan

The Pastoral Center also participates in the Diocese of Rochester 403(b) Plan. The Pastoral Center employer matching contribution is equal to 100% of elective employee salary deferrals into the 403(b) Plan capped at 2% of employee compensation for lay employees and capped at a $600 match for priests.

Effective June 1, 2021, eligible full-time employees who are at least 21 years old and employed on December 31st will receive a Nonelective Employer Contribution (NEC). The NEC will be based on the participant's age and compensation and vesting will occur after three years of employment. Retirement plan expense associated with the 403(b) Plan was approximately $478,000 in fiscal 2022.

13. OTHER POSTRETIREMENT BENEFITS

The Pastoral Center provides health and dental benefits for retired priests. Priests are eligible to retire between the ages of 70 to 75.

The components of net periodic postretirement benefit expense for the year ended June 30, 2022, is estimated as follows:

Service cost	$ 104,000
Interest cost	210,000
Amortization of net gain	(107,000)
Net periodic postretirement benefit expense	$ 207,000

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

Discount rate	5.00%
Medical care cost trend rate	6.10%

The medical care cost trend rate used in the computation ultimately reduces to 4.37%.

The accumulated, unfunded postretirement benefit obligation at June 30, 2022 was $5,093,362. It is the Diocese's intention to meet this future funding requirement, in part, with net assets with donor restrictions available for this purpose. The balance of these funds is $7,067,342 at June 30, 2022. Benefit payments made were $169,895 in fiscal 2022.

Estimated future benefit payments are anticipated as follows:

2023	$ 305,800
2024	$ 302,400
2025	$ 298,000
2026	$ 293,300
2027	$ 301,400
2028 - 2032	$ 1,634,700

13. OTHER POSTRETIREMENT BENEFITS (Continued)

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 $673,000.

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 $555,000.

14. FUNCTIONAL EXPENSES

The Pastoral Center incurs expenses that are attributable to one or more program or supporting functions. These expenses include personnel costs, professional services, ministerial education and formation, sponsored programs, marketing and advertising, and mileage, travel and conferences. Allocation of these expenses is based on estimates of time and effort or costs specific to a functional area. Overhead expenses, including facility expenses, as well as depreciation are allocated to programs based on staffing head count.

Expenses that are not allocated among functional areas include retired clergy benefits, lay employee's 403(b) match, and information technology costs which are directly reported as administrative expenses. Certain expenses, such as retired clergy benefits, school and parish aid, and ministerial education are subsidized with funds outside of operations.

The Pastoral Center's expenses shown by function and nature are as follows at June 30, 2022:

	Faith Formation/ Catholic Education	Support Parish Agencies	Total Program Expense	Administrative Expense	Fundraising Expense	Total
Personnel costs	$ 1,009,796	$ 2,699,160	$ 3,708,956	$ 2,365,900	$ 149,993	$ 6,224,849
Insurance program expenses	-	3,150,665	3,150,665	-	-	3,150,665
Subsidies and contributions	1,144,949	1,220,593	2,365,542	217,314	6,249	2,589,105
Overhead expenses	149,468	480,819	630,287	627,569	12,103	1,269,959
Sponsored programs	105,029	95,856	200,885	80,468	41,795	323,148
Ministerial education and formation	-	336,170	336,170	2,876	-	339,046
Professional services	108,576	3,560,022	3,668,598	172,326	131	3,841,055
Retired priests' benefits	-	(305,892)	(305,892)	-	-	(305,892)
Marketing and advertising	40,319	1,004	41,323	830	143,550	185,703
Mileage, travel and conferences	57,874	66,806	124,680	34,264	286	159,230
Depreciation	21,439	42,879	64,318	150,076	-	214,394
	$ 2,637,450	$11,348,082	$13,985,532	$ 3,651,623	$ 354,107	$17,991,262

15. COMMITMENTS AND CONTINGENCIES

Legal Proceedings

On February 14, 2019, New York State signed into law the Child Victims Act (CVA). See Note 2 for a description of this matter. No material amounts have been recorded for settlement of these matters as the potential financial impact on the Diocese is not presently determinable. However, it is likely that the ultimate resolution of these matters could have a material adverse impact on the Diocese's results of operations, liquidity, and financial position.

In September 2018, the New York State Attorney General commenced a civil investigation of the eight Catholic Dioceses of New York State regarding their handling of past sexual abuse allegations. As a result, the Diocese has received a subpoena requesting historical information related to such matters. The Diocese continues to respond to the subpoena request. The potential financial impact of this matter on the Diocese is not presently determinable.

16. COVID-19 PANDEMIC

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic. The global pandemic caused by the virus disrupted world-wide economic activity. As of the date of issuance, the COVID-19 pandemic continues. The overall short-term and long-term consequences of COVID-19 on a national, regional and local level are unknown, but there is the potential of a noteworthy negative economic impact. The impact of this situation specific to the Pastoral Center and its future results and financial position is not presently determinable.

17. SUBSEQUENT EVENTS

Subsequent events have been evaluated through October 18, 2022, which is the date the financial statements were available to be issued.