

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

**Financial Statements as of
June 30, 2023
Together with
Independent Auditor's Report**

Bonadio & Co., LLP
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

October 19, 2023

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, 2023, 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.

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, 2023, 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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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.

THE DIOCESE OF ROCHESTER PASTORAL CENTER OPERATIONS AND ASSOCIATED FUNDS
(Debtor in Possession)
BALANCE SHEET
JUNE 30, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
ASSETS			
CURRENT ASSETS:			
Cash and equivalents	\$ 2,572,386	\$ 1,328,838	\$ 3,901,224
Accounts receivable	336,088	400,000	736,088
Agency fund investments	477,656	-	477,656
Cash - insurance reserves	1,739,082	-	1,739,082
Investments - insurance reserves	294,918	-	294,918
Second collection assets	269,011	161,171	430,182
Other current assets	504,193	-	504,193
Total current assets	6,193,334	1,890,009	8,083,343
INVESTMENTS	26,374,378	42,781,471	69,155,849
FIXED ASSETS, net	633,897	-	633,897
LIMITED USE ASSETS	3,231,453	-	3,231,453
OTHER ASSETS	115,423	121,098	236,521
Total assets	<u>\$ 36,548,485</u>	<u>\$ 44,792,578</u>	<u>\$ 81,341,063</u>
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES:			
Accounts payable	\$ 1,966,809	\$ -	\$ 1,966,809
Accrued payroll and benefits	295,927	-	295,927
Liability for agency fund investments	477,656	-	477,656
Accrued insurance claims	2,034,000	-	2,034,000
Liability for second collections	269,011	161,171	430,182
Due to Lay Pension Trust	133,232	-	133,232
Current portion of postretirement benefit liability	308,105	-	308,105
Due to (from) other funds	(2,115,116)	2,115,116	-
Other current liabilities	64,101	-	64,101
Total current liabilities	3,433,725	2,276,287	5,710,012
POSTRETIREMENT BENEFIT LIABILITY, net of current portion	4,397,881	-	4,397,881
OTHER LONG-TERM LIABILITIES	-	96,098	96,098
Total liabilities	7,831,606	2,372,385	10,203,991
NET ASSETS	<u>28,716,879</u>	<u>42,420,193</u>	<u>71,137,072</u>
Total net assets and liabilities	<u>\$ 36,548,485</u>	<u>\$ 44,792,578</u>	<u>\$ 81,341,063</u>

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, 2023

	Without Donor Restrictions			With Donor Restrictions	Total
	Operations Supported by Annual Appeal	Other	Total		
REVENUE:					
Annual appeal	\$ 6,853,589	\$ -	\$ 6,853,589	\$ -	\$ 6,853,589
Gifts and bequests	4,276	284,339	288,615	994,400	1,283,015
Fees and charges	2,593,490	1,665,582	4,259,072	-	4,259,072
Self-insurance program premiums	-	4,942,148	4,942,148	-	4,942,148
Employee benefit program premiums	-	186,382	186,382	-	186,382
Investment income, net	12,140	1,081,019	1,093,159	4,115,422	5,208,581
Grants and aid	229,548	-	229,548	-	229,548
Other revenue	56,842	145,585	202,427	81,444	283,871
Net assets released from donor restrictions	<u>706,177</u>	<u>541,820</u>	<u>1,247,997</u>	<u>(1,247,997)</u>	<u>-</u>
Total revenue	<u>10,456,062</u>	<u>8,846,875</u>	<u>19,302,937</u>	<u>3,943,269</u>	<u>23,246,206</u>
EXPENSES:					
Personnel costs	5,908,349	27,418	5,935,767	-	5,935,767
Insurance program expenses	132,505	2,802,227	2,934,732	-	2,934,732
Subsidies and contributions	1,291,742	1,181,235	2,472,977	-	2,472,977
Overhead expenses	1,240,393	11,833	1,252,226	-	1,252,226
Sponsored programs	462,625	8,000	470,625	-	470,625
Ministerial education and formation	296,660	-	296,660	-	296,660
Professional services	441,485	4,212,372	4,653,857	-	4,653,857
Retired priests' benefits	166,167	(112,704)	53,463	-	53,463
Marketing and advertising	163,249	-	163,249	-	163,249
Mileage, travel and conferences	158,852	125	158,977	-	158,977
Depreciation	-	155,425	155,425	-	155,425
Total expenses	<u>10,262,027</u>	<u>8,285,931</u>	<u>18,547,958</u>	<u>-</u>	<u>18,547,958</u>
CHANGE IN NET ASSETS BEFORE CHANGE IN FUNDED STATUS OF POSTRETIREMENT LIABILITY	194,035	560,944	754,979	3,943,269	4,698,248
CHANGE IN FUNDED STATUS OF POSTRETIREMENT LIABILITY	<u>-</u>	<u>274,672</u>	<u>274,672</u>	<u>-</u>	<u>274,672</u>
CHANGE IN NET ASSETS	<u>\$ 194,035</u>	<u>\$ 835,616</u>	1,029,651	3,943,269	4,972,920
NET ASSETS - beginning of year			<u>27,687,228</u>	<u>38,476,924</u>	<u>66,164,152</u>
NET ASSETS - end of year			<u>\$ 28,716,879</u>	<u>\$ 42,420,193</u>	<u>\$ 71,137,072</u>

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, 2023**

CASH FLOW FROM OPERATING ACTIVITIES:	
Change in net assets	\$ 4,972,920
Adjustments to reconcile change in net assets to net cash flow from operating activities:	
Net gain on investments	(5,208,581)
Depreciation	155,425
Change in funded status of postretirement benefit plan	(274,672)
Changes in:	
Accounts receivable	(460,794)
Other current assets	148,377
Other assets	30,318
Accounts payable	(88,620)
Accrued payroll and benefits	(204,439)
Accrued insurance claims	(287,000)
Due to Lay Pension Trust	1,714
Accrued postretirement benefits	(112,704)
Other current liabilities	15,639
Other long-term liabilities	<u>(28,269)</u>
Net cash flow from operating activities	<u>(1,340,686)</u>
CASH FLOW FROM INVESTING ACTIVITIES:	
Purchases of investments	(507,100)
Proceeds from sales of investments	404,186
Purchases of fixed assets	<u>(25,525)</u>
Net cash flow from investing activities	<u>(128,439)</u>
CHANGE IN CASH AND EQUIVALENTS	(1,469,125)
CASH AND EQUIVALENTS - beginning of year	<u>7,109,431</u>
CASH AND EQUIVALENTS - end of year	<u>\$ 5,640,306</u>
CASH AND EQUIVALENTS	\$ 3,901,224
CASH-INSURANCE RESERVES	<u>1,739,082</u>
TOTAL CASH AND EQUIVALENTS	<u>\$ 5,640,306</u>

The accompanying notes are an integral part of these statements.

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

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023**

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 the Pastoral Center 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, 2023, 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 93% 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 in accordance with GAAP and 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, 2023:

Financial assets at year-end	\$	79,966,452
Less those unavailable for general expenditure within one year:		
Agency fund investments		(477,656)
Second collection assets		(430,182)
Cash and investments – insurance reserves		(2,034,000)
Collateralized cash		(501,614)
Funds restricted by donor with time or purpose restrictions		(42,299,095)
Board designated fund		(817,254)
Limited use assets		<u>(3,231,453)</u>
Financial assets available to meet cash needs for general expenditures within one year	\$	<u>30,175,198</u>

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

At July 1, 2022, the accounts receivable balance was \$275,294. Accounts receivable were as follows at June 30, 2023:

Annual appeal	\$	25,000
Information technology		19,524
Restricted bequest		400,000
Other		<u>291,564</u>
Total	\$	<u>736,088</u>

6. INVESTMENTS

Investments were comprised of the following at June 30, 2023:

Communis investment fund	\$	47,125,097
Cash equivalents		23,657,672
Equity exchange traded funds		1,280,383
Fixed income exchange traded funds		<u>619,068</u>
		72,682,220
Less: Investments held for insurance reserves		(294,918)
Limited use assets		<u>(3,231,453)</u>
	\$	<u>69,155,849</u>

6. INVESTMENTS (Continued)

Fair Value Measurement

The Pastoral Center's investments are measured at fair value on a recurring basis at June 30, 2023, utilizing the following input levels:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Communis investment fund	\$ -	\$ 47,125,097	\$ -	\$ 47,125,097
Cash equivalents	23,657,672	-	-	23,657,672
Equity exchange traded funds	1,280,383	-	-	1,280,383
Fixed income exchange traded funds	<u>619,068</u>	<u>-</u>	<u>-</u>	<u>619,068</u>
	<u>\$ 25,557,123</u>	<u>\$ 47,125,097</u>	<u>\$ -</u>	<u>\$ 72,682,220</u>

7. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions were restricted for the following purposes as of June 30, 2023:

Seminarian, Diaconate, and Priest education	\$ 12,514,502
Priest welfare benefits	6,833,603
Parish support	6,086,483
Catholic education	6,178,152
Faith formation	974,876
Other	1,999,792
Net assets restricted to remain in perpetuity	<u>7,832,785</u>
Total	<u>\$ 42,420,193</u>

Net assets were released from donor restrictions in 2023 as follows:

Seminarian, Diaconate, and Priest education	\$ 257,606
Priest welfare benefits	179,017
Parish support	446,676
Catholic education	118,800
Faith formation	120,011
Other	<u>125,888</u>
Total	<u>\$ 1,247,997</u>

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, 2023:

	<u>Board Designated</u>	<u>With Donor Restrictions</u>	<u>With Donor Restrictions to Remain in Perpetuity</u>	<u>Total</u>
Endowment net assets, June 30, 2022	\$ 768,276	\$ 4,887,949	\$ 7,831,535	\$ 13,487,760
Additions	-	-	1,250	1,250
Investment return: Net appreciation	79,378	1,396,081	-	1,475,459
Appropriation of endowment assets for expenditure	<u>(30,400)</u>	<u>(203,200)</u>	<u>-</u>	<u>(233,600)</u>
Endowment net assets, June 30, 2023	<u>\$ 817,254</u>	<u>\$ 6,080,830</u>	<u>\$ 7,832,785</u>	<u>\$14,730,869</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 are reported in net assets with donor restrictions. There were no funds with deficiencies as of June 30, 2023.

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, 2023:

Buildings and improvements	\$ 9,689,849
Furniture, fixtures and equipment	548,666
Vehicles	240,053
Construction-in-progress	<u>54,700</u>
	10,533,268
Less: Accumulated depreciation	<u>(9,899,371)</u>
	<u>\$ 633,897</u>

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 \$2,034,000 at June 30, 2023. The Diocese has cash of approximately \$1,739,000 and investments of approximately \$295,000 reserved at June 30, 2023 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 2024. 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 \$231,108 in fiscal 2023.

Transactions with Pension Trusts

At June 30, 2023, the Pastoral Center had \$133,232 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 2023, 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 \$449,000 in fiscal 2023.

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 \$116.4 million at June 30, 2023 and the projected benefit obligation (PBO) was \$112.0 million as of June 30, 2023, 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 \$9.7 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 2023, 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 \$43,000 in fiscal 2023.

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 \$18.4 million as of June 30, 2023 and the PBO was \$17.2 million as of June 30, 2023, 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 \$1.2 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 discretionary 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.

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, 2023, is estimated as follows:

Service cost	\$	98,000
Interest cost		247,000
Amortization of net gain		<u>(104,000)</u>
Net periodic postretirement benefit expense	\$	<u>241,000</u>

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

Discount rate	5.25%
Medical care cost trend rate	5.50%

The medical care cost trend rate used in the computation ultimately reduces to 4.00%.

The accumulated, unfunded postretirement benefit obligation at June 30, 2023 was \$4,705,986. 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 \$7,813,859 at June 30, 2023. Benefit payments made were \$166,167 in fiscal 2023.

Estimated future benefit payments are anticipated as follows:

2024	\$	309,000
2025	\$	305,000
2026	\$	300,000
2027	\$	294,000
2028	\$	297,000
2029 - 2033	\$	1,602,000

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 \$583,000.

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 \$484,000.

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 charges 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 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, 2023:

	Faith Formation/ Catholic Education	Support Parish Agencies	Total Program Expense	Administrative Expense	Fundraising Expense	Total
Personnel costs	\$ 1,085,728	\$ 2,890,649	\$ 3,976,377	\$ 1,752,776	\$ 206,614	\$ 5,935,767
Insurance program expenses	-	2,934,732	2,934,732	-	-	2,934,732
Subsidies and contributions	1,063,876	1,196,027	2,259,903	205,234	7,840	2,472,977
Overhead expenses	132,189	529,169	661,358	575,590	15,278	1,252,226
Sponsored programs	138,701	19,635	158,336	35,765	276,524	470,625
Ministerial education and formation	-	295,130	295,130	1,530	-	296,660
Professional services	96,776	4,372,796	4,469,572	184,249	36	4,653,857
Retired priests' benefits	-	53,463	53,463	-	-	53,463
Marketing and advertising	7,460	475	7,935	1,552	153,762	163,249
Mileage, travel and conferences	40,852	81,353	122,205	36,107	665	158,977
Depreciation	<u>12,434</u>	<u>27,977</u>	<u>40,411</u>	<u>115,014</u>	<u>-</u>	<u>155,425</u>
	<u>\$ 2,578,016</u>	<u>\$12,401,406</u>	<u>\$14,979,422</u>	<u>\$ 2,907,817</u>	<u>\$ 660,719</u>	<u>\$18,547,958</u>

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. SUBSEQUENT EVENTS

Subsequent events have been evaluated through October 19, 2023, which is the date the financial statements were available to be issued.