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

Financial Statements as of
June 30, 2019
Together with
Independent Auditor's Report

Bonadio & Co., LLP
Certified Public Accountants

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Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

October 21, 2019

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 Pastoral Center) which comprise the balance sheet as of June 30, 2019, 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, 2019, 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.

171 Sully's Trail
Pittsford, New York 14534
p (585) 381-1000
f (585) 381-3131

www.bonadio.com

(Continued)

INDEPENDENT AUDITOR'S REPORT
(Continued)

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 3, 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 3. 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.

Change in Accounting Principle
As described in Note 2 to the financial statements, the Pastoral Center implemented Accounting Standards Update 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, and the effects have been included in these financial statements. Our opinion is not modified with respect to this matter.

Bonadio & Co., LLP

THE DIOCESE OF ROCHESTER PASTORAL CENTER OPERATIONS AND ASSOCIATED FUNDS

(Debtor in Possession)

BALANCE SHEET

JUNE 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
ASSETS			
CURRENT ASSETS:			
Cash and equivalents	$ 5,248,266	$ 1,920,961	$ 7,169,227
Accounts receivable	639,188	-	639,188
Agency fund cash and investments	373,187	-	373,187
Cash and investments - insurance reserves	1,955,000	-	1,955,000
Second collection assets	328,502	-	328,502
Other current assets	487,311	2,200	489,511
Total current assets	9,031,454	1,923,161	10,954,615
INVESTMENTS	18,527,363	34,364,445	52,891,808
FIXED ASSETS, net	915,295	-	915,295
LIMITED USE ASSETS	2,555,880	-	2,555,880
OTHER ASSETS	123,079	447,727	570,806
Total assets	$ 31,153,071	$ 36,735,333	$ 67,888,404
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES:			
Accounts payable	$ 276,149	$ -	$ 276,149
Accrued payroll and benefits	649,408	-	649,408
Liability for agency fund cash and investments	373,187	-	373,187
Accrued insurance claims	1,955,000	-	1,955,000
Liability for second collections	328,502	-	328,502
Due to Lay Pension Trust	160,504	-	160,504
Current portion of postretirement benefit liability	298,241	-	298,241
Due to (from) other funds	(66,951)	66,951	-
Other current liabilities	71,797	-	71,797
Total current liabilities	4,045,837	66,951	4,112,788
POSTRETIREMENT BENEFIT LIABILITY, net of current portion	4,982,333	-	4,982,333
OTHER LONG-TERM LIABILITIES	-	165,433	165,433
Total liabilities	9,028,170	232,384	9,260,554
NET ASSETS	22,124,901	36,502,949	58,627,850
	$ 31,153,071	$ 36,735,333	$ 67,888,404

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, 2019

	Without Donor Restrictions					
	Operations Supported by Annual Appeal	School Operations	Other	Total	With Donor Restrictions	Total
REVENUE:						
Annual appeal	$ 6,803,471	$ -	$ -	$ 6,803,471	$ -	$ 6,803,471
Capital campaign contributions	-	-	-	-	289,663	289,663
Gifts and bequests	24,025	-	432,317	456,342	268,264	724,606
Fees and charges	2,694,998	3,398,423	173,364	6,266,785	50,894	6,317,679
Self-insurance program premiums	-	-	4,323,759	4,323,759	-	4,323,759
Employee benefit program premiums	-	-	486,819	486,819	-	486,819
Investment income, net	10,792	38,509	721,398	770,699	1,168,637	1,939,336
Grants and aid	48,500	100,907	-	149,407	290,750	440,157
Other revenue	76,081	-	191,007	267,088	283,222	550,310
Net assets released from - Program restrictions	2,053,786	21,298	(92,191)	1,982,893	(1,982,893)	-
Total revenue	11,711,653	3,559,137	6,236,473	21,507,263	368,537	21,875,800
EXPENSES:						
Personnel costs	6,449,298	993,647	18,122	7,461,067	-	7,461,067
Insurance program expenses	106,128	22,765	4,969,266	5,098,159	-	5,098,159
Subsidies and contributions	1,458,266	632,155	864,553	2,954,974	-	2,954,974
Overhead expenses	971,193	79,700	46,945	1,097,838	-	1,097,838
Sponsored programs	236,897	286,359	58,080	581,336	-	581,336
Ministerial education and formation	584,938	-	-	584,938	-	584,938
Professional services	595,824	36,894	100,684	733,402	-	733,402
Retired priests' benefits	237,451	-	117,110	354,561	-	354,561
Marketing and advertising	219,064	11,994	18,145	249,203	-	249,203
Mileage, travel and conferences	202,866	1,905	56	204,827	-	204,827
Depreciation	-	-	169,965	169,965	-	169,965
Total expenses	11,061,925	2,065,419	6,362,926	19,490,270	-	19,490,270
CHANGE IN NET ASSETS BEFORE CHANGE IN FUNDED STATUS OF POSTRETIREMENT LIABILITY	649,728	1,493,718	(126,453)	2,016,993	368,537	2,385,530
CHANGE IN FUNDED STATUS OF POSTRETIREMENT LIABILITY	-	-	829,926	829,926	-	829,926
CHANGE IN NET ASSETS	$ 649,728	$ 1,493,718	$ 703,473	2,846,919	368,537	3,215,456
NET ASSETS - beginning of year				19,277,982	36,134,412	55,412,394
NET ASSETS - end of year				$ 22,124,901	$ 36,502,949	$ 58,627,850

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, 2019

CASH FLOW FROM OPERATING ACTIVITIES:	
Change in net assets	$ 3,215,456
Adjustments to reconcile change in net assets to net cash flow from operating activities:	
Net gain on investments	(2,112,858)
Depreciation	169,965
Net change in contribution receivable discount	(63)
Bad debt recovery	(60,715)
Change in funded status of postretirement benefit plan	(829,926)
Changes in:	
Accounts receivable	(185,531)
Other current assets	(96,606)
Other assets	(83,182)
Accounts payable	14,653
Accrued payroll and benefits	(9,368)
Accrued insurance claims	(1,595,000)
Due to Lay Pension Trust	41,309
Accrued postretirement benefits	117,110
Other current liabilities	11,153
Other long-term liabilities	(9,357)
Net cash flow from operating activities	(1,412,960)
CASH FLOW FROM INVESTING ACTIVITIES:	
Purchases of investments	(146,053)
Proceeds from sales of investments	1,918,040
Purchases of fixed assets	(439,268)
Net cash flow from investing activities	1,332,719
CHANGE IN CASH AND EQUIVALENTS	(80,241)
CASH AND EQUIVALENTS - beginning of year	7,249,468
CASH AND EQUIVALENTS - end of year	$ 7,169,227

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 as well as Siena Catholic Academy, the only Diocesan operated Catholic School. 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. 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.

Change in Accounting Principle
In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities,* with the purpose of improving financial reporting by not-for-profit (NFP) entities. ASU 2016-14 includes many changes affecting the presentation for the Pastoral Center's financial statements including:

- Reducing the number of classes of net assets from three to two (net assets with donor restrictions and net assets without donor restrictions);
- Requiring the presentation of expenses in both natural and functional classifications;
- Eliminating the requirement to disclose the components of investment return, as well as reporting investment return net of external and direct internal investment expenses; and
- Requiring qualitative and quantitative disclosures regarding the Pastoral Center's liquidity and availability of resources.

ASU 2016-14 is effective for the Pastoral Center's year ending June 30, 2019, and was applied retrospectively. The effects of this ASU have been included in these financial statements. There was no effect on total net assets or changes in net assets.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, including resources that have donor-imposed restrictions that stipulate that resources be maintained in perpetuity. 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 restriction.

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

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, 2019, no allowance for doubtful accounts was deemed necessary.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Limited Use Assets
Limited use assets consist of funds that are restricted by court order 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.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

3. 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.

As a result of the passage of the CVA, through the date of this report, the Diocese has been notified or become aware of a significant number of abuse related claims for alleged inappropriate conduct. Aggregate demands for damages from these claims and lawsuits are expected to be material, although presently not determinable. 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 and those that may be filed during the one-year window commencing August 14, 2019. 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.

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, 2019:

Financial assets at year-end	$ 65,914,992
Less those unavailable for general expenditure within one year:	
Agency fund cash and investments	(373,187)
Second collection assets	(328,502)
Cash and investments – insurance reserves	(1,955,000)
Funds restricted by donor with time or purpose restrictions	(36,287,605)
Board designated endowment funds	(5,620,910)
Limited use assets	(2,555,880)
Financial assets available to meet cash needs for general expenditures within one year	$ 18,793,908

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 Diocese of Rochester 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, 2019:

Annual appeal	$ 234,740
Parish subsidy	59,946
Self-insurance program	115,714
Information technology	96,225
Other	132,563
Total	$ 639,188

6. INVESTMENTS

Investments were comprised of the following at June 30, 2019:

Communis investment fund	$ 57,402,688
Less: Investments held for insurance reserves	(1,955,000)
Limited use assets	(2,555,880)
	$ 52,891,808

6. INVESTMENTS (Continued)

Fair Value Measurement

The Pastoral Center's investments are measured at fair value on a recurring basis at June 30, 2019, utilizing the following input levels:

	Level 1	Level 2	Level 3	Total
Communis investment fund	$ -	$ 57,402,688	$ -	$ 57,402,688
Total	$ -	$ 57,402,688	$ -	$ 57,402,688

7. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions were restricted for the following purposes as of June 30, 2019:

Seminarian, Diaconate, and Priest education	$ 10,065,040
Priest welfare benefits	5,975,429
Parish support	6,467,329
Catholic education	3,872,762
Faith formation	733,984
Other	1,595,839
Restricted net assets to remain in perpetuity	7,792,566
Total	$ 36,502,949

Net assets were released from restriction in 2019 as follows:

Seminarian, Diaconate, and Priest education	$ 63,394
Priest welfare benefits	248,271
Parish support	659,658
Catholic education	557,301
Faith formation	61,693
Other	392,576
Total	$ 1,982,893

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.

8. ENDOWMENT FUNDS (Continued)

Changes in endowment consisted of the following for the years ended June 30, 2019:

	Board Designated	With Donor Restrictions	With Donor Restrictions to Remain in Perpetuity	Total
Endowment net assets, June 30, 2018	$ 5,686,561	$ 4,002,581	$ 7,792,566	$17,481,708
Investment return: Net appreciation	190,749	396,221	-	586,970
Appropriation of endowment assets for expenditure	(256,400)	(581,358)	-	(837,758)
Endowment net assets, June 30, 2019	$ 5,620,910	$ 3,817,444	$ 7,792,566	$17,230,920

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. There were no such deficiencies as of June 30, 2019.

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.

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.

8. ENDOWMENT FUNDS (Continued)

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, 2019:

Buildings and improvements	$ 9,741,478
Furniture, fixtures and equipment	516,310
Vehicles	113,781
	10,371,569
Less: Accumulated depreciation	(9,456,274)
	$ 915,295

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 $1,955,000 at June 30, 2019.

The Diocese had 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 current agreement expires in June 2020. 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 $188,314 in fiscal 2019. At June 30, 2019, Communis owed the Pastoral Center $16,687 for administrative expenses. This amount is included in accounts receivable in the accompanying balance sheet.

11. TRANSACTIONS WITH AFFILIATES (Continued)

Transactions with Pension Trusts

At June 30, 2019, the Pastoral Center had $160,504 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, 2019, the Lay Pension Trust owed the Pastoral Center $10,203 for administrative expenses. This amount is included in accounts receivable.

At June 30, 2019, the Priests' Pension Trust owed the Pastoral Center $1,228 for administrative expenses. This amount is included in accounts receivable.

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 2019, 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 $548,000 in fiscal 2019.

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 $119.7 million at June 30, 2019 and the projected benefit obligation (PBO) was $125.6 million as of June 30, 2019, 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 $12.3 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 $1,400 which, effective January 1, 2018, are paid from the pension plan at age 70. Previously, the plan assumed retirement at age 70 with 30 years of service, with vesting after 3 years of service, with prorated benefits based on years of service. 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 $27,000 in fiscal 2019.

12. PENSION AND RETIREMENT PLANS (Continued)

Priests' Pension Plan (Continued)

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 $18.3 million as of June 30, 2019 and the PBO was $20.0 million as of June 30, 2019, 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 $1.5 million.

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. Retirement plan expense associated with the 403(b) Plan was approximately $418,000 in fiscal 2019.

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 depending on their age as of July 1, 2017.

The components of net periodic postretirement benefit expense for the year ended June 30, 2019, is estimated as follows:

Service cost	$ 142,000
Interest cost	307,000
Amortization of net gain	(37,000)
Net periodic postretirement benefit expense	$ 412,000

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

Discount rate	5.25%
Medical care cost trend rate	5.20%

The medical care cost trend rate used in the computation ultimately reduces to 4.3%.

The accumulated, unfunded postretirement benefit obligation at June 30, 2019 was $5,280,574. 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 $6,222,320 at June 30, 2019. Plan contributions and benefit payments made were $236,271 in fiscal 2019.

Estimated future benefit payments are anticipated as follows:

2020	$ 277,100
2021	$ 287,700
2022	$ 299,900
2023	$ 301,200
2024	$ 308,900
2025 - 2029	$ 1,646,900

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 $818,000.

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 $677,000.

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, 2019:

	Faith Formation/ Catholic Education	Support Parish Agencies	Total Program Expense	Administrative Expense	Fundraising Expense	Total
Personnel costs	$ 2,251,230	$ 2,712,701	$ 4,963,931	$ 2,208,838	$ 288,298	$ 7,461,067
Insurance program expenses	22,765	5,075,394	5,098,159	-	-	5,098,159
Subsidies and contributions	1,000,913	1,452,597	2,453,510	262,669	238,795	2,954,974
Overhead expenses	251,354	437,779	689,133	374,150	34,555	1,097,838
Sponsored programs	417,310	140,577	557,887	22,220	1,229	581,336
Ministerial education and formation	-	583,158	583,158	1,780	-	584,938
Professional services	108,703	471,630	580,333	152,969	100	733,402
Retired priests' benefits	-	354,561	354,561	-	-	354,561
Marketing and advertising	121,103	290	121,393	-	127,810	249,203
Mileage, travel and conferences	42,265	103,207	145,472	57,374	1,981	204,827
Depreciation	16,997	33,993	50,990	118,975	-	169,965
	$ 4,232,640	$ 11,365,887	$ 15,598,527	$ 3,198,975	$ 692,768	$ 19,490,270

15. COMMITMENTS AND CONTINGENCIES

Legal Proceedings

On February 14, 2019, New York State signed into law the Child Victims Act (CVA). See Note 3 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 addition, it is likely that the ultimate number of actions against the Diocese could increase from those presently known.

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 21, 2019, which is the date the financial statements were available to be issued.