

# Central Administrative Offices of the Diocese of Buffalo



>>*Financial Report 2018*<<

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# Central Administrative Offices of the Diocese of Buffalo

## >>Financial Report 2018<<



OFFICE OF THE BISHOP

## Bishop Richard J. Malone comments on Financial Report

DIOCESE OF BUFFALO

795 MAIN STREET

BUFFALO, NY 14203-1250

Phone: 716-847-5500

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Dear Diocesan Family,

On the following pages, the Diocese of Buffalo publishes two very important reports: the 2017-18 Fiscal Year audited financial statement and additionally, the final report of the Independent Reconciliation and Compensation Program (IRCP). The IRCP was created to bring justice and healing to victim-survivors of past clergy sexual abuse of minors.

This has been an unprecedented year. We are reminded by the teachings of the Second Vatican Council that "At all times the Church carries the responsibility of reading the signs of the times and of interpreting them in the light of the Gospel, if it is to carry out its task." (The Pastoral Constitution on the Church in the Modern World, #4)

As the Roman Catholic Diocese of Buffalo comprising the eight counties of Western New York, the diocese and its parishes, schools, institutions and ministries read the signs of the times and minister to the People of God empowered by the Holy Spirit through the grace of our baptism. We are sensitive to the yearnings of the human spirit, conscious of the profound power of goodness and truth, and respectful of the ministries and institutions inherited from generations of the faithful.

All the faithful are called to embrace the Eucharist as the source and summit of our lives and to invite others to share this vision by our witnessing to the power of the Gospel. With special concern for those who are poor and hurting and with a strong sense of social justice, our Church has a significant and unique presence in our community through the service of all generations within a culturally and economically diverse population. The central administrative offices of the Diocese of Buffalo financially enable the work of the Church to be accomplished. This work includes sharing the Gospel message through evangelizing initiatives among the young, the old, and all those in-between; to students in our Campus Ministries, Catholic Schools and Faith Formation Programs; to those preparing for marriage and those growing in faith as adults. The Gospel message, through the work of the diocesan ministries, is shared with those who are ill, suffering, hurting, and healing.

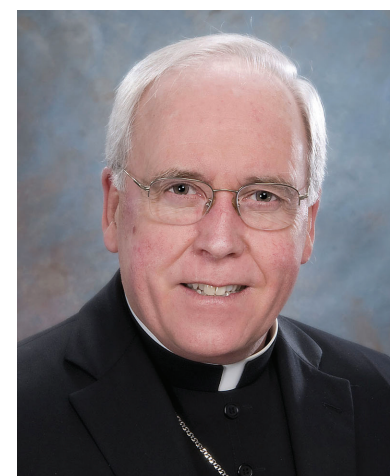
The IRCP hopefully has brought long awaited recognition and healing to victim-survivors of abuse. The funds used to finance this program come from Diocesan reserves, insurance reserves, and the sale of the Oakland Place property. Funds from current parish collections, Upon This Rock, Catholic Charities or other collections were not utilized to fund this program.

As we journey in faith and grace on this mission, we share the joy and hope, the grief and anguish of the people of our time in a spirit of gratitude for God's gracious love revealed in Jesus the Lord. It is through the great generosity and, in many instances, sacrificial generosity of the faithful throughout Western New York that this Gospel work is all made possible. The generous support of every donor to a parish, special ministry, Catholic Charities, the Fund for the Faith, and Upon This Rock allow, even in dark moments, the light of Jesus Christ to shine in hearts and lives. Without your gracious financial commitment, none of the good work of the Church would be possible.

On behalf of all those who minister and those who receive Christ-filled ministry, thank you!

Sincerely in Christ,

Most Reverend Richard J. Malone  
Bishop of Buffalo



Bishop Richard J. Malone

# Highlights of 2018 Annual Financial Report

## Central Administrative Offices Audited Financial Statement

Each year since 1974, the Central Administrative Offices of the Diocese of Buffalo has published audited financial statements. The following pages present, in their entirety, the audited financial statements for the Central Administrative Offices for the year ended August 31, 2018. The financial statements were audited by the accounting firm Bonadio & Co., LLP. The audited statements include activities and programs that are funded from the Central Administrative Offices, but do not include activities of parishes, schools, cemeteries, and other various diocesan agencies operating in the eight counties of Western New York. Bonadio & Co., LLP has issued an unmodified opinion of the Central Administrative Offices financial statements for the fiscal year ended August 31, 2018.

## Financial Operations

Financial results from ordinary operations for Fiscal Year 2018 showed a \$1.8 million loss versus a \$589,000 loss for the prior year. 2018 results were affected by lower revenue from the Fund for the Faith, reduced diocesan assessments and slightly higher operating expenses. Offsetting this loss was investment income and income from other activities, resulting in a net gain in assets of \$1.9 million for 2018 compared to a net gain in assets of \$2.0 million for the prior year.

## Financial Impact of Sexual Abuse Scandal

In addition to the normal operating components that comprise the activities of the Diocese, 2018 was an extraordinary year due to the Independent Reconciliation Compensation Program (IRCP). The IRCP, which was initiated on March 1, 2018, was an independent voluntary program established by the Diocese to address the pain and suffering of victims of child sexual abuse. The details of the program are addressed in an accompanying report in this edition of this newspaper.

The cost of the IRCP will be substantial. For the 2018 fiscal period alone, the diocese has set aside \$18 million for claims arising from the IRCP and \$292,836 for legal and administrative fees directly attributable to the IRCP. The combination of the above operating surplus and these IRCP expenses has the effect of decreasing net assets on the Diocesan Central Administrative Offices financial statement by \$16.4 million, from \$45.6 million to \$29.2 million, as of August 31, 2018.

In addition, the diocese has received claims, which were outside of the parameters of the IRCP. The recently passed NYS Child Victims Act will generate additional claims. While these claims have not been validated or quantified, they are likely to have a future potential impact on the net assets and operations of the diocese.

The abuse scandal has had consequences on the financial condition of the diocese beyond the cost of settling claims. Although not an issue in the 2018 fiscal period, diocesan parish offertory has declined since August 2018, resulting in budget shortfalls for the 2019 fiscal period and next year's plan. Diocesan administration and the Finance Council are monitoring these income trends very carefully and have reduced spending where possible. Since 2017, for example, 24 FTE (full-time equivalent) staff positions have been eliminated and Daybreak TV Productions was shut down in August 2018. Further reductions in ministries and services will likely be necessary.

## Revenue and Expense Components

Graphs on page 34 illustrate the major categories of operating revenue and expenses for the 2018 Fiscal Year:

## Fund for the Faith

As in the past, an important component of the Central Administrative Offices operation is the Fund for the Faith. This is a special fund, supported through the annual Catholic Charities Appeal, that provides support for many ministries in the diocese. These include:

|   |   |  |
|---|---|--|
| • Deaf Ministry \$27,023                            | • Lifelong Faith Formation \$297,791          | • Vicariate for Religious \$48,446             |
| • Campus Ministry \$495,307                         | • Family and Sacramental Life \$105,726       | • Vocation and Diaconate Program \$315,926     |
| • Communications (partial costs) \$125,000          | • Hospital Apostolate \$133,407               | • Western New York Catholic Newspaper \$57,805 |
| • Daybreak TV Productions (partial costs) \$163,409 | • Cultural Diversity \$167,359                | • Youth and Young Adult Ministry \$348,380     |
| • Catholic Schools (partial costs) \$476,850        | • Priest Continuing Formation \$140,642       |  |
| • Diocesan Counseling Center \$45,590               | • Seminary Training (partial costs) \$700,000 |  |
|   | • Vicar for Priests \$23,742                  |  |
|   |   | Total \$3,672,405                              |

Over the past several years, the diocese has been actively marketing real estate as part of an on-going and disciplined process of reviewing sustainable ministries, aligning limited resources and maintaining appropriate fiscal stewardship. This has allowed the diocese to redirect these funds to other important needs. For example, the St. Columban Retreat Center in Derby was sold in November 2017 for \$1.4 million. Fifty percent of the net proceeds, \$532,000, were provided to Christ the King Seminary in East Aurora to support priest and lay formation programs.

In 2018, two prominent properties were placed on the market for sale and sold in the 2019 fiscal year. The Sheehan Retired Priest Residence was closed in August 2018 and the priests in residence transferred to one of the other three residences. The property was sold in February 2019 for \$1.3 million and the proceeds net of closing costs were placed in the Retired Priest Medical Benefit Welfare Trust.

As a final example, the Bishop's Residence was sold in March 2019 for \$1.5 million and the net proceeds will be used for IRCP costs.

## Future Outlook

Every individual who has worked or volunteered for a parish, school, or other church ministry or event knows of the great tradition of doing more with less. This understanding is paramount as the diocese looks to the next fiscal year and the years to come. There are significant financial challenges facing the diocese. The dedicated staffs of Diocesan Finance Office and all Diocesan Departments continue to work hard to ensure responsible spending while still able to fulfill Christ's mission entrusted to the Church. Each office and department has been able to do good work with less. It is, however, the continued commitment, dedication, and generosity of all the faithful throughout Western New York that allows the Gospel to be proclaimed, the hurt to experience healing, the young to be educated, and life in all stages to be protected and cherished. The Diocese of Buffalo, no matter whatever financial challenges it will face, commits itself to continuing the work of the Gospel given to us all by Jesus Christ. I hope and pray that you will support or continue to support this work of building the Kingdom of God.

The Diocesan Finance Office is available to answer any questions that may arise as a result of a review of the 2017-2018 audited financial statements. Please feel free to call the Diocesan Finance Office at (716) 847-5500.

In Christ's Peace,

Rev. Peter J. Karalus

Vicar General, Moderator of the Curia and  
Finance Council Chair



Diocese Of Buffalo

Catholic Elementary School Funding Plan

09/01/17 - 08/31/18

| VICARIATE                                       | *                   | *                            | LOCATION      | /--Receipts---/<br>ELEMENTARY<br>EDUCATION<br>ASSESSMENT | /-----Disbursements-----/<br>REGIONAL      CTGP<br>SCHOOL      AND OTHER<br>SUBSIDY      SUBSIDIES |           | TOTAL     |
|---|---------------------|------------------------------|---------------|--|--|-----------|-----------|
|   | K - 8<br>ENROLLMENT | K - 8 SUBSIDY<br>PER STUDENT |               |  |  |           |           |
| ALLEGANY  |                     |                              |               | 61,228   |  |           | 61,228    |
| Immaculate Conception School of Allegany County | 118                 | 1,769                        | Wellsville    |  | (208,800)  |           | (208,800) |
| TOTAL ALLEGANY                                  |                     |                              |               | 61,228   | (208,800)  | -         | (147,572) |
| SOUTHERN CATTARAUGUS                            |                     |                              |               | 143,486  |  |           | 143,486   |
| Southern Tier Catholic School                   | 121                 | 1,904                        | Olean         |  | (230,400)  |           | (230,400) |
| TOTAL SOUTHERN CATTARAUGUS                      |                     |                              |               | 143,486  | (230,400)  | -         | (86,914)  |
| CHAUTAUQUA                                      |                     |                              |               | 349,504  |  |           | 349,504   |
| Northern Chautauqua Catholic School             | 93                  | 2,013                        | Dunkirk       |  | (187,200)  |           | (187,200) |
| TOTAL CHAUTAUQUA                                |                     |                              |               | 349,504  | (187,200)  | -         | 162,304   |
| GENESEE - WYOMING                               |                     |                              |               | 244,623  |  |           | 244,623   |
| St. Joseph School                               |                     |                              | Batavia       |  |  | (128,486) | (128,486) |
| TOTAL GENESEE - WYOMING                         |                     |                              |               | 244,623  | -  | (128,486) | 116,137   |
| WESTERN NIAGARA                                 |                     |                              |               | 340,589  |  |           | 340,589   |
| Catholic Academy of Niagara Falls (K - 6)       | 105                 | 1,409                        | Niagara Falls |  | (147,900)  |           | (147,900) |
| Niagara Catholic High School (7 - 8)            | 53                  | 1,532                        | Niagara Falls |  | (81,200)   |           | (81,200)  |
| St. Peter School                                |                     |                              | Lewiston      |  |  | (24,300)  | (24,300)  |
| TOTAL WESTERN NIAGARA                           |                     |                              |               | 340,589  | (229,100)  | (24,300)  | 87,189    |
| EASTERN NIAGARA - ORLEANS                       |                     |                              |               | 246,416  |  |           | 246,416   |
| DeSales Catholic School                         | 253                 | 1,605                        | Lockport      |  | (406,000)  |           | (406,000) |
| TOTAL EASTERN NIAGARA - ORLEANS                 |                     |                              |               | 246,416  | (406,000)  | -         | (159,584) |
| TRI-COUNTY                                      |                     |                              |               | 97,802   |  |           | 97,802    |
| St. Aloysius Regional School                    | 86                  | 1,751                        | Springville   |  | (140,400)  | (10,190)  | (150,590) |
| TOTAL TRI-COUNTY                                |                     |                              |               | 97,802   | (140,400)  | (10,190)  | (52,788)  |
| NORTHWEST - CENTRAL BUFFALO                     |                     |                              |               | 300,264  |  |           | 300,264   |
| Catholic Academy of West Buffalo                | 169                 | 1,993                        | Buffalo       |  | (331,200)  | (5,700)   | (336,900) |
| Our Lady of Black Rock School                   | 157                 | 2,041                        | Buffalo       |  | (320,400)  |           | (320,400) |
| St. Joseph School - University Heights          |                     |                              | Buffalo       |  |  | (12,540)  | (12,540)  |
| St. Mark School                                 |                     |                              | Buffalo       |  |  | (58,050)  | (58,050)  |
| TOTAL NORTHWEST - CENTRAL BUFFALO               |                     |                              |               | 300,264  | (651,600)  | (76,290)  | (427,626) |
| SOUTHEAST BUFFALO                               |                     |                              |               | 272,821  |  |           | 272,821   |
| South Buffalo Catholic School                   | 426                 | 1,518                        | Buffalo       |  | (646,700)  |           | (646,700) |
| .   |                     |                              |               | 272,821  | (646,700)  | -         | (373,879) |
| NORTHERN ERIE                                   |                     |                              |               | 483,236  |  |           | 483,236   |
| Christ the King                                 |                     |                              | Snyder        |  |  | (10,800)  | (10,800)  |
| Nativity of the Blessed Virgin Mary School      |                     |                              | Williamsville |  |  | (38,813)  | (38,813)  |
| SS.Peter & Paul School                          |                     |                              | Williamsville |  |  | (32,400)  | (32,400)  |
| St. Amelia School                               |                     |                              | Tonawanda     |  |  | (136,402) | (136,402) |
| St. Andrew's Country Day School                 |                     |                              | Kenmore       |  |  | (14,850)  | (14,850)  |
| St. Benedict School                             |                     |                              | Amherst       |  |  | (21,600)  | (21,600)  |
| St. Christopher School                          |                     |                              | Tonawanda     |  |  | (52,650)  | (52,650)  |
| St. Gregory the Great School                    |                     |                              | Williamsville |  |  | (24,975)  | (24,975)  |
| St. John the Baptist School                     |                     |                              | Kenmore       |  |  | (60,644)  | (60,644)  |
| St. Mary School                                 |                     |                              | Swormville    |  |  | (14,175)  | (14,175)  |
| St. Stephen School                              |                     |                              | Grand Island  |  |  | (18,900)  | (18,900)  |
| TOTAL NORTHERN ERIE                             |                     |                              |               | 483,236  | -  | (426,209) | 57,027    |



Catholic Elementary School Funding Plan (continued)

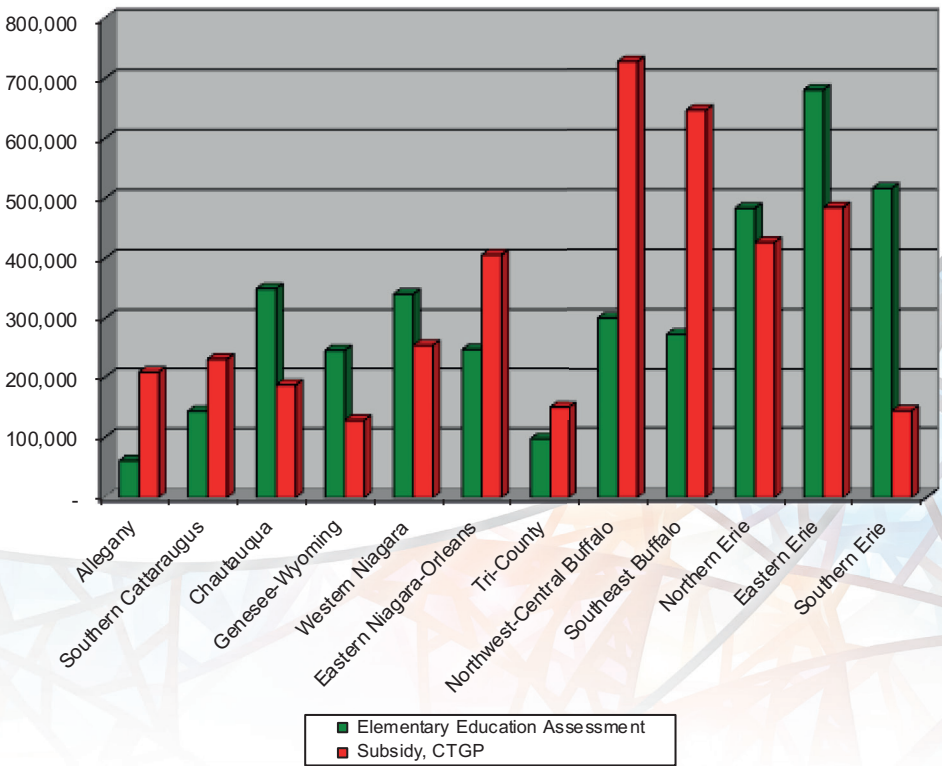
| VICARIATE                                  | *<br>K - 8<br>ENROLLMENT | *<br>K - 8 SUBSIDY<br>PER STUDENT | LOCATION     | /--Receipts---/<br>ELEMENTARY<br>EDUCATION<br>ASSESSMENT | /-----Disbursements-----/<br>REGIONAL<br>SCHOOL<br>SUBSIDY | CTGP<br>AND OTHER<br>SUBSIDIES | TOTAL     |
|--|--------------------------|-----------------------------------|--------------|--|--|--------------------------------|-----------|
| <b>EASTERN ERIE</b>                        |                          |                                   |              | 680,698  |  |                                | 680,698   |
| Immaculate Conception School               |                          |                                   | East Aurora  |  | (83,700)   |                                | (83,700)  |
| Our Lady of the Blessed Sacrament School   |                          |                                   | Depew        |  | (55,688)   |                                | (55,688)  |
| Queen of Heaven School                     |                          |                                   | West Seneca  |  | (176,175)  |                                | (176,175) |
| St. John the Baptist School                |                          |                                   | Alden        |  | (35,753)   |                                | (35,753)  |
| St. John Vianney School                    |                          |                                   | Orchard Park |  | (69,947)   |                                | (69,947)  |
| St. Mary's Elementary School               |                          |                                   | Lancaster    |  | (63,046)   |                                | (63,046)  |
| <b>TOTAL EASTERN ERIE</b>                  |                          |                                   |              | 680,698  | -  | (484,309)                      | 196,389   |
| <b>SOUTHERN ERIE</b>                       |                          |                                   |              | 516,589  |  |                                | 516,589   |
| Nativity of Our Lord School                |                          |                                   | Orchard Park |  | (18,141)   |                                | (18,141)  |
| Our Lady of Victory School                 |                          |                                   | Lackawanna   |  | (28,271)   |                                | (28,271)  |
| Southtowns Catholic School                 |                          |                                   | Lakeview     |  | (32,400)   |                                | (32,400)  |
| SS. Peter & Paul School                    |                          |                                   | Hamburg      |  | (66,150)   |                                | (66,150)  |
| <b>TOTAL SOUTHERN ERIE</b>                 |                          |                                   |              | 516,589  | -  | (144,962)                      | 371,627   |
| <b>TOTAL BY VICARIATE</b>                  |                          |                                   |              | 3,737,256  | (2,700,200)  | (1,294,746)                    | (257,690) |
| Advertising                                |                          |                                   |              |  |  |                                | (74,107)  |
| Children First Scholarship Donation        |                          |                                   |              |  |  |                                | (28,500)  |
| Miscellaneous                              |                          |                                   |              |  |  |                                | 92,370    |
| <b>CURRENT YEAR SURPLUS / (DEFICIT)</b>    |                          |                                   |              |  |  |                                | (267,927) |
| <b>PRIOR YEAR SURPLUS</b>                  |                          |                                   |              |  |  |                                | 323,697   |
| <b>DESIGNATED FOR ELEMENTARY EDUCATION</b> |                          |                                   |              |  |  |                                | 55,770    |

\* Regional Schools only

Diocesan Finance Council  
(as of 3/31/19)

- Rev. Peter J. Karalus, V.G., Chair
- Most Rev. Edward M. Grosz, D.D., V.G.
- Rev. Msgr. Angelo M. Caligiuri, Retired
- Rev. Msgr. Frederick D. Leising, Retired
- Rev. Walter P. Grabowski, Pastor, St. Gabriel Parish, Elma
- Rev. Louis S. Klein, Pastor, Queen of Martyrs, Cheektowaga
- James J. Beardi, Retired Bank Executive
- Karen L. Howard, CPA, Kei Advisors, Executive Vice-President
- Joseph F. Kapsiak, Retired Financial Executive
- David Rogers, Life Storage, Inc. CEO

2017-2018 CATHOLIC ELEMENTARY SCHOOL FUNDING PLAN BY VICARIATE



**Bonadio & Co., LLP**  
 Certified Public Accountants

## INDEPENDENT AUDITOR'S REPORT

January 4, 2019

To the Audit Committee of the  
 Central Administrative Offices of the Diocese of Buffalo:

### Report on the Financial Statements

We have audited the accompanying financial statements of the Central Administrative Offices of the Diocese of Buffalo ("CAO") which comprise the statements of financial position as of August 31, 2018 and 2017, and the related statements of activity and changes in net assets and cash flows for the years 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 Central Administrative Offices of the Diocese of Buffalo as of August 31, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### Report on Supplemental Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Bonadio & Co., LLP*

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 Suite 200  
 Amherst, New York 14226  
 p (716) 250-6600  
 f (716) 250-6605

www.bonadio.com



# CENTRAL ADMINISTRATIVE OFFICES OF THE DIOCESE OF BUFFALO

## STATEMENTS OF FINANCIAL POSITION AS OF AUGUST 31, 2018 AND 2017

|   | 2018                 | 2017                 |
|---|----------------------|----------------------|
| <b>ASSETS</b>                             |                      |                      |
| CASH AND CASH EQUIVALENTS                 | \$ 6,389,627         | \$ 3,864,211         |
| ACCOUNTS RECEIVABLE – Net                 | 1,300,222            | 1,803,430            |
| PLEDGES RECEIVABLE – Net                  | 1,236,538            | 707,000              |
| PROPERTY HELD FOR SALE                    | 270,784              | 326,147              |
| INVESTMENTS:                              |                      |                      |
| Split-interest agreements                 | 949,835              | 872,393              |
| Designated for potential uninsured losses | 11,340,904           | 10,716,414           |
| Designated for seminarian assistance      | 4,812,698            | 4,547,686            |
| Undesignated investments                  | 29,467,132           | 31,060,120           |
| Total                                     | 46,570,569           | 47,196,613           |
| PROPERTY, BUILDINGS, AND EQUIPMENT – Net  | 10,395,544           | 10,948,258           |
| OTHER ASSETS                              | 361,215              | 348,699              |
| <b>TOTAL</b>                              | <b>\$ 66,524,499</b> | <b>\$ 65,194,358</b> |

|   | 2018                 | 2017                 |
|---|----------------------|----------------------|
| <b>LIABILITIES AND NET ASSETS</b>                             |                      |                      |
| ACCOUNTS PAYABLE AND ACCRUED EXPENSES                         | \$ 3,757,739         | \$ 4,176,857         |
| PROVISION FOR FACILITY RESTRUCTURING COSTS                    | 2,100,000            | 2,100,000            |
| PROVISION FOR POTENTIAL UNINSURED LOSSES                      | 12,100,000           | 12,000,000           |
| PROVISION FOR INDEPENDENT RECONCILIATION COMPENSATION PROGRAM | 18,000,000           | –                    |
| ASSET RETIREMENT OBLIGATION                                   | 1,142,640            | 1,088,229            |
| LIABILITY FOR SPLIT-INTEREST AGREEMENTS                       | 212,663              | 227,408              |
| Total liabilities   | 37,313,042           | 19,592,494           |
| NET ASSETS:   |                      |                      |
| Unrestricted:   |                      |                      |
| Undesignated  | 27,292,083           | 43,992,115           |
| Designated for elementary education                           | 55,770               | 323,697              |
| Total   | 27,347,853           | 44,315,812           |
| Temporarily restricted  | 1,863,604            | 1,286,052            |
| Total net assets  | 29,211,457           | 45,601,864           |
| <b>TOTAL</b>  | <b>\$ 66,524,499</b> | <b>\$ 65,194,358</b> |

See notes to financial statements.

(Concluded)

CENTRAL ADMINISTRATIVE OFFICES OF THE DIOCESE OF BUFFALO

STATEMENTS OF ACTIVITY AND CHANGES IN NET ASSETS FOR THE YEARS ENDED AUGUST 31, 2018 AND 2017

|  | 2018          |                        |               | 2017          |                        |               |
|--|---------------|------------------------|---------------|---------------|------------------------|---------------|
|  | Unrestricted  | Temporarily Restricted | Total         | Unrestricted  | Temporarily Restricted | Total         |
| REVENUES :   |               |                        |               |               |                        |               |
| Fund for the Faith   | \$ 2,473,405  | \$ 1,194,000           | \$ 3,667,405  | \$ 3,261,914  | \$ 707,000             | \$ 3,968,914  |
| Contributions and bequests   | 243,593       | 18,451                 | 262,044       | 434,016       | 11,200                 | 445,216       |
| Diocesan assessments   | 6,220,582     | –                      | 6,220,582     | 6,167,225     | –                      | 6,167,225     |
| Elementary education assessment  | 3,737,256     | –                      | 3,737,256     | 4,180,373     | –                      | 4,180,373     |
| Priest retirement assessment   | 2,507,215     | –                      | 2,507,215     | 2,453,320     | –                      | 2,453,320     |
| Realized investment gains  | 1,738,562     | –                      | 1,738,562     | 1,638,739     | –                      | 1,638,739     |
| Net assets released from restrictions  | 725,451       | (725,451)              | –             | 806,200       | (806,200)              | –             |
| Total  | 17,646,064    | 487,000                | 18,133,064    | 18,941,787    | (88,000)               | 18,853,787    |
| EXPENSES :   |               |                        |               |               |                        |               |
| Pastoral   | 2,417,653     | –                      | 2,417,653     | 2,787,023     | –                      | 2,787,023     |
| Religious personnel development  | 5,191,913     | –                      | 5,191,913     | 4,347,182     | –                      | 4,347,182     |
| High schools support   | 1,277,156     | –                      | 1,277,156     | 1,057,905     | –                      | 1,057,905     |
| Other educational apostolates  | 1,633,989     | –                      | 1,633,989     | 1,625,043     | –                      | 1,625,043     |
| Elementary school funding plan   | 4,005,183     | –                      | 4,005,183     | 4,532,599     | –                      | 4,532,599     |
| Family and youth services  | 601,693       | –                      | 601,693       | 665,973       | –                      | 665,973       |
| Central support ministry   | 4,789,506     | –                      | 4,789,506     | 4,427,228     | –                      | 4,427,228     |
| Total  | 19,917,093    | –                      | 19,917,093    | 19,442,953    | –                      | 19,442,953    |
| (DEFICIENCY) EXCESS OF REVENUES (UNDER) OVER EXPENSES BEFORE OTHER CHANGES IN NET ASSETS | (2,271,029)   | 487,000                | (1,784,029)   | (501,166)     | (88,000)               | (589,166)     |
| INSURANCE ACTIVITY – Net   | 1,005,242     | –                      | 1,005,242     | 343,035       | –                      | 343,035       |
| INCOME FROM OTHER ACTIVITIES – Net   | 1,847,223     | –                      | 1,847,223     | 433,455       | –                      | 433,455       |
| SPLIT-INTEREST AGREEMENT ACTIVITY – Net  | –             | 90,552                 | 90,552        | –             | 39,844                 | 39,844        |
| CATHOLIC PARTNERSHIP HEALTH PLAN   | 392,069       | –                      | 392,069       | (387,025)     | –                      | (387,025)     |
| UNREALIZED GAIN ON INVESTMENTS   | 351,372       | –                      | 351,372       | 2,217,567     | –                      | 2,217,567     |
| INDEPENDENT RECONCILIATION COMPENSATION PROGRAM  | (18,292,836)  | –                      | (18,292,836)  | –             | –                      | –             |
| CHANGE IN NET ASSETS   | (16,967,959)  | 577,552                | (16,390,407)  | 2,105,866     | (48,156)               | 2,057,710     |
| NET ASSETS – Beginning of year   | 44,315,812    | 1,286,052              | 45,601,864    | 42,209,946    | 1,334,208              | 43,544,154    |
| NET ASSETS – End of year   | \$ 27,347,853 | \$ 1,863,604           | \$ 29,211,457 | \$ 44,315,812 | \$ 1,286,052           | \$ 45,601,864 |

See notes to financial statements.





# CENTRAL ADMINISTRATIVE OFFICES OF THE DIOCESE OF BUFFALO

## STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED AUGUST 31, 2018 AND 2017

|   | 2018            | 2017         |
|---|-----------------|--------------|
| CASH FLOW FROM OPERATING ACTIVITIES:  |                 |              |
| Change in net assets  | \$ (16,390,407) | \$ 2,057,710 |
| Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities: |                 |              |
| Asset retirement obligation – accretion   | 54,411          | 51,820       |
| Unrealized appreciation on fair value of investments  | (351,372)       | (2,217,567)  |
| Realized investment gains   | (1,738,562)     | (1,638,739)  |
| Increase in provision for facility restructuring costs  | -               | 500,000      |
| Increase in provision for potential uninsured losses  | 100,000         | 750,000      |
| Increase in provision for Independent Reconciliation Compensation Program                             | 18,000,000      | -            |
| Depreciation and amortization   | 923,659         | 953,509      |
| Increase (decrease) in provision for uncollectible accounts   | 252,670         | (53,148)     |
| Gain on sales of property, buildings, and equipment   | (1,506,807)     | (107,012)    |
| Changes in assets and liabilities:  |                 |              |
| Increase in accounts and pledges receivable   | (279,000)       | (556,268)    |
| (Increase) decrease in other assets   | (12,516)        | 51,355       |
| (Decrease) increase in accounts payable and accrued expenses  | (488,881)       | 587,536      |
| Decrease in split-interest agreement liability  | (14,745)        | (10,945)     |
| Total adjustments   | 14,938,857      | (1,689,459)  |
| Net cash (used in) provided by operating activities   | (1,451,550)     | 368,251      |
| CASH FLOW FROM INVESTING ACTIVITIES:  |                 |              |
| Proceeds from sales of property, buildings, and equipment   | 1,506,807       | 107,012      |
| Purchase of property, buildings and equipment   | (245,819)       | (605,035)    |
| Proceeds from sale of investments   | 2,715,978       | 914,528      |
| Net cash provided by investing activities   | 3,976,966       | 416,505      |
| CASH FLOW FROM FINANCING ACTIVITIES:  |                 |              |
| Proceeds from lines of credit   | -               | 1,000,000    |
| Repayment of lines of credit  | -               | (1,000,000)  |
| Net cash used in financing activities   | -               | -            |
| NET INCREASE IN CASH AND CASH EQUIVALENTS   | 2,525,416       | 784,756      |
| CASH AND CASH EQUIVALENTS – Beginning of year   | 3,864,211       | 3,079,455    |
| CASH AND CASH EQUIVALENTS – End of year   | \$ 6,389,627    | \$ 3,864,211 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:   |                 |              |
| Interest paid during the year   | \$ 3,403        | \$ 19,518    |
| Fixed asset additions in accounts payable at end of year  | \$ 69,763       | \$ 6,918     |

See notes to financial statements.

# CENTRAL ADMINISTRATIVE OFFICES OF THE DIOCESE OF BUFFALO

## NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED AUGUST 31, 2018 AND 2017

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Nature of Operations and Basis of Presentation** – The Diocese of Buffalo, N.Y. (the “Diocese”) was established in 1847 to serve the Catholic community in Western New York. The Diocese includes the Central Administrative Office (“CAO”) unit which consists of the Bishop’s office and supporting staff, who minister to parishes and other institutions in the eight counties of Western New York State. The CAO does not include the assets, liabilities, or activities of individual parishes, various agencies such as secondary and elementary schools, cemeteries or social services agencies.

The Diocese initiated the Upon This Rock Capital and Endowment Appeal in 2015. The multi-year goal of \$100 million is to provide a base for long-term development of parish and diocesan-wide ministries. Funds are distributed to parishes semi-annually based on pledge receipts, to support parish case statement objectives. The Appeal is managed by the Board of Directors of the Foundation of the Roman Catholic Diocese of Buffalo, N.Y., Inc. (“the Foundation”). The activities of the Appeal are reported in the financial statements of the Foundation.

**Cash and Cash Equivalents** – The CAO considers all highly liquid debt instruments with a maturity of three months or less when acquired to be cash equivalents. Cash is held in bank demand deposit accounts which may, at times, exceed federally insured limits. The CAO believes it is not exposed to any significant credit risk with respect to cash and cash equivalents and has not experienced any losses in such accounts.

**Designated Investments and Designated Net Assets** – Investments designated for potential uninsured losses and seminarian assistance are adjusted for interest and dividend income and realized and unrealized investment gains or losses. Investment income activity is reported in the statements of activity and changes in net assets. Designated net assets for elementary education are the excess of assessments and parish contributions over elementary school support.

**Property, Buildings, and Equipment** – Acquisitions with an initial cost of \$1,000 or more are capitalized at cost when purchased or at fair value at the date of gift when donated. Certain real estate for which no values are available has been recorded at nominal amounts. Depreciation is calculated on the straight-line method based on estimated useful lives of 30 years for buildings, 10 years for building improvements and furniture and fixtures, and 4 years for equipment.

The CAO regularly assesses all of its long-lived assets for impairment and recognizes a loss when the carrying value of an asset exceeds its fair value. The CAO determined that no impairment loss needs to be recognized for applicable assets for the years ended August 31, 2018 and 2017.

**Investments** – Investments are measured at fair value in the statements of financial position. Investment income or loss (including realized and unrealized gains and losses on investments, interest and dividends) is included as a component of unrestricted activity unless the income or loss is restricted by donor or law.

**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.

Generally accepted accounting principles in the United States (GAAP) 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 CAO. Unobservable inputs are inputs that reflect the CAO’s assumptions about the assumptions that 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 – Valuations are based on quoted prices in active markets for identical assets or liabilities that the CAO 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 instruments does not entail a significant degree of judgment.
- Level 2 – 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 – Valuations are based on inputs that are unobservable and significant to the overall fair value measurement.

**Investment Risks** – 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 and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in the near term could materially affect the amounts reported in the accompanying financial statements.

**Provision for Potential Uninsured Losses** – The provision for potential uninsured losses is an estimate of the amount necessary to settle outstanding claims, including claims incurred but not reported, based on the facts in each case and the CAO’s experience with similar cases. The estimate is reviewed and updated regularly by management, and any resulting adjustments are reflected in current activities.

**Provision for Independent Reconciliation Compensation Program** – The provision for the Independent Reconciliation Compensation Program is an estimate of the amount to compensate claimants determined to be eligible by the Independent Program Administrators. Awards accepted by claimants within the program specifications will be paid in the fiscal year ending August 31, 2019.

**Deferred Revenue** – Deferred revenue is recognized when cash advances exceed revenues earned against such advances. Deferred revenue is included in accounts payable and accrued expenses in the accompanying statements of financial position and is disclosed in Note 8.

**Unrestricted and Temporarily Restricted Net Assets** – Temporarily restricted net assets are those whose use by the CAO has been limited by donors to a specific time period or purpose. Unrestricted net assets are those whose use by the CAO has not been limited by donors.

**Functional Allocation of Expenses** – The costs of providing the various programs and other activities of the CAO have been summarized on a functional basis in the statements of activity and changes in net assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

**Income Taxes** – The CAO is exempt from federal income tax under provisions of Section 501(c)(3) of the Internal Revenue Code. The CAO has also been classified by the Internal Revenue Service as an entity that is not a private foundation.



# CENTRAL ADMINISTRATIVE OFFICES OF THE DIOCESE OF BUFFALO

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Use of Estimates** – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

## 2. ACCOUNTS RECEIVABLE

**Diocesan Assessments and Other Accounts Receivable** – The CAO assesses parishes an annual amount based primarily on historical parish offertory. Assessments are due on a monthly basis with the balance at year-end representing uncollected amounts. An allowance for possible uncollectible amounts is maintained for current and prior years’ assessments.

Other accounts receivable consists primarily of amounts due from parishes and other institutions for Diocesan Purchasing Division (“DPD”) sales and payroll related expenses for parishes participating in the centralized payroll service.

The components of accounts receivable as of August 31, 2018 and 2017 were as follows:

|   | 2018                | 2017                |
|---|---------------------|---------------------|
| School assessments                                  | \$ 622,309          | \$ 458,687          |
| Parish assessments                                  | 648,091             | 514,208             |
| Other   | 745,198             | 1,293,241           |
| Less: allowance for uncollectible accounts – school | (288,048)           | (160,013)           |
| Less: allowance for uncollectible accounts – parish | (427,328)           | (302,693)           |
| Total   | <u>\$ 1,300,222</u> | <u>\$ 1,803,430</u> |

## 3. PLEDGES RECEIVABLE

Pledge contributions relate to the annual Fund for the Faith campaign and are due to be received within twelve months of each fiscal year-end. Pledges receivable are reported net of an allowance for uncollectibility and as of August 31, 2018 and 2017, are as follows:

|                                      | 2018                | 2017              |
|--------------------------------------|---------------------|-------------------|
| Pledges due:                         |                     |                   |
| In less than one year                | \$ 1,244,608        | \$ 720,703        |
| Less: allowance for uncollectibility | <u>(8,070)</u>      | <u>(13,703)</u>   |
| Pledges receivable – net             | <u>\$ 1,236,538</u> | <u>\$ 707,000</u> |

## 4. PROPERTY HELD FOR SALE

Property held for sale consists of two properties. The properties had combined net book values of \$270,784 at August 31, 2018 and \$326,147 at August 31, 2017. Under separate contracts, the Diocese anticipates each property sale closing prior to August 31, 2019.

## 5. INVESTMENTS

Investments of the CAO are held primarily in the St. Joseph Investment Fund (the “SJIF”). The SJIF was organized for the purpose of offering Diocesan organizations a professionally managed fund in harmony with the teaching and beliefs of the Roman Catholic Church. The investments are managed by fourteen investment management firms and are overseen by the Investment Committee and Board of Directors of the SJIF. Investment income and investment management fees are allocated to SJIF participants based on the percentage of the net asset value of the individual funds to the total investment balance.

The following schedule for the years ended August 31, 2018 and 2017 summarizes the unrestricted investment activity in the statements of activity and changes in net assets:

|                            | 2018                | 2017                |
|----------------------------|---------------------|---------------------|
| Dividends and interest     | \$ 592,558          | \$ 615,248          |
| Investment management fees | (95,351)            | (113,751)           |
| Net realized gain          | <u>1,241,355</u>    | <u>1,137,242</u>    |
| Realized investment income | <u>\$ 1,738,562</u> | <u>\$ 1,638,739</u> |

CENTRAL ADMINISTRATIVE OFFICES OF THE DIOCESE OF BUFFALO

5. INVESTMENTS (continued)

Fair Value Disclosures

The following tables represent the CAO’s investments that are measured at fair value on a recurring basis at August 31, 2018 and 2017:

|                                  | 2018         |               |         |               |                                  | 2017    |               |         |               |
|----------------------------------|--------------|---------------|---------|---------------|----------------------------------|---------|---------------|---------|---------------|
|                                  | Level 1      | Level 2       | Level 3 | Total         |                                  | Level 1 | Level 2       | Level 3 | Total         |
| St. Joseph Investment Fund, Inc. | \$ —         | \$ 36,650,024 | \$ —    | \$ 36,650,024 | St. Joseph Investment Fund, Inc. | \$ —    | \$ 46,401,752 | \$ —    | \$ 46,401,752 |
| Treasury Bill                    | 9,020,125    | —             | —       | 9,020,125     | Other Investments:               |         |               |         |               |
| Other Investments:               |              |               |         |               | Interm. Diversified Bond Fund    | —       | 109,312       | —       | 109,312       |
| Interm. Diversified Bond Fund    | —            | 108,373       | —       | 108,373       | Value Equity Fund                | —       | 103,292       | —       | 103,292       |
| Value Equity Fund                | —            | 120,266       | —       | 120,266       | Core Equity Index Fund           | —       | 105,546       | —       | 105,546       |
| Core Equity Index Fund           | —            | 126,682       | —       | 126,682       | Growth Fund                      | —       | 117,580       | —       | 117,580       |
| Growth Fund                      | —            | 147,714       | —       | 147,714       | Small Cap Equity Index Fund      | —       | 100,459       | —       | 100,459       |
| Small Cap Equity Index Fund      | —            | 130,181       | —       | 130,181       | International Equity Fund        | —       | 152,041       | —       | 152,041       |
| International Equity Fund        | —            | 160,405       | —       | 160,405       | Opportunistic Bond Fund          | —       | 106,631       | —       | 106,631       |
| Opportunistic Bond Fund          | —            | 106,799       | —       | 106,799       | Other Investments                | —       | 794,861       | —       | 794,861       |
| Other Investments                | —            | 900,420       | —       | 900,420       |                                  |         |               |         |               |
| Total Investments                | \$ 9,020,125 | \$ 37,550,444 | \$ —    | \$ 46,570,569 | Total Investments                | \$ —    | \$ 47,196,613 | \$ —    | \$ 47,196,613 |

The CAO’s investment in the SJIF represents an interest in the investment pool held by the SJIF.

The CAO may make additional investments in the SJIF at will, but is under no obligation to do so. Withdrawals can also be made at will, and are executed quarterly.

The CAO’s invests in Treasury Bills which are valued at cost which approximates fair market value.

Other investments include investment funds of Christian Brothers Investment Services, Inc. (CBIS), which provides socially responsible investment services to Catholic organizations. CBIS provides daily net asset value information for shares of its investment funds, but these funds are not traded on public exchanges. CAO values its interest in the CBIS funds based on its understanding of the price at which shares of these funds are purchased or liquidated by other CBIS investors, and on other information provided by CBIS. Therefore, these investments are classified as utilizing level 2 inputs.

**Split-Interest Agreements** – The CAO has been named the trustee for several irrevocable split-interest agreements. The donors have made a contribution to the CAO in exchange for a promise by the CAO to pay fixed amounts for a specified period of time to the beneficiary(s). The assets contributed are recognized at fair value when received and a liability is recognized for the amounts due to the beneficiary(s) at the present value of future cash flows using a discount rate prevalent at the date of the gift. Discount rates ranged from 1.4% to 6.2% for amounts owed at August 31, 2018 and 2017. The fair value of split-interest agreement assets is \$949,835 and \$872,393 as of August 31, 2018 and 2017, respectively. The liability for split-interest agreements is \$212,663 and \$227,408 as of August 31, 2018 and 2017, respectively.

6. PROPERTY, BUILDINGS, AND EQUIPMENT—NET

The components of property, buildings, and equipment as of August 31, 2018 and 2017 were as follows:

|   | 2018          | 2017          |
|---|---------------|---------------|
| Property, administrative offices and residences | \$ 28,611,877 | \$ 28,247,031 |
| Equipment, furnishings, and autos               | 4,861,856     | 4,811,778     |
| Asset retirement costs                          | 127,172       | 127,172       |
| Less property held for sale                     | (270,784)     | (326,147)     |
| Less accumulated depreciation                   | (22,934,577)  | (21,911,576)  |
| Total   | \$ 10,395,544 | \$ 10,948,258 |

Accumulated depreciation includes \$127,172 of accumulated depreciation on asset retirement costs.

7. OTHER ASSETS

Other assets as of August 31, 2018 and 2017 consisted of the following:

|                          | 2018       | 2017       |
|--------------------------|------------|------------|
| Equity in insurance pool | \$ 6,566   | \$ 6,566   |
| Inventory                | 327,746    | 285,020    |
| Prepaid expenses         | 26,903     | 57,113     |
| Total                    | \$ 361,215 | \$ 348,699 |

Equity in insurance pool relates to the CAO’s participation in a liability risk retention pool (see Note 11). The equity is recorded based upon the CAO’s pro-rata share of the net assets of the pool as reported by pool management.

Inventory is stated at the lower of cost and net realizable value. Cost is determined using the first-in, first-out (FIFO) method.



CENTRAL ADMINISTRATIVE OFFICES OF THE DIOCESE OF BUFFALO

7. OTHER ASSETS (continued)

In years prior to 2018 the CAO stated inventory at the lower of cost or market. The change was made prospectively as of September 1, 2017 in accordance with adoption of the new FASB standard ASU 2015-11 Simplifying the Measurement of Inventory. The adoption of this ASU had no impact on the 2018 statement of financial position and staement of activity and changes in net assets.

8. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses as of August 31, 2018 and 2017 consisted of the following:

|   | 2018         | 2017         |
|---|--------------|--------------|
| Accounts payable                          | \$ 2,048,034 | \$ 2,177,504 |
| Funds held for national collections       | 733,619      | 680,913      |
| Deferred revenue                          | 717,470      | 702,533      |
| Advance collections of insurance premiums | 258,616      | 615,907      |
| Total                                     | \$ 3,757,739 | \$ 4,176,857 |

9. LETTERS OF CREDIT, LINES OF CREDIT AND NOTES PAYABLE

The CAO has a workers’ compensation letter of credit in the amount of \$4,863,800 which matures on April 1, 2019. No balance was outstanding as of August 31, 2018. This letter of credit requires the CAO to pay fees of \$24,857 in both 2018 and 2017. This letter of credit is secured by a pledge agreement designating certain Diocese of Buffalo insurance assets invested in the St. Joseph Investment Fund as collateral.

The CAO has a disability letter of credit in the amount of \$80,000 which matures on April 30, 2019. No balance was outstanding as of August 31, 2018. This letter of credit required the CAO to pay fees of \$790 in 2018 and \$560 in 2017.

The CAO has a \$3,000,000 line of credit available for short term operational needs. This line of credit bears interest at 30 day LIBOR plus 2.25%. No balance was outstanding as of August 31, 2018 and 2017, respectively. Subsequent to August 31, 2018 this line of credit was closed.

The CAO has an additional \$2,000,000 line of credit available for short term operational needs. This line of credit bears interest at 30 day LIBOR Plus 2.5%. No balance was outstanding as of August 31, 2018 and 2017, respectively.

10. INDEPENDENT RECONCILIATION COMPENSATION PROGRAM

The Diocese has established a voluntary Independent Reconciliation Compensation Program (“the Program”) to allow victims of sexual abuse as a minor by bishops, priests or decons of the Diocese to seek financial compensation. The effective date of the program was March 1, 2018. The Program is administered by two former New York State Supreme Court Justices (the “Administrators”). The Administrators are independent of the Diocese and the Diocese has no authority to modify or reject claim determinations or compensation award decisions by the Administrators. All claims were required to be submitted to the Administrators by June 1, 2018. The Administrators have denied a number of claims for failure to meet Program eligibility requirements. The Administrators made compensation award offers to claimants whose claim has been accepted, and the Program was ongoing as of and during the year ended August 31, 2018 and as of the issuance date of these financial statements. The Program will be completed by August 31, 2019. At August 31, 2018, the Diocese has accrued an estimated liability of \$18,000,000 for the Program.

11. INSURANCE ACTIVITIES

The Insurance Services Department of the CAO manages insurance programs on behalf of parishes and other institutions within the Diocese through a combination of self-insurance retentions, participation in a liability risk retention group with other Dioceses, and the purchase of excess insurance coverage above the self-insured levels. A provision for potential uninsured losses is maintained for workers’ compensation, general liability, sexual misconduct, and disability. The provision for potential uninsured losses is reviewed annually by management and was \$12,100,000 at August 31, 2018 and \$12,000,000 at August 31, 2017. Parishes and institutions are billed premiums to defray the cost of the program. A summary of the insurance activities for the years ended August 31, 2018 and 2017 is as follows:

|   | 2018         | 2017         |
|---|--------------|--------------|
| Premium revenue                         | \$ 6,841,345 | \$ 7,092,832 |
| Realized investment gain                | 605,500      | 483,788      |
| Total revenue                           | 7,446,845    | 7,576,620    |
| Claim expenses and administrative costs | 4,383,324    | 5,214,243    |
| Commercial insurance premiums           | 2,058,279    | 2,019,342    |
| Total expenses                          | 6,441,603    | 7,233,585    |
| Net insurance activity                  | \$ 1,005,242 | \$ 343,035   |

# CENTRAL ADMINISTRATIVE OFFICES OF THE DIOCESE OF BUFFALO

## 12. CATHOLIC PARTNERSHIP HEALTH PLAN

The CAO, parishes, and other Diocesan entities participate in a voluntary self-insured health coverage program for lay employees. A provision for incurred but not reported claims has been made each plan year. The CAO paid premiums to the program of \$1,473,387 and \$1,538,442 for the years ended August 31, 2018 and 2017, respectively. A summary of the program for the years ended August 31, 2018 and 2017 is as follows:

|   | 2018         | 2017         |
|---|--------------|--------------|
| Premium revenue                               | \$ 3,154,948 | \$ 3,210,288 |
| Medical and prescription claims               | 2,320,832    | 3,069,510    |
| Stop loss premiums                            | 226,843      | 241,781      |
| Claim administration fees                     | 215,204      | 286,022      |
| Total expenses                                | 2,762,879    | 3,597,313    |
| Net Catholic Partnership Health Plan activity | \$ 392,069   | \$ (387,025) |

## 13. ACCOUNTING FOR CONDITIONAL ASSET RETIREMENT OBLIGATIONS

The CAO records all known asset retirement obligations for which the fair value of the environmental remediation liability can be reasonably estimated. The CAO has identified and recorded asbestos asset retirement obligations.

The following amounts are reflected in the statements of financial position as of August 31, 2018 and 2017 related to these obligations:

|   | 2018         | 2017         |
|---|--------------|--------------|
| Asset retirement obligation - beginning of year | \$ 1,088,229 | \$ 1,036,409 |
| Accretion expense during year                   | 54,411       | 51,820       |
| Asset retirement obligation - end of year       | \$ 1,142,640 | \$ 1,088,229 |

The CAO is not aware of any other conditional asset retirement obligations as of August 31, 2018.

## 14. TEMPORARILY RESTRICTED NET ASSETS

Net assets temporarily restricted as of August 31, 2018 and 2017 consisted of the following:

|                           | 2018         | 2017         |
|---------------------------|--------------|--------------|
| Fund for the Faith        | \$ 1,194,000 | \$ 707,000   |
| Split-Interest Agreements | 669,604      | 579,052      |
|                           | \$ 1,863,604 | \$ 1,286,052 |

Temporarily restricted net assets were released from restriction during the years ended August 31, 2018 and 2017 as follows:

|                    | 2018       | 2017       |
|--------------------|------------|------------|
| Fund for the Faith | \$ 707,000 | \$ 795,000 |
| Contributions      | 18,451     | 11,200     |
|                    | \$ 725,451 | \$ 806,200 |

## 15. OTHER ACTIVITIES

Other activities for the years ended August 31, 2018 and 2017, consisted of the following:

|   | 2018         | 2017       |
|---|--------------|------------|
| Gain on property, buildings and equipment sales | \$ 1,506,807 | \$ 107,012 |
| Rental and other net income                     | 267,687      | 272,409    |
| Diocesan Purchasing Division net profit         | 72,729       | 54,034     |
|   | \$ 1,847,223 | \$ 433,455 |



CENTRAL ADMINISTRATIVE OFFICES OF THE DIOCESE OF BUFFALO

15. OTHER ACTIVITIES (continued)

The CAO leases property under the terms of a non-cancelable lease agreement to a tenant for \$353,049 per year through December 31, 2018 and \$378,180 per year through December 31, 2025.

The Diocesan Purchasing Division (“DPD”) was established to support the purchasing needs of parishes and nonprofit institutions of the Diocese. DPD also operates the Catholic Union Store which is a retail specialty store located in the Catholic Center. A substantial portion of the DPD’s transactions are with affiliated parishes and other religious organizations. Sales to the Diocesan institutions amounted to \$1,371,966 and \$1,337,417, for the years ended August 31, 2018 and 2017, respectively. The combined DPD and store sales and other income were \$1,375,452 and \$1,350,628 for the years ended August 31, 2018 and 2017, respectively. The amount receivable related to Diocesan institutions was \$243,953 and \$137,231 for the years ended August 31, 2018 and 2017, respectively, and are included as part of other accounts receivable (see Note 2).

16. RETIREMENT BENEFIT PLANS

Defined Benefit Pension Plans

The CAO contributes to two multi-employer defined benefit pension plans: the Diocese of Buffalo, New York Retirement Plan (Lay Plan), and the Retirement Plan for Secular Priests of the Diocese of Buffalo, New York (Priest Plan), in conjunction with other Diocesan organizations. The CAO does not directly manage these multi-employer plans, which are managed by a board of trustees. A majority of the CAO’s employees are participants in one of these multi-employer plans as of August 31, 2018 and 2017, subject to eligibility requirements.

Each of these plans is organized as a nonelecting noncontributory multi-employer church retirement plan, and therefore the plans are not subject to certain reporting requirements of the Employee Retirement Income Security Act of 1974, as amended (ERISA).

In May 2015, the Board of Trustees of the Lay Plan approved a recommendation to freeze the Lay Plan as of January 1, 2016. Upon freezing the Lay Plan, a participant’s annual accrued benefit at the normal retirement date will remain the same as it was as of December 31, 2015, except for those participants not yet fully vested. Vesting service will continue to be credited for service completed in 2016 and later years. Contributions to the plan will continue at a reduced rate until the plan is fully funded.

The risks of participating in a multi-employer plan are different from a single employer plan in the following aspects: (1) assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of other participating employers; (2) if a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers; (3) if an employer chooses to stop participating in a multi-employer plan, the company may be required to pay the plan an amount based on the underfunded status of the plan, referred to as a withdrawal liability. If a plan were to terminate, if participants voluntarily withdrew, or if there was a mass withdrawal, CAO may also be required to make additional payments to the plan for its proportionate share of underfunded liabilities.

The following table presents information on the plans and the CAO’s participation in the plans (000):

| Plan        | Plan Employer Identification and Plan Number | Plan Funded Status as of December 31, 2017 |                                | Contributions for the Year ended August 31: |       | Total Plan Contributions for the Year ended December 31: |         | Contributions Greater than 5% of Total |
|-------------|--|--|--------------------------------|---|-------|--|---------|--|
|             |  | Assets                                     | Accumulated Benefit Obligation | 2018  | 2017  | 2017   | 2016    |  |
|             |  |  |                                |   |       |  |         |  |
| Lay Plan    | 16-0743984-002                               | \$176,486                                  | \$214,302                      | \$341                                       | \$336 | \$6,788  | \$4,567 | Yes                                    |
| Priest Plan | 16-0743984-001                               | \$46,861                                   | \$40,478                       | \$218                                       | \$189 | \$290  | \$450   | Yes *                                  |

\* The CAO’s contributions for the years ended August 31, 2018 and 2017 listed in the table above also include amounts paid for the multi-employer health and welfare plan noted below. The CAO made contributions greater than 5% of the total contributions to the Retirement Plan for Secular Priests of the Diocese of Buffalo, New York.

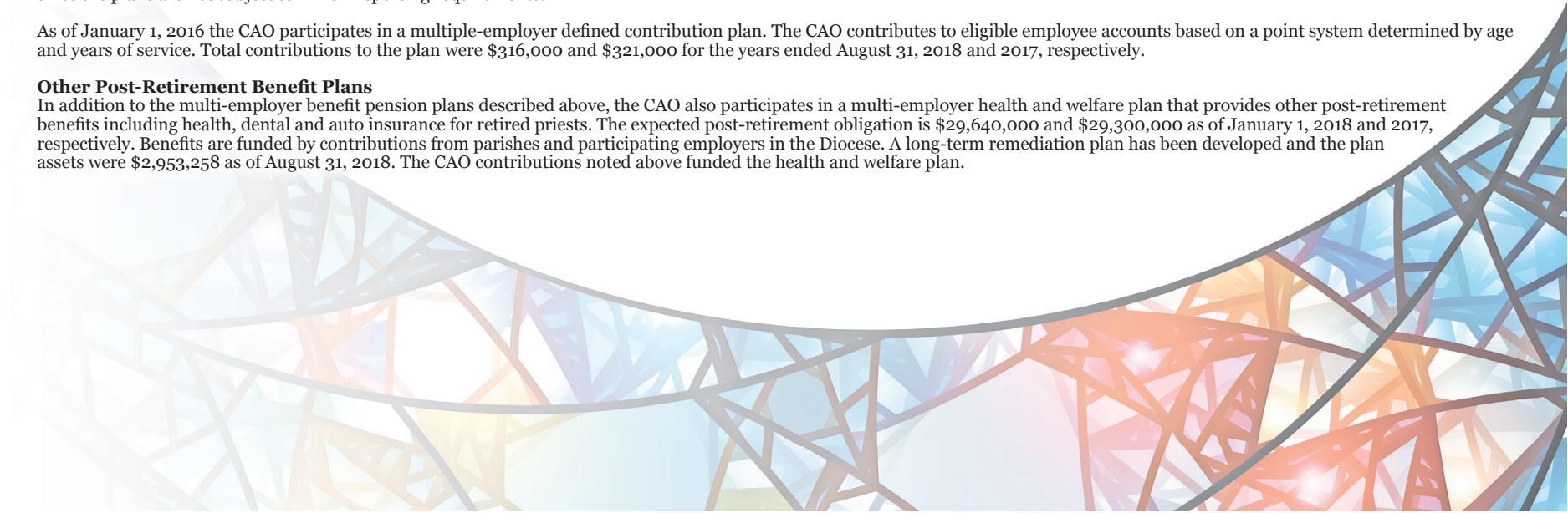
The plans’ accumulated benefit obligations are determined annually by the plans’ actuary. Significant actuarial assumptions utilized for the Lay Plan include a discount rate of 6.0%, an expected rate of investment return of 6.0%, and an expected rate of salary increase of 2.0%. Significant actuarial assumptions utilized for the Priest Plan include a discount rate of 6.0%, an expected rate of investment return of 6.0%, and an annual cost of living benefit increase of 1.5%. Plan assets for both plans are invested in two distinct investment trusts.

Funded status information is not available as of August 31, 2018 and 2017 as actuarial valuations were not performed as of that date due to the significant cost of such retroactive calculations. The CAO’s portion of the unfunded status of the Lay Plan at January 1, 2018, as determined by the Plan’s actuary approximated \$3,000,000. The plans’ certified zone status is not available since the plans are not subject to ERISA reporting requirements.

As of January 1, 2016 the CAO participates in a multiple-employer defined contribution plan. The CAO contributes to eligible employee accounts based on a point system determined by age and years of service. Total contributions to the plan were \$316,000 and \$321,000 for the years ended August 31, 2018 and 2017, respectively.

Other Post-Retirement Benefit Plans

In addition to the multi-employer benefit pension plans described above, the CAO also participates in a multi-employer health and welfare plan that provides other post-retirement benefits including health, dental and auto insurance for retired priests. The expected post-retirement obligation is \$29,640,000 and \$29,300,000 as of January 1, 2018 and 2017, respectively. Benefits are funded by contributions from parishes and participating employers in the Diocese. A long-term remediation plan has been developed and the plan assets were \$2,953,258 as of August 31, 2018. The CAO contributions noted above funded the health and welfare plan.



# CENTRAL ADMINISTRATIVE OFFICES OF THE DIOCESE OF BUFFALO

## 17. CONTINGENCIES

The Diocese is guarantor of loans to parishes and other institutions which approximated \$3,848,000 for 14 loans and \$3,732,000 for 16 loans as of August 31, 2018 and 2017, respectively. The CAO annually reviews the financial projections of the parishes and other institutions to determine if the loan obligations are able to be fulfilled. Based upon management’s most recent review, the CAO has determined that no liability is necessary for these loans as of August 31, 2018. The loans are provided by 4 lending institutions in 2018 and principally supported the construction and remodeling of parish facilities.

A provision for parish and institution facility restructuring costs has been established related to the Journey in Faith and Grace strategic plan. An analysis of the ability of parishes and institutions to meet their financial obligations through the restructure process has been completed by management. A reserve of \$2.1 million and \$2.1 million for 2018 and 2017, respectively, has been established for certain parishes and institutions that may need financial assistance.

Various legal actions are pending against the Diocese. The outcome of these matters is not presently determinable but, in the opinion of management under current New York State law, the CAO is adequately protected by purchased insurance coverage and by insurance reserves, and any ultimate resolution will not have a material adverse effect on the financial condition of the CAO. Management will continue to monitor these matters and adjust insurance reserves as appropriate.

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. Additionally, the United States Justice Department has commenced a civil investigation of a number of Catholic Dioceses in the United States including the Diocese of Buffalo. As a result, the Diocese has received two subpoenas requesting historical information related to such matters. The Diocese is presently in the process of responding to the subpoena requests. The potential financial impact of these matters on the Diocese, if any, is not presently determinable.

## 18. RELATED PARTIES

Substantial portions of the CAO’s activities involve transactions with parishes and other religious organizations. The following significant related-party transactions occurred during the years ended August 31, 2018 and 2017, respectively:

In 2018 and 2017 the CAO supported Christ the King Seminary (the “Seminary”) in East Aurora through an annual operating subsidy of \$832,063 for 2018 and \$300,000 for 2017, and through tuition and support payments for men from the Diocese who are studying for the priesthood. Total subsidy and support was \$1,992,869 and \$1,390,271 for fiscal years ended August 31, 2018 and 2017, respectively.

The CAO administers a payroll service through a third-party payroll provider for various parishes and the Seminary. Accounts receivable related to the payroll service were \$19,741 and \$26,434 as of August 31, 2018 and 2017, respectively (see Note 2).

The Diocesan Computer Services Department of the CAO provides technical support to the Diocesan Cemeteries, the Foundation and Christ the King Seminary. Total income for these services amounted to \$69,000 and \$110,000 in the fiscal years 2018 and 2017, respectively.

In 2018 the CAO contributed \$9,500 to the Foundation for various missions.

In fiscal year 2018, \$16,000 in contributions were received from the Foundation to the Office of Cultural Diversity, \$9,625 to Lifelong Faith Formation, \$5,000 to the Office of Deacons and \$6,000 to the University of Buffalo Newman Center.

In fiscal year 2017, \$20,000 in contributions were received from the Foundation to the Office of Evangelization, \$20,000 to the Office of Cultural Diversity, \$12,150 to Youth & Young Adult Ministry, \$35,000 to the Catholic Education Department and \$6,000 to the University of Buffalo Newman Center.

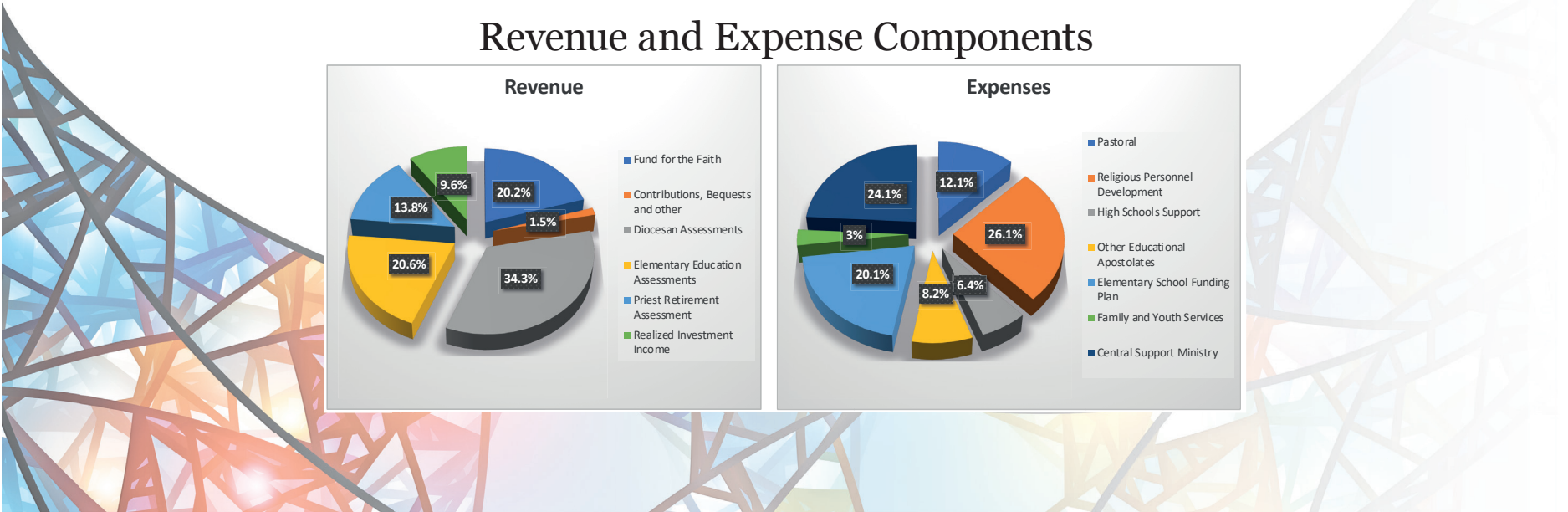
The CAO provides administrative and accounting services to the SJIF. Administrative fees paid by the SJIF to the CAO amounted to \$125,000 and \$125,000 in the years ended August 31, 2018 and 2017, respectively.

The CAO assisted the former Diocesan high schools with an aggregate subsidy of \$1,277,156 and \$1,057,905 in 2018 and 2017, respectively.

## 19. SUBSEQUENT EVENTS

Subsequent events have been evaluated through January 4, 2019, which is the date the financial statements were available to be issued.

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CENTRAL ADMINISTRATIVE OFFICES OF THE DIOCESE OF BUFFALO

SCHEDULES OF EXPENSES FOR THE YEARS ENDED AUGUST 31, 2018 and 2017

|   | 2018         | 2017         |  | 2018          | 2017          |
|---|--------------|--------------|--|---------------|---------------|
| PASTORAL:   |              |              | HIGH SCHOOLS SUPPORT   | \$ 1,277,156  | \$ 1,057,905  |
| Subsidy to St. Joseph Cathedral   | \$ 297,059   | \$ 344,417   |  |               |               |
| National Assessments  | 323,596      | 312,115      | OTHER EDUCATIONAL APOSTOLATES:                                       |               |               |
| Facility Restructuring expenses   | 355          | 448,282      | Office of Superintendent of Catholic Education                       | 1,011,782     | 1,050,711     |
| Parish Subsidy  | 2,609        | 19,058       | (net of related revenues of \$422,263 in 2018 and \$342,037 in 2017) |               |               |
| St. Columban Retreat House  | 206,573      | 102,160      | Elementary Schools Subsidy   | 63,126        | 63,626        |
| Hospital Apostolate   | 133,407      | 73,154       | Campus Ministry (net of related revenues of \$621,567 in 2018        | 495,307       | 485,469       |
| Tribunal (net of related revenues of \$28,559 in 2018 and \$30,936 in 2017) | 231,170      | 248,386      | and \$730,115 in 2017)   |               |               |
| Communications (net related revenues of \$28,359 in 2018                    | 209,037      | 222,844      | Catechetical Mission centers   | 63,774        | 25,237        |
| and \$29,142 in 2017)   |              |              |  |               |               |
| Telecommunications (net of related revenues of \$2,307 in 2018              | 35,552       | 46,710       | Total other educational apostolates                                  | 1,633,989     | 1,625,043     |
| and \$2,271 in 2017)  |              |              |  |               |               |
| Daybreak TV Productions (net of related revenues of \$87,846 in 2018        | 432,543      | 446,124      | ELEMENTARY SCHOOL FUNDING PLAN                                       | 4,005,183     | 4,532,599     |
| and \$69,155 in 2017)   |              |              |  |               |               |
| Western New York Catholic (net of related revenues of \$400,124 in 2018     | 57,805       | 52,747       |  |               |               |
| and \$406,785 in 2017)  |              |              |  |               |               |
| Office of Worship (net of related revenues of \$11,917 in 2018              | 96,404       | 88,671       |  | 2018          | 2017          |
| and \$15,027 in 2017)   |              |              | FAMILY AND YOUTH SERVICES:   |               |               |
| Office of Catechumenate (net of related revenues of \$-0- in 2018           | 25,670       | 31,637       | Youth Department (net of related revenues of \$433,233 in 2018       | \$ 348,380    | \$ 361,305    |
| and \$850 in 2017)  |              |              | and \$561,245 in 2017)   |               |               |
| Office of Cultural Diversity (net of related revenues of \$15,000 in 2018   | 167,359      | 152,831      | Family Life (net of related revenues of \$64,706 in 2018             | 80,056        | 88,227        |
| and \$15,780 in 2017)   |              |              | and \$61,499 in 2017)  |               |               |
| Office of Church Ministry   | -            | 4,091        | Pro Life (net of related revenues of \$174,367 in 2018               | 173,257       | 216,441       |
| Evangelization and Parish Life  | 89,057       | 85,128       | and \$94,933 in 2017)  |               |               |
| Network of Religious Communities  | 23,000       | 23,000       |  |               |               |
| Vicar for Priests   | 23,742       | 24,795       | Total family and youth services                                      | 601,693       | 665,973       |
| Charismatic Renewal   | 12,151       | 15,357       |  |               |               |
| Apostolate for the Deaf   | 27,023       | 25,892       | CENTRAL SUPPORT MINISTRY:  |               |               |
| Council of Priests  | 16,836       | 13,780       | Administrative Offices   | 3,156,685     | 2,778,582     |
| Other   | 6,705        | 5,844        | Buildings and Properties Department                                  | 446,194       | 429,987       |
|   |              |              | Computer Services Center   | 309,639       | 394,849       |
| Total pastoral  | 2,417,653    | 2,787,023    | (net of related revenues of \$79,895 in 2018 and \$120,895 in 2017)  |               |               |
|   |              |              | Advancement Office   | 311,522       | 251,010       |
|   |              |              | (net of related revenues of \$576,690 in 2018 and \$404,396 in 2017) |               |               |
|   | 2018         | 2017         | Human Resources  | 221,754       | 214,492       |
| RELIGIOUS PERSONNEL DEVELOPMENT:  |              |              | Research, Planning and Census  | 87,956        | 116,568       |
| Priests' retirement residences and other retired priests' benefits          | \$ 2,087,150 | \$ 2,084,351 | Legal and audit  | 252,353       | 222,222       |
| (net of related revenues of \$353,149 in 2018 and \$370,334 in 2017)        |              |              | Interest   | 3,403         | 19,518        |
| Priest Personnel Board  | 51,103       | 49,517       |  |               |               |
| Christ the King Seminary subsidy  | 832,063      | 300,000      | Total central support ministry                                       | 4,789,506     | 4,427,228     |
| Seminarian Education  | 1,160,806    | 1,090,271    |  |               |               |
| Vicariate for Religious   | 48,446       | 50,305       | TOTAL EXPENSES   | \$ 19,917,093 | \$ 19,442,953 |
| Vocations Office  | 119,793      | 117,703      |  |               |               |
| St. Mark's Residence  | 22,425       | 31,860       |  |               |               |
| Continuing Formation of Priests   | 140,642      | 51,605       |  |               |               |
| Priests' Special Medical Care   | 472,162      | 385,423      |  |               |               |
| Diaconate Program   | 196,133      | 125,499      |  |               |               |
| Counseling Center   | 45,590       | 45,270       |  |               |               |
| Catholic Urban Outreach (net of related revenues of \$12,000 in 2018        | 15,600       | 15,378       |  |               |               |
| and \$40,000 in 2017)   |              |              |  |               |               |
|   |              |              |  |               |               |
| Total religious personnel development                                       | 5,191,913    | 4,347,182    |  |               |               |

See accompanying notes. (Concluded)

# IRCP REPORT

On March 1, 2018, the Diocese of Buffalo announced the establishment of its voluntary Independent Reconciliation and Compensation Program (“IRCP”). The Program offered an opportunity for healing, justice, and monetary compensation to individuals who had previously submitted complaints to the Diocese that they were sexually abused, as a minor, by clergy of the Diocese.

At the time, the Diocese stated it would not respond to interim inquiries about the number of claims, timetables for the resolution of claims, and similar matters, but it would provide a report at the conclusion of the Program. While a few compensation awards are still outstanding, the Program is substantially complete and the Diocese provides this report.

## Background

The IRCP was the next step in the Diocese’s ongoing efforts, extending back decades, to prevent sexual abuse and to address the needs of victims of past abuse.

Well before the issue of sexual misconduct by Church personnel received widespread national attention, the Diocese of Buffalo prepared a written policy to address abuse. This policy was distributed to all Diocesan clergy in 1990, twelve years before the United States Conference of Catholic Bishops approved a revised Charter for the Protection of Children and Young People in 2002 to ensure the Church’s vigilance in guarding against violations of trust.

Since the adoption of the Charter in 2002, the Diocese has implemented a number of additional programs, safeguards, and procedures designed to educate, prevent and respond to any incidents of sexual abuse of minors. The Diocese created the Office of Safe Environment and has instituted a Diocese-wide Safe Environment Program, which includes screening and background checks on potential employees and volunteers. Mandatory safe environment training has also been instituted for all Diocesan clergy, employees, and volunteers who work with children. Using a well-respected and highly used program called Virtus®, Protecting God’s Children® for adults, the Diocese’s training is ongoing. Following the initial training session, participants are required each month to read additional training materials and answer questions about recognizing the warning signs of inappropriate behaviors by adults, recognizing unusual behavior



by children that may be a warning sign of abuse, and recognizing new trends in the way predators target young victims. Diocesan clergy, employees, and volunteers are trained as to identifying signs of sexual abuse and reporting suspected sexual abuse. Since 2003, the Diocese has trained more than 41,000 adults who come in contact with children, and has done more than 41,000 background checks on clergy,

employees, and volunteers.

Those preventive efforts have proven extremely effective. While even one case of abuse is one too many, media coverage has largely ignored a key fact: there have been only three (3) priests against whom the Diocese has received substantiated allegations of child sexual abuse that have occurred in this century. All three of those priests were removed from ministry, and their cases were widely publicized. To place that in context, the Erie County District Attorney’s Office stated on February 7, 2015 that, “Erie County has had the second highest number of cases of child abuse in New York State with approximately 9,000 cases reported per year.”

Since 2003, the Diocese has had an agreement with the district attorneys in eight Western New York counties concerning the handling of sex abuse allegations. The agreement specifies, among other things, the circumstances in which the Diocese must report allegations of sexual abuse of a minor and stipulates that the Diocese do so “without prior screening regarding the truth of the allegation.” It also states that the Diocese will report any transfer or reassignment of the individual against whom the allegation is made. The reporting criteria were set by the district attorneys, and the agreement, which has been updated over the years, remains in effect today.

On August 26, 2018, Bishop Malone announced that the Diocese had taken the additional step of establishing a new Office of Professional Responsibility. The Office’s mission is to review the Diocesan Code of Conduct, strengthen it wherever necessary, and enforce it. Steven L. Halter, a special agent in the FBI for over 27 years, with experience in investigations involving crimes against children, was appointed Director of Professional Responsibility. His duties include investigating complaints of clergy or employee sexual abuse and misconduct.

Prior to the Charter, the Diocese made efforts to address the emotional, psychological, and pastoral needs of victims, and has continued to do so through its Victim Assistance Coordinator (“the



VAC”), a position formally established in 2003.

In the past, the Diocese had received claims for compensation for alleged sexual abuse. As a further step toward reconciliation with victims of sexual abuse, the Diocese instituted the IRCP to address those claims in a systematic and comprehensive manner. “I know this is the right thing to do,” said Bishop Malone in announcing the Program. “We pray that the monetary compensation together with the acknowledgment that they were hurt can be a significant step in helping them to heal. If we can help victims to heal, then we as a Church can begin to heal from this awful part of our past.”

### **The Program**

Using the general IRCP model used by other New York Dioceses as a starting point, the Diocese tailored its Program to the circumstances and needs of the Diocese of Buffalo. While it did make a significant financial commitment to the Program, the Diocese recognized that it could not undertake an unlimited, open-ended commitment. For that reason, the Diocese undertook a clearly delineated Program, which set forth specific eligibility requirements. For example, the Program was expressly limited to claims of sexual abuse as a minor by a clergy of the Diocese that had previously been reported to the Diocese.

Unlike other IRCPs, the Diocese did not categorically exclude all claims involving allegations of abuse by clergy who were members of a religious order. In this regard, the Diocese sought to accurately reflect the historical fact that, at times, some religious order priests have served as a representative of the Diocese in certain circumstances. This aspect of the Diocese’s IRCP was more inclusive of victims and claims than other IRCPs, which categorically excluded all claims against religious order priests.

To administer the Program, the Diocese engaged two well-respected retired Judges, with decades of judicial experience in Western New York: former New York State Supreme Court Justice Jerome Gorski, and former New York State Supreme Court Justice and former Surrogate Judge Barbara Howe (“the Administrators”). To allow Judge Gorski and Judge Howe to best utilize their experience and professional judgment, the Program gave them independence and flexibility in deciding how to go about resolving claims. In addition, unlike other programs, the Administrators were given complete authority to resolve disputes about claim eligibility; the Diocese could not pre-screen claims.

### **The Diocese’s Outreach**

Prior to the Program, the Diocese had undertaken a review of its records and made extensive efforts to identify potentially eligible individuals and their current contact information. The Diocese was thus able to promptly send out packages, via courier service, to potentially eligible individuals. Each package contained a letter about the IRCP

from the Victim Assistance Coordinator, the Program Summary, a Claim Form, and a prepaid return courier service envelope for the individual to utilize in submitting a completed claim form. The Diocese sent out 93 such packages; 82 packages were successfully delivered; and 68 of those individuals submitted claims. Through extensive and diligent efforts, the Diocese was able to reach a number of individuals who had not been in contact with the Diocese for years.

Not surprisingly, however, the Diocese was not able to directly contact each potentially eligible individual it had identified. The Diocese also recognized that it might not be aware of some potentially eligible individuals. In addition, the Diocese did not want to discourage any individual who believed that his or her claim was eligible from filing that claim with the IRCP.

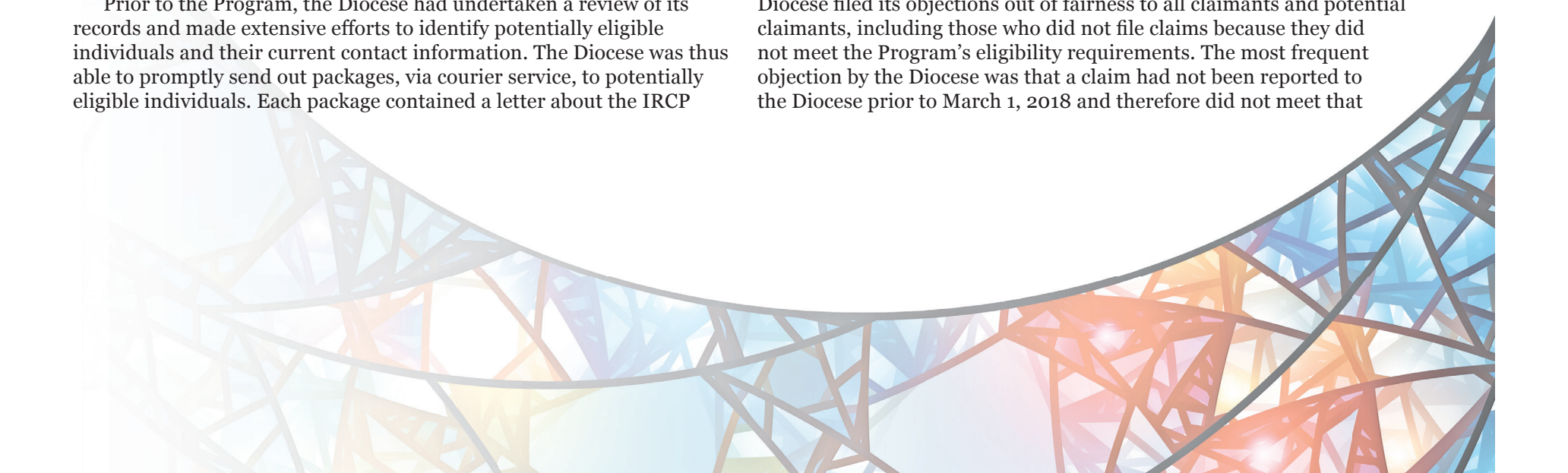
On March 1, 2018, Bishop Malone held a press conference to announce the IRCP so that news of the Program could reach the public at large. The Diocese also made the Program Summary and Claim Form publically available; it posted them on the Diocese’s website; and it provided them to anyone upon request. Likewise, the Program Summary, while setting forth the eligibility requirements, made clear that anyone could submit a claim and that the Administrators (not the Diocese) would decide any disputed issues of eligibility.

### **IRCP Claim and Eligibility Information**

The Diocese has received 262 claims and requests for permission to file claims. Each claim was reviewed in accordance with the Diocese’s policies and procedures. For example, the claims were reviewed to determine if they were subject to reporting to the district attorneys under the Diocese’s agreement with those offices and whether they contained allegations against a priest in active ministry that required action pursuant to the Diocese’s policies and procedures under the Charter. If a claim involved a new report of abuse, it was presented to the Diocesan Review Board. The Diocese also reviewed each claim in connection with its new practice of publishing a list of diocesan priests with substantiated allegations of child sexual abuse and deceased priests who had more than one allegation of abuse against them.

The Diocese received an unexpectedly large number of claims of which it was previously unaware. In reviewing the new claims, the Diocese found it noteworthy that the vast majority involved abuse alleged to have occurred decades ago. That information is consistent with the breakdown of the previously known allegations of abuse.

The Diocese objected to the eligibility of a number of the claims. The Diocese filed its objections out of fairness to all claimants and potential claimants, including those who did not file claims because they did not meet the Program’s eligibility requirements. The most frequent objection by the Diocese was that a claim had not been reported to the Diocese prior to March 1, 2018 and therefore did not meet that



eligibility requirement. In many instances, the claim form itself did not contend that the eligibility requirements had been met, or it affirmatively demonstrated that the claim was not eligible. The Diocese filed its objections with the Administrators and sent a copy of each objection to the claimant or claimant's attorney. Thus, each claimant had an opportunity to respond to the Diocese's objection and to support the eligibility of his or her claim. Some claimants did respond, and the Diocese did withdraw several of its objections in view of a claimant's further submission.

The Administrators ultimately determined that 135 claims failed to meet the IRCP eligibility requirements. The IRCP was designed to allow claimants to be represented by counsel, if they so desired, but also to allow pro se claimants to navigate the IRCP process. The Program was successful in that regard, as evidenced by the fact that approximately 72% of pro se claimants were found eligible as compared to 33% of claimants represented by counsel.

### **IRCP Hearing, Award, and Acceptance Information**

The Administrators gave every eligible claimant an opportunity to be heard by them, either in person or by telephone. The Administrators sent a letter to each eligible claimant advising them of that opportunity. Approximately 94 claimants (and/or their attorney) took advantage of that opportunity and spoke directly to both Administrators, in person or by telephone. The Diocese did not attend or participate in any of those hearings or telephone conferences, thus giving the claimants an unfettered opportunity to present their claim to the Administrators.

The Administrators issued 127 compensation awards. The awards ranged from \$2,000 to \$650,000. The amount of each award was determined solely by the Administrators. The average award was \$158,622.

Each claimant was free to accept or reject the award. The claimant could reject the award for any reason or for no reason. The Diocese, however, was bound by the award. It could not appeal or seek to modify any award made by the Administrators.

To accept an award, a claimant was required to execute and return an Agreement and General Release in which the claimant released the Diocese and any other parties from any and all claims related to his or her allegations of sexual abuse. The claimants were provided with the proposed Agreement and General Release shortly after receipt of the Administrators' award decision. Pursuant to the Program Summary, each claimant had sixty (60) days from receipt of the Agreement and General Release in which to execute and return it. As of this date, 107 of 127 awards have been accepted by the claimants. That 84.3% acceptance rate is a minimum as three awards are currently pending and could still be accepted by the claimant. The awards accepted to date total \$17,600,000 and the average accepted award is \$164,486. The

acceptance rate was approximately the same regardless of whether the claimants were represented.

The November 6, 2018 election guaranteed Democratic control of the New York State Senate and was viewed as making the enactment of a child victims act a virtual certainty. Yet, all 107 acceptances were made well after the election, thus confirming that the amounts of the awards were reasonable. In fact, 22 acceptances were made after the Legislature passed the Child Victims Act on January 28, 2019.

The Program Summary provides that the Diocese will make payment within thirty (30) days of receipt of the original executed Agreement and General Release from the claimant. The Program gave claimants the option of receiving payment via electronic funds transfer ("EFT") and a number of claimants have chosen to receive payment by EFT. To date, the Diocese has paid 106 awards totaling \$17,540,000. Only one acceptance, in the amount of \$60,000, remains unpaid. There are three additional awards, totaling \$425,000, which remain pending, and which could be accepted by the claimants.

### **The Child Victims Act and Moving Forward**

New York recently enacted the Child Victims Act, which provides a one-year "window" in which certain claims for sexual abuse may be brought, even though such claims would previously have been barred by the statute of limitations. That window period does not open until August 2019. As a result, the Diocese is not yet able to assess the impact of the Child Victims Act. In addition, as noted above, the Diocese received an unexpectedly large number of new or previously unknown claims. For those reasons, the Diocese is unable at this time to expand the IRCP or proceed with an additional phase of the Program.

At the same time, the Diocese's experience was that the IRCP offered a number of positive aspects that should not be overlooked moving forward. Claimants, many of whom had not told family members of the abuse, valued the private and confidential nature of the Program. In fact, the vast majority of those accepting awards have requested continuing confidentiality. The non-binding nature of the Program gave them a risk-free opportunity to resolve their claim; they could withdraw at any point or decline a compensation award. The Program offered the possibility of resolution without the delay of litigation and without the adversarial confrontation inherent in the litigation process. Both attorney-represented claimants and pro se claimants were able to successfully pursue IRCP claims. For some claimants, the IRCP allowed them to resolve their claims without attorney's fees.

For those reasons, and others, the Diocese will look for opportunities to implement versions or features of the IRCP, if appropriate, in future alternative dispute resolution, including that concerning the Child Victims Act.

