



**Central Administrative Offices
of the Diocese of Buffalo**

FINANCIAL REPORT

*Financial Statements as of August 31, 2019 and Supplemental Schedules for the Year Ended
August 31, 2019 Together With Independent Auditor's Report*

Central Administrative Offices of the Diocese of Buffalo **FINANCIAL REPORT**

2019 Edition

Dear Diocesan Family,

On the following pages, the Diocese of Buffalo publishes its 2018-19 Fiscal Year audited financial statement. Although certainly many numbers on a page, what this report truly evidences is the enormous good and the vital work of Catholic Faith that is carried out each and every day across Western New York. This includes sharing the Gospel message in our parishes, classrooms, hospitals, family homes, and in so many other places – serving and ministering, proclaiming the Good News of redemption through Jesus Christ.

A few years ago, Pope Francis closed a speech to finance students encouraging them “to work for the good, to become humble seeds of a new world,” and prayed that they would be able to “cultivate the culture of encounter and sharing within the single human family.”

It is in the spirit of the Holy Father’s encouragement to “work for the good” that we embrace our responsibility to be good and faithful stewards of the temporal resources entrusted to us and which are vital to sustaining the work of our Church across our region. The Roman Catholic Diocese of Buffalo comprises the eight counties of Western New York and its parishes, schools, institutions and ministries. Through the work of diocesan ministries, we serve those who are learning and maturing, celebrating life’s defining moments, ministering to those who are grieving, suffering and struggling, those who require comfort and healing; doing good and serving others.

It is because of the great generosity of so many that the work of the Gospel throughout our region is made possible. The generous support of every donor to a parish, special ministry, Catholic Charities, the Fund for the Faith, and Upon This Rock enables the light of Jesus Christ to pierce the darkness that, at times, has seemed overwhelming during this past year. Committed as we are to fostering a new era of accountability, transparency and trust, we must not allow the challenges that we boldly confront to obscure the important and ongoing work that has and continues to reveal the enduring Grace and Love of God.

On behalf of all those who minister and serve faithfully – and also those who are the beneficiaries of all the good that has been accomplished over the past year - thank you for abiding with us, for your generosity and for all that you do in your own way to reveal the goodness of God - our constant hope, strength and protection.

Sincerely in Christ,

+Edward B. Scharfengberger

Most Reverend Edward B. Scharfengberger
Apostolic Administrator
Diocese of Buffalo



Highlights of 2019 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, 2019. 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 with an Emphasis of Matter Paragraph regarding the Diocese’s ability to continue as a going concern.

Financial Operations

Financial results from ordinary operations for Fiscal Year 2019 showed a \$5.0 million loss versus a \$1.8 million loss for the prior year. 2019 results were affected by lower revenue from the Fund for the Faith and investments, and reduced diocesan assessments. Offsetting this was a 9% reduction in expenses and income from other activities. Total assets decreased \$21.7 million primarily due to a \$18 million reduction in investments attributable to the Independent Reconciliation and Compensation Program.

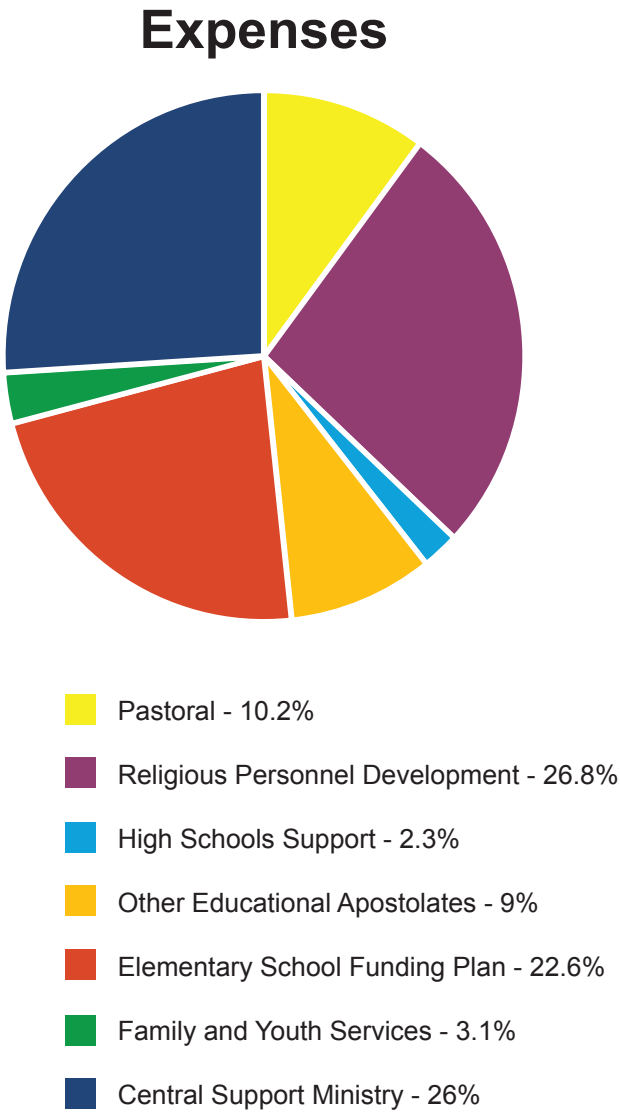
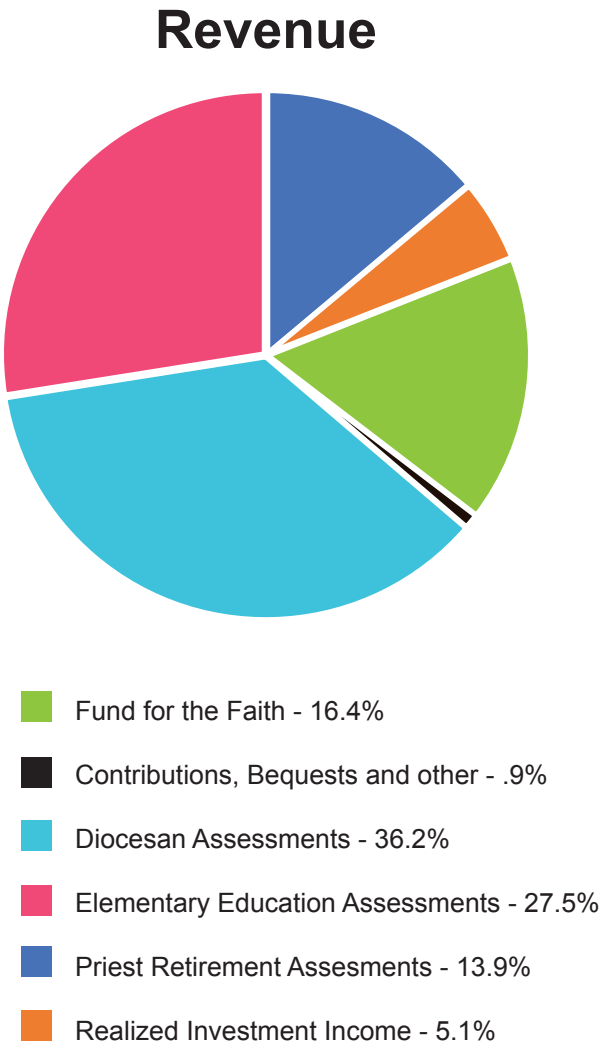
Financial Impact of Sexual Abuse Scandal

The diocese has received claims, which were outside of the parameters of last year’s Independent Reconciliation and Compensation Program (IRCP). The NYS Child Victims Act has also generated 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. Diocesan parish offertory has declined since August 2018, resulting in budget shortfalls for the 2019 fiscal period. Diocesan administration and the Finance Council are addressing these income trends, have reduced spending where possible and further reductions in ministries and services will be necessary.

Revenue and Expense Components

The following graphs illustrate the major categories of operating revenue and expenses for the 2019 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	\$23,802
Campus Ministry	\$445,757
Diocesan Counseling Center	\$45,430
Lifelong Faith Formation	\$278,023
Family and Sacramental Life	\$50,205
Hospital Apostolate	\$135,569
Cultural Diversity	\$173,193
Priest Continuing Formation	\$176,118
Vicar for Priests	\$17,552
Vicariate for Religious	\$49,458
Vocation and Diaconate Programr	\$316,388
Western New York Catholic Newspaper	\$84,607
Youth and Young Adult Ministry	\$353,465
Total	\$2,149,567

Significant real estate activity

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, in 2019, two prominent properties were sold:. 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 for \$1.3 million and the proceeds net of closing costs were placed in the Retired Priest Medical Benefit Welfare Trust. Also, the Bishop’s Residence on Oakland Place was sold in 2019 for \$1.5 million and the net proceeds will be used for future child sexual abuse claims.

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 2018-2019 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

INDEPENDENT AUDITOR'S REPORT

January 16, 2020

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 statement of financial position as of August 31, 2019, and the related statements of activity and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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INDEPENDENT AUDITOR'S REPORT

(Continued)

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, 2019, and the changes in its net assets, and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Substantial Doubt about the Organization's Ability to Continue as a Going Concern

The accompanying financial statements have been prepared assuming the CAO will continue as a going concern. As described in Note 2, the Central Administrative Offices of the Diocese of Buffalo has been the subject of material claims associated with alleged inappropriate conduct on the part of its employees. As a result of the significant number and dollar value of claims, the CAO believes that these conditions raise substantial doubt about its ability to continue as a going concern. Management's evaluation of the events and conditions and management's plans regarding those matters are also described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to that matter.

Change in Accounting Principle

As described in Note 1 to the financial statements, the CAO implemented Accounting Standards Update 2016-14, Presentation of Financial Statements of Not-for-Profit Entities, and the effects have been included in these financial statements. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited the CAO's 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 4, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended August 31, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

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

CENTRAL ADMINISTRATIVE OFFICES OF THE DIOCESE OF BUFFALO
STATEMENT OF FINANCIAL POSITION AS OF AUGUST 31, 2019
(with Comparative Totals for 2018)

	2019	2018
ASSETS		
CASH AND CASH EQUIVALENTS	\$ 3,965,155	\$ 6,389,627
ACCOUNTS RECEIVABLE – Net	1,263,083	1,300,222
PLEDGES RECEIVABLE – Net	535,492	1,236,538
PROPERTY HELD FOR SALE	739,723	270,784
INVESTMENTS:		
Split-interest agreements	899,273	949,835
Designated for potential uninsured losses	11,304,350	11,340,904
Designated for seminarian assistance	4,797,186	4,812,698
Undesignated investments	11,382,851	29,467,132
Total	28,383,660	46,570,569
PROPERTY, BUILDINGS, AND EQUIPMENT – Net	9,507,385	10,395,544
OTHER ASSETS	472,591	361,215
TOTAL	\$ 44,867,089	\$ 66,524,499
LIABILITIES AND NET ASSETS		
ACCOUNTS PAYABLE AND ACCRUED EXPENSES	\$ 3,521,645	\$ 3,757,739
PROVISION FOR FACILITY RESTRUCTURING COSTS	2,100,000	2,100,000
PROVISION FOR POTENTIAL UNINSURED LOSSES	12,200,000	12,100,000
PROVISION FOR INDEPENDENT RECONCILIATION COMPENSATION PROGRAM	-	18,000,000
PROVISION FOR MISCONDUCT CLAIMS	1,323,635	-
ASSET RETIREMENT OBLIGATION	1,199,772	1,142,640
LIABILITY FOR SPLIT-INTEREST AGREEMENTS	156,989	212,663
Total liabilities	20,502,041	37,313,042
NET ASSETS:		
Without Donor Restrictions:		
Undesignated	23,600,372	27,292,083
Designated for elementary education	(442,923)	55,770
Total	23,157,449	27,347,853
With Donor Restrictions	1,207,599	1,863,604
Total net assets	24,365,048	29,211,457
TOTAL	\$ 44,867,089	\$ 66,524,499



CENTRAL ADMINISTRATIVE OFFICES OF THE DIOCESE OF BUFFALO

STATEMENT OF ACTIVITY AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED AUGUST 31, 2019
(with Comparative Totals for 2018)

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES :						
Fund for the Faith	\$ 1,614,075	\$ 535,492	\$ 2,149,567	\$ 2,473,405	\$ 1,194,000	\$ 3,667,405
Contributions and bequests	116,243	18,471	134,714	243,593	18,451	262,044
Diocesan assessments	4,758,286	–	4,758,286	6,220,582	–	6,220,582
Elementary education assessment	3,616,455	–	3,616,455	3,737,256	–	3,737,256
Priest retirement assessment	1,822,104	–	1,822,104	2,507,215	–	2,507,215
Realized investment gains	663,921	–	663,921	1,738,562	–	1,738,562
Net assets released from restrictions	1,212,471	(1,212,471)	–	725,451	(725,451)	–
Total	13,803,555	(658,508)	13,145,047	17,646,064	487,000	18,133,064
EXPENSES, net of related revenues :						
Pastoral	1,862,987	–	1,862,987	2,417,653	–	2,417,653
Religious personnel development	4,877,320	–	4,877,320	5,191,913	–	5,191,913
High schools support	413,448	–	413,448	1,277,156	–	1,277,156
Other educational apostolates	1,631,589	–	1,631,589	1,633,989	–	1,633,989
Elementary school funding plan	4,115,149	–	4,115,149	4,005,183	–	4,005,183
Family and youth services	562,874	–	562,874	601,693	–	601,693
Central support ministry	4,722,506	–	4,722,506	4,789,506	–	4,789,506
Total	18,185,873	–	18,185,873	19,917,093	–	19,917,093
(DEFICIENCY) EXCESS OF REVENUES (UNDER) OVER EXPENSES BEFORE OTHER CHANGES IN NET ASSETS	(4,382,318)	(658,508)	(5,040,826)	(2,271,029)	487,000	(1,784,029)
INSURANCE ACTIVITY – Net	(401,904)	–	(401,904)	1,005,242	–	1,005,242
INCOME FROM OTHER ACTIVITIES – Net	2,877,296	–	2,877,296	1,847,223	–	1,847,223
SPLIT-INTEREST AGREEMENT ACTIVITY – Net	–	2,503	2,503	–	90,552	90,552
CATHOLIC PARTNERSHIP HEALTH PLAN	597,543	–	597,543	392,069	–	392,069
UNREALIZED (LOSS) GAIN ON INVESTMENTS	(1,175,245)	–	(1,175,245)	351,372	–	351,372
INDEPENDENT RECONCILIATION COMPENSATION PROGRAM	(1,705,776)	–	(1,705,776)	(18,292,836)	–	(18,292,836)
CHANGE IN NET ASSETS	(4,190,404)	(656,005)	(4,846,409)	(16,967,959)	577,552	(16,390,407)
NET ASSETS – Beginning of year	27,347,853	1,863,604	29,211,457	44,315,812	1,286,052	45,601,864
NET ASSETS – End of year	\$ 23,157,449	\$ 1,207,599	\$ 24,365,048	\$ 27,347,853	\$ 1,863,604	\$ 29,211,457

See notes to financial statements.



CENTRAL ADMINISTRATIVE OFFICES
OF THE DIOCESE OF BUFFALO

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED AUGUST 31, 2019

	Cath.													
	Pastoral	Religious Personnel Development	High Schools Support & Scholarships	Other Educational Apostolates	Elementary School Fund Plan	Family & Youth Services	Central Support Ministry	Total Operating	Insurance Activity - Net	Income From Other Activities	Split-Interest Agreement Activity - Net	Catholic Partnership Health Plan	Independent Reconciliation Program	Total
\$	1,158,825	\$ 1,024,231	\$ -	\$ 1,086,775	\$ -	\$ 533,488	\$ 3,034,314	\$ 6,837,633	\$ 294,179	\$ 120,355	\$ -	\$ -	\$ -	\$ 7,252,167
Salaries/Wages														
Fringe Benefits	414,670	1,952,432	(3,443)	389,285	23,000	188,847	1,308,625	4,273,416	121,450	79,726	-	-	-	4,474,592
Program		1,114,019	297,207	284,430	4,027,011	194,351	115,809	6,180,750	907	26,297	100,635	2,367,884	1,024,300	9,700,773
Advertising/Promotion	152,460	21,340	-	13,773	65,138	11,989	74,067	338,767	456	-	-	-	-	339,223
Travel/Conferences	55,688	69,196	-	33,267	-	55,359	77,891	291,401	8,961	5,352	-	-	-	305,714
General/Operations	63,740	214,072	5,675	98,729	-	100,893	460,121	943,230	25,950	891,107	1,330	-	-	1,861,617
Occupancy/Space Rent	375,319	475,349	73,211	216,803	-	114,522	777,831	2,033,035	24,484	128,360	-	-	-	2,185,879
Management Fees	345,758	85,761	6,235	(847)	-	1,440	745,089	1,183,436	1,141,504	1,080	2,074	-	681,476	3,009,570
Insurance	58,608	159,846	113,300	24,002	-	9,427	160,506	525,689	5,734,285	2,080	-	-	-	6,262,054
Depreciation	10,906	253,096	382	226,640	-	47,432	299,473	837,929	2,506	64,309	-	-	-	904,744
Total expenses	2,783,897	5,369,342	492,567	2,372,857	4,115,149	1,257,748	7,053,724	23,445,286	7,354,682	1,318,666	104,039	2,367,884	1,705,776	36,296,333
Less related revenues	(920,910)	(492,022)	(79,119)	(741,268)	-	(694,874)	(2,331,220)	(5,259,413)	(6,952,778)	(4,195,962)	(106,542)	(2,965,427)	-	(19,480,122)
Expenses, net of related revenues	\$ 1,862,987	\$ 4,877,320	\$ 413,448	\$ 1,631,589	\$ 4,115,149	\$ 562,874	\$ 4,722,504	\$ 18,185,873	\$ 401,904	\$ (2,877,296)	\$ (2,503)	\$ (597,543)	\$ 1,705,776	\$ 16,816,211

See notes to financial statements.





CENTRAL ADMINISTRATIVE OFFICES OF THE DIOCESE OF BUFFALO

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED AUGUST 31, 2019 (with Comparative Totals for 2018)

	2019	2018
CASH FLOW FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (4,846,409)	\$ (16,390,407)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Asset retirement obligation – accretion	57,132	54,411
Unrealized depreciation (appreciation) on fair value of investments	1,175,245	(351,372)
Realized investment gains	(663,921)	(1,738,562)
Increase in provision for potential uninsured losses	100,000	100,000
(Decrease) increase in provision for Independent Reconciliation Compensation Program	(18,000,000)	18,000,000
Increase in provision for misconduct claims	1,323,635	–
Depreciation and amortization	847,611	923,659
Increase in provision for uncollectible accounts	391,421	252,670
Gain on sales of property, buildings, and equipment	(2,597,251)	(1,506,807)
Changes in assets and liabilities:		
Decrease (increase) in accounts and pledges receivable	346,764	(279,000)
Increase in other assets	(111,376)	(12,516)
Decrease in accounts payable and accrued expenses	(297,550)	(488,881)
Decrease in split-interest agreement liability	(55,674)	(14,745)
Total adjustments	(17,483,964)	14,938,857
Net cash used in operating activities	(22,330,373)	(1,451,550)
CASH FLOW FROM INVESTING ACTIVITIES:		
Proceeds from sales of property, buildings, and equipment	2,597,251	1,506,807
Purchase of property, buildings, and equipment	(366,935)	(245,819)
Proceeds from sale of investments	17,675,585	2,715,978
Net cash provided by investing activities	19,905,901	3,976,966
CASH FLOW FROM FINANCING ACTIVITIES:		
Proceeds from lines of credit	2,000,000	–
Repayment of lines of credit	(2,000,000)	–
Net cash used in financing activities	–	–
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(2,424,472)	2,525,416
CASH AND CASH EQUIVALENTS – Beginning of year	6,389,627	3,864,211
CASH AND CASH EQUIVALENTS – End of year	\$ 3,965,155	\$ 6,389,627
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Interest paid during the year	\$ 24,134	\$ 3,403
Property, buildings, and equipment additions in accounts payable at end of year	\$ 131,219	\$ 69,763

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 “Appeal”). 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.

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

Change in Accounting Principle – In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, Presentation of Financial Statements of Not-for-Profit Entities, with the purpose of improving financial reporting by not-for-profit (NFP) entities.

ASU 2016-14 includes many changes affecting the presentation for the CAO’s financial statements, including:

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

ASU 2016-14 is effective for the CAO’s year ending August, 31, 2019, and was applied retrospectively with the exception of the presentation of expenses in both natural and functional classifications and the disclosures regarding liquidity and availability of resources, which are presented for the current fiscal year only. There was no effect on total net assets or changes in net assets.

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 statement of activity and changes in net assets. Designated net assets for elementary education are the excess (deficiency) 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.





CENTRAL ADMINISTRATIVE OFFICES OF THE DIOCESE OF BUFFALO

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED AUGUST 31, 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2019 and 2018.

Investments – Investments are measured at fair value in the statement 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 general 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 were paid in the fiscal year ending August 31, 2019.

Provision for Misconduct Claims - The provision for misconduct claims was established by funds received from the sale of the Bishop's residence. These funds are specifically designated for misconduct claims.

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 statement of financial position and is disclosed in Note 10.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Reporting – The CAO classifies its operations into the following net asset categories:

- **Net Assets Without Donor Restrictions** – Net assets without donor restrictions include operating net assets which are not subject to donor-imposed stipulations and are available to support the CAO's general operating activities. Net assets without donor restrictions may also include amounts designated by management for specific purposes.
- **Net Assets With Donor Restrictions** – Net assets with donor restrictions represent resources which are limited by donor-imposed stipulations that either expire by the passage of time or are removed by specific action of the CAO. When a donor restriction expires, net assets with donor restrictions are reclassified as net assets without donor restrictions and are reported in the statement of activity and changes in net assets, as 'released from restrictions.' Donor-restricted contributions received in the same year in which the restrictions are met are recorded as an increase in support without donor restrictions at the time of receipt.

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 statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefiting. Expenses such as payroll and benefits are allocated based on actual time spent within that program, which is substantiated by employee timesheets and corresponding records. Other expenses such as professional services; marketing; advertising; educational; and travel are allocated directly to their related programs. Overhead expenses, including facility expenses such as building insurance; utilities; repairs and maintenance; cleaning; security; and building supplies, are allocated to the programs based on utilized square footage.

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.

Use of Estimates – The preparation of financial statements in accordance 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. GOING CONCERN UNCERTAINTY

Child Victims Act

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

- Extended New York State's statute of limitations for child abuse claims
- Allowed for criminal charges against abusers of children until their victims turn 28 years of age, vs. the previous law, which provided that right up to age 23
- Allowed for civil actions against abusers, and institutions where they were abused, until their victims turn 55
- Opened a one-year window beginning on August 14, 2019, permitting any victim of child abuse to take civil action, regardless of when the abuse occurred.

As a result of the passage of the CVA, through the date of this report, the CAO has been notified or become aware of a significant number of abuse-related claims for alleged inappropriate conduct. Aggregate demands for damages from these claims and lawsuits are expected to be material, although presently not determinable.





CENTRAL ADMINISTRATIVE OFFICES OF THE DIOCESE OF BUFFALO

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED AUGUST 31, 2019

2. GOING CONCERN UNCERTAINTY (continued)

During specific years, the CAO had a combination of commercial insurance coverage and self-insurance programs. At present, the CAO is not certain as to the amount of commercial coverage available to assist it in meeting its ultimate obligations for these matters.

No material amounts have been recorded for settlement of these matters, as the potential financial impact on the CAO is not presently determinable. However, it is likely that the ultimate resolution of these matters could have a material adverse impact on the CAO's results of operations, liquidity, and financial position. In addition, it is likely that the ultimate number of actions against the CAO could increase from those presently known.

In September 2018, the New York State Attorney General commenced a civil investigation of the eight Catholic Dioceses of New York State regarding their handling of past sexual abuse allegations. Additionally, the Diocese of Buffalo continues to cooperate with the United States Department of Justice by providing documents and making individuals available for interviews. The potential impact of these matters on the Diocese, if any, is not presently determinable.

In response to the magnitude of the number of claims, lawsuits, and alleged damages, the CAO has determined that a filing of a voluntary petition for reorganization under Chapter 11 of the Federal Bankruptcy Code is imminent. The CAO believes that this filing best allows the CAO to manage the claims adjudication process in an orderly manner, as well as to ensure the equitable treatment of all claimants. The CAO believes that this process will result in the eventual settlement of the claims and ultimately in the CAO's ability to conduct ongoing business operations consistent with its recent historical practices. The ability of the CAO to remain as a going concern and meet its obligations as they become due is dependent on the outcome of the anticipated bankruptcy proceeding and the settlement of abuse claims and lawsuits filed, and those that may be filed during the one-year window commencing on August 14, 2019. These factors create substantial doubt about the CAO's ability to continue as a going concern for the year following the date the financial statements are available to be issued. The financial statements do not include any adjustments that might be necessary if the CAO is unable to continue as a going concern.

3. LIQUIDITY AND AVAILABILITY OF RESOURCES

The CAO's financial assets available within one year of the statement of financial position date to meet cash needs for general expenditures were as follows at August 31, 2019:

Cash and cash equivalents	\$ 3,965,155
Accounts receivable - net	1,263,083
Pledges receivable - net	535,492
Undesignated investments	<u>11,382,851</u>
Financial assets available to meet cash needs for general expenditures within one year	<u><u>\$ 17,146,581</u></u>

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

CENTRAL ADMINISTRATIVE OFFICES OF THE DIOCESE OF BUFFALO

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED AUGUST 31, 2019

4. 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, 2019 and 2018 were as follows:

	2019	2018
School assessments	\$ 838,375	\$ 622,309
Parish assessments	898,768	648,091
Other	632,737	745,198
Less: allowance for uncollectible accounts – school	(450,752)	(288,048)
Less: allowance for uncollectible accounts – parish	(656,045)	(427,328)
Total	<u>\$ 1,263,083</u>	<u>\$ 1,300,222</u>

5. 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 uncollectability and as of August 31, 2019 and 2018, are as follows:

	2019	2018
Pledges due:		
In less than one year	\$ 535,492	\$ 1,244,608
Less: allowance for uncollectibility	<u>–</u>	<u>(8,070)</u>
Pledges receivable – net	<u>\$ 535,492</u>	<u>\$ 1,236,538</u>

6. PROPERTY HELD FOR SALE

Property held for sale consisted of three properties at August 31, 2019 and two at August 31, 2018. The properties had combined net book values of \$739,723 at August 31, 2019 and \$270,784 at August 31, 2018. Under separate contracts, the Diocese anticipates each property sale closing prior to August 31, 2020.

7. 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, 2019 and 2018 summarizes the investment activity without donor restrictions in the statements of activity and changes in net assets:

	2019	2018
Dividends and interest	\$ 598,280	\$ 592,558
Investment management fees	(55,530)	(95,351)
Net realized gain	<u>121,171</u>	<u>1,241,355</u>
Realized investment income	<u>\$ 663,921</u>	<u>\$ 1,738,562</u>





CENTRAL ADMINISTRATIVE OFFICES OF THE DIOCESE OF BUFFALO

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED AUGUST 31, 2019

7. INVESTMENTS (continued)

The cost and fair value of the CAO's investments at August 31, 2019 and 2018 is summarized as follows:

	2019		2018	
	Cost	Fair Value	Cost	Fair Value
St. Joseph Investment Fund, Inc.	\$ 25,183,415	\$ 27,485,424	\$ 32,612,529	\$ 36,650,024
Treasury Bill	—	—	9,020,125	9,020,125
Other Investments	118,219	898,236	108,402	900,420
Total Investments	<u>\$ 25,301,634</u>	<u>\$ 28,383,660</u>	<u>\$ 41,741,056</u>	<u>\$ 46,570,569</u>

Fair Value Disclosures

The following tables represent the CAO's investments that are measured at fair value on a recurring basis at August 31, 2019 and 2018:

	2019			
	Level 1	Level 2	Level 3	Total
St. Joseph Investment Fund, Inc.	\$ —	\$ 27,485,424	\$ —	\$ 27,485,424
Other Investments:				
Interm. Diversified Bond Fund	—	119,573	—	119,573
Value Equity Fund	—	112,487	—	112,487
Core Equity Index Fund	—	131,369	—	131,369
Growth Fund	—	155,283	—	155,283
Small Cap Equity Index Fund	—	110,634	—	110,634
International Equity Fund	—	156,092	—	156,092
Opportunistic Bond Fund	—	112,798	—	112,798
Other Investments	—	898,236	—	898,236
Total Investments	<u>\$ —</u>	<u>\$ 28,383,660</u>	<u>\$ —</u>	<u>\$ 28,383,660</u>

	2018			
	Level 1	Level 2	Level 3	Total
St. Joseph Investment Fund, Inc.	\$ —	\$ 36,650,024	\$ —	\$ 36,650,024
Treasury Bill	9,020,125	—	—	9,020,125
Other Investments:				
Interm. Diversified Bond Fund	—	108,373	—	108,373
Value Equity Fund	—	120,266	—	120,266
Core Equity Index Fund	—	126,682	—	126,682
Growth Fund	—	147,714	—	147,714
Small Cap Equity Index Fund	—	130,181	—	130,181
International Equity Fund	—	160,405	—	160,405
Opportunistic Bond Fund	—	106,799	—	106,799
Other Investments	—	900,420	—	900,420
Total Investments	<u>\$ 9,020,125</u>	<u>\$ 37,550,444</u>	<u>\$ —</u>	<u>\$ 46,570,569</u>

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 invests in Treasury Bills valued at cost, which approximates fair market value.

7. INVESTMENTS (continued)

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(ies). The assets contributed are recognized at fair value when received and a liability is recognized for the amounts due to the beneficiary(ies) at the present value of future cash flows using a discount rate prevalent at the date of the gift. Discount rates range from 1.4% to 6.2% for amounts owed at August 31, 2019 and 2018. The fair value of split-interest agreement assets is \$899,273 and \$949,835 as of August 31, 2019 and 2018, respectively. The liability for split-interest agreements is \$156,989 and \$212,663 as of August 31, 2019 and 2018, respectively.

8. PROPERTY, BUILDINGS, AND EQUIPMENT

The components of property, buildings, and equipment as of August 31, 2019 and 2018 were as follows:

	2019	2018
Property, administrative offices and residences	\$ 26,864,624	\$ 28,611,877
Equipment, furnishings, and autos	4,587,946	4,861,856
Asset retirement costs	127,172	127,172
Less: property held for sale	(739,723)	(270,784)
Less: accumulated depreciation	(21,332,634)	(22,934,577)
Total	\$ 9,507,385	\$ 10,395,544

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

9. OTHER ASSETS

Other assets as of August 31, 2019 and 2018 consisted of the following:

	2019	2018
Equity in insurance pool	\$ 6,566	\$ 6,566
Inventory	253,910	327,746
Prepaid expenses	212,115	26,903
Total	\$ 472,591	\$ 361,215

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

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED AUGUST 31, 2019

10. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses as of August 31, 2019 and 2018 consisted of the following:

	2019	2018
Accounts payable	\$ 1,855,845	\$ 2,048,034
Funds held for national collections	676,299	733,619
Deferred revenue	771,073	717,470
Advance collections of insurance premiums	218,428	258,616
Total	<u>\$ 3,521,645</u>	<u>\$ 3,757,739</u>

11. 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, 2020. No balance was outstanding as of August 31, 2019. This letter of credit required the CAO to pay fees of \$24,724 in 2019 and \$24,857 in 2018. 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, 2020. No balance was outstanding as of August 31, 2019. This letter of credit required the CAO to pay fees of \$560 in 2019 and \$790 in 2018.

12. INDEPENDENT RECONCILIATION COMPENSATION PROGRAM

The Diocese had established a voluntary Independent Reconciliation Compensation Program ("the Program") to allow victims of sexual abuse as a minor by bishops, priests or deacons of the Diocese to seek financial compensation. The effective date of the program was March 1, 2018. The Program was administered by two former New York State Supreme Court Justices (the "Administrators"). The Administrators were independent of the Diocese and the Diocese had 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 denied a number of claims for failure to meet Program eligibility requirements. The Administrators made compensation award offers to claimants whose claim was accepted, and the Program was completed by August 31, 2019. At August 31, 2018, the Diocese had accrued an estimated liability of \$18,000,000 for the Program, with actual claims totaling approximately \$17,700,000. At August 31, 2019, no liability exists, as the program is complete.

13. 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 \$12,200,000 at August 31, 2019 and \$12,100,000 at August 31, 2018. Parishes and institutions are billed premiums to defray the cost of the program.

CENTRAL ADMINISTRATIVE OFFICES OF THE DIOCESE OF BUFFALO

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED AUGUST 31, 2019

A summary of the insurance activities for the years ended August 31, 2019 and 2018 is as follows:

	2019	2018
Premium revenue	\$ 6,939,606	\$ 6,841,345
Realized investment gain	293,280	605,500
Total revenue	<u>7,232,886</u>	<u>7,446,845</u>
Claim expenses and administrative costs	5,515,227	4,383,324
Commercial insurance premiums	2,119,563	2,058,279
Total expenses	<u>7,634,790</u>	<u>6,441,603</u>
Net insurance activity	<u>\$ (401,904)</u>	<u>\$ 1,005,242</u>

14. 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 \$1,278,905 and \$1,473,387 for the years ended August 31, 2019 and 2018, respectively. A summary of the program for the years ended August 31, 2019 and 2018 is as follows:

	2019	2018
Premium revenue	\$ 2,965,427	\$ 3,154,948
Medical and prescription claims	1,947,788	2,320,832
Stop loss premiums	222,458	226,843
Claim administration fees	197,638	215,204
Total expenses	<u>2,367,884</u>	<u>2,762,879</u>
Net Catholic Partnership Health Plan activity	<u>\$ 597,543</u>	<u>\$ 392,069</u>

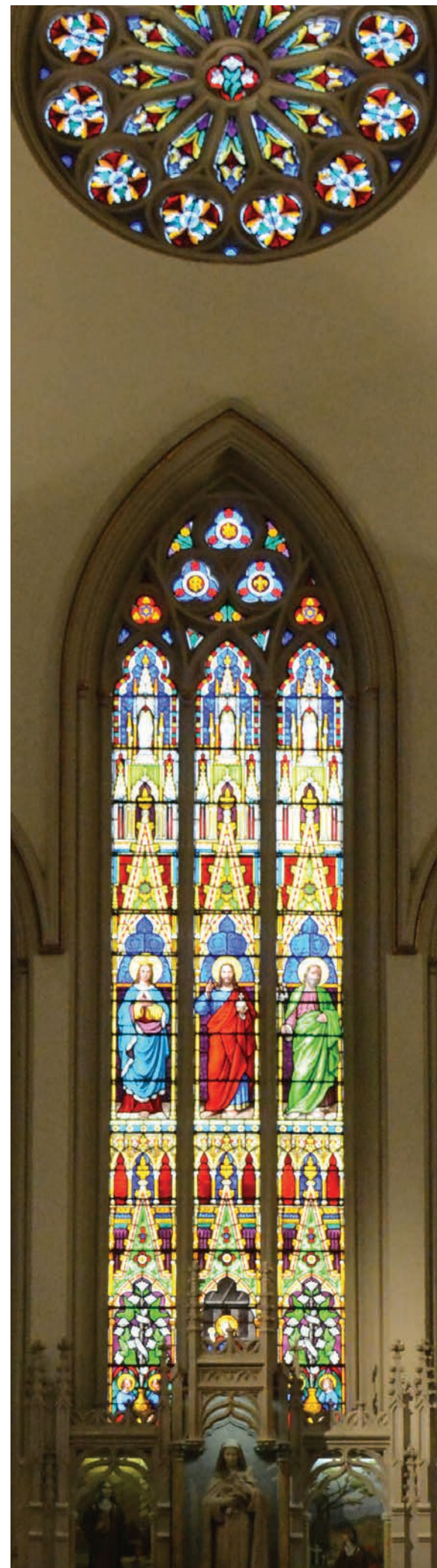
15. ACCOUNTING FOR CONDITIONAL ASSET RETIREMENT OBLIGATIONS

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, 2019 and 2018 related to these obligations:

	2019	2018
Asset retirement obligation - beginning of year	\$ 1,142,640	\$ 1,088,229
Accretion expense during year	57,132	54,411
Asset retirement obligation - end of year	<u>\$ 1,199,772</u>	<u>\$ 1,142,640</u>

The CAO is not aware of any other conditional asset retirement obligations as of August 31, 2019.





CENTRAL ADMINISTRATIVE OFFICES OF THE DIOCESE OF BUFFALO

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED AUGUST 31, 2019

16. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions as of August 31, 2019 and 2018 consisted of the following:

	2019	2018
Fund for the Faith	\$ 535,492	\$ 1,194,000
Split-Interest Agreements	672,107	669,604
	<u>\$ 1,207,599</u>	<u>\$ 1,863,604</u>

Net assets with donor restrictions were released from restrictions during the years ended August 31, 2019 and 2018 as follows:

	2019	2018
Fund for the Faith	\$ 1,194,000	\$ 707,000
Contributions	18,471	18,451
	<u>\$ 1,212,471</u>	<u>\$ 725,451</u>

17. OTHER ACTIVITIES

Other activities for the years ended August 31, 2019 and 2018, consisted of the following:

	2019	2018
Gain on property, buildings and equipment sales	\$ 2,597,251	\$ 1,506,807
Rental and other net income	250,670	267,687
Diocesan Purchasing Division net profit	29,375	72,729
	<u>\$ 2,877,296</u>	<u>\$ 1,847,223</u>

The CAO leases property under the terms of a non-cancelable lease agreement to a tenant for \$369,803 per year through December 31, 2019 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 \$1,121,154 and \$1,371,966, for the years ended August 31, 2019 and 2018, respectively. The combined DPD and store sales and other income were \$1,153,497 and \$1,375,452 for the years ended August 31, 2019 and 2018, respectively. The amount receivable related to Diocesan institutions was \$91,112 and \$243,953 for the years ended August 31, 2019 and 2018, respectively, and are included as part of other accounts receivable (see Note 4).

18. 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, 2019 and 2018, 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).

18. RETIREMENT BENEFIT PLANS (continued)

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 Funded Status as of		Contributions for the		Total Plan Contributions		Contributions
		December 31, 2018		Year ended August 31:		for the Year ended		Greater than
						December 31:		5% of Total
Plan	Plan Employer Identification and Plan Number	Assets	Accumulated Benefit Obligation	2019	2018	2018	2017	
Lay Plan	16-0743984-002	\$160,603	\$212,217	\$408	\$341	\$5,892	\$6,788	Yes
Priest Plan	16-0743984-001	\$41,714	\$40,478	\$244	\$218	\$230	\$290	Yes *

* The CAO's contributions for the years ended August 31, 2019 and 2018 listed in the table above also include amounts paid for the multiemployer health and welfare plan noted below. The CAO made contributions greater than 5% of the total contributions to the Lay Pension Plan and 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% and an expected rate of investment return of 6.0%. 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 \$280,000 and \$316,000 for the years ended August 31, 2019 and 2018, 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 \$26,175,000 and \$29,640,000 as of January 1, 2019 and 2018, 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 \$5,794,637 and \$2,953,258 as of August 31, 2019 and 2018, respectively. The CAO contributions noted above funded the health and welfare plan.





CENTRAL ADMINISTRATIVE OFFICES OF THE DIOCESE OF BUFFALO

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED AUGUST 31, 2019

19. CONTINGENCIES

The Diocese is guarantor of loans to parishes and other institutions which approximated \$2,754,000 for 10 loans and \$3,848,000 for 14 loans as of August 31, 2019 and 2018, 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, 2019. The loans are provided by 3 lending institutions in 2019 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 at August 31, 2019 and 2018, has been established for certain parishes and institutions that may need financial assistance.

Outside of the matters discussed in Note 2, 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.

20. 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, 2019 and 2018:

In 2019 and 2018, the CAO supported Christ the King Seminary (the "Seminary") in East Aurora through an annual operating subsidy of \$250,000 for 2019 and \$832,063 for 2018, and through tuition and support payments for men from the Diocese who are studying for the priesthood. Total subsidy and support was \$1,303,021 and \$1,992,869 for fiscal years ended August 31, 2019 and 2018, 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 \$20,716 and \$19,741 as of August 31, 2019 and 2018, respectively (see Note 4).

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 \$60,900 and \$69,000 in the fiscal years 2019 and 2018, respectively.

In 2019 and 2018, the CAO contributed \$9,500 to the Foundation for various missions.

In fiscal year 2019, the Foundation contributed \$36,350 to the Department of Education, \$18,462 to the St. Joseph Cathedral, \$12,575 to Lifelong Faith Formation, \$7,940 to the Office of Pro Life (Mother Teresa Home), \$6,000 to the University of Buffalo Newman Center, \$3,900 to Buffalo State Newman Center, and \$2,787 to the Diocese of Buffalo.

In fiscal year 2018, the Foundation contributed \$16,000 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.

The CAO provides administrative and accounting services to the SJIF. Administrative fees paid by the SJIF to the CAO amounted to \$125,000 for the years ended August 31, 2019 and 2018.

The CAO assisted the former Diocesan high schools with an aggregate subsidy of \$413,448 and \$1,277,156 in 2019 and 2018, respectively.

21. SUBSEQUENT EVENTS

Subsequent events have been evaluated through January 16, 2020 which is the date the financial statements were available to be issued.

CENTRAL ADMINISTRATIVE OFFICES OF THE DIOCESE OF BUFFALO

SCHEDULES OF EXPENSES FOR THE YEARS ENDED AUGUST 31, 2019 AND 2018

	2019	2018
PASTORAL:		
Subsidy to St. Joseph Cathedral	\$ 367,326	\$ 297,059
National Assessments	305,471	323,596
Facility Restructuring expenses	866	355
Parish Subsidy	1,470	2,609
St. Columban Retreat House	—	206,573
Hospital Apostolate	135,569	133,407
Tribunal (net of related revenues of \$19,068 in 2019 and \$28,559 in 2018)	207,438	231,170
Communications (net related revenues of \$44,887 in 2019 and \$28,359 in 2018)	227,993	209,037
Telecommunications (net of related revenues of \$-0- in 2019 and \$2,307 in 2018)	2,711	35,552
Daybreak TV Productions (net of related revenues of \$1,890 in 2019 and \$87,846 in 2018)	74,006	432,543
Western New York Catholic (net of related revenues of \$328,516 in 2019 and \$400,124 in 2018)	84,607	57,805
Office of Worship (net of related revenues of \$11,315 in 2019 and \$11,917 in 2018)	85,058	96,404
Office of Catechumenate (net of related revenues of \$1,639 in 2019 and \$-0- in 2018)	8,513	25,670
Office of Cultural Diversity (net of related revenues of \$14,903 in 2019 and \$15,000 in 2018)	173,193	167,359
Evangelization and Parish Life	92,000	89,057
Network of Religious Communities	23,000	23,000
Vicar for Priests	17,552	23,742
Charismatic Renewal	13,114	12,151
Apostolate for the Deaf	23,802	27,023
Council of Priests	13,465	16,836
Other	5,833	6,705
Total pastoral	1,862,987	2,417,653
RELIGIOUS PERSONNEL DEVELOPMENT:		
Priests' retirement residences and other retired priests' benefits (net of related revenues of \$357,500 in 2019 and \$353,149 in 2018)	\$ 2,060,515	\$ 2,087,150
Priest Personnel Board	53,389	51,103
Christ the King Seminary subsidy	250,000	832,063
Seminarian Education	1,053,021	1,160,806
Vicariate for Religious	49,458	48,446
Vocations Office	118,123	119,793
St. Mark's Residence	2,775	22,425
Continuing Formation of Priests	176,118	140,642
Priests' Special Medical Care	853,853	472,162
Diaconate Program	198,265	196,133
Counseling Center	45,430	45,590
Catholic Urban Outreach (net of related revenues of \$41,509 in 2019 and \$12,000 in 2018)	16,373	15,600
Total religious personnel development	4,877,320	5,191,913
HIGH SCHOOLS SUPPORT	413,448	1,277,156
OTHER EDUCATIONAL APOSTOLATES:		
Office of Superintendent of Catholic Education (net of related revenues of \$499,318 in 2019 and \$422,263 in 2018)	1,051,620	1,011,782
Elementary Schools Subsidy	60,376	63,126
Campus Ministry (net of related revenues of \$663,187 in 2019 and \$621,567 in 2018)	445,757	495,307
Catechetical Mission Centers	73,836	63,774
Total other educational apostolates	1,631,589	1,633,989
ELEMENTARY SCHOOL FUNDING PLAN	4,115,149	4,005,183

	2019	2018
FAMILY AND YOUTH SERVICES:		
Youth Department (net of related revenues of \$406,461 in 2019 and \$433,233 in 2018)	\$ 353,465	\$ 348,380
Family Life (net of related revenues of \$56,320 in 2019 and \$64,706 in 2018)	36,786	80,056
Pro Life (net of related revenues of \$244,491 in 2019 and \$174,367 in 2018)	172,623	173,257
Total family and youth services	562,874	601,693
CENTRAL SUPPORT MINISTRY:		
Administrative Offices	2,805,584	3,156,685
Buildings and Properties Department	502,713	446,194
Computer Services Center (net of related revenues of \$71,795 in 2019 and \$79,895 in 2018)	344,558	309,639
Advancement Office (net of related revenues of \$723,014 in 2019 and \$576,690 in 2018)	94,442	311,522
Human Resources	197,974	221,754
Research, Planning and Census	53,777	87,956
Legal and audit	699,324	252,353
Interest	24,134	3,403
Total central support ministry	4,722,506	4,789,506
TOTAL EXPENSES	\$ 18,185,873	\$ 19,917,093

See accompanying notes. (Concluded)



