



Administrative Office Funds of the Roman Catholic
Diocese of San Diego
Debtor in Possession

Financial Report

June 30, 2025

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Independent Auditor's Report

To Most Reverend Michael Pham, Bishop of the Roman Catholic
Diocese of San Diego and the Administrative Office Funds
of the Roman Catholic Diocese of San Diego

Opinion

We have audited the accompanying financial statements of the Administrative Office Funds of the Roman Catholic Diocese of San Diego, which comprise the statement of financial position as of June 30, 2025, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Administrative Office Funds of the Roman Catholic Diocese of San Diego as of June 30, 2025, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

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

The accompanying financial statements have been prepared assuming that the Administrative Office Funds of the Roman Catholic Diocese of San Diego will continue as a going concern. As described in Note 1 to the financial statements, on June 17, 2024, the Roman Catholic Bishop of San Diego (Diocese of San Diego) filed a voluntary petition for relief under Chapter 11 of the U.S. Bankruptcy Code with the U.S. Bankruptcy Court for the Southern District of California. The bankruptcy filing is primarily to address legal claims related to sexual abuse, seeking a just and equitable resolution through the establishment of a settlement fund. While the Administrative Office Funds of the Roman Catholic Diocese of San Diego will continue its pastoral and charitable outreach, the bankruptcy filing raises substantial doubt about the Administrative Office Funds of the Roman Catholic Diocese of San Diego's ability to continue as a going concern. Management's plans regarding these matters are also described in Note 1. 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 this matter.

Emphasis of Matter

We draw attention to Note 1 to the financial statements, which describes the legal structure of the Administrative Office Funds of the Roman Catholic Diocese of San Diego within the Roman Catholic Diocese of San Diego.



Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Administrative Office Funds of the Roman Catholic Diocese of San Diego's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Administrative Office Funds of the Roman Catholic Diocese of San Diego's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Administrative Office Funds of the Roman Catholic Diocese of San Diego's ability to continue as a going concern for a reasonable period of time.



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

Report on Summarized Comparative Information

We have previously audited the Administrative Office Funds of the Roman Catholic Diocese of San Diego's 2024 financial statements, and our report dated November 7, 2024, expressed an unmodified audit opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2024, is consistent, in all material respects, with the audited financial statements from which it has been derived.

West Rhode + Roberts

WEST RHODE & ROBERTS
San Diego, California
November 11, 2025

**ADMINISTRATIVE OFFICE FUNDS OF
THE ROMAN CATHOLIC DIOCESE OF SAN DIEGO
DEBTOR IN POSSESSION**

Statement of Financial Position

June 30, 2025

(With Summarized Financial Information for June 30, 2024)

| | <u>2025</u> | <u>2024</u> (Note 19) |
|--|----------------------|--------------------------|
| Assets | | |
| Cash and cash equivalents | \$ 74,358,554 | \$ 59,218,617 |
| ACA pledges receivable, net | 792,369 | 888,561 |
| Prepaid expenses and other assets | 487,946 | 1,065,020 |
| Funds on deposit with Catholic Community Foundation of San Diego | - | 14,570,620 |
| Property and equipment, net | <u>9,925,439</u> | <u>10,140,265</u> |
| Total assets | <u>\$ 85,564,308</u> | <u>\$ 85,883,083</u> |
| Liabilities and net assets | | |
| Liabilities subject to compromise: | | |
| Accounts payable and accrued liabilities | 3,275,710 | 2,159,226 |
| Self-insurance claims incurred but not received | 8,000,000 | 5,800,000 |
| Loan due Catholic Account for Parishes and Schools, Inc. | 10,337,606 | 10,337,606 |
| Diocesan entities funds on deposit | <u>5,048,750</u> | <u>4,648,392</u> |
| Total liabilities subject to compromise | <u>26,662,066</u> | <u>22,945,224</u> |
| Total liabilities | <u>26,662,066</u> | <u>22,945,224</u> |
| Risks and uncertainties (Note 1) | | |
| Net assets | | |
| Without donor restriction | | |
| Expended for property and equipment | 9,925,439 | 10,140,265 |
| Designated insurance and claim reserves | <u>32,600,130</u> | <u>36,563,490</u> |
| Total net assets without donor restriction | <u>42,525,569</u> | <u>46,703,755</u> |
| With donor restriction | <u>16,376,673</u> | <u>16,234,104</u> |
| Total net assets | <u>58,902,242</u> | <u>62,937,859</u> |
| Total liabilities and net assets | <u>\$ 85,564,308</u> | <u>\$ 85,883,083</u> |

**ADMINISTRATIVE OFFICE FUNDS OF
THE ROMAN CATHOLIC DIOCESE OF SAN DIEGO
DEBTOR IN POSSESSION**

Statement of Activities

Year Ended June 30, 2025

(With Summarized Financial Information for the Year Ended June 30, 2024)

| | Without Donor Restrictions | With Donor Restriction | Total | 2024 (Note 19) |
|--|-------------------------------|---------------------------|----------------------|----------------------|
| Operating Activities | | | | |
| Support and revenues | | | | |
| Self-insurance revenue | \$ 33,543,948 | \$ - | \$ 33,543,948 | \$ 31,752,137 |
| Parish assessments | 9,780,542 | - | 9,780,542 | 9,154,472 |
| Contributions and bequests | 662,047 | 8,105,916 | 8,767,963 | 9,684,839 |
| Management and administrative fees | 1,217,453 | - | 1,217,453 | 1,410,378 |
| Departmental revenues | 1,106,437 | - | 1,106,437 | 1,040,700 |
| Rental and other income | 509,435 | - | 509,435 | 259,294 |
| Parish insurance agency funds, net | 336,885 | - | 336,885 | 455,672 |
| Net assets released from restrictions: | | | | |
| Satisfaction of program restrictions | 2,567,540 | (2,567,540) | - | - |
| Satisfaction of time restrictions | 5,751,565 | (5,751,565) | - | - |
| Total support and revenues | <u>55,475,852</u> | <u>(213,189)</u> | <u>55,262,663</u> | <u>53,757,492</u> |
| Expenses | | | | |
| Program services | | | | |
| Self-insurance | 33,712,640 | - | 33,712,640 | 27,457,549 |
| Clergy and religious | 3,625,002 | - | 3,625,002 | 3,538,203 |
| Pastoral ministry | 5,847,871 | - | 5,847,871 | 5,326,910 |
| Catholic schools | 1,820,255 | - | 1,820,255 | 1,723,880 |
| Total program services | <u>45,005,768</u> | <u>-</u> | <u>45,005,768</u> | <u>38,046,542</u> |
| Supporting services | | | | |
| Administration and general | 14,257,193 | - | 14,257,193 | 10,412,470 |
| Fundraising | 406,917 | - | 406,917 | 442,931 |
| Total supporting services | <u>14,664,110</u> | <u>-</u> | <u>14,664,110</u> | <u>10,855,401</u> |
| Total expenses | <u>59,669,878</u> | <u>-</u> | <u>59,669,878</u> | <u>48,901,943</u> |
| Operating support and revenues in excess of expenses | <u>(4,194,026)</u> | <u>(213,189)</u> | <u>(4,407,215)</u> | <u>4,855,549</u> |
| Non-operating Activities | | | | |
| Investment income, net | 15,840 | 355,758 | 371,598 | 1,192,217 |
| Total non-operating activities | <u>15,840</u> | <u>355,758</u> | <u>371,598</u> | <u>1,192,217</u> |
| Change in net assets | (4,178,186) | 142,569 | (4,035,617) | 6,047,766 |
| Net assets at beginning of year | 46,703,755 | 16,234,104 | 62,937,859 | 56,890,093 |
| Net assets at end of year | <u>\$ 42,525,569</u> | <u>\$ 16,376,673</u> | <u>\$ 58,902,242</u> | <u>\$ 62,937,859</u> |

**ADMINISTRATIVE OFFICE FUNDS OF
THE ROMAN CATHOLIC DIOCESE OF SAN DIEGO
DEBTOR IN POSSESSION**

Statement of Functional Expenses

Year Ended June 30, 2025

(With Summarized Financial Information for the Year Ended June 30, 2024)

| | Program Services | | | | Total Program Services | Supporting Services | | Total | 2024 (Note 19) |
|---------------------------------------|----------------------|-------------------------|----------------------|---------------------|------------------------------|-------------------------------|-------------------|----------------------|----------------------|
| | Self-Insurance | Clergy and Religious | Pastoral Ministry | Catholic Schools | | Administration and General | Fundraising | | |
| Expenses | | | | | | | | | |
| Salaries | \$ - | \$ 492,964 | \$ 1,333,841 | \$ 614,775 | \$ 2,441,580 | \$ 3,019,645 | \$ 152,891 | \$ 5,614,116 | \$ 5,467,165 |
| Payroll taxes & employee benefits | - | 254,324 | 339,471 | 280,879 | 874,674 | 1,321,698 | 79,359 | 2,275,731 | 2,457,910 |
| | - | 747,288 | 1,673,312 | 895,654 | 3,316,254 | 4,341,343 | 232,250 | 7,889,847 | 7,925,075 |
| Self-insurance expenditures | 33,712,640 | - | - | - | 33,712,640 | - | - | 33,712,640 | 27,393,849 |
| Fees related to bankruptcy | - | - | - | - | - | 5,480,772 | - | 5,480,772 | 2,200,437 |
| Distributions of restricted donations | - | - | 2,490,406 | 35,434 | 2,525,840 | - | - | 2,525,840 | 2,202,788 |
| Parish ACA Rebates | - | 1,937,578 | - | - | 1,937,578 | - | 1,132 | 1,938,710 | 1,716,223 |
| Operating expenses | - | 26,960 | 744,830 | 158,514 | 930,304 | 684,496 | 132,365 | 1,747,165 | 1,797,208 |
| Professional services | - | 203,957 | 32,274 | 106,540 | 342,771 | 1,108,818 | 3,103 | 1,454,692 | 1,448,860 |
| Conferences and staff development | - | 111,736 | 298,571 | 184,263 | 594,570 | 477,059 | 21,086 | 1,092,715 | 1,050,945 |
| Workshop and training | - | 197,247 | 444,021 | 49,144 | 690,412 | 366,064 | - | 1,056,476 | 695,320 |
| Grants and subsidies | - | 320,995 | - | 335,723 | 656,718 | 264,590 | - | 921,308 | 763,945 |
| Building maintenance & utilities | - | - | 73,655 | 15,363 | 89,018 | 452,090 | - | 541,108 | 358,858 |
| Depreciation | - | 64,883 | 74,152 | 32,441 | 171,476 | 278,067 | 13,904 | 463,447 | 490,844 |
| Assessments | - | - | - | - | - | 471,268 | - | 471,268 | 471,140 |
| Other expenses | - | - | 241 | - | 241 | 271,092 | - | 271,333 | 38,312 |
| Insurance | - | 14,358 | 16,409 | 7,179 | 37,946 | 61,534 | 3,077 | 102,557 | 97,673 |
| Interest expense | - | - | - | - | - | - | - | - | 186,766 |
| Independent compensation program | - | - | - | - | - | - | - | - | 63,700 |
| Total expenses | <u>\$ 33,712,640</u> | <u>\$ 3,625,002</u> | <u>\$ 5,847,871</u> | <u>\$ 1,820,255</u> | <u>\$ 45,005,768</u> | <u>\$ 14,257,193</u> | <u>\$ 406,917</u> | <u>\$ 59,669,878</u> | <u>\$ 48,901,943</u> |

**ADMINISTRATIVE OFFICE FUNDS OF
THE ROMAN CATHOLIC DIOCESE OF SAN DIEGO
DEBTOR IN POSSESSION**

Statement of Cash Flows

Year Ended June 30, 2025

(With Summarized Financial Information for the Year Ended June 30, 2024)

| | <u>2025</u> | <u>2024</u> (Note 19) |
|--|----------------------|--------------------------|
| Cash flows from operating activities | | |
| Change in net assets | \$ (4,035,617) | \$ 6,047,766 |
| Adjustments to reconcile change in net assets to net cash from operating activities: | | |
| Net gain on funds held for other organizations | - | (1,098,821) |
| Depreciation | 463,447 | 490,844 |
| Contributions restricted for endowment | 84,619 | 862,588 |
| Changes in operating assets and liabilities: | | |
| Prepaid expenses and other assets | 673,266 | (296,703) |
| Accounts payable and accrued liabilities | 1,116,484 | (1,202,218) |
| Self-insurance reserve for claims incurred but not received | <u>2,200,000</u> | <u>1,800,000</u> |
| Net cash provided by operating activities | <u>502,199</u> | <u>6,603,456</u> |
| Cash flows from investing activities | | |
| Net change in funds held for other organizations | 14,570,620 | (1,002,449) |
| Net change in diocesan entities funds on deposit | 400,358 | 832,783 |
| Purchases of property and equipment | <u>(248,621)</u> | <u>(343,240)</u> |
| Net cash provided by (used in) investing activities | <u>14,722,357</u> | <u>(512,906)</u> |
| Cash flows from financing activities | | |
| Contributions restricted for endowment | (84,619) | (862,588) |
| Payments on loan due to Catholic Account for Parishes and Schools, Incorporated | - | (628,624) |
| Net cash used in financing activities | <u>(84,619)</u> | <u>(1,491,212)</u> |
| Change in cash and cash equivalents | 15,139,937 | 4,599,338 |
| Cash and cash equivalents at beginning of year | <u>59,218,617</u> | <u>54,619,279</u> |
| Cash and cash equivalents at end of year | <u>\$ 74,358,554</u> | <u>\$ 59,218,617</u> |
| Supplemental cash flow information | | |
| Cash paid for interest | <u>\$ -</u> | <u>\$ 186,766</u> |

**ADMINISTRATIVE OFFICE FUNDS OF THE ROMAN CATHOLIC
DIOCESE OF SAN DIEGO
DEBTOR IN POSSESSION**
Notes to Financial Statements

Note 1. Organization and Significant Accounting Policies

Organization and Activities

The Administrative Office Funds of the Roman Catholic Diocese of San Diego (the Administrative Office) coordinates educational, religious, community, and human development programs for the Diocese of San Diego. In addition, the Administrative Office provides administrative and management services within the diocese.

The Administrative Office has no separate legal status or existence. It is part of the Roman Catholic Diocese of San Diego, which is incorporated as the Roman Catholic Bishop of San Diego (the Diocese), a corporation sole.

The accompanying financial statements present the Administrative Office activities only and exclude the assets, liabilities, and operations of Holy Cross Catholic Cemetery and other diocesan entities, as well as parishes, schools, and other separately incorporated catholic organizations and programs in San Diego and Imperial Counties.

Petition for Relief and Going Concern Consideration

On June 17, 2024, the Roman Catholic Bishop of San Diego (Diocese of San Diego) filed for Chapter 11 bankruptcy protection under the U.S. Bankruptcy Code in the Southern District of California (Case #24-02202-CL11). The filing was necessary due to approximately 450 legal claims related to allegations of sexual abuse over the past eighty years. The Diocese of San Diego is seeking to equitably settle these claims through the bankruptcy process, including establishing a fund to compensate both current and future victims of abuse.

The Administrative Office of the Roman Catholic Diocese of San Diego is part of the Diocese of San Diego and will remain operational throughout the bankruptcy process. Chapter 11 bankruptcy protection allows the Administrative Office Funds of the Roman Catholic Diocese of San Diego to continue its pastoral services and charitable outreach while working with survivors, their attorneys, and insurers to develop a reorganization plan that provides just compensation for survivors.

The Diocese of San Diego has previously engaged in substantive negotiations with survivors and their legal representatives. The bankruptcy process will allow these negotiations to continue under court supervision with the aim of reaching a fair settlement. Additionally, the Diocese of San Diego anticipates creating a compensation fund for victims who come forward in the future.

While the Administrative Office Funds of the Roman Catholic Diocese of San Diego's operational activities remain intact, the substantial liabilities arising from the abuse claims raise uncertainty about the Administrative Office Funds of the Roman Catholic Diocese of San Diego's ability to continue as a going concern. The financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities in the normal course of business. However, the outcome of the bankruptcy proceedings and the related negotiations with creditors, claimants, and insurers may significantly impact the Diocese's future financial condition.

The financial statements do not include any adjustments related to the possible outcome of the bankruptcy case or any potential changes to the Administrative Office Funds of the Roman Catholic Diocese of San Diego's operations or financial structure that may result from the Chapter 11 reorganization process.

**ADMINISTRATIVE OFFICE FUNDS OF THE ROMAN CATHOLIC
DIOCESE OF SAN DIEGO
DEBTOR IN POSSESSION**
Notes to Financial Statements

Significant Accounting Policies

Method of Accounting – The financial statements of the Administrative Office have been prepared on the accrual basis of accounting.

Basis of Presentation – The financial statements of the Administrative Office have been prepared in accordance with U.S. generally accepted accounting principles ("US GAAP"), which require the Administrative Office to report information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of the Administrative Office's management and the finance council.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Administrative Office or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

Measure of Operations – The statement of activities reports all changes in net assets, including changes in net assets from operating and non-operating activities. Operating activities consist of those items attributable to the Administrative Office's ongoing programs. Non-operating activities are limited to resources that generate return from long-term investments and other activities considered to be of a more unusual or nonrecurring nature.

Revenue Recognition – The Administrative Office recognizes revenue in accordance with the following policies:

Self-insurance Revenue – The Administrative Office provides insurance for Diocesan parishes, schools, other Catholic entities and the Administrative Office. The Administrative Office treats multi-peril and earthquake insurance that is provided by a third-party vendor as an agency transaction and records the net amount of funds received and premiums paid on behalf of the various parishes and schools.

The Administrative Office provides insurance in the form of self-insurance plans for workers' compensation, unemployment benefits and a portion of health insurance. The Administrative Office reports these premiums received at the gross amounts and records expenses for actual claims and an estimate of claims incurred but not received.

Parish Assessments – Diocesan parishes are assessed 10.4% of their annual estimated net income for the service provided by the Administrative Office. Revenue is recognized as earned each month.

Contributions – Contributions are recognized as revenue when they are unconditionally pledged or when all conditions have been met.

**ADMINISTRATIVE OFFICE FUNDS OF THE ROMAN CATHOLIC
DIOCESE OF SAN DIEGO
DEBTOR IN POSSESSION**
Notes to Financial Statements

The Administrative Office reports contributions as restricted if they are received with donor stipulations as to the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the Statement of Activities as net assets released from restrictions. Contributions with donor restrictions requiring the principal gift to be held in perpetuity are reported as endowment funds. The income earned from such assets is generally considered as purpose restricted. This recognition is in accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Codification No. 958-605.

Management and Administrative Fees – Agreements for management and administrative services are recognized as earned each month.

Departmental Revenues - Departmental revenues primarily consist of revenues from pastoral activities, publications, conferences, youth programs, workshops, and other sources specific to the activities of each department. The allocation of revenues by department is based on the source and purpose of the funds and is consistent with the manner in which management monitors and evaluates departmental performance.

Cash and Cash Equivalents – The Administrative Office considers all highly liquid investments with an original maturity of less than three months to be cash equivalents.

Parishes and Schools’ Receivables – Receivables from parishes and schools are typically due within one year. The Administrative Office estimates an allowance for credit losses using historical collection patterns, aging, subsequent cash receipts, current conditions, and known parish/school circumstances. Balances are written off when collection is deemed remote. Management determined no allowance was necessary at June 30, 2025.

Annual Catholic Appeal (ACA) Pledges Receivable - ACA pledges receivable represent unconditional donor promises to give for the Diocese’s annual campaign. Pledges expected to be collected within one year are recorded at the pledged amount; amounts due beyond one year, if any, are discounted to present value. An allowance for uncollectible pledges is recorded based on historical collection rates, aging, recent campaign experience, and known donor-specific circumstances. Amounts are written off when collection is deemed remote.

Property and Equipment – Property and equipment is recorded at cost or, if donated, at fair market value on the date of donation. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets. Buildings are depreciated over forty years, furniture and fixtures over ten years, and computers over five years. Property and equipment is depreciated on a straight-line basis as follows:

| | |
|----------------------------|---------------|
| Buildings and improvements | 40 years |
| Furniture and equipment | 5 to 10 years |
| Technology | 5 years |

Depreciation expense totaled \$463,447 for the year ended June 30, 2025.

Diocesan Entities Funds on Deposit – The Administrative Office holds funds for several diocesan organizations. The funds received are invested in the Administrative Office’s cash and investment accounts with an offsetting liability for the obligation to the diocesan entity.

**ADMINISTRATIVE OFFICE FUNDS OF THE ROMAN CATHOLIC
DIOCESE OF SAN DIEGO
DEBTOR IN POSSESSION**
Notes to Financial Statements

Agency Transactions – At times the Administrative Office receives funds that are for other organizations. These funds are recorded as increases in assets and liabilities.

Income Taxes – The Administrative Office is part of the Roman Catholic Bishop of San Diego which has received notice from the Internal Revenue Service and the California Franchise Tax Board that, as an agency of the Roman Catholic Church, it is exempt from income taxes. It qualifies for exemption under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Franchise Tax Code. It is also exempt from federal unemployment tax and certain property taxes. The Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 740-10, Accounting for Uncertainties in Income Tax, sets a minimum threshold for financial statement recognition of the benefit of a tax position taken or expected to be taken in a tax return. The Administrative Office has reviewed its position for all open tax years and has determined that it has no uncertain tax positions requiring accrual or disclosure.

Functional Allocation of Expenses – The statement of functional expenses presents expense by function and natural classification. Expenses directly attributable to a specific functional area of the Administrative Office are reported as expenses of those functional areas. A portion of costs that benefit multiple functional areas (indirect costs) have been allocated across programs and supporting services based on the full-time employee equivalents of a program or supporting service.

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 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. The primary estimates included in the financial statements are depreciation, allowances for uncollectable receivables and self-insurance claims incurred but not received.

Subsequent Events – Subsequent events are events or transactions that occur after the statement of financial position date but before financial statements are available to be issued. The Administrative Office recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at that date, including the estimates inherent in the process of preparing financial statements. The Administrative Office's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the statement of financial position, but arose after that date and before the financial statements are available to be issued.

The Administrative Office has evaluated subsequent events through November 11, 2025, which is the date the financial statements are available for issuance and concluded that the following event needs to be disclosed.

Subsequent to year-end the Administrative Office has received \$999,466 in Employee Retention Tax Credits from the IRS which was not anticipated to be received as of year-end.

Apart from the above, there are no other events or transactions that needed to be disclosed.

**ADMINISTRATIVE OFFICE FUNDS OF THE ROMAN CATHOLIC
DIOCESE OF SAN DIEGO
DEBTOR IN POSSESSION**
Notes to Financial Statements

Note 2. Liquidity and Availability of Resources

The Administrative Office's financial assets available for general expenditure, that is without donor restrictions limiting their use within one year of the statement of position date, are as follows:

| | |
|--|----------------------|
| <u>Financial Assets</u> | |
| Cash and cash equivalents | \$ 74,358,554 |
| Total financial assets available within one year | <u>74,358,554</u> |
| Less restricted funds unavailable for general expenditures: | |
| Cash collateral accounts | (9,099,934) |
| Diocesan entities funds on deposit | (5,048,750) |
| Restricted by donors with purpose restrictions | (7,028,807) |
| Restricted by donors in perpetuity | <u>(9,347,866)</u> |
| Total restricted funds unavailable for general expenditures within one year | <u>(30,525,357)</u> |
| Less amounts designated for insurance and claim reserve | <u>(32,600,130)</u> |
| Total financial assets available to management for general expenditure within one year | <u>\$ 11,233,067</u> |

The Administrative Office maintains policies of structuring its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

Note 3. Investments and Fair Value Measurements

Fair value represents 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. Fair value measurements are classified based on the nature of the inputs used to determine the valuation:

Level 1 - quoted prices in active markets for identical assets or liabilities.

Level 2 - other observable inputs, such as quoted prices in markets that are not active or inputs corroborated by observable market data.

Level 3 – unobservable inputs based on assumptions a market participant would use.

The following are descriptions of the valuation inputs and techniques that the Administrative Office utilizes to determine fair value for each major category of assets and liabilities.

Due to the short-term nature of cash equivalents, other assets, accounts payable and accrued expenses, carrying value approximates fair value.

The management of the Administrative Office is responsible for making the fair value measurements and disclosures in the financial statements. As part of fulfilling this responsibility, the management of the Administrative Office has established an accounting and financial reporting process for determining the fair value measurements and disclosures, which identifies and adequately supports the valuation methods and assumptions used and ensures that the presentation of the fair value measurement is in accordance with U.S. GAAP.

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Note 4. Cash and Cash Equivalents

Cash and cash equivalents are designated or restricted for the following purposes at June 30, 2025:

| | |
|---|----------------------|
| Designated insurance and claim reserves | \$ 32,600,130 |
| General | 12,168,005 |
| With donor restrictions | 15,441,735 |
| Cash collateral accounts | 9,099,934 |
| Diocesan entities funds on deposit | 5,048,750 |
| | <u>\$ 74,358,554</u> |

Note 5. Annual Catholic Appeal (ACA) Pledges Receivable

The Annual Catholic Appeal (ACA) is a Diocesan-wide fundraising campaign in which each parish is assessed an amount based on its financial capabilities. Amounts raised in excess of the assessed amount are rebated back to the parish.

The ACA campaign runs from February to December each year. The funds received from the 2024 campaign were designated for use by the Diocese during the year ending June 30, 2025. Similarly, pledges made and donations received during the 2025 campaign are reported as net assets with donor restrictions and will be used in fiscal year 2026. Pledges receivable included in the accompanying statement of financial position represent amounts pledged for the 2025 campaign to be received in fiscal year 2026. All pledges are due within one year. For the year ended June 30, 2025, management has determined that an allowance of approximately \$41,000 for ACA is needed.

Note 6. Property and Equipment

Property and equipment consist of the following at June 30, 2025:

| | |
|-----------------------------------|---------------------|
| Buildings | \$ 12,391,476 |
| Land | 4,261,521 |
| Furniture, fixtures and equipment | 4,098,152 |
| | <u>20,751,149</u> |
| Less accumulated depreciation | (10,825,710) |
| | <u>\$ 9,925,439</u> |

Note 7. Loan Due to The San Diego Catholic Account for Parishes and Schools, Incorporated

The San Diego Catholic Account for Parishes and Schools, Incorporated (CAPS, Inc.) is a separately incorporated California nonprofit public benefit corporation established to finance the construction and renovation of parish and school facilities and to provide a safe investment for excess parish and school funds.

The Administrative Office has borrowed from CAPS, Inc. which is recorded as a liability on the accompanying financial statements. The loan matures in March 2039 and bears interest at 1.75% per annum. Scheduled monthly payments of principal and interest are \$66,707. Aggregate maturities of notes payable are \$10,337,606. Principal and interest payments will not be made or accrued during bankruptcy.

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Note 8. Net Assets without Donor Restrictions

The Administrative Office's net assets without donor restrictions is comprised of undesignated and Financial Council designated amounts for the following purposes at June 30, 2025:

| | |
|---|----------------------|
| Expended for property and equipment | \$ 9,925,439 |
| Designated insurance and claim reserves | 32,600,130 |
| | <u>\$ 42,525,569</u> |

Designated insurance and claim reserves include funds related to the various self-insured programs including health, dental, vision, pharmacy, worker's compensation, unemployment, automobile and a portion of the property and casualty insurance for all parishes and schools within the Diocese of San Diego. As part of the administration of the various programs to ensure there is stability in the rates being charged to the locations reserves accumulated from employee and employer premiums have been set aside to assist in the administration of these programs.

Note 9. Net Assets with Donor Restrictions

Net assets with donor restrictions represent contributions and other inflows received by the Administrative Office, which are limited in their use by the donor-imposed stipulations. Net assets with donor restrictions at June 30, 2025, are available for the following purposes or periods:

| | |
|---|---------------------|
| Subject to expenditure for specified purpose | |
| Annual Catholic Appeal - rebates payable and donations to be used in fiscal year 2025 | \$ 5,005,222 |
| Charitable support | 1,146,415 |
| Education | 512,459 |
| Clergy and religious support | 364,711 |
| | <u>\$ 7,028,807</u> |

Donor restricted endowments subject to spending policy and appropriation, to support the following purposes at June 30, 2025:

| | |
|---|---------------------|
| Donor restricted St. Francis Endowment Fund subject to spending policy and appropriation, to support operating expenses of St. Francis Center (including net accumulated earnings of \$161,905) | \$ 4,789,243 |
| Donor restricted Sacred Heart - James E. Spain Family Fund subject to spending policy and appropriation, to support projects within the Diocese of San Diego (including net accumulated earnings of \$28,336) | 847,295 |
| Seminary quasi-endowment (including net accumulated earnings of \$128,181) | 3,711,328 |
| | <u>\$ 9,347,866</u> |

Total net assets with donor restrictions at June 30, 2025, is \$16,376,673.

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Note 10. Net Assets Released from Restriction

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

Net assets released from restriction consist of the following at June 30, 2025:

| | |
|---|---------------------|
| Satisfaction of time restrictions: | |
| Annual Catholic Appeal - rebates payable and donations used in fiscal year 2025 | \$ 5,751,565 |
| Satisfaction of program restrictions: | |
| Charitable support | 1,970,828 |
| Endowment distributions | 502,441 |
| Education | 81,133 |
| Clergy and religious support | 13,138 |
| | <u>2,567,540</u> |
| Total net assets released from restriction | <u>\$ 8,319,105</u> |

Note 11. Endowment

The Administrative Office follows the standards codified in FASB ASC 958-205-65, Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds, which provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the 2006 Uniform Prudent Management of Institutional Funds Act (UPMIFA). The Administrative Office's donor restricted endowment consists of three perpetually restricted funds. The Administrative Office also has one donor restricted quasi endowment that follows the donor restricted endowment's funding policy. The funds primarily benefit the seminary.

Interpretation of Relevant Law – The Administrative Office has interpreted the UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Administrative Office classifies as net assets with donor restrictions (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

Endowment Investment Policy – The Administrative Office has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Administrative Office must hold in perpetuity. The Administrative Office expects its endowment funds, over time, to provide an average rate of return of approximately 6 percent annually. Actual returns in any given year may vary from this amount.

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Strategies employed for Achieving Objectives - To satisfy its long-term rate-of-return objectives, the Administrative Office relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Administrative Office targets a diversified asset allocation that places greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy - The Administrative Office's donor-restricted endowment has a policy of appropriating for distribution each year of 2-4 percent of its endowment fund's average value over the prior fiscal year. In establishing this policy, the Administrative Office considered the long-term expected return on its endowment. Accordingly, over the long term, the Administrative Office expects the current spending policy to allow its endowment to grow at an average of 1-2 percent annually. This is consistent with the Administrative Office's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as providing additional real growth through new gifts and investment returns.

The Administrative Office's donor-restricted quasi-endowment fund's spending policy is determined annually.

Funds with Deficiencies - From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level required to be maintained in perpetuity by donor stipulation or UPMIFA. Such deficiencies are reported in net assets without donor restrictions. The Administrative Office had no such deficiencies as of June 30, 2025.

Donor-restricted endowment net asset with donor restrictions composition as of June 30, 2025, is as follows:

| | <u>With Donor Restrictions</u> |
|-----------------------------------|------------------------------------|
| Donor-restricted endowments | |
| Seminary endowment | \$ 4,789,243 |
| Sacred Heart - Spain endowment | <u>847,295</u> |
| | <u>5,636,538</u> |
| Donor-restricted quasi-endowments | |
| Seminary quasi-endowment | <u>3,711,328</u> |
| | <u>\$ 9,347,866</u> |

Changes in donor-restricted endowment funds with donor restrictions during the year ended June 30, 2025, are summarized in the following table:

| | <u>With Donor Restrictions</u> |
|---|------------------------------------|
| Endowment net assets, beginning of year | \$ 9,447,267 |
| Investment return | 318,421 |
| Contributions | 84,619 |
| Appropriation of assets for expenditure | <u>(502,441)</u> |
| Endowment net assets, end of year | <u>\$ 9,347,866</u> |

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Note 12. Commitment

Power Purchase Agreement – The Administrative Office entered into a power purchase agreement with SolarCity Corporation in January 2017, whereby SolarCity installed their solar electricity generating equipment on Administrative Office’s parking lot in late 2017. The system size is 200.88 DC kW. The Administrative Office has committed to purchase all of the energy generated by the solar system from SolarCity. Under the terms of the agreement, the Administrative Office will pay SolarCity for use of the generated power for a period of 20 years with an option for up to three additional terms of five years each. In January 2023, the Administrative Office elected not to purchase the solar system. Payments for energy will be included in the Administrative Office’s utility expenses account and consolidated in operating expenses in the financial statements.

Note 13. Lay Employee Multiple Employer Pension Plan

The Administrative Office participates in the Diocese of San Diego Restated Pension Plan for Lay Employees the (Lay Plan), which is a multiple employer defined benefit retirement plan that provides retirement benefits for lay employees. Besides the Administrative Office, the Lay Plan includes lay employees of the parishes, schools, and other Catholic entities operating within the Dioceses of San Diego.

Plan Eligibility and Benefit Structure - All lay employees (excluding temps) participating prior to July 1, 2017, and working a minimum of 20 hours per week are eligible to participate in the Diocese of San Diego Restated Pension Plan for Lay Employees, which is a multiple employer defined benefit retirement plan. The benefits are based on years of participation and the Employees’ compensation. The Administrative Office contributes 12% of the participants’ salaries. Participants are fully vested after five years. The contributions percentages change periodically as needed.

Lay employees (excluding temps) whose date of participation is on or after July 1, 2017, or who terminated and were rehired after 1 year or more, and are scheduled to work a minimum of 20 hours per week are eligible to participate in the Diocese of San Diego Pension Plan for Lay Employees under the cash balance benefit. The Administrative Office contributes 11% of the participant’s salaries to the plan and an additional 1% into an individual participant’s 403(b) account. Through the Diocese of San Diego Pension Plan for Lay Employees, the participant receives a cash balance benefit determined by a contribution credit of 6% of eligible compensation earning a 5% fixed annual interest with a vesting period of 3 years. The 403(b) plan has no vesting period.

Funding Status and Contributions - The Administrative Office has involvement in the plan’s administration and each employer in the plan has a proportional responsibility for unfunded amounts in the multiple employer plan. At June 30, 2025, the Lay Plan was underfunded by approximately \$66,428,000 of which the Administrative Office’s share of the unfunded amount is approximately \$2,371,480. Contributions to the plan were \$527,595 to the plan in the year ending June 30, 2025.

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Note 14. Priest Defined Benefit Plans and Charitable Trust

The Administrative Office participates in the Pension Plan for the Priests of the Diocese of San Diego which is a defined benefit retirement plan for priests that provides post-retirement benefits for priests of parishes, schools and other Catholic entities. Priests are not vested in the Priest Retirement Plan until they have completed ten years of service and ten years of participation in the plan, when they become vested 100% in the Accrued Benefit portion of the plan. The Accrued Benefit is calculated based on years of participation and is pro-rated between years 11 and 25. After 25 years, the full amount of Accrued Benefit is eligible to be paid.

The Administrative Office has involvement in the Priest Plan's administration and each employer in the plan has a proportional responsibility for unfunded amounts in the multiple employer plan.

Note 15. Self-insurance and Loss Reserves

The Administrative Office provides the following self-insurance products to the parishes, schools, and other Catholic entities operating within the Dioceses of San Diego:

Workers' Compensation – The Administrative Office maintains a self-insured workers' compensation program for the Diocese, parishes, schools and other Catholic entities in San Diego and Imperial Counties. The Administrative Office bills each entity a premium based on salaries and job classifications. A third-party administrator reviews and processes the workers' compensation claims. The amount collected by the Administrative Office is used to purchase excess liability insurance and to pay claims, fees, and administrative costs. The Administrative Office has established a liability for claims incurred but not yet paid of \$5,400,000. This estimate is based on actuary analysis.

Unemployment Benefits – The Administrative Office maintains a self-insured unemployment insurance program for the Diocese, parishes, schools, and other Catholic entities in San Diego and Imperial Counties. The Administrative Office bills each entity a premium based on salaries and job classifications. The Administrative Office has established a liability for estimated unemployment claims of \$100,000.

Health and Other Personal Insurance – The Administrative Office provides self-insurance for a portion of health and dental. The Diocese is reinsured for catastrophic claims. This insurance is provided for the parishes, schools and other Catholic entities within the Diocese of San Diego. Premiums are based on the coverage provided. The Administrative Office has established a liability for estimated claims incurred but not reported in the amount of \$2,500,000. This estimate was based on actuary analysis.

Note 16. Legal Matters

In addition to matters addressed Note 1, the Diocese is involved in various routine legal actions and claims that arise in the ordinary course of operations. These matters are not related to the bankruptcy filing and are being defended by legal counsel appointed by the Diocese's insurance carrier.

Management believes that existing insurance coverage is adequate to cover any potential liabilities that may result from these matters. As of June 30, 2025, there are no known judgments or settlements, and management has concluded that a loss is not probable or reasonably estimable. Accordingly, no amounts have been accrued in the accompanying financial statements.

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Note 17. Related Party Transactions

Management and Administrative Fees - The San Diego Catholic Account for Parishes and School, Incorporated (CAPS, Inc.), The Roman Catholic Services Corporation for Parishes and Schools of San Diego and Imperial Counties, Inc. (Services Corporation), The Roman Catholic Seminary of San Diego, Inc. (Seminary Corporation) and Diocesan high schools have agreements with the Administrative Office to provide financial services, legal services and human resource support.

The total amount of contracted services was \$104,783 for CAPS, Inc., \$911,182 for Services Corporation, \$61,643 for Seminary Corporation and \$139,845 for the high schools for the year ended June 30, 2025.

Note 18. Risks and Uncertainties

Concentration of Credit Risk- the Administrative Office maintains its cash in bank deposit accounts, which at times, exceed federally insured deposit limits. The Administrative Office adheres to a policy by which cash balances in excess of short-term needs are diversified amongst short-term, low risk investment vehicles. The Administrative Office has not experienced any losses in such accounts.

Investments - The Administrative Office invests in various investments. Investment securities, in general, are subject to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of investments could occur in the near term and that such change could materially affect amounts reported on the financial statements.

Note 19. June 30, 2024, Financial Information

The financial statements include certain prior year summarized comparative information in total, but not by net asset class. Such prior year information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Administrative Office's financial statements for the year ended June 30, 2024, from which the summarized information was derived. Certain reclassifications have been made to summarized June 30, 2024, financial information to conform to the classifications adopted for June 30, 2025, financial statements. These reclassifications had no effect on the change in net assets.