

Financial Report

Administrative Office Funds of the Roman Catholic Diocese of San Diego

June 30, 2020

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INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

Most Reverend Bishop Robert W. McElroy
Bishop of the Roman Catholic Diocese of San Diego
Administrative Office Funds of
the Roman Catholic Diocese of San Diego
San Diego, California

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, 2020, and the related statements of activities, 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 the 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 principles used and the reasonableness of significant estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Administrative Office Funds of the Roman Catholic Diocese of San Diego as of June 30, 2020, 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.


Most Reverend Bishop Robert W. McElroy
Administrator of the Roman Catholic Diocese of San Diego
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the Roman Catholic Diocese of San Diego
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Emphasis-of-Matter Regarding Legal Status

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.

Report on Summarized Comparative Information

We have previously audited the Administrative Office Funds of the Roman Catholic Diocese of San Diego's 2019 financial statements, and our report dated November 5, 2019, 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, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.



WEST RHODE & ROBERTS

San Diego, California
November 10, 2020

**ADMINISTRATIVE OFFICE FUNDS OF
THE ROMAN CATHOLIC DIOCESE OF SAN DIEGO**

**STATEMENT OF FINANCIAL POSITION
June 30, 2020
(With Summarized Financial Information for June 30, 2019)**

	2020	2019 (Note 21)
ASSETS		
Cash and cash equivalents	\$ 23,595,687	\$ 13,177,596
Accounts receivable:		
Parishes and schools, net	351,303	509,598
ACA pledges receivable, net	817,314	959,076
Prepaid expenses and other assets	581,551	574,867
Long-term investments	28,627,366	65,036,141
Funds on deposit with Catholic Community Foundation of San Diego	11,181,267	11,587,267
Property and equipment, net	12,730,014	12,710,087
Total assets	\$ 77,884,502	\$ 104,554,632
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued liabilities	\$ 1,775,379	\$ 1,742,425
Refundable advance	1,750,046	-
Self-insurance reserve for claims incurred but not received	4,400,000	3,400,000
Independent compensation program	3,600,000	-
Due to The San Diego Catholic Account for Parishes and Schools, Inc.	12,745,784	13,377,427
Diocesan entities funds on deposit	14,383,243	38,162,305
Total liabilities	38,654,452	56,682,157
Net assets:		
Without donor restriction	25,625,567	33,370,025
With donor restriction	13,604,483	14,502,450
Total net assets	39,230,050	47,872,475
Total liabilities and net assets	\$ 77,884,502	\$ 104,554,632

**ADMINISTRATIVE OFFICE FUNDS OF
THE ROMAN CATHOLIC DIOCESE OF SAN DIEGO**

STATEMENT OF ACTIVITIES

Year Ended June 30, 2020

(With Summarized Financial Information for the Year Ended June 30, 2019)

	Without Donor Restrictions	With Donor Restriction	Total	2019 (Note 21)
<u>Operating Activities</u>				
REVENUES AND SUPPORT				
Parish assessments	\$ 8,416,806	\$ -	\$ 8,416,806	\$ 8,798,552
Management fee	1,300,000	-	1,300,000	1,425,131
Self-insurance revenue	27,956,039	-	27,956,039	26,930,068
Contributions and bequests	1,337,403	6,621,345	7,958,748	9,020,159
Departmental revenues	896,483	-	896,483	1,071,465
Parish and employee insurance agency funds, net	566,376	-	566,376	430,158
Rental income	270,319	-	270,319	319,043
Administrative fees	213,820	-	213,820	208,800
Other revenue	4,806	-	4,806	108,881
Net assets released from restrictions:				
Satisfaction of program restrictions	2,267,951	(2,267,951)	-	-
Satisfaction of time restrictions	5,497,432	(5,497,432)	-	-
Total revenues and support	<u>48,727,435</u>	<u>(1,144,038)</u>	<u>47,583,397</u>	<u>48,312,257</u>
EXPENSES				
Program services				
Self-insurance	34,410,907	-	34,410,907	26,039,254
Clergy and religious	4,293,477	-	4,293,477	2,560,261
Pastoral ministry	8,796,139	-	8,796,139	10,022,018
Catholic Schools	1,400,062	-	1,400,062	2,754,776
Total program services	<u>48,900,585</u>	<u>-</u>	<u>48,900,585</u>	<u>41,376,309</u>
Supporting services:				
Administration and general	8,044,132	-	8,044,132	6,892,019
Fundraising	441,340	-	441,340	466,365
Total program and supporting services	<u>8,485,472</u>	<u>-</u>	<u>8,485,472</u>	<u>7,358,384</u>
Total expenses	<u>57,386,057</u>	<u>-</u>	<u>57,386,057</u>	<u>48,734,693</u>
Operating support and revenues in excess of expenses	<u>(8,658,622)</u>	<u>(1,144,038)</u>	<u>(9,802,660)</u>	<u>(422,436)</u>
<u>Non-Operating Activities</u>				
Long-term Investments				
Investment income	914,164	246,071	1,160,235	1,855,813
Total non-operating activities	<u>914,164</u>	<u>246,071</u>	<u>1,160,235</u>	<u>1,855,813</u>
Change in net assets	(7,744,458)	(897,967)	(8,642,425)	1,433,377
NET ASSETS AT BEGINNING OF YEAR	<u>33,370,025</u>	<u>14,502,450</u>	<u>47,872,475</u>	<u>46,439,098</u>
NET ASSETS AT END OF YEAR	<u>\$ 25,625,567</u>	<u>\$ 13,604,483</u>	<u>\$ 39,230,050</u>	<u>\$ 47,872,475</u>

**ADMINISTRATIVE OFFICE FUNDS OF
THE ROMAN CATHOLIC DIOCESE OF SAN DIEGO**

**STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2020
(With Summarized Financial Information for the Year Ended June 30, 2019)**

	Program Services					Supporting Services		2020 Total	2019 (Note 21)
	Self-Insurance	Clergy and Religious	Pastoral Ministry	Catholic Schools	Total Program Services	Administration and General	Fundraising		
EXPENSES									
Salaries	\$ -	\$ 666,462	\$ 1,214,713	\$ 612,118	\$ 2,493,293	\$ 2,656,345	\$ 150,440	\$ 5,300,078	\$ 5,165,813
Payroll taxes & employee benefits	-	933,222	471,975	282,284	1,687,481	973,020	74,472	2,734,973	2,752,190
	-	1,599,684	1,686,688	894,402	4,180,774	3,629,365	224,912	8,035,051	7,918,003
Self-insurance expenditures	27,504,734	-	-	-	27,504,734	-	-	27,504,734	26,039,254
Independent compensation program	6,906,173	-	-	-	6,906,173	-	-	6,906,173	-
Expenditure of restricted donations	-	-	3,962,352	23,376	3,985,728	-	13,605	3,999,333	3,875,279
Grants and subsidies	-	-	1,690,306	-	1,690,306	746,836	-	2,437,142	4,677,181
Retired priests pension	-	2,000,000	-	-	2,000,000	-	-	2,000,000	200,000
Operating expenses	-	32,629	661,454	192,436	886,519	674,603	123,265	1,684,387	1,169,257
Professional services	-	39,143	73,735	41,703	154,581	1,186,482	61,253	1,402,316	1,399,610
Conferences and staff development	-	343,018	227,653	79,300	649,971	245,942	3,520	899,433	907,815
Workshop and training	-	73,563	369,661	51,967	495,191	263,803	19	759,013	740,202
Building maintenance & utilities	-	107,001	-	57,815	164,816	402,194	-	567,010	505,427
Assessments	-	-	-	-	-	443,538	-	443,538	478,839
Depreciation	-	83,466	87,639	50,079	221,184	183,625	12,520	417,329	417,058
Interest expense	-	-	-	-	-	230,821	-	230,821	240,577
Insurance	-	14,973	15,721	8,984	39,678	32,940	2,246	74,864	72,023
Other expenses	-	-	20,930	-	20,930	3,983	-	24,913	94,168
Total expenses	\$ 34,410,907	\$ 4,293,477	\$ 8,796,139	\$ 1,400,062	\$ 48,900,585	\$ 8,044,132	\$ 441,340	\$ 57,386,057	\$ 48,734,693

**ADMINISTRATIVE OFFICE FUNDS OF
THE ROMAN CATHOLIC DIOCESE OF SAN DIEGO**

STATEMENT OF CASH FLOWS
Year Ended June 30, 2020
(With Summarized Financial Information for the Year Ended June 30, 2019)

	2020	2019 (Note 21)
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (8,642,425)	\$ 1,433,377
Adjustments to reconcile change in net assets to net cash from operating activities:		
Gains on long term investments	(926,753)	(1,712,917)
Depreciation	417,329	417,058
Changes in operating assets and liabilities:		
Receivables	300,057	(1,192)
Prepaid expenses and other assets	(6,684)	139,143
Accounts payable and accrued liabilities	32,954	212,256
Refundable advance	1,750,046	-
Self-insurance reserve for claims incurred but not received	1,000,000	(300,000)
Independent compensation program	3,600,000	-
Net cash (used in) provided by operating activities	(2,475,476)	187,725
CASH FLOWS FROM INVESTING ACTIVITIES		
Net proceeds (purchases) of long-term investments	35,249,549	(633,768)
Change in funds on deposit with Catholic Community Foundation of San Diego	406,000	(713,263)
Change in diocesan entities funds on deposit	(23,779,062)	2,503,129
Proceeds from notes receivable	-	6,480,000
Purchase of property and equipment, net	(437,256)	(784,785)
Net cash provided by investing activities	11,439,231	6,851,313
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on Due to The San Diego Catholic Account for Parishes and Schools, Inc.	(631,643)	(1,007,683)
Net cash used in financing activities	(631,643)	(1,007,683)
Change in cash and cash equivalents	8,332,112	6,031,355
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	24,879,906	18,848,551
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 33,212,018	\$ 24,879,906
CASH AND CASH EQUIVALENTS CONSIST OF:		
Cash and cash equivalents	23,595,687	13,177,596
Cash and cash equivalents included in investments	9,616,331	11,702,310
	\$ 33,212,018	\$ 24,879,906
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for interest	\$ 230,821	\$ 240,576

ADMINISTRATIVE OFFICE FUNDS OF
THE ROMAN CATHOLIC DIOCESE OF SAN DIEGO
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 other diocesan entities (i.e., Holy Cross Catholic Cemetery, Vincent Memorial Catholic High School) as well as parishes, schools, and other separately incorporated Catholic organizations and programs in San Diego and Imperial Counties.

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 board of directors.

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.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities.

Measure of Operations – The statements of activities reports all changes in net assets, including changes in net assets from operating and nonoperating activities. Operating activities consist of those items attributable to the Administrative Office's ongoing programs. Nonoperating 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 – Contributions are recognized as revenue when they are unconditionally pledged or when all conditions have been met.

Contributions are comprised of revenues classified as both exchange transactions and contributions. In accordance with Accounting Standards Codification ("ASC") 958, Not-for-Profit Entities, Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made, the Administrative Office reviews all grant agreements and determines whether the agreement qualifies as an exchange transaction or

ADMINISTRATIVE OFFICE FUNDS OF
THE ROMAN CATHOLIC DIOCESE OF SAN DIEGO
NOTES TO FINANCIAL STATEMENTS

as a contribution. In cases where agreements are determined to be exchange transactions, the Administrative Office recognizes revenues as services are rendered and, if applicable, funds received in advance of services being rendered are classified as deferred revenue. Revenue is recognized in the period in which services are rendered and is presented as revenue without donor restrictions in the Statement of Activities.

In cases where agreements are determined to be contributions, the agreement is reviewed for barriers or restrictions and, if applicable, advanced payments are classified as deferred revenue until the barrier or restriction has been met. Revenue is recognized in the period in which all barriers and restrictions have been met and is presented as contract revenue without donor restrictions on the Statement of Activities.

The Administrative Office reports contributions as restricted if they are received with donor stipulations that limit 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 restriction revenues are reclassified to net assets without donor restrictions revenues and reported in the statement of activities as revenues released from restrictions. Contributions with donor restrictions requiring the principal gift to be held in perpetuity are reported as net assets with donor restrictions. The income earned from such assets is generally restricted to the purpose designated by the donor. Gifts not designated for a specific purpose are reported as increases in net assets without donor restrictions.

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.

Investments – Marketable securities, consisting primarily of investments in equities, corporate debt and government debt, are carried at market value, as measured principally by market quotations. Accordingly, the carrying amount of the securities is adjusted for unrealized gains and losses. The investments are managed by separate money managers. These money managers are monitored by an independent investment consulting firm as well as the Investment Committee of the Diocesan Finance Council. The investment portfolio is guided by an investment policy statement approved by the Diocesan Finance Council.

Funds on Deposit with Catholic Community Foundation of San Diego (CCFSD) – The Administrative Office has funds on deposit with CCFSD. The CCFSD's investments follow the Socially Responsible Investment Guidelines adopted by the United States Conference of Catholic Bishops. The funds are reported at fair value and changes in the value of the fund are reported as gains or losses, which are included in investment income in the statement of activities.

Accounts Receivable – All accounts receivables from parishes and schools and ACA pledge receivables are reviewed for collectability and reserves for uncollectible amounts are recorded based on previous experience and history with the entity. Accounts are written off against the allowance for doubtful accounts when deemed uncollectible. For the year ended June 30, 2020, management has determined that an allowance of \$100,000 for accounts receivable from parishes and schools and \$55,000 for pledge receivables is needed.

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 \$417,329 for the year ended June 30, 2020.

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

ADMINISTRATIVE OFFICE FUNDS OF
THE ROMAN CATHOLIC DIOCESE OF SAN DIEGO
NOTES TO FINANCIAL STATEMENTS

Refundable Advance – In April 2020, the Administrative Office received \$1,750,046 under the Paycheck Protection Program (PPP). The PPP was established as part of the Coronavirus Aid, Relief and Economic Security Act (CARES Act). The loan is forgivable if it is used for qualifying expenses as described in the CARES Act. The Administrative Office believes the PPP loan qualifies for forgiveness and has elected to account for the PPP loan under FASB ASC 958-605. Under this model, the Administrative Office has recorded a refundable advance and will record revenue when the PPP loan is forgiven.

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 programs or supporting service. Depreciation is allocated based on a square footage basis.

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.

Recently Adopted Accounting Standards – In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (ASU 2016-18). This update requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows.

In June 2018, the FASB issued ASU 2018-08, Not-for-profit Entities, Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made, this update to clarifies and improves the scope and the accounting guidance for contributions received and contributions made. The update assists in demining if transactions should be accounted for as exchange transaction or a contribution and determining if a contribution is conditional.

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.

ADMINISTRATIVE OFFICE FUNDS OF
THE ROMAN CATHOLIC DIOCESE OF SAN DIEGO
NOTES TO FINANCIAL STATEMENTS

The Administrative Office has evaluated subsequent events through November 10, 2020, which is the date the financial statements are available for issuance, and concluded that the below events needs to be disclosed.

In March 2020 the COVID-19 virus was declared a global pandemic. Business continuity, including supply chains and consumer demand across a broad range of industries and countries could be severely impacted for months or beyond as governments and their citizens take significant and unprecedented measures to mitigate the consequences of the pandemic. The ultimate disruption which may be caused by the pandemic is uncertain; however, it may result in a material adverse impact on the Administrative Office's financial position, operations, and cash flows. Possible effects may include but are not limited to disruptions or restrictions on our employee's ability to work, decline in value of assets held, including property and equipment and marketable securities and changes to the current regulatory environment. We are actively working to mitigate the impact of these and other unforeseen potential disruptions to our operations.

Apart from the above events, there were no other events or transactions that needed to be disclosed as of June 30, 2020.

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:

Financial Assets	
Cash and cash equivalents	\$ 23,595,687
Accounts receivable	1,168,617
Long-term investments	<u>28,627,366</u>
Total financial assets available within one year	<u>53,391,670</u>
Less amounts unavailable for general expenditures:	
Diocesan entities funds on deposit	(14,383,243)
Restricted by donors with purpose restrictions	(5,652,340)
Restricted by donors in perpetuity	<u>(3,645,148)</u>
Total amounts unavailable for general expenditures within one year	<u>(23,680,731)</u>
Less amounts designated for insurance and claim reserve	<u>(18,547,127)</u>
Total financial assets available to management for general expenditure within one year	<u>\$ 11,163,812</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. Fair Value Measurements

Due to the short-term nature of cash equivalents, receivables, prepaid expense, accounts payable and accrued liabilities, fair value approximates carrying value. In accordance with Financial Accounting Standards Board Codification No. 820 (FASB ASC 820), fair value is defined as the price that the Administrative Office would receive upon selling an asset or transferring a liability in an orderly transaction to an independent buyer in the principal or most advantageous market of the asset.

ADMINISTRATIVE OFFICE FUNDS OF
THE ROMAN CATHOLIC DIOCESE OF SAN DIEGO
NOTES TO FINANCIAL STATEMENTS

FASB ASC 820 establishes a three-tier hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs and to establish the classification of fair value measurements for disclosure purposes. Inputs refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available. The standard describes three-tier hierarchy of inputs that may be used to measure fair value as follows:

Level 1: Quoted prices (unadjusted) of identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect the Administrative Office's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

Assets and liabilities measured at fair value on a recurring basis are summarized below:

Fair Value Measurements at June 30, 2020, Using:				
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Long-term investments	\$ 28,627,366	\$ 28,627,366	\$ -	\$ -
Funds on deposit with Catholic Community Foundation of San Diego	11,181,267	-	11,181,267	-
Total assets	<u>\$ 39,808,633</u>	<u>\$ 28,627,366</u>	<u>\$ 11,181,267</u>	<u>\$ -</u>

The fair value of a financial instrument is 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 is best determined based upon quoted market prices.

ADMINISTRATIVE OFFICE FUNDS OF
THE ROMAN CATHOLIC DIOCESE OF SAN DIEGO
NOTES TO FINANCIAL STATEMENTS

Note 4. Long-Term Investments

Long-term investments consist of the following at June 30, 2020:

	<u>Market Value</u>	<u>Cost</u>
Cash and cash equivalents	\$ 9,616,331	\$ 9,616,331
US Government Issues	6,032,619	5,476,842
Corporate Issues	4,787,683	4,357,586
Partnerships and joint ventures	3,858,562	3,618,471
Mutual funds - Fixed income	1,243,212	351,924
Mutual funds - Balanced	1,071,862	1,082,999
Mutual funds - Equity	826,658	663,607
Domestic common stocks	954,535	948,925
Foreign Issues	185,155	184,911
Foreign stocks	50,749	44,039
	<u>\$ 28,627,366</u>	<u>\$ 26,345,635</u>

Investment income is made up of realized and unrealized gains of \$926,753 and interest income of \$233,482.

Note 5. Annual Catholic Appeal (ACA) Pledge Receivables

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 2019 campaign were designated for use by the Diocese during the year ending June 30, 2020. Similarly, pledges made and donations received during the 2020 campaign are reported as net assets with donor restrictions and will be used in fiscal year 2021. Pledges receivable included in the accompanying statement of financial position represent amounts pledged for the 2020 campaign to be received in fiscal year 2021. All pledges are due within one year.

Note 6. Property and Equipment

Property and equipment consist of the following at June 30, 2020:

Buildings	\$ 13,043,655
Land	4,725,585
Furniture, fixtures and equipment	<u>4,994,722</u>
	22,763,962
Less accumulated depreciation	<u>10,033,948</u>
	<u>\$ 12,730,014</u>

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

The San Diego Catholic Account for Parishes and Schools, Inc. (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 amount due to CAPS, Inc. is \$12,745,784 at June 30, 2020. Interest accrues at 1.75 percent annually.

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Note 8. Long-Term Debt

Long-Term Debt – The Administrative Office has a \$10,000,000 revolving loan facility available at 1.35 percent plus LIBOR, but no amounts were drawn under the facility at June 30, 2020. The revolving loan is an 80 percent advance on security value maintained.

The Administrative Office is subject to compliance with certain debt covenants, including restrictions on additional indebtedness. At June 30, 2020, management believes (and certified that) the Administrative Office is in compliance with these covenants.

Note 9. 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, 2020:

Designated insurance and claim reserves	\$ 18,547,127
Undesignated	<u>7,078,440</u>
	<u>\$ 25,625,567</u>

Note 10. 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, 2020 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 2020	\$ 4,306,995
Donahue Trust - for needy students	239,478
Blessing Our Future	203,085
Other restricted deposits	<u>903,360</u>
	<u>\$ 5,652,918</u>

Donor restricted endowments subject to spending policy and appropriation, to support the following purposes at June 30, 2020:

St. Francis Endowment Fund - income used for the operating expenses of St. Francis Center	\$ 3,627,254
Seminary quasi endowment	3,645,148
Sacred Heart - James E. Spain Family Fund - advised fund for projects within the Diocese of San Diego	<u>679,163</u>
	<u>\$ 7,951,565</u>

Total net assets with donor restrictions at June 30, 2020 is \$13,604,483.

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Note 11. 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, 2020:

Satisfaction of time restrictions:	
Annual Catholic Appeal - rebates payable and donations to be used in fiscal year 2019	\$ 5,497,432
Satisfaction of program restrictions:	
Mission Cooperation Plan	777,691
Endowment Distributions	239,669
FIAT Consortium	74,196
Other restricted deposits	<u>1,176,395</u>
	<u>2,267,951</u>
	<u>\$ 7,765,383</u>

Note 12. 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 and Spending Policies – 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. The funds have been deposited in the Catholic Community Foundation of San Diego.

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 a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

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The Administrative Office's donor-restricted endowment has a policy of appropriating for distribution each year 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 to provide additional real growth through new gifts and investment return.

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

Donor-restricted endowment net asset with donor restrictions composition as of June 30, 2020, is as follows:

	<u>With Donor Restrictions</u>
Donor-restricted endowments	
Seminary endowment	\$ 3,627,254
Sacred Heart - Spain endowment	<u>679,163</u>
	<u>4,306,417</u>
Donor-restricted quasi-endowments	
Seminary quasi-endowment	<u>3,645,148</u>
	<u>\$ 7,951,565</u>

Changes in donor-restricted endowment funds with donor restriction during the year ended June 30, 2020 are summarized in the following table:

	<u>With Donor Restrictions</u>
Endowment net assets, beginning of year	\$ 7,956,092
Investment return	224,200
Contributions	107,733
Appropriation of assets for expenditure	<u>(336,460)</u>
Endowment net assets, end of year	<u>\$ 7,951,565</u>

Note 13. Guarantees of Indebtedness of Others

The Diocese of San Diego guarantees the bonds of Catholic Secondary Education – Diocese of San Diego, Incorporated, through a Private Placement Agreement that was entered into between the Administrative Office and Union Bank, N.A. A Guarantee Agreement was entered into between the Roman Catholic Bishop of San Diego, a corporation sole, and Union Bank, N.A. to provide that the obligations guaranteed include the obligations of the Administrative Office under the Private Placement Agreement. The outstanding amount of the bonds was \$17,200,000 at June 30, 2020.

Several parishes have refinanced construction loans with the Knights of Columbus. The Knights of Columbus provides fixed interest long term financing that is guaranteed by the Administrative Office. At June 30, 2020, three loans have been refinanced by parishes for a total of \$16,222,653. The total amount guaranteed by the Roman Catholic Bishop of San Diego, a corporation sole is approximately \$13,506,063 at June 30, 2020.

Note 14. 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. However, at the end of the 6th and 10th contract years, and at the end of the initial term and each additional 5 year term, the Administrative Office has an option to purchase the solar electricity generating equipment at its then fair market value. Payments for energy will be included in the Administrative Office’s utility expenses account and consolidated in operating expenses in the financial statements.

Note 15. Lay Employee Multiple Employer Pension Plan

Diocese of San Diego Pension Plan for Lay Employees – As of June 30, 2020, the date of the latest actuarial report, the defined benefit pension program for lay employees had assets of \$214.4 million and an actuarial present value of accumulated benefits of \$320 million, resulting in a net liability of \$105.6 million, which, under accounting guidance for multiple employer pension plans, is not reported as a liability in these financial statements. Lay employees working for the Administrative Office account for 6.11 percent of the participants in this plan. The obligation for the remaining participants under the multiple employer plan continues to be the proportionate responsibility of each diocesan entity.

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 multi-employer defined benefit retirement plan. The benefits are based on years of participation and the Employees’ compensation. The Administrative Office contributes 12% of the participant’s 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 3 years 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.

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 multi-employer plan. The Administrative Office contributed \$576,927 to the plan in the year ending June 30, 2020.

The Diocese of San Diego Pension plan for Lay Employees includes the employees of the Administrative Office, parishes, schools, Catholic Charities (which has maintained employee contributions), and other Catholic entities operating within the Diocese.

Note 16. Priest Defined Benefit Plans and Charitable Trust

The Administrative Office participated in a defined benefit retirement plan for priests and a plan that provides post-retirement benefits for priests. These plans are supported by contributions and a charitable trust established in 1997.

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San Diego Diocesan Charitable Trust for Retired and Disabled Priests – This trust was started with an initial \$10 million dollar campaign and now has a balance of over \$18.0 million. The income from this trust can be used to support the Diocese of San Diego’s priest pension responsibilities and post-retirement benefits. Management believes the funds in the trust would offset a portion of the present value of the priest pension obligations and other post-retirement benefit obligations at June 30, 2020. These funds in the trust are considered part of the Multiple Employer pensions and are not reported as assets in the accompanying financial statements.

The Pension Plan and Pension Trust for the Priests of the Diocese of San Diego – As of June 30, 2020, the date of the latest actuarial report, the defined benefit pension program for priests had a market value of \$23.2 million. An actuarial present value of accumulated benefits of \$34.5 million, resulted in a net liability of \$11.3 million. Under accounting guidance for multiple employer pension plans, this obligation is not reported as a liability in these financial statements. Priests working for the Administrative Office account for 9 percent of the participants in this plan. The obligation for the remaining participants under the multiple employer plan continues to be the proportionate responsibility of each diocesan entity.

The plan provides for retirement benefits to priests working in the Dioceses of San Diego and San Bernardino, after ten years of participation in the Priest Plan the employee is 100 percent vested. Besides the Administrative Office, the Priest Plan includes priests of the parishes, schools, and other Catholic entities operating within the Dioceses of San Diego and San Bernardino.

Note 17. Self-insurance

The Administrative Office provides insurance for Diocesan parishes, schools, other Catholic entities and the Administrative Office. The Administrative Office treats 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 expense for actual claims and an estimate of claims incurred but not received.

The Administrative Office provides the following self-insurance:

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 \$1,600,000. This estimate is based on information provided by the third-party administrator.

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 \$800,000.

Health and Other Personal Insurance – In April 2010, the Administrative Office began self-insuring for a portion of health and dental. The Diocese is reinsured for catastrophic claims. This insurance is provided for the Diocese, parishes, schools and other Catholic entities. 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 \$2,000,000. This estimate was based on information provided by the plan administrator.

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Note 18. Independent Compensation Program

In September 2019, the Diocese announced its participation in the Independent Compensation Program by the Archdiocese of Los Angeles, Diocese of Fresno, Diocese of Orange, Diocese of Sacramento, Diocese of San Bernardino and Diocese of San Diego (the Independent Compensation Program). The Independent Compensation Program is independent of the diocese and is advised by an independent oversight committee. Eligible victims could file claims through May 31, 2020. Claims and legal costs totaling \$3,306,173 have been paid during the year ended June 30, 2020. In addition, the Administrative Office has established a liability for estimated uninsured settlement costs in the amount of \$3,600,000 for the year ended June 30, 2020.

Note 19. Legal Matters

There are routine claims and suits that are pending against the Diocese which are being defended by the Diocese's insurance company. The Diocese believes the insurance coverage should be adequate to pay any prospective judgment or settlement. There are no known judgments or settlements at June 30, 2020, and no amounts have been accrued in the financial statements.

On October 13th 2019, Gov. Gavin Newsom signed AB 218, a bill which will revive claims and re-open the statute of limitations for lawsuits involving the sexual abuse of minors. The window reopened in January 2020 and will remain open for three years. There are no known judgments or settlements as of June 30, 2020 and no amounts have been accrued in the financial statements other than the amounts related to the Independent Compensation program noted above.

Note 20. Related Party Transactions

The Catholic Account for Parishes and School Funds of the Roman Catholic Diocese of San Diego, Inc. (CAPS, Inc.), The Roman Catholic Services Corporation for Parishes and Schools of San Diego and Imperial Counties, Inc. (Services Corporation) and The Roman Catholic Seminary of San Diego, Inc. (Seminary Corporation) have agreements with the Administrative Office to provide financial services, legal services and human resource support. The total amount of contracted services was \$60,000 for CAPS, Inc., \$1,290,000 for Services Corporation and \$10,000 for Seminary Corporation for the year ended June 30, 2020.

Note 21. June 30, 2019 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, 2019, from which the summarized information was derived.

Certain reclassifications have been made to the summarized 2019 financial information to conform to the classifications adopted for the 2020 financial statements. These reclassifications had no effect on the change in net assets.