

Financial Report

Administrative Office Funds of the Roman Catholic Diocese of San Diego

June 30, 2021

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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, 2021, 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, 2021, 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
The Administrative Office Funds of
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 2020 financial statements, and our report dated November 10, 2020, 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, 2020, is consistent, in all material respects, with the audited financial statements from which it has been derived.



WEST RHODE & ROBERTS

San Diego, California
November 22, 2021

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

**STATEMENT OF FINANCIAL POSITION
June 30, 2021**

(With Summarized Financial Information for June 30, 2020)

	2021	2020 (Note 21)
ASSETS		
Cash and cash equivalents	\$ 41,489,191	\$ 23,595,687
Accounts receivable:		
Parishes and schools, net	462,986	351,303
ACA pledges receivable, net	691,170	817,314
Prepaid expenses and other assets	933,027	581,551
Long-term investments	13,090,007	28,627,366
Funds on deposit with Catholic Community Foundation of San Diego	12,514,210	11,181,267
Property and equipment, net	12,404,447	12,730,014
Total assets	\$ 81,585,038	\$ 77,884,502
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued liabilities	\$ 1,579,761	\$ 1,775,379
Refundable advance	1,750,046	1,750,046
Self-insurance reserve for claims incurred but not received	6,600,000	4,400,000
Independent compensation program	-	3,600,000
Loan due Catholic Account for Parishes and Schools, Incorporated	12,162,936	12,745,784
Diocesan entities funds on deposit	17,383,354	14,383,243
Total liabilities	39,476,097	38,654,452
Commitments (Note 13)		
Net assets:		
Without donor restriction	27,495,009	25,625,567
With donor restriction	14,613,932	13,604,483
Total net assets	42,108,941	39,230,050
Total liabilities and net assets	\$ 81,585,038	\$ 77,884,502

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

**STATEMENT OF ACTIVITIES
Year Ended June 30, 2021**

(With Summarized Financial Information for the Year Ended June 30, 2020)

	Without Donor Restrictions	With Donor Restriction	Total	2020 (Note 21)
<u>Operating Activities</u>				
REVENUES AND SUPPORT				
Parish assessments	\$ 7,853,184	\$ -	\$ 7,853,184	\$ 8,416,806
Management and administrative fees	1,197,127	-	1,197,127	1,513,820
Self-insurance revenue	27,728,637	-	27,728,637	27,956,039
Contributions and bequests	731,844	6,509,426	7,241,270	7,958,748
Departmental revenues	601,715	-	601,715	896,483
Parish insurance agency funds, net	114,943	-	114,943	566,376
Rental and other income	222,451	-	222,451	275,125
Net assets released from restrictions:				
Satisfaction of program restrictions	2,363,101	(2,363,101)	-	-
Satisfaction of time restrictions	5,177,826	(5,177,826)	-	-
Total revenues and support	<u>45,990,828</u>	<u>(1,031,501)</u>	<u>44,959,327</u>	<u>47,583,397</u>
EXPENSES				
Program services				
Self-insurance	28,017,660	-	28,017,660	34,410,907
Clergy and religious	4,274,791	-	4,274,791	6,272,181
Pastoral ministry	3,774,256	-	3,774,256	6,817,435
Catholic Schools	1,130,487	-	1,130,487	1,400,062
Total program services	<u>37,197,194</u>	<u>-</u>	<u>37,197,194</u>	<u>48,900,585</u>
Supporting services:				
Administration and general	6,845,428	-	6,845,428	8,044,132
Fundraising	371,376	-	371,376	441,340
Total program and supporting services	<u>7,216,804</u>	<u>-</u>	<u>7,216,804</u>	<u>8,485,472</u>
Total expenses	<u>44,413,998</u>	<u>-</u>	<u>44,413,998</u>	<u>57,386,057</u>
Operating support and revenues in excess of expenses	<u>1,576,830</u>	<u>(1,031,501)</u>	<u>545,329</u>	<u>(9,802,660)</u>
<u>Non-Operating Activities</u>				
Long-term Investments				
Investment income	292,612	2,040,950	2,333,562	1,160,235
Total non-operating activities	<u>292,612</u>	<u>2,040,950</u>	<u>2,333,562</u>	<u>1,160,235</u>
Change in net assets	1,869,442	1,009,449	2,878,891	(8,642,425)
NET ASSETS AT BEGINNING OF YEAR	<u>25,625,567</u>	<u>13,604,483</u>	<u>39,230,050</u>	<u>47,872,475</u>
NET ASSETS AT END OF YEAR	<u>\$ 27,495,009</u>	<u>\$ 14,613,932</u>	<u>\$ 42,108,941</u>	<u>\$ 39,230,050</u>

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

STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2021
(With Summarized Financial Information for the Year Ended June 30, 2020)

	Program Services				Total Program Services	Supporting Services		2021 Total	2020 (Note 21)
	Self-Insurance	Clergy and Religious	Pastoral Ministry	Catholic Schools		Administration and General	Fundraising		
EXPENSES									
Salaries	\$ -	\$ 469,510	\$ 1,121,902	\$ 577,300	\$ 2,168,712	\$ 2,475,741	\$ 140,913	\$ 4,785,366	\$ 5,300,078
Payroll taxes & employee benefits	-	649,824	441,796	151,755	1,243,375	897,348	69,939	2,210,662	2,734,973
	-	1,119,334	1,563,698	729,055	3,412,087	3,373,089	210,852	6,996,028	8,035,051
Self-insurance expenditures	27,185,334	-	-	-	27,185,334	-	-	27,185,334	27,504,734
Distributions of restricted donations	-	-	1,250,702	-	1,250,702	-	-	1,250,702	2,020,629
Operating expenses	-	13,369	619,806	167,067	800,242	654,266	86,031	1,540,539	1,684,387
Seminarian support	-	1,500,000	-	-	1,500,000	-	-	1,500,000	320,000
Parish ACA Rebates	-	1,313,672	-	-	1,313,672	-	-	1,313,672	1,658,704
Professional services	-	105,527	27,088	89,776	222,391	690,341	56,290	969,022	1,402,316
Independent compensation program	832,326	-	-	-	832,326	-	-	832,326	6,906,173
Conferences and staff development	-	117,752	102,862	21,580	242,194	453,495	3,374	699,063	899,433
Grants and subsidies	-	-	-	60,580	60,580	429,970	-	490,550	2,437,142
Assessments	-	-	-	-	-	454,920	-	454,920	443,538
Depreciation	-	55,682	103,410	27,841	186,933	198,866	11,932	397,731	417,329
Building maintenance & utilities	-	-	-	5,907	5,907	262,592	-	268,499	567,010
Interest expense	-	-	-	-	-	222,269	-	222,269	230,821
Workshop and training	-	29,229	81,456	21,922	132,607	49,589	-	182,196	759,013
Insurance	-	11,544	21,438	5,772	38,754	41,228	2,474	82,456	74,864
Other expenses	-	8,682	3,796	987	13,465	14,803	423	28,691	24,913
Retired priests pension	-	-	-	-	-	-	-	-	2,000,000
Total expenses	<u>\$ 28,017,660</u>	<u>\$ 4,274,791</u>	<u>\$ 3,774,256</u>	<u>\$ 1,130,487</u>	<u>\$ 37,197,194</u>	<u>\$ 6,845,428</u>	<u>\$ 371,376</u>	<u>\$ 44,413,998</u>	<u>\$ 57,386,057</u>

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

STATEMENT OF CASH FLOWS
Year Ended June 30, 2021
(With Summarized Financial Information for the Year Ended June 30, 2020)

	2021	2020 (Note 21)
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 2,878,891	\$ (8,642,425)
Adjustments to reconcile change in net assets to net cash from operating activities:		
Net gains on long term investments	(1,924,645)	(926,753)
Depreciation	397,731	417,329
Changes in operating assets and liabilities:		
Receivables	14,461	300,057
Prepaid expenses and other assets	(351,476)	(6,684)
Accounts payable and accrued liabilities	(195,618)	32,954
Refundable advance	-	1,750,046
Self-insurance reserve for claims incurred but not received	2,200,000	1,000,000
Independent compensation program	(3,600,000)	3,600,000
Net cash used in operating activities	(580,656)	(2,475,476)
CASH FLOWS FROM INVESTING ACTIVITIES		
Net proceeds from long-term investments	7,945,236	35,249,549
Net change in funds on deposit with Catholic Community Foundation of San Diego	(1,332,943)	406,000
Net change in diocesan entities funds on deposit	3,000,111	(23,779,062)
Purchase of property and equipment	(72,164)	(437,256)
Net cash provided by investing activities	9,540,240	11,439,231
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on loan due to Catholic Account for Parishes and Schools, Incorporated	(582,848)	(631,643)
Net cash used in financing activities	(582,848)	(631,643)
Change in cash and cash equivalents	8,376,736	8,332,112
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	33,212,018	24,879,906
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 41,588,754	\$ 33,212,018
CASH AND CASH EQUIVALENTS CONSIST OF:		
Cash and cash equivalents	41,489,191	23,595,687
Cash and cash equivalents included in investments	99,563	9,616,331
	\$ 41,588,754	\$ 33,212,018
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for interest	\$ 222,269	\$ 230,821

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 – 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
NOTES TO FINANCIAL STATEMENTS*

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. This recognition is in accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Codification 958, Not-for-Profit Entities, Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made.

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.

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

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 expense for actual claims and an estimate of claims incurred but not received.

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 annual catholic appeal (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, 2021, management has determined that an allowance of \$100,000 for accounts receivable from parishes and schools and \$37,000 for ACA pledge receivables is needed.

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

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 \$397,731 for the year ended June 30, 2021.

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

Refundable Advance – 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 Administrative Office believes the PPP loan qualifies for forgiveness and has elected to account for the loan under FASB ASC 958-605. Under this model, the amount has been recorded as a refundable advance and will be recorded as revenue when the 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.

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 22, 2021, which is the date the financial statements are available for issuance and concluded that there are no events that need to be disclosed as of June 30, 2021.

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

Financial Assets	
Cash and cash equivalents	\$ 41,489,191
Accounts receivable	1,154,156
Long-term investments	<u>13,090,007</u>
Total financial assets available within one year	<u>55,733,354</u>
Less amounts unavailable for general expenditures:	
Diocesan entities funds on deposit	(17,383,354)
Restricted by donors with purpose restrictions	(6,286,856)
Restricted by donors in perpetuity	<u>(8,327,076)</u>
Total amounts unavailable for general expenditures within one year	<u>(31,997,286)</u>
Less amounts designated for insurance and claim reserve	<u>(15,090,562)</u>
Total financial assets available to management for general expenditure within one year	<u>\$ 8,645,506</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.

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.

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

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

	Fair Value Measurements at June 30, 2021, 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	\$ 13,090,007	\$ 13,090,007	\$ -	\$ -
Funds on deposit with Catholic Community Foundation of San Diego	12,514,210	-	12,514,210	-
Total assets	<u>\$ 25,604,217</u>	<u>\$ 13,090,007</u>	<u>\$ 12,514,210</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.

Note 4. Long-Term Investments

Long-term investments consist of the following at June 30, 2021:

	Market Value	Cost
Alternative investments	\$ 7,197,220	\$ 5,940,825
Mutual funds - Equity	2,242,888	1,890,744
Domestic common stocks	1,679,100	1,399,367
US Government Issues	621,599	632,090
Corporate Issues	563,773	572,448
Mutual funds - Fixed income	513,210	502,918
Cash and cash equivalents	99,563	99,563
Foreign stocks	91,061	71,844
Foreign Issues	81,593	83,576
	<u>\$ 13,090,007</u>	<u>\$ 11,193,375</u>

Investment income is made up of realized and unrealized gains of \$1,990,254 interest income of \$408,917, and investment fees of \$65,609.

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 2020 campaign were designated for use by the Diocese during the year ending June 30, 2021. Similarly, pledges made and donations received during the 2021 campaign are reported as net assets with donor restrictions and will be used in fiscal year 2022. Pledges receivable included in the accompanying statement of financial position represent amounts pledged for the 2021 campaign to be received in fiscal year 2022. All pledges are due within one year.

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

Note 6. Property and Equipment

Property and equipment consist of the following at June 30, 2021:

Buildings	\$ 13,043,655
Land	4,725,584
Furniture, fixtures and equipment	<u>5,066,887</u>
	22,836,126
Less accumulated depreciation	<u>10,431,679</u>
	<u>\$ 12,404,447</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 amount due to CAPS, Inc. is \$12,162,936 at June 30, 2021. Interest accrues at 1.75 percent annually. Monthly payments of principal and interest are \$66,707. The loan is matures in March 2039.

The following table sets forth The Administrative Office's principal payments:

<u>Years Ending June 30,</u>	
2022	\$ 591,687
2023	602,132
2024	612,251
2025	623,570
2026	634,579
Thereafter	<u>9,098,717</u>
	<u>\$ 12,162,936</u>

Note 8. Revolving Loan Facility

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, 2021. The revolving loan is an 80 percent advance on security value maintained. The facility expires on November 22, 2021.

The Administrative Office is subject to compliance with certain debt covenants, including restrictions on additional indebtedness. At June 30, 2021, 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, 2021:

Designated insurance and claim reserves	\$ 15,090,562
Undesignated	<u>12,404,447</u>
	<u>\$ 27,495,009</u>

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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, 2021 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 2021	\$ 4,532,198
Donahue Trust - for needy students	313,244
Blessing Our Future	212,637
Other restricted deposits	<u>1,228,777</u>
	<u>\$ 6,286,856</u>

Donor restricted endowments subject to spending policy and appropriation, to support the following purposes at June 30, 2021:

St. Francis Endowment Fund - income used for the operating expenses of St. Francis Center	\$ 4,605,686
Seminary quasi endowment	2,900,299
Sacred Heart - James E. Spain Family Fund - advised fund for projects within the Diocese of San Diego	<u>821,091</u>
	<u>\$ 8,327,076</u>

Total net assets with donor restrictions at June 30, 2021 is \$14,613,932

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, 2021:

Satisfaction of time restrictions:	
Annual Catholic Appeal - rebates payable and donations to be used in fiscal year 2021	<u>\$ 5,177,826</u>
Satisfaction of program restrictions:	
Endowment Distributions	34,500
FIAT Consortium	100,153
Other restricted deposits	<u>2,228,448</u>
	<u>2,363,101</u>
	<u>\$ 7,540,927</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.

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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.

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, 2021, is as follows:

	<u>With Donor Restrictions</u>
Donor-restricted endowments	
Seminary endowment	\$ 4,605,686
Sacred Heart - Spain endowment	<u>821,091</u>
	<u>5,426,777</u>
Donor-restricted quasi-endowments	
Seminary quasi-endowment	<u>2,900,299</u>
	<u>\$ 8,327,076</u>

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Changes in donor-restricted endowment funds with donor restriction during the year ended June 30, 2021 are summarized in the following table:

	<u>With Donor Restrictions</u>
Endowment net assets, beginning of year	\$ 7,951,565
Investment return	1,852,548
Contributions	57,463
Appropriation of assets for expenditure	<u>(1,534,500)</u>
Endowment net assets, end of year	<u>\$ 8,327,076</u>

Note 13. 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 14. 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 multi-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.

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 \$542,452 to the plan in the year ending June 30, 2021.

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Note 15. Priest Defined Benefit Plans and Charitable Trust

The Administrative Office participates in The Pension Plan and Pension Trust for the Priests of the Diocese of San Diego (the Priest Plan) which is a defined benefit retirement plan for priests and a plan that provides post-retirement benefits for priests. The Priest Plan provides for retirement benefits to priests working in the Dioceses of San Diego, 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.

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 multi-employer plan. The Administrative Office contributed \$220,457 to the plan in the year ending June 30, 2021.

Note 16. 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 \$1,800,000. 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 – 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 \$4,000,000. This estimate was based on information provided by the plan administrator.

Note 17. Independent Compensation Program

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 incurred during the year ended June 30, 2021 totaled \$832,326

Note 18. 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, 2021, and no amounts have been accrued in the financial statements.

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On October 2019, California enacted Assembly Bill 218 (AB 218), a bill which revived 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, 2021 and no amounts have been accrued or expensed in the financial statements other than the amounts related to the Independent Compensation program referred to in Note 17.

Note 19. 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 \$61,000 for CAPS, Inc., \$965,621 for Services Corporation, \$18,000 for Seminary Corporation and \$152,820 for the high schools for the year ended June 30, 2021.

Note 20. 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.

In addition, the Administrative Office invests in various investments, including mutual funds. 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.

COVID-19 Risk - In 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 the employees' ability to work, decline in value of assets held, including property and equipment and marketable securities and changes to the current regulatory environment. Management is working to mitigate the impact of these and other unforeseen potential disruptions to operations.

Note 21. June 30, 2020 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, 2020, from which the summarized information was derived.