Financial Report

Administrative Office Funds of the Roman Catholic Diocese of San Diego

June 30, 2019

WEST RHODE & ROBERTS

Contents

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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, 2019, 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, 2018, 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.

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 2018 financial statements, and our report dated November 26, 2018, 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, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

West Rhode & Roberts

WEST RHODE & ROBERTS

San Diego, California
November 5, 2019

ADMINISTRATIVE OFFICE FUNDS OF
THE ROMAN CATHOLIC DIOCESE OF SAN DIEGO

STATEMENT OF FINANCIAL POSITION
June 30, 2019
(With Summarized Financial Information for June 30, 2018)

	2019	2018 (Note 20)
ASSETS		
Cash and cash equivalents	$ 13,177,596	$ 18,848,551
Accounts receivable:		
Parishes and schools, net	509,598	426,370
ACA pledges receivable, net	959,076	1,041,112
Note receivable	-	6,480,000
Prepaid expenses and other assets	574,867	714,010
Long-term investments	65,036,141	50,987,146
Funds on deposit with Catholic Community Foundation of San Diego	11,587,267	10,874,004
Property and equipment, net	12,710,087	12,342,360
Total assets	$ 104,554,632	$ 101,713,553
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued liabilities	$ 1,742,425	$ 1,530,169
Self-insurance reserve for claims incurred but not received	3,400,000	3,700,000
Due to Catholic Account for Parishes and Schools	13,377,427	14,385,110
Diocesan entities funds on deposit	38,162,305	35,659,176
Total liabilities	56,682,157	55,274,455
Net assets:		
Without donor restriction	33,370,025	31,756,584
With donor restriction	14,502,450	14,682,514
Total net assets	47,872,475	46,439,098
Total liabilities and net assets	$ 104,554,632	$ 101,713,553

ADMINISTRATIVE OFFICE FUNDS OF
THE ROMAN CATHOLIC DIOCESE OF SAN DIEGO

STATEMENT OF ACTIVITIES
Year Ended June 30, 2019
(With Summarized Financial Information for the Year Ended June 30, 2018)

	Without Donor Restrictions	With Donor Restriction	Total	2018 (Note 20)
Operating Activities				
REVENUES AND SUPPORT				
Parish assessments	$ 8,798,552	$ -	$ 8,798,552	$ 10,004,779
Management fee	1,425,131	-	1,425,131	-
Self-insurance revenue	26,930,068	-	26,930,068	26,507,342
Contributions and bequests	1,327,893	7,692,266	9,020,159	8,936,801
Departmental revenues	1,071,465	-	1,071,465	979,463
Parish and employee insurance agency funds, net	430,158	-	430,158	324,405
Rental income	319,043	-	319,043	307,610
Administrative fees	208,800	-	208,800	186,488
Other revenue	108,881	-	108,881	2,848
School assessments	-	-	-	242,400
Net assets released from restrictions:				
Satisfaction of program restrictions	2,664,431	(2,664,431)	-	-
Satisfaction of time restrictions	5,658,882	(5,658,882)	-	-
Total revenues and support	48,943,304	(631,047)	48,312,257	47,492,136
EXPENSES				
Program services				
Self-insurance	26,039,254	-	26,039,254	23,924,790
Clergy and religious	2,560,261	-	2,560,261	2,870,546
Pastoral ministry	10,022,018	-	10,022,018	7,517,384
Catholic Schools	2,754,776	-	2,754,776	1,754,313
Total program services	41,376,309	-	41,376,309	36,067,033
Supporting services:				
Administration and general	6,892,019	-	6,892,019	7,165,064
Fundraising	466,365	-	466,365	500,049
	7,358,384	-	7,358,384	7,665,113
Total expenses	48,734,693	-	48,734,693	43,732,146
Operating excess	208,611	(631,047)	(422,436)	3,759,990
Non-operating Activities				
Long-term Investments				
Interest and other investment income	1,404,830	450,983	1,855,813	1,511,479
	1,404,830	450,983	1,855,813	1,511,479
Change in net assets	1,613,441	(180,064)	1,433,377	5,271,469
NET ASSETS AT BEGINNING OF YEAR	31,756,584	14,682,514	46,439,098	41,167,629
NET ASSETS AT END OF YEAR	$ 33,370,025	$ 14,502,450	$ 47,872,475	$ 46,439,098

ADMINISTRATIVE OFFICE FUNDS OF
THE ROMAN CATHOLIC DIOCESE OF SAN DIEGO

STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2019
(With Summarized Financial Information for the Year Ended June 30, 2018)

	Program Services					Supporting Services			
	Self-Insurance	Clergy and Religious	Pastoral Ministry	Catholic Schools	Total Program Services	Administration and General	Fundraising	2019 Total	2018 (Note 20)
EXPENSES									
Salaries	$ -	$ 685,521	$ 1,217,999	$ 685,933	$ 2,589,453	$ 2,426,614	$ 149,746	$ 5,165,813	$ 5,121,800
Payroll taxes & employee benefits	-	911,037	467,557	251,958	1,630,552	1,047,057	74,581	2,752,190	2,741,423
	-	1,596,558	1,685,556	937,891	4,220,005	3,473,671	224,327	7,918,003	7,863,223
Self-insurance expenditures	26,039,254	-	-	-	26,039,254	-	-	26,039,254	23,924,791
Grants and subsidies	-	-	3,451,367	1,225,814	4,677,181	-	-	4,677,181	490,345
Expenditure of restricted donations	-	-	3,875,279	-	3,875,279	-	-	3,875,279	4,287,441
Professional services	-	43,183	46,692	139,839	229,714	1,091,902	77,994	1,399,610	1,453,506
Operating expenses	-	36,785	157,393	239,133	433,311	592,640	143,306	1,169,257	2,006,602
Conferences and staff development	-	176,061	277,747	93,397	547,205	353,728	6,882	907,815	901,776
Workshop and training	-	263,036	412,370	50,794	726,200	14,002	-	740,202	743,990
Building maintenance & utilities	-	146,022	-	9,976	155,998	349,429	-	505,427	379,382
Assessments	-	-	-	-	-	478,839	-	478,839	413,396
Depreciation	-	84,094	88,782	49,401	222,277	182,966	11,815	417,058	412,387
Interest expense	-	-	-	-	-	240,577	-	240,577	252,557
Retired priests pension	-	200,000	-	-	200,000	-	-	200,000	500,000
Other expenses	-	-	11,500	-	11,500	82,668	-	94,168	35,749
Insurance	-	14,522	15,332	8,531	38,385	31,597	2,041	72,023	67,001
Total expenses	$ 26,039,254	$ 2,560,261	$ 10,022,018	$ 2,754,776	$ 41,376,309	$ 6,892,019	$ 466,365	$ 48,734,693	$ 43,732,146

ADMINISTRATIVE OFFICE FUNDS OF
THE ROMAN CATHOLIC DIOCESE OF SAN DIEGO

STATEMENT OF CASH FLOWS
Year Ended June 30, 2019
(With Summarized Financial Information for the Year Ended June 30, 2018)

	2019	2018 (Note 20)
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 1,433,377	$ 5,271,469
Adjustments to reconcile change in net assets to net cash from operating activities:		
Interest and other gains on long term investments	(1,712,917)	(1,211,272)
Depreciation	417,058	412,387
Changes in operating assets and liabilities:		
Receivables	(1,192)	(119,817)
Prepaid expenses and other assets	139,143	(149,513)
Accounts payable and accrued liabilities	212,256	(438,812)
Self-insurance reserve for claims incurred but not received	(300,000)	650,000
Net cash provided by operating activities	187,725	4,414,442
CASH FLOWS FROM INVESTING ACTIVITIES		
Net purchases of long-term investments	(12,336,078)	(6,126,384)
Change in funds on deposit with Catholic Community Foundation of San Diego	(713,263)	226,188
Diocesan entities funds on deposit	2,503,129	5,466,019
Proceeds from notes receivable	6,480,000	-
Purchase of property and equipment, net	(784,785)	(358,531)
Net cash used in by investing activities	(4,850,997)	(792,708)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net change in CAPS borrowing	(1,007,683)	(61,056)
Net cash used in financing activities	(1,007,683)	(61,056)
Change in cash and cash equivalents	(5,670,955)	3,560,678
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	18,848,551	15,287,873
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 13,177,596	$ 18,848,551
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for interest	$ 240,576	$ 252,557

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 in addition to the administration of the Diocese and the Catholic Account for Parishes and Schools (CAPS).

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, Mater Dei 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.

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 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, 2018, management has determined that an allowance of $100,000 for accounts receivable from parishes and schools and $55,000 for pledge receivables.

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 $417,058 for the year ended June 30, 2019.

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

Income Taxes – The Administrative Office is part of the Roman Catholic Bishop of San Diego which has received notice from the Internal Revenue Service and the California Franchise Tax Board that, as an agency of the Roman Catholic Church, it is exempt from income taxes. It qualifies for exemption under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California 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.

New Accounting Pronouncement – In August 2016, the Financial Accounting Standards Board (FASB) issued ASU 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. This ASU amends the current nonprofit reporting model and enhances nonprofit organizations required disclosures. The ASU addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Administrative Office has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented.

In May 2014, FASB issued Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers (Topic 606), which is a comprehensive new revenue recognition standard that will supersede existing revenue recognition guidance. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. The Admin Office adopted the new standard effective July 1, 2018, as allowed, using the modified retrospective approach. There was no change to beginning net assets as a result of the new accounting policy.

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 5, 2019, which is the date the financial statements are available for issuance, and concluded that the below events needs to be disclosed.

On September 16, 2019 the Diocese of San Diego, launched the Independent Compensation Program for minors abused by diocesan priests which is being administered by Ken Feinberg and Camille Biros. Subsequently, on October 13th, 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 will reopen in January 2020 and remain open for three years.

The Administrative Office's payroll provider filed for bankruptcy delaying tax payments for all diocesan entities for one pay period. The Administrative office has paid all of the outstanding tax payments for all affected diocesan entities. It is unknown how much of the amounts paid will be recovered in bankruptcy.

Apart from the above events, there were no other events or transactions that needed to be disclosed as of June 30, 2019.

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	$ 13,177,596
Accounts receivable	1,468,674
Long-term investments	65,036,141
Total financial assets available within one year	79,682,411
Less amounts unavailable for general expenditures:	
Diocesan entities funds on deposit	(38,162,305)
Restricted by donors with purpose restrictions	(5,283,685)
Restricted by donors in perpetuity	(4,267,020)
Total amounts unavailable for general expenditures within one year	(47,713,010)
Less amounts designated for insurance reserve	(24,004,195)
Total financial assets available to management for general expenditure within one year	$ 7,965,206

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

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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, 2019, 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	$ 65,036,141	$ 65,036,141	$ -	$ -
Funds on deposit with Catholic Community Foundation of San Diego	11,587,267	-	11,587,267	-
Total assets	$ 76,623,408	$ 65,036,141	$ 11,587,267	$ -

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, 2019:

	Market Value	Cost
Cash and cash equivalents	$ 11,702,310	$ 11,690,947
Domestic common stocks	4,752,281	4,365,918
Partnerships and joint ventures	16,347,240	15,983,310
US Government Issues	8,616,456	8,419,065
Mutual funds - Fixed income	6,855,863	1,633,657
Corporate Issues	6,588,617	6,366,585
Mutual funds - Balanced	5,342,428	5,472,625
Mutual funds - Equity	4,420,049	3,006,945
Foreign stocks	224,025	202,399
Foreign Issues	186,872	184,911
	$ 65,036,141	$ 57,326,362

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 2018 campaign were designated for use by the Diocese during the year ending June 30, 2019. Similarly, pledges made and donations received during the 2019 campaign are reported as net assets with donor restrictions and will be used in fiscal year 2020. Pledges receivable included in the accompanying statement of financial position represent amounts pledged for the 2019 campaign to be received in fiscal year 2020. All pledges are due within one year.

Note 6. Property and Equipment

Property and equipment consist of the following at June 30, 2019:

Buildings	$ 12,722,349
Land	4,725,585
Furniture, fixtures and equipment	4,878,772
	22,326,706
Less accumulated depreciation	9,616,619
	$ 12,710,087

Note 7. Catholic Account for Parishes and Schools (CAPS)

The Administrative Office administers the Catholic Account for Parishes and Schools (CAPS) as a separate program administered by the Roman Catholic Bishop of San Diego (the Diocese). CAPS exists to finance the construction and renovation of parish and school facilities and to provide a safe investment for excess parish and school funds. The assets of CAPS consist of investments and loans made to Catholic parishes and schools within San Diego and Imperial Counties. The liabilities of CAPS consist of deposits made by Catholic parishes and schools within San Diego and Imperial Counties. The assets and liabilities of CAPS are separate from the Administrative Office and are therefore not included in the accompanying financial statements.

The Administrative Office has borrowed from CAPS which is recorded as a liability on the accompanying financial statements. The amount due to CAPS is $13,377,427 at June 30, 2019.

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, 2019. 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, 2019, 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, 2019:

Designated insurance reserve	$ 24,004,195
Undesignated	9,365,830
	$ 33,370,025

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, 2019 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	$ 4,951,745
Seminary quasi endowment	4,267,020
Donahue Trust - for needy students	220,831
Blessing Our Future	211,536
Bishop Flores Memorial Fund	138,472
St. Francis Center Improvements	45,201
Other restricted deposits	978,573
	$ 10,813,378

Donor restricted endowments subject to spending policy and appropriation, to support the following purposes at June 30, 2019:

St. Francis Endowment Fund - income used for the operating expenses of St. Francis Center	$ 3,035,815
Sacred Heart - James E. Spain Family Fund - advised fund for projects within the Diocese of San Diego	653,257
	$ 3,689,072

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, 2019:

Satisfaction of time restrictions:	
Annual Catholic Appeal - rebates payable and donations to be used in fiscal year 2019	$ 5,658,882
Satisfaction of program restrictions:	
Mission Cooperation Plan	756,592
Endowment Distributions	901,913
FIAT Consortium	318,117
Other restricted deposits	324,700
	2,301,322
	$ 7,960,204

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.

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 composition as of June 30, 2019, is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowments			
Seminary endowment	$ -	$ 3,035,815	$ 3,035,815
Sacred Heart - Spain endowment	-	653,257	653,257
	-	3,689,072	3,689,072
Donor-restricted quasi-endowments			
Seminary quasi-endowment	-	4,267,020	4,267,020
	$ -	$ 7,956,092	$ 7,956,092

Changes in donor-restricted endowment funds during the year ended June 30, 2019 are summarized in the following table:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	$ -	$ 8,376,560	$ 8,376,560
Investment return:			
Investment return	-	419,731	419,731
Total investment return	-	419,731	419,731
Contributions	-	61,714	61,714
Transfer from unrestricted	-	-	
Appropriation of assets for expenditure	-	(901,913)	(901,913)
Endowment net assets, end of year	$ -	$ 7,956,092	$ 7,956,092

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 $18,035,634 at June 30, 2019.

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, 2019, seven loans have been refinanced by parishes for a total of $32,564,094. The total amount guaranteed by the Roman Catholic Bishop of San Diego, a corporation sole is approximately $26,147,456 at June 30, 2019.

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 6^{th} and 10^{th} 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, 2019, the date of the latest actuarial report, the defined benefit pension program for lay employees had assets of $216 million and an actuarial present value of accumulated benefits of $301.1 million, resulting in a net liability of $85.1 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 6.32 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 $589,785 to the plan in the year ending June 30, 2019.

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.

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, 2019. 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 Dioceses of San Diego and San Bernardino – As of June 30, 2019, the date of the latest actuarial report, the defined benefit pension program for priests had a market value of $26.9 million ($16.1 million pertains to the San Diego Diocese). An actuarial present value of accumulated benefits of $41.7 million ($26.9 million pertains to the San Diego Diocese), resulted in a net liability of $14.7 million ($10.8 million pertains to the San Diego Diocese). 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.

San Diego Diocese Post-Retirement Benefit Plan for Priests – As of June 30, 2019, the date of the latest actuarial report, the defined benefit post-retirement program for priests had an actuarial present value of accumulated health benefits of $13.8 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 of the diocese respective entities.

The plan provides for post-retirement benefits for priests that have reached retirement age. These benefits consist primarily of supplemental health insurance, assisted living and automobile insurance. For fiscal year 2019, these costs totaled $755,860. Besides the Administrative Office, the San Diego Post-Retirement Benefit Plan includes priests of the parishes, schools, and other Catholic entities operating within the Diocese.

The Administrative Office collected agency funds for priest pension and post-retirement benefits from parishes, schools and other entities totaling $1,872,197 during the year ended June 30, 2019.

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 $100,000.

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 $1,700,000. This estimate was based on information provided by the plan administrator.

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, 2019, and no amounts have been accrued in the financial statements.

Note 19. Related Party Transactions

The Services Corporation has an agreement with the Administrative Office to provide financial services, legal services and human resource support. The total amount of contracted services was $1,425,437 for the year ended June 30, 2019.

At June 30, 2019, $221,009 was receivable from the Services Corporation.

Note 20. June 30, 2018 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, 2018, from which the summarized information was derived.

Certain reclassifications have been made to the summarized 2018 financial information to conform to the classifications adopted for the 2019 financial statements. These reclassifications had no effect on the change in net assets.