

Consolidated Financial Statements  
with Supplementary Information and  
Report of Independent Certified Public  
Accountants

**Central Administrative Office of the  
Roman Catholic Diocese of San Jose**

June 30, 2020

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**GRANT THORNTON LLP**

10 Almaden Boulevard, Suite 800  
San Jose, CA 95113-2238

**D** +1 408 275 9000

**F** +1 408 275 0582

**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS**

Most Reverend Oscar Cantú  
Central Administrative Office of the Roman Catholic Diocese of San Jose and  
Affiliate

We have audited the accompanying consolidated financial statements of Central Administrative Office of the Roman Catholic Diocese of San Jose and Affiliate ("CAO"), which comprise the consolidated statements of financial position as of June 30, 2020, and the related consolidated 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 consolidated 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 consolidated 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 consolidated financial statements based on our audits. We conducted our audits 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Central Administrative Office of the Roman Catholic Diocese of San Jose and Affiliate as of June 30, 2020 and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters***Supplementary information*

The consolidating statements of financial position and of activities on pages 38 and 39 are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.



San Jose, California  
March 5, 2021

**Central Administrative Office of  
The Roman Catholic Diocese of San Jose and Affiliate**

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

**June 30, 2020**

	<u><b>2020</b></u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 20,381,992
Investments	119,572,512
Receivables, net	
Receivables from parishes and institutions of the Roman Catholic Bishop of San Jose ("RCBSJ")	6,975,845
Pledges	3,833,592
Receivables from parties outside the RCBSJ	4,514,828
Deposits and prepaid expenses	329,334
Investments held for long-term purposes	4,387,868
Investment in real estate	44,970,000
Assets held in trust	266,842
Land, buildings and equipment, net	<u>44,503,289</u>
Total assets	<u><u>\$ 249,736,102</u></u>
<b>LIABILITIES AND NET ASSETS</b>	
<b>Liabilities</b>	
Accounts payable	\$ 5,225,915
Pledges payable to parishes	1,015,305
Accrued liabilities	55,983,030
Note payable	5,613,362
Trust assets held for parishes	266,842
Held for parishes and institutions	59,398,351
Deferred revenue	<u>8,673,272</u>
Total liabilities	136,176,077
<b>Net assets</b>	
Without donor restrictions	31,579,686
With donor restrictions	<u>81,980,339</u>
Total net assets	<u>113,560,025</u>
Total liabilities and net assets	<u><u>\$ 249,736,102</u></u>

The accompanying notes are an integral part of this consolidated financial statement.

**Central Administrative Office of  
The Roman Catholic Diocese of San Jose and Affiliate**

**CONSOLIDATED STATEMENT OF ACTIVITIES**

**Year ended June 30, 2020**

	<b>2020</b>		
	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
<b>Revenue</b>			
Gifts, bequests, and collections	\$ 1,028,084	\$ 8,811,913	\$ 9,839,997
Fees	4,777,536	-	4,777,536
Diocesan assessment	4,367,087	-	4,367,087
Education income	1,071,753	-	1,071,753
Rental income	659,809	88,722	748,531
Investment income realized	1,252,639	540,309	1,792,948
Interest income from loans	1,245	-	1,245
Insurance premium income	25,473,336	-	25,473,336
Newspaper income	232,053	-	232,053
Grant income	-	3,705,952	3,705,952
Other income	31,431	-	31,431
Subtotal revenues from operations	38,894,973	13,146,896	52,041,869
Net assets released from restrictions (See Note 8)	10,882,500	(10,882,500)	-
Total revenues	49,777,473	2,264,396	52,041,869
<b>Expenses</b>			
Compensation and benefits	10,959,601	-	10,959,601
Operating expenses	7,575,646	-	7,575,646
Travel and events	522,830	-	522,830
Professional services	1,475,730	-	1,475,730
Insurance	24,051,397	-	24,051,397
Depreciation	1,219,470	-	1,219,470
Interest	185,306	-	185,306
Total expenses	45,989,980	-	45,989,980
<b>Change in net assets from operations</b>	3,787,493	2,264,396	6,051,889
Gain on disposition of assets	585,831	-	585,831
Bad debt recovery	2,034,291	(55,639)	1,978,652
Change in obligations for post-retirement and pension benefits	(6,978,210)	-	(6,978,210)
Investment income unrealized	242,283	1,454,096	1,696,379
<b>Change in net assets before equity transfer</b>	(328,312)	3,662,853	3,334,541
Equity transfer (See Note 20)	(3,560,739)	-	(3,560,739)
<b>Change in net assets</b>	(3,889,051)	3,662,853	(226,198)
Net assets, beginning of the year, as previously reported	36,653,737	78,317,486	114,971,223
Cumulative effect of change in accounting principle (Note 19)	(1,185,000)	-	(1,185,000)
Adjusted net assets, beginning of the year	35,468,737	78,317,486	113,786,223
Net assets, end of the year	\$ 31,579,686	\$ 81,980,339	\$ 113,560,025

The accompanying notes are an integral part of this consolidated financial statement.

**Central Administrative Office of  
The Roman Catholic Diocese of San Jose and Affiliate**

**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES**

**Year ended June 30, 2020**

	<b>Pastoral Ministry</b>	<b>Supporting Activities</b>								<b>Total Supporting</b>	<b>Eliminations</b>	<b>Total</b>
		<b>Operating</b>	<b>Fundraising</b>	<b>Restricted</b>	<b>Priests' Retirement</b>	<b>Insurance</b>	<b>Non- Operational Property</b>	<b>Investment Pool</b>	<b>Invoicing/ Payroll</b>			
Insurance premiums	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 23,561,002	\$ -	\$ -	\$ -	\$ 23,561,002	\$ -	\$ 23,561,002
Compensation, payroll taxes, and benefits	3,890,469	5,958,905	602,616	-	2,149,554	(17,503)	-	-	-	8,693,572	(1,624,440)	10,959,601
Gifts, grants, donations, and subsidies	2,787,222	13,460	12,012	-	378	96,500	-	-	-	122,350	-	2,909,572
Professional services	138,581	1,041,660	43,948	-	90,028	99,593	61,919	-	-	1,337,148	-	1,475,729
Depreciation	736,533	341,565	-	-	19,088	1,971	120,313	-	-	482,937	-	1,219,470
Interest	-	185,306	-	-	-	-	-	-	-	185,306	-	185,306
Other operating expenses	2,716,073	3,391,694	329,909	-	6,117,122	43,244	325,452	-	-	10,207,421	(265,984)	12,657,510
Total expenses	\$ 10,268,878	\$ 10,932,590	\$ 988,485	\$ -	\$ 8,376,170	\$ 23,784,807	\$ 507,684	\$ -	\$ -	\$ 44,589,736	\$ (1,890,424)	\$ 52,968,190

The accompanying notes are an integral part of this consolidated financial statement.

**Central Administrative Office of  
The Roman Catholic Diocese of San Jose and Affiliate**

**CONSOLIDATED STATEMENT OF CASH FLOWS**

**Year ended June 30, 2020**

	<b>2020</b>
<b>Operating activities</b>	
Change in net assets	\$ (226,198)
Adjustment to reconcile change in net assets to net cash from operating activities	
Change in obligations for post-retirement benefits and unfunded pension liabilities	6,978,210
Allowance for doubtful accounts	(1,978,652)
Depreciation	1,219,470
(Gain) on disposition of assets	(585,831)
Investment income realized and unrealized	(3,489,327)
Changes in operating assets and liabilities:	
Receivables	3,200,253
Deposits and prepaid expenses	30,319
Investment in real estate	(1,200,000)
Assets held in trust	17,337
Accounts payable and pledges payable	(1,735,589)
Accrued liabilities	(8,042,272)
Trust assets held for parishes	(17,337)
Held for parishes and institutions	20,425,256
Deferred revenue	(302,078)
Net cash provided by operating activities	<u>14,293,561</u>
<b>Investing activities</b>	
Additions to land, buildings and equipment	(833,790)
Proceeds from sale of land, buildings, and equipment	761,631
Disposal of land, building and equipment	(175,800)
Equity transfer, net of transferred cash	(12,825,265)
Purchase of investments	(23,199,302)
Proceeds from sale of investments	<u>5,692,340</u>
Net cash used in investing activities	<u>(30,580,186)</u>
<b>Financing activities</b>	
Less payments on notes payable	<u>(1,123,711)</u>
Net cash provided by financing activities	<u>(1,123,711)</u>
Net change in cash and cash equivalents	(17,410,336)
Cash and cash equivalents, beginning of year	<u>37,792,328</u>
Cash and cash equivalents, end of year	<u>\$ 20,381,992</u>
Supplemental disclosures for cash paid for:	
Interest	<u>\$ 185,306</u>
Taxes	<u>\$ -</u>

Supplemental disclosure for non-cash investing activity:

As described in Note 20, the CAO no longer includes certain functions which have been reflected as an equity transfer out of the CAO effective July 1, 2019 in the amount of \$3,560,739. This figure included cash transferred of \$16,386,004 and net, non-cash net assets and liabilities of \$(12,825,265).

The accompanying notes are an integral part of this consolidated financial statement.



**Central Administrative Office of  
The Roman Catholic Diocese of San Jose and Affiliate**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**June 30, 2020**

**NOTE 1 - ORGANIZATION**

The Roman Catholic Bishop of San Jose, a California corporation sole, was incorporated on March 19, 1981, and commenced financial operations on July 1, 1981, as the Roman Catholic Diocese of San Jose ("Diocese").

The Roman Catholic Bishop of San Jose Master Irrevocable Trust is a trust, created on August 8, 2011 (of which the Roman Catholic Bishop of San Jose, a corporation sole, is the trustee of) to provide ease of administration for certain real property assets.

The Chancery funds of the aforementioned entities are collectively referred to as the Central Administrative Office ("CAO") within these notes to the consolidated financial statements.

The consolidated financial statements include only those funds listed below for which the CAO maintains direct operational control. All significant interorganizational and interfund balances and transactions have been eliminated. Those entities not included in these consolidated financial statements are the parish churches (except selected Cathedral and Christ the King assets), elementary, and secondary schools, San Jose Catholic Cemeteries (formerly consolidated as the "Cemeteries Fund"), The San Jose Catholic Account for Parishes and Schools (formerly consolidated as the "Deposits and Loan Fund"), The Catholic Community Foundation of Santa Clara County, Catholic Charities of Santa Clara County, the Roman Catholic Seminary Corporation of San Jose ("Seminary"), Pastor of Our Lady of Refuge, an unincorporated religious association, the Cathedral Foundation, Jeanne d'Arc Manor, Giovanni Center, Charities Housing Development Corporation of Santa Clara County, San Tomas/Charities Housing Corporation, Sierra Vista/Charities Housing Corporation, Sunset Charities Housing Corporation, Stoney Pine Villa, St. John XXIII College Preparatory, and the Roman Catholic Communications Corporation of the Bay Area/Catholic Telemedia Network.

The primary sources of revenue for the CAO are donations through the annual appeal, assessment on parish offertory revenue, assessment on cemetery revenue, reimbursements, premiums, and fees.

Following is a description of the fund groups:

1. **Operating** - This fund contains the unrestricted pastoral and administrative resources available for the support of the CAO. This includes the land, buildings, and equipment held for operations of the CAO and St. Joseph's Cathedral.
2. **Restricted** - This fund contains the donor-restricted activities of the CAO.
3. **Priests' retirement** - This fund has been established to provide support for retired priests. Specific assets have been designated for this purpose from parish payments.
4. **Insurance** - This fund contains resources held by the CAO to provide centralized benefits and insurance for parishes, schools, and institutions. They are billed for their respective shares of the costs.
5. **Investment** - This fund contains investments of the CAO, as well as those investments held for parishes and institutions. Note that the CAO investments in the fund are shown in each of the separate CAO funds. Ownership by specific funds or entities is accounted for by utilizing a pooling method based on market values. Revenues and expenses of the pool are reflected as net asset changes in the fund or entity for which the assets are held.
6. **Non-Operating Property** - This fund contains assets held for sale and for future parishes and institutions.

**Central Administrative Office of  
The Roman Catholic Diocese of San Jose and Affiliate**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2020**

7. ***Invoicing and Payroll Fund*** – This fund holds the resources that fund the payroll of the Diocese.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") and with the financial statement standards applicable to religious organizations. A summary of the significant accounting policies applied consistently in the preparation of the accompanying consolidated financial statements follows:

***Accrual Basis***

The consolidated financial statements of the CAO have been prepared on the accrual basis of accounting.

***Principles of Consolidation***

The consolidated financial statements include the financial statements of the CAO funds and affiliate. All material interfund transactions and balances have been eliminated upon consolidation.

***Fund Accounting***

The accounts of the CAO are maintained in accordance with the principles of fund accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds that are in accordance with specified activities or objectives. Accordingly, all financial transactions have been recorded by the fund group. However, for the consolidated financial statements, transactions are reported by the net asset categories described below.

***Net Assets***

The CAO is required to report information regarding its consolidated financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

*Net assets without donor restriction* - Consist of resources of the CAO that have not been restricted by a donor. A portion of net assets without donor restriction of the operating fund has been Board-designated for certain initiatives.

*Net assets with donor restriction* - Consist of cash and other assets received with donor stipulations that limit the use of donated assets. Donor restrictions are stipulated by either a time restriction or a purpose restriction. Upon expiration of a time restriction or completion of a purpose restriction, net assets with donor restriction are reclassified to net assets without donor restriction and reported in the consolidated statement of activities as net assets released from restriction. Other net assets with donor restrictions include gifts with donor-imposed restrictions that the original gift amounts be maintained in perpetuity as an endowment, with only the income to be used to support operations or another specified purpose. Such undistributed earnings from donor-restricted endorsements remain as net assets with donor restrictions until appropriated for current year operations and utilized in accordance with their purpose restriction (if any), at which they become net assets without donor restrictions.

**Central Administrative Office of  
The Roman Catholic Diocese of San Jose and Affiliate**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2020**

***Cash and Cash Equivalents***

All highly liquid debt instruments purchased with a maturity of three months or less are considered cash equivalents and may include short-term commercial paper and repurchase agreements. The cash and cash equivalents balances held in financial institutions at June 30, 2020 exceeded federal depository insurance coverage. The CAO has not experienced any losses in such accounts.

***Concentration of Credit Risk***

Financial instruments that potentially subject the Chancery to concentrations of credit risk consist principally of cash and cash equivalents, time certificates of deposit, loan receivables and receivables from schools and parishes. Such balances with any one institution may, at times, be in excess of federally insured limits. Risks associated with cash and cash equivalents, loan receivables, receivables from schools and parishes, and time certificates of deposit are mitigated by banking with creditworthy institutions. The Chancery has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk.

Investments in general are exposed to various risks, such as interest rate, credit, and overall market volatility. To address the risk of investments, the Chancery maintains a diversified portfolio, subject to an investment policy that sets out performance criteria, investment guidelines, and asset allocation guidelines, and requires review of the investment performance. Investments are managed by multiple investment managers, who have responsibility for investing the funds in various investment classes. This entire process is actively overseen by the Finance Committee of the Diocese of San Jose.

***Investments***

Investments are presented in the consolidated financial statements at fair value based on quoted market prices provided by the investment brokers. Dividends and interest are accrued as earned and recorded as unrestricted revenue unless income is restricted by the donor. Any unrealized gains or losses for the current period are reported as a component of investment income.

These investments are exposed to various risks, such as interest rate, market, and credit risk. Due to the level of risk associated with certain investment securities, it is at least reasonably possible changes in the values of investment securities will occur in the near term, and such changes could materially affect total net assets and the amounts reported in the consolidated statement of financial position.

***Receivables***

Receivables are principally generated from the operations of the cemeteries and from billings from the CAO to the various parishes and schools within the Diocese for insurances, payroll, pension, and other costs. The CAO provides an allowance for doubtful accounts provision for those receivables in excess of 90 days past due and considers the consolidated financial position and payment history of the parish or school when estimating the allowance for doubtful accounts. Receivables are noninterest bearing and unsecured. Receivables are determined to be past due based on contractual terms.

**Central Administrative Office of  
The Roman Catholic Diocese of San Jose and Affiliate**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2020**

Allowances on receivables as of June 30, 2020 are as follows:

As of June 30, 2020	Customer Grouping			
	Diocese Parishes and Institutions	Pledges	Non-Diocesan Entities	Total
Gross	\$ 7,825,898	\$ 4,021,919	\$ 4,544,602	\$ 16,392,419
Allowances	(850,053)	(188,327)	(29,775)	(1,068,155)
Net	<u>\$ 6,975,845</u>	<u>\$ 3,833,592</u>	<u>\$ 4,514,827</u>	<u>\$ 15,324,264</u>

Also included in receivables are employee loans receivable, Valley Catholic Newspaper receivables, and beneficial interests in charitable remainder, unitrusts and other trusts.

In regards to the beneficial interests, the CAO is not the trustee for those trusts. The CAO records their interest in the trusts at the net present value (at discount rate of 5%) of the CAO's interest in the underlying trust assets, of which the CAO will be either the full or partial beneficiary, and beneficial interests are included in receivables from parties outside the RCBSJ and in net assets with donor restrictions in the consolidated statement of financial position. The asset of one of the trusts consists of real property, and the trust provides for the payment of the income on the property to the donor over the donor's lifetime.

***Investments in Real Estate***

Investments in real estate are recorded at fair value as determined by periodic appraisals.

***Assets Held in Trust***

The CAO has been named trustee for two unitrusts. The donor is the income beneficiary until death, at which time the property transfers to the designated beneficiary. The CAO is not the beneficiary (diocesan parishes or schools are) and, therefore, the CAO records an asset and a corresponding liability that is included in the trust assets held for parishes item on the accompanying consolidated statement of financial position.

***Land, Buildings, and Equipment***

Land, buildings, and equipment are recorded at cost. Depreciation expense is calculated on the straight-line method over the estimated useful lives of the assets. Maintenance and repairs, which neither materially add to the value of the property nor appreciably prolong its life, are charged to expense as incurred.

The CAO will capitalize fixed assets when the asset purchased, built, or leased has a useful life of one year or more, and the acquisition cost or manufactured cost of the asset is \$5,000 or more. Multiple assets acquired in one transaction whose cost individually is less than \$5,000 but in aggregate greater than \$25,000 are also capitalized.

***Deferred Revenue***

Deferred revenue consists principally of rental income, which is recognized on a straight-line basis over the term of the lease. Additionally, health insurance premiums are collected one month in advance and deferred as revenue to the month of coverage.

**Central Administrative Office of  
The Roman Catholic Diocese of San Jose and Affiliate**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2020**

***Revenue Recognition***

The CAO records revenue on the accrual basis. Gift, bequests, collections, and grant revenues are recognized when awarded. All other revenues, such as insurance premiums, assessments, and fees, are billed by the CAO to the parishes and schools periodically throughout the year and recognized when earned.

***Gifts, Bequests, and Collections***

Contributions are recognized as pledges receivable and revenue in the consolidated statement of financial position at the time a donor makes a promise to give to the CAO that is, in substance, unconditional. Unconditional promises to give expected to be collected in future years are recorded at the discounted present value of their estimated future cash flows using the discount rate applicable to the years in which the promises are received. Conditional promises to give or intentions to give are not recorded in the consolidated financial statements until the conditions are substantially met.

***Fair Value Measurements***

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value:

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

**Level 2** - Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

**Level 3** - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

**Investments measured at NAV** - Management establishes the fair value of investments held at net asset value ("NAV") using a number of procedures, including review of audited financial statements for the investment funds, verification of the fair value of marketable securities in the funds, regular review of fund manager valuation approaches, and monitoring of fund activities with the assistance of its investment adviser for some of those procedures. Because of the inherent uncertainty of valuation of nonmarketable investments, the estimated values may differ significantly from the values that would have been used had a ready market for the securities existed, and the differences could be material.

***Fair Value of Financial Instruments***

Unless otherwise indicated, the fair values of all reported assets and liabilities which represent financial instruments approximate their carrying values.

***Use of Estimates***

In preparing the consolidated financial statements in conformity with U.S. GAAP, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, as well as revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Central Administrative Office of  
The Roman Catholic Diocese of San Jose and Affiliate**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2020**

The CAO's allowances for present value adjustments and doubtful accounts on receivables and pledges, totaling \$773,062 as of June 30, 2020, are particularly sensitive estimates. The determination of the balances in these accounts is based on an analysis of the receivables and loans and reflects amounts which, in management's judgment, are adequate to provide for potential losses after giving consideration to the character of the receivables, current economic conditions, past collection experience, and such other factors that deserve current recognition in estimating losses.

***Tax Exempt Status***

The Roman Catholic Bishop of San Jose has been granted tax exempt status by the Internal Revenue Service ("IRS") and the California Franchise Tax Board under code Sections 501(c)(3) and 23701d, respectively. The Diocese has received a ruling that it is not a private foundation. However, it is subject to tax on unrelated business income resulting from newspaper advertising income received.

***Accounting for Income Taxes - Uncertain Tax Positions***

U.S. GAAP provides accounting and disclosure guidance about positions taken by an organization in its tax returns that might be uncertain. Management has considered its tax positions and believes that all the positions taken in its federal and state exempt organization returns are more likely than not to be sustained upon examination.

***Functional Expense Allocations***

Expenses are allocated among ministry and program services and supporting activities.

***Recent Accounting Pronouncements***

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which is a new standard on revenue recognition. The new standard contains principles that an entity will need to apply to determine the measurement of revenue and timing of when revenue is recognized. The underlying principle is to recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. The standard has a five-step approach, which includes identifying the contract or contracts, identifying the performance obligations, determining the transaction price, allocating the transaction price, and recognizing revenue. The standard also significantly expands the quantitative and qualitative disclosure requirements for revenue, which are intended to help users of financial statements understand the nature, amount, timing, and uncertainty of revenue and the related cash flows. The adoption is effective for the CAO's fiscal year ending June 30, 2021. Management is currently evaluating the impact of the provisions of ASU 2014-09 on the consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which increases transparency and comparability among organizations by recognizing lease assets and lease liabilities on the consolidated statement of financial position and disclosing key information about leasing arrangements in the financial statements of lessees. This update is effective for fiscal years beginning after December 15, 2021, with early adoption permitted. The adoption is effective for the CAO's fiscal year ending June 30, 2023. Management is currently evaluating the impact of the provisions of ASU 2016-02 on the consolidated financial statements.

**Central Administrative Office of  
The Roman Catholic Diocese of San Jose and Affiliate**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2020**

**NOTE 3 - INVESTMENTS**

Marketable securities at June 30 consist of the following:

	<u>2020</u>
Cash and cash equivalents	\$ 2,110,309
Equity securities	83,832,302
Fixed income securities	36,102,908
Alternative investments	<u>1,914,861</u>
Total	<u>\$ 123,960,380</u>

Investment income for the year ended June 30 consists of the following:

	<u>2020</u>
Interest and dividends	\$ 1,345,364
Realized gains	447,584
Unrealized gains	496,379
Unrealized gain on real estate investments	<u>1,200,000</u>
Total investment income	<u>\$ 3,489,327</u>

**NOTE 4 - PLEDGES RECEIVABLE AND PAYABLE**

Pledges receivable and payable are as follows at June 30, 2020:

	<u>Drexel</u>	<u>Annual Appeal</u>	<u>Total</u>
Due within one year	\$ 800,000	\$ 1,596,919	\$ 2,396,919
Due greater than one year	1,625,000	-	1,625,000
Less discount for present value	(12,040)	-	(12,040)
Less allowance for doubtful accounts	<u>(120,648)</u>	<u>(55,639)</u>	<u>(176,287)</u>
Net pledges receivable	<u>\$ 2,292,312</u>	<u>\$ 1,541,280</u>	<u>\$ 3,833,592</u>
Annual campaign pledges payable from CAO to parishes	<u>\$ -</u>	<u>\$ 1,015,305</u>	<u>\$ 1,015,305</u>

Pledges due greater than one year are recorded after discounting future cash flows to present value using a discount rate equivalent to the T-bill rate maturing at that year-end.

The rates used for the year ended June 30, 2020 were from 0.13% to 0.18%.

Annual campaign pledges payable from the CAO to parishes are expected to be paid within one year.

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**June 30, 2020**

**NOTE 5 - LAND, BUILDINGS, AND EQUIPMENT**

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

	Operating Fund	Non- Operations Property Fund	Priest Retirement Fund	Service Fund	Total
Buildings and improvements	\$ 33,246,518	\$ 5,216,654	\$ 1,429,535	\$ -	\$ 39,892,707
Leasehold improvements	-	48,500	427,990	-	476,490
Furnitures and fixtures	673,640	41,447	-	-	715,087
Vehicles	31,567	-	29,009	-	60,576
Equipment	96,847	-	6,752	11,705	115,304
Other	1,592,781	7,709	-	-	1,600,490
	<u>35,641,353</u>	<u>5,314,310</u>	<u>1,893,286</u>	<u>11,705</u>	<u>42,860,654</u>
Less accumulated depreciation	<u>(17,697,968)</u>	<u>(3,176,983)</u>	<u>(439,958)</u>	<u>(11,705)</u>	<u>(21,326,614)</u>
	17,943,385	2,137,327	1,453,328	-	21,534,040
Land					
Sites for future parishes	-	17,301,610	-	-	17,301,610
Land under operating leases	-	613,588	-	-	613,588
Operating properties	<u>4,948,358</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,948,358</u>
	4,948,358	17,915,198	-		22,863,556
Construction in progress	<u>-</u>	<u>105,693</u>	<u>-</u>	<u>-</u>	<u>105,693</u>
Total land, building and equipment	<u>\$ 22,891,743</u>	<u>\$ 20,158,218</u>	<u>\$ 1,453,328</u>	<u>\$ -</u>	<u>\$ 44,503,289</u>

**NOTE 6 - NOTE PAYABLE**

During the year ended June 30, 2016, the Diocese entered into a fixed rate loan agreement with US Bank for the purpose of refinancing the series 2010 California Municipal Finance Authority Revenue Bonds Series and the 2005 Taxable Variable Rate Demand Bonds. The proceeds from the refinance were used to pay off the combined principal balance of \$17,466,000 and to settle the swap liability of \$4,777,000.

The fixed rate loan agreement, dated April 1, 2016, secured by the diocesan deposit account, is with US Bank in the initial amount of \$10,000,000 at an annual rate of 2.83%, with a maturity date of March 31, 2021. Principal on the fixed rate note shall be paid monthly in the amount of \$41,667. To the extent not paid prior to the maturity date, all principal due shall be paid on the maturity date. As of June 30, 2020, the outstanding principal balance was \$5,613,362. Interest expense totaled \$185,306 for the year ended June 30, 2020. The loan has certain restrictive covenants, which, among other things, require a certain minimum debt service coverage ratio.



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The Diocese is currently in violation of a loan covenant to have submitted to the bank audited financial statements by November 30, 2020 and 2019. On July 1, 2020, US Bank has declared the loan in technical default. Because the loan can be called, the CAO has sought and received approval from the San Jose Catholic Account for Parishes and Schools ("CAPS") for a \$3,250,000 loan with a 10-year amortization at 3% interest as a back-up plan.

Future minimum principal payment on the fixed rate loan are as follows:

Year ended June 30,

2021	\$ 5,613,362
Total	<u>\$ 5,613,362</u>

**NOTE 7 - NET ASSETS WITH DONOR RESTRICTION**

Net assets with donor restriction are available for the following at June 30:

	<u>2020</u>
Annual appeal programs for general operations with time restrictions	\$ 6,327,895
General education and tuition assistance (non-endowed) with purpose restrictions	18,682,154
Specific ministries and purposes (non-endowed) with purpose restrictions	45,082,907
Available endowment funds with purpose restrictions	7,499,514
Endowment funds invested in perpetuity and not available	<u>4,387,869</u>
Total donor restricted net assets	<u>\$ 81,980,339</u>

**NOTE 8 - NET ASSETS RELEASED FROM RESTRICTIONS**

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 restrictions during the year ended June 30, 2020 consisted of the following:

	<u>2020</u>
Purpose restrictions accomplished	\$ 4,425,268
Time restrictions expired	<u>6,457,232</u>
Total restrictions released	<u>\$ 10,882,500</u>

**NOTE 9 - ENDOWMENTS**

The endowments of the CAO consist of funds established for scholarships for children in the primary and secondary Catholic Schools in the Diocese and for seminarian education and priest retirement. As required by U.S. GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

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**June 30, 2020**

***Interpretation of Relevant Law***

The CAO has interpreted the California version of the Uniform Prudent Management of Institutional Funds Act ("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 CAO classifies as permanently restricted net assets (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. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the CAO in a manner consistent with the standard of prudence prescribed by the California version of UPMIFA. In accordance with the California version of UPMIFA, the CAO considers the following factors in making a determination to appropriate or accumulate donor-restricted funds:

1. Duration and preservation of the fund
2. The purposes of the organization and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the organization
7. The investment policies of the organization

***Endowment Net Asset Composition by Type of Fund***

	June 30, 2020		
	With Donor Time and Purpose Restrictions	Perpetual Endowments	Total
Donor restricted	\$ 7,499,514	\$ 4,387,868	\$ 11,887,382
Total funds	<u>\$ 7,499,514</u>	<u>\$ 4,387,868</u>	<u>\$ 11,887,382</u>

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**June 30, 2020**

***Changes in Endowment Net Assets***

	With Donor Time and Purpose Restrictions	Perpetual Endowments	Total
Endowment net assets, June 30, 2019	\$ 7,482,046	\$ 4,337,868	\$ 11,819,914
Contributions	-	50,000	50,000
Investment income/expenses	235,012	-	235,012
Investment appreciation	206,600	-	206,600
Appropriations for expenditure	(424,144)	-	(424,144)
Endowment net assets, June 30, 2020	<u>\$ 7,499,514</u>	<u>\$ 4,387,868</u>	<u>\$ 11,887,382</u>

***Funds with Deficiencies***

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or California version of UPMIFA requires the CAO to retain as a fund of permanent duration. These deficiencies would generally result from unfavorable fluctuations in the underlying value of the funds held for these accounts. At June 30, 2020, none of the funds had deficiencies.

***Return Objectives and Risk Parameters***

The CAO 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.

***Strategies Employed for Achieving Objectives***

To satisfy its long-term and rate-of-return objectives, the CAO 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 CAO targets a diversified asset allocation and instructs its fund managers to follow the *Socially Responsible Investment Guidelines* as promulgated by the United States Council of Catholic Bishops.

***Spending Policy and How the Investment Objectives Relate to Spending Policy***

The CAO has a policy of appropriating for distribution each year up to 5% of the restricted endowment fund's average fair value over the prior year. In establishing this policy, the CAO considered the long-term expected return on its endowment. This policy is subject to periodic review and revision by the Diocesan Finance Council. Other restricted funds are spent in accordance with their restrictions.

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**June 30, 2020**

**NOTE 10 - FUTURE MINIMUM RENTAL INCOME**

In October 1987, the CAO entered into an 85-year lease, which allowed the lessee to build and operate a continuing care retirement home on land owned by the CAO. First year base rent of \$480,000 was paid in October 1987. Base rent of \$600,000 was paid in October 1988 for the second year. Lease payments of \$7,180,000 were received during 1990. Lease payments of \$1,000,000 were received each October 1 from 1995 through 1999. The payments received in 1990 and later years are being recognized as income ratably (approximately \$142,830 annually) over the remaining term of the lease. Amounts to be recognized in future periods are recorded as deferred revenue. Deferred revenue associated with the lease was \$7,462,830 at June 30, 2020.

The CAO is the lessor of certain other rental properties. Future minimum rental income from all long-term noncancelable operating leases is as follows:

For the years ending June 30:

2021	\$ 563,220
2022	495,510
2023	445,535
2024	326,912
2025	234,089
Thereafter	<u>7,367,206</u>
	<u>\$ 9,432,472</u>

**NOTE 11 – COMMITMENTS, CONTINGENCIES AND RISKS**

***Leases***

The CAO conducts some of its operations in leased facilities under operating leases, including the facilities used by Christ the King Parish, the Records and Archives Center, Institute for Leadership in Ministry ("ILM"), and the Clergy Retirement House. In addition to the minimum rental payments, the CAO must pay a proportionate share of the operating expenses of the facilities. Rent expense for the year ended June 30, 2020 was \$235,211.

Future minimum rental payments are as follows (excluding operating expenses):

Year ended June 30:

2021	\$ 215,689
2022	169,540
2023	165,843
2024	106,000
2025	106,000
Thereafter	<u>282,667</u>
Total	<u>\$ 1,045,739</u>

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2020**

***Construction Agreements***

The CAO has entered into several construction agreements on behalf of various parishes and schools. At June 30, 2020, total commitments are \$13,188,303. The total amount expended as of June 30, 2020 on these commitments was \$11,265,614. All expenditures incurred with respect to these construction agreements are expenditures of the various parishes and schools.

***Litigation***

The CAO is party to various other litigation matters in the normal course of business. Management believes that the resolution of these matters will not have a material adverse effect on the financial condition of the CAO.

***Other Risks***

Beginning March 2020, the COVID-19 virus has been declared a global pandemic. Management is carefully monitoring the situation and has reduced expenses to be aligned with the expected reduction in revenue for fiscal year 2021.

**NOTE 12 - POST-RETIREMENT BENEFITS OTHER THAN PENSIONS**

The Roman Catholic Bishop of San Jose sponsors a post-retirement Medicare supplemental plan for retired priests who are eligible to receive Medicare. The plan pays for post-retirement healthcare expenses including individual premiums for each retired priest who is enrolled in a Medicare Part F supplemental plan as well as individual premiums for a Medicare Part D prescription drug plan. The plan also pays deductibles, co-pays, and coverage gaps not covered by the prescription drug plan through a health reimbursement account. The plan also pays up to \$2,000 for a one-time reimbursement of hearing aid costs.

An actuary performs an analysis of per capita claims costs and individual premiums on a fiscal-year basis for determining future plan costs.

The CAO uses the accrual method of accounting for post-retirement benefits based on actuarially determined costs to be recognized over the period the employee provides service to the CAO. FASB Accounting Standards Codification ("ASC") 715 requires entities to accrue for expected medical and other post-retirement benefits over the years that the employees render the necessary service. CAO also follows the disclosure provisions of ASC 715, which requires additional employers' disclosures about pension and other post-retirement benefit plans.

Contributions of \$0 were made to the plan in the year ended June 30, 2020. Benefit payments of \$596,736 were made from the plan during the year ended June 30, 2020. The Diocese expects to contribute \$0 to the plan's rabbi trust fund during the year ending June 30, 2021.

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**June 30, 2020**

***Funded Status***

The following table sets forth the plan's funded status as of June 30:

	2020
Accumulated post-retirement benefit obligations for service rendered to date	\$ (10,127,361)
Plan assets at fair value	<u>6,767,895</u>
Funded status as of end of year	<u>(3,359,466)</u>
Liability for post-retirement benefits	<u>\$ (3,359,466)</u>

Amounts recognized in net assets without donor restriction for the year ended June 30:

	2020
Net loss	<u>\$ 2,081,466</u>

***Net Periodic Post-Retirement Benefit Cost***

The following items are the components of the net periodic post-retirement benefit cost for the plan as a whole for the year ended June 30:

	2020
Service cost-benefits earned during the period	\$ 339,000
Interest cost on projected benefit obligation	292,000
Actual return on plan assets	(427,000)
Net amortization and deferral	<u>-</u>
Net periodic post-retirement benefit cost	<u>\$ 204,000</u>

Changes in plan assets and benefit obligations recognized in unrestricted net assets for the year ended June 30:

	2020
Net (gain) loss	\$ 2,024,466
Amortization of gain during the year	<u>-</u>
Total recognized as (increase)/reduction in unrestricted net assets	<u>\$ 2,024,466</u>
Total recognized in net periodic benefit cost and unrestricted net assets	<u>\$ 2,228,466</u>

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***Assumptions***

Assumptions used to determine net periodic post-retirement benefit cost for the year ended June 30:

	<u>2020</u>
Discount rate	3.59%
Expected long-term rate of return on assets	6.00%
Future health cost inflation rate	Graded 6.00% - 4.50%

Assumptions used to determine benefit obligations at year-end for the year ended June 30:

	<u>2020</u>
Discount rate	2.87%
Expected long-term rate of return on assets	6.00%
Future health cost inflation rate	Graded 6.00% - 4.50%

***Cash Flows - Estimated Future Benefit Payments***

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid from the Medicare supplement plan.

<u>Year ending June 30:</u>	<u>Annual Benefits</u>
2021	\$ 259,809
2022	273,858
2023	286,208
2024	296,793
2025	307,886
2026-2030	1,728,417

**NOTE 13 - PENSION PLANS**

The CAO uses the accrual method of accounting for post-retirement benefits based on actuarially determined costs to be recognized over the period the employee provides service to the CAO. ASC 715 requires entities to accrue for expected pension benefits over the years that the employees render the necessary service. CAO also follows the disclosure provisions of ASC 715, which requires additional employers' disclosures about pension and other post-retirement benefit plans.

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***Lay Employees***

The CAO participates in a defined benefit pension plan operated by the Roman Catholic Bishop of San Jose. All full-time lay employees hired before July 1, 2020 were eligible. For employees hired before January 1, 2007, the plan provides benefits based on the highest final average salary and all years and months of service, counting partial months as whole months. For employees hired after January 1, 2007, the plan provides benefits based on an account balance that accumulates each year with pay credits and interest credits. In September 2019, the Diocese announced that effective July 1, 2020 the defined benefit pension plan will be frozen and a new 403(b) plan will be implemented. The pension benefits accrued will remain for participating employees, and eligible employees will participate in the 403(b) plan.

Although the Diocese is exempt from the funding requirements of Employee Retirement Income Security Act of 1974 ("ERISA"), it has been the Diocese's practice to make contributions annually to the plan that are not less than the pre-ERISA minimum funding requirement as applicable to churches, and not in excess of the amount that could be deducted for federal income tax purposes, assuming the Diocese was not exempt from taxation. In general, it has been the policy of the Diocese to fund any unfunded past service liability over no more than 20 years.

The CAO administers the plan and assesses each of the participating entities its portion of estimated annual pension cost. The aggregate pension liability for the plan as a whole is \$146,056,412 for the year ended June 30, 2020. The amounts allocated to the CAO for the year ended June 30, 2020 are as follows:

	<u>Lay Retirement Plan 2020</u>
Net amount of pension liability recognized at year-end	\$ (6,345,085)
Pension (income) expenses	268,288
Plan contributions	619,200

The assumptions used to determine net periodic pension cost and benefit obligations for the year ended June 30, 2020 are as follows:

	<u>Lay Retirement Plan 2020</u>
Discount rate for benefit obligations	2.63%
Discount rate for net periodic pension cost	3.46%
Expected long-term rate of return on assets	5.50%
	n/a
Rate of compensation increase	(plan is frozen)



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The fair values of the Diocesan Lay Pension Plan assets as of June 30, 2020, by asset category, are as follows:

Asset Category	2020 Fair Value Measurements				
	Total Fair Value	Quoted Prices (Level 1)	Significant Observation Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments Measured at NAV
Cash and cash equivalents	\$ 10,444,244	\$ 10,444,244	\$ -	\$ -	\$ -
Equity securities	116,259,694	116,259,694	-	-	-
Fixed income securities	61,293,288	-	61,293,288	-	-
Alternative investments	22,662,337	-	-	-	22,662,337
Total	<u>\$ 210,659,563</u>	<u>\$ 126,703,938</u>	<u>\$ 61,293,288</u>	<u>\$ -</u>	<u>\$ 22,662,337</u>

No one security in the plan represents more than 5% of total assets other than U.S. Treasury Securities and a money market fund, which is an exchange traded fund.

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The Diocese utilizes the NAV as the practical expedient to value funds for which the underlying investment funds (a) do not have a readily determinable fair value and (b) prepare their consolidated financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company. The administrator of the funds held by the Diocese provides the NAVs, considering variables such as the actual market exchanges and/or trade quotations provided by third parties. The Diocese's management and investment committee reviews and evaluates NAVs, provided by the funds' administrator and believes that the carrying amounts of these investments are reasonable estimates of fair value.

Attribute	NAV	Number of Funds	Unfunded Commitments	Remaining Life	Redemption Terms	Redemption Restrictions
Hedge funds	\$ 13,640,783	5	\$ -	5 open ended funds 2 open ended funds	1: Daily w/3 days notice; 1: Quarterly w/30 days notice; 1: Quarterly w/70 days notice; 1: Quarterly w/60 days notice (20% fund gate); 1: Quarterly w/60 days notice (25% investor gate) 1: Daily w/3 days notice; 1: Quarterly	3: no restrictions; 1: 1yr soft lock; 1: 6mth soft lock 1: no restrictions; 1: 1yr soft lock 4yr soft lock, 4% early redemption fee or 8yr hard lock No redemption permitted
Real estate	7,455,585	2	-			
Infrastructure	-	1	2,471,500	1 open ended fund	1 Semi-annual w/90 days notice	
Private equity	1,565,969	1	3,212,950	10 yrs	No redemption permitted	
Total	<u>\$ 22,662,337</u>	<u>9</u>	<u>\$ 5,684,450</u>			

***Plan Asset Investment Strategy and Allocation***

The asset allocation for the pension plan as of June 30, 2020 and the target allocation, by asset category, are:

Asset Category	Policy Range (Min - Max)	Policy Target	Actual Percentage of Plan Assets at June 30, 2020
Equities	40% - 70%	55%	55%
Fixed income	20% - 40%	30%	29%
Real assets	5% - 10%	8%	11%
Hedge funds	0% - 10%	7%	0%
Cash and cash equivalents	n/a	n/a	5%
Total		<u>100%</u>	<u>100%</u>

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The Diocese has adopted an official Statement of Investment Policy for this plan. Pension plan assets are invested by an independent professional investment manager, with the objective of achieving long-term growth in assets with reasonable risk as compared to established benchmarks. The investment policy requires high quality investments and adequate diversification. The Diocese regularly monitors the investment manager's performance relative to short-term and long-term objectives as set forth in the official policy. A compliance audit of the managers' adherence to policy guidelines is conducted as a component of each performance evaluation. The Statement of Investment Policy includes consideration for social responsibility and Roman Catholic social teaching.

The Diocese employs a methodical process to determine the estimates of expected long-term rate of return on assets. These estimates are primarily driven by actual historical asset-class returns and advice from external actuarial and investment consulting firms while incorporating specific asset-class risk factors.

***Priests' Combined Retirement Plans***

The Roman Catholic Bishop of San Jose has sponsored a nonqualified defined benefit pension plan for all Diocesan priests who are ordained for or incardinated in the Diocese and in good standing and not on probation. The plan provides benefits based on a flat benefit prorated for years and months of service less than 35 years.

The Roman Catholic Bishop of San Jose has also sponsored a non-qualified supplemental defined benefit pension plan for certain priests listed in Appendices A and B of the plan document. Benefits for priests in Appendix A are based on the excess of their benefit calculated under the regular retirement plan with additional years of service over their actual retirement plan benefit. Benefits for priests in Appendix B are based on the excess of their benefit calculated according to the formula defined in Appendix B over their actual regular retirement plan benefit.

Effective January 1, 2019, these two plans were frozen and merged together into The Diocese of San Jose Combined Nonqualified Retirement Plan for Priests. Plan assets for this plan are held in a rabbi trust. Also, effective January 1, 2019, a new qualified plan was formed, The Diocese of San Jose Qualified Retirement Plan for Priests. This qualified plan covers priest benefit accrual for service after January 1, 2019 as well as benefits accrued when the benefit formula is increased.

Since the Roman Catholic Bishop of San Jose is exempt from the funding requirements of ERISA, it has been the CAO's practice to make contributions annually to the plan based on actuarial principles. In general, it has been the CAO's policy to fund any unfunded past service liability over not more than 20 years.

Contributions of \$3,435,115 were made to the plans in the years ended June 30, 2020 by the CAO on behalf of the parishes, schools or other units to which the participating clergy were assigned. Benefit payments of \$1,306,046 were made from the plans during the year ended June 30, 2020. The Diocese expects to contribute \$1,750,000 to the pension plans during the year ending June 30, 2021.

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**June 30, 2020**

The fair values of Diocesan Priest Pension Plans assets as of June 30, 2020 by asset category follow. Some assets are held in rabbi trusts and, as such, are held as general assets of the CAO in the consolidated statement of financial position in the amount of \$8,539,237 as of June 30, 2020. At June 30, 2020, \$4,638,086 of investments held in the new qualified plan are presented as an offset to the projected benefit obligation.

Asset Category	2020 Fair Value Measurements				
	Total Fair Value	Quoted Prices (Level 1)	Significant Observation Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments Measured at NAV
Cash and cash equivalents	\$ 2,557,645	\$ 2,557,645	\$ -	\$ -	\$ -
Equity securities	6,924,976	6,924,976	-	-	-
Fixed income securities	3,433,412	-	3,433,412	-	-
Alternative investments	261,290	-	-	-	261,290
Total	<u>\$ 13,177,323</u>	<u>\$ 9,482,621</u>	<u>\$ 3,433,412</u>	<u>\$ -</u>	<u>\$ 261,290</u>

No one security in the plan represents more than 5% of total assets other than a money market fund and exchange-traded fund.

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The Diocese utilizes the NAV as the practical expedient to value funds for which the underlying investment funds (a) do not have a readily determinable fair value and (b) prepare their consolidated financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company. The administrator of the funds held by the Diocese provides the NAVs, considering variables such as the actual market exchanges and/or trade quotations provided by third parties. The Diocese's management and investment committee reviews and evaluates NAVs, provided by the funds' administrator and believes that the carrying amounts of these investments are reasonable estimates of fair value.

Attribute	NAV	Number of Funds	Unfunded Commitments	Remaining Life	Redemption Terms	Redemption Restrictions
Hedge funds	\$ 157,258	5	\$ -	5 open ended funds 2 open ended funds	1: Daily w/3 days notice; 1: Quarterly w/30 days notice; 1: Quarterly w/70 days notice; 1: Quarterly w/60 days notice (20% fund gate); 1: Quarterly w/60 days notice (25% investor gate) 1: Daily w/3 days notice; 1: Quarterly	3: no restrictions; 1: 1yr soft lock; 1: 6mth soft lock 1: no restrictions; 1: 1yr soft lock 4yr soft lock, 4% early redemption fee or 8yr hard lock No redemption permitted
Real estate	85,974	2	-			
Infrastructure	-	1	28,500	1 open ended fund	1 Semi-annual w/90 days notice	
Private equity	18,058	1	37,050	10 yrs	No redemption permitted	
Total	<u>\$ 261,290</u>	<u>9</u>	<u>\$ 65,550</u>			

***Plan Asset Investment Strategy and Allocation***

The asset allocation for the pension plan as of June 30, 2020 and the target allocation, by asset category, are:

	Policy Range (Min - Max)	Policy Target	Actual Percentage of Plan Assets at June 30, 2020
Equities	40% - 70%	55%	53%
Fixed income	20% - 40%	30%	26%
Real assets	5% - 10%	8%	2%
Hedge funds	0% - 10%	7%	0%
Cash and cash equivalents	n/a	n/a	19%
Total		<u>100%</u>	<u>100%</u>

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2020**

The Diocese has adopted an official Statement of Investment Policy for this plan. Pension plan assets are invested by an independent professional investment manager, with the objective of achieving long-term growth in assets with reasonable risk as compared to established benchmarks. The investment policy requires high quality investments and adequate diversification. The Diocese regularly monitors the investment manager's performance relative to short-term and long-term objectives as set forth in the official policy. A compliance audit of the managers' adherence to policy guidelines is conducted as a component of each performance evaluation. The Statement of Investment Policy includes consideration for social responsibility and Roman Catholic social teaching.

The Diocese employs a methodical process to determine the estimates of expected long-term rate of return on assets. These estimates are primarily driven by actual historical asset-class returns and advice from external actuarial and investment consulting firms while incorporating specific asset-class risk factors. For the year ended June 30, 2020, the expected long-term rate of return used in determining net periodic pension cost was 5.50%.

**Table 1 - Funded Status**

The funded status of the priest plans and the net amount recognized in the consolidated statement of financial position at June 30 are as follows:

	Priests' Plans 2020
Vested benefit obligation	<u>\$ (26,894,181)</u>
Accumulated benefit obligation	<u>\$ (26,937,881)</u>
Projected benefit obligation	\$ (34,606,535)
Plan assets at fair value	<u>13,177,323</u>
Funding status of the plan	<u>\$ (21,429,212)</u>
Net amount recognized	<u>\$ (21,429,212)</u>

**Table 2 - Amounts Recognized in the Consolidated Statement of Financial Position**

The amounts included in the accrued liabilities line item on the accompanying consolidated statement of financial position at June 30 consist of:

	Priests' Plans 2020
Non-current liabilities	<u>\$ (29,968,449)</u>

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2020**

***Table 3 - Amounts Recognized in Net Assets without Donor Restrictions***

The amounts recognized in net assets without donor restrictions for the year ended June 30 consist of:

	Priests' Plans 2020
Net loss	\$ 11,312,327
Prior service cost	2,310,000
Total	<u>\$ 13,622,327</u>

***Table 4 - Net Periodic Pension Cost***

The following items are the components of the net periodic pension cost for the plan year ended June 30:

	Priests' Retirement Plans 2020
Service cost-benefits earned during the period	\$ 855,000
Interest cost on projected benefit obligation	1,048,000
Actual return on plan assets	(559,000)
Net amortization and deferral	669,000
Net periodic pension cost	<u>\$ 2,013,000</u>

***Table 5 - Other Changes in Plan Assets and Benefit Obligations Recognized in Unrestricted Net Assets***

The amounts recognized in net assets without donor restriction for the year ended June 30 consist of:

	Priests' Plans 2020
Net loss	\$ 2,442,327
Prior service cost	1,153,000
Amortization of gain	(415,000)
Amortization of prior service credit	(254,000)
Total recognized in other comprehensive income	<u>\$ 2,926,327</u>
Total recognized in net periodic cost and other comprehensive income	<u>\$ 4,939,327</u>

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2020**

**Table 6 - Assumptions**

	Priests' Plans 2020
For net periodic pension cost	
Discount rate	3.51%
Expected long-term rate of return on investments	5.50%
Future benefit increases	2.00%
For benefit obligation at year end	
Discount rate	2.75%
Salary increases	n/a
Future benefit increases	2.00%

**Table 7 - Estimated Future Benefit Payments**

Year ending June 30,	Priests' Plans (Annual Benefits)
2021	\$ 1,576,334
2022	1,537,997
2023	1,507,110
2024	1,518,782
2025	1,489,670
2026-2030	7,233,219

**NOTE 14 - RELATED-PARTY TRANSACTIONS**

Activity	FY2020	Name of Related Party/Parties
<u>Revenues:</u>		
Payroll processing/administration fee	\$ 916,515	Diocesan parishes and schools
Priest retirement contributions	1,804,046	Diocesan parishes
IT services/central purchasing	951,068	Diocesan schools
Hospital ministry fee	419,637	Diocesan parishes
Parish offertory assessment	3,555,228	Diocesan parishes
Cemetery assessment	811,859	San Jose Catholic Cemeteries
Dept of Catholic schools assessment	892,973	Diocesan schools
Insurance premiums	20,939,829	Diocesan parishes and schools and Catholic Telemedia Network
Valley Catholic subscriptions	149,805	Diocesan parishes
Education grants	1,600,000	Catholic Telemedia Network
<u>Expenses:</u>		
Direct expenses to support parish operations	1,175,424	Cathedral Basilica/Christ the King
Accounting services	86,264	St. Joseph Financial Services, Inc
Educational software (excluding reimbursements)	86,141	Catholic Telemedia Network
Retirement home rental	48,000	St. Joseph Parish, Cupertino



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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2020**

**NOTE 15 - SELF-INSURED RISK**

The Diocese is self-insured with respect to its general liability coverage for the first \$250,000 per occurrence.

For sexual abuse and harassment coverage, the Diocese has a per claim deductible of \$250,000.

The Diocese is self-insured through a \$25,000 deductible with respect to fiduciary liability coverage and a \$50,000 deductible with respect to crime coverage.

The Diocese is self-insured with respect to its property all-risk coverage (excluding earthquake and flood) through a \$250,000 deductible per occurrence. The Diocese is self-insured through a deductible of 5% or \$100,000 per occurrence with respect to its earthquake and \$100,000 per occurrence except \$500,000 per occurrence for locations within special flood hazard areas for catastrophic flood insurance coverage.

The Diocese is self-insured for the first \$500,000 for worker's compensation and has Excess Workers Compensation coverage through a nonaffiliated insurer.

The Diocese is also self-insured with respect to retired priests' medical costs not covered by Medicare.

Monetary reserves are maintained to cover the probable self-insured exposure for the various insurance coverages.

**NOTE 16 - FAIR VALUE MEASUREMENTS**

***Fair Value of Financial Instruments***

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Securities

The fair value of investments is based on quoted market prices for those or similar assets.

Fixed Income Securities

The fair value of fixed income securities is estimated using recently executed transactions, market price quotations and pricing models that factor in, where applicable, interest rates, bond or credit-default swap spreads, and volatility. These investments are generally categorized in Level 2 of the fair value hierarchy.

Certificates of Deposit

The fair value of certificates of deposit is based on maturity and interest rates.

Beneficial Interest and Charitable Remainder Trust

The beneficial interest stated in the consolidated statement of financial position has been estimated by management using net present value of the future cash flows.

Real Estate Held for Investment

Fair value is estimated by periodic appraisals.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2020**

Other (Limited Partnership)

The Diocese utilizes the NAV as the practical expedient to value funds for which the underlying investment funds (a) do not have a readily determinable fair value and (b) prepare their consolidated financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company. The administrator of the funds held by the Diocese provides the NAVs, considering variables such as the actual market exchanges and/or trade quotations provided by third parties. The Diocese's management and investment committee reviews and evaluates NAVs, provided by the funds' administrator and believes that the carrying amounts of these investments are reasonable estimates of fair value.

Fair Value Measurements

The fair values of assets measured on a recurring basis at June 30 are:

	2020 Fair Value Measurements				
	Total Fair Value	Quoted Prices (Level 1)	Significant Observation Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments Measured at NAV
Assets:					
Cash and cash equivalents (Note 3)	\$ 2,110,309	\$ 2,110,309	\$ -	\$ -	\$ -
Equity securities (Note 3)	83,832,302	83,832,302	-	-	-
Fixed income securities (Note 3)	36,102,908	-	36,102,908	-	-
Alternative investments (Note 3)	1,914,861	-	-	-	1,914,861
Charitable remainder trust	404,834	-	-	404,834	-
Land charitable remainder trust	2,562,003	-	-	2,562,003	-
Beneficial interests	82,765	-	-	82,765	-
Real estate held for investment	44,970,000	-	44,970,000	-	-
Total	<u>\$171,979,982</u>	<u>\$ 85,942,611</u>	<u>\$81,072,908</u>	<u>\$ 3,049,602</u>	<u>\$ 1,914,861</u>

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2020**

The Diocese uses NAV to determine the fair value of all underlying investments which (a) do not have a readily determinable fair value and (b) prepare their consolidated financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company. The following table lists the attributes of investments valued using NAV:

Attribute	NAV	Number of Funds	Unfunded Commitments	Remaining Life	Redemption Terms	Redemption Restrictions
Real estate	\$ 1,879,191	1	\$ -	1 open-ended fund	1 monthly w/3 days notice	1yr soft lock 4yr soft lock, 4% early redemption fee or 8yr hard lock
Infrastructure	-	1	2,000,000	1 open-ended fund	1 semi-annual w/90 days notice	
Real estate	35,670	1	-	n/a	n/a	n/a
Total	<u>\$ 1,914,861</u>	<u>3</u>	<u>\$ 2,000,000</u>			

**NOTE 17 - LIQUIDITY**

Financial assets available within one year of the consolidated statement of financial position date of June 30, 2020 are as follows:

Operating Cash - US Bank, WFB, PayPal, Petty Cash	\$ 5,558,322
Cash to be released from ADA - Heritage Bank	5,519,198
Drexel cash which will meet restriction (including AR)	<u>800,000</u>
Total	<u>\$ 11,877,520</u>

The Roman Catholic Bishop of San Jose's goal is to maintain financial assets to meet at least 90 days of operating expenses (approximately \$7 million). As part of its liquidity plan, excess cash is invested in short-term investments. In recent years, excess liquidity has been used to pay down debt.

**NOTE 18 - SUBSEQUENT EVENTS**

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

The CAO has evaluated subsequent events through March 5, 2021, which is the date the consolidated financial statements are available to be issued.

There are no significant subsequent events to report.

**Central Administrative Office of  
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2020**

**NOTE 19 – ADOPTION OF NEW ACCOUNTING STANDARD**

The CAO has adopted ASU 2018-08 *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* in 2020 on a retrospective basis. In doing so, the CAO adjusted net assets at June 30, 2019 to remove \$1,185,000 associated with a contribution that has donor-imposed conditions. This contribution was reclassified as a liability and will remain as such until the donor's conditions have been met.

**NOTE 20 - EQUITY TRANSFER**

Effective July 1, 2019, the San Jose Catholic Account for Parishes and Schools and the San Jose Catholic Cemeteries began operations as separate corporations and are no longer under the direct operational control of the CAO. Therefore, these two corporations are not included in the funds making up the CAO in the year ended June 30, 2020. The CAO has presented on its consolidated statement of activities the net asset balance of those operations no longer consolidated as an "Equity Transfer" of \$3,560,739. The formerly consolidated "Deposits and Loan Fund" was transferred in whole to the new The San Jose Catholic Account for Parishes and Schools and therefore the entire net deficit was transferred. What was consolidated last year for the "Cemeteries" fund was split, with certain net assets assumed by the San Jose Catholic Cemeteries and others remaining with the CAO.

## **SUPPLEMENTARY INFORMATION**

**Central Administrative Office of  
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**CONSOLIDATING STATEMENT OF FINANCIAL POSITION - ALL FUNDS**

**As of June 30, 2020**

	<u>Operating Fund</u>	<u>Restricted Fund</u>	<u>Priests' Retirement</u>	<u>Insurance Fund</u>	<u>Non Operating Property Fund</u>	<u>Investment Pool</u>	<u>Invoicing and Payroll Fund</u>	<u>Eliminations</u>	<u>Total</u>
<b>ASSETS</b>									
Cash and cash equivalents	\$ 214,667	\$ 8,097,289	\$ 1,216,984	\$ 5,129,837	\$ 6,269,096	\$ -	\$ (545,881)	\$ -	\$ 20,381,992
Investments	631,424	27,088,310	15,354,793	25,186,410	-	51,311,575	-	-	119,572,512
Receivables, net									
Receivables from parishes and institutions of the Roman Catholic Bishop of San Jose ("RCBSJ")	-	-	-	-	-	-	6,975,845	-	6,975,845
Pledges	-	3,833,592	-	-	-	-	-	-	3,833,592
Receivables from parties outside the RCBSJ	-	4,039,549	-	-	-	-	475,279	-	4,514,828
Deposits and prepaid expenses	320,501	-	-	-	8,833	-	-	-	329,334
Investments held for long-term purposes	-	-	-	-	-	4,387,868	-	-	4,387,868
Investment in real estate	-	42,000,000	-	-	2,970,000	-	-	-	44,970,000
Assets held in trust	-	-	-	-	-	266,842	-	-	266,842
Land, buildings and equipment, net	22,891,743	-	1,453,328	-	20,158,218	-	-	-	44,503,289
<b>Total assets</b>	<u>\$ 24,058,335</u>	<u>\$ 85,058,740</u>	<u>\$ 18,025,105</u>	<u>\$ 30,316,247</u>	<u>\$ 29,406,147</u>	<u>\$ 55,966,285</u>	<u>\$ 6,905,243</u>	<u>\$ -</u>	<u>\$ 249,736,102</u>
<b>LIABILITIES AND NET ASSETS</b>									
<b>Liabilities</b>									
Accounts payable	\$ 1,785,059	\$ -	\$ 17,819	\$ 102,291	\$ 99	\$ -	\$ 3,320,647	\$ -	\$ 5,225,915
Pledges payable to parishes	-	1,015,305	-	-	-	-	-	-	1,015,305
Accrued liabilities	7,691,945	2,063,096	41,049,617	713,948	-	-	4,464,424	-	55,983,030
Note payable	5,613,362	-	-	-	-	-	-	-	5,613,362
Trust assets held for parishes	-	-	-	-	-	266,842	-	-	266,842
Held for parishes and institutions	325,310	-	-	3,373,598	-	55,699,443	-	-	59,398,351
Deferred revenue	-	-	-	1,210,442	7,462,830	-	-	-	8,673,272
<b>Total liabilities</b>	15,415,676	3,078,401	41,067,436	5,400,279	7,462,929	55,966,285	7,785,071	-	136,176,077
<b>Net assets</b>									
Without donor restrictions	8,642,659	-	(23,042,331)	24,915,968	21,943,218	-	(879,828)	-	31,579,686
With donor restrictions	-	81,980,339	-	-	-	-	-	-	81,980,339
<b>Total net assets</b>	<u>8,642,659</u>	<u>81,980,339</u>	<u>(23,042,331)</u>	<u>24,915,968</u>	<u>21,943,218</u>	<u>-</u>	<u>(879,828)</u>	<u>-</u>	<u>113,560,025</u>
<b>Total liabilities and net assets</b>	<u>\$ 24,058,335</u>	<u>\$ 85,058,740</u>	<u>\$ 18,025,105</u>	<u>\$ 30,316,247</u>	<u>\$ 29,406,147</u>	<u>\$ 55,966,285</u>	<u>\$ 6,905,243</u>	<u>\$ -</u>	<u>\$ 249,736,102</u>

**Central Administrative Office of  
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**CONSOLIDATING STATEMENT OF ACTIVITIES - ALL FUNDS**

**Year ended June 30, 2020**

	Operating Fund	Restricted Fund	Priests' Retirement	Insurance Fund	Non Operating Property Fund	Investment Pool	Invoicing & Payroll Fund	Cemeteries	Deposit and Loan	Eliminations	Total
<b>Revenue</b>											
Gifts, bequests, and collections	\$ 430,484	\$ 8,811,913	\$ 597,600	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 9,839,997
Fees	3,050,183	-	2,089,959	-	-	-	-	-	-	(362,606)	4,777,536
Diocesan assessment	4,367,087	-	-	-	-	-	-	-	-	-	4,367,087
Education income	1,071,753	-	-	-	-	-	-	-	-	-	1,071,753
Rental income	187,430	88,722	88,800	-	383,579	-	-	-	-	-	748,531
Investment income realized	41,169	540,309	516,989	694,481	-	-	-	-	-	-	1,792,948
Interest income from loans	1,245	-	-	-	-	-	-	-	-	-	1,245
Cemetery revenues	-	-	-	-	-	-	-	-	-	-	-
Insurance premium income	-	-	-	27,001,154	-	-	-	-	-	(1,527,818)	25,473,336
Newspaper income	232,053	-	-	-	-	-	-	-	-	-	232,053
Grant income	-	3,705,952	-	-	-	-	-	-	-	-	3,705,952
Other income	5,132	-	-	26,299	-	-	-	-	-	-	31,431
Subtotal revenues from operations	9,386,536	13,146,896	3,293,348	27,721,934	383,579	-	-	-	-	(1,890,424)	52,041,869
Net assets reclassifications	(17,549,582)	-	2,385,942	(1,091,861)	18,979,718	-	(2,724,217)	-	-	-	-
Net assets released from restrictions (See Note 9)	10,882,500	(10,882,500)	-	-	-	-	-	-	-	-	-
Total revenues	2,719,454	2,264,396	5,679,290	26,630,073	19,363,297	-	(2,724,217)	-	-	(1,890,424)	52,041,869
<b>Expenses</b>											
Compensation and benefits	10,451,990	-	2,149,554	(17,503)	-	-	-	-	-	(1,624,440)	10,959,601
Operating expenses	6,975,415	-	164,234	127,351	308,646	-	-	-	-	-	7,575,646
Travel and events	512,312	-	9,125	1,393	-	-	-	-	-	-	522,830
Professional services	1,224,190	-	90,028	99,593	61,919	-	-	-	-	-	1,475,730
Insurance	728,065	-	508	23,572,002	16,806	-	-	-	-	(265,984)	24,051,397
Depreciation	1,078,098	-	19,088	1,971	120,313	-	-	-	-	-	1,219,470
Interest	185,306	-	-	-	-	-	-	-	-	-	185,306
Total expenses	21,155,376	-	2,432,537	23,784,807	507,684	-	-	-	-	(1,890,424)	45,989,980
<b>Change in net assets from operations</b>	(18,435,922)	2,264,396	3,246,753	2,845,266	18,855,613	-	(2,724,217)	-	-	-	6,051,889
Gain on disposition of assets	-	-	-	-	585,831	-	-	-	-	-	585,831
Bad debt recovery	189,665	(55,639)	-	237	-	-	1,844,389	-	-	-	1,978,652
Change in obligations for post-retirement and pension benefits	(1,034,577)	-	(5,943,633)	-	-	-	-	-	-	-	(6,978,210)
Investment income unrealized	(6,624)	1,454,096	(30,532)	279,439	-	-	-	-	-	-	1,696,379
<b>Change in net assets before equity transfer</b>	(19,287,458)	3,662,853	(2,727,412)	3,124,942	19,441,444	-	(879,828)	-	-	-	3,334,541
Equity transfer (See Note 19)	-	-	-	-	-	-	-	(5,887,612)	2,326,873	-	(3,560,739)
<b>Change in net assets</b>	(19,287,458)	3,662,853	(2,727,412)	3,124,942	19,441,444	-	(879,828)	(5,887,612)	2,326,873	-	(226,198)
Net assets, beginning of the year, as previously reported	27,930,117	78,317,486	(20,314,919)	21,791,026	3,686,774	-	-	5,887,612	(2,326,873)	-	114,971,223
Cumulative effect of change in accounting principle	-	-	-	-	(1,185,000)	-	-	-	-	-	(1,185,000)
Adjusted net assets, beginning of the year	27,930,117	78,317,486	(20,314,919)	21,791,026	2,501,774	-	-	5,887,612	(2,326,873)	-	113,786,223
Net assets, end of the year	\$ 8,642,659	\$ 81,980,339	\$ (23,042,331)	\$ 24,915,968	\$ 21,943,218	\$ -	\$ (879,828)	\$ -	\$ -	\$ -	\$ 113,560,025