

Roman Catholic Diocese of Sacramento
Administrative Office
Financial Statements
For the Year Ended June 30, 2019



Independent Auditors' Report

Most Reverend Jamie Soto
Roman Catholic Bishop of Sacramento

We have audited the accompanying financial statements of The Roman Catholic Diocese of Sacramento, Administrative Office (a nonprofit organization), which comprise the statement of financial position as of June 30, 2019, and the related statement of activities 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 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 policies used and the reasonableness of significant accounting 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 Roman Catholic Diocese of Sacramento, Administrative Office as of June 30, 2019, 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.

Chavez Accountancy Corp

CHAVEZ ACCOUNTANCY CORPORATION

Certified Public Accountants

November 18, 2019

Roman Catholic Diocese of Sacramento
Administrative Office
Statement of Financial Position
June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Assets			
Cash and cash equivalents	\$ 11,647,923	\$ 1,561,893	\$ 13,209,816
Marketable securities	26,494,998	21,452,356	47,947,354
Accounts receivable, net	1,958,440	22,881	1,981,321
Interest receivable	71,675	-	71,675
Prepaid expenses	396,437	-	396,437
Notes receivable, net	2,679,511	-	2,679,511
Equipment, net	674,156	-	674,156
Real estate, net	55,372,602	184,960	55,557,562
Total Assets	\$ 99,295,742	\$ 23,222,090	\$ 122,517,832
Liabilities and Net Assets			
Accounts payable	\$ 2,474,053	\$ 499,399	\$ 2,973,452
Self insurance losses payable	4,057,559	-	4,057,559
Other liabilities	5,917,030	-	5,917,030
Interfund (receivable) payable	3,969	(3,969)	-
Total Liabilities	12,452,611	495,430	12,948,041
Net Assets	86,843,131	22,726,660	109,569,791
Total Liabilities and Net Assets	\$ 99,295,742	\$ 23,222,090	\$ 122,517,832

See accompanying notes to the financial statements

Roman Catholic Diocese of Sacramento
Administrative Office
Statement of Activity
For the Year Ended June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, Gains and Other Support			
Parish assessments / service fees	\$ 7,881,380	\$ -	\$ 7,881,380
School assessments / service fees	762,755	-	762,755
Self-insurance Premiums - Prop, Liab, Work Comp	7,003,583	-	7,003,583
Investment income			
Interest and dividends	634,583	300,049	934,632
Gains and (losses)	248,041	736,865	984,906
Interest on loans	16,945	-	16,945
Rental operations, net	947,886	-	947,886
Donations and bequests	957,524	192,672	1,150,196
Donations - Annual Catholic Appeal	-	3,611,825	3,611,825
Donations - CFCS, Inc.	350,000	-	350,000
Donations - St. Patrick's Home for Children, Inc.	175,000	-	175,000
Donations - Special Collections, net	-	1,569,096	1,569,096
Endowment earnings distributions	846,305	-	846,305
Other	116,184	-	116,184
Net assets released from restrictions			
Satisfaction of program requirements	6,378,500	(6,378,500)	-
Total Revenues, Gains and Other Support	26,318,686	32,007	26,350,693
Expenses			
Parochial services	2,344,491	-	2,344,491
Social services	2,593,811	-	2,593,811
Educational services	3,847,250	-	3,847,250
Ministerial services	2,766,337	-	2,766,337
Administrative services	2,347,501	-	2,347,501
Depreciation on improved real estate	1,556,013	-	1,556,013
Provision for uncollectible amounts	328,491	-	328,491
Self-insurance program - Prop, Liab, Work Comp	4,928,847	-	4,928,847
Self-insurance program - Employee Health Benefits	2,942,108	-	2,942,108
Distributions - Special Collections	1,568,321	-	1,568,321
Distributions - Endowments	482,227	-	482,227
Distributions - Annual Catholic Appeal operations	502,545	-	502,545
Total Expenses	26,207,942	-	26,207,942
Change in Net Assets	110,744	32,007	142,751
Net Assets at beginning of year	86,732,387	22,694,653	109,427,040
Net Assets at end of year	\$ 86,843,131	\$ 22,726,660	\$ 109,569,791

See accompanying notes to the financial statements

Roman Catholic Diocese of Sacramento
Administrative Office
Statement of Cash Flows
For the Year Ended June 30, 2019

Cash flows from operating activities:	
Change in net assets	\$ 142,751
Adjustments to reconcile change in net assets to net cash from operating activities	
Depreciation	1,586,558
Gain on investments	(2,437,951)
(Increase) Decrease in	
Accounts receivable	85,430
Interest receivable	(6,392)
Prepaid expenses	3,938
Increase (Decrease) in	
Accounts payable	1,936,805
Self insurance losses payable	(1,880)
Other liabilities	2,904,053
Total adjustments	<u>4,070,561</u>
Net cash from operating activities	<u>4,213,312</u>
Cash flows from investing activities:	
Purchases of investments	(21,859,073)
Sales of investments	11,744,869
Real estate improvements and equipment purchases	(1,470,529)
Sale of real estate	663,784
Issuance of notes receivable	(1,861,094)
Payments received on notes receivable	6,229,583
Change in value of notes receivable	266,585
Net cash used in investing activities	<u>(6,285,875)</u>
Cash flows from financing activities:	
Payments on notes payable	(6,127,974)
Net cash used in financing activities	<u>(6,127,974)</u>
Net decrease in cash and cash equivalents	(8,200,537)
Cash and cash equivalents, beginning of year	<u>21,410,353</u>
Cash and cash equivalents, end of year	<u>\$ 13,209,816</u>

See accompanying notes to the financial statements

Roman Catholic Diocese of Sacramento
Administrative Office
Notes to Financial Position
June 30, 2019

Note 1 - Reporting Entity

The Administrative Office of the Roman Catholic Diocese of Sacramento (the Organization) provides parochial, social, educational, ministerial, and administrative services. These services are provided throughout the twenty counties which comprise the Roman Catholic Diocese of Sacramento.

Included in these financial statements are all accounts maintained by and directly under the administration of the Administrative Office of the Roman Catholic Diocese of Sacramento. The accounts of parishes, schools, and other affiliated organizations are not included in these financial statements except to the extent that financial transactions between the Organization and these entities have occurred.

Note 2 - Summary of Significant Accounting Policies

The following items set forth the significant accounting policies that are followed in preparing and presenting the financial statements, and are not disclosed elsewhere in the notes to the financial statements.

a. Standards of reporting

The accompanying financial statements have been prepared substantially in accordance with the standards adopted by the United States Conference of Catholic Bishops in concert with standards provided by the Financial Accounting Standards Board. The financial statements are prepared using the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

b. Basis of presentation - The financial statements of the Organization have been prepared on the accrual basis of accounting. The Organization reports information regarding its financial position and activities according to two classes of net assets; net assets without donor restriction and net assets with donor restriction.

Net Assets - In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14 Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities. The Organization has adopted the standard as of July 1, 2018 and has adjusted the presentation in these financial statements accordingly, through inclusion of information about expenses (Note 14), and changes to the presentation of net asset classification on the financial statements as described below. Accordingly, net assets and changes therein are classified and reported as follows:

Roman Catholic Diocese of Sacramento
Administrative Office
Notes to Financial Position
June 30, 2019

Note 2 - Summary of Significant Accounting Policies (continued)

- bb. Net Assets Without Donor Restriction - Net assets that are not subject to or are no longer subject to donor-imposed stipulations.
- cc. Net Assets With Donor Restrictions - Net assets whose use is limited by donor-imposed time and/or purpose restrictions.

Revenues are reported as increases in net assets without donor restriction unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restriction. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Expirations of donor restrictions on the net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets. The Organization has adopted a policy to classify donor restricted contributions as without donor restrictions to the extent that donor restrictions were met in the year the contribution was received.

c. 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. These assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

d. Interfund receivables and payables

These amounts result from funds loaned or advanced by one net asset group to another. Interest is paid on interfund balances. The interfund balances result from cash management activities and are paid currently or on demand.

e. Fair values of financial instruments

The Organization's financial instruments, none of which are held for trading purposes, include cash, investments, and notes receivable. The Organization estimates that the fair value of all financial instruments at June 30, 2019, does not differ materially from the aggregate carrying values of those instruments as reported in the accompanying Statement of Financial Position. The estimated fair value amounts have been determined by the Organization using available market information and appropriate valuation methodologies. Considerable judgment is necessarily required in interpreting market data to develop the estimates of fair value, and accordingly, the estimates are not necessarily indicative of the amounts that the Organization could realize in a current market exchange.

Roman Catholic Diocese of Sacramento
Administrative Office
Notes to Financial Position
June 30, 2019

Note 2 - Summary of Significant Accounting Policies (continued)

f. Cash equivalents

Cash equivalents consist of securities with original terms of maturity of less than three months and are recorded at cost which approximates market value.

g. Accounts receivable and notes receivable

The accounts receivable and notes receivable balances are net of allowances for doubtful accounts of \$1,272,553 and \$1,544,909 respectively. The allowances are based on prior years' experience and management's analysis of possible uncollectible accounts. Accounts and notes receivable are charged against the allowance for doubtful accounts when management believes that collectability is unlikely.

h. Real Estate and Equipment

Real estate and equipment are stated at cost or at fair value at the date of donation. Acquisitions of real estate and equipment in excess of \$15,000 and all expenditures for repairs, maintenance, and betterments that materially prolong the useful lives of the assets are capitalized. The Organization's policy is to provide for depreciation using the straight-line method over the estimated useful lives of the assets, which range from 3 to 50 years. Real estate and equipment are net of accumulated depreciation of \$18,634,151 and \$388,205 respectively. Depreciation expense was \$1,556,013 and \$30,545 on real estate and equipment respectively for the year ended June 30, 2019.

i. Other matters

All gains and losses arising from the sale, collection, or other disposition of investments and other noncash assets are accounted for in the fund which owned the asset. Ordinary income from investments and receivables is accounted for in the fund owning the assets.

j. Income taxes

Under Internal Revenue Code Section 501(c)(3), the Roman Catholic Diocese of Sacramento, Administrative Office, has been determined to be exempt from federal and California state income taxes.

Roman Catholic Diocese of Sacramento
Administrative Office
Notes to Financial Position
June 30, 2019

Note 2 - Summary of Significant Accounting Policies (continued)

k. Significant concentrations of credit risk

The Organization maintains cash balances at several financial institutions including investment brokerage houses. Accounts at some of these institutions are insured by the Federal Deposit Insurance Corporation up to \$250,000. At June 30, 2019, the Organization's uninsured balances totaled \$1,784,422. To date, the Organization has not experienced any losses on these accounts.

l. Subsequent events

The Organization is a Guarantor of a \$6,500,000 loan made by River City Bank to Catholic Funeral and Cemetery Services of the Diocese of Sacramento, Inc. for the purpose of establishing a funeral center at St. Mary Cemetery in Sacramento. Effective August 16, 2019 Catholic Funeral and Cemetery Services of the Diocese of Sacramento, Inc. paid-off the loan in full.

Subsequent events have been evaluated through November 18, 2019, which is the date the financial statements were available to be issued.

Note 3 - Marketable Securities

Marketable securities are recorded at fair market value. The Organization's policy is to invest in non-speculative issues providing safety of capital, current income, and sustained growth. Investments consist principally of stocks, corporate bonds, and U.S. Treasury obligations.

A summary of marketable securities follows:

U.S. Treasury obligations	\$ 47,250,437
Equities	696,917
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	\$ 47,947,354
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Roman Catholic Diocese of Sacramento
Administrative Office
Notes to Financial Position
June 30, 2019

Note 4 - Notes Receivable, net

Notes receivable includes one note secured by a deed of trust, and various unsecured notes, as follows:

Promissory Note, secured by deed of Trust payments based on milestones including a fixed interest rate at 2.0%, due October 12, 2021.	\$ 1,850,000
Various unsecured notes receivable, with monthly and yearly payments at various interest rates that range from 0.0% to 6.25%, and various maturity dates, net of allowances for doubtful accounts.	<u>829,511</u>
Subtotal	2,679,511
Current portion	<u>108,800</u>
Long-term notes	<u><u>\$ 2,570,711</u></u>

Note 5 - Real Estate, net

Real estate consists of the following:

Depreciable real estate	\$ 58,115,623
Non-depreciable real estate	<u>16,076,090</u>
Total	<u>74,191,713</u>
Less: accumulated depreciation	<u>18,634,151</u>
Net real estate	<u><u>\$ 55,557,562</u></u>

Note 6 - Self-Insurance - Property, Liability, Workers Compensation, and Unemployment

The Organization manages the Property, Liability, Workers Compensation, and Unemployment insurance programs for the administrative offices and participating parishes, schools, and other affiliated organizations within the Diocese of Sacramento.

Self-insured liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported.

Roman Catholic Diocese of Sacramento
Administrative Office
Notes to Financial Position
June 30, 2019

Note 6 - Self-Insurance - Property, Liability, Workers Compensation, and Unemployment (continued)

Since self-insured claims depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing claims liability does not necessarily result in an exact amount. These liabilities are evaluated on a case-by-case basis and are re-evaluated periodically to take into consideration historical experience of the more recently resolved claims, the frequency of claims, and other economic and social factors.

Note 7 - Self-Insurance - Employee Health Benefits

The Organization discontinued this Self-insured Employee Health Benefits program effective December 31, 2017. The final claims run out is complete and is included in these financial statements. The Organization joined the Religious Employers Trust Association to provide for employee health benefits effective January 1, 2018.

Note 8 - Endowment Fund

The Endowment Fund includes donor restricted monies received by the Organization under the condition that the funds be held and invested in perpetuity. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence of donor-imposed restrictions. Earnings are released when spent in accordance with the donor's purpose.

The Organization's policy is to invest in nonspeculative issues providing safety of capital, current income, and sustained growth; while complying with the United States Conference of Catholic Bishops' policies regarding socially responsible investing.

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 2,996,697	\$ 9,256,942	\$ 12,253,639
Investment income	583,684	-	583,684
Contributions	-	159,643	159,643
Distributions	<u>(482,227)</u>	<u>-</u>	<u>(482,227)</u>
Endowment net assets, end of year	<u>\$ 3,098,154</u>	<u>\$ 9,416,585</u>	<u>\$ 12,514,739</u>

Roman Catholic Diocese of Sacramento
Administrative Office
Notes to Financial Position
June 30, 2019

Note 8 - Endowment Fund (continued)

The endowments' corpus are with donor restrictions for the following purposes:

Schools / scholarships	8,219,303
Seminarians / vocations	1,165,446
Other	<u>31,836</u>
Total endowment corpus	<u>\$ 9,416,585</u>

Note 9 - Defined Benefit Pension Plan for Lay Employees

The Organization sponsored a qualified, diocesan-wide, non-contributory, multi-employer, defined benefit pension plan (a cash balance plan) covering substantially all lay employees of participating employers in the Diocese of Sacramento. The Plan was frozen effective December 31, 2018. The contribution percentage paid by participating employers, including the Organization, was 8.5% of gross wages during the year. The total contributions made by the Organization during the year ended June 30, 2019 was \$324,141. The portion of the plan's funding status as it relates directly to the Administrative Office has not been determined. The Organization believes that any over or under funding of the plan as it relates to the Organization's share is not material to these financial statements.

Note 10 - Employer Sponsored 403(b) Plan

Effective January 1, 2019, the Organization adopted a new employer sponsored 403(b) Plan. The Plan is a diocesan wide, non-contributory, multi-employer plan, and covers substantially all full-time employees in the Diocese of Sacramento. Effective January 1, 2019, all eligible employees receive into their 403(b) accounts an employer contribution equal to 6% of their gross pay. The total contributions made by the Organization during the year ended June 30, 2019 was \$125,350. Effective July 1, 2018 participating employers contribute 8.5% of gross payroll to cover the prescribed 403(b) contributions and provide additional funding to the frozen defined benefit plan noted in Note 9 above.

Note 11 - Defined Benefit Pension Plan for Priests

The Organization sponsors a qualified, diocesan-wide, non-contributory, multi-employer, defined benefit pension plan covering all priests who are ordained or incardinated in the Diocese of Sacramento and hold an assignment in the diocese. The Plan benefit is based upon a priest's years of service in the Diocese of Sacramento. The Plan is funded via contributions made by all participating employers on an annual premium per priest basis. The premium paid per priest during 2018/2019 by participating employers, including the Organization, was \$10,930 per priest. The total contributions made by the Organization

Roman Catholic Diocese of Sacramento
Administrative Office
Notes to Financial Position
June 30, 2019

Note 11 - Defined Benefit Pension Plan for Priests (continued)

during the year ended June 30, 2019 was \$106,451. For the year ended June 30, 2019, the portion of the multi-employer plan's funding status as it relates directly to the Administrative Office has not been determined. The Organization believes that any over or under funding of the plan as it relates to the Organization's share is not material to these financial statements.

The Qualified Plan described above provides a basic benefit for all eligible priests. A non-qualified Supplemental Plan provides additional miscellaneous benefits.

Note 12 - Related Party Transactions

The Organization, pursuant to formal contracts, provides day to day management, financial and administrative services to its supporting organizations, including The Parochial Fund, Inc. and The Catholic Foundation of the Diocese of Sacramento, Inc. For these services, the supporting organizations each pay the Organization a monthly reimbursement for services provided. During the year, the Organization received reimbursement of \$741,735 for these services.

Note 13 - Fair Value Measurements

Accounting standards establish a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted market prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described as follows:

- Level 1 Inputs to the valuation methodology are unadjusted quoted market prices for identical assets or liabilities in active markets.

- Level 2 Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; or inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

- Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Roman Catholic Diocese of Sacramento
Administrative Office
Notes to Financial Position
June 30, 2019

Note 13 - Fair Value Measurements (continued)

Within the fair value hierarchy, the Organization has marketable securities included on the statement of financial position that are comprised of U.S. treasury obligations and pooled investments funds of \$31,377,476 which are a Level 1 input and \$15,262,176 which are a Level 2 input as of June 30, 2019.

Note 14 - Functional Expense Classification

The financial statements report certain categories of expenses that are attributable to programs and general and administrative services. The schedule below details the expenses by category.

	Programs	General and Administration	Total
Personnel	\$ 4,399,843	\$ 1,392,927	\$ 5,792,770
Prop, Liab, Work Comp Insurance	4,932,190	-	4,932,190
Ministerial	2,805,003	169,388	2,974,391
Employee Health Benefits	2,942,108	-	2,942,108
Social Service - ACA grants	2,082,182	502,545	2,584,727
Depreciation	303,313	1,283,245	1,586,558
Distributions - Special Collections	1,568,321	-	1,568,321
Occupancy	456,284	477,773	934,057
Donations	554,463	-	554,463
Distributions - Endowments	482,227	-	482,227
Provision for uncollectible accounts	-	328,491	328,491
Dues and memberships	90,676	218,487	309,163
Audit/ legal/ other professional	93,062	148,767	241,829
Property expense	4,065	236,558	240,623
Auto expense	165,342	25,525	190,867
Building maintenance	100,936	88,679	189,615
Travel /training /functions	88,728	78,079	166,807
Other expense	-	100,661	100,661
Advertising	18,874	14,650	33,524
Donor restricted donations	54,550	-	54,550
Total Expenses	\$ 21,142,167	\$ 5,065,775	\$ 26,207,942

Roman Catholic Diocese of Sacramento
Administrative Office
Notes to Financial Position
June 30, 2019

Note 15 - Contingencies - Lawsuits

The Roman Catholic Diocese of Sacramento is the defendant in several pending and threatened lawsuits and claims covering a broad range of areas. While the Organization cannot predict the results of these actions, it believes that it has strong defenses and that the liability in excess of recorded reserves, if any, resulting from certain suits, to the extent not covered by insurance, will not be material to the financial position of the Organization.

Note 16 - Guarantee

On July 31, 2013 St. Francis Catholic High School of the Diocese of Sacramento, Inc. issued a \$10,000,000 tax-exempt bond financing. The entire issue was purchased by US Bank. The bond proceeds were used to retire debt and to provide additional project financing for the school. The Organization has executed a formal guarantee of the debt in favor of US Bank.

On July 31, 2014, the Organization became a Guarantor of a \$6,500,000 loan made by River City Bank to Catholic Funeral and Cemetery Services of the Diocese of Sacramento, Inc. for the purpose of establishing a funeral center at St. Mary Cemetery in Sacramento. The Organization believes that Catholic Funeral and Cemetery Services of the Diocese of Sacramento, Inc. has the ability to repay the loan according to its terms. The loan is also guaranteed by Sacramento Catholic Family Insurance Services, Inc., which is wholly owned by Catholic Funeral and Cemetery Services of the Diocese of Sacramento, Inc.