



REPORT OF INDEPENDENT AUDITORS
AND FINANCIAL STATEMENTS

**THE ADMINISTRATIVE OFFICE OF THE
ROMAN CATHOLIC BISHOP OF ORANGE,
A CORPORATION SOLE**

June 30, 2020 and 2019

Table of Contents

	PAGE
Report of Independent Auditors	1
Financial Statements	
Statements of financial position	2
Statement of activities – 2020	3
Statement of activities – 2019	4
Statements of functional expenses	5
Statements of cash flows	6
Notes to financial statements	7–34



Report of Independent Auditors

To the Most Reverend Kevin W. Vann, J.C.D., D.D.
The Administrative Office of the Roman Catholic Bishop of Orange, a Corporation Sole

Report on the Financial Statements

We have audited the accompanying financial statements of The Administrative Office of the Roman Catholic Bishop of Orange, a Corporation Sole, which comprise the statements of financial position as of June 30, 2020 and 2019, the related statements of activities, functional expenses, and cash flows for the years 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 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 audits 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 Administrative Office of the Roman Catholic Bishop of Orange, a Corporation Sole, as of June 30, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Moss Adams LLP

San Diego, California
November 18, 2020

**The Administrative Office of
The Roman Catholic Bishop of Orange, A Corporation Sole
Statements of Financial Position**

ASSETS	June 30,	
	2020	2019
CURRENT ASSETS		
Cash and cash equivalents	\$ 47,327,338	\$ 37,236,137
Receivables		
Receivables from related institutions and cemetery sales, net (Note 3)	21,797,358	21,691,427
Loans receivable from parishes and schools, net (Note 3)	8,342,133	9,735,044
Loans receivable from related institutions, net (Note 3)	2,239,593	2,668,014
Investments		
Long-term investments (Note 4)	141,831,985	141,282,227
Donor restricted endowment (Note 4)	2,670,497	2,670,497
Investments held in trust for others (Notes 4 and 7)	185,685,149	157,073,802
Cemetery inventory (Note 5)	25,417,778	20,906,399
Property, equipment, and improvements, net (Note 6)	49,669,418	44,564,830
Other assets	530,750	181,006
Total assets	\$ 485,511,999	\$ 438,009,383
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	\$ 8,266,703	\$ 4,915,749
Parish and other deposits	5,328,564	5,208,713
Investments held in trust for others (Note 7)	185,685,149	157,073,802
Deferred amounts	45,012,950	40,023,449
Notes payable (Note 8)	4,708,062	1,129,048
Priests' pension/post-retirement benefits accrual (Note 9)	41,286,000	32,370,000
Other liabilities	1,606,000	1,938,068
Total liabilities	291,893,428	242,658,829
NET ASSETS (Note 10)		
Without donor restrictions		
Undesignated	16,946,924	47,385,214
Designated for specific purposes	148,572,658	123,694,456
Total without donor restrictions	165,519,582	171,079,670
With donor restrictions	28,098,989	24,270,884
Total net assets	193,618,571	195,350,554
Total liabilities and net assets	\$ 485,511,999	\$ 438,009,383

**The Administrative Office of
The Roman Catholic Bishop of Orange, A Corporation Sole
Statement of Activities**

	Year Ended June 30, 2020		
	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND SUPPORT			
Contributions, grants, and bequests	\$ 5,175,600	\$ 11,499,349	\$ 16,674,949
Diocesan assessments	8,376,412	-	8,376,412
Diocesan programs	9,022,984	-	9,022,984
Cemetery operations	20,939,312	-	20,939,312
Investment program, net of expenses (Note 4)	7,009,041	111,102	7,120,143
Insurance programs	36,911,444	-	36,911,444
Net assets released from restrictions (Note 10)	7,782,346	(7,782,346)	-
Total revenue and support	95,217,139	3,828,105	99,045,244
EXPENSES			
Program services			
Diocesan pastoral ministries	9,024,554	-	9,024,554
Clergy support programs	1,747,693	-	1,747,693
Investment programs	1,895,025	-	1,895,025
Cemetery operations	11,373,293	-	11,373,293
Insurance programs	30,442,713	-	30,442,713
Grants, donations, and scholarships (Note 12)	5,413,176	-	5,413,176
Support services			
Diocesan administration	31,966,643	-	31,966,643
Total expenses	91,863,097	-	91,863,097
CHANGE IN NET ASSETS BEFORE OTHER CHANGES	3,354,042	3,828,105	7,182,147
Other income, net	1,870	-	1,870
Other comprehensive pension gain (Note 9)	(8,916,000)	-	(8,916,000)
CHANGE IN NET ASSETS	(5,560,088)	3,828,105	(1,731,983)
NET ASSETS			
Beginning of year	171,079,670	24,270,884	195,350,554
End of year	\$ 165,519,582	\$ 28,098,989	\$ 193,618,571

**The Administrative Office of
The Roman Catholic Bishop of Orange, A Corporation Sole
Statement of Activities (Continued)**

	Year Ended June 30, 2019		
	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND SUPPORT			
Contributions, grants, and bequests	\$ 630,899	\$ 9,973,941	\$ 10,604,840
Diocesan assessments	8,145,412	-	8,145,412
Diocesan programs	8,412,519	-	8,412,519
Cemetery operations	21,545,051	-	21,545,051
Investment program, net of expenses (Note 4)	17,812,607	307,195	18,119,802
Insurance programs	39,561,618	-	39,561,618
Net assets released from restrictions (Note 10)	6,718,153	(6,718,153)	-
Total revenue and support	<u>102,826,259</u>	<u>3,562,983</u>	<u>106,389,242</u>
EXPENSES			
Program services			
Diocesan pastoral ministries	9,370,753	-	9,370,753
Clergy support programs	1,776,242	-	1,776,242
Investment programs	2,909,475	-	2,909,475
Cemetery operations	11,287,828	-	11,287,828
Insurance programs	33,736,897	-	33,736,897
Grants, donations, and scholarships (Note 12)	10,738,430	-	10,738,430
Support services			
Diocesan administration	<u>23,694,000</u>	<u>-</u>	<u>23,694,000</u>
Total expenses	<u>93,513,625</u>	<u>-</u>	<u>93,513,625</u>
CHANGE IN NET ASSETS BEFORE OTHER CHANGES	9,312,634	3,562,983	12,875,617
Other income, net	7,609	-	7,609
Other comprehensive pension loss (Note 9)	<u>(3,656,000)</u>	<u>-</u>	<u>(3,656,000)</u>
CHANGE IN NET ASSETS	5,664,243	3,562,983	9,227,226
NET ASSETS			
Beginning of year	<u>165,415,427</u>	<u>20,707,901</u>	<u>186,123,328</u>
End of year	<u>\$ 171,079,670</u>	<u>\$ 24,270,884</u>	<u>\$ 195,350,554</u>

**The Administrative Office of
The Roman Catholic Bishop of Orange, A Corporation Sole
Statements of Functional Expenses**

	<u>Cost of Sales</u>	<u>Payroll and Related</u>	<u>Rent and Occupancy</u>	<u>Insurance Premium</u>	<u>Other Operating Expenses</u>	<u>Depreciation and Interest Expense</u>	<u>2020 Total Expenses</u>
Program services							
Diocesan pastoral ministries	\$ -	\$ 5,244,707	\$ 100,371	\$ -	\$ 3,611,192	\$ 68,284	\$ 9,024,554
Clergy support programs	-	1,540,328	16,657	-	190,708	-	1,747,693
Investment programs	-	-	-	-	390,019	1,505,006	1,895,025
Cemetery operations	2,082,837	6,805,089	658,380	-	934,856	892,131	11,373,293
Insurance programs	-	938,496	1,265	29,048,392	454,560	-	30,442,713
Grants, donations, and scholarships	-	-	-	-	5,413,176	-	5,413,176
Support services							
Diocesan administration	-	8,648,907	4,662,123	89,750	15,632,058	2,933,805	31,966,643
Total expenses	\$ 2,082,837	\$ 23,177,527	\$ 5,438,796	\$ 29,138,142	\$ 26,626,569	\$ 5,399,226	\$ 91,863,097
	<u>Cost of Sales</u>	<u>Payroll and Related</u>	<u>Rent and Occupancy</u>	<u>Insurance Premium</u>	<u>Other Operating Expenses</u>	<u>Depreciation and Interest Expense</u>	<u>2019 Total Expenses</u>
Program services							
Diocesan pastoral ministries	\$ -	\$ 5,033,066	\$ 97,384	\$ -	\$ 4,171,454	\$ 68,849	\$ 9,370,753
Clergy support programs	-	1,614,265	6,607	-	155,370	-	1,776,242
Investment programs	-	-	-	-	1,632,945	1,276,530	2,909,475
Cemetery operations	2,314,399	6,546,179	678,147	-	904,651	844,452	11,287,828
Insurance programs	-	858,271	-	31,880,155	998,471	-	33,736,897
Grants, donations, and scholarships	-	-	-	-	10,738,430	-	10,738,430
Support services							
Diocesan administration	-	7,766,840	3,920,914	-	9,665,419	2,340,827	23,694,000
Total expenses	\$ 2,314,399	\$ 21,818,621	\$ 4,703,052	\$ 31,880,155	\$ 28,266,740	\$ 4,530,658	\$ 93,513,625

**The Administrative Office of
The Roman Catholic Bishop of Orange, A Corporation Sole
Statements of Cash Flows**

	Years Ended June 30,	
	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (1,731,983)	\$ 9,227,226
Adjustments to reconcile change in net assets to net cash from operating activities		
Change in allowance for doubtful accounts	(36,819)	583,820
Unrealized gain on investments	(2,030,652)	(6,506,642)
Realized gains on sale of investments	(26,046)	(4,951,911)
Depreciation	3,894,220	3,254,128
Loss on sales of property and equipment	1,870	7,610
Change in priests' pension and post-retirement benefits accrual	8,916,000	3,656,000
Change in operating assets and liabilities		
Receivables	358,499	232,296
Cemetery inventory	(4,511,379)	(3,953,591)
Other assets	(349,744)	(11,896)
Accounts payable and accrued expenses	3,350,954	(3,283,918)
Parish and other deposits	119,851	212,520
Equity of investments held in trust for others	28,611,347	22,120,375
Deferred amounts	4,989,501	5,312,755
Other liabilities	(332,068)	1,127,759
Net cash provided by operating activities	41,223,551	27,026,531
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, equipment, and improvements	(9,000,678)	(5,180,705)
Purchase of investments	(114,277,196)	(84,136,652)
Proceeds from sales of investments	87,172,789	76,798,326
Loans made to parishes, schools, and other institutions	(605,043)	(2,277,544)
Payments received on loans made to parishes, schools, and other institutions	1,998,764	3,178,731
Net cash used in investing activities	(34,711,364)	(11,617,844)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from debt issuance	3,630,707	-
Payments made on notes payable	(51,693)	(50,166)
Net cash provided by (used in) financing activities	3,579,014	(50,166)
NET CHANGE IN CASH AND CASH EQUIVALENTS	10,091,201	15,358,521
CASH AND CASH EQUIVALENTS		
Beginning of year	37,236,137	21,877,616
End of year	\$ 47,327,338	\$ 37,236,137
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash payments for interest	\$ 33,183	\$ 34,710

See accompanying notes.

The Administrative Office of The Roman Catholic Bishop of Orange, A Corporation Sole

Notes to Financial Statements

Note 1 – The Organization

The Administrative Office of the Roman Catholic Bishop of Orange (the “Bishop”) was established in 1976 and encompasses an area of 782 square miles along 42 miles of the Southern California coastline. The Bishop is the sole member of the Administrative Office of the Roman Catholic Diocese of Orange (the “Organization”) and maintains direct operational control over the Organization, which provides oversight over 63 diocesan parishes and centers, 3 high schools, and 31 elementary schools.

The accompanying financial statements include only those assets, liabilities, and operations of departments for which the Organization maintains direct operational control. These financial statements do not include the assets, liabilities, and operations of the parishes, high schools, elementary schools, or any other affiliated organizations under the jurisdiction of the Bishop, except for transactions with the Organization as reflected on the books and records of the Organization.

The Bishop is also the sole member of a number of other organizations described below. These organizations maintain independent governing boards or charters. The Bishop does not maintain direct operational control over these organizations, which are considered related parties.

Christ Catholic Cathedral Corporation (“CCCC”) administers religious, charitable, and educational activities hosted on the Christ Cathedral campus and manages the operations of the Cathedral campus including strategic planning, development, and marketing. CCCC is also managing the renovation and construction costs of the Christ Cathedral.

Christ Catholic Cathedral Facilities Corporation (“CCCFC”) holds title to the Christ Cathedral property. It leases the entire property to CCCC under a master lease agreement. Its purpose is to operate, renovate, and sublease the property. The debt for the acquisition of the Christ Cathedral property was previously held by the Organization, and a loan had been issued by the Organization to CCCFC to finance the purchase of the Christ Cathedral property. In July 2017, the acquisition debt was refinanced resulting in the debt service cost being paid by CCCFC. A master lease agreement was signed between the Organization and CCCFC in which the Organization’s lease expense is equal to the debt service cost of the property loan.

Orange Catholic Foundation (“OCF”) is organized to receive gifts, grants, contributions, and bequests from donors for the purpose of supporting religious purposes and programs. The OCF may, from time to time, enter into fundraising campaigns that do not directly benefit the Organization. In those cases, the Organization will only report revenue from the OCF upon the OCF making a direct grant to the Organization.

Catholic Charities of Orange County (“CCOC”) is organized to provide professional social services to individuals in need and to provide education and resources to support parish ministries.

Roman Catholic Bishop of Orange Revocable Trust (the “Trust”) was formed to hold assets as an agent for Trustors. The Trustors are certain parishes and schools affiliated with the Organization. The Trust invests and distributes the assets in accordance with the Trust Agreements.

**The Administrative Office of
The Roman Catholic Bishop of Orange, A Corporation Sole
Notes to Financial Statements**

Note 2 – Summary of Significant Accounting Policies and Basis of Presentation

A summary of the significant accounting policies applied in the preparation of the accompanying financial statements are as follows:

Tax exempt status – The Organization has been designated as a tax-exempt entity by the Internal Revenue Service except to the extent of unrelated business taxable income as defined under Internal Revenue Code (IRC) Sections 511 through 515 and the California Franchise Tax Board under Sections 501(c)(3) and 23701d, respectively. Accordingly, no tax provision has been recorded in the financial statements.

The Organization had no unrecognized tax benefits at either June 30, 2020 or 2019, and had no uncertain tax positions. The Organization is required to report unrelated business income, if any.

Basis of accounting – The financial statements of the Organization have been prepared on the accrual basis of accounting.

Financial statement presentation – The Organization’s resources are classified for accounting and reporting purposes into two net asset categories according to the existence or absence of donor-imposed restrictions. Descriptions of the two net asset categories and types of transactions affecting each category follow:

- Net assets without donor restrictions represent expendable funds available for operations that are not otherwise limited by donor restrictions. Net assets without donor restrictions may be designated for specific purposes by action of the Bishop or may otherwise be limited by contractual agreements with outside parties.
- Net assets with donor restrictions consist of contributed funds subject to donor-imposed restrictions that are contingent upon specific performance of a future event or a specific passage of time before the Organization may spend the funds. Some net assets with donor restrictions are subject to irrevocable donor restrictions requiring that the assets be maintained in perpetuity, usually for the purpose of generating investment income, net of investment expenses, to fund current operations.

Fair value measurements – The Organization determines the fair value of assets and liabilities consistent with a fair value framework, which provides for a clearer definition of fair value for financial reporting, establishes a hierarchy for measuring fair value, and requires additional disclosures about the use of fair value measurements.

Fair value measurement reporting provides a consistent definition of fair value that focuses on an exit price, which is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The standard also prioritizes, within the measurement of fair value, the use of market-based information over entity-specific information and establishes a three-level hierarchy for fair value measurements based on the nature of inputs used in the valuation of an asset or liability as of the measurement date.

The Administrative Office of The Roman Catholic Bishop of Orange, A Corporation Sole

Notes to Financial Statements

Note 2 – Summary of Significant Accounting Policies and Basis of Presentation (continued)

The three-level hierarchy for fair value measurements is defined as follows:

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.

In certain cases, inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The Organization's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the investment.

Use of estimates – In preparing financial statements in conformity with generally accepted accounting principles in the United States (U.S. GAAP), management makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Concentrations of credit risk – Financial instruments, which potentially subject the Organization to concentrations of credit risk, consist principally of cash, money-market funds, receivables, and investments in securities. The Organization places its cash and investments in money-market funds with multiple financial institutions and investment managers to mitigate this risk.

At times throughout the year, the balances of cash and cash equivalents and investments may exceed amounts insured by the Federal Deposit Insurance Corporation (FDIC) or Securities Investors Protection Corporation (SIPC) limits. Investments in securities are held by various custodial brokers and fund managers. The Organization has not experienced any losses in cash and investment accounts.

Concentrations of credit risk exist with respect to receivables since generally all are due from parishes and other institutions located within the Roman Catholic Diocese of Orange.

Cash and cash equivalents – The Organization considers all highly liquid investments with an initial maturity of three months or less at purchase to be cash equivalents.

**The Administrative Office of
The Roman Catholic Bishop of Orange, A Corporation Sole
Notes to Financial Statements**

Note 2 – Summary of Significant Accounting Policies and Basis of Presentation (continued)

Receivables from related institutions and cemetery sales – Receivables represent current charges assessed for services and centrally-administered programs rendered to parishes, schools, and other institutions within the Roman Catholic Diocese of Orange, as well as cemetery receivables. Such amounts are due in regular payments throughout the year and are deemed to be fully collectible unless a parish/institution has an unexpected material adverse change in its ability to meet its financial obligations. In that case, the Organization will record an allowance as described below.

Loans receivable from parishes, schools, and related institutions – Loans to parishes, schools, and related institutions represent extended credit to these entities. Credit is extended based upon evaluation of the borrowing entity's financial condition and other factors. Generally, collateral is not specifically required; however, the parishes, schools, and related institutions have property or other liquid assets that could serve as collateral. Loans are either due on demand by the Organization or in accordance with scheduled payments. Interest accrues on loans receivable monthly in accordance with the interest rates applicable to the loans. The average interest rate in the years ended June 30, 2020 and 2019, was 3.22 percent and 2.89 percent, respectively. The Organization considers all loans to be interest bearing and accrues interest on all outstanding balances. If a loan is deemed to have collection issues, the Organization will provide for an allowance as described below. If a loan is deemed fully uncollectible, it is written off against the allowance in the period so deemed.

Allowance for doubtful accounts – The Organization provides an allowance for receivables and loans it believes it may not collect in full. The Organization recognizes reserves for bad debts based on its historical collection experience. If circumstances change (i.e., higher than expected defaults or an unexpected material adverse change in an institution's ability to meet its financial obligations), the Organization's estimates of the recoverability of amounts due may change in the near term.

At June 30, 2020 and 2019, the total allowance was \$2,630,552 and \$2,667,371, respectively.

Investments – Investments are recorded at fair value. The Organization recognizes purchases and sales of investments as of the settlement date. Unrealized gains and losses are included in the statements of activities. Investment income and gains restricted by a donor are reported as increases in net assets without donor restrictions if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized.

The following describes the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying statements of financial position. There were no changes to the Organization's valuation methodologies from 2019 to 2020.

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include certain mutual funds, common stocks, and equities. Fair value is based on quoted market prices for those traded with sufficient frequency. Level 2 securities include corporate, foreign, and government bonds. These investments are valued based on quoted market prices of comparable assets.

The Administrative Office of The Roman Catholic Bishop of Orange, A Corporation Sole

Notes to Financial Statements

Note 2 – Summary of Significant Accounting Policies and Basis of Presentation (continued)

Values are based on information provided by fund managers, external investment advisors, and additional factors to determine if the carrying value of these investments should be adjusted. In determining valuation adjustments, emphasis is placed on market participants' assumptions and market-based information over entity-specific information.

Investments that represent securities that are not publicly traded are stated at estimated fair value based upon the financial data supplied by the individual funds as of the end of each fiscal year and/or the net asset value (NAV), or its equivalent, of the fund. In establishing the estimated fair value, management may give consideration to operating results, financial condition, recent sales prices of issuers' securities, and other pertinent information, including the advice of its investment manager.

The Organization recognizes that there are inherent risks associated with both non-publicly and publicly-traded securities. Risk is managed through rigorous evaluation before an investment is made, quarterly monitoring of valuations, and regular communication with investment managers. The Organization may also have risk associated with its concentration of investments in certain geographic areas and certain industries.

Derivative instruments entered into by the Organization involve, to varying degrees, elements of credit risk, in the event a counterparty should default and market risk, as the instruments are subject to interest rate fluctuations. Credit risk is managed through the use of counterparty diversification and monitoring of counterparty financial condition.

Donor restricted endowment investments – Bequests and other contributed funds that are restricted by donors according to the designated purpose stipulated are held in endowment investment funds, separate from investments without donor restrictions and pledged investments (see Note 11). Amounts are recorded at fair value.

Investments held in trust for others – A separate asset and liability equal to the entire amount of "Investments Held in Trust for Others" are shown in the Organization's statements of financial position (see Note 7).

**The Administrative Office of
The Roman Catholic Bishop of Orange, A Corporation Sole
Notes to Financial Statements**

Note 2 – Summary of Significant Accounting Policies and Basis of Presentation (continued)

The Roman Catholic Diocese of Orange Revocable Trust (the “Trust”), a related party, was established and commenced financial operations in June 2011. The Trust was created to serve and benefit the Roman Catholic parishes and schools and the Roman Catholic charitable corporations located within the Roman Catholic Diocese of Orange. Deposit funds that are held in trust (see Note 7) are managed, but not owned, by the Organization. Each parish and school that has placed funds with the Trust has entered into a master subtrust agreement with the Trust. The Trust serves as an agent for the parishes and other institutions and therefore the assets are not owned by the Trust. The Trust invests and distributes the assets in accordance with the provisions of subtrust agreements. Deposits held on behalf of the Trust are held as investments in equity securities, mutual funds, and debt securities. The Organization allocates the actual income (or loss) of the Organization’s share of the Trust’s investment portfolio. Investment securities are exposed to various risks such as interest rate, market, and credit risks. It is reasonably possible that the estimated fair value of investment securities will change significantly in the future, with the result that the carrying amount of the investment securities may change materially based on market conditions and risk associated with certain investment securities. The investments held in trust are maintained by the Organization according to their investment policy.

Cemetery inventory – Inventories are valued at the lower of cost (based on average cost) or net realizable value. Cemetery land development costs are charged to cost of sales as graves are sold on an average cost basis. Land development work in process represents areas being developed and not presently available for use.

Property, equipment, and improvements – Property, equipment, and improvements are carried at cost or estimated fair value at the date of donation. Depreciation is provided using the straight-line method over the estimated useful lives of the assets ranging from 3 to 40 years. The Organization capitalizes assets with a cost or donated value of \$2,500 or more.

Equipment used for property maintenance, repairs, and minor replacements is charged to expense; additions and betterments are added to the property account at cost. When property is retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in the statements of activities.

Impairment of long-lived assets – The Organization evaluates long-lived assets, including property, equipment, and improvements, for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If the estimated future cash flows (undiscounted and without interest charges) from the use of an asset are less than the carrying value, a write-down would be recorded to reduce the related asset to its estimated fair value. There were no write-downs during the years ended June 30, 2020 and 2019.

The Administrative Office of The Roman Catholic Bishop of Orange, A Corporation Sole

Notes to Financial Statements

Note 2 – Summary of Significant Accounting Policies and Basis of Presentation (continued)

Revenue recognition

- *Contributions, grants, and bequests* – Contributions, grants, and bequests are considered to be available for general use unless they are specifically restricted by the donor. Contributions received designated for future periods or restricted by the donor for specific purposes are reported as contribution revenue with donor restrictions. The Organization recognizes all unconditional contributions and promises to give in the period notified. 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 risk-free rate applicable to the years in which the promises are received. Conditional promises to give or intentions to give are not recorded in the financial statements until the conditions are substantially met. Pastoral Services Appeal (PSA) contributions are included in contributions, grants, and bequests in the statements of activities.
- *Diocesan assessments, diocesan programs, and insurance programs* – Revenue from diocesan assessments, diocesan programs, and insurance programs are for amounts owed to the Organization by parishes and schools and include items such as diocesan assessments, medical insurance, property insurance, property taxes, clergy support, and parish services. These amounts are recorded when the related expense is incurred.
- *Cemetery operations* – Revenue from cemetery operations is generated through at-need and pre-need programs. At-need and pre-need sales are made by cemetery-employed arrangement counselors. Sales and cost of sales related to at-need sales contracts and grave plots, crypts, and niches for pre-need sales contracts are recognized at the time of the sale. The sales and cost of sales related to resale products and services are deferred and recognized at fulfillment. Cost of sales is calculated by allocating total construction costs to the number of inventory units developed at a cemetery. Revenue related to predevelopment sales is deferred until construction begins.

Deferred amounts – Deferred revenue consists of the pre-need sale of burial services and other non-grave items that are deliverable in the future at the time of burial, such as interment fees, setting fees, markers, vaults, and flowers. Sales of graves, lawn crypts, mausoleum crypts, and cremation niches are recognized as current revenue at the time of sale, whether pre-need or at-need. Deferred revenue also includes interest charges on long-term installment contracts related to pre-need sales, which are recognized as installment payments are received.

Contributed services – The Organization receives a substantial amount of contributed services in carrying out its ministry. These services do not meet the recognition criteria under U.S. GAAP. Accordingly, the value of these contributed services is not reflected in the accompanying financial statements.

**The Administrative Office of
The Roman Catholic Bishop of Orange, A Corporation Sole
Notes to Financial Statements**

Note 2 – Summary of Significant Accounting Policies and Basis of Presentation (continued)

Functional allocation of expenses – The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Costs of providing the Organization’s program and support services have been presented in the statements of functional expenses. During the year, such costs are accumulated into separate groupings and allocated among program and support services based on the Organization’s departments. Payroll and related expenses are tracked in the timekeeping system by department, and purchases are tracked in the accounting system by department.

Accounting standards adopted – In March 2017, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. This guidance is intended to improve the presentation of net periodic pension cost and net periodic postretirement benefit cost and requires the bifurcation of net benefit cost. The guidance is effective for annual reporting periods beginning after December 15, 2018. There is no material impact on the financial statements from the adoption of the guidance. See Note 9.

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The ASU was issued to provide clarification to not-for-profit entities as they adopt ASU 2014-09, *Revenue from Contracts with Customers*, specifically as it relates to grants and contracts and distinguishing between reciprocal (exchange) transactions and nonreciprocal (contributions) transactions. The Organization has adopted ASU 2018-08 as of July 1, 2019, using the modified prospective method. No impact on the change in net assets resulted from the adoption of the ASU.

Recent accounting pronouncements – In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, which establishes a comprehensive revenue recognition standard for virtually all industries. The guidance is effective for fiscal years beginning after December 15, 2019. The Organization plans to adopt this update in their financial statements for the year ending June 30, 2021.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. This guidance requires the recognition of rights and obligations arising from lease contracts, including existing and new arrangements, as assets and liabilities on the statement of financial position. The guidance is effective for fiscal years beginning after December 15, 2021. The Organization plans to adopt this update in their financial statements for the year ending June 30, 2023.

Reclassifications – Certain amounts in the 2019 financial statements have been reclassified to conform to the 2020 classifications. These reclassifications have no effect on net assets and are not material to the financial statements.

**The Administrative Office of
The Roman Catholic Bishop of Orange, A Corporation Sole**
Notes to Financial Statements

Note 2 – Summary of Significant Accounting Policies and Basis of Presentation (continued)

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

The Organization has evaluated subsequent events through November 18, 2020, which is the date the financial statements were available for issuance. See Note 6.

Note 3 – Receivables

Receivables from related institutions and cemetery sales – Cemetery receivables are receivables for purchases of interment spaces, memorials, and services by patrons on installment accounts with repayment terms generally up to five years. Parish billings are receivables for amounts owed to the Organization by parishes and schools and include items such as diocesan assessments, medical insurance, property insurance, property taxes, clergy support, and parish services. PSA contributions receivable are for amounts owed to the Organization by the Orange Catholic Foundation for the portions of the PSA designated for clergy formation and education and select pastoral ministries. As of January 1, 2020, the Organization assumed responsibility from the Orange Catholic Foundation for administering the PSA. Receivables from other institutions are for amounts owed to the Organization related to expenses incurred on the other’s behalf in which the Organization is owed reimbursement. With the exception of cemetery receivables, all receivables are due and collectible within 12 months of the fiscal year end.

Receivables from related institutions and cemetery sales consist of the following as of June 30:

	<u>2020</u>	<u>2019</u>
Cemetery receivables, net of allowance of \$73,993 and \$54,448 as of June 30, 2020 and 2019, respectively	\$ 20,507,920	\$ 19,730,241
Pastoral Services Appeal (PSA) receivable	-	150,000
Parish billings, net of allowance of \$1,389,103 and \$1,950,322 as of June 30, 2020 and 2019, respectively	702,620	1,218,560
Receivables from other institutions	<u>586,818</u>	<u>592,626</u>
Total receivables from other related institutions and cemetery sales, net	<u>\$ 21,797,358</u>	<u>\$ 21,691,427</u>

**The Administrative Office of
The Roman Catholic Bishop of Orange, A Corporation Sole
Notes to Financial Statements**

Note 3 – Receivables (continued)

Cemetery receivables as of June 30, 2020, are expected to be collected as follows:

Years Ending June 30,		
2021	\$	8,349,926
2022		4,909,697
2023		3,684,221
2024		2,329,167
2025		917,933
Thereafter		<u>390,969</u>
Total		20,581,913
Less: allowance for doubtful accounts		<u>(73,993)</u>
Total	\$	<u><u>20,507,920</u></u>

Loans receivable from parishes and schools – During the year ended June 30, 2020, the Organization extended one new line of credit to a parish, with the maximum amounting to \$1,500,000. As of June 30, 2020, the parish had drawn \$563,911 against the credit facility. At June 30, 2020, loan maturities ranged from October 2021 through June 2044. At June 30, 2020 and 2019, the Organization had the following amounts due from various parishes and schools:

	<u>2020</u>	<u>2019</u>
Parish and school loans	\$ 9,022,466	\$ 9,980,619
Less: allowance for doubtful accounts	<u>(680,333)</u>	<u>(245,575)</u>
Total loans receivable from parishes and schools, net	<u>\$ 8,342,133</u>	<u>\$ 9,735,044</u>

Loans receivable from parishes and schools as of June 30, 2020, are expected to be collected as follows:

Years Ending June 30,		
2021	\$	760,360
2022		1,202,293
2023		771,023
2024		653,845
2025		657,225
Thereafter		<u>4,977,720</u>
Total	\$	<u><u>9,022,466</u></u>

Loans receivable from related institutions – The Organization made loans to CCOC, a related party, to facilitate the purchase of their owner-occupied property. The Organization made loans to two parishes to facilitate the purchase of owner-occupied properties. The Organization made a loan to an institution to assist the buyer in a purchase of a parish property sold by the Organization.

**The Administrative Office of
The Roman Catholic Bishop of Orange, A Corporation Sole**
Notes to Financial Statements

Note 3 – Receivables (continued)

At June 30, 2020 and 2019, the Organization had the following amounts due from related institutions:

	<u>2020</u>	<u>2019</u>
Catholic Charities of Orange County	\$ 284,827	\$ 362,313
Other parishes and institutions	<u>2,441,889</u>	<u>2,722,727</u>
	2,726,716	3,085,040
Less: allowance for doubtful accounts	<u>(487,123)</u>	<u>(417,026)</u>
Total loans receivable from related institutions, net	<u><u>\$ 2,239,593</u></u>	<u><u>\$ 2,668,014</u></u>

Loans receivable from related institutions as of June 30, 2020, are expected to be collected as follows:

Years Ending June 30,	
2021	\$ 189,585
2022	192,481
2023	187,229
2024	202,181
2025	51,257
Thereafter	<u>1,903,983</u>
Total	<u><u>\$ 2,726,716</u></u>

**The Administrative Office of
The Roman Catholic Bishop of Orange, A Corporation Sole
Notes to Financial Statements**

Note 4 – Fair Value Measurements

The following table summarizes financial assets measured at fair value on a recurring basis as of June 30, 2020:

	Fair Value Measurements at June 30, 2020				
	Level 1	Level 2	Level 3	Net Asset Value or Equivalent	Total
Fair value investments					
Cash and cash equivalents	\$ 34,086,820	\$ -	\$ -	\$ -	\$ 34,086,820
Fixed-income obligations					
Corporate	-	10,985,677	-	-	10,985,677
Foreign	-	3,996,929	-	-	3,996,929
U.S. government	-	9,980,037	-	-	9,980,037
Common stocks and equities					
Domestic	87,456,875	-	-	-	87,456,875
International	24,339,038	-	-	-	24,339,038
Mutual funds					
Domestic	41,190,938	-	-	-	41,190,938
International	51,248,795	-	-	-	51,248,795
Alternative investments					
Common stocks and equities					
International	-	-	-	12,488,562	12,488,562
Commingled trust	-	-	-	25,603,886	25,603,886
Hedge funds					
Fund of funds	-	-	-	19,817,723	19,817,723
Credit/event-driven	-	-	-	202,815	202,815
Private equity					
Secondaries	-	-	-	105,008	105,008
Buyouts	-	-	-	5,413,364	5,413,364
Distressed	-	-	-	313,383	313,383
Fund of funds	-	-	-	2,004,363	2,004,363
Real estate	-	-	-	953,418	953,418
Total fair value investments	<u>\$ 238,322,466</u>	<u>\$ 24,962,643</u>	<u>\$ -</u>	<u>\$ 66,902,522</u>	<u>\$ 330,187,631</u>

**The Administrative Office of
The Roman Catholic Bishop of Orange, A Corporation Sole
Notes to Financial Statements**

Note 4 – Fair Value Measurements (continued)

The following table summarizes financial assets measured at fair value on a recurring basis as of June 30, 2019:

	Fair Value Measurements at June 30, 2019				
	Level 1	Level 2	Level 3	Net Asset Value or Equivalent	Total
Fair value investments					
Cash and cash equivalents	\$ 10,357,451	\$ -	\$ -	\$ -	\$ 10,357,451
Fixed-income obligations					
Corporate	-	9,013,597	-	-	9,013,597
Foreign	-	2,754,335	-	-	2,754,335
U.S. government	-	12,159,911	-	-	12,159,911
Municipal	-	107,647	-	-	107,647
Common stocks and equities					
Domestic	81,400,148	-	-	-	81,400,148
International	22,131,406	-	-	-	22,131,406
Mutual funds					
Domestic	62,701,958	-	-	-	62,701,958
International	54,082,090	-	-	-	54,082,090
Alternative investments					
Common stocks and equities					
International	-	-	-	14,168,913	14,168,913
Commingled trust	-	-	-	7,801,773	7,801,773
Hedge funds					
Fund of funds	-	-	-	15,493,729	15,493,729
Credit/event-driven	-	-	-	280,603	280,603
Private equity					
Secondaries	-	-	-	180,846	180,846
Buyouts	-	-	-	6,366,891	6,366,891
Mezzanine	-	-	-	141,168	141,168
Distressed	-	-	-	76,298	76,298
Fund of funds	-	-	-	1,648,050	1,648,050
Real estate	-	-	-	159,712	159,712
Total fair value investments	<u>\$ 230,673,053</u>	<u>\$ 24,035,490</u>	<u>\$ -</u>	<u>\$ 46,317,983</u>	<u>\$ 301,026,526</u>

Valuation policy – The Chief Financial Officer, as authorized by the Organization’s Investment Committee, determines the fair value measurement policies and procedures in consultation with the Organization’s investment advisor, Canterbury Consulting. These policies and procedures are reassessed at least annually to determine if the current valuation techniques are still appropriate. At that time, the unobservable inputs used in the fair value measurements are evaluated and adjusted as necessary based on current market conditions and other third-party information.

While the Organization believes its valuation methods are appropriate and consistent with those used by other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date. Those estimated values may differ significantly from the values that would have been used had a readily available market for such investments existed, or had such investments been liquidated, and these differences could be material to the financial statements.

**The Administrative Office of
The Roman Catholic Bishop of Orange, A Corporation Sole
Notes to Financial Statements**

Note 4 – Fair Value Measurements (continued)

The following table represents the liquidity and redemption restrictions for the alternative investments valued at NAV or its equivalent as of June 30, 2020:

Alternative investments	Fair Value	Redemption Frequency	Redemption Notice Period	Other Restrictions	Investment Strategy	Unfunded Capital
Common stocks and equities						
International	\$ 12,488,562	Monthly	10 days	Minimum redemption of \$250k and minimum account market value of \$2M	[1]	\$ -
Commingled trust	25,603,886	Weekly to quarterly	10 to 60 days	Only redeemable on certain months - Feb, May, Aug & Nov, 10% holdback on redemption of 90%+	[2]	-
Hedge funds					[3]	
Fund of funds	19,817,723	Quarterly	90-95 days	None	[3a]	-
Credit/event-driven	202,815	Quarterly	65 days (180 days for full redemption)	25% per quarter w/ 65 days notice; 5% fee for full redemption	[3b]	-
Private equity					[4]	
Secondaries	105,008	In distribution	N/A	None	[4a]	-
Buyouts	5,413,364	Up to 10 yr lock up	N/A	Possible 3 yr extension	[4b]	2,875,271
Distressed	313,383	10 yr lock up	N/A	Possible 2 yr extension	[4c]	1,726,222
Fund of funds	2,004,363	3 yr lock up or non-redeemable	N/A	None	[4d]	1,641,928
Real estate	<u>953,418</u>	Redemption not possible	N/A	None	[4e]	<u>1,101,448</u>
	<u>\$ 66,902,522</u>					<u>\$ 7,344,869</u>

[1] The international equity shown in the alternative investments section is classified as such because of the vehicle it is invested in, not the underlying holdings. The holdings in these funds are common stock and equity securities, but the partnerships they are invested in do not offer daily liquidity.

[2] Comingled trust funds look to add un-correlated returns with the other fixed income funds as well as additional yield. These funds are invested primarily in high-yield debt and private loans. One fund representing 70% of the total can be redeemed weekly with 10 days of notice, and has no other redemption restrictions.

[3] Hedge funds are an asset class that looks to provide downside protection for a portfolio as they try to achieve superior risk adjusted returns. Hedge funds are generally established as a limited partnership where the investors are buying a share of the partnership. Hedge funds can generally use leverage and have the ability to hold both long and short positions. Hedge funds are included in the portfolio with the goal of stabilizing returns in the securities and fixed income investments.

[3a] Fund of funds is a subset of the hedge fund category. A fund of funds is a hedge fund that invests in other hedge funds. This allows for further diversification, as the investor now has an indirect investment in a number of individual hedge funds. The objective of the funds is to achieve capital appreciation through investments in portfolios of domestic and international equities as well as distressed and arbitrage securities.

**The Administrative Office of
The Roman Catholic Bishop of Orange, A Corporation Sole**
Notes to Financial Statements

Note 4 – Fair Value Measurements (continued)

- [3b] Credit/event-driven hedge funds are similar to long/short equity hedge funds except they are not focused solely on equity securities, but rather have the ability to invest in credit and other fixed-income securities. The focus of event-driven strategies is to find “special situations” in the market and purchase securities to attempt to take advantage of those situations (distressed companies, takeovers, mergers, etc.).
- [4] Private equity funds are buying companies that are not publicly traded on a stock exchange. Private equity funds are usually a long-term investment and the strategies are generally illiquid.
- [4a] Secondary private equity funds look to buy and sell pre-existing investor commitments to other private equity and alternative investment funds. The negotiations are privately negotiated, as there is not an active market for secondary interest in private equity funds. The fund the Organization is invested in invests directly or indirectly with other entities in privately negotiated investments in the secondary market. This fund is currently in distribution.
- [4b] The private equity buyout funds look to purchase private operating companies. These funds invest directly or indirectly in private companies doing business domestically and globally. These investments do not imply minority or majority ownership in the acquired company.
- [4c] Distressed private equity funds look to take positions (both equity and debt) in companies with distressed balance sheets. These can range from a complete takeover to a cash infusion to gain equity ownership until the company is at a more stable state.
- [4d] Fund of funds is a subset of the portfolio’s investment in private equity and included as a means of stabilizing return. These funds invest in distressed companies, real estate, and real estate-related debt in the U.S. and globally. One fund representing 43% of total is not redeemable.
- [4e] Real estate private equity funds are buying companies that are not publicly traded on a stock exchange.

The following schedule summarizes investment income (loss) recognized in the statements of activities for the years ended June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Net realized gains	\$ 26,046	\$ 4,951,911
Net unrealized gains	2,030,652	6,506,642
Interest and dividends	6,318,508	7,816,296
Other, net	108,266	215,436
Less: investment expenses	<u>(1,363,329)</u>	<u>(1,370,483)</u>
Total	<u>\$ 7,120,143</u>	<u>\$ 18,119,802</u>

**The Administrative Office of
The Roman Catholic Bishop of Orange, A Corporation Sole
Notes to Financial Statements**

Note 5 – Cemetery Inventory

At June 30, 2020 and 2019, inventory consists of cemetery property available for sale and under development, and land for future development:

	<u>2020</u>	<u>2019</u>
Internment	\$ 11,490,537	\$ 12,622,477
Work-in-process	13,247,971	7,604,652
Undeveloped land	<u>679,270</u>	<u>679,270</u>
Total cemetery inventory	<u>\$ 25,417,778</u>	<u>\$ 20,906,399</u>

At the time finished cemetery inventory (i.e., graves, lawn crypts, mausoleum crypts, cremation niches) is sold, cemetery inventory is relieved. No cost of sales or inventory reduction is recorded upon the sale of pre-developed inventory. When pre-developed inventory is completed and the total development cost is known and allocated over the available inventory, the appropriate cost of sales and inventory transactions are recognized.

Note 6 – Property, Equipment, and Improvements

A summary of property, equipment, and improvements at June 30, 2020 and 2019, is as follows:

	<u>2020</u>	<u>2019</u>
Land, buildings, and improvements	\$ 56,500,156	\$ 53,098,293
Furniture, fixtures, and equipment	11,662,142	9,451,476
Construction in progress	<u>4,245,148</u>	<u>991,126</u>
Total property, equipment, and improvements	72,407,446	63,540,895
Less: accumulated depreciation and amortization	<u>(22,738,028)</u>	<u>(18,976,065)</u>
Total property, equipment, and improvements, net	<u>\$ 49,669,418</u>	<u>\$ 44,564,830</u>

The Administrative Office of The Roman Catholic Bishop of Orange, A Corporation Sole

Notes to Financial Statements

Note 6 – Property, Equipment, and Improvements (continued)

In June 2017, the Organization obtained rights to the land and building of St. Catherine of Siena (“St. Catherine”) valued at \$7,400,000 and \$9,580,000, respectively. St. Catherine and the Organization entered into a settlement agreement whereby the property owned by St. Catherine was transferred to the Organization and the three loans due from St. Catherine were restructured. The loans continue to accrue interest at a rate of 2 percent and St. Catherine will continue to have the option to repay the outstanding loans and accrued interest in order for the property to be transferred back to St. Catherine. In October 2020, the Organization and St. Catherine entered into an amendment to the settlement agreement which states that an additional loan of \$1,372,000 will be added into the existing outstanding debt owed to the Organization. The Organization has the right to sell the property and shall pay to St. Catherine the net proceeds of the sale after deducting the total outstanding loans and accrued interest as well as other costs incurred in connection with the sale. Currently, the Organization does not have plans to sell the property.

Note 7 – Investments Held in Trust for Others

The Trust was established during 2011 to facilitate the operation and administration of the deposit and loan activities on behalf of the parishes and schools. Included in the Organization’s investment pool are monies from the Trust held by the Organization for the purpose of providing investment management and technical assistance. A liability is recorded at the estimated fair value of assets deposited with the Organization by the Trust. Investment funds held in trust for others at June 30, 2020 and 2019, were \$185,685,149 and \$157,073,802, respectively.

Note 8 – Notes Payable

In July 2016, the Organization purchased from CCCFC all unsold Cathedral Memorial Gardens inventory on the Christ Cathedral campus grounds. The purchase was financed by a loan payable to CCCFC totaling \$1,278,334. The loan has an interest rate of 3 percent and a maturity date of June 1, 2036. As of June 30, 2020 and 2019, the amount of principal outstanding was \$1,077,355 and \$1,129,048, respectively.

In response to the COVID-19 pandemic, in June 2020, the Organization participated in the Small Business Administration Paycheck Protection Program and obtained a loan to fund its payroll costs. The loan is forgivable to the extent it is used for certain allowable costs during the 24 weeks after funding. Allowable costs include payroll-related costs, interest on covered debt, and payments for covered utilities. The Organization plans to apply for forgiveness during the loan forgiveness covered period, which expires on December 15, 2020. To the extent it is not forgiven, the loan bears interests at 1 percent and has a maturity date of June 23, 2025. No payments are due on the loan for ten months from the expiration date of the covered period; however, interest accrues during the deferment period. Payments of principal and interest are due monthly thereafter. As of June 30, 2020, the amount of principal outstanding was \$3,630,707.

**The Administrative Office of
The Roman Catholic Bishop of Orange, A Corporation Sole
Notes to Financial Statements**

Note 9 – Priests’ Pension and Post-Retirement Benefits

The Organization sponsors a defined-benefit pension plan for all priests who are incardinated or ordained in the Diocese of Orange. Although this defined-benefit pension plan is exempt from the funding requirements of ERISA, it has been the policy of the Organization to make contributions annually based on actuarial principles. The Organization also sponsors a post-retirement medical plan for retired priests. The post-retirement medical plan pays medical costs not covered by Parts A and B of Medicare. The post-retirement medical plan also reimburses a priest’s contribution for Part B expenses. The post-retirement plan has no trust fund assets.

The annual measurement date is June 30 for the pension benefits and other post-retirement benefits. The following tables provide further information about the Organization’s pension and post-retirement benefit plans:

Projected benefit obligation at June 30, 2018	\$ 23,893,000
Gain due to July 1 re-measurement	(489,000)
Increase (decrease) due to	
Service cost	797,000
Interest cost	955,000
Actual benefit payments	(878,000)
Administrative expenses	(53,000)
Loss during the year due to change in assumptions	2,238,000
 Projected benefit obligation at June 30, 2019	 26,463,000
Loss due to July 1 re-measurement	385,000
Increase (decrease) due to	
Service cost	882,000
Interest cost	924,000
Actual benefit payments	(1,035,000)
Administrative expenses	(97,000)
Loss during the year due to change in assumptions	3,194,000
 Projected benefit obligation at June 30, 2020	 \$ 30,716,000

The funded status of the pension and post-retirement plans and the net amount recognized in the Organization’s statements of financial position at June 30 were as follows:

	Pension Benefits		Post-Retirement Benefits	
	2020	2019	2020	2019
Projected benefit obligation	\$ 30,716,000	\$ 26,463,000	\$ 23,986,000	\$ 19,645,000
Plan assets at fair value	(13,726,000)	(14,048,000)	-	-
Under-funded status	\$ 16,990,000	\$ 12,415,000	\$ 23,986,000	\$ 19,645,000

**The Administrative Office of
The Roman Catholic Bishop of Orange, A Corporation Sole**
Notes to Financial Statements

Note 9 – Priests’ Pension and Post-Retirement Benefits (continued)

Amounts recognized in the statements of financial position at June 30 consist of:

	<u>2020</u>	<u>2019</u>
Total under-funded status	\$ 40,976,000	\$ 32,060,000
Supplemental liability	<u>310,000</u>	<u>310,000</u>
Total priests' pension/post-retirement benefits accrual	<u>\$ 41,286,000</u>	<u>\$ 32,370,000</u>

The accumulated benefit obligation for the defined-benefit pension plan was \$22,775,000 and \$19,802,000 at June 30, 2020 and 2019, respectively.

The pension and post-retirement plans’ pension expense, pension benefits paid, and employer contributions for the years ended June 30, 2020 and 2019, are as follows:

	<u>Pension Benefits</u>		<u>Post-Retirement Benefits</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Net pension expense	<u>\$ 1,168,000</u>	<u>\$ 1,127,000</u>	<u>\$ -</u>	<u>\$ -</u>
Pension/post-retirement benefits paid	<u>\$ 1,035,000</u>	<u>\$ 878,000</u>	<u>\$ 465,000</u>	<u>\$ 412,000</u>
Employer contributions	<u>\$ 927,000</u>	<u>\$ 1,070,000</u>	<u>\$ 465,000</u>	<u>\$ 412,000</u>
Net post-retirement expense	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,880,000</u>	<u>\$ 1,935,000</u>

Other changes in plan assets and benefit obligations recognized in net assets without donor restrictions at June 30 are as follows:

	<u>Pension Benefits</u>		<u>Post-Retirement Benefits</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Net loss	\$ 4,541,000	\$ 1,911,000	\$ 3,231,000	\$ 383,000
Amortization of prior service cost	(207,000)	(207,000)	-	-
Amortization of gain	<u>-</u>	<u>-</u>	<u>(305,000)</u>	<u>(321,000)</u>
Total	<u>\$ 4,334,000</u>	<u>\$ 1,704,000</u>	<u>\$ 2,926,000</u>	<u>\$ 62,000</u>

Amounts recognized as net assets without donor restrictions in the statements of activities for the years ended June 30, 2020 and 2019, are as follows:

	<u>Pension Benefits</u>	<u>Post-Retirement Benefits</u>
Amount recognized as of June 30, 2019	\$ 3,368,000	\$ 5,883,000
Total recognized during the year	<u>4,334,000</u>	<u>2,926,000</u>
Amount recognized as of June 30, 2020	<u>\$ 7,702,000</u>	<u>\$ 8,809,000</u>

**The Administrative Office of
The Roman Catholic Bishop of Orange, A Corporation Sole
Notes to Financial Statements**

Note 9 – Priests’ Pension and Post-Retirement Benefits (continued)

Weighted-average assumptions used in the accounting for the Organization’s pension and post-retirement benefit plans were:

	Pension Benefits		Post-Retirement Benefits	
	2020	2019	2020	2019
Weighted-average assumptions used to determine benefit obligations at June 30				
Discount rate	2.7%	3.5%	2.8%	3.6%
Assumed future annual benefit increases	2.0%	2.0%	-	-
Health care cost trend	-	-	5.8%	5.9%
Other post-employment benefits trend rate	-	-	3.5%	3.5%
Weighted-average assumptions used to determine net periodic benefit cost for the years ended June 30				
Discount rate	3.5%	4.2%	3.6%	4.2%
Expected long-term rate of return on assets	6.0%	6.3%	-	-
Assumed future annual benefit increases	2.0%	2.0%	-	-
Health care cost trend	-	-	5.8%	5.9%
Other post-employment benefits trend rate	-	-	3.5%	3.5%

Expected long-term asset return assumption – The Organization 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 consulting firms while incorporating specific asset-class risk factors.

Plan asset investment strategy and allocation – The asset allocation for the pension plan as of June 30, 2020 and 2019, and the target allocation, by asset category are:

Class	Diocesan- Approved Asset Allocation Range	Policy Benchmark Asset Allocation	Actual Percentage of Plan Assets	
			2020	2019
Equities	35 to 75%	60%	64%	64%
Fixed Income	25 to 60%	40%	36%	36%
Cash	0 to 25%	0%	0%	0%

Investment policy – The investment policy of the Organization for all assets held for investment is designed to meet the Organization’s primary goal of capital preservation combined with the objective of achieving reasonable income and capital growth, while showing a preference toward those companies which have manifested a particular consideration for the social good.

**The Administrative Office of
The Roman Catholic Bishop of Orange, A Corporation Sole**
Notes to Financial Statements

Note 9 – Priests’ Pension and Post-Retirement Benefits (continued)

Investment hierarchy – The plan assets are measured at fair value on a recurring basis and are classified as Level 1 pursuant to the valuation hierarchy.

The plan assets were classified as follows as of June 30:

	<u>2020</u>	<u>2019</u>
Plan assets		
Investments		
Cash and cash equivalents	\$ 40,000	\$ -
Common stock		
Domestic	4,437,000	-
International	928,000	-
Mutual funds		
Equities		
Domestic	1,258,000	6,335,000
International	2,189,000	2,644,000
Fixed income		
Domestic	4,571,000	4,374,000
International	303,000	695,000
	<u>\$ 13,726,000</u>	<u>\$ 14,048,000</u>
Total		

The Organization expects to contribute \$823,200 to its pension plan and \$0 to its other post-retirement benefit plan during the year ended June 30, 2021.

Estimated future benefit payments – The following benefit payments which reflect expected future service, as appropriate, are expected to be paid:

	<u>Pension Benefits</u>	<u>Post-Retirement Benefits</u>
Years Ending June 30,		
2021	\$ 1,092,000	\$ 544,000
2022	1,164,000	602,000
2023	1,178,000	622,000
2024	1,171,000	642,000
2025	1,400,000	774,000
2026–2030	6,935,000	4,192,000
	<u>\$ 12,940,000</u>	<u>\$ 7,376,000</u>
Total		

**The Administrative Office of
The Roman Catholic Bishop of Orange, A Corporation Sole
Notes to Financial Statements**

Note 10 – Net Assets

Net assets without donor restrictions include the following at June 30:

	<u>2020</u>	<u>2019</u>
Net assets without donor restrictions, undesignated	\$ 16,946,924	\$ 47,385,214
Cemetery care	54,667,843	52,594,912
Plant	49,668,679	39,869,136
Insurance reserves	40,422,560	18,377,133
Investment returns reserve	-	9,625,995
Other	1,059,943	1,025,557
Priest retirement and relief	249,120	249,120
Catholic education	1,400,425	1,791,245
Bishop discretionary funds	174,912	161,358
Emergency parish relief	929,176	-
	<u>148,572,658</u>	<u>123,694,456</u>
Total net assets without donor restrictions, designated	<u>148,572,658</u>	<u>123,694,456</u>
Total net assets without donor restrictions	<u>\$ 165,519,582</u>	<u>\$ 171,079,670</u>

Net assets with donor restrictions include the following at June 30:

	<u>2020</u>	<u>2019</u>
Net assets with donor restrictions, restricted by purpose or time		
Catholic education grants and assistance	\$ 13,103,933	\$ 12,669,655
Construction projects	1,784,192	1,784,192
Other	51,925	129,137
Parishes in need	613,017	754,490
Pastoral Services Appeal and Our Lady of La Vang Shrine campaign	9,085,893	5,584,483
Endowment appreciation and income, not appropriated	584,543	473,441
	<u>25,223,503</u>	<u>21,395,398</u>
Total net assets restricted by purpose or time	<u>25,223,503</u>	<u>21,395,398</u>
Net assets with donor restrictions, held in perpetuity		
Bishop McFarland Trust	2,670,497	2,670,497
Seminarian endowment	204,989	204,989
	<u>2,875,486</u>	<u>2,875,486</u>
Total net assets held in perpetuity	<u>2,875,486</u>	<u>2,875,486</u>
Total net assets with donor restrictions	<u>\$ 28,098,989</u>	<u>\$ 24,270,884</u>

**The Administrative Office of
The Roman Catholic Bishop of Orange, A Corporation Sole
Notes to Financial Statements**

Note 10 – Net Assets (continued)

The Bishop McFarland Trust is restricted for future scholarships for students pursuing Catholic, faith-based work. The seminarian endowment was established to support the educational costs of seminarians within the Roman Catholic Diocese of Orange.

Net assets with donor restrictions were released for the following purposes:

	<u>2020</u>	<u>2019</u>
Pastoral Services Appeal	\$ 3,792,363	\$ 2,779,994
Catholic education grants and assistance	3,480,756	1,952,955
Other	255,316	1,492,700
Parishes in need	348,879	354,804
Endowment appreciation and income, appropriated	-	137,700
	<u> </u>	<u> </u>
Total	<u>\$ 7,877,314</u>	<u>\$ 6,718,153</u>

Note 11 – Endowment Funds

Interpretation of relevant law – The Organization has interpreted the California Uniform Prudent Management of Institutional Funds Act (CUPMIFA) as requiring the preservation of the fair value of the original gift as of the date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies net assets with donor restrictions as (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund, and (d) earnings on endowment funds invested until appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by CUPMIFA. In accordance with CUPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- a. The duration and preservation of the fund
- b. The purposes of the Organization and the donor-restricted endowment fund
- c. General economic conditions
- d. The possible effect of inflation and deflation
- e. The expected total return from income and the appreciation of investments
- f. Other resources of the Organization
- g. The investment policies of the Organization

Spending policy and how the investment objectives relate to the spending policy – The endowment fund has a spending policy of appropriating net income earned on the investment of these funds for distribution according to the instructions of the donor at the time the gift is made. The original value of the gifts donated to the endowment are held in perpetuity and any earnings are classified as net assets with donor restrictions until appropriated for expenditure.

**The Administrative Office of
The Roman Catholic Bishop of Orange, A Corporation Sole
Notes to Financial Statements**

Note 11 – Endowment Funds (continued)

Specific to a bequest contribution, an annual spending percentage was established initially at five percent based on the average value of the endowment assets for the year.

Investment policy – The endowment funds are invested as instructed by donors or with the investment policies of the Organization and are designed to meet the Organization’s primary goal of capital preservation combined with the objective of achieving reasonable income and capital growth while showing a preference toward those companies that have manifested a particular consideration for the social good.

The classification of the endowment assets was as follows:

	Without Donor Restrictions	Accumulated Gains/(Losses)	Original Gift Held in Perpetuity	Total
Endowment net assets, July 1, 2018	\$ -	\$ 303,946	\$ 2,875,486	\$ 3,179,432
Investment income	-	307,195	-	307,195
Amounts appropriated for expenditure	-	(137,700)	-	(137,700)
Endowment net assets, June 30, 2019	-	473,441	2,875,486	3,348,927
Investment income	-	111,102	-	111,102
Amounts appropriated for expenditure	-	-	-	-
Endowment net assets, June 30, 2020	<u>\$ -</u>	<u>\$ 584,543</u>	<u>\$ 2,875,486</u>	<u>\$ 3,460,029</u>

There are no endowment funds designated by the Bishop as of June 30, 2020 and 2019.

**The Administrative Office of
The Roman Catholic Bishop of Orange, A Corporation Sole
Notes to Financial Statements**

Note 12 – Grants, Donations, and Scholarship Expenses

The Organization makes grants, donations, and provides scholarships to the parishes and schools of the Roman Catholic Bishop of Orange and to various other organizations.

A summary of these grants and donations are as follows:

	<u>2020</u>	<u>2019</u>
Parishes and schools in need	\$ 3,840,879	\$ 644,503
High school scholarships	690,000	887,700
Assistance grants to parishes and schools	356,762	1,089,584
Other grants, donations, and scholarships	348,030	2,660,286
Wellness program	177,505	340,338
Grants to CCCC for Christ Cathedral renovations	-	4,008,782
Grants to CCCFC to pay down campus acquisition debt	-	1,003,059
Earthquake retrofit grants	-	104,178
	<u> </u>	<u> </u>
Total	<u>\$ 5,413,176</u>	<u>\$ 10,738,430</u>

Note 13 – Self Insurance Funds

The Organization and various institutions of the Roman Catholic Bishop of Orange are partially self-insured with respect to their general liability coverage through their participation with other dioceses in several western states in a risk retention group, which is incorporated in Vermont. The Organization is also insured up to shared limits with respect to its earthquake insurance coverage through its participation with other dioceses in the California Interdiocesan Earthquake Insurance pooling agreement. Reserves for the losses at the parishes and schools are maintained at the Organization within the investment pool for all centralized risk management programs. The Organization believes that amounts designated by the Bishop as insurance reserves within net assets without donor restrictions are adequate, and there are sufficient assets available to cover the non-designated net assets. There was \$40,422,560 and \$18,377,133 designated at June 30, 2020 and 2019, respectively. As of June 30, 2020 and 2019, the Organization is not aware of any specific claims in excess of the combined self-insurance and insured limits. See Note 14.

**The Administrative Office of
The Roman Catholic Bishop of Orange, A Corporation Sole
Notes to Financial Statements**

Note 14 – Litigation and Legal Expenses

The Organization is involved in various lawsuits relating to claims of alleged sexual misconduct and other matters. On October 13, 2019, California Governor Gavin Newsome signed Assembly Bill 218 (AB 218) into law. AB 218 took effect on January 1, 2020, and had several impacts on sexual misconduct claims including a lengthened statute of limitations, the revival of previously barred claims and the allowance for recovery of treble damages against defendants who are found to have covered up the sexual assault of a minor. Subsequent to January 1, 2020, the Organization has seen an increase in the number of claims made against the Diocese of Orange. The Organization, in consultation with their attorneys, do not believe these matters are both probable and able to be estimated and have, therefore, not recorded an accrual related to potential future losses. However, the net assets without donor restrictions at June 30, 2020 and 2019, include amounts designated by the Bishop as insurance reserves to cover future losses. Legal settlements are funded by unrestricted funds generated from the investment portfolio. Donor restricted funds are never used for reasons other than what the donor intended. See Note 13.

The Organization has established protocols consistent with the norms of the U.S. Conference of Catholic Bishops, which provides safeguards and policies surrounding any future allegations. In May 2019, the Diocese of Orange, together with the Archdiocese of Los Angeles and the Dioceses of Fresno, San Bernardino, San Diego, and Sacramento, announced a compensation program that was available to any person who was sexually abused as a minor by diocesan priests of the participating dioceses, no matter when that abuse might have occurred. While new cases of sexual misconduct by priests involving minors are rare today in the Catholic Church in California, the Bishops undertake this program as another step in their continued efforts to provide avenues for victim-survivors of abuse to receive assistance for continued healing. The California Independent Compensation Program for Victim-Survivors of Sexual Abuse of Minors by Priests (ICP) began accepting claims on September 16, 2019, and the registration deadline for new allegations was February 29, 2020. To date, settlements under the ICP totaled \$1,355,000; \$350,000 of these settlements were paid before June 30, 2020, and \$1,005,000 was paid subsequent to June 30, 2020, and are included in accounts payable and accrued expenses on the statement of financial position as of June 30, 2020. There are currently claims that have been filed under the ICP program that are still being investigated, as well as settlement offers that have been made by the Organization that have not yet been accepted or rejected. The Organization has recorded an accrual for estimated future legal contingencies of approximately \$1,688,000 which is included in accounts payable and accrued expenses on the statement of financial position as of June 30, 2020.

Note 15 – Employee Benefit Plan

The Organization has a defined-contribution plan (the “Plan”) under Section 403(b) of the Internal Revenue Code, covering all employees of the Organization who are at least 18 years of age. The Organization does not match participants’ contributions. Participants are, at all times, fully vested in their contributions. The Organization retains the right, by action of the Bishop of Orange, to amend, modify, or terminate the Plan.

The Administrative Office of The Roman Catholic Bishop of Orange, A Corporation Sole

Notes to Financial Statements

Note 16 – Lay Employees’ Pension Plan

The Organization has a non-contributory money purchase pension plan (defined contribution) for all lay employees (including parishes, schools, and cemeteries) who have completed one year of service and are at least 18 years of age. Annual contributions to the plan were 5.0 percent of the compensation of all eligible lay employees during the years ended June 30, 2020 and 2019. Benefits vest based on periods of service and are measured in 12-month increments starting with date of hire. Vesting begins after one period of service is completed and benefits are fully vested after five periods of service. Total contributions for the Organization’s employees for the years ended June 30, 2020 and 2019, were \$665,049 and \$615,780, respectively.

Note 17 – Lease Commitments

In September 2013, the Organization relocated its offices to the campus of Christ Catholic Cathedral (the “Campus”). CCCFC holds title to the Campus. It leases the entire property to CCCC under a master lease agreement. In 2013, the Organization entered into a 10-year lease with the CCCC for administrative offices within the Pastoral Center located on the Campus. Effective July 1, 2016, the Organization and related parties CCCFC and CCCC entered into an agreement whereby CCCC assigned all of its rights to lease the Campus property from CCCFC to the Organization. Under the terms of the amended lease, the Organization is required to pay CCCFC the monthly debt service amount plus an additional \$9,073. The monthly debt service amounts range from approximately \$94,000 to \$149,000 per month, and the amended lease term expires April 30, 2032. The Organization records rent on a straight-line basis. Deferred rent totaling approximately \$1,294,000 and \$824,000 was recorded as of June 30, 2020 and 2019, respectively, and is included in accounts payable and accrued expenses on the statements of financial position.

The Organization also leases office space located in Orange, California, under an operating lease which expired October 31, 2020, and was not renewed. Monthly lease payments were approximately \$2,000.

Total lease payments under the operating leases during the years ended June 30, 2020 and 2019, were approximately \$1,082,000 and \$741,000, respectively.

The approximate annual minimum lease payments under the operating leases as of June 30, 2020, are:

Years Ending June 30,	
2021	\$ 1,657,315
2022	1,702,735
2023	1,702,735
2024	1,702,735
2025	1,702,735
Thereafter	<u>12,045,588</u>
Total	<u>\$ 20,513,843</u>

**The Administrative Office of
The Roman Catholic Bishop of Orange, A Corporation Sole
Notes to Financial Statements**

Note 18 – Liquidity and Availability of Financial Assets

The Organization regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. The Organization has various sources of liquidity at its disposal, including cash and cash equivalents, marketable debt and equity securities, cemetery sales receivables, and receivables from parishes and institutions. The Organization manages its liquidity and reserves the following three guiding principles: operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets to fund near-term operating needs, and maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged.

The table below presents financial assets available for general expenditures within one year at June 30, 2020 and 2019:

	2020	2019
Financial assets at year end		
Cash and cash equivalents	\$ 47,327,338	\$ 37,236,137
Receivables, net	32,379,084	34,094,485
Investments	330,187,631	301,026,526
Total financial assets	409,894,053	372,357,148
Less amounts unavailable for general expenditures within one year		
Illiquid alternative investments	(8,684,528)	(8,572,965)
Investments held for endowments	(2,670,497)	(2,670,497)
Investments held in trust for others	(185,685,149)	(157,073,802)
Receivables – due after one year	(23,031,224)	(24,024,871)
Financial assets not available to be used within one year	(220,071,398)	(192,342,135)
Financial assets available to meet cash needs for general expenditures expenditures within one year	\$ 189,822,655	\$ 180,015,013

Note 19 – Risks and Uncertainties

In March 2020, the World Health Organization declared the novel coronavirus (COVID-19) a pandemic. The public health response to COVID-19 has adversely impacted the Organization's operations by requiring employees to work remotely, and by suspending or restricting programs and services at schools, parishes and centers within the Diocese. The outbreak has substantially disrupted international and U.S. economies and markets, and beginning in March 2020, the Organization experienced declines in the fair values of some of its investments. The duration and severity of the pandemic is uncertain, the Organization's management cannot at this point estimate its ultimate loss to the Organization, and no provision for any estimated loss is reflected in the accompanying financial statements.