

**THE CHANCERY OFFICE OF  
THE ROMAN CATHOLIC BISHOP OF  
SAN BERNARDINO  
(A Corporation Sole)**

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**ANNUAL FINANCIAL STATEMENTS**

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**JUNE 30, 2017 AND 2016**

**THE CHANCERY OFFICE OF  
THE ROMAN CATHOLIC BISHOP OF SAN BERNARDINO  
(A Corporation Sole)**

**JUNE 30, 2017 AND 2016**

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## INDEPENDENT AUDITOR'S REPORT

To His Excellency the Most Reverend Gerald Barnes  
The Chancery Office of  
The Roman Catholic Bishop of  
San Bernardino, a Corporation Sole  
San Bernardino, California

### Report on the Financial Statements

We have audited the accompanying financial statements of The Chancery Office of The Roman Catholic Bishop of San Bernardino (the Diocese) (a Corporation Sole), which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities 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 Diocese'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 Diocese'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 Chancery Office of The Roman Catholic Bishop of San Bernardino as of June 30, 2017 and 2016, 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.

*Varrinck, Tinn, Day & Co., LLP*

Rancho Cucamonga, California  
December 1, 2017

**THE CHANCERY OFFICE OF  
THE ROMAN CATHOLIC BISHOP OF SAN BERNARDINO  
(A Corporation Sole)**

**STATEMENTS OF FINANCIAL POSITION  
JUNE 30,**

	2017	2016
<b>ASSETS</b>		
Cash and cash equivalents	\$ 2,774,058	\$ 3,395,113
Investments	84,465,566	73,588,885
Receivables		
Accounts receivable, net	1,905,741	1,855,569
Notes receivable	4,623,462	3,311,304
Deposits and prepaid expenses	706,567	579,740
Land, property, and equipment (net of accumulated depreciation)	10,689,799	9,704,246
Total Assets	\$ 105,165,193	\$ 92,434,857
 <b>LIABILITIES AND NET ASSETS</b>		
<b>Liabilities</b>		
Accounts payable and accrued expenses	\$ 1,077,093	\$ 729,800
Notes payable	9,114,104	10,346,605
Funds held in trust for others	23,351,701	19,928,198
Accrued pension liability	13,850,783	17,748,871
Deferred revenues	56,442	139,148
Insurance reserves	250,000	5,250,000
Total Liabilities	47,700,123	54,142,622
 <b>Net Assets</b>		
Unrestricted	36,864,232	20,463,727
Unrestricted - Designated	3,128,754	2,294,076
Temporarily restricted	2,796,943	2,440,973
Permanently restricted	14,675,141	13,093,459
Total Net Assets	57,465,070	38,292,235
Total Liabilities and Net Assets	\$ 105,165,193	\$ 92,434,857

See the accompanying notes to financial statements.

**THE CHANCERY OFFICE OF  
THE ROMAN CATHOLIC BISHOP OF SAN BERNARDINO  
(A Corporation Sole)**

**STATEMENTS OF ACTIVITIES  
FOR THE YEARS ENDED JUNE 30,**

	2017			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<b>Revenues</b>				
Gifts, bequests, and collections	\$ 2,180,163	\$ 1,764,410	\$ 538,412	\$ 4,482,985
Assessments	9,166,044	-	-	9,166,044
Diocesan development fund subsidy	4,270,000	-	-	4,270,000
Fees and expense reimbursements	2,181,069	165,197	-	2,346,266
Insurance premiums	7,174,163	-	-	7,174,163
Investment income used for operations	670,459	-	-	670,459
Interest/Dividend income	310,604	-	-	310,604
Endowment payout	454,449	-	-	454,449
Grant income	207,307	315,558	-	522,865
Other income	332,967	-	-	332,967
Net assets released from restrictions	1,921,771	(1,921,771)	-	-
Total Revenues	<u>28,868,996</u>	<u>323,394</u>	<u>538,412</u>	<u>29,730,802</u>
<b>Expenses</b>				
Program Services				
Pastoral services	4,778,137	-	-	4,778,137
Education	2,966,756	-	-	2,966,756
Religious personnel development	1,971,292	-	-	1,971,292
Ministries and social services	3,600,659	-	-	3,600,659
Grants and donations	1,548,988	-	-	1,548,988
General and Administrative Services				
Diocesan administration	4,495,204	-	-	4,495,204
Insurance premiums and benefits	6,865,531	-	-	6,865,531
Fundraising	839,532	-	-	839,532
Total Expenses	<u>27,066,099</u>	<u>-</u>	<u>-</u>	<u>27,066,099</u>
<b>Excess (Deficiency) of Revenues Over Expenses</b>	<u>1,802,897</u>	<u>323,394</u>	<u>538,412</u>	<u>2,664,703</u>
<b>Other Changes in Net Assets</b>				
Investment income (loss) not used in operations	6,534,198	32,576	1,043,270	7,610,044
Sale of property	-	-	-	-
Actuarial adjustment - pension plan	3,898,088	-	-	3,898,088
Funds released from reserves	5,000,000	-	-	5,000,000
Total Other Changes in Net Assets	<u>15,432,286</u>	<u>32,576</u>	<u>1,043,270</u>	<u>16,508,132</u>
<b>Change in Net Assets</b>	17,235,183	355,970	1,581,682	19,172,835
<b>Net Assets, Beginning of Year</b>	<u>22,757,803</u>	<u>2,440,973</u>	<u>13,093,459</u>	<u>38,292,235</u>
<b>Net Assets, End of Year</b>	<u>\$39,992,986</u>	<u>\$ 2,796,943</u>	<u>\$14,675,141</u>	<u>\$57,465,070</u>

See the accompanying notes to financial statements.

2016

Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 2,072,391	\$ 1,327,314	\$ 385,044	\$ 3,784,749
8,950,762	-	-	8,950,762
4,190,000	-	-	4,190,000
2,258,386	92,004	-	2,350,390
8,096,836	-	-	8,096,836
669,303	-	-	669,303
92,568	-	-	92,568
421,511	-	-	421,511
298,169	318,059	-	616,228
336,467	-	-	336,467
1,894,166	(1,894,166)	-	-
<u>29,280,559</u>	<u>(156,789)</u>	<u>385,044</u>	<u>29,508,814</u>
4,489,564	-	-	4,489,564
2,890,293	-	-	2,890,293
2,088,424	-	-	2,088,424
3,287,243	-	-	3,287,243
1,410,466	-	-	1,410,466
4,362,621	-	-	4,362,621
8,124,126	-	-	8,124,126
1,009,265	-	-	1,009,265
<u>27,662,002</u>	<u>-</u>	<u>-</u>	<u>27,662,002</u>
<u>1,618,557</u>	<u>(156,789)</u>	<u>385,044</u>	<u>1,846,812</u>
866,919	32,107	(394,158)	504,868
10,000	-	-	10,000
(7,834,273)	-	-	(7,834,273)
-	-	-	-
<u>(6,957,354)</u>	<u>32,107</u>	<u>(394,158)</u>	<u>(7,319,405)</u>
(5,338,797)	(124,682)	(9,114)	(5,472,593)
28,096,600	2,565,655	13,102,573	43,764,828
<u>\$22,757,803</u>	<u>\$ 2,440,973</u>	<u>\$13,093,459</u>	<u>\$38,292,235</u>

**THE CHANCERY OFFICE OF  
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**STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30,**

	2017	2016
<b>Cash Flows From Operating Activities</b>		
Change in net assets	\$ 19,172,835	\$ (5,472,593)
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation expense	574,437	474,740
Unrealized (gains) losses on investments	(7,187,187)	(1,493,624)
Realized (gains) losses on investments	(855,823)	621,927
Realized (gains) losses on sale of property	-	(10,000)
Contributions restricted for long-term purposes	(2,302,822)	(1,712,358)
(Increase) decrease in assets		
Accounts receivable	(50,172)	(40,713)
Prepaid expenses	(126,827)	123,097
Increase (decrease) in liabilities		
Accounts payable and accrued expenses	347,293	(365,507)
Funds held for others	3,423,503	(530,855)
Deferred revenue	(82,706)	(116,991)
Pensions and postretirement benefits	(3,898,088)	7,834,273
Insurance reserves	(5,000,000)	-
Net Cash Flows From Operating Activities	4,014,443	(688,604)
<b>Cash Flows From Investing Activities</b>		
Purchase of equipment and improvements	(1,653,459)	(1,949,773)
Proceeds from sale of property	-	10,000
Donation of land and property	93,469	-
Disbursement of notes and loans receivable	(1,756,455)	-
Collections on notes and loans receivable	444,297	305,370
Changes in investments and funds on deposit	(2,833,671)	135,795
Net Cash Flows From Investing Activities	(5,705,819)	(1,498,608)
<b>Cash Flows From Financing Activities</b>		
Collection of contributions restricted for long-term purposes	2,302,822	1,712,358
Payments on notes and loans payable	(1,232,501)	(1,144,957)
Net Cash Flows From Financing Activities	1,070,321	567,401
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	(621,055)	(1,619,811)
<b>CASH AND CASH EQUIVALENTS, Beginning of Year</b>	3,395,113	5,014,924
<b>CASH AND CASH EQUIVALENTS, End of Year</b>	\$ 2,774,058	\$ 3,395,113
<b>SUPPLEMENTARY INFORMATION</b>		
Cash paid for interest	\$ 302,420	\$ 361,443

See the accompanying notes to financial statements.

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**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017 AND 2016**

**NOTE 1 - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization**

The Roman Catholic Bishop of San Bernardino, also known as the Diocese of San Bernardino (the Diocese), is a nonprofit corporation established under the laws of the State of California, and operates as a religious organization. The Diocese is exempt from Federal and State income tax under provisions of Section 501(c) of the Internal Revenue Code as a member of group exemption number 928 and Section 23701d of the California Revenue and Taxation Code as a religious organization. The primary purpose of the accounting and reporting of financial information is for resources received and applied rather than the determination of net income.

The Chancery Office of The Roman Catholic Bishop (RCB) of San Bernardino, a Corporation Sole, is supported primarily through assessments to parishes under the direction of the Bishop and contributions.

**Financial Statement Presentation**

The financial statements have been prepared on the accrual basis of accounting in accordance with Accounting Principles and Reporting Practices for Churches and Church-Related Organizations, adopted by the National Conferences of Catholic Bishops, and in accordance with accounting principles generally accepted in the United States of America.

The accompanying financial statements include the assets, liabilities, and operations of departments for which the Chancery Office, also called the Diocesan Pastoral Center (DPC or Diocese) of The Roman Catholic Bishop of San Bernardino, maintains direct operational control. The financial statements do not include the assets, liabilities, and operations of the parishes or any other affiliated organization under the jurisdiction of the Bishop, except for transactions with the DPC as reflected in the records of the DPC.

**Net Asset Categories**

The accompanying financial statements present information regarding the Diocese's financial position and results of activities according to the following net asset categories:

- Unrestricted net assets include all support that is not subject to donor-imposed restrictions. Property and equipment include all long-lived assets and renewal and replacement funds net of related liabilities.
- Temporarily restricted net assets include primarily gifts of cash and other assets subject to donor-imposed restrictions that either lapse through the passage of time or can be satisfied through the actions of the Diocese, and endowment gains available for use under the Diocese's spending policy. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.
- Permanently restricted net assets include gifts and income subject to donor-imposed restrictions that they be maintained permanently by the Diocese in the Catholic Foundation. The donors of endowment funds generally allow the Diocese to use the income and a portion of the gains earned on these assets for general or specific purposes under the Diocese's spending policy.

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**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017 AND 2016**

**Operational Revenue**

Parish assessments are recognized and recorded as unrestricted revenues in the year the assessments are levied to the parishes. Other Diocesan revenue sources include the annual Diocesan Development Fund subsidy, insurance premiums, and fees for other services, which are recognized and recorded as unrestricted revenues in the year in which the activity or services are rendered.

**Accounts Receivable**

Accounts receivable represent amounts due from various parishes and other institutions within the Diocese for parish assessments, services fees, insurance, property taxes, and other fees, which are believed to be fully collectible unless an entity experiences a material adverse change in its ability to meet its financial obligations to the Diocese. An allowance for doubtful accounts, which as of June 30, 2017 and 2016, amounted to approximately \$802,000 and \$691,000, respectively, has been calculated based on an aging of outstanding invoices.

**Contributions**

Contributions are measured at their fair value at the date of contribution and are recognized in the period received and are reported as increases in the appropriate category of net assets: unrestricted, temporarily restricted, or permanently restricted net assets depending on the existence and/or nature of any donor restrictions.

**Grants and Contracts**

Revenues from grants and contracts are reported as increases in unrestricted net assets as allowable expenditures under such agreements are incurred.

**Investment Return**

Investment income and realized and unrealized gains and losses are recorded and reported as increases or decreases to the appropriate net asset category.

**Release of Donor-Imposed Restrictions**

The release of a donor-imposed restriction on a gift or on endowment income is recognized in the period in which the restriction substantially expires. At that time, the related resources are reclassified to unrestricted net assets. A restriction expires when the stipulated time period has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. It is also the Diocese's policy to release the restrictions on gifts of cash or other assets received for the acquisitions of long-lived assets when the long-lived assets are placed into service.

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THE ROMAN CATHOLIC BISHOP OF SAN BERNARDINO  
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**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017 AND 2016**

**Expense Recognition**

Expenses are generally reported as decreases in unrestricted net assets. The financial statements present expenses by functional classification in accordance with the overall mission of the Diocese.

**Allocation of Certain Expenses**

The statement of activities presents expenses by functional classification. Depreciation and the cost of operation and maintenance of facilities are allocated to functional categories based on building square footage dedicated to that specific function.

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Cash and Cash Equivalents**

For purposes of the statements of cash flows, the Diocese considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash.

**Concentration of Credit Risk**

Financial instruments that potentially subject the Diocese to concentrations of credit risk consist principally of cash deposits at financial institutions and investments in marketable securities. At times, balances in the Diocese's cash and investment accounts exceed the Federal Deposit Insurance Corporation (FDIC) or Securities Investors Protection Corporation (SIPC). As of June 30, 2017 and 2016, approximately \$5.7 million and \$5.5 million, respectively, were held in government backed securities and a non-FDIC insured account with Citizens Business Bank.

**Investments**

Where permitted by gift agreement and/or applicable Diocesan policies, the Diocese pools investments for management purposes. The remainder of investments is managed as separate investments. Cash equivalents are resources invested in money market funds, including any such investments held by external investment managers. Marketable securities are reported at fair market value, except for real estate investments, trust deed loans, and other miscellaneous assets, which are stated at cost.

The cost of securities sold is determined by the average cost method and is used to compute realized gains and losses. Unrealized gains and losses reflect the changes in the market values of investments from the prior year. Investment income and gains and losses on investments are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation. The date of record for investments is the trade date.

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**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017 AND 2016**

Investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets on the statement of activities. Realized gains and losses are also recorded on the statement of activities.

**Management of Catholic Foundation Pooled Investment Funds**

The investment objectives of the Catholic Foundation endowment funds is to grow the funds over the long run and have earnings through a combination of investment income and capital appreciation, a rate of return (time-weighted total return) in excess of the benchmarks established for the medium (three years) and long-term (five years).

The endowment fund has a spending policy of appropriating 4.5 percent of the average of the three previous years ending fair market value.

**Endowment Funds**

The Diocese interprets the California Uniform Prudent Management of Institutional Funds Act (UPMIFA) to state that the Diocese, in absence of explicit donor stipulations to the contrary, may appropriate for expenditure or accumulate endowment so much of an endowment as the Diocese determines prudent for the uses, benefits, purposes, and duration for which the endowment fund is established. Therefore, the Diocese classifies as permanently restricted net assets the original value of gifts to the endowment and the accumulations made in accordance with the donor intent. The remaining portion of the donor restricted fund is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Diocese in a manner consistent with the standard of prudence prescribed by California UPMIFA which includes 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 mission of the Diocese and the purpose of the donor-restricted endowment fund
- c. General economic conditions
- d. The possible effect of inflation and/or deflation
- e. The expected total return from income and the appreciation of investments
- f. Other resources of the Diocese
- g. The investment policy of the Diocese

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**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017 AND 2016**

**Fair Value Measurement of Investment Assets**

In accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Codification 820-10, *Fair Value Measurement*, the Diocese records its investment assets at fair value. Under this standard, fair value is defined as the price that would be received to sell an asset (i.e. the 'exit price') in an orderly transaction between market participants at the measurement date. Additionally, this standard establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives highest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under this standard are:

Level 1 - Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that the Diocese has the ability to access at the measurement date.

Level 2 - Inputs other than quoted prices that are observable for the asset either directly or indirectly, including inputs in markets that are not considered to be active.

Level 3 - Inputs that are unobservable.

Inputs used to measure fair value may include quoted market prices, recent transactions, manager statements (including monthly, quarterly, and annual reports), published news reports, and other factors. An investment's level within the hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The categorization of an investment within the hierarchy is based upon the pricing transparency of the investment and does not necessarily correspond to the Diocese's perceived risk of that investment.

**Property and Equipment**

Property and equipment are recorded at cost for purchased assets and appraised fair value for contributed assets. The assets are depreciated over their useful lives. The Diocese capitalizes land at the purchase cost or donated fair value, buildings at the purchase cost or construction cost. Capitalization for other assets includes equipment with an initial value in excess of \$5,000 and building, leasehold or land improvements with an initial value in excess of \$50,000; anything less is expensed in the current period. The straight-line method of depreciation is used for all depreciable assets. The estimated useful lives range from seven years to thirty years.

**Related Parties**

Substantial portions of the Diocesan transactions are with affiliated parishes and other religious organizations.

**Comparative Financial Information**

Comparative financial information for the prior year has been presented for additional analysis. Certain reclassifications may have been made to conform with the current year presentation.

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**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017 AND 2016**

**NOTE 2 - INVESTMENTS**

The following schedule summarizes the Diocese's investment returns for the year ended June 30:

Investment Returns	2017	2016
Interest and dividends	\$ 996,255	\$ 984,014
Unrealized gain (loss) for the year	7,187,187	1,493,624
Realized gain (loss) for the year	855,823	(621,927)
	9,039,265	1,855,711
Investment expense	(212,006)	(182,920)
Spending policy payout	(546,756)	(498,620)
Net Investment Returns	\$ 8,280,503	\$ 1,174,171

The following table summarizes the Diocese's investments at June 30, 2017:

By asset type:

	Adjusted Cost	Fair Market Value	Unrealized Gain (Loss) Cumulative
Cash and cash equivalents	\$ 416,562	\$ 416,562	\$ -
Mutual funds	41,935,996	61,752,008	19,816,012
U.S. Government and agency instruments	2,463,596	2,442,520	(21,076)
Corporate bonds	7,722,053	7,859,598	137,545
Common stocks and equities	9,612,936	10,565,235	952,299
Limited partnerships	1,177,269	1,429,643	252,374
Total	\$63,328,412	\$84,465,566	\$21,137,154

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**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017 AND 2016**

The following table summarizes the Diocese's investments at June 30, 2016:

By asset type:

	Adjusted Cost	Fair Market Value	Unrealized Gain (Loss) Cumulative
Cash and cash equivalents	\$ 468,042	\$ 474,706	\$ 6,664
Mutual funds	44,543,096	56,019,126	11,476,030
U.S. Government and agency instruments	2,349,998	2,392,175	42,177
Corporate bonds	6,728,255	7,015,838	287,583
Common stocks and equities	5,115,046	5,983,867	868,821
Limited partnerships	1,463,392	1,703,173	239,781
Total	<u>\$ 60,667,829</u>	<u>\$ 73,588,885</u>	<u>\$ 12,921,056</u>

**NOTE 3 - FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS**

The fair value measurements and level within the fair value hierarchy of those measurements for the assets reported at fair value on a recurring basis at June 30 are as follows:

	2017		2016	
	Level 1	Level 2	Level 1	Level 2
Cash and cash equivalents	\$ 416,562	\$ -	\$ 474,706	\$ -
Mutual funds	61,752,008	-	56,019,126	-
U.S. Government and agency instruments	2,442,520	-	2,392,175	-
Corporate bonds	7,859,598	-	7,015,838	-
Common stock and equities	10,565,235	-	5,983,867	-
Limited partnerships	-	1,429,643	-	1,703,173
Total	<u>\$ 83,035,923</u>	<u>\$ 1,429,643</u>	<u>\$ 71,885,712</u>	<u>\$ 1,703,173</u>

Bonds and equities in the amount of \$12,536,043 represent the pledged assets pertaining to line of credit notes payable referred to in Note 7.

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**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017 AND 2016**

**NOTE 4 - ACCOUNTS AND NOTES RECEIVABLE**

Accounts receivable (net of allowance for doubtful accounts) at June 30 are as follows:

	<u>2017</u>	<u>2016</u>
General receivables	\$ 2,003,050	\$ 1,928,861
Payroll receivables	647,967	535,600
Receivables from schools	11,966	15,466
Other receivables	44,388	67,021
Total	<u>2,707,371</u>	<u>2,546,948</u>
Less: Allowance for Doubtful Accounts	<u>(801,630)</u>	<u>(691,379)</u>
	<u>\$ 1,905,741</u>	<u>\$ 1,855,569</u>

Notes receivable at June 30 are as follows:

	<u>2017</u>	<u>2016</u>
Clergy receivable	\$ 31,600	\$ 34,625
Seminarian education notes receivable	114,134	123,069
Note receivable secured by Trust Deed	-	87,699
Note receivable from Land Development Corporation	4,477,728	3,065,911
Total	<u>\$ 4,623,462</u>	<u>\$ 3,311,304</u>

**NOTE 5 - DEPOSITS AND PREPAID EXPENSES**

Deposits and prepaid expenses as of June 30 were comprised of the following:

	<u>2017</u>	<u>2016</u>
Prepaid expenses - Operating funds	\$ 341,443	\$ 234,694
Prepaid expenses - Insurance funds	33,505	40,213
Prepaid expenses - Other	59,520	5,607
Deposit - Insurance programs	272,099	299,226
Total Deposits and Prepaid Expenses	<u>\$ 706,567</u>	<u>\$ 579,740</u>

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**NOTE 6 - LAND, PROPERTY, AND EQUIPMENT**

The composition of plant assets at year end is as follows:

	<u>2017</u>	<u>2016</u>
Land	\$ 5,818,098	\$ 5,480,017
Building	12,083,789	12,144,858
Equipment	416,113	397,956
Furnishings	428,026	428,026
Vehicles	32,299	32,299
Leasehold improvements	<u>415,482</u>	<u>415,482</u>
Total Fixed Assets	19,193,807	18,898,638
Accumulated depreciation	<u>(8,504,008)</u>	<u>(9,194,392)</u>
Net Book Value	<u>\$ 10,689,799</u>	<u>\$ 9,704,246</u>

Depreciation expense for the years ended June 30, 2017 and 2016, was \$574,437 and \$474,740, respectively.

Building assets with depreciated value of \$1,372,669 are pledged as collateral for the notes payable referenced in Note 7.

**NOTE 7 - NOTES PAYABLE**

Notes payable at June 30 are as follows:

	<u>2017</u>	<u>2016</u>
Citizens Business Bank Note Payable, current interest rate 3.50%, due September 6, 2026	\$ 4,192,397	\$ 4,558,121
Citizens Business Bank Line of Credit, limit \$5,300,000, current interest rate 3.25%	2,255,910	2,459,582
City National Bank Line of Credit, limit \$1,500,000, current interest rate 4.00%	465,353	579,650
Note payable to Caritas Telecommunications, Inc., at zero percent interest	474,503	632,671
Note payable to Caritas Telecommunications, Inc., current interest rate 3.5%	1,240,825	1,535,725
Note payable to Diocese of San Bernardino Cemetery Corporation, current interest rate 3.5%	430,116	525,856
Note payable to Wilfrid Lemann, successor trustee for property bequest, interest only payments at 6% annual interest	<u>55,000</u>	<u>55,000</u>
Total Notes Payable	<u>\$ 9,114,104</u>	<u>\$ 10,346,605</u>

Interest expense was \$302,420 and \$361,443 for the years ended June 30, 2017 and 2016, respectively.

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**NOTE 8 - FUNDS HELD IN TRUST FOR OTHERS**

Funds held in trust for others totaled \$23,351,701 and \$19,928,198 at June 30, 2017 and 2016, respectively. These amounts represent other parish and school funds held in trust by the Diocese.

**NOTE 9 - PENSION PLANS**

**Pension Plans for Priests**

The Diocese adopted a pension plan for priests in conjunction with the Diocese of San Diego. All priests under the authority of the Diocese shall be eligible to participate in the plan provided they make the required contributions. Priest contributions are \$33.33 per month, payable in semi-annual or annual payments.

Pension expense for the years ended June 30, 2017 and 2016, was \$1,244,002 and \$930,921, respectively, allocable to the Diocese of San Bernardino. These amounts include normal cost plus amortization of unfunded past service cost, and reflect the required contribution for the plan year ended June 30, 2017. The plan uses a projected method that takes into account future service and, therefore, produces a measure of plan liabilities that exceed plan assets. This amount will be funded over the entire working lifetime of the current group of priests in the valuation.

The following schedule shows the portion of plan assets and actuarially calculated liability and funded status of the Diocese of San Bernardino for the Priests Pension Plan as of June 30:

	<u>2017</u>	<u>2016</u>
Actuarial present value of benefit obligation	\$ 15,559,667	\$ 15,840,047
Plan assets at fair value	<u>10,033,925</u>	<u>8,944,439</u>
Funded status (underfunded)	<u>\$ (5,525,742)</u>	<u>\$ (6,895,608)</u>
Net Periodic Pension Cost	<u>\$ 1,244,002</u>	<u>\$ 930,921</u>
 Plan Assets by Category		
Interest bearing cash	\$ 760,163	\$ 898,961
Equity securities	6,127,312	5,046,976
Equity mutual funds	514,863	451,135
Debt mutual funds	<u>2,631,587</u>	<u>2,547,367</u>
Total	<u>\$ 10,033,925</u>	<u>\$ 8,944,439</u>

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**Restated Pension Plan for Lay Employees**

The Diocese of San Bernardino maintains a defined benefit plan for lay employees. The plan was amended and restated on September 1, 2009. All regular and full-time employees of the Diocese shall be eligible to participate in the plan provided they agree to make the required contributions under the plan. The plan is funded in part by employee contributions of two percent of gross wages. The Diocese contributes 7.5 percent of payroll.

Benefits under the plan are determined based on a formula which takes into account years of service and the monthly average of total compensation paid during the five (5) consecutive years of participation when compensation was the highest. Effective with the plan year September 1, 2011, the benefit formula has been changed to take into account years of service and the monthly average total compensation paid during the ten (10) consecutive years of participation when compensation was the highest. Normal retirement is the first day of the month upon attaining age 65. Each year, an actuarial valuation is performed to determine the benefit security of the participants and the sufficiency of the Diocesan contributions on an ongoing plan basis.

For the plan year ended August 31, 2017, there are 1,670 total lay plan participants; covered payroll for 698 active participants was \$27,467,988.

The plan's funded status is measured by comparing the fair value of assets to the projected benefit obligation, which includes recognition of expected future pay increases at 3.5 percent which is presented below:

	<u>2017</u>	<u>2016</u>
Actuarial present value of benefit obligation	\$ 68,009,614	\$ 64,213,368
Plan assets at fair value	<u>59,684,573</u>	<u>53,360,105</u>
Funded status (underfunded)	<u>\$ (8,325,041)</u>	<u>\$ (10,853,263)</u>
Net Periodic Pension Cost	<u>\$ 2,444,427</u>	<u>\$ 2,063,224</u>
Plan Assets by Category		
Interest bearing cash	\$ 302,668	\$ 1,807,523
Equity securities	2,573,881	2,154,420
Equity common collective trust	38,015,425	30,672,150
Debt mutual funds	1,288,802	1,298,836
Debt securities	<u>17,503,797</u>	<u>17,427,176</u>
Total	<u>\$ 59,684,573</u>	<u>\$ 53,360,105</u>

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**NOTE 10 - NET ASSETS RELEASED FROM RESTRICTIONS**

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors during the fiscal year.

	<u>2017</u>	<u>2016</u>
Purpose of Restrictions Accomplished		
Mission and denominational support	\$ 1,144,218	\$ 1,165,628
Mission office expense	160,341	195,933
Grant expenses	240,559	262,087
Catholic Education Foundation Grants	254,254	152,648
San Bernardino Catholic School President expenses	122,399	117,870
Total	<u>\$ 1,921,771</u>	<u>\$ 1,894,166</u>

**NOTE 11 - INSURANCE RESERVE LIABILITY**

The Diocese has established a self-insured reserve for earthquake coverage in the amount of \$5,000,000. These funds were released from reserve due to a change in earthquake coverage. There is also a self-insured reserve for automobile insurance coverage in the amount of \$250,000.

**NOTE 12 - TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets are available for the following purposes or periods at year end:

	<u>2017</u>	<u>2016</u>
Mission and Denominational Support		
Propagation of the Faith	\$ 870,706	\$ 739,775
Catholic Relief Services	385,559	383,976
Holy Childhood Association	16,512	41,326
National World Apostolates	161,564	161,448
Grant Income	769,496	689,014
Bishop's Charity Work	100,255	-
Catholic Education Foundation	245,454	173,638
SB Catholic School Presidents donations	22,236	26,635
Family Trust for Charismatic Renewal	225,161	225,161
Total	<u>\$ 2,796,943</u>	<u>\$ 2,440,973</u>

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**NOTE 13 - PERMANENTLY RESTRICTED NET ASSETS**

Permanently restricted net assets are restricted to investment in perpetuity through the Catholic Foundation Trust and trust agreements, the investment returns from which is expendable to support:

	<u>2017</u>	<u>2016</u>
Diocesan activities - RCB restricted	\$ 891,455	\$ 831,318
Seminarian activities and education - RCB restricted	5,637,479	4,779,656
Seminarian activities and education - Donor restricted	1,357,847	1,340,057
Priest relief endowment - RCB restricted	6,722,226	6,083,305
Priests ongoing education - RCB restricted	66,134	59,123
Total	<u>\$ 14,675,141</u>	<u>\$ 13,093,459</u>

The changes in endowment net assets for the years then ended are as follows:

	<u>2017</u>	<u>2016</u>
Endowment Funds, Beginning of Year	\$ 13,093,459	\$ 13,102,573
Add:		
Interest and dividends	274,954	236,922
Gain in value of assets	1,348,919	-
Contributions	536,987	385,044
	<u>15,254,319</u>	<u>13,724,539</u>
Less:		
Loss in value of assets	-	(104,785)
Fees	(32,422)	(27,675)
Distributions	(546,756)	(498,620)
Endowment Funds, End of Year	<u>\$ 14,675,141</u>	<u>\$ 13,093,459</u>

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**NOTE 14 - CATHOLIC UMBRELLA POOL**

The Catholic Umbrella Pool (the Pool) was created as a self-insurance fund for certain (Arch) Dioceses of The Roman Catholic Church in North America. Effective July 1, 1987, the Pool provides excess liability coverage for its membership. The Pool is responsible for the following coverage, as described in their disclosure statement, for:

Liability (Occurrence Based):

Pool Members:

July 1, 1987 to July 1, 1988	\$3,700,000 in excess of \$1,300,000
July 1, 1988 to July 1, 1999	\$3,500,000 in excess of \$1,500,000
July 1, 1999 to July 1, 2002	No exposure (reinsurance purchased)
July 1, 2002 to July 1, 2003	46% of \$3,500,000 in excess of \$1,500,000 10% of \$15,500,000 in excess of \$5,000,000
July 1, 2003 to January 1, 2005	50% of \$3,500,000 in excess of \$1,500,000 20% of \$15,500,000 in excess of \$5,000,000
January 1, 2005 to January 1, 2007	74.995% of \$3,500,000 in excess of \$1,500,000 25% of \$15,500,000 in excess of \$5,000,000
January 1, 2007 to January 1, 2013	74.996% of \$3,500,000 in excess of \$1,500,000 30% of \$15,500,000 in excess of \$5,000,000
January 1, 2013 to January 1, 2014	74.998% of \$3,500,000 in excess of \$1,500,000 40% of \$5,000,000 in excess of \$5,000,000 (Excess Casualty only) 30% of \$3,500,000 in excess of \$1,500,000 (Excess Nursing Home Liability)
January 1, 2014 to present	30% of \$10,500,000 in excess of \$10,000,000 75% of \$3,500,000 in excess of \$1,500,000 40% of \$5,000,000 in excess of \$5,000,000 30% of \$10,500,000 in excess of \$10,000,000

All Certificates issued by the Society (after CUP or CUP II retention, if applicable):

July 1, 2002 to July 1, 2003	10% of \$19,000,000 in excess of \$1,500,000
July 1, 2003 to January 1, 2005	20% of \$19,000,000 in excess of \$1,500,000
January 1, 2005 to January 1, 2007	25% of \$19,000,000 in excess of \$1,500,000
January 1, 2007 to January 1, 2013	30% of \$19,000,000 in excess of \$1,500,000
January 1, 2013 to present	40% of \$8,500,000 in excess of \$1,500,000 30% of \$3,500,000 in excess of \$1,500,000 (Nursing Home Liability) 30% of \$10,500,000 in excess of \$10,000,000

The Pool also participates at five percent for coverages in excess of \$500,000 to a limit of \$1,500,000 for certificates issued from July 1, 2007 to January 2012 and at ten percent for certificates issued from January 1, 2012 to January 1, 2013, and at forty percent for certificates issued after January 1, 2013.

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Sexual Misconduct (Occurrence Based to July 1, 1990, Claims-Made Basis thereafter):

Pool Members (Occurrence Based):

July 1, 1987 to July 1, 1990                      \$150,000 in excess of \$100,000

All Certificates issued by the Society (Claims-Made Basis):

July 1, 1990 to present                      30% of \$3,500,000 in excess of \$1,500,000

These coverages are placed through the Society and CRIC and include both Pool and non-Pool members. Member (Arch) Dioceses are liable for any losses beyond the Pool's responsibilities to fund such losses. A member may elect to obtain morality coverage outside the Pool with the approval of the Board of Trustees.

**NOTE 15 - OPERATING LEASES**

**Expenses**

The Diocese leases various office equipment with lease terms that expire through 2022. Annual lease payments range from approximately \$1,084 to \$90,600.

The lease payments for the year ended June 30, 2017, were approximately \$115,187.

The following is a summary of future minimum rental payments for operating leases that have initial or remaining no cancelable terms in excess of one year as of June 30, 2017:

Fiscal Years	Lease
Ending June 30,	Payments
2018	\$ 114,830
2019	114,050
2020	107,976
2021	73,762
2022	3,726
	<u>\$ 414,344</u>

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**NOTE 16 - COMMITMENTS AND CONTINGENCIES**

**Litigation**

The Diocese is involved in lawsuits arising in the ordinary course of its operations. In the opinion of management, the ultimate resolution of these lawsuits is not expected to have a material effect on the Diocese's financial position or change in net assets.

**NOTE 17 - SUBSEQUENT EVENTS**

The Diocese's management has evaluated events or transactions that may occur for potential recognition or disclosure in the financial statements from the balance sheet date through December 1, 2017, which is the date the financial statements were available to be issued. Management has determined that there were no subsequent events or transactions that would have a material impact on the current year financial statements.