THE CHANCERY OFFICE OF THE ROMAN CATHOLIC BISHOP OF SAN BERNARDINO

(A Corporation Sole)

ANNUAL FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

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

JUNE 30, 2018 AND 2017

Contents

VAVRINEK, TRINE, DAY & CO., LLP
Certified Public Accountants

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, 2018 and 2017, 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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.

10681 Foothill Blvd., Suite 300, Rancho Cucamonga, CA 91730 P 909.466.4410 F 909.466.4431 W vtdcpa.com

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, 2018 and 2017, 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.

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
November 21, 2018

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

STATEMENTS OF FINANCIAL POSITION
JUNE 30,

	2018	2017
ASSETS		
Cash and cash equivalents	$ 3,398,824	$ 2,774,058
Investments	88,075,130	84,465,566
Receivables		
Accounts receivable, net	2,124,555	1,905,741
Notes receivable	4,334,221	4,623,462
Deposits and prepaid expenses	590,719	706,567
Land, property, and equipment (net of accumulated depreciation)	11,969,109	10,689,799
Total Assets	$ 110,492,558	$ 105,165,193
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	$ 1,039,905	$ 1,077,093
Notes payable	7,495,886	9,114,104
Funds held in trust for others	24,606,945	23,351,701
Accrued pension liability	12,401,488	13,850,783
Deferred revenues	74,470	56,442
Insurance reserves	250,000	250,000
Total Liabilities	45,868,694	47,700,123
Net Assets		
Unrestricted	42,663,819	36,864,232
Unrestricted - Designated	2,791,299	3,128,754
Temporarily restricted	3,048,529	2,796,943
Permanently restricted	16,120,217	14,675,141
Total Net Assets	64,623,864	57,465,070
Total Liabilities and Net Assets	$ 110,492,558	$ 105,165,193

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,

	2018			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues				
Gifts, bequests, and collections	$ 1,789,959	$ 2,189,804	$ 743,322	$ 4,723,085
Assessments	9,327,299	-	-	9,327,299
Diocesan development fund subsidy	4,221,168	-	-	4,221,168
Fees and expense reimbursements	2,261,864	209,958	475	2,472,297
Insurance premiums	6,876,899	-	114,110	6,991,009
Investment income used for operations	1,082,940	-	-	1,082,940
Interest/Dividend income	341,410	-	-	341,410
Endowment payout	514,529	-	-	514,529
Grant income	133,081	262,743	-	395,824
Other income	336,847	-	-	336,847
Net assets released from restrictions	2,470,412	(2,470,412)	-	-
Total Revenues	29,356,408	192,093	857,907	30,406,408
Expenses				
Program Services				
Pastoral services	5,087,537	-	-	5,087,537
Education	3,234,153	-	-	3,234,153
Religious personnel development	2,316,054	-	-	2,316,054
Ministries and social services	3,735,138	-	-	3,735,138
Grants and donations	2,358,120	-	-	2,358,120
General and Administrative Services				
Diocesan administration	4,549,655	-	-	4,549,655
Insurance premiums and benefits	6,738,873	-	-	6,738,873
Fundraising	969,104	-	-	969,104
Total Expenses	28,988,634	-	-	28,988,634
Excess of Revenues Over Expenses	367,774	192,093	857,907	1,417,774
Other Changes in Net Assets				
Investment income not used in operations	3,645,063	59,493	587,169	4,291,725
Actuarial adjustment - pension plan	1,449,295	-	-	1,449,295
Funds released from reserves	-	-	-	-
Total Other Changes in Net Assets	5,094,358	59,493	587,169	5,741,020
Change in Net Assets	5,462,132	251,586	1,445,076	7,158,794
Net Assets, Beginning of Year	39,992,986	2,796,943	14,675,141	57,465,070
Net Assets, End of Year	$45,455,118	$ 3,048,529	$16,120,217	$64,623,864

See the accompanying notes to financial statements.

2017			
Unrestricted	Temporarily Restricted	Permanently Restricted	Total
$ 2,180,163	$ 1,764,410	$ 538,412	$ 4,482,985
9,166,044	-	-	9,166,044
4,270,000	-	-	4,270,000
2,181,069	165,197	-	2,346,266
7,174,163	-	-	7,174,163
670,459	-	-	670,459
310,604	-	-	310,604
454,449	-	-	454,449
207,307	315,558	-	522,865
332,967	-	-	332,967
1,921,771	(1,921,771)	-	-
28,868,996	323,394	538,412	29,730,802
4,778,137	-	-	4,778,137
2,966,756	-	-	2,966,756
1,971,292	-	-	1,971,292
3,600,659	-	-	3,600,659
1,548,988	-	-	1,548,988
4,495,204	-	-	4,495,204
6,865,531	-	-	6,865,531
839,532	-	-	839,532
27,066,099	-	-	27,066,099
1,802,897	323,394	538,412	2,664,703
6,534,198	32,576	1,043,270	7,610,044
3,898,088	-	-	3,898,088
5,000,000	-	-	5,000,000
15,432,286	32,576	1,043,270	16,508,132
17,235,183	355,970	1,581,682	19,172,835
22,757,803	2,440,973	13,093,459	38,292,235
$39,992,986	$ 2,796,943	$14,675,141	$57,465,070

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

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30,

	2018	2017
Cash Flows From Operating Activities		
Change in net assets	$ 7,158,794	$ 19,172,835
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation expense	603,607	574,437
Unrealized gains on investments	(4,731,074)	(7,187,187)
Realized gains on investments	(713,932)	(855,823)
Contributions restricted for long-term purposes	(2,933,126)	(2,302,822)
(Increase) decrease in assets		
Accounts receivable	(218,814)	(50,172)
Deposits and prepaid expenses	115,848	(126,827)
Increase (decrease) in liabilities		
Accounts payable and accrued expenses	(37,188)	347,293
Funds held for others	1,255,244	3,423,503
Deferred revenue	18,028	(82,706)
Pensions and postretirement benefits	(1,449,295)	(3,898,088)
Insurance reserves	-	(5,000,000)
Net Cash Flows From Operating Activities	(931,908)	4,014,443
Cash Flows From Investing Activities		
Purchase of land, property, and equipment	(1,882,917)	(1,653,459)
Donation of land and property	-	93,469
Disbursement of notes and loans receivable	(11,413)	(1,756,455)
Collections on notes and loans receivable	300,654	444,297
Changes in investments and funds on deposit	1,835,442	(2,833,671)
Net Cash Flows From Investing Activities	241,766	(5,705,819)
Cash Flows From Financing Activities		
Collection of contributions restricted for long-term purposes	2,933,126	2,302,822
Payments on notes and loans payable	(1,618,218)	(1,232,501)
Net Cash Flows From Financing Activities	1,314,908	1,070,321
NET CHANGE IN CASH AND CASH EQUIVALENTS	624,766	(621,055)
CASH AND CASH EQUIVALENTS, Beginning of Year	2,774,058	3,395,113
CASH AND CASH EQUIVALENTS, End of Year	$ 3,398,824	$ 2,774,058
SUPPLEMENTARY INFORMATION		
Cash paid for interest	$ 288,135	$ 302,420

See the accompanying notes to financial statements.

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.

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, 2018 and 2017, amounted to $771,353 and $801,630, 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.

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, 2018 and 2017, approximately $3.9 million and $5.7 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.

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

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 hierarch 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.

New Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board (FASB) issued ASU No. 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities (ASU 2016-14).

ASU 2016-14 changes presentation and disclosure requirements for not-for-profit entities to provide more relevant information about their resources and the changes in those resources to donors, grantors, creditors, and other users. These include qualitative and quantitative requirements in the following areas: (1) net asset classes; (2) investment return; (3) expenses; (4) liquidity and availability of resources; and (5) presentation of operating cash flows. ASU 2016-14 will be effective for annual financial statements issued for fiscal years beginning after December 15, 2017, and for interim periods within fiscal years beginning after December 15, 2018. Early application of the amendments is permitted. The Diocese has not yet completed its assessment of the impact of this guidance on its financial statements. Under this guidance, the Diocese will be required to present two classes of net assets (net assets with donor restrictions and net assets without donor restrictions) and changes in each of these two classes, on the face of the statement of financial position and statement of activities, respectively, rather than the current required three classes (unrestricted, temporarily restricted, and permanently restricted).

NOTE 2 - INVESTMENTS

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

Investment Returns	2018	2017
Interest and dividends	$ 778,681	$ 996,255
Unrealized gain for the year	4,731,074	7,187,187
Realized gain for the year	713,932	855,823
	6,223,687	9,039,265
Investment expense	(244,763)	(212,006)
Spending policy payout	(604,259)	(546,756)
Net Investment Returns	$ 5,374,665	$ 8,280,503

The following table summarizes the Diocese's investments at June 30, 2018:

By asset type:

	Adjusted Cost	Fair Market Value	Unrealized Gain (Loss) Cumulative
Cash and cash equivalents	$ 1,541,487	$ 1,541,487	$ -
Mutual funds	37,353,684	62,786,445	25,432,761
U.S. Government and agency instruments	3,880,074	3,748,021	(132,053)
Corporate bonds	6,390,132	6,255,507	(134,625)
Common stocks and equities	10,557,413	12,188,318	1,630,905
Limited partnerships	1,248,724	1,555,352	306,628
Total	$60,971,514	$88,075,130	$27,103,616

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

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:

	2018		2017	
	Level 1	Level 2	Level 1	Level 2
Cash and cash equivalents	$ 1,541,487	$ -	$ 416,562	$ -
Mutual funds	62,786,445	-	61,752,008	-
U.S. Government and agency instruments	3,748,021	-	2,442,520	-
Corporate bonds	6,255,507	-	7,859,598	-
Common stock and equities	12,188,318	-	10,565,235	-
Limited partnerships	-	1,555,352	-	1,429,643
Total	$ 86,519,778	$ 1,555,352	$ 83,035,923	$ 1,429,643

NOTE 4 - ACCOUNTS AND NOTES RECEIVABLE

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

	2018	2017
General receivables	$ 2,070,391	$ 2,003,050
Payroll receivables	767,236	647,967
Receivables from schools	9,966	11,966
Other receivables	48,315	44,388
Total	2,895,908	2,707,371
Less: Allowance for Doubtful Accounts	(771,353)	(801,630)
	$ 2,124,555	$ 1,905,741

Notes receivable at June 30 are as follows:

	2018	2017
Clergy receivable	$ 30,786	$ 31,600
Seminarian education notes receivable	94,342	114,134
Note receivable from Land Development Corporation	4,209,093	4,477,728
Total	$ 4,334,221	$ 4,623,462

The Diocese has three notes receivable with the Land Development Corporation, a legally separate but affiliated organization. The outstanding balance owed to the Diocese as of June 30, 2018 was $4,209,093. During the 2017-18 fiscal year, the Land Development Corporation renegotiated the terms on one of the notes with the Diocese and is making payments according to the terms of the notes.

NOTE 5 - DEPOSITS AND PREPAID EXPENSES

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

	2018	2017
Prepaid expenses - Operating funds	$ 307,898	$ 341,443
Prepaid expenses - Insurance funds	7,500	33,505
Prepaid expenses - Other	5,689	59,520
Deposit - Insurance programs	269,632	272,099
Total Deposits and Prepaid Expenses	$ 590,719	$ 706,567

NOTE 6 - LAND, PROPERTY, AND EQUIPMENT

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

	2018	2017
Land	$ 5,989,833	$ 5,818,098
Building	13,617,408	12,083,789
Equipment	416,113	416,113
Furnishings	440,411	428,026
Vehicles	197,477	32,299
Leasehold improvements	415,482	415,482
Total Fixed Assets	21,076,724	19,193,807
Accumulated depreciation	(9,107,615)	(8,504,008)
Net Book Value	$ 11,969,109	$ 10,689,799

Depreciation expense for the years ended June 30, 2018 and 2017 was $603,607 and $574,437, respectively.

Building assets with depreciated value of $1,042,495 are pledged as collateral for the notes payable referenced in Note 7.

NOTE 7 - NOTES PAYABLE

Notes payable at June 30 are as follows:

	2018	2017
Citizens Business Bank Note Payable, current interest rate 3.50%, due September 6, 2026	$ 3,798,568	$ 4,192,397
Citizens Business Bank Line of Credit, limit $5,300,000, current interest rate 3.25%	2,066,398	2,255,910
City National Bank Line of Credit, limit $1,500,000, current interest rate 4.00%	-	465,353
Note payable to Caritas Telecommunications, Inc., at zero percent interest	316,335	474,503
Note payable to Caritas Telecommunications, Inc., current interest rate 3.50%	936,955	1,240,825
Note payable to Diocese of San Bernardino Cemetery Corporation, current interest rate 3.50%	322,630	430,116
Note payable to Wilfrid Lemann, successor trustee for property bequest, interest only payments at 6.00% annual interest	55,000	55,000
Total Notes Payable	$ 7,495,886	$ 9,114,104

The Diocese has notes payable due to legally separate but affiliated organizations. As of June 30, 2018, the outstanding balance owed to Caritas Telecommunications Corporation (Caritas) was $1,253,290, and to the Cemetery Corporation was $322,630. The Diocese makes monthly principal and interest payments on the note from the Cemetery Corporation and one of the notes from Caritas. The annual debt service on the remaining note from Caritas is forgiven on an annual basis upon approval from the Caritas Board of Directors.

Interest expense was $288,135 and $302,420 for the years ended June 30, 2018 and 2017, respectively.

NOTE 8 - FUNDS HELD IN TRUST FOR OTHERS

Funds held in trust for others totaled $24,606,945 and $23,351,701 at June 30, 2018 and 2017, 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, 2018 and 2017, was $1,107,870 and $1,244,002, 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, 2018. 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:

	2018	2017
Actuarial present value of benefit obligation	$15,703,734	$15,559,667
Plan assets at fair value	10,510,842	10,033,925
Funded status (underfunded)	$ (5,192,892)	$ (5,525,742)
Net Periodic Pension Cost	$ 1,107,870	$ 1,244,002
Plan Assets by Category		
Interest bearing cash	$ 700,752	$ 760,163
Equity securities	5,839,644	6,127,312
Equity mutual funds	1,497,309	514,863
Debt mutual funds	2,473,137	2,631,587
Total	$ 10,510,842	$ 10,033,925

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, 2018, there are 1,672 total lay plan participants; covered payroll for 631 active participants was $26,673,522.

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:

	2018	2017
Actuarial present value of benefit obligation	$ 71,912,627	$ 68,009,614
Plan assets at fair value	64,704,031	59,684,573
Funded status (underfunded)	$ (7,208,596)	$ (8,325,041)
Net Periodic Pension Cost	$ 2,282,647	$ 2,444,427

	2018	2017
Plan Assets by Category		
Interest bearing cash	$ 452,928	$ 302,668
Equity securities	2,911,681	2,573,881
Equity common collective trust	39,534,163	38,015,425
Debt mutual funds	1,294,081	1,288,802
Debt securities	20,511,178	17,503,797
Total	$ 64,704,031	$ 59,684,573

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.

	2018	2017
Purpose of Restrictions Accomplished		
Mission and denominational support	$ 1,570,177	$ 1,144,218
Mission office expense	161,819	160,341
Grant expenses	318,880	240,559
Catholic Education Foundation Grants	397,300	254,254
San Bernardino Catholic School President expenses	22,236	122,399
Total	$ 2,470,412	$ 1,921,771

NOTE 11 - INSURANCE RESERVE LIABILITY

The Diocese has established 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:

	2018	2017
Mission and Denominational Support		
Propagation of the Faith	$ 940,616	$ 870,706
Catholic Relief Services	322,107	385,559
Holy Childhood Association	36,521	16,512
National World Apostolates	139,160	161,564
Grant Income	744,750	769,496
Bishop's Charity Work	419,803	100,255
Catholic Education Foundation	220,411	245,454
SB Catholic School Presidents donations	-	22,236
Family Trust for Charismatic Renewal	225,161	225,161
Total	$ 3,048,529	$ 2,796,943

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:

	2018	2017
Diocesan activities - RCB restricted	$ 923,284	$ 891,455
Seminarian activities and education - RCB restricted	4,956,691	5,637,479
Seminarian activities and education - Donor restricted	2,824,005	1,357,847
Priest relief endowment - RCB restricted	7,347,669	6,722,226
Priests ongoing education - RCB restricted	68,568	66,134
Total	$ 16,120,217	$ 14,675,141

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

	2018	2017
Endowment Funds, Beginning of Year	$ 14,675,141	$ 13,093,459
Add:		
Interest and dividends	273,159	274,954
Gain in value of assets	953,162	1,348,919
Contributions	857,432	536,987
	16,758,894	15,254,319
Less:		
Fees	(34,418)	(32,422)
Distributions	(604,259)	(546,756)
Endowment Funds, End of Year	$ 16,120,217	$ 14,675,141

NOTE 14 - CATHOLIC UMBRELLA POOL

The Catholic Umbrella Pool (the Pool or CUP) 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
	70.831% 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
January 1, 2014 to present	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

*Excess Nursing Home Liability

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.

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 Catholic Mutual Relief Society of America and the Catholic Relief Insurance Company of America (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, 2018, were $114,830.

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, 2018:

Fiscal Years Ending June 30,	Lease Payments
2019	$ 114,050
2020	107,976
2021	73,762
2022	3,726
	$ 299,514

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 November 21, 2018, 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.