



Financial Statements
June 30, 2019 and 2018

**The Chancery Office of The Roman
Catholic Bishop of San Bernardino
(A Corporation Sole)**

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

JUNE 30, 2019 AND 2018

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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, 2019, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the Diocese has adopted the provisions of Financial Accounting Standards Board Accounting Standards Update No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. Accordingly, the June 30, 2018, financial statements have been adjusted to adopt this standard. Our opinion is not modified with respect to this matter.

Prior Period Financial Statements

The financial statements of the Diocese as of June 30, 2018 were audited by other auditors who joined Eide Bailly LLP on July 22, 2019, and whose report dated November 21, 2018 expressed an unmodified opinion on those statements.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Rancho Cucamonga, California
December 3, 2019

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

**STATEMENTS OF FINANCIAL POSITION
JUNE 30,**

	2019	2018
ASSETS		
Cash and cash equivalents	\$ 4,128,666	\$ 3,398,824
Investments	64,228,520	63,468,185
Investments held in trust for others	26,593,705	24,606,945
Receivables		
Accounts receivable, net	2,744,420	2,124,555
Notes receivable	4,770,463	4,334,221
Deposits and prepaid expenses	554,564	590,719
Land, property, and equipment (net of accumulated depreciation)	13,891,532	11,969,109
Total Assets	\$ 116,911,870	\$ 110,492,558
 LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 1,000,226	\$ 1,039,905
Notes payable	6,321,259	7,495,886
Funds held in trust for others	26,593,705	24,606,945
Accrued pension liability	12,407,762	12,401,488
Deferred revenues	74,479	74,470
Insurance reserves	250,000	250,000
Total Liabilities	46,647,431	45,868,694
 Net Assets		
Net assets without donor restrictions	47,188,753	42,663,819
Net assets without donor restrictions - designated	2,875,032	2,791,299
Net assets with donor restrictions	20,200,654	19,168,746
Total Net Assets	70,264,439	64,623,864
Total Liabilities and Net Assets	\$ 116,911,870	\$ 110,492,558

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,**

	2019		
	Net Assets without Donor Restrictions	Net Assets with Donor Restrictions	Total
Revenues			
Gifts, bequests, and collections	\$ 1,787,851	\$ 1,903,931	\$ 3,691,782
Assessments	9,426,049	-	9,426,049
Diocesan development fund subsidy	4,308,600	-	4,308,600
Fees and expense reimbursements	2,524,598	84,195	2,608,793
Insurance premiums	6,358,628	36,315	6,394,943
Investment income used for operations	1,847,976	-	1,847,976
Interest/Dividend income	389,166	-	389,166
Endowment payout	559,491	-	559,491
Grant income	154,184	274,875	429,059
Other income	337,056	-	337,056
Net assets released from restrictions	1,648,623	(1,648,623)	-
Total Revenues	<u>29,342,222</u>	<u>650,693</u>	<u>29,992,915</u>
Expenses			
Program Services			
Pastoral services	5,174,798	-	5,174,798
Education	3,370,357	-	3,370,357
Religious personnel development	2,423,076	-	2,423,076
Ministries and social services	3,758,631	-	3,758,631
Grants and donations	1,564,725	-	1,564,725
General and Administrative Services			
Diocesan administration	4,934,066	-	4,934,066
Insurance premiums and benefits	7,030,116	-	7,030,116
Fundraising	954,313	-	954,313
Total Expenses	<u>29,210,082</u>	<u>-</u>	<u>29,210,082</u>
Excess of Revenues Over Expenses	<u>132,140</u>	<u>650,693</u>	<u>782,833</u>
Other Changes in Net Assets			
Investment income not used in operations	4,175,287	381,215	4,556,502
Sale of property	307,514	-	307,514
Actuarial adjustment - pension plan	(6,274)	-	(6,274)
Total Other Changes in Net Assets	<u>4,476,527</u>	<u>381,215</u>	<u>4,857,742</u>
Change in Net Assets	4,608,667	1,031,908	5,640,575
Net Assets, Beginning of Year	45,455,118	19,168,746	64,623,864
Net Assets, End of Year	<u>\$ 50,063,785</u>	<u>\$ 20,200,654</u>	<u>\$ 70,264,439</u>

See the accompanying notes to financial statements.

2018

Net Assets without Donor Restrictions	Net Assets with Donor Restrictions	Total
\$ 1,789,959	\$ 2,933,126	\$ 4,723,085
9,327,299	-	9,327,299
4,221,168	-	4,221,168
2,261,864	210,433	2,472,297
6,876,899	114,110	6,991,009
1,082,940	-	1,082,940
341,410	-	341,410
514,529	-	514,529
133,081	262,743	395,824
336,847	-	336,847
2,470,412	(2,470,412)	-
<u>29,356,408</u>	<u>1,050,000</u>	<u>30,406,408</u>
5,087,537	-	5,087,537
3,234,153	-	3,234,153
2,316,054	-	2,316,054
3,735,138	-	3,735,138
2,358,120	-	2,358,120
4,549,655	-	4,549,655
6,738,873	-	6,738,873
969,104	-	969,104
<u>28,988,634</u>	<u>-</u>	<u>28,988,634</u>
<u>367,774</u>	<u>1,050,000</u>	<u>1,417,774</u>
3,645,063	646,662	4,291,725
-	-	-
1,449,295	-	1,449,295
<u>5,094,358</u>	<u>646,662</u>	<u>5,741,020</u>
5,462,132	1,696,662	7,158,794
39,992,986	17,472,084	57,465,070
<u>\$ 45,455,118</u>	<u>\$ 19,168,746</u>	<u>\$ 64,623,864</u>

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

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

	2019	2018
Cash Flows From Operating Activities		
Change in net assets	\$ 5,640,575	\$ 7,158,794
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation expense	628,692	603,607
Unrealized gains on investments	(7,056,481)	(4,731,074)
Realized gains on investments	(88,998)	(713,932)
Contributions restricted for long-term purposes	(582,981)	(857,432)
(Increase) decrease in assets		
Accounts receivable	(619,865)	(218,814)
Deposits and prepaid expenses	36,155	115,848
Increase (decrease) in liabilities		
Accounts payable and accrued expenses	(39,679)	(37,188)
Funds held for others	1,986,760	1,255,244
Deferred revenue	9	18,028
Pensions and postretirement benefits	6,274	(1,449,295)
Net Cash Flows From Operating Activities	(89,539)	1,143,786
Cash Flows From Investing Activities		
Purchase of land, property, and equipment	(2,858,629)	(1,882,917)
Proceeds from sale of property	307,514	-
Disbursement of notes and loans receivable	(564,718)	(11,413)
Collections on notes and loans receivable	128,476	300,654
Changes in investments and funds on deposit	4,398,384	1,835,442
Net Cash Flows From Investing Activities	1,411,027	241,766
Cash Flows From Financing Activities		
Collection of contributions restricted for long-term purposes	582,981	857,432
Payments on notes and loans payable	(1,174,627)	(1,618,218)
Net Cash Flows From Financing Activities	(591,646)	(760,786)
NET CHANGE IN CASH AND CASH EQUIVALENTS	729,842	624,766
CASH AND CASH EQUIVALENTS, Beginning of Year	3,398,824	2,774,058
CASH AND CASH EQUIVALENTS, End of Year	\$ 4,128,666	\$ 3,398,824
SUPPLEMENTARY INFORMATION		
Cash paid for interest	\$ 249,010	\$ 288,135

See the accompanying notes to financial statements.

**THE CHANCERY OFFICE OF
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**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

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:

- Net assets without donor restrictions 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.

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- Net assets with donor restrictions include gifts and income subject to donor (or certain grantor) restrictions. Some donor-imposed (or grantor) restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. The Diocese reports contributions restricted by donors as increases in net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends, or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. 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.

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, 2019 and 2018, amounted to \$820,815 and \$771,353, 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: net assets without donor restrictions or net assets with donor restrictions 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.

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**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

Expense Recognition

Expenses are generally reported as decreases in net assets without donor restrictions. 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, 2019 and 2018, approximately \$4.5 million and \$3.9 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
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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.

Endowment Funds

The Diocese has interpreted the California Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the date of the donor-restricted endowment funds, unless there are explicit donor stipulations to the contrary. At December 31, 2019 and 2019, there were no such donor stipulations. As a result of this interpretation, the Diocese retains in perpetuity (a) the original value of initial and subsequent gift amounts donated to the Endowment and (b) any accumulations to the Endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure in a manner consistent with the standard of prudence prescribed by UPMIFA. The following factors are considered 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

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.

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**NOTES TO FINANCIAL STATEMENTS
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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.

**THE CHANCERY OFFICE OF
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**NOTES TO FINANCIAL STATEMENTS
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Change in Accounting Principle

In August 2016, the FASB issued Accounting Standards Update (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 the 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. Under this guidance, the Diocese is 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).

The Diocese has implemented the provisions of this ASU as of as of June 30, 2019.

New Accounting Pronouncements

In February 2016, FASB issued ASU 2016-02, *Leases* (ASU 2016-02). ASU 2016-02 requires a lessee to recognize a lease asset representing its right to use the underlying asset for the lease term, and a lease liability for the payments to be made to lessor, on its statement of financial position for all operating leases greater than 12 months. ASU 2016-02 will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. Although the full impact of this Update on the Diocese's financial statements has not yet been determined, the future adoption of this guidance will require the Diocese to record assets and liabilities on its statement of financial position relating to facility and other leases currently being accounted for as operating leases.

In June 2018, FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (ASU 2018-08). ASU 2018-08 clarifies how a not-for-profit entity determines whether a resource provider is participating in an exchange transaction or a contribution, helps an entity to evaluate whether contributions are considered conditional or unconditional by stating that a conditional contribution must have (1) a barrier that must be overcome and (2) a right of return or release of obligation, and modifies the simultaneous release option currently in GAAP, which allows a not-for-profit entity to recognize a restricted contribution directly in unrestricted net assets/net assets without donor restrictions if the restriction is met in the same period that revenue is recognized. Accounting for contributions is an issue primarily for not-for-profit entities because contributions are a significant source of revenue. However, the amendments in the Update apply to all organizations that receive or make contributions of cash and other assets, including business enterprises. The amendments do not apply to transfers of assets from governments to businesses. For contributions received, ASU 2018-08 will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. For contributions made, ASU 2018-08 will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020.

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**NOTES TO FINANCIAL STATEMENTS
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NOTE 2 - LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position sheet date, comprise the following:

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 702,355	\$ 299,102
Investments	22,511,642	23,364,874
Accounts receivable, net	1,028,583	767,665
Notes receivable	125,581	116,608
	<u>\$ 24,368,161</u>	<u>\$ 24,548,249</u>

The Diocese uses these sources to meet its ongoing obligations with respect to general expenditures, liabilities and other obligations as they become due. Cash in excess of daily requirements is invested in various short-term investments with maturities designed to meet obligations as they come due.

NOTE 3 - INVESTMENTS

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

Investment Returns	<u>2019</u>	<u>2018</u>
Interest and dividends	\$ 146,447	\$ 778,681
Unrealized gain for the year	7,056,481	4,731,074
Realized gain for the year	88,998	713,932
	<u>7,291,926</u>	<u>6,223,687</u>
Investment expense	(275,412)	(244,763)
Spending policy payout	(612,035)	(604,259)
Net Investment Returns	<u>\$ 6,404,479</u>	<u>\$ 5,374,665</u>

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**NOTES TO FINANCIAL STATEMENTS
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The following table summarizes the Diocese's investments at June 30, 2019:

By asset type:

	Adjusted Cost	Fair Market Value	Unrealized Gain (Loss) Cumulative
Cash and cash equivalents	\$ 809,110	\$ 809,110	\$ -
Mutual funds	39,056,494	73,157,635	34,101,141
U.S. Government and agency instruments	2,470,414	2,453,648	(16,766)
Corporate bonds	4,829,899	4,983,282	153,383
Common stocks and equities	7,977,728	7,699,504	(278,224)
Limited partnerships	1,388,719	1,719,046	330,327
Total	<u>\$ 56,532,364</u>	<u>\$ 90,822,225</u>	<u>\$ 34,289,861</u>

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	<u>\$ 60,971,514</u>	<u>\$ 88,075,130</u>	<u>\$ 27,103,616</u>

NOTE 4 - 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:

	2019		2018	
	Level 1	Level 2	Level 1	Level 2
Cash and cash equivalents	\$ 809,110	\$ -	\$ 1,541,487	\$ -
Mutual funds	73,157,635	-	62,786,445	-
U.S. Government and agency instruments	2,453,648	-	3,748,021	-
Corporate bonds	4,983,282	-	6,255,507	-
Common stock and equities	7,699,504	-	12,188,318	-
Limited partnerships	-	1,719,046	-	1,555,352
Total	<u>\$ 89,103,179</u>	<u>\$ 1,719,046</u>	<u>\$ 86,519,778</u>	<u>\$ 1,555,352</u>

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NOTE 5 - ACCOUNTS AND NOTES RECEIVABLE

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

	<u>2019</u>	<u>2018</u>
General receivables	\$ 2,310,682	\$ 2,070,391
Payroll receivables	1,101,811	767,236
Receivables from schools	9,716	9,966
Other receivables	<u>143,026</u>	<u>48,315</u>
Total gross receivables	3,565,235	2,895,908
Less: Allowance for Doubtful Accounts	<u>(820,815)</u>	<u>(771,353)</u>
Total accounts receivable, net	<u><u>\$ 2,744,420</u></u>	<u><u>\$ 2,124,555</u></u>

Notes receivable at June 30 are as follows:

	<u>2019</u>	<u>2018</u>
Clergy receivable	\$ 28,874	\$ 30,786
Seminarian education notes receivable	328,700	94,342
Note receivable secured by Trust Deed	300,000	-
Note receivable from Land Development Corporation	<u>4,112,889</u>	<u>4,209,093</u>
Total	<u><u>\$ 4,770,463</u></u>	<u><u>\$ 4,334,221</u></u>

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, 2019 and 2018 was \$4,112,889 and \$4,29,093, respectively. 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 6 - DEPOSITS AND PREPAID EXPENSES

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

	<u>2019</u>	<u>2018</u>
Prepaid expenses - Operating funds	\$ 311,321	\$ 307,898
Prepaid expenses - Insurance funds	-	7,500
Prepaid expenses - Other	3,646	5,689
Deposit - Insurance programs	<u>239,597</u>	<u>269,632</u>
Total Deposits and Prepaid Expenses	<u><u>\$ 554,564</u></u>	<u><u>\$ 590,719</u></u>

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NOTE 7 - LAND, PROPERTY, AND EQUIPMENT

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

	2019	2018
Land	\$ 6,502,106	\$ 5,989,833
Building	15,582,767	13,617,408
Equipment	454,805	416,113
Furnishings	440,411	440,411
Vehicles	192,432	197,477
Leasehold improvements	415,482	415,482
Total Fixed Assets	<u>23,588,003</u>	<u>21,076,724</u>
Accumulated depreciation	<u>(9,696,471)</u>	<u>(9,107,615)</u>
Net Book Value	<u><u>\$ 13,891,532</u></u>	<u><u>\$ 11,969,109</u></u>

Depreciation expense for the years ended June 30, 2019 and 2018 was \$628,692 and \$603,607, respectively.

Building assets with depreciated value of \$712,322 are pledged as collateral for the notes payable referenced in Note 8.

NOTE 8 - NOTES PAYABLE

Notes payable at June 30 are as follows:

	2019	2018
Citizens Business Bank Note Payable, current interest rate 3.50%, due September 6, 2026	\$ 3,390,559	\$ 3,798,568
Citizens Business Bank Line of Credit, limit \$5,300,000, current interest rate 4.50%	1,881,815	2,066,398
Note payable to Caritas Telecommunications, Inc., at zero percent interest	158,168	316,335
Note payable to Caritas Telecommunications, Inc., current interest rate 3.50%	623,842	936,955
Note payable to Diocese of San Bernardino Cemetery Corporation, current interest rate 3.50%	211,875	322,630
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	<u><u>\$ 6,321,259</u></u>	<u><u>\$ 7,495,886</u></u>

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The Diocese has notes payable due to legally separate but affiliated organizations. As of June 30, 2019, the outstanding balance owed to Caritas Telecommunications Corporation (Caritas) was \$782,010, and to the Cemetery Corporation was \$211,875. 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 \$249,010 and \$288,135 for the years ended June 30, 2019 and 2018, respectively.

NOTE 9 - FUNDS HELD IN TRUST FOR OTHERS

Funds held in trust for others totaled \$26,593,705 and \$24,606,945 at June 30, 2019 and 2018, respectively. These amounts represent other parish and school funds held in trust by the Diocese.

NOTE 10 - 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, 2019 and 2018, was \$903,521 and \$1,107,870, 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, 2019. 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:

	2019	2018
Actuarial present value of benefit obligation	\$ 14,770,309	\$ 15,703,734
Plan assets at fair value	10,969,173	10,510,842
Funded status (underfunded)	<u>\$ (3,801,136)</u>	<u>\$ (5,192,892)</u>
Net Periodic Pension Cost	<u>\$ 903,521</u>	<u>\$ 1,107,870</u>
 Plan Assets by Category		
Interest bearing cash	\$ 876,672	\$ 700,752
Equity securities	5,924,005	5,839,644
Equity mutual funds	1,585,097	1,497,309
Debt mutual funds	2,583,399	2,473,137
Total	<u>\$ 10,969,173</u>	<u>\$ 10,510,842</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, 2019, there are 1,918 total lay plan participants; covered payroll for 858 active participants was \$35,983,457.

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>2019</u>	<u>2018</u>
Actuarial present value of benefit obligation	\$ 77,332,011	\$ 71,912,627
Plan assets at fair value	68,725,385	64,704,031
Funded status (underfunded)	<u>\$ (8,606,626)</u>	<u>\$ (7,208,596)</u>
Net Periodic Pension Cost	<u>\$ 1,953,050</u>	<u>\$ 2,282,647</u>
Plan Assets by Category		
Interest bearing cash	\$ 412,352	\$ 452,928
Equity securities	2,542,839	2,911,681
Equity common collective trust	42,334,837	39,534,163
Debt mutual funds	1,374,508	1,294,081
Debt securities	22,060,849	20,511,178
Total	<u>\$ 68,725,385</u>	<u>\$ 64,704,031</u>

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NOTE 11 - 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>2019</u>	<u>2018</u>
Purpose of Restrictions Accomplished		
Mission and denominational support	\$ 1,032,971	\$ 1,570,177
Mission office expense	140,892	161,819
Grant expenses	332,841	318,880
Catholic Education Foundation Grants	141,919	397,300
San Bernardino Catholic School President expenses	-	22,236
Total	<u>\$ 1,648,623</u>	<u>\$ 2,470,412</u>

NOTE 12 - INSURANCE RESERVE LIABILITY

The Diocese has established a self-insured reserve for automobile insurance coverage in the amount of \$250,000.

NOTE 13 - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions is composed of temporarily restricted and permanently restricted net assets.

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

	<u>2019</u>	<u>2018</u>
Mission and Denominational Support		
Propagation of the Faith	\$ 1,001,559	\$ 940,616
Catholic Relief Services	309,751	322,107
Holy Childhood Association	55,532	36,521
National World Apostolates	128,907	139,160
Grant Income	701,903	744,750
Bishop's Charity Work	543,382	419,803
Catholic Education Foundation	248,622	220,411
Family Trust for Charismatic Renewal	203,353	225,161
Total	<u>\$ 3,193,009</u>	<u>\$ 3,048,529</u>

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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:

	2019	2018
Diocesan activities - RCB restricted	\$ 939,818	\$ 923,284
Seminarian activities and education - RCB restricted	6,144,842	4,956,691
Seminarian activities and education - Donor restricted	2,313,904	2,824,005
Priest relief endowment - RCB restricted	7,539,240	7,347,669
Priests ongoing education - RCB restricted	69,841	68,568
Total	<u>\$ 17,007,645</u>	<u>\$ 16,120,217</u>

The changes in permanently restricted endowment funds for the years then ended are as follows:

	2019	2018
Endowment Funds, Beginning of Year	\$ 16,120,217	\$ 14,675,141
Add:		
Interest and dividends	300,985	273,159
Gain in value of assets	655,757	953,162
Contributions	582,981	857,432
	<u>17,659,940</u>	<u>16,758,894</u>
Less:		
Fees	(40,261)	(34,418)
Distributions	(612,034)	(604,259)
Endowment Funds, End of Year	<u>\$ 17,007,645</u>	<u>\$ 16,120,217</u>

From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). The Diocese has interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. At December 31, 2018, funds with original gift values of \$6,000, fair values of \$5,877, and deficiencies of \$123 were reported in net assets with donor restrictions. These amounts were fully recovered during 2019 due to favorable market fluctuations.

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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*
January 1, 2014 to present	40% of \$5,000,000 in excess of \$5,000,000 30% of \$10,500,000 in excess of \$10,000,000 75% of \$3,500,000 in excess of \$1,500,000 (Includes Nursing Home Liability) 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

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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 \$1,001 to \$90,600.

The lease payments for the year ended June 30, 2019, were \$114,799.

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, 2019:

Fiscal Years	Lease
Ending June 30,	Payments
2020	\$ 107,726
2021	73,591
2022	3,717
	<u>\$ 185,034</u>

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NOTE 16 - FUNCTIONAL EXPENSE

The following schedule presents the natural classification of expenses by function for the year ended June 30, 2019:

	2019										
	Program					Management and Administrative					
	Pastoral Services	Education	Religious Personnel	Ministries and Social Services	Grants and Donations	Total Program	Diocesan Administration	Insurances	Total Management and Administration	Fundraising	Total
Personnel costs	\$ 3,258,439	\$ 2,540,449	\$ 951,481	\$ 1,860,873	\$ -	\$ 8,611,242	\$ 3,095,304	\$ 4,173,044	\$ 7,268,348	\$ 223,809	\$ 16,103,399
Contract services	90,196	50,609	1,968	52,281	-	195,054	371,043	19,119	390,162	66,939	652,155
Facility, construction and equipment costs	873,943	121,663	84,020	509,848	11,121	1,600,595	248,780	2,420,054	2,668,834	12,798	4,282,227
Office, printing, and other expenses	516,966	126,256	29,463	352,525	774	1,025,984	555,131	301,156	856,287	363,748	2,246,019
Seminarian expense, education, and travel	241,851	380,653	1,028,704	142,808	154	1,794,170	46,133	116,724	162,857	22,341	1,979,368
Special events	122,516	150,177	316,676	186,996	-	776,365	3,820	19	3,839	264,678	1,044,882
Donations, gifts, charity, and subsidies	-	550	10,764	650,000	1,552,676	2,213,990	-	-	-	-	2,213,990
Diocesan dues and assessments	-	-	-	-	-	-	439,032	-	439,032	-	439,032
Interest expense	70,887	-	-	3,300	-	74,187	174,823	-	174,823	-	249,010
Total Expenses	\$ 5,174,798	\$ 3,370,357	\$ 2,423,076	\$ 3,758,631	\$ 1,564,725	\$ 16,291,587	\$ 4,934,066	\$ 7,030,116	\$ 11,964,182	\$ 954,313	\$ 29,210,082

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The following schedule presents the natural classification of expenses by function for the year ended June 30, 2018:

	2018										
	Program					Management and Administrative					Total
	Pastoral Services	Education	Religious Personnel	Ministries and Social Services	Grants and Donations	Total Program	Diocesan Administration	Insurances	Management and Administration	Fundraising	
Personnel costs	\$ 3,123,085	\$ 2,368,690	\$ 876,954	\$ 1,763,088	\$ -	\$ 8,131,817	\$ 2,868,970	\$ 3,913,366	\$ 6,782,336	\$ 260,774	\$ 15,174,927
Contract services	147,813	60,283	-	40,712	-	248,808	301,957	1,515	303,472	53,322	605,602
Facility, construction and equipment costs	909,810	120,653	104,119	543,367	20,500	1,698,449	242,104	2,388,960	2,631,064	13,416	4,342,929
Office, printing, and other expenses	362,164	113,246	41,843	443,900	17	961,170	485,510	367,230	852,740	334,701	2,148,611
Seminarian expense, education, and travel	332,667	426,455	989,722	121,655	1,653	1,872,152	64,565	67,802	132,367	48,619	2,053,138
Special events	114,148	144,826	303,416	168,445	-	730,835	-	-	-	258,272	989,107
Donations, gifts, charity, and subsidies	-	-	-	650,671	2,335,950	2,986,621	-	-	-	-	2,986,621
Diocesan dues and assessments	-	-	-	-	-	-	399,564	-	399,564	-	399,564
Interest expense	97,850	-	-	3,300	-	101,150	186,985	-	186,985	-	288,135
Total Expenses	\$ 5,087,537	\$ 3,234,153	\$ 2,316,054	\$ 3,735,138	\$ 2,358,120	\$ 16,731,002	\$ 4,549,655	\$ 6,738,873	\$ 11,288,528	\$ 969,104	\$ 28,988,634

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NOTE 17 - 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 18 - 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 3, 2019, which is the date the financial statements were available to be issued. Effective July 1, 2019, the Priests Pension Plan for the Diocese of San Bernardino legally separated from the joint priests pension plan with the Diocese of San Diego. The Diocese began participating in an Independent Compensation Program for Victim-Survivors of Sexual Abuse of Minors by Priests in September 2019. As of the date of issuance of this report, the results of mediated claims do not have a material effect on the Diocese's financial position or change in net assets. Management has determined that there were no subsequent events or transactions that would have a material impact on the current year financial statements.