THE CHANCERY OFFICE OF THE ROMAN CATHOLIC BISHOP OF SAN BERNARDINO

(A Corporation Sole)

ANNUAL FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

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

JUNE 30, 2014 AND 2013

Contents

Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants

VALUE THE DIFFERENCE

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 (a Corporation Sole), which comprise the statement of financial position as of June 30, 2014 and 2013, 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 Corporation'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 Corporation'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.

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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, 2014 and 2013, 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 5, 2014

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

STATEMENTS OF FINANCIAL POSITION
JUNE 30,

	2014	2013
ASSETS		
Cash and cash equivalents	$ 3,806,240	$ 3,079,710
Investments	75,681,864	56,486,604
Receivables		
Accounts receivable, net	1,231,307	1,515,773
Notes receivable	3,868,119	4,082,399
Deposits and prepaid expenses	516,687	587,773
Land, property, and equipment (net of accumulated depreciation)	5,766,821	8,000,008
Total Assets	$ 90,871,038	$ 73,752,267
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	$ 1,263,687	$ 1,088,783
Notes payable	12,127,495	10,484,249
Funds held in trust for others	19,129,423	16,743,591
Accrued pension liability	8,110,092	11,970,064
Liability for postretirement benefits	1,925,168	1,848,820
Deferred revenues	17,607	100,480
Insurance reserves	5,250,000	5,250,000
Total Liabilities	47,823,472	47,485,987
Net Assets		
Unrestricted	28,333,269	13,621,509
Unrestricted - Designated	1,019,669	1,081,207
Temporarily restricted	1,119,778	1,317,774
Permanently restricted	12,574,850	10,245,790
Total Net Assets	43,047,566	26,266,280
Total Liabilities and Net Assets	$ 90,871,038	$ 73,752,267

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,

	2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues				
Gifts, bequests, and collections	$ 1,438,571	$ 1,466,863	$ 997,994	$ 3,903,428
Assessments	8,534,509	-	-	8,534,509
Diocesan development fund subsidy	4,189,960	-	-	4,189,960
Fees and expense reimbursements	1,762,612	137,416	-	1,900,028
Insurance premiums	7,917,863	-	5,186	7,923,049
Investment income used for operations	614,111	-	-	614,111
Interest/Dividend income	177,397	-	-	177,397
Endowment payout	359,718	-	-	359,718
Grant income	596,335	-	-	596,335
Federal grant income	-	-	-	-
Other income	289,403	-	-	289,403
Net assets released from restrictions	1,829,112	(1,829,112)	-	-
Total Revenues	27,709,591	(224,833)	1,003,180	28,487,938
Expenses				
Program Services				
Pastoral services	4,433,320	-	-	4,433,320
Education	2,589,223	-	-	2,589,223
Religious personnel development	2,224,224	-	-	2,224,224
Ministries and social services	3,208,356	-	-	3,208,356
Grants and donations	1,933,294	-	-	1,933,294
General and Administrative Services				
Diocesan administration	4,386,757	-	-	4,386,757
Insurance premiums and benefits	8,384,875	-	-	8,384,875
Fundraising	1,042,940	-	-	1,042,940
Total Expenses	28,202,989	-	-	28,202,989
Excess (Deficiency) of Revenues Over Expenses	(493,398)	(224,833)	1,003,180	284,949
Other Changes in Net Assets				
Investment income not used in operations	9,488,996	26,837	1,325,880	10,841,713
Sale of property	4,751,800	-	-	4,751,800
Actuarial adjustment - pension plan	3,859,972	-	-	3,859,972
Actuarial adjustment - postretirement benefits	(76,348)	-	-	(76,348)
Legal settlements	(2,880,800)	-	-	(2,880,800)
Total Other Changes in Net Assets	15,143,620	26,837	1,325,880	16,496,337
Change in Net Assets	14,650,222	(197,996)	2,329,060	16,781,286
Net Assets, Beginning of Year	14,702,716	1,317,774	10,245,790	26,266,280
Net Assets, End of Year	$29,352,938	$ 1,119,778	$12,574,850	$43,047,566

See the accompanying notes to financial statements.

2013			
Unrestricted	Temporarily Restricted	Permanently Restricted	Total
$ 1,225,347	$ 1,393,832	$ 743,997	$ 3,363,176
8,414,144	-	-	8,414,144
3,950,000	-	-	3,950,000
2,015,450	-	-	2,015,450
7,439,727	-	13,701	7,453,428
602,950	-	-	602,950
187,831	-	-	187,831
318,885	-	-	318,885
654,777	-	-	654,777
55,913	-	-	55,913
299,473	-	-	299,473
1,354,346	(1,354,346)	-	-
26,518,843	39,486	757,698	27,316,027
4,005,461	-	-	4,005,461
2,365,494	-	-	2,365,494
2,094,415	-	-	2,094,415
3,276,590	-	-	3,276,590
1,483,159	-	-	1,483,159
4,494,847	-	-	4,494,847
7,721,820	-	-	7,721,820
947,631	-	-	947,631
26,389,417	-	-	26,389,417
129,426	39,486	757,698	926,610
3,678,934	26,691	709,186	4,414,811
-	-	-	-
362,073	-	-	362,073
1,285,633	-	-	1,285,633
(73,500)	-	-	(73,500)
5,253,140	26,691	709,186	5,989,017
5,382,566	66,177	1,466,884	6,915,627
9,320,150	1,251,597	8,778,906	19,350,653
$14,702,716	$ 1,317,774	$10,245,790	$26,266,280

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

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30,

	2014	2013
Cash Flows From Operating Activities		
Change in net assets	$ 16,781,286	$ 6,915,627
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation expense	411,879	408,532
Unrealized (gains) losses on investments	(10,043,538)	4,504,685
Realized gains on investments	(723,998)	(8,287,629)
Realized gain on sale of property	(2,751,800)	(2,696)
Contributions restricted for long-term purposes	(2,464,857)	(2,137,829)
(Increase) decrease in assets		
Accounts receivable	284,466	(239,853)
Prepaid expenses	71,086	(90,142)
Increase (decrease) in liabilities		
Accounts payable and accrued expenses	174,904	266,083
Funds held for others	2,385,832	1,930,330
Deferred revenue	(82,873)	(21,534)
Pensions and postretirement benefits	(3,783,624)	(1,647,706)
Net Cash Flows From Operating Activities	258,763	1,597,868
Cash Flows From Investing Activities		
Purchase of equipment and improvements	(178,692)	(463,804)
Proceeds from sale of property	4,751,800	5,000
Collections on notes and loans receivable	214,280	164,623
Investments and funds on deposit	(8,427,724)	(2,997,852)
Net Cash Flows Used in Investing Activities	(3,640,336)	(3,292,033)
Cash Flows From Financing Activities		
Collection of contributions restricted for long-term purposes	2,464,857	2,137,829
Proceeds from notes payable	2,875,000	-
Payments on notes and loans payable	(1,231,754)	(605,486)
Net Cash Flows From Financing Activities	4,108,103	1,532,343
NET CHANGE IN CASH AND CASH EQUIVALENTS	726,530	(161,822)
CASH AND CASH EQUIVALENTS, Beginning of Year	3,079,710	3,241,532
CASH AND CASH EQUIVALENTS, End of Year	$ 3,806,240	$ 3,079,710
SUPPLEMENTARY INFORMATION		
Cash paid for interest	$ 350,684	$ 416,847

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, 2014 and 2013, amounted to approximately $375,000 and $521,000, 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.

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, 2014 and 2013, approximately $3.9 million and $3.3 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 4.75 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 three 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.

NOTE 2 - INVESTMENTS

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

Investment Returns	2014	2013
Interest and dividends	$ 1,356,595	$ 1,979,297
Unrealized gain (loss) for the year	10,043,538	(4,504,685)
Realized gains for the year	723,998	8,287,629
	12,124,131	5,762,241
Investment expense	(245,552)	(345,159)
Spending policy payout	(422,718)	(399,322)
Net Investment Returns	$ 11,455,861	$ 5,017,760

The following table summarizes the Diocese's investments at June 30, 2014:

By asset type:

	Adjusted Cost	Fair Market Value	Unrealized Gain Cumulative
Cash and cash equivalents	$ 853,693	$ 863,246	$ 9,553
Mutual funds	38,882,704	49,571,690	10,688,986
U.S. Government and agency instruments	4,093,572	4,788,877	695,305
Corporate bonds	11,431,771	11,967,964	536,193
Common stocks and equities	5,788,693	7,131,677	1,342,984
Limited partnerships	1,278,710	1,358,410	79,700
Total	$ 62,329,143	$ 75,681,864	$ 13,352,721

By category:

	Adjusted Cost	Fair Market Value	Unrealized Gain Cumulative
Pooled investment fund	$ 16,047,017	$ 23,245,629	$ 7,198,612
Endowment funds	24,570,053	30,410,968	5,840,915
Insurance funds	14,949,157	15,262,351	313,194
Plant funds	5,527,698	5,527,698	-
Mission Center fund	1,235,218	1,235,218	-
Total	$ 62,329,143	$ 75,681,864	$ 13,352,721

The following table summarizes the Diocese's investments at June 30, 2013:

By asset type:

	Adjusted Cost	Fair Market Value	Unrealized Gain (Loss) Cumulative
Cash and cash equivalents	$ 1,057,357	$ 1,055,396	$ (1,961)
Mutual funds	35,451,487	36,755,862	1,304,375
U.S. Government and agency instruments	5,582,278	5,390,435	(191,843)
Corporate bonds	7,327,365	7,151,483	(175,882)
Common stocks and equities	4,984,668	5,473,405	488,737
Limited partnerships	660,025	660,023	(2)
Total	$ 55,063,180	$ 56,486,604	$ 1,423,424

By category:

	Adjusted Cost	Fair Market Value	Unrealized Gain (Loss) Cumulative
Pooled investment fund	$ 16,835,773	$ 15,415,564	$ (1,420,209)
Endowment funds	23,201,968	25,868,475	2,666,507
Insurance funds	13,700,466	13,877,592	177,126
Plant funds	7,452	7,452	-
Mission Center fund	1,317,521	1,317,521	-
Total	$ 55,063,180	$ 56,486,604	$ 1,423,424

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:

	2014		2013	
	Level 1	Level 2	Level 1	Level 2
Cash and cash equivalents	$ 863,246	$ -	$ 1,055,396	$ -
Mutual funds	49,571,690	-	36,755,862	-
U.S. Government and agency instruments	4,788,877	-	5,390,435	-
Corporate bonds	11,967,964	-	7,151,483	-
Common stock and equities	7,131,677	-	5,473,405	-
Limited partnerships	-	1,358,410	-	660,023
Total	$ 74,323,454	$ 1,358,410	$ 55,826,581	$ 660,023

Changes in Level 1 and Level 2 investments at June 30 are as follows:

	2014		2013	
	Level 1	Level 2	Level 1	Level 2
Investment Beginning Balance at June 30	$ 55,826,581	$ 660,023	$ 49,705,808	$ -
Additions to portfolio	8,127,460	566,049	2,365,986	660,000
Withdrawals from portfolio	(954,110)	-	(1,262,950)	-
Investment income net	1,070,149	40,894	1,634,113	25
Distribution from portfolio	(422,718)	-	(399,322)	-
Realized gains net	723,597	401	8,287,629	-
Unrealized gains net	9,952,495	91,043	(4,504,683)	(2)
Net Changes	18,496,873	698,387	6,120,773	660,023
Investment Ending Balance at June 30	$ 74,323,454	$ 1,358,410	$ 55,826,581	$ 660,023

Bonds and equities in the amount of $11,407,213 represent the pledged assets pertaining to line of credit notes payable referred to in Note 7.

NOTE 4 - ACCOUNTS AND NOTES RECEIVABLE

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

	2014	2013
General receivables	$ 1,217,309	$ 1,619,481
Payroll receivables	236,202	230,306
Receivables from schools	108,780	158,780
Other receivables	44,493	28,037
Total	1,606,784	2,036,604
Less: Allowance for Doubtful Accounts	(375,477)	(520,831)
	$ 1,231,307	$ 1,515,773

Notes receivable at June 30 are as follows:

	2014	2013
Clergy receivable	$ 46,532	$ 51,871
Seminarian education notes receivable	149,038	112,984
Note receivable from Land Development Corporation	3,672,549	3,917,544
Total	$ 3,868,119	$ 4,082,399

NOTE 5 - DEPOSITS AND PREPAID EXPENSES

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

	2014	2013
Prepaid expenses - Operating funds	$ 196,654	$ 215,917
Prepaid expenses - Insurance funds	-	20,111
Prepaid expenses - Other	5,569	9,611
Deposit - Insurance programs	314,464	342,134
Total Deposits and Prepaid Expenses	$ 516,687	$ 587,773

NOTE 6 - LAND, PROPERTY, AND EQUIPMENT

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

	2014	2013
Land	$ 2,225,021	$ 4,192,021
Building	10,816,441	10,722,441
Equipment	292,076	255,866
Furnishings	213,287	213,287
Vehicles	32,299	32,299
Leasehold Improvements	415,482	400,000
Total Fixed Assets	13,994,606	15,815,914
Accumulated depreciation	(8,227,785)	(7,815,906)
Net Book Value	$ 5,766,821	$ 8,000,008

Depreciation expense for the years ended June 30, 2014 and 2013, was $411,879 and $408,532.

Building assets with depreciated value of $2,363,189 are pledged as collateral for the notes payable referenced in Note 7.

NOTE 7 - NOTES PAYABLE

Notes payable at June 30 are as follows:

	2014	2013
Citizens Business Bank Note Payable, current interest rate 4.25%, due December 6, 2017	$ 5,111,863	$ 5,371,689
Citizens Business Bank Line of Credit, limit $5,300,000, current interest rate 3.0%	2,861,623	3,041,560
City National Bank Line of Credit, limit $1,500,000, current interest rate 3.0%	801,886	871,755
Note payable to Caritas Telecommunications, Inc., at zero percent interest	964,894	1,144,245
Note payable to Caritas Telecommunications, Inc., current interest rate 3.5%	1,598,319	-
Note payable to Diocese of San Bernardino Cemetery Corporation, current interest rate 3.5%	733,910	-
Note payable to Wilfrid Lemann, successor trustee for property bequest, interest only payments at 6% annual interest	55,000	55,000
Total Notes Payable	$ 12,127,495	$ 10,484,249

Interest expense was $350,684 and $416,847 for the years ended June 30, 2014 and 2013, respectively.

NOTE 8 - FUNDS HELD IN TRUST FOR OTHERS

Funds held in trust for others totaled $19,129,423 and $16,743,591 at June 30, 2014 and 2013, 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, 2014 and 2013, was $893,308 and $906,666, 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, 2014. 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:

	2014	2013
Actuarial present value of benefit obligation	$ 12,671,618	$ 12,653,791
Plan assets at fair value	8,904,505	7,839,843
Funded status (underfunded)	$ (3,767,113)	$ (4,813,948)
Net Periodic Pension Cost	$ 893,308	$ 906,666
Plan Assets by Category		
Interest bearing cash	$ 732,456	$ 963,883
Equity securities	5,102,665	4,056,886
Equity mutual funds	386,677	451,030
Debt mutual funds	2,682,707	2,368,044
Total	$ 8,904,505	$ 7,839,843

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 seven 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 September 1, 2014, there are 1,583 total lay plan participants; covered payroll for 726 active participants was $26,809,957.

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:

	2014	2013
Actuarial present value of benefit obligation	$ 55,400,955	$ 52,360,880
Plan assets at fair value	51,057,976	45,204,764
Funded status (underfunded)	$ (4,342,979)	$ (7,156,116)
Net Periodic Pension Cost	$ 2,323,700	$ 2,403,915
Plan Assets by Category		
Interest bearing cash	$ 268,468	$ 737,241
Equity securities	2,977,503	2,484,448
Equity common collective trust	27,821,536	18,550,798
Equity mutual funds	-	6,717,792
Debt mutual funds	19,990,469	16,714,485
Total	$ 51,057,976	$ 45,204,764

NOTE 10 - POSTRETIREMENT HEALTH CARE BENEFITS

The Diocese provides health care benefits on an as needed basis to retired priests. Provisions are made annually in the priests' relief fund to ensure that monies are available to meet such costs. The future liability of continuing health care has been actuarially calculated and is included in other changes to net assets. For the year ended June 30, 2014, the actuarially calculated adjustment to the liability for future costs for postretirement health benefits is $76,348. The total actuarially calculated liability as of June 30, 2014 and 2013, is $1,925,168 and $1,848,820, respectively.

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.

	2014	2013
Purpose of Restrictions Accomplished		
Mission and denominational support	$ 1,495,678	$ 1,138,988
Mission office expense	333,434	215,358
Total	$ 1,829,112	$ 1,354,346

NOTE 12 - INSURANCE RESERVE LIABILITY

The Diocese has established a self-insured reserve for earthquake coverage in the amount of $5,000,000. There is also a self-insured reserve for automobile insurance coverage in the amount of $250,000.

NOTE 13 - TEMPORARILY RESTRICTED NET ASSETS

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

	2014	2013
Mission and Denominational Support		
Propagation of the Faith	$ 887,376	$ 911,591
Catholic Relief Services	168,789	247,196
Holy Childhood Association	35,801	56,003
National World Apostolates	27,812	102,984
Total	$ 1,119,778	$ 1,317,774

NOTE 14 - 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:

	2014	2013
Diocesan activities - RCB restricted	$ 870,543	$ 816,246
Seminarian activities and education - RCB restricted	3,807,060	3,252,209
Seminarian activities and education - Donor restricted	2,025,788	1,547,535
Priest relief endowment - RCB restricted	5,809,480	4,574,569
Priests ongoing education - RCB restricted	61,979	55,231
Total	$ 12,574,850	$ 10,245,790

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

	2014	2013
Endowment Funds, Beginning of Year	$ 10,245,790	$ 8,778,906
Add:		
Interest and dividends	232,872	332,676
Appreciation (net)	1,549,276	793,983
Contributions	1,003,180	757,698
	13,031,118	10,663,263
Less:		
Fees	(33,550)	(18,151)
Distributions	(422,718)	(399,322)
Endowment Funds, End of Year	$ 12,574,850	$ 10,245,790

NOTE 15 - 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) 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 (Excess Casualty only) 30% of $3,500,000 in excess of $1,500,000 (Excess Nursing Home Liability) 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 present	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 (Excess Casualty only)
January 1, 2013 to present	30% of $3,500,000 in excess of $1,500,000 (Nursing Home Liability)
January 1, 2013 to present	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 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 16 - OPERATING LEASES

Expenses

The Diocese leases various office equipment with lease terms that expire through 2017. Annual lease payments range from approximately $2,000 to $40,000.

The lease payments for the year ended June 30, 2014, were approximately $72,800.

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, 2014:

Fiscal Years Ending June 30,	Lease Payments
2015	$ 98,279
2016	87,057
2017	43,022
2018	40,049
2019	26,924
Thereafter	1,462
	$ 296,793

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 November 5, 2014, 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.