

**CENTRAL ADMINISTRATIVE OFFICE OF THE
ROMAN CATHOLIC ARCHDIOCESE OF SAN FRANCISCO**

FINANCIAL STATEMENTS

June 30, 2020 and 2019



**CENTRAL ADMINISTRATIVE OFFICE OF THE
ROMAN CATHOLIC ARCHDIOCESE OF SAN FRANCISCO**

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INDEPENDENT AUDITORS' REPORT

Most Reverend Salvatore Joseph Cordileone
The Roman Catholic Archbishop of San Francisco

We have audited the accompanying financial statements of the Central Administrative Office of the Roman Catholic Archdiocese of San Francisco (the "Chancery"), an operating division of The Roman Catholic Archbishop of San Francisco, a California Corporation Sole, which comprise the statements of financial position as of June 30, 2020 and 2019, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Central Administrative Office of The Roman Catholic Archbishop of San Francisco as of June 30, 2020 and 2019, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

BPM LLP

San Francisco, California
December 15, 2020

**CENTRAL ADMINISTRATIVE OFFICE OF THE
ROMAN CATHOLIC ARCHDIOCESE OF SAN FRANCISCO**

STATEMENTS OF FINANCIAL POSITION

As of June 30, 2020 and 2019

	2020	2019
ASSETS		
Cash and cash equivalents	\$ 109,906,619	\$ 87,597,530
Time certificates of deposit	160,000	10,185,000
Investments	141,407,851	149,292,671
Receivables:		
Loans receivable	768,983	462,493
Pledges and assessments, net	4,060,344	3,133,237
Other receivables, net	4,027,911	2,719,089
Prepaid and other assets	2,484,628	2,739,537
Property, land, and equipment, net	23,785,744	31,946,987
Beneficial interest in Real Property Support Corporation net assets	333,874	333,874
Beneficial interest in a perpetual trust	1,005,493	1,024,373
Total assets	\$ 287,941,447	\$ 289,434,791
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued liabilities	\$ 7,741,897	\$ 4,547,702
Deferred lease revenue	5,799,131	5,900,870
Assets held for schools and institutions	50,582,701	50,850,516
Equity of others in pooled investments	44,647,795	47,346,904
Line of credit - Capital Assets Support Corporation	1,000,000	-
Note payable - Capital Assets Support Corporation	-	3,220,596
Note payable - Paycheck Protection Program	1,876,500	-
Total liabilities	111,648,024	111,866,588
Commitments and contingencies (Note 23)		
Net assets:		
Without donor restrictions:		
Undesignated	20,204,624	20,973,132
Investment in property, land, and equipment, and beneficial interest in Real Property Support Corporation net assets, net of related note payable	24,119,618	29,060,265
Designated	88,148,458	82,878,026
Total net assets without donor restrictions	132,472,700	132,911,423
With donor restrictions	43,820,723	44,656,780
Total net assets	176,293,423	177,568,203
Total liabilities and net assets	\$ 287,941,447	\$ 289,434,791

The accompanying notes are an integral part of these financial statements.

**CENTRAL ADMINISTRATIVE OFFICE OF THE
ROMAN CATHOLIC ARCHDIOCESE OF SAN FRANCISCO**

STATEMENTS OF ACTIVITIES

For the years ended June 30, 2020 and 2019

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenues:						
Gifts, bequests, and collections	\$ 1,406,019	\$ 8,524,232	\$ 9,930,251	\$ 974,287	\$ 8,315,735	\$ 9,290,022
Fees for services	5,057,612	-	5,057,612	5,158,294	-	5,158,294
Investment income, net	1,556,072	117,093	1,673,165	6,788,681	2,055,454	8,844,135
Change in beneficial interest in a perpetual trust	-	(18,880)	(18,880)	-	(16,664)	(16,664)
Insurance	39,204,269	-	39,204,269	37,849,042	-	37,849,042
Rental income	2,065,761	-	2,065,761	2,408,297	-	2,408,297
Other income	1,326,472	-	1,326,472	3,185,038	-	3,185,038
Net assets released from restrictions	9,458,502	(9,458,502)	-	9,395,965	(9,395,965)	-
Total revenues	<u>60,074,707</u>	<u>(836,057)</u>	<u>59,238,650</u>	<u>65,759,604</u>	<u>958,560</u>	<u>66,718,164</u>
Expenses:						
Insurance	34,077,546	-	34,077,546	32,311,297	-	32,311,297
Compensation and benefits	11,234,998	-	11,234,998	11,229,023	-	11,229,023
Program subsidies	3,118,590	-	3,118,590	2,665,318	-	2,665,318
Professional fees	2,929,783	-	2,929,783	2,766,176	-	2,766,176
Property costs and depreciation	2,677,941	-	2,677,941	2,891,913	-	2,891,913
Priest retirement benefits	2,108,849	-	2,108,849	874,604	-	874,604
Other operating expenses	1,757,188	-	1,757,188	1,825,099	-	1,825,099
Office expenses	923,184	-	923,184	1,000,907	-	1,000,907
Interest paid to schools and institutions	888,503	-	888,503	846,575	-	846,575
Assessments	299,615	-	299,615	343,462	-	343,462
Provision for uncollectible accounts	174,407	-	174,407	-	-	-
Total expenses	<u>60,190,604</u>	<u>-</u>	<u>60,190,604</u>	<u>56,754,374</u>	<u>-</u>	<u>56,754,374</u>
Change in net assets before loss on sale of property, land, and equipment	(115,897)	(836,057)	(951,954)	9,005,230	958,560	9,963,790
Loss on sale of property, land, and equipment	<u>(322,826)</u>	<u>-</u>	<u>(322,826)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in net assets	(438,723)	(836,057)	(1,274,780)	9,005,230	958,560	9,963,790
Net assets, beginning of year	<u>132,911,423</u>	<u>44,656,780</u>	<u>177,568,203</u>	<u>123,906,193</u>	<u>43,698,220</u>	<u>167,604,413</u>
Net assets, end of year	<u>\$ 132,472,700</u>	<u>\$ 43,820,723</u>	<u>\$ 176,293,423</u>	<u>\$ 132,911,423</u>	<u>\$ 44,656,780</u>	<u>\$ 177,568,203</u>

The accompanying notes are an integral part of these financial statements.

**CENTRAL ADMINISTRATIVE OFFICE OF THE
ROMAN CATHOLIC ARCHDIOCESE OF SAN FRANCISCO**

STATEMENTS OF FUNCTIONAL EXPENSES

For the years ended June 30, 2020 and 2019

	2020					2019				
	Program Services	Supporting Services			Total	Program Services	Supporting Services			Total
		General and Administrative	Development	Total Supporting Services			General and Administrative	Development	Total Supporting Services	
Expenses:										
Insurance	\$ 34,077,546	\$ -	\$ -	\$ -	\$ 34,077,546	\$ 32,311,297	\$ -	\$ -	\$ -	\$ 32,311,297
Compensation and benefits	7,639,915	2,977,843	617,240	3,595,083	11,234,998	7,733,378	2,879,885	615,760	3,495,645	11,229,023
Program subsidies	3,099,333	3,684	15,573	19,257	3,118,590	2,593,095	18,239	53,984	72,223	2,665,318
Professional fees	1,292,969	1,629,864	6,950	1,636,814	2,929,783	1,147,777	1,595,913	22,486	1,618,399	2,766,176
Property costs and depreciation	1,052,373	1,575,642	49,926	1,625,568	2,677,941	1,039,823	1,797,639	54,451	1,852,090	2,891,913
Priest retirement benefits	2,108,849	-	-	-	2,108,849	874,404	200	-	200	874,604
Other operating expenses	1,688,694	54,841	188,060	242,901	1,931,595	1,363,291	283,096	178,712	461,808	1,825,099
Interest paid to schools and institutions	888,503	-	-	-	888,503	846,575	-	-	-	846,575
Assessments	600	299,015	-	299,015	299,615	34,398	309,064	-	309,064	343,462
Office expenses	579,030	192,793	151,361	344,154	923,184	671,820	177,859	151,228	329,087	1,000,907
Total expenses	\$ 52,427,812	\$ 6,733,682	\$ 1,029,110	\$ 7,762,792	\$ 60,190,604	\$ 48,615,858	\$ 7,061,895	\$ 1,076,621	\$ 8,138,516	\$ 56,754,374

The accompanying notes are an integral
part of these financial statements.

**CENTRAL ADMINISTRATIVE OFFICE OF THE
ROMAN CATHOLIC ARCHDIOCESE OF SAN FRANCISCO**

STATEMENTS OF CASH FLOWS

For the years ended June 30, 2020 and 2019

	2020	2019
Cash flows from operating activities:		
Change in net assets	\$ (1,274,780)	\$ 9,963,790
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Change in beneficial interest in a perpetual trust	18,880	16,664
Investment income	(1,557,955)	(6,788,682)
Depreciation	1,722,584	1,839,894
Loss on sale of property, land and equipment	322,826	-
Provision for uncollectable accounts	174,407	-
Change in operating assets and liabilities:		
Receivables	(2,716,826)	249,441
Prepaid and other assets	254,909	221,463
Accounts payable and accrued liabilities	3,194,195	(4,774,462)
Deferred lease revenue	(101,739)	(101,739)
Net cash provided by operating activities	36,501	626,369
Cash flows from investing activities:		
Purchase of investments	(94,137,012)	(85,242,006)
Proceeds from sale of investments	103,587,459	91,383,963
Purchase of property, land, and equipment	(228,792)	(197,493)
Proceeds from sale of property, land, and equipment	6,344,625	-
Net cash provided by investing activities	15,566,280	5,944,464
Cash flows from financing activities:		
Investment income on endowed assets	(115,210)	(2,055,454)
Assets held for schools and institutions liability	(267,815)	(454,856)
Change in equity held for others in pooled investments	(2,699,109)	5,793,038
Investment pool loss (income) on equity of others	107,538	(3,283,935)
Proceeds from line of credit - Capital Assets Support Corporation	1,000,000	-
Payments on note payable - Capital Assets Support Corporation	(3,220,596)	(132,434)
Proceeds from note payable - Paycheck Protection Program	1,876,500	-
Net cash used in financing activities	(3,318,692)	(133,641)
Net increase in cash and cash equivalents	12,284,089	6,437,192
Cash, cash equivalents and time certificate of deposit, beginning of year	97,782,529	91,345,337
Cash, cash equivalents and time certificate of deposit, end of year	\$ 110,066,618	\$ 97,782,529
Supplemental disclosure of cash flow information:		
Cash paid for interest on deposits and note payable	\$ 888,503	\$ 846,575

The accompanying notes are an integral part of these financial statements.

**CENTRAL ADMINISTRATIVE OFFICE OF THE
ROMAN CATHOLIC ARCHDIOCESE OF SAN FRANCISCO**

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

1. The Chancery

The Roman Catholic Archbishop of San Francisco, a California Corporation Sole (the “Corporation Sole”), was incorporated on February 24, 1854. The Corporation Sole operates the Central Administrative Office of the Roman Catholic Archdiocese of San Francisco (the “Chancery”). Other operating divisions of the Corporation Sole include certain parishes, schools, cemeteries, and certain Catholic sites within the Archdiocese such as the Vallombrosa Center.

The accompanying financial statements include only the Chancery and those funds over which the Chancery maintains direct operational control. Such statements do not include any assets or liabilities of the other operating divisions of the Corporation Sole as described above. In addition, the accompanying financial statements do not include, or pertain to, separate and independent corporate entities affiliated with the Corporation Sole that are located within The Roman Catholic Archdiocese of San Francisco (the “Archdiocese”).

A significant portion of the Chancery’s revenues are derived from assessments obtained from and fees for services provided to parishes, schools and other Archdiocesan institutions, as well as rental income from certain properties. These revenues are expended by the Chancery for the various programs, ministries, and needs of the Chancery. In addition, the Chancery administers the Archdiocesan insurance program and priest and lay employees’ supplemental pension plans.

The Chancery office administers funds on behalf of certain institutions, as well as the Chancery, in an investment pool invested with fund managers in separate custodial accounts. The Chancery also administers a Deposit and Loan fund on behalf of high schools and certain institutions. Ownership by specific funds or entities in the investment pool is accounted for on a pooled unit value method based on fair values. Assets held for schools and institutions and equity of others in pooled investments are reflected as liabilities.

2. Assignment to Support Corporations

The Capital Assets Support Corporation (“CASC”) and The Archdiocese of San Francisco Parish and School Juridic Persons Real Property Support Corporation (“RPSC”), collectively referred to as the “Support Corporations,” are separate and distinct corporations from the Corporation Sole. The Support Corporations have existed since 2008 for the expressed purpose of owning and maintaining certain real properties and capital assets in order for the civil structure of asset ownership to conform closely with Canon law and to support the mission of parishes, schools, and cemeteries that are operated civilly by the Corporation Sole.

To achieve that purpose, in 2008 the Corporation Sole irrevocably and unconditionally assigned, transferred and conveyed rights, title and interest in certain real property to the RPSC. The assignment also affects any real property or improvements thereto as defined by the assignment, including certain real property held by the Chancery (see Note 9).

The Corporation Sole and Support Corporations are financially interrelated organizations; therefore, at the date of transfer of certain real property held by the Chancery, the transfer is treated as an equity transfer and the carrying value of the asset transferred is reclassified as a beneficial interest in the RPSC’s net assets (see Note 9).

Continued

**CENTRAL ADMINISTRATIVE OFFICE OF THE
ROMAN CATHOLIC ARCHDIOCESE OF SAN FRANCISCO**

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

3. Summary of Significant Accounting Policies

Basis of Presentation

The accounts of the Chancery are maintained in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) and the principles of fund accounting. This is the procedure by which resources for various purposes are classified for accounting purposes into funds in accordance with specified activities or objectives. For financial statement purposes, all financial transactions are reported by class of net assets as prescribed for not-for-profit entities. The following is a description of the classes of net assets included in the financial statements.

Net Assets without Donor Restrictions

Net assets without donor restriction consists of all resources of the Chancery that have not been restricted by a donor. Certain unrestricted resources have been internally designated for specific purposes.

Net Assets without Donor Restrictions - Designated

Designated net assets consists of amounts set aside to supplement the various operations carried on by the Chancery (see Note 15).

Net Assets with Donor Restrictions

Net assets with donor restrictions are those assets subject to donor-imposed restrictions. Some donor-imposed 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-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. The income and appreciation from such resources, once approved by the Chancery, is available for either general operations or specific programs as specified by the donor. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as with donor restriction revenue when received and net assets released from restriction when the assets are placed in service. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Net Assets with Donor Restrictions - Endowments

Endowment net assets consists of assets which use has been restricted for investment in perpetuity as donor-restricted endowments. The income from endowments is available for either general operations or specific programs as specified by the donor.

Management has interpreted the State of California’s enacted version of the Uniform Prudent Management of Institutional Funds Act (“UPMIFA”) as requiring the preservation of the fair value of the original gift as of the date donated for the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result, the Chancery’s net assets with donor restrictions consists of the fair value of the original gifts as of the date donated to the donor-restricted endowment.

Accrual Basis

The financial statements of the Chancery have been prepared on the accrual basis of accounting.

Continued

**CENTRAL ADMINISTRATIVE OFFICE OF THE
ROMAN CATHOLIC ARCHDIOCESE OF SAN FRANCISCO**

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

3. Summary of Significant Accounting Policies, continued

Cash and Cash Equivalents

For the purposes of these financial statements, cash and cash equivalents is considered to be cash on hand, bank deposits, money market funds, and certain mutual funds which are highly liquid. Cash and cash equivalents includes certain funds that have been internally designated by the Chancery (see Note 5).

Concentration of Credit Risk

Financial instruments that potentially subject the Chancery to concentrations of credit risk consist principally of cash and cash equivalents and time certificates of deposit. Such balances with any one institution may, at times, be in excess of federally insured limits. Risks associated with cash and cash equivalents and time certificates of deposit are mitigated by banking with credit worthy institutions. The Chancery has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk.

Investments in general are exposed to various risks, such as interest rate, credit, and overall market volatility. To address the risk of investments, the Chancery maintains a diversified portfolio, subject to an investment policy that sets out performance criteria, investment guidelines, and asset allocation guidelines, and requires review of the investment performance. Investments are managed by multiple investment managers, who have responsibility for investing the funds in various investment classes. This entire process is actively overseen by the Investment Committee of the Archdiocese of San Francisco. Investments are secured up to a limit set by the Securities Investor Protection Corporation (“SIPC”). As of June 30, 2020 and 2019, the Chancery held investments in excess of the SIPC insurance limits.

Investments

Investments in equity securities and in debt securities are reported at fair value, with current period recognition of increases or decreases in fair value shown in the statements of activities. Investments also include cash and cash equivalents held by investment custodians. Investment income recorded on the statements of activities includes interest and dividend income, as well as realized and unrealized gains and losses. Investments are held in markets which at times are volatile and can result in temporary significant unrealized gains or losses.

Receivables

Receivables consists of loans, notes, accounts and other non-trade receivables and assessments receivable from schools and other archdiocesan institutions. Credit is extended based upon the evaluation of the entity’s financial condition and other factors and, generally, collateral is not required, except in certain isolated cases where property is sold involving a note receivable and a deed of trust is obtained. Loans and notes receivable have variable maturity dates and are generally due in accordance with scheduled payments. The allowance for doubtful accounts and loan losses are determined based on a consideration of a number of factors, including the Chancery’s previous loss history, the entity’s previous payment history, financial condition and ability to pay, and the condition of the general economy. The Chancery writes off accounts receivable, loans, and notes receivable to the allowance when they are determined to be uncollectible. The Chancery determined an allowance for doubtful accounts based on credit worthiness and collectability of its loans. Payments subsequently received on accounts, loans, and notes previously written off are credited to the bad debt provision.

Continued

**CENTRAL ADMINISTRATIVE OFFICE OF THE
ROMAN CATHOLIC ARCHDIOCESE OF SAN FRANCISCO**

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

3. Summary of Significant Accounting Policies, continued

Receivables, continued

Interest accrues on loans and notes receivable monthly in accordance with the applicable interest rates. Interest accruals are discontinued when it is determined that a specific allowance is required against a loan or note. Interest income is subsequently recognized on such loans, or a note, only to the extent cash is subsequently received.

Property, Land, and Equipment

Property, land, and equipment that are legally held in the name of the Corporation Sole, which are used by the Chancery, are stated at cost if purchased or at fair value at the date of the gift if donated. Also included are certain properties held by the Chancery for which the Chancery has canonical oversight.

For properties placed in service, depreciation is provided in amounts sufficient to amortize the cost of depreciable assets to operations over their estimated services lives, ranging from 5 to 40 years, using the straight-line method.

Canonical Oversight of Closed Parishes and Parish Schools

The Chancery, on behalf of the Corporation Sole, assumes canonical responsibility for the management of closed parish and school sites, including the management of property, land, and equipment of those sites. Upon the suppression of a parish and/or its related school, if any, as a juridic person, its properties are passed on to the superior juridic person, the Corporation Sole, if no other juridic person has been established or assigned to care for the property.

If the Chancery does not expect to be the ultimate economic beneficiary of the property of closed parishes and schools or bear the risk of loss, it does not record an asset for the related property. If the economic beneficiary is uncertain, the Chancery records an asset and corresponding liability, as an agent, for the related property. If any of those properties have operations, the Chancery will recognize the related operations if it anticipates being the economic beneficiary of the related property. When the Chancery does not record the property of closed parishes and schools, or recognizes the property as an agent, the related operations are recognized and are accounted for by other responsible parties. When the canonical oversight of certain closed parish and/or school property has been assigned from the Chancery to another juridic person or responsible party, the Chancery recognizes an equity transfer and a corresponding reduction in any related assets and liabilities.

Beneficial Interest in Real Property Support Corporation

A beneficial interest is defined as a future economic benefit of an anticipated future cash flow or service potential. The Chancery has a beneficial interest in the RPSC's net assets (see Note 9) as a result of a transferred asset, the land of a closed parish. The beneficial interest is reported at the book value of the transferred asset at the date of transfer.

Deferred Lease Revenue

Deferred lease revenue consists of a lease payment received from a lessee for rental periods subsequent to the statement of financial position date. The non-cancelable minimum lease payment portion of the deferred lease revenue is recognized on a straight-line basis as rental income over the remaining prepayment period of 61 years.

Continued

**CENTRAL ADMINISTRATIVE OFFICE OF THE
ROMAN CATHOLIC ARCHDIOCESE OF SAN FRANCISCO**

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

3. Summary of Significant Accounting Policies, continued

Assets Held for Schools and Institutions (Liability)

The Chancery holds deposits for schools and institutions for investment purposes and/or loaned to other schools and institutions. Deposit interest rates averaged 1.75% and 1.25% for of the years ended June 30, 2020 and 2019, respectively.

Also included in the assets held for schools and institutions are proceeds from special collections administered by the United States Conference of Catholic Bishops and other special collections local to the Archdiocese and administered by the Chancery.

Revenue Recognition

Gifts, Bequests, and Collections

The Chancery reports gifts, bequests, and collections as net assets without donor restrictions unless they are received with donor stipulations that limit the use of the donated assets, in which case they are recorded as net assets with donor restriction. The Chancery recognizes all unconditional gifts and promises to give in the period notified, if deemed collectible. The Chancery recognizes conditional gifts once the conditions have met and, as of June 30, 2020, the Chancery had not received any conditional gifts.

Fees for Services

Fees for services are recognized over time as the Chancery satisfies the performance obligation, with the exception of advertising revenue that is recognized at a point in time when the performance obligation is satisfied. Rental income from property leases are recognized on a straight-line basis over the term of the lease. Other income, derived from assessments to other entities, are recognized when assessed.

Insurance

The Archdiocesan insurance program provides insurance coverage for parishes, schools and other operating divisions of the Corporation Sole. The program is administered by the Chancery and provides coverage in areas including, but not limited to, general liability, property, crime, fiduciary liability, medical and health, and workers' compensation. Insurance claims are substantially covered by a variety of insurance policies purchased by the Chancery, but are also partially covered by self-insured retention levels and deductible limits. Insurance revenues are recognized in the applicable period insurance coverage is provided to parishes, schools and other operating divisions.

Grants Payable

Grants payable are expensed when the unconditional promise to give is approved by the finance committee of the Archdiocese. Grants are authorized subject to certain restrictions, and failure of the recipients to meet these restrictions may result in cancellations or refunds. Grant refunds are recorded as a reduction of grant expense at the time the grant is refunded to the Foundation. Unconditional grants that are expected to be paid in more than one year are measured at the present value of the estimated future cash flows (see Note 11).

Continued

**CENTRAL ADMINISTRATIVE OFFICE OF THE
ROMAN CATHOLIC ARCHDIOCESE OF SAN FRANCISCO**

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

3. Summary of Significant Accounting Policies, continued

Income Taxes

The Roman Catholic Archbishop of San Francisco is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code, as set forth in the Roman Catholic Church's annual group ruling received from the Internal Revenue Service. However, income from activities not related to its tax exempt purpose may be subject to taxation as unrelated business income. These activities have historically generated losses and the Chancery has accumulated net operating loss carryforwards ("NOLs"). As of June 30, 2019, the most recent tax filing, the Chancery had NOLs of approximately \$158,521. There is no limitation on the use of these NOLs and they will begin to expire in 2031. The Chancery's ability to utilize the NOLs or realize any benefits is uncertain and, therefore, a full valuation allowance has been applied against them.

Fair Value Measurements

The Chancery follows the fair value measurement standards which define fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the assets or liabilities in an orderly transaction between market participants on the measurement date. Subsequent changes in fair value of these financial assets and liabilities are recognized in the change in net assets when they occur.

The Chancery uses various valuation approaches. A hierarchy has been established for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Chancery. Unobservable inputs are inputs that reflect the Chancery's assumptions about what market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. There have been no changes in valuation techniques for the years ended June 30, 2020 and 2019.

The Chancery's financial assets and liabilities measured at fair value on a recurring basis are categorized according to the fair value hierarchy consisting of the following three levels:

Level 1 – Valuation inputs are obtained from real-time quotes for transactions in active exchange markets involving identical assets and liabilities.

Level 2 – Valuation inputs are obtained from readily-available pricing sources for comparable instruments.

Level 3 – Valuation inputs are obtained without observable market value and require a high level of judgment to determine the fair value.

The categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Continued

**CENTRAL ADMINISTRATIVE OFFICE OF THE
ROMAN CATHOLIC ARCHDIOCESE OF SAN FRANCISCO**

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

3. Summary of Significant Accounting Policies, continued

Fair Value Measurements, continued

Fair Value of Investments Measured on the Basis of Net Asset Value Per Share

The Chancery follows fair value guidance measuring fair value for investment in certain investees on the basis of the Net Asset Value per share (“NAV”). The guidance permits, as a practical expedient, the use of the NAV as long as that value is calculated in a manner consistent with the measurement principles governing investment companies. The Chancery believes this method provides a basis for the fair value.

The Chancery uses NAV for determining the fair value of its investment in private real estate funds and global emerging markets mutual funds. These investments may not be immediately liquid nor have readily determinable fair values and are valued at amounts reported to the Chancery by the investee. These values may differ significantly from values that would have been used had a readily available market existed for such investments, and the differences could be material to the change in net assets of the Chancery.

Use of Estimates

In preparing financial statements in conformity with U.S. GAAP, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as revenues and expenses during the reporting period. Actual results could differ from those estimates.

The Chancery’s allowances for doubtful receivables and pledges and loans are significant estimates. The determination of the balances in the allowances accounts is based on an analysis of the receivables, pledges and loans and reflect amounts which, in management’s judgment, are adequate to provide for potential losses after giving consideration to the character of the receivables and loan portfolio, current economic conditions, past collection experience, and such other factors that deserve recognition in estimating losses.

Conditional Asset Retirement Obligation

In the ordinary course of business, the Chancery may need to comply with certain legal obligations as part of a demolition or major renovation of a facility. The Chancery currently has no plans for demolition or major renovation. The Chancery will continue to review potential asset retirement obligations and record a liability when sufficient information exists to indicate that such an obligation has been incurred and to estimate the fair value of an asset retirement obligation.

Functional Classification of Expenses

The costs of providing the various program services have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated, principally on a direct basis, among the programs and supporting services.

Certain categories of expenses are attributable to more than one program or supporting function and are allocated on a reasonable basis that is consistently applied. The expenses that are allocated are compensation and benefits and overhead expenses, which are allocated on the basis of estimates of time and effort.

Continued

**CENTRAL ADMINISTRATIVE OFFICE OF THE
ROMAN CATHOLIC ARCHDIOCESE OF SAN FRANCISCO**

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

3. Summary of Significant Accounting Policies, continued

Changes in Accounting Principles

During the year ended June 30, 2020, the Chancery adopted the requirements of the FASB Accounting Standards Update (“ASU”) 2018-08, *Clarifying the Scope of the Accounting Guidance for Contributions Received and Contributions Made (Topic 958)* (“ASU 2018-08”). The Chancery evaluates all contributions received against ASU 2018-08 to determine whether they are non-reciprocal contributions or exchange transactions, and whether a contribution is conditional. ASU 2018-08 was applied using the modified prospective approach. There was no material impact to the financial statements.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)* (“ASU 2014-09”), to clarify the principles of recognizing revenue. Under ASU 2014-09, revenue is recognized when a customer obtains control of promised goods or services and is recognized at an amount that reflects the consideration expected to be received in exchange for goods or services. The Chancery adopted ASU 2014-09 for the year ended June 30, 2020 using the modified retrospective approach. There was no material impact to the financial statements.

In July 2017, the FASB issued ASU No. 2017-07, *Compensation – Retirement Benefits (Topic 715)* (“ASU 2017-07”). ASU 2017-07 requires an entity to report the service cost component in the same line item as other compensation costs. The other components of net (benefit) cost will be required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations. The Chancery adopted ASU 2017-07 effective July 1, 2019 and no material impact or material additional disclosures were added for implementation.

Recent Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)* (“ASU 2016-02”). ASU 2016-02 requires lessees to recognize a right-of-use asset and lease liability for virtually all leases (other than leases that meet the definition of a short-term lease). ASU 2016-02 was originally effective for years beginning after December 15, 2020. However, in June 2020, the FASB issued ASU 2020-05, *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842)—Effective Dates for Certain Entities*, which extended the effective date for ASU 2016-02 until years beginning after December 15, 2021. The Chancery is in the process of evaluating the impact of ASU 2016-02 on the Chancery’s financial statements.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement* (“ASU 2018-13”). ASU 2018-13 amends Accounting Standards Codification (“ASC”) 820 to add, remove, and modify fair value measurement disclosure requirements. ASU 2018-13 is effective for interim and annual periods beginning after December 15, 2019, with early adoption permitted. The Chancery is currently evaluating the effects of adopting ASU 2018-13.

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**CENTRAL ADMINISTRATIVE OFFICE OF THE
ROMAN CATHOLIC ARCHDIOCESE OF SAN FRANCISCO**

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

4. Liquidity and Availability

Financial assets available for general expenditure without donor restrictions limiting their use within one year the balance sheet date comprise the following as of June 30:

	2020	2019
Cash and cash equivalents and time certificates of deposit	\$ 110,066,619	\$ 97,782,530
Investments	141,407,851	149,292,671
Receivables:		
Loans receivable	768,983	462,493
Pledges and assessments, net	4,060,344	3,133,237
Other receivables, net	4,027,911	2,719,089
Beneficial interest in a perpetual trust	1,005,493	1,024,373
Total financial assets	261,337,201	254,414,393
Less: net assets with donor restrictions	(43,820,723)	(44,656,780)
Less: collections receivable in more than one year	(695,353)	(392,281)
Plus: amount appropriated for expenditure and release of restrictions for the following year	8,549,526	8,402,034
Less: other designated assets:		
Assets held for schools and institutions	(50,582,701)	(50,850,516)
Equity of others in pooled investments	(44,647,795)	(47,346,904)
Other funds:		
Deposit and loan	(1,127,787)	(1,363,492)
Priests' retirement	(12,452,586)	(12,747,161)
Insurance and benefits	(51,968,861)	(49,537,803)
Current fund: other operating and priest education	(22,543,778)	(19,117,183)
High school loan - committed FY20	(500,000)	-
Financial assets available to meet cash needs for general expenditure within one year	\$ 41,547,143	\$ 36,804,307

A summary cash and investment analysis is presented to the Finance Council at least annually, providing the cash and investment position for the current year, plus projections of cash requirements for the next five years. The Finance Council has directed the Chancery to maintain a \$15,000,000 reserves in its corpus. As part of the Chancery's liquidity and cash management plan, cash requirements are reviewed on a weekly basis. Excess short-term cash is invested in either money market funds or in Time Certificates of Deposits with a maturity date not to exceed 90 days.

Continued

**CENTRAL ADMINISTRATIVE OFFICE OF THE
ROMAN CATHOLIC ARCHDIOCESE OF SAN FRANCISCO**

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

5. Cash and Cash Equivalents and Time Certificates of Deposits

Cash and cash equivalents and time certificates of deposits were held for the benefit of the following funds as of June 30:

	2020	2019
Current fund - without donor restriction	\$ 13,418,544	\$ 5,849,929
Deposit and loan fund	50,080,778	49,814,249
Insurance and benefits	32,051,212	27,444,668
Current fund - with donor restriction	1,596,887	1,421,971
Priests' retirement fund - without donor restriction	9,139,113	7,898,214
Other designated funds	379,440	835,742
Other with donor restriction	2,665,653	3,714,580
Other	734,992	803,177
Total cash and cash equivalents and time certificates of deposit	\$ 110,066,619	\$ 97,782,530

Cash and cash equivalents and time certificates of deposits consisted of the following as of June 30:

	2020	2019
Cash and cash equivalents	\$ 109,906,619	\$ 87,597,530
Time certificates of deposit	160,000	10,185,000
Total cash and cash equivalents and time certificates of deposit	\$ 110,066,619	\$ 97,782,530

6. Investments

The Chancery administers an investment pool, as an owner and agent through independent custodial arrangements, for the benefit of various Archdiocesan entities. The funds deposited by, or on behalf of, each participant is the sole property of that participant and are processed by the investment pool service providers and the Chancery as agents and custodians for the participants.

The investment pool was established for participants with long-term horizons, moderate growth and income requirements, and moderate risk objectives. The investment pool invests in stocks and bonds and alternative assets. The investment pool is operated under the total return concept, which allocates income (loss) to each participant based upon the total return earned in invested funds, including realized and unrealized gains and losses, and investment management fees.

Continued

**CENTRAL ADMINISTRATIVE OFFICE OF THE
ROMAN CATHOLIC ARCHDIOCESE OF SAN FRANCISCO**

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

6. Investments, continued

Investments were held as follows as of June 30:

	2020	2019
Investment pool:		
Chancery's equity in pooled investments	\$ 94,296,153	\$ 95,918,772
Others' equity in pooled investments	44,498,795	47,189,904
	138,794,948	143,108,676
Other investments	2,612,903	6,183,995
Total investments	\$ 141,407,851	\$ 149,292,671

Total investment income for the investment pool, including investment income allocated to others in the pooled investments, was \$265,776 and \$10,096,092 for the years ended June 30, 2020 and 2019, respectively.

The Chancery's investment income, including its investment income from the investment pool, was as follows for the year ended June 30:

	2020		
	Investment Pool	Other Investment Activities	Total
Interest and dividends	\$ 1,597,082	\$ 1,311,349	\$ 2,908,431
Net realized and unrealized losses on investments	(1,223,769)	(11,497)	(1,235,266)
Investment income	373,313	\$ 1,299,852	\$ 1,673,165
Investment pool gain on equity of others	122,362		
Undistributed net earnings	(229,900)		
Total investment pool income, net	\$ 265,775		

Continued

**CENTRAL ADMINISTRATIVE OFFICE OF THE
ROMAN CATHOLIC ARCHDIOCESE OF SAN FRANCISCO**

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

6. Investments, continued

The Chancery's investment income, including its investment income from the investment pool, was as follows for the year ended June 30:

	2019		Total
	Investment Pool	Other Investment Activities	
Interest and dividends	\$ 1,515,560	\$ 1,954,433	\$ 3,469,993
Net realized and unrealized gains on investments	5,296,597	77,545	5,374,142
Investment income	6,812,157	\$ 2,031,978	\$ 8,844,135
Investment pool gain on equity of others	3,325,614		
Undistributed net earnings	(41,679)		
Total investment pool income, net	\$ 10,096,092		

7. Receivables

Loans Receivable

The Chancery has a loan outstanding from Junipero Serra High School with balances of \$392,281 and \$462,493 for the years ended June 30, 2020 and 2019, respectively. The receivable is unsecured and matures through 2025 with interest at 5.5%. Additionally, for the year ended June 30, 2020, the Chancery has loaned \$375,000 and has an outstanding loan balance of \$376,702 from Archbishop Riordan High School. The receivable is unsecured and matures through 2021 with interest at 5.5%. As of June 30, 2020 and 2019, no allowance was recorded related to these loans. Subsequent to year end June 30, 2020, the High School has paid the balance off in full.

Pledges and Assessments, Net

Pledges and assessments, net, consisted of the following as of June 30:

	2020	2019
Pledges and assessments, net:		
Archdiocesan Annual Appeal	\$ 4,503,493	\$ 3,594,945
Less: allowance for uncollectible pledges	(443,149)	(461,708)
Total pledges and assessments, net	\$ 4,060,344	\$ 3,133,237

All pledges receivable are initially due within one year.

Continued

**CENTRAL ADMINISTRATIVE OFFICE OF THE
ROMAN CATHOLIC ARCHDIOCESE OF SAN FRANCISCO**

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

7. Receivables, continued

Other Receivables, Net

Other receivables, net consisted of the following as of June 30:

	2020	2019
Other receivables, net:		
Note receivable - Diocese of Santa Rosa	\$ 1,410,000	\$ 1,410,000
Other notes receivable	64,988	64,988
Parish and school receivables	4,266,345	2,631,635
Miscellaneous receivables	442,005	655,392
Less: allowance for doubtful accounts	(2,155,427)	(2,042,926)
Total other receivables, net	\$ 4,027,911	\$ 2,719,089

Notes receivable, which are unsecured, mature at various dates with interest ranging from 5.5% to 8.0%. The Chancery determines an allowance for doubtful accounts based on the credit worthiness and collectability of each note. The Chancery determines an allowance for doubtful accounts based on the credit worthiness and collectability of its loan. The note receivable from the Diocese of Santa Rosa may not be collectible and is included in full in the allowance for doubtful accounts.

Receivables are collected as follows as of June 30:

	2020	2019
Less than one year:		
Pledges and assessments	\$ 4,503,493	\$ 3,594,945
Other receivables	6,183,338	4,762,015
Loans receivable	73,630	70,212
More than one year:		
Loans receivable	695,353	392,281
Less: allowance for doubtful accounts	(2,598,576)	(2,504,634)
Total receivables, net	\$ 8,857,238	\$ 6,314,819

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**CENTRAL ADMINISTRATIVE OFFICE OF THE
ROMAN CATHOLIC ARCHDIOCESE OF SAN FRANCISCO**

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

8. Property, Land, and Equipment

Property, land, and equipment consisted of the following as of June 30:

	2020	2019
Buildings and improvements	\$ 39,026,324	\$ 48,333,580
Equipment	2,477,720	2,692,288
Automobiles	128,096	170,886
	41,632,140	51,196,754
Accumulated depreciation	(23,831,598)	(26,179,339)
	17,800,542	25,017,415
Land	5,985,202	6,826,482
Construction in progress	-	103,090
Total property, land, and equipment, net	\$ 23,785,744	\$ 31,946,987

Depreciation expense totaled \$1,722,584 and \$1,839,894 for the years ended June 30, 2020 and 2019, respectively.

The Chancery did not assume canonical responsibility for any parishes and or schools for the years ended June 30, 2020 and 2019 (see Note 3).

On September 27, 2019, the sale of St. Mary's Parking Garage was finalized and the Chancery received proceeds of \$6,340,000. A loss of \$322,826 was recognized upon the sale.

Three properties for which the Chancery has oversight remain as property, land, and equipment of the Chancery. They are the National Shrine of St. Francis of Assisi (including building improvement expenditures), St. Brigid Rectory, and St. Michael Convent. They are carried at \$3,728,060 and \$4,198,604 as of June 30, 2020 and 2019, respectively.

An 8.96% interest in St. Vincent's Property, as a tenant in common, is included in land in the amount of \$2,910,748 as of June 30, 2020 and 2019.

9. Beneficial Interest in Real Property Support Corporation

The beneficial interest in the RPSC represents land of a closed parish where the legal title is held by the RPSC for which the Chancery has ongoing canonical oversight (see Note 8). Beneficial interest in RPSC was \$333,874 for each of the years ended June 30, 2020 and 2019.

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**CENTRAL ADMINISTRATIVE OFFICE OF THE
ROMAN CATHOLIC ARCHDIOCESE OF SAN FRANCISCO**

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

10. Beneficial Interest in a Perpetual Trust

The Corporation Sole is an income beneficiary named under two perpetual trusts, which are managed by third parties. The Corporation Sole does not have rights to the trust assets. Income distributed by the trust is to be expended for seminarian development in the form of scholarships and social ethnic and cultural services. The Chancery has recorded the fair value of the trusts' assets held as of June 30, 2020 and 2019. This change in fair value is shown as a change in net assets with donor restrictions (see Note 18).

11. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consisted of the following as of June 30:

	2020	2019
Accounts payable	\$ 484,357	\$ 644,710
Accrued vacation	658,610	625,533
Accrued liabilities and other payables	3,626,058	1,824,095
Deferred revenue	1,584,133	1,188,274
High school grant payable	500,000	-
Pension payables	888,739	265,090
Total accounts payable and accrued liabilities	\$ 7,741,897	\$ 4,547,702

12. Assets Held for Schools and Institutions

Assets held for schools and institutions consisted of the following as of June 30:

	2020	2019
Deposit and loan fund:		
Cash and cash equivalents	\$ 48,957,083	\$ 38,301,783
Time certificates of deposit	-	10,000,000
Receivables from schools and institutions	768,983	462,493
Investments	-	776,765
	49,726,066	49,541,041
Special collections	153,672	541,805
Benedict XVI Institute	10,000	50,000
Society for the Propagation of the Faith funds	688,432	717,670
Other	4,531	-
Total assets held for schools and institutions	\$ 50,582,701	\$ 50,850,516

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**CENTRAL ADMINISTRATIVE OFFICE OF THE
ROMAN CATHOLIC ARCHDIOCESE OF SAN FRANCISCO**

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

13. Borrowing from CASC

Line of Credit - Capital Assets Support Corporation

The Chancery received a line of credit from CASC for a term of three years maturing April 2023. The line is for \$1,000,000, with no interest. The line's purpose is to provide additional loans up to \$80,000 to individual parishes. As of June 30, 2020, \$0 has been loaned to parishes.

Note Payable - Capital Assets Support Corporation

The Chancery had an uncollateralized note payable to the CASC, for construction costs of the parking garage at St. Mary's Chinese Center, payable in monthly installments of \$26,129, including interest of 5.5%, maturing on December 31, 2025. Upon successful sale of the parking garage, the Chancery paid the outstanding loan balance to CASC in full. The balance was \$3,220,596 as of June 30, 2019.

14. Note Payable - Paycheck Protection Program

In April 2020, the Chancery received loan proceeds in the amount of \$1,876,500 under the Paycheck Protection Program ("PPP"). The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act ("CARES Act"), provides for loans to qualifying entities for amounts up to 2.5 times of the average monthly payroll expenses of the qualifying business. The Chancery has accounted for the PPP loan as debt. The loan and accrued interest are eligible for forgiveness after 24 weeks as long as the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintains its payroll levels. The amount of loan forgiveness will be reduced if the borrower terminates employees or reduces salaries during the 24-week period. The unforgiven portion of the PPP loan is payable over two years, due April 25, 2022, at an interest rate of 1%, with a deferral of payments for the first six months. The Chancery intends to use the proceeds for purposes consistent with the PPP. The terms noted above are per the agreement noted in April 2020 and are subject to change based on changing laws and legislation related to the PPP and CARES Act.

As of June 30, 2020, principal maturities were as follows:

Year ending June 30:	
2021	\$ 726,409
2022	<u>1,150,091</u>
	<u><u>\$ 1,876,500</u></u>

Continued

**CENTRAL ADMINISTRATIVE OFFICE OF THE
ROMAN CATHOLIC ARCHDIOCESE OF SAN FRANCISCO**

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

15. Net Assets Without Donor Restriction - Designated

Net assets without donor restriction that are designated consisted of the following as of June 30:

	2020	2019
Insurance and benefits	\$ 51,968,861	\$ 49,537,791
Other designated	22,044,268	18,591,203
Priests' Retirement/SERP	11,638,375	12,045,344
Deposit & Loan - Institutional	1,127,787	1,363,492
Priests' Surcharge Fund	814,211	701,817
Department of Catholic Schools	55,446	112,399
Priests' education	499,510	525,980
Total designated net assets	\$ 88,148,458	\$ 82,878,026

16. Net Assets With Donor Restrictions

Net assets with donor restrictions were restricted for the following purposes as of June 30:

	2020	2019
Subject to expenditure for specified purpose:		
Archdiocesan Annual Appeal	\$ 6,686,586	\$ 6,772,751
Education assistance, tuition, scholarships, and grants	6,312,905	6,382,364
Social, ethnic, and cultural	913,769	968,633
Religious personnel education and development	381,581	234,064
Pastoral programs	393,289	407,059
Building improvements	52,592	31,951
	14,740,722	14,796,822
Endowments:		
Subject to the Chancery's endowment spending policy and appropriation:		
Restricted by donors for:		
Education assistance and tuition	27,262,143	28,033,751
Not subject to the Chancery's endowment spending policy or appropriation:		
Social, ethnic and cultural services	274,476	280,609
Religious personnel education and development	1,118,911	1,130,422
Building improvements	423,471	414,176
Mass stipends	1,000	1,000
	29,080,001	29,859,958
	\$ 43,820,723	\$ 44,656,780

Continued

**CENTRAL ADMINISTRATIVE OFFICE OF THE
ROMAN CATHOLIC ARCHDIOCESE OF SAN FRANCISCO**

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

17. Net Assets Released from Restrictions

Net assets were released from donor restrictions for the following purposes during the years ended June 30:

	2020	2019
Archdiocesan Annual Appeal	\$ 6,941,322	\$ 6,801,376
Education assistance, tuition, scholarships, and grants	1,287,945	1,158,127
Social, ethnic, and cultural services	598,668	151,316
Religious personnel education and development	79,180	699,635
Pastoral programs	13,770	49,465
Priests' retirement	499,510	531,811
Building improvements	38,107	4,235
Total net assets released from restrictions	\$ 9,458,502	\$ 9,395,965

18. Donor Restricted Endowments

Endowment Investment and Distribution Policy

Under Finance Council guidelines, annual distribution for scholarships cannot exceed 4% of a three-year rolling average balance of the endowment or estimated interest and dividends if the endowment fair value is less than the donations (underwater). Currently, there is not a spending policy regarding religious education, building improvements, and mass stipends. For the years ended June 30, 2020 and 2019, there were no endowments underwater. To achieve its distribution policy, endowment assets are invested in a balanced portfolio comprised principally of equity securities, debt securities, mutual funds, private real estate and cash designed to achieve a long-term investment objective of moderate growth and income return with prudent risk constraints.

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**CENTRAL ADMINISTRATIVE OFFICE OF THE
ROMAN CATHOLIC ARCHDIOCESE OF SAN FRANCISCO**

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

18. Donor Restricted Endowments, continued

Endowment Investment and Distribution Policy, continued

Changes in endowment net assets were as follows for the years ended June 30:

	2020	2019
	With Donor Restrictions	With Donor Restrictions
Education assistance and tuition		
Endowment net assets, beginning of year	\$ 28,033,751	\$ 26,971,157
Contributions	74,698	-
Investment income	115,304	2,003,109
Amounts appropriated for expenditure	(961,610)	(940,515)
Endowment net assets, end of year	\$ 27,262,143	\$ 28,033,751
Religious personnel education and development		
Endowment net assets, beginning of year	\$ 1,130,422	\$ 1,120,333
Investment income	1,236	23,825
Change in beneficial interest in perpetual trust	(12,747)	(13,736)
Endowment net assets, end of year	\$ 1,118,911	\$ 1,130,422
Social, ethnic and cultural services		
Endowment net assets, beginning of year	\$ 280,609	\$ 283,537
Change in beneficial interest in perpetual trust	(6,133)	(2,928)
Endowment net assets, end of year	\$ 274,476	\$ 280,609
Building improvements		
Endowment net assets, beginning of year	\$ 414,176	\$ 388,008
Contributions	17,490	-
Investment (loss) income	(1,330)	28,520
Amounts appropriated for expenditure	(6,865)	(2,352)
Endowment net assets, end of year	\$ 423,471	\$ 414,176
Mass stipends		
Endowment net assets, beginning of year	\$ 1,000	\$ 1,000
Endowment net assets, end of year	\$ 1,000	\$ 1,000
Total endowment net assets		
Endowment net assets, beginning of year	\$ 29,859,958	\$ 28,764,035
Contributions	92,188	-
Investment income	115,210	2,055,454
Change in beneficial interest in perpetual trust	(18,880)	(16,664)
Amounts appropriated for expenditure	(968,475)	(942,867)
Endowment net assets, end of year	\$ 29,080,001	\$ 29,859,958

Continued

**CENTRAL ADMINISTRATIVE OFFICE OF THE
ROMAN CATHOLIC ARCHDIOCESE OF SAN FRANCISCO**

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

18. Donor Restricted Endowments, continued

Endowment Investment and Distribution Policy, continued

Endowment net asset composition was as follows as of June 30:

	2020	2019
Donor-restricted endowment funds:		
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	\$ 18,851,090	\$ 18,807,212
Accumulated investment gains	10,228,911	11,052,746
	\$ 29,080,001	\$ 29,859,958

19. Pension Plans - Priests

Qualified Pension Trust

Archdiocesan priests are covered by a defined benefit pension plan (which operates as a multiple employer plan), the benefits of which were modified effective July 1, 2002. A qualified pension trust (“pension trust”) was established to hold the pension plan assets.

This plan is not subject to the Employee Retirement Income Security Act of 1974 (“ERISA”) funding requirements.

The following table sets forth further information about the plan as of and for the plan years ended July 1 (the latest valuation dates):

	2020	2019
Funding status:		
Present value of accrued liability	\$ (26,052,000)	\$ (26,121,000)
Market value of assets	26,220,000	26,375,000
	\$ 168,000	\$ 254,000
Contributions from Archdiocesan entities	\$ 1,600,000	\$ 440,654
Benefit payments to participants	\$ 1,661,253	\$ 1,557,023

Supplemental Defined Benefit Plan

Effective July 1, 2002, the Corporation Sole established a supplemental defined benefit priest retirement plan (which operates as a multiemployer non-qualified plan). This plan is not subject to the ERISA funding requirements.

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**CENTRAL ADMINISTRATIVE OFFICE OF THE
ROMAN CATHOLIC ARCHDIOCESE OF SAN FRANCISCO**

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

19. Pension Plans - Priests, continued

Supplemental Defined Benefit Plan, continued

The following table sets forth further information about the plan as of and for the plan years ended July 1 (the latest valuation dates):

	2020	2019
Funding status:		
Present value of accrued liability	\$ (6,384,000)	\$ (9,308,000)
Market value of assets	11,638,000	12,045,000
	\$ 5,254,000	\$ 2,737,000
Contributions from Archdiocesan entities	\$ 397,437	\$ 384,302
Benefit payments to participants	\$ 359,050	\$ 360,973

20. Pension Plan - Lay Employees

All full-time, non-priest employees of the Archdiocesan entities, such as the Chancery, parishes, elementary schools, and the St. Patrick's Seminary, are enrolled in the Archdiocese of San Francisco Parochial Pension Plan (the "Plan"), which is a cash balance type plan (which operates as a multiemployer plan). The Plan is noncontributory for employees. Employer contributions are 7% of each participant's annual earnings, and 5% interest is credited to beginning-of-year account balances. This Plan is not subject to the ERISA funding requirements.

The following table sets forth further information about the Plan as of and for the plan years ended December 31 (the latest valuation dates):

	2020	2019
Funding status:		
Present value of all accrued liability	\$ (129,724,000)	\$ (127,275,000)
Market value of assets	131,533,000	110,653,000
	\$ 1,809,000	\$ (16,622,000)
Contributions from Archdiocesan entities	\$ 7,293,505	\$ 7,264,800
Benefit payments to participants	\$ 9,010,302	\$ 11,852,798

Pension cost recognized by the Chancery was \$680,252 and \$658,193 for the years ended June 30, 2020 and 2019, respectively.

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**CENTRAL ADMINISTRATIVE OFFICE OF THE
ROMAN CATHOLIC ARCHDIOCESE OF SAN FRANCISCO**

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

21. Fair Value Measurements

The following table presents the Chancery's financial assets and liabilities measured at fair value on a recurring basis as of June 30, 2020:

	2020	Quoted Prices in Active Markets of Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	NAV
Assets:					
Cash equivalents:					
Money market funds	\$ 106,766,664	\$ 106,766,664	\$ -	\$ -	\$ -
Certificates of deposit	160,000	160,000	-	-	-
Total cash equivalents	<u>\$ 106,926,664</u>	<u>\$ 106,926,664</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Beneficial interest in perpetual trust	<u>\$ 1,005,493</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,005,493</u>	<u>\$ -</u>
Investments:					
Cash equivalents:					
Money market funds	<u>\$ 5,234,605</u>	<u>\$ 5,234,605</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total cash equivalents	<u>5,234,605</u>	<u>5,234,605</u>	<u>-</u>	<u>-</u>	<u>-</u>
Corporate stocks:					
Materials	1,229,417	1,229,417	-	-	-
Telecommunication services	6,070,750	6,070,750	-	-	-
Consumer discretionary	8,204,094	8,204,094	-	-	-
Consumer staples	8,109,203	8,109,203	-	-	-
Energy	926,641	926,641	-	-	-
Financial	8,726,650	8,726,650	-	-	-
Health care	3,375,927	3,375,927	-	-	-
Industrial	6,983,622	6,983,622	-	-	-
Technology	14,423,597	14,423,597	-	-	-
Utilities	552,462	552,462	-	-	-
Other	747,284	747,284	-	-	-
Total corporate stocks	<u>59,349,647</u>	<u>59,349,647</u>	<u>-</u>	<u>-</u>	<u>-</u>
Foreign and municipal bonds	<u>11,944,671</u>	<u>-</u>	<u>11,944,671</u>	<u>-</u>	<u>-</u>
U.S. bonds and notes	<u>5,689,665</u>	<u>5,689,665</u>	<u>-</u>	<u>-</u>	<u>-</u>
U.S. government securities	<u>3,672,066</u>	<u>-</u>	<u>3,672,066</u>	<u>-</u>	<u>-</u>
Mutual funds:					
Foreign large blend	18,321,846	18,321,846	-	-	-
World allocation	6,156,593	6,156,593	-	-	-
Moderate allocation	14,082,729	14,082,729	-	-	-
Emerging markets multi-strategy	3,703,550	3,703,550	-	-	-
Small value	246,087	246,087	-	-	-
Total mutual funds	<u>42,510,805</u>	<u>42,510,805</u>	<u>-</u>	<u>-</u>	<u>-</u>
Alternative investments:					
Private real estate funds	9,402,053	-	-	-	9,402,053
Emerging Markets Fund	3,604,339	-	-	-	3,604,339
Total alternative investments	<u>13,006,392</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>13,006,392</u>
Total investments	<u>\$ 141,407,851</u>	<u>\$ 112,784,722</u>	<u>\$ 15,616,737</u>	<u>\$ -</u>	<u>\$ 13,006,392</u>

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**CENTRAL ADMINISTRATIVE OFFICE OF THE
ROMAN CATHOLIC ARCHDIOCESE OF SAN FRANCISCO**

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

21. Fair Value Measurements, continued

The following table presents the Chancery's financial assets and liabilities measured at fair value on a recurring basis as of June 30, 2019:

	2019	Quoted Prices in Active Markets of Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	NAV
Assets:					
Cash equivalents:					
Money market funds	\$ 84,294,385	\$ 84,294,385	\$ -	\$ -	\$ -
Certificates of deposit	10,185,000	10,185,000	-	-	-
Total cash equivalents	<u>\$ 94,479,385</u>	<u>\$ 94,479,385</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Beneficial interest in perpetual trust	<u>\$ 1,024,373</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,024,373</u>	<u>\$ -</u>
Investments:					
Cash equivalents:					
Money market funds	\$ 3,006,126	\$ 3,006,126	\$ -	\$ -	\$ -
Hedge funds proceeds receivable	2,190	2,190	-	-	-
Total cash equivalents	<u>3,008,316</u>	<u>3,008,316</u>	<u>-</u>	<u>-</u>	<u>-</u>
Corporate stocks:					
Materials	2,754,881	2,754,881	-	-	-
Telecommunication services	5,054,199	5,054,199	-	-	-
Consumer discretionary	6,778,002	6,778,002	-	-	-
Consumer staples	5,178,110	5,178,110	-	-	-
Energy	1,908,085	1,908,085	-	-	-
Financial	11,009,476	11,009,476	-	-	-
Health care	4,626,957	4,626,957	-	-	-
Industrial	5,305,436	5,305,436	-	-	-
Technology	14,987,644	14,987,644	-	-	-
Utilities	546,035	546,035	-	-	-
Other	769,803	769,803	-	-	-
Total corporate stocks	<u>58,918,628</u>	<u>58,918,628</u>	<u>-</u>	<u>-</u>	<u>-</u>
Foreign and municipal bonds	<u>14,158,714</u>	<u>-</u>	<u>14,158,714</u>	<u>-</u>	<u>-</u>
U.S. bonds and notes	<u>11,944,276</u>	<u>11,944,276</u>	<u>-</u>	<u>-</u>	<u>-</u>
U.S. government securities	<u>6,478,439</u>	<u>-</u>	<u>6,478,439</u>	<u>-</u>	<u>-</u>
Mutual funds:					
Foreign large blend	17,931,213	17,931,213	-	-	-
World allocation	6,940,555	6,940,555	-	-	-
Moderate allocation	14,261,752	14,261,752	-	-	-
Emerging markets multi-strategy	3,392,012	3,392,012	-	-	-
Small value	424,763	424,763	-	-	-
Total mutual funds	<u>42,950,295</u>	<u>42,950,295</u>	<u>-</u>	<u>-</u>	<u>-</u>
Alternative investments:					
Hedge funds	8,264,352	-	-	-	8,264,352
Private real estate funds	3,569,651	-	-	-	3,569,651
Total alternative investments	<u>11,834,003</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,834,003</u>
Total investments	<u>\$ 149,292,671</u>	<u>\$ 116,821,515</u>	<u>\$ 20,637,153</u>	<u>\$ -</u>	<u>\$ 11,834,003</u>

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**CENTRAL ADMINISTRATIVE OFFICE OF THE
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NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

21. Fair Value Measurements, continued

The Chancery uses the NAV to determine the fair value of all the underlying investments which a) do not have readily determinable fair values and b) prepare their financial statements consistent with the measurement principles of an investment company or have attributes of an investment company. As of June 30, 2020, the Chancery was invested in three private real estate funds valued at \$9,402,053. As of June 30, 2019, the Chancery was invested in three private real estate funds valued at \$8,264,352. The funds' strategy is an income-oriented core strategy focused on institutional quality assets with an emphasis on long-term stabilized cash flow and market appreciation potential. Two of the three funds have lockout periods and the third provides for redemptions quarterly with a 10 day notice.

As of June 30, 2020, the Chancery was invested in one emerging market fund valued at \$3,604,339. The fund's strategy is to seek capital appreciation through investment in common stock of growth companies domiciles, headquartered, or with primary business activities or principle trading markets in developing countries. The fund has a lockout period and no restrictions on redemptions.

The beneficial interest in the perpetual trust is classified as Level 3 within the fair value hierarchy. Reconciliations were as follows for the years ended June 30:

	<u>2020</u>	<u>2019</u>
Beginning balance, at fair value	\$ 1,024,373	\$ 1,041,037
Change in fair value	<u>(18,880)</u>	<u>(16,664)</u>
Ending balance, at fair value	<u>\$ 1,005,493</u>	<u>\$ 1,024,373</u>

As a practical expedient, the Chancery uses the fair value of trust assets to value its beneficial interest in the perpetual trust.

22. Risk Retention Group

Prior to July 1, 2015 and again starting on July 1, 2017, the Corporation Sole received its liability coverages through its participation with other dioceses in state regulated risk retention groups. Effective July 1, 2015, general insurance coverages were procured from insurance underwriters that are separate from the state regulated risk retention groups.

Generally, liability coverages previously provided through the state regulated risk retention groups will continue to cover claims made on or before July 1, 2015 and after July 1, 2017.

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**CENTRAL ADMINISTRATIVE OFFICE OF THE
ROMAN CATHOLIC ARCHDIOCESE OF SAN FRANCISCO**

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

23. Commitments and Contingencies

Before and through June 30, 2018, the Chancery underwent an audit by the Office of Labor Standards Enforcement (“OLSE”) of the City and County of San Francisco for the period September 2009 to April 2016 and a subsequent lawsuit filed on behalf of some employees concerning the same subject. The OLSE and plaintiffs have taken the view that the health care expenditures paid under the San Francisco Health Care Security Ordinance for some employees working in the County of San Francisco during the period of audit fell short of the required minimum. The audit and related lawsuit was resolved during fiscal year ended June 30, 2019 with a final amount paid of \$2,450,000.

Effective January 1, 2020, California AB 218 revised the statute of limitations applicable to claims arising from sexual abuse of a minor (which it now terms instead “sexual assault”), including a three-year window in which the claims of individuals previously barred from filing such claims are revived. Among other things, California AB 218 extends the time in which a claim may be brought to age 40 or five years after the claimant becomes aware of the adult effects of the childhood assault, whichever is later, and allowing treble damages against a defendant where the defendant’s “cover up” has caused the assault. The Archdiocese is evaluating the impact of these changes.

In addition, the Corporation Sole is a party to various actions in the ordinary course of business. In the opinion of management, the outcome of these matters, individually or in the aggregate, would not have a material effect on the Chancery’s financial statements.

COVID-19

On January 30, 2020, the World Health Organization (“WHO”) announced a global health emergency because of a new strain of coronavirus (the “COVID-19 outbreak”) and the risks to the international community as the virus spread globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic. The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude of the effect that the pandemic will have on the Chancery’s financial condition, liquidity, and future results of operations. Management is actively monitoring the impact on its financial statements, liquidity, operations, and workforce.

24. Future Minimum Lease Revenue

The Chancery owns various properties it leases for income with terms until February 2025, with one term ending June 2077. During the years ended June 30, 2020 and 2019, the Chancery recorded \$2,065,761 and \$2,408,297, respectively, in rental income, primarily from leases on its rental properties, including prepaid rent recognized of \$101,739 for each of the years ended June 30, 2020 and 2019. The Chancery has received a prepayment for one of these leases, which is shown as deferred lease revenue on the statements of financial position and is included in the table below. The prepayment is amortized over 66 years on a straight-line basis.

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**CENTRAL ADMINISTRATIVE OFFICE OF THE
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NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

24. Future Minimum Lease Revenue, continued

As of June 30, 2020, future minimum lease revenue amounts from long-term non-cancelable operating leases were as follows:

Years ending June 30:		
2021	\$	1,616,006
2022		1,641,678
2023		1,513,940
2024		1,038,377
2025		1,057,110
Thereafter		<u>10,005,400</u>
Total	\$	<u><u>16,872,511</u></u>

25. Subsequent Events

The Chancery evaluated subsequent events for recognition and disclosure through December 15, 2020, the date which these financial statements were available to be issued. Management has concluded that no additional material subsequent events have occurred since June 30, 2020, that require recognition or disclosure on the financial statements.