The Administrative Office of the Roman Catholic Archdiocese of Los Angeles

Consolidated Financial Report
June 30, 2018

Contents

Independent Auditor's Report

To His Excellency
José H. Gomez
Archbishop of Los Angeles
Los Angeles, California

Report on the Financial Statements
We have audited the accompanying consolidated financial statements of the Administrative Office of the Roman Catholic Archdiocese of Los Angeles, which comprise the consolidated statements of financial position as of June 30, 2018 and 2017, the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, 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 (U.S. GAAP); this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 Administrative Office of the Roman Catholic Archdiocese of Los Angeles and its related entities as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. GAAP.

RSM US LLP

Los Angeles, California
December 26, 2018

The Administrative Office of the Roman Catholic Archdiocese of Los Angeles

Consolidated Statements of Financial Position
June 30, 2018 and 2017

	2018				2017			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Assets (Note 15)								
Cash and cash equivalents	**$ 21,806,415**	**$ 10,125,674**	**$ -**	**$ 31,932,089**	$ 23,874,651	$ 1,179,604	$ -	$ 25,054,255
Contracts receivable, net (Note 3)	**40,987,367**	**-**	**-**	**40,987,367**	30,755,879	-	-	30,755,879
Affiliate receivables, net (Note 4)	**14,820,836**	**-**	**-**	**14,820,836**	12,785,688	-	-	12,785,688
Pledges receivable, net (Note 5)	**-**	**3,360,268**	**47,412**	**3,407,680**	-	1,258,266	-	1,258,266
Other receivables (Note 17)	**2,064,789**	**89,941**	**-**	**2,154,730**	2,325,178	109,274	-	2,434,452
Notes receivable, net (Note 6)	**10,159,242**	**-**	**-**	**10,159,242**	11,207,141	-	-	11,207,141
Investments (Notes 7, 13 and 18)	**533,053,604**	**35,369,163**	**24,108,185**	**592,530,952**	479,127,990	40,580,389	23,885,189	543,593,568
Properties held for sale	**46,999**	**-**	**-**	**46,999**	46,999	-	-	46,999
Property and equipment, net (Notes 2 and 8)	**69,308,410**	**334,897**	**-**	**69,643,307**	70,176,263	-	-	70,176,263
Other assets	**1,183,395**	**197**	**-**	**1,183,592**	1,306,492	425	-	1,306,917
Goodwill (Note 2)	**28,082,577**	**-**	**-**	**28,082,577**	28,082,577	-	-	28,082,577
Assets for pension benefits (Note 9)	**8,186,000**	**-**	**-**	**8,186,000**	3,112,000	-	-	3,112,000
Total assets	**$ 729,699,634**	**$ 49,280,140**	**$ 24,155,597**	**$ 803,135,371**	$ 662,800,858	$ 43,127,958	$ 23,885,189	$ 729,814,005
Liabilities and Net Assets (Note 15)								
Liabilities:								
Accounts payable and accrued expenses (Notes 2 and 10)	**$ 23,548,311**	**$ -**	**$ -**	**$ 23,548,311**	$ 18,797,784	$ -	$ -	$ 18,797,784
Payable to affiliates (Note 14)	**1,848,969**	**-**	**-**	**1,848,969**	1,539,050	-	-	1,539,050
Deferred revenue, cemetery and mausoleum care account	**6,988,038**	**-**	**-**	**6,988,038**	7,618,563	-	-	7,618,563
Insurance claims reserves (Notes 13 and 14)	**64,338,296**	**-**	**-**	**64,338,296**	56,948,300	-	-	56,948,300
Liability for pension and postretirement plan benefits (Note 9)	**116,379,000**	**-**	**-**	**116,379,000**	140,901,000	-	-	140,901,000
Deferred revenue (Note 12)	**158,140,457**	**-**	**-**	**158,140,457**	153,549,768	-	-	153,549,768
Custodial collections (Notes 14 and 18)	**16,978,818**	**16,267,504**	**-**	**33,246,322**	15,094,890	16,033,478	-	31,128,368
Notes payable (Note 10)	**118,969,780**	**-**	**-**	**118,969,780**	125,365,385	-	-	125,365,385
Notes payable to affiliates (Note 11)	**4,881,458**	**-**	**-**	**4,881,458**	5,404,749	-	-	5,404,749
Total liabilities	**512,073,127**	**16,267,504**	**-**	**528,340,631**	525,219,489	16,033,478	-	541,252,967
Commitments and contingencies (Notes 10, 13 and 14)								
Net assets (Notes 19 and 20)	**217,626,507**	**33,012,636**	**24,155,597**	**274,794,740**	137,581,369	27,094,480	23,885,189	188,561,038
Total liabilities and net assets	**$ 729,699,634**	**$ 49,280,140**	**$ 24,155,597**	**$ 803,135,371**	$ 662,800,858	$ 43,127,958	$ 23,885,189	$ 729,814,005

See notes to consolidated financial statements.

The Administrative Office of the Roman Catholic Archdiocese of Los Angeles

Consolidated Statements of Activities
Years Ended June 30, 2018 and 2017

	2018				2017			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues:								
Donations and assessments (Note 14)	**$ 26,165,808**	**$ 17,621,293**	**$ 270,408**	**$ 44,057,509**	$ 23,897,945	$ 14,753,054	$ 1,397,902	$ 40,048,901
Donations, annual appeal	**-**	**16,135,166**	**-**	**16,135,166**	-	15,058,783	-	15,058,783
Cemetery sales	**53,006,083**	**-**	**-**	**53,006,083**	48,814,960	-	-	48,814,960
Mortuary sales	**28,792,076**	**-**	**-**	**28,792,076**	15,163,237	-	-	15,163,237
Investment Pool income, net of expenses (Note 7)	**30,308,927**	**4,240,421**	**-**	**34,549,348**	33,944,655	4,846,964	-	38,791,619
Other investment income, net of expenses (Note 7)	**3,547,106**	**-**	**-**	**3,547,106**	2,678,901	-	-	2,678,901
Rents, fees and other revenue (Notes 13 and 14)	**15,693,378**	**15,405**	**-**	**15,708,783**	35,500,642	64,381	-	35,565,023
	157,513,378	**38,012,285**	**270,408**	**195,796,071**	160,000,340	34,723,182	1,397,902	196,121,424
Net assets released from restrictions, satisfaction of program restrictions	**31,052,139**	**(31,052,139)**	**-**	**-**	27,617,581	(27,617,581)	-	-
Total revenues	**188,565,517**	**6,960,146**	**270,408**	**195,796,071**	187,617,921	7,105,601	1,397,902	196,121,424
Program expenses:								
Education and formational services (Note 14)	**21,922,332**	**-**	**-**	**21,922,332**	18,918,040	-	-	18,918,040
Pastoral and evangelization (Note 14)	**18,471,064**	**-**	**-**	**18,471,064**	17,134,702	-	-	17,134,702
Social services	**3,550,431**	**-**	**-**	**3,550,431**	3,305,734	-	-	3,305,734
Pastoral regions	**1,672,909**	**-**	**-**	**1,672,909**	1,575,928	-	-	1,575,928
Total program expenses	**45,616,736**	**-**	**-**	**45,616,736**	40,934,404	-	-	40,934,404

(Continued)

The Administrative Office of the Roman Catholic Archdiocese of Los Angeles

Consolidated Statements of Activities (Continued)
Years Ended June 30, 2018 and 2017

	2018				2017			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Program expenses (continued):								
Other expenses:								
Priests' support and retirement (Note 9)	**$ 3,095,723**	**$ -**	**$ -**	**$ 3,095,723**	$ 2,940,057	$ -	$ -	$ 2,940,057
Fees to Catholic Conferences and Canon 1271	**1,225,874**	**-**	**-**	**1,225,874**	1,156,139	-	-	1,156,139
Administrative expense (Notes 10, 13 and 14)	**23,697,887**	**-**	**-**	**23,697,887**	15,868,506	-	-	15,868,506
Cemetery expense	**31,291,617**	**-**	**-**	**31,291,617**	33,533,117	-	-	33,533,117
Mortuary expense	**27,478,097**	**-**	**-**	**27,478,097**	10,084,698	-	-	10,084,698
Interest expense (Notes 10 and 11)	**4,848,224**	**-**	**-**	**4,848,224**	4,657,062	-	-	4,657,062
Pension benefit, net of reimbursements (Note 9)	**(33,694,460)**	**-**	**-**	**(33,694,460)**	(40,433,762)	-	-	(40,433,762)
Insurance benefit, net (Note 14)	**(5,056,242)**	**-**	**-**	**(5,056,242)**	(15,045,413)	-	-	(15,045,413)
Bad debt expense	**4,886,606**	**-**	**-**	**4,886,606**	2,083,345	-	-	2,083,345
Fundraising expense	**5,102,980**	**-**	**-**	**5,102,980**	2,896,998	-	-	2,896,998
Total other expenses	**62,876,306**	**-**	**-**	**62,876,306**	17,740,747	-	-	17,740,747
Total expenses	**108,493,042**	**-**	**-**	**108,493,042**	58,675,151	-	-	58,675,151
Increase in net assets before transfers and other changes	**80,072,475**	**6,960,146**	**270,408**	**87,303,029**	128,942,770	7,105,601	1,397,902	137,446,273
Transfer of changes in net assets of *Together in Mission*	**-**	**(992,235)**	**-**	**(992,235)**	-	(483,397)	-	(483,397)
Change in value of beneficial interest in charitable gift annuity (Note 17)	**(27,337)**	**(49,755)**	**-**	**(77,092)**	-	-	-	-
Increase in net assets	**80,045,138**	**5,918,156**	**270,408**	**86,233,702**	128,942,770	6,622,204	1,397,902	136,962,876
Net assets, beginning of year	**137,581,369**	**27,094,480**	**23,885,189**	**188,561,038**	8,638,599	20,472,276	22,487,287	51,598,162
Net assets, end of year	**$ 217,626,507**	**$ 33,012,636**	**$ 24,155,597**	**$ 274,794,740**	$ 137,581,369	$ 27,094,480	$ 23,885,189	$ 188,561,038

See notes to consolidated financial statements.

The Administrative Office of the Roman Catholic Archdiocese of Los Angeles

Consolidated Statements of Cash Flows
Years Ended June 30, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Increase in net assets before transfers and other changes	**$ 87,303,029**	$ 137,446,273
Adjustments to reconcile increase in net assets before transfers and other changes to net cash provided by operating activities:		
Net realized and unrealized gain on investments	**(29,778,949)**	(33,914,400)
(Gain) loss on sale of property and equipment	**(35,392)**	2,603
Gain on reverted mortuary buildings (Note 13)	**-**	(19,470,000)
Transfer of changes in net assets of *Together in Mission*	**(992,235)**	(483,397)
Change in value of beneficial interest in charitable gift annuity	**(77,092)**	-
Provision for bad debt	**4,886,606**	2,083,345
Depreciation and amortization on property and equipment	**3,842,993**	3,304,046
Assets contributed for long-term investments	**(270,408)**	(1,397,902)
Increase in affiliate receivables	**(4,760,926)**	(3,231,656)
Increase in contracts receivable	**(12,307,081)**	(6,643,098)
Increase in pledges receivable	**(2,191,169)**	(88,820)
Decrease in other receivables	**279,722**	1,862,627
Increase in overfunded pension benefit obligation	**(5,074,000)**	(3,112,000)
Decrease (increase) in other assets	**123,325**	(556,401)
Increase (decrease) in accounts payable and accrued expenses	**4,750,527**	(1,729,623)
Increase in affiliate payables	**309,919**	265,123
Decrease in cemetery and mausoleum perpetual care account	**(630,525)**	(2,478,814)
Increase in insurance claims reserves	**7,389,996**	4,019,401
Decrease in liability for pension and postretirement plan	**(24,522,000)**	(33,240,000)
Increase in deferred revenue	**4,590,689**	1,255,529
Increase (decrease) in custodial collections	**2,117,954**	(158,138)
Net cash provided by operating activities	**34,954,983**	43,734,698
Cash flows from investing activities:		
Purchase of investments	**(123,728,269)**	(109,699,358)
Proceeds from maturities or sale of investments	**104,569,834**	108,835,931
Advances for notes receivable	**(641,566)**	(524,604)
Proceeds from notes receivable	**645,985**	1,655,108
Purchases of property and equipment	**(3,382,658)**	(3,032,460)
Proceeds from sale of property and equipment	**108,013**	26,649
Investment in assets acquired in business combination	**-**	(26,570,065)
Net cash used in investing activities	**(22,428,661)**	(29,308,799)

(Continued)

The Administrative Office of the Roman Catholic Archdiocese of Los Angeles

Consolidated Statements of Cash Flows (Continued)
Years Ended June 30, 2018 and 2017

	2018	2017
Cash flows from financing activities:		
Assets contributed for long-term investments	**$ 270,408**	$ 1,397,902
Principal payments on notes payable to affiliates	**(538,015)**	(75,000)
Proceeds from issuance of notes payable to affiliates	**14,724**	15,026
Principal payments on notes payable	**(5,395,605)**	(5,395,604)
Net cash used in financing activities	**(5,648,488)**	(4,057,676)
Net increase in cash and cash equivalents	**6,877,834**	10,368,223
Cash and cash equivalents, beginning of year	**25,054,255**	14,686,032
Cash and cash equivalents, end of year	**$ 31,932,089**	$ 25,054,255
Supplemental disclosure of cash flow information:		
Cash paid for interest	**$ 4,831,917**	$ 4,625,161
Supplemental disclosures of noncash investing and financing transactions:		
Forgiveness of debt	**$ 1,000,000**	$ 1,000,000
Mortuary buildings reverted to the Archdiocese (Note 13)	**$ -**	$ 19,470,000

See notes to consolidated financial statements.

Note 1. Nature of Organization and Summary of Significant Accounting Policies

Nature of organization: The Administrative Office of the Roman Catholic Archdiocese of Los Angeles (the Administrative Office) consists of the departments that provide pastoral, educational and administrative support to parishes, schools, seminaries and other institutions in the Roman Catholic Archdiocese of Los Angeles (the Archdiocese). The consolidated financial statements of the Administrative Office also include the operations of the Catholic Cemeteries (the Cemeteries), the ALA Insurance Company (ALAIC), the Archdiocese of Los Angeles Risk Management Corporation (ADLARM), and the Archdiocese of Los Angeles Funeral and Mortuary Services Corporation (the Mortuaries). The ALAIC, ADLARM and the Mortuaries are all separate not-for-profit entities. The results of the Mortuaries' operations are included for the year ended June 30, 2018, and the period from December 1, 2016, to June 30, 2017, to reflect the acquisition of the Mortuaries' business on November 30, 2016. The supporting departments and programs of the ALAIC, ADLARM and the Mortuaries are fiscally responsible to the Archbishop of Los Angeles. The parishes and schools and certain other institutions and entities in the Archdiocese account for their operations separately; therefore, the accompanying consolidated financial statements do not reflect the financial position or activities for such organizations and are limited to the financial position and activities of the Administrative Office. All significant intercompany accounts and transactions have been eliminated in the consolidated financial statements.

A significant portion of the Administrative Office's revenues is derived from donor gifts as well as assessments obtained from the parishes of the Archdiocese and cemetery and mortuary operations. In addition, the Administrative Office derives revenue from certain rents and royalties. These revenues are expended by the Administrative Office for the various programs, ministries and needs of the Archdiocese. Administrative services provided include administration of Archdiocesan insurance programs and Archdiocesan pension plans for the parishes and elementary schools, Archdiocesan and parish high schools, Catholic Charities and St. John's Seminary.

A summary of significant accounting policies is as follows:

Basis of accounting: The consolidated financial statements of the Administrative Office have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Basis of presentation: The consolidated financial statements of the Administrative Office have been presented in accordance with U.S. GAAP applicable to nonprofit organizations. These principles state that net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Administrative Office and changes therein are classified and reported as follows:

Unrestricted net assets: Includes net assets that are not subject to donor-imposed restrictions.

Temporarily restricted net assets: Includes gifts for which donor-imposed restrictions have not been met and pledges receivable for which the ultimate purpose of the proceeds is not permanently restricted.

Permanently restricted net assets: Includes gifts and pledges that require, by donor restriction, that the corpus be invested in perpetuity and only the income be made available for program operations in accordance with donor restrictions.

Cash and cash equivalents: The Administrative Office considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents. The Administrative Office maintains its cash in federally insured banking institutions.

Note 1. Nature of Organization and Summary of Significant Accounting Policies (Continued)

Concentration of credit risk: The Administrative Office maintains its cash balances at several financial institutions which, at times, may exceed federally insured limits. The Administrative Office has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash.

Other receivables: Other receivables include receivables from beneficial interest in charitable gift annuities, rent receivable, receivables from sale of real estate, and receivables on service and capital credits as agreed.

Notes receivable: Notes receivable consist mostly of loans to parishes and schools and nonaffiliates of the Administrative Office and are stated at the net realizable value. Interest rates on the loans range between 0 percent and 8 percent. Notes are considered delinquent when payment has not been made according to the contractual terms, typically evidenced by nonpayment of an installment by the due date. The allowance for doubtful accounts is developed based upon historical write-off experience and any known specific issues that exist as of the consolidated statements of financial position date.

Pledges receivable: In accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958, Financial Statements of Not-for-Profit Organizations, unconditional promises to give that are expected to be collected within one year are recorded at the net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using a risk-free interest rate applicable to the years in which the promises are received. The discount rate used is the risk-free interest rate applicable to the years in which the promises are received. The discount rate used is the risk-free interest rate on Treasury notes, which was 2.73 percent and 2.33 percent for the fiscal year ended June 30, 2018. The discounts are included in donation revenue. Conditional promises to give are not included in pledges receivable until the conditions are met. Pledges deemed uncollectible by management are included in the allowance for uncollectible pledges. If a restriction is fulfilled in the same time period in which the contribution is received, the Administrative Office reports the support as unrestricted.

Contracts receivable: Contracts receivable represent sales contracts entered into for interment/entombment rights, merchandise and services related to cemetery operations. On sales beginning in January 2008, interest is charged from the contract inception date at 10.0 percent annually (8.0 percent if signed up for Automated Clearing House (ACH) payment) over the life of the contract. Beginning in July 2010, a special incentive program was approved allowing a rebate of interest paid on interment/entombment rights contracts paid in full within 18 months of the original sale. This incentive program is ongoing and reviewed regularly. It may be withdrawn at any time. On sales beginning in January 2011, interest is charged from the contract inception date at 7.3 percent annually (5.3 percent if signed up for ACH payment). Starting May 1, 2017, the 10.0 percent pre-need discount was replaced with a 0 percent financing on all pre-need cemetery contracts. No interest is charged on pre-need merchandise and services contracts. Contracts receivable also include sales contracts entered into for mortuary services. The receivable is either due from insurance or other trust of the patron.

The allowance for doubtful accounts is developed based upon historical write-off experience and the current ability of the patrons to pay the obligation.

Note 1. Nature of Organization and Summary of Significant Accounting Policies (Continued)

Affiliate receivables: Affiliate receivables consist of advances on behalf of parishes and schools and other ministries and activities of the Archdiocese in payment of their premiums on medical and other insurance coverage, as well as their pension and self-insurance reserve funding requirements. The Administrative Office also bills all parishes a 10 percent assessment on the respective parish's ordinary income based on the prior fiscal year. The allowance for doubtful accounts is developed based upon historical write-off experience and the current ability to pay the obligation.

Capital Campaign: The Called to Renew capital fundraising campaign is an effort to raise $500,000,000 in funds to support parishes, serve the vulnerable, support priestly vocations and invest in the faith of future generations. The campaign is managed in two distinct areas: a major gift portion and a parish phase with a fundraising goal of $250,000,000 for each. Within the parish phase, 50 percent of the goal amount ($125,000,000) will be retained at parishes for parish-specific needs; and 50 percent ($125,000,000) will be allocated to Archdiocese-level needs. Overall, the campaign is expected to provide $375,000,000 for parishes; $30,000,000 for Restorative Justice and Hospital Ministries; $30,000,000 for St. John's Seminary, Queen of Angels Priestly Formation and Cardinal Manning House of Prayer; and $65,000,000 for religious education and faith formation programs.

Called to Renew revenue is included in donation revenue. Called to Renew expenses are included in fundraising expenses and totaled $2,148,526 for the year ended June 30, 2018.

Investments*:* The Administrative Office has an investment in the Archdiocese Investment Pool (the Pool), which is recorded at fair value (see Note 7). The fair value of the Pool is determined by management of the Archdiocese based on the underlying fair value of investments that make up the Pool. The underlying investments consist of debt securities and equity securities. The Administrative Office has allocated income (loss) based upon its allocation of the total return earned in invested equity and debt securities held by the Pool, including realized and unrealized gains and losses. The Administrative Office also has investments in the Catholic Community Foundation of Los Angeles (CCFLA), which were transferred from the Pool to CCFLA. The fair value of the investments is determined by management of CCFLA based on the underlying fair value of total investments held. The Administrative Office is allocated income (loss) based upon allocation of the total return earned in invested equity and debt securities held by CCFLA, including realized and unrealized gains and losses. Gains and losses on investments are reported in the consolidated statements of activities as increases or decreases in unrestricted net assets unless their use is temporarily restricted by donor stipulations. Investments in equity securities whose value is not readily determinable are valued through independent appraisal.

Property and equipment: All purchases of property and equipment of the Administrative Office over $10,000 are capitalized. Purchased property and equipment are stated at cost. Certain assets, for which historical cost information was unavailable, were recorded at replacement cost or nominal value. Donated properties are carried at their estimated fair market value at the date of gift plus subsequent costs of improvements, if applicable. Depreciation expense is computed using the straight-line method over the estimated useful lives of the related assets, ranging from three to 60 years. Land, cemetery and mausoleum development costs are amortized as cost of sales (using the weighted-average cost method) as graves, crypts and niches are sold.

Construction in progress represents cemetery facilities in the course of renovation and not in use. As such, this asset category is not depreciated. Upon completion, the renovations and improvements will be classified to cemetery and mausoleum developments.

Note 1. Nature of Organization and Summary of Significant Accounting Policies (Continued)

Evaluation of long-lived assets: Long-lived assets are reviewed for impairment when events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. If the sum of projected undiscounted cash flows from these long-lived assets is less than their carrying value, then the assets are written down to their estimated fair value. For the years ended June 30, 2018 and 2017, management has determined that no impairment of long-lived assets exists.

Goodwill: Goodwill, which represents the excess of the purchase price over the fair value of identifiable net assets acquired in a business combination, is not amortized in accordance with ASC 350, Intangibles—Goodwill and Other. ASC 350 requires that goodwill be tested for impairment at the reporting unit level on an annual basis and between annual tests, if any event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value. These events or circumstances could include a significant change in the business climate, legal factors, operating performance indicators, competition or sale of disposition of a significant portion of a reporting unit. Application of the goodwill impairment test requires judgment, including the identification of reporting units, assignment of assets and liabilities to reporting units, assignment of goodwill to reporting units and determination of the fair value of each reporting unit. The fair value of each reporting unit is determined using a discounted cash flow methodology. This requires significant judgments, including estimation of future cash flows, which is dependent on the internal forecasts; estimation of the long-term rate of growth for the organization's business; the useful life over which cash flows will occur; and determination of the organization's weighted-average cost of capital. Changes in these estimates and assumptions could materially affect the determination of fair value and/or goodwill impairment for each reporting unit.

Management evaluates goodwill impairment at the reporting-unit level and has chosen the last day of each fiscal year as its goodwill impairment testing date. As of June 30, 2018 and 2017, management determined that there was no impairment of goodwill.

Insurance claims reserves: The Administrative Office is self-insured for certain risks associated with its operations, including health, workers' compensation, automobile liability and physical damage, and retains various deductible limits for property, earthquake, crime and fiduciary losses. Coverage for most of the self-insured risks and deductibles is provided by ALAIC and ADLARM (see Note 14). The Administrative Office assesses each of the participating organizations its portion of estimated insurance expense. These assessments are applied against policy premiums and presented as insurance benefit (cost) in other expenses in the consolidated statements of activities. Total Archdiocesan claims currently payable, plus an estimated amount for incurred but not reported claims, have been accrued as Administrative Office, ALAIC and ADLARM liabilities. Benefits from insurance assessments are set aside in investments to meet accrued claim liabilities on self-insured programs.

Deferred revenue, cemetery and mausoleum care: Funds for care of the Cemeteries have been accumulated from fully paid contracts and are carried as accounts in the Pool. For contracts with outstanding receivable balances, corresponding deferred revenue is recorded for the unfunded portion for care (see Note 13). Total amounts of deferred revenue on the outstanding receivables at June 30, 2018 and 2017, were approximately $6,988,000 and $7,619,000, respectively.

Contributions: Contributions are reported as unrestricted or restricted, depending on the existence of donor stipulations that limit the use of the support. When a donor restriction expires—that is, when a stipulated time restriction ends or purpose restriction is accomplished—temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions. Temporarily restricted contributions for which the donor-imposed restrictions have been met in the same reporting period are recorded as unrestricted support. Unconditional promises to give (pledges) are recorded as receivables and revenues. Conditional promises to give or intentions to give are not recorded in the consolidated financial statements.

Note 1. Nature of Organization and Summary of Significant Accounting Policies (Continued)

Annual appeal: The Administrative Office administers a special collection program called *Together in Mission*. The collection is conducted by the parishes and administered exclusively to provide support for certain parishes and elementary schools, which require operating subsidies to meet their needs (see Note 18).

Contributed services: Support arising from contributed services of certain personnel who are paid stipends and hold positions that would otherwise be occupied by laypersons is not reflected in the accompanying consolidated financial statements.

Settlement expenses: Settlement expenses are included in insurance expense as they are administered by ALAIC. The Archdiocese accrues for these amounts if it is probable that a liability has been incurred and an amount can be reasonably estimated.

Functional allocation of expenses: The costs of providing various programs and other activities of the Administrative Office have been summarized on a functional basis in the consolidated statements of activities. Accordingly, certain costs have been allocated among the programs and services benefited.

Retirement and postretirement benefits: The Administrative Office sponsors a defined benefit pension plan for lay employees, a defined benefit pension plan for priests, and a retiree welfare benefit plan for priests. The defined benefit pension plan for lay employees covers substantially all full-time lay employees who have completed at least one year of service and have reached age 25. The defined benefit pension plan for priests is divided into a qualified plan and a supplemental plan and covers all priests who are ordained and incardinated in the Archdiocese and are eligible for the respective benefits. The benefits are based on years of service. The retiree welfare benefit plan provides automobile insurance benefits and Medicare supplements for participants who are eligible to receive Medicare. The policy of the Administrative Office is to fund the plans as required by applicable regulations in addition to such amounts as the Administrative Office determines to be appropriate from time to time. Plan assets are invested in fixed-income and equity securities (see Note 9).

Income taxes: The Administrative Office is exempt from federal income and California franchise taxes under Sections 501(c)(3) of the Internal Revenue Code and 23701(d) of the California Revenue and Taxation Code, respectively.

Uncertain tax provisions, if any, are recorded in accordance with FASB ASC 740, Income Taxes (previously FASB Interpretation No. 48). FASB ASC 740 requires the recognition of a liability for tax positions taken that do not meet the more-likely-than-not standard that the position will be sustained upon examination by the taxing authorities. There was no liability for uncertain tax positions recorded at June 30, 2018 or 2017.

Use of estimates: In preparing financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses, including allocations to various program costs during the reporting period. Actual results could differ from those estimates. Administrative Office management considers the allowance for doubtful accounts on contracts receivable, pledges receivable, notes receivable and affiliate receivables to be such an estimate. Additionally, the litigation reserve, insurance claims reserves, liabilities for pension and postretirement plan benefits, carrying amount of property and equipment, and the fair value of investments, interest rate swaps, purchase price allocations and properties held for sale and assets held for pension benefits constitute such estimates.

Note 1. Nature of Organization and Summary of Significant Accounting Policies (Continued)

Revenue recognition—Cemeteries and mausoleums: Sales are generated through "at-need" and "pre-need" programs. At-need and pre-need sales are made by cemetery-employed arrangement counselors. Sales and cost of sales related to at-need sales contracts and grave plots, crypts and niches for pre-need sales contracts are recognized at the time of the sale. The sales and cost of sales related to resale products and services are deferred and recognized at fulfillment. Cost of sales is calculated by allocating total construction costs to the number of inventory units developed at a cemetery. Revenue related to predevelopment sales is deferred until construction begins, or "ground is broken."

Revenue recognition—Mortuaries: Sales are generated through "at-need" and "pre-need" programs. Sales and cost of sales relating to at-need sales contracts are recognized on the date of burial or on the date mortuary services are provided. Pre-need contracts relate to future service. For these contracts, the patron enters into an agreement with a third-party insurance provider. Sales and cost of sales are not recorded until service is provided.

Fundraising expenses: Fundraising activities of the Administrative Office consist mainly of the Called to Renew capital fundraising campaign and the *Together in Mission* program of the Archdiocese. Expenses incurred to administer and manage the campaigns are applied against the proceeds generated through the campaigns. Net proceeds of the Called to Renew capital fundraising campaign are classified as either temporarily or permanently restricted net assets. Net proceeds of the Together in Mission program are classified as temporarily restricted assets and as a liability to the beneficiaries of the program.

Derivative instruments: The Administrative Office accounts for its interest rate swap agreements in accordance with FASB ASC 815, Accounting for Certain Derivative Instruments and Certain Hedging Activities. ASC 815, as amended, establishes accounting and reporting standards for derivative instruments. Specifically, ASC 815 requires all entities, including not-for-profit organizations, to recognize all derivatives as either assets or liabilities in their statement of financial position and to measure such instruments at fair value.

Fair value measurements: The Administrative Office adopted FASB ASC 820, Fair Value Measurement and Disclosures. The standard defines fair value, establishes a framework for measuring fair value and expands disclosure of fair value measurements. The standard also emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and sets out a fair value hierarchy with the highest priority being quoted prices in active markets. Under the standard, fair value measurements are disclosed by levels within that hierarchy.

FASB ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The standard requires the use of valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent resources, or unobservable, meaning those that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. In that regard, the standard establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs.

The fair value hierarchy is as follows:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Note 1. Nature of Organization and Summary of Significant Accounting Policies (Continued)

Level 2: Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

Recently issued accounting pronouncements: The FASB issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, Leases. Under the new guidance, leases are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 19, 2019, including interim periods within those fiscal years. A modified retrospective transition approach is required for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Administrative Office is currently evaluating the effects that adoption of this ASU will have on its consolidated financial statements.

ASU 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent) (a consensus of the FASB Emerging Issues Task Force)*, removes the requirement to categorize within the fair value hierarchy investments for which fair values are measured at net asset value using the practical expedient. The ASU is effective for fiscal years beginning after December 15, 2016. The Administrative Office does not expect the adoption of this ASU to have a material impact on its consolidated financial statements.

ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement*, the objective of which is to improve the effectiveness and disclosures in the notes to the financial statements by facilitating clear communication of the information required by U.S. GAAP. The ASU is effective for fiscal years beginning after December 15, 2019. The Administrative Office is currently evaluating the effects that the adoption of this accounting standard will have on its consolidated financial statements.

ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements for Not-for-Profit Entities*, simplifies and improves how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance and cash flows. This ASU is effective for annual financial statements issued for fiscal years beginning after December 15, 2017. The Administrative Office is currently evaluating the effects that adoption of this ASU will have on its consolidated financial statements.

ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, assists entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. The ASU is effective for fiscal years beginning after December 15, 2019. The Administrative Office is currently evaluating the effects that adoption of this accounting standard will on its consolidated financial statements.

Note 1. Nature of Organization and Summary of Significant Accounting Policies (Continued)

In May 2014, the FASB issued ASU 2014-09, *Revenue From Contracts With Customers (Topic 606),* requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods and services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. The updated standard will be effective for annual reporting periods beginning after December 15, 2018. The Administrative Office does not expect the adoption of this ASU to have a material impact on its consolidated financial statements.

Reclassification: Certain amounts in the prior-year's consolidated statements of financial activities have been reclassified to conform to the current-year presentation with no effect on the net assets.

Subsequent events: The Administrative Office has considered subsequent events through December 26, 2018, the date the consolidated financial statements were available to be issued, in preparing the consolidated financial statements and notes thereto.

Subsequent to June 30, 2018, the financial markets have experienced a period of increased volatility, which has resulted in downward pressure on investment valuations from levels reported at June 30, 2018.

Note 2. Business Combination

Business combination: As discussed further in Note 13, effective November 30, 2016, the Archdiocese and a death care industry company (referred to as the Subsequent Mortuary Operator in Note 13) entered into arrangements pursuant to which land leases between that company (or its affiliates) and the Archdiocese were terminated. The Archdiocese formed a new not-for-profit entity, the Mortuaries, which, concurrent with the termination of the land leases, acquired certain mortuary assets from the death care company. The transactions included the settlement of the land lease litigation by the Cemeteries and a related business acquisition transaction by the Mortuaries. In the settlement of the litigation, the land leases were terminated and, in accordance with the lease terms, the rights to occupy the mortuary buildings and certain abandoned physical property reverted to the Archdiocese, without cost to it. The Mortuaries acquired certain assets, including the acquisition of an assembled workforce, and assumed certain liabilities of the death care industry company for consideration transferred of $27,000,000, prior to certain adjustments (see below and ASC 805). The assets acquired and liabilities assumed constitute a business. The funding was $24,000,000 cash, less certain adjustments, and anticipated contingent consideration with a fair value of $3,000,000 payable over three years. The fair value of $3,000,000 represents the maximum contingent payment. Transaction costs in connection with this business combination amounted to approximately $1,140,000, which were expensed during the year ended June 30, 2017.

The following tables summarize the considerations transferred and the estimated fair value of the assets acquired and liabilities assumed by the Mortuaries:

Cash paid at closing	$ 23,570,065
Fair value of contingent consideration	3,000,000
Total consideration transferred	$ 26,570,065

Property and equipment	$ 163,969
Goodwill	28,082,577
Accounts payable and accrued expenses	(1,676,481)
Total net assets acquired	$ 26,570,065

Note 2. Business Combination (Continued)

The termination of the land leases was the result of the settlement of the land lease litigation discussed in Note 13. As a result, six mortuary buildings were recognized as assets of the Cemeteries with a total value of $19,470,000 and a corresponding noncash gain of $19,470,000 was recorded in rents, fees and other revenues on the books of the Cemeteries for the year ended June 30, 2017.

In connection with the transaction, the Archdiocese engaged an independent real estate valuation specialist to determine the $19,470,000 estimated total value of the six mortuary buildings. Although the land lease litigation was settled concurrently with the Archdiocese's acquisition of the related but separate Mortuaries business and, although the buildings will continue to be used in the Mortuaries' business, U.S. GAAP required that the recognition of the buildings be accounted for separate from the business combination because the land lease litigation represented the settlement of a relationship that existed prior to the business combination and involved the Archdiocese and not the newly formed entity. Accordingly, the $19,470,000 of mortuary buildings is not included in the above list of net assets acquired by the Mortuaries in the business combination.

The acquisition was accounted for in accordance with ASC 805, Business Combinations, under the acquisition method of accounting. The consolidated statements of activities include the results of operations of the acquired business since the dates of acquisition. The assets acquired were recorded at their estimated fair value. The excess of the purchase price over the fair value of the identifiable assets acquired was recognized as goodwill. Total goodwill of $28,082,577 was acquired in the business combination and recorded by the Mortuaries. The factors that contributed to the recognition of goodwill included securing synergies and economies of scale that are not available to other market participants; acquisition of an assembled workforce; and other intangible assets that do not meet the U.S. GAAP criteria for recognition separate from goodwill.

Note 3. Contracts Receivable, Net

Contracts receivable consisted of the following at June 30:

	2018	2017
Cemetery	$ 44,152,527	$ 32,944,738
Mortuaries	534,154	436,601
	44,686,681	33,381,339
Allowance for uncollectible accounts	(3,699,314)	(2,625,460)
Contracts receivable, net	$ 40,987,367	$ 30,755,879

Note 4. Affiliate Receivables, Net

The Administrative Office advances money on behalf of parishes and schools and other ministries and activities of the Archdiocese for payment of employee benefits and self-insurance reserve funding requirements. The ability to repay these obligations depends significantly on the parishes', schools' and other affiliates' continued ability to generate cash flows from normal operating activities.

To collect these obligations, the Administrative Office bills monthly. The Administrative Office also bills all parishes a 10 percent assessment based on their prior fiscal year ordinary income. Affiliate receivables include the uncollected portion of the billings. Affiliate receivables also include cash advances for the payment of operating expenses and construction projects in addition to accrued interest on notes receivable and advances.

Note 4. Affiliate Receivables, Net (Continued)

Affiliate receivables consisted of the following at June 30:

	2018	2017
Parishes	$ 15,015,619	$ 15,381,208
Elementary schools	22,678,955	21,439,064
High schools	4,278,857	3,746,665
Education & Welfare Corporation	5,916,173	3,400,608
St. John's Seminary College	2,670,000	2,450,000
St. John's Seminary of California	3,302,600	3,502,600
Catholic Education Foundation	61,703	193,030
Other	1,180,098	987,533
	55,104,005	51,100,708
Allowance for uncollectible accounts	(40,283,169)	(38,315,020)
Affiliate receivables, net	$ 14,820,836	$ 12,785,688

Note 5. Pledges Receivable, Net

Pledges receivable at June 30 consisted of the following:

	2018				
	Gross	Discount	Net of Discount	Allowance for Uncollectibles	Net of Discount and Allowance
Called to Renew	$ 1,387,500	$ (31,440)	$ 1,356,060	$ -	$ 1,356,060
Annual appeal	2,159,600	-	2,159,600	(107,980)	2,051,620
	$ 3,547,100	$ (31,440)	$ 3,515,660	$ (107,980)	$ 3,407,680

	2017				
	Gross	Discount	Net of Discount	Allowance for Uncollectibles	Net of Discount and Allowance
Annual appeal	$ 1,324,491	$ -	$ 1,324,491	$ (66,225)	$ 1,258,266

	2018	2017
Amounts due in:		
Less than one year	$ 2,737,100	$ 1,324,491
One to five years	810,000	-
	$ 3,547,100	$ 1,324,491

All annual appeal pledges receivable outstanding at June 30, 2018 and 2017, mature within one year. The discount rate applied in determining the discount to net present value on the Called to Renew pledges was 2.73 percent and 2.33 percent for 2018, which was the rate for the four-year and five-year Treasury securities, respectively, during that year.

Note 6. Notes Receivable, Net

Notes receivable at June 30 consisted of the following:

	2018	2017
Parishes, high schools and elementary schools	$ 14,886,691	$ 15,022,217
St. John's Seminary	5,843,721	5,624,124
Cathedral of Our Lady of the Angels	1,000,000	2,000,000
Other nonaffiliated entities	2,254,625	2,543,115
	23,985,037	25,189,456
Allowance for uncollectible accounts	(13,825,795)	(13,982,315)
Notes receivable, net	$ 10,159,242	$ 11,207,141

Aggregate maturities of notes receivable as of June 30, 2018, are as follows:

Years ending June 30:	
2019	$ 1,424,009
2020	426,874
2021	394,786
2022	399,524
2023	401,651
Thereafter	20,938,193
	$ 23,985,037

Note 7. Investments

Investments consisted of the following at June 30:

	2018	2017
Investment Pool	$ 547,714,612	$ 506,213,054
Other investments	44,816,340	37,380,514
	$ 592,530,952	$ 543,593,568

Investment Pool: In November 1986, the Archdiocese established the Pool, which administers assets in trust through independent custodial arrangements for the benefit of the various parishes and schools and other ministries and activities of the Archdiocese. The funds deposited by or on behalf of each participant are the sole property of that participant and are processed by the Pool service providers and the Archdiocese as agents, custodians and trustees for the participants. During the year ended June 30, 2004, the servicing and custodial arrangements for the Pool were enhanced to allow for direct fund access and reporting for all participants. These enhancements continue to be updated to provide better participant services. The Pool has two separate pools: the Balanced Pool and the Income Pool.

The Balanced Pool was established for participants with long-term objectives of capital appreciation combined with capital preservation. Assets of the Balanced Pool as of June 30, 2018 and 2017, were invested 72 percent and 70 percent in equities, 25 percent and 27 percent fixed-income securities, 2 percent and 2 percent in cash and cash equivalents, and 1 percent and 1 percent in other assets, respectively.

Note 7. Investments (Continued)

The Income Pool was established to provide short-term objectives of current income with low risk of fluctuation in principal value. Assets of the Income Pool as of June 30, 2018 and 2017, were invested 93 percent and 94 percent in fixed-income securities, 3 percent and 3 percent in notes receivable, 3 percent and 2 percent in cash and cash equivalents, and 1 percent and 1 percent in other investments, respectively.

The Pool adopted the provisions of FASB ASC 820, which defines fair value, establishes a framework for measuring fair value and expands the disclosures about fair value measurements. At June 30, 2018, the Pool was considered a Level 3 investment. At June 30, 2018, the Pool invested 70 percent, 29 percent and 1 percent in fair value hierarchy Levels 1, 2 and 3, respectively. At June 30, 2017, the Pool invested 64 percent, 36 percent and 0 percent in fair value hierarchy Levels 1, 2 and 3, respectively. For further information on the investments in the Investment Pool, see the separate Investment Pool financial statements.

The investments in both funds are carried at fair value. The Pool is operated under the total return concept, under which each participant is allocated income (loss) based upon the total return earned on invested funds, including realized and unrealized gains and losses. Participant allocation of income earned and realized and unrealized gains and losses in the Balanced Pool and Income Pool are to be based upon the time and dollar-weighted method under which participants are assigned a weighted value for the time that the funds have been held in the respective pools.

There are approximately 490 participants in the Pool, which track their investment balances separately between the Balanced Pool and the Income Pool. Many of the participants have more than one Pool account in order to identify separately their restricted and unrestricted funds. The funds deposited are solely the property of the participants and are processed by the Archdiocese in its capacity as agent and trustee. Participants have direct reporting access through secure Internet protocols.

The average annual return on the Pool for the years ended June 30 was as follows:

	2018	2017
Balanced Pool	9.60%	12.70%
Income Pool	1.60%	1.20%

Investments of the Pool consisted of the following at June 30:

	2018	2017
Balanced Pool	$ 382,827,693	$ 338,095,443
Income Pool	164,886,919	168,117,611
	$ 547,714,612	$ 506,213,054

Note 7. Investments (Continued)

Investment Pool income for the years ended June 30 consisted of the following:

	2018	2017
Interest and dividend income:		
Balanced Pool	$ 8,086,778	$ 7,689,808
Income Pool	3,219,270	2,326,376
Total interest and dividend income	11,306,048	10,016,184
Net realized and unrealized gain (loss):		
Balanced Pool	26,504,362	31,284,339
Income Pool	(273,724)	35,050
Total net realized and unrealized gain	26,230,638	31,319,389
Investment expenses	(2,987,338)	(2,543,954)
Total investment income, net	$ 34,549,348	$ 38,791,619

Other investments: Other investments consisted of the following at June 30:

	2018	2017
Watson Land Company securities (all equities)	$ 19,981,782	$ 16,438,207
Charitable Remainder Trust:		
Equities	665,543	672,092
Fixed income	249,184	244,855
	914,727	916,947
Investments held at CCFLA	9,482,231	8,570,719
Rabbi trust (Note 9)	14,314,472	11,331,000
Other (bonds and money market)	123,128	123,641
Total other investments	$ 44,816,340	$ 37,380,514

The fair value of the Watson Land Company securities is based upon certain industry standard valuation methodologies, including the methodology used for land holdings of other publicly traded real estate investment trusts. At June 30, 2018 and 2017, the investment in Watson Land Company was considered a Level 3 investment under FASB ASC 820 fair value hierarchy levels.

CCFLA manages an investment fund (Balanced Pool Fund) whereby the underlying investments consist of U.S. equity securities (45 percent to 55 percent), international equities (15 percent to 25 percent) and U.S. fixed-income securities (25 percent to 35 percent). The Administrative Office began investing in the Balanced Pool of the CCFLA during the fiscal year ended June 30, 2015.

CCFLA adopted the provisions of FASB ASC 820, which defines fair value, establishes a framework for measuring fair value and expands the disclosures about fair value measurements. At June 30, 2018 and 2017, CCFLA invested 89 percent, 1 percent and 10 percent in fair value hierarchy Levels 1, 2 and 3, respectively. For further information on the investments in the CCFLA, see the separate CCFLA financial statements.

Note 7. Investments (Continued)

At June 30, 2018 and 2017, the rabbi trust invested $11,740,311 and $7,987,888, respectively, in the Investment Pool and $2,574,161 and $3,343,112, respectively, in money market funds. Money market funds are considered to be Level 1 under the fair value hierarchy. For investment detail in the Investment Pool of the rabbi trust, please see the separate Investment Pool financial statements.

Other investment income for the years ended June 30 consisted of the following:

	2018	2017
Interest and dividend income, net of expenses	$ (1,205)	$ 83,890
Net realized and unrealized gain	3,548,311	2,595,011
Total other investment income, net	$ 3,547,106	$ 2,678,901

The following table summarizes the changes of the other investments' FASB ASC 820 Level 3 assets (all Watson Land Company) for the years ended June 30:

	2018	2017
Beginning balance	$ 16,438,207	$ 13,761,128
Total net income, realized and unrealized, included in change in assets	3,543,575	2,677,079
Ending balance	$ 19,981,782	$ 16,438,207

Note 8. Property and Equipment

The composition of property and equipment at June 30 was as follows:

	2018	2017
Land	$ 20,707,395	$ 20,457,395
Cemetery and mausoleum developments	95,618,060	95,458,201
Buildings and improvements (Note 13)	36,080,304	34,510,180
Yard and yard buildings	5,730,639	5,730,639
Construction in progress	1,468,773	991,437
Furniture, fixtures and equipment	15,692,947	15,189,525
	175,298,118	172,337,377
Less accumulated depreciation and amortization	(105,654,811)	(102,161,114)
	$ 69,643,307	$ 70,176,263

Note 9. Pension Plans and Other Postretirement Plan

Lay employees: The Archdiocese sponsors a defined benefit pension plan covering substantially all full-time lay employees (except for Catholic Charities, which participates in its own joint plan) who have completed at least one year of service and have reached age 25. The Administrative Office administers the plan and assesses each of the participating affiliates and nonaffiliates its portion of estimated annual pension cost. Contributions of $11,642,000 and $11,331,000 were made to the plan during the years ended June 30, 2018 and 2017, respectively. Benefit payments of $14,142,000 and $13,367,000 were made from the plan during the years ended June 30, 2018 and 2017, respectively. All contributions to the plan are made by the Archdiocese; there are no employee contributions to the plan.

The following items were the components of the net periodic pension cost for the plan as a whole for the years ended June 30:

	2018	2017
Service cost, benefits earned during the period	$ 8,325,000	$ 8,086,000
Interest cost on projected benefit obligation	13,081,000	12,347,000
Actual return on plan assets	(23,868,000)	(30,631,000)
Net amortization and deferral	12,266,000	24,031,000
Net periodic pension cost	$ 9,804,000	$ 13,833,000

The assessed portion for employees of the Administrative Office included in pension cost in the accompanying consolidated statements of activities was $1,660,021 and $1,295,943 for the years ended June 30, 2018 and 2017, respectively.

The following table sets forth the plan's funded status at June 30:

	2018	2017
Accumulated benefit obligation for service rendered to date	$ (357,017,000)	$ (361,229,000)
Projected benefit obligation for service rendered to date	$ (360,650,000)	$ (363,274,000)
Plan assets at fair value	277,373,000	256,654,000
Funded status at end of year	$ (83,277,000)	$ (106,620,000)
Liability for pension benefits	$ (83,277,000)	$ (106,620,000)

Amounts recognized in the consolidated statements of financial position at June 30 consist of:

	2018	2017
Noncurrent liabilities	$ (83,277,000)	$ (106,620,000)

Amounts recognized in unrestricted net assets at June 30 consist of:

	2018	2017
Net loss	$ 83,540,000	$ 105,045,000

Note 9. Pension Plans and Other Postretirement Plan (Continued)

Other changes in plan assets and benefit obligations recognized in unrestricted net assets at June 30 consisted of:

	2018	2017
Net gain	$ (17,555,000)	$ (24,464,000)
Amortization of gain	(8,096,000)	(12,689,000)
Amortization of prior service cost	4,146,000	4,146,000
Total gain recognized in unrestricted net assets	$ (21,505,000)	$ (33,007,000)

	2018	2017
Total gain recognized in net periodic pension cost and unrestricted net assets	$ (11,701,000)	$ (19,174,000)

In determining the actuarial present value of the projected benefit obligation, a weighted-average discount rate of 4.09 percent and 3.68 percent for the years ended June 30, 2018 and 2017, respectively, was used. The assumed rate of increase in future compensation levels was 4.00 percent for the years ended June 30, 2018 and 2017.

The Archdiocese employs a methodical process to determine the estimates of expected long-term rate of return on assets. These estimates are primarily driven by actual historical asset-class returns and advice from external actuarial and investment consulting firms while incorporating specific asset-class risk factors. For the years ended June 30, 2018 and 2017, the expected long-term rate of return used in determining net periodic pension cost was 6.25 percent and 6.85 percent, respectively.

The asset allocation for the lay employee pension plan as of June 30, 2018 and 2017, and the target allocation by asset category, were as follows:

Asset Category	Archdiocesan Approved Asset Allocation	Policy Asset Allocation	Plan Assets at June 30, 2018	Plan Assets at June 30, 2017
Equities	60-80%	70%	73%	69%
Fixed income	25-35%	30%	27%	31%

The pension plan has a diversified investment program utilizing a variety of asset classes that balances risk with return opportunities. It utilizes highly qualified external investment managers that have demonstrated skill in a particular asset class. The Archdiocese regularly monitors each investment manager’s performance and the overall fund relative to benchmarks and also regularly reviews the asset allocation and makes appropriate changes accordingly. Prohibited investments include short sales, selling on margin and writing options other than covered options. Investment decisions include consideration for corporate social responsibility and Roman Catholic social teaching.

Note 9. Pension Plans and Other Postretirement Plan (Continued)

The following benefit payments, which reflect expected future service as appropriate at June 30, 2018, are expected to be paid:

Years ending June 30:	
2019	$ 14,254,000
2020	15,897,000
2021	17,223,000
2022	18,088,000
2023	19,446,000
2024-2027	107,259,000
	$ 192,167,000

The Archdiocese expects to contribute approximately $11 million to the lay employee pension plan during the year ending June 30, 2019.

Priests:

Defined benefit pension plan—Qualified and Supplemental Plans: The Archdiocese sponsors a defined benefit pension plan covering all priests who are ordained or incardinated in the Archdiocese and are eligible for the respective benefits. Benefits are based on years of service.

The Qualified Plan provides a basic benefit for all eligible priests. The Supplemental Plan provides additional benefits to priests not living in a rectory, as well as other miscellaneous benefits.

Contributions to the priest pension plans were $1,274,000 and $1,212,000 for the years ended June 30, 2018 and 2017, respectively. Benefit payments of $2,694,000 and $2,504,000 from the Qualified Plan and $1,274,000 and $1,233,000 from the Supplemental Plan were made during the years ended June 30, 2018 and 2017, respectively.

The following items were the components of the net periodic pension cost for the Qualified Plan and Supplemental Plan for the years ended June 30:

	2018		2017	
	Qualified Plan	Supplemental Plan	Qualified Plan	Supplemental Plan
Service cost, benefits earned during the period	$ 769,000	$ 261,000	$ 766,000	$ 285,000
Interest cost on projected benefit obligation	1,701,000	619,000	1,542,000	588,000
Actual return on plan assets	(4,903,000)	-	(6,382,000)	-
Net amortization and deferral	3,435,000	568,000	5,065,000	593,000
Net periodic pension cost	$ 1,002,000	$ 1,448,000	$ 991,000	$ 1,466,000

Note 9. Pension Plans and Other Postretirement Plan (Continued)

The following table sets forth the funded status of the Qualified Plan and Supplemental Plan at June 30:

	2018		2017	
	Qualified Plan	Supplemental Plan	Qualified Plan	Supplemental Plan
Accumulated benefit obligation for service rendered to date	$ (44,602,000)	$ (16,104,000)	$ (47,568,000)	$ (16,679,000)
Projected benefit obligation for service rendered to date	$ (44,602,000)	$ (16,104,000)	$ (47,568,000)	$ (16,679,000)
Plan assets at fair value	52,788,000	-	50,680,000	-
Funded status at end of year	$ 8,186,000	$ (16,104,000)	$ 3,112,000	$ (16,679,000)
Asset (liability) for pension benefits	$ 8,186,000	$ (16,104,000)	$ 3,112,000	$ (16,679,000)

Amounts recognized in the consolidated statements of financial position at June 30 consisted of:

	2018		2017	
	Qualified Plan	Supplemental Plan	Qualified Plan	Supplemental Plan
Noncurrent assets	$ 8,186,000	$ -	$ 3,112,000	$ -
Noncurrent liabilities	-	(16,104,000)	-	(16,679,000)
	$ 8,186,000	$ (16,104,000)	$ 3,112,000	$ (16,679,000)

Amounts recognized in unrestricted net assets for the years ended June 30 consisted of:

	2018		2017	
	Qualified Plan	Supplemental Plan	Qualified Plan	Supplemental Plan
Net gain	$ 5,120,000	$ 6,790,000	$ 9,947,000	$ 7,421,000
Prior service cost	11,854,000	(243,000)	13,103,000	(125,000)
	$ 16,974,000	$ 6,547,000	$ 23,050,000	$ 7,296,000

Note 9. Pension Plans and Other Postretirement Plan (Continued)

Other changes in plan assets and benefit obligations recognized in unrestricted net assets for the year ended June 30 consisted of:

	2018		2017	
	Qualified Plan	Supplemental Plan	Qualified Plan	Supplemental Plan
Net gain	$ (4,472,000)	$ (181,000)	$ (6,464,000)	$ (735,000)
Prior service cost	-	-	3,722,000	73,000
Amortization of gain	(355,000)	(450,000)	(814,000)	(481,000)
Amortization of prior service credit	(1,249,000)	(118,000)	(990,000)	(113,000)
Total gain recognized in unrestricted net assets	$ (6,076,000)	$ (749,000)	$ (4,546,000)	$ (1,256,000)

	2018		2017	
	Qualified Plan	Supplemental Plan	Qualified Plan	Supplemental Plan
Total (gain) loss recognized in net periodic benefit cost and unrestricted net assets	$ (5,074,000)	$ 699,000	$ (3,555,000)	$ 211,000

In determining the actuarial present value of the projected benefit obligation, a weighted-average discount rate of 4.09 percent and 3.68 percent was used for the years ended June 30, 2018 and 2017, respectively.

The Archdiocese employs a methodical process to determine the estimates of the expected long-term rate of return on assets. These estimates are primarily driven by actual historical asset-class returns and advice from external actuarial and investment consulting firms while incorporating specific asset-class risk factors. For the years ended June 30, 2018 and 2017, the expected long-term rate of return used in determining net periodic pension cost and net periodic postretirement benefit cost was 6.25 percent and 6.85 percent, respectively.

The Archdiocese expects to contribute approximately $4 million to the priest pension plans during the year ending June 30, 2019.

Retiree welfare benefit plan: The Archdiocese sponsors a retiree welfare benefit plan for retired priests. This plan provides automobile insurance benefits and Medicare supplements for participants eligible to receive Medicare. The plan pays medical costs not covered by Parts A and B of Medicare. The plan also reimburses a priest's contribution for Part B expenses.

Benefit payments of $551,000 and $482,000 were made from the plan during the years ended June 30, 2018 and 2017, respectively.

Note 9. Pension Plans and Other Postretirement Plan (Continued)

The following items were the components of the net periodic postretirement benefit cost for the plan as a whole for the years ended June 30:

	2018	2017
Service cost, benefits earned during the period	$ 552,000	$ 584,000
Interest cost on projected benefit obligation	620,000	624,000
Net amortization and deferral	11,000	215,000
Net periodic pension cost	$ 1,183,000	$ 1,423,000

The Administrative Office's assessed portion of net periodic pension cost for the priests' pension and retiree welfare benefit plans included in priests' support and retirement in the accompanying consolidated statements of activities was $618,214 and $441,279 for the years ended June 30, 2018 and 2017, respectively.

The following table sets forth the plan's funded status at June 30:

	2018	2017
Accumulated postretirement benefit obligation for service rendered to date	$ (16,998,000)	$ (17,602,000)
Projected benefit obligation for service rendered to date	$ (16,998,000)	$ (17,602,000)
Funded status as of end of year	$ (16,998,000)	$ (17,602,000)
Liability for postretirement benefits	$ (16,998,000)	$ (17,602,000)

Amounts recognized in the consolidated statements of financial position at June 30 consisted of:

	2018	2017
Noncurrent liabilities	$ (16,998,000)	$ (17,602,000)

Amounts recognized in unrestricted net assets at June 30 consisted of:

	2018	2017
Net loss	$ 1,796,000	$ 3,032,000

Note 9. Pension Plans and Other Postretirement Plan (Continued)

Other changes in plan assets and benefit obligations recognized in unrestricted net assets for the years ended June 30 consisted of:

	2018	2017
Net gain	$ (1,225,000)	$ (2,017,000)
Amortization of gain	(355,000)	(559,000)
Amortization of prior service cost	344,000	344,000
Total gain recognized in unrestricted net assets	$ (1,236,000)	$ (2,232,000)

	2018	2017
Total gain recognized in net periodic postretirement benefit cost and unrestricted net assets	$ (53,000)	$ (809,000)

In determining the actuarial present value of the projected benefit obligation, a weighted-average discount rate of 4.09 percent and 3.68 percent was used for the years ended June 30, 2018 and 2017, respectively.

The Archdiocese employs a methodical process to determine the estimates of expected long-term rate of return on assets. These estimates are primarily driven by actual historical asset-class returns and advice from external actuarial and investment consulting firms while incorporating specific asset-class risk factors. For the years ended June 30, 2018 and 2017, the expected long-term rate of return used in determining net periodic pension cost and net periodic postretirement benefit cost was 6.25 percent and 6.85 percent, respectively.

For the retiree welfare benefit plan, future expected health costs are assumed to increase initially 5.50 percent per year, gradually declining to 4.1 percent in the year 2075.

Plan assets for the priest defined benefit pension plan and retiree welfare benefit plan are combined in a single trust account. The asset allocation of the trust at June 30, 2018 and 2017, and the target allocation by asset category, were as follows:

Asset Category	Archdiocesan Finance Council Approved Asset Allocation	Policy Benchmark Asset Allocation	Actual Percentage of Plan Assets at June 30, 2018	2017
Equities	60-80%	70%	76%	70%
Fixed income	25-35%	30%	24%	30%

The priest plan has a diversified investment program utilizing a variety of asset classes that balances risk with return opportunities. It utilizes highly qualified external investment managers that have demonstrated skill in a particular asset class. The Archdiocese regularly monitors each investment manager's performance and the overall fund relative to benchmarks and also regularly reviews the asset allocation and makes appropriate changes accordingly. Prohibited investments include short sales, selling on margin and writing options other than covered options. Investment decisions include consideration for corporate social responsibility and Roman Catholic social teaching.

Note 9. Pension Plans and Other Postretirement Plan (Continued)

The following benefit payments, which reflect expected future service as appropriate, are expected to be paid from the qualified, supplemental and retiree welfare benefit plan:

	Qualified Plan	Supplemental Plan	Retiree Welfare Benefit Plan
Years ending June 30:			
2019	$ 2,861,000	$ 1,246,000	$ 611,000
2020	2,844,000	1,204,000	624,000
2021	2,808,000	1,179,000	638,000
2022	2,812,000	1,147,000	654,000
2023	2,804,000	1,123,000	675,000
2024-2028	13,703,000	5,289,000	3,673,000
	$ 27,832,000	$ 11,188,000	$ 6,875,000

403(b) workplace retirement savings plan: On May 9, 2006, the Archdiocese implemented a 403(b) workplace retirement savings plan (the 403(b) Plan), a voluntary defined contribution plan. Under the 403(b) Plan, priests within the Archdiocese can defer and invest a portion of their salaries with Fidelity Investments. The monies that are deferred, and any monies contributed by the Archdiocese, are not considered assets or liabilities of the Archdiocese. The Administrative Office of the Archdiocese contributed and expensed $90,860 and $68,400 to the 403(b) Plan during the years ended June 30, 2018 and 2017, respectively.

Note 10. Notes Payable

Notes payable at June 30 consisted of the following:

	2018	2017
Notes payable	$ 118,969,780	$ 125,365,385

On February 7, 2011, the Archdiocese entered into an agreement with a financial institution for credit facilities totaling $175 million. The proceeds from the loan were used to repay the consolidated loan facilities with the previous lender and the shortfall resulting from the sexual misconduct litigation settlement (see Note 13). The credit facilities include (1) a $25 million unsecured revolving line of credit to support working capital needs and for general corporate purposes. The revolver bears interest based on LIBOR (2.09 percent at June 30, 2018) plus a margin of 1.5 percent and matures on February 7, 2021, with a requirement that it be paid down to zero for a minimum of 30 consecutive days during any 12-month period; (2) a $100 million term loan (Term Loan A) with interest payable quarterly and the principal due at maturity. Term Loan A bears interest based on LIBOR plus a margin of 1.25 percent and matures on February 7, 2021; and (3) a $50 million term loan (Term Loan B), requiring quarterly payments of interest and $1.25 million of principal. Term Loan B bears interest based on LIBOR plus a margin of 1.75 percent and matures on February 7, 2021. This agreement contains various restrictions and nonfinancial covenants. At June 30, 2018 and 2017, the amount outstanding on this agreement was $113,750,000 ($100,000,000 Term Loan A and $13,750,000 Term Loan B) and was $118,750,000 ($100,000,000 Term Loan A and $18,750,000 Term Loan B), respectively.

Note 10. Notes Payable (Continued)

The Archdiocese of Los Angeles Education & Welfare Corporation (E&W) has guaranteed these loans. In addition, the lender required security in the form of Pool investments for Term Loan A and real estate security for Term Loan B. To accommodate this requirement, the Archdiocese has set aside certain eligible securities from its Pool investments covering at a minimum 100 percent of Term Loan A. As of any reporting date, the sum of these eligible securities needs to equal to (i) 90 percent of the aggregate value of the Income Pool collateral and (ii) 80 percent of the aggregate value of the Balanced Pool collateral. In no event shall the Balanced Pool collateral constitute more than 49 percent of the total eligible securities. To secure Term Loan B, E&W provided deeds of trust relating to two Archdiocesan high school physical plants.

In conjunction with this credit facility, the Administrative Office entered into interest rate swap agreements with the lender. Under FASB ASC 815, the instruments' fair value and changes therein must be measured in the Administrative Office's net assets. The value of the swap instruments represent the estimated cost to the Administrative Office to cancel the agreements at the reporting date, which is based on pricing models that consider risks and market factors. The Administrative Office considered the interest rate swap agreements to be Level 3 investments under FASB ASC 820 fair value hierarchy levels. A liability in the amount of $694,532 and $3,153,947 was included in accounts payable and accrued expenses at June 30, 2018 and 2017, respectively. The corresponding reduction of interest expense of $2,459,415 and $3,427,073 for the years ended June 30, 2018 and 2017, respectively, was included in administrative expense. The interest rate swap agreements expire on February 7, 2021.

On January 24, 2014, the Archdiocese entered into an unsecured loan agreement with a lender in the amount of $6,000,000. The loan is due on February 7, 2021, and bears interest at 2.00 percent in excess of LIBOR. Principal and interest payments are due on the seventh day of each quarter commencing on March 7, 2014. On June 30, 2018 and 2017, the note had an outstanding principal balance of $4,219,780 and $4,615,385, respectively.

On October 1, 1999, the Administrative Office obtained a loan of $5 million from a lender to be used in the construction of the Cathedral of Our Lady of the Angels (the Cathedral). Upon fulfillment of certain contingencies, the loan will be forgiven in increments of $1 million per year, starting in fiscal year 2015. Interest is payable quarterly at the rate of 3 percent. The Cathedral reimburses the Administrative Office for the interest costs; therefore, interest income and interest expense of $45,000 and $75,000 were reflected in the consolidated statements of activities for the years ended June 30, 2018 and 2017, respectively. At June 30, 2018 and 2017, the balance of this loan was $1,000,000 and $2,000,000, respectively.

Aggregate future maturities of long-term debt at June 30, 2018, are as follows:

Years ending June 30:	
2019	$ 6,395,604
2020	5,395,604
2021	107,178,572
	$ 118,969,780

Note 10. Notes Payable (Continued)

Other: On November 28, 2007, E&W entered into a 20-year secured loan in the principal amount of $8 million on behalf of and for the benefit of Mary Star of the Sea High School in San Pedro (MSSHS). The loan is secured by the newly constructed MSSHS real and personal property and other operating assets of MSSHS, and is guaranteed by the Archdiocese. The proceeds of the loan are defraying $8 million of the approximately $14.5 million spent to prepare the site and to plan, build, furnish and equip the new high school, which opened in fall 2007. The principal and interest at 5.81 percent per annum are to be repaid monthly by MSSHS. E&W advanced the construction funding during the construction phase and is the record borrower and guarantor solely on behalf of MSSHS, which is obligated to repay the loan.

On September 24, 2013, with an effective date of September 1, 2013, this loan was refinanced. The new loan has a term of 172 months and interest of 4.14 percent per annum. Payments started on October 1, 2013 are due on the first of each month, with the final payment due on December 1, 2027. At June 30, 2018 and 2017, the balance on this loan was $4,746,861 and $5,150,804, respectively.

Note 11. Notes Payable to Affiliates

Notes payable to affiliates consist of amounts received from parishes and schools to be used in the funding of the global settlement. As of June 30, 2018 and 2017, the amount outstanding on these notes was $4,881,512 and $5,404,749, respectively. The notes have a term of up to 10 years, with interest ranging from 0 percent to 5 percent over the term of the notes and are unsecured.

Aggregate future maturities of long-term debt at June 30, 2018, are as follows:

Years ending June 30:	
2019	$ 4,515,458
2020	325,000
2021	41,000
	$ 4,881,458

The interest expense relating to the notes payable to affiliates was $14,724 and $15,026 for the years ended June 30, 2018 and 2017, respectively.

Note 12. Deferred Revenue

Deferred revenue consists of the following at June 30:

Resale products and services: Cemetery sales related to resale products and services are deferred and recognized at fulfillment. Deferred revenues amounted to $156,984,643 and $152,559,453, net of estimated cancellations of $1,027,587 and $729,295 at June 30, 2018 and 2017, respectively.

Patrons' deposits: The Cemeteries have the right to cancel any installment purchase agreement on which payment has not been received. In this event, or on cancellation by the patron, any principal payments made, less any accrued interest, will be deposited into the patron's deposit account. The patron has up to one year to access these funds, either in the form of a credit toward a new purchase or as a refund. If this period expires, the patron loses all rights to a refund and the money returns to the Cemeteries. If a patron elects a refund, approximately 25 percent of the gross sale is retained to cover any contract processing costs. Patrons' deposits include deposits from canceled contracts and credits based on estimated cancellations. Patrons' deposits amounted to $1,155,814 and $990,315 at June 30, 2018 and 2017, respectively.

Note 13. Commitments and Contingencies

Sexual misconduct litigation: In December 2006 and July 2007, global settlements were reached to resolve more than 550 claims brought against the Archdiocese and other parties as a result of 2002 California legislation allowing claims that might be otherwise barred to be filed during 2003. The Archdiocese completed the funding in 2011 (see Note 10).

Since the global settlement, additional litigated and non-litigated claims have been asserted, and it is likely that additional claims will be made in the future against the Archdiocese and other defendants based on allegations of misconduct by clergy or lay persons. Some of the current or future claims may be determined to be untimely and dismissed based on the then-current applicable statute of limitations or other defenses. The Archdiocese accrues for amounts related to the settlement or other resolution of these matters if it is probable that a liability has been incurred and an amount can be reasonably estimated. The effect of any future claims is not expected to be material.

In 2013, 2014 and 2018, legislation was proposed and passed by the California legislature but was vetoed each year. The legislation would have expanded the current statute of limitations for claims alleging the misconduct of minors generally. Further efforts in this regard that could impact the Archdiocese could occur in the future, particularly in light of continued national and local publicity about misconduct in public and private institutions and other organizations.

Other litigation: The Archdiocese is subject to various other lawsuits and claims, including general litigation, which arise in the general course of the operations of the Archdiocese and its parishes, schools and other activities. Various lawsuits and claims, not related to the sexual misconduct claims, are pending against the Archdiocese. The Archdiocese believes the majority of these claims are subject to coverage under the Archdiocese's insurance programs. The effect of the Archdiocese's obligation for payment of any of these claims is not expected to be material.

Cemeteries' care commitment: The Archdiocese provides for the general care of cemetery properties. To provide for this commitment, the Archdiocese sets aside 15 percent of the sales price on all interment rights sales. Obligations for this care commitment have not been depicted as a liability in the consolidated financial statements; however, funds set aside related to this commitment are held in a separate account in the Pool. At June 30, 2018 and 2017, investments related to the Cemeteries' care commitment amounted to $78,285,075 and $67,186,447, respectively.

The Mortuaries' property leases and litigation: Commencing in 1997, the Archdiocese entered into arrangements with a third-party mortuary company (Original Mortuary Operator) to lease land at certain of the Archdiocese cemeteries to the Original Mortuary Operator for 40 years. The Original Mortuary Operator then built and operated six mortuaries on the leased cemetery properties. The mortuary buildings were constructed and paid for by the Original Mortuary Operator, which capitalized these buildings on its consolidated financial statements. The buildings were, therefore, not capitalized on the books of the Cemeteries. The Cemeteries, which are included in the consolidated financial statements of the Administrative Office, accounted for the leases as operating leases. Rental income amounted to $806,400 for the period from July 1, 2016, to November 30, 2016.

Under the terms of the leases, the relationship was one of tenant and landlord, and the right to occupy the mortuaries (and title to any fixtures, furniture or personal property abandoned on termination) was to be transferred to the Archdiocese upon termination of the leases but the Archdiocese had no other economic interest in the business conducted at the mortuaries. The terms of the lease also provided that if a controlling interest in the Original Mortuary Operator was transferred, sold or otherwise disposed of without Archdiocese consent, the Archdiocese had the right to terminate the lease at any time.

Note 13. Commitments and Contingencies (Continued)

In 2013, the Original Mortuary Operator was acquired by another death care industry company (sometimes referred to as Subsequent Mortuary Operator). The Archdiocese took the position that it was entitled to consent to the transaction and that it would not consent; the Subsequent Mortuary Operator asserted that no consent was required. A dialogue to reach a business resolution under which the leases would terminate and the Archdiocese would assume operations of the mortuaries was not productive. In 2014, the Subsequent Mortuary Operator initiated litigation against the Archdiocese seeking declaratory and other relief and damages. The Archdiocese exercised its discretionary contractual right as lessor to terminate the mortuary leases; the Subsequent Mortuary Operator challenged that right and litigation ensued. The court ruled in favor of the Archdiocese's position.

In July 2016, the parties entered into agreements to settle the litigation and to allow the Archdiocese to acquire certain of the assets of the existing mortuary operations. The Archdiocese formed the Mortuaries to effect the acquisition of certain assets. The acquisition transaction and settlement were effective as of November 30, 2016. In the settlement and related acquisition, the leases were terminated and, in accordance with the lease terms, the right to occupy the mortuary buildings and certain abandoned physical property reverted to the Archdiocese, without cost to it. The mortuary buildings that reverted to the Archdiocese were valued at $19,470,000, and were recorded in buildings and improvements on the books of the Cemeteries at June 30, 2017. A gain of $19,470,000 was recorded in rents, fees and other revenues on the books of the Cemeteries for the year ended June 30, 2017.

At the closing of the acquisition, the Archdiocese entered into new leases with the Mortuaries for the six locations at current and future rental rates that are within the parameters of current market rates, and the parties entered into a services agreement under which the Archdiocese will provide financial and other reporting, oversight and administrative services to the newly formed corporation. The Mortuaries will be responsible for operations at the six mortuaries and for oversight of certain cemetery sales operations.

Lease commitment: On January 10, 2008, the Archdiocese entered into a lease agreement with a third party for the rental of office space to be occupied by the Administrative Office and other affiliates of the Archdiocese.

The lease term was for an initial period of five years, with the option to renew for an additional 15 consecutive one-year periods. On November 1, 2013, the lease was changed to include approximately 14,000 of additional square feet and extended for a 36-month term after completion of the new expansion, which started on May 1, 2014, and ended on April 30, 2017. On June 8, 2017, a second lease change was executed and extended for 60 months, commencing May 1, 2017. The second lease change includes an expansion of approximately 14,000 additional square feet, which was completed in April 2018. At June 30, 2018, monthly lease payments were $136,701 and the lease expires on April 30, 2022.

The future lease commitments at June 30, 2018, are as follows:

	Amount
Years ending June 30:	
2019	$ 1,640,412
2020	1,640,412
2021	1,640,412
2022	546,804
	$ 5,468,040

Rent expense for the years ended June 30, 2018 and 2017, was $1,606,721 and $1,205,233, respectively.

Note 13. Commitments and Contingencies (Continued)

Certain ministries and administrative functions occupy office space at various parishes and schools. Rent expense relating to this was $72,450 and $58,175 for the years ended June 30, 2018 and 2017, respectively.

Note 14. Related Parties

Prior to November 15, 2011, the Archdiocese utilized an assortment of insurance programs to finance the property and casualty exposures of its parishes, offices, schools and other related entities. The Archdiocese purchased property, earthquake, and excess auto liability and general liability coverage through commercial insurers. The Archdiocese was self-insured for workers' compensation liabilities. It maintained certain deductibles, coinsurance, self-insured retention and excess exposures related to auto liability, general liability, sexual misconduct liability, property and earthquake, as well as full exposures related to auto physical damage and cyber liability. The Ordinary Mutual, a Risk Retention Group Corp. (TOM), of which the Archdiocese is a member and shareholder, provided liability insurance coverage for auto liability, general liability, errors and omissions, employment practices liability and sexual misconduct liability.

Effective November 15, 2011, TOM ceased writing new business and TOM was placed into solvent runoff by its members. TOM maintains assets in excess of its liabilities, which are calculated at 75 percent actuarial confidence level. TOM experienced favorable loss development in the past several years and, accordingly, it received regulatory approval to pay dividends to its members. There were no dividends received during the fiscal years ended June 30, 2018 and 2017. There exists the potential for future dividends of TOM's accrued equity and/or potential return of capital. TOM will remain in runoff until all claims are settled, or until the members elect to cancel their contracts of insurance and assume back the liability for existing and future claims.

In September 2011, the Archdiocese formed ALAIC, a captive insurance company organized in the state of Montana as a nonprofit organization. On November 15, 2011, ALAIC began writing liability insurance previously written by TOM, including the liability insurance for Archdiocesan parishes, offices, schools and other entities. ALAIC writes workers' compensation insurance as part of the Archdiocese's certificate of self-insurance from the California Department of Industrial Relations.

Effective November 15, 2011, ALAIC also began insuring a portion of parish, schools and other Archdiocesan entities' property (fire and all risk), earthquake (and flood), auto physical damage, fiduciary liability and crime exposures. Fine art in the Archdiocese is not insured by ALAIC. Fine art continues to be insured under a separate commercial policy.

Concurrently, in September 2011, the Archdiocese formed ADLARM, a California nonprofit organization, to act internally as the administrator of the Archdiocese's insurance programs. Based upon independent actuarial analysis, ADLARM will pay to ALAIC gross premiums for the above coverage's in the amount of approximately $17,200,000 per year. Losses in excess of ALAIC's insurance are commercially insured and ADLARM administers the commercial insurance program.

ADLARM will assess the Administrative Office for its expenses, which include almost all of the Archdiocese's total cost of the property-casualty risk. Archdiocesan claims currently payable, plus an estimated amount for incurred but not reported claims, have been accrued as liabilities. Insurance assessments are set aside and invested to meet accrued claim liabilities on self-insured programs.

The Archdiocese is self-insured for healthcare.

Note 14. Related Parties (Continued)

Other related parties of the Administrative Office include corporations held by the Roman Catholic Archbishop of Los Angeles in his official capacity, parishes, schools and other ministries and activities of the Archdiocese. In addition to balances and activities described in Notes 5 and 7, the Administrative Office had a payable to affiliates of $1,848,969 and $1,539,050 as of June 30, 2018 and 2017, respectively. Parish assessments and interest on affiliate loans contributed $21,576,051 and $19,707,792 to revenues for the years ended June 30, 2018 and 2017, respectively. The Administrative Office manages leases of certain properties that are owned by E&W. Proceeds from leases of these properties are collected by the Administrative Office and accounted for as a contribution to other income from E&W. Corresponding contribution expense to the Administrative Office is recorded by E&W. Total contribution to other income amounted to $168,741 and $146,831 for the years ended June 30, 2018 and 2017, respectively.

Expenses incurred on behalf of such related parties consist of subsidies and insurance program benefits. Subsidies are provided through a number of programs and for a variety of activities. Subsidies support the work of the Church by providing funding for sacraments, ministries, Catholic education, service programs and construction of facilities throughout the Archdiocese. Most often, subsidies are provided to parishes and schools whose sources of revenues do not meet operating needs. The largest of all Archdiocesan subsidy programs is *Together in Mission*, an annual appeal that facilitates support to 44 parishes and 62 elementary schools that do not have the means to continue their ministries without subsidy. The Administrative Office also provides construction subsidies to Archdiocesan schools by administering funds donated from various foundations and restricted to construction spending. Finally, a certain amount of subsidies are provided to other corporations owned by the Roman Catholic Archbishop of Los Angeles. Total expense incurred on behalf of related parties amounted to $22,066,154 and $11,422,144 for the years ended June 30, 2018 and 2017, respectively.

On January 18, 2012, the Archdiocese entered into a Technology Finance Master Lease Agreement with a lessor in order to facilitate the leasing of equipment at schools and parishes. The lease terms vary and payments are made directly by the schools and parishes who participate in the program. The Archdiocese acts as a guarantor. On November 16, 2017, the lease was amended with revised terms and conditions. At June 30, 2018, there are three equipment leases in place for two schools with monthly lease payments of $6,648, which expire through January 1, 2021.

Note 15. Fair Value of Financial Instruments

The following summarizes the major methods and assumptions used in estimating the fair values of financial instruments:

Investments: The fair value of the Pool is determined by management of the Archdiocese based on the underlying fair value of investments that make up the Pool. The fair value of the investments held at CCFLA is determined by management of CCFLA based on the underlying fair value of investments that make up CCFLA's investment pool. The fair value of other investments in nonpublicly traded equity securities is determined by independent appraisal.

Amounts due from affiliated entities: The carrying amounts approximate fair value due to the terms of payment to the Administrative Office.

Contracts receivable, affiliate receivables, pledges receivable and other receivables: The carrying amounts approximate fair value due to the terms of payment on the accounts.

Note 15. Fair Value of Financial Instruments (Continued)

Accounts payable and accrued expenses: The carrying amounts approximate fair value due to the terms of payments to the Administrative Office's vendors. The fair value of the interest rate swaps is based on pricing models that consider risks and market factors. The carrying amounts approximate the fair value.

Notes payable and notes payable to affiliates: The carrying values of notes payable approximate fair value as the interest rates on the notes are variable or approximate interest rates on borrowings currently available to the Administrative Office. The fair values of notes payables to affiliates have not been estimated as it is not practicable to estimate their fair values due to the nature of the related-party relationships.

Note 16. Revocable Living Trusts and Bequests

The Administrative Office has received certain pledges of net estate assets characterized as living trusts or bequests by will. As it is not practicable to determine a value for the gifts and bequests, and because the trusts are revocable at the discretion of the trustor, the aggregate value of these trusts is not reported on the accompanying consolidated statements of financial position.

Note 17. Irrevocable Deferred Gifts

The Administrative Office is the designated beneficiary of certain gift annuities. The fair value of these gift annuities totaled $138,090 and zero as of June 30, 2018 and 2017, respectively, and is included in the consolidated statements of financial position under other receivables. The Administrative Office did not receive any death payouts during the years ended June 30, 2018 or 2017.

Note 18. *Together in Mission* Activity

Together in Mission is a program of the Archdiocese. *Together in Mission*'s annual appeal was established in 1992 to reach out to the entire Catholic community of the Archdiocese to raise money for the preservation of Catholic schools and parishes that cannot survive economically without external financial support.

On March 4, 2003, the *Together in Mission* Advisory Board was formed to provide program governance and help achieve objectives of the program. In addition to the Advisory Board, the program is governed by standing subcommittees (also called Task Forces): the Allocation Committee, the Audit Committee and the Campaign Committee. The Allocation Committee is responsible for determining the amount of funds allotted to each of the five regions of the Archdiocese for parish subsidy and the Archdiocesan School Department for school subsidy. The Audit Committee oversees the financial reporting and internal controls of the program. Finally, the Campaign Committee's responsibility is to oversee the marketing campaign of the program.

Effective July 1, 2004, activities of the *Together in Mission* program have been recorded as custodial transactions. As a result, assets of the program, which are included in investments, have a corresponding liability shown on the consolidated statements of financial position of the Administrative Office at June 30, 2018 and 2017, in the amounts of $16,267,504 and $16,033,478, respectively.

Note 19. Net Assets

Temporarily restricted assets represent gifts and bequests for which donor-imposed restrictions have not been met. Permanently restricted assets represent permanent endowments established by donor-restricted gifts and bequests.

Note 19. Net Assets (Continued)

Temporarily restricted and permanently restricted assets consist of the following at June 30:

	2018	
	Temporarily Restricted	Permanently Restricted
Vocation in Progress	$ 2,749,456	$ 1,769,695
Adopt-a-Family	945,071	1,631,212
Repair and maintenance	8,584,405	6,580,255
Operating subsidies	4,523,104	-
Educational purposes	4,091,179	6,580,255
Office of Religious Education	886,150	909,433
House of Prayer	4,278,326	6,177,445
Called to Renew	1,308,648	47,412
Other	5,646,297	459,890
	$ 33,012,636	$ 24,155,597

	2017	
	Temporarily Restricted	Permanently Restricted
Vocation in Progress	$ 2,419,729	$ 1,769,745
Adopt-a-Family	898,765	1,631,212
Repair and maintenance	6,264,073	6,580,255
Operating subsidies	4,134,473	-
Educational purposes	3,493,253	6,580,255
Office of Religious Education	722,228	859,801
House of Prayer	3,473,077	6,004,031
Other	5,688,882	459,890
	$ 27,094,480	$ 23,885,189

Note 20. Endowment Fund and Net Asset Classifications

In August 2008, the FASB issued ASC 958, Financial Statements of Not-for-Profit Organizations, which provides guidance on the net asset classification of donor-restricted endowment funds for not-for-profit organizations that are subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and improves disclosures for endowment funds, both donor-restricted and Board-designated (quasi-endowment). The Endowment Fund of the Administrative Office consists of various donor-restricted endowment funds.

Note 20. Endowment Fund and Net Asset Classifications (Continued)

The Administrative Office has interpreted UPMIFA, adopted by the 2008 California legislature, as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Administrative Office classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Administrative Office in a manner consistent with the standard of prudence prescribed by the state of California in its enacted version of UPMIFA. In accordance with UPMIFA, the Administrative Office considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the Endowment Fund, (2) the purposes of the Administrative Office and the donor-restricted Endowment Fund, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Administrative Office, and (7) the investment policies of the Administrative Office.

The Administrative Office has adopted investment and spending policies for its Endowment Fund. The objective of these policies is to provide the Administrative Office a predictable funding stream for its programs while protecting the purchasing power of the Endowment Fund. The Administrative Office, through its investment policy, has established a target (inflation-adjusted) annualized rate of return over the long term of at least 5 percent; the total return during any single measurement period may deviate from the long-term return objective. To satisfy its long-term rate-of-return objective, the Administrative Office expects to maintain appropriate diversification among equity, fixed-income and alternative investment allocations. The purpose is to moderate the overall investment risk of the Endowment Fund.

The Administrative Office may appropriate for expenditure or accumulate so much of the Endowment Fund as the Administrative Office determines is prudent for the uses, benefits, purposes and duration for which the Endowment Fund is established. The amount appropriated, the spending policy, is a Board-approved percentage applied to the average fair value of the Endowment Fund investments for the three preceding years. The Board-approved spending percentage was 5 percent for the fiscal years ended June 30, 2018 and 2017. For the years ended June 30, 2018 and 2017, the actual expenditures from endowment funds used in support of operations were $857,907 and $423,240, respectively.

Assets of the Endowment Fund in the amount of $35,568,016 and $33,122,696 as of June 30, 2018 and 2017, respectively, were held in investments in pooled funds.

Note 20. Endowment Fund and Net Asset Classifications (Continued)

Endowment net assets at June 30 were as follows:

	2018			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Office of Religious Education	$ -	$ 856,101	$ 909,433	$ 1,765,534
Vocation in Progress	-	2,749,455	1,769,695	4,519,150
House of Prayer	-	4,254,655	6,177,445	10,432,100
Adopt-a-Family	-	945,071	1,631,212	2,576,283
Educational purposes	-	1,161,670	6,580,255	7,741,925
Repair and maintenance	-	1,273,633	6,580,255	7,853,888
Called to Renew	-	-	47,412	47,412
Other	-	171,834	459,890	631,724
Total endowment funds	$ -	$11,412,419	$24,155,597	$35,568,016

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Office of Religious Education	$ -	$ 722,228	$ 859,801	$ 1,582,029
Vocation in Progress	-	2,419,679	1,769,745	4,189,424
House of Prayer	-	3,434,942	6,004,031	9,438,973
Adopt-a-Family	-	898,765	1,631,212	2,529,977
Educational purposes	-	858,299	6,580,255	7,438,554
Repair and maintenance	-	771,768	6,580,255	7,352,023
Other	-	131,826	459,890	591,716
Total endowment funds	$ -	$ 9,237,507	$23,885,189	$33,122,696

Note 20. Endowment Fund and Net Asset Classifications (Continued)

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

	2018			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ -	$ 9,237,507	$23,885,189	$33,122,696
Investment return:				
Investment income	-	512,201	-	512,201
Net appreciation (realized and unrealized)	-	2,520,618	-	2,520,618
Total investment return	-	3,032,819	-	3,032,819
Contributions	-	-	270,408	270,408
Appropriation of endowment funds for expenditure	-	(857,907)	-	(857,907)
Endowment net assets, end of year	$ -	$11,412,419	$24,155,597	$35,568,016

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ -	$ 6,085,701	$22,487,287	$28,572,988
Investment return:				
Investment income	-	492,381	-	492,381
Net depreciation (realized and unrealized)	-	3,082,665	-	3,082,665
Total investment return	-	3,575,046	-	3,575,046
Contributions	-	-	1,397,902	1,397,902
Appropriation of endowment funds for expenditure	-	(423,240)	-	(423,240)
Endowment net assets, end of year	$ -	$ 9,237,507	$23,885,189	$33,122,696

From time to time, the fair value of endowment funds associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Administrative Office to retain as a fund of perpetual duration. These deficiencies are reported in unrestricted net assets and are the result of unfavorable market fluctuations. As of June 30, 2018 and 2017, no donor-restricted endowments fell below this required level.