The Administrative Office of the Roman Catholic Archdiocese of Los Angeles

Consolidated Financial Report
June 30, 2019

THE POWER OF BEING UNDERSTOOD
AUDIT | TAX | CONSULTING

RSM

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 and its related consolidated entities, which comprise the consolidated statements of financial position as of June 30, 2019 and 2018, the related consolidated statements of activities, functional expenses 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 consolidated entities as of June 30, 2019 and 2018, and the changes in their net assets and their cash flows for the years then ended in conformity with U.S. GAAP.

THE POWER OF BEING UNDERSTOOD
AUDIT | TAX | CONSULTING

RSM US LLP is the U.S. member firm of RSM International, a global network of independent audit, tax, and consulting firms. Visit rsmus.com/aboutus for more information regarding RSM US LLP and RSM International.

Emphasis of Matter
As discussed in Note 1 to the financial statements, the Administrative Office of the Roman Catholic Archdiocese of Los Angeles adopted Financial Accounting Standards Board Accounting Standards Update No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements for Not-for-Profit Entities,* during the year ended June 30, 2019. The adoption of the standard resulted in additional footnote disclosures and significant changes to the classification of net assets and disclosures related to net assets. The adoption was retrospectively applied to July 1, 2017; the earliest year presented. Our opinion is not modified with respect to this matter.

RSM US LLP

Los Angeles, California
January 30, 2020

The Administrative Office of the Roman Catholic Archdiocese of Los Angeles

Consolidated Statements of Financial Position
June 30, 2019 and 2018

	2019			2018		
	Without Donor Restrictions	**With Donor Restrictions**	**Total**	Without Donor Restrictions	With Donor Restrictions	Total
Assets (Note 15)						
Cash and cash equivalents	**$ 26,858,250**	**$ 4,577,154**	**$ 31,435,404**	$ 21,806,415	$ 10,125,674	$ 31,932,089
Contracts receivable, net (Note 3)	**49,452,973**	**-**	**49,452,973**	40,987,367	-	40,987,367
Affiliate receivables, net (Note 4)	**16,282,822**	**-**	**16,282,822**	14,820,836	-	14,820,836
Pledges receivable, net (Note 5)	**-**	**64,407,081**	**64,407,081**	-	3,407,680	3,407,680
Other receivables (Note 17)	**1,599,170**	**134,102**	**1,733,272**	2,064,789	89,941	2,154,730
Notes receivable, net (Note 6)	**13,300,775**	**-**	**13,300,775**	10,159,242	-	10,159,242
Investments (Notes 7, 13 and 18)	**529,794,745**	**75,590,639**	**605,385,384**	533,053,604	59,477,348	592,530,952
Properties held for sale	**46,999**	**-**	**46,999**	46,999	-	46,999
Property and equipment, net (Notes 2, 8 and 13)	**84,351,845**	**334,897**	**84,686,742**	69,308,410	334,897	69,643,307
Other assets	**1,123,708**	**-**	**1,123,708**	1,183,395	197	1,183,592
Goodwill (Note 2)	**28,082,577**	**-**	**28,082,577**	28,082,577	-	28,082,577
Assets for pension benefits (Note 9)	**5,900,000**	**-**	**5,900,000**	8,186,000	-	8,186,000
Total assets	**$ 756,793,864**	**$ 145,043,873**	**$ 901,837,737**	$ 729,699,634	$ 73,435,737	$ 803,135,371
Liabilities and Net Assets (Note 15)						
Liabilities:						
Accounts payable and accrued expenses (Notes 2 and 10)	**$ 18,912,581**	**$ -**	**$ 18,912,581**	$ 23,548,311	$ -	$ 23,548,311
Payable to affiliates (Note 14)	**2,671,471**	**35,044,676**	**37,716,147**	1,848,969	-	1,848,969
Deferred revenue, cemetery and mausoleum care account	**6,390,093**	**-**	**6,390,093**	6,988,038	-	6,988,038
Insurance claims reserves (Notes 13 and 14)	**64,509,059**	**-**	**64,509,059**	64,338,296	-	64,338,296
Liability for pension and postretirement plan benefits (Note 9)	**149,066,000**	**-**	**149,066,000**	116,379,000	-	116,379,000
Deferred revenue (Note 12)	**163,206,062**	**-**	**163,206,062**	158,140,457	-	158,140,457
Custodial collections (Notes 14 and 18)	**14,009,296**	**19,580,123**	**33,589,419**	16,978,818	16,267,504	33,246,322
Notes payable (Note 10)	**112,574,176**	**-**	**112,574,176**	118,969,780	-	118,969,780
Notes payable to affiliates (Note 11)	**3,646,334**	**-**	**3,646,334**	4,881,458	-	4,881,458
Total liabilities	**534,985,072**	**54,624,799**	**589,609,871**	512,073,127	16,267,504	528,340,631
Commitments and contingencies (Notes 10, 13 and 14)						
Net assets (Notes 19 and 20)	**221,808,792**	**90,419,074**	**312,227,866**	217,626,507	57,168,233	274,794,740
Total liabilities and net assets	**$ 756,793,864**	**$ 145,043,873**	**$ 901,837,737**	$ 729,699,634	$ 73,435,737	$ 803,135,371

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, 2019 and 2018

	2019			2018		
	Without Donor Restrictions	**With Donor Restrictions**	**Total**	Without Donor Restrictions	With Donor Restrictions	Total
Revenues:						
Donations and assessments (Note 14)	**$ 26,589,631**	**$ 66,447,641**	**$ 93,037,272**	$ 26,165,808	$ 17,891,701	$ 44,057,509
Donations, annual appeal	**-**	**16,068,068**	**16,068,068**	-	16,135,166	16,135,166
Cemetery sales	**53,933,668**	**-**	**53,933,668**	53,006,083	-	53,006,083
Mortuary sales	**29,727,055**	**-**	**29,727,055**	28,792,076	-	28,792,076
Insurance reimbursement (Note 14)	**124,277,912**	-	**124,277,912**	119,423,247	-	119,423,247
Investment Pool income, net of expenses (Note 7)	**23,103,389**	**3,617,747**	**26,721,136**	30,308,927	4,240,421	34,549,348
Other investment income, net of expenses (Note 7)	**4,445,068**	**-**	**4,445,068**	3,547,106	-	3,547,106
Rents, fees and other revenue (Notes 13 and 14)	**17,149,963**	**-**	**17,149,963**	15,693,378	15,405	15,708,783
	279,226,686	**86,133,456**	**365,360,142**	276,936,625	38,282,693	315,219,318
Net assets released from restrictions, satisfaction of program restrictions	**51,458,670**	**(51,458,670)**	**-**	31,052,139	(31,052,139)	-
Total revenues	**330,685,356**	**34,674,786**	**365,360,142**	307,988,764	7,230,554	315,219,318
Program expenses:						
Education and formational services (Note 14)	**26,835,837**	**-**	**26,835,837**	21,922,332	-	21,922,332
Pastoral and evangelization (Note 14)	**19,160,134**	**-**	**19,160,134**	18,486,960	-	18,486,960
Social services	**4,166,531**	**-**	**4,166,531**	3,550,431	-	3,550,431
Pastoral regions	**1,660,133**	**-**	**1,660,133**	1,657,013	-	1,657,013
Priests' support and retirement (Note 9)	**3,337,689**	**-**	**3,337,689**	3,095,723	-	3,095,723
Cemetery expense	**32,361,405**	**-**	**32,361,405**	31,291,617	-	31,291,617
Mortuary expense	**28,755,812**	**-**	**28,755,812**	27,478,097	-	27,478,097
Total program expenses	**$ 116,277,541**	**$ -**	**$ 116,277,541**	$ 107,482,173	$ -	$ 107,482,173

(Continued)

The Administrative Office of the Roman Catholic Archdiocese of Los Angeles

Consolidated Statements of Activities (Continued)
Years Ended June 30, 2019 and 2018

	2019			2018		
	Without Donor Restrictions	**With Donor Restrictions**	**Total**	Without Donor Restrictions	With Donor Restrictions	Total
Other expenses:						
Administrative expense (Notes 10, 11, 13 and 14)	**$ 200,227,615**	**$ -**	**$ 200,227,615**	$ 115,331,136	$ -	$ 115,331,136
Fundraising expense	**10,022,886**	**-**	**10,022,886**	5,102,980	-	5,102,980
Total other expenses	**210,250,501**	**-**	**210,250,501**	120,434,116	-	120,434,116
Total expenses	**326,528,042**	**-**	**326,528,042**	227,916,289	-	227,916,289
Increase in net assets before transfers and other changes	**4,157,314**	**34,674,786**	**38,832,100**	80,072,475	7,230,554	87,303,029
Transfer of changes in net assets of *Together in Mission*	**-**	**(1,474,043)**	**(1,474,043)**	-	(992,235)	(992,235)
Change in value of beneficial interest in charitable gift annuity (Note 17)	**24,971**	**50,098**	**75,069**	(27,337)	(49,755)	(77,092)
Increase in net assets	**4,182,285**	**33,250,841**	**37,433,126**	80,045,138	6,188,564	86,233,702
Net assets, beginning of year	**217,626,507**	**57,168,233**	**274,794,740**	137,581,369	50,979,669	188,561,038
Net assets, end of year (Notes 19 and 20)	**$ 221,808,792**	**$ 90,419,074**	**$ 312,227,866**	$ 217,626,507	$ 57,168,233	$ 274,794,740

See notes to consolidated financial statements.

The Administrative Office of the Roman Catholic Archdiocese of Los Angeles

Consolidated Statements of Functional Expenses
Year Ended June 30, 2019

	Program Expense								Other Expenses			
	Education and Formational Services	Pastoral and Evangelization	Social Services	Pastoral Regions	Priests' Support and Retirement	Cemetery	Mortuary	Subtotal	Administrative	Fundraising	Subtotal	Total
Salary and wages	$ 4,405,763	$ 5,255,074	$ 1,956,674	$ 903,259	$ 670,369	$ 11,202,845	$ 14,645,226	$ 39,039,210	$ 7,455,788	$ 1,574,475	$ 9,030,263	48,069,473
Benefits	732,918	1,230,270	432,183	250,000	2,352,746	3,857,237	2,960,840	11,816,194	3,400,779	293,770	3,694,549	15,510,743
Subtotal	5,138,681	6,485,344	2,388,857	1,153,259	3,023,115	15,060,082	17,606,066	50,855,404	10,856,567	1,868,245	12,724,812	63,580,216
Bad debt expense	-	-	-	-	-	-	-	-	14,773,934	-	14,773,934	14,773,934
Bank charges	35,200	1,343	64	-	-	506,741	243,078	786,426	180,138	188,372	368,510	1,154,936
Conferences/meetings	180,403	130,065	48,713	6,085	9,260	1,064	6,837	382,427	1,499,089	172,645	1,671,734	2,054,161
Consultant	47,454	968,006	242,423	-	-	329,841	282,256	1,869,980	1,800,948	4,277,365	6,078,313	7,948,293
Contribution expense	182,020	331,971	-	-	-	-	-	513,991	14,301	1,455,552	1,469,853	1,983,844
Cost of sales	-	-	-	-	-	7,491,636	3,125,530	10,617,166	-	-	-	10,617,166
Depreciation	-	-	-	-	-	1,065,396	348,663	1,414,059	256,557	-	256,557	1,670,616
Development/donor appreciation expense	154,277	131,203	37,422	18,437	-	34,598	48,849	424,786	192,290	462,971	655,261	1,080,047
Equipment related	902,988	7,259	260,965	-	-	264,445	296,556	1,732,213	1,009,864	49,766	1,059,630	2,791,843
Insurance expense (Note 14)	-	-	-	-	-	-	-	-	116,608,791	-	116,608,791	116,608,791
Interest expense (Notes 10 and 11)	-	-	-	-	-	-	108,964	108,964	4,997,790	-	4,997,790	5,106,754
Marketing/advertising	43,415	128,787	34,818	2,160	3,000	14,720	442,954	669,854	51,647	26,706	78,353	748,207
Miscellaneous	1,082,651	689,214	445,612	26,895	29,083	3,730,745	(56,410)	5,947,790	1,424,900	345,985	1,770,885	7,718,675
Miscellaneous program expense	11,354	315,020	3,671	8,876	995	9,540	29,853	379,309	-	-	-	379,309
Funeral preparation and support services	-	-	-	-	-	-	1,397,254	1,397,254	-	-	-	1,397,254
Occupancy/facility expense	781,492	496,425	41,449	101,073	556	(23,706)	708,718	2,106,007	2,992,697	7,091	2,999,788	5,105,795
Office expense/supplies	667,191	539,590	497,790	186,052	65,173	1,561,405	921,161	4,438,362	398,699	1,079,642	1,478,341	5,916,703
Professional fees	612,176	10,640	2,060	-	3,475	117,120	2,415,867	3,161,338	3,938,650	12,463	3,951,113	7,112,451
Program events	10,350	388,339	7,374	4,162	174,825	-	-	585,050	(68,780)	-	(68,780)	516,270
Seminarian/educational expense	109,686	3,273,808	7,211	6,618	-	-	-	3,397,323	6,279	335	6,614	3,403,937
Settlement expense	-	-	-	-	-	-	-	-	4,553,885	-	4,553,885	4,553,885
Staff development	10,139	190,411	1,146	428	-	852	24,837	227,813	2,193	70	2,263	230,076
Subscriptions	185,058	25,595	5,441	488	-	4,854	7,860	229,296	14,137	13,494	27,631	256,927
Subsidy-TIM/contribution expense	26,080,141	8,899,150	-	-	-	-	-	34,979,291	1,631,928	-	1,631,928	36,611,219
Transfer to CIP	-	-	-	-	-	-	-	-	-	-	-	-
Travel expenses	412,010	275,883	125,375	53,354	1,999	7,974	63,449	940,044	308,046	47,098	355,144	1,295,188
Uniforms	-	-	-	-	-	207,123	17,731	224,854	-	-	-	224,854
Utilities	5,190	106,237	2,244	54,556	-	1,947,367	689,107	2,804,701	2,099,617	1,365	2,100,982	4,905,683
Vehicle expenses	4,849	112,709	13,896	37,690	26,208	29,608	26,632	251,592	128,432	13,721	142,153	393,745
Allocation to E&W	(9,820,888)	(4,346,865)	-	-	-	-	-	(14,167,753)	(700,270)	-	(700,270)	(14,868,023)
Subtotal	21,697,156	12,674,790	1,777,674	506,874	314,574	17,301,323	11,149,746	65,422,137	158,115,762	8,154,641	166,270,403	231,692,540
Pension expense (benefit), net of reimbursements (Note 9)	-	-	-	-	-	-	-	-	31,255,286	-	31,255,286	31,255,286
Total	$ 26,835,837	$ 19,160,134	$ 4,166,531	$ 1,660,133	$ 3,337,689	$ 32,361,405	$ 28,755,812	$ 116,277,541	$ 200,227,615	$ 10,022,886	$ 210,250,501	$ 326,528,042

See notes to consolidated financial statements.

The Administrative Office of the Roman Catholic Archdiocese of Los Angeles

Consolidated Statements of Functional Expenses
Year Ended June 30, 2018

	Program Expense								Other Expenses			
	Education and Formational Services	Pastoral and Evangelization	Social Services	Pastoral Regions	Priests' Support and Retirement	Cemetery	Mortuary	Subtotal	Administrative	Fundraising	Subtotal	Total
Salary and wages	$ 4,301,706	$ 5,091,551	$ 1,694,290	$ 884,838	$ 676,030	$ 11,566,160	$ 13,239,342	$ 37,453,917	$ 6,559,887	$ 904,446	$ 7,464,333	$ 44,918,250
Benefits	710,993	1,269,157	374,730	230,435	1,964,336	3,635,514	2,806,927	10,992,092	3,654,646	182,112	3,836,758	14,828,850
Subtotal	5,012,699	6,360,708	2,069,020	1,115,273	2,640,366	15,201,674	16,046,269	48,446,009	10,214,533	1,086,558	11,301,091	59,747,100
Bad debt expense	-	-	-	-	-	-	-	-	4,886,606	-	4,886,606	4,886,606
Bank charges	34,307	1,498	149	-	-	560,495	270,991	867,440	111,523	164,202	275,725	1,143,165
Conferences/meetings	33,025	92,737	19,946	10,048	1,900	324	894	158,874	1,293,354	4,030	1,297,384	1,456,258
Consultant	620,408	963,665	23,795	3,958	-	226,166	452,700	2,290,692	2,532,957	2,101,495	4,634,452	6,925,144
Contribution expense	-	-	-	-	-	-	-	-	1,530,643	537,400	2,068,043	2,068,043
Cost of sales	-	-	-	-	-	6,928,893	3,023,490	9,952,383	-	-	-	9,952,383
Depreciation	-	-	-	-	-	984,873	331,782	1,316,655	272,563	-	272,563	1,589,218
Development/donor appreciation expense	32,150	279,052	56,534	28,131	-	23,296	37,015	456,178	785,495	413,502	1,198,997	1,655,175
Equipment related	4,192	4,874	-	784	-	201,650	154,497	365,997	813,130	18,142	831,272	1,197,269
Insurance expense (Note 14)	-	-	-	-	-	-	-	-	110,214,930	-	110,214,930	110,214,930
Interest expense (Notes 10 and 11)	-	-	-	-	-	-	100,589	100,589	4,848,224	-	4,848,224	4,948,813
Marketing/advertising	550	25,914	1,575	-	20,850	36,365	188,201	273,455	34,479	30,556	65,035	338,490
Miscellaneous	310,678	963,227	784,819	29,554	735	2,447,606	758,029	5,294,648	(1,890,264)	190,894	(1,699,370)	3,595,278
Miscellaneous program expense	1,431	170,293	3,200	9,938	4,815	7,377	20,353	217,407	-	-	-	217,407
Funeral preparation and support services	-	-	-	-	-	-	1,161,747	1,161,747	-	-	-	1,161,747
Occupancy/facility expense	506	337,989	13,556	55,878	94	569,757	879,589	1,857,369	2,074,888	70	2,074,958	3,932,327
Office expense/supplies	748,994	741,803	185,444	233,023	71,154	1,499,566	947,828	4,427,812	1,075,486	506,454	1,581,940	6,009,752
Professional fees	627,264	2,769	-	-	-	134,705	2,389,804	3,154,542	5,199,466	12,100	5,211,566	8,366,108
Program events	3,449,224	555,315	264,362	21,764	331,087	-	-	4,621,752	30,664	-	30,664	4,652,416
Seminarian/educational expense	5,478	2,505,160	7,598	368	-	-	-	2,518,604	13,531	250	13,781	2,532,385
Settlement expense	-	-	-	-	-	-	-	-	1,811,779	-	1,811,779	1,811,779
Staff development	2,147	177,340	2,801	1,003	-	(171)	1,753	184,873	6,060	139	6,199	191,072
Subscriptions	173,978	32,969	1,883	431	81	3,750	7,435	220,527	13,759	2,092	15,851	236,378
Subsidy-TIM/contribution expense	20,441,857	8,417,069	-	-	-	-	-	28,858,926	941,817	-	941,817	29,800,743
Transfer to CIP	-	-	-	-	-	-	(276,156)	(276,156)	-	-	-	(276,156)
Travel expenses	94,655	338,389	96,535	51,131	368	12,199	20,611	613,888	347,404	33,064	380,468	994,356
Uniforms	-	199	-	-	-	208,088	13,530	221,817	-	-	-	221,817
Utilities	2,405	77,456	1,610	60,487	-	2,227,553	648,415	3,017,926	2,152,586	1,039	2,153,625	5,171,551
Vehicle expenses	5,830	91,562	17,604	35,242	24,273	17,451	298,731	490,693	78,299	993	79,292	569,985
Allocation to E&W	(9,679,446)	(3,653,028)	-	-	-	-	-	(13,332,474)	(368,316)	-	(368,316)	(13,700,790)
Subtotal	16,909,633	12,126,252	1,481,411	541,740	455,357	16,089,943	11,431,828	59,036,164	138,811,063	4,016,422	142,827,485	201,863,649
Pension expense (benefit), net of reimbursements (Note 9)	-	-	-	-	-	-	-	-	(33,694,460)	-	(33,694,460)	(33,694,460)
Total	$ 21,922,332	$ 18,486,960	$ 3,550,431	$ 1,657,013	$ 3,095,723	$ 31,291,617	$ 27,478,097	$ 107,482,173	$ 115,331,136	$ 5,102,980	$ 120,434,116	$ 227,916,289

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, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Increase in net assets before transfers and other changes	**$ 38,832,100**	$ 87,303,029
Adjustments to reconcile increase in net assets before transfers and other changes to net cash (used in) provided by operating activities:		
Net realized and unrealized gain on investments	**(22,204,416)**	(29,778,949)
Gain on sale of property and equipment	**-**	(35,392)
Transfer of changes in net assets of *Together in Mission*	**(1,474,043)**	(992,235)
Change in value of beneficial interest in charitable gift annuity	**75,069**	(77,092)
Provision for bad debt	**12,847,417**	4,886,606
Depreciation and amortization on property and equipment	**4,764,116**	3,842,993
Assets contributed for long-term investments	**(330,520)**	(270,408)
Increase in affiliate receivables	**(2,690,216)**	(4,760,926)
Increase in contracts receivable	**(10,445,248)**	(12,307,081)
Increase in pledges receivable	**(72,834,554)**	(2,191,169)
Decrease in other receivables	**784,216**	279,722
Decrease (increase) in overfunded pension benefit obligation	**2,286,000**	(5,074,000)
Decrease in other assets	**59,884**	123,325
(Decrease) increase in accounts payable and accrued expenses	**(4,565,554)**	4,750,527
Increase in affiliate payables	**35,867,178**	309,919
Decrease in cemetery and mausoleum perpetual care account	**(597,945)**	(630,525)
Increase in insurance claims reserves	**170,763**	7,389,996
Increase (decrease) in liability for pension and postretirement plan	**32,687,000**	(24,522,000)
Increase in deferred revenue	**5,065,605**	4,590,689
(Decrease) increase in custodial collections	**(171,120)**	2,117,954
Net cash provided by operating activities	**18,125,732**	34,954,983
Cash flows from investing activities:		
Purchase of investments	**(157,885,545)**	(123,728,269)
Proceeds from maturities or sale of investments	**167,679,570**	104,569,834
Advances for notes receivable	**(2,308,683)**	(641,566)
Proceeds from notes receivable	**-**	645,985
Purchases of property and equipment	**(19,849,974)**	(3,382,658)
Proceeds from sale of property and equipment	**42,423**	108,013
Net cash used in investing activities	**(12,322,209)**	(22,428,661)

(Continued)

The Administrative Office of the Roman Catholic Archdiocese of Los Angeles

Consolidated Statements of Cash Flows (Continued)
Years Ended June 30, 2019 and 2018

	2019	2018
Cash flows from financing activities:		
Assets contributed for long-term investments	**$ 330,520**	$ 270,408
Principal payments on notes payable to affiliates	**(1,235,124)**	(538,015)
Proceeds from issuance of notes payable to affiliates	**-**	14,724
Principal payments on notes payable	**(5,395,604)**	(5,395,605)
Net cash used in financing activities	**(6,300,208)**	(5,648,488)
Net (decrease) increase in cash and cash equivalents	**(496,685)**	6,877,834
Cash and cash equivalents, beginning of year	**31,932,089**	25,054,255
Cash and cash equivalents, end of year	**$ 31,435,404**	$ 31,932,089
Supplemental disclosure of cash flow information:		
Cash paid for interest	**$ 4,704,796**	$ 4,831,917
Supplemental disclosure of noncash investing and financing transactions:		
Forgiveness of debt	**$ 1,000,000**	$ 1,000,000

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 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 accompanying financial presentation of the Administrative Office follows Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958, Financial Statements of Not-For-Profit Organizations. This standard provides guidance on reporting information regarding its financial position and changes in activities according to two classes of net assets determined by the existence or absence of donor-imposed restrictions as follows:

Net assets without donor restrictions: Net assets without donor restrictions represent the portion of net assets of the Administrative Office that is neither restricted by donor-imposed stipulations or time restrictions. Net assets without donor restrictions include expendable funds available to support operations.

Net assets with donor restrictions: Net assets with donor restrictions represent contributions and other inflows of assets whose use by the Administrative Office is limited by donor-imposed stipulations that require that they be held in perpetuity or whose use may expire by the passage of time or can be fulfilled and removed by actions of the Administrative Office pursuant to those donor stipulations. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are released to net assets without donor restrictions and are reported in the statement of activities as satisfaction of program and time restrictions. Net assets with donor restrictions also include funds not yet appropriated by the Administrative Office. These generally represent net investment return on endowment funds restricted in perpetuity, which are subject to prudent appropriation by the Administrative Office in accordance with provisions of California law.

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

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

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% and 8%. 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 FASB 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 ranged from 1.92% to 1.71%, and 2.73% and 2.33% for the fiscal years ended June 30, 2019 and 2018, respectively. 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 without donor restrictions.

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% annually (8.0% 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% annually (5.3% if signed up for ACH payment). Starting May 1, 2017, the 10.0% pre-need discount was replaced with a 0% financing on all pre-need cemetery contracts. No interest is charged on pre-need merchandise and services contracts.

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% 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% of the goal amount ($125,000,000) will be retained at parishes for parish-specific needs; and 50% ($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 and totaled $44,826,386 and $1,356,060 for the years ended June 30, 2019 and 2018, respectively. Called to Renew expenses are included in fundraising expenses and totaled $5,115,170 and $2,148,526 for the years ended June 30, 2019 and 2018, respectively. Amounts collected on behalf of other entities are recorded as payable to affiliates on the statements of financial position and were $35,749,030 and $0 at June 30, 2019 and 2018, respectively.

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 net assets without donor restrictions unless their use is 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 recorded 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. As of the years ended June 30, 2019 and 2018, 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, 2019 and 2018, 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 recorded as insurance related revenues and are presented as insurance reimbursement in the revenue section of 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 included in investments. 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, 2019 and 2018, were approximately $6,390,095 and $6,988,000, respectively.

Contributions: Contributions are reported as with or without donor restrictions, 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, net assets with donor restrictions are released to net assets without donor restrictions and are reported in the consolidated statements of activities as net assets released from restrictions. Net assets with donor restrictions for which the donor-imposed restrictions have been met in the same reporting period are recorded as net assets without donor restrictions. Unconditional promises to give (pledges) are recorded as receivables and revenues.

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

Conditional promises to give or intentions to give are not recorded in the consolidated financial statements.

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 as these services do not meet the criteria for recognition as contributions under U.S. GAAP.

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 statements of activities. The statements of functional expenses presents the natural classification detail of expenses by function. The expenses that are allocated include salaries, wages and benefits, which are allocated on the basis of actual time and effort, office supplies, office expense/supplies, depreciation, equipment related, insurance benefit, net, occupancy/facility expense, and utilities, which are allocated by department headcounts.

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, 2019 or 2018.

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

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.

Revenue recognition—Cemeteries: 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. Pre-need contracts relate to future service. 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 net assets with donor restrictions. Net proceeds of the Together in Mission program are classified as net assets with donor restrictions 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 measures fair value using 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.

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

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.

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.

Private companies measured using net asset value (NAV) as a practical expedient are not categorized in within the fair value hierarchy.

While the Administrative Office believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

During the years ended June 30, 2019 and 2018, there were no changes in the Administrative Office's valuation techniques that had, or are expected to have, a material impact on its statements of financial position or changes in net assets. In addition, there were no transfers of assets between hierarchy categories during the years ended June 30, 2019 and 2018. The Administrative Office has various processes and controls in place to ensure that fair value is reasonably estimated.

Recently issued accounting pronouncements: In June 2018, the FASB issued Accounting Standards Update (ASU) 2018-08, *Not-for- Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This ASU clarifies the guidance for reevaluating whether a transaction is reciprocal (i.e., an exchange transaction) or nonreciprocal (i.e., a contribution) and for distinguishing between conditional and unconditional contributions. The ASU also clarifies the guidance used by entities other than not-for-profits to identify and account for contributions made. The ASU has different effective dates for resource recipients and resource providers. Where the Administrative Office is the resource recipient, the ASU is applicable to contributions received for annual periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. Early adoption is permitted. The Administrative Office is currently evaluating the impact of the adoption of this ASU on the consolidated financial statements.

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

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force)*, which provides guidance on the presentation of restricted cash or restricted cash equivalents in the statement of cash flows. ASU 2016-18 will be effective for the Administrative Office for fiscal years beginning after December 15, 2018. ASU 2016-18 must be applied using a retrospective transition method with early adoption permitted. The Administrative Office is currently evaluating the impact of the adoption of this ASU on the consolidated financial statements.

In August 2016, FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230) Classification of Certain Cash Receipts and Cash Payments*, which will make eight targeted changes to how cash receipts and cash payments are presented and classified in the statement of cash flows. ASU 2016-15 will be effective for fiscal years beginning after December 15, 2018, and will require the adoption on a retrospective basis unless it is impracticable to apply, in which case it would be required to apply the amendments prospectively as of the earliest date practicable. The Administrative Office is currently evaluating the impact of the adoption of this ASU on the consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in ASU 2016-02 supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees 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. In November 2019, the FASB issued ASU 2019-10, making ASU 2016-02 effective for fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees 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 impact of this ASU on the consolidated financial statements and disclosures.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, which updates certain aspects of recognition, measurement, presentation and disclosure of financial instruments. ASU 2016-01 will be effective for the Administrative Office for fiscal years beginning after December 15, 2018. The Administrative Office has elected to early adopt the amendment that no longer requires disclosure of fair value financial instruments that are not measured at fair value and as such, these disclosures are not included herein. The Administrative Office is currently evaluating the impact of the adoption of this ASU on the 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 (FASB ASC 606)*. This standard outlines a single comprehensive model for companies to use in accounting for revenues arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The core principle of the revenue model is that revenues are recognized when a customer obtains control of a good or service. A customer obtains control when it has the ability to direct the use and obtain the benefits from the good or service. Transfer of control is not the same as transfer of risks and rewards as it is considered in current guidance. The Administrative Office will also need to apply new guidance to determine whether revenues should be recognized over time or at a point in time. The FASB issued ASU 2015-14 to defer the effective date of ASU 2014-09 for all entities by one year. This standard is effective for annual reporting periods beginning after December 15, 2018, using either of two methods: (a) retrospective to each prior reporting period presented with the option to elect certain practical expedients as defined within ASU 2014-09 or (b) retrospective with the cumulative effect of initially applying ASU 2014-09 recognized at the date of initial application and providing certain additional disclosures as defined in ASU 2014-09. The FASB also issued ASU 2016-10 and 2016-12, which make various changes to technical guidance included in ASU 2014-09. The Administrative Office is currently evaluating the impact of the pending adoption of ASU 2014-09 on the consolidated financial statements.

Recently adopted accounting pronouncements: During the year ended June 30, 2019, the Administrative Office adopted ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements for Not-for-Profit Entities*, which amends the requirements for financial statements and requires the Administrative Office to make reporting changes that affect the following:

- Net asset classifications and related disclosures
- Underwater donor-restricted endowments and related disclosures
- Additional disclosures useful in assessing liquidity within one year of the statement of financial position date
- New reporting requirements relating to disclosure of expenses
- Reporting of net investment return

The Administrative Office made changes to terminology and classification as described above as well as additional or modified disclosures (see Notes 19, 20 and 21). Amounts previously reported as of, and for the year ended June 30, 2018, have been reclassified on a retrospective basis to achieve consistent presentation. Amounts previously reported as permanently and temporarily net assets have been reclassified to be reported as with donor restrictions.

ASU 2018-13, *Fair Value Measurement (Topic 820), Disclosure Framework—Changes in the Disclosure Requirements for Fair Value Measurement,* modified the disclosure requirements on fair value measurements in Topic 820. The ASU removed the requirement to disclose the policy for the timing of transfers between levels, the valuation processes for Level 3 fair value measurements, the Level 3 reconciliation from opening balances to closing balances, and the changes in unrealized gains and losses of Level 3 fair value measurements held on the statement of financial position date. As a result of this adoption, modifications were made to the disclosure of the amount of and reason for transfers into and out of Level 3 of the fair value hierarchy and the amount of purchases and issues of Level 3 assets and liabilities. The Administrative Office has early adopted this ASU for the year ended June 30, 2019.

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

Reclassification: Certain amounts in the prior year's consolidated statements of 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 January 30, 2020, the date the consolidated financial statements were available to be issued, in preparing the consolidated financial statements and notes thereto.

On October 13, 2019, the Governor of California signed a legislation that expands the statute of limitations for claims alleging sexual misconduct by clergy and lay persons. The legislation applies to religious organizations and related institutions and all other public and private entities (other than the state of California or its agencies or institutions); revives for three years claims for childhood sexual abuse that are currently barred; extends the time for filing a complaint from a plaintiff's 26th birthday or three-years-from-discovery that adult injury was caused by the childhood abuse to plaintiff's 40th birthday or five-years-from-discovery of the causal connection. A plaintiff can file until the later of the three-year revival or age 40 or five years from discovery of the causal connection. The new legislation retains the right to seek punitive damages and also allows a claimant to recover treble damages if the claimant can prove that his or her sexual abuse was as the result of a "cover-up" by the defendant. To date seven claims have been filed. It is not possible to estimate the number of claims that may be filed as a result of the broadened statute.

As referenced in Note 13, since September 2019, the Archdiocese has been participating in an Independent Compensation Program for claimants who were abused by diocesan priests when the claimant was a minor.

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.

Note 2. Business Combination (Continued)

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

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 separately 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, 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:

	2019	2018
Cemeteries	$ 53,399,710	$ 44,152,527
Mortuaries	437,767	534,154
	53,837,477	44,686,681
Allowance for uncollectible accounts	(4,384,504)	(3,699,314)
Contracts receivable, net	$ 49,452,973	$ 40,987,367

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% 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.

Affiliate receivables consisted of the following at June 30:

	2019	2018
Parishes	$ 15,194,467	$ 15,015,619
Elementary schools	24,871,709	22,678,955
High schools	5,583,474	4,278,857
Education & Welfare Corporation	8,884,578	5,916,173
St. John's Seminary College	1,710,000	2,670,000
St. John's Seminary of California	-	3,302,600
Catholic Education Foundation	98,109	61,703
Other	1,021,741	1,180,098
	57,364,078	55,104,005
Allowance for uncollectible accounts	(41,081,256)	(40,283,169)
Affiliate receivables, net	$ 16,282,822	$ 14,820,836

Note 5. Pledges Receivable, Net

Pledges receivable at June 30 consisted of the following:

2019	Gross	Discount	Net of Discount	Allowance for Uncollectibles	Net of Discount and Allowance
Called to Renew	$ 74,232,736	$ (1,516,471)	$ 72,716,265	$ (11,756,686)	$ 60,959,579
Annual appeal	3,628,950	-	3,628,950	(181,448)	3,447,502
	$ 77,861,686	$ (1,516,471)	$ 76,345,215	$ (11,938,134)	$ 64,407,081

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

Note 5. Pledges Receivable, Net (Continued)

	2019	2018
Amounts due in:		
Less than one year	$ 25,033,227	$ 2,737,100
One to five years	52,828,459	810,000
	$ 77,861,686	$ 3,547,100

All annual appeal pledges receivable outstanding at June 30, 2019 and 2018, mature within one year. The discount rate applied in determining the discount to net present value on the Called to Renew pledges ranged from 1.92% to 1.71% and 2.73% and 2.33% for the fiscal years ended June 30, 2019 and 2018, respectively.

Note 6. Notes Receivable, Net

Notes receivable at June 30 consisted of the following:

	2019	2018
Parishes, high schools and elementary schools	$ 15,799,687	$ 14,886,691
St. John's Seminary College	9,146,321	5,843,721
Cathedral of Our Lady of the Angels	-	1,000,000
Other nonaffiliated entities	1,630,563	2,254,625
	26,576,571	23,985,037
Allowance for uncollectible accounts	(13,275,796)	(13,825,795)
Notes receivable, net	$ 13,300,775	$ 10,159,242

Aggregate maturities of notes receivable as of June 30, 2019, are as follows:

Years ending June 30:	
2020	$ 401,661
2021	431,824
2022	601,806
2023	600,013
2024	480,857
Thereafter	24,060,410
	$ 26,576,571

Note 7. Investments

Investments consisted of the following at June 30:

	2019	2018
Investment Pool	$ 532,020,215	$ 547,714,612
Other investments	73,365,169	44,816,340
	$ 605,385,384	$ 592,530,952

Note 7. Investments (Continued)

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 both June 30, 2019 and 2018, were invested 72% in equities, 25% fixed-income securities, 2% in cash and cash equivalents, and 1% in other assets.

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, 2019 and 2018, were invested 95% and 93% in fixed-income securities, 2% and 3% in notes receivable, 1% and 3% in cash and cash equivalents, and 2% and 1% 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, 2019, the Pool was considered a Level 3 investment. At June 30, 2019, the Pool invested 71%, 25% and 1% in fair value hierarchy Levels 1, 2 and 3, respectively, and 2% was valued at NAV as a practical expedient and 1% at cost. At June 30, 2018, the Pool invested 70%, 26% and 1% in fair value hierarchy Levels 1, 2 and 3, respectively, and 2% was valued at NAV as a practical expedient and 1% at cost.

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 500 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 donor restricted and without donor restricted 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:

	2019	2018
Balanced Pool	6.40%	9.60%
Income Pool	2.60%	1.60%

Note 7. Investments (Continued)

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

	2019	2018
Balanced Pool	$ 398,442,106	$ 382,827,693
Income Pool	133,578,109	164,886,919
	$ 532,020,215	$ 547,714,612

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

	2019	2018
Interest and dividend income:		
Balanced Pool	$ 8,755,893	$ 8,086,778
Income Pool	4,072,708	3,219,270
Total interest and dividend income	12,828,601	11,306,048
Net realized and unrealized gain (loss):		
Balanced Pool	16,583,280	26,504,362
Income Pool	281,908	(273,724)
Total net realized and unrealized gain	16,865,188	26,230,638
Investment expenses	(2,972,653)	(2,987,338)
Total investment income, net	$ 26,721,136	$ 34,549,348

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

	2019	2018
Watson Land Company securities (all equities)	$ 44,603,302	$ 19,981,782
Charitable Remainder Trust:		
Equities	596,613	665,543
Fixed income	297,434	249,184
	894,047	914,727
Investments held at CCFLA	10,357,334	9,482,231
Rabbi trust (Note 9)	17,384,533	14,314,472
Other (bonds and money market)	125,953	123,128
Total other investments	$ 73,365,169	$ 44,816,340

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, 2019 and 2018, the investment in Watson Land Company was considered a Level 3 investment under FASB ASC 820 fair value hierarchy levels.

Note 7. Investments (Continued)

CCFLA manages an investment fund (Balanced Pool Fund) whereby the underlying investments consist of U.S. equity securities (45% to 55%), international equities (15% to 25%) and U.S. fixed-income securities (25% to 35%).

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, 2019, CCFLA invested 89%, 1% and 10% in fair value hierarchy Levels 1, 2 and 3, respectively. At June 30, 2018, CCFLA invested 89%, 1% and 10% 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.

At June 30, 2019 and 2018, the rabbi trust invested $14,659,798 and $11,740,311, respectively, in the Investment Pool and $2,724,735 and $2,574,161, 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:

	2019	2018
Interest and dividend income, net of expenses	$ (40,294)	$ (1,205)
Net realized and unrealized gain	4,485,362	3,548,311
Total other investment income, net	$ 4,445,068	$ 3,547,106

Note 8. Property and Equipment

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

	2019	2018
Land	$ 33,191,825	$ 20,707,395
Cemetery and mausoleum developments	96,267,364	95,618,060
Buildings and improvements (Note 13)	39,596,307	36,080,304
Yard and yard buildings	5,730,639	5,730,639
Construction in progress	4,352,458	1,468,773
Furniture, fixtures and equipment	15,967,077	15,692,947
	195,105,670	175,298,118
Less accumulated depreciation and amortization	(110,418,928)	(105,654,811)
	$ 84,686,742	$ 69,643,307

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 $12,052,000 and $11,642,000 were made to the plan during the years ended June 30, 2019 and 2018, respectively. Benefit payments of $15,214,000 and $14,142,000 were made from the plan during the years ended June 30, 2019 and 2018, 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:

	2019	2018
Service cost, benefits earned during the period	$ 8,042,000	$ 8,325,000
Interest cost on projected benefit obligation	14,430,000	13,081,000
Actual return on plan assets	(18,474,000)	(23,868,000)
Net amortization and deferral	5,690,000	12,266,000
Net periodic pension cost	$ 9,688,000	$ 9,804,000

The assessed portion for employees of the Administrative Office included in pension cost in the accompanying consolidated statements of activities was $1,762,007 and $1,660,021 for the years ended June 30, 2019 and 2018, respectively.

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

	2019	2018
Accumulated benefit obligation for service rendered to date	$ (400,138,000)	$ (357,017,000)
Projected benefit obligation for service rendered to date	$ (404,046,000)	$ (360,650,000)
Plan assets at fair value	291,812,000	277,373,000
Funded status at end of year	$ (112,234,000)	$ (83,277,000)
Liability for pension benefits	$ (112,234,000)	$ (83,277,000)

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

	2019	2018
Noncurrent liabilities	$ (112,234,000)	$ (83,277,000)

Amounts recognized in net assets without donor restrictions at June 30 consist of:

	2019	2018
Net loss	$ 114,861,000	$ 83,540,000

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

Other changes in plan assets and benefit obligations recognized in net assets without donor restrictions at June 30 consisted of:

	2019	2018
Net loss (gain)	$ 36,596,000	$ (17,555,000)
Amortization of gain	(5,275,000)	(8,096,000)
Amortization of prior service cost	-	4,146,000
Total loss (gain) recognized in net assets without donor restrictions	$ 31,321,000	$ (21,505,000)

	2019	2018
Total gain recognized in net periodic pension cost and net assets without donor restrictions	$ 41,009,000	$ (11,701,000)

In determining the actuarial present value of the projected benefit obligation, a weighted-average discount rate of 3.40% and 4.09% for the years ended June 30, 2019 and 2018, respectively, was used. The assumed rate of increase in future compensation levels was 4.00% for each of the years ended June 30, 2019 and 2018.

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, 2019 and 2018, the expected long-term rate of return used in determining net periodic pension cost was 6.70% and 6.25%, respectively.

The asset allocation for the lay employee pension plan as of June 30, 2019 and 2018, and the target allocation by asset category, were as follows:

	Archdiocesan Approved Asset	Policy Asset	Plan Assets at June 30	
Asset Category	Allocation	Allocation	2019	2018
Equities	60-80%	70%	77%	73%
Fixed income	25-35%	30%	23%	27%

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, 2019, are expected to be paid:

Years ending June 30:	
2020	$ 16,566,000
2021	17,544,000
2022	18,895,000
2023	19,789,000
2024	20,773,000
2025-2029	110,790,000
	$ 204,357,000

The Archdiocese expects to contribute approximately $12 million to the lay employee pension plan during the year ending June 30, 2020.

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 $1,301,000 and $1,274,000 for the years ended June 30, 2019 and 2018, respectively. Benefit payments of $2,741,000 and $2,694,000 from the Qualified Plan and $1,301,000 and $1,274,000 from the Supplemental Plan were made during the years ended June 30, 2019 and 2018, 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:

	2019		2018	
	Qualified Plan	Supplemental Plan	Qualified Plan	Supplemental Plan
Service cost, benefits earned during the period	$ 725,000	$ 232,000	$ 769,000	$ 261,000
Interest cost on projected benefit obligation	1,758,000	657,000	1,701,000	619,000
Actual return on plan assets	(3,507,000)	-	(4,903,000)	-
Net amortization and deferral	1,319,000	512,000	3,435,000	568,000
Net periodic pension cost	$ 295,000	$ 1,401,000	$ 1,002,000	$ 1,448,000

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:

	2019		2018	
	Qualified Plan	Supplemental Plan	Qualified Plan	Supplemental Plan
Accumulated benefit obligation for service rendered to date	$ (47,563,000)	$ (17,180,000)	$ (44,602,000)	$ (16,104,000)
Projected benefit obligation for service rendered to date	$ (47,563,000)	$ (17,180,000)	$ (44,602,000)	$ (16,104,000)
Plan assets at fair value	53,463,000	-	52,788,000	-
Funded status at end of year	$ 5,900,000	$ (17,180,000)	$ 8,186,000	$ (16,104,000)
Asset (liability) for pension benefits	$ 5,900,000	$ (17,180,000)	$ 8,186,000	$ (16,104,000)

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

	2019		2018	
	Qualified Plan	Supplemental Plan	Qualified Plan	Supplemental Plan
Noncurrent assets	$ 5,900,000	$ -	$ 8,186,000	$ -
Noncurrent liabilities	-	(17,180,000)	-	(16,104,000)
	$ 5,900,000	$ (17,180,000)	$ 8,186,000	$ (16,104,000)

Amounts recognized in net assets without donor restrictions for the years ended June 30 consisted of:

	2019		2018	
	Qualified Plan	Supplemental Plan	Qualified Plan	Supplemental Plan
Net gain	$ 8,360,000	$ 7,884,000	$ 5,120,000	$ 6,790,000
Prior service cost	10,605,000	(361,000)	11,854,000	(243,000)
	$ 18,965,000	$ 7,523,000	$ 16,974,000	$ 6,547,000

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

Other changes in plan assets and benefit obligations recognized in net assets without donor restrictions for the years ended June 30 consisted of:

	2019		2018	
	Qualified Plan	Supplemental Plan	Qualified Plan	Supplemental Plan
Net loss (gain)	$ 3,240,000	$ 1,488,000	$ (4,472,000)	$ (181,000)
Prior service cost	-	-	-	-
Amortization of gain	-	(394,000)	(355,000)	(450,000)
Amortization of prior service credit	(1,249,000)	(118,000)	(1,249,000)	(118,000)
Total loss (gain) recognized in net assets without donor restrictions	$ 1,991,000	$ 976,000	$ (6,076,000)	$ (749,000)

	2019		2018	
	Qualified Plan	Supplemental Plan	Qualified Plan	Supplemental Plan
Total loss (gain) recognized in net periodic benefit cost and net assets without donor restrictions	$ 2,286,000	$ 2,377,000	$ (5,074,000)	$ 699,000

In determining the actuarial present value of the projected benefit obligation, a weighted-average discount rate of 3.40% and 4.09% was used for the years ended June 30, 2019 and 2018, 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, 2019 and 2018, the expected long-term rate of return used in determining net periodic pension cost and net periodic postretirement benefit cost was 6.70% and 6.25%, respectively.

The Archdiocese expects to contribute approximately $1.3 million to the priest pension plans during the year ending June 30, 2020.

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 $606,000 and $551,000 were made from the plan during the years ended June 30, 2019 and 2018, 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:

	2019	2018
Service cost, benefits earned during the period	$ 559,000	$ 552,000
Interest cost on projected benefit obligation	685,000	620,000
Net amortization and deferral	(78,000)	11,000
Net periodic pension cost	$ 1,166,000	$ 1,183,000

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 $603,611 and $618,214 for the years ended June 30, 2019 and 2018, respectively.

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

	2019	2018
Accumulated postretirement benefit obligation for service rendered to date	$ (19,652,000)	$ (16,998,000)
Projected benefit obligation for service rendered to date	$ (19,652,000)	$ (16,998,000)
Funded status as of end of year	$ (19,652,000)	$ (16,998,000)
Liability for postretirement benefits	$ (19,652,000)	$ (16,998,000)

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

	2019	2018
Noncurrent liabilities	$ (19,652,000)	$ (16,998,000)

Amounts recognized in net assets without donor restrictions at June 30 consisted of:

	2019	2018
Net loss	$ 3,890,000	$ 1,796,000

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

Other changes in plan assets and benefit obligations recognized in net assets without donor restrictions for the years ended June 30 consisted of:

	2019	2018
Net loss (gain)	$ 2,016,000	$ (1,225,000)
Amortization of gain	(266,000)	(355,000)
Amortization of prior service cost	344,000	344,000
Total loss (gain) recognized in net assets without donor restrictions	$ 2,094,000	$ (1,236,000)

	2019	2018
Total gain recognized in net periodic postretirement benefit costs and net assets without donor restrictions	$ 3,260,000	$ (53,000)

In determining the actuarial present value of the projected benefit obligation, a weighted-average discount rate of 3.40% and 4.09% was used for the years ended June 30, 2019 and 2018, 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, 2019 and 2018, the expected long-term rate of return used in determining net periodic pension cost and net periodic postretirement benefit cost was 6.70% and 6.25%, respectively.

For the retiree welfare benefit plan, future expected health costs are assumed to increase initially 5.5% per year, gradually declining to 4.1% 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, 2019 and 2018, 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 2019	2018
Equities	60-80%	70%	81%	76%
Fixed income	25-35%	30%	19%	24%

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:			
2020	$ 2,990,000	$ 1,190,000	$ 619,000
2021	2,829,000	1,176,000	635,000
2022	2,830,000	1,153,000	652,000
2023	2,797,000	1,141,000	678,000
2024	2,834,000	1,119,000	701,000
2025-2028	13,681,000	5,346,000	3,856,000
	$ 27,961,000	$ 11,125,000	$ 7,141,000

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 $97,000 and $90,860 to the 403(b) Plan during the years ended June 30, 2019 and 2018, respectively.

Note 10. Notes Payable

Notes payable at June 30 consisted of the following:

	2019	2018
Notes payable	$ 112,574,176	$ 118,969,780

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 (2.4% at June 30, 2019) plus a margin of 1.5% 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 0.95% (reduced from 1.25% per a March 2019 loan agreement amendment) 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% and matures on February 7, 2021. This agreement contains various restrictions and nonfinancial covenants. At June 30, 2019 and 2018, the amount outstanding on this agreement was $108,750,000 ($100,000,000 Term Loan A and $8,750,000 Term Loan B) and $113,750,000 ($100,000,000 Term Loan A and $13,750,000 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% of Term Loan A. As of any reporting date, the sum of these eligible securities needs to equal to (i) 90% of the aggregate value of the Income Pool collateral and (ii) 80% of the aggregate value of the Balanced Pool collateral. In no event shall the Balanced Pool collateral constitute more than 49% 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 $ 1,282,884 and $694,532 was included in accounts payable and accrued expenses at June 30, 2019 and 2018, respectively. The corresponding increase in interest expense of $588,352 and reduction of $2,459,415 for the years ended June 30, 2019 and 2018, 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% 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, 2019 and 2018, the note had an outstanding principal balance of $3,824,176 and $4,219,780, 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%. The Cathedral reimburses the Administrative Office for the interest costs; therefore, interest income and interest expense of $15,000 and $45,000 were reflected in the consolidated statements of activities for the years ended June 30, 2019 and 2018, respectively. At June 30, 2019 and 2018, the balance of this loan was $0 and $1,000,000, respectively.

Aggregate future maturities of long-term debt at June 30, 2019, are as follows:

	Amount
Years ending June 30:	
2020	$ 5,395,604
2021	107,178,572
	$ 112,574,176

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% 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% 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, 2019 and 2018, the balance on this loan payable was $4,325,875 and $4,746,861, respectively, and was recorded on E&W's financial statements.

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 discussed in Note 13. As of June 30, 2019 and 2018, the amount outstanding on these notes was $3,646,334 and $4,881,458, respectively. The notes have a term of up to 10 years, with interest ranging from 0% to 5% over the term of the notes and are unsecured.

Aggregate future maturities of long-term debt at June 30, 2019, are as follows:

	Amount
Years ending June 30:	
2020	$ 3,605,334
2021	41,000
	$ 3,646,334

The interest expense relating to the notes payable to affiliates was $10,252 and $14,724 for the years ended June 30, 2019 and 2018, 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 $161,954,655 and $156,984,643, net of estimated cancellations of $1,375,839 and $1,027,587 at June 30, 2019 and 2018, 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% 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 $1,251,407 and $1,155,814 at June 30, 2019 and 2018, 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).

In 2013, 2014 and 2018, legislation to expand the current statute of limitations for claims alleging the misconduct of minors generally was proposed and passed by the California legislature but was vetoed each year. In October 2019 legislation was passed (2019 legislation) again by the California legislature and was signed by the Governor (see Note 1).

In May 2019, the Archdiocese and six other dioceses in California announced that they would be participating in an Independent Compensation Program (ICP) administered by Kenneth Feinberg to compensate victims of abuse by diocesan priests when they were minors. The program launched in September 2019 and follows a model used in certain other dioceses in the United States. Claims can be filed through March 2020 and are to be acted on by June 30, 2020. The program is intended to streamline and facilitate an independent review and valuation of claimants and to allow for prompt compensation to victims without the need for the cost or burdens of litigation. As of January 3, 2020, 34 persons had filed claims and six had completed the process and received compensation from the Archdiocese through its internal insurance program. The Archdiocese has also initiated a parallel effort to resolve claims against non-diocesan priests or religious brothers that are ineligible to be considered in the ICP.

As described above, since the global settlement additional litigated and nonlitigated claims have been asserted on an individual basis or under the current ICP. It is likely that additional claims alleging misconduct by clergy or lay persons will be made in the future pursuant to the ICP and the 2019 legislation. 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. While it is not possible to estimate the number of claims that will arise under the current ICP or the 2019 legislation, the effect of such future claims is anticipated to be funded by available reserves.

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 currently sets aside 15% 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 and included in deferred revenue in the statements of financial position; however, funds set aside related to this commitment are held in a separate account in the Pool. At June 30, 2019 and 2018, investments related to the Cemeteries’ care commitment amounted to $65,858,088 and $78,285,075, respectively.

Note 13. Commitments and Contingencies (Continued)

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 through 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.

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.

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.

Note 13. Commitments and Contingencies (Continued)

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. A third lease change was pending execution at June 30, 2019, effective June 24, 2019, through June 30, 2021. The third lease change includes 917 additional square feet of storage space and will increase the lease commitment by $13,462 and $13,205 in June 30, 2020, and June 30, 2021, respectively. At June 30, 2019, monthly lease payments were $136,701 and the lease expires on April 30, 2022.

The future lease commitments at June 30, 2019, are as follows:

	Amount
Years ending June 30:	
2020	$ 1,654,054
2021	1,653,617
2022	1,367,010
	$ 4,674,681

Rent expense for the years ended June 30, 2019 and 2018, was $1,620,234 and $1,606,721, respectively.

Certain ministries and administrative functions occupy office space at various parishes and schools. Rent expense relating to this was $93,134 and $72,450 for the years ended June 30, 2019 and 2018, 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 run-off by its members. TOM maintains assets in excess of its liabilities, which are calculated at 75% 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, 2019 and 2018. There exists the potential for future dividends of TOM's accrued equity and/or potential return of capital. TOM has been in a solvent run-off of its claims. The company is now ready to be formally dissolved. Upon completion of the dissolution, remaining accrued equity of the company will be returned to member shareholders, including the Archdiocese.

Note 14. Related Parties (Continued)

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.

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 $37,716,147 and $1,848,969 as of June 30, 2019 and 2018, respectively. Parish assessments and interest on affiliate loans contributed $21,519,510 and $21,576,051 to revenues for the years ended June 30, 2019 and 2018, 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 $155,706 and $168,741 for the years ended June 30, 2019 and 2018, 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 $34,458,572 and $22,066,154 for the years ended June 30, 2019 and 2018, respectively.

Note 14. Related Parties (Continued)

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, 2019, 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.

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 $244,395 and $138,090 as of June 30, 2019 and 2018, 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, 2019 or 2018.

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, 2019 and 2018, in the amounts of $19,580,123 and $16,267,504, respectively.

Note 19. Net Assets

Assets with donor restrictions represent gifts and bequests for which donor-imposed restrictions have not been met, and permanent endowments established by donor-restricted gifts and bequests.

Assets with donor restrictions consist of the following at June 30:

	2019	2018
Vocation in Progress	$ 4,799,537	$ 4,519,151
Adopt-a-Family	2,739,626	2,576,283
Repair and maintenance	13,067,912	15,164,660
Operating subsidies	4,809,881	4,523,104
Educational purposes	11,886,241	10,671,434
Office of Religious Education	2,045,475	1,795,583
House of Prayer	11,391,823	10,455,771
Called to Renew	33,220,238	1,356,060
Other	6,458,343	6,106,187
	$ 90,419,074	$ 57,168,233

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 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%; 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% for both the fiscal years ended June 30, 2019 and 2018. For the years ended June 30, 2019 and 2018, the actual expenditures from endowment funds used in support of operations were $379,940 and $857,907, respectively.

Assets of the Endowment Fund in the amount of $37,805,300 and $35,568,016 as of June 30, 2019 and 2018, 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:

	2019	2018
Vocation in Progress	$ 4,799,537	$ 4,519,150
Adopt-a-Family	2,739,626	2,576,283
Repair and maintenance	8,139,383	7,853,888
Educational purposes	8,077,242	7,741,925
Office of Religious Education	1,912,453	1,765,534
House of Prayer	11,367,427	10,432,100
Called to Renew	100,745	47,412
Other	668,887	631,724
	$ 37,805,300	$ 35,568,016

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

	2019	2018
Endowment net assets, beginning of year	$ 35,568,016	$ 33,122,696
Investment return:		
Investment income	584,536	512,201
Net appreciation (realized and unrealized)	1,702,167	2,520,618
Total investment return	2,286,704	3,032,819
Contributions	330,520	270,408
Appropriation of endowment funds for expenditure	(379,940)	(857,907)
Endowment net assets, end of year	$ 37,805,300	$ 35,568,016

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 net assets without donor restrictions and are the result of unfavorable market fluctuations. As of June 30, 2019 and 2018, no donor-restricted endowments fell below this required level.

Note 21. Liquidity and Availability

At June 30, 2019, the following financial assets could be made readily available to meet general expenses within one year:

Cash and cash equivalents	$ 31,435,404
Contracts receivable	49,452,973
Affiliate receivables	16,282,822
Pledges receivable	64,407,081
Other receivables	1,733,272
Notes receivable	13,300,775
Investments	605,385,384
Total financial assets	781,997,711
Less:	
Donor restricted endowments	37,805,300
Restrictions by donor with time or purpose restrictions	52,613,774
Custodial collections	33,589,419
	124,008,493
Financial assets available to meet cash needs for general expenditures within one year	$ 657,989,218

The Administrative Office has evaluated its liquidity and determined it has adequate resources available to meet general expenses. Administrative Office management monitors bank accounts on a daily basis to ensure sufficient funds are available to cover checks written and wires sent, and budgets are reviewed monthly to monitor expenses.