

Combined Financial Report

Catholic Account for Parishes and Schools

June 30, 2020



Contents

	<u>Page</u>
Independent Auditor's Report on the Combined Financial Statements	1
Financial Statements	
Combined Statement of Financial Position	3
Combined Statement of Activities	4
Combined Statement of Functional Expenses	5
Combined Statement of Cash Flows	6
Notes to Combined Financial Statements	7



INDEPENDENT AUDITOR'S REPORT ON THE COMBINED FINANCIAL STATEMENTS

Board of Directors
Catholic Account for Parishes and Schools
San Diego, California

We have audited the accompanying combined financial statements of the Catholic Account for Parishes and Schools of the Roman Catholic Diocese of San Diego and San Diego Catholic Account for Parishes and Schools, Incorporated, which comprise the combined statement of financial position as of June 30, 2020, and the related combined statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Combined financial Statements

Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of combined 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 combined financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined 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 combined 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 combined financial statements.

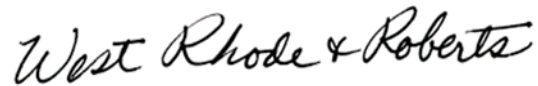
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of the Catholic Account for Parishes and Schools of the Roman Catholic Diocese of San Diego and The San Diego Catholic Account for Parishes and Schools, Incorporated as of June 30, 2020, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the San Diego Catholic Account for Parishes and Schools of the Roman Catholic Diocese of San Diego's 2019 financial statements, and we expressed an unmodified audit opinion on those audited combined financial statements in our report November 26, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019, is consistent, in all material respects, with the audited combined financial statements from which it has been derived.



WEST RHODE & ROBERTS

San Diego, California
November 10, 2020

CATHOLIC ACCOUNT FOR PARISHES AND SCHOOLS

COMBINED STATEMENT OF FINANCIAL POSITION

June 30, 2020

(With Summarized Financial Information for June 30, 2019)

	2020	2019 (Note 10)
ASSETS		
Cash and cash equivalents	\$ 32,664,202	\$ 30,290,894
Long-term investments	26,093,935	25,531,485
Receivables:		
Due from Administrative Office	12,745,784	13,377,427
Loans to parishes and schools, net of allowance	<u>16,973,370</u>	<u>13,663,230</u>
Total receivables	<u>29,719,154</u>	<u>27,040,657</u>
Total assets	<u>\$ 88,477,291</u>	<u>\$ 82,863,036</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Parish and school funds on deposit	\$ 86,004,554	\$ 80,336,648
Total liabilities	<u>86,004,554</u>	<u>80,336,648</u>
Commitments (Note 8)		
Net assets:		
Without donor restriction	493,946	547,597
With donor restriction	<u>1,978,791</u>	<u>1,978,791</u>
Total net assets	<u>2,472,737</u>	<u>2,526,388</u>
Total liabilities and net assets	<u>\$ 88,477,291</u>	<u>\$ 82,863,036</u>

CATHOLIC ACCOUNT FOR PARISHES AND SCHOOLS

COMBINED STATEMENT OF ACTIVITIES

Year Ended June 30, 2020

(With Summarized Financial Information for the Year Ended June 30, 2019)

	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>	<u>Total</u>	<u>2019 (Note 10)</u>
<u>Operating activities:</u>				
SUPPORT AND REVENUES				
Interest income from loans	\$ 857,779	\$ -	\$ 857,779	\$ 1,117,461
Investment income, net	765,321	-	765,321	1,788,676
Total operating support and revenue	<u>1,623,100</u>	<u>-</u>	<u>1,623,100</u>	<u>2,906,137</u>
EXPENSES				
Program expenses	1,473,154	-	1,473,154	1,374,314
General and administrative expenses	203,597	-	203,597	302,275
Total operating expenses	<u>1,676,751</u>	<u>-</u>	<u>1,676,751</u>	<u>1,676,589</u>
Change in net assets	(53,651)	-	(53,651)	1,229,548
NET ASSETS AT BEGINNING OF YEAR	<u>547,597</u>	<u>1,978,791</u>	<u>2,526,388</u>	<u>1,296,840</u>
NET ASSETS AT END OF YEAR	<u>\$ 493,946</u>	<u>\$ 1,978,791</u>	<u>\$ 2,472,737</u>	<u>\$ 2,526,388</u>

CATHOLIC ACCOUNT FOR PARISHES AND SCHOOLS

COMBINED STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2020

(With Summarized Financial Information for the Year Ended June 30, 2019)

	<u>Program</u>	<u>General and Administrative</u>	<u>Total</u>	<u>2019 (Note 10)</u>
EXPENSES				
Interest on funds on deposit	\$ 1,473,154	\$ -	\$ 1,473,154	\$ 1,374,314
Bank fees	-	119,523	119,523	209,592
Administrative charge	-	61,000	61,000	60,000
Professional fees	-	22,500	22,500	18,500
Miscellaneous expense	-	574	574	283
Appraisal fee	-	-	-	13,900
Total expenses	<u>\$ 1,473,154</u>	<u>\$ 203,597</u>	<u>\$ 1,676,751</u>	<u>\$ 1,676,589</u>

CATHOLIC ACCOUNT FOR PARISHES AND SCHOOLS

COMBINED STATEMENT OF CASH FLOWS

Year Ended June 30, 2020

(With Summarized Financial Information for the Year Ended June 30, 2019)

	2020	2019 (Note 10)
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (53,651)	\$ 1,229,548
Adjustments to reconcile change in net assets to net cash from operating activities:		
Realized and unrealized gain on long term investments	(372,444)	(1,019,650)
Interest credited to funds on deposit	1,473,154	1,374,314
Net cash provided by operating activities	1,047,059	1,584,212
CASH FLOWS FROM INVESTING ACTIVITIES		
Change in amounts loaned, net	(3,310,140)	12,417,553
Change in long-term investments	(161,640)	(472,676)
Decrease in amount due from Administrative Office	631,643	1,007,683
Net cash (used in) provided by investing activities	(2,840,137)	12,952,560
CASH FLOWS FROM FINANCING ACTIVITIES		
Interest credited to funds on deposit	(1,473,154)	(1,374,314)
Change in funds on deposit, net	5,667,906	3,267,981
Net cash provided by financing activities	4,194,752	1,893,667
Change in cash and cash equivalents	2,401,674	16,430,439
Cash and cash equivalents at beginning of year	30,336,426	13,905,987
Cash and cash equivalents at end of the year	\$ 32,738,100	\$ 30,336,426
CASH AND CASH EQUIVALENTS CONSIST OF:		
Cash and cash equivalents	\$ 32,664,202	\$ 30,290,894
Cash and cash equivalents included in investments	73,898	45,532
	\$ 32,738,100	\$ 30,336,426

Note 1. Organization and Significant Accounting Policies

Organization and Activities

Catholic Account for Parishes and Schools (CAPS) was formed to finance the construction and renovation of parish and school facilities and to provide a safe investment for excess parish and school funds. Assets of CAPS consist of investments and loans made to Catholic parishes and schools within San Diego and Imperial Counties. The liabilities of CAPS consist of deposits made by Catholic parishes and schools within San Diego and Imperial Counties.

The Catholic Account for Parishes and School Funds of the Roman Catholic Diocese of San Diego (the Fund) was a separate fund administered by the Roman Catholic Bishop of San Diego (the Diocese). In September 2019, The San Diego Catholic Account for Parishes and Schools Inc. (CAPS, Inc.) received tax exemption under Internal Revenue Code 501(c)(3) as a Type I supporting organization and all of the assets and liabilities of the Fund were transferred to CAPS, Inc.

Certain CAPS net assets have been committed for church and school projects which have been presented to the CAPS Loan Subcommittee (the Committee) for approval of the Committee. All projects over \$100,000 must be submitted to the Committee. Per CAPS policy, a parish can borrow funds from CAPS for an approved project only if the parish has 50 percent of the estimated cost in funds on deposit and the debt service does not exceed 25 percent of the ordinary income of the parish.

Significant Accounting Policies

Principle of Combination – The combined financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and include accounts of both the Fund and CAPS, Inc. All intercompany balances and transactions have been eliminated in the accompanying combined financial statements.

Method of Accounting – The combined financial statements of CAPS have been prepared on the accrual basis of accounting.

Basis of Presentation – The combined financial statements of CAPS have been prepared in accordance with U.S. generally accepted accounting principles ("US GAAP"), which requires CAPS to report information regarding its combined financial position and activities according to the following net asset classifications:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of the Catholic Accounts for Parishes and Schools management and board of directors.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of CAPS or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities.

Measure of Operations – The statements of activities reports all changes in net assets, including changes in net assets from operating and nonoperating activities. Operating activities consist of those items attributable to CAPS's ongoing programs. Nonoperating activities are limited to activities considered to be of a more unusual or nonrecurring nature. There were no nonoperating activities during the year ended June 30, 2020.

Revenue Recognition – Contributions are recognized as revenue when they are unconditionally pledged or when all conditions have been met.

CAPS reports contributions as restricted if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restriction revenues are reclassified to net assets without donor restrictions revenues and reported in the statement of activities as revenues released from restrictions. Contributions with donor restrictions requiring the principal gift to be held in perpetuity are reported as net assets with donor restrictions. The income earned from such assets is generally restricted to the purpose designated by the donor. Gifts not designated for a specific purpose are reported as increases in net assets without donor restrictions.

Cash and Cash Equivalents – CAPS considers all highly liquid investments with an original maturity of less than three months to be cash equivalents.

Long-Term Investments – Marketable securities, consisting primarily of investments in equities, corporate debt and government debt, are carried at market value, as measured principally by market quotations. Accordingly, the carrying amount of the securities is adjusted for unrealized gains and losses. The investments are managed by separate money managers. These money managers are monitored by an independent investment consulting firm as well as the Investment Committee of the Diocesan Finance Council. The investment portfolio is guided by an investment policy statement approved by the Diocesan Finance Council.

Due from Administrative Office – Amounts due from the Administrative Office Funds of the Roman Catholic Diocese of San Diego. The loan originally did not pay interest, in fiscal year 2016 the Administrative Office began paying interest at 1.75% per annum on the outstanding balance.

Loans from Parishes and Schools – Consists of notes receivable due from parishes and schools. All receivables are reviewed for collectability and reserves for uncollectible amounts are recorded based on previous experience and history with the family. Accounts are written off against the allowance for doubtful accounts when deemed uncollectible. Management has determined that an allowance of \$300,000 is needed for the year ended June 30, 2020.

Income Taxes – The Catholic Account for Parishes and School Funds of the Roman Catholic Diocese of San Diego is part of the Roman Catholic Bishop of San Diego which has received notice from the Internal Revenue Service and the California Franchise Tax Board that, as an agency of the Roman Catholic Church, it is exempt from income taxes. It qualifies for exemption under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Franchise Tax Code. It is also exempt from federal unemployment tax and certain property taxes.

The San Diego Catholic Account for Parishes and Schools, Inc. is part of the Roman Catholic Church (the Church) and is exempt from federal income taxes under section 501(a)(3) of the Internal Revenue Service Code as a Type 1 supporting organization as described in Section 501(c)(3) of the Internal Revenue Code under the Church's group exemption ruling. CAPS Inc. is also exempt from California State tax under Section 23701(d) of the California Franchise Tax Code.

The Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 740-10, *Accounting for Uncertainties in Income Tax*, sets a minimum threshold for financial statement recognition of the benefit of a tax position taken or expected to be taken in a tax return. CAPS has reviewed its position for all open tax years and has determined that it has no uncertain tax positions requiring accrual or disclosure.

Functional Allocation of Expenses – The combined statement of functional expenses presents expense by function and natural classification. Expenses directly attributable to a specific functional area of CAPS are reported as expenses of those functional areas. A portion of costs that benefit multiple functional areas (indirect costs) have been allocated across programs and supporting services based on the full-time employee equivalents of a program or supporting service.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Recently Adopted Accounting Standards – In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (ASU 2016-18). This update requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows.

Subsequent Events – Subsequent events are events or transactions that occur after the combined statement of financial position date but before combined financial statements are available to be issued. CAPS recognizes in the combined financial statements, the effects of all subsequent events that provide additional evidence about conditions that existed at that date, including the estimates inherent in the process of preparing combined financial statements. CAPS combined financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the combined statement of financial position, but arose after that date and before the combined financial statements are available to be issued.

CAPS has evaluated subsequent events through November 10, 2020, which is the date the combined financial statements are available for issuance, and concluded that the following event needs to be disclosed:

CAPS’s operations may be affected by the ongoing impact from the Coronavirus pandemic and the related restrictions related to opening the physical location of CAPS. The ultimate disruption which may be caused by the pandemic is uncertain; however, it may result in a material adverse impact on the CAPS’s combined financial position, operations, and cash flows. Possible effects may include, but are not limited to, absenteeism in the CAPS’s workforce, unavailability of products and supplies used in operations, and a decline in value of assets held by CAPS, including marketable securities. We are actively working to mitigate the impact of these and other unforeseen potential disruptions to our operations. The combined financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Apart from the above event, there were no other events or transactions that need to be disclosed as of June 30, 2020.

Note 2. Liquidity and Availability of Resources

Catholic Accounts for Parishes and Schools financial assets available within one year of the combined statement of financial position date for general expenditure are as follows:

Financial Assets	
Cash and cash equivalents	\$ 32,664,202
Long-Term investments	26,093,935
Current portion of receivables	<u>3,601,817</u>
Total financial assets available within one year	<u>62,359,954</u>
Less amounts unavailable for general expenditures within one year, due to:	
Restricted by donors held in perpetuity	<u>1,978,791</u>
Total amounts unavailable for general expenditures within one year	<u>1,978,791</u>
Total financial assets available to management for general expenditure within one year	<u>\$ 60,381,163</u>

Catholic Accounts for Parishes and Schools maintains a policy of structuring its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

Note 3. Fair Value Measurements

Due to the short-term nature of cash equivalents, receivables, funds on deposit and payables, fair value approximates carrying value. In accordance with Financial Accounting Standards Board Codification No. 820 (FASB ASC 820), fair value is defined as the price that CAPS would receive upon selling an asset or transferring a liability in an orderly transaction to an independent buyer in the principal or most advantageous market of the asset.

FASB ASC 820 establishes a three-tier hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs and to establish the classification of fair value measurements for disclosure purposes. Inputs refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs 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. The standard describes three-tier hierarchy of inputs that may be used to measure fair value as follows:

Level 1: Quoted prices (unadjusted) of 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, and other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect CAPS’ own assumptions about the assumptions that market participants would use in pricing an asset or liability.

Assets and liabilities measured at fair value on a recurring basis are summarized below:

	Fair Value Measurements at June 30, 2020, Using:			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Long-term investments	\$ 26,093,935	\$ 26,093,935	\$ -	\$ -

The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices.

Note 4. Long-term Investments

Long-term investments consist of the following at June 30, 2020:

	<u>Market Value</u>	<u>Cost</u>
Mutual funds - Fixed income	\$ 11,815,898	\$ 9,080,943
Collective investment funds	3,886,213	4,163,925
Partnerships and joint ventures	3,558,118	3,699,644
Mutual funds - Balanced	2,622,767	2,645,819
Mutual funds - Equity	2,094,455	1,447,268
Domestic common stocks	1,938,516	1,939,879
Foreign stocks	104,070	91,269
Cash and cash equivalents	73,898	73,898
	<u>\$ 26,093,935</u>	<u>\$ 23,142,645</u>

Investment income is made up of realized and unrealized gains of \$372,444 and interest income of \$392,877.

Note 5. Receivables

CAPS administers a program which finances the construction and renovation of parish and school facilities from deposits made by the parishes and schools of their excess funds. Loans to parishes and schools generally have fixed terms which can range up to 25 years. Interest charged on these funds was 4.5 percent; however, loans totaling \$233,867 at June 30, 2020, are exempt from interest charges because they are for a newly formed parish or in a low income area. Interest of 1.75 percent has been charged on the amount Due from Administrative Office loan beginning in fiscal year 2016. CAPS has recorded an allowance for uncollectable loans of \$300,000 at June 30, 2020.

The five year maturities of the notes receivable are as follows:

<u>Projected Payments</u>	
2021	\$ 3,601,817
2022	3,115,373
2023	2,769,736
2024	2,236,048
2025	1,231,451
2026 and beyond	16,764,729
	<u>\$ 29,719,154</u>

Note 6. Parish and School Funds on Deposit

CAPS is holding parish and school deposits totaling \$86,004,554 at June 30, 2020. CAPS paid interest on funds on these deposits at a rate of 1.75 percent.

Note 7. Net Assets with Donor Restrictions

CAPS is holding permanently restricted funds in the amount of \$1,978,791. This fund was established to assist in the interest costs for parishes and schools in need of assistance. The funds are invested and the interest income generated provides support to CAPS for its noninterest bearing loans.

Note 8. Commitments

The CAPS Loan Subcommittee has approved construction projects totaling \$8,806,137 that are expected to be financed through CAPS.

Note 9. Financial Strategy

CAPS will use several methods to fund its commitments for the 2020 fiscal year. These include using cash on hand, internal fund borrowings and parishes refinancing their debt.

Note 10. June 30, 2019 Financial Information

The financial statements include certain prior year summarized comparative information in total, but not by net asset class. Such prior year information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with CAPS financial statements for the year ended June 30, 2019, from which the summarized information was derived which did not include activity of The San Diego Catholic Account for Parishes and Schools, Inc as there was no activity in 2019.

Certain reclassifications have been made to the summarized 2019 financial information to conform to the classifications adopted for the 2020 financial statements. These reclassifications had no effect on the change in net assets.