

CORPORATION OF THE CATHOLIC BISHOP OF JUNEAU

The Program and Administrative Office of  
the Diocese of Juneau

FINANCIAL STATEMENTS

For the Years Ended June 30, 2018 (Audited) and 2017 (Compiled)

TOGETHER WITH INDEPENDENT AUDITOR'S REPORT



## INDEPENDENT AUDITOR'S REPORT

To the Most Reverend Andrew E. Bellisario, C.M., and Diocesan Finance Council  
Corporation of the Catholic Bishop of Juneau  
Juneau, Alaska

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Corporation of the Catholic Bishop of Juneau, the Program and Administrative Office of the Diocese of Juneau (a nonprofit sole corporation), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

***Basis for Qualified Opinion***

As explained in Note 1 to the financial statements, not all contributed property and equipment owned by the Corporation of the Catholic Bishop of Juneau the Program and Administrative Office of the Diocese of Juneau is recorded in the financial statements. Accounting principles generally accepted in the United States of America require contributions of property and equipment to be recorded at fair value at the date of contribution. The effect on the accompanying financial statements of the failure to record contributed property and equipment has not been determined.

***Qualified Opinion***

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Corporation of the Catholic Bishop of Juneau the Program and Administrative Office of the Diocese of Juneau as of June 30, 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matter***

The 2017 financial statements were compiled by us and our report thereon, dated January 16, 2018, stated that we did not audit or review those financial statements and, accordingly, express no opinion or other form of assurance on them.

*Elgee Rehfeld*

March 8, 2019

CORPORATION OF THE CATHOLIC BISHOP OF JUNEAU  
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A Nonprofit Sole Corporation

BALANCE SHEETS

June 30, 2018 and 2017

	<u>2018</u> (audited)	<u>2017</u> (compiled)
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	\$ 69,173	\$ 243,557
Accounts receivable	185,977	113,429
Investments		
Administrative Office	2,744,528	2,893,304
Custodial funds	3,303,285	3,267,663
Notes receivable, current portion	<u>76,813</u>	<u>76,813</u>
Total current assets	6,379,776	6,594,766
NOTES RECEIVABLE, net of current portion	806,741	883,554
PROPERTY AND EQUIPMENT, net	698,976	494,911
OTHER ASSETS	<u>45,537</u>	<u>45,537</u>
Total assets	<u><u>\$ 7,931,030</u></u>	<u><u>\$ 8,018,768</u></u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 56,399	\$ 29,013
Insurance payable	-	31,843
Deferred revenue	160,000	175,201
Pass-through payables	-	10,008
Accrued payroll	16,478	-
Compensated absences	67,722	71,962
Custodial funds	<u>3,303,285</u>	<u>3,267,663</u>
Total current liabilities	3,603,884	3,585,690
Accrued pension liability, priests	<u>36,339</u>	<u>546,577</u>
Total liabilities	<u>3,640,223</u>	<u>4,132,267</u>
<b>NET ASSETS</b>		
Unrestricted		
Undesignated	3,566,718	3,214,456
Designated by the Finance Council	<u>702,162</u>	<u>672,045</u>
Total unrestricted	4,268,880	3,886,501
Temporarily restricted	<u>21,927</u>	<u>-</u>
Total net assets	<u>4,290,807</u>	<u>3,886,501</u>
Total liabilities and net assets	<u><u>\$ 7,931,030</u></u>	<u><u>\$ 8,018,768</u></u>

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

CORPORATION OF THE CATHOLIC BISHOP OF JUNEAU  
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STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

For the Years Ended June 30, 2018 and 2017

	2018 (audited)			2017 (compiled)		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Support and revenue						
Grants	\$ -	\$ 437,474	\$ 437,474	\$ -	\$ 490,825	\$ 490,825
Rental income	325,824	-	325,824	392,755	-	392,755
Faith-in-Action	-	150,000	150,000	-	150,000	150,000
Assessments	149,725	-	149,725	147,864	-	147,864
Contributions and bequests	67,667	21,927	89,594	120,892	-	120,892
Interest income	30,309	-	30,309	32,592	-	32,592
Investment income	119,600	-	119,600	340,253	10,607	350,860
Program fees	-	-	-	400	-	400
Other income	126,974	-	126,974	80,620	-	80,620
Total	820,099	609,401	1,429,500	1,115,376	651,432	1,766,808
Net assets released from restrictions	587,474	(587,474)	-	640,825	(640,825)	-
Total support, revenue, and net assets released from restrictions	1,407,573	21,927	1,429,500	1,756,201	10,607	1,766,808
Expenses						
Program services						
Pastoral	424,427	-	424,427	414,080	-	414,080
Property management	464,854	-	464,854	434,380	-	434,380
Religious personnel development	68,783	-	68,783	126,698	-	126,698
Education	204,287	-	204,287	230,700	-	230,700
Other programs	82,117	-	82,117	113,598	-	113,598
Total program services	1,244,468	-	1,244,468	1,319,456	-	1,319,456
Supporting services	290,964	-	290,964	270,168	-	270,168
Total expenses	1,535,432	-	1,535,432	1,589,624	-	1,589,624
Change in net assets from operations	(127,859)	21,927	(105,932)	166,577	10,607	177,184
Gain (loss) on pension obligation	510,238	-	510,238	(546,577)	-	(546,577)
Transfer to priest retirement	-	-	-	(1,662,210)	-	(1,662,210)
Change in net assets	382,379	21,927	404,306	(2,042,210)	10,607	(2,031,603)
Net assets at beginning of year	3,886,501	-	3,886,501	5,928,711	134,896	6,063,607
Prior period adjustment	-	-	-	-	(145,503)	(145,503)
Net assets at beginning of year, restated	3,886,501	-	3,886,501	5,928,711	(10,607)	5,918,104
Net assets at end of year	\$ 4,268,880	\$ 21,927	\$ 4,290,807	\$ 3,886,501	\$ -	\$ 3,886,501

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

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STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2018 and 2017

	<u>2018</u> (audited)	<u>2017</u> (compiled)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 404,306	\$ (2,031,603)
Adjustments to reconcile change in net assets to net cash used for operating activities:		
Depreciation	22,571	14,693
Loss on disposal of fixed assets	-	3,750
Unrealized gain on investments	(102,099)	(138,304)
(Increase) decrease in-		
Accounts receivable	(72,548)	35,056
Increase (decrease) in:		
Accounts payable	27,386	(54,952)
Insurance payable	(31,843)	1,864
Deferred revenue	(15,201)	(110,589)
Pass-through payables	(10,008)	3,394
Accrued payroll	16,478	-
Compensated absences	(4,240)	11,338
Accrued pension liability	(510,238)	546,577
Net cash used for operating activities	<u>(275,436)</u>	<u>(1,718,776)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Sale of investments, net	250,875	1,560,575
Purchase of property and equipment	(226,636)	-
Payments received on notes receivable	76,813	74,531
Net cash provided by investing activities	<u>101,052</u>	<u>1,635,106</u>
Net decrease in cash	(174,384)	(83,670)
Cash at beginning of year	<u>243,557</u>	<u>327,227</u>
Cash at end of year	<u>\$ 69,173</u>	<u>\$ 243,557</u>

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

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NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2018 (audited) and 2017 (compiled)

**NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Organization

The Corporation of the Catholic Bishop of Juneau, the Program and Administrative Office of the Diocese of Juneau (the Administrative Office) encompasses the various institutions and organizations which are fiscally responsible to the Bishop of Juneau, Alaska. The Administrative Office is a nonprofit sole corporation set up to provide support and services for the parishes, school and other religious activities within its Southeast Alaska boundaries.

Basis of Accounting

The financial statements of the Administrative Office include assets, liabilities, net assets and financial activities for those departments and activities for which the Catholic Bishop (Bishop) of the Diocese of Juneau (Diocese) exercises fiscal and operational control. Various religious orders, lay societies, and religious organizations, which operate within the Diocese, are not fiscally responsible to the Bishop. Separate parishes and their related institutions have not been included in the accompanying financial statements.

The financial statements of the Administrative Office have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other liabilities.

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB) in its Accounting Standards Codification (ASC) 958-205 *Presentation of Financial Statements* and 958-210-45-1 *Other Presentation Matters*. Under FASB ASC 958-210-45-1, the Administrative Office is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Unrestricted net assets are net assets that are not subject to donor-imposed stipulations or restrictions. Temporarily restricted net assets are net assets subject to donor-imposed stipulations that will be met either by actions of the Administrative Office or the passage of time. Permanently restricted net assets represent resources whose use is limited by donor-imposed restrictions that require the net assets to be maintained permanently. Temporarily restricted net assets are described in Note 8. The Administrative Office had no permanently restricted net assets at June 30, 2018 and 2017.

Revenue Recognition

Revenue consists of grants, rent, assessments, administrative fees, investment income and contributions.

The Administrative Office considers grants from various religious organizations as subject to the provisions of FASB ASC 958-210-45-1 *Other Presentation Matters* and FASB ASC 958-605-25 *Revenue Recognition*. The guidance of FASB ASC 958-605, *Revenue Recognition*, is followed to determine whether the Administrative Office's grant programs are contributions or exchange transactions for purposes of presentation in the accompanying financial statements. Contributions are typically recognized in the period the commitment is made with the exception of the fixed assets not capitalized. Contributions of assets other than cash are recorded at

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estimated fair value at the date of gift. Conditional pledges are not recognized until the conditions on which they depend are substantially met. Pledges receivable are stated at the present value of the expected future cash flows; discounts are amortized to contribution revenue consistent with donor restrictions. The Administrative Office had no pledges receivable at June 30, 2018 and 2017. The Administrative Office reports cash, grant funds, and other assets as temporarily restricted support if they are received with stipulations from a donor, grantor, or other outside party that limit their use. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported as net assets released from restrictions.

However, any advance grant payments received but not used in accordance with the requirements of the grant are reflected as deferred revenue until the restriction has been released.

Management's Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Operating and Nonoperating Activities

The statement of activities presents the changes in net assets of the Diocese from operating activities and from nonoperating activities. Operating revenues and expenses relate primarily to grant activities, rental activities, and contributions provided by the Diocese. Investment income on investments is also considered operating revenue.

Nonoperating activities consist primarily of pension-related liability changes and transfers to the pension retirement account.

Cash

Cash includes deposits in checking accounts and cash on hand.

Accounts Receivable

Accounts receivable consist of reimbursements, and uncollected annual parish assessments and Faith-in-Action assessments levied on each parish in the Diocese. The Administrative Office considers all amounts collectible and no reserve for doubtful accounts has been established.

Notes Receivable

Notes receivable are stated at unpaid principal balances. Interest on notes receivable is recognized over the terms of the notes and is calculated using the simple-interest method on principal amounts outstanding. Notes receivable are individually reviewed for collectability. Management considers notes receivable not paid in full by the contractual due date as past due. The Administrative Office considers all notes receivable amounts collectible and no reserve for losses has been established.

Property and Equipment

Property and equipment are recorded at cost or, in the case of donated property and equipment, at estimated fair value at date of receipt with the exception of assets not capitalized.



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Depreciation is calculated by the straight-line method over the useful lives of the assets. Costs for repairs and maintenance are charged to operating expense as incurred; major renewals and betterments are capitalized. When items of property or equipment are sold or retired, the related cost and accumulated depreciation are removed from the accounts and any gain or loss is included in other income.

The Diocese owns many fixed assets, consisting of land, buildings, equipment, and vehicles throughout Southeast Alaska. The values of many of these assets were not historically recorded in the financial records of the Administrative Office. The Diocese have not capitalized all fixed assets acquired through donations and contributions and therefore the balance sheet does not reflect all property and equipment.

Investments

Investments in exchange traded funds, stocks, mutual funds, and money market funds are carried in the balance sheets at market value. Unrealized gains and losses, due to changes in market value, are reflected in the statements of activities and changes in net assets.

Fair Value Measurement

The Administrative Office's financial assets carried at fair value have been classified based on a hierarchy defined by FASB ASC 820-10-50-2. FASB ASC 820 Fair Value Measurement and Disclosure defines fair value as the exchange price that would be received on the measurement date to sell an asset or the price paid to transfer a liability in the principal or most advantageous market available to the entity in an orderly transaction between market participants. FASB ASC 820 also establishes a three level fair value hierarchy that describes the inputs that are used to measure assets or liabilities. The three levels include Level 1 (quoted prices in active markets for identical assets), Level 2 (significant other observable inputs), and Level 3 (significant unobservable inputs). The Administrative Office uses Level 1 inputs to measure the fair value of assets.

Compensated Absences

A liability for unused annual leave is accrued when an employee earns it. Upon termination, employees are paid for unused annual leave.

Income Taxes

The Diocese is organized under Section 501(c)(3) of the Internal Revenue Code as a nonprofit, tax-exempt organization. The Diocese is not classified as a private foundation.

The Administrative Office follows the provisions of FASB ASC Section 740 regarding certain treatment and disclosures of income tax matters. FASB ASC 740 addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. For tax-exempt entities like the Diocese, their tax-exempt status itself is deemed to be an uncertainty, since events could potentially occur to jeopardize their tax-exempt status. FASB ASC 740 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosures, and transition. As of June 30, 2018, the Administrative Office does not have a liability for unrecognized tax benefits.

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Recent Accounting Pronouncements

ASU 2016-14

In August 2016, the Financial Accounting Standards Board (FASB) issued ASU No. 2016-14, "*Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities.*" This ASU makes improvements to the information provided in financial statements and accompanying notes of not-for-profit entities. The amendments set forth the FASB's improvements to net asset classification requirements and the information presented about a not-for-profit entity's liquidity, financial performance, and cash flows. The amendments in ASU 2016-14 are effective for annual financial statements issued for fiscal years beginning after December 15, 2017. The amendment is required to be applied retrospectively and early adoption is permitted. The Diocese plans to adopt ASU 2016-14 in its fiscal year ended June 30, 2019. The Diocese is currently evaluating the impact the adoption will have on the Organization.

ASU 2016-02

In February 2016, the Financial Accounting Standards Board (FASB) issued ASU No. 2016-02, "*Leases (Topic 842).*" The amendments in this update will supersede much of the existing authoritative guidance for leases. This guidance requires lessees to recognize right-of-use assets and liabilities on their balance sheet for all leases with terms longer than twelve months. The amendments in ASU 2016-02 are effective for fiscal years beginning after December 15, 2019 with early application permitted. The Diocese plans to adopt ASU 2016-02 in its fiscal year ended June 30, 2021. The Diocese is currently evaluating the impact the adoption will have on the Organization.

ASU 2015-14

In August 2015, the Financial Accounting Standards Board (FASB) issued ASU No. 2015-14, "*Deferral of the Effective Date*" which modified ASU No. 2014-09, "*Revenue from Contracts with Customers (Topic 606)*" which was issued by the FASB in May 2014. These standards replace existing revenue recognition rules with a comprehensive revenue measurement and recognition standard and expanded disclosure requirements. These standards are effective for not-for-profits entities reporting periods beginning after December 15, 2018. The amendment is required to be applied retrospectively and all entities can adopt the standard as early as the original effective date. The Diocese plans to adopt these standards in its fiscal year ended June 30, 2020. The Diocese is currently evaluating the impact the adoption will have on the Organization.

ASU 2016-18

In November 2016, the Financial Accounting Standards Board (FASB) issued ASU No. 2016-18, "*Statement of Cash Flows (Topic 230): Restricted Cash.*" This ASU provides specific guidance on the cash flow classification and presentation of changes in restricted cash and cash equivalents. The amendments require that a statement of cash flows explain the change during the period in the total of cash and cash equivalents and restricted cash and cash equivalents. ASU 2016-18 is effective for not-for-profit entities for financial statements issued for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after 2019. The amendment is required to be applied retrospectively and early adoption is permitted. The Diocese plans to adopt ASU 2016-18 in its fiscal year ended June 30, 2020 and does not anticipate a significant impact as a result of adoption.

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ASU 2018-08

In June 2018, the Financial Accounting Standards Board (FASB) issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made.* The amendments in this update clarify and improve current guidance about whether a transfer of assets (or the reduction, settlement, or cancellation of liabilities) is a contribution or an exchange transaction. The amendments clarify how an entity determines whether a resource provider is participating in an exchange transaction by evaluating whether the resource provider is receiving commensurate value in return for the resources transferred. The amendments in this update are effective for fiscal years beginning after December 15, 2018 for transactions in which the entity serves as a resource recipient, and December 15, 2019 for transactions in which the entity serves as a resource provider. Early application permitted. The Diocese plans to adopt ASU 2018-08 in its fiscal year ended 2020 and does not anticipate a significant impact as a result of this adoption.

Reclassifications

Certain prior year financial statement balances have been reclassified to conform to the current year presentation.

Subsequent Events

The Administrative Office's management has evaluated subsequent events through the date of the Independent Auditor's Report, which is commensurate with the date the financial statements were available to be issued.

**NOTE 2 – INVESTMENTS**

Investments

The available-for-sale investments of the Administrative Office and its custodial funds are held by a national investment firm and managed by an investment adviser. Investments are stated at market values, which are determined based on per-unit values as of fiscal year-end.

Cost and fair value of the investments consist of the following at June 30, 2018:

	Cost	Unrealized Gains (Losses)	Fair Value
Exchange traded funds	\$ 2,183,740	\$ 49,902	\$ 2,233,642
Stocks	140,885	(29,437)	111,448
Mutual funds	1,453,338	827,070	2,280,408
Money market	1,422,369	(54)	1,422,315
Total	<u>\$ 5,200,332</u>	<u>\$ 847,481</u>	<u>\$ 6,047,813</u>

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Cost and fair value of the investments consist of the following at June 30, 2017:

	Cost	Unrealized Gains (Losses)	Fair Value
Exchange traded funds	\$ 2,592,361	\$ 129,529	\$ 2,721,890
Stocks	130,424	(16,351)	114,073
Mutual funds	2,205,115	863,850	3,068,965
Money market	253,051	2,988	256,039
Total	<u>\$ 5,180,951</u>	<u>\$ 980,016</u>	<u>\$ 6,160,967</u>

The following schedule summarizes the investment income in the statements of activities and changes in net assets:

	2018	2017
Interest and dividend income	\$ 226,903	\$ 212,556
Net realized and unrealized gain (loss) on investments	<u>(102,099)</u>	<u>138,304</u>
	<u>\$ 124,804</u>	<u>\$ 350,860</u>

Investment revenues are reported net of related expenses. Investment advisory fees amounted to \$30,291 and \$35,232 in the fiscal years ended June 30, 2018 and 2017, respectively.

**NOTE 3 – FAIR VALUE MEASUREMENT**

Fair values of assets measured on a recurring basis at June 30, 2018 are as follows:

	Fair Value	Level 1	Level 2	Level 3
Investments:				
Exchange traded funds	\$ 2,233,642	\$ 2,233,642	\$ -	\$ -
Stocks	111,448	111,448	-	-
Mutual funds	2,280,408	2,280,408	-	-
Money market	1,422,315	1,422,315	-	-
Total	<u>\$ 6,047,813</u>	<u>\$ 6,047,813</u>	<u>\$ -</u>	<u>\$ -</u>

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Fair values of assets measured on a recurring basis at June 30, 2017 are as follows:

Investments:	Fair Value	Level 1	Level 2	Level 3
Exchange traded funds	\$ 2,721,890	\$ 2,721,890	\$ -	\$ -
Stocks	114,073	114,073	-	-
Mutual funds	3,068,965	3,068,965	-	-
Money market	256,039	256,039	-	-
Total	<u>\$ 6,160,967</u>	<u>\$ 6,160,967</u>	<u>\$ -</u>	<u>\$ -</u>

**NOTE 4 – NOTES RECEIVABLE**

Following is a summary of the notes receivable at June 30:

	2018	2017
Note receivable from selling land. Fixed interest rate of 3.29%, quarterly principal and interest payments of \$25,281 due through September 2028.	\$ 876,803	\$ 947,616
Note receivable from a parish for building renovations. Interest free monthly payments of \$250 through May 2014, and \$500 per month through August 2019.	<u>6,751</u>	<u>12,751</u>
	883,554	960,367
Less current portion	<u>(76,813)</u>	<u>(76,813)</u>
	<u>\$ 806,741</u>	<u>\$ 883,554</u>

Interest income on notes receivable for the years ended June 30, 2018 and 2017 was \$30,309 and \$32,592 respectively.

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**NOTE 5 – PROPERTY AND EQUIPMENT**

Property and equipment and related accumulated depreciation are as follows at June 30:

	2018	2017	Depreciable Lives
Land	\$ 214,441	\$ 214,441	N/A
Buildings	855,002	708,866	18-40
Equipment and furniture	201,342	120,842	5-7
Vehicles	61,615	61,615	5-7
	1,332,400	1,105,764	
Accumulated depreciation	(633,424)	(610,853)	
Property and equipment, net	\$ 698,976	\$ 494,911	

Depreciation expense for fiscal years 2018 and 2017 was \$22,571 and \$14,693, respectively.

**NOTE 6 – LEASES**

The Administrative Office leases office space in its St. Ann and Crimont buildings to both a related party and unaffiliated entities. The cost and accumulated depreciation of these buildings as of June 30, 2018 and 2017 is \$518,809 and \$180,418, and \$292,173 and \$164,510, respectively. Rental income was \$325,824 and \$392,755 for the years ended June 30, 2018 and 2017, respectively. Minimum future rent income for fiscal year 2019, based on current leases, is \$311,031.

**NOTE 7 – CUSTODIAL FUNDS**

The Administrative Office holds funds on behalf of parishes and groups in the Diocese. These funds are invested in the same manner as the Administrative Office's investments. The custodial funds held by the Administrative Office consist of the following at June 30:

	2018	2017
Shrine of St. Therese	\$ 930,970	\$ 1,008,532
Shrine of St. Therese Endowment	1,274,871	1,224,066
St. Gregory - Sitka	150,700	145,496
Cathedral Parish - Juneau	736,853	664,378
Holy Family Mission - Metlakatla	109,521	128,286
St. Therese Parish - Skagway	81,107	78,306
St. Rose Parish - Wrangell	19,263	18,599
	\$ 3,303,285	\$ 3,267,663

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**NOTE 8 – TEMPORARILY RESTRICTED NET ASSETS**

The following support was temporarily restricted due to donors' instructions at June 30:

	2018	2017
Seminarian Endowment	\$ 8,569	\$ -
World Youth Day	3,979	-
Special Collections	1,900	-
World Mission Day	29	-
Catholic Home Missions Appeal	5,140	-
Operation Rice Bowl	2,210	-
Peter's Pence	100	-
	\$ 21,927	\$ -

**NOTE 9 – DESIGNATED NET ASSETS**

The Diocese Finance Council has designated a portion of its net assets. These designations consist of the following at June 30:

	2018	2017
Michael H. Kenny Memorial Fund	\$ -	\$ 1,085
Charitable works	702,162	670,960
	\$ 702,162	\$ 672,045

**NOTE 10 – EMPLOYEE BENEFITS**

The Administrative Office, through the Alaska Catholic Conference of Bishops, Insurance Division (ACCB), provides health and dental care. All regular, full-time employees are eligible to participate in the program. The Administrative Office pays the majority of the premium for eligible employees.

The Administrative Office provides life and long-term disability insurance for each full-time employee. Long-term disability insurance is available to employees who have worked thirty-six months or more.

Each regular full-time employee is eligible to participate in the Administrative Office 403(b) Employer Contribution Plan. The Administrative Office matches employee contributions up to 1% after six months of services, 2% after two years of services, 3% after three years of services, 4% after six years of services, and 6% after ten years of service. The Administrative Office contributed \$25,840 and \$25,792 during the years ended June 30, 2018 and 2017, respectively.

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**NOTE 11 – PRIEST PENSION PLAN**

Effective January 1, 2016, the Diocese established a noncontributory defined benefit Pension Plan for Priests (“Plan”) which covers diocesan priests incardinated in the Diocese and provides a standard annual benefit on the later of a participating priest’s 70<sup>th</sup> birthday of the date on which he completes ten years of Diocesan service, or in the event of disability as described in the Plan. During 2017, the Diocese made a nonoperating transfer of \$1,662,210 to the Plan to fund the associated liability arising from the establishment of the Plan. For the year ended June 30, 2018, the annual retiree benefit was \$25,172. As required by generally accepted accounting principles, the full funding status of the Plan, as of the balance sheet date, has been recognized as a net liability to recognize the under-funded status of the Plan.

The pension benefit obligation for retired priests has been estimated by management. No actuarial determination of the pension benefit obligation has been made since the effective date of the Plan. Changes in the valuation of the pension benefit obligation are considered nonoperating gains and losses. Gains and Losses on pension obligation for the years ended June 30, 2018 and 2017 are \$510,238 and \$(546,577), respectively. The Plan requires an actuarial valuation every two years. Management plans to complete the initial actuarial valuation within two years of the effective date of the Plan.

The following amounts relate to the Plan as of June 30, 2018:

Accumulated Benefit Obligation, estimated by management	<u>\$ 1,759,254</u>
Change in Plan Assets:	
Assets contributed to the plan by the Diocese after Plan Effective date	1,663,883
Return on Plan Assets	<u>59,032</u>
Fair value of Plan Assets at End of Fiscal Year	<u>\$ 1,722,915</u>
Accrued Pension Liability, Priests	<u><u>\$ 36,339</u></u>

The following amounts relate to the Plan as of June 30, 2017:

Accumulated Benefit Obligation, estimated by management	<u>\$ 2,214,635</u>
Change in Plan Assets:	
Assets contributed to the plan by the Diocese after Plan Effective date	1,655,106
Return on Plan Assets	<u>12,952</u>
Fair value of Plan Assets at End of Fiscal Year	<u>\$ 1,668,058</u>
Accrued Pension Liability, Priests	<u><u>\$ 546,577</u></u>



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Management used a discount rate of 3.45% to estimate the net for expected future benefit payments over the expected lives of current participants utilizing the U.S. Social Security Administration's life expectancy tables.

The Administrative Office measures fair value of the Plan's assets using a three-level hierarchy upon observable inputs.

Fair values of the Plan's assets measured on a recurring basis by level as of June 30, 2018, are as follows:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Cash	\$ 111,345	\$ 111,345	\$ -	\$ -
Exchange Traded Funds	521,783	521,783	-	-
Exchange Traded Certificates of Deposits	424,921	424,921	-	-
Fixed Income and Equity Mutual Funds	664,866	664,866	-	-
Total	<u>\$ 1,722,915</u>	<u>\$ 1,722,915</u>	<u>\$ -</u>	<u>\$ -</u>

Fair values of the Plan's assets measured on a recurring basis by level as of June 30, 2017, are as follows:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Cash	\$ 56,698	\$ 56,698	\$ -	\$ -
Exchange Traded Funds	195,581	195,581	-	-
Exchange Traded Certificates of Deposits	1,099,830	1,099,830	-	-
Fixed Income and Equity Mutual Funds	315,949	315,949	-	-
Total	<u>\$ 1,668,058</u>	<u>\$ 1,668,058</u>	<u>\$ -</u>	<u>\$ -</u>

The Diocese established a Trust Agreement for the Plan assets under the direction of a Board of Trustees. The Trustees established an Investment Policy for Plan assets that calls for a well-diversified portfolio of high-grade securities to achieve an average annual real rate of return of 2.75%. The Policy's goal is to maintain the following allocation ranges:

<u>Category</u>	<u>Benchmark Index</u>	<u>Minimum</u>	<u>Policy</u>	<u>Maximum</u>
Domestic Equity	S&P 500	25%	45%	55%
International Equity	MSCI World Ex US	0%	10%	25%
Fixed Income	US Barclay's Aggregate	25%	45%	55%

The Administrative Office expects to contribute \$30,600 to the Plan in fiscal year 2019. This contribution will be funded by the parishes.

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Benefits expected to be paid by the Plan during the ensuing five years and thereafter are approximately:

Year	Amount
2019	\$ 94,836
2020	63,814
2021	74,971
2022	105,694
2023	130,327
Thereafter	2,092,251

**NOTE 12 – RELATED PARTY TRANSACTIONS**

The operating director of the Administrative Office is also a member of the Board of Directors of Catholic Community Service. The Administrative Office and Catholic Community Service have ongoing operating transactions. The Administrative Office received (paid) the following amounts from (to) Catholic Community Service:

	2018	2017
Rent	\$ 296,978	\$ 307,450
Workers' compensation insurance	102,382	58,331
Vehicle insurance	27,036	28,860
Property insurance	14,987	16,716
Other	268	-
Subsidy	(90,725)	(117,132)
	\$ 350,926	\$ 294,225

At June 30, 2018 and 2017 the Administrative Office had a non-interest bearing note receivable of \$6,751 and \$12,751, respectively, from a parish in the Diocese. In addition to this note receivable, the Administrative Office had accounts receivable from all parishes of \$115,155 and \$102,531 included in accounts receivable in the balance sheets.

**NOTE 13 – CONTINGENT LIABILITIES**

Credit Risk

The Administrative Office has concentrated its credit risk for cash by maintaining deposits in financial institutions, which may at times exceed amounts covered by insurance provided by the United States Federal Deposit Insurance Corporation (FDIC). The Administrative Office has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk to cash.

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Debt of Individual Parishes

The Diocese, through its civil corporation, is responsible for certain debts undertaken directly by parishes of the Diocese. The aggregate debt of the parishes guaranteed by the Diocese as of June 30, 2018 and 2017 is \$364,541 and \$479,202, respectively. Based upon past performance and the ability of the parishes to continue to meet their debt obligations on a current basis, the Diocese believes it will not be required to make debt payments on their behalf.

Legal Proceedings

In the normal course of operations, the Administrative Office is subject to litigation from time to time, but defends its rights vigorously, and obtains insurance coverage for potential claims arising as a result of litigation.

Unemployment Taxes

The Diocese has opted the reimbursable payment method for its Employment Security Tax obligation with the State of Alaska, Department of Labor. As of June 30, 2018 and 2017, a security deposit of \$45,537 has been placed with the State of Alaska, Department of Labor, Employment Security Division, in lieu of making unemployment tax payments. The Diocese would be liable for any future unemployment claims in excess of the deposit.

**NOTE 14 – PRIOR PERIOD RESTATEMENT**

The previously issued 2017 financial statement have been restated due to an error relating to custodial investments held for a third-party being presented as temporarily restricted net assets instead of properly reporting as custodial funds liability. The impact of correcting the misstatement was a decrease in the 2017 beginning net assets of \$145,403 and an increase in custodial funds liability of the same amount, in the accompanying balance sheet.