

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, 2019 and 2018  
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 statements of financial position as of June 30, 2019 and 2018, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

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

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

### ***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 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, 2019 and 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.

*Elgee Rehfeld*

December 20, 2019

CORPORATION OF THE CATHOLIC BISHOP OF JUNEAU  
The Program and Administrative Office of the Diocese of Juneau  
A Nonprofit Sole Corporation

BALANCE SHEETS

June 30, 2019 and 2018

	2019	2018
ASSETS		
CURRENT ASSETS		
Cash	\$ 305,431	\$ 69,173
Accounts receivable	141,099	185,977
Investments		
Administrative office	2,040,440	2,744,528
Custodial funds	3,395,502	3,303,285
Prepaid expenses	50	-
Notes receivable, current portion	92,019	76,813
Total current assets	5,974,541	6,379,776
NOTES RECEIVABLE, net of current portion	908,862	806,741
PROPERTY AND EQUIPMENT, net	833,349	698,976
OTHER ASSETS	45,537	45,537
Total assets	\$ 7,762,289	\$ 7,931,030
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 278,585	\$ 56,399
Deferred revenue	-	160,000
Pass-through payables	14,305	-
Accrued payroll	6,569	16,478
Compensated absences	71,944	67,722
Custodial funds	3,395,502	3,303,285
Total current liabilities	3,766,905	3,603,884
Accrued pension liability, priests	28,291	36,339
Total liabilities	3,795,196	3,640,223
NET ASSETS		
Net assets without donor restrictions		
Undesignated	3,957,309	3,566,718
Designated by the Finance Council	-	702,162
Total net assets without donor restrictions	3,957,309	4,268,880
Net assets with donor restrictions		
Seminarian donation	9,784	21,927
Total net assets	3,967,093	4,290,807
Total liabilities and net assets	\$ 7,762,289	\$ 7,931,030

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, 2019 and 2018

	2019	2018
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS		
FROM OPERATING ACTIVITIES		
SUPPORT AND REVENUE		
Grants	\$ 399,706	\$ 437,474
Rental income	176,752	325,824
Faith-in-Action	160,000	150,000
Assessments	287,287	149,725
Contributions and bequests	25,956	67,667
Interest income	27,950	30,309
Investment income	82,955	119,600
Program fees	5,170	-
Other income	98,038	126,974
Total support and revenue	1,263,814	1,407,573
Net assets released from restriction	13,358	-
Total support, revenue, and net assets released from restriction	1,277,172	1,407,573
EXPENSES		
Program services		
Pastoral	304,504	352,988
Property management	468,516	583,390
Religious personnel development	121,915	67,544
Other programs	100,174	109,455
Total program services	995,109	1,113,377
Supporting services	601,682	422,055
Total expenses	1,596,791	1,535,432
Decrease in net assets without donor restrictions from operating activities	(319,619)	(127,859)
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS		
FROM NON-OPERATING ACTIVITIES		
Gain on pension obligation	8,048	510,238
Change in net assets without donor restrictions	(311,571)	382,379
CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS		
Satisfaction of program restrictions	(13,358)	-
Contributions restricted as to purpose	1,215	21,927
Change in net assets with donor restrictions	(12,143)	21,927
Change in net assets	(323,714)	404,306
NET ASSETS at beginning of year	4,290,807	3,886,501
NET ASSETS at end of year	\$ 3,967,093	\$ 4,290,807

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STATEMENT OF FUNCTIONAL EXPENSES

Year ended June 30, 2019

	Program Services					Supporting Services	
	Pastoral	Property Management	Religious		Total	Management and General	Total
			Personnel Development	Other Programs			
DIRECT EXPENSES							
Salaries	\$ 119,916	\$ 108,579	\$ 12,747	\$ 67,795	\$ 309,037	\$ 221,416	\$ 530,453
Payroll taxes and benefits	49,925	27,808	3,585	7,195	88,513	77,774	166,287
Total salaries and related expenses	169,841	136,387	16,332	74,990	397,550	299,190	696,740
Professional fees	4,700	7,028	-	6,955	18,683	237,340	256,023
Occupancy	15,664	216,727	-	-	232,391	-	232,391
Seminar and tuition	19,886	-	90,748	-	110,634	1,387	112,021
Repair and maintenance	1,705	87,882	-	-	89,587	-	89,587
Travel and transportation	48,101	7,964	13,687	-	69,752	3,519	73,271
Supplies and equipment	5,422	529	934	15,774	22,659	13,843	36,502
Depreciation	-	-	-	-	-	29,802	29,802
Subsidies	14,000	-	-	-	14,000	12,500	26,500
Donations and gifts	21,610	-	-	-	21,610	-	21,610
Other expenses	3,325	11,999	214	2,430	17,968	2,971	20,939
Dues and subscriptions	250	-	-	25	275	1,130	1,405
Total direct expenses	<u>\$ 304,504</u>	<u>\$ 468,516</u>	<u>\$ 121,915</u>	<u>\$ 100,174</u>	<u>\$ 995,109</u>	<u>\$ 601,682</u>	<u>\$ 1,596,791</u>

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STATEMENT OF FUNCTIONAL EXPENSES

Year ended June 30, 2018

	Program Services					Supporting Services	
	Pastoral	Property Management	Religious		Total	Management and General	Total
			Personnel Development	Other Programs			
DIRECT EXPENSES							
Salaries	\$ 147,945	\$ 120,393	\$ 16,873	\$ 66,040	\$ 351,251	\$ 232,297	\$ 583,548
Payroll taxes and benefits	46,153	30,145	625	13,873	90,796	64,475	155,271
Total salaries and related expenses	194,098	150,538	17,498	79,913	442,047	296,772	738,819
Occupancy	12,891	227,509	-	-	240,400	-	240,400
Subsidies	18,050	90,725	-	-	108,775	25,000	133,775
Repair and maintenance	4,211	84,542	-	-	88,753	-	88,753
Professional fees	1,490	5,179	800	4,922	12,391	55,397	67,788
Other expenses	41,499	11,215	2,203	7,747	62,664	5,003	67,667
Travel and transportation	36,533	10,742	17,060	254	64,589	787	65,376
Seminar and tuition	23,132	2,496	29,161	-	54,789	1,417	56,206
Supplies and equipment	8,227	444	822	16,594	26,087	14,148	40,235
Depreciation	-	-	-	-	-	22,571	22,571
Donations and gifts	12,857	-	-	-	12,857	-	12,857
Dues and subscriptions	-	-	-	25	25	960	985
Total direct expenses	<u>\$ 352,988</u>	<u>\$ 583,390</u>	<u>\$ 67,544</u>	<u>\$ 109,455</u>	<u>\$ 1,113,377</u>	<u>\$ 422,055</u>	<u>\$ 1,535,432</u>

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CORPORATION OF THE CATHOLIC BISHOP OF JUNEAU  
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STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2019 and 2018

	2019	2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash inflows from operations:		
Cash received from contributions, grants, and bequests	\$ 266,877	\$ 511,867
Cash received from rental income	176,752	325,824
Cash received from Faith-in-Action	160,000	150,000
Cash received from assessments	287,287	149,725
Interest income received	27,950	30,309
Investment income received, net	80,379	226,903
Cash received form other sources	119,098	54,426
Cash outflows from operations:		
Cash paid to employees	(702,427)	(758,424)
Cash paid to suppliers	(633,807)	(756,664)
Net cash used for operating activities	(217,891)	(66,034)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Cash received for sale of investments	833,317	344,058
Cash paid for purchase of investments	(97,665)	(302,585)
Cash paid for new equipment	(164,176)	(226,636)
Issuance of notes receivable	(196,499)	-
Payments received on notes receivable	79,172	76,813
Net cash provided by (used for) investing activities	454,149	(108,350)
Net increase (decrease) in cash	236,258	(174,384)
Cash at beginning of year	69,173	243,557
Cash at end of year	\$ 305,431	\$ 69,173

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, 2019 and 2018

**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.

- Pastoral: These expenditures support pastoral ministry in the Diocese, including support to the Office of the Bishop; St. John by the Sea parish; mission communities; the Office of Ministries; the Tribunal; Youth Ministry; and the biennial Southeast Alaska Catholic Conference.
- Property Management: These expenditures support facility operations and maintenance for the Chancery; the Bishop's house; the Convent; several mission properties; and other diocesan capital projects.
- Religious Personnel Development: These expenditures support the formation and ongoing spiritual development of priests, religious, deacons, and seminarians.
- Other Programs: These expenditures include the Office of Communications; Archives and Special Projects; stewardship; and information/technology.

Basis of Accounting

With the exception of property and equipment, 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

The financial statements of the Administrative Office have been prepared in accordance with U.S. generally accepted accounting principles (US GAAP), which require the Administrative Office to report information regarding its 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 may be expended for any purpose in performing the primary objectives of the Administrative Office. These net assets may be used at the discretion of the Administrative Office's management and the Finance Council.

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*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 the Administrative Office or by the passage of time. Other donor restrictions are perpetual in nature, whereby 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 statement of activities.

Classification of Transactions

All revenues are reported as increases in net assets without donor restrictions in the statements of activities unless the donor specified the use of the related resources for a particular purpose or in a future period. The Administrative Office also classifies donor restricted amounts as unrestricted if it satisfied the restriction in the same fiscal year in which the support was received. All expenses and net losses are reported as decreases in net assets without donor restrictions.

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 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, 2019 and 2018.

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 to the Diocese. Investment income on investments is also considered operating revenue.

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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. 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 has 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. Investments are considered current assets as balances are routinely withdrawn to satisfy current obligations as they arise throughout the year. 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

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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, 2019, the Administrative Office does not have a liability for unrecognized tax benefits.

Functional Allocation of Expenses

The costs of providing the Diocese's various programs and other activities have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Expenses that can be identified with a specific program or support service are charged directly to that program or support service. Expenses for program services are segregated from management and general expenses. Costs common to multiple functions have been allocated among the various functions benefitted using a reasonable allocation method that is consistently applied, as follows:

- Salaries, wages, benefits and taxes are allocated based on each employee's area of service to the organization.
- Travel, facility, supplies and equipment, depreciation, and other expenses are allocated based on proportion of the total direct costs of the program to which they are being allocated.

Change in Accounting Principles

The Diocese implemented Financial Accounting Standards Board (FASB) ASU No. 2016-14 "Presentation of Financial Statements of Not-for-Profit Entities" in the current year, applying the changes retrospectively. The new standard changes the following aspects of the financial statements:

- The previously reported temporarily and permanently restricted net asset classes have been combined into a single net asset class called net assets with donor restrictions.
- The unrestricted net asset class has been renamed net assets without donor restrictions.
- The format of the statements of cash flows has changed to the direct method of reporting cash flows from operations, which management believes is more understandable for the users of its financial statements.

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- Statements of Functional Expenses have been added presenting expenses by program and supporting services.
- The financial statements include a disclosure about liquidity and availability of resources (Note 2).

The changes had no effect on net assets at June 30, 2019 and 2018.

Recent Accounting Pronouncements

Management is evaluating the impact of the recent accounting pronouncements listed below on the Administrative Office's financial position, results of operations, or cash flows. The impact of adoption has not been fully determined. Other accounting standards that have been issued or proposed by FASB, or other standards-setting bodies, not listed below, will also be evaluated prior to their effective date.

*ASU 2016-02*

In February 2016, the 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 Administrative Office plans to adopt ASU 2016-02 in its fiscal year ended June 30, 2021.

*ASU 2015-14*

In August 2015, the 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-profit 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 Administrative Office plans to adopt these standards in its fiscal year ended June 30, 2020.

*ASU 2016-18*

In November 2016, the 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 Administrative Office plans to adopt ASU 2016-18 in its fiscal year ended June 30, 2020.

*ASU 2018-08*

In June 2018, the 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

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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 Administrative Office plans to adopt ASU 2018-08 in its fiscal year ended 2020.

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 – LIQUIDITY AND AVAILABILITY**

Financial assets available for general expenditures without donor or other restriction limiting their use, within one year of June 30, 2019:

Financial assets at year-end*:	
Cash and cash equivalents	\$ 305,431
Short-term investments	2,040,440
Accounts receivable, net	141,099
Notes receivable, current portion	<u>92,019</u>
Total financial assets	2,578,989
Less those unavailable for general expenditure within one year, due to donor-imposed restrictions:	
Seminarian donation	<u>(9,784)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u><u>\$ 2,569,205</u></u>

\*Total assets, less nonfinancial assets (fixed assets, custodial funds, prepaid expenses, other)

**NOTE 3 – 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.

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NOTES TO THE FINANCIAL STATEMENTS

Cost and fair value of the investments consist of the following at June 30, 2019:

	Cost	Unrealized Gains (Losses)	Fair Value
Exchange traded funds	\$ 2,122,006	\$ 116,107	\$ 2,238,113
Stocks	141,646	(36,422)	105,224
Mutual funds	1,841,169	388,529	2,229,698
Money market	862,776	131	862,907
Total	<u>\$ 4,967,597</u>	<u>\$ 468,345</u>	<u>\$ 5,435,942</u>

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>

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

	2019	2018
Interest and dividend income, net of fees	\$ 80,379	\$ 226,903
Net realized and unrealized gain (loss) on investments	2,576	(107,303)
	<u>\$ 82,955</u>	<u>\$ 119,600</u>

Investment revenues are reported net of related expenses. Investment advisory fees amounted to \$28,988 and \$30,291 in the fiscal years ended June 30, 2019 and 2018, respectively.

**NOTE 4 – FAIR VALUE MEASUREMENT**

Fair values of assets measured on a recurring basis at June 30, 2019 are as follows:

	Fair Value	Level 1	Level 2	Level 3
Investments:				
Exchange traded funds	\$ 2,238,113	\$ 2,238,113	\$ -	\$ -
Stocks	105,224	105,224	-	-
Mutual Funds	2,229,698	2,229,698	-	-
Money Market	862,907	862,907	-	-
Total	<u>\$ 5,435,942</u>	<u>\$ 5,435,942</u>	<u>\$ -</u>	<u>\$ -</u>

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

Investments:	Fair Value	Level 1	Level 2	Level 3
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>

**NOTE 5 – NOTES RECEIVABLE**

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

	<u>2019</u>	<u>2018</u>
Note receivable from selling land. Fixed interest rate of 3.29%, quarterly principal and interest payments of \$25,281 due through September 2028.	\$ 803,631	\$ 876,803
Note receivable from Holy Name School. Zero interest loan, monthly principal payments of \$1,957 due through October 2029.	196,499	-
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>751</u>	<u>6,751</u>
	1,000,881	883,554
Less current portion	<u>(92,019)</u>	<u>(76,813)</u>
	<u>\$ 908,862</u>	<u>\$ 806,741</u>

Interest income on notes receivable for the years ended June 30, 2019 and 2018 was \$27,950 and \$30,309 respectively.



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**NOTE 6 – PROPERTY AND EQUIPMENT**

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

	2019	2018	Depreciable Lives
Land	\$ 214,441	\$ 214,441	N/A
Buildings	855,002	855,002	18-40
Equipment and furniture	201,342	201,342	5-7
Construction-in-progress	164,176	-	18-40
Vehicles	61,615	61,615	5-7
	<u>1,496,576</u>	<u>1,332,400</u>	
Accumulated depreciation	<u>(663,227)</u>	<u>(633,424)</u>	
Property and equipment, net	<u>\$ 833,349</u>	<u>\$ 698,976</u>	

Depreciation expense for fiscal years 2019 and 2018 was \$29,802 and \$22,571, respectively.

**NOTE 7 – 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, 2019 and 2018 is \$518,809 and \$203,556, and \$518,809 and \$180,418, respectively. Rental income was \$176,752 and \$325,824 for the years ended June 30, 2019 and 2018, respectively. Minimum future rent income for fiscal year 2020, based on current leases, is \$75,780.

**NOTE 8 – 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:

	2019	2018
Shrine of St. Therese	\$ 839,617	\$ 930,970
Shrine of St. Therese Endowment	1,328,613	1,274,871
St. Gregory - Sitka	157,671	150,700
Cathedral Parish - Juneau	871,190	736,853
Holy Family Mission - Metlakatla	100,504	109,521
St. Therese Parish - Skagway	77,754	81,107
St. Rose Parish - Wrangell	20,153	19,263
	<u>\$ 3,395,502</u>	<u>\$ 3,303,285</u>

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**NOTE 9 – NET ASSETS WITH DONOR RESTRICTIONS**

Net assets with donor restrictions are available for the following purposes at June 30:

	2019	2018
Seminarian Endowment	\$ 9,784	\$ 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
	\$ 9,784	\$ 21,927

**NOTE 10 – NET ASSETS WITHOUT DONOR RESTRICTIONS - DESIGNATED**

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

	2019	2018
Charitable works	\$ -	\$ 702,162

**NOTE 11 – 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 \$21,774 and \$25,840 during the years ended June 30, 2019 and 2018, respectively.

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**NOTE 12 – 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 years ended June 30, 2019 and 2018, the annual retiree benefit was \$25,675 and \$25,172, respectively. 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 determined by an actuarial valuation completed January 1, 2019. 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, 2019 and 2018 are \$8,048 and \$510,238, respectively. The Plan requires an actuarial valuation every two years.

The following amounts relate to the Plan as of June 30, 2019:

Accumulated Benefit Obligation, estimated by management	<u>\$ 1,757,401</u>
Change in Plan Assets:	
Assets contributed to the plan by the Diocese after Plan Effective date	1,665,883
Return on Plan Assets	<u>63,227</u>
Fair value of Plan Assets at End of Fiscal Year	<u><u>\$ 1,729,110</u></u>
Accrued Pension Liability, Priests	<u><u>\$ 28,291</u></u>

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><u>\$ 1,722,915</u></u>
Accrued Pension Liability, Priests	<u><u>\$ 36,339</u></u>

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Management used a discount rate of 5.00% 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, 2019, are as follows:

	Level 1	Level 2	Level 3	Total
Cash	\$ 41,404	\$ -	\$ -	\$ 41,404
Stocks	765,682	-	-	765,682
Exchange Traded Funds	68,459	-	-	68,459
Corporate Fixed Income	424,384	-	-	424,384
Mutual Funds	429,181	-	-	429,181
Total	<u>\$ 1,729,110</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,729,110</u>

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

	Level 1	Level 2	Level 3	Total
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>\$ -</u>	<u>\$ -</u>	<u>\$ 1,722,915</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 5%. The Policy's goal is to maintain the following allocation ranges:

Category	Benchmark Index	Minimum	Policy	Maximum
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 2020. 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
2020	\$ 97,567
2021	77,912
2022	106,717
2023	138,960
2024	141,739
Thereafter	2,463,020

**NOTE 13 – 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:

	2019	2018
Rent	\$ 141,963	\$ 296,978
Workers' compensation insurance	87,063	102,382
Vehicle insurance	27,935	27,036
Property insurance	16,298	14,987
Other	-	268
Subsidy	(32,340)	(90,725)
	\$ 240,919	\$ 350,926

At June 30, 2019 and 2018 the Administrative Office had non-interest bearing notes receivable of \$751 and \$6,751, respectively, from a parish in the Diocese and \$196,499 and \$-0-, respectively, from a school in the Diocese. In addition to the notes receivable, the Administrative Office had accounts receivable from all parishes of \$107,848 and \$115,155 included in accounts receivable in the balance sheets.

**NOTE 14 – 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, 2019 and 2018 is \$245,640 and \$364,541, 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, 2019 and 2018, 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.