

**ADMINISTRATIVE OFFICE OF
THE BISHOP OF THE EPISCOPAL CHURCH IN THE DIOCESE OF
LOS ANGELES**

CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2023



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**ADMINISTRATIVE OFFICE OF
THE BISHOP OF THE EPISCOPAL CHURCH IN THE DIOCESE OF LOS ANGELES
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YEAR ENDED DECEMBER 31, 2023**

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INDEPENDENT AUDITORS' REPORT

Bishop Diocesan
Administrative Office of The Bishop Of The Protestant Episcopal Church of Los Angeles
Los Angeles, California

Report on the Audit of the Consolidated Financial Statements

Opinion

We were engaged to audit the accompanying consolidated financial statements of Administrative Office of The Bishop of the Episcopal Church in The Diocese of Los Angeles (the Administrative Office) (a nonprofit organization), which comprise the consolidated statement of assets, liabilities, and net assets – modified cash basis as of December 31, 2023, and the related consolidated statement of revenue, expenses, and change in net assets – modified cash basis, and consolidated functional expenses – modified cash basis for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Administrative Office of The Bishop Of The Protestant Episcopal Church of Los Angeles as of December 31, 2023, and the changes of its net assets for the year then ended in accordance with the modified cash basis of accounting as described in Note 1.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of Administrative Office of The Bishop Of The Protestant Episcopal Church of Los Angeles and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matters – Basis of Accounting

We draw attention to Note 1 of the consolidated financial statements, which describes the basis of accounting. The consolidated financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the modified cash basis of accounting as described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the consolidated financial statements in the circumstances, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Administrative Office of The Bishop Of The Protestant Episcopal Church of Los Angeles's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Administrative Office of The Bishop Of The Protestant Episcopal Church of Los Angeles's ability to continue as a going concern for a reasonable period of time.

Board of Directors
Administrative Office of The Bishop of the Episcopal Church in The Diocese of Los Angeles

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

A handwritten signature in black ink that reads "CliftonLarsonAllen LLP". The script is fluid and cursive, with the letters connected.

CliftonLarsonAllen LLP

Pasadena, California
May 9, 2025

**ADMINISTRATIVE OFFICE OF
THE BISHOP OF THE EPISCOPAL CHURCH IN THE DIOCESE OF LOS ANGELES
CONSOLIDATED STATEMENT OF ASSETS, LIABILITIES, AND CHANGE IN NET ASSETS –
MODIFIED CASH BASIS
DECEMBER 31, 2023**

ASSETS

Cash and Cash Equivalents	\$ 496,777
Investments	8,550,468
Loans Receivable, Net	154,825
Due From the Dioceses	276,096
Property	822,618
Total Assets	<u>\$ 10,300,784</u>

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts Payable	\$ 5,776
Due to the Diocese	221,984
Held for Construction	276,096
Funds Held for Others	294,182
Total Liabilities	<u>798,038</u>

NET ASSETS

Without Donor Restrictions:	(1,495,784)
With Donor Restrictions:	10,998,530
Total Net Assets	<u>9,502,746</u>
Total Liabilities and Net Assets	<u>\$ 10,300,784</u>

See accompanying Notes to Consolidated Financial Statements.

**ADMINISTRATIVE OFFICE OF
THE BISHOP OF THE EPISCOPAL CHURCH IN THE DIOCESE OF LOS ANGELES
CONSOLIDATED STATEMENT OF REVENUE, EXPENSES, AND CHANGE IN NET ASSETS –
MODIFIED CASH BASIS
YEAR ENDED DECEMBER 31, 2023**

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE, SUPPORT, AND GAINS			
Donations and Gifts	\$ -	\$ 390,627	\$ 390,627
Rent	94,505	-	94,505
Realized and Unrealized Gain on Investments	12,845	892,170	905,015
Net Assets Released from Restrictions	765,019	(765,019)	-
Other Income	6,261		6,261
Total Revenue, Support, and Gains	<u>878,630</u>	<u>517,778</u>	<u>1,396,408</u>
EXPENSES			
Programs	850,148		850,148
General and Administrative	71,295	-	71,295
Total Expenses	<u>921,443</u>	<u>-</u>	<u>921,443</u>
Loss on Sale of Properties	1,200,530	-	1,200,530
Total Expenses and Losses	<u>2,121,973</u>	<u>-</u>	<u>2,121,973</u>
CHANGE IN NET ASSETS	(1,243,343)	517,778	(725,565)
Net Assets - Beginning of Year	(252,441)	10,480,752	10,228,311
NET ASSETS - END OF YEAR	<u>\$ (1,495,784)</u>	<u>\$ 10,998,530</u>	<u>\$ 9,502,746</u>

See accompanying Notes to Consolidated Financial Statements.

**ADMINISTRATIVE OFFICE OF
THE BISHOP OF THE EPISCOPAL CHURCH IN THE DIOCESE OF LOS ANGELES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES –
MODIFIED CASH BASIS
YEAR ENDED DECEMBER 31, 2023**

	Program Services	General and Administrative	Total Expense
Grants and Distributions to the Diocese	\$ 810,756	\$ -	\$ 810,756
Ministry Expenses	22,639	-	22,639
Property-Related Expenses	-	31,543	31,543
Legal and Accounting	-	25,000	25,000
Insurance	-	3,594	3,594
Meals and Entertainment	16,753		16,753
Other	-	11,158	11,158
	<u>850,148</u>	<u>71,295</u>	<u>921,443</u>
Total Expenses by Function	<u>\$ 850,148</u>	<u>\$ 71,295</u>	<u>\$ 921,443</u>

See accompanying Notes to Consolidated Financial Statements.

NOTE 1 PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES

Organization

The Bishop of the Episcopal Church in The Diocese of Los Angeles (the Corporation Sole) was incorporated on June 6, 1907 in the Diocese of Los Angeles as a unique form of nonprofit corporation. The Corporation Sole was established as a means of obtaining continuity in the holding of property. The Administrative Office of The Bishop of the Episcopal Church in The Diocese of Los Angeles (the Administrative Office) reported in these financial statements includes no directors or members other than the Office of the Bishop Diocesan and his or her successors.

These statements exclude the financial position and transactions of the parishes and missions. These organizations may or may not be separate corporations under civil law; however, each is an operating entity distinct from the Administrative Office and maintains separate accounts and carries on its own services and programs. In the event of the dissolution of one of these entities, the Administrative Office may or may not be the beneficiary of remaining net assets at the discretion of the Bishop.

According to canon law and court precedent, all church properties are held in trust for the larger church. For financial accounting, only the operating properties of the Administrative Office are reported as assets in the Administrative Office's financial statements. The land, buildings, and equipment at the parishes and missions are not included.

In addition to real property, the Administrative Office holds funds given to the Bishop Diocesan for protective custody or for use at the Bishop Diocesan's discretion. The Bishop Diocesan is responsible for ensuring that all funds in the Administrative Office are used for their intended purposes and in accordance with church objectives.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Katella Howell, LLC (the LLC), a wholly owned subsidiary formed to hold and operate certain real estate. Intercompany transactions and accounts are eliminated in the accompanying consolidated financial statements.

Basis of Accounting

The consolidated financial statements of the Administrative Office are presented on a modified cash basis of accounting. Consequently, revenue is recognized when received rather than when earned, and expenses are recognized when paid rather than when the obligation is incurred. Modifications to cash basis of accounting include recording due from and held for other organizations arising from cash transactions. In addition, the Administrative Office has not recorded depreciation on property, which may have been necessary to conform to generally accepted accounting principles.

NOTE 1 PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Asset Classes

The Administrative Office reports information regarding its financial position and activities according to two classes of net assets: with donor restrictions and without donor restrictions. Net assets and revenue are classified based on the existence or absence of donor-imposed restrictions.

Without Donor Restrictions – Net Assets without donor restrictions are resources available for use in general operations and not subject to donor (or certain grantor) restrictions, and net assets designated by the board of directors or management for specific purposes.

With Donor Restrictions – Net assets subject to donor-imposed restrictions that are temporary in nature and that will be met either by actions of the Administrative Office or the passage of time. As the restrictions are satisfied, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the accompanying consolidated statement of revenue, expenses, and change in net assets – modified cash basis as net assets released from restrictions. Other donor restrictions are perpetual in nature, where the donor restricts that the corpus be invested in perpetuity and only the income be made available for program operations in accordance with donor restrictions. Such income generally includes interest, dividends, and realized and unrealized earnings from the corpus.

Estimates

Management uses estimates and assumptions in preparing these consolidated financial statements on the modified cash basis of accounting. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenue and expenses. Actual results could vary from the estimates that were used.

Contributions

Contributions are recorded as made. All contributions are available for unrestricted use unless specifically restricted by the donor. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

NOTE 1 PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the consolidated statement of revenue, expenses, and change in net assets – modified cash basis. The consolidated statement of functional expenses – modified cash basis present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Income Taxes

The Administrative Office is exempt under Internal Revenue Code Section 501(c)(3) and the related California code section. The Administrative Office recognizes the consolidated financial statement benefit of tax positions, such as its filing status as tax-exempt, only after determining that the relevant tax authority would more likely than not sustain the position following examination. The statute of limitations for federal and state purposes is generally three and four years, respectively.

The LLC is a limited liability company treated as a partnership for federal income tax purposes and, accordingly, any income or loss of the LLC is recorded on the return of its member. As a result, no provision for income tax has been recorded on these consolidated financial statements.

Financial Instruments and Credit Risk

The Administrative Office manages deposit concentration risk by placing cash, money market accounts, and certificates of deposit with financial institutions believed to be creditworthy. At times, amounts on deposit may exceed insured limits or include uninsured investments in money market mutual funds. To date, the Administrative Office has not experienced losses in any of these accounts. Credit risk associated with loans receivable is considered to be limited due to high historical collection rates. The Administrative Office's investments are exposed to various risks, such as market and credit risks. Due to the level of risk associated with such investments and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term could materially affect investment balances and the amounts reported in the consolidated financial statements.

Cash and Cash Equivalents

The Administrative Office considers all cash and highly liquid financial instruments with original maturities of three months or less.

Funds Held for Others

Funds held for others represent funds held by the Administrative Office on behalf of a church within the Diocese, to be invested and administered on their behalf. Funds held for others is \$294,182 as of December 31, 2023.

NOTE 1 PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments

The Administrative Office records investment purchases at cost, or if donated, at fair value on the date of donation. Thereafter, investments are reported at their fair values in the consolidated statement of assets, liabilities, and net assets – modified cash basis. Net investment gain (loss) is reported in the consolidated statement of revenue, expenses, and change in net assets – modified cash basis and consists of interest and dividend income, realized and unrealized capital gains and losses, less external and direct internal investment expenses.

The Administrative Office's investments consist of share subscriptions of the Diocesan Investment Trust of the Diocese of Los Angeles (DIT). Investments are presented at fair value in the consolidated statement of assets, liabilities, and net assets – modified cash basis. Fair value is determined based on the quoted market prices of the underlying securities within the DIT, which represents the net asset value, a practical expedient to fair value, of the DIT shares held by the Administrative Office. Unrealized gains and losses are included in the consolidated statement of revenue, expenses, and change in net assets – modified cash basis.

The Financial Accounting Standards Board (FASB) established a hierarchal disclosure framework which prioritizes and ranks the level of market price observability used in measuring fair value. This hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three levels:

Level 1 – Quoted market prices are available in active market for identical assets or liabilities as of the reporting date.

Level 2 – Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. A significant adjustment to a Level 2 input could result in the Level 2 measurement becoming a Level 3 measurement.

Level 3 – Pricing inputs are unobservable and shall be used to measure fair value to the extent that observable inputs are not available. The inputs into the determination of fair value are based upon the best information available and require significant management judgment or estimation.

The net asset value per DIT unit is based on the closing market prices and accruals of the securities in the DIT's portfolio, or total value of the DIT fund divided by the number of units currently issued and outstanding. These inputs are classified as level 2 inputs in the fair value hierarchy.

NOTE 1 PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property

Operating property consisting of land and buildings is stated at cost or at the fair market value on the date of gift or acquisition. These properties are capitalized at the time they are acquired under one or more of the following methods as considered appropriate based upon the nature of the asset, the method of acquisition, and the availability of a tangible value: the cost of acquired or constructed assets, the title policy value, a recent property appraisal, the full or partial assessed value for county tax purposes, or the value assigned by insurance providers. When none of the above values were practicable, a nominal value was assigned to the property.

The Administrative Office does not provide for depreciation on its property.

Loans Receivable and Allowance for Credit Losses

Loans receivable consist primarily of noninterest-bearing amounts due for Congregation Building Repairs. The Administrative Office uses historical loss information based on aging of receivables as the basis to determine expected credit losses for receivables, adjusted for reasonable expectations of future collection performance. A loss rate is developed for each risk category based on aging. Management believes the composition of receivables at year-end is consistent with historical conditions as credit terms and practices and the customer base has not changed significantly.

During the past two years, the Diocese has been regularly meeting with each Mission and Parish church on the repayment of outstanding loans made with the Administrative Office, the Diocese or the Episcopal Community Federal Credit Union.

Historically, management has not reviewed the request from Mission churches to apply for secured or unsecured loans or assessed their capacity to repay loans. Additionally, management has not formalized the obligation for loan repayment or actively monitored the repayment of loans over time.

In response to this practice, each church with an outstanding loans balance with either of the three entities is being required to formally consent to a written Repayment Agreement approved by their respective Vestry or Bishop's Committee reviewed and approved by the Corporation of the Diocese and Standing Committee.

In formalizing the repayment of these loans, management has also requested each church to assess their financial capacity to accelerate repayment without reducing their required annual assessment. The primary focus on formalizing the repayment of these is to ensure each church is able to meet its financial obligation and to ensure loan repayment.

At December 31, 2023, the allowance for estimate of expected credit losses was \$71,919.

NOTE 1 PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Change in Accounting Principle

The Administrative Office has adopted ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, as amended, which modifies the measurement of expected credit losses. The Administrative Office adopted this new guidance utilizing the modified retrospective transition method. The adoption of this Standard did not have a material impact on The Administrative Office's financial statements but did change how the allowance for credit losses is determined.

Subsequent Events

We have evaluated subsequent events through May 9, 2025, the date the consolidated financial statements were available to be issued. There were no subsequent events that would require adjustments or disclosures in these consolidated financial statements.

NOTE 2 LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the consolidated statement of assets, liabilities, and net assets – modified cash basis date, comprise the following for the year ended December 31, 2023:

Financial Assets:

Cash and Cash Equivalents	\$ 496,777
Loans Receivable, Net	154,825
Investments	8,550,468
Total	<u>9,202,070</u>

Less Those Unavailable for General Expenditure

Within One Year Due to :

Restricted by Donor for Specific Purpose	(10,998,530)
Loans Receivable Due in More Than One Year	(38,728)
Investments Held for Others	(294,182)
	<u>(11,331,440)</u>

Financial Assets Available to Meet Cash Needs for General Expenditure Within One Year

\$ (2,129,370)

The Administrative Office maintains a policy of structuring its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The Administrative Office holds various properties that could be sold in the need to meet general expenditures. Furthermore, the Administrative Office can obtain favorable fundings from its related party entity in any event of shortfall in cash.

NOTE 3 FAIR VALUE MEASUREMENTS AND DISCLOSURES

Investments represent Administrative Office's respective beneficial ownership of a portfolio of various securities managed by the DIT. The DIT's portfolio includes publicly traded U.S. and international equities, fixed income securities, and other securities. As indicated in Note 1, inputs used to measure fair value are classified as level 2. The cost and fair value of the Administrative Office's investments are as follows at December 31, 2023:

	Cost	Fair Value
Diocesan Investment Trust	<u>\$ 6,614,634</u>	<u>\$ 8,550,468</u>

Investment income includes the realized gains and unrealized appreciation of investments during the period, net of trust expenses. The ratio of trust expenses to average net trust assets approximates 0.45% for the year ended December 31, 2023.

NOTE 4 LOANS RECEIVABLE

The Administrative Office has unsecured loans receivables with a total face amount of \$226,744. The loans have an interest rate varying from 0% to 1.5%. The loan's face amounts are due as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2024	\$ 121,340
2025	8,334
2026	5,838
2027	5,881
2028	5,881
Thereafter	79,470
Total	<u>\$ 226,744</u>

Loans receivables are evaluated on an individual basis. When management determines that the borrower is experiencing financial difficulty at the reporting date, management determines the amount that is expected to be collected on the loan and an allowance for loan credit losses is deducted from the loan's amortized cost basis to present the net amount expected to be collected on the loan. Loan balances are charged off against the allowance when management believes the uncollectibility of the loan balance is confirmed. Expected recoveries do not exceed the aggregate of amounts previously charged-off and expected to be charged-off.

NOTE 4 LOANS RECEIVABLE (CONTINUED)

The change in the allowance for loan losses for the year December 31, 2023 is as follows:

Allowance for Loan Losses	
Balance, Beginning of year	\$ 66,676
Provision for Losses	5,243
Balance, End of Year	<u>\$ 71,919</u>

NOTE 5 PROPERTY

In 2017, the Administrative Office entered into an agreement for the sale of the Katella property to a non-related third party. The closing occurred in several phases the last of which occurred in 2023. The total proceeds of \$900,512 from the last closing was received and the loss of sale of properties of \$1,200,530 was included in the accompany consolidated financial statements.

NOTE 6 NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted for the following purposes or periods for the years ended December 31, 2023:

Subject to Expenditure for Specified Purpose:	
Frank Seaver Paragraph V Trust - for elementary and higher education	\$ 3,517,929
Louisa S. Janvier Fund - R&R clergy and lay workers	534,181
Black Ministries Fund	<u>35,103</u>
Total	4,087,213
Endowment:	
Subject to Endowment Spending Policy and Appropriation:	153,543
Perpetual in Nature	
Mr. & Mrs. Ledge T Smith Mem Fund	<u>6,802,774</u>
Total	<u>6,956,317</u>
Total Endowments	<u>6,956,317</u>
Total Net Assets with Donor Restrictions	<u>\$ 11,043,530</u>

NOTE 6 NET ASSETS WITH DONOR RESTRICTIONS (CONTINUED)

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by the donors as follows for the year ended December 31, 2023:

Satisfaction of Purpose Restrictions:	
Levering & Margaret Moore	\$ 390,627
Indian Work Fund	22,639
Black Ministries Fund	16,753
Total	<u>430,019</u>
Restricted-Purpose Spending-Rate Distributions and Appropriations:	
Feed and care for the poor	<u>335,000</u>
Total Net Assets Released from Donor Restrictions	<u><u>\$ 765,019</u></u>

NOTE 7 ENDOWMENT

The Administrative Office's endowment consists of an individual donor-designated fund to feed and care for the poor. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Administrative Office's management and investment of donor-restricted endowment funds is subject to the provisions of the Uniform Prudent Management of Institutional Funds Act (UPMIFA). The Administrative Office has interpreted California's enacted version of UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Administrative Office classifies as net assets with donor restrictions in perpetuity endowment: (a) the original value of the gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in net assets with donor restrictions in perpetuity endowment is classified as net assets restricted for specific purpose until those amounts are appropriated for expenditure by the Administrative Office in a manner consistent with the standard of prudence prescribed by UPMIFA.

NOTE 7 ENDOWMENT (CONTINUED)

Return Objectives and Risk Parameters

The Administrative Office's endowment funds are invested and managed according to their investment and spending policies. These policies attempt to provide a consistent return on assets in order to achieve a stable stream of funding for programs supported by the Administrative Office's endowment while seeking to maintain the purchasing power of the endowment assets. As a result, the endowment assets are invested in a manner that is intended to produce results that, over the long term, meet or exceed the spending policy rate plus the rate of inflation.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Administrative Office relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Administrative Office employs a diversified asset allocation to achieve its long-term return objectives within prudent risk constraints. These objectives are to be achieved by investment in, but not limited to, a diversified portfolio of publicly traded U.S. and international equities, fixed income securities, and other securities. These investments may be held in commingled or mutual funds. The investments are managed by the DIT. (See Note 3.)

Spending Policy and the Related Investment Objectives

The Administrative Office has a spending policy for appropriating for expenditure each year 4% of the endowment fund's average fair value over the preceding 12 quarters or fund duration where funds have been held for less than three years. The spending policy is subject to maintaining certain minimum fund balances. The spending policy is consistent with the Administrative Office's objectives to maintain the purchasing power of the endowment assets held in perpetuity, as well as to provide additional real growth through new gifts and investment return. In establishing this spending policy, the Administrative Office considered the long-term expected return on its endowment. Accordingly, over the long term, the Administrative Office expects the current spending policy to allow its endowment to grow sufficiently to preserve or increase the purchasing power of its endowments.

NOTE 7 ENDOWMENT (CONTINUED)

Changes in endowment net assets are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment Net Assets - December 31, 2022	-	6,404,491	6,404,491
Contributions	-	45,000	45,000
Investment Return, Net	-	841,826	841,826
Amounts appropriated for expenditure	-	(335,000)	(335,000)
Endowment Net Assets - December 31, 2023	<u>\$ -</u>	<u>\$ 6,956,317</u>	<u>\$ 6,956,317</u>

NOTE 8 RELATED PARTY TRANSACTIONS WITH THE DIOCESE

The Administrative Office provided grants and disbursements to the Diocese for the following purposes:

Diocesan operations	\$ 479,710
Missions	290,000
Seminary scholarships	16,046
Higher education	25,000
Total	<u>\$ 810,756</u>

Certain facilities and administrative services expenses common to the Administrative Office and the Dioceses are shared under a formula, which is reviewed annually. At December 31, 2023, \$221,984 was due to the Diocese for shared services expenses. The Diocese is acting as custodian of the construction funds on behalf of the Administrative Office, \$276,096 is recorded as due from the Diocese in 2023 (Note 9).

NOTE 9 LEASE

As of December 31, 2023, \$276,096 is recorded as held for construction to be used to finance the construction of the Santa Angelina Senior Community social hall and renovation of the Church of the Blessed Sacrament alongside the affordable housing complex, under the agreement with National Community Renaissance of California (NCRC). The Diocese is acting as custodian of these funds, \$276,096 is recorded as due from the Diocese in 2023, and approves payment to be made to NCRC on the Administrative Office's behalf. The construction is to be completed in 2024.

The Administrative Office leases building and land under noncancelable agreement expiring through August 2023. Rental income totaled approximately \$45,000 was received under the non-cancellable lease agreement.

