



Report of Independent Auditors and
Consolidated Financial Statements with
Supplementary Information

**Central Administrative Office of the
Roman Catholic Diocese of San
Jose and Affiliate**

June 30, 2014 and 2013

MOSS ADAMS_{LLP}

Certified Public Accountants | Business Consultants

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REPORT OF INDEPENDENT AUDITORS

To the Most Reverend Patrick J. McGrath
The Roman Catholic Bishop of San Jose and Affiliate

Report on Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Central Administrative Office of the Roman Catholic Diocese of San Jose and affiliate, (a California nonprofit public benefit corporation), which comprise the consolidated statement of financial position as of June 30, 2014, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Central Administrative Office of the Roman Catholic Diocese of San Jose and affiliate as of June 30, 2014, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Adjustments to Prior Period Consolidated Financial Statements

The consolidated financial statements of Central Administrative Office of the Roman Catholic Diocese of San Jose and affiliate as of and for the year ended June 30, 2013, before restatement, were audited by other auditors whose report thereon, dated October 28, 2013, expressed an unmodified opinion on those financial statements. As discussed in Note 19 to the consolidated financial statements, Central Administrative Office ("CAO") of the Roman Catholic Diocese of San Jose restated its 2013 consolidated financial statements to record an immaterial recovery from the CAO's insurance carrier.

As part of our audit of the 2014 consolidated financial statements, we also audited the immaterial adjustments to the 2013 consolidated financial statements described in Note 19 that were applied to restate the 2013 consolidated financial statements. In our opinion, due to their immaterial nature, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the 2013 consolidated financial statements of the Central Administrative Office of the Roman Catholic Diocese of San Jose and affiliate other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2013 consolidated financial statements as a whole.

A handwritten signature in black ink that reads "Moss Adams LLP". The signature is written in a cursive, flowing style.

San Francisco, California
October 30, 2014

CONSOLIDATED FINANCIAL STATEMENTS

**THE ROMAN CATHOLIC DIOCESE OF SAN JOSE,
CENTRAL ADMINISTRATIVE OFFICE
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30, 2014 and 2013**

	<u>June 30, 2014</u>	<u>Restated June 30, 2013</u>
ASSETS		
Cash and cash equivalents	\$ 41,054,101	\$ 40,330,253
Marketable securities	52,363,115	30,766,470
Receivables		
Receivables from parishes and institutions (net of allowance for doubtful accounts of \$548,134 in 2014 and \$621,019 in 2013)	2,010,887	601,141
Pledges (net of allowance for doubtful accounts and valuation reserves of \$49,319 in 2014 and \$49,768 in 2013)	1,692,855	1,718,893
Other (net of allowance for doubtful accounts and valuation reserves of \$852,670 in 2014 and \$1,221,837 in 2013)	6,457,315	6,181,770
Deposits and prepaid expenses	406,981	621,033
Inventory	8,168,520	8,650,900
Loans receivable from parishes and institutions in Deposit and Loan Fund (net of allowance for doubtful accounts and valuation reserves of \$1,852,944 in 2014 and \$2,226,717 in 2013)	31,814,143	23,443,163
Debenture issuance costs (net of accumulated amortization of \$47,405 in 2014 and \$33,861 in 2013)	358,923	372,468
Marketable securities held for long-term purposes	4,236,015	4,337,069
Investment in real estate	232,072	232,072
Assets held in trust	9,047,715	8,730,738
Land, buildings and equipment (net of accumulated depreciation of \$18,018,941 in 2014 and \$22,541,101 in 2013)	51,338,377	58,165,123
Total Assets	<u>\$ 209,181,019</u>	<u>\$ 184,151,093</u>
LIABILITIES & NET ASSETS		
Liabilities		
Accounts payable	\$ 1,514,513	\$ 1,393,638
Pledges payable to parishes	2,109,018	1,720,980
Accrued liabilities	28,614,599	28,575,336
Deposits payable - Parishes	36,538,431	37,207,223
Debentures payable (including SWAP liability of \$4,316,042 in 2014 and \$4,494,110 in 2013)	23,161,042	24,127,110
Notes payable	619,000	685,948
Trust assets held for Parish	3,256,982	2,921,106
Held for Parishes/Institutions	28,501,530	16,115,248
Deferred revenue	19,550,969	18,118,939
Total Liabilities	143,866,084	130,865,528
Net Assets		
Unrestricted		
Undesignated	14,230,472	10,375,163
Designated	11,700,471	11,744,780
Designated-Cemetery long-term care	9,906,190	9,217,643
Total unrestricted assets	35,837,133	31,337,586
Temporarily restricted	25,241,787	17,610,910
Permanently restricted	4,236,015	4,337,069
Total net assets	65,314,935	53,285,565
Total liabilities and net assets	<u>\$ 209,181,019</u>	<u>\$ 184,151,093</u>

See accompanying notes.

**THE ROMAN CATHOLIC DIOCESE OF SAN JOSE,
CENTRAL ADMINISTRATIVE OFFICE
CONSOLIDATED STATEMENTS OF ACTIVITIES
Years Ended June 30, 2014 and 2013**

	2014				Restated 2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues								
Gifts, bequests, and collections	\$ 4,924	\$ 6,125,211	\$ 406,402	\$ 6,536,537	\$ 1,761,038	\$ 11,271,647	\$ 2,100	\$ 13,034,785
Fees and expense reimbursement	3,339,658	-	-	3,339,658	3,284,335	-	-	3,284,335
Diocesan assessment	3,082,668	-	-	3,082,668	3,048,984	-	-	3,048,984
Education income	1,023,108	-	-	1,023,108	4,812,268	-	-	4,812,268
Rental income	569,925	-	-	569,925	502,778	-	-	502,778
Investment income	2,191,776	2,435,908	-	4,627,684	1,365,791	1,217,276	112,361	2,695,428
Interest income from loans	847,213	-	-	847,213	756,262	-	-	756,262
Cemetery revenues	7,054,930	-	-	7,054,930	6,125,919	-	-	6,125,919
Insurance premium income	24,448,762	-	-	24,448,762	22,417,284	-	-	22,417,284
Newspaper income	463,199	-	-	463,199	471,102	-	-	471,102
Grant income	428,300	5,334,581	-	5,762,881	551,272	-	-	551,272
Other income	29,708	-	-	29,708	40,358	-	-	40,358
Subtotal revenues from operations	43,484,171	13,895,700	406,402	57,786,273	45,137,391	12,488,923	114,461	57,740,775
Net assets released from restrictions and reclassification (See Note 10)	5,870,444	(5,870,444)	-	-	5,740,205	(5,740,205)	-	-
Total revenues	49,354,615	8,025,256	406,402	57,786,273	50,877,596	6,748,718	114,461	57,740,775
Expenses								
Pastoral	4,626,944	-	-	4,626,944	4,642,360	-	-	4,642,360
Religious and personnel development	2,802,742	-	-	2,802,742	2,966,914	-	-	2,966,914
Education	1,626,361	-	-	1,626,361	4,624,599	-	-	4,624,599
Pension, priest retirement	394,107	-	-	394,107	1,493,366	-	-	1,493,366
Administration	3,083,260	-	-	3,083,260	4,543,924	-	-	4,543,924
Depreciation expense	1,469,931	-	-	1,469,931	1,735,137	-	-	1,735,137
Interest expense deposits	305,725	-	-	305,725	345,266	-	-	345,266
Interest expense notes and bonds	1,242,376	-	-	1,242,376	1,255,047	-	-	1,255,047
Insurance premiums and benefits	23,288,304	-	-	23,288,304	20,593,766	-	-	20,593,766
Newspaper expenses	555,422	-	-	555,422	517,557	-	-	517,557
Cemetery expenses	5,237,254	-	-	5,237,254	4,523,617	-	-	4,523,617
Fundraising expenses	918,138	-	-	918,138	1,008,902	-	-	1,008,902
Total expenses	45,550,564	-	-	45,550,564	48,250,455	-	-	48,250,455
Change in net assets from operations	3,804,051	8,025,256	406,402	12,235,709	2,627,141	6,748,718	114,461	9,490,320
Change in fair value of interest rate swap	178,068	-	-	178,068	1,813,358	-	-	1,813,358
Change in obligations for post-retirement benefits	(2,996,408)	-	-	(2,996,408)	6,017,295	-	-	6,017,295
Change in net assets	985,711	8,025,256	406,402	9,417,369	10,457,794	6,748,718	114,461	17,320,973
Net assets at the beginning of the year - Restated (Note 19)	31,337,586	17,610,910	4,337,069	53,285,565	20,830,077	10,862,192	4,222,608	35,914,877
Effect of prior period adjustment (Note 19)	-	-	-	-	49,715	-	-	49,715
Distribution of Holy Spirit School net assets (Note 1)	3,513,836	(394,379)	(507,456)	2,612,001	-	-	-	-
Net assets at the end of the year	<u>\$ 35,837,133</u>	<u>\$ 25,241,787</u>	<u>\$ 4,236,015</u>	<u>\$ 65,314,935</u>	<u>\$ 31,337,586</u>	<u>\$ 17,610,910</u>	<u>\$ 4,337,069</u>	<u>\$ 53,285,565</u>

See accompanying notes.

**THE ROMAN CATHOLIC DIOCESE OF SAN JOSE,
CENTRAL ADMINISTRATIVE OFFICE
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended June 30, 2014 and 2013**

	2014	Restated 2013
Cash flows from operating activities:		
Change in net assets	\$ 9,417,369	\$ 17,320,972
Change in fair value of rate swap	(178,068)	(1,813,358)
Change in obligations for post-retirement benefits and unfunded pension	2,996,408	(6,017,295)
	<u>12,235,709</u>	<u>9,490,319</u>
Change in net assets from operations	12,235,709	9,490,319
Adjustment to reconcile change in net assets to net cash from (used in) operating activities:		
Depreciation	1,469,931	1,735,137
Provision for losses on loans and receivables	(816,273)	(26,231)
Amortization of bond issuance costs	13,545	13,544
Investment gains	(4,119,430)	(2,294,056)
Accrued cost unfunded pension liability		
Contributions restricted for investment in permanent endowments	(406,402)	(114,461)
Changes in operating assets and liabilities:		
Receivables	(1,424,331)	(876,921)
Inventories	409,356	(272,741)
Deposits and prepaid expenses	(2,360,683)	(90,736)
Trust assets held for parish	(316,977)	(5,811,114)
Accounts payable and pledges payable	668,135	(22,393)
Accrued liabilities	623,984	577,090
Assets held in trust	335,876	1,482
Held for parishes and institutions	12,386,282	4,324,366
Deferred revenue	2,213,840	581,521
	<u>20,912,562</u>	<u>7,214,806</u>
Net cash from operating activities	20,912,562	7,214,806
Cash flows (used in) investing activities:		
Purchase of land, buildings and equipment	(2,177,649)	(7,504,135)
Net repayment (advances) for loans receivable	(8,095,342)	(2,150,594)
Repayment of interest receivable	98,135	(105,550)
Purchase of marketable securities	(18,471,081)	(4,731,162)
Proceeds from sale of marketable securities and receipt of funds for investment	587,465	1,366,518
	<u>(28,058,472)</u>	<u>(13,124,923)</u>
Net cash (used in) investing activities	(28,058,472)	(13,124,923)
Cash flows from financing activities:		
Deposits payable	(668,792)	6,016,947
Borrowings on bonds payable	9,683,347	3,000,000
Payments on notes and bonds payable	(788,000)	(937,373)
Bond SWAP collateral	-	2,030,000
Distribution of Holy Spirit School net assets (Note 1)	(763,199)	-
Contributions restricted for investment in permanent endowments	406,402	114,461
	<u>7,869,758</u>	<u>10,224,035</u>
Net cash from financing activities	7,869,758	10,224,035
Change in cash and cash equivalents	723,848	4,313,918
Cash and cash equivalents, beginning of year	40,330,253	36,016,335
Cash and cash equivalents, end of year	\$ 41,054,101	\$ 40,330,253
Supplemental disclosures for cash paid for:		
Interest	\$ 1,242,376	\$ 1,255,047
Taxes	\$ 1	\$ 1
Supplemental disclosures of non-cash operating and investing activities:		
Distribution of Holy Spirit School net assets (Note 1)		
Assets distributed	\$ 10,921,091	\$ -
Liabilities distributed	\$ (14,272,456)	\$ -

See accompanying notes.

**THE ROMAN CATHOLIC DIOCESE OF SAN JOSE,
CENTRAL ADMINISTRATIVE OFFICE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

NOTE 1 – ORGANIZATION

The Roman Catholic Bishop of San Jose, a California Corporation Sole, was incorporated on March 19, 1981, and commenced financial operations on July 1, 1981, as the Roman Catholic Diocese of San Jose ("Diocese").

The Diocese's affiliate, Catholic Family Insurance Services of the Diocese of San Jose, Inc. ("CFIS" or "affiliate") is a for-profit entity owned by the Roman Catholic Bishop of San Jose, a corporation sole, licensed to sell insurance products by the State of California Department of Insurance.

The aforementioned entities are collectively referred to as the Central Administrative Office ("CAO") within these notes to the consolidated financial statements

The consolidated financial statements include only those funds for which the CAO maintains direct operational control. All significant inter-organizational and interfund balances and transactions have been eliminated. Those entities not included in these statements are the parish churches, elementary and secondary schools, The Roman Catholic Welfare Corporation, The Catholic Community Foundation of Santa Clara County, Catholic Charities of Santa Clara County, The Roman Catholic Seminary Corporation of San Jose ("Seminary"), The Roman Catholic Bishop of San Jose Master Irrevocable Trust, Pastor of Our Lady of Refuge, an unincorporated religious association, the Cathedral Foundation, Jeanne d'Arc Manor, Giovanni Center, Charities Housing Development Corporation of Santa Clara County, San Tomas/Charities Housing Corporation, Sierra Vista/Charities Housing Corporation, Sunset Housing Corporation, Stoney Pine, St. Katharine Drexel Pious Foundation, and the Roman Catholic Communications Corporation of the Bay Area/Catholic Telemedia Network.

The primary sources of revenue for the CAO are donations through the Annual Appeal, assessment on Parish offertory revenue, cemetery plot sales, tuition, reimbursements, premiums and fees.

Following is a description of the fund groups included in net assets:

Unrestricted net assets – This net asset class is not subject to donor-imposed stipulations. The following funds have unrestricted net assets:

Current Funds

Operating fund – This fund contains the unrestricted resources available for the support of the CAO and resources held for parishes and institutions. This includes the land, buildings and equipment held for use by the CAO, St. Joseph's Cathedral and sites held for sale and for future parishes and institutions. The operating fund also holds funds raised and spent for acquisition of sites for a future parish and high school. A portion of unrestricted net assets of the operating fund has been designated for certain initiatives. The CAO does not imply a time restriction on gifts of long-lived assets. Since 2009 the operations of the Newspaper are included in the Operating Fund.

Service Funds

Payroll fund – This fund contains resources held by the CAO to operate a central payroll and human resources system for parishes, schools and institutions. They are billed for their respective shares of the periodic payrolls and the system's costs. This fund distributes monies for unemployment insurance of Diocesan employees.

Benefit fund – This fund collects and disburses monies for employee benefit programs.

Comprehensive insurance fund – This fund collects and disburses monies for liability, general property and workers' compensation insurance. The net assets are designated for potential claims.

Cemetery fund – The activities of the Roman Catholic Cemeteries of San Jose are maintained in this fund. Amounts set aside for perpetual cemetery care are designated as funds functioning as long-term care in the unrestricted net asset category. This fund consolidates the activities of CFIS.

**THE ROMAN CATHOLIC DIOCESE OF SAN JOSE,
CENTRAL ADMINISTRATIVE OFFICE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

Employee loan fund – This fund has been established for loans to employees and priests of the Diocese. At June 30, 2014 and 2013, the interest rate on loans was 5.0%. Since May 31, 2009, no new loans were being made from this fund pending revision of the loan approval and collection policies and procedures.

Endowment fund – The unrestricted portion of this fund may be used for any purpose. The majority of the fund is currently used for scholarships for high school and elementary school students in Catholic schools in the Diocese and for priest retirement and seminarian education.

Priest retirement fund – This fund has been established to provide support for retired priests. Specific assets have been designated for this purpose from parish payments.

Deposit and loan fund – This fund contains deposits held by the CAO for parishes and schools which are held for investment and/or loaned to other parishes and schools. At June 30, 2014 the effective rate was 0.30% to 1.30%, and at June 30, 2013 the effective rate was 0.55% to 1.50% depending on the term of the deposit. The interest rates applied to loans range from 2.25% to 5.0% as of June 30, 2014 and 2013, with some loans on non-accrual of interest.

The Deposit and Loan Fund had \$36,538,431 and \$37,207,223 of deposits from parishes and schools as of June 30, 2014 and 2013, respectively.

The source and term of deposits is shown in the following tables:

As of June 30, 2014	By Term			
	<1 Year	1-2 Years	6 Years	Total
Parishes	\$ 19,508,353	\$ 1,928,588	\$ 3,644,972	\$ 25,081,913
Schools	8,896,420	685,638	1,874,460	11,456,518
	<u>\$ 28,404,773</u>	<u>\$ 2,614,226</u>	<u>\$ 5,519,432</u>	<u>\$ 36,538,431</u>

As of June 30, 2013	By Term			
	<1 Year	1-2 Years	6 Years	Total
Parishes	\$ 20,628,907	\$ 2,855,645	\$ 3,689,480	\$ 27,174,032
Schools	7,730,537	675,634	1,627,020	10,033,191
	<u>\$ 28,359,444</u>	<u>\$ 3,531,279</u>	<u>\$ 5,316,500</u>	<u>\$ 37,207,223</u>

Fundraising fund – This fund has been established for general fundraising activities for the support of Diocesan general operations.

Holy Spirit School – Holy Spirit School (“School”), a Diocesan elementary school, is contained in this fund. The CAO has a substantial investment in the school and has an active oversight in monitoring the operations of the school. Because of this significantly closer affiliation with Holy Spirit School which became effective July 1, 2002, the consolidated financial statements of the School were combined with those of the CAO. The School had pledges receivable that were temporarily restricted due to time. In addition to unrestricted and temporarily restricted net assets, this fund also contained permanently restricted resources, the income from which is to be used for scholarships. All significant interfund balances and transactions have been eliminated.

**THE ROMAN CATHOLIC DIOCESE OF SAN JOSE,
CENTRAL ADMINISTRATIVE OFFICE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

Effective July 1, 2013, the consolidated financial statements of the School, now a member of the St. Katharine Drexel Initiative, will be consolidated with that entity and no longer with the CAO. All assets and liabilities were transferred to St. Katharine Drexel Initiative. The assets and liabilities that were transferred to St. Katherin Drexel Initiative effective July 1, 2013, were as follows:

Assets distributed:

Cash and cash equivalents	\$ 739,365
Marketable securities	23,834
Receivables from parishes and institutions	201,119
 Pledges	 5,708
Other receivable	750
Deposits and prepaid expenses	2,574,735
Inventory	73,024
Marketable securities held for long term purposes	507,456
Land, buildings and equipment	7,534,464
 Total assets distributed	 <u><u>\$ 11,660,455</u></u>

Liabilities distributed:

Accounts payable	\$ 159,222
Accrued liabilities	3,581,129
Debentures payable	9,750,295
Deferred revenue	781,810
 Total liabilities distributed	 <u><u>\$ 14,272,456</u></u>

Net assets distributed	<u><u>\$ (2,612,001)</u></u>
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Temporarily Restricted Net Assets – This net asset class includes gifts for which donor imposed purpose restrictions or time restrictions have not been met.

Operating fund – In addition to unrestricted net assets, this fund also includes uncollected donor bequests and trusts and other donor-restricted gifts which are classified as temporarily restricted net assets.

Annual appeal fund – This fund contains the operations of the Annual Diocesan Appeal. The annual appeal funds raised in February through June are treated as temporarily restricted revenues and are released from restriction in the following year, which is the period for which the funds are collected from the parishes and budgeted for use in operations. Associated fund raising costs are expensed as incurred.

Endowment fund – In addition to unrestricted, designated and permanently restricted net assets, this fund also contains resources that are temporarily restricted in accordance with trust or other donor agreements.

Permanently Restricted Net Assets – This net asset class consists of assets, the use of which has been restricted for investment in perpetuity. The income from these assets is available for either general operations or specific programs as specified by the donor.

Endowment fund – This fund is currently used for scholarships for high school and elementary school students in Catholic schools in the Diocese and for priest retirement and seminarian education.

Also included in the consolidated Statement of Financial Position is the following fund:

Pooled investment fund – This fund contains investments of the CAO, as well as those investments held for parishes and institutions. Note that the CAO investments in the Fund are shown in each of the separate CAO funds. Ownership by specific funds or entities is accounted for utilizing a pooling method based on market values. Revenues and expense of the pool are reflected as net asset changes in the fund or entity for which the assets are held.

**THE ROMAN CATHOLIC DIOCESE OF SAN JOSE,
CENTRAL ADMINISTRATIVE OFFICE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the CAO conform to U.S. Generally Accepted Accounting Principles (“GAAP”) applicable to religious organizations.

A summary of the significant accounting policies applied consistently in the preparation of the accompanying consolidated financial statements follows:

Fund accounting – The accounts of the CAO are maintained in accordance with the principles of fund accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds that are in accordance with specified activities or objectives. Accordingly, all financial transactions have been recorded by the fund group. However, for the consolidated financial statements, transactions are reported by the net asset categories described in Note 1.

Accrual basis – The consolidated financial statements of the CAO have been prepared on the accrual basis of accounting.

Principles of consolidation – The consolidated financial statements include the financial statements of the CAO and its affiliate. All material interorganization transactions and balances have been eliminated upon consolidation.

Cash and cash equivalents – All highly liquid debt instruments purchased with a maturity of three months or less are considered cash equivalents, and may include short-term commercial paper and repurchase agreements. The cash and cash equivalents balances held in financial institutions at June 30, 2014 and 2013, exceeded federal depository insurance coverage. The CAO has not experienced any losses in such accounts.

Revenue recognition – The CAO records earned revenue on the accrual basis. Diocesan Assessments paid by parishes are based on parish collections for the second prior fiscal year. Diocesan Assessments, insurance and other fees are billed to the parishes and schools by the CAO on a monthly basis. Revenue is recognized when billed.

Sales of developed cemetery property and at-need services and merchandise are recognized when the contracts are executed and the property and services are delivered. Revenues and costs associated with cemetery property sold on a pre-developed basis are deferred and recognized in accordance with the retail land sales provisions of GAAP. This method generally provides for the recognition of revenue in the period in which the customer's cumulative payments exceed 10% of the contract price related to the real estate.

Contributions and pledges – Contributions are recognized as pledges receivable in the consolidated Statements of Financial Position at the time a donor makes a promise to give to the CAO that is, in substance, unconditional. Contributions are reported as temporarily restricted support if they are received with donor stipulations that limit the use of the donation. When the donor restriction expires, stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Consolidated Statements of Activities as net assets released from restriction.

Marketable securities – Marketable securities are presented in the consolidated financial statements at fair value based on quoted market prices provided by the investment brokers. Dividends and interest are accrued as earned and recorded as unrestricted revenue unless income is restricted by the donor. Any unrealized gains or losses for the current period are reported as a component of investment income (loss).

Derivatives – The CAO holds an interest rate swap agreement that was entered into to manage interest rate exposure on debt. As a not-for-profit organization, the CAO is not allowed to use cash flow hedge accounting. In accordance with authoritative guidance, the interest rate swap agreements are recorded in the consolidated Statements of Financial Position at fair value with the related gains and losses reflected in the statements of activities in the period of change.

Fair value measurements – GAAP defines fair value as “the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.”

GAAP also establishes a hierarchy to prioritize the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest ranking to fair values determined using unadjusted quoted prices in active markets for identical assets (Level 1) and the lowest ranking to fair values determined using methodologies and models with unobservable inputs (Level 3).

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Observable inputs are those market participants would use in pricing the asset based on market data obtained from sources independent of the CAO. Unobservable inputs reflect the CAO's assumption about the inputs market participants would use in pricing the asset or liability developed based on the best information available under the circumstances.

The fair value hierarchy is categorized into three levels based on the inputs as follows:

Level 1 – Values are unadjusted quoted prices for identical assets and liabilities in active markets accessible at the measurement date.

Level 2 – Inputs include quoted prices for similar assets or liabilities in active markets, quoted prices from those willing to trade in markets that are not active, or other inputs that are observable or can be corroborated by market data for the term of the instrument. Such inputs include market interest rates and volatilities, spreads and yield curves.

Level 3 – Certain inputs are unobservable (supported by little or no market activity) and significant to the fair value measurement. Unobservable inputs reflect the CAO's best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

The CAO recognizes transfers into and out of levels within the fair value hierarchy at the end of the reporting period. There were no transfers between levels in the years ended June 30, 2014 and 2013.

Fair Value of Financial Instruments – The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash and equivalents – The carrying amount approximates fair value because of the short maturity of those instruments.

Receivables – Receivables expected to be received in more than one year are reported at the present value of estimated cash flows, using rates commensurate with the risk involved at the date the receivable originates.

Marketable securities – The fair value of investments is based on quoted market prices for those or similar assets. The CAO holds various investments which may include mutual funds, bonds, corporate stock, and fixed income. These securities are exposed to various risks such as interest rate, market and credit. Due to the level of risk associated with these securities and the level of uncertainty related to changes in value, it is a least reasonably possible that changes in the various risk factors will occur in the near term that could materially affect the value of these investments reported in the accompanying consolidated financial statements.

Loans – In the case of interest bearing loans, interest is charged at variable market rates. For non-interest bearing loans, the face value has been discounted, using rates for similar loans, to reflect the net present value of these loans.

Notes payable – The carrying value of notes payable approximates the fair value, as the carrying value is calculated using discounted cash flow analyses, based on the CAO's incremental borrowing rate.

Interest rate SWAP – The interest rate SWAP is valued by a third party using inputs that are observable or that can be corroborated by observable market data, and therefore, are classified as Level 2 of the valuation hierarchy.

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Fair Value Measurements

The fair values of assets and liabilities measured on a recurring basis at June 30, 2014, are:

	Total	Level 1	Level 2	Level 3
Securities (Note 3)	\$ 56,599,130	\$ 56,599,130	\$ -	\$ -
Interest rate swap	(4,316,042)	-	(4,316,042)	-
Charitable remainder trust	212,179	-	-	212,179
Land charitable remainder trust	1,234,465	-	-	1,234,465
Beneficial interests	297,405	-	-	297,405
	<u>\$ 54,027,137</u>	<u>\$ 56,599,130</u>	<u>\$ (4,316,042)</u>	<u>\$ 1,744,049</u>

The fair values of assets and liabilities measured on a recurring basis at June 30, 2013, are:

	Total	Level 1	Level 2	Level 3
Securities (Note 3)	\$ 35,103,539	\$ 35,103,539	\$ -	\$ -
Interest rate swap	(4,494,110)	-	(4,494,110)	-
Charitable remainder trust	197,210	-	-	197,210
Land charitable remainder trust	1,149,300	-	-	1,149,300
Beneficial interests	275,618	-	-	275,618
	<u>\$ 32,231,557</u>	<u>\$ 35,103,539</u>	<u>\$ (4,494,110)</u>	<u>\$ 1,622,128</u>

Use of estimates – In preparing the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, as well as revenues and expenses during the reporting period. Actual results could differ from those estimates.

The CAO's allowances for present value adjustments and doubtful receivables, pledges and loans totaling \$3,303,067 for 2014 and \$4,119,341 for 2013 are particularly sensitive estimates. The determination of the balances in these accounts is based on an analysis of the receivables and loans and reflects amounts which, in management's judgment, are adequate to provide for potential losses after giving consideration to the character of the receivables and loan portfolio, current economic conditions, past collection experience and such other factors that deserve current recognition in estimating losses.

Trade receivables – Trade receivables are principally generated from the operations of the Cemeteries and from billings from the CAO to the various parishes and schools within the Diocese for insurances, payroll, pension and other costs. The CAO provides an allowance for doubtful accounts provision for those receivables in excess of 90 days past due and considers the financial position and payment history of the parish or school when estimating the allowance for doubtful accounts. Trade receivables are non-interest bearing and unsecured. Receivables are determined to be past due based on contractual terms. Receivables are unsecured and non-interest bearing.

Other receivables – Included in other receivables are employee loans receivable, Valley Catholic Newspaper receivables, and beneficial interests in charitable remainder unitrusts and other trusts.

In regards to the beneficial interests, the COA is not the trustee for those trusts. The asset of one of the trusts consists of real property, and the trust provides for the payment of the income on the property to the donor over the donor's lifetime. At the end of the trust's term, the property will be transferred to the CAO. Assets held in the trusts are recorded at estimated fair value in the amounts of \$1,744,049 and \$1,622,128 at June 30, 2014 and 2013, respectively.

Loans receivable – Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are reported at their outstanding principal, net of the allowance for present value discount and loan losses. Interest on loans is calculated by using the simple interest method on the balance of the outstanding principal. These loans are unsecured. However, the CAO has the ability to collect all unpaid amounts from the proceeds of sale of parish or school property upon their disposal.

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A loan is identified as impaired when it is probable that interest and principle will not be collected according to the contracted terms of the loan agreement. The accrual of interest on impaired loans is discontinued when, in management's opinion, the borrower may be unable to meet payments as they become due. Interest income is subsequently recognized only to the extent cash payments are received and where the future collection of principle is probable.

Allowance for loan losses – The allowance for loan losses is established through a provision for loan losses charged to expense. Loans are charged against the allowance for loan losses when management believes that the collectability of the principal is unlikely. The allowance is an amount that management believes will be adequate to absorb losses inherent in existing loans and commitments to extend credit, based on evaluations of the collectability and prior loss experience of loans and commitments to extend credit. The evaluation takes into consideration such factors as changes in the nature and volume of the portfolio, the discounted value of loans for those loans on a zero interest rate, overall portfolio quality, loan concentrations, specific problem loans, commitments and current and anticipated economic conditions that may affect the borrowers' ability to pay.

Inventories – Cemetery inventories consist of real property, graves, crypts, cremains, niches, landscaping and irrigation surrounding the sites and site development. Inventories are valued at the lower of cost (based on average cost) or market.

Inventory at Holy Spirit School consists of Scrip which is sold for fundraising. Scrip is valued at cost.

Land, buildings and equipment – Land, buildings and equipment are recorded at cost, or, in the case of cemetery properties acquired directly from the Archdiocese of San Francisco, at approximate market value at the time of transfer. Depreciation expense is calculated principally on the straight-line method over the estimated useful lives of the assets. Maintenance and repairs which neither materially add to the value of the property nor appreciably prolong its life are charged to expense as incurred.

The CAO will capitalize fixed assets when the asset purchased, built, or leased has a useful life of one year or more, and the acquisition cost or manufactured cost of the asset is \$5,000 or more. Multiple assets acquired in one transaction whose cost individually is less than \$5,000 but in aggregate is greater than \$25,000 are also capitalized.

Deferred revenue – Consists principally of rental income, which is recognized on a straight-line basis over the term of the lease, and pre-need cemetery sales of future goods and services.

Tax exempt status – The Diocese has been granted tax exempt status by the Internal Revenue Service and the California Franchise Tax Board under code Sections 501(c)(3) and 23701d, respectively. The Diocese has received a ruling that it is not a private foundation. However, it is subject to tax on unrelated business income resulting from building lease income and newspaper advertising income received.

The affiliate is a for-profit taxable entity that is required to file form 1120 with the Internal Revenue Service.

Accounting for income taxes – uncertain tax positions – GAAP provides accounting and disclosure guidance about positions taken by an organization in its tax returns that might be uncertain. Management has considered its tax positions and believes that all of the positions taken in its federal and state exempt organization returns are more likely than not to be sustained upon examination.

The Diocese's federal Exempt Organization Business Income Tax Returns (Form 990-T) for the years ended June 30, 2012 through 2014 are subject to examination by the Internal Revenue Service, generally for three years after they are filed. The Diocese's state returns (Form 109) for the years ended June 30, 2011 through 2014, are subject to examination by the California Franchise Tax Board, generally for four years after they are filed.

Comparative information – Certain amounts reflected in the CAO's prior year consolidated financial statements have been reclassified in these consolidated financial statements to reflect current year presentation. These reclassifications have no effect on net assets or changes in net assets.

Assets held for others – The CAO has been named trustee for two unitrusts. The donor is the income beneficiary until death, at which time the property transfers to the designated beneficiary. The CAO is not the beneficiary (diocesan parishes or schools are) and, therefore, the CAO records an asset and a corresponding liability.

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Bond issuance costs – Costs incurred in connection with the refinancing of previously issued debentures are being amortized over the remaining life of the refinanced instrument.

NOTE 3 – MARKETABLE SECURITIES

Marketable securities at June 30 consist of the following:

	2014	2013
Mutual funds	\$ 54,392,508	\$ 33,067,949
Bonds	1,082,039	1,184,261
Corporate stocks	830,345	761,455
Other	294,238	89,874
	<u>\$ 56,599,130</u>	<u>\$ 35,103,539</u>
	2014	2013
Interest and dividends	\$ 773,136	\$ 538,181
Realized (losses) gains, net	(2,631)	17,307
Unrealized gains, net	6,923,947	3,376,675
Total income	7,694,452	3,932,163
Portfolio manager and custodian fees	(71,111)	(54,561)
Net income from investment pool activities	7,623,341	3,877,602
Investment income-cash management and other	113,410	89,171
Total income from investment activities	7,736,751	3,966,773
Less income attributed to custodian and similar funds:		
Interest and dividends (net of manager fees of \$33,593 in 2014 and \$23,124 in 2013)	304,157	185,247
Realized gains	393	3,478
Unrealized gains	2,804,516	1,082,619
Total income attributed to custodian and similar funds	3,109,067	1,271,345
Total earnings from investment activities excluding custodian and similar funds	<u>\$ 4,627,684</u>	<u>\$ 2,695,428</u>

NOTE 4 – PLEDGES RECEIVABLE AND PAYABLE

Pledges receivable and payable are as follows at June 30, 2014:

	Annual Appeal	Holy Spirit School	Total
Due within one year	\$ 1,742,174	\$ -	\$ 1,742,174
Less discount for present value	-	-	-
Less allowance for doubtful accounts	(49,319)	-	(49,319)
Net pledges receivable	<u>\$ 1,692,855</u>	<u>\$ -</u>	<u>\$ 1,692,855</u>
Annual campaign pledges payable from CAO to Parishes as of June 30, 2014	<u>\$ 2,109,018</u>	<u>\$ -</u>	<u>\$ 2,109,018</u>

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Pledges receivable and payable are as follows at June 30, 2013:

	<u>Annual Appeal</u>	<u>Holy Spirit School</u>	<u>Total</u>
Due within one year	\$ 1,762,503	\$ 6,158	\$ 1,768,661
Less discount for present value	-	(141)	(141)
Less allowance for doubtful accounts	<u>(49,319)</u>	<u>(308)</u>	<u>(49,627)</u>
Net pledges receivable	<u>\$ 1,713,184</u>	<u>\$ 5,709</u>	<u>\$ 1,718,893</u>
Annual campaign pledges payable from CAO to Parishes as of June 30, 2013	<u>\$ 1,720,980</u>	<u>\$ -</u>	<u>\$ 1,720,980</u>

Pledges receivable are recorded after discounting the future cash flows to present value using discount rates of 5%.

Pledges payable will be paid within one year.

NOTE 5 – LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES (DEPOSIT AND LOAN FUND)

Collections of loans receivable are scheduled as follows:

Year ended June 30,

2015	\$ 1,177,545
2016	1,162,862
2017	1,160,957
2018	2,229,180
2019	1,096,232
Thereafter	<u>26,840,311</u>
Subtotal	33,667,087
Less allowance for loan losses and valuation reserves	<u>(1,852,944)</u>
Total loan receivable, net	<u>\$ 31,814,143</u>

Year ended June 30,

2015	\$ 3,689,755
2016	706,694
2017	705,694
2018	705,638
2019	1,804,036
Thereafter	<u>18,058,063</u>
Subtotal	25,669,880
Less allowance for loan losses and valuation reserves	<u>(2,226,717)</u>
Total loan receivable, net	<u>\$ 23,443,163</u>

The CAO advances funds for construction projects to parishes and schools but does not set terms of repayment until these projects are complete. As of June 30, 2014, there were \$5,743,446 of construction loan commitments with \$2,644,755 of outstanding balances and as of June 30, 2013, there were \$6,728,615 of construction loan commitments with no outstanding balances.

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Allowances for loan losses are as follows:

	2014	2013
Balance, beginning of year	\$ 2,226,717	\$ 2,442,347
Present value adjustment	(109,439)	(496,674)
Provision for loan losses	(264,334)	281,044
Balance, end of year	<u>\$ 1,852,944</u>	<u>\$ 2,226,717</u>

NOTE 6 – LAND, BUILDINGS AND EQUIPMENT

Land, building and equipment consist of the following at June 30, 2014:

	Operating Fund	Cemetery Fund	Priest Retirement Fund	Total
Buildings and improvements	\$ 33,074,818	\$ 5,808,795	\$ -	\$ 38,883,613
Leasehold improvements	-	-	407,388	407,388
Furniture and fixtures	699,125	440,780	-	1,139,905
Vehicles	33,838	949,518	-	983,356
Equipment	269,701	744,602	-	1,014,303
Other improvements	2,875,995	160,944	-	3,036,939
	<u>36,953,477</u>	<u>8,104,639</u>	<u>407,388</u>	<u>45,465,504</u>
Less accumulated depreciation	<u>(12,474,065)</u>	<u>(5,137,487)</u>	<u>(407,388)</u>	<u>(18,018,940)</u>
	24,479,412	2,967,152	-	27,446,564
Land				
Sites for future parishes and institutions	10,606,604	-	-	10,606,604
Land under operating leases	613,588	-	-	613,588
Operating properties	5,168,858	3,153,427	-	8,322,285
	<u>16,389,050</u>	<u>3,153,427</u>	<u>-</u>	<u>19,542,477</u>
Construction in progress	4,349,336	-	-	4,349,336
Total land, buildings and equipment	<u>\$ 45,217,798</u>	<u>\$ 6,120,579</u>	<u>\$ -</u>	<u>\$ 51,338,377</u>

Land, building and equipment consist of the following at June 30, 2013:

	Operating Fund	Cemetery Fund	Priest Retirement Fund	Holy Spirit School	Total
Buildings and improvements	\$ 33,074,819	\$ 5,173,390	\$ -	\$ 11,658,291	\$ 49,906,500
Leasehold improvements	-	-	407,388	-	407,388
Furniture and fixtures	699,118	416,982	-	1,776,324	2,892,424
Vehicles	34,626	949,518	-	-	984,144
Equipment	223,844	739,591	-	-	963,435
Other improvements	873,206	204,943	-	-	1,078,149
	<u>34,905,613</u>	<u>7,484,424</u>	<u>407,388</u>	<u>13,434,615</u>	<u>56,232,040</u>
Less accumulated depreciation	<u>(11,176,442)</u>	<u>(4,989,436)</u>	<u>(407,388)</u>	<u>(5,967,835)</u>	<u>(22,541,101)</u>
	23,729,171	2,494,988	-	7,466,780	33,690,939
Land					
Sites for future parishes and institutions	10,606,604	-	-	-	10,606,604
Land under operating leases	613,588	-	-	-	613,588
Operating properties	5,168,858	3,556,549	-	67,684	8,793,091
	<u>16,389,050</u>	<u>3,556,549</u>	<u>-</u>	<u>67,684</u>	<u>20,013,283</u>
Construction in progress	4,401,347	59,554	-	-	4,460,901
Total land, buildings and equipment	<u>\$ 44,519,568</u>	<u>\$ 6,111,091</u>	<u>\$ -</u>	<u>\$ 7,534,464</u>	<u>\$ 58,165,123</u>

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NOTE 7 – SECURED DEBENTURES

In December 2010 the Diocese entered into an agreement with the California Municipal Finance Authority for a loan of up to \$14,880,000 for the finance and refinance of projects relating to Diocesan schools. Initially a portion of the proceeds were used to refinance a portion of the taxable variable rate debt incurred to construct the School and to acquire a portion of the property set aside for a new high school in Morgan Hill, California. An additional \$3,000,000 available under this facility to complete the acquisition of the land for the high school was borrowed in fiscal year 2013. No amounts were used for purposes not relating to the schools. The issuance of the bonds under this agreement were subject to a collateralized bank indenture. The terms of the Indenture require the Diocese to satisfy certain covenant agreements and not to enter into additional guarantees or loans without prior approval of the bank.

In 2005 the Diocese had entered into a taxable secured letter of credit and debenture agreement with a bank that refinanced an early bond agreement and allowed the Diocese to borrow an additional \$5,500,000 that was used to purchase a fully leased investment office property that it now uses for its own offices and for offices leased to unrelated parties. In 2010 the \$19,080,000 outstanding balance of the bonds of the 2005 financing was partially redeemed with the tax-exempt financing in the amount of \$11,880,000. The amount of tax-exempt financing was initially calculated to be no more than 85% of the cost of the facilities at the School and of the land purchased for a high school in south Santa Clara County. All the outstanding bonds were acquired by the same bank that is financing the tax-exempt facility. As of June 30, 2014, there are \$5,775,000 of taxable bonds outstanding and \$13,070,000 of tax-exempt bonds outstanding.

Covenants – The CAO of the Diocese must comply with covenants including maintenance of specific ratios and timely submission of audited consolidated financial statements.

Aggregate maturities of the unsecured debentures are as follows:

For the years ending June 30:

2015	\$ 788,000
2016	788,000
2017	788,000
2018	788,000
2019	788,000
Thereafter	<u>14,905,000</u>
Subtotal	<u>18,845,000</u>
Valuation of SWAP	<u>(4,316,042)</u>
Total debentures payable	<u>\$ 23,161,042</u>

In June 2006, the CAO entered into an interest rate SWAP (derivative) agreement for \$20,000,000 of the outstanding \$23,905,000 of bond indebtedness, exchanging a weekly floating London Interbank Offered Rate (LIBOR) for a fixed rate. While the differential was at par in 2006, the decrease in the LIBOR based rate at June 30, 2014, versus the fixed rate of 5.34% for the SWAP created a difference in value that needs to be recognized in these consolidated financial statements. The fair value (i.e., gain or loss) of the derivative agreement would be recorded as either an asset or liability in the consolidated Statements of Financial Position and the change in fair value recognized in the consolidated Statements of Activities. The derivative agreement is recognized on the CAO's consolidated financial statements as of June 30, 2014, because of the \$4,316,042 differential in values.

As part of the SWAP agreement with Wells Fargo Bank, when the SWAP liability exceeds \$4,500,000, a collateral deposit account is required. As of June 30, 2014 and 2013, no collateral deposit was required.

The bonds are secured by real property owned by the CAO.

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NOTE 8 – NOTES PAYABLE AND LINES OF CREDIT

Notes payable consist of the following at June 30:

	<u>2014</u>	<u>2013</u>
Non-interest bearing obligation to the Archdiocese of San Francisco, payable in annual installments of \$100,000 through 2020 and the balance due in 2021. The value of this note has been determined based on an imputed interest rate of 5.6%	<u>\$ 619,000</u>	<u>\$ 685,948</u>

Aggregate maturities of notes payable are as follows:

For the years ending June 30:

2015	\$ 100,000
2016	100,000
2017	100,000
2018	100,000
2019	100,000
Thereafter	<u>131,960</u>
Subtotal	631,960
Less amount representing imputed interest included above	<u>(12,960)</u>
Total note payable	<u>\$ 619,000</u>

NOTE 9 – RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following:

	<u>2014</u>	<u>2013</u>
Current Fund		
Operating (time and purpose restrictions)	\$ 7,346,816	\$ 7,203,105
Fundraising Fund		
Annual appeal programs and general operations (time restriction)	5,830,836	5,686,822
Holy Spirit School		
Scholarships (time and purpose restricted)	-	385,093
Programs (time and purpose restricted)	-	9,285
Endowment Fund - cumulative earnings		
Trust agreements and scholarships (purpose restrictions)	<u>12,064,135</u>	<u>4,326,605</u>
Total temporarily restricted net assets	<u>\$ 25,241,787</u>	<u>\$ 17,610,910</u>

Permanently restricted net assets are restricted to investment in perpetuity, the income from which is expendable to support the following at June 30:

	<u>2014</u>	<u>2013</u>
Priest retirement and seminarian education	\$ 811,190	\$ 811,190
Scholarships	<u>3,424,825</u>	<u>3,525,879</u>
Total permanently restricted net assets	<u>\$ 4,236,015</u>	<u>\$ 4,337,069</u>

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NOTE 10 – NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors. Net assets released from restrictions during 2014 and 2013 consisted of the following:

	2014	2013
Purpose restrictions accomplished	\$ 921,397	\$ 527,220
Reclassification of net assets	(599,718)	-
Time restrictions expired	5,548,765	5,212,985
Total restrictions released	<u>\$ 5,870,444</u>	<u>\$ 5,740,205</u>

NOTE 11 – ENDOWMENTS

The endowments of the CAO consist of seven funds established for scholarships for children in the primary and secondary Catholic Schools in the Diocese and for seminarian education and priest retirement. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor imposed restrictions.

Interpretation of Relevant Law

The CAO has interpreted the California version of the Uniform Prudent Management of Institutional Funds Act (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 CAO classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for the expenditure by the CAO in a manner consistent with the standard of prudence prescribed by the California version of UPMIFA. In accordance with the California version of UPMIFA, the CAO considers the following factors in making a determination to appropriate or accumulate donor-restricted funds:

1. Duration and preservation of the fund
2. The purposes of the organization and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the organization
7. The investment policies of the organization

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Endowment Net Asset Composition by Type of Fund

	June 30, 2014			
	Unrestricted Designated	Temporarily Restricted	Permanently Restricted	Total
Board designated	\$ 2,103,275	\$ -	\$ -	\$ 2,103,275
Donor restricted	-	11,916,462	4,236,015	16,152,477
Total Funds	<u>\$ 2,103,275</u>	<u>\$ 11,916,462</u>	<u>\$ 4,236,015</u>	<u>\$ 18,255,752</u>

	June 30, 2013			
	Unrestricted	Temporarily	Permanently	Total
Board designated	\$ 3,280,783	\$ -	\$ -	\$ 3,280,783
Donor restricted	-	4,720,984	4,337,069	9,058,053
Total Funds	<u>\$ 3,280,783</u>	<u>\$ 4,720,984</u>	<u>\$ 4,337,069</u>	<u>\$ 12,338,836</u>

Changes in Endowment Net Assets

	Unrestricted Designated	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets, June 30, 2012	\$ 1,955,234	\$ 3,466,975	\$ 4,222,608	\$ 9,644,817
Investment income/expenses	128,343	182,929	-	311,272
Investment appreciation	-	1,098,358	-	1,098,358
Contributions	1,321,762	429,292	114,461	1,865,515
Appropriations for expenditure	(124,556)	(456,570)	-	(581,126)
Endowment Net Assets, June 30, 2013	3,280,783	4,720,984	4,337,069	12,338,836
Investment income/expenses	(3,420)	209,232	-	205,812
Investment appreciation	-	2,215,839	-	2,215,839
Contributions	-	5,353,986	406,402	5,760,388
Appropriations for expenditure	(587,044)	(776,244)	-	(1,363,288)
Reclass for donor intent	(587,044)	587,044	-	-
Distribution of Holy Spirit School net assets (Note 2)	-	(394,379)	(507,456)	(901,835)
Endowment Net Assets, June 30, 2014	<u>\$ 2,103,275</u>	<u>\$ 11,916,462</u>	<u>\$ 4,236,015</u>	<u>\$ 18,255,752</u>

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or California version of UPMIFA requires the CAO to retain as a fund of permanent duration. These deficiencies would generally result from unfavorable fluctuations in the underlying value of the funds held for these accounts. In accordance with GAAP, the deficiencies of this nature are reported in unrestricted net assets. As of June 30, 2014 and 2013, none of the funds had deficiencies.

Return Objectives and Risk Parameters

The CAO has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets.

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Strategies Employed for Achieving Objectives

To satisfy its long-term and rate-of-return objectives, the CAO 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 CAO targets a diversified asset allocation and instructs its fund managers to follow the *Socially Responsible Investment Guidelines* as promulgated by the United States Council of Catholic Bishops.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The CAO has a policy of appropriating for distribution each year up to 5 percent of the endowment funds average fair value over the prior year. In establishing this policy the CAO considered the long-term expected return on its endowment. This policy is subject to periodic review and revision by the Diocesan Finance Council.

NOTE 12 – FUTURE MINIMUM RENTAL INCOME

In October 1987, the CAO entered into an 85 year lease which allowed the lessee to build and operate a continuing care retirement home on land owned by the CAO. First year base rent of \$480,000 was paid in October 1987. Base rent of \$600,000 was paid in October 1988, for the second year. Lease payments of \$7,180,000 were received during 1990. Lease payments of \$1,000,000 were received each October 1, from 1995 through 1999. The payments received in 1990 and later years are being recognized as income ratably (approximately \$142,800 annually) over the remaining term of the lease. Amounts to be recognized in future periods are recorded as deferred revenue. Deferred revenue associated with the lease was \$8,319,802 and \$8,460,217 at June 30, 2014 and 2013, respectively.

The CAO is the lessor of certain other rental properties. Future minimum rental income from long-term non-cancelable operating leases as of June 30, 2014 is as follows:

For the years ending June 30:

2015	\$	462,133
2016		427,074
2017		423,461
2018		385,835
2019		285,222
Thereafter		8,619,559
Total	\$	<u>10,603,284</u>

Rental income recognized for 2014 and 2013 was \$569,925 and \$502,778 respectively.

NOTE 13 – COMMITMENTS AND CONTINGENCIES

The CAO conducts its operations in leased facilities under operating leases, including the facilities used by Christ the King Parish, the Records and Archives Center, ILM, and the Clergy Retirement House. In addition to the minimum rental payments, the CAO must pay a proportionate share of the operating expenses of the facilities. Rent expense for the years ended June 2014 and 2013, was \$303,737 and \$289,689, respectively. The increase from the prior fiscal year is from the rental of space in a secure data facility to house Diocesan servers and related equipment.

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Future minimum rental payments are as follows (excluding operating expenses)

For the years ending June 30:

2015	\$	265,677
2016		164,468
2017		159,424
2018		125,694
2019		46,996
Total	\$	<u>762,259</u>

The CAO has entered into several construction agreements on behalf of various parishes and schools. At June 30, 2014, total commitments are \$15,724,117. The total amount expended as of June 30, 2014, on these commitments was \$13,744,370. All expenditures incurred with respect to these construction agreements are expenditures of the various parishes and schools.

The CAO is party to various other litigation matters in the normal course of business. Management believes that the resolution of these matters will not have a material adverse effect on the financial condition of the CAO.

The CAO is party to a transaction with HP Financial Services for the lease of computer equipment used for servers and storage and housed at a secure data center. The CAO is responsible for monthly payments of \$14,830 through August 2015.

NOTE 14 – POSTRETIREMENT BENEFITS OTHER THAN PENSIONS

The CAO sponsors a postretirement Medicare supplemental plan for retired priests who are eligible to receive Medicare. The plan pays individual premiums for each retired priest who is enrolled in a medicare Part F supplemental plan as well as individual premiums for a medicare Part D prescription drug plan. The plan also pays deductibles, co-pays and coverage gaps not covered by the prescription drug plan through a health reimbursement account. The plan also pays 90% of reasonable and customary charges for dental benefits, with a \$35 deductible and a maximum benefit of \$2,000 per year. The plan also pays vision benefits, with a \$25 deductible on eye exams. The plan also pays up to \$2,000 for a one-time reimbursement of hearing aid costs.

An actuary performs an analysis of per capita claims costs and individual premiums on a fiscal year basis for determining future plan costs.

The CAO uses the accrual method of accounting for postretirement benefits based on actuarially determined costs to be recognized over the period the employee provides service to the CAO. FASB Accounting Standard Codification (ASC) 715, (replaced SFAS No. 106, SFAS No. 132 and SFAS No. 158) requires entities to accrue for expected medical and other postretirement benefits over the years that the employees render the necessary service. CAO also follows the disclosure provisions of ASC 715, which requires additional employers' disclosures about pension and other postretirement benefit plans.

Contributions of \$391,000 and \$568,000 were made to the plan in the years ended June 30, 2014 and 2013 respectively. No benefit payments were made from the plan during the years ended June 30, 2014 and 2013, respectively. The Diocese expects to contribute \$80,000 to the plan's rabbi trust fund during the fiscal year ending June 30, 2015.

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Funded Status

The following table sets forth the plan's funded status at June 30 rounded to the nearest thousandth:

	Fiscal Year Ended June 30, 2014	Fiscal Year Ended June 30, 2013
Accumulated postretirement benefit obligation for service rendered to date	\$ (6,295,000)	\$ (5,089,000)
Plan assets at fair value	<u>5,992,000</u>	<u>4,711,000</u>
Funded status as of end of year	\$ (303,000)	\$ (378,000)
Liability for postretirement benefits	\$ (303,000)	\$ (378,000)

Amounts recognized in the consolidated Statements of Financial Position consist of:

	Fiscal Year Ended June 30, 2014	Fiscal Year Ended June 30, 2013
Noncurrent Liabilities	<u>\$ (303,000)</u>	<u>\$ (378,000)</u>

Amounts recognized in unrestricted net assets consist of:

	Fiscal Year Ended June 30, 2014	Fiscal Year Ended June 30, 2013
Net loss (gain)	<u>\$ 99,000</u>	<u>\$ (92,000)</u>

Net Periodic Postretirement Benefit Cost

The following items are the components of the net periodic postretirement benefit cost for the plan as a whole for the year ended:

	Fiscal Year Ended June 30, 2014	Fiscal Year Ended June 30, 2013
Service cost-benefits earned during the period	\$ 217,000	\$ 249,000
Interest cost on projected benefit obligation	237,000	221,000
Actual return on plan assets	(916,000)	(408,000)
Net amortization and deferral	<u>587,000</u>	<u>195,000</u>
Net periodic postretirement benefit cost	<u>\$ 125,000</u>	<u>\$ 257,000</u>

Changes in plan assets and benefit obligations recognized in unrestricted net assets:

	Fiscal Year Ended June 30, 2014	Fiscal Year Ended June 30, 2013
Net loss (gain)	\$ 191,000	\$ (960,000)
Amortization of (gain)	<u>-</u>	<u>(23,000)</u>
Total recognized as reduction in unrestricted net assets	<u>\$ 191,000</u>	<u>\$ (983,000)</u>
Total recognized in net periodic benefit cost and unrestricted net assets	<u>\$ 316,000</u>	<u>\$ 726,000</u>

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Assumptions

Assumptions used to determine net periodic postretirement benefit cost

	Fiscal Year Ended June 30, 2014	Fiscal Year Ended June 30, 2013
Discount rate	4.73%	4.14%
Expected long-term rate of return on assets	7.00%	6.00%
Future health cost inflation rate	5.50%	5.50%

Assumptions used to determine benefit obligations at year-end

	Fiscal Year Ended June 30, 2014	Fiscal Year Ended June 30, 2013
Discount rate	4.30%	4.73%
Future health cost inflation rate	5.00%	5.50%

Cash Flows

Estimated future benefit payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid from the Medicare supplement plan:

Fiscal Year Ended June 30:	Annual Benefits
2015	\$ 215,000
2016	228,000
2017	241,000
2018	256,000
2019	270,000
2020-2024	1,531,000

NOTE 15 – PENSION PLANS

The CAO uses the accrual method of accounting for postretirement benefits based on actuarially determined costs to be recognized over the period the employee provides service to the CAO. FASB ASC 715, requires entities to accrue for expected pension benefits over the years that the employees render the necessary service. CAO also follows the disclosure provisions of ASC 715, which requires additional employers' disclosures about pension and other postretirement benefit plans.

Lay employees

The CAO participates in a defined benefit pension plan operated by the Diocese. All full-time lay employees are eligible. For employees hired before January 1, 2007, the plan provides benefits based on the highest final average salary and all years and months of service, counting partial months as whole months. For employees hired after January 1, 2007, the plan provides benefits based on an account balance that accumulates each year with pay credits and interest credits.

Although the Diocese is exempt from the funding requirements of ERISA, it has been the Diocese's practice to make contributions annually to the plan that are not less than the pre-ERISA minimum funding requirement as applicable to churches, and not in excess of the amount that could be deducted for federal income tax purposes, assuming the Diocese was not exempt from taxation. In general, it has been the policy of the Diocese to fund any unfunded past service liability over no more than 30 years.

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The fair values of the Diocesan Lay Pension Plan assets as of June 30, 2014 and 2013, by asset category are as follows:

2014 Fair Value Measurements				
<u>Asset Category</u>	<u>Total Fair Value</u>	<u>Quoted Prices (Level 1)</u>	<u>Significant Observation Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Cash	\$ 272,330	\$ 272,330	\$ -	\$ -
Cash equivalents	2,266,196	2,266,196	-	-
Equity securities				
Common stock	81,365,862	81,365,862	-	-
Foreign equities	960,488	960,488	-	-
Exchange traded funds	24,189,430	24,189,430	-	-
Fixed income securities				
U.S. Government agency obligation	13,476,857	13,476,857	-	-
Corporate bonds/notes	12,889,474	12,889,474	-	-
Accrued income	280,081	280,081	-	-
Total	\$ 135,700,718	\$ 135,700,718	\$ -	\$ -
2013 Fair Value Measurements				
<u>Asset Category</u>	<u>Total Fair Value</u>	<u>Quoted Prices (Level 1)</u>	<u>Significant Observation Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Cash	\$ 571,457	\$ 571,457	\$ -	\$ -
Cash equivalents	2,113,708	2,113,708	-	-
Equity securities				
Common stock	66,942,043	66,942,043	-	-
Foreign equities	904,130	904,130	-	-
Exchange traded funds	2,085,460	2,085,460	-	-
Mutual funds	11,627,453	11,627,453	-	-
Fixed income securities				
U.S. T-bonds and notes	15,732,528	15,732,528	-	-
U.S. Government agency obligation	6,903,986	6,903,986	-	-
Corporate bonds/notes	8,954,361	8,954,361	-	-
Accrued income	260,625	260,625	-	-
Total	\$ 116,095,751	\$ 116,095,751	\$ -	\$ -

No one security in the plan represents more than 5% of total assets other than U.S. Treasury Securities and the iShares Barclays Intermediate Bond Exchange Traded Fund which is an exchange traded fund.

The CAO administers the plan and assesses each of the participating entities its portion of estimated annual pension cost. The amounts allocated to the CAO as of June 30, 2014 and June 30, 2013, are as follows:

	Lay Retirement Plan Portion Allocated to CAO	
	<u>Fiscal Year Ended June 30, 2014</u>	<u>Fiscal Year Ended June 30, 2013</u>
Net amount of pension liability recognized at year-end	\$ (5,767,000)	\$ (5,347,000)
Net periodic pension cost	\$ 1,184,327	\$ (1,037,000)
Plan contributions	\$ 765,327	\$ 1,061,597

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Plan asset investment strategy and allocation

The asset allocation for the pension plan as of June 30, 2014 and June 30, 2013, and the target allocation, by asset category, are:

Asset Category	Policy Asset Allocation Range	Policy Benchmark Asset Allocation	Actual Percentage of Plan Assets at June 30,	
			2014	2013
Equities	25-65%	60%	65%	61%
Fixed income	25-50%	30%	33%	37%
Cash equivalents	0-50%	10%	2%	2%

The Diocese has adopted an official Statement of Investment Policy for this plan. Pension plan assets are invested by an independent professional investment manager, with the objective of achieving long-term growth in assets with reasonable risk as compared to established benchmarks. The investment policy requires high quality investments and adequate diversification. Prohibited investments include options, short sale contracts and limited partnerships. The Diocese regularly monitors the investment manager's performance relative to short-term and long-term objectives as set forth in the official policy. A compliance audit of the managers' adherence to policy guidelines is conducted as a component of each performance evaluation. The Statement of Investment Policy includes consideration for social responsibility and Roman Catholic social teaching.

The Diocese employs a methodical process to determine the estimates of expected long-term rate of return on assets. These estimates are primarily driven by actual historical asset-class returns and advice from external actuarial and investment consulting firms while incorporating specific asset-class risk factors. For the fiscal years ending June 30, 2014 and June 30, 2013, the expected long-term rate of return used in determining net periodic pension cost was 7.50% and 7.75%, respectively.

The assumptions used to determine net periodic pension cost and benefit obligations for the fiscal year ending June 30, 2014 and 2013 are as follows:

	Lay Retirement Plan	
	Fiscal Year Ended June 30, 2014	Fiscal Year Ended June 30, 2013
For Net Periodic Pension Cost:		
Discount rate	4.75%	4.15%
Expected long-term rate of return on assets	7.50%	7.75%
Salary scale	4.00%	4.00%
For Benefit Obligation At Year End:		
Discount rate	4.18%	4.75%
Salary scale	4.00%	4.00%

Priests

Retirement plan

The CAO also sponsors a defined benefit pension plan for all Diocesan priests who are ordained for or incardinated in the Diocese and in good standing and not on probation. The plan provides benefits based on a flat benefit prorated for years and months of service less than 35 years.

Since the CAO is exempt from the funding requirements of ERISA, it has been the CAO's practice to make contributions annually to the plan based on actuarial principles. In general, it has been the CAO's policy to fund any unfunded past service liability over 30 years.

Contributions of \$795,000 and \$729,000 were made to the plan in the years ended June 30, 2014 and 2013, respectively, by the parishes, schools or other units to which the participating clergy were assigned. Benefit payments of \$751,000 and \$726,000 were made from the plan during the years ended June 30, 2014 and 2013, respectively. The Diocese expects to contribute \$704,000 to the pension plan during the fiscal year ending June 30, 2015.

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The fair values of the Diocesan Priest Pension Plan assets as of June 30, 2014 and 2013, by asset category are as follows:

2014 Fair Value Measurements				
<u>Asset Category</u>	<u>Total Fair Value</u>	<u>Quoted Prices (Level 1)</u>	<u>Significant Observation Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Cash	\$ 20,266	\$ 20,266	\$ -	\$ -
Cash equivalents	1,090,418	1,090,418	-	-
Equity securities				
Common stock	4,526,909	4,526,909	-	-
Foreign equities	119,596	119,596	-	-
Exchange traded funds	725,014	725,014	-	-
Fixed Income securities				
U.S. T-bonds and notes	391,698	391,698	-	-
U.S. Government agency obligation	344,012	344,012	-	-
Corporate bonds/notes	582,903	582,903	-	-
Accrued income	12,195	12,195	-	-
Total	<u>\$ 7,813,011</u>	<u>\$ 7,813,011</u>	<u>\$ -</u>	<u>\$ -</u>
2013 Fair Value Measurements				
<u>Asset Category</u>	<u>Total Fair Value</u>	<u>Quoted Prices (Level 1)</u>	<u>Significant Observation Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Cash	\$ 63,358	\$ 63,358	\$ -	\$ -
Cash equivalents	728,039	728,039	-	-
Equity securities				
Common stock	3,685,845	3,685,845	-	-
Foreign equities	113,999	113,999	-	-
Exchange traded funds	256,672	256,672	-	-
Mutual funds	146,633	146,633	-	-
Fixed Income securities				
U.S. T-bonds and notes	784,394	784,394	-	-
U.S. Government agency obligation	412,782	412,782	-	-
Corporate bonds/notes	692,622	692,622	-	-
Accrued income	15,408	15,408	-	-
Total	<u>\$ 6,899,752</u>	<u>\$ 6,899,752</u>	<u>\$ -</u>	<u>\$ -</u>

No one security in the plan represents more than 5% of total assets other than U.S. Treasury Securities.

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Plan asset investment strategy and allocation

The asset allocation for the pension plan as of June 30, 2014 and June 30, 2013, and the target allocation, by asset category, are:

<u>Asset Category</u>	<u>Policy Asset Allocation Range</u>	<u>Policy Benchmark Asset Allocation</u>	<u>Actual Percentage of Plan Assets at June 30,</u>	
			<u>2014</u>	<u>2013</u>
Equities	25-65%	60%	63%	61%
Fixed income	25-60%	30%	23%	27%
Cash equivalents	0-50%	10%	14%	12%

The Diocese has adopted an official Statement of Investment Policy for this plan. Pension plan assets are invested by an independent professional investment manager, with the objective of achieving long-term growth in assets with reasonable risk as compared to established benchmarks. The investment policy requires high quality investments and adequate diversification. Prohibited investments include options, short sale contracts and limited partnerships. The Diocese regularly monitors the investment manager's performance relative to short-term and long-term objectives as set forth in the official policy. A compliance audit of the managers' adherence to policy guidelines is conducted as a component of each performance evaluation. The Statement of Investment Policy includes consideration for social responsibility and Roman Catholic social teaching.

The Diocese employs a methodical process to determine the estimates of expected long-term rate of return on assets. These estimates are primarily driven by actual historical asset-class returns and advice from external actuarial and investment consulting firms while incorporating specific asset-class risk factors. For the fiscal years ending June 30, 2014 and June 30, 2013, the expected long-term rate of return used in determining net periodic pension cost was 7.0% and 7.5% respectively.

Supplemental plan

The CAO sponsors a nonqualified supplemental defined benefit pension plan for certain priests listed in the Appendix A and B of the plan document.

Benefits for priests in Appendix A are based on the excess of their benefit calculated under the regular retirement plan with additional years of service over their actual retirement plan benefit. Benefits for priests in Appendix B are based on the excess of their benefit calculated according to the formula defined in Appendix B over their actual regular retirement plan benefit.

Since the plan is exempt from the funding requirements of ERISA, it has been the CAO's practice to make contributions annually to the plan not less than that required to pay benefits for that year.

Contributions of \$10,000 and \$64,000 were made to the plan in the years ended June 30, 2014 and 2013, respectively, by the parishes, schools or other units to which the participating clergy were assigned. Benefit payments of \$232,000 and \$247,000 were made from the plan during the years ended June 30, 2014 and 2013, respectively. The Diocese does not expect to contribute to the pension plan during the fiscal year ending June 30, 2015.

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The fair values of the Diocesan Priest Supplemental Pension Plan assets as of June 30, 2014 and 2013, by asset category are as follows:

<u>Asset Category</u>	2014 Fair Value Measurements			
	<u>Total Fair Value</u>	<u>Quoted Prices (Level 1)</u>	<u>Significant Observation Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Cash	\$ 11,190	\$ 11,190	\$ -	\$ -
Cash equivalents	386,135	386,135	-	-
Equity securities				
Common stock	1,385,908	1,385,908	-	-
Foreign equities	35,751	35,751	-	-
Exchange traded funds	417,270	417,270	-	-
Fixed income securities				
U.S. Government agency obligation	133,034	133,034	-	-
Corporate bonds/notes	211,734	211,734	-	-
Accrued income	4,144	4,144	-	-
Total	<u>\$ 2,585,166</u>	<u>\$ 2,585,166</u>	<u>\$ -</u>	<u>\$ -</u>

<u>Asset Category</u>	2013 Fair Value Measurements			
	<u>Total Fair Value</u>	<u>Quoted Prices (Level 1)</u>	<u>Significant Observation Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Cash	\$ 20,844	\$ 20,844	\$ -	\$ -
Cash equivalents	257,287	257,287	-	-
Equity securities				
Common stock	1,321,880	1,321,880	-	-
Foreign equities	39,310	39,310	-	-
Exchange traded funds	93,044	93,044	-	-
Mutual funds	56,139	56,139	-	-
Fixed income securities				
U.S. T-bonds and notes	237,066	237,066	-	-
U.S. Government agency obligation	172,455	172,455	-	-
Corporate bonds/notes	266,402	266,402	-	-
Accrued income	5,571	5,571	-	-
Total	<u>\$ 2,469,998</u>	<u>\$ 2,469,998</u>	<u>\$ -</u>	<u>\$ -</u>

No one security in the plan represents more than 5% of total assets other than US Treasury Securities.

Plan asset investment strategy and allocation

Plan assets for the supplemental plan are insufficient to necessitate an independent investment policy. As of June 30, 2014, 64% of plan assets were invested in equities, 21% in fixed income securities and the balance in cash equivalents. As of June 30, 2013, 61% of plan assets were invested in equities, 27% in fixed income securities and the balance in cash equivalents

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Table 1 – Funded Status

The funded status of the priest plans and the net amount recognized in the consolidated Statements of Financial Position at June 30, 2014 and 2013 rounded to the nearest thousandth are as follows:

	Priests Retirement Plan		Priests Supplemental Plan	
	Fiscal Year Ended June 30, 2014	Fiscal Year Ended June 30, 2013	Fiscal Year Ended June 30, 2014	Fiscal Year Ended June 30, 2013
Vested benefit obligation	\$ (13,816,000)	\$ (12,645,000)	\$ (3,062,000)	\$ (2,671,000)
Accumulated benefit obligation	(14,498,000)	(13,136,000)	(3,135,000)	(2,694,000)
Projected benefit obligation	(18,502,000)	(16,718,000)	(3,911,000)	(3,256,000)
Plan assets at fair value	7,813,000	6,900,000	2,585,000	2,470,000
Funding status of the Plan	<u>\$ (10,689,000)</u>	<u>\$ (9,818,000)</u>	<u>\$ (1,326,000)</u>	<u>\$ (786,000)</u>
Net amount recognized	<u>\$ (10,689,000)</u>	<u>\$ (9,818,000)</u>	<u>\$ (1,326,000)</u>	<u>\$ (786,000)</u>

The funded status is recognized in the consolidated Statements of Financial Position. Unrecognized prior service costs and unrecognized actuarial losses are recognized in unrestricted net assets.

Table 2 – Amounts recognized In the Consolidated Statements of Financial Position

The amounts recognized in the consolidated Statements of Financial Position at June 30, 2014 and 2013, rounded to the nearest thousandth consist of:

	Priests Retirement Plan		Priests Supplemental Plan	
	Fiscal Year Ended June 30, 2014	Fiscal Year Ended June 30, 2013	Fiscal Year Ended June 30, 2014	Fiscal Year Ended June 30, 2013
Noncurrent Liabilities	<u>\$ (10,689,000)</u>	<u>\$ (9,818,000)</u>	<u>\$ (1,326,000)</u>	<u>\$ (786,000)</u>

Table 3 – Amounts Recognized In Unrestricted Net Assets

The amounts recognized in unrestricted net assets at June 30, 2014 and 2013, rounded to the nearest thousandth consist of:

	Priests Retirement Plan		Priests Supplemental Plan	
	Fiscal Year Ended June 30, 2014	Fiscal Year Ended June 30, 2013	Fiscal Year Ended June 30, 2014	Fiscal Year Ended June 30, 2013
Net loss	\$ 3,505,000	\$ 3,299,000	\$ 2,548,000	\$ 2,233,000
Prior service cost	1,281,000	878,000	224,000	131,000
Total	<u>\$ 4,786,000</u>	<u>\$ 4,177,000</u>	<u>\$ 2,772,000</u>	<u>\$ 2,364,000</u>

Table 4 – Net Periodic Pension Cost

The following items are the components of the net periodic pension cost rounded to the nearest thousandth for the plan year ended June 30 :

	Priests Retirement Plan		Priests Supplemental Plan	
	Fiscal Year Ended June 30, 2014	Fiscal Year Ended June 30, 2013	Fiscal Year Ended June 30, 2014	Fiscal Year Ended June 30, 2013
Service cost-benefits earned during the period	\$ 524,000	\$ 593,000	\$ -	\$ -
Interest cost on projected benefit obligation	771,000	731,000	148,000	143,000
Actual return on plan assets	(959,000)	(828,000)	(349,000)	(312,000)
Net amortization and deferral	721,000	746,000	343,000	359,000
Net periodic pension cost	<u>\$ 1,057,000</u>	<u>\$ 1,242,000</u>	<u>\$ 142,000</u>	<u>\$ 190,000</u>

See consolidated financial statements.

**THE ROMAN CATHOLIC DIOCESE OF SAN JOSE,
CENTRAL ADMINISTRATIVE OFFICE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

Table 5 – Other Changes In Plan Assets And Benefit Obligations Recognized In Unrestricted Net Assets

The amounts recognized in unrestricted net assets at June 30, 2014 and 2013, rounded to the nearest thousandth consist of:

	Priests Retirement Plan		Priests Supplemental Plan	
	Fiscal Year Ended June 30, 2014	Fiscal Year Ended June 30, 2013	Fiscal Year Ended June 30, 2014	Fiscal Year Ended June 30, 2013
Net loss (gain)	\$ 296,000	\$ (2,250,000)	\$ 451,000	\$ (370,000)
Prior service cost	552,000	-	115,000	-
Amortization of loss (gain)	(90,000)	(220,000)	(136,000)	(160,000)
Amortization of prior service (credit)	(149,000)	(149,000)	(22,000)	(22,000)
Total recognized as reduction in unrestricted net assets	\$ 609,000	\$ (2,619,000)	\$ 408,000	\$ (552,000)
Total recognized in net periodic benefit cost and unrestricted net assets	\$ 1,666,000	\$ (1,377,000)	\$ 550,000	\$ (362,000)

Table 6 – Assumptions

	Priests Retirement Plan		Priests Supplemental Plan	
	Fiscal Year Ended June 30, 2014	Fiscal Year Ended June 30, 2013	Fiscal Year Ended June 30, 2014	Fiscal Year Ended June 30, 2013
For Net Periodic Pension Cost:				
Discount rate	4.73%	4.14%	4.73%	4.14%
Expected long-term rate of return on investments	7.00%	7.50%	7.00%	6.00%
Salary scale	N/A	N/A	N/A	N/A
Future benefit increases	2.00%	2.00%	2.00%	2.00%
For Benefit Obligation At Year End:				
Discount rate	4.18%	4.73%	4.18%	4.73%
Salary scale	N/A	N/A	N/A	N/A
Future benefit increases	2.00%	2.00%	2.00%	2.00%

Table 7 – Estimated Future Benefit Payments

Fiscal Year Ending June 30	Priests Retirement Plan (annual benefits)	Priests Supplemental Plan (annual benefits)
2015	\$ 919,000	\$ 251,000
2016	931,000	245,000
2017	893,000	234,000
2018	930,000	246,000
2019	918,000	235,000
2020-2024	5,379,000	1,089,000

NOTE 16 – RELATED PARTY TRANSACTIONS

The CAO performs various administrative services, including payroll processing, for various parishes and schools. Fees received for these services were \$951,482 for the year ending June 30, 2014, and \$870,212 for the year ending June 30, 2013. The CAO paid \$142,415 in the fiscal year 2014 and \$135,689 in the fiscal year 2013, net of restricted receipts from the rental of a piece of property, for the benefit of St. Joseph's Cathedral parish to support the operations of the Cathedral.

**THE ROMAN CATHOLIC DIOCESE OF SAN JOSE,
CENTRAL ADMINISTRATIVE OFFICE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

The CAO, through the Deposit and Loan Funds, makes loans to eligible employees for amounts not exceeding \$10,000 payable by automatic withdrawal over a term of 4 years. The loans are only for purposes indicated in the Employee Loan Policy. In FY 2009 the Diocese stopped making Employee Loans, other than for Clergy, pending revision of the collections policy. The net amounts outstanding at June 30, 2014, were \$42,003 and at June 30, 2013, were \$69,769. The loan rates are the same as those charged for loans to parishes and schools.

The CAO collects fees from schools and pays them to the Roman Catholic Communications Corporation of the Bay Area/Catholic Telemedia Network ("CTN"), a corporation of which the Diocese is a member. Fees paid to CTN were \$87,048 for the year ending June 30, 2014 and \$84,240 for the year ending June 30, 2013. The CAO is the recipient of a grant from CTN be received in of \$5,334,000 to be used for education purposes at the discretion of the Bishop of the Diocese.

NOTE 17 – SELF-INSURED RISK

As of July 1, 2012, the Diocese is self-insured with respect to its general liability coverage for the first \$100,000 per case with an aggregate maximum exposure per year, coverage in excess of \$100,000 is reinsured with nonaffiliated insurers. For sexual abuse and harassment coverage, the Diocese has a larger per case deductible of \$250,000 and has additional insurance through a risk retention group of which the Diocese is a minority owner.

As of July 1, 2009, the Diocese is self-insured through a \$25,000 deductible with respect to Crime and Fiduciary Liability coverage.

Since July 1, 2006, the Diocese is self-insured with respect to its property all-risk coverage (excluding earthquake and flood) through a \$100,000 deductible per case. The Diocese is self-insured through a deductible of 5% per claim with a minimum of \$100,000 with respect to its earthquake and catastrophic flood insurance coverage through its participation with three other California dioceses in a pooled agreement.

Since January 1, 2006, the Diocese insures for worker's compensation through a fixed premium agreement with an unaffiliated insurer.

The Diocese is also self-insured with respect to retired priest's medical costs not covered by Medicare.

For all but the earthquake deductibles, monetary reserves are maintained to cover the probable self-insured exposure for the various insurance coverages.

NOTE 18 – SUBSEQUENT EVENTS

Subsequent events are events or transactions that occur after the consolidated Statements of Financial Position date but before the consolidated financial statements are issued. The CAO recognizes in the consolidated financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the consolidated Statements of Financial Position, including the estimates inherent in the process of preparing the consolidated financial statements. The CAO's consolidated financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the consolidated Statements of Financial Position but arose after the consolidated Statements of Financial Position date and before the consolidated financial statements are available to be issued.

On August 28, 2012, the Diocese acquired a 10.85 acre parcel including buildings comprised of a chapel and school and residence. This property will be subdivided and part of it resold. The retained portion is subject to an agreement with the Holy Korean Martyrs Parish in which they paid for a prorata portion of the cost of acquisition of the site, agreed to pay for a prorata portion of the cost of installation of a cul-de-sac on the property, and agreed to repay a loan of up to \$2,650,000 that they used to finish the improvements to the buildings on the site. As part of the agreement the Parish sold the property it occupied in Sunnyvale and used the proceeds to pay down on the acquisition of half of the McLaughlin site and to pay for a portion of the improvement costs. In March 2014 the CAO entered into an agreement to sell approximately 4.8 acres of this parcel for approximately \$5,500,000 subject to the recording of a final parcel map and certain other conditions. This sale is expected to close in calendar year 2014.

See consolidated financial statements.

**THE ROMAN CATHOLIC DIOCESE OF SAN JOSE,
CENTRAL ADMINISTRATIVE OFFICE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

On August 29, 2012, there was a fire in the church at St. Patrick's Proto Parish (now Our Lady of LaVang Parish) in San Jose. The deductible on the insurance for the property will be paid from insurance reserves collected as part of the annual premiums. The Parish has received from the insurance company approximately \$1,500,000 used to reimburse costs of operation and loss income and an additional \$2,500,000 to be used for similar purposes in the next year. The insurable loss has not been settled with the insurance carrier as of the date of these consolidated financial statements. The Parish is conducting a Capital Campaign to raise funds to rebuild the church on this site.

In June 2014 the CAO entered into a Purchase and Sale Agreement with owners of three parcels of land adjacent to and immediately behind the Cathedral Basilica San Jose. The purchase is scheduled to close in October 2014. The cost of the property is \$4,650,000. The CAO intends to develop the site at some time in the future for Cathedral parking and other uses allowed by or required by City zoning.

The CAO has evaluated subsequent events through October 30, 2014, which is the date the consolidated financial statements are available to be issued.

NOTE 19 – PRIOR PERIOD ADJUSTMENTS

During fiscal year 2013 the Catholic Cemeteries discovered a theft by an employee that occurred through manipulation of deposit and receivable balances. Of the total discovered loss of \$385,231, \$260,049 was taken as a prior period loss to fiscal year 2011 through an adjustment to allowances for doubtful receivables and an adjustment to Unrestricted Net Assets and an additional \$75,467 was taken in fiscal year 2012 with similar adjustments. The balance of the loss was taken into fiscal year 2013 operations. Additional costs of investigation relating to this matter were incurred in 2014. That employee was terminated and referred to civil authorities. Other changes in management have occurred and management believes the faulty procedures were identified and rectified. A forensic accountant was hired to determine the extent of the loss and file reports with the insurance carrier for the CAO. In fiscal year 2014 a claim was filed with the insurance carrier for the total of losses and costs of \$469,074. The CAO recovered \$400,893 from the carrier after deductibles. A recovery of the balance of \$68,181 is being sought from others involved in this case. A portion, \$385,231, of the recovered funds were allocated to prior years creating a restatement of unrestricted net assets and allowance for receivable losses. The allocation of recoveries to the prior years were considered insignificant by the CAO. The balance of the recovery was allocated to current year costs.

	As Restated in fiscal year 2013 to reflect losses	As Restated in fiscal year 2014 to reflect recoveries
Net assets for the year ended June 30, 2011, as restated	\$ 43,078,923	\$ 42,818,875
(Less)/Plus: allowance for receivable losses	(260,049)	260,049
Net assets for the year ended June 30, 2011, as restated	<u>42,818,874</u>	<u>43,078,924</u>
Change in net assets for the year ended June 30 , 2012	(7,164,047)	(7,239,514)
(Less)/Plus: allowance for receivable losses	(75,467)	75,467
Change in net assets for the year ended June 30 , 2012, as restated	<u>(7,239,514)</u>	<u>(7,164,047)</u>
Net assets for the year ended June 30, 2012, restated	<u>\$ 35,579,360</u>	<u>35,914,877</u>
Change in net assets for the year ended June 30 , 2013		17,320,973
(Less)/Plus: allowance for receivable losses		49,715
Change in net assets for the year ended June 30 , 2013, as restated		<u>17,370,688</u>
Net assets for the year ended June 30, 2013, restated		<u>\$ 53,285,565</u>

**THE ROMAN CATHOLIC DIOCESE OF SAN JOSE,
CENTRAL ADMINISTRATIVE OFFICE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

NOTE 20 – CATHOLIC FAMILY INSURANCE SERVICES

Catholic Family Insurance Services of the Diocese of San Jose, Inc. (CFIS) is a for-profit entity owned by the Roman Catholic Bishop of San Jose, a corporation sole, licensed to sell insurance products by the State of California Department of Insurance. CFIS was established to sell life insurance policies that enable purchasers to provide funding for funeral services including but not limited to a funeral mass and burial in a Catholic cemetery according to the Church's traditions. The life policies are provided through Lincoln Heritage Life Insurance Company and claims are administered by the Catholic Family Security Association of the Diocese of Pittsburgh, PA.

CFIS and its agents earn commissions on the sale of the insurance products. The income and expenses of this entity are consolidated with those of the Catholic Cemeteries of the Diocese of San Jose. In fiscal year 2014 the operating results and consolidating statements were:

	Cemetery Fund		Consolidated
	Cemetery	CFIS	Total
Revenues			
Rental income	\$ 65,671	\$ -	\$ 65,671
Investment income	523,828	-	523,828
Cemetery revenues	7,054,930	-	7,054,930
Other income	24,006	5,531	29,537
Total revenues	7,668,435	5,531	7,673,966
Expenses			
Administration	-	5,204	5,204
Depreciation expense	148,051	-	148,051
Interest expense notes and bonds	33,052	-	33,052
Cemetery expenses	5,579,605	-	5,579,605
Total expenses	5,760,708	5,204	5,765,912
Changes in net assets from operations	1,907,727	327	1,908,054
Change in obligations for post-retirement benefits	(314,344)	-	(314,344)
Changes in net assets	<u>\$ 1,593,383</u>	<u>\$ 327</u>	<u>\$ 1,593,710</u>

See consolidated financial statements.

SUPPLEMENTARY INFORMATION

INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION

Most Reverend Patrick J. McGrath
The Roman Catholic Bishop of San Jose

We have audited the consolidated financial statements of the Central Administrative Office of the Roman Catholic Diocese of San Jose and affiliate as of and for the year ended June 30, 2014 and our report thereon, dated October 30, 2014, expressed an unmodified opinion on those consolidated financial statements. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. Other auditors audited the consolidated financial statements of Central Administrative Office of the Roman Catholic Diocese of San Jose and affiliate as of and for the year ended June 30, 2013, before restatement, and their report thereon, dated October 28, 2013, expressed an unmodified opinion on those financial statements. The supplementary information on pages 35 through 46, which is the responsibility of management, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the consolidated financial statements, and, accordingly, we do not express an opinion or provide any assurance on it.



San Francisco, California
October 30, 2014

**THE ROMAN CATHOLIC DIOCESE OF SAN JOSE,
CENTRAL ADMINSTRATIVE OFFICE
CONSOLIDATED STATEMENT OF ASSETS, LIABILITIES, AND NET ASSETS – ALL FUNDS
Year Ended June 30, 2014**

	Operating Fund	Cemetery Fund	Endowment Fund	Priest Retirement Funds	Pooled Investment Fund	Deposit and Loan Funds	Service Funds	Fundraising Funds	Eliminations	Total
ASSETS										
Cash & equivalents	\$ 512,510	\$ 4,821,340	\$ 1,071,357	\$ 1,121,606	\$ -	\$ 20,855,998	\$ 5,941,373	\$ 6,729,917	\$ -	\$ 41,054,101
Marketable securities	124,635	2,455,817	15,112,647	-	23,539,158	-	11,130,858	-	-	52,363,115
A/R - Parishes/Institutions	1,073,983	-	-	-	-	2,950	933,954	-	-	2,010,887
A/R - Pledges	-	-	-	-	-	-	-	1,692,855	-	1,692,855
A/R - Other	1,898,922	4,259,344	-	-	-	42,003	257,046	-	-	6,457,315
Loans receivables - Parishes	-	-	-	-	-	35,445,690	-	-	(3,631,547)	31,814,143
Inventory	-	8,168,520	-	-	-	-	-	-	-	8,168,520
Bond issuance costs	-	-	-	-	-	358,923	-	-	-	358,923
Deposits and prepaids	48,950	39,738	-	-	-	24,954	293,339	-	-	406,981
Bond SWAP collateral (Note 7)	-	-	-	-	-	-	-	-	-	-
Marketable securities held for long term purposes	-	-	4,236,015	-	-	-	-	-	-	4,236,015
Investment in real estate	-	-	232,072	-	-	-	-	-	-	232,072
Assets held in trust	8,904,329	-	-	-	-	-	-	143,386	-	9,047,715
Interest bearing intrafund account	225,907	13,211,080	1,003,787	-	-	-	1,832,026	13,906	(16,286,706)	-
Land, building, and equipment	45,217,794	6,120,583	-	-	-	-	-	-	-	51,338,377
Total assets	<u>\$ 58,007,030</u>	<u>\$ 39,076,422</u>	<u>\$ 21,655,878</u>	<u>\$ 1,121,606</u>	<u>\$ 23,539,158</u>	<u>\$ 56,730,518</u>	<u>\$ 20,388,596</u>	<u>\$ 8,580,064</u>	<u>\$ (19,918,253)</u>	<u>\$ 209,181,019</u>
LIABILITIES AND NET ASSETS										
Liabilities										
Accounts payable	\$ 1,199,596	\$ 75,993	\$ -	\$ 17,019	\$ -	\$ 131,826	\$ 58,404	\$ 31,675	\$ -	\$ 1,514,513
Pledges payable to Parishes	-	-	-	-	-	-	-	2,109,018	-	2,109,018
Accrued liabilities	4,969,837	3,323,644	-	15,487,434	-	59,547	4,285,044	489,093	-	28,614,599
Deposits payable - Parishes	-	-	-	-	-	52,825,137	-	-	(16,286,706)	36,538,431
Debentures payable	8,548,283	-	-	-	-	14,612,759	-	-	-	23,161,042
Notes payable	3,631,547	619,000	-	-	-	-	-	-	(3,631,547)	619,000
Trust assets held for Parish	3,113,596	-	-	-	-	-	-	143,386	-	3,256,982
Held for Parishes/Institutions	3,021,727	-	1,854,460	-	23,539,158	-	86,185	-	-	28,501,530
Deferred revenue	8,331,498	9,871,730	-	-	-	-	1,347,741	-	-	19,550,969
Due to/from other funds	4,420,155	97,795	600,944	(118,894)	-	-	(5,000,000)	-	-	-
Total liabilities	37,236,239	13,988,162	2,455,404	15,385,559	23,539,158	67,629,269	777,374	2,773,172	(19,918,253)	143,866,084
Net Assets										
Unrestricted										
Undesignated	12,718,910	15,182,070	945,089	(14,263,953)	-	(10,898,751)	10,563,984	(16,877)	-	14,230,472
Designated	697,999	-	1,955,234	-	-	-	9,047,238	-	-	11,700,471
Designated-Cemetery long-term care	-	9,906,190	-	-	-	-	-	-	-	9,906,190
Temporarily restricted	7,353,882	-	12,064,136	-	-	-	-	5,823,769	-	25,241,787
Permanently restricted	-	-	4,236,015	-	-	-	-	-	-	4,236,015
Total net assets (deficit)	<u>20,770,791</u>	<u>25,088,260</u>	<u>19,200,474</u>	<u>(14,263,953)</u>	<u>-</u>	<u>(10,898,751)</u>	<u>19,611,222</u>	<u>5,806,892</u>	<u>-</u>	<u>65,314,935</u>
Total liabilities and net assets	<u>\$ 58,007,030</u>	<u>\$ 39,076,422</u>	<u>\$ 21,655,878</u>	<u>\$ 1,121,606</u>	<u>\$ 23,539,158</u>	<u>\$ 56,730,518</u>	<u>\$ 20,388,596</u>	<u>\$ 8,580,064</u>	<u>\$ (19,918,253)</u>	<u>\$ 209,181,019</u>

**THE ROMAN CATHOLIC DIOCESE OF SAN JOSE,
CENTRAL ADMINSTRATIVE OFFICE**

CONSOLIDATED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS - ALL FUNDS

Year Ended June 30, 2014

	Operating Fund	Cemetery Fund	Endowment Fund	Priest Retirement Funds	Deposit and Loan Funds	Service Funds	Fundraising Funds	Eliminations	Total
Revenues									
Gifts, bequests, and collections	\$ 510,641	\$ -	\$ 406,402	\$ 12,245	\$ 12,500	\$ -	\$ 5,594,749	\$ -	\$ 6,536,537
Fees and expense reimbursement	996,332	-	-	1,409,497	-	951,482	-	(17,653)	3,339,658
Diocesan assessment	3,407,366	-	-	-	-	-	-	(324,698)	3,082,668
Education income	1,023,108	-	-	-	-	-	-	-	1,023,108
Rental income	367,823	65,671	136,431	-	-	-	-	-	569,925
Investment income	(206,556)	523,828	2,435,908	(8,654)	218,668	1,758,371	69,746	(163,627)	4,627,684
Interest income from loans	-	-	-	-	847,213	-	-	-	847,213
Cemetery revenues	-	7,054,930	-	-	-	-	-	-	7,054,930
Insurance premium income	-	-	-	-	-	24,448,762	-	-	24,448,762
Newspaper income	463,199	-	-	-	-	-	-	-	463,199
Grant income	418,300	-	5,334,581	-	-	-	10,000	-	5,762,881
Other income	171	29,537	-	-	-	-	-	-	29,708
Total revenues	6,980,384	7,673,966	8,313,322	1,413,088	1,078,381	27,158,615	5,674,495	(505,978)	57,786,273
Expenses									
Pastoral	4,626,944	-	-	-	-	-	-	-	4,626,944
Religious and personnel development	2,802,742	-	-	-	-	-	-	-	2,802,742
Education	1,047,731	-	578,630	-	-	-	-	-	1,626,361
Pension, priest retirement	-	-	-	394,107	-	-	-	-	394,107
Administration	1,781,721	5,205	225	-	(368,027)	1,664,136	-	-	3,083,260
Depreciation expense	1,231,893	148,051	-	-	-	89,987	-	-	1,469,931
Interest expense deposits	-	-	-	-	469,352	-	-	(163,627)	305,725
Interest expense notes and bonds	440,370	33,052	-	-	768,954	-	-	-	1,242,376
Insurance premiums and benefits	-	-	-	-	-	23,288,304	-	-	23,288,304
Newspaper expenses	555,422	-	-	-	-	-	-	-	555,422
Cemetery expenses	-	5,579,605	-	-	-	-	-	(342,351)	5,237,254
Fundraising expenses	-	-	-	-	-	-	918,138	-	918,138
Total expenses	12,486,823	5,765,913	578,855	394,107	870,279	25,042,427	918,138	(505,978)	45,550,564
Change in net assets before transfers	(5,506,439)	1,908,053	7,734,467	1,018,981	208,102	2,116,188	4,756,357	-	12,235,709
Intrafund transfers									
Annual appeal transfer	4,600,000	-	-	-	-	-	(4,600,000)	-	-
Annual appeal distribution	-	-	-	-	-	-	-	-	-
Other intrafund transfers	571,702	-	(242,070)	(126,132)	-	(203,500)	-	-	-
Total transfers	5,171,702	-	(242,070)	(126,132)	-	(203,500)	(4,600,000)	-	-
Net change in net assets from operations	(334,737)	1,908,053	7,492,397	892,849	208,102	1,912,688	156,357	-	12,235,709
Change in fair value of rate swap	527,599	-	-	-	(349,531)	-	-	-	178,068
Change in obligations for post-retirement benefits	5,652	(314,344)	-	(2,321,668)	-	(332,238)	(33,810)	-	(2,996,408)
Net change in net assets	198,514	1,593,709	7,492,397	(1,428,819)	(141,429)	1,580,450	122,547	-	9,417,369
Net assets at the beginning of the year - restated	20,572,277	23,494,551	11,708,077	(12,835,134)	(10,757,322)	18,030,772	5,684,345	-	55,897,566
Net assets at the end of the year	\$ 20,770,791	\$ 25,088,260	\$ 19,200,474	\$ (14,263,953)	\$ (10,898,751)	\$ 19,611,222	\$ 5,806,892	\$ -	\$ 65,314,935

**THE ROMAN CATHOLIC DIOCESE OF SAN JOSE,
CENTRAL ADMINSTRATIVE OFFICE
CONSOLIDATED STATEMENT OF ASSETS, LIABILITIES, AND NET ASSETS – ALL FUNDS
Year Ended June 30, 2013**

	Operating Fund	Cemetery Fund	Endowment Fund	Priest Retirement Funds	Pooled Investment Fund	Deposit and Loan Funds	Service Funds	Fundraising Funds	Holy Spirit School	Eliminations	Total
ASSETS											
Cash and equivalents	\$ 1,696,653	\$ 2,620,132	\$ 1,244,918	\$ 960,890	\$ -	\$ 22,026,648	\$ 4,903,644	\$ 6,138,003	\$ 739,365	\$ -	\$ 40,330,253
Marketable securities	3,594	2,081,788	7,764,495	-	11,677,107	-	9,215,652	-	23,834	-	30,766,470
A/R - Parishes/Institutions	106,331	-	-	-	-	-	293,691	-	201,119	-	601,141
A/R - pledges	-	-	-	-	-	-	-	1,713,185	5,708	-	1,718,893
A/R - other	1,820,599	4,100,793	-	40,010	-	77,269	142,349	-	750	-	6,181,770
Loans receivables - Parishes	-	-	-	-	-	36,825,005	-	-	-	(13,381,842)	23,443,163
Inventory	-	8,577,876	-	-	-	-	-	-	73,024	-	8,650,900
Bond issuance costs	-	-	-	-	-	372,468	-	-	-	-	372,468
Deposits and prepaids	273,377	(1,068)	-	-	-	45,880	241,148	-	61,696	-	621,033
Bond SWAP collateral (Note 7)	-	-	-	-	-	-	-	-	-	-	-
Marketable securities held for long term purposes	-	-	3,829,612	-	-	-	-	-	507,457	-	4,337,069
Investment in real estate	-	-	232,072	-	-	-	-	-	-	-	232,072
Assets held in trust	8,576,487	-	-	-	-	-	-	154,251	-	-	8,730,738
Interest bearing intrafund account	181,022	12,524,533	1,000,780	-	-	-	1,826,538	13,665	2,513,039	(18,059,577)	-
Land, building, and equipment	44,519,569	6,111,091	-	-	-	-	-	-	7,534,463	-	58,165,123
Total assets	<u>\$ 57,177,632</u>	<u>\$ 36,015,145</u>	<u>\$ 14,071,877</u>	<u>\$ 1,000,900</u>	<u>\$ 11,677,107</u>	<u>\$ 59,347,270</u>	<u>\$ 16,623,022</u>	<u>\$ 8,019,104</u>	<u>\$ 11,660,455</u>	<u>\$ (31,441,419)</u>	<u>\$ 184,151,093</u>
LIABILITIES AND NET ASSETS											
Liabilities											
Accounts payable	\$ 906,611	\$ 61,829	\$ (429)	\$ 15,840	\$ -	\$ 40,751	\$ 199,335	\$ 10,479	\$ 159,222	\$ -	\$ 1,393,638
Pledges payable to Parishes	-	-	-	-	-	-	-	1,720,980	-	-	1,720,980
Accrued liabilities	4,826,814	2,821,622	-	13,976,451	-	52,345	2,867,926	449,049	3,581,129	-	28,575,336
Deposits payable - Parishes	-	-	-	-	-	55,266,800	-	-	-	(18,059,577)	37,207,223
Debentures payable	9,382,414	-	-	-	-	14,744,696	-	-	9,750,295	(9,750,295)	24,127,110
Notes payable	3,631,547	685,948	-	-	-	-	-	-	-	(3,631,547)	685,948
Trust assets held for Parish	2,766,855	-	-	-	-	-	-	154,251	-	-	2,921,106
Held for Parishes/Institutions	2,224,593	-	1,688,559	-	11,677,107	-	524,989	-	-	-	16,115,248
Deferred revenue	8,483,729	8,853,400	-	-	-	-	-	-	781,810	-	18,118,939
Due to/from other funds	4,382,792	97,795	675,670	(156,257)	-	-	(5,000,000)	-	-	-	-
Total liabilities	36,605,355	12,520,594	2,363,800	13,836,034	11,677,107	70,104,592	(1,407,750)	2,334,759	14,272,456	(31,441,419)	130,865,528
Net Assets											
Unrestricted											
Undesignated	12,923,255	14,276,908	271,076	(12,860,134)	-	(10,757,322)	11,774,130	(2,476)	(5,250,274)	-	10,375,163
Designated	445,917	-	3,280,783	25,000	-	-	6,256,642	-	1,736,438	-	11,744,780
Designated-Cemetery long-term care	-	9,217,643	-	-	-	-	-	-	-	-	9,217,643
Temporarily restricted	7,203,105	-	4,326,605	-	-	-	-	5,686,821	394,379	-	17,610,910
Permanently restricted	-	-	3,829,613	-	-	-	-	-	507,456	-	4,337,069
Total net assets (deficit)	<u>20,572,277</u>	<u>23,494,551</u>	<u>11,708,077</u>	<u>(12,835,134)</u>	<u>-</u>	<u>(10,757,322)</u>	<u>18,030,772</u>	<u>5,684,345</u>	<u>(2,612,001)</u>	<u>-</u>	<u>53,285,565</u>
Total liabilities and net assets	<u>\$ 57,177,632</u>	<u>\$ 36,015,145</u>	<u>\$ 14,071,877</u>	<u>\$ 1,000,900</u>	<u>\$ 11,677,107</u>	<u>\$ 59,347,270</u>	<u>\$ 16,623,022</u>	<u>\$ 8,019,104</u>	<u>\$ 11,660,455</u>	<u>\$ (31,441,419)</u>	<u>\$ 184,151,093</u>

**THE ROMAN CATHOLIC DIOCESE OF SAN JOSE,
CENTRAL ADMINSTRATIVE OFFICE**

CONSOLIDATED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS - ALL FUNDS

Year Ended June 30, 2013

	Operating Fund	Cemetery Fund	Endowment Fund	Priest Retirement Funds	Deposit and Loan Funds	Service Funds	Fundraising Funds	Holy Spirit School	Eliminations	Total
Revenues										
Gifts, bequests, and collections	\$ 6,134,198	\$ -	\$ 112,360	\$ 121,817	\$ 166,999	\$ -	\$ 5,481,501	\$ 1,017,910	\$ -	\$ 13,034,785
Fees and expense reimbursement	793,611	-	-	1,663,595	-	870,213	-	-	(43,084)	3,284,335
Diocesan assessment	3,330,209	-	-	-	-	-	-	-	(281,225)	3,048,984
Education income	1,009,944	-	-	-	-	-	-	3,833,289	(30,965)	4,812,268
Rental income	308,391	65,200	124,556	-	-	-	-	4,631	-	502,778
Investment income	17,767	486,652	1,224,484	(1,996)	58,741	1,098,156	10,836	79,661	(278,873)	2,695,428
Interest income from loans	-	-	-	-	756,262	-	-	-	-	756,262
Cemetery revenues	-	6,125,919	-	-	-	-	-	-	-	6,125,919
Insurance premium income	-	-	-	-	-	22,417,284	-	-	-	22,417,284
Newspaper income	471,102	-	-	-	-	-	-	-	-	471,102
Grant income	397,344	-	150,000	-	-	-	3,928	-	-	551,272
Other income	-	24,371	-	-	-	4,500	-	11,487	-	40,358
Total revenues	12,462,566	6,702,142	1,611,400	1,783,416	982,002	24,390,153	5,496,265	4,946,978	(634,147)	57,740,775
Expenses										
Pastoral	4,642,360	-	-	-	-	-	-	-	-	4,642,360
Religious and personnel development	2,966,914	-	-	-	-	-	-	-	-	2,966,914
Education	880,747	-	241,989	-	-	-	-	3,559,295	(57,432)	4,624,599
Pension, priest retirement	-	-	-	1,493,366	-	-	-	-	-	1,493,366
Administration	2,116,317	-	220	-	(212,946)	1,919,454	-	720,879	-	4,543,924
Depreciation expense	1,006,606	159,529	-	-	-	-	54,941	514,061	-	1,735,137
Interest expense deposits	-	-	-	-	624,139	-	-	-	(278,873)	345,266
Interest expense notes and bonds	392,058	36,627	-	-	826,362	-	-	-	-	1,255,047
Insurance premiums and benefits	-	-	-	-	-	20,593,766	-	-	-	20,593,766
Newspaper expenses	517,557	-	-	-	-	-	-	-	-	517,557
Cemetery expenses	-	4,821,459	-	-	-	-	-	-	(297,842)	4,523,617
Fundraising expenses	-	-	-	-	-	-	886,575	122,327	-	1,008,902
Total expenses	12,522,559	5,017,615	242,209	1,493,366	1,237,555	22,513,220	941,516	4,916,562	(634,147)	48,250,455
Change in net assets before transfers	(59,993)	1,684,527	1,369,191	290,050	(255,553)	1,876,933	4,554,749	30,416	-	9,490,320
Intrafund transfers										
Annual appeal transfer	4,250,000	-	-	-	-	-	(4,250,000)	-	-	-
Annual appeal distribution	-	-	-	-	-	-	-	-	-	-
Other intrafund transfers	(1,070,521)	-	1,378,862	(112,637)	-	(200,800)	5,096	-	-	-
Total transfers	3,179,479	-	1,378,862	(112,637)	-	(200,800)	(4,244,904)	-	-	-
Increase (decrease) in net assets from operations	3,119,486	1,684,527	2,748,053	177,413	(255,553)	1,676,133	309,845	30,416	-	9,490,320
Change in fair value of rate swap	24,190	-	-	-	1,789,168	-	-	-	-	1,813,358
Change in obligations for post-retirement benefits	812,594	501,952	-	3,693,979	-	141,763	80,615	786,392	-	6,017,295
Increase (decrease) in net assets	3,956,270	2,186,479	2,748,053	3,871,392	1,533,615	1,817,896	390,460	816,808	-	17,320,973
Net assets at the beginning of the year - restated	16,616,007	21,258,357	8,960,024	(16,706,526)	(12,290,937)	16,212,876	5,293,885	(3,428,809)	-	35,914,877
Effect of prior period adjustment (Note 19)	-	49,715	-	-	-	-	-	-	-	49,715
Net assets at the end of the year	\$ 20,572,277	\$ 23,494,551	\$ 11,708,077	\$ (12,835,134)	\$ (10,757,322)	\$ 18,030,772	\$ 5,684,345	\$ (2,612,001)	\$ -	\$ 53,285,565

**THE ROMAN CATHOLIC DIOCESE OF SAN JOSE,
CENTRAL ADMINISTRATIVE OFFICE
CONSOLIDATED STATEMENT OF ASSETS, LIABILITIES, AND NET ASSETS – SERVICE FUNDS
Years Ended June 30, 2014 and 2013**

	2014				2013			
	Payroll Fund	Benefit Fund	Comprehensive Insurance Fund	Total	Payroll Fund	Benefit Fund	Comprehensive Insurance Fund	Total
ASSETS								
Cash and equivalents	\$ (109,333)	\$ 4,756,781	\$ 1,293,925	\$ 5,941,373	\$ 533,733	\$ 2,892,191	\$ 1,477,720	\$ 4,903,644
Marketable securities	-	2,603,363	8,527,495	11,130,858	-	2,197,516	7,018,136	9,215,652
A/R - Parishes/Institutions	128,479	614,515	190,960	933,954	19,767	174,234	99,690	293,691
A/R - other	-	224,328	32,718	257,046	10,694	89,498	42,157	142,349
Deposits and prepaids	149,009	-	144,330	293,339	-	10,067	231,081	241,148
Interest bearing intrafund account	-	967,604	864,422	1,832,026	-	964,705	861,833	1,826,538
Total assets	<u>\$ 168,155</u>	<u>\$ 9,166,591</u>	<u>\$ 11,053,850</u>	<u>\$ 20,388,596</u>	<u>\$ 564,194</u>	<u>\$ 6,328,211</u>	<u>\$ 9,730,617</u>	<u>\$ 16,623,022</u>
LIABILITIES AND NET ASSETS								
Liabilities								
Accounts payable	\$ 23,277	\$ 12,457	\$ 22,670	\$ 58,404	\$ 128,989	\$ 12,120	\$ 58,226	\$ 199,335
Accrued liabilities	347,013	2,558,563	1,379,468	4,285,044	306,790	1,444,158	1,116,978	2,867,926
Held for Parishes/Institutions	-	-	86,185	86,185	-	-	524,989	524,989
Deferred revenue	-	1,347,741	-	1,347,741	-	-	-	-
Due to/from other funds	-	(4,000,000)	(1,000,000)	(5,000,000)	-	(4,000,000)	(1,000,000)	(5,000,000)
Total liabilities	370,290	(81,239)	488,323	777,374	435,779	(2,543,722)	700,193	(1,407,750)
Net Assets								
Unrestricted								
Undesignated	(202,135)	8,728,087	2,038,032	10,563,984	128,415	8,482,183	3,163,532	11,774,130
Designated	-	519,743	8,527,495	9,047,238	-	389,750	5,866,892	6,256,642
Total net assets (deficit)	<u>(202,135)</u>	<u>9,247,830</u>	<u>10,565,527</u>	<u>19,611,222</u>	<u>128,415</u>	<u>8,871,933</u>	<u>9,030,424</u>	<u>18,030,772</u>
Total liabilities and net assets	<u>\$ 168,155</u>	<u>\$ 9,166,591</u>	<u>\$ 11,053,850</u>	<u>\$ 20,388,596</u>	<u>\$ 564,194</u>	<u>\$ 6,328,211</u>	<u>\$ 9,730,617</u>	<u>\$ 16,623,022</u>

**THE ROMAN CATHOLIC DIOCESE OF SAN JOSE,
CENTRAL ADMINISTRATIVE OFFICE
CONSOLIDATED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS – SERVICE FUNDS
Years Ended June 30, 2014 and 2013**

	2014				2013			
	Payroll Fund	Benefit Fund	Comprehensive Insurance Fund	Total	Payroll Fund	Benefit Fund	Comprehensive Insurance Fund	Total
Revenues								
Fees and expense reimbursement	\$ 951,482	\$ -	\$ -	\$ 951,482	\$ 870,213	\$ -	\$ -	\$ 870,213
Investment income	(2,709)	442,396	1,318,684	1,758,371	484	273,161	824,511	1,098,156
Insurance premium income	-	19,204,744	5,244,018	24,448,762	-	17,624,841	4,792,443	22,417,284
Other income	-	-	-	-	-	4,500	-	4,500
Total revenues	948,773	19,647,140	6,562,702	27,158,615	870,697	17,902,502	5,616,954	24,390,153
Expenses								
Administration	702,531	134,541	827,064	1,664,136	549,845	269,789	1,099,820	1,919,454
Depreciation expense	89,987	-	-	89,987	-	-	-	-
Insurance premiums and benefits	282,650	19,106,383	3,899,271	23,288,304	115,517	17,192,186	3,286,063	20,593,766
Total expenses	1,075,168	19,240,924	4,726,335	25,042,427	665,362	17,461,975	4,385,883	22,513,220
Intrafund transfers	(203,500)	-	-	(203,500)	(200,800)	-	-	(200,800)
Increase (decrease) in net assets from operations	(329,895)	406,216	1,836,367	1,912,688	4,535	440,527	1,231,071	1,676,133
Change in obligations for post-retirement benefits	(655)	(30,318)	(301,265)	(332,238)	15,937	18,471	107,355	141,763
Increase (decrease) in net assets	(330,550)	375,898	1,535,102	1,580,450	20,472	458,998	1,338,426	1,817,896
Net assets at beginning of the year	128,415	8,871,932	9,030,425	18,030,772	107,943	8,412,935	7,691,998	16,212,876
Net assets at end of year	<u>\$ (202,135)</u>	<u>\$ 9,247,830</u>	<u>\$ 10,565,527</u>	<u>\$ 19,611,222</u>	<u>\$ 128,415</u>	<u>\$ 8,871,933</u>	<u>\$ 9,030,424</u>	<u>\$ 18,030,772</u>

**THE ROMAN CATHOLIC DIOCESE OF SAN JOSE,
CENTRAL ADMINISTRATIVE OFFICE**

CONSOLIDATED STATEMENT OF ASSETS, LIABILITIES, AND NET ASSETS – PRIEST RETIREMENT FUNDS

Years Ended June 30, 2014 and 2013

	2014				2013			
	Priest Retirement Fund	Supplemental Plan Fund	Post Retirement Fund	Total	Priest Retirement Fund	Supplemental Plan Fund	Post Retirement Fund	Total
ASSETS								
Cash and equivalents	\$ 1,121,606	\$ -	\$ -	\$ 1,121,606	\$ 960,890	\$ -	\$ -	\$ 960,890
Marketable securities	-	-	-	-	-	-	-	-
A/R - other	-	-	-	-	-	40,010	-	40,010
Land, building, and equipment	-	-	-	-	-	-	-	-
Total assets	<u>\$ 1,121,606</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,121,606</u>	<u>\$ 960,890</u>	<u>\$ 40,010</u>	<u>\$ -</u>	<u>\$ 1,000,900</u>
LIABILITIES AND NET ASSETS								
Liabilities								
Accounts payable	\$ 16,539	\$ -	\$ 480	\$ 17,019	\$ (26,190)	\$ 42,030	\$ -	\$ 15,840
Accrued liabilities	10,962,524	1,589,740	2,935,170	15,487,434	10,048,092	1,058,240	2,870,119	13,976,451
Due to/from other funds	<u>(118,894)</u>	<u>-</u>	<u>-</u>	<u>(118,894)</u>	<u>(156,257)</u>	<u>-</u>	<u>-</u>	<u>(156,257)</u>
Total liabilities	10,860,169	1,589,740	2,935,650	15,385,559	9,865,645	1,100,270	2,870,119	13,836,034
Net Assets								
Unrestricted								
Undesignated	(9,738,563)	(1,589,740)	(2,935,650)	(14,263,953)	(8,929,755)	(1,060,260)	(2,870,119)	(12,860,134)
Designated	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>25,000</u>	<u>-</u>	<u>-</u>	<u>25,000</u>
Total net assets (deficit)	<u>(9,738,563)</u>	<u>(1,589,740)</u>	<u>(2,935,650)</u>	<u>(14,263,953)</u>	<u>(8,904,755)</u>	<u>(1,060,260)</u>	<u>(2,870,119)</u>	<u>(12,835,134)</u>
Total liabilities and net assets	<u>\$ 1,121,606</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,121,606</u>	<u>\$ 960,890</u>	<u>\$ 40,010</u>	<u>\$ -</u>	<u>\$ 1,000,900</u>

**THE ROMAN CATHOLIC DIOCESE OF SAN JOSE,
CENTRAL ADMINSTRATIVE OFFICE**

CONSOLIDATED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS – PRIEST RETIREMENT FUNDS

Years Ended June 30, 2014 and 2013

	2014				2013			
	Priest Retirement Fund	Supplemental Plan Fund	Post Retirement Fund	Total	Priest Retirement Fund	Supplemental Plan Fund	Post Retirement Fund	Total
Revenues								
Gifts, bequests and collections	\$ -	\$ 12,245	\$ -	\$ 12,245	\$ 28,382	\$ 93,435	\$ -	\$ 121,817
Fees and expense reimbursement	1,409,497	-	-	1,409,497	1,663,595	-	-	1,663,595
Investment income	14,368	(1,725)	(21,297)	(8,654)	2,008	(423)	(3,581)	(1,996)
Total revenues	1,423,865	10,520	(21,297)	1,413,088	1,693,985	93,012	(3,581)	1,783,416
Expenses								
Administration	1,003,057	36,829	(645,779)	394,107	1,286,645	135,529	71,192	1,493,366
Depreciation expense	-	-	-	-	-	-	-	-
Total expenses	1,003,057	36,829	(645,779)	394,107	1,286,645	135,529	71,192	1,493,366
Intrafund transfers	(527,132)	10,000	391,000	(126,132)	(620,637)	-	508,000	(112,637)
Increase in net assets before effect of change in accounting principle (Footnote 14)	(106,324)	(16,309)	1,015,482	892,849	(213,297)	(42,517)	433,227	177,413
Change in obligations for post-retirement benefits	(727,484)	(513,171)	(1,081,013)	(2,321,668)	2,600,575	497,691	595,713	3,693,979
Increase (decrease) in net assets	(833,808)	(529,480)	(65,531)	(1,428,819)	2,387,278	455,174	1,028,940	3,871,392
Net assets at beginning of the year	(8,904,755)	(1,060,260)	(2,870,119)	(12,835,134)	(11,292,033)	(1,515,434)	(3,899,059)	(16,706,526)
Net assets at end of year	<u>\$ (9,738,563)</u>	<u>\$ (1,589,740)</u>	<u>\$ (2,935,650)</u>	<u>\$ (14,263,953)</u>	<u>\$ (8,904,755)</u>	<u>\$ (1,060,260)</u>	<u>\$ (2,870,119)</u>	<u>\$ (12,835,134)</u>

**THE ROMAN CATHOLIC DIOCESE OF SAN JOSE,
CENTRAL ADMINISTRATIVE OFFICE**

CONSOLIDATED STATEMENT OF ASSETS, LIABILITIES, AND NET ASSETS – FUNDRAISING FUNDS

Years Ended June 30, 2014 and 2013

	2014				2013			
	Fundraising Funds	Annual Appeal Fund	Charitable Gift Annuity Fund	Total	Fundraising Funds	Annual Appeal Fund	Charitable Gift Annuity Fund	Total
ASSETS								
Cash and equivalents	\$ 256,573	\$ 6,473,344	\$ -	\$ 6,729,917	\$ 273,190	\$ 5,864,813	\$ -	\$ 6,138,003
A/R - pledges	-	1,692,855	-	1,692,855	-	1,713,185	-	1,713,185
Assets held in trust	-	-	143,386	143,386	-	-	154,251	154,251
Interest bearing intrafund account	13,906	-	-	13,906	13,665	-	-	13,665
Total assets	<u>\$ 270,479</u>	<u>\$ 8,166,199</u>	<u>\$ 143,386</u>	<u>\$ 8,580,064</u>	<u>\$ 286,855</u>	<u>\$ 7,577,998</u>	<u>\$ 154,251</u>	<u>\$ 8,019,104</u>
LIABILITIES AND NET ASSETS								
Liabilities								
Accounts payable	\$ 1,388	\$ 30,287	\$ -	\$ 31,675	\$ 5,568	\$ 4,911	\$ -	\$ 10,479
Pledges payable to Parishes	-	2,109,018	-	2,109,018	-	1,720,980	-	1,720,980
Accrued liabilities	270,355	218,738	-	489,093	283,763	165,286	-	449,049
Trust assets held for Parish	-	-	143,386	143,386	-	-	154,251	154,251
Total liabilities	271,743	2,358,043	143,386	2,773,172	289,331	1,891,177	154,251	2,334,759
Net Assets								
Unrestricted								
Undesignated	(1,264)	(15,613)	-	(16,877)	(2,476)	-	-	(2,476)
Temporarily restricted	-	5,823,769	-	5,823,769	-	5,686,821	-	5,686,821
Total net assets (deficit)	<u>(1,264)</u>	<u>5,808,156</u>	<u>-</u>	<u>5,806,892</u>	<u>(2,476)</u>	<u>5,686,821</u>	<u>-</u>	<u>5,684,345</u>
Total liabilities and net assets	<u>\$ 270,479</u>	<u>\$ 8,166,199</u>	<u>\$ 143,386</u>	<u>\$ 8,580,064</u>	<u>\$ 286,855</u>	<u>\$ 7,577,998</u>	<u>\$ 154,251</u>	<u>\$ 8,019,104</u>

**THE ROMAN CATHOLIC DIOCESE OF SAN JOSE,
CENTRAL ADMINSTRATIVE OFFICE**

CONSOLIDATED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS – FUNDRAISING FUNDS

Years Ended June 30, 2014 and 2013

	2014			2013		
	Fundraising Funds	Annual Appeal Fund	Total	Fundraising Funds	Annual Appeal Fund	Total
Revenues						
Gifts, bequests and collections	\$ -	\$ 5,594,749	\$ 5,594,749	\$ -	\$ 5,481,501	\$ 5,481,501
Investment income	733	69,014	69,747	353	10,483	10,836
Other income	10,000	-	10,000	3,928	-	3,928
Total revenues	10,733	5,663,763	5,674,496	4,281	5,491,984	5,496,265
Expenses						
Administration	277,090	641,048	918,138	266,779	619,796	886,575
Depreciation expense	-	-	-	-	54,941	54,941
Total expenses	277,090	641,048	918,138	266,779	674,737	941,516
Change in net assets before transfers	(266,357)	5,022,715	4,756,358	(262,498)	4,817,247	4,554,749
Intrafund transfers						
Annual appeal distributions	252,250	(252,250)	-	331,375	(331,375)	-
Other transfers	-	-	-	-	5,096	5,096
Annual appeal transfers	-	(4,600,000)	(4,600,000)	-	(4,250,000)	(4,250,000)
Total transfers	252,250	(4,852,250)	(4,600,000)	331,375	(4,576,279)	(4,244,904)
Increase (decrease) in net assets from operations	(14,107)	170,465	156,358	68,877	240,968	309,845
Change in obligations for post-retirement benefits	15,320	(49,130)	(33,810)	42,584	38,031	80,615
Increase (decrease) in net assets	1,213	121,335	122,548	111,461	278,999	390,460
Net assets at beginning of the year	(2,477)	5,686,821	5,684,344	(113,937)	5,407,822	5,293,885
Net assets at end of year	<u>\$ (1,264)</u>	<u>\$ 5,808,156</u>	<u>\$ 5,806,892</u>	<u>\$ (2,476)</u>	<u>\$ 5,686,821</u>	<u>\$ 5,684,345</u>

**THE ROMAN CATHOLIC DIOCESE OF SAN JOSE,
CENTRAL ADMINSTRATIVE OFFICE**

CONSOLIDATED STATEMENT OF ASSETS, LIABILITIES, AND NET ASSETS – DEPOSIT AND LOAN FUNDS

Years Ended June 30, 2014 and 2013

	2014			2013		
	Deposit and Loan Fund	Employee Loan Fund	Total	Deposit and Loan Fund	Employee Loan Fund	Total
ASSETS						
Cash and equivalents	\$ 20,202,453	\$ 653,545	\$ 20,855,998	\$ 21,396,342	\$ 630,306	\$ 22,026,648
A/R - Parishes/Institutions	2,950	-	2,950	-	-	-
A/R - other	-	42,003	42,003	7,500	69,769	77,269
Loans receivables - Parishes	35,445,690	-	35,445,690	36,825,005	-	36,825,005
Inventory	-	-	-	-	-	-
Bond issuance costs	358,923	-	358,923	372,468	-	372,468
Deposits and prepaids	24,954	-	24,954	45,880	-	45,880
Total assets	<u>\$ 56,034,970</u>	<u>\$ 695,548</u>	<u>\$ 56,730,518</u>	<u>\$ 58,647,195</u>	<u>\$ 700,075</u>	<u>\$ 59,347,270</u>
LIABILITIES AND NET ASSETS						
Liabilities						
Accounts payable	\$ 131,826	\$ -	\$ 131,826	\$ 30,781	\$ 9,970	\$ 40,751
Accrued liabilities	59,547	-	59,547	52,345	-	52,345
Deposits payable - Parishes	52,825,137	-	52,825,137	55,266,800	-	55,266,800
Debentures payable	14,612,759	-	14,612,759	14,744,696	-	14,744,696
Total liabilities	67,629,269	-	67,629,269	70,094,622	9,970	70,104,592
Net Assets						
Unrestricted						
Undesignated	(11,594,299)	695,548	(10,898,751)	(11,447,427)	690,105	(10,757,322)
Change in net assets current year	-	-	-	-	-	-
Total net assets (deficit)	<u>(11,594,299)</u>	<u>695,548</u>	<u>(10,898,751)</u>	<u>(11,447,427)</u>	<u>690,105</u>	<u>(10,757,322)</u>
Total liabilities and net assets	<u>\$ 56,034,970</u>	<u>\$ 695,548</u>	<u>\$ 56,730,518</u>	<u>\$ 58,647,195</u>	<u>\$ 700,075</u>	<u>\$ 59,347,270</u>

**THE ROMAN CATHOLIC DIOCESE OF SAN JOSE,
CENTRAL ADMINISTRATIVE OFFICE**

CONSOLIDATED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS - DEPOSITS AND LOAN FUNDS
Years Ended June 30, 2014 and 2013

	2014			2013		
	Deposit and Loan Fund	Employee Loan Fund	Total	Deposit and Loan Fund	Employee Loan Fund	Total
Revenues						
Gifts, bequests and collections	\$ 12,500	\$ -	\$ 12,500	\$ 166,999	\$ -	\$ 166,999
Investment income	213,349	5,318	218,667	57,851	890	58,741
Interest income from loans	844,646	2,567	847,213	752,222	4,040	756,262
Total revenues	1,070,495	7,885	1,078,380	977,072	4,930	982,002
Expenses						
Administration	(370,469)	2,442	(368,027)	(212,474)	(472)	(212,946)
Interest expense-deposits	469,352	-	469,352	624,139	-	624,139
Interest expense-bonds, notes, other	768,954	-	768,954	826,362	-	826,362
Total expenses	867,837	2,442	870,279	1,238,027	(472)	1,237,555
Increase (decrease) in net assets from operations	202,658	5,443	208,101	(260,955)	5,402	(255,553)
Change in fair value of rate swap	(349,531)	-	(349,531)	1,789,168	-	1,789,168
Increase (decrease) in net assets	(146,873)	5,443	(141,430)	1,528,213	5,402	1,533,615
Net assets at beginning of the year	(11,447,426)	690,105	(10,757,321)	(12,975,640)	684,703	(12,290,937)
Net assets at end of year	\$ (11,594,299)	\$ 695,548	\$ (10,898,751)	\$ (11,447,427)	\$ 690,105	\$ (10,757,322)