



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, 2016 and 2015

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 the Central Administrative Office of the Roman Catholic Diocese of San Jose and Affiliate, which comprise the consolidated statements of financial position as of June 30, 2016 and 2015, and the related consolidated statements of activities and cash flows for the years 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 the Central Administrative Office of the Roman Catholic Diocese of San Jose and affiliate as of June 30, 2016 and 2015, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Mass Adams LLP

San Francisco, California
December 19, 2016

CONSOLIDATED FINANCIAL STATEMENTS

**THE ROMAN CATHOLIC DIOCESE OF SAN JOSE AND AFFILIATE,
CENTRAL ADMINISTRATIVE OFFICE
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30, 2016 and 2015**

| | <u>2016</u> | <u>2015</u> |
|---|-----------------------|-----------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 78,666,470 | \$ 67,312,785 |
| Marketable securities | 64,037,580 | 57,774,411 |
| Receivables | | |
| Receivables from parishes and institutions (net of allowance for doubtful accounts of \$413,950 in 2016 and \$269,328 in 2015) | 3,805,886 | 3,173,378 |
| Pledges (net of allowance for doubtful accounts and valuation reserves of \$14,814 in 2016 and \$20,022 in 2015) | 1,849,942 | 1,660,126 |
| Other (net of allowance for doubtful accounts and valuation reserves of \$363,509 in 2016 and \$914,666 in 2015) | 10,845,878 | 7,567,965 |
| Deposits and prepaid expenses | 415,018 | 619,771 |
| Inventory | 8,992,284 | 7,446,881 |
| Loans receivable from parishes and institutions in Deposit and Loan Fund (net of allowance for loan losses and valuation reserves of \$2,109,759 in 2016 and \$2,007,405 in 2015) | 26,549,344 | 28,651,265 |
| Debenture issuance costs (net of accumulated amortization of \$60,949 in 2015) | - | 345,379 |
| Marketable securities held for long term purposes | 4,444,717 | 4,339,494 |
| Investments in real estate | 5,812,072 | 232,072 |
| Assets held in trust | 626,150 | 11,370,943 |
| Land, buildings, and equipment (net of accumulated depreciation of \$21,081,856 in 2016 and \$19,641,236 in 2015) | 53,696,534 | 55,330,857 |
| Total assets | <u>\$ 259,741,875</u> | <u>\$ 245,825,327</u> |
| LIABILITIES & NET ASSETS | | |
| Liabilities | | |
| Accounts payable | \$ 1,625,532 | \$ 2,379,706 |
| Pledges payable to parishes | 2,425,813 | 2,134,657 |
| Accrued liabilities | 38,083,901 | 32,992,976 |
| Deposits payable to parishes | 53,026,034 | 47,985,610 |
| Debentures payable (including swap liability of \$4,245,025 in 2015) | 22,123,220 | 22,302,025 |
| Trust assets held for parishes | 377,499 | 3,268,081 |
| Held for parishes/institutions | 40,587,866 | 36,305,980 |
| Deferred revenue | 29,150,463 | 26,925,617 |
| Total liabilities | 187,400,328 | 174,294,652 |
| Net Assets | | |
| Unrestricted | | |
| Undesignated | 17,036,033 | 17,305,570 |
| Designated | 22,865,726 | 23,100,992 |
| Total unrestricted assets | 39,901,759 | 40,406,562 |
| Temporarily restricted | 27,995,071 | 26,784,619 |
| Permanently restricted | 4,444,717 | 4,339,494 |
| Total net assets | <u>72,341,547</u> | <u>71,530,675</u> |
| Total liabilities and net assets | <u>\$ 259,741,875</u> | <u>\$ 245,825,327</u> |

See accompanying notes.

**THE ROMAN CATHOLIC DIOCESE OF SAN JOSE AND AFFILIATE,
CENTRAL ADMINISTRATIVE OFFICE
CONSOLIDATED STATEMENTS OF ACTIVITIES
Years Ended June 30, 2016 and 2015**

| | 2016 | | | | 2015 | | | |
|--|----------------------|---------------------------|---------------------------|----------------------|----------------------|---------------------------|---------------------------|----------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Revenues | | | | | | | | |
| Gifts, bequests, and collections | \$ 1,299,895 | \$ 6,279,088 | \$ 105,223 | \$ 7,684,206 | \$ 4,645,554 | \$ 5,761,941 | \$ 103,479 | \$ 10,510,974 |
| Fees and expense reimbursement | 3,472,896 | - | - | 3,472,896 | 3,590,152 | - | - | 3,590,152 |
| Diocesan assessment | 3,274,692 | - | - | 3,274,692 | 3,195,133 | - | - | 3,195,133 |
| Education income | 983,838 | - | - | 983,838 | 971,016 | - | - | 971,016 |
| Rental income | 505,374 | 110,209 | - | 615,583 | 589,847 | - | - | 589,847 |
| Investment income | 293,400 | 220,105 | - | 513,505 | 781,822 | 770,367 | - | 1,552,189 |
| Interest income from loans | 664,062 | - | - | 664,062 | 855,491 | - | - | 855,491 |
| Cemetery revenues | 8,955,206 | - | - | 8,955,206 | 7,885,844 | - | - | 7,885,844 |
| Insurance premium income | 27,555,729 | - | - | 27,555,729 | 26,592,881 | - | - | 26,592,881 |
| Newspaper income | 486,430 | - | - | 486,430 | 487,708 | - | - | 487,708 |
| Grant income | 727,386 | 2,776,598 | - | 3,503,984 | 686,115 | 1,315,000 | - | 2,001,115 |
| Other income | 67,355 | - | - | 67,355 | 27,323 | - | - | 27,323 |
| Subtotal revenues from operations | 48,286,263 | 9,386,000 | 105,223 | 57,777,486 | 50,308,886 | 7,847,308 | 103,479 | 58,259,673 |
| Net assets released from restrictions (See Note 10) | 8,175,548 | (8,175,548) | - | - | 6,304,476 | (6,304,476) | - | - |
| Total revenues | 56,461,811 | 1,210,452 | 105,223 | 57,777,486 | 56,613,362 | 1,542,832 | 103,479 | 58,259,673 |
| Expenses | | | | | | | | |
| Pastoral | 5,253,245 | - | - | 5,253,245 | 4,798,855 | - | - | 4,798,855 |
| Religious and personnel development | 2,854,326 | - | - | 2,854,326 | 2,904,244 | - | - | 2,904,244 |
| Education | 1,919,804 | - | - | 1,919,804 | 1,608,774 | - | - | 1,608,774 |
| Pension, priest retirement | 6,014,915 | - | - | 6,014,915 | 2,136,316 | - | - | 2,136,316 |
| Administration | 4,524,392 | - | - | 4,524,392 | 3,143,797 | - | - | 3,143,797 |
| Depreciation expense | 1,603,750 | - | - | 1,603,750 | 1,696,583 | - | - | 1,696,583 |
| Interest expense - deposits | 240,085 | - | - | 240,085 | 311,055 | - | - | 311,055 |
| Interest expense - notes and bonds | 1,893,996 | - | - | 1,893,996 | 1,195,165 | - | - | 1,195,165 |
| Insurance premiums and benefits | 25,670,213 | - | - | 25,670,213 | 24,640,318 | - | - | 24,640,318 |
| Newspaper expenses | 534,497 | - | - | 534,497 | 564,761 | - | - | 564,761 |
| Cemetery expenses | 5,777,472 | - | - | 5,777,472 | 5,077,324 | - | - | 5,077,324 |
| Fundraising expenses | 1,064,846 | - | - | 1,064,846 | 913,778 | - | - | 913,778 |
| Total expenses | 57,351,541 | - | - | 57,351,541 | 48,990,970 | - | - | 48,990,970 |
| Increase (decrease) in net assets from operations | (889,730) | 1,210,452 | 105,223 | 425,945 | 7,622,392 | 1,542,832 | 103,479 | 9,268,703 |
| Change in fair value of interest rate swap | - | - | - | - | 71,018 | - | - | 71,018 |
| Gain (loss) on disposition of assets | 2,644,807 | - | - | 2,644,807 | - | - | - | - |
| Change in obligations for post-retirement benefits | (2,259,880) | - | - | (2,259,880) | (3,123,981) | - | - | (3,123,981) |
| Change in net assets | (504,803) | 1,210,452 | 105,223 | 810,872 | 4,569,429 | 1,542,832 | 103,479 | 6,215,740 |
| Net assets at the beginning of the year | 40,406,562 | 26,784,619 | 4,339,494 | 71,530,675 | 35,837,133 | 25,241,787 | 4,236,015 | 65,314,935 |
| Net assets at the end of the year | <u>\$ 39,901,759</u> | <u>\$ 27,995,071</u> | <u>\$ 4,444,717</u> | <u>\$ 72,341,547</u> | <u>\$ 40,406,562</u> | <u>\$ 26,784,619</u> | <u>\$ 4,339,494</u> | <u>\$ 71,530,675</u> |

See accompanying notes.

**THE ROMAN CATHOLIC DIOCESE OF SAN JOSE AND AFFILIATE,
CENTRAL ADMINISTRATIVE OFFICE
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended June 30, 2016 and 2015**

| | <u>2016</u> | <u>2015</u> |
|--|----------------------|----------------------|
| Operating Activities | | |
| Change in net assets | \$ 810,872 | \$ 6,215,740 |
| Change in fair value of interest rate swap | - | (71,018) |
| Gain on disposition of assets | (2,644,807) | - |
| Change in obligations for post-retirement benefits and unfunded pension liabilities | <u>2,259,880</u> | <u>3,123,981</u> |
| Change in net assets from operations | 425,945 | 9,268,703 |
| Adjustment to reconcile change in net assets to net cash from operating activities | | |
| Depreciation | 1,603,750 | 1,696,583 |
| Allowance for doubtful accounts | (309,390) | (91,646) |
| Write down of bond issuance costs | 345,379 | 13,545 |
| Unrealized investment (gains)/losses | 265,235 | (736,399) |
| Changes in operating assets and liabilities | | |
| Receivables | (3,688,493) | (1,994,305) |
| Inventory | (1,545,403) | 721,639 |
| Deposits and prepaid expenses | 204,753 | (212,790) |
| Assets held in trust | 10,744,793 | (2,323,228) |
| Trust assets held for parish | (2,890,582) | 11,100 |
| Accounts payable and pledges payable | (463,018) | 890,832 |
| Accrued liabilities | 2,831,045 | 1,254,396 |
| Held for parishes and institutions | 4,281,886 | 7,804,450 |
| Deferred revenue | <u>2,224,846</u> | <u>7,374,648</u> |
| Net cash provided by operating activities | 14,030,746 | 23,677,528 |
| Investing Activities | | |
| Additions to land, buildings, and equipment | - | (5,689,063) |
| Disposal of land, building, and equipment | 2,675,380 | - |
| Increase in land held for investment | (5,580,000) | - |
| Decrease in loans and interest receivable | 1,999,567 | 3,008,417 |
| Less purchase of marketable securities | (7,522,636) | (5,759,372) |
| Add proceeds from sale of marketable securities | <u>889,009</u> | <u>980,995</u> |
| Net cash used in investing activities | (7,538,680) | (7,459,023) |
| Financing Activities | | |
| Increase in deposits payable | 5,040,424 | 11,447,179 |
| Increase in borrowings on bonds payable | 22,309,131 | - |
| Less payments on notes and bonds payable | <u>(22,487,936)</u> | <u>(1,407,000)</u> |
| Net cash provided by financing activities | <u>4,861,619</u> | <u>10,040,179</u> |
| Net increase in cash and cash equivalents | 11,353,685 | 26,258,684 |
| Cash and cash equivalents, beginning of year | <u>67,312,785</u> | <u>41,054,101</u> |
| Cash and cash equivalents, end of year | <u>\$ 78,666,470</u> | <u>\$ 67,312,785</u> |
| Supplemental disclosures for cash paid for | | |
| Interest | <u>\$ 1,432,640</u> | <u>\$ 1,012,313</u> |
| Taxes | <u>\$ -</u> | <u>\$ 1</u> |

See accompanying notes.

**THE ROMAN CATHOLIC DIOCESE OF SAN JOSE AND AFFILIATE,
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 Roman Catholic Bishop of San Jose Master Irrevocable Trust is a trust created August 8, 2011 of which the Roman Catholic Bishop of San Jose, A Corporation Sole, is the trustee of, formed to provide ease of administration for certain real property assets.

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 consolidated statements are the parish churches, elementary, and secondary schools, The Catholic Community Foundation of Santa Clara County, Catholic Charities of Santa Clara County, The Roman Catholic Seminary Corporation of San Jose (“Seminary”), 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, St. John XXIII College Preparatory, 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:

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.

Operating fund – This fund contains restricted and 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. The CAO does not apply a time restriction on gifts of long-lived assets. The operations of the Newspaper are included in the Operating fund.

Further included in this fund are uncollected donor bequests and trusts and other donor-restricted gifts which are classified as temporarily restricted net assets.

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 AND AFFILIATE,
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, 2016 and 2015, the interest rate on loans was 5.0%. Since May 31, 2009, no new loans, other than loans to clergy, were being made from this fund pending revision of the loan approval and collection policies and procedures.

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.

This fund also contains resources that are temporarily restricted in accordance with trust or other donor agreements.

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, 2016 and 2015, the effective rate was 0.30% to 1.30%, depending on the term of the deposit. The interest rates applied to loans range from 2.25% to 5.0% as of June 30, 2016 and 2015, with some loans on nonaccrual of interest.

The Deposit and Loan Fund had \$53,026,034 and \$47,985,610 of deposits from parishes and schools as of June 30, 2016 and 2015, respectively.

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

| As of June 30, 2016 | By Term | | | |
|---------------------|----------------------|---------------------|---------------------|----------------------|
| | <1 Year | 1-2 Years | 6 Years | Total |
| Parishes | \$ 35,870,832 | \$ 3,351,653 | \$ 2,456,673 | \$ 41,679,158 |
| Schools | 7,852,948 | 2,534,419 | 959,509 | 11,346,876 |
| | <u>\$ 43,723,780</u> | <u>\$ 5,886,072</u> | <u>\$ 3,416,182</u> | <u>\$ 53,026,034</u> |

| As of June 30, 2015 | By Term | | | |
|---------------------|----------------------|---------------------|---------------------|----------------------|
| | <1 Year | 1-2 Years | 6 Years | Total |
| Parishes | \$ 29,954,750 | \$ 2,833,155 | \$ 3,670,047 | \$ 36,457,952 |
| Schools | 7,301,600 | 1,886,741 | 2,339,317 | 11,527,658 |
| | <u>\$ 37,256,350</u> | <u>\$ 4,719,896</u> | <u>\$ 6,009,364</u> | <u>\$ 47,985,610</u> |

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

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 AND AFFILIATE,
CENTRAL ADMINISTRATIVE OFFICE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") and with the financial statement standards 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 below.

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 Diocese and its affiliate. All material interorganization transactions and balances have been eliminated upon consolidation.

Net assets – The CAO is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted net assets – Consist of resources of the CAO that have not been restricted by a donor. A portion of unrestricted net assets of the operating fund has been designated for certain initiatives.

Temporarily restricted net assets – Consist of cash and other assets received with donor stipulations that limit the use of donated assets. Donor restrictions are stipulated by either a time restriction or a purpose restriction. Upon expiration of a time restriction or completion of a purpose restriction, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities as net assets released from restriction.

Permanently restricted net assets – Consist of cash and other assets received from donors to provide a permanent source of income. If the donor does not restrict the allowed use of the income, the organization may determine the income's availability to the organization's operations.

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, 2016 and 2015, exceeded federal depository insurance coverage. The CAO has not experienced any losses in such accounts.

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.

These investment securities are exposed to various risks, such as interest rate, market, and credit risk. Due to the level of risk associated with certain investment securities, it is at least reasonably possible changes in the values of investment securities will occur in the near term and such changes could materially affect total net assets and the amounts reported in the consolidated statements of financial position.

Receivables – 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. Receivables are non-interest bearing and unsecured. Receivables are determined to be past due based on contractual terms.

Also included in receivables are employee loans receivable, Valley Catholic Newspaper receivables, and beneficial interests in charitable remainder, unitrusts and other trusts.

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

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.

Inventory – 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.

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 as a corporation sole, under the authority of the bishop, has the ability to collect all unpaid amounts from the proceeds of sale of parish or school property upon their disposal.

A loan is identified as impaired when it is probable that interest and principal 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 principal 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.

Debenture issuance costs – Costs incurred in connection with the refinancing of previously issued debentures are being amortized over the remaining life of the refinanced instrument. As of June 30, 2016, the CAO expensed the unamortized balance of the debenture issuance costs due to refinancing the debt. The expense recognized during the year ended June 30, 2016, was \$345,379.

Investments in real estate – Investments in real estate are recorded at cost at the date of acquisition. Investments in real estate consist of land acquisition. The CAO evaluates investments in real estate for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If the estimated future cash flows (undiscounted and without interest charges) from the use of an asset are less than the carrying value, a write-down will be recorded to reduce the related asset to its estimated fair value. As of June 30, 2016 and 2015, no such write-downs have occurred.

Assets held in trust – 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 that is included in the held for parishes / institutions line item on the accompanying consolidated statements of financial position.

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.

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 consolidated statements of activities in the period of change.

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.

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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. Unconditional promises to give expected to be collected in future years are recorded at the discounted present value of their estimated future cash flows using the discount rate applicable to the years in which the promises are received. Conditional promises to give or intentions to give are not recorded in the consolidated financial statements until the conditions are substantially met.

Fair value measurements – Fair value is defined 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. The fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

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, 2016 and 2015.

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 \$2,902,032 for 2016 and \$3,211,421 for 2015 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.

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.

Reclassifications – 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.

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Fair value of financial instruments – Unless otherwise indicated, the fair values of all reported assets and liabilities, which represent financial instruments, approximate their carrying values.

NOTE 3 – MARKETABLE SECURITIES

Marketable securities at June 30 consist of the following:

| | <u>2016</u> | <u>2015</u> |
|---------------------------|----------------------|----------------------|
| Mutual funds | | |
| Domestic | \$ 55,380,297 | \$ 51,300,404 |
| International | 7,595,320 | 7,631,959 |
| Cash and cash equivalents | 746,460 | 1,101,361 |
| Bonds | 2,685,512 | 1,170,676 |
| Corporate stocks | 1,713,971 | 834,798 |
| Other | 360,737 | 74,707 |
| | <u>\$ 68,482,297</u> | <u>\$ 62,113,905</u> |

Investment income at June 30 consist of the following:

| | <u>2016</u> | <u>2015</u> |
|---|-------------------|---------------------|
| Interest and dividends | 787,828 | 959,353 |
| Realized gains, net | 165,397 | 244,262 |
| Unrealized (losses) gains, net | (477,928) | 1,336,896 |
| Total income | 475,297 | 2,540,511 |
| Portfolio manager and custodian fees | (91,241) | (86,272) |
| Net income from investment pool activities | 384,056 | 2,454,239 |
| Investment income-cash management and other | 504,447 | 242,716 |
| Total income from investment activities | 888,503 | 2,696,955 |
| Less income (loss) attributed to custodian and similar funds: | | |
| Interest and dividends (net of manager fees of \$48,526 in 2016 and \$44,355 in 2015) | 507,379 | 430,718 |
| Realized gains, net | 80,312 | 113,551 |
| Unrealized (losses) gains, net | (212,693) | 600,497 |
| Total income attributed to custodian and similar funds | 374,998 | 1,144,766 |
| Total earnings from investment activities excluding custodian and similar funds | <u>\$ 513,505</u> | <u>\$ 1,552,189</u> |

NOTE 4 – PLEDGES RECEIVABLE AND PAYABLE

Pledges receivable and payable are as follows at June 30, 2016:

| | <u>Annual Appeal</u> |
|--|----------------------|
| Due within one year | \$ 1,864,756 |
| Less allowance for doubtful accounts | (14,814) |
| Net pledges receivable | <u>\$ 1,849,942</u> |
| Annual campaign pledges payable from CAO to parishes as of June 30, 2016 | <u>\$ 2,425,813</u> |

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Pledges receivable and payable are as follows at June 30, 2015:

| | <u>Annual Appeal</u> |
|--|----------------------|
| Due within one year | \$ 1,680,148 |
| Less allowance for doubtful accounts | <u>(20,022)</u> |
| Net pledges receivable | <u>\$ 1,660,126</u> |
| Annual campaign pledges payable from CAO to parishes as of June 30, 2015 | <u>\$ 2,134,657</u> |

Pledges due greater than a year are recorded after discounting 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:

| <u>Year ended June 30</u> | |
|---|----------------------|
| 2017 | \$ 1,221,153 |
| 2018 | 2,253,779 |
| 2019 | 1,093,756 |
| 2020 | 1,072,095 |
| 2021 | 1,107,195 |
| Thereafter | <u>21,911,125</u> |
| Subtotal | 28,659,103 |
| Less allowance for loan losses and valuation reserves | <u>(2,109,759)</u> |
| Total loan receivable, net | <u>\$ 26,549,344</u> |

| <u>Year ended June 30</u> | |
|---|----------------------|
| 2016 | \$ 1,155,503 |
| 2017 | 1,086,497 |
| 2018 | 2,203,940 |
| 2019 | 1,078,573 |
| 2020 | 5,307,825 |
| Thereafter | <u>19,826,332</u> |
| Subtotal | 30,658,670 |
| Less allowance for loan losses and valuation reserves | <u>(2,007,405)</u> |
| Total | <u>\$ 28,651,265</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, 2016, there were \$3,270,000 of construction loan commitments with \$1,063,965 of outstanding balances and as of June 30, 2015, there were \$13,087,052 of construction loan commitments with \$4,660,917 of outstanding balances.

Allowances for loan losses are as follows:

| | <u>2016</u> | <u>2015</u> |
|----------------------------|---------------------|---------------------|
| Balance, beginning of year | \$ 2,007,405 | \$ 1,852,944 |
| Present value adjustment | (44,088) | (284,139) |
| Provision for loan losses | <u>146,442</u> | <u>438,600</u> |
| Balance, end of year | <u>\$ 2,109,759</u> | <u>\$ 2,007,405</u> |

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NOTE 6 – LAND, BUILDINGS, AND EQUIPMENT

Land, buildings, and equipment consist of the following at June 30, 2016:

| | <u>Operating Fund</u> | <u>Cemetery Fund</u> | <u>Priest Retirement Plan</u> | <u>Total</u> |
|-------------------------------------|---------------------------|--------------------------|-----------------------------------|----------------------|
| Buildings and improvements | \$ 32,893,498 | \$ 5,814,664 | \$ - | \$ 38,708,162 |
| Leasehold improvements | - | - | 407,388 | 407,388 |
| Furniture and fixtures | 673,640 | 416,982 | - | 1,090,622 |
| Vehicles | 33,838 | 909,575 | - | 943,413 |
| Equipment | 87,989 | 915,331 | - | 1,003,320 |
| Other improvements | 3,433,083 | 227,922 | - | 3,661,005 |
| | <u>37,122,048</u> | <u>8,284,474</u> | <u>407,388</u> | <u>45,813,910</u> |
| Less accumulated depreciation | <u>(15,294,999)</u> | <u>(5,379,469)</u> | <u>(407,388)</u> | <u>(21,081,856)</u> |
| | 21,827,049 | 2,905,005 | - | 24,732,054 |
| Land | | | | |
| Sites for future parishes | 16,746,245 | - | - | 16,746,245 |
| Land under operating leases | 613,588 | - | - | 613,588 |
| Operating properties | 4,948,358 | 768,541 | - | 5,716,899 |
| | <u>22,308,191</u> | <u>768,541</u> | <u>-</u> | <u>23,076,732</u> |
| Construction in progress | 5,879,148 | 8,600 | - | 5,887,748 |
| Total land, building, and equipment | <u>\$ 50,014,388</u> | <u>\$ 3,682,146</u> | <u>\$ -</u> | <u>\$ 53,696,534</u> |

Land, buildings and equipment consist of the following at June 30, 2015:

| | <u>Operating Fund</u> | <u>Cemetery Fund</u> | <u>Priest Retirement Plan</u> | <u>Total</u> |
|-------------------------------------|---------------------------|--------------------------|-----------------------------------|----------------------|
| Buildings and improvements | \$ 36,086,589 | \$ 5,825,914 | \$ - | \$ 41,912,503 |
| Leasehold improvements | - | - | 407,388 | 407,388 |
| Furniture and fixtures | 929,567 | 440,781 | - | 1,370,348 |
| Vehicles | 33,838 | 875,230 | - | 909,068 |
| Equipment | 87,989 | 880,779 | - | 968,768 |
| Other improvements | - | 160,944 | - | 160,944 |
| | <u>37,137,983</u> | <u>8,183,648</u> | <u>407,388</u> | <u>45,729,019</u> |
| Less accumulated depreciation | <u>(14,014,187)</u> | <u>(5,219,661)</u> | <u>(407,388)</u> | <u>(19,641,236)</u> |
| | 23,123,796 | 2,963,987 | - | 26,087,783 |
| Land | | | | |
| Sites for future parishes | 10,606,604 | - | - | 10,606,604 |
| Land under operating leases | 613,588 | - | - | 613,588 |
| Operating properties | 5,168,858 | 3,134,660 | - | 8,303,518 |
| | <u>16,389,050</u> | <u>3,134,660</u> | <u>-</u> | <u>19,523,710</u> |
| Construction in progress | 9,710,764 | 8,600 | - | 9,719,364 |
| Total land, building, and equipment | <u>\$ 49,223,610</u> | <u>\$ 6,107,247</u> | <u>\$ -</u> | <u>\$ 55,330,857</u> |

Total depreciation for the years ended June 30, 2016 and 2015, amounted to \$1,603,750 and \$1,696,583, respectively.

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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 financing of the acquisition, construction, and equipping of certain educational facilities owned and operated by the Diocese. 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 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.

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, 2015, versus the fixed rate of 5.34% for the SWAP created a difference in value was recognized in the consolidated financial statements. The derivative agreement is recognized on the CAO's consolidated financial statements as of June 30, 2015, because of the \$4,245,025 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, 2015 no collateral deposit was required.

As of June 30, 2016, the Diocese had refinanced the bonds with another financial institution, see Note 8. As a result of the refinance the Diocese used the proceeds to pay off the outstanding principle balance of \$17,466,000 to Wells Fargo Bank and \$4,777,000 to settle the SWAP liability at the time of refinance.

NOTE 8 – NOTES PAYABLE

During the year ended June 30, 2016, the Diocese entered into a fixed rate loan agreement and a variable rate loan agreement with US Bank for the purposes of refinancing the series 2010 California Municipal Finance Authority Revenue Bonds Series, the series 2005 Taxable Variable Rate Demand Bonds, and to settle the SWAP liability.

The fixed rate loan agreement is unsecured with US Bank in the amount of \$10,000,000 at an annual rate of 2.83% on April 1, 2016, with a maturity date of March 31, 2021. Principal on the fixed rate note shall be paid monthly in the amount of \$41,667. To the extent not paid prior to the maturity date, all principal due shall be paid on the maturity date. As of June 30, 2016, the outstanding principal balance was \$9,916,666. Interest expense totaled \$71,241 for the year ended of June 30, 2016.

Future minimum principle payment on the fixed rate loan are as follows:

Year ended June 30:

| | | |
|------------|----|-------------------------|
| 2017 | \$ | 500,004 |
| 2018 | | 500,004 |
| 2019 | | 500,004 |
| 2020 | | 500,004 |
| 2021 | | 500,004 |
| Thereafter | | <u>7,416,646</u> |
| Total | \$ | <u><u>9,916,666</u></u> |

The variable rate loan agreement is unsecured with US Bank in the amount of \$12,309,130. The variable interest rate is calculated based on the LIBOR Rate plus 1.45%. The interest rate as of June 30, 2016 was 1.95%. Principal on the variable rate loan shall be paid monthly in the amount of \$51,288. To the extent not paid prior to the maturity date, all principal due shall be paid on the maturity date. As of June 30, 2016, the outstanding principal balance was \$12,206,554. Interest expense totaled \$59,761 for the year ended of June 30, 2016.

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Future minimum principle payment on the variable rate loan are as follows:

Year ended June 30:

| | | |
|------------|----|-------------------|
| 2017 | \$ | 615,456 |
| 2018 | | 615,456 |
| 2019 | | 615,456 |
| 2020 | | 615,456 |
| 2021 | | 615,456 |
| Thereafter | | 9,129,274 |
| Total | \$ | <u>12,206,554</u> |

NOTE 9 - RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following at June 30:

| | <u>2016</u> | <u>2015</u> |
|--|----------------------|----------------------|
| Current Fund | | |
| Operating (time and purpose restriction) | \$ 7,640,737 | \$ 7,470,787 |
| Fundraising Fund | | |
| Annual appeal programs and general operations (time restriction) | 5,812,179 | 5,827,791 |
| Endowment Fund | | |
| Trust agreements and scholarships (purpose restrictions) | <u>14,542,155</u> | <u>13,486,041</u> |
| Total temporarily restricted net assets | <u>\$ 27,995,071</u> | <u>\$ 26,784,619</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>2016</u> | <u>2015</u> |
|---|---------------------|---------------------|
| Priest retirements and seminarian education | \$ 811,190 | \$ 811,190 |
| Scholarships | <u>3,633,527</u> | <u>3,528,304</u> |
| Total permanently restricted net assets | <u>\$ 4,444,717</u> | <u>\$ 4,339,494</u> |

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 the year ended June 30, 2016 and 2015, consisted of the following:

| | <u>2016</u> | <u>2015</u> |
|-----------------------------------|---------------------|---------------------|
| Purpose restrictions accomplished | \$ 767,231 | \$ 628,175 |
| Time restrictions expired | <u>7,408,317</u> | <u>5,676,301</u> |
| Total restrictions released | <u>\$ 8,175,548</u> | <u>\$ 6,304,476</u> |

NOTE 11 - ENDOWMENTS

The endowments of the CAO consist of 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 GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor imposed restrictions.

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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

Endowment Net Asset Composition by Type of Fund

| | June 30, 2016 | | | |
|------------------|------------------------------------|-----------------------------------|-----------------------------------|----------------------|
| | Unrestricted Designated | Temporarily Restricted | Permanently Restricted | Total |
| Board Designated | \$ 1,956,960 | \$ - | \$ - | \$ 1,956,960 |
| Donor Restricted | - | 5,567,468 | 4,444,717 | 10,012,185 |
| Total Funds | <u>\$ 1,956,960</u> | <u>\$ 5,567,468</u> | <u>\$ 4,444,717</u> | <u>\$ 11,969,145</u> |
| | June 30, 2015 | | | |
| | Unrestricted Designated | Temporarily Restricted | Permanently Restricted | Total |
| Board Designated | \$ 1,956,960 | \$ - | \$ - | \$ 1,956,960 |
| Donor Restricted | - | 5,788,708 | 4,339,494 | 10,128,202 |
| Total Funds | <u>\$ 1,956,960</u> | <u>\$ 5,788,708</u> | <u>\$ 4,339,494</u> | <u>\$ 12,085,162</u> |

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Changes in Endowment Net Assets

| | <u>Unrestricted Designated</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|--------------------------------|------------------------------------|-----------------------------------|-----------------------------------|----------------------|
| Endowment net assets | | | | |
| June 30, 2014 | \$ 2,103,275 | \$ 6,121,437 | \$ 4,236,015 | \$ 12,460,727 |
| Investment income/expenses | 1,726 | 211,965 | - | 213,691 |
| Investment appreciation | - | 254,108 | - | 254,108 |
| Contributions | - | - | 103,479 | 103,479 |
| Reclass donor intent | (148,041) | 148,041 | - | - |
| Appropriations for expenditure | - | (946,843) | - | (946,843) |
| Endowment net assets | | | | |
| June 30, 2015 | 1,956,960 | 5,788,708 | 4,339,494 | 12,085,162 |
| Investment income/expenses | - | 218,382 | - | 218,382 |
| Investment depreciation | - | (51,841) | - | (51,841) |
| Contributions | - | - | 105,223 | 105,223 |
| Appropriations for expenditure | - | (387,781) | - | (387,781) |
| Endowment net assets | | | | |
| June 30, 2016 | <u>\$ 1,956,960</u> | <u>\$ 5,567,468</u> | <u>\$ 4,444,717</u> | <u>\$ 11,969,145</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, 2016 and 2015, 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.

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 \$142,830 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 \$8,034,147 and \$8,176,976 at June 30, 2016 and 2015, respectively.

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The CAO is the lessor of certain other rental properties. Future minimum rental income from long-term noncancelable operating leases is as follows:

For the years ending June 30:

| | | |
|------------|----|--------------------------|
| 2017 | \$ | 526,805 |
| 2018 | | 460,564 |
| 2019 | | 347,919 |
| 2020 | | 265,511 |
| 2021 | | 261,234 |
| Thereafter | | <u>8,175,221</u> |
| | \$ | <u><u>10,037,254</u></u> |

Rental income recognized for the years ended June 30, 2016 and 2015, was \$615,583 and \$589,847, 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 30, 2016 and 2015, was \$366,204 and \$231,035, respectively. The increase from the prior fiscal year is due to renegotiated rent by ILM and by operations housed at a data center.

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

Year ended June 30:

| | | |
|------|----|-----------------------|
| 2017 | \$ | 198,584 |
| 2018 | | 125,694 |
| 2019 | | <u>46,997</u> |
| | \$ | <u><u>371,275</u></u> |

The CAO has entered into several construction agreements on behalf of various parishes and schools. At June 30, 2016, total commitments are \$32,094,729. The total amount expended as of June 30, 2016, on these commitments was \$15,400,094. 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.

On August 28, 2012, the Diocese acquired a 10.85-acre parcel including buildings comprised of a chapel, school, and residence. This property was 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 pro-rata portion of the cost of acquisition of the site, agreed to pay for a pro-rata 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 including the completion of public street improvements. This sale closed in November 2014. The gross sale amount is classified as deferred revenue pending completion of the construction by the Diocese of street improvements to a court. Completion of these improvements were a requirement of subdivision of the property and of the aforementioned sale. Completion is expected in mid-fiscal year 2017.

In November 16, 2014, there was a fire in the church at Holy Cross 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 an advance of \$1,000,000 from the insurance company to be used to reimburse costs of operation and loss income and an additional \$1,952,000 toward the cost of new plans and construction of a new replacement church. The final cost of construction is unknown at this time but it is anticipated that insurance proceeds will cover the complete cost of the construction. Plans have been submitted to the City of San Jose for permits to rebuild the church on this site.

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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 closed as scheduled in October 2014. The cost of the property was \$4,650,000. The cost is being paid with the proceeds of a bequest received partially during the 2015 fiscal year. The balance of the cost was borrowed and was repaid during fiscal year ended June 30, 2016, with the proceeds of sale of the remaining assets from the bequest. 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.

NOTE 14 – POST-RETIREMENT BENEFITS OTHER THAN PENSIONS

The CAO sponsors a post-retirement 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 post-retirement 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 requires entities to accrue for expected medical and other post-retirement 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 post-retirement benefit plans.

Contributions of \$80,000 and \$245,000 were made to the plan in the years ended June 30, 2016 and 2015, respectively. Benefit payments of zero were made from the plan during the years ended June 30, 2016 and 2015. The Diocese expects to contribute \$113,000 to the plan's rabbi trust fund during the year ending June 30, 2017.

Funded Status

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

| | <u>Year Ended June 30, 2016</u> | <u>Year Ended June 30, 2015</u> |
|---|-------------------------------------|-------------------------------------|
| Accumulated post-retirement benefit obligation for service rendered to date | \$ (8,695,000) | \$ (7,556,000) |
| Plan assets at fair value | <u>6,471,000</u> | <u>6,607,000</u> |
| Funded status as of end of year | \$ (2,224,000) | \$ (949,000) |
| Liability for post-retirement benefits | \$ (2,224,000) | \$ (949,000) |

Amounts included in the accrued liabilities line item on the accompanying consolidated statements of financial position consist of, rounded to the nearest thousandth:

| | <u>Year Ended June 30, 2016</u> | <u>Year Ended June 30, 2015</u> |
|------------------------|-------------------------------------|-------------------------------------|
| Noncurrent liabilities | <u>\$ (2,224,000)</u> | <u>\$ (949,000)</u> |

Amounts recognized in unrestricted net assets consist of, rounded to the nearest thousandth:

| | <u>Year Ended June 30, 2016</u> | <u>Year Ended June 30, 2015</u> |
|----------|-------------------------------------|-------------------------------------|
| Net loss | <u>\$ 1,953,000</u> | <u>\$ 856,000</u> |

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Net Periodic Post-retirement Benefit Cost

The following items are the components of the net periodic post-retirement benefit cost for the plan as a whole for the years ended, rounded to the nearest thousandth:

| | <u>Year Ended June 30, 2016</u> | <u>Year Ended June 30, 2015</u> |
|--|-------------------------------------|-------------------------------------|
| Service cost-benefits earned during the period | \$ 371,000 | \$ 283,000 |
| Interest cost on projected benefit obligation | 333,000 | 266,000 |
| Actual return on plan assets | 210,000 | (409,000) |
| Net amortization and deferral | <u>(656,000)</u> | <u>(6,000)</u> |
| Net periodic post-retirement benefit cost | <u>\$ 258,000</u> | <u>\$ 134,000</u> |

Changes in plan assets and benefit obligations recognized in unrestricted net assets rounded to the nearest thousandth:

| | <u>Year Ended June 30, 2016</u> | <u>Year Ended June 30, 2015</u> |
|---|-------------------------------------|-------------------------------------|
| Net loss | \$ 1,104,000 | \$ 757,000 |
| Amortization of gain during year | <u>(7,000)</u> | <u>-</u> |
| Total recognized as reduction in unrestricted net assets | <u>\$ 1,097,000</u> | <u>\$ 757,000</u> |
| Total recognized in net periodic benefit cost and unrestricted net assets | <u>\$ 1,355,000</u> | <u>\$ 891,000</u> |

Assumptions

Assumptions used to determine net periodic post-retirement benefit cost:

| | <u>Year Ended June 30, 2016</u> | <u>Year Ended June 30, 2015</u> |
|---|-------------------------------------|-------------------------------------|
| Discount rate | 4.48% | 4.30% |
| Expected long-term rate of return on assets | 7.00% | 7.00% |
| Future health cost inflation rate | 5.00% | 5.00% |

Assumptions used to determine benefit obligations at year-end:

| | <u>Year Ended June 30, 2016</u> | <u>Year Ended June 30, 2015</u> |
|-----------------------------------|-------------------------------------|-------------------------------------|
| Discount rate | 3.74% | 4.48% |
| Future health cost inflation rate | 5.00% | 5.00% |

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:

| <u>Year ending June 30:</u> | <u>Annual Benefits</u> |
|-----------------------------|------------------------|
| 2017 | \$ 246,000 |
| 2018 | \$ 262,000 |
| 2019 | \$ 277,000 |
| 2020 | \$ 292,000 |
| 2021 | \$ 306,000 |
| 2022-2026 | \$ 1,747,000 |

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NOTE 15 – PENSION PLANS

The CAO uses the accrual method of accounting for post-retirement benefits based on actuarially determined costs to be recognized over the period the employee provides service to the CAO. 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 post-retirement 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.

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, 2016 and 2015, are as follows:

| | Lay Retirement Plan | |
|--|-------------------------------------|-------------------------------------|
| | Year Ended June 30, 2016 | Year Ended June 30, 2015 |
| Net amount of pension liability recognized at year-end | \$ (12,089,624) | \$ (9,565,092) |
| Net periodic pension cost | \$ 3,116,323 | \$ 1,378,288 |
| Plan contributions | \$ 591,792 | \$ 618,288 |

The assumptions used to determine net periodic pension cost and benefit obligations for the years ended June 30, 2016 and 2015, are as follows:

| | Lay Retirement Plan | |
|---|-------------------------------------|-------------------------------------|
| | Year Ended June 30, 2016 | Year Ended June 30, 2015 |
| For Net Periodic Pension Cost: | | |
| Discount rate | 4.34% | 4.18% |
| Expected long-term rate of return on assets | 7.00% | 7.00% |
| Salary scale | 4.00% | 4.00% |
| For Benefit Obligation At Year End: | | |
| Discount rate | 3.56% | 4.34% |
| Salary scale | 4.00% | 4.00% |

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The fair values of the Diocesan Lay Pension Plan assets as of June 30, 2016 and 2015, by asset category are as follows:

| <u>Asset Category</u> | 2016 Fair Value Measurements | | | |
|-----------------------------------|-------------------------------------|------------------------------------|---|--|
| | Total Fair Value | Quoted Prices (Level 1) | Significant Observation Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Cash | \$ 710,168 | \$ 710,168 | \$ - | \$ - |
| Cash equivalents | 16,643,470 | 16,643,470 | - | - |
| Equity securities | | | | |
| Common stock | 75,009,273 | 75,009,273 | - | - |
| Foreign equities | 6,404,853 | 6,404,853 | - | - |
| Exchange traded funds | 5,916,637 | 5,916,637 | - | - |
| Fixed income securities | | | | |
| U.S. T-Bonds and Notes | 22,183,657 | 22,183,657 | - | - |
| U.S. Government agency obligation | 1,649,996 | 1,649,996 | - | - |
| Corporate bonds/notes | 14,326,351 | 14,326,351 | - | - |
| Accrued income | 303,752 | 303,752 | - | - |
| Total | \$ 143,148,157 | \$ 143,148,157 | \$ - | \$ - |

| <u>Asset Category</u> | 2015 Fair Value Measurements | | | |
|-----------------------------------|-------------------------------------|------------------------------------|---|--|
| | Total Fair Value | Quoted Prices (Level 1) | Significant Observation Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Cash | \$ 696,562 | \$ 696,562 | \$ - | \$ - |
| Cash equivalents | 4,039,937 | 4,039,937 | - | - |
| Equity securities | | | | |
| Common stock | 82,010,192 | 82,010,192 | - | - |
| Foreign equities | 2,152,603 | 2,152,603 | - | - |
| Exchange traded funds | 29,143,721 | 29,143,721 | - | - |
| Fixed income securities | | | | |
| U.S. T-Bonds and Notes | 12,455,376 | 12,455,376 | - | - |
| U.S. Government agency obligation | 3,805,584 | 3,805,584 | - | - |
| Corporate bonds/notes | 9,248,116 | 9,248,116 | - | - |
| Accrued income | 290,665 | 290,665 | - | - |
| Total | \$ 143,842,756 | \$ 143,842,756 | \$ - | \$ - |

No one security in the plan represents more than 5% of total assets other than U.S. Treasury Securities and a money market fund which is an exchange traded fund.

Plan asset investment strategy and allocation

The asset allocation for the pension plan as of June 30, 2016 and 2015, 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> | |
|-----------------------|--|--|---|-------------|
| | | | 2016 | 2015 |
| Equities | 25-65% | 60% | 61% | 71% |
| Fixed income | 25-50% | 30% | 27% | 25% |
| Cash equivalents | 0-50% | 10% | 12% | 4% |

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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 years ended June 30, 2016 and June 30, 2015, the expected long-term rate of return used in determining net periodic pension cost was 7.00% and 7.50%, respectively.

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 \$1,011,000 and \$852,000 were made to the plan in the years ended June 30, 2016 and 2015, respectively, by the parishes, schools or other units to which the participating clergy were assigned. Benefit payments of \$905,000 and \$860,000 were made from the plan during the years ended June 30, 2016 and 2015, respectively. The Diocese expects to contribute \$788,000 to the pension plan during the year ending June 30, 2017.

The fair values of the Diocesan Priest Pension Plan assets as of June 30, 2016 and 2015, by asset category are as follows:

| <u>Asset Category</u> | 2016 Fair Value Measurements | | | |
|-----------------------------------|-------------------------------------|------------------------------------|---|--|
| | Total Fair Value | Quoted Prices (Level 1) | Significant Observation Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Cash | \$ 71,334 | \$ 71,334 | \$ - | \$ - |
| Cash equivalents | 1,040,649 | 1,040,649 | - | - |
| Equity securities | | | | |
| Common stock | 4,066,653 | 4,066,653 | - | - |
| Foreign equities | 687,127 | 687,127 | - | - |
| Exchange traded funds | - | - | - | - |
| Fixed Income securities | | | | |
| U.S. T-bonds and notes | 642,545 | 642,545 | - | - |
| U.S. Government agency obligation | 673,451 | 673,451 | - | - |
| Corporate bonds/notes | 828,206 | 828,206 | - | - |
| Accrued income | 4,760 | 4,760 | - | - |
| Total | <u>\$ 8,014,725</u> | <u>\$ 8,014,725</u> | <u>\$ -</u> | <u>\$ -</u> |

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| <u>Asset Category</u> | <u>2015 Fair Value Measurements</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 | \$ 74,549 | \$ 74,549 | \$ - | \$ - |
| Cash equivalents | 943,743 | 943,743 | - | - |
| Equity securities | | | | |
| Common stock | 4,489,824 | 4,489,824 | - | - |
| Foreign equities | 269,836 | 269,836 | - | - |
| Exchange traded funds | 1,054,494 | 1,054,494 | - | - |
| Fixed Income securities | | | | |
| U.S. T-bonds and notes | 375,102 | 375,102 | - | - |
| U.S. Government agency obligation | 267,195 | 267,195 | - | - |
| Corporate bonds/notes | 570,308 | 570,308 | - | - |
| Accrued income | 11,985 | 11,985 | - | - |
| Total | \$ 8,057,036 | \$ 8,057,036 | \$ - | \$ - |

No one security in the plan represents more than 5% of total assets other than a money market fund and exchange traded fund.

Plan asset investment strategy and allocation

The asset allocation for the pension plan as of June 30, 2016 and 2015, 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>2016</u> | <u>2015</u> |
| Equities | 20-65% | 60% | 59% | 64% |
| Fixed income | 25-60% | 30% | 27% | 23% |
| Cash equivalents | 0-50% | 10% | 14% | 13% |

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 years ended June 30, 2016 and 2015, the expected long-term rate of return used in determining net periodic pension cost was 7.0%.

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.

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Contributions of \$25,000 and \$10,000 were made to the plan in the years ended June 30, 2016 and 2015, respectively, by the parishes, schools, or other units to which the participating clergy were assigned. Benefit payments of \$245,000 and \$227,000 were made from the plan during the years ended June 30, 2016 and 2015, respectively. The Diocese expects to contribute \$85,000 to the pension plan during the fiscal year ending June 30, 2017.

The fair values of the Diocesan Priest Supplemental Pension Plan assets as of June 30, 2016 and 2015, by asset category are as follows:

| <u>Asset Category</u> | 2016 Fair Value Measurements | | | |
|-----------------------------------|-------------------------------------|------------------------------------|---|--|
| | Total Fair Value | Quoted Prices (Level 1) | Significant Observation Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Cash | \$ 20,837 | \$ 20,837 | \$ - | \$ - |
| Cash equivalents | 285,144 | 285,144 | - | - |
| Equity securities | | | | |
| Common stock | 1,114,990 | 1,114,990 | - | - |
| Foreign equities | 188,381 | 188,381 | - | - |
| Exchange traded funds | - | - | - | - |
| Fixed income securities | | | | |
| U.S. Government agency obligation | 203,574 | 203,574 | - | - |
| Corporate bonds/notes | 197,128 | 197,128 | - | - |
| Accrued income | 227,969 | 227,969 | - | - |
| Total | \$ 2,238,023 | \$ 2,238,023 | \$ - | \$ - |

| <u>Asset Category</u> | 2015 Fair Value Measurements | | | |
|-----------------------------------|-------------------------------------|------------------------------------|---|--|
| | Total Fair Value | Quoted Prices (Level 1) | Significant Observation Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Cash | \$ 19,192 | \$ 19,192 | \$ - | \$ - |
| Cash equivalents | 303,118 | 303,118 | - | - |
| Equity securities | | | | |
| Common stock | 1,341,700 | 1,341,700 | - | - |
| Foreign equities | 78,839 | 78,839 | - | - |
| Exchange traded funds | 409,711 | 409,711 | - | - |
| Fixed income securities | | | | |
| U.S. Government agency obligation | 95,733 | 95,733 | - | - |
| Corporate bonds/notes | 206,807 | 206,807 | - | - |
| Accrued income | 3,591 | 3,591 | - | - |
| Total | \$ 2,458,691 | \$ 2,458,691 | \$ - | \$ - |

No one security in the plan represents more than 5% of total assets other than a money market fund and an Exchange Traded Fund.

Plan asset investment strategy and allocation

Plan assets for the supplemental plan are insufficient to necessitate an independent investment policy. As of June 30, 2016, 58% of plan assets were invested in equities, 28% in fixed income securities and the balance in cash equivalents. As of June 30, 2015, 75% of plan assets were invested in equities, 12% 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, 2016 and 2015, rounded to the nearest thousandth are as follows:

| | <u>Priests Retirement Plan</u> | | <u>Priests Supplemental Plan</u> | |
|--------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|
| | <u>Year Ended June 30, 2016</u> | <u>Year Ended June 30, 2015</u> | <u>Year Ended June 30, 2016</u> | <u>Year Ended June 30, 2015</u> |
| Vested benefit obligation | \$ (16,489,000) | \$ (15,020,000) | \$ (3,589,000) | \$ (3,146,000) |
| Accumulated benefit obligation | \$ (17,308,000) | \$ (15,785,000) | \$ (3,649,000) | \$ (3,179,000) |
| Projected benefit obligation | \$ (22,839,000) | \$ (20,582,000) | \$ (4,677,000) | \$ (4,025,000) |
| Plan assets at fair value | 8,015,000 | 8,057,000 | 2,239,000 | 2,459,000 |
| Funding status of the Plan | \$ (14,824,000) | \$ (12,525,000) | \$ (2,438,000) | \$ (1,566,000) |
| Net amount recognized | \$ (14,824,000) | \$ (12,525,000) | \$ (2,438,000) | \$ (1,566,000) |

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

The amounts included in the accrued liabilities line item on the accompanying consolidated statements of financial position at June 30, 2016 and 2015, rounded to the nearest thousandth consist of:

| | <u>Priests Retirement Plan</u> | | <u>Priests Supplemental Plan</u> | |
|------------------------|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|
| | <u>Year Ended June 30, 2016</u> | <u>Year Ended June 30, 2015</u> | <u>Year Ended June 30, 2016</u> | <u>Year Ended June 30, 2015</u> |
| Noncurrent liabilities | \$ (14,824,000) | \$ (12,525,000) | \$ (2,438,000) | \$ (1,566,000) |

Table 3 – Amounts Recognized In Unrestricted Net Assets

The amounts recognized in unrestricted net assets at June 30, 2016 and 2015, rounded to the nearest thousandth consist of:

| | <u>Priests Retirement Plan</u> | | <u>Priests Supplemental Plan</u> | |
|--------------------|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|
| | <u>Year Ended June 30, 2016</u> | <u>Year Ended June 30, 2015</u> | <u>Year Ended June 30, 2016</u> | <u>Year Ended June 30, 2015</u> |
| Net loss | \$ 7,362,000 | \$ 5,251,000 | \$ 3,467,000 | \$ 2,678,000 |
| Prior service cost | 995,000 | 1,109,000 | 166,000 | 195,000 |
| Total | \$ 8,357,000 | \$ 6,360,000 | \$ 3,633,000 | \$ 2,873,000 |

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 years ended June 30:

| | <u>Priests Retirement Plan</u> | | <u>Priests Supplemental Plan</u> | |
|--|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|
| | <u>Year Ended June 30, 2016</u> | <u>Year Ended June 30, 2015</u> | <u>Year Ended June 30, 2016</u> | <u>Year Ended June 30, 2015</u> |
| Service cost-benefits earned during the period | \$ 682,000 | \$ 650,000 | \$ - | \$ - |
| Interest cost on projected benefit obligation | 873,000 | 747,000 | 170,000 | 157,000 |
| Actual return on plan assets | (71,000) | (343,000) | 24,000 | (103,000) |
| Net amortization and deferral | (323,000) | 70,000 | (7,000) | 95,000 |
| Net periodic pension cost | \$ 1,161,000 | \$ 1,124,000 | \$ 187,000 | \$ 149,000 |

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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, 2016 and 2015, rounded to the nearest thousandth consist of:

| | Priests Retirement Plan | | Priests Supplemental Plan | |
|---|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|
| | Year Ended June 30, 2016 | Year Ended June 30, 2015 | Year Ended June 30, 2016 | Year Ended June 30, 2015 |
| Net loss | \$ 2,308,000 | \$ 1,828,000 | \$ 941,000 | \$ 265,000 |
| Prior service cost | - | - | - | - |
| Amortization of (gain) | (187,000) | (92,000) | (152,000) | (135,000) |
| Amortization of prior service (credit) | (114,000) | (172,000) | (29,000) | (29,000) |
| Total recognized as reduction in unrestricted net assets | <u>\$ 2,007,000</u> | <u>\$ 1,564,000</u> | <u>\$ 760,000</u> | <u>\$ 101,000</u> |
| Total recognized in net periodic benefit cost and unrestricted net assets | <u>\$ 3,168,000</u> | <u>\$ 2,688,000</u> | <u>\$ 947,000</u> | <u>\$ 250,000</u> |

Table 6 – Assumptions

| | Priests Retirement Plan | | Priests Supplemental Plan | |
|---|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|
| | Year Ended June 30, 2016 | Year Ended June 30, 2015 | Year Ended June 30, 2016 | Year Ended June 30, 2015 |
| For Net Periodic Pension Cost: | | | | |
| Discount rate | 4.34% | 4.14% | 4.34% | 4.14% |
| Expected long-term rate of return on investments | 7.00% | 7.00% | 7.00% | 7.00% |
| 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 | 3.59% | 4.34% | 3.59% | 4.34% |
| 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

| Year ending June 30: | Priests Retirement Plan (annual benefits) | Priests Supplemental Plan (annual benefits) |
|-----------------------------|--|--|
| 2017 | \$ 981,000 | \$ 230,000 |
| 2018 | \$ 979,000 | \$ 246,000 |
| 2019 | \$ 967,000 | \$ 238,000 |
| 2020 | \$ 975,000 | \$ 236,000 |
| 2021 | \$ 1,010,000 | \$ 227,000 |
| 2022-2025 | \$ 5,775,000 | \$ 1,206,000 |

**THE ROMAN CATHOLIC DIOCESE OF SAN JOSE AND AFFILIATE,
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NOTE 16 – RELATED PARTY TRANSACTIONS

The CAO performs various administrative services including payroll processing, for various parishes and schools. Fees received for the services were \$973,822 for the year ended June 30, 2016, and \$955,867 for the year ended June 30, 2015. The CAO paid \$144,651 in the fiscal year 2016 and \$125,551 in the fiscal year 2015, 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 Department of Education performs various services for the elementary and secondary schools of the Diocese. Fees received for these services excluding fees received and passed through to the Roman Catholic Communications Corporation of the Bay Area/Catholic Telemedia Network ("CTN") as noted below were \$726,443 for the year ended June 30, 2016 and \$745,135 for the year ended June 30, 2015.

The CAO collects fees from schools and pays them to CTN, a corporation of which the Diocese is a member. Fees paid to CTN were \$82,603 for the year ended June 30, 2016, and \$85,690 for the year ended June 30, 2015. The CAO was the recipient of a grant from CTN in fiscal year 2015 of \$5,334,000 to be used for education purposes at the discretion of the Bishop of the Diocese. This grant has been set aside in temporarily restricted funds and the earnings on this grant are being used for the intended purposes as approved by the Bishop's Cabinet.

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, 2015, the Diocese is self-insured with respect to its property all-risk coverage (excluding earthquake and flood) through a \$250,000 deductible per case. The Diocese is self-insured through a deductible of 5% per claim with a minimum of \$250,000 with respect to its earthquake and catastrophic flood insurance coverage with a maximum coverage of \$25,000,000.

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 priests' 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 – CATHOLIC FAMILY INSURANCE SERVICES

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, Pennsylvania.

**THE ROMAN CATHOLIC DIOCESE OF SAN JOSE AND AFFILIATE,
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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 2016 and 2015, the operating results and consolidating statements were:

| | June 30, 2016 | | | June 30, 2015 | | |
|--|---------------|-----------------------|--------------------|---------------|-----------------------|--------------------|
| | Cemetery Fund | Cemetery Fund CFIS | Consolidated Total | Cemetery Fund | Cemetery Fund CFIS | Consolidated Total |
| Revenues | | | | | | |
| Rental Income | \$ 60,290 | \$ - | \$ 60,290 | \$ 65,096 | \$ - | \$ 65,096 |
| Investment Income | 164,279 | - | 164,279 | 260,880 | - | 260,880 |
| Cemetery Revenues | 8,955,206 | - | 8,955,206 | 7,885,844 | - | 7,885,844 |
| Other Income | 14,655 | 47,565 | 62,220 | 19,414 | 4,622 | 24,036 |
| Total revenues | 9,194,430 | 47,565 | 9,241,995 | 8,231,234 | 4,622 | 8,235,856 |
| Expenses | | | | | | |
| Administration | - | 55,962 | 55,962 | - | 16,546 | 16,546 |
| Depreciation Expense | 159,808 | - | 159,808 | 156,462 | - | 156,462 |
| Interest Expense - Notes and Bonds | - | - | - | 26,836 | - | 26,836 |
| Cemetery Expenses | 6,207,880 | - | 6,207,880 | 5,530,672 | - | 5,530,672 |
| Total expenses | 6,367,688 | 55,962 | 6,423,650 | 5,713,970 | 16,546 | 5,730,516 |
| Changes in net assets from operations | 2,826,742 | (8,397) | 2,818,345 | 2,517,264 | (11,924) | 2,505,340 |
| Change in Obligations for Post-Retirement Benefits | (789,819) | - | (789,819) | (349,336) | - | (349,336) |
| Changes in net assets | \$ 2,036,923 | \$ (8,397) | \$ 2,028,526 | \$ 2,167,928 | \$ (11,924) | \$ 2,156,004 |

NOTE 19 – FAIR VALUE MEASUREMENT

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:

Marketable securities – The fair value of investments is based on quoted market prices for those or similar assets.

Loans – In the case of interest bearing loans, interest is charged at variable market rates. For noninterest 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 in the valuation hierarchy.

Fair value measurements – The fair values of assets and liabilities measured on a recurring basis at June 30, 2016, are:

| | Total | Level 1 | Level 2 | Level 3 |
|---------------------------------|---------------|---------------|---------|-----------|
| Assets: | | | | |
| Securities | \$ 68,482,297 | \$ 68,482,297 | \$ - | \$ - |
| Charitable remainder trust | 200,368 | - | - | 200,368 |
| Land charitable remainder trust | 1,325,110 | - | - | 1,325,110 |
| Beneficial interests | 296,544 | - | - | 296,544 |

The fair values of assets and liabilities measured on a recurring basis at June 30, 2015, are:

| | Total | Level 1 | Level 2 | Level 3 |
|---------------------------------|---------------|---------------|-------------|-----------|
| Assets: | | | | |
| Securities | \$ 62,113,905 | \$ 62,113,905 | \$ - | \$ - |
| Charitable remainder trust | 205,347 | - | - | 205,347 |
| Land charitable remainder trust | 1,325,110 | - | - | 1,325,110 |
| Beneficial interests | 305,919 | - | - | 305,919 |
| Liability: | | | | |
| Interest rate swap | (4,245,025) | - | (4,245,025) | - |

**THE ROMAN CATHOLIC DIOCESE OF SAN JOSE AND AFFILIATE,
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NOTE 20 – 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.

The CAO has evaluated subsequent events through December 19, 2016, which is the date the consolidated financial statements are available to be issued.

NOTE 21 – FUNCTIONAL EXPENSES

Functional expenses for the CAO for the prior two years ended June 30, 2016 and 2015, are shown in the following tables. Eliminations due to consolidation are not excluded from these total expenses. The change in the fair value of the SWAP are included in financing expenses but costs due to change in pension valuation are not included in the tables.

**THE ROMAN CATHOLIC DIOCESE OF SAN JOSE AND AFFILIATE,
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Functional expenses for the year ended June 30, 2016, are:

| | Ministry and Program Services | | | | | | Supporting Activities | | | Total Functional Expense | |
|-------------------------------------|--------------------------------------|---------------------|-------------------|-------------------------------|---------------------------|---|----------------------------------|---------------------------------------|----------------------|--------------------------------|----------------------|
| | Chancery Ministries / Programs | Cemetery | Endowment Fund | Priest Retirement Funds | Deposit and Loan Funds | Services (Insurances and Payroll) | Total Ministries and Programs | Chancery Management and General | Fundraising Funds | | Total Supporting |
| Insurance premiums | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 25,670,213 | \$ 25,670,213 | \$ - | \$ - | \$ - | \$ 25,670,213 |
| Compensation | 2,155,477 | 2,174,236 | - | 62,402 | - | 794,649 | 5,186,764 | 2,666,923 | 304,268 | 2,971,191 | 8,157,955 |
| Pension costs | 343,205 | 217,055 | - | 4,056,099 | - | 116,373 | 4,732,732 | 359,806 | 125,841 | 485,647 | 5,218,379 |
| Occupancy expenses | 460,799 | 937,809 | 199 | 464 | - | 129,851 | 1,529,122 | 817,083 | 131,091 | 948,174 | 2,477,296 |
| Other benefits and payroll taxes | 538,084 | 184,826 | - | 1,164,004 | - | 68,555 | 1,955,469 | (147,828) | 27,046 | (120,782) | 1,834,687 |
| Gifts, grants, donations, subsidies | 21,612 | 348 | 694,314 | - | - | 1,864 | 718,138 | 902,019 | - | 902,019 | 1,620,157 |
| Health benefits | 505,127 | 288,310 | - | 240,223 | - | 94,646 | 1,128,306 | 414,597 | 68,320 | 482,917 | 1,611,223 |
| Depreciation | 40,289 | 159,808 | - | - | - | 360,241 | 560,338 | 1,043,412 | - | 1,043,412 | 1,603,750 |
| Interest | - | - | - | - | 1,245,000 | - | 1,245,000 | 273,992 | - | 273,992 | 1,518,992 |
| Professional services | 242,710 | 35,098 | 3,200 | 222,055 | 8,000 | 98,092 | 609,155 | 436,311 | 142,255 | 578,566 | 1,187,721 |
| Other expenses | 42,377 | 233,023 | - | 78,615 | 104,117 | 325,508 | 783,640 | 127,794 | 42,309 | 170,103 | 953,743 |
| Cost of goods sold - cemetery | - | 945,742 | - | - | - | - | 945,742 | - | - | - | 945,742 |
| Travel, conferences, hospitality | 528,212 | 78,118 | - | 1,706 | - | 15,082 | 623,118 | 234,356 | 6,200 | 240,556 | 863,674 |
| Supplies and office expenses | 479,626 | 58,426 | - | 30 | - | 31,774 | 569,856 | 60,124 | 139,584 | 199,708 | 769,564 |
| Computer software support | 200,938 | 25,058 | - | - | - | 129,703 | 355,699 | 143,405 | 67,750 | 211,155 | 566,854 |
| Financing, investment management | - | - | - | - | 320,037 | - | 320,037 | 141,319 | - | 141,319 | 461,356 |
| Diocesan assessment cemetery | - | 408,926 | - | - | - | - | 408,926 | - | - | - | 408,926 |
| Legal | - | 720 | - | - | 15,471 | 53,117 | 69,308 | 232,841 | - | 232,841 | 302,149 |
| Payroll services | 1,693 | 922 | - | - | - | 263,241 | 265,856 | 4,519 | - | 4,519 | 270,375 |
| Advertising | 55,722 | 165,037 | - | - | - | - | 220,759 | 13,350 | 449 | 13,799 | 234,558 |
| Membership & dues | 35,754 | 5,509 | - | - | - | 625 | 41,888 | 181,217 | 2,785 | 184,002 | 225,890 |
| Telecommunications | 44,221 | 74,269 | - | 760 | - | 6,540 | 125,790 | 51,468 | 6,948 | 58,416 | 184,206 |
| Pension losses (gains) | - | - | - | 188,557 | - | - | 188,557 | (7,029) | - | (7,029) | 181,528 |
| Catholic Telemedia Network fee | 82,603 | - | - | - | - | - | 82,603 | - | - | - | 82,603 |
| Total functional expenses | \$ 5,778,449 | \$ 5,993,240 | \$ 697,713 | \$ 6,014,915 | \$ 1,692,625 | \$ 28,160,074 | \$ 48,337,016 | \$ 7,949,679 | \$ 1,064,846 | \$ 9,014,525 | \$ 57,351,541 |

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

Functional expenses for the year ended June 30, 2015, are:

| | Ministry and Program Services | | | | | | Supporting Activities | | | Total Functional Expense | |
|-------------------------------------|--------------------------------------|---------------------|-------------------|-------------------------------|---------------------------|---|----------------------------------|---------------------------------------|----------------------|--------------------------------|----------------------|
| | Chancery Ministries / Programs | Cemetery | Endowment Fund | Priest Retirement Funds | Deposit and Loan Funds | Services (Insurances and Payroll) | Total Ministries and Programs | Chancery Management and General | Fundraising Funds | | Total Supporting |
| Insurance premiums | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 24,640,318 | \$ 24,640,318 | \$ - | \$ - | \$ - | \$ 24,640,318 |
| Compensation | 2,061,681 | 1,931,150 | - | 57,414 | - | 647,866 | 4,698,111 | 2,015,639 | 298,691 | 2,314,330 | 7,012,441 |
| Pension costs | 340,806 | 210,963 | - | 1,414,695 | - | 91,992 | 2,058,456 | 415,139 | 43,577 | 458,716 | 2,517,172 |
| Occupancy expenses | 413,993 | 845,602 | 215 | - | - | 91,911 | 1,351,721 | 552,116 | 64,588 | 616,704 | 1,968,425 |
| Other benefits and payroll taxes | 258,910 | 187,448 | - | 1,101,555 | - | 50,948 | 1,598,861 | 247,270 | 26,774 | 274,044 | 1,872,905 |
| Depreciation | 22,792 | 156,462 | - | - | - | 360,160 | 539,414 | 1,157,170 | - | 1,157,170 | 1,696,584 |
| Health benefits | 494,031 | 275,503 | - | 207,607 | - | 80,655 | 1,057,796 | 420,158 | 61,035 | 481,193 | 1,538,989 |
| Interest | - | 26,836 | - | - | 1,042,433 | - | 1,069,269 | 325,117 | - | 325,117 | 1,394,386 |
| Cost of goods sold - cemetery | - | 1,230,814 | - | - | - | - | 1,230,814 | - | - | - | 1,230,814 |
| Professional services | 249,878 | (51,969) | - | 212,031 | - | 37,250 | 447,190 | 423,910 | 115,887 | 539,797 | 986,987 |
| Gifts, grants, donations, subsidies | 15,628 | 403 | 525,025 | - | - | 4,032 | 545,088 | 420,503 | - | 420,503 | 965,591 |
| Supplies and office expenses | 437,017 | 46,027 | - | 5 | - | 7,893 | 490,942 | 158,085 | 122,175 | 280,260 | 771,202 |
| Travel, conferences, hospitality | 354,976 | 62,892 | - | 1,206 | - | 8,859 | 427,933 | 286,242 | 20,205 | 306,447 | 734,380 |
| Tuition/room/board | 344,425 | - | 2,400 | - | - | - | 346,825 | 31,728 | - | 31,728 | 378,553 |
| Computer software support | 47,662 | 13,875 | - | - | - | 85,945 | 147,482 | 141,692 | 71,706 | 213,398 | 360,880 |
| Other expenses | 33,895 | 142,270 | - | 66,834 | 154,777 | (209,154) | 188,622 | 27,370 | 77,646 | 105,016 | 293,638 |
| Membership & dues | 34,983 | 2,494 | - | - | - | 680 | 38,157 | 222,905 | 3,540 | 226,445 | 264,602 |
| Legal | 23 | 26,173 | - | - | - | 68,774 | 94,970 | 167,967 | - | 167,967 | 262,937 |
| Payroll services | 3,261 | 196 | - | - | - | 242,115 | 245,572 | 213 | 49 | 262 | 245,834 |
| Rental expenses | 4,500 | - | - | - | - | - | 4,500 | 226,535 | - | 226,535 | 231,035 |
| Advertising | 47,788 | 115,237 | - | - | - | - | 163,025 | 10,725 | 1,750 | 12,475 | 175,500 |
| Telecommunications | 42,146 | 54,792 | - | - | - | 6,939 | 103,877 | 60,476 | 6,155 | 66,631 | 170,508 |
| Financing, investment management | - | - | - | - | 69,698 | - | 69,698 | 42,136 | - | 42,136 | 111,834 |
| Catholic Telemedia Network fee | 85,690 | - | - | - | - | - | 85,690 | - | - | - | 85,690 |
| Investment (gains) losses - trust | - | - | - | - | - | - | - | 4,796 | - | 4,796 | 4,796 |
| Clergy pension (gains) losses | - | - | - | (925,031) | - | - | (925,031) | - | - | - | (925,031) |
| Total functional expenses | \$ 5,294,085 | \$ 5,277,168 | \$ 527,640 | \$ 2,136,316 | \$ 1,266,908 | \$ 26,217,183 | \$ 40,719,300 | \$ 7,357,892 | \$ 913,778 | \$ 8,271,670 | \$ 48,990,970 |

SUPPLEMENTARY INFORMATION



REPORT OF INDEPENDENT AUDITORS 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 years ended June 30, 2016 and 2015, and our report thereon, dated December 19, 2016, 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. The supplementary information on pages 34 through 45, 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
December 19, 2016

**THE ROMAN CATHOLIC DIOCESE OF SAN JOSE AND AFFILIATE,
CENTRAL ADMINSTRATIVE OFFICE
CONSOLIDATED STATEMENT OF ASSETS, LIABILITIES, AND NET ASSETS - ALL FUNDS
Year Ended June 30, 2016**

| | 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 | \$ 5,320,898 | \$ 11,153,436 | \$ 1,197,287 | \$ (2,191,699) | \$ - | \$ 46,348,446 | \$ 9,845,856 | \$ 6,992,246 | \$ - | \$ 78,666,470 |
| Marketable securities | 3,254,540 | 2,510,936 | 16,954,303 | - | 29,420,231 | - | 11,897,570 | - | - | 64,037,580 |
| Receivables | | | | | | | | | | |
| Receivables from parishes and institutions | 1,444,833 | - | - | 1,085 | - | 100,000 | 2,259,968 | - | - | 3,805,886 |
| Pledges | - | - | - | - | - | - | - | 1,849,942 | - | 1,849,942 |
| Other | 3,830,093 | 6,644,323 | - | - | - | 37,292 | 334,170 | - | - | 10,845,878 |
| Deposits & prepaids | 167,331 | 62,208 | - | - | - | - | 185,479 | - | - | 415,018 |
| Inventory | - | 8,992,284 | - | - | - | - | - | - | - | 8,992,284 |
| Loans receivable from parishes and institutions in Deposit and Loan Fund | - | - | - | - | - | 26,549,344 | - | - | - | 26,549,344 |
| Marketable securities held for long term purposes | - | - | 4,444,717 | - | - | - | - | - | - | 4,444,717 |
| Investment in real estate | 5,580,000 | - | 232,072 | - | - | - | - | - | - | 5,812,072 |
| Assets held in trust | 524,348 | - | - | - | - | - | - | 101,802 | - | 626,150 |
| Land, building, and equipment | 49,732,958 | 3,682,145 | - | - | - | - | 281,431 | - | - | 53,696,534 |
| Interest bearing intrafund account | 319,581 | 14,778,534 | 1,009,836 | - | - | - | 1,843,067 | 14,402 | (17,965,420) | - |
| Total assets | \$ 70,174,582 | \$ 47,823,866 | \$ 23,838,215 | \$ (2,190,614) | \$ 29,420,231 | \$ 73,035,082 | \$ 26,647,541 | \$ 8,958,392 | \$ (17,965,420) | \$ 259,741,875 |
| LIABILITIES & NET ASSETS | | | | | | | | | | |
| Liabilities | | | | | | | | | | |
| Accounts payable | \$ 1,249,635 | \$ 133,728 | \$ - | \$ 55 | \$ - | \$ 203,624 | \$ 35,718 | \$ 2,772 | \$ - | 1,625,532 |
| Pledges payable to parishes | - | - | - | - | - | - | - | 2,425,813 | - | 2,425,813 |
| Accrued liabilities | 6,538,386 | 4,519,145 | - | 19,909,092 | - | 30,060 | 6,470,129 | 617,089 | - | 38,083,901 |
| Deposits payable - parishes | - | - | - | - | - | 70,991,454 | - | - | (17,965,420) | 53,026,034 |
| Debentures payable | 8,099,873 | - | - | - | - | 14,023,347 | - | - | - | 22,123,220 |
| Trust assets held for parish | 275,697 | - | - | - | - | - | - | 101,802 | - | 377,499 |
| Held for parishes/institutions | 7,189,248 | - | 1,919,454 | - | 29,420,231 | - | 2,058,933 | - | - | 40,587,866 |
| Deferred revenue | 13,173,548 | 13,898,203 | - | - | - | - | 2,078,712 | - | - | 29,150,463 |
| Due to/from other funds | 4,965,907 | - | 68,187 | (34,094) | - | - | (5,000,000) | - | - | - |
| Total liabilities | 41,492,294 | 18,551,076 | 1,987,641 | 19,875,053 | 29,420,231 | 85,248,485 | 5,643,492 | 3,147,476 | (17,965,420) | 187,400,328 |
| Net Assets | | | | | | | | | | |
| Unrestricted | | | | | | | | | | |
| Undesignated | 20,474,866 | 18,605,148 | 913,446 | (22,065,667) | - | (12,213,403) | 11,322,906 | (1,263) | - | 17,036,033 |
| Designated | 566,685 | 10,667,642 | 1,950,256 | - | - | - | 9,681,143 | - | - | 22,865,726 |
| Temporarily restricted | 21,041,551 | 29,272,790 | 2,863,702 | (22,065,667) | - | (12,213,403) | 21,004,049 | (1,263) | - | 39,901,759 |
| Temporarily restricted | 7,640,737 | - | 14,542,155 | - | - | - | - | 5,812,179 | - | 27,995,071 |
| Permanently restricted | - | - | 4,444,717 | - | - | - | - | - | - | 4,444,717 |
| Permanently restricted | - | - | - | - | - | - | - | - | - | - |
| Total liabilities and net assets | \$ 70,174,582 | \$ 47,823,866 | \$ 23,838,215 | \$ (2,190,614) | \$ 29,420,231 | \$ 73,035,082 | \$ 26,647,541 | \$ 8,958,392 | \$ (17,965,420) | \$ 259,741,875 |

**THE ROMAN CATHOLIC DIOCESE OF SAN JOSE AND AFFILIATE,
CENTRAL ADMINSTRATIVE OFFICE
CONSOLIDATED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS - ALL FUNDS
Year Ended June 30, 2016**

| | <u>Operating Fund</u> | <u>Cemetery Fund</u> | <u>Endowment Fund</u> | <u>Priest Retirement Funds</u> | <u>Deposit and Loan Funds</u> | <u>Service Funds</u> | <u>Fundraising Funds</u> | <u>Eliminations</u> | <u>Total</u> |
|--|-----------------------|----------------------|-----------------------|--------------------------------|-------------------------------|----------------------|--------------------------|---------------------|-------------------|
| Revenues | | | | | | | | | |
| Gifts, bequests, and collections | \$ 1,317,681 | \$ - | \$ 105,223 | \$ 58,500 | \$ 14,303 | \$ - | \$ 6,188,499 | \$ - | \$ 7,684,206 |
| Fees and expense reimbursement | 1,157,164 | - | - | 1,363,391 | - | 973,823 | - | (21,482) | 3,472,896 |
| Diocesan assessment | 3,683,618 | - | - | - | - | - | - | (408,926) | 3,274,692 |
| Education income | 983,838 | - | - | - | - | - | - | - | 983,838 |
| Rental income | 411,293 | 60,290 | 144,000 | - | - | - | - | - | 615,583 |
| Investment income | 4,218 | 164,279 | 216,885 | (6,983) | 143,980 | 121,195 | 23,663 | (153,732) | 513,505 |
| Interest income from loans | - | - | - | - | 664,062 | - | - | - | 664,062 |
| Cemetery revenues | - | 8,955,206 | - | - | - | - | - | - | 8,955,206 |
| Insurance premium income | - | - | - | - | - | 27,555,729 | - | - | 27,555,729 |
| Newspaper income | 486,430 | - | - | - | - | - | - | - | 486,430 |
| Grant income | 1,865,477 | - | 1,591,598 | - | - | 40,409 | 6,500 | - | 3,503,984 |
| Other income | 5,135 | 62,220 | - | - | - | - | - | - | 67,355 |
| Total revenues | 9,914,854 | 9,241,995 | 2,057,706 | 1,414,908 | 822,345 | 28,691,156 | 6,218,662 | (584,140) | 57,777,486 |
| Expenses | | | | | | | | | |
| Pastoral | 5,253,245 | - | - | - | - | - | - | - | 5,253,245 |
| Religious and personnel development | 2,854,326 | - | - | - | - | - | - | - | 2,854,326 |
| Education | 1,222,290 | - | 697,514 | - | - | - | - | - | 1,919,804 |
| Pension, priest retirement | - | - | - | 6,014,915 | - | - | - | - | 6,014,915 |
| Administration | 2,211,022 | 55,962 | 199 | - | 127,588 | 2,129,621 | - | - | 4,524,392 |
| Depreciation expense | 1,083,701 | 159,808 | - | - | - | 360,241 | - | - | 1,603,750 |
| Interest expense deposits | - | - | - | - | 393,817 | - | - | (153,732) | 240,085 |
| Interest expense notes and bonds | 569,043 | - | - | - | 1,324,953 | - | - | - | 1,893,996 |
| Insurance premiums and benefits | - | - | - | - | - | 25,670,213 | - | - | 25,670,213 |
| Newspaper expenses | 534,497 | - | - | - | - | - | - | - | 534,497 |
| Cemetery expenses | - | 6,207,880 | - | - | - | - | - | (430,408) | 5,777,472 |
| Fundraising expenses | - | - | - | - | - | - | 1,064,846 | - | 1,064,846 |
| Total expenses | 13,728,124 | 6,423,650 | 697,713 | 6,014,915 | 1,846,358 | 28,160,075 | 1,064,846 | (584,140) | 57,351,541 |
| Change in net assets before transfers | (3,813,270) | 2,818,345 | 1,359,993 | (4,600,007) | (1,024,013) | 531,081 | 5,153,816 | - | 425,945 |
| Intrafund transfers | | | | | | | | | |
| Annual appeal transfer | 5,153,816 | - | - | - | - | - | 301,213 | - | 5,455,029 |
| Other intrafund transfers | 605,976 | - | (243,312) | (159,164) | - | (203,500) | (5,455,029) | - | (5,455,029) |
| Total transfers | 5,759,792 | - | (243,312) | (159,164) | - | (203,500) | (5,153,816) | - | - |
| Increase (decrease) in net assets from operations | 1,946,522 | 2,818,345 | 1,116,681 | (4,759,171) | (1,024,013) | 327,581 | - | - | 425,945 |
| Gain (loss) on disposition of assets | 2,644,807 | - | - | - | - | - | - | - | 2,644,807 |
| Change in obligations for post-retirement benefits | (911,096) | (789,819) | - | (100,302) | - | (458,663) | - | - | (2,259,880) |
| Increase (decrease) in net assets | 3,680,233 | 2,028,526 | 1,116,681 | (4,859,473) | (1,024,013) | (131,082) | - | - | 810,872 |
| Net assets at the beginning of the year | 25,002,055 | 27,244,264 | 20,733,893 | (17,206,194) | (11,189,390) | 21,135,131 | 5,810,916 | - | 71,530,675 |
| Net assets at the end of the year | \$ 28,682,288 | \$ 29,272,790 | \$ 21,850,574 | \$ (22,065,667) | \$ (12,213,403) | \$ 21,004,049 | \$ 5,810,916 | \$ - | \$ 72,341,547 |

**THE ROMAN CATHOLIC DIOCESE OF SAN JOSE AND AFFILIATE,
CENTRAL ADMINSTRATIVE OFFICE
CONSOLIDATED STATEMENT OF ASSETS, LIABILITIES, AND NET ASSETS - ALL FUNDS
Year Ended June 30, 2015**

| | Operating Fund | Cemetery Fund | Endowment Fund | Priest Retirement | Pooled Investment | Deposit and Loan Funds | Service Funds | Fundraising Funds | Eliminations | Total |
|---|----------------------|----------------------|----------------------|---------------------|----------------------|------------------------|----------------------|---------------------|------------------------|-----------------------|
| ASSETS | | | | | | | | | | |
| Cash and cash equivalents | \$ 7,381,725 | \$ 7,106,777 | \$ 1,115,151 | \$ 1,212,583 | \$ - | \$ 36,492,641 | \$ 7,212,064 | \$ 6,791,844 | \$ - | \$ 67,312,785 |
| Marketable securities | 55,345 | 2,492,730 | 15,844,927 | - | 27,571,191 | - | 11,810,218 | - | - | 57,774,411 |
| Receivables | | | | | | | | | | |
| Receivables from parishes and institutions | 1,422,212 | - | - | 8,191 | - | - | 1,742,975 | - | - | 3,173,378 |
| Pledges | - | - | - | - | - | - | - | 1,660,126 | - | 1,660,126 |
| Other | 2,029,458 | 5,201,488 | - | - | - | 23,259 | 313,760 | - | - | 7,567,965 |
| Deposits and prepaid expenses | 180,949 | 31,504 | - | - | - | 22,782 | 384,536 | - | - | 619,771 |
| Inventory | - | 7,446,881 | - | - | - | - | - | - | - | 7,446,881 |
| Loans receivable from parishes and institutions | | | | | | | | | | |
| in Deposit and Loan Fund | - | - | - | - | - | 31,411,265 | - | - | (2,760,000) | 28,651,265 |
| Debt issuance costs | - | - | - | - | - | 345,379 | - | - | - | 345,379 |
| Marketable securities held for long-term purposes | - | - | 4,339,494 | - | - | - | - | - | - | 4,339,494 |
| Investment in real estate | - | - | 232,072 | - | - | - | - | - | - | 232,072 |
| Assets held in trust | 11,246,808 | - | - | - | - | - | - | 124,135 | - | 11,370,943 |
| Land, building, and equipment | 49,212,019 | 6,107,247 | - | - | - | - | 11,591 | - | - | 55,330,857 |
| Interest bearing intrafund account | 272,077 | 13,926,266 | 1,006,802 | - | - | - | 1,837,531 | 14,151 | (17,056,827) | - |
| Total assets | \$ 71,800,593 | \$ 42,312,893 | \$ 22,538,446 | \$ 1,220,774 | \$ 27,571,191 | \$ 68,295,326 | \$ 23,312,675 | \$ 8,590,256 | \$ (19,816,827) | \$ 245,825,327 |
| LIABILITIES AND NET ASSETS | | | | | | | | | | |
| Liabilities | | | | | | | | | | |
| Accounts payable | \$ 1,853,269 | \$ 96,790 | \$ (101,652) | \$ 13,609 | \$ - | \$ 329,369 | \$ 185,818 | \$ 2,503 | \$ - | \$ 2,379,706 |
| Pledges payable to parishes | - | - | - | - | - | - | - | 2,134,657 | - | 2,134,657 |
| Accrued liabilities | 5,698,294 | 3,524,223 | - | 18,448,970 | - | 59,528 | 4,743,916 | 518,045 | - | 32,992,976 |
| Deposits payable - parishes | - | - | - | - | - | 65,042,437 | - | - | (17,056,827) | 47,985,610 |
| Debentures payable | 8,221,657 | - | - | - | - | 14,080,368 | - | - | - | 22,302,025 |
| Notes payable | 2,760,000 | - | - | - | - | - | - | - | (2,760,000) | - |
| Trust assets held for parish | 3,143,946 | - | - | - | - | - | - | 124,135 | - | 3,268,081 |
| Held for parishes/institutions | 6,840,609 | - | 1,834,982 | - | 27,571,191 | (26,987) | 86,185 | - | - | 36,305,980 |
| Deferred revenue | 13,316,377 | 11,447,615 | - | - | - | - | 2,161,625 | - | - | 26,925,617 |
| Due to/from other funds | 4,964,389 | - | 71,223 | (35,612) | - | - | (5,000,000) | - | - | - |
| Total liabilities | 46,798,541 | 15,068,628 | 1,804,553 | 18,426,967 | 27,571,191 | 79,484,715 | 2,177,544 | 2,779,340 | (19,816,827) | 174,294,652 |
| Net assets | | | | | | | | | | |
| Unrestricted | | | | | | | | | | |
| Undesignated | 16,765,853 | 16,539,434 | 953,125 | (17,206,194) | - | (11,189,388) | 11,459,615 | (16,875) | - | 17,305,570 |
| Designated | 765,412 | - | 1,955,234 | - | - | - | 9,675,516 | - | - | 12,396,162 |
| Designated-cemetery long-term care | - | 10,704,830 | - | - | - | - | - | - | - | 10,704,830 |
| Total unrestricted assets | 17,531,265 | 27,244,264 | 2,908,359 | (17,206,194) | - | (11,189,388) | 21,135,131 | (16,875) | - | 40,406,562 |
| Temporarily restricted | 7,470,787 | - | 13,486,041 | - | - | - | - | 5,827,791 | - | 26,784,619 |
| Permanently restricted | - | - | 4,339,494 | - | - | - | - | - | - | 4,339,494 |
| Total net assets (deficit) | 25,002,052 | 27,244,264 | 20,733,894 | (17,206,194) | - | (11,189,388) | 21,135,131 | 5,810,916 | - | 71,530,675 |
| Total liabilities and net assets | \$ 71,800,593 | \$ 42,312,892 | \$ 22,538,447 | \$ 1,220,773 | \$ 27,571,191 | \$ 68,295,327 | \$ 23,312,675 | \$ 8,590,256 | \$ (19,816,827) | \$ 245,825,327 |

**THE ROMAN CATHOLIC DIOCESE OF SAN JOSE AND AFFILIATE,
CENTRAL ADMINSTRATIVE OFFICE
CONSOLIDATED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS - ALL FUNDS
Year Ended June 30, 2015**

| | <u>Operating Fund</u> | <u>Cemetery Fund</u> | <u>Endowment Fund</u> | <u>Priest Retirement</u> | <u>Deposit and Loan Funds</u> | <u>Service Funds</u> | <u>Fundraising Funds</u> | <u>Eliminations</u> | <u>Total</u> |
|--|-----------------------|----------------------|-----------------------|--------------------------|-------------------------------|----------------------|--------------------------|---------------------|-------------------|
| Revenues | | | | | | | | | |
| Gifts, bequests, and collections | \$ 4,631,282 | \$ - | \$ 103,480 | \$ 51,674 | \$ 80,001 | \$ - | \$ 5,644,537 | \$ - | \$ 10,510,974 |
| Fees and expense reimbursement | 1,272,957 | - | - | 1,389,262 | - | 955,867 | - | (27,934) | 3,590,152 |
| Diocesan assessment | 3,629,422 | - | - | - | - | - | - | (434,289) | 3,195,133 |
| Education income | 1,001,981 | - | - | - | - | - | - | (30,965) | 971,016 |
| Rental income | 380,751 | 65,096 | 144,000 | - | - | - | - | - | 589,847 |
| Investment income | 11,052 | 260,880 | 742,830 | (10,560) | 160,830 | 521,469 | 36,662 | (170,974) | 1,552,189 |
| Interest income from loans | - | - | - | - | 855,491 | - | - | - | 855,491 |
| Cemetery revenues | - | 7,885,844 | - | - | - | - | - | - | 7,885,844 |
| Insurance premium income | - | - | - | - | - | 26,592,881 | - | - | 26,592,881 |
| Newspaper income | 487,708 | - | - | - | - | - | - | - | 487,708 |
| Grant income | 682,115 | - | 1,315,000 | - | - | - | 4,000 | - | 2,001,115 |
| Other income | 3,287 | 24,036 | - | - | - | - | - | - | 27,323 |
| Total revenues | 12,100,555 | 8,235,856 | 2,305,310 | 1,430,376 | 1,096,322 | 28,070,217 | 5,685,199 | (664,162) | 58,259,673 |
| Expenses | | | | | | | | | |
| Pastoral | 4,798,855 | - | - | - | - | - | - | - | 4,798,855 |
| Religious and personnel development | 2,904,244 | - | - | - | - | - | - | - | 2,904,244 |
| Education | 1,121,189 | - | 527,425 | - | - | - | - | (39,840.00) | 1,608,774 |
| Pension, priest retirement | - | - | - | 2,136,316 | - | - | - | - | 2,136,316 |
| Administration | 1,755,555 | 16,546 | 215 | - | 154,777 | 1,216,704 | - | - | 3,143,797 |
| Depreciation expense | 1,179,961 | 156,462 | - | - | - | 360,160 | - | - | 1,696,583 |
| Interest expense deposits | - | - | - | - | 482,029 | - | - | (170,974) | 311,055 |
| Interest expense notes and bonds | 367,253 | 26,836 | - | - | 801,076 | - | - | - | 1,195,165 |
| Insurance premiums and benefits | - | - | - | - | - | 24,640,318 | - | - | 24,640,318 |
| Newspaper expenses | 564,761 | - | - | - | - | - | - | - | 564,761 |
| Cemetery expenses | - | 5,530,672 | - | - | - | - | - | (453,348) | 5,077,324 |
| Fundraising expenses | - | - | - | - | - | - | 913,778 | - | 913,778 |
| Total expenses | 12,691,818 | 5,730,516 | 527,640 | 2,136,316 | 1,437,882 | 26,217,182 | 913,778 | (664,162) | 48,990,970 |
| Change in net assets before transfers | (591,263) | 2,505,340 | 1,777,670 | (705,940) | (341,560) | 1,853,035 | 4,771,421 | - | 9,268,703 |
| Intrafund transfers | | | | | | | | | |
| Annual appeal transfer | 4,741,644 | - | - | - | - | - | (4,741,644) | - | - |
| Other intrafund transfers | 552,149 | - | (244,250) | (104,399) | - | (203,500) | - | - | - |
| Total transfers | 5,293,793 | - | (244,250) | (104,399) | - | (203,500) | (4,741,644) | - | - |
| Net change in net assets from operations | 4,702,530 | 2,505,340 | 1,533,420 | (810,339) | (341,560) | 1,649,535 | 29,777 | - | 9,268,703 |
| Change in fair value of rate swap | 20,095 | - | - | - | 50,923 | - | - | - | 71,018 |
| Change in obligations for post-retirement benefits | (491,364) | (349,336) | - | (2,131,902) | - | (125,626) | (25,753) | - | (3,123,981) |
| Net change in net assets | 4,231,261 | 2,156,004 | 1,533,420 | (2,942,241) | (290,637) | 1,523,909 | 4,024 | - | 6,215,740 |
| Net assets at the beginning 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 |
| Net assets at the end of the year | \$ 25,002,052 | \$ 27,244,264 | \$ 20,733,894 | \$ (17,206,194) | \$ (11,189,388) | \$ 21,135,131 | \$ 5,810,916 | \$ - | \$ 71,530,675 |

**THE ROMAN CATHOLIC DIOCESE OF SAN JOSE AND AFFILIATE,
CENTRAL ADMINSTRATIVE OFFICE
CONSOLIDATED STATEMENTS OF ASSETS, LIABILITIES, AND NET ASSETS – SERVICE FUNDS
Years Ended June 30, 2016 and 2015**

| | 2016 | | | | 2015 | | | |
|--|---------------------|----------------------------|------------------------|----------------------|---------------------|----------------------------|------------------------|----------------------|
| | Payroll Fund | Comprehensive Benefit Fund | General Insurance Fund | Total | Payroll Fund | Comprehensive Benefit Fund | General Insurance Fund | Total |
| ASSETS | | | | | | | | |
| Cash & equivalents | \$ (1,404,597) | \$ 6,205,711 | \$ 5,044,742 | \$ 9,845,856 | \$ (762,583) | \$ 5,912,176 | \$ 2,062,471 | \$ 7,212,064 |
| Marketable securities | - | 2,735,396 | 9,162,174 | 11,897,570 | - | 2,715,274 | 9,094,944 | 11,810,218 |
| Receivables | | | | | | | | |
| Receivables from parishes and institutions | 758,220 | 926,086 | 575,662 | 2,259,968 | 420,480 | 599,541 | 722,954 | 1,742,975 |
| Other | - | 255,583 | 78,587 | 334,170 | - | 255,788 | 57,972 | 313,760 |
| Deposits & prepaids | 127,718 | - | 57,761 | 185,479 | 148,994 | - | 235,542 | 384,536 |
| Land, building, and equipment | 270,035 | - | 11,396 | 281,431 | - | - | 11,591 | 11,591 |
| Interest bearing intrafund account | - | 973,435 | 869,632 | 1,843,067 | - | 970,511 | 867,020 | 1,837,531 |
| Total assets | \$ (248,624) | \$ 11,096,211 | \$ 15,799,954 | \$ 26,647,541 | \$ (193,109) | \$ 10,453,290 | \$ 13,052,494 | \$ 23,312,675 |
| LIABILITIES & NET ASSETS | | | | | | | | |
| Liabilities | | | | | | | | |
| Accounts payable | \$ 3,790 | \$ 8,641 | \$ 23,287 | \$ 35,718 | \$ 8,648 | \$ (16,626) | \$ 193,796 | \$ 185,818 |
| Accrued liabilities | 465,968 | 4,013,930 | 1,990,231 | 6,470,129 | 135,977 | 3,369,237 | 1,238,702 | 4,743,916 |
| Held for parishes/institutions | - | - | 2,058,933 | 2,058,933 | - | - | 86,185 | 86,185 |
| Deferred revenue | - | 1,484,962 | 593,750 | 2,078,712 | - | 1,516,690 | 644,935 | 2,161,625 |
| 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 | 469,758 | 1,507,533 | 3,666,201 | 5,643,492 | 144,625 | 869,301 | 1,163,618 | 2,177,544 |
| Net assets | | | | | | | | |
| Unrestricted | | | | | | | | |
| Undesignated | (718,382) | 9,002,480 | 3,038,808 | 11,322,906 | (337,734) | 9,064,246 | 3,361,381 | 12,087,893 |
| Designated | - | 586,198 | 9,094,945 | 9,681,143 | - | 519,743 | 8,527,495 | 9,047,238 |
| Total net assets (deficit) | (718,382) | 9,588,678 | 12,133,753 | 21,004,049 | (337,734) | 9,583,989 | 11,888,876 | 21,135,131 |
| Total liabilities and net assets | \$ (248,624) | \$ 11,096,211 | \$ 15,799,954 | \$ 26,647,541 | \$ (193,109) | \$ 10,453,290 | \$ 13,052,494 | \$ 23,312,675 |

**THE ROMAN CATHOLIC DIOCESE OF SAN JOSE AND AFFILIATE,
CENTRAL ADMINSTRATIVE OFFICE
CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS – SERVICE FUNDS
Years Ended June 30, 2016 and 2015**

| | 2016 | | | | 2015 | | | |
|--|--------------|----------------------------|------------------------|---------------|--------------|----------------------------|------------------------|---------------|
| | Payroll Fund | Comprehensive Benefit Fund | General Insurance Fund | Total | Payroll Fund | Comprehensive Benefit Fund | General Insurance Fund | Total |
| Revenues | | | | | | | | |
| Fees and expense reimbursement | \$ 973,823 | \$ - | \$ - | \$ 973,823 | \$ 955,867 | \$ - | \$ - | \$ 955,867 |
| Investment income | (4,227) | 43,637 | 81,785 | 121,195 | (2,738) | 146,482 | 377,725 | 521,469 |
| Insurance premium income | - | 21,619,791 | 5,935,938 | 27,555,729 | - | 21,045,161 | 5,547,720 | 26,592,881 |
| Other income | - | 40,409 | - | 40,409 | - | - | - | - |
| Total revenues | 969,596 | 21,703,837 | 6,017,723 | 28,691,156 | 953,129 | 21,191,643 | 5,925,445 | 28,070,217 |
| Expenses | | | | | | | | |
| Administration | 573,172 | 254,038 | 1,302,411 | 2,129,621 | 264,640 | 89,468 | 862,596 | 1,216,704 |
| Depreciation expense | 360,046 | - | 195 | 360,241 | 360,046 | - | 114 | 360,160 |
| Insurance premiums and benefits | 136,707 | 21,421,221 | 4,112,285 | 25,670,213 | 228,692 | 20,712,965 | 3,698,661 | 24,640,318 |
| Total expenses | 1,069,925 | 21,675,259 | 5,414,891 | 28,160,075 | 853,378 | 20,802,433 | 4,561,371 | 26,217,182 |
| Increase (decrease) in net assets from operations | (100,329) | 28,578 | 602,832 | 531,081 | 99,751 | 389,210 | 1,364,074 | 1,853,035 |
| Change in obligations for post-retirement benefits | (76,819) | (23,889) | (357,955) | (458,663) | (31,850) | (53,051) | (40,725) | (125,626) |
| Intrafund transfers | (203,500) | - | - | (203,500) | (203,500) | - | - | (203,500) |
| Increase (decrease) in net assets | (380,648) | 4,689 | 244,877 | (131,082) | (135,599) | 336,159 | 1,323,349 | 1,523,909 |
| Net assets at beginning of the year | (337,734) | 9,583,989 | 11,888,876 | 21,135,131 | (202,135) | 9,247,830 | 10,565,527 | 19,611,222 |
| Net assets at end of year | \$ (718,382) | \$ 9,588,678 | \$ 12,133,753 | \$ 21,004,049 | \$ (337,734) | \$ 9,583,989 | \$ 11,888,876 | \$ 21,135,131 |

**THE ROMAN CATHOLIC DIOCESE OF SAN JOSE AND AFFILIATE,
CENTRAL ADMINSTRATIVE OFFICE
CONSOLIDATED STATEMENTS OF ASSETS, LIABILITIES, AND NET ASSETS – PRIEST RETIREMENT FUNDS
Years Ended June 30, 2016 and 2015**

| | 2016 | | | | 2015 | | | |
|--|------------------------|------------------------|-----------------------|-----------------------|------------------------|------------------------|----------------------|---------------------|
| | Priest Retirement Fund | Supplemental Plan Fund | Post Retirement Fund | Total | Priest Retirement Fund | Supplemental Plan Fund | Post Retirement Fund | Total |
| ASSETS | | | | | | | | |
| Cash & equivalents | \$ - | \$ - | \$ (2,191,699) | \$ (2,191,699) | \$ 1,212,583 | \$ - | \$ - | \$ 1,212,583 |
| Receivables from parishes and institutions | 1,085 | - | - | 1,085 | 8,191 | - | - | 8,191 |
| Total assets | <u>\$ 1,085</u> | <u>\$ -</u> | <u>\$ (2,191,699)</u> | <u>\$ (2,190,614)</u> | <u>\$ 1,220,774</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 1,220,774</u> |
| LIABILITIES & NET ASSETS | | | | | | | | |
| Liabilities | | | | | | | | |
| Accounts payable | \$ 55 | \$ - | \$ - | \$ 55 | \$ - | \$ - | \$ 13,609 | \$ 13,609 |
| Accrued liabilities | 15,247,609 | 2,437,656 | 2,223,827 | 19,909,092 | 12,812,344 | 1,789,175 | 3,847,451 | 18,448,970 |
| Due to/from other funds | (34,094) | - | - | (34,094) | (35,611) | - | - | (35,611) |
| Total liabilities | 15,213,570 | 2,437,656 | 2,223,827 | 19,875,053 | 12,776,733 | 1,789,175 | 3,861,060 | 18,426,968 |
| Net assets | | | | | | | | |
| Unrestricted | | | | | | | | |
| Undesignated | (15,212,485) | (2,437,656) | (4,415,526) | (22,065,667) | (11,555,959) | (1,789,175) | (3,861,060) | (17,206,194) |
| Total net assets (deficit) | <u>(15,212,485)</u> | <u>(2,437,656)</u> | <u>(4,415,526)</u> | <u>(22,065,667)</u> | <u>(11,555,959)</u> | <u>(1,789,175)</u> | <u>(3,861,060)</u> | <u>(17,206,194)</u> |
| Total liabilities and net assets | <u>\$ 1,085</u> | <u>\$ -</u> | <u>\$ (2,191,699)</u> | <u>\$ (2,190,614)</u> | <u>\$ 1,220,774</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 1,220,774</u> |

**THE ROMAN CATHOLIC DIOCESE OF SAN JOSE AND AFFILIATE,
CENTRAL ADMINSTRATIVE OFFICE
CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS – PRIEST RETIREMENT FUNDS
Years Ended June 30, 2016 and 2015**

| | 2016 | | | | 2015 | | | |
|--|---------------------------|---------------------------|-------------------------|------------------------|---------------------------|---------------------------|-------------------------|------------------------|
| | 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 | \$ - | \$ 58,500 | \$ - | \$ 58,500 | \$ - | \$ 51,674 | \$ - | \$ 51,674 |
| Fees and expense reimbursement | 117,705 | 240,443 | 1,005,243 | 1,363,391 | 1,389,262 | - | - | 1,389,262 |
| Investment income | 4,352 | (768) | (10,567) | (6,983) | 7,119 | (1,442) | (16,237) | (10,560) |
| Total revenues | 122,057 | 298,175 | 994,676 | 1,414,908 | 1,396,381 | 50,232 | (16,237) | 1,430,376 |
| Expenses | | | | | | | | |
| Administration | 3,438,784 | 946,656 | 1,629,475 | 6,014,915 | 1,824,490 | 285,145 | 26,681 | 2,136,316 |
| Intrafund transfers | (239,497) | - | 80,333 | (159,164) | (349,066) | - | 244,667 | (104,399) |
| Total expenses | 3,438,784 | 946,656 | 1,629,475 | 6,014,915 | 1,824,490 | 285,145 | 26,681 | 2,136,316 |
| Increase (decrease) in net assets from operations | (3,556,224) | (648,481) | (554,466) | (4,759,171) | (777,175) | (234,913) | 201,749 | (810,339) |
| Change in obligations for post-retirement benefits | (100,302) | - | - | (100,302) | (1,040,221) | 35,478 | (1,127,159) | (2,131,902) |
| Increase (decrease) in net assets | (3,656,526) | (648,481) | (554,466) | (4,859,473) | (1,817,396) | (199,435) | (925,410) | (2,942,241) |
| Net assets at beginning of the year | (11,555,959) | (1,789,175) | (3,861,060) | (17,206,194) | (9,738,563) | (1,589,740) | (2,935,650) | (14,263,953) |
| Net assets at end of year | <u>\$ (15,212,485)</u> | <u>\$ (2,437,656)</u> | <u>\$ (4,415,526)</u> | <u>\$ (22,065,667)</u> | <u>\$ (11,555,959)</u> | <u>\$ (1,789,175)</u> | <u>\$ (3,861,060)</u> | <u>\$ (17,206,194)</u> |

**THE ROMAN CATHOLIC DIOCESE OF SAN JOSE AND AFFILIATE,
CENTRAL ADMINSTRATIVE OFFICE
CONSOLIDATED STATEMENTS OF ASSETS, LIABILITIES, AND NET ASSETS - FUNDRAISING FUNDS
Years Ended June 30, 2016 and 2015**

| | 2016 | | | | 2015 | | | |
|---|-------------------|---------------------|------------------------------|---------------------|-------------------|---------------------|------------------------------|---------------------|
| | Fundraising Funds | Annual Appeal Fund | Charitable Gift Annuity Fund | Total | Fundraising Funds | Annual Appeal Fund | Charitable Gift Annuity Fund | Total |
| ASSETS | | | | | | | | |
| Cash & equivalents | \$ 318,175 | \$ 6,674,071 | \$ - | \$ 6,992,246 | \$ 273,778 | \$ 6,518,066 | \$ - | \$ 6,791,844 |
| Pledges receivable | - | 1,849,942 | - | 1,849,942 | - | 1,660,125 | - | 1,660,125 |
| Assets held in trust | - | - | 101,802 | 101,802 | - | - | 124,135 | 124,135 |
| Interest bearing intrafund account | 14,402 | - | - | 14,402 | 14,151 | - | - | 14,151 |
| Total assets | 332,577 | 8,524,013 | 101,802 | 8,958,392 | 287,929 | 8,178,191 | 124,135 | 8,590,255 |
| LIABILITIES & NET ASSETS | | | | | | | | |
| Liabilities | | | | | | | | |
| Accounts payable | - | 2,772 | - | 2,772 | 580 | 1,922 | - | 2,502 |
| Pledges payable to parishes | - | 2,425,813 | - | 2,425,813 | - | 2,134,657 | - | 2,134,657 |
| Accrued liabilities | 333,840 | 283,249 | - | 617,089 | 288,612 | 229,433 | - | 518,045 |
| Trust assets held for parish | - | - | 101,802 | 101,802 | - | - | 124,135 | 124,135 |
| Total liabilities | 333,840 | 2,711,834 | 101,802 | 3,147,476 | 289,192 | 2,366,012 | 124,135 | 2,779,339 |
| Net assets | | | | | | | | |
| Unrestricted | | | | | | | | |
| Undesignated | (1,263) | - | - | (1,263) | (1,263) | - | - | (1,263) |
| Temporarily restricted | - | 5,812,179 | - | 5,812,179 | - | 5,812,179 | - | 5,812,179 |
| Total net assets (deficit) | (1,263) | 5,812,179 | - | 5,810,916 | (1,263) | 5,812,179 | - | 5,810,916 |
| Total liabilities and net assets | \$ 332,577 | \$ 8,524,013 | \$ 101,802 | \$ 8,958,392 | \$ 287,929 | \$ 8,178,191 | \$ 124,135 | \$ 8,590,255 |

**THE ROMAN CATHOLIC DIOCESE OF SAN JOSE AND AFFILIATE,
CENTRAL ADMINSTRATIVE OFFICE
CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS - FUNDRAISING FUNDS
Years Ended June 30, 2016 and 2015**

| | 2016 | | | 2015 | | |
|--|----------------------|-----------------------|--------------|----------------------|-----------------------|--------------|
| | Fundraising Funds | Annual Appeal Fund | Total | Fundraising Funds | Annual Appeal Fund | Total |
| Revenues | | | | | | |
| Gifts, bequests, and collections | \$ 5,100 | \$ 6,183,399 | \$ 6,188,499 | \$ - | \$ 5,644,537 | \$ 5,644,537 |
| Investment income | 673 | 22,990 | 23,663 | 874 | 35,788 | 36,662 |
| Other income | 6,500 | - | 6,500 | 4,000 | - | 4,000 |
| Total revenues | 12,273 | 6,206,389 | 6,218,662 | 4,874 | 5,680,325 | 5,685,199 |
| Expenses | | | | | | |
| Administration | 277,231 | 706,082 | 983,313 | 278,233 | 635,545 | 913,778 |
| Total expenses | 277,231 | 706,082 | 983,313 | 278,233 | 635,545 | 913,778 |
| Increase (decrease) in net assets from operations | (264,958) | 5,500,307 | 5,235,349 | (273,359) | 5,044,780 | 4,771,421 |
| Change in obligations for post-retirement benefits | (36,255) | (45,278) | (81,533) | (15,996) | (9,757) | (25,753) |
| Intrafund transfers | | | | | | |
| Annual appeal distributions | 301,213 | (301,213) | - | 289,356 | (289,356) | - |
| Annual appeal transfers | - | (5,153,816) | (5,153,816) | - | (4,741,644) | (4,741,644) |
| Total changes and transfers | 264,958 | (5,500,307) | (5,235,349) | 273,360 | (5,040,757) | (4,767,397) |
| Increase in net assets | - | - | - | 1 | 4,023 | 4,024 |
| Net assets at beginning of the year | (1,263) | 5,812,179 | 5,810,916 | (1,264) | 5,808,156 | 5,806,892 |
| Net assets at end of year | \$ (1,263) | \$ 5,812,179 | \$ 5,810,916 | \$ (1,263) | \$ 5,812,179 | \$ 5,810,916 |

**THE ROMAN CATHOLIC DIOCESE OF SAN JOSE AND AFFILIATE,
CENTRAL ADMINISTRATIVE OFFICE
CONSOLIDATED STATEMENTS OF ASSETS, LIABILITIES, AND NET ASSETS – DEPOSIT AND LOAN FUNDS
Years Ended June 30, 2016 and 2015**

| | 2016 | | | 2015 | | |
|--|--------------------------|-----------------------|----------------------|--------------------------|-----------------------|----------------------|
| | Deposit and Loan Fund | Employee Loan Fund | Total | Deposit and Loan Fund | Employee Loan Fund | Total |
| ASSETS | | | | | | |
| Cash & equivalents | \$ 45,679,683 | \$ 668,763 | \$ 46,348,446 | \$ 35,813,275 | \$ 679,366 | \$ 36,492,641 |
| Receivables | | | | | | |
| Receivables from parishes and institutions | 100,000 | - | 100,000 | - | - | - |
| Other | - | 37,292 | 37,292 | - | 23,259 | 23,259 |
| Loans receivables - parishes | 26,549,344 | - | 26,549,344 | 31,411,264 | - | 31,411,264 |
| Bond issuance costs | - | - | - | 345,379 | - | 345,379 |
| Deposits & prepaid | - | - | - | 22,782 | - | 22,782 |
| Total assets | \$ 72,329,027 | \$ 706,055 | \$ 73,035,082 | \$ 67,592,700 | \$ 702,625 | \$ 68,295,325 |
| LIABILITIES & NET ASSETS | | | | | | |
| Liabilities | | | | | | |
| Accounts payable | \$ 203,624 | \$ - | \$ 203,624 | \$ 329,369 | \$ - | \$ 329,369 |
| Accrued liabilities | 30,060 | - | 30,060 | 59,528 | - | 59,528 |
| Deposits payable - parishes | 70,991,454 | - | 70,991,454 | 65,042,437 | - | 65,042,437 |
| Debentures payable | 14,023,347 | - | 14,023,347 | 14,080,368 | - | 14,080,368 |
| Held for parishes/institutions | - | - | - | (26,987) | - | (26,987) |
| Total liabilities | 85,248,485 | - | 85,248,485 | 79,484,715 | - | 79,484,715 |
| Net Assets | | | | | | |
| Unrestricted | (12,919,458) | 706,055 | (12,213,403) | (11,892,015) | 702,625 | (11,189,390) |
| Total net assets (deficit) | (12,919,458) | 706,055 | (12,213,403) | (11,892,015) | 702,625 | (11,189,390) |
| Total liabilities and net assets | \$ 72,329,027 | \$ 706,055 | \$ 73,035,082 | \$ 67,592,700 | \$ 702,625 | \$ 68,295,325 |

**THE ROMAN CATHOLIC DIOCESE OF SAN JOSE,
CENTRAL ADMINISTRATIVE OFFICE
CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS - DEPOSIT AND LOAN FUNDS
Years Ended June 30, 2016 and 2015**

| | 2016 | | | 2015 | | |
|--|--------------------------|-----------------------|-----------------|--------------------------|-----------------------|-----------------|
| | Deposit and Loan Fund | Employee Loan Fund | Total | Deposit and Loan Fund | Employee Loan Fund | Total |
| Revenues | | | | | | |
| Gifts, bequests and collections | \$ 14,303 | \$ - | \$ 14,303 | \$ 79,999 | \$ - | \$ 79,999 |
| Investment income | 141,669 | 2,311 | 143,980 | 157,025 | 3,805 | 160,830 |
| Interest income from loans | 662,943 | 1,119 | 664,062 | 854,030 | 1,461 | 855,491 |
| Total revenues | 818,915 | 3,430 | 822,345 | 1,091,054 | 5,266 | 1,096,320 |
| Expenses | | | | | | |
| Administration | 127,588 | - | 127,588 | 156,588 | (1,811) | 154,777 |
| Interest expense-deposits | 393,817 | - | 393,817 | 482,029 | - | 482,029 |
| Interest expense-bonds, notes, other | 1,324,953 | - | 1,324,953 | 801,076 | - | 801,076 |
| Total expenses | 1,846,358 | - | 1,846,358 | 1,439,693 | (1,811) | 1,437,882 |
| Change in net assets | (1,027,443) | 3,430 | (1,024,013) | (348,639) | 7,077 | (341,562) |
| Transfers | - | - | - | - | - | - |
| Increase (decrease) in net assets from operations | (1,027,443) | 3,430 | (1,024,013) | (348,639) | 7,077 | (341,562) |
| Change in fair value of interest rate swap | - | - | - | 50,923 | - | 50,923 |
| Increase (decrease) in net assets | (1,027,443) | 3,430 | (1,024,013) | (297,716) | 7,077 | (290,639) |
| Net assets at beginning of the year | (11,892,015) | 702,625 | (11,189,390) | (11,594,299) | 695,548 | (10,898,751) |
| Net assets at end of year | \$ (12,919,458) | \$ 706,055 | \$ (12,213,403) | \$ (11,892,015) | \$ 702,625 | \$ (11,189,390) |