

**CENTRAL ADMINISTRATIVE OFFICE OF THE
ROMAN CATHOLIC ARCHDIOCESE OF SAN FRANCISCO**

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

June 30, 2016 and 2015

**CENTRAL ADMINISTRATIVE OFFICE OF THE
ROMAN CATHOLIC ARCHDIOCESE OF SAN FRANCISCO**

C O N T E N T S

	Page
Independent Auditors' Report	1
Financial Statements:	
Statements of Financial Position	2
Statements of Activities	3
Statements of Cash Flows	4
Notes to Financial Statements	5–27

INDEPENDENT AUDITORS' REPORT

Most Reverend Salvatore Joseph Cordileone
The Roman Catholic Archbishop of San Francisco

We have audited the accompanying financial statements of the Central Administrative Office, an operating division of The Roman Catholic Archbishop of San Francisco, a California Corporation Sole, which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Central Administrative Office of The Roman Catholic Archbishop of San Francisco as of June 30, 2016 and 2015, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Burr Pilger Mayer, Inc.

San Francisco, California
November 18, 2016

**CENTRAL ADMINISTRATIVE OFFICE OF THE
ROMAN CATHOLIC ARCHDIOCESE OF SAN FRANCISCO**

STATEMENTS OF FINANCIAL POSITION

June 30, 2016 and 2015

	2016	2015
ASSETS		
Cash and cash equivalents	\$ 42,278,782	\$ 53,231,895
Time certificates of deposit	18,500,000	600,000
Investments	124,469,793	122,951,171
Receivables:		
Schools and institutions, net	651,751	788,627
Pledges and assessments, net	3,546,852	3,271,592
Other receivables, net	1,738,826	1,965,470
Prepaid and other assets	1,975,291	2,084,596
Property, land, and equipment, net	37,088,386	37,256,866
Beneficial interest in Real Property Support Corporation net assets	333,874	333,874
Beneficial interest in a perpetual trust	723,930	775,729
Total assets	\$ 231,307,485	\$ 223,259,820
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued liabilities	\$ 8,373,472	\$ 6,033,164
Deferred lease revenue	6,206,087	6,307,826
Assets held for schools and institutions	29,929,312	23,702,087
Equity of others in pooled investments	34,027,052	33,219,308
Notes payable	3,597,061	3,709,394
Total liabilities	82,132,984	72,971,779
Net assets:		
Unrestricted:		
Undesignated	16,659,912	18,377,241
Investment in property, land and equipment and beneficial interest in Real Property Support Corporation net assets, net of related notes payable	33,825,199	33,881,346
Designated	57,494,192	53,216,464
Total unrestricted	107,979,303	105,475,051
Temporarily restricted	22,688,428	26,254,421
Permanently restricted	18,506,770	18,558,569
Total net assets	149,174,501	150,288,041
Total liabilities and net assets	\$ 231,307,485	\$ 223,259,820

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

**CENTRAL ADMINISTRATIVE OFFICE OF THE
ROMAN CATHOLIC ARCHDIOCESE OF SAN FRANCISCO**

STATEMENTS OF ACTIVITIES

For the 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	\$ 1,178,096	\$ 7,732,497	\$ -	\$ 8,910,593	\$ 627,341	\$ 15,909,387	\$ -	\$ 16,536,728
Fees for services	4,822,063	-	-	4,822,063	4,739,023	-	-	4,739,023
Investment income	(51,693)	(197,698)	-	(249,391)	1,539,592	819,146	-	2,358,738
Change in beneficial interest in a perpetual trust	-	-	(51,799)	(51,799)	-	-	(46,638)	(46,638)
Insurance	33,974,705	-	-	33,974,705	36,150,910	-	-	36,150,910
Rental income	2,122,637	-	-	2,122,637	1,829,334	-	-	1,829,334
Other income	1,686,476	-	-	1,686,476	1,333,857	27,986	-	1,361,843
Net assets released from restrictions	11,100,792	(11,100,792)	-	-	7,895,503	(7,895,503)	-	-
Total revenues	<u>54,833,076</u>	<u>(3,565,993)</u>	<u>(51,799)</u>	<u>51,215,284</u>	<u>54,115,560</u>	<u>8,861,016</u>	<u>(46,638)</u>	<u>62,929,938</u>
Expenses:								
Compensation and benefits	9,614,215	-	-	9,614,215	9,638,748	-	-	9,638,748
Professional fees	2,802,963	-	-	2,802,963	2,811,793	-	-	2,811,793
Property costs and depreciation	2,926,662	-	-	2,926,662	2,855,887	-	-	2,855,887
Office expenses	1,078,510	-	-	1,078,510	1,350,197	-	-	1,350,197
Assessments	307,517	-	-	307,517	249,416	-	-	249,416
Other operating expenses	4,729,658	-	-	4,729,658	1,554,878	-	-	1,554,878
Insurance	26,793,154	-	-	26,793,154	30,750,023	-	-	30,750,023
Program subsidies	2,502,686	-	-	2,502,686	2,273,408	-	-	2,273,408
Priest retirement benefits	938,146	-	-	938,146	1,345,808	-	-	1,345,808
Interest paid to schools and institutions	261,509	-	-	261,509	452,439	-	-	452,439
Provision for (recoveries of) uncollectible accounts	373,804	-	-	373,804	(47,271)	-	-	(47,271)
Total expenses	<u>52,328,824</u>	<u>-</u>	<u>-</u>	<u>52,328,824</u>	<u>53,235,326</u>	<u>-</u>	<u>-</u>	<u>53,235,326</u>
Change in net assets before transfers	2,504,252	(3,565,993)	(51,799)	(1,113,540)	880,234	8,861,016	(46,638)	9,694,612
Net assets transferred out for closed parish and school properties	-	-	-	-	(2,411,454)	-	-	(2,411,454)
Net assets transferred from Shrine of St. Francis Assisi	-	-	-	-	319,823	-	-	319,823
Change in net assets	2,504,252	(3,565,993)	(51,799)	(1,113,540)	(1,211,397)	8,861,016	(46,638)	7,602,981
Net assets, beginning of year	<u>105,475,051</u>	<u>26,254,421</u>	<u>18,558,569</u>	<u>150,288,041</u>	<u>106,686,448</u>	<u>17,393,405</u>	<u>18,605,207</u>	<u>142,685,060</u>
Net assets, end of year	<u>\$ 107,979,303</u>	<u>\$ 22,688,428</u>	<u>\$ 18,506,770</u>	<u>\$ 149,174,501</u>	<u>\$ 105,475,051</u>	<u>\$ 26,254,421</u>	<u>\$ 18,558,569</u>	<u>\$ 150,288,041</u>

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

**CENTRAL ADMINISTRATIVE OFFICE OF THE
ROMAN CATHOLIC ARCHDIOCESE OF SAN FRANCISCO**

STATEMENTS OF CASH FLOWS

For the years ended June 30, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
Change in net assets before transfers	\$ (1,113,540)	\$ 9,694,612
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Change in beneficial interest in a perpetual trust	51,799	46,638
Net realized and unrealized losses (gains) on investments	1,486,328	(1,216,282)
Depreciation	1,764,133	1,536,523
Provision for (recoveries of) uncollectable accounts	373,804	(47,271)
Loss on sale of property, land, and equipment	4,968	6,337
Change in operating assets and liabilities:		
Receivables	(285,544)	2,384,221
Prepaid assets	109,305	240,876
Accounts payable and accrued liabilities	2,340,308	1,790,712
Deferred lease revenue	(101,739)	(101,739)
Total adjustments	5,743,362	4,640,015
Net cash provided by operating activities	4,629,822	14,334,627
Cash flows from investing activities:		
Purchase of investments	(70,047,341)	(72,222,709)
Proceeds from sale of investments	66,504,681	52,399,218
Change in time certificates of deposits	(17,900,000)	2,600,000
Purchase of property, land, and equipment	(1,600,621)	(1,138,839)
Net cash used in investing activities	(23,043,281)	(18,362,330)
Cash flows from financing activities:		
Assets held for schools and institutions liability	6,227,225	2,519,753
Change in equity held for others in pooled investments	807,744	34,314
Net realized and unrealized losses (gains) on investments of others	537,710	(559,764)
Payments on notes payable	(112,333)	(2,206,334)
Net cash provided by (used in) financing activities	7,460,346	(212,031)
Net decrease in cash and cash equivalents	(10,953,113)	(4,239,734)
Cash and cash equivalents, beginning of year	53,231,895	57,471,629
Cash and cash equivalents, end of year	\$ 42,278,782	\$ 53,231,895
Supplemental disclosure of cash flow information:		
Cash paid for interest on deposits and notes payable	\$ 261,509	\$ 452,439
Noncash disclosures:		
Net assets transferred out for closed parish and school properties	\$ -	\$ 2,411,454
Redassification of property to beneficial interest in Real Property Support Corporation	\$ -	\$ 333,874
Buildings and improvements transferred from the Shrine of St. Francis Assisi	\$ -	\$ 319,823

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

**CENTRAL ADMINISTRATIVE OFFICE OF THE
ROMAN CATHOLIC ARCHDIOCESE OF SAN FRANCISCO**

NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

1. The Chancery

The Roman Catholic Archbishop of San Francisco, a California Corporation Sole (the “Corporation Sole”), was incorporated on February 24, 1854. The Corporation Sole operates the Central Administrative Office of the Roman Catholic Archdiocese of San Francisco (the “Chancery”). Other operating divisions of the Corporation Sole include certain parishes, schools, cemeteries and certain Catholic sites within the Archdiocese such as the Vallombrosa Center.

The accompanying financial statements include only the Chancery and those funds over which the Chancery maintains direct operational control. Such statements do not include any assets or liabilities of the other operating divisions of the Corporation Sole as described above. In addition, the accompanying financial statements do not include, or pertain to, separate and independent corporate entities affiliated with the Corporation Sole that are located within The Roman Catholic Archdiocese of San Francisco (the “Archdiocese”) such as: The Roman Catholic Seminary of San Francisco (the “St. Patrick’s Seminary”), Catholic Charities – CYO of the Archdiocese of San Francisco, Contemplatives of St. Joseph, Benedict XVI Institute, The Archdiocese of San Francisco Parish, School and Cemetery Juridic Persons Capital Assets Support Corporation (“CASC”) and The Archdiocese of San Francisco Parish and School Juridic Persons Real Property Support Corporation (“RPSC”).

A significant portion of the Chancery’s revenues are derived from assessments obtained from and fees for services provided to parishes, schools and other Archdiocesan institutions, as well as, rental income from certain properties. These revenues are expended by the Chancery for the various programs, ministries, and needs of the Chancery. In addition, the Chancery administers the Archdiocesan insurance program and priest and lay employees’ supplemental pension plans.

The Chancery office administers funds on behalf of certain institutions, as well as, the Chancery, in an investment pool invested with fund managers in separate custodial accounts. The Chancery also administers a Deposit and Loan fund on behalf of high schools and certain institutions. Ownership by specific funds or entities in the investment pool is accounted for on a pooled unit value method based on fair values. Assets held for schools and institutions and equity of others in pooled investments are reflected as liabilities.

2. Assignment to Support Corporations

The Archdiocese of San Francisco Parish, School and Cemetery Juridic Persons Capital Assets Support Corporation (“Capital Assets Support Corporation”) and The Archdiocese of San Francisco Parish and School Juridic Persons Real Property Support Corporation (“Real Property Support Corporation”), collectively referred to as the “Support Corporations,” are separate and distinct corporations from the Corporation Sole. The Support Corporations have existed since 2008 for the expressed purpose of owning and maintaining certain real properties and capital assets in order for the civil structure of asset ownership to conform closely with Canon law and to support the mission of parishes, schools, and cemeteries that are operated civilly by the Corporation Sole.

To achieve that purpose, in 2008 the Corporation Sole irrevocably and unconditionally assigned, transferred and conveyed rights, title and interest in certain real property to the Real Property Support Corporation. The assignment also affects any real property or improvements thereto as defined by the assignment, including certain real property held by the Chancery (see Note 7).

Continued

**CENTRAL ADMINISTRATIVE OFFICE OF THE
ROMAN CATHOLIC ARCHDIOCESE OF SAN FRANCISCO**

NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

2. Assignment to Support Corporations, continued

The Corporation Sole and Support Corporations are financially interrelated organizations; therefore, at the date of transfer of certain real property held by the Chancery, the transfer is treated as an equity transfer and the carrying value of the asset transferred is reclassified as a beneficial interest (see Note 7) in the Real Property Support Corporation's net assets.

3. Summary of Significant Accounting Policies

Basis of Presentation

The accounts of the Chancery are maintained in accordance with accounting principles generally accepted in the United States of America and the principles of fund accounting. This is the procedure by which resources for various purposes are classified for accounting purposes into funds in accordance with specified activities or objectives. For financial statement purposes, all financial transactions are reported by class of net assets as prescribed for not-for-profit entities. The following is a description of the classes of net assets included in the financial statements.

Unrestricted

Unrestricted net assets consist of all resources of the Chancery that have not been restricted by a donor. Certain unrestricted resources have been internally designated for specific purposes.

Designated

Designated net assets consist of amounts set aside to supplement the various operations carried on by the Chancery.

Temporarily Restricted

Temporarily restricted net assets consist of cash and other assets received with donor stipulations that limit the use of the 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 statements of activities as net assets released from restriction. Temporarily restricted amounts received and used during the year flow through the statements of activities as temporarily restricted.

Permanently Restricted - Endowments

Permanently restricted net assets consist of assets which use has been restricted for investment in perpetuity as donor-restricted endowments. The income from endowments is available for either general operations or specific programs as specified by the donor.

Continued

**CENTRAL ADMINISTRATIVE OFFICE OF THE
ROMAN CATHOLIC ARCHDIOCESE OF SAN FRANCISCO**

NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

3. Summary of Significant Accounting Policies, continued

Basis of Presentation, continued

Permanently Restricted - Endowments, continued

Management has interpreted the State of California's enacted 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 date donated for the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result, the Chancery's permanently restricted net assets consist of the fair value of the original gifts as of the date donated to the donor-restricted endowment. Any remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are approved for expenditure by the Chancery.

Accrual Basis

The financial statements of the Chancery have been prepared on the accrual basis of accounting.

Cash and Cash Equivalents

For the purposes of these financial statements, cash and cash equivalents is considered to be cash on hand, bank deposits, money market funds, and certain mutual funds which are highly liquid.

Concentration of Credit Risk

Financial instruments that potentially subject the Chancery to concentrations of credit risk consist principally of cash and cash equivalents and time certificates of deposit. Such balances with any one institution may, at times, be in excess of federally insured limits. Risks associated with cash and cash equivalents and time certificates of deposit are mitigated by banking with credit worthy institutions. The Chancery has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk.

Investments in general are exposed to various risks, such as interest rate, credit, and overall market volatility. To address the risk of investments, the Chancery maintains a diversified portfolio, subject to an investment policy that sets out performance criteria, investment guidelines, asset allocation guidelines, and requires review of the investment performance. Investments are managed by multiple investment managers, who have responsibility for investing the funds in various investment classes. This entire process is actively overseen by the Investment Committee of the Archdiocese of SF. Investments are secured up to a limit set by the Securities Investor Protection Corporation ("SIPC"). As of June 30, 2016 and 2015, the Chancery held investments in excess of the SIPC insurance limits.

Investments

Investments in equity securities and in debt securities are reported at fair value, with current period recognition of increases or decreases in fair value shown in the statements of activities. Investments also include cash and cash equivalents held by investment custodians. Investment income recorded on the statements of activities includes interest and dividend income, as well as realized and unrealized gains and losses. Investments are held in markets which at times are volatile and can result in temporary significant unrealized gains or losses.

Continued

**CENTRAL ADMINISTRATIVE OFFICE OF THE
ROMAN CATHOLIC ARCHDIOCESE OF SAN FRANCISCO**

NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

3. Summary of Significant Accounting Policies, continued

Receivables

Receivables consist of loans, notes, accounts and other non-trade receivables and assessments receivable from schools and other institutions. Credit is extended based upon the evaluation of the entity's financial condition and other factors and, generally, collateral is not required, except in certain isolated cases where property is sold involving a note receivable and a deed of trust is obtained. Loans and notes receivable have variable maturity dates and are generally due in accordance with scheduled payments. The allowance for doubtful accounts and loan losses are determined based on a consideration of a number of factors, including the Chancery's previous loss history, the entity's previous payment history, financial condition and ability to pay, and the condition of the general economy. The Chancery writes off accounts receivable, loans, and notes receivable to the allowance when they are determined to be uncollectible. Payments subsequently received on accounts, loans, and notes previously written off are credited to the bad debt provision.

Interest accrues on loans and notes receivable monthly in accordance with the applicable interest rates. Interest accruals are discontinued when it is determined that a specific allowance is required against a loan or note. Interest income is subsequently recognized on such loans, or a note, only to the extent cash is subsequently received.

Property, Land, and Equipment

Property, land and equipment that are legally held in the name of the Corporation Sole, which are used by the Chancery, are stated at cost if purchased or at fair value at the date of the gift if donated. Also included are certain properties held by the Chancery for which the Chancery has canonical oversight.

For properties placed in service depreciation is provided in amounts sufficient to amortize the cost of depreciable assets to operations over their estimated services lives, ranging from 5 to 40 years, using the straight-line method.

Canonical Oversight of Closed Parishes and Parish Schools

The Chancery, on behalf of the Corporation Sole, assumes canonical responsibility for the management of closed parish and school sites, including the management of property, land, and equipment of those sites. Upon the suppression of a parish and/or its related school, if any, as a juridic person, its properties are passed on to the superior juridic person, the Corporation Sole, if no other juridic person has been established or assigned to care for the property.

If the Chancery does not expect to be the ultimate economic beneficiary of the property of closed parishes and schools or bear the risk of loss, it does not record an asset for the related property. If the economic beneficiary is uncertain, the Chancery records an asset and corresponding liability, as an agent, for the related property. If any of those properties have operations, the Chancery will recognize the related operations if it anticipates being the economic beneficiary of the related property. When the Chancery does not record the property of closed parishes and schools, or recognizes the property as an agent, the related operations are recognized and are accounted for by other responsible parties. When the canonical oversight of certain closed parish and/or school property has been assigned from the Chancery to another juridic person or responsible party, the Chancery recognizes an equity transfer and a corresponding reduction in any related assets and liabilities.

Continued

**CENTRAL ADMINISTRATIVE OFFICE OF THE
ROMAN CATHOLIC ARCHDIOCESE OF SAN FRANCISCO**

NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

3. Summary of Significant Accounting Policies, continued

Beneficial Interest

A beneficial interest is defined as a future economic benefit of an anticipated future cash flow or service potential. The Chancery has a beneficial interest in the Real Property Support Corporation's net assets (see Note 8) as a result of a transferred asset, land of a closed parish. The beneficial interest is reported at the book value of the transferred asset at the date of transfer.

Insurance Program

The Archdiocesan insurance program provides insurance coverage for parishes, schools and most other operating divisions of the Corporation Sole. The program is administered by the Chancery and provides coverage in areas including, but not limited to, general liability, property, crime, fiduciary liability, medical and health, and workers' compensation. Insurance claims are substantially covered by a variety of insurance policies purchased by the Chancery, but are also partially covered by self-insured retention levels and deductible limits.

During the year ended June 30 2015, the Chancery reviewed its process for establishing insurance liabilities to settle outstanding claims, including incurred but not reported claims, based on the facts in each case and the aggregate loss experience of the Chancery. These insurance liabilities are included in accounts payable and accrued liabilities on the statement of financial position. The Chancery does not discount the reserve for losses and loss adjustment expenses. The estimated liability will be significantly affected if current and future claims differ from historical trends. While the Chancery monitors reported claims closely and considers potential outcomes as it develops estimated accruals, the complexity of the claims, the extended period of time to settle the claims and the wide range of potential outcomes complicate the estimation. The Chancery's management believes an adequate provision has been made for the related risk.

Deferred Lease Revenue

Deferred lease revenue consists of a lease payment received from a lessee for rental periods subsequent to the statement of financial position date. The non-cancelable minimum lease payment portion of the deferred lease revenue is recognized on a straight-line basis as rental income over the remaining prepayment period of 61 years.

Assets Held for Schools and Institutions (Liability)

The Chancery holds deposits for schools and institutions for investment purposes and/or loaned to other schools and institutions. Deposit interest rates averaged 1% and 1.5% in fiscal years 2016 and 2015, respectively.

Also included in the assets held for schools and institutions are proceeds from special collections administered by the United States Conference of Catholic Bishops and other special collections local to the Archdiocese and administered by the Chancery.

Continued

**CENTRAL ADMINISTRATIVE OFFICE OF THE
ROMAN CATHOLIC ARCHDIOCESE OF SAN FRANCISCO**

NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

3. Summary of Significant Accounting Policies, continued

Gifts, Bequests, and Collections

The Chancery reports gifts, bequests, and collections as unrestricted revenue unless they are received with donor stipulations that limit the use of the donated assets, in which case they are recorded as temporarily or permanently restricted revenue. The Chancery recognizes all unconditional gifts and promises to give in the period notified, if deemed collectible.

Revenue Recognition

Fees for services, and other income are recognized as revenue in the applicable period in which the service is performed. Insurance revenues are recognized in the applicable period insurance coverage is provided to parishes, schools and other operating divisions. Rental income from property leases are recognized on a straight-line basis over the term of the lease.

Income Taxes

The Roman Catholic Archbishop of San Francisco is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code, as set forth in the Roman Catholic Church's annual group ruling received from the Internal Revenue Service. However, income from activities not related to its tax exempt purpose may be subject to taxation as unrelated business income. These activities have historically generated losses and the Chancery has accumulated net operating loss carryforwards ("NOLs"). As of June 30, 2015, the most recent tax filing, the Chancery had NOLs of approximately \$315,000. There is no limitation on the use of these NOLs and they will begin to expire in 2031. The Chancery's ability to utilize the NOLs or realize any benefits is uncertain, and therefore a full valuation allowance has been applied against them.

Fair Value Measurements

The Chancery follows the fair value measurement standards which define fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the assets or liabilities in an orderly transaction between market participants on the measurement date. Subsequent changes in fair value of these financial assets and liabilities are recognized in the change in net assets when they occur.

The Chancery uses various valuation approaches. A hierarchy has been established for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Chancery. Unobservable inputs are inputs that reflect the Chancery's assumptions about what market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. There have been no changes in valuation techniques for the years ended June 30, 2016 and 2015.

Continued

**CENTRAL ADMINISTRATIVE OFFICE OF THE
ROMAN CATHOLIC ARCHDIOCESE OF SAN FRANCISCO**

NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

3. Summary of Significant Accounting Policies, continued

Fair Value Measurements, continued

The Chancery's financial assets and liabilities measured at fair value on a recurring basis are categorized according to the fair value hierarchy consisting of the following three levels:

Level 1 – Valuation inputs are obtained from real-time quotes for transactions in active exchange markets involving identical assets and liabilities.

Level 2 – Valuation inputs are obtained from readily-available pricing sources for comparable instruments.

Level 3 – Valuation inputs are obtained without observable market value and require a high level of judgment to determine the fair value.

The categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Use of Estimates

In preparing 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 financial statements, as well as revenues and expenses during the reporting period. Actual results could differ from those estimates.

The Chancery's allowances for doubtful receivables and pledges and loans are significant estimates. The determination of the balances in the allowances accounts are based on an analysis of the receivables, pledges and loans and reflect 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 recognition in estimating losses.

Conditional Asset Retirement Obligation

In the ordinary course of business, the Chancery may need to comply with certain legal obligations as part of a demolition or major renovation of a facility. The Chancery currently has no plans for demolition or major renovation. The Chancery will continue to review potential asset retirement obligations and record a liability when sufficient information exists to indicate that such an obligation has been incurred and to estimate the fair value of an asset retirement obligation.

Recent Accounting Pronouncements

During May 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2015-07, *Fair Value Measurement* (Topic 820). The ASU removes the requirement to categorize investments by the fair value hierarchy for which fair values are measured using the net asset value per share practical expedient. It also limits disclosures to investments for which the entity has elected to measure the fair value using a practical expedient. For nonpublic entities, the ASU is effective for annual reporting periods beginning after December 15, 2016. The Chancery has adopted this ASU as of July 1, 2015.

Continued

**CENTRAL ADMINISTRATIVE OFFICE OF THE
ROMAN CATHOLIC ARCHDIOCESE OF SAN FRANCISCO**

NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

3. Summary of Significant Accounting Policies, continued

Recent Accounting Pronouncements, continued

In February 2016, the FASB issued ASU No. 2016-02, *Leases* (Topic 842). The amendments in this update create Topic 842, *Leases*, and supersede the leases requirements in Topic 840, *Leases*. Topic 842 specifies the accounting for leases. The objective of Topic 842 is to establish the principles that lessees and lessors shall apply to report useful information to users of financial statements about the amount, timing, and uncertainty of cash flows arising from a lease. The main difference between previous GAAP and Topic 842 is the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under previous GAAP. The ASU is effective for interim and annual periods beginning after December 15, 2019, with early adoption permitted. The Chancery is currently evaluating the effects of adopting the standard.

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities* (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities*. The update changes how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about liquidity, financial performance, and cash flows. The main difference between previous GAAP and Topic 958 is that net assets will now be presented in two classes rather than three. Not-for-Profit entities will report amounts for net assets with donor restrictions and net assets without donor restrictions. The ASU is effective for annual financial statements issued for fiscal years beginning after December 15, 2017, and for interim periods within fiscal years beginning after December 15, 2018, with early adoption permitted. The Chancery is currently evaluating the effects of adopting the standard.

4. Cash and Cash Equivalents and Time Certificates of Deposit

Cash and cash equivalents and time certificates of deposit were held for the benefit of the following funds as of June 30:

	2016	2015
Current fund - unrestricted	\$ 3,237,651	\$ 3,133,064
Deposit and loan fund	23,844,156	17,774,453
Insurance and benefits	20,721,107	15,365,395
Current fund - temporarily restricted	911,920	10,168,872
Priests retirement fund - unrestricted	4,862,439	3,693,420
Other designated funds	3,395,760	535,422
Other temporarily restricted	2,876,564	2,296,113
Other	929,185	865,156
Total cash and cash equivalents and time certificates of deposit	\$ 60,778,782	\$ 53,831,895

Continued

**CENTRAL ADMINISTRATIVE OFFICE OF THE
ROMAN CATHOLIC ARCHDIOCESE OF SAN FRANCISCO**

NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

5. Investments

The Chancery administers an investment pool, as an owner and agent through independent custodial arrangements, for the benefit of various Archdiocesan entities. The funds deposited by, or on behalf of, each participant is the sole property of that participant and are processed by the investment pool service providers and the Chancery as agents and custodians for the participants.

The investment pool was established for participants with long-term horizons, moderate growth and income requirements, and moderate risk objectives. The investment pool invests in stocks and bonds and alternative assets. The investment pool is operated under the total return concept, which allocates income (loss) to each participant based upon the total return earned in invested funds, including realized and unrealized gains and losses, and investment management fees.

Investments were held as follows at June 30:

	2016	2015
Investment pool:		
Chancery's equity in pooled investments	\$ 80,223,948	\$ 79,488,857
Others' equity in pooled investments	33,887,052	33,219,308
	114,111,000	112,708,165
Other investments	10,358,793	10,243,006
Total investments	\$ 124,469,793	\$ 122,951,171

Total investment (loss) income for the investment pool, including investment (loss) income allocated to others in the pooled investments, was (\$711,580) and \$3,402,953 for the years ended June 30, 2016 and 2015, respectively.

The Chancery's investment income, including its investment income from the investment pool, for the year ended June 30, 2016, is as follows:

	2016		
	Investment Pool	Other Investment Activities	
Interest and dividends	\$ 951,772	\$ 285,165	\$ 1,236,937
Net realized and unrealized losses on investments	(1,448,205)	(38,123)	(1,486,328)
Investment income	(496,433)	\$ 247,042	\$ (249,391)
Investment pool loss on equity of others	(215,147)		
Total investment pool income, net	\$ (711,580)		

Continued

**CENTRAL ADMINISTRATIVE OFFICE OF THE
ROMAN CATHOLIC ARCHDIOCESE OF SAN FRANCISCO**

NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

5. Investments, continued

The Chancery's investment income, including its investment income from the investment pool, for the year ended June 30, 2015, is as follows:

	2015		
	Investment Pool	Other Investment Activities	Total
Interest and dividends	\$ 1,103,754	\$ 38,702	\$ 1,142,456
Net realized and unrealized gains (losses) on investments	1,249,121	(32,839)	1,216,282
Investment income	2,352,875	\$ 5,863	\$ 2,358,738
Investment pool income on equity of others	1,050,078		
Total investment pool income, net	\$ 3,402,953		

6. Receivables

Schools and institutions, net, consist of the following at June 30:

	2016	2015
Schools and institutions, net:		
Loans to Junipero Serra High School	\$ 651,751	\$ 708,065
Loans to Archbishop Riordan High School	-	180,562
Less allowance for uncollectible loans	-	(100,000)
Total schools and institutions, net	\$ 651,751	\$ 788,627

The loans receivable, which are unsecured, mature at various dates through 2025 with interest at 5.5%. The Chancery determines an allowance for doubtful accounts based on the credit worthiness and collectability of each loan.

Pledges and assessments, net, consist of the following at June 30:

	2016	2015
Pledges and assessments, net:		
Archdiocesan Annual Appeal	\$ 3,998,072	\$ 3,727,655
Less allowance for uncollectible pledges	(451,220)	(456,063)
Total pledges and assessments, net	\$ 3,546,852	\$ 3,271,592

Continued

**CENTRAL ADMINISTRATIVE OFFICE OF THE
ROMAN CATHOLIC ARCHDIOCESE OF SAN FRANCISCO**

NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

6. Receivables, continued

All pledges receivable are initially due within one year.

Other receivables, net, consist of the following at June 30:

	2016	2015
Other receivables, net:		
Note receivable - Diocese of Santa Rosa	\$ 1,410,000	\$ 1,410,000
Other notes receivable	89,919	113,006
Miscellaneous receivables	2,189,022	2,041,529
Less allowance for doubtful accounts	(1,950,115)	(1,599,065)
Total other receivables, net	\$ 1,738,826	\$ 1,965,470

Notes receivable, which are unsecured, mature at various dates through 2017 with interest ranging from 5.5% to 8.0%. The Chancery determines an allowance for doubtful accounts based on the credit worthiness and collectability of each note. The note receivable from the Diocese of Santa Rosa may not be collectible and is included in the allowance for doubtful accounts in full.

7. Property, Land, and Equipment

Property, land, and equipment consist of the following at June 30:

	2016	2015
Buildings and improvements	\$ 48,260,003	\$ 45,160,597
Equipment	2,490,680	2,400,628
Automobiles	165,378	165,378
	50,916,061	47,726,603
Accumulated depreciation	(20,729,102)	(19,032,596)
	30,186,959	28,694,007
Construction in progress	74,945	1,736,377
Land	6,826,482	6,826,482
Total property, land, and equipment, net	\$ 37,088,386	\$ 37,256,866

Continued

**CENTRAL ADMINISTRATIVE OFFICE OF THE
ROMAN CATHOLIC ARCHDIOCESE OF SAN FRANCISCO**

NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

7. Property, Land, and Equipment, continued

No parishes were closed in the current year or in the prior year. In 2015, the Chancery evaluated properties related to closed parishes and schools which the Chancery had previously recorded. This review resulted in an equity transfer of several properties, with a net book value of \$3,462,366. Legal title to such properties had previously been transferred to the Real Property Support Corporation. One of the properties, a non-parish school facility, with a carrying value of \$1,050,912 and a related liability of the same amount at June 30, 2014, was included in the equity transfer, resulting in a total net transfer of \$2,411,454. Additionally, a parcel of land from a closed parish with a book value of \$333,874, was reclassified from land to a beneficial interest in the Real Property Support Corporation, to reflect the transfer of legal ownership of the property.

Three properties for which the Chancery has oversight will remain as property, land and equipment of the Chancery. They are the National Shrine of St. Francis of Assisi (including building improvement expenditures), St. Brigid Rectory, and St. Michael Convent. They are carried at \$5,611,040 and \$6,081,785 at June 30, 2016 and 2015, respectively.

An 8.96% interest in St. Vincent's Property, as a tenant in common, is included in land in the amount of \$2,910,748 at June 30, 2016 and 2015.

Depreciation expense totaled \$1,764,133 and \$1,536,523 for the years ended June 30, 2016 and 2015, respectively.

8. Beneficial Interest in Real Property Support Corporation

The beneficial interest in the Real Property Support Corporation represents land of a closed parish where the legal title is held by the Real Property Support Corporation for which the Chancery has ongoing canonical oversight (see Note 7). Beneficial interest in Real Property Support Corporation was \$333,874 for the years ended June 30, 2016 and 2015.

9. Notes Payable

Notes payable are summarized as follows at June 30:

	2016	2015
Uncollateralized note payable to the Capital Assets Support Corporation, for construction costs of the parking garage at St. Mary's Chinese Center, payable in monthly installments of \$26,129 including interest of 5.5%, maturing on December 31, 2025.	<u>\$ 3,597,061</u>	<u>\$ 3,709,394</u>
Total notes payable	<u><u>\$ 3,597,061</u></u>	<u><u>\$ 3,709,394</u></u>

Continued

**CENTRAL ADMINISTRATIVE OFFICE OF THE
ROMAN CATHOLIC ARCHDIOCESE OF SAN FRANCISCO**

NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

9. Notes Payable, continued

The future scheduled maturities of the amounts payable are as follows:

Years ending June 30:		
2017	\$	118,669
2018		125,363
2019		132,434
2020		139,904
2021		147,796
Thereafter		<u>2,932,895</u>
	<u>\$</u>	<u>3,597,061</u>

10. Assets Held for Schools and Institutions

Assets held for schools and institutions consisted of the following as of June 30:

	2016	2015
Deposit and loan fund:		
Cash and cash equivalents	\$ 13,531,176	\$ 16,424,339
Time certificates of deposit	9,050,000	-
Receivables from schools and institutions	651,751	788,627
Investments	<u>5,048,301</u>	<u>4,978,817</u>
	28,281,228	22,191,783
Special collections	757,139	679,752
Society for the Propagation of the Faith funds	<u>890,945</u>	<u>830,552</u>
Total assets held for schools and institutions	<u>\$ 29,929,312</u>	<u>\$ 23,702,087</u>

11. Beneficial Interest in a Perpetual Trust

The Corporation Sole is an income beneficiary named under a perpetual trust, which is managed by a third party. The Corporation Sole does not have rights to the trust assets. Income distributed by the trust is to be expended for religious personnel development in the form of scholarships. The Chancery has recorded the present value of the estimated future cash receipts of the trust's assets, which is best measured by the fair value of the trust's assets as of June 30, 2016 and 2015. This change in fair value is shown as a change in permanently restricted net assets.

Continued

**CENTRAL ADMINISTRATIVE OFFICE OF THE
ROMAN CATHOLIC ARCHDIOCESE OF SAN FRANCISCO**

NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

12. Designated Unrestricted Net Assets

Designated unrestricted net assets consisted of the following at June 30:

	2016	2015
Insurance and benefits	\$ 35,471,560	\$ 31,017,548
Other designated	11,131,560	12,357,267
Priests Retirement / SERP	8,846,634	7,629,029
Deposit & Loan - Institutional	1,295,650	1,371,147
Priests Surcharge Fund	589,867	587,114
Department of Catholic Schools	76,496	-
Priests education	82,425	254,359
Total designated net assets	\$ 57,494,192	\$ 53,216,464

13. Temporarily Restricted Net Assets

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

	2016	2015
Archdiocesan Annual Appeal	\$ 6,353,056	\$ 5,533,812
Education assistance, tuition, scholarships, and grants	12,883,401	18,620,426
Social, ethnic, and cultural services	627,677	648,276
Religious personnel education and development	2,206,329	747,707
Pastoral programs	455,573	473,438
Building improvements	162,392	230,762
Total temporarily restricted net assets	\$ 22,688,428	\$ 26,254,421

Continued

**CENTRAL ADMINISTRATIVE OFFICE OF THE
ROMAN CATHOLIC ARCHDIOCESE OF SAN FRANCISCO**

NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

14. Net Assets Released from Restrictions

Net assets released from donor restrictions by satisfying the conditions for the following restricted purposes or passage of time during the years ended June 30 were as follows:

	2016	2015
Archdiocesan Annual Appeal	\$ 5,574,855	\$ 5,761,975
Education assistance, tuition, scholarships, and grants	1,375,690	1,276,002
Estate gift - Benedict XVI Institute	1,817,557	-
Estate gift - St. Patrick's Seminary	908,779	-
Social, ethnic, and cultural services	166,304	191,882
Religious personnel education and development	445,431	55,310
Pastoral programs	17,865	439
Priest's retirement	731,711	512,449
Building improvements	62,600	97,446
Total net assets released from restrictions	\$ 11,100,792	\$ 7,895,503

15. Donor Restricted Endowments

Donor restricted endowments are held for the following purposes at June 30:

	2016	2015
Education assistance and tuition	\$ 17,473,001	\$ 17,473,001
Religious personnel education and development	826,112	877,911
Building improvements	206,657	206,657
Mass stipends	1,000	1,000
Total permanently restricted net assets	\$ 18,506,770	\$ 18,558,569

Endowment Investment and Distribution Policy

Under Finance Council guidelines, annual distribution for scholarships cannot exceed 4% of a three-year rolling average balance of the endowment or estimated interest and dividends if the endowment fair value is less than the donations (underwater). Currently, there is not a spending policy regarding religious education, building improvements, and mass stipends. For the year ended June 30, 2016, there were no endowments underwater. To achieve its distribution policy, endowment assets are invested in a balanced portfolio comprised principally of equity securities, debt securities, mutual funds, and cash designed to achieve a long-term investment objective of moderate growth and income return with prudent risk constraints.

Continued

**CENTRAL ADMINISTRATIVE OFFICE OF THE
ROMAN CATHOLIC ARCHDIOCESE OF SAN FRANCISCO**

NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

15. Donor Restricted Endowments, continued

Endowment Investment and Distribution Policy, continued

Investment income for both permanently and temporarily restricted assets is classified as temporarily restricted. Changes in endowment net assets for the years ended June 30, 2016 and 2015 follows:

	2016		2015	
	Temporarily Restricted	Permanently Restricted	Temporarily Restricted	Permanently Restricted
Education assistance and tuition				
Endowment net assets, beginning of year	\$ 7,822,751	\$ 17,473,001	\$ 8,022,985	\$ 17,473,001
Investment (loss) income	(182,370)	-	789,245	-
Amounts appropriated for expenditure	(994,245)	-	(989,479)	-
Endowment net assets, end of year	\$ 6,646,136	\$ 17,473,001	\$ 7,822,751	\$ 17,473,001
Religious personnel education and development				
Endowment net assets, beginning of year	\$ 208,935	\$ 877,911	\$ 200,619	\$ 924,549
Investment (loss) income	(1,348)	-	8,316	-
Change in beneficial interest in perpetual trust	-	(51,799)	-	(46,638)
Endowment net assets, end of year	\$ 207,587	\$ 826,112	\$ 208,935	\$ 877,911
Building improvements				
Endowment net assets, beginning of year	\$ 196,930	\$ 206,657	\$ 200,658	\$ 206,657
Investment (loss) income	(5,770)	-	13,317	-
Amounts appropriated for expenditure	(62,600)	-	(17,045)	-
Endowment net assets, end of year	\$ 128,560	\$ 206,657	\$ 196,930	\$ 206,657
Mass stipends				
Endowment net assets, beginning of year	\$ -	\$ 1,000	\$ -	\$ 1,000
Endowment net assets, end of year	\$ -	\$ 1,000	\$ -	\$ 1,000
Total endowment net assets				
Endowment net assets, beginning of year	\$ 8,228,616	\$ 18,558,569	\$ 8,424,262	\$ 18,605,207
Investment income	(189,488)	-	810,878	-
Change in beneficial interest in perpetual trust	-	(51,799)	-	(46,638)
Amounts appropriated for expenditure	(1,056,845)	-	(1,006,524)	-
Endowment net assets, end of year	\$ 6,982,283	\$ 18,506,770	\$ 8,228,616	\$ 18,558,569

Continued

**CENTRAL ADMINISTRATIVE OFFICE OF THE
ROMAN CATHOLIC ARCHDIOCESE OF SAN FRANCISCO**

NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

16. Functional Classification

The expenses of the Chancery are classified on a functional basis among its program and supporting services are as follows during the years ended June 30:

	2016	2015
Program:		
Pastoral programs	\$ 2,412,594	\$ 2,696,769
Religious personnel education and development	2,984,845	2,559,611
Education assistance, tuition, scholarships, and grants	8,098,409	5,267,639
Social, ethnic, and cultural services	513,758	525,889
Insurance and benefits	28,149,309	32,063,991
Deposit and loan interest expense	161,509	302,439
Priest's retirement	1,029,514	1,603,472
Total program	43,349,938	45,019,810
Supporting services:		
Management and general	7,030,281	6,649,989
Property costs	1,267,274	1,079,534
Development	681,331	485,993
Total supporting services	8,978,886	8,215,516
Total expenses	\$ 52,328,824	\$ 53,235,326

17. Pension Plans - Priests

Qualified Pension Trust

Archdiocesan priests are covered by a defined benefit pension plan (which operates as a multiple employer plan) the benefits of which were modified effective July 1, 2002 and a qualified pension trust ("pension trust") was established to hold the pension plan assets.

This plan is not subject to the Employee Retirement Income Security Act of 1974 ("ERISA") funding requirements.

Continued

**CENTRAL ADMINISTRATIVE OFFICE OF THE
ROMAN CATHOLIC ARCHDIOCESE OF SAN FRANCISCO**

NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

17. Pension Plans - Priests, continued

Qualified Pension Trust, continued

The following table sets forth further information about the plan as of and for the plan years ended July 1 (the latest valuation dates):

	2016	2015
Funding status:		
Present value of all accrued liability	\$ (23,399,000)	\$ (24,012,000)
Market value of assets	21,786,000	23,354,000
	\$ (1,613,000)	\$ (658,000)
Contributions from the Chancery	\$ 434,682	\$ 855,591
Benefit payments to participants	\$ 1,356,166	\$ 1,642,446

Supplemental Defined Benefit Plan

Effective July 1, 2002, the Corporation Sole established a supplemental defined benefit priest retirement plan (which operates as a multiemployer non-qualified plan). This plan is not subject to the ERISA funding requirements.

The following table sets forth further information about the plan as of and for the plan years ended July 1 (the latest valuation dates):

	2016	2015
Funding status:		
Present value of all accrued liability	\$ (11,033,000)	\$ (11,432,000)
Market value of assets	8,850,000	7,629,000
	\$ (2,183,000)	\$ (3,803,000)
Contributions from the Chancery	\$ 447,879	\$ 484,648
Benefit payments to participants	\$ 447,879	\$ 416,460

Continued

**CENTRAL ADMINISTRATIVE OFFICE OF THE
ROMAN CATHOLIC ARCHDIOCESE OF SAN FRANCISCO**

NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

18. Pension Plan - Lay Employees

All full-time, non-priest employees of the Archdiocesan entities, such as the Chancery, parishes, schools, and the St. Patrick's Seminary, are enrolled in the Archdiocese of San Francisco Parochial Pension Plan (the "Plan"), which is a cash balance type plan (which operates as a multiemployer plan). The Plan is noncontributory for employees, and employer contributions are 7% of each participant's annual earnings and effective January 1, 2014, 5% interest is credited to beginning-of-year account balances. This Plan is not subject to the ERISA funding requirements.

The following table sets forth further information about the Plan as of and for the plan years ended December 31 (the latest valuation dates):

	2015	2014
Funding status:		
Present value of all accrued liability	\$ (108,098,000)	\$ (109,193,000)
Market value of assets	102,883,000	105,367,000
	\$ (5,215,000)	\$ (3,826,000)
Contributions from Archdiocesan entities	\$ 6,822,667	\$ 6,734,815
Benefit payments to participants	\$ 6,780,968	\$ 7,129,284

Pension cost recognized by the Chancery for the years ended June 30, 2016 and 2015 were \$495,643 and \$511,677, respectively.

Continued

**CENTRAL ADMINISTRATIVE OFFICE OF THE
ROMAN CATHOLIC ARCHDIOCESE OF SAN FRANCISCO**

NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

19. Fair Value Measurements

The following tables present the Chancery's financial assets and liabilities measured at fair value on a recurring basis as of June 30, 2016 and 2015:

	2016	Quoted Prices in Active Markets of Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Assets:				
Cash equivalents:				
Money market funds	\$ 37,361,139	\$ 37,361,139	\$ -	\$ -
Certificates of deposit	18,500,000	18,500,000	-	-
Total cash equivalents	<u>\$ 55,861,139</u>	<u>\$ 55,861,139</u>	<u>\$ -</u>	<u>\$ -</u>
Beneficial interest in perpetual trust	<u>\$ 723,930</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 723,930</u>
Investments:				
Cash equivalents:				
Money market funds	\$ 7,292,644	\$ 7,292,644	\$ -	\$ -
Hedge funds proceeds receivable	1,623,561	1,623,561	-	-
Total cash equivalents	<u>8,916,205</u>	<u>8,916,205</u>	<u>-</u>	<u>-</u>
Corporate stocks:				
Materials	2,863,843	2,863,843	-	-
Consumer discretionary	7,765,028	7,765,028	-	-
Consumer staples	5,343,056	5,343,056	-	-
Energy	1,383,365	1,383,365	-	-
Financial	9,729,257	9,729,257	-	-
Health care	5,392,714	5,392,714	-	-
Industrial	4,153,750	4,153,750	-	-
Technology	9,887,869	9,887,869	-	-
Utilities	572,357	572,357	-	-
Total corporate stocks	<u>47,091,239</u>	<u>47,091,239</u>	<u>-</u>	<u>-</u>
Corporate bonds	<u>14,880,485</u>	<u>-</u>	<u>14,880,485</u>	<u>-</u>
U.S. bonds and notes	<u>10,215,689</u>	<u>10,215,689</u>	<u>-</u>	<u>-</u>
U.S. government securities	<u>7,885,871</u>	<u>-</u>	<u>7,885,871</u>	<u>-</u>
Mutual funds:				
Foreign large blend	13,610,888	13,610,888	-	-
World allocation	7,907,529	7,907,529	-	-
Moderate allocation	10,841,677	10,841,677	-	-
Emerging markets multi-strategy	2,251,269	2,251,269	-	-
Small value	206,741	206,741	-	-
Total mutual funds	<u>34,818,104</u>	<u>34,818,104</u>	<u>-</u>	<u>-</u>
Investments held at fair value	<u>123,807,593</u>	<u>\$ 101,041,237</u>	<u>\$ 22,766,356</u>	<u>\$ -</u>
Investment measured at net asset value: ⁽¹⁾				
Alternative investments:				
Hedge funds	<u>662,200</u>			
Total investments	<u>\$ 124,469,793</u>			

Continued

**CENTRAL ADMINISTRATIVE OFFICE OF THE
ROMAN CATHOLIC ARCHDIOCESE OF SAN FRANCISCO**

NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

19. Fair Value Measurements, continued

	2015	Quoted Prices in Active Markets of Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Assets:				
Cash equivalents	\$ 51,388,950	\$ 51,388,950	\$ -	\$ -
Beneficial interest in perpetual trust	\$ 775,729	\$ -	\$ -	\$ 775,729
Investments:				
Cash equivalents:				
Money market funds	\$ 2,568,067	\$ 2,568,067	\$ -	\$ -
Commercial paper	104,995	-	104,995	-
Total cash equivalents	2,673,062	2,568,067	104,995	-
Corporate stocks:				
Materials	3,260,239	3,260,239	-	-
Telecommunication services	54,083	54,083	-	-
Consumer discretionary	7,687,706	7,687,706	-	-
Consumer staples	4,974,146	4,974,146	-	-
Energy	1,562,303	1,562,303	-	-
Financial	9,698,410	9,698,410	-	-
Health care	6,597,348	6,597,348	-	-
Industrial	4,964,713	4,964,713	-	-
Technology	7,836,014	7,836,014	-	-
Utilities	-	-	-	-
Total corporate stocks	46,634,962	46,634,962	-	-
Corporate bonds	14,903,941	-	14,903,941	-
U.S. bonds and notes	7,111,437	7,111,437	-	-
U.S. government securities	9,288,797	-	9,288,797	-
Mutual funds:				
Foreign large blend	14,587,736	14,587,736	-	-
World allocation	8,284,072	8,284,072	-	-
Moderate allocation	11,338,841	11,338,841	-	-
Global emerging markets	3,315,376	3,315,376	-	-
Emerging markets multi-strategy	2,204,935	2,204,935	-	-
Small value	163,136	163,136	-	-
Short government	19,312	19,312	-	-
Total mutual funds	39,913,408	39,913,408	-	-
Investments held at fair value	120,525,607	\$ 96,227,874	\$ 24,297,733	\$ -
Investment measured at net asset value: ⁽¹⁾				
Alternative investments:				
Hedge funds	2,425,564			
Total investments	\$ 122,951,171			

Continued

**CENTRAL ADMINISTRATIVE OFFICE OF THE
ROMAN CATHOLIC ARCHDIOCESE OF SAN FRANCISCO**

NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

19. Fair Value Measurements, continued

⁽¹⁾ Certain investments that are measured at fair value using the net asset value per share (or its equivalent) have not been categorized in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented on the statement of position.

The Chancery has an investment in hedge funds which is invested in private investment funds whose reported net asset value (“NAV”) generally serves as a basis for the investor’s periodic subscription and redemption activity pursuant to the terms of the underlying fund’s governing documents. The reported NAV serves as both the entry price and, depending on the facts and circumstances, the exit price (for redemptions). The Chancery’s hedge funds investment manager announced during the year ended June 30, 2016 that it was suspending redemption requests and liquidating all investments, in order to return capital back to investors. The investment manager will liquidate the remaining portfolio in an orderly manner and return capital as soon as practical, with an anticipated schedule of quarterly redemptions to continue through February 2018.

The beneficial interest in the perpetual trust is classified as Level 3 within the fair value hierarchy. Reconciliations for the years ended June 30, 2016 and 2015, are as follows:

	2016	2015
Beginning balance, at fair value	\$ 775,729	\$ 822,367
Change in fair value	(51,799)	(46,638)
Ending balance, at fair value	\$ 723,930	\$ 775,729

20. Risk Retention Group

Until June 30, 2015, the Corporation Sole received its general liability coverage through its participation with other dioceses in a state regulated risk retention group. Effective July 1, 2015, general insurance coverage was procured from insurance underwriters that is separate from the state regulated risk retention group.

Generally, liability coverage previously provided through the state regulated risk retention group will continue to cover claims made on or before July 1, 2015.

21. Letters of Credit

The Chancery had two collateralized standby letters of credit in the amounts of \$194,546 at June 30, 2016 and 2015, respectively, for workers’ compensation insurance with a bank. The letters of credit were renewed in January 2015. There were no outstanding borrowings under these agreements at June 30, 2016 and 2015 and there were no borrowings on the letters of credit during the years then ended.

Continued

**CENTRAL ADMINISTRATIVE OFFICE OF THE
ROMAN CATHOLIC ARCHDIOCESE OF SAN FRANCISCO**

NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

22. Litigation

The Corporation Sole is a party to various actions in the ordinary course of business. In the opinion of management, the outcome of these matters, individually or in the aggregate, would not have a material effect on the Chancery's financial statements.

23. Future Minimum Lease Revenue

The Chancery holds various properties it leases. During the years ended June 30, 2016 and 2015, the Chancery recorded \$2,122,637 and \$1,796,806, respectively, in rental income, primarily from leases on its rental properties, including prepaid rent recognized of \$101,739 for both 2016 and 2015. The Chancery has received a prepayment for one of these leases, which is shown as deferred lease revenue on the statements of financial position and is not included in the table below.

Future minimum lease revenue amounts from long-term non-cancelable operating leases follows:

Years ending June 30:	
2017	\$ 2,332,144
2018	1,831,432
2019	1,831,432
2020	1,831,432
2021	1,555,310
Thereafter	<u>9,930,428</u>
Total	<u>\$ 19,312,178</u>

24. Subsequent Events

The Chancery evaluated subsequent events for recognition and disclosure through November 18, 2016, the date which these financial statements were available to be issued. Management has concluded there are no material subsequent events have occurred since June 30, 2016, that require recognition or disclosure in such financial statements.