

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

FINANCIAL STATEMENTS

June 30, 2017 and 2016

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

C O N T E N T S

	Page(s)
Independent Auditors' Report	1
Statements of Financial Position	2
Statements of Activities	3
Statements of Cash Flows	4
Notes to Financial Statements	5–28



600 California Street, Suite 600, San Francisco, CA 94108

Phone (415) 421-5757 **Fax** (415) 288-6288 **Email** bpm@bpmcpa.com **Web** bpmcpa.com

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, 2017 and 2016, 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, 2017 and 2016, 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.

BPM LLP

San Francisco, California
November 20, 2017

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

STATEMENTS OF FINANCIAL POSITION

June 30, 2017 and 2016

	2017	2016
ASSETS		
Cash and cash equivalents	\$ 46,446,511	\$ 42,278,782
Time certificates of deposit	24,000,000	18,500,000
Investments	138,607,860	124,469,793
Receivables:		
Schools and institutions, net	592,072	651,751
Pledges and assessments, net	3,259,757	3,546,852
Other receivables, net	2,953,009	1,738,826
Prepaid and other assets	2,382,040	1,975,291
Property, land, and equipment, net	35,326,815	37,088,386
Beneficial interest in Real Property Support Corporation net assets	333,874	333,874
Beneficial interest in a perpetual trust	760,174	723,930
Total assets	\$ 254,662,112	\$ 231,307,485
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued liabilities	\$ 9,597,834	\$ 8,373,472
Deferred lease revenue	6,104,348	6,206,087
Assets held for schools and institutions	33,804,947	29,929,312
Equity of others in pooled investments	39,386,661	34,027,052
Note payable	3,478,393	3,597,061
Total liabilities	92,372,183	82,132,984
Net assets:		
Unrestricted:		
Undesignated	18,562,056	16,659,912
Investment in property, land, and equipment and beneficial interest in Real Property Support Corporation net assets, net of related note payable	32,182,296	33,825,199
Designated	68,027,788	57,494,192
Total unrestricted	118,772,140	107,979,303
Temporarily restricted	24,974,775	22,688,428
Permanently restricted	18,543,014	18,506,770
Total net assets	162,289,929	149,174,501
Total liabilities and net assets	\$ 254,662,112	\$ 231,307,485

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, 2017 and 2016

	2017				2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues:								
Gifts, bequests, and collections	\$ 1,653,300	\$ 9,437,730	\$ -	\$ 11,091,030	\$ 1,178,096	\$ 7,732,497	\$ -	\$ 8,910,593
Fees for services	5,028,542	-	-	5,028,542	4,822,063	-	-	4,822,063
Investment income (loss)	7,880,642	3,263,795	-	11,144,437	(51,693)	(197,698)	-	(249,391)
Change in beneficial interest in a perpetual trust	-	-	36,244	36,244	-	-	(51,799)	(51,799)
Insurance	35,282,481	-	-	35,282,481	33,974,705	-	-	33,974,705
Rental income	2,339,796	-	-	2,339,796	2,122,637	-	-	2,122,637
Other income	1,091,865	-	-	1,091,865	1,686,476	-	-	1,686,476
Net assets released from restrictions	10,415,178	(10,415,178)	-	-	11,100,792	(11,100,792)	-	-
Total revenues	<u>63,691,804</u>	<u>2,286,347</u>	<u>36,244</u>	<u>66,014,395</u>	<u>54,833,076</u>	<u>(3,565,993)</u>	<u>(51,799)</u>	<u>51,215,284</u>
Expenses:								
Compensation and benefits	11,446,199	-	-	11,446,199	9,614,215	-	-	9,614,215
Professional fees	2,752,626	-	-	2,752,626	2,802,963	-	-	2,802,963
Property costs and depreciation	3,012,827	-	-	3,012,827	2,926,662	-	-	2,926,662
Office expenses	966,601	-	-	966,601	1,078,510	-	-	1,078,510
Assessments	302,671	-	-	302,671	307,517	-	-	307,517
Other operating expenses	1,695,105	-	-	1,695,105	4,729,658	-	-	4,729,658
Insurance	28,889,183	-	-	28,889,183	26,793,154	-	-	26,793,154
Program subsidies	2,376,863	-	-	2,376,863	2,502,686	-	-	2,502,686
Priest retirement benefits	1,139,676	-	-	1,139,676	938,146	-	-	938,146
Interest paid to schools and institutions	315,216	-	-	315,216	261,509	-	-	261,509
Provision for uncollectible accounts	2,000	-	-	2,000	373,804	-	-	373,804
Total expenses	<u>52,898,967</u>	<u>-</u>	<u>-</u>	<u>52,898,967</u>	<u>52,328,824</u>	<u>-</u>	<u>-</u>	<u>52,328,824</u>
Change in net assets	10,792,837	2,286,347	36,244	13,115,428	2,504,252	(3,565,993)	(51,799)	(1,113,540)
Net assets, beginning 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>
Net assets, end of year	<u>\$ 118,772,140</u>	<u>\$ 24,974,775</u>	<u>\$ 18,543,014</u>	<u>\$ 162,289,929</u>	<u>\$ 107,979,303</u>	<u>\$ 22,688,428</u>	<u>\$ 18,506,770</u>	<u>\$ 149,174,501</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, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Change in net assets	<u>\$ 13,115,428</u>	<u>\$ (1,113,540)</u>
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Change in beneficial interest in a perpetual trust	(36,244)	51,799
Net realized and unrealized (gains) losses on investments	(9,504,698)	1,486,328
Depreciation	1,882,542	1,764,133
Provision for uncollectable accounts	2,000	373,804
Loss on sale of property, land, and equipment	-	4,968
Change in operating assets and liabilities:		
Receivables	(869,409)	(285,544)
Prepaid assets	(406,749)	109,305
Accounts payable and accrued liabilities	1,224,362	2,340,308
Deferred lease revenue	<u>(101,739)</u>	<u>(101,739)</u>
Total adjustments	<u>(7,809,935)</u>	<u>5,743,362</u>
Net cash provided by operating activities	<u>5,305,493</u>	<u>4,629,822</u>
Cash flows from investing activities:		
Purchase of investments	(88,137,347)	(70,047,341)
Proceeds from sale of investments	87,018,800	66,504,681
Change in time certificates of deposits	(5,500,000)	(17,900,000)
Purchase of property, land, and equipment	<u>(120,971)</u>	<u>(1,600,621)</u>
Net cash used in investing activities	<u>(6,739,518)</u>	<u>(23,043,281)</u>
Cash flows from financing activities:		
Assets held for schools and institutions liability	3,875,635	6,227,225
Change in equity held for others in pooled investments	5,359,609	807,744
Net realized and unrealized (gains) losses on investments of others	(3,514,822)	537,710
Payments on note payable	<u>(118,668)</u>	<u>(112,333)</u>
Net cash provided by financing activities	<u>5,601,754</u>	<u>7,460,346</u>
Net increase (decrease) in cash and cash equivalents	4,167,729	(10,953,113)
Cash and cash equivalents, beginning of year	<u>42,278,782</u>	<u>53,231,895</u>
Cash and cash equivalents, end of year	<u><u>\$ 46,446,511</u></u>	<u><u>\$ 42,278,782</u></u>
Supplemental disclosure of cash flow information:		
Cash paid for interest on deposits and note payable	<u>\$ 315,216</u>	<u>\$ 261,509</u>

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, 2017 and 2016

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 CASC and RPSC, 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 RPSC. 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).

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

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 (see Note 12).

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, 2017 and 2016

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 San Francisco. Investments are secured up to a limit set by the Securities Investor Protection Corporation ("SIPC"). As of June 30, 2017 and 2016, 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, 2017 and 2016

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, 2017 and 2016

3. Summary of Significant Accounting Policies, continued

Beneficial Interest in Real Property Support Corporation

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.

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% in fiscal years 2017 and 2016.

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.

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.

Continued

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

3. Summary of Significant Accounting Policies, continued

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, 2016, the most recent tax filing, the Chancery had NOLs of approximately \$272,000. 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, 2017 and 2016.

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.

Continued

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

3. Summary of Significant Accounting Policies, continued

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

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers* ("ASU 2014-09"). ASU 2014-09 outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2018, and interim reporting periods within annual reporting periods beginning after December 15, 2019. The Chancery is evaluating the financial statement implications of adopting ASU 2014-09 but does not expect a material financial statement impact relating to the adoption of this ASU.

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.

Continued

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

3. Summary of Significant Accounting Policies, continued

Recent Accounting Pronouncements, continued

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. Additionally, all not-for-profit entities are required to present together in one place the amounts of expenses by both natural and functional classifications, either in a financial statement or as a footnote. 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:

	2017	2016
Current fund - unrestricted	\$ 4,827,092	\$ 3,237,651
Deposit and loan fund	27,588,007	23,844,156
Insurance and benefits	25,059,416	20,721,107
Current fund - temporarily restricted	941,737	911,920
Priests retirement fund - unrestricted	6,385,018	4,862,439
Other designated funds	1,119,271	3,395,760
Other temporarily restricted	3,343,890	2,876,564
Other	1,182,080	929,185
Total cash and cash equivalents and time certificates of deposit	\$ 70,446,511	\$ 60,778,782

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.

Continued

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

5. Investments, continued

Investments were held as follows at June 30:

	2017	2016
Investment pool:		
Chancery's equity in pooled investments	\$ 88,975,655	\$ 80,223,948
Others' equity in pooled investments	39,232,661	33,887,052
	128,208,316	114,111,000
Other investments	10,399,544	10,358,793
Total investments	\$ 138,607,860	\$ 124,469,793

Total investment income (loss) for the investment pool, including investment income (loss) allocated to others in the pooled investments, was \$15,452,716 and \$(711,580) for the years ended June 30, 2017 and 2016, respectively.

The Chancery's investment income, including its investment income from the investment pool, for the year ended June 30, 2017, is as follows:

	2017		
	Investment Pool	Other Investment Activities	Total
Interest and dividends	\$ 1,053,862	\$ 585,877	\$ 1,639,739
Net realized and unrealized gains (losses) on investments	9,655,489	(150,791)	9,504,698
Investment income	10,709,351	\$ 435,086	\$ 11,144,437
Investment pool gain on equity of others	4,743,365		
Total investment pool income, net	\$ 15,452,716		

Continued

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

5. Investments, continued

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	Total
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 (loss)	(496,433)	\$ 247,042	\$ (249,391)
Investment pool loss on equity of others	(215,147)		
Total investment pool income, net	\$ (711,580)		

6. Receivables

The Chancery has a loan outstanding from Junipero Serra High School with balances of \$592,072 and \$651,751 for the years ended June 30, 2017 and 2016, respectively. The receivable is unsecured and matures through 2025 with interest at 5.5%. The Chancery determines an allowance for doubtful accounts based on the credit worthiness and collectability of its loan.

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

	2017	2016
Pledges and assessments, net:		
Archdiocesan Annual Appeal	\$ 3,699,087	\$ 3,998,072
Less allowance for uncollectible pledges	(439,330)	(451,220)
Total pledges and assessments, net	\$ 3,259,757	\$ 3,546,852

All pledges receivable are initially due within one year.

Continued

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

6. Receivables, continued

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

	2017	2016
Other receivables, net:		
Note receivable - Diocese of Santa Rosa	\$ 1,410,000	\$ 1,410,000
Other notes receivable	64,988	89,919
Parish and school receivables	2,909,696	1,764,666
Miscellaneous receivables	520,440	424,356
Less allowance for doubtful accounts	(1,952,115)	(1,950,115)
Total other receivables, net	\$ 2,953,009	\$ 1,738,826

Notes receivable, which are unsecured, mature at various dates 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:

	2017	2016
Buildings and improvements	\$ 48,260,003	\$ 48,260,003
Equipment	2,670,332	2,490,680
Automobiles	145,231	165,378
	51,075,566	50,916,061
Accumulated depreciation	(22,575,233)	(20,729,102)
	28,500,333	30,186,959
Construction in progress	-	74,945
Land	6,826,482	6,826,482
Total property, land, and equipment, net	\$ 35,326,815	\$ 37,088,386

The Chancery did not assume canonical responsibility for any parishes and or schools for the years ended June 30, 2017 and 2016 (see Note 3).

Three properties for which the Chancery has oversight 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 \$5,140,296 and \$5,611,040 at June 30, 2017 and 2016, respectively.

Continued

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

7. Property, Land, and Equipment, continued

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, 2017 and 2016.

Depreciation expense totaled \$1,882,542 and \$1,764,133 for the years ended June 30, 2017 and 2016, 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, 2017 and 2016.

9. 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 seminarian development in the form of scholarships. The Chancery has recorded the fair value of the trust's assets held as of June 30, 2017 and 2016. This change in fair value is shown as a change in permanently restricted net assets.

10. Note Payable

The Chancery has an uncollateralized note payable to the CASC, 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. The balances were \$3,478,393 and \$3,597,061 at June 30, 2017 and 2016, respectively.

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

Years ending June 30:	
2018	\$ 125,363
2019	132,434
2020	139,904
2021	147,796
2022	156,133
Thereafter	<u>2,776,763</u>
	<u>\$ 3,478,393</u>

Continued

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

11. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consisted of the following as of June 30:

	2017	2016
Accounts payable	\$ 794,119	\$ 429,225
Miscellaneous payable	2,461,900	2,721,427
Accrued self-insured claims	3,082,513	2,177,691
Accrued expenses	192,378	470,174
Deferred revenue	1,353,217	1,388,697
Pension payables	719,197	173,194
Other accrued expenses	994,510	1,013,064
Total accounts payable and accrued liabilities	\$ 9,597,834	\$ 8,373,472

12. Assets Held for Schools and Institutions

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

	2017	2016
Deposit and loan fund:		
Cash and cash equivalents	\$ 7,448,927	\$ 13,531,176
Time certificates of deposit	19,050,000	9,050,000
Receivables from schools and institutions	592,072	651,751
Investments	5,053,732	5,048,301
	32,144,731	28,281,228
Special collections	514,222	757,139
Society for the Propagation of the Faith funds	1,145,994	890,945
Total assets held for schools and institutions	\$ 33,804,947	\$ 29,929,312

Continued

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

13. Designated Unrestricted Net Assets

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

	2017	2016
Insurance and benefits	\$ 40,213,417	\$ 35,471,560
Other designated	15,383,962	11,131,560
Priests Retirement / SERP	10,533,864	8,846,634
Deposit & Loan - Institutional	1,134,791	1,295,650
Priests Surcharge Fund	612,117	589,867
Department of Catholic Schools	90,340	76,496
Priests education	59,297	82,425
Total designated net assets	\$ 68,027,788	\$ 57,494,192

14. Temporarily Restricted Net Assets

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

	2017	2016
Archdiocesan Annual Appeal	\$ 6,589,551	\$ 6,353,056
Education assistance, tuition, scholarships, and grants	15,487,467	12,883,401
Social, ethnic, and cultural services	676,679	627,677
Religious personnel education and development	1,584,166	2,206,329
Pastoral programs	430,082	455,573
Building improvements	206,830	162,392
Total temporarily restricted net assets	\$ 24,974,775	\$ 22,688,428

Continued

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

15. 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:

	2017	2016
Archdiocesan Annual Appeal	\$ 6,506,242	\$ 5,574,855
Education assistance, tuition, scholarships, and grants	1,297,031	1,375,690
Estate gift - Benedict XVI Institute	-	1,817,557
Estate gift - St. Patrick's Seminary	-	908,779
Social, ethnic, and cultural services	156,156	166,304
Religious personnel education and development	732,566	445,431
Pastoral programs	25,491	17,865
Priest's retirement	1,697,692	731,711
Building improvements	-	62,600
Total net assets released from restrictions	\$ 10,415,178	\$ 11,100,792

16. Donor Restricted Endowments (Permanently Restricted Net Assets)

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

	2017	2016
Education assistance and tuition	\$ 17,473,001	\$ 17,473,001
Religious personnel education and development	862,356	826,112
Building improvements	206,657	206,657
Mass stipends	1,000	1,000
Total permanently restricted net assets	\$ 18,543,014	\$ 18,506,770

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 years ended June 30, 2017 and 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, 2017 and 2016

16. Donor Restricted Endowments (Permanently Restricted Net Assets), 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, 2017 and 2016 follows:

	2017		2016	
	Temporarily Restricted	Permanently Restricted	Temporarily Restricted	Permanently Restricted
Education assistance and tuition				
Endowment net assets, beginning of year	\$ 6,646,136	\$ 17,473,001	\$ 7,822,751	\$ 17,473,001
Investment income (loss)	3,178,998	-	(182,370)	-
Amounts appropriated for expenditure	(943,965)	-	(994,245)	-
Endowment net assets, end of year	\$ 8,881,169	\$ 17,473,001	\$ 6,646,136	\$ 17,473,001
Religious personnel education and development				
Endowment net assets, beginning of year	\$ 207,587	\$ 826,112	\$ 208,935	\$ 877,911
Investment income (loss)	35,427	-	(1,348)	-
Change in beneficial interest in perpetual trust	-	36,244	-	(51,799)
Endowment net assets, end of year	\$ 243,014	\$ 862,356	\$ 207,587	\$ 826,112
Building improvements				
Endowment net assets, beginning of year	\$ 128,560	\$ 206,657	\$ 196,930	\$ 206,657
Investment income (loss)	44,438	-	(5,770)	-
Amounts appropriated for expenditure	-	-	(62,600)	-
Endowment net assets, end of year	\$ 172,998	\$ 206,657	\$ 128,560	\$ 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	\$ 6,982,283	\$ 18,506,770	\$ 8,228,616	\$ 18,558,569
Investment income (loss)	3,258,863	-	(189,488)	-
Change in beneficial interest in perpetual trust	-	36,244	-	(51,799)
Amounts appropriated for expenditure	(943,965)	-	(1,056,845)	-
Endowment net assets, end of year	\$ 9,297,181	\$ 18,543,014	\$ 6,982,283	\$ 18,506,770

Continued

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

17. 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:

	2017	2016
Program:		
Pastoral programs	\$ 2,302,915	\$ 2,412,594
Religious personnel education and development	2,631,404	2,984,845
Education assistance, tuition, scholarships, and grants	5,200,912	8,098,409
Social, ethnic, and cultural services	554,936	513,758
Insurance and benefits	30,447,899	28,149,309
Deposit and loan interest expense	315,216	161,509
Priest's retirement	1,678,096	1,029,514
Total program	43,131,378	43,349,938
Supporting services:		
Management and general	7,753,972	7,030,281
Property costs	1,429,729	1,267,274
Development	583,888	681,331
Total supporting services	9,767,589	8,978,886
Total expenses	\$ 52,898,967	\$ 52,328,824

18. 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, 2017 and 2016

18. 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):

	2017	2016
Funding status:		
Present value of accrued liability	\$ (23,531,000)	\$ (23,399,000)
Market value of assets	24,049,000	21,786,000
	\$ 518,000	\$ (1,613,000)
Contributions from Archdiocesan entities	\$ 697,597	\$ 434,682
Benefit payments to participants	\$ 1,430,177	\$ 1,356,166

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):

	2017	2016
Funding status:		
Present value of accrued liability	\$ (9,597,000)	\$ (11,033,000)
Market value of assets	10,281,000	8,850,000
	\$ 684,000	\$ (2,183,000)
Contributions from Archdiocesan entities	\$ 762,171	\$ 447,879
Benefit payments to participants	\$ 762,171	\$ 447,879

Continued

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

19. Pension Plan - Lay Employees

All full-time, non-priest employees of the Archdiocesan entities, such as the Chancery, parishes, elementary 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):

	2016	2015
Funding status:		
Present value of all accrued liability	\$ (117,288,000)	\$ (108,098,000)
Market value of assets	109,177,000	102,883,000
	\$ (8,111,000)	\$ (5,215,000)
Contributions from Archdiocesan entities	\$ 6,946,561	\$ 6,822,667
Benefit payments to participants	\$ 8,139,391	\$ 6,780,968

Pension cost recognized by the Chancery for the years ended June 30, 2017 and 2016 were \$539,496 and \$495,643, respectively.

Continued

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

20. 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, 2017 and 2016:

	2017	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	\$ 44,686,852	\$ 44,686,852	\$ -	\$ -
Certificates of deposit	24,000,000	24,000,000	-	-
Total cash equivalents	<u>\$ 68,686,852</u>	<u>\$ 68,686,852</u>	<u>\$ -</u>	<u>\$ -</u>
Beneficial interest in perpetual trust	<u>\$ 760,174</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 760,174</u>
Investments:				
Cash equivalents:				
Money market funds	\$ 2,067,989	\$ 2,067,989	\$ -	\$ -
Hedge funds proceeds receivable	52,100	52,100	-	-
Total cash equivalents	<u>2,120,089</u>	<u>2,120,089</u>	<u>-</u>	<u>-</u>
Corporate stocks:				
Materials	3,656,225	3,656,225	-	-
Consumer discretionary	9,160,789	9,160,789	-	-
Consumer staples	4,322,546	4,322,546	-	-
Energy	781,752	781,752	-	-
Financial	11,654,960	11,654,960	-	-
Health care	6,533,583	6,533,583	-	-
Industrial	4,269,262	4,269,262	-	-
Technology	11,754,099	11,754,099	-	-
Utilities	265,734	265,734	-	-
Other	307,573	307,573	-	-
Total corporate stocks	<u>52,706,523</u>	<u>52,706,523</u>	<u>-</u>	<u>-</u>
Corporate and municipal bonds	<u>18,338,247</u>	<u>-</u>	<u>18,338,247</u>	<u>-</u>
U.S. bonds and notes	<u>10,173,292</u>	<u>10,173,292</u>	<u>-</u>	<u>-</u>
U.S. government securities	<u>7,448,987</u>	<u>-</u>	<u>7,448,987</u>	<u>-</u>
Mutual funds:				
Foreign large blend	16,732,659	16,732,659	-	-
World allocation	6,152,134	6,152,134	-	-
Moderate allocation	12,984,811	12,984,811	-	-
Emerging markets multi-strategy	6,414,056	6,414,056	-	-
Small value	448,736	448,736	-	-
Total mutual funds	<u>42,732,396</u>	<u>42,732,396</u>	<u>-</u>	<u>-</u>
Investments held at fair value	<u>\$ 133,519,534</u>	<u>\$ 107,732,300</u>	<u>\$ 25,787,234</u>	<u>\$ -</u>
Investment measured at net asset value: ⁽¹⁾				
Alternative investments:				
Hedge funds	26,006			
Real estate	5,062,320			
	<u>5,088,326</u>			
Total investments	<u>\$ 138,607,860</u>			

Continued

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

20. Fair Value Measurements, continued

		Quoted Prices in Active Markets of Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
	2016			
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 and municipal 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, 2017 and 2016

20. 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 investments in a hedge fund 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 Chancery uses the NAV to determine the fair value of all the underlying investments which a) do not have readily determinable fair values and b) prepare their financial statements consistent with the measurement principles of an investment company or have attributes of an investment company. As of June 30, 2017, the Chancery was invested in one real estate fund valued at \$5,062,320 and \$0 as of June 30, 2017 and 2016, respectively. The fund’s strategy is an income-oriented core strategy focused on institutional quality assets with an emphasis on long-term stabilized cash flow and market appreciation potential. The fund has no outstanding calls, or lockout periods, and redemption can occur quarterly with a 10 day notice.

The beneficial interest in the perpetual trust is classified as Level 3 within the fair value hierarchy. Reconciliations for the years ended June 30, 2017 and 2016, are as follows:

	2017	2016
Beginning balance, at fair value	\$ 723,930	\$ 775,729
Change in fair value	36,244	(51,799)
Ending balance, at fair value	\$ 760,174	\$ 723,930

As a practical expedient, the Chancery uses the fair value of trust assets to value its beneficial interest in the perpetual trust.

21. 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.

Continued

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

22. Letters of Credit

The Chancery had two collateralized standby letters of credit in the amounts of \$101,160 and \$253,125 at June 30, 2017, for workers' compensation insurance with a bank. The letters of credit amounts were \$194,546 and \$253,125 at June 30, 2016. The letters of credit were renewed in January 2015. There were no outstanding borrowings under these agreements at June 30, 2017 and 2016 and there were no borrowings on the letters of credit during the years then ended.

23. Commitments and Contingencies

At June 30, 2017, the Chancery is undergoing an audit by the Office of Labor Standards Enforcement ("OLSE") of the City and County of San Francisco for the period September 2009 to April 2016. The OLSE has taken the view that health care expenditures paid under the San Francisco Health Care Security Ordinance for some employees working in the County of San Francisco during the period of audit fell short of the required minimum.

At June 30, 2017, an estimate has been accrued for the disputed portion of the assessment that may ultimately be paid to current and former employees and the penalty assessed by the City and County of San Francisco.

In addition, 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.

24. Future Minimum Lease Revenue

The Chancery owns various properties it leases for income. During the years ended June 30, 2017 and 2016, the Chancery recorded \$2,339,796 and \$2,122,637, respectively, in rental income, primarily from leases on its rental properties, including prepaid rent recognized of \$101,739 for both 2017 and 2016. 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:	
2018	\$ 2,363,249
2019	1,922,849
2020	1,831,432
2021	1,555,310
2022	1,555,310
Thereafter	<u>8,375,119</u>
Total	<u>\$ 17,603,269</u>

Continued

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

25. Subsequent Events

The Chancery evaluated subsequent events for recognition and disclosure through November 20, 2017, the date which these financial statements were available to be issued. Management has concluded no material subsequent events have occurred since June 30, 2017, that require recognition or disclosure in such financial statements.