

**DIOCESE OF SANTA ROSA
CHANCERY OFFICE
FINANCIAL STATEMENTS
JUNE 30, 2016 AND JUNE 30, 2015**

DIOCESE OF SANTA ROSA, CHANCERY OFFICE

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INDEPENDENT AUDITOR'S REPORT

Most Reverend Bishop Robert Vasa
Diocese of Santa Rosa, Chancery Office
Santa Rosa, California

We have audited the accompanying financial statements of the Diocese of Santa Rosa, Chancery Office (a nonprofit organization), which comprise the statements of financial position as of June 30, 2016 and June 30, 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.

Auditor's 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 auditor's 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 auditor considers 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 Diocese of Santa Rosa, Chancery Office, as of June 30, 2016 and June 30, 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Boden Klein & Sneesby
Certified Public Accountants
Roseville, California
October 19, 2016

DIOCESE OF SANTA ROSA, CHANCERY OFFICE

Statements of Financial Position

June 30, 2016 and June 30, 2015

ASSETS

	2016	2015
Current assets:		
Cash and cash equivalents	\$ 8,156,266	\$ 8,356,044
Current parish receivables (note 3)	35,978	13,700
Current portion of non-current parish receivables (note 3)	266,066	72,699
Other receivables (note 3)	953,133	748,910
Current capital campaign pledges receivable (note 4)	2,249,930	2,279,299
Prepaid expenses	256,954	178,462
Total current assets	11,918,327	11,649,114
Non-current assets:		
Long-term investments (note 5)	7,473,437	6,969,104
Non-current parish receivables (note 3)	427,086	856,432
General loans receivable (note 3)	800	2,520
Capital campaign pledges receivable (note 4)	4,213,116	6,113,065
Land held for investment (note 6)	169,840	159,840
Property and equipment (note 7)	1,311,817	1,387,815
TOTAL ASSETS	\$ 25,514,423	\$ 27,137,890

LIABILITIES AND NET ASSETS

Current liabilities:		
Accounts payable and accrued expenses	\$ 2,250,047	\$ 3,510,245
Loans from other (Arch) Dioceses (note 11)	2,035,000	525,000
Funds held for others (note 8)	144,732	146,820
Total current liabilities	4,429,779	4,182,065
Non-current liabilities:		
Deposits other than parishes	112,634	74,185
Accrued pension liability (note 13)	33,958,000	25,105,000
Loans from other (Arch) Dioceses (note 11)	1,575,000	3,110,000
Total non-current liabilities	35,645,634	28,289,185
TOTAL LIABILITIES	40,075,413	32,471,250
Net Assets:		
Unrestricted (deficit)	(22,061,520)	(14,837,458)
Temporarily restricted	7,500,530	9,504,098
TOTAL NET ASSETS	(14,560,990)	(5,333,360)
TOTAL LIABILITIES AND NET ASSETS	\$ 25,514,423	\$ 27,137,890

See notes to financial statements.

DIOCESE OF SANTA ROSA, CHANCERY OFFICE

Statement of Activities
For the Year Ended June 30, 2016

	Unrestricted	Temporarily Restricted	Total
Revenues, Gains and Other Support:			
Assessments	\$ 1,488,750	\$ -	\$ 1,488,750
Benefits office premiums	6,419,930	-	6,419,930
Annual ministry appeal	1,161,005	-	1,161,005
Contributions	-	595,498	595,498
Capital campaign contributions, net	-	60,058	60,058
In-kind revenue	101,128	-	101,128
Gifts and bequests	43,020	-	43,020
Interest and dividends	365,486	-	365,486
Other revenue	73,986	-	73,986
Pension plan receipts	2,233,387	-	2,233,387
Priest's retirement revenue	301,666	-	301,666
Program revenue	1,163,942	-	1,163,942
Loss on disposal of assets	(9,239)	-	(9,239)
Realized investment gain	28,970	-	28,970
Unrealized investment gain	149,826	-	149,826
Self-insurance premium revenue	2,200,945	-	2,200,945
Net assets released from restrictions (note 12)	2,659,124	(2,659,124)	-
Total Revenues, Gains and Other Support	18,381,926	(2,003,568)	16,378,358
Expenses:			
Benefits office premiums paid	6,250,094		6,250,094
Capital improvements	84,273		84,273
Diocesan operation expenditures	1,679,998		1,679,998
Distributions	5,815,148		5,815,148
Ministries and subsidies	2,232,088		2,232,088
Self-insurance premiums and claims paid	1,671,387	-	1,671,387
Total Expenses	17,732,988	-	17,732,988
CHANGE IN NET ASSETS	648,938	(2,003,568)	(1,354,630)
Net assets (deficit) at beginning of year	(14,837,458)	9,504,098	(5,333,360)
Prior service costs adjustment - defined benefit plan	(7,873,000)	-	(7,873,000)
NET ASSETS (DEFICIT) AT END OF YEAR	\$ (22,061,520)	\$ 7,500,530	\$ (14,560,990)

See notes to financial statements.

DIOCESE OF SANTA ROSA, CHANCERY OFFICE

Statement of Activities

For the Year Ended June 30, 2015

	Unrestricted	Temporarily Restricted	Total
Revenues, Gains and Other Support:			
Assessments	\$ 1,466,051	\$ -	\$ 1,466,051
Benefits office premiums	5,491,231	-	5,491,231
Annual ministry appeal	854,221	-	854,221
Contributions	-	709,593	709,593
Capital campaign contributions, net	-	6,388,351	6,388,351
In-kind revenue	101,128	-	101,128
Gifts and bequests	1,145,233	-	1,145,233
Interest and dividends	237,054	-	237,054
Other revenue	59,278	-	59,278
Pension plan receipts	2,088,982	-	2,088,982
Priest's retirement revenue	312,067	-	312,067
Program revenue	900,556	-	900,556
Realized investment loss	(10,431)	-	(10,431)
Unrealized investment loss	(138,053)	-	(138,053)
Self-insurance premium revenue	2,063,366	-	2,063,366
Net assets released from restrictions (note 12)	3,329,514	(3,329,514)	-
Total Revenues, Gains and Other Support	17,900,197	3,768,430	21,668,627
Expenses:			
Benefits office premiums paid	5,754,309		5,754,309
Capital improvements	85,192		85,192
Diocesan operation expenditures	1,665,808		1,665,808
Distributions	6,001,763		6,001,763
Ministries and subsidies	2,047,748		2,047,748
Self-insurance premiums and claims paid	1,986,432	-	1,986,432
Total Expenses	17,541,252	-	17,541,252
CHANGE IN NET ASSETS	358,945	3,768,430	4,127,375
Net assets (deficit) at beginning of year	(11,741,403)	5,735,668	(6,005,735)
Prior service costs adjustment - defined benefit plan	(3,455,000)	-	(3,455,000)
NET ASSETS (DEFICIT) AT END OF YEAR	\$ (14,837,458)	\$ 9,504,098	\$ (5,333,360)

See notes to financial statements.

DIOCESE OF SANTA ROSA, CHANCERY OFFICE
Statements of Cash Flows
For the Years Ended June 30, 2016 and June 30, 2015

	2016	2015
Cash flows from operating activities:		
Change in net assets	\$ (1,354,630)	\$ 4,127,375
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities:		
Depreciation	66,759	64,506
Prior service cost, defined benefit plan	(7,873,000)	(3,455,000)
Allowance for doubtful accounts	(83,002)	(19,705)
Loss on disposal of assets	9,239	-
Investment (gain) loss, realized and unrealized	(178,796)	148,484
Changes in operating assets and liabilities:		
Parish receivables	(22,278)	(11,781)
Other receivables	(204,901)	33,488
Prepaid expenses	(78,492)	(66,922)
Accounts payable and accrued expenses	(1,260,198)	1,548,261
Funds held for others	(2,088)	78,682
Misconduct liability	-	(3,250,000)
Accrued pension liability	8,853,000	3,758,000
Deposits other than parishes	38,449	3,522
Total adjustments	(735,308)	(1,168,465)
Net cash (used) provided by operating activities	(2,089,938)	2,958,910
Cash flows from investing activities:		
Proceeds from sale of investments	13,153,159	2,955,603
Purchase of investments	(13,478,696)	(1,060,318)
Purchase of property and equipment	(10,000)	(411,398)
Net cash (used) provided by investing activities	(335,537)	1,483,887
Cash flows from financing activities:		
Decrease in non-current parish receivables	318,979	7,619
Decrease in general loans receivable	2,400	1,530
Decrease (increase) in capital campaign pledges receivable	1,929,318	(3,099,246)
(R repayments) on loans from other (Arch) Dioceses	(25,000)	(1,025,000)
Net cash provided (used) in financing activities	2,225,697	(4,115,097)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(199,778)	327,700
Cash and cash equivalents, beginning of year	8,356,044	8,028,344
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 8,156,266	\$ 8,356,044
Non-cash financing transactions:		
Debt forgiveness	\$ 25,000	\$ 1,025,000

See notes to financial statements.

DIOCESE OF SANTA ROSA, CHANCERY OFFICE

Notes to Financial Statements
June 30, 2016 and June 30, 2015

NOTE 1 - REPORTING ENTITY:

The Diocese of Santa Rosa, Chancery Office, is the central administrative office of the Roman Catholic Bishop of Santa Rosa, whose geographic area encompasses California's Northern Coastal mountain range from Petaluma to the Oregon border. The Organization provides financial resources, insurance, employee benefits, and spiritual guidance to its parishes, schools and entities.

Included within the financial statements are all accounts maintained by and directly under the administration of the Chancery Office of the Roman Catholic Bishop of Santa Rosa, a Corporation Sole, including the Priests' Retirement Fund, the Capital Campaign Fund, the Annual Ministry Appeal, the Self-Insurance Fund, and the Benefits Office. All inter-agency accounts and transactions have been eliminated in the combining of the funds.

The assets, liabilities and fund balances of individual parishes and other Church-related entities and institutions not under the immediate administration of the Bishop are not reflected in the financial statements, except insofar as financial transactions have taken place between them and the Chancery Office (subsidiaries, loans, deposits, etc.).

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The following items set forth the significant accounting policies, not disclosed elsewhere in the notes to the financial statements, which are followed in preparing and presenting the financial statements.

a. Standards of reporting -

The accompanying financial statements have been prepared substantially in accordance with the standards adopted by the National Conference of Catholic Bishops in concert with standards provided by the Financial Accounting Standards Board. The financial statements are prepared using the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred. The principles of "fund accounting" are utilized in order to provide a proper accountability for the funds entrusted to the Organization and to ensure observance of limitations or restrictions placed on the use of the resources.

In accordance with generally accepted accounting principles, the Organization classifies its assets and liabilities as unrestricted, temporarily restricted, or permanently restricted. Unrestricted net assets generally result from revenues for providing services, receiving unrestricted contributions and assessments, and receiving interest, dividends and gains from the sale of assets, less expenses incurred in providing services, programs and administrative functions. Temporarily restricted assets are resources that may be used in a later period or after a specified date (time restriction) or resources that must be used for a specific purpose (program restrictions) or both. Permanently restricted assets are resources donated with stipulations that they be preserved or invested to provide a permanent source of income. The Organization had no permanently restricted net assets at June 30, 2016 and June 30, 2015.

DIOCESE OF SANTA ROSA, CHANCERY OFFICE

Notes to Financial Statements
June 30, 2016 and June 30, 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

b. Contributions -

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Restricted net assets are reclassified to unrestricted net assets upon satisfaction of the time or purpose restrictions.

c. Promises to give -

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. Promises to give are recorded in current and non-current other receivables.

The Organization uses the allowance method to determine uncollectible pledges receivable. The allowance is based on prior years' experience and management's analysis of specific promises made.

d. Investments -

Investments in equity securities with readily determinable fair values and all investments in debt securities are stated at their fair values in the statement of financial position. Gains and losses are included in the statement of activities.

e. Income taxes -

The Organization is exempt from federal and state income tax under provisions of section 501(c)(3) of the Internal Revenue Code and corresponding state statutes. The Diocese has evaluated relevant criteria and determined that no significant contingencies exist with respect to tax positions.

f. Property and equipment -

Property and equipment are stated at cost. The policy of the Organization is to provide for depreciation over the estimated useful lives of the assets, ranging from 5 to 30 years, by the straight-line method. Maintenance and repairs are charged to expense when incurred. Expenditures for additions and improvements in excess of \$5,000 are capitalized.

g. Use of estimates -

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

DIOCESE OF SANTA ROSA, CHANCERY OFFICE

Notes to Financial Statements
June 30, 2016 and June 30, 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

h. Fair value measurements -

Asset and liabilities measured at fair value are recorded in accordance with ASC 820, *Fair Value Measurement and Disclosures*, which clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, ASC 820 establishes a three tier hierarchy, which prioritizes the inputs used in measuring fair value as follows:

- Level 1 - Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.
- Level 2 - Quoted prices in markets that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly.
- Level 3 - Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

i. In-kind contributions -

In-kind contributions are recorded at fair value as an increase in revenue and as a related expense for financial statement reporting.

j. Significant concentrations of credit risk -

The Organization provides credit to parishes, schools, cemeteries, and others, resulting in concentrations of credit risk. The Organization believes it has provided an adequate provision for doubtful collections of their receivables and loans.

Additionally, the Organization maintains cash balances at several financial institutions including investment brokerage houses. Accounts at the various institutions are insured by certain insurance corporations ranging from \$250,000 to \$500,000. Some accounts are larger than the insurance available and the Organization's uninsured cash balance at June 30, 2016 totaled \$6,862,845. Management believes its cash is held with high credit quality institutions and does not believe it is subject to significant risk.

k. Statement of cash flows -

Cash and certificates of deposit with original terms of maturity of three months or less are considered to be cash equivalents.

l. Fair Value of Financial Instruments -

The Organization's financial instruments consist primarily of cash, investments, receivables, accounts payable and accrued expenses. The carrying amount of cash, investments, receivables, accounts payable and accrued expenses approximate their fair value based on their short term nature.

DIOCESE OF SANTA ROSA, CHANCERY OFFICE

Notes to Financial Statements
June 30, 2016 and June 30, 2015

NOTE 3 - RECEIVABLES:

Receivables are shown net of allowance for uncollectible accounts as follows:

<u>June 30, 2016:</u>	<u>Receivable Balance</u>	<u>Allowance Account</u>	<u>Net Receivable</u>
Current:			
Parish receivables	\$ 35,978	\$ -	\$ 35,978
Non-current parish receivables-current	266,066	-	266,066
Other receivables	1,092,606	139,473	953,133
Non-current:			
Non-current parish receivables	504,086	77,000	427,086
General loans receivable	<u>1,200</u>	<u>400</u>	<u>800</u>
Totals	<u>\$ 1,899,936</u>	<u>\$ 216,873</u>	<u>\$ 1,683,063</u>

June 30, 2015:

Current:			
Parish receivables	\$ 13,700	\$ -	\$ 13,700
Non-current parish receivables-current	72,699	-	72,699
Other receivables	887,705	138,795	748,910
Non-current:			
Non-current parish receivables	1,016,432	160,000	856,432
General loans receivable	<u>3,600</u>	<u>1,080</u>	<u>2,520</u>
Totals	<u>\$ 1,994,136</u>	<u>\$ 299,875</u>	<u>\$ 1,694,261</u>

NOTE 4 - CAPITAL CAMPAIGN PLEDGES RECEIVABLE:

The following summarizes capital campaign receivables at June 30, 2016:

Due year ended June 30, 2017	\$ 2,646,976
2018	2,646,976
2019	2,646,976
2020	75,580
2021 and thereafter	<u>290,033</u>
Total	8,306,541
Less: unamortized discount	(415,218)
allowance for doubtful accounts	<u>(1,428,277)</u>
Net pledges receivable	<u>\$ 6,463,046</u>

DIOCESE OF SANTA ROSA, CHANCERY OFFICE

Notes to Financial Statements
June 30, 2016 and June 30, 2015

NOTE 5 - INVESTMENTS:

The Organization's intent is to invest in non-speculative issues providing safety of capital, current income and sustained growth. The investment policy and strategies are monitored periodically. The fair value and fair value hierarchy levels at June 30, 2016 and June 30, 2015 are as follows:

<u>2016</u>	<u>Fair Value</u>	<u>Hierarchy Level 1</u>
Fixed Income	\$4,551,407	\$4,551,407
Equity	1,768,060	1,768,060
Other	<u>1,153,970</u>	<u>1,153,970</u>
 Total	 <u>\$7,473,437</u>	 <u>\$7,473,437</u>
<u>2015</u>	<u>Fair Value</u>	<u>Hierarchy Level 1</u>
Fixed Income	\$5,732,992	\$5,732,992
Other	<u>1,236,112</u>	<u>1,236,112</u>
 Total	 <u>\$6,969,104</u>	 <u>\$6,969,104</u>

NOTE 6 - LAND HELD FOR INVESTMENT:

Land held for investment consists of unimproved real property held for long-term appreciation and is recorded at cost or fair market value at date of donation.

	<u>2016</u>	<u>2015</u>
Parkerhill/Fountaingrove unimproved land	\$ 104,840	\$ 94,840
Vineyard Property, Yountville	50,000	50,000
Snake Ranch Property	<u>15,000</u>	<u>15,000</u>
 Total	 <u>\$ 169,840</u>	 <u>\$ 159,840</u>

NOTE 7 - PROPERTY AND EQUIPMENT:

Property and equipment consists of the following:

	<u>2016</u>	<u>2015</u>
Buildings and leasehold improvements	\$1,970,703	\$1,979,895
Automobiles	84,675	135,005
Computer equipment	31,572	42,577
Office furniture and fixtures	<u>108,059</u>	<u>113,601</u>
 Total cost	 2,195,009	 2,271,078
Less: accumulated depreciation	<u>883,192</u>	<u>883,263</u>
 Property and equipment, net	 <u>\$1,311,817</u>	 <u>\$1,387,815</u>

DIOCESE OF SANTA ROSA, CHANCERY OFFICE

Notes to Financial Statements

June 30, 2016 and June 30, 2015

NOTE 8 - FUNDS HELD FOR OTHERS:

Funds held for others represent amounts collected under the second collection donation program. These collections are received on behalf of programs administered outside the Diocese of Santa Rosa, and accordingly, are considered agency funds. As such, the collections are to be treated as liabilities of the Diocese of Santa Rosa until forwarded to the appropriate entity.

NOTE 9 - SELF INSURANCE FUND:

The Organization manages its worker's compensation, property, liability and casualty insurance for the parishes, schools, and other entities. The Organization self insures portions of their coverage and purchases excess coverage insurance. The Organization reserves funds for potential claims incurred but not reported and for claims filed but not settled.

NOTE 10 - CONTINGENCIES:

The Organization is subject to various claims, legal proceedings, and investigations covering a wide range of matters that arise in the ordinary course of business. In the opinion of management, all such matters are adequately covered by insurance or accruals and, if not so covered, are without merit or are of such kind or involve such amounts that would not have a significant effect on the financial position or results of operations of the Organization if disposed unfavorably.

NOTE 11 - LOANS FROM OTHER (ARCH) DIOCESES:

Loans from other (Arch) Dioceses consist of several loans ranging from \$100,000 to \$1,500,000 with repayment terms ranging from various forgiveness dates to 60 month balloon payments. Interest is typically being waived on an annual basis. Required future principal payments on loans from other (Arch) Dioceses are as follows:

Year ended June 30, 2017	\$ 2,035,000
2018	25,000
2019	25,000
2020	<u>1,525,000</u>
Total	<u>\$ 3,610,000</u>

DIOCESE OF SANTA ROSA, CHANCERY OFFICE

Notes to Financial Statements
June 30, 2016 and June 30, 2015

NOTE 12 - NET ASSETS RELEASED FROM RESTRICTIONS:

Net assets which were released from donor restriction by incurring expenses satisfying the restricted purpose, or by the occurrence of other events specified by donors are as follows:

Temporarily restricted net assets:

	<u>2016</u>	<u>2015</u>
Program restrictions accomplished:		
Capital Campaign Fund	\$ 2,034,556	\$ 2,806,174
Priests Welfare Designated Fund	145,556	200,252
Other Designated Funds	207,513	86,923
Future Seminarian Fund payments	<u>65,106</u>	<u>65,000</u>
 Total temporarily restricted net assets program restrictions accomplished	 2,452,731	 3,158,349
Time restrictions accomplished:		
Contributions made in prior year for current year	<u>206,393</u>	<u>171,165</u>
 TOTAL	 <u>\$ 2,659,124</u>	 <u>\$ 3,329,514</u>

NOTE 13 - RETIREMENT PLANS:

On July 1, 2014, the Diocese implemented a defined contribution retirement plan covering eligible lay employees. These employees are eligible upon attaining one year service and are scheduled to work at least 20 hours per week. The Diocese minimum contribution to the plan is 5.5 percent of the employee's wages. For the years ended June 30, 2016 and June 30, 2015, respectively, the Diocese contributed \$1,480,033 and \$1,411,836 to the defined contribution plan.

Lay Employee's Plan:

The Diocese sponsors a defined benefit retirement plan covering substantially all full time lay employees. During the years ended June 30, 2016 and June 30, 2015, respectively, contributions of \$457,000 and \$931,000 were made to the plan and benefit payments of \$1,835,000 and \$1,686,000 were made from the plan. Expected contributions to the plan for the plan year ending June 30, 2017 is \$1,200,000.

Effective June 30, 2014, the Lay Employee Retirement Plan was amended to freeze benefits, eliminating future benefit accruals. A defined contribution retirement plan has been implemented to provide benefits after June 30, 2014 for participants.

Priest's Plan:

The Diocese sponsors two defined benefit retirement plans covering all Priests who are ordained or incardinated in the Diocese and in good standing and not on probation. Benefits are based on years of service. The qualified plan provides a basic benefit for all eligible Priests. The supplemental plan provides additional benefits. During the years ended June 30, 2016 and June 30, 2015, respectively, for the combined qualified and supplemental plans, contributions of \$140,000 and \$238,000 and benefit payments of \$536,000 and \$484,000 were made to/from the plan. Expected contributions to the plan for the plan year ending June 30, 2017 is \$106,000.

DIOCESE OF SANTA ROSA, CHANCERY OFFICE

Notes to Financial Statements
June 30, 2016 and June 30, 2015

NOTE 13 - RETIREMENT PLANS (continued):

The following is the actuarial information related to each plan as of June 30, 2016:

Funded Status	<u>Lay Plan</u>	<u>Priests Plan</u>
Accumulated benefit obligation for service rendered to date	<u>\$(59,614,000)</u>	<u>\$(11,746,000)</u>
Projected benefit obligation for services rendered to date (after curtailment)	(59,614,000)	(11,746,000)
Plan assets at fair value	<u>30,365,000</u>	<u>7,037,000</u>
Funded status of plan	<u>\$(29,249,000)</u>	<u>\$ (4,709,000)</u>

At June 30, 2016, under generally accepted accounting principles, the funded status is recognized in the statement of financial position. Unrecognized prior service costs and unrecognized actuarial losses are recognized in unrestricted net assets.

Amounts recognized in the statement of financial position consist of:

Noncurrent liabilities	<u>\$(29,249,000)</u>	<u>\$ (4,709,000)</u>
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Amounts recognized in unrestricted net assets consist of:

Net loss (gain)	\$ 17,319,000	\$ 2,760,000
Prior service cost (credit)	-	2,393,000
	<u>\$ 17,319,000</u>	<u>\$ 5,153,000</u>

Net periodic pension cost

Service cost-benefits earned during the period	\$ -	\$ 186,000
Interest cost on projected benefit obligation	2,252,000	425,000
Actual return on plan assets	(851,000)	42,000
Net amortization and deferral	<u>(215,000)</u>	<u>(262,000)</u>
Net periodic pension cost	<u>\$ 1,186,000</u>	<u>\$ 391,000</u>

Other changes in plan assets and benefit obligations recognized in unrestricted net assets

Net loss (gain) (including curtailment (gain))	\$ 6,932,000	\$ 1,262,000
Prior service cost (credit)	-	839,000
Amortization of (loss)	(903,000)	(55,000)
Amortization of prior service cost (credit)	-	(202,000)
Total recognized in unrestricted net assets	<u>6,029,000</u>	<u>1,844,000</u>
Total recognized in net periodic benefit cost and unrestricted net assets	<u>\$ 7,215,000</u>	<u>\$ 2,235,000</u>

Assumptions used to determine net periodic pension cost (both plans)

Discount rate	4.24%
Expected long-term rate of return on assets	6.50%
Salary increases	N/A

DIOCESE OF SANTA ROSA, CHANCERY OFFICE

Notes to Financial Statements
June 30, 2016 and June 30, 2015

NOTE 13 - RETIREMENT PLANS (continued):

The following is the actuarial information related to each plan as of June 30, 2015:

Funded Status	<u>Lay Plan</u>	<u>Priests Plan</u>
Accumulated benefit obligation for service rendered to date	<u>\$(53,465,000)</u>	<u>\$(10,143,000)</u>
Projected benefit obligation for services rendered to date	(53,465,000)	(10,143,000)
Plan assets at fair value	<u>30,974,000</u>	<u>7,529,000</u>
Funded status of plan	<u>\$(22,491,000)</u>	<u>\$ (2,614,000)</u>

At June 30, 2015, under generally accepted accounting principles, the funded status is recognized in the statement of financial position. Unrecognized prior service costs and unrecognized actuarial losses are recognized in unrestricted net assets.

Amounts recognized in the statement of financial position consist of:

Noncurrent liabilities	<u>\$(22,491,000)</u>	<u>\$ (2,614,000)</u>
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Amounts recognized in unrestricted net assets consist of:

Net loss (gain)	\$ 11,290,000	\$ 1,553,000
Prior service cost (credit)	-	1,756,000
	<u>\$ 11,290,000</u>	<u>\$ 3,309,000</u>

Net periodic pension cost

Service cost-benefits earned during the period	\$ -	\$ 203,000
Interest cost on projected benefit obligation	2,027,000	387,000
Actual return on plan assets	(1,498,000)	(302,000)
Net amortization and deferral	670,000	(15,000)
Net periodic pension cost	<u>\$ 1,199,000</u>	<u>\$ 273,000</u>

Other changes in plan assets and benefit obligations recognized in unrestricted net assets

Net loss (gain) (including curtailment (gain))	\$ 4,392,000	\$ 538,000
Amortization of (loss)	(425,000)	-
Amortization of prior service cost (credit)	<u>(848,000)</u>	<u>(202,000)</u>
Total recognized in unrestricted net assets	<u>3,119,000</u>	<u>336,000</u>
Total recognized in net periodic benefit cost and unrestricted net assets	<u>\$ 4,318,000</u>	<u>\$ 609,000</u>

Assumptions used to determine net periodic pension cost (both plans)

Discount rate	4.07%
Expected long-term rate of return on assets	7.00%
Salary increases	N/A

DIOCESE OF SANTA ROSA, CHANCERY OFFICE

Notes to Financial Statements
June 30, 2016 and June 30, 2015

NOTE 13 - RETIREMENT PLANS (continued):

The Diocese employs a methodical process to determine the estimates of expected long-term rate of return on assets. These estimates are primarily driven by actual historical asset-class returns and advice from external actuarial and investment consulting firms while incorporating specific asset-class risk factors. For fiscal years ended June 30, 2016 and June 30, 2015, the expected long-term rate of return used in determining net periodic pension cost was 6.50% and 7.00%, respectively.

Assumptions used to determine benefit obligations at year-end

	<u>2016</u>	<u>2015</u>
Discount rate (regulated rate)	3.45%	4.24%

Investment policy in writing

The Diocese has adopted an official statement of investment policy for these plans. Pension assets are invested by an independent professional investment manager, with the objective of achieving long term growth in assets with reasonable risk as compared to established benchmarks. The investment policy requires high quality investments and adequate diversification. Prohibited investments include options, short sale contracts and derivatives. The Diocese regularly monitors the investment manager's performance relative to short-term and long-term objectives as set forth in the official policy.

A compliance audit of the managers' adherence to policy guidelines is conducted as a component of each performance evaluation. The statement of investment policy includes consideration for social responsibility and Roman Catholic social teaching.

Plan asset investment strategy and allocation

Lay employees plan

<u>Asset category</u>	<u>Approved asset allocation range</u>	<u>Policy benchmark asset allocation</u>	<u>Annual % plan assets</u>	
			<u>2016</u>	<u>2015</u>
Equities	0-75%	50%	63%	66%
Fixed income	0-75%	40%	20%	30%
Cash	0-100%	10%	7%	4%
Other			10%	

Priests Plan

<u>Asset category</u>	<u>Approved asset allocation range</u>	<u>Policy benchmark asset allocation</u>	<u>Annual % plan assets</u>	
			<u>2016</u>	<u>2015</u>
Equities	30-70%	60%	58%	58%
Fixed income	30-70%	30%	38%	34%
Cash	0-20%	10%	4%	8%

DIOCESE OF SANTA ROSA, CHANCERY OFFICE

Notes to Financial Statements
June 30, 2016 and June 30, 2015

NOTE 13 - RETIREMENT PLANS (continued):

Estimated future benefit payments

<u>Fiscal year ended June 30,</u>	<u>Lay Plan</u>	<u>Priests Plan</u>
2017	\$ 2,311,000	\$ 801,000
2018	2,498,000	805,000
2019	2,630,000	770,000
2020	2,768,000	810,000
2021	2,889,000	769,000
2022-2026	15,564,000	3,308,000

NOTE 14 - SUBSEQUENT EVENTS:

Management has evaluated subsequent events through October 19, 2016, the date on which the financial statements were available to be issued.