

**DIOCESE OF SANTA ROSA
CHANCERY OFFICE
FINANCIAL STATEMENTS
JUNE 30, 2018 AND JUNE 30, 2017**

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, 2018 and June 30, 2017, 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, 2018 and June 30, 2017, 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 1, 2018

DIOCESE OF SANTA ROSA, CHANCERY OFFICE
 Statements of Financial Position
 June 30, 2018 and June 30, 2017

ASSETS

	2018	2017
Current assets:		
Cash and cash equivalents	\$ 10,583,142	\$ 8,705,676
Current parish receivables (note 3)	21,890	8,773
Current portion of non-current parish receivables (note 3)	37,051	584,065
Other receivables (note 3)	745,788	934,922
Current capital campaign pledges receivable (note 4)	2,611,764	2,235,172
Prepaid expenses	260,910	274,619
Total current assets	14,260,545	12,743,227
Non-current assets:		
Long-term investments (note 5)	8,402,589	8,032,105
Non-current parish receivables (note 3)	-	81,832
Capital campaign pledges receivable (note 4)	100,403	2,198,111
Land held for investment (note 6)	65,000	169,840
Property and equipment (note 7)	1,198,414	1,209,418
TOTAL ASSETS	\$ 24,026,951	\$ 24,434,533

LIABILITIES AND NET ASSETS

Current liabilities:		
Accounts payable and accrued expenses	\$ 1,152,407	\$ 1,331,089
Settlement payable (note 10)	723,000	-
Loans from other (Arch) Dioceses (note 11)	1,735,000	2,135,000
Funds held for others (note 8)	275,273	124,633
Total current liabilities	3,885,680	3,590,722
Non-current liabilities:		
Deposits other than parishes	99,062	89,815
Accrued pension liability (note 13)	23,293,000	25,662,000
Loans from other (Arch) Dioceses (note 11)	925,000	950,000
Total non-current liabilities	24,317,062	26,701,815
TOTAL LIABILITIES	28,202,742	30,292,537
Net Assets:		
Unrestricted (deficit)	(7,966,723)	(11,370,050)
Temporarily restricted	3,790,932	5,512,046
TOTAL NET ASSETS	(4,175,791)	(5,858,004)
TOTAL LIABILITIES AND NET ASSETS	\$ 24,026,951	\$ 24,434,533

See notes to financial statements.

DIOCESE OF SANTA ROSA, CHANCERY OFFICE

Statement of Activities

For the Year Ended June 30, 2018

	Unrestricted	Temporarily Restricted	Total
Revenues, Gains and			
Other Support:			
Assessments	\$ 1,526,318	\$ -	\$ 1,526,318
Benefits office premiums	6,262,488	-	6,262,488
Annual ministry appeal	1,178,127	-	1,178,127
Contributions	-	652,075	652,075
Capital campaign contributions, net	-	18,081	18,081
In-kind revenue	101,128	-	101,128
Gifts and bequests	343,780	-	343,780
Interest and dividends	396,239	-	396,239
Other revenue	109,280	-	109,280
Pension plan receipts	2,019,260	-	2,019,260
Priest's retirement revenue	450,177	-	450,177
Program revenue	952,997	-	952,997
Gain on sale of property	378,348	-	378,348
Realized investment gain	136,377	-	136,377
Unrealized investment gain	(70,561)	-	(70,561)
Self-insurance premium revenue	2,617,037	-	2,617,037
Net assets released from restrictions (note 12)	2,391,270	(2,391,270)	-
Total Revenues, Gains and			
Other Support	18,792,265	(1,721,114)	17,071,151
Expenses:			
Benefits office premiums paid	5,895,983		5,895,983
Capital improvements	74,944		74,944
Diocesan operation expenditures	1,915,980		1,915,980
Distributions	5,160,345		5,160,345
Ministries and subsidies	1,855,539		1,855,539
Donations, gifts and grants	-		-
Self-insurance premiums and claims paid	2,950,147	-	2,950,147
Total Expenses	17,852,938	-	17,852,938
CHANGE IN NET ASSETS	939,327	(1,721,114)	(781,787)
Net assets (deficit) at beginning of year	(11,370,050)	5,512,046	(5,858,004)
Prior service costs adjustment - defined benefit plan	2,464,000	-	2,464,000
NET ASSETS (DEFICIT) AT END OF YEAR	\$ (7,966,723)	\$ 3,790,932	\$ (4,175,791)

See notes to financial statements.

DIOCESE OF SANTA ROSA, CHANCERY OFFICE

Statement of Activities

For the Year Ended June 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues, Gains and			
Other Support:			
Assessments	\$ 1,477,060	\$ -	\$ 1,477,060
Benefits office premiums	6,574,384	-	6,574,384
Annual ministry appeal	1,177,552	-	1,177,552
Contributions	-	592,463	592,463
Capital campaign contributions, net	-	26,031	26,031
In-kind revenue	101,128	-	101,128
Gifts and bequests	235,777	-	235,777
Interest and dividends	280,585	-	280,585
Other revenue	68,890	-	68,890
Pension plan receipts	2,929,426	-	2,929,426
Priest's retirement revenue	387,900	-	387,900
Program revenue	1,037,111	-	1,037,111
Gain on sale of property	686,711	-	686,711
Realized investment gain	90,540	-	90,540
Unrealized investment gain	294,703	-	294,703
Self-insurance premium revenue	2,304,492	-	2,304,492
Net assets released from restrictions (note 12)	<u>2,606,978</u>	<u>(2,606,978)</u>	<u>-</u>
Total Revenues, Gains and			
Other Support	<u>20,253,237</u>	<u>(1,988,484)</u>	<u>18,264,753</u>
Expenses:			
Benefits office premiums paid	5,977,813		5,977,813
Capital improvements	74,208		74,208
Diocesan operation expenditures	2,019,670		2,019,670
Distributions	6,751,947		6,751,947
Ministries and subsidies	2,122,924		2,122,924
Donations, gifts and grants	50,000		50,000
Self-insurance premiums and claims paid	<u>1,729,205</u>	<u>-</u>	<u>1,729,205</u>
Total Expenses	<u>18,725,767</u>	<u>-</u>	<u>18,725,767</u>
CHANGE IN NET ASSETS	1,527,470	(1,988,484)	(461,014)
Net assets (deficit) at beginning of year	(22,061,520)	7,500,530	(14,560,990)
Prior service costs adjustment - defined benefit plan	<u>9,164,000</u>	<u>-</u>	<u>9,164,000</u>
NET ASSETS (DEFICIT) AT END OF YEAR	<u>\$ (11,370,050)</u>	<u>\$ 5,512,046</u>	<u>\$ (5,858,004)</u>

See notes to financial statements.

DIOCESE OF SANTA ROSA, CHANCERY OFFICE
Statements of Cash Flows
For the Years Ended June 30, 2018 and June 30, 2017

	2018	2017
Cash flows from operating activities:		
Change in net assets	\$ (781,787)	\$ (461,014)
Adjustments to reconcile change in net assets to net cash (used) in operating activities:		
Depreciation	53,180	53,741
Prior service cost, defined benefit plan	2,464,000	9,164,000
Allowance for doubtful accounts	1,643	25,241
Debt forgiveness income	(225,000)	(225,000)
(Gain) on sale of assets	(378,348)	(686,711)
Investment (gain), realized and unrealized	(65,816)	(385,243)
Changes in operating assets and liabilities:		
Parish receivables	(13,117)	27,205
Other receivables	135,970	(11,430)
Prepaid expenses	13,709	(17,665)
Accounts payable and accrued expenses	(178,682)	(918,958)
Settlement payable	723,000	-
Funds held for others	150,640	(20,099)
Accrued pension liability	(2,369,000)	(8,296,000)
Deposits other than parishes	9,247	(22,819)
Total adjustments	321,426	(1,313,738)
Net cash (used) in operating activities	(460,361)	(1,774,752)
Cash flows from investing activities:		
Proceeds from sale of investments	4,155,389	1,830,050
Purchase of investments	(4,460,057)	(2,003,475)
Proceeds from sale of property and equipment	486,853	781,019
Purchase of property and equipment	(45,841)	(45,650)
Net cash provided by investing activities	136,344	561,944
Cash flows from financing activities:		
Decrease in non-current parish receivables	701,846	31,255
Decrease in general loans receivable	-	1,200
Decrease in capital campaign pledges receivable	1,699,637	2,029,763
(Repayments) on loans from other (Arch) Dioceses	(200,000)	(300,000)
Net cash provided by financing activities	2,201,483	1,762,218
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,877,466	549,410
Cash and cash equivalents, beginning of year	8,705,676	8,156,266
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 10,583,142	\$ 8,705,676
Non-cash financing transactions:		
Debt forgiveness	\$ 225,000	\$ 225,000

See notes to financial statements.

DIOCESE OF SANTA ROSA, CHANCERY OFFICE
Notes to Financial Statements
June 30, 2018 and June 30, 2017

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 United States 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, 2018 and June 30, 2017.

DIOCESE OF SANTA ROSA, CHANCERY OFFICE
Notes to Financial Statements
June 30, 2018 and June 30, 2017

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, 2018 and June 30, 2017

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, 2018 totaled \$9,288,862. 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, 2018 and June 30, 2017

NOTE 3 - RECEIVABLES:

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

<u>June 30, 2018:</u>	<u>Receivable Balance</u>	<u>Allowance Account</u>	<u>Net Receivable</u>
Current:			
Parish receivables	\$ 21,890	\$ -	\$ 21,890
Non-current parish receivables-current	37,051	-	37,051
Other receivables	<u>968,066</u>	<u>222,278</u>	<u>745,788</u>
Totals	<u>\$ 1,027,007</u>	<u>\$ 222,278</u>	<u>\$ 804,729</u>

June 30, 2017:

Current:			
Parish receivables	\$ 8,773	\$ -	\$ 8,773
Non-current parish receivables-current	647,965	63,900	584,065
Other receivables	1,104,036	169,114	934,922
Non-current:			
Non-current parish receivables	<u>90,932</u>	<u>9,100</u>	<u>81,832</u>
Totals	<u>\$ 1,851,706</u>	<u>\$ 242,114</u>	<u>\$ 1,609,592</u>

NOTE 4 - CAPITAL CAMPAIGN PLEDGES RECEIVABLE:

The following summarizes capital campaign receivables at June 30, 2018:

Due year ended June 30, 2019	\$ 3,731,091
2020	55,475
2021	55,475
2022	55,475
2023 and thereafter	<u>214,465</u>
Total	4,111,981
Less: unamortized discount	(16,095)
allowance for doubtful accounts	<u>(1,383,719)</u>
Net pledges receivable	<u>\$ 2,712,167</u>

DIOCESE OF SANTA ROSA, CHANCERY OFFICE

Notes to Financial Statements
June 30, 2018 and June 30, 2017

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, 2018 and June 30, 2017 are as follows:

<u>2018</u>	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>
Fixed Income	\$4,642,771	\$1,491,767	\$3,151,004
Equities	376,677	376,677	-
Mutual Funds	150,314	150,314	-
Other	<u>3,232,827</u>	<u>2,003,982</u>	<u>1,228,845</u>
 Total	 <u>\$8,402,589</u>	 <u>\$4,022,740</u>	 <u>\$4,379,849</u>
<u>2017</u>	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>
Fixed Income	\$4,578,522	\$1,493,794	\$3,084,728
Equities	366,563	366,563	-
Mutual Funds	159,572	159,572	-
Other	<u>2,927,448</u>	<u>1,797,305</u>	<u>1,130,143</u>
 Total	 <u>\$8,032,105</u>	 <u>\$3,817,234</u>	 <u>\$4,214,871</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>2018</u>	<u>2017</u>
Parkerhill/Fountaingrove unimproved land	\$ -	\$ 104,840
Vineyard Property, Yountville	50,000	50,000
Snake Ranch Property	<u>15,000</u>	<u>15,000</u>
 Total	 <u>\$ 65,000</u>	 <u>\$ 169,840</u>

NOTE 7 - PROPERTY AND EQUIPMENT:

Property and equipment consists of the following:

	<u>2018</u>	<u>2017</u>
Buildings and leasehold improvements	\$1,756,234	\$1,730,622
Automobiles	84,675	84,675
Computer equipment	30,335	30,335
Office furniture and fixtures	<u>129,097</u>	<u>117,999</u>
 Total cost	 2,000,341	 1,963,631
Less: accumulated depreciation	<u>801,927</u>	<u>754,213</u>
 Property and equipment, net	 <u>\$1,198,414</u>	 <u>\$1,209,418</u>

DIOCESE OF SANTA ROSA, CHANCERY OFFICE

Notes to Financial Statements
June 30, 2018 and June 30, 2017

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. At June 30, 2018, the Organization was involved in two specific cases, one of which has been settled and one that is currently ongoing. As a result, the Organization has accrued its estimated potential liability totaling \$723,000, net of expected insurance coverage. In the opinion of management, any other potential matters are adequately covered by insurance 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, 2019	\$ 1,735,000
2020	<u>925,000</u>
Total	<u>\$ 2,660,000</u>

DIOCESE OF SANTA ROSA, CHANCERY OFFICE

Notes to Financial Statements
June 30, 2018 and June 30, 2017

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:

Program restrictions accomplished:	<u>2018</u>	<u>2017</u>
Capital Campaign Fund	\$ 1,741,928	\$ 2,010,664
Priests Welfare Designated Fund	98,930	55,531
Other Designated Funds	229,185	238,511
Future Seminarian Fund payments	<u>77,665</u>	<u>69,462</u>
 Total temporarily restricted net assets program restrictions accomplished	 2,147,708	 2,374,168
 Time restrictions accomplished:		
Contributions made in prior year for current year	<u>243,562</u>	<u>232,810</u>
 TOTAL	 <u>\$ 2,391,270</u>	 <u>\$ 2,606,978</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's minimum contribution to the plan is 5.5 percent of the employee's wages. For the years ended June 30, 2018 and June 30, 2017, respectively, the Diocese contributed \$1,499,294 and \$1,637,652 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, 2018 and June 30, 2017, respectively, contributions of \$650,000 and \$1,200,000 were made to the plan and benefit payments of \$2,147,000 and \$1,912,000 were made from the plan. Expected contributions to the plan for the plan year ending June 30, 2019 is \$600,000.

Effective June 30, 2014, the Lay Employee Defined Benefit 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 second plan provides retirement benefits to management. During the years ended June 30, 2018 and June 30, 2017, respectively, for the combined plans, contributions of \$259,000 and \$168,000 and benefit payments of \$599,000 and \$567,000 were made to/from the plans. Expected contributions to the plans for the plan year ending June 30, 2019 is \$294,000.

DIOCESE OF SANTA ROSA, CHANCERY OFFICE

Notes to Financial Statements
June 30, 2018 and June 30, 2017

NOTE 13 - RETIREMENT PLANS (continued):

The following is the actuarial information related to each plan as of June 30, 2018:

Funded Status	<u>Lay Plan</u>	<u>Priests Plan</u>
Accumulated benefit obligation for service rendered to date	\$(52,962,000)	\$ (9,678,000)
Projected benefit obligation for services rendered to date (after curtailment)	(52,962,000)	(11,985,000)
Plan assets at fair value	<u>34,142,000</u>	<u>7,512,000</u>
Funded status of plan	<u>\$(18,820,000)</u>	<u>\$ (4,473,000)</u>

At June 30, 2018, 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>\$(18,820,000)</u>	<u>\$ (4,473,000)</u>
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Amounts recognized in unrestricted net assets consist of:

Net loss (gain)	\$ 6,353,000	\$ 2,205,000
Prior service cost (credit)	-	2,286,000
	<u>\$ 6,353,000</u>	<u>\$ 4,491,000</u>

Net periodic pension cost

Service cost-benefits earned during the period	\$ -	\$ 150,000
Interest cost on projected benefit obligation	2,037,000	353,000
Actual return on plan assets	(2,296,000)	(550,000)
Net amortization and deferral	<u>936,000</u>	<u>374,000</u>
Net periodic pension cost	<u>\$ 677,000</u>	<u>\$ 327,000</u>

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

Net loss (gain) (including curtailment (gain))	\$(3,420,000)	\$ 1,474,000
Prior service cost (credit)	-	435,000
Amortization of (loss)	(682,000)	-
Amortization of prior service cost (credit)	<u>-</u>	<u>(271,000)</u>
Total recognized in unrestricted net assets	<u>(4,102,000)</u>	<u>1,638,000</u>
Total recognized in net periodic benefit cost and unrestricted net assets	<u>\$(3,425,000)</u>	<u>\$ 1,965,000</u>

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

Discount rate	3.72%
Expected long-term rate of return on assets	6.25%
Salary scale	N/A

DIOCESE OF SANTA ROSA, CHANCERY OFFICE

Notes to Financial Statements

June 30, 2018 and June 30, 2017

NOTE 13 - RETIREMENT PLANS (continued):

The following is the actuarial information related to each plan as of June 30, 2017:

Funded Status	<u>Lay Plan</u>	<u>Priests Plan</u>
Accumulated benefit obligation for service rendered to date	<u>\$(56,317,000)</u>	<u>\$(10,083,000)</u>
Projected benefit obligation for services rendered to date	(56,317,000)	(10,083,000)
Plan assets at fair value	<u>33,422,000</u>	<u>7,316,000</u>
Funded status of plan	<u>\$(22,895,000)</u>	<u>\$ (2,767,000)</u>

At June 30, 2017, 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>\$(22,895,000)</u>	<u>\$ (2,767,000)</u>
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Amounts recognized in unrestricted net assets consist of:

Net loss (gain)	\$ 10,455,000	\$ 731,000
Prior service cost (credit)	-	2,122,000
	<u>\$ 10,455,000</u>	<u>\$ 2,853,000</u>

Net periodic pension cost

Service cost-benefits earned during the period	\$ -	\$ 203,000
Interest cost on projected benefit obligation	2,010,000	386,000
Actual return on plan assets	(3,793,000)	(707,000)
Net amortization and deferral	<u>3,493,000</u>	<u>644,000</u>
Net periodic pension cost	<u>\$ 1,710,000</u>	<u>\$ 526,000</u>

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

Net loss (gain) (including curtailment (gain))	\$ (5,213,000)	\$(1,919,000)
Prior service cost (credit)	-	-
Amortization of (loss)	(1,651,000)	(110,000)
Amortization of prior service cost (credit)	<u>-</u>	<u>(271,000)</u>
Total recognized in unrestricted net assets	<u>(6,864,000)</u>	<u>(2,300,000)</u>
Total recognized in net periodic benefit cost and unrestricted net assets	<u>\$ (5,154,000)</u>	<u>\$ (1,774,000)</u>

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

Discount rate	3.45%
Expected long-term rate of return on assets	6.50%
Salary scale	N/A

DIOCESE OF SANTA ROSA, CHANCERY OFFICE

Notes to Financial Statements
June 30, 2018 and June 30, 2017

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, 2018 and June 30, 2017, the expected long-term rate of return used in determining net periodic pension cost was 6.25% and 6.50%, respectively.

Assumptions used to determine benefit obligations at year-end

	<u>2018</u>	<u>2017</u>
Discount rate (regulated rate)	4.11%	3.72%

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>2018</u>	<u>2017</u>
Equities	0-75%	50%	64%	64%
Fixed income	0-75%	40%	25%	21%
Cash	0-100%	10%	2%	6%
Other			9%	9%

Priests Plan

<u>Asset category</u>	<u>Approved asset allocation range</u>	<u>Policy benchmark asset allocation</u>	<u>Annual % plan assets</u>	
			<u>2018</u>	<u>2017</u>
Equities	30-70%	60%	68%	69%
Fixed income	30-70%	30%	21%	16%
Cash	0-20%	10%	3%	6%
Other			8%	9%

DIOCESE OF SANTA ROSA, CHANCERY OFFICE
Notes to Financial Statements
June 30, 2018 and June 30, 2017

NOTE 13 - RETIREMENT PLANS (continued):

Estimated future benefit payments

<u>Fiscal year ended June 30,</u>	<u>Lay Plan</u>	<u>Priests Plan</u>
2019	\$ 2,655,000	\$ 798,000
2020	2,777,000	797,000
2021	2,907,000	779,000
2022	2,974,000	759,000
2023	3,049,000	798,000
2024-2028	15,921,000	3,623,000

NOTE 14 - SUBSEQUENT EVENTS:

Management has evaluated subsequent events through October 1, 2018, the date on which the financial statements were available to be issued.