



# **Catholic Diocese of Kansas City—St. Joseph Chancery Operations**

Financial Report  
June 30, 2016

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## Independent Auditor's Report

Most Reverend Bishop James V. Johnston  
Diocesan Finance Council  
Catholic Diocese of Kansas City—St. Joseph  
Chancery Operations  
Kansas City, Missouri

### Report on the Financial Statements

We have audited the accompanying financial statements of the Catholic Diocese of Kansas City—St. Joseph Chancery Operations, which comprise the statements of financial position as of June 30, 2016 and 2015, 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 Catholic Diocese of Kansas City—St. Joseph Chancery Operations as of June 30, 2016 and 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.

**Other Matter**

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The additional consolidating detail for the Catholic Diocese of Kansas City—St. Joseph Chancery Operations presented on the statements of financial position and the statements of activities is presented for the purposes of additional analysis rather than to present the financial position and the results of operations of the funds and is not a required part of the financial statements. The consolidating information has been subjected to auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements, or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*RSM US LLP*

Kansas City, Missouri  
October 24, 2016

**Catholic Diocese of Kansas City—St. Joseph Chancery Operations**

**Statements of Financial Position  
June 30, 2016 and 2015**

	Current	Plant	Custodian	Endowment	2016	2015
<b>Assets</b>						
Cash and cash equivalents	\$ 5,049,144	\$ 746,037	\$ 167,353	\$ 1,933,122	\$ 7,895,656	\$ 4,424,862
Loans and accounts receivable, net (Note 2)	6,219,108	600,000	-	5,000,000	11,819,108	33,286,356
Pledges receivable, net (Note 3)	220,209	-	-	-	220,209	1,500,800
Land, buildings and equipment, net (Notes 4 and 7)	1,023,794	10,703,941	-	-	11,727,735	12,689,562
Beneficial interest in others (Notes 5 and 15)	-	-	-	539,549	539,549	569,450
Investments (Notes 6 and 15)	100,000	-	-	2,496,643	2,596,643	8,528,756
<b>Total assets</b>	<b>\$ 12,612,255</b>	<b>\$ 12,049,978</b>	<b>\$ 167,353</b>	<b>\$ 9,969,314</b>	<b>\$ 34,798,900</b>	<b>\$ 60,999,786</b>
<b>Liabilities and Net Assets</b>						
Liabilities:						
Accounts payable	\$ 351,847	\$ -	\$ -	\$ -	\$ 351,847	\$ 354,264
Notes payable (Note 7)	-	5,959,232	-	-	5,959,232	8,643,561
Parish deposits (Note 8)	-	-	-	-	-	13,082,088
Other short-term deposits	284,567	-	167,353	-	451,920	1,408,431
Annuities payable (Notes 9 and 15)	-	-	-	669,243	669,243	795,152
Long-term deposits payable:						
Cemetery perpetual care funds	-	-	-	-	-	5,915,346
Diocesan insurance reserves	135,899	-	-	-	135,899	117,803
Retired priests benefit obligations (Note 10)	8,186,938	-	-	-	8,186,938	6,091,300
Deferred revenue	276,746	-	-	-	276,746	408,990
<b>Total liabilities</b>	<b>9,235,997</b>	<b>5,959,232</b>	<b>167,353</b>	<b>669,243</b>	<b>16,031,825</b>	<b>36,816,935</b>
Commitments and contingencies (Note 14)						
Net assets:						
Unrestricted:						
Designated funds (Note 17)	1,382,419	746,037	-	2,232,230	4,360,686	5,968,193
Designated for annuities (Note 9)	-	-	-	142,786	142,786	96,461
Expended for plant	-	4,744,709	-	-	4,744,709	5,123,118
Undesignated reserve	1,679,202	600,000	-	-	2,279,202	4,334,406
<b>Total unrestricted net assets</b>	<b>3,061,621</b>	<b>6,090,746</b>	<b>-</b>	<b>2,375,016</b>	<b>11,527,383</b>	<b>15,522,178</b>
Restricted:						
Temporarily:						
Other (Note 11)	314,637	-	-	-	314,637	180,978
Endowments (Note 11)	-	-	-	3,418,998	3,418,998	5,017,868
<b>Total temporarily restricted net assets</b>	<b>314,637</b>	<b>-</b>	<b>-</b>	<b>3,418,998</b>	<b>3,733,635</b>	<b>5,198,846</b>
Permanently:						
Endowments (Note 11)	-	-	-	3,506,057	3,506,057	3,461,827
<b>Total net assets</b>	<b>3,376,258</b>	<b>6,090,746</b>	<b>-</b>	<b>9,300,071</b>	<b>18,767,075</b>	<b>24,182,851</b>
<b>Total liabilities and net assets</b>	<b>\$ 12,612,255</b>	<b>\$ 12,049,978</b>	<b>\$ 167,353</b>	<b>\$ 9,969,314</b>	<b>\$ 34,798,900</b>	<b>\$ 60,999,786</b>

See notes to financial statements.

## Catholic Diocese of Kansas City—St. Joseph Chancery Operations

### Statements of Activities Years Ended June 30, 2016 and 2015

	Current	Plant	Endowment	2016	2015
Changes in unrestricted and designated net assets:					
Revenues and gains:					
Current contributions, Annual Catholic Appeal	\$ 1,573,718	\$ -	\$ -	\$ 1,573,718	\$ 1,965,358
Other revenues from operations:					
Other diocesan collections	323,783	-	-	323,783	185,586
Diocesan share in national collections	35,000	-	-	35,000	25,127
Diocesan assessments	6,477,694	-	-	6,477,694	6,509,396
Bequests	606,090	-	-	606,090	645,003
Contributions	1,222,746	-	-	1,222,746	2,723,208
Fees for service	635,143	-	-	635,143	495,150
Other revenues from operations, net	2,129,924	-	-	2,129,924	2,038,831
Lease revenue	103,953	125,911	-	229,864	465,824
Auxiliary service (insurance, publications)	16,168,664	-	-	16,168,664	16,439,569
<b>Total income from operations</b>	<b>29,276,715</b>	<b>125,911</b>	<b>-</b>	<b>29,402,626</b>	<b>31,493,052</b>
Released from restrictions, other (Note 12)	265,517	-	-	265,517	213,537
Gain on sale of property	-	9,702	-	9,702	398,526
Investment income, realized (Note 6)	1,070,403	-	214,926	1,285,329	2,351,859
Unrealized gains (losses) (Note 6)	(253,955)	-	(22,245)	(276,200)	(1,334,648)
Change in value of split-interest agreements (Notes 5 and 9)	-	-	62,060	62,060	(32,112)
<b>Total revenues and gains</b>	<b>30,358,680</b>	<b>135,613</b>	<b>254,741</b>	<b>30,749,034</b>	<b>33,090,214</b>
Operating expenses:					
Pastoral services	(3,349,068)	-	-	(3,349,068)	(4,609,425)
Religious personnel development	(2,418,062)	-	-	(2,418,062)	(2,001,303)
Education	(2,368,120)	-	-	(2,368,120)	(2,539,557)
Social services	(672,842)	-	-	(672,842)	(695,944)
Diocesan administration	(4,703,724)	-	-	(4,703,724)	(5,533,283)
Auxiliary service (insurance, publications)	(16,309,191)	-	-	(16,309,191)	(16,974,655)
	(29,821,007)	-	-	(29,821,007)	(32,354,167)
Depreciation	-	(433,165)	-	(433,165)	(448,784)
Unrestricted endowment payments	-	-	(94,396)	(94,396)	(133,257)
Interest on debt	(54,828)	(262,725)	-	(317,553)	(316,590)
Interest on deposits	(434,098)	-	-	(434,098)	(420,472)
<b>Total expenses</b>	<b>(30,309,933)</b>	<b>(695,890)</b>	<b>(94,396)</b>	<b>(31,100,219)</b>	<b>(33,673,270)</b>

(Continued)

Catholic Diocese of Kansas City—St. Joseph Chancery Operations

Statements of Activities (Continued)  
Years Ended June 30, 2016 and 2015

	Current	Plant	Endowment	2016	2015
Changes in unrestricted and designated net assets (continued):					
Transfers to/from other funds:					
(To) from plant fund	\$ (347,997)	\$ 347,997	\$ -	\$ -	\$ -
(To) from unrestricted endowments	71,949	-	(71,949)	-	-
<b>Total transfers</b>	<b>(276,048)</b>	<b>347,997</b>	<b>(71,949)</b>	<b>-</b>	<b>-</b>
<b>Increase (decrease) in unrestricted net assets before change in postemployment benefit plan liability and funds transferred to affiliate Trust</b>	<b>(227,301)</b>	<b>(212,280)</b>	<b>88,396</b>	<b>(351,185)</b>	<b>(583,056)</b>
Changes in postemployment benefit plan liability (Note 11)	(2,095,638)	-	-	<b>(2,095,638)</b>	49,816
Funds transferred to affiliate Trust (Note 16)	-	-	(1,547,972)	<b>(1,547,972)</b>	-
<b>Increase (decrease) in unrestricted and designated net assets</b>	<b>(2,322,939)</b>	<b>(212,280)</b>	<b>(1,459,576)</b>	<b>(3,994,795)</b>	<b>(533,240)</b>
Changes in temporarily restricted net assets:					
Revenues and gains:					
Restricted contributions	150,000	-	-	<b>150,000</b>	92,770
Endowment contributions and bequests	-	-	28,833	<b>28,833</b>	36,258
Endowment investment income, realized (Note 6)	-	-	85,013	<b>85,013</b>	136,154
Endowment unrealized gains (Note 6)	-	-	(4,424)	<b>(4,424)</b>	1,650
Restrictions satisfied:					
Other assets released from restriction (Note 12)	(16,342)	-	-	<b>(16,342)</b>	(34,000)
Restrictions satisfied—endowment payments to beneficiaries (Note 13)	-	-	(224,175)	<b>(224,175)</b>	(158,537)
Restrictions satisfied—endowment transfers to current fund (Note 13)	-	-	(25,000)	<b>(25,000)</b>	(21,000)
<b>Increase (decrease) in temporarily restricted net assets before funds transferred to affiliate Trust</b>	<b>133,658</b>	<b>-</b>	<b>(139,753)</b>	<b>(6,095)</b>	<b>53,295</b>
Funds transferred to affiliate Trust (Note 16)	-	-	(1,459,116)	<b>(1,459,116)</b>	-
<b>Increase (decrease) in temporarily restricted net assets</b>	<b>133,658</b>	<b>-</b>	<b>(1,598,869)</b>	<b>(1,465,211)</b>	<b>53,295</b>
Changes in permanently restricted net assets:					
Revenues and gains:					
Contributions and bequests—endowments (Note 13)	-	-	44,230	<b>44,230</b>	35,207
<b>Increase in permanently restricted net assets</b>	<b>-</b>	<b>-</b>	<b>44,230</b>	<b>44,230</b>	<b>35,207</b>
<b>Total change in net assets</b>	<b>(2,189,281)</b>	<b>(212,280)</b>	<b>(3,014,215)</b>	<b>(5,415,776)</b>	<b>(444,738)</b>
Net assets, beginning of year	5,565,539	6,303,026	12,314,286	<b>24,182,851</b>	24,627,589
Net assets, end of year	<b>\$ 3,376,258</b>	<b>\$ 6,090,746</b>	<b>\$ 9,300,071</b>	<b>\$ 18,767,075</b>	<b>\$ 24,182,851</b>

See notes to financial statements.

**Catholic Diocese of Kansas City—St. Joseph Chancery Operations**

**Statements of Cash Flows**  
**Years Ended June 30, 2016 and 2015**

	2016	2015
Cash flows from operating activities:		
Cash received from donors, parishes and schools	\$ 31,406,831	\$ 32,715,494
Cash paid to suppliers, employees and other	(32,168,460)	(32,073,648)
Interest received	279,978	144,111
Interest paid	(587,245)	(586,849)
<b>Net cash (used in) provided by operating activities</b>	<b>(1,068,896)</b>	<b>199,108</b>
Cash flows from investing activities:		
Proceeds from sale and maturities of investments	82,445	2,982,124
Purchases of investments	(4,033,432)	(1,415,000)
Purchases of land, buildings and equipment	(80,028)	(72,717)
Proceeds from sale of property	618,392	4,244,384
Change in loans receivable, net	4,056,663	(1,613,157)
Endowment contributed, net of cash contributed to affiliate Trust	456,991	-
<b>Net cash provided by investing activities</b>	<b>1,101,031</b>	<b>4,125,634</b>
Cash flows from financing activities:		
Principal payments on notes payable	(184,329)	(5,565,247)
Change in deposits payable	3,622,988	229,259
<b>Net cash used in financing activities</b>	<b>3,438,659</b>	<b>(5,335,988)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>3,470,794</b>	<b>(1,011,246)</b>
Cash and cash equivalents:		
Beginning	4,424,862	5,436,108
Ending	<b>\$ 7,895,656</b>	<b>\$ 4,424,862</b>

(Continued)

**Catholic Diocese of Kansas City—St. Joseph Chancery Operations**

**Statements of Cash Flows (Continued)  
Years Ended June 30, 2016 and 2015**

	2016	2015
Reconciliation of increase in net assets to net cash (used in) provided by operating activities:		
Decrease in net assets	\$ (5,415,776)	\$ (444,738)
Adjustments to reconcile the decrease in net assets to net cash (used in) provided by operating activities:		
Depreciation	433,165	448,784
Gain on sale of property	(9,702)	(398,526)
Provision for allowance on loans receivable	(140,000)	-
Unrealized (gains) losses on investments	280,624	1,332,998
(Gain) on sale of investments	(238,603)	(214,872)
Change in value of split-interest agreements	(125,909)	(45,685)
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	875,836	442,786
Pledges receivable	1,280,591	(765,000)
Beneficial interest in others	29,901	6,848
Increase (decrease) in:		
Accounts payable	(2,417)	(54,144)
Retired priests benefit obligations	2,095,638	(49,816)
Deferred revenue	(132,244)	(59,527)
<b>Net cash (used in) provided by operating activities</b>	<b>\$ (1,068,896)</b>	<b>\$ 199,108</b>

See notes to financial statements.

## Catholic Diocese of Kansas City—St. Joseph Chancery Operations

### Notes to Financial Statements

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#### Note 1. Nature of Activities and Significant Account Policies

**Nature of activities:** The accompanying financial statements include all funds maintained by and directly under the control of the Catholic Diocese of Kansas City—St. Joseph Chancery Operations (the Organization). The statements do not include the accounts of some related entities of the Diocese, such as parishes, schools, Catholic Charities, Catholic Cemeteries, self-insurance fund, Deposit and Loan Fund, and some other corporations; the Priests' Retirement Plan Trust or the Lay Retirement Plan Trust; or any institution owned and operated by religious orders of men or women. Each is a distinct operating entity, maintains separate accounts, carries on its own services and programs, and has separate governing bodies.

Effective April 28, 2016, the Deposit and Loan Fund (the Trust) became a legally separate trust, and its operations were deconsolidated from the Organization's financial statements. The remaining funds are presented within the financial statements for the year ended June 30, 2016, and collectively comprise the financial statements of the Chancery Operations. The 10 months of activity until the date of separation are presented within the Current fund.

The following is a summary of the Organization's significant accounting policies:

**Basis of presentation:** The financial statement presentation follows the recommendations of *FASB Accounting Standards Codification* (ASC) 958, Financial Statements of Not-for-Profit Organizations. Under ASC 958, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

**Unrestricted net assets:** Unrestricted net assets are not subject to donor-imposed stipulations.

**Temporarily restricted net assets:** Temporarily restricted net assets are subject to donor-imposed stipulations that may or will be met either by actions of the Organization and/or the passage of time.

**Permanently restricted net assets:** Permanently restricted net assets are subject to donor-imposed stipulations that expire neither by the passage of time nor by actions of the Organization.

**Restricted and unrestricted revenue and support:** Unconditional contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support, depending on the existence or nature of any donor restrictions. Conditional contributions received are not recorded until the event occurs to make the contribution unconditional.

Donor-restricted support is presented as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or a purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Donor-restricted support whose restrictions are satisfied in the same reporting period in which the contributions are received are classified as unrestricted donations.

**Fund accounting:** To ensure observance of limitations and restrictions placed on the use of resources available to the Organization, the accounts of the Organization are maintained in accordance with the principles of fund accounting. Resources are classified for accounting and reporting purposes into funds, according to the nature and use of such resources. Separate accounts are maintained for each fund.

## Catholic Diocese of Kansas City—St. Joseph Chancery Operations

### Notes to Financial Statements

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#### Note 1. Nature of Activities and Significant Accounting Policies (Continued)

The assets, liabilities and net assets of the Organization are reported as follows:

**Current fund:** Generally, current funds are those currently expendable for either undesignated, designated or restricted purposes. The majority of the unrestricted funds received by the Organization are either anticipated and allocated in advance, billed for certain auxiliary services, or designated by the Bishop upon receipt.

The designated and undesignated net assets are available for and used in the regular activities of the Organization.

**Plant fund:** The Organization follows the practice of deducting equipment expenditures in the year of purchase unless the equipment is significant and expected to have a useful life that extends beyond the current period. The plant fund includes only land, buildings and equipment owned by the Organization used for current operations, held for future development, or available for sale. Properties of operating parishes are not included. Assets are listed at historical cost or, if donated, fair value. Buildings are depreciated over 40 years, and all building improvements are depreciated over the remaining life of the building. Furniture and fixtures are depreciated over eight years.

**Custodian fund:** These funds are universal church collections, Propagation of the Faith receipts, special collections temporarily deposited before being transmitted to designated agencies, and Bishop's Charity Funds.

Generally, these assets are entrusted to the Organization by persons who are not directly controlled by the Organization, solely for the purpose of receiving, holding and disbursing such funds upon the authority of the depositor.

**Deposit and loan fund:** The Deposit and Loan Fund is composed of asbestos loans as well as deposits by Diocesan parishes and institutions, cemetery perpetual care funds, and property and casualty insurance funds. Borrowed funds and parish deposits are used to provide financing for capital improvements in parishes and Diocesan institutions. Funds entrusted to the Organization for safekeeping are invested through commercial banks and fixed-income and equity investment managers.

As noted above, the Deposit and Loan Fund became a legally separate trust effective April 28, 2016, and its operations were deconsolidated from the Organization's financial statements. The activity of the Trust for the 10 months prior to the separation and any remaining balances not transferred are presented in the Current fund column of the statement of activities for the year ended June 30, 2016.

**Endowment fund:** These are restricted funds invested for the purpose of producing income. They consist of 1) permanently restricted endowment funds, wherein the donors have stipulated that the principal be invested and maintained intact, with only the investment income available for expenditure; 2) temporarily restricted endowment funds, donated with provisions that the principal may be expended under the circumstances designated in the trust agreement; and 3) unrestricted funds designated as internal endowments by the Bishop to be used as he designates.

Split-interest agreements are recorded in the endowment fund. The assets are recorded at fair value, and the annuity payables are recorded at the estimated present value of estimated future payments plus any residual payments to outside beneficiaries.

As disclosed above, the Trust legally separated from the Chancery Operations effective April 28, 2016. Transfers from the Endowment fund to the Trust are presented in the statement of activities for the year ended June 30, 2016.

## Catholic Diocese of Kansas City—St. Joseph Chancery Operations

### Notes to Financial Statements

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#### Note 1. Nature of Activities and Significant Accounting Policies (Continued)

**Cash and cash equivalents:** For purposes of reporting cash flows, the Organization considers all unrestricted highly liquid investments purchased with a maturity of three months or less to be cash equivalents. The Organization maintains cash balances and money market accounts in excess of insured amounts at several financial institutions, which are primarily located in Kansas City, Missouri. Management believes that the risk of loss is minimal due to the strength of the institutions. The Organization has not experienced any losses on such accounts.

**Loans and accounts receivable:** Loans and accounts receivable are obligations due from Diocesan parishes and institutions. Loans receivable are stated at the amount of unpaid principal. The allowance on loans receivable is based on management's review of specific loans and current economic conditions that may affect the borrower's ability to repay. Accounts receivable are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a monthly basis. Management determines the allowance for doubtful accounts by regularly evaluating individual parish and institution receivables and considering the parish and institution's financial condition and credit history, and current economic conditions. Accounts receivable are written off when deemed uncollectible. Recoveries of accounts receivable previously written off are recorded when received.

An account receivable is considered to be past due if any portion of the receivable balance is outstanding for more than 90 days. Interest is not charged on past-due accounts receivable.

**Pledges receivable:** Unconditional promises to give, less a present value discount and an allowance for uncollectible amounts, are recognized as revenues or gains in the period received and as assets, decreases of liabilities, or expenses, depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

**Investments:** Investments are recorded at fair value. Unrealized gains and losses are recorded in the statement of activities. See Note 15 for fair value information.

**Land, buildings and equipment:** Land, buildings and equipment are carried at cost. Major renewals and betterments are capitalized, and maintenance and repairs that do not improve or extend the life of the respective assets are charged against earnings in the current period. Assets held for sale are recorded at the lower of cost or fair value less costs to sell.

Depreciation is provided on the straight-line method over the estimated useful lives of the assets.

**Beneficial interest in others:** The Organization has been named as a beneficiary in two trusts in which the Organization is not the trustee. When the Organization is notified of the existence of the trust, a beneficial interest (an asset) and contribution revenue are recorded at the present value of the estimated future cash receipts.

**Parish deposits:** Parish deposits consist of funds being held by the Organization on behalf of parishes within the Catholic Diocese of Kansas City—St. Joseph.

**Long-term deposits payable:** Long-term deposits payable consist of funds being held by the Organization on behalf of the Diocesan Insurance Office for property and casualty and long-term disability reserves and cemetery perpetual care funds.

**Deferred revenue:** The Organization receives grant and other monies on an advance basis. The deferred revenue reported by the Organization consists of monies received that have not been spent at year-end or where the service has not been performed.

## Catholic Diocese of Kansas City—St. Joseph Chancery Operations

### Notes to Financial Statements

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#### Note 1. Nature of Activities and Significant Accounting Policies (Continued)

**Use of estimates:** The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Income taxes:** The Organization is exempt from income taxes under provisions of section 501(c)(3) of the Internal Revenue Code. Uncertain tax provisions, if any, are recorded in accordance with FASB ASC 740, Income Taxes (previously FIN 48). ASC 740 requires the recognition of a liability for tax positions taken that do not meet the more-likely-than-not standard that the position will be sustained upon examination by the taxing authorities. There is no liability for uncertain tax positions recorded at June 30, 2016 or 2015.

**Donated or contributed services and materials:** The Organization provides free use of land and buildings owned by the Catholic Diocese of Kansas City—St. Joseph to several of its schools and parishes. Management believes that the fair value of use of similar facility space under similar circumstances is not readily determinable. Therefore, neither a contribution nor rental income has been recorded for the use of the facilities. Had such amounts been recorded, rental income would have increased and contributions would have increased, but the net effect would not have changed net assets for the year and would have had no effect on the statement of financial position.

**Fundraising:** The Organization participates in various fundraising activities, which mainly consist of stewardship and development office activities. The expenses related to these activities are recorded on the statement of activities as diocesan administrative expenses and totaled \$522,666 and \$524,092 for the years ended June 30, 2016 and 2015, respectively.

**Recent accounting pronouncements:** In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The new standard changes presentation and disclosure requirements with the intention of helping not-for-profits provide more relevant information about their resources to donors, grantors, creditors and other financial statement users. This pronouncement decreases the number of net assets classes from three to two. The new classes will be *net assets with donor restrictions* and *net assets without donor restrictions*. The standard will take effect 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. Therefore, this ASU will be effective for the Organization's fiscal year ending June 30, 2019. Management is in the process of evaluating the impact of this new guidance.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This guidance is intended to improve comparability of accounting treatment for revenue recognition across geographies and industries and to provide more useful information to financial statement readers through enhanced disclosure requirements. It replaces industry-specific guidance with a principles-based approach for revenue recognition, and is a step toward convergence of U.S. GAAP and International Financial Reporting Standards. In general, it requires revenue recognition to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This ASU, as deferred one year by ASU No. 2015-14, is effective for annual reporting periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 31, 2019.

## Catholic Diocese of Kansas City—St. Joseph Chancery Operations

### Notes to Financial Statements

#### Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Therefore, this ASU will be effective for the Organization for the fiscal year ending June 30, 2020. The ASU permits the use of either of two methods: a full retrospective, or a retrospective with the cumulative effect and additional disclosures. Management has not yet selected a transition method, as the Organization is currently evaluating the impact of the new standard on its sources of support and financial statements, and is reviewing its revenue recognition policies and processes for any necessary amendments.

#### Note 2. Loans and Accounts Receivable

Loans and accounts receivable are composed of the following at June 30, 2016 and 2015:

	2016	2015
Parish loans	\$ -	\$ 17,853,055
Diocesan high schools and other Diocesan entities	8,207,322	9,743,490
Other	3,811,786	6,029,811
	<u>12,019,108</u>	<u>33,626,356</u>
Less allowance for uncollectible accounts	(200,000)	(340,000)
	<u>\$ 11,819,108</u>	<u>\$ 33,286,356</u>

The Organization's loans receivable consist of funds disbursed to Diocesan institutions and other entities within the Catholic Diocese of Kansas City—Saint Joseph. The Organization determined its allowance for estimated losses on these loans by analyzing financial results, factors and circumstances of individual accounts or loans. All loans have the same terms and therefore are considered to be in the same class of loan.

The aging of the receivables portfolio as of June 30, 2016 and 2015, is summarized below:

	Current	Past Due	Total
2016:			
Receivables	<u>\$ 9,904,533</u>	<u>\$ 2,114,575</u>	<u>\$ 12,019,108</u>
As a percentage of the total loan portfolio	<u>82.41%</u>	<u>17.59%</u>	<u>100.00%</u>
2015:			
Receivables	<u>\$ 29,931,650</u>	<u>\$ 3,694,706</u>	<u>\$ 33,626,356</u>
As a percentage of the total loan portfolio	<u>89.01%</u>	<u>10.99%</u>	<u>100.00%</u>

The allowance for uncollectible accounts for the years ended June 30, 2016 and 2015, was \$200,000 and \$340,000, respectively. A reversal of provision of \$140,000 and \$-0- was recorded during the years ended June 30, 2016 or 2015, respectively.

## Catholic Diocese of Kansas City—St. Joseph Chancery Operations

### Notes to Financial Statements

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#### Note 3. Pledges Receivable

Pledges receivable at June 30 are due as follows:

	2016	2015
Due in less than one year	\$ 220,209	\$ 1,500,800

#### Note 4. Land, Buildings and Equipment

Land, buildings and equipment comprise the following at June 30, 2016 and 2015:

	2016	2015
Operating properties	\$ 15,501,527	\$ 20,720,424
Land held for development	1,023,794	1,422,883
Assets held for sale	70,000	70,000
	<u>16,595,321</u>	<u>22,213,307</u>
Less accumulated depreciation	(4,867,586)	(9,523,745)
	<u>\$ 11,727,735</u>	<u>\$ 12,689,562</u>

#### Note 5. Beneficial Interest in Others

The Organization has been named as a beneficiary in trusts in which the Organization is not the trustee. When the Organization is notified of the existence of the trust, a beneficial interest receivable and contribution revenue are recorded at the present value of the estimated future cash receipts. Included in permanently restricted net assets is \$267,489 at June 30, 2016 and 2015, of permanently endowed funds held by the Endowment Trust Fund for Catholic Education, with the income to be used for ministry formation. The balance of the beneficial interest in others on the statements of financial position is \$274,046 and \$288,165 as of June 30, 2016 and 2015, respectively.

The Organization has an interest in the Catholic Community Foundation, which has an interest in the Greater Kansas City Community Foundation through donations the Organization had provided to the Foundation. The assets held at the Foundation are donor-directed, and the Organization has named itself as the sole beneficiary of the funds. The balance of the beneficial interest in others on the statements of financial position is \$265,503 and \$281,285 at June 30, 2016 and 2015, respectively, with the principal and income to be used for *The Catholic Key*, the Catholic Diocesan newspaper.

## Catholic Diocese of Kansas City—St. Joseph Chancery Operations

### Notes to Financial Statements

#### Note 6. Investments

The following schedules show life-to-date gains on different types of investments for the years ended June 30, 2016 and 2015:

	2016		
	Cost	Fair Value	Unrealized Appreciation
Mutual funds	\$ 1,975,484	\$ 2,557,210	\$ 581,726
Money market funds	2,238	2,238	-
U.S. government obligations	36,451	37,195	744
	<u>\$ 2,014,173</u>	<u>\$ 2,596,643</u>	<u>\$ 582,470</u>

  

	2015		
	Cost	Fair Value	Unrealized Appreciation
Corporate stocks and bonds	\$ 260,036	\$ 262,070	\$ 2,034
Mutual funds	5,494,532	6,228,872	734,340
Money market funds	986,089	986,089	-
U.S. government obligations	1,048,331	1,051,725	3,394
	<u>\$ 7,788,988</u>	<u>\$ 8,528,756</u>	<u>\$ 739,768</u>

Investments are stated at fair value as of June 30, 2016 and 2015. The following schedule summarizes the investment return and its classification in the statements of activities for the years ended June 30, 2016 and 2015:

	2016			2015		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Interest income	\$ 1,070,403	\$ 61,336	\$ 1,131,739	\$ 2,205,614	\$ 67,527	\$ 1,929,308
Realized gains	214,926	23,677	238,603	146,245	68,627	214,872
Investment income	1,285,329	85,013	1,370,342	2,351,859	136,154	2,488,013
Unrealized gains (losses) on investments	(276,200)	(4,424)	(280,624)	(1,334,648)	1,650	(1,332,998)
	<u>\$ 1,009,129</u>	<u>\$ 80,589</u>	<u>\$ 1,089,718</u>	<u>\$ 1,017,211</u>	<u>\$ 137,804</u>	<u>\$ 1,155,015</u>

Included in the interest income amounts above are \$885,584 and \$1,014,563 related to interest income on loans receivable for the years ended June 30, 2016 and 2015, respectively.

## Catholic Diocese of Kansas City—St. Joseph Chancery Operations

### Notes to Financial Statements

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#### Note 7. Notes Payable

The Organization has an outstanding note payable to a bank due in monthly payments of principal and interest of \$37,254 through May 22, 2019, and a final payment of \$5,527,399 due on June 22, 2019. The note bears interest at 4.07 percent and is collateralized by certain real estate. The outstanding balance of the note at June 30, 2016 and 2015, was \$5,959,232 and \$6,143,561, respectively.

Aggregate maturities required on long-term debt at June 30, 2016, are due in future years as follows:

Years ending June 30:

2017	\$	217,700
2018		214,133
2019		5,527,399
	\$	<u>5,959,232</u>

At June 30, 2015, the Organization also had a \$7.875 million line of credit with a commercial bank. The line of credit was transferred to the Trust on April 28, 2016. Borrowings outstanding on the line of credit were \$2,500,000 at June 30, 2015, and at the date of transfer to the Trust.

#### Note 8. Parish Deposits Payable

In the parish deposits payable account, \$13,082,088 as of June 30, 2015, consist of numerous deposits made to the Organization that are payable on demand and bear a 1.25 percent interest rate as of June 30, 2015.

Effective April 28, 2016, all parish deposits were transferred to the Deposit and Loan Trust Fund.

#### Note 9. Charitable Gift Annuities

The Organization has received numerous charitable gift annuities, and it has been named a beneficiary of several of them. The annuities payable are reported at their respective present values, based on the life expectancies of any live beneficiaries, and have been discounted using a risk-free rate that was effective at the time of the initial gift. Annuity investments are recorded at fair value based on the fair value of the underlying investment security.

Assets, liabilities and net assets associated with the charitable gift annuities reported in the endowment fund at June 30, 2016 and 2015, are as follows:

	2016	2015
Annuity investments	\$ 812,029	\$ 891,613
Annuities payable	(669,243)	(795,152)
Unrestricted net assets, designated for annuities	<u>\$ 142,786</u>	<u>\$ 96,461</u>

The Organization received no new charitable gift annuities during the year ended June 30, 2016 (one for the year ended June 30, 2015). The change in the value of the charitable gift annuities was \$(46,325) and \$(20,025) for the years ended June 30, 2016 and 2015, respectively.

**Catholic Diocese of Kansas City—St. Joseph Chancery Operations**

**Notes to Financial Statements**

**Note 10. Postretirement Benefits Other Than Pensions**

The Organization sponsors a defined benefit postretirement health care plan and a defined benefit postretirement long-term care plan that cover eligible priests. The plans are noncontributory, with no changes anticipated in the future. The Organization's funding policy is to contribute annually to each plan in order to cover any benefits that are recognized.

ASC 715, Compensation—Retirement Benefits, requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan (other than a multiemployer plan) as an asset or a liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through changes in unrestricted net assets of a not-for-profit organization. The underfunded portion of the plans, \$8,186,938 and \$6,091,300 as of June 30, 2016 and 2015, respectively, is included as a liability on the statements of financial position.

The following sets forth the health care and long-term care plans' combined funded status reconciled with the amount shown in the Organization's statements of financial position at June 30, 2016 and 2015:

	2016	2015
Accumulated postretirement benefit obligation:		
Retirees	\$ 3,229,380	\$ 2,686,281
Fully eligible active plan participants	1,592,593	1,051,629
Other active plan participants	3,364,965	2,353,390
	<u>8,186,938</u>	<u>6,091,300</u>
Plan assets at fair value	-	-
	<u>\$ 8,186,938</u>	<u>\$ 6,091,300</u>
Accumulated postretirement benefit obligation in excess of plan assets (long-term disability reserves)	<u>\$ 8,186,938</u>	<u>\$ 6,091,300</u>
Amounts not yet reflected in net periodic benefit cost:		
Prior service credit	\$ 2,847,032	\$ 3,162,205
Accumulated loss	(5,434,509)	(3,960,479)
	<u>\$ (2,587,477)</u>	<u>\$ (798,274)</u>

**Change in benefit obligation:**

	Years Ended June 30	
	2016	2015
Benefit obligation, beginning of year	\$ 6,091,300	\$ 6,141,116
Service and interest costs	597,675	431,410
Benefits paid	(257,987)	(261,169)
Actuarial (gain) loss	1,755,950	(220,057)
Benefit obligation, end of year	<u>\$ 8,186,938</u>	<u>\$ 6,091,300</u>

## Catholic Diocese of Kansas City—St. Joseph Chancery Operations

### Notes to Financial Statements

#### Note 10. Postretirement Benefits Other Than Pensions (Continued)

For 2016, the weighted-average discount rate used in determining the accumulated postretirement benefit obligation was 3.81 percent (4.45 percent for 2015). The plan assets are not subject to federal income taxes.

	2016	2015
Assumed health care cost trend rates at June 30:		
Health care cost trend rate assumed for next year	8.5%	10.0%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	5.0%	5.0%
Year that the rate reaches the ultimate trend rate	2024	2023

The Organization expects to contribute \$395,590 to its retirement plans for the year ending June 30, 2017.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

Years ending June 30:		
2017		\$ 395,590
2018		414,473
2019		423,385
2020		433,259
2021		429,238
Years 2022–2026		2,138,033
		<u>\$ 4,233,978</u>

#### Note 11. Restricted Net Assets

Temporarily restricted net assets are available for the following purposes or periods at June 30, 2016 and 2015:

	2016	2015
Restrictions as to use:		
Education of priests	\$ 2,072,261	\$ 2,075,207
Education of children	146,817	399,359
Maintenance and upkeep of property and plant	-	1,052,092
Construction of facilities	527,630	528,065
Other restricted net assets	986,927	1,144,123
Total temporarily restricted net assets	<u>\$ 3,733,635</u>	<u>\$ 5,198,846</u>

Permanently restricted net assets consist of endowment fund assets to be held indefinitely. The income from the assets is to be expended for the education of priests and for ministry formation. The balance as of June 30, 2016 and 2015, was \$3,506,057 and \$3,461,827, respectively.

## Catholic Diocese of Kansas City—St. Joseph Chancery Operations

### Notes to Financial Statements

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#### Note 12. Net Assets Released From Restrictions

During 2016 and 2015, other assets were released from restrictions by incurring expenses satisfying the restricted purpose specified:

	2016	2015
Endowment payments to beneficiaries	\$ 224,175	\$ 158,537
Other	41,342	55,000
	<u>\$ 265,517</u>	<u>\$ 213,537</u>

#### Note 13. Support Our Seminarians

The Organization participates in a fundraising event called Greater Kansas City Support Our Seminarians Scholarship Endowment. The other event sponsors are the Archdiocese of Kansas City, Kansas, and Conception Abbey in Conception, Missouri. The purpose of the event is to provide aid to a student or students studying for the priesthood in the Roman Catholic Church from either diocese at Conception Seminary College.

Money raised was placed in an endowment account, with the principal of the endowment kept in perpetuity, and awards of aid by scholarships were made from endowment earnings. The Organization has had no collection, deposit or custodial responsibilities for the fund.

In 1996, the agreement was amended. Beginning in 1999, the proceeds from the fundraising event were to be divided among the three sponsoring entities equally. Each diocese would continue to deposit its share of fundraising proceeds into the endowment. After each diocese had attained a sum of \$250,000 in the fund, each diocese could allocate and spend the interest from its share of the endowment that exceeded \$250,000 to support seminarians in other seminaries. These earnings would be considered as temporarily restricted net assets when received by each diocese for the purpose mentioned.

In 1998, the agreement was further amended. Beginning with the year 2000 Support Our Seminarians event, the one-third share of the proceeds from the event is to benefit any seminarian from the Archdiocese of Kansas City, Kansas (the Archdiocese) and the one-third share of the proceeds from the event is to benefit any seminarian from the Diocese of Kansas City—St. Joseph (the Diocese); the shares are to be paid out directly to the Archdiocese and the Diocese to manage with their other seminary funds. The one-third share of the proceeds that goes to Conception Seminary College will be used for the education of all seminarians at Conception Seminary College. During the years ended June 30, 2016 and 2015, the Organization had received \$44,230 and \$35,207, respectively. As of June 30, 2016 and 2015, the Organization has \$948,269 and \$904,039, respectively, recorded as permanently restricted net assets in the endowment fund relating to this agreement.

#### Note 14. Commitments and Contingencies

The Catholic Diocese of Kansas City—St. Joseph has been named as a defendant in various lawsuits, which management believes to be without merit. The Catholic Diocese of Kansas City—St. Joseph has authorized counsel to provide a vigorous defense against all claims. The Diocesan Insurance Office is responsible for the management of the claims process and any disbursement of monetary damages. Payments made to satisfy the loss contingency could have a material impact on the Catholic Diocese, the Chancery Operations and the Diocesan Insurance Office and, in the future, could impact the activities, programs and ministries of the Chancery Operations it provides for parishes and schools in the Catholic Diocese.

## Catholic Diocese of Kansas City—St. Joseph Chancery Operations

### Notes to Financial Statements

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#### **Note 14. Commitments and Contingencies (Continued)**

During the year ended June 30, 2005, the Catholic Diocese of Kansas City—St. Joseph issued \$6,200,000 of Health and Educational Facilities Revenue Bonds (bonds) through Missouri Health and Educational Facilities Authority (Authority) on behalf of St. Pius X High School for a renovation project of the exiting school facility. During the year ended June 30, 2016, St. Pius X High School refinanced the bonds and the Organization is no longer an obligor.

#### **Note 15. Fair Value Measurements**

ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. ASC 820 requires the use of valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources, or unobservable, meaning those that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. In that regard, ASC 820 establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

**Level 1:** Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date

**Level 2:** Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data

**Level 3:** Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability

**Assets and liabilities recorded at fair value on a recurring basis:** A description of the valuation methodologies used for assets and liabilities recorded at fair value on a recurring basis is set forth below.

**Investments:** Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities would include highly liquid government bonds and exchange-traded equities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flow. Level 2 securities would include U.S. agency securities; mortgage-backed agency securities; obligations of states and political subdivisions; and certain corporate, asset-backed and other securities.

**Beneficial interest in others:** Beneficial interest in others is valued at the value of the underlying investments held by the Greater Kansas City Community Foundation (GKCCF) and by the Endowment Trust Fund for Catholic Education (ETF), which consist of investments classified as Levels 1 and 2.

**Annuities payable:** Annuities payable are valued at respective present values, based upon the life expectancies of any live beneficiaries.

**Catholic Diocese of Kansas City—St. Joseph Chancery Operations**

**Notes to Financial Statements**

**Note 15. Fair Value Measurements (Continued)**

The following tables summarize the assets and liabilities measured at fair value on a recurring basis, segregated by the general classification of such instruments pursuant to the valuation hierarchy:

	June 30, 2016			
	Total	Level 1	Level 2	Level 3
Investments:				
Fixed-income securities:				
Municipal bonds	\$ 37,195	\$ -	\$ 37,195	\$ -
Money market funds	2,238	2,238	-	-
Equity securities:				
Equity mutual funds:				
Intermediate-term bonds	754,089	754,089	-	-
Large blend	1,771,613	1,771,613	-	-
Other various mutual funds	31,508	31,508	-	-
Beneficial interest in others	539,549	-	-	539,549
	<u>\$ 3,136,192</u>	<u>\$ 2,559,448</u>	<u>\$ 37,195</u>	<u>\$ 539,549</u>
Annuities payable	<u>\$ 669,243</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 669,243</u>

	June 30, 2015			
	Total	Level 1	Level 2	Level 3
Investments:				
Fixed-income securities:				
Corporate bonds	\$ 262,070	\$ -	\$ 262,070	\$ -
Municipal bonds	37,151	-	37,151	-
U.S. government corporations and agencies	1,014,574	-	1,014,574	-
Money market funds	986,089	986,089	-	-
Equity securities:				
Equity mutual funds:				
Intermediate-term bonds	2,316,805	2,316,805	-	-
World stock	862,114	862,114	-	-
Large blend	3,012,601	3,012,601	-	-
Other various mutual funds	37,352	37,352	-	-
Beneficial interest in others	569,450	-	-	569,450
	<u>\$ 9,098,206</u>	<u>\$ 7,214,961</u>	<u>\$ 1,313,795</u>	<u>\$ 569,450</u>
Annuities payable	<u>\$ 795,152</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 795,152</u>

The Organization does not have assets and liabilities recorded at fair market value on a nonrecurring basis.

## Catholic Diocese of Kansas City—St. Joseph Chancery Operations

### Notes to Financial Statements

#### Note 15. Fair Value Measurements (Continued)

The fair value estimates presented are based on pertinent information available to management at June 30, 2016. Although management is not aware of any factors that would significantly affect the estimated fair value measurements, such amounts have been comprehensively revalued for purposes of the financial statements since that date, and therefore, current estimates of fair value may differ significantly from the amounts presented herein.

The following table presents additional information about assets measured at fair value on a recurring basis for which the Organization has utilized Level 3 inputs to determine fair value for the years ended June 30, 2016 and 2015:

	Beneficial Interest in Others	
	2016	2015
Beginning balance	\$ 569,450	\$ 576,298
Unrealized losses	(29,901)	(6,848)
Ending balance	<u>\$ 539,549</u>	<u>\$ 569,450</u>
	Annuities Payable	
	2016	2015
Beginning balance	\$ 795,152	\$ 840,837
Additions	-	30,000
Disbursements	(63,849)	(54,001)
Change in value of future obligations	(62,060)	(21,684)
Ending balance	<u>\$ 669,243</u>	<u>\$ 795,152</u>

#### Note 16. Endowments

In July 2006, the Uniform Law Commission approved the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) as a modernized version of the Uniform Management of Institutional Funds Act of 1972 (UMIFA), the model act on which most states and the District of Columbia have based their primary laws governing the investment and management of donor-restricted endowment funds by not-for-profit organizations.

Among its changes, UPMIFA prescribes new guidelines for expenditure of a donor-restricted endowment fund (in the absence of overriding, explicit donor stipulations). Its predecessor, UMIFA, focused on the prudent spending of the net appreciation of the fund. UPMIFA instead focuses on the entirety of a donor-restricted endowment fund, that is, both original gift amount(s) and net appreciation. UPMIFA eliminates UMIFA's historic-dollar-value threshold, an amount below which an organization could not spend from the fund, in favor of a more robust set of guidelines about what constitutes prudent spending, explicitly requiring consideration of the duration and preservation of the fund.

The Organization's endowment includes both donor-restricted endowment funds and funds designated by management to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by management to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

## Catholic Diocese of Kansas City—St. Joseph Chancery Operations

### Notes to Financial Statements

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#### Note 16. Endowments (Continued)

**Interpretation of existing law:** Management of the Organization has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary (historical-dollar-value threshold). As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The following information is related to the endowments under the direction of the Organization:

**Return objectives and risk parameters:** The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity or for a donor-specified period(s) as well as management-designated funds. Under this policy, as approved by management, the endowment assets (exclusive of the Charitable Gift Annuity Fund and Seminarian Fund) are invested following the Organization's guidelines as determined by management in consultation with the Diocesan Finance Council. The endowments are paid a rate determined by management in consultation with the Diocesan Finance Council.

The endowment assets of the Charitable Gift Annuity Fund and the Seminarian Fund are invested in a manner intended to produce results that exceed the benchmark for the blended market indices for each fund.

**Strategies employed for achieving objectives:** To satisfy its long-term rate-of-return objectives of the endowments invested per the Organization's guidelines as determined by management, the Organization employs a return strategy of utilizing the internal earning rate as set by management based on market rates.

To satisfy its long-term rate-of-return objectives of the Charitable Gift Annuity and Seminarian Funds, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term rate-of-return objectives with prudent risk constraints.

**Spending policy and how the investment objectives relate to spending policy:** The Organization has a policy of appropriating for distribution the interest earned in the current year by the endowment funds (exclusive of the Charitable Gift Annuity Fund) as well as allows for the distribution of the principal as per the stipulations of the donor as well as management-designated funds. This is consistent with the Organization's objectives to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

The Organization has a policy of distribution for the Charitable Gift Annuity in accordance with the specific guidelines of the annuitant agreement.

From time to time, the fair value of assets associated with the endowment funds may fall below the level that the donor or UPMIFA requires the Organization to retain as a fund of perpetual duration. Such deficiencies would result from unfavorable market fluctuations that occur shortly after the investment of new permanently restricted contributions. In accordance with U.S. GAAP, deficiencies of this nature are reported in temporarily restricted and unrestricted net assets. There were no deficiencies as of June 30, 2016 and 2015.

**Catholic Diocese of Kansas City—St. Joseph Chancery Operations**

**Notes to Financial Statements**

**Note 16. Endowments (Continued)**

Changes in endowment net assets for the fiscal years ended June 30, 2016 and 2015, are as follows:

	2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment net assets, beginning of year	\$ 3,834,591	\$ 5,017,868	\$ 3,461,827	\$ 12,314,286
Net investment income	192,682	80,588	-	273,270
Change in value of split-interest agreements	62,060	-	-	62,060
Contributions	-	28,833	44,230	73,063
Transfers to affiliate Trust	(1,547,972)	(1,459,116)	-	(3,007,088)
Appropriation of endowment assets for expenditure	(166,345)	(249,175)	-	(415,520)
Endowment net assets, end of year	<u>\$ 2,375,016</u>	<u>\$ 3,418,998</u>	<u>\$ 3,506,057</u>	<u>\$ 9,300,071</u>

	2015			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment net assets, beginning of year	\$ 3,858,716	\$ 5,023,343	\$ 3,426,620	\$ 12,308,679
Net investment income	136,756	137,804	-	274,560
Change in value of split-interest agreements	(32,112)	-	-	(32,112)
Contributions	30,000	36,258	35,207	101,465
Appropriation of endowment assets for expenditure	(158,769)	(179,537)	-	(338,306)
Endowment net assets, end of year	<u>\$ 3,834,591</u>	<u>\$ 5,017,868</u>	<u>\$ 3,461,827</u>	<u>\$ 12,314,286</u>

**Note 17. Designated Unrestricted Net Assets**

Designated unrestricted net assets at June 30, 2016 and 2015, comprised the following:

	2016	2015
Designated as to use:		
Religious personnel development	\$ 1,488,218	\$ 1,659,209
Pastoral	674,146	686,146
Education	5,000	5,000
Social services	369,222	402,188
Maintenance and upkeep of property and plant	1,554,463	1,488,334
Other	269,637	1,727,316
	<u>\$ 4,360,686</u>	<u>\$ 5,968,193</u>

## Catholic Diocese of Kansas City—St. Joseph Chancery Operations

### Notes to Financial Statements

#### Note 18. Retirement Funds

**Priest retirement plan:** The Organization has established a separate, self-administered retirement plan for priests of the Diocese. All recognized Diocesan organizations may participate in the plan. In accordance with plan documents, the Organization could be required to pay the benefits of a participating organization in the event that organization could not meet its obligation. The plan name is the Catholic Diocese of Kansas City—St. Joseph Priests' Pension Plan, and the employee identification number of the plan is 43-1697301. The assets for the plan are held in a separate trust for the benefit of the participants. The fund provides a monthly pension benefit to retired priests. The cost of providing the benefits provided under the plan shall be paid annually, as determined by the Organization's management acting with the advice of the plan actuary. The parishes or agencies of the Diocese are assessed annually for the support of the retirement plan. The table below presents certain financial information about the plan from the most recent audit report and actuarial certification as of July 1, 2015 and 2014:

	Total Plan Net Assets	Present Value of Accumulated Plan Benefits	Total Contributions	Funded Status
July 1, 2015	\$ 17,848,738	\$ 17,454,969	\$ 533,130	Greater than 100% funded
July 1, 2014	18,154,855	16,296,028	491,410	Greater than 100% funded

**Lay retirement plan:** The Organization has established a separate, self-administered, noncontributory retirement plan for lay employees. All recognized Diocesan organizations may participate in the plan. In accordance with plan documents, the Organization could be required to pay the benefits of a participating organization in the event that organization could not meet its obligation. The plan name is the Catholic Diocese of Kansas City—St. Joseph Lay Pension Plan Trust, and the employee identification number of the plan is 43-1697299. The assets for the plan are held in a separate trust for the benefit of the participants. Employees become 100 percent vested after five years of service. At age 65, normal retirement age, the employee is entitled to monthly pension benefits based on the highest five years' average compensation and on years of service. The table below presents certain financial information about the plan from the most recent audit report and actuarial certification as of July 1, 2015 and 2014:

	Total Plan Net Assets	Present Value of Accumulated Plan Benefits	Total Contributions	Funded Status
July 1, 2015	\$ 79,239,435	\$ 67,557,313	\$ 2,330,603	Greater than 100% funded
July 1, 2014	78,689,251	61,602,049	2,322,727	Greater than 100% funded

#### Note 19. Subsequent Events

Management has evaluated and disclosed subsequent events up to and including October 24, 2016, which is the date the financial statements were available to be issued.

