The Catholic Diocese of Kansas City–St. Joseph Deposit and Loan Fund

Financial Report
June 30, 2016

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Contents

RSM US LLP

Independent Auditor's Report

To the Board of Trustees
The Catholic Diocese of Kansas City-St. Joseph
Deposit and Loan Fund
Kansas City, Missouri

Report on the Financial Statements

We have audited the accompanying financial statements of The Catholic Diocese of Kansas City-St. Joseph Deposit and Loan Fund, which comprise the statement of financial position as of June 30, 2016, the related statement of activities and cash flows for the period from April 28, 2016 to June 30, 2016, and the related notes to the financial statements.

Management's Responsibility for the Financial Statement

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 audit. We conducted our audit 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 of 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 Deposit and Loan Fund as of June 30, 2016, and the changes in its net assets and its cash flows for the period from April 28, 2016 to June 30, 2016, in accordance with accounting principles generally accepted in the United States of America.

Other Matter
Our audit was 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 Deposit and Loan Fund presented on the statement of financial position and the statement of activities is presented for the purpose of additional analysis rather than to present the financial position and the results of operations of the entity 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
September 29, 2016

Catholic Diocese of Kansas City–St. Joseph Deposit and Loan Fund

Statement of Financial Position
June 30, 2016

	Endowment	Deposit and Loan	Total
Assets			
Cash and cash equivalents	$ -	$ 2,764,086	$ 2,764,086
Loans and accounts receivable, net (Note 2)	-	19,909,495	19,909,495
Investments (Notes 3 and 8)	3,006,706	6,866,625	9,873,331
Total assets	$ 3,006,706	$ 29,540,206	$ 32,546,912
Liabilities and Net Assets			
Accounts payable	$ -	$ 5,417	$ 5,417
Note payable (Note 4)	-	2,500,000	2,500,000
Parish deposits (Note 5)	-	16,451,650	16,451,650
School deposits (Note 5)	-	4,444,410	4,444,410
Other short-term deposits	-	102,281	102,281
Long-term deposits payable:			
Cemetery perpetual care funds	-	6,018,754	6,018,754
Total liabilities	-	29,522,512	29,522,512
Net assets:			
Unrestricted:			
Designated funds (Note 7)	1,547,972	-	1,547,972
Undesignated	-	17,694	17,694
Total unrestricted net assets	1,547,972	17,694	1,565,666
Restricted:			
Temporarily:			
Endowments (Notes 6 and 7)	1,458,734	-	1,458,734
Total temporarily restricted net assets	1,458,734	-	1,458,734
Total net assets	3,006,706	17,694	3,024,400
Total liabilities and net assets	$ 3,006,706	$ 29,540,206	$ 32,546,912

See notes to financial statements.

Catholic Diocese of Kansas City–St. Joseph Deposit and Loan Fund

Statement of Activities
Period From April 28, 2016 to June 30, 2016

	Endowment	Deposit and Loan	Total
Changes in unrestricted and designated net assets:			
Revenues and gains:			
Interest income on loans (Note 3)	$ -	$ 112,414	$ 112,414
Investment income, realized (Note 3)	3,934	32,752	36,686
Unrealized (losses) (Note 3)	-	(4,434)	(4,434)
Released from restrictions (Notes 6 and 7)	-	4,089	4,089
Total revenues and gains	3,934	144,821	148,755
Unrestricted endowment payments	3,934	-	3,934
Interest on debt	-	11,015	11,015
Interest on deposits	-	74,286	74,286
Bad debt expense	-	40,000	40,000
Other expenses	-	1,826	1,826
Total expenses	3,934	127,127	131,061
Increase in unrestricted net assets	-	17,694	17,694
Changes in temporarily restricted net assets:			
Revenues and gains:			
Endowment investment income, realized (Note 7)	3,707	-	3,707
Restrictions satisfied:			
Endowment payments to beneficiaries (Notes 6 and 7)	(4,089)	-	(4,089)
(Decrease) in temporarily restricted net assets	(382)	-	(382)
Total change in net assets	(382)	17,694	17,312
Net assets, beginning	3,007,088	-	3,007,088
Net assets, ending	$ 3,006,706	$ 17,694	$ 3,024,400

See notes to financial statements.

Catholic Diocese of Kansas City–St. Joseph Deposit and Loan Fund

Statement of Cash Flows
Period From April 28, 2016 to June 30, 2016

Cash flows from operating activities:	
Increase in net assets	$ 17,312
Unrealized losses on investments	4,434
Provision for allowance on loans and accounts receivable	40,000
Change in assets and liabilities:	
(Increase) decrease in:	
Accounts receivable	(84,474)
Accounts payable	5,417
Net cash (used in) operating activities	(17,311)
Cash flows from investing activities:	
Interest income on investments	(36,686)
Change in loans receivable, net	(690,272)
Net cash (used in) investing activities	(726,958)
Cash flows from financing activities:	
Change in deposits payable, net	958,258
Net cash provided by financing activities	958,258
Net increase in cash and cash equivalents	213,989
Cash and cash equivalents:	
Beginning	2,550,097
Ending	$ 2,764,086

See notes to financial statements.

Note 1. Nature of Activities and Significant Accounting 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 Deposit and Loan Fund (the Trust). The Trust was established April 28, 2016.

The following is a summary of the Trust'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 Funds. Under ASC 958, the Trust 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 Trust and changes therein are classified and reported as follows:

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

Unrestricted, designated net assets: Unrestricted, designated net assets are net assets that are designated by the Board of Trustees and can only be released upon approval of the Board of Trustees.

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

Permanently restricted net assets: Permanently restricted net assets are net assets subject to donor-imposed stipulations that expire neither by the passage of time nor by actions of the Trust. There are no permanently restricted net assets as of June 30, 2016.

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 Trust, the accounts of the Trust 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.

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.

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

Deposit and loan fund: The deposit and loan fund is comprised of asbestos loans as well as deposits by Diocesan parishes and institutions, and cemetery perpetual care funds. Borrowed funds and parish deposits are used to provide financing for capital improvements in parishes and Diocesan institutions.

Funds entrusted to the Trust for safekeeping are invested through commercial banks and fixed income and equity investment managers.

Cash and cash equivalents: For purposes of reporting cash flows, the Trust considers all unrestricted highly liquid investments purchased with a maturity of three months or less to be cash equivalents. The Trust 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 Trust 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, 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 accounts 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.

Investments: Investments are recorded at fair value. Unrealized gains and losses are recorded in the statement of activities. See Note 8 for fair value information.

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

School deposits: School deposits consist of funds being held by the Trust 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 Trust on behalf of cemetery perpetual care funds.

Use of unrestricted net assets: Following the provision of the indenture of Trust, the trustees may make periodic, discretionary contributions to Catholic Diocese of Kansas City-St. Joseph Chancery Operation (Chancery Operation) to assist in funding the operations of the Chancery Operation from the funds of the Trust that are not obligated to Participants and that are in excess of funds determined by the Trustees to be reasonably required for the operation of the Trust, using standards which are applicable to a fund comparable in size and function to the Trust.

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 Trust is exempt from income taxes under provisions of section 501(c)(3) of the Internal Revenue Code due to its religious affiliation with the Catholic Diocese of Kansas City-St. Joseph and inclusion in the Catholic Register. 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.

Note 2. Loans and Accounts Receivable

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

Parish loans	$ 16,301,142
High schools and other entities	3,619,055
Accounts receivable	29,298
	19,949,495
Less allowance for uncollectible accounts	(40,000)
	$ 19,909,495

The Trust's loans receivable consist of funds disbursed to parishes, high schools, Diocesan institutions and other entities with the Catholic Diocese of Kansas City-St. Joseph. The Trust 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, is summarized below:

	Current	Past Due	Total
Receivables	$ 17,691,579	$ 2,257,916	$ 19,949,495
As a percentage of the total loan portfolio	88.68%	11.32%	100.00%

Allowance for doubtful accounts as of June 30, 3016 was $40,000. A provision of $40,000 was recorded for the period from April 28, 2016 to June 30, 2016.

Note 3. Investments

The following schedule shows life-to-date gains on different types of investments:

	June 30, 2016		
	Cost	Fair Value	Unrealized Appreciation
Corporate stocks and bonds	$ 205,057	$ 205,465	$ 408
Mutual funds	6,325,994	6,124,785	(201,209)
Money market funds	265,489	265,489	-
U.S. government obligations	3,255,493	3,277,592	22,099
	$ 10,052,033	$ 9,873,331	$ (178,702)

Investments are stated at fair value as of June 30, 2016. The following schedule summarizes the investment return and its classification in the statement of activities for the period from April 28, 2016 to June 30, 2016:

	Unrestricted	Temporarily Restricted	Total
Interest income	$ 145,166	$ -	$ 145,166
Realized gains	3,934	3,707	7,641
Investment income	149,100	3,707	152,807
Unrealized gains (losses) on investments	(4,434)	-	(4,434)
	$ 144,666	$ 3,707	$ 148,373

Included in the interest income amounts above are $112,414 related to interest income on loans receivable for the period from April 28, 2016 to June 30, 2016.

Note 4. Line of Credit

The Trust has a $4.6 million line of credit with a commercial bank. The line of credit expires April 29, 2017. The line of credit bears interest at LIBOR plus 210 basis points (2.60 percent at June 30, 2016), at 12-month options and is collateralized by certain real estate. Principal is to be repaid at maturity, with interest due monthly. Borrowings outstanding on this line of credit at June 30, 2016, were $2,500,000. The agreement contains certain restrictive covenants, including the maintenance of a fixed-charge coverage ratio and liquid coverage ratio.

Note 5. Deposits Payable

In the parish deposits payable account, the amount of $16,451,650 as of June 30, 2016, consists of numerous deposits made to the Trust that are payable on demand. School deposits payable amount to $4,444,410 as of June 30, 2016. All deposits bear a 1.50 percent interest rate at June 30, 2016.

Note 6. Restricted Net Assets

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

Restrictions as to use:		
Education of children	$	272,628
Cemetery maintenance		50,231
Facilities construction and maintenance		1,030,936
Religious services		104,939
Total temporarily restricted net assets	$	1,458,734

During the period from April 28, 2016 to June 30, 2016, other assets were released from restriction by incurring expenses satisfying the restricted purpose specified. The purpose was endowment payments to beneficiaries in the amount of $4,089.

Note 7. 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 Funds.

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 Trust. 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 that a fund could not spend from the Trust, in favor of a more robust set of guidelines about what constitutes prudent spending, explicitly requiring consideration of the duration and preservation of the Trust.

The Trust's endowment includes both donor-restricted endowment funds and funds designated by the 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.

Interpretation of existing law: The Management of the Trust 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 Trust 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 Trust.

Note 7. Endowments (Continued)

The following information is related to the endowments under the direction of the Trust.

Return objectives and risk parameters: The Trust 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 Trust must hold in perpetuity or for a donor-specified period(s) as well as Management-designated funds. Under this policy, as approved by the Management, the endowment assets are invested following the Trust's guidelines as determined by Management in consultation with the Trust's Investment Committee. The endowments are paid a rate determined by Management in consultation with the Board of Trustees.

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

Spending policy and how the investment objectives relate to spending policy: The Trust has a policy of appropriating for distribution the interest earned in the current year by the endowment funds 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 Trust's objective 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.

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 Trust to retain as a fund of perpetual duration. 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. These deficiencies result from unfavorable market fluctuations that occur shortly after the investment of new permanently restricted contributions.

Changes in endowment net assets for the period from April 28, 2016 to June 30, 2016, are as follows:

	Unrestricted-designated	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of period	$ 1,547,972	$ 1,459,116	$ -	$ 3,007,088
Net investment income	3,934	3,707	-	7,641
Appropriation of endowment assets for expenditure	(3,934)	(4,089)	-	(8,023)
Endowment net assets (deficit), end of period	$ 1,547,972	$ 1,458,734	$ -	$ 3,006,706

Designated unrestricted net assets at June 30, 2016, were composed solely for use the purpose of maintenance and upkeep and continued asbestos abatement in the amount of $1,547,972. Temporarily restricted net assets at June 30, 2016, were composed of the purposes disclosed in Note 6.

Note 8. 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 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 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.

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:				
Corporate bonds	$ 205,465	$ -	$ 205,465	$ -
U.S. government corporations and agencies	3,277,592	-	3,277,592	-
Money market funds	265,489	265,489	-	-
Equity securities:				
Equity mutual funds:				
Intermediate-term bonds	2,654,951	2,654,951	-	-
World stock	1,479,290	1,479,290	-	-
Large blend	1,990,544	1,990,544	-	-
	$ 9,873,331	$ 6,390,274	$ 3,483,057	$ -

Note 8. Fair Value Measurements (Continued)

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

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.

Note 9. Related-Party Transactions

The Trust has a Management Services Agreement with the Chancery Operation by which the Chancery Operation can bill the Trust for administrative and supporting services. Billings are based on an allocation of staff hours spent on Trust operations. As of June 30, 2016, no billings have been issued by the Chancery Operation for recognition in these financial statements.

Note 10. Subsequent Events

Management has evaluated and disclosed subsequent events up to and including September 29, 2016, which is the date the financial statements were available to be issued.