

# **Catholic Diocese of Kansas City–St. Joseph Diocesan Insurance Office**

Financial Report (Reviewed)  
June 30, 2021

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## Independent Accountant's Review Report

RSM US LLP

The Most Reverend Bishop James V. Johnston  
Catholic Diocese of Kansas City–St. Joseph Diocesan Insurance Office

We have reviewed the accompanying financial statements of Catholic Diocese of Kansas City–St. Joseph Diocesan Insurance Office (the Office), which comprise the statements of financial position as of June 30, 2021 and 2020, the related statements of activities and changes in net assets (deficit) for the years then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

### 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.

### Accountant's Responsibility

Our responsibility is to conduct the review engagements in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

We are required to be independent of the Office and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our review.

### Basis for Qualified Conclusion

Statements of cash flows for the years ended June 30, 2021 and 2020, have not been presented. Accounting principles generally accepted in the United States of America require that such statements be presented when financial statements purport to present the financial position and results of activities of the organization.

### Qualified Conclusion

Based on our reviews, except for the effect of the matter described in the Basis for Qualified Conclusion paragraph, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

*RSM US LLP*

Kansas City, Missouri  
December 1, 2021

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**Catholic Diocese of Kansas City–St. Joseph Diocesan Insurance Office**

**Statements of Financial Position**

**June 30, 2021 and 2020**

**See Independent Accountant’s Review Report**

	2021	2020
<b>Assets</b>		
Current assets:		
Cash	\$ 53,957	\$ 33,289
Prepaid premiums	286,716	265,126
Accounts receivable (Note 3)	98,441	95,176
<b>Total current assets</b>	<b>439,114</b>	<b>393,591</b>
Investments: (Note 6)		
Deposits with Catholic Diocese of Kansas City–St. Joseph	5,963,455	2,343,063
Investments, National Catholic Risk Retention Group Stock	1,693	1,693
	<b>5,965,148</b>	<b>2,344,756</b>
	<b>\$ 6,404,262</b>	<b>\$ 2,738,347</b>
<b>Liabilities and Net Assets (Deficit)</b>		
Current liabilities:		
Auto premium reserve	\$ 99,525	\$ 98,202
Claims and expenses payable (Note 5)	2,597,117	1,081,922
Claims and expenses—self-funded health insurance (Note 7)	500,393	761,042
<b>Total current liabilities</b>	<b>3,197,035</b>	<b>1,941,166</b>
Claims incurred but not reported	1,244,681	1,608,034
<b>Total long-term liabilities</b>	<b>1,244,681</b>	<b>1,608,034</b>
Net assets (deficit) without donor restrictions	1,962,546	(810,853)
	<b>\$ 6,404,262</b>	<b>\$ 2,738,347</b>

See notes to financial statements.

**Catholic Diocese of Kansas City–St. Joseph Diocesan Insurance Office**

**Statements of Activities**

**Years Ended June 30, 2021 and 2020**

**See Independent Accountant’s Review Report**

	<b>2021</b>	<b>2020</b>
Revenues:		
Premium income:		
Clergy benefits	\$ 2,255,662	\$ 2,024,302
Lay employee benefits	9,947,498	9,152,297
Property and casualty program	6,862,662	6,680,412
Other revenue from operations:		
Other	4,313	10,952
Recovery from excess insurer	265,210	399,394
<b>Total operating revenues</b>	<b>19,335,345</b>	<b>18,267,357</b>
Investment income	19,815	11,022
Contribution from Chancery Operation	300,000	300,000
<b>Total revenues</b>	<b>19,655,160</b>	<b>18,578,379</b>
Expenses:		
Operating expenses:		
Benefit expense:		
Clergy benefits	1,640,717	1,708,508
Lay employee benefits	9,501,234	10,141,622
Property and casualty expense:		
Administration	2,699,291	2,474,680
Insured and uninsured claims	2,683,191	991,470
Office administration	720,682	728,934
Interest	-	215
<b>Total operating expenses</b>	<b>17,245,115</b>	<b>16,045,429</b>
Decrease in incurred but not reported claims	(363,354)	(24,194)
<b>Total expenses</b>	<b>16,881,761</b>	<b>16,021,235</b>
<b>Net revenues over expenses</b>	<b>\$ 2,773,399</b>	<b>\$ 2,557,144</b>

See notes to financial statements.

**Catholic Diocese of Kansas City–St. Joseph Diocesan Insurance Office**

**Statements of Changes in Net Assets (Deficit)  
Years Ended June 30, 2021 and 2020  
See Independent Accountant’s Review Report**

	<u>2021</u>	<u>2020</u>
Net assets (deficit) without donor restrictions:		
Beginning of year	\$ (810,853)	\$ (3,367,997)
Net revenues over expenses	<u>2,773,399</u>	<u>2,557,144</u>
End of year	<u>\$ 1,962,546</u>	<u>\$ (810,853)</u>

See notes to financial statements.

## Catholic Diocese of Kansas City–St. Joseph Diocesan Insurance Office

### Notes to Financial Statements

#### See Independent Accountant's Review Report

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#### Note 1. Nature of Organization and Significant Accounting Policies

**Nature of organization:** On January 1, 1975, the Catholic Diocese of Kansas City–St. Joseph (the Diocese) established a self-insurance program for property and casualty insurance coverages. Under this program, the Diocese self-insures the property and casualty coverages (except for boiler insurance, which is a deductible program) for all Diocesan parishes, schools, early childhood centers, Catholic Cemeteries Association, Catholic Charities of Kansas City–St. Joseph, and other Diocesan institutions. The self-insurance programs provide coverage for buildings, machinery and equipment, boiler, workers' compensation, automobile, student accident, comprehensive general liability, fiduciary liability, professional liability, sexual misconduct liability and cyber liability. The program includes a limit on each claim payable by the Diocese. Claims in excess of the self-insured retention are insured by licensed insurance carriers. Under the program, the Diocese contracts for the administration of claims, appraisals, and loss control and prevention services. The Catholic Diocese of Kansas City–St. Joseph Diocesan Insurance Office coordinates the placement of coverage and the payment of claims and premiums with insurance companies and service providers.

In addition to the self-insurance coverages, the Diocesan benefits office administers the clergy and lay employee benefit programs, which include pension, life insurance, short-term disability, long-term disability, health care insurance, voluntary dental care, voluntary supplemental life insurance, flexible spending accounts, health savings accounts, long-term care (clergy), and supplemental medical reimbursement (clergy).

Premiums for the self-insurance property and casualty coverages are based on loss cost factors published for the state of Missouri by the Insurance Services Office, a national rating organization, then multiplied by an industry experience factor and discounted by the Diocese according to the current claims experience for each type of coverage. Premiums are collected by the Diocesan office and used to pay claims as they are incurred. Premiums for insured coverages are collected by the Diocese from all entities of the Catholic Diocese of Kansas City–St. Joseph, Catholic Cemeteries Association of Kansas City–St. Joseph, and Catholic Charities of Kansas City–St. Joseph.

The financial statements of the Catholic Diocese of Kansas City–St. Joseph Diocesan Insurance Office (the Office) have been prepared in accordance with accounting principles and reporting practices for churches and church-related organizations, adopted by the National Conference of Catholic Bishops. The accounting principles promulgated by the above conference do not differ in any material respects from accounting principles generally accepted in the United States of America (U.S. GAAP).

A summary of the Office's significant accounting policies follows:

**Basis of presentation:** The accompanying financial statements are presented using the accrual basis of accounting in accordance with U.S. GAAP. The financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB) in its *FASB Accounting Standards Codification (ASC) Topic 958, Financial Statements of Not-for-Profit Organizations*. Under ASC 958, the Office is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

The services performed by the Office are not necessarily required by the operation of the Diocesan administrative offices and could be contracted out to others or administered by the Diocese as an auxiliary service.

## Catholic Diocese of Kansas City—St. Joseph Diocesan Insurance Office

### Notes to Financial Statements

#### See Independent Accountant's Review Report

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

**Revenue recognition:** The Office recognizes premiums and reimbursements at a point in time as services are provided to the entities from the Catholic Diocese of Kansas City—St. Joseph, Catholic Cemeteries Association of Kansas City—St. Joseph, and Catholic Charities of Kansas City—St. Joseph, in accordance with ASC Topic 606.

**Fair value of financial instruments:** Financial instruments are described as cash and cash equivalents or contractual obligations or rights to pay or receive cash. The fair value of certain financial instruments approximates the carrying value because of the short-term maturity of the instruments, which include cash, accounts receivable, investments (deposits with Catholic Diocese of Kansas City—St. Joseph), accounts payable, accrued expenses and other current liabilities. The carrying amount of the long-term notes payable approximates fair value due to the periodic adjustment of the interest rate to reflect current market conditions.

**Cash:** Cash consists of cash on hand or deposits of cash that are unrestricted.

**Accounts receivable:** 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 customer receivables and considering a customer's financial condition and credit history, and current economic conditions. Trade receivables are written off when deemed uncollectible. Recoveries of trade receivables 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 trade receivables.

**Use of estimates:** The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect certain 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. Significant estimates subject to change in the near term include claims incurred but not reported.

**Functional allocation of expenses:** The Office's expenses have been summarized on a functional basis in the statements of activities. Costs are directly allocated to functional categories where a clear relationship exists. Other costs incurred at the Office are allocated among specific programs and other categories directly, where such relationship is clear, and indirectly, based on ratable allocation methods.

**Claims incurred but not reported:** Claims incurred but not reported have been estimated using information provided by the claims administrator, who used factors taken from industry-wide data supplied to insurance companies.

## Catholic Diocese of Kansas City–St. Joseph Diocesan Insurance Office

### Notes to Financial Statements

#### See Independent Accountant’s Review Report

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#### Note 2. Liquidity and Availability of Resources

The Office regularly monitors liquidity required to meet its annual operating needs and other contractual commitments while also striving to maximize the return on investments of its funds not required for annual operations. The table below represents the Diocesan Insurance Offices financial assets available to meet its annual operating needs of the 2022 and 2021 fiscal years:

	2021	2020
Cash	\$ 53,957	\$ 33,289
Deposits with Catholic Diocese of Kansas City–St. Joseph	5,963,455	2,343,063
Accounts receivable	98,441	95,176
	<u>\$ 6,115,853</u>	<u>\$ 2,771,528</u>

#### Note 3. Accounts Receivable

Accounts receivable consisted of the following at June 30, 2021 and 2020:

	2021	2020
Automobile and school bus premiums—priests and parishes	\$ 99,525	\$ 98,202
Property and casualty premiums—parishes and institutions	(1,084)	(3,026)
	<u>\$ 98,441</u>	<u>\$ 95,176</u>

#### Note 4. Income Taxes

The Office is exempt from income taxes under provisions of section 501(c)(3) of the Internal Revenue Code due to its religious affiliation through the Catholic Diocese of Kansas City–St. Joseph and its inclusion in the Catholic Register. Uncertain tax provisions, if any, are recorded in accordance with ASC Topic 740, Income Taxes. 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, 2021 or 2020.

#### Note 5. Commitments and Contingencies

In connection with pending first-party and third-party claims, the Office’s financial statements include accruals of a liability of \$2,597,117 and \$1,081,922 as of June 30, 2021 and 2020, respectively. The first-party claims are property damage claims asserted by insured parishes. The third-party claims are liability claims brought by third parties asserting workers’ compensation, property damage and personal injury claims, including sexual misconduct claims.

Additional sexual misconduct or other claims, which may or may not be timely, may be filed in the future. If there are any such additional claims, the Office expects that it will incur future charges related to the defense of such matters but cannot reasonably estimate the potential costs it will incur or the future reimbursements it may receive.

Payments made to satisfy the loss contingency could have a material impact on the Catholic Diocese and the Office and, in the future, could impact the activities, programs and ministries of the administrative office it provides for parishes and schools in the Diocese.

## Catholic Diocese of Kansas City–St. Joseph Diocesan Insurance Office

### Notes to Financial Statements

#### See Independent Accountant's Review Report

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#### **Note 5. Commitments and Contingencies (Continued)**

The spread of COVID-19, a novel strain of coronavirus, has altered the behavior of businesses and people throughout the United States. Further, financial markets have experienced volatility attributed to coronavirus concerns. The continued spread of COVID-19 may adversely impact the local, regional and national economies. The extent to which the coronavirus impacts the Office's results will depend on future developments, which are highly uncertain and cannot be predicted. The impact is highly dependent on the breadth and duration of the outbreak and could be affected by other factors that cannot currently be predicted. Accordingly, management cannot presently estimate the overall operational and financial impact to the Office, but such an impact could have a material adverse effect on the financial condition of the Office.

#### **Note 6. Fair Value Measurements**

The Office has adopted the provisions of ASC Topic 820, Fair Value Measurements and Disclosures, for assets measured at fair value. 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:** Inputs are 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:** Inputs are 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:** Inputs are 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.

A description of the valuation methodologies used for assets measured at fair value on a recurring basis is set forth below.

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. In certain cases where there is limited activity or less transparency around inputs to the valuation, including alternative investments, securities are classified within Level 3 of the valuation hierarchy.



**Catholic Diocese of Kansas City–St. Joseph Diocesan Insurance Office**

**Notes to Financial Statements  
See Independent Accountant’s Review Report**

**Note 8. Functional Expense Allocation**

The Diocesan Insurance Offices classified functional expenses for the years ended June 30, 2021 and 2020, as follows:

	June 30, 2021								
	Personnel Costs	Office Expense	Program Expense	Professional Services	Travel and Professional Development	Insurance Premiums	Claims	Total	
Operating expenses:									
Benefits	\$ 68,364	\$ 757	\$ 2,721,068	\$ -	\$ -	\$ 1,339,433	\$ 7,012,329	\$ 11,141,951	
Property and casualty insurance	-	-	252,856	137,560	-	2,308,875	2,683,191	5,382,482	
Office administration	403,339	67,457	52,502	194,228	3,156	-	-	720,682	
Grand total	<u>\$ 471,703</u>	<u>\$ 68,214</u>	<u>\$ 3,026,426</u>	<u>\$ 331,788</u>	<u>\$ 3,156</u>	<u>\$ 3,648,308</u>	<u>\$ 9,695,520</u>	<u>\$ 17,245,115</u>	
	June 30, 2020								
	Personnel Costs	Office Expense	Program Expense	Professional Services	Travel and Professional Development	Insurance Premiums	Claims	Other	Total
Operating expenses:									
Benefits	\$ 69,136	\$ 1,362	\$ 2,691,771	\$ -	\$ -	\$ 1,344,731	\$ 7,743,130	\$ -	\$ 11,850,130
Property and casualty insurance	-	-	491,160	152,848	-	1,830,673	991,469	-	3,466,150
Office administration	405,017	69,578	64,492	180,783	9,064	-	-	-	728,934
Interest	-	-	-	-	-	-	-	215	215
Grand total	<u>\$ 474,153</u>	<u>\$ 70,940</u>	<u>\$ 3,247,423</u>	<u>\$ 333,631</u>	<u>\$ 9,064</u>	<u>\$ 3,175,404</u>	<u>\$ 8,734,599</u>	<u>\$ 215</u>	<u>\$ 16,045,429</u>

**Catholic Diocese of Kansas City–St. Joseph Diocesan Insurance Office**

**Notes to Financial Statements**  
**See Independent Accountant's Review Report**

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**Note 9. Subsequent Events**

Subsequent events have been evaluated through December 1, 2021, the date on which the independent accountant's review report was available to be issued.