

**Chancery Offices of the  
Archdiocese of Kansas City in Kansas**

Financial Report  
June 30, 2013

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## Independent Auditor's Report

Most Reverend Joseph F. Naumann  
Archbishop and Archdiocesan Finance Council of the  
Archdiocese of Kansas City in Kansas  
Kansas City, Kansas

### Report on the Financial Statements

We have audited the accompanying financial statements of the Chancery Offices of the Archdiocese of Kansas City in Kansas which comprise the statements of financial position as of June 30, 2013 and 2012, and the related statements of activities and cash flows for the years then ended and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Chancery Offices of the Archdiocese of Kansas City in Kansas as of June 30, 2013 and 2012, 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.

*McGladrey LLP*

Kansas City, Missouri  
September 24, 2013

**Chancery Offices of the Archdiocese of Kansas City in Kansas**

**Statements of Financial Position  
June 30, 2013 and 2012**

<b>Assets</b>	Current	Deposit and Loan	Plant	Cor Christi	<b>2013</b>	2012
Cash and cash equivalents	\$ 4,468,125	\$ -	\$ -	\$ 693,436	\$ <b>5,161,561</b>	\$ 13,442,752
Investments (Notes 2 and 5)	24,254,916	-	-	14,890,147	<b>39,145,063</b>	20,043,224
Accrued interest receivable	189,522	-	-	1,592	<b>191,114</b>	245,358
Accounts receivable, net	7,507,308	88,000	-	-	<b>7,595,308</b>	7,177,827
Pledges receivable, net (Note 3)	6,702,740	-	-	-	<b>6,702,740</b>	9,009,046
Prepaid expenses	87,988	-	-	-	<b>87,988</b>	79,315
Interest in net assets of the Catholic Foundation of Northeast Kansas (Notes 2 and 8)	7,209,933	-	-	-	<b>7,209,933</b>	6,662,030
Loans receivable, net (Note 6)	-	48,180,038	-	-	<b>48,180,038</b>	50,671,532
Land held for sale (Note 2)	-	-	967,500	-	<b>967,500</b>	-
Land, buildings and equipment, net (Note 4)	-	-	17,078,994	-	<b>17,078,994</b>	16,606,721
Due to/from other funds	(15,244,715)	18,740,716	(3,421,284)	(74,717)	-	-
<b>Total assets</b>	<b>\$ 35,175,817</b>	<b>\$ 67,008,754</b>	<b>\$ 14,625,210</b>	<b>\$ 15,510,458</b>	<b>\$ 132,320,239</b>	<b>\$ 123,937,805</b>

(Continued)

**Chancery Offices of the Archdiocese of Kansas City in Kansas**

**Statements of Financial Position (Continued)  
June 30, 2013 and 2012**

<b>Liabilities and Net Assets</b>	Current	Deposit and Loan	Plant	Cor Christi	2013	2012
Accounts payable and accrued expenses	\$ 738,799	\$ 250,542	\$ -	\$ -	\$ 989,341	\$ 911,422
Pledges payable	80,000	-	-	-	80,000	195,000
Accrued health and dental care claims (Note 10)	1,200,000	-	-	-	1,200,000	1,500,000
Collections held for transmittal	229,939	-	-	-	229,939	470,065
Deposits payable (Note 9)	-	66,758,212	-	-	66,758,212	61,925,986
Deferred revenue	725,783	-	-	-	725,783	523,356
<b>Total liabilities</b>	<b>2,974,521</b>	<b>67,008,754</b>	<b>-</b>	<b>-</b>	<b>69,983,275</b>	<b>65,525,829</b>
<b>Net Assets (Deficit)</b>						
Unrestricted:						
Undesignated	1,281,356	-	14,625,210	15,510,458	31,417,024	29,442,525
Undesignated - Endowments (Note 13)	(66,930)	-	-	-	(66,930)	(414,010)
Designated (Note 15)	10,862,980	-	-	-	10,862,980	10,006,530
<b>Total unrestricted net assets</b>	<b>12,077,406</b>	<b>-</b>	<b>14,625,210</b>	<b>15,510,458</b>	<b>42,213,074</b>	<b>39,035,045</b>
Restricted (Note 12):						
Temporarily restricted:						
Education of Priests and Seminarians	2,748,250	-	-	-	2,748,250	2,503,393
Other	14,936,673	-	-	-	14,936,673	14,468,033
Permanently restricted (Note 8)	2,438,967	-	-	-	2,438,967	2,405,505
<b>Total restricted net assets</b>	<b>20,123,890</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>20,123,890</b>	<b>19,376,931</b>
<b>Total net assets</b>	<b>32,201,296</b>	<b>-</b>	<b>14,625,210</b>	<b>15,510,458</b>	<b>62,336,964</b>	<b>58,411,976</b>
<b>Total liabilities and net assets</b>	<b>\$ 35,175,817</b>	<b>\$ 67,008,754</b>	<b>\$ 14,625,210</b>	<b>\$ 15,510,458</b>	<b>\$ 132,320,239</b>	<b>\$ 123,937,805</b>

See Notes to Financial Statements.

**Chancery Offices of the Archdiocese of Kansas City In Kansas**

**Statement of Activities  
Year Ended June 30, 2013**

<b>Revenues</b>	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Archbishop's Call to Share (Note 3)	\$ 129,057	\$ 5,421,406	\$ -	\$ 5,550,463
Future Full of Hope Capital Campaign	-	870	-	870
Private Appeal Campaign (Note 3)	-	1,100,596	-	1,100,596
Archdiocesan collections	-	507,717	-	507,717
Archdiocesan assessments	3,949,243	1,205,028	-	5,154,271
Health and dental plan premiums (Note 10)	18,392,983	-	-	18,392,983
Contributions and bequests	229,308	717,596	33,462	980,366
Investment income (Note 5)	3,132,043	-	-	3,132,043
Change in net assets of the Catholic Foundation of Northeast Kansas	356,599	416,825	-	773,424
Other revenue	1,917,366	84,402	-	2,001,768
Gain on disposal of land, building and equipment	4,687	-	-	4,687
Auxiliary services - The Leaven	1,165,748	-	-	1,165,748
Auxiliary services - Pastoral Center	640,793	-	-	640,793
Auxiliary services - Prairie Star Ranch	298,910	-	-	298,910
Restrictions satisfied (Note 14)	8,576,834	(8,576,834)	-	-
<b>Total revenues</b>	<b>38,793,571</b>	<b>877,606</b>	<b>33,462</b>	<b>39,704,639</b>
<b>Expenditures</b>				
Ministry and Program Services:				
Pastoral	814,089	-	-	814,089
Religious personnel	2,434,564	-	-	2,434,564
Education	4,359,334	-	-	4,359,334
Social services	1,678,538	-	-	1,678,538
Auxiliary services - The Leaven	975,082	-	-	975,082
Auxiliary services - Pastoral Center	1,082,883	-	-	1,082,883
Auxiliary services - Prairie Star Ranch	499,655	-	-	499,655
<b>Total ministry and program services</b>	<b>11,844,145</b>	<b>-</b>	<b>-</b>	<b>11,844,145</b>
Supporting Services:				
Administrative	3,413,826	-	-	3,413,826
Fundraising:				
Stewardship and development	749,605	-	-	749,605
Other:				
Interest (Note 9)	729,889	-	-	729,889
Bad debt expense (recovery)	(446,499)	73,924	-	(372,575)
Health and dental care expense (Note 10)	17,340,143	-	-	17,340,143
Cor Christi Fund distributions	497,791	-	-	497,791
Private Appeal distributions	1,036,899	-	-	1,036,899
Future Full of Hope distributions	870	-	-	870
Parish rebates (Note 3)	448,873	90,185	-	539,058
<b>Total supporting services</b>	<b>23,771,397</b>	<b>164,109</b>	<b>-</b>	<b>23,935,506</b>
<b>Total expenditures</b>	<b>35,615,542</b>	<b>164,109</b>	<b>-</b>	<b>35,779,651</b>
Increase in net assets	3,178,029	713,497	33,462	3,924,988
Net assets, beginning of year	39,035,045	16,971,426	2,405,505	58,411,976
Net assets, end of year	\$ 42,213,074	\$ 17,684,923	\$ 2,438,967	\$ 62,336,964

See Notes to Financial Statements.

**Chancery Offices of the Archdiocese of Kansas City in Kansas**

**Statement of Activities  
Year Ended June 30, 2012**

<b>Revenues</b>	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Archbishop's Call to Share (Note 3)	\$ 144,773	\$ 5,253,262	\$ -	\$ 5,398,035
Future Full of Hope Capital Campaign	-	34,408	-	34,408
Private Appeal Campaign (Note 3)	-	8,509,654	-	8,509,654
Archdiocesan collections	-	497,003	-	497,003
Archdiocesan assessments	3,171,700	1,019,511	-	4,191,211
Health and dental plan premiums (Note 10)	17,992,570	-	-	17,992,570
Contributions and bequests	349,923	475,344	-	825,267
Investment income (Note 5)	1,927,511	-	-	1,927,511
Change in net assets of the Catholic Foundation of Northeast Kansas	(476,020)	254,934	-	(221,086)
Other revenue	2,385,177	78,560	-	2,463,737
(Loss) on disposal of land, building and equipment	(37,014)	-	-	(37,014)
Auxiliary services - The Leaven	1,142,786	-	-	1,142,786
Auxiliary services - Pastoral Center	659,753	-	-	659,753
Auxiliary services - Prairie Star Ranch	255,346	-	-	255,346
Restrictions satisfied (Note 14)	7,928,978	(7,928,978)	-	-
<b>Total revenues</b>	<b>35,445,483</b>	<b>8,193,698</b>	<b>-</b>	<b>43,639,181</b>
<b>Expenditures</b>				
Ministry and Program Services:				
Pastoral	1,025,693	-	-	1,025,693
Religious personnel	2,313,119	-	-	2,313,119
Education	4,379,651	-	-	4,379,651
Social services	1,565,570	-	-	1,565,570
Auxiliary services - The Leaven	965,792	-	-	965,792
Auxiliary services - Pastoral Center	1,023,330	-	-	1,023,330
Auxiliary services - Prairie Star Ranch	437,123	-	-	437,123
<b>Total ministry and program services</b>	<b>11,710,278</b>	<b>-</b>	<b>-</b>	<b>11,710,278</b>
Supporting Services:				
Administrative	3,666,417	-	-	3,666,417
Fundraising:				
Stewardship and development	1,034,890	-	-	1,034,890
Other:				
Interest (Note 9)	1,365,724	-	-	1,365,724
Bad debt expense	546,158	575,156	-	1,121,314
Health and dental care expense (Note 10)	17,376,202	-	-	17,376,202
Cor Christi Fund distributions	601,000	-	-	601,000
Private Appeal distributions	253,000	-	-	253,000
Future Full of Hope distributions	34,411	-	-	34,411
Parish rebates (Note 3)	515,270	119,282	-	634,552
<b>Total supporting services</b>	<b>25,393,072</b>	<b>694,438</b>	<b>-</b>	<b>26,087,510</b>
<b>Total expenditures</b>	<b>37,103,350</b>	<b>694,438</b>	<b>-</b>	<b>37,797,788</b>
Increase (decrease) in net assets	(1,657,867)	7,499,260	-	5,841,393
Net assets, beginning of year	40,692,912	9,472,166	2,405,505	52,570,583
Net assets, end of year	\$ 39,035,045	\$ 16,971,426	\$ 2,405,505	\$ 58,411,976

See Notes to Financial Statements.

## Chancery Offices of the Archdiocese of Kansas City in Kansas

### Statements of Cash Flows Years Ended June 30, 2013 and 2012

	2013	2012
Cash Flows from Operating Activities:		
Increase in net assets	\$ 3,924,988	\$ 5,841,393
Adjustments to reconcile increase in net assets to net cash (used in) provided by operating activities:		
Depreciation	749,048	709,844
Realized (gain) on sale of investments	(271,906)	(196,738)
Unrealized (gain) loss on investments	(715,191)	812,916
Net discount accretion	(14,331)	(4,047)
(Increase) in fair value of investments held at the Catholic Foundation of Northeast Kansas	(773,424)	(221,086)
Allowance provision for loans receivable, net of recoveries	(492,682)	548,443
Loans charged off, net of recoveries	-	(243,047)
(Gain) loss on sale of land, building and equipment	(4,687)	37,014
Noncash contribution of land held for sale	(967,500)	-
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(417,481)	(693,489)
Pledges receivable, net	2,306,306	(7,770,806)
Accrued interest receivable	54,244	120,476
Prepaid expenses	(8,673)	164,294
Increase (decrease) in:		
Accounts payable and accrued expenses	77,919	90,084
Pledges payable	(115,000)	(10,000)
Accrued health and dental care claims	(300,000)	-
Collections held for transmittal	(240,126)	237,653
Deferred revenue	202,427	(187,124)
<b>Net cash (used in) provided by operating activities</b>	<b>2,993,931</b>	<b>(764,220)</b>
Cash Flows from Investing Activities:		
Proceeds from sales of land, buildings and equipment	15,824	1,805,805
Purchases of land, buildings and equipment	(1,232,458)	(2,263,762)
Purchases of investments	(28,318,711)	(7,717,973)
(Contributions) withdrawals in interest in Catholic Foundation of Northeast Kansas	225,521	681,643
Proceeds from sale of investments	10,218,300	5,721,613
Decrease in loans receivable, net	2,984,176	4,609,358
<b>Net cash (used in) provided by investing activities</b>	<b>(16,107,348)</b>	<b>2,836,684</b>

(Continued)



Chancery Offices of the Archdiocese of Kansas City in Kansas

Statements of Cash Flows (Continued)  
Years Ended June 30, 2013 and 2012

	2013	2012
Cash Flows from Financing Activities:		
Increase in deposits payable, net	4,832,226	1,354,269
<b>Net cash provided by financing activities</b>	<b>4,832,226</b>	<b>1,354,269</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(8,281,191)</b>	<b>3,426,733</b>
Cash and Cash Equivalents:		
Beginning of year	13,442,752	10,016,019
End of year	<u>\$ 5,161,561</u>	<u>\$ 13,442,752</u>
Supplemental Disclosures of Cash Flow Information:		
Cash payments for interest	\$ 729,890	\$ 1,365,724

See Notes to Financial Statements.

## Chancery Offices of the Archdiocese of Kansas City in Kansas

### Notes to Financial Statements

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

Nature of activities: The accompanying financial statements include the assets, liabilities, net assets and financial activities of chancery offices that are fiscally responsible to the Archbishop of the Archdiocese of Kansas City in Kansas (Chancery Offices of the Archdiocese). The Archdiocese of Kansas City in Kansas consists of 21 counties in northeastern Kansas.

The accompanying financial statements exclude the accounting of other activities of the Archdiocese, such as: parishes, schools, cemeteries, homes, campus centers, Catholic Charities, foundations, retirement plans, regional offices, etc., or assets, liabilities and guarantees for organizations for which the Archbishop is responsible. These activities may or may not be separately incorporated under civil law; however, each is a distinct operating entity and maintains separate accounting records on its services and programs.

The following is a summary of the significant accounting policies of the Chancery Offices of the Archdiocese:

Basis of presentation: The Chancery Offices of the Archdiocese prepares its financial statements in accordance with accounting principles generally accepted in the United States of America, which involves the application of accrual accounting; consequently, revenues and gains are recognized when earned, and expenses and losses are recognized when incurred. The Chancery Offices of the Archdiocese 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.

The unrestricted net assets of the Chancery Offices of the Archdiocese include unrestricted undesignated net assets, which are available for any purpose, and unrestricted designated net assets, which have been designated by the Archbishop for specific purposes. The temporarily restricted net assets are those which are stipulated by donors for specific operating purposes or time periods. Permanently restricted net assets are those whose use by the organization is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the organization.

Fund accounting: To ensure observance of limitations and restrictions placed on the use of resources available to the Chancery Offices of the Archdiocese, the accounts of the Chancery Offices of the Archdiocese 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.

The assets, liabilities and net assets of the Chancery Offices of the Archdiocese 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 Chancery Offices of the Archdiocese are anticipated and allocated in advance, billed for certain auxiliary services, or designated by the Archbishop upon receipt.

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

Funds entrusted to the Chancery Offices of the Archdiocese for safekeeping are invested through commercial banks and equity investment managers.

## Chancery Offices of the Archdiocese of Kansas City in Kansas

### Notes to Financial Statements

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

Deposit and Loan Fund: The Deposit and Loan Fund is composed of excess funds being deposited by parishes, schools and other ministries of the Archdiocese into the chancery offices and then these funds are loaned to similar institutions who are constructing new or remodeling existing facilities. The deposits and loans are due on demand and bear interest generally at 1% to 1.5% and 3.5% respectively.

Plant Fund: The Plant Fund includes only land, furniture, buildings and equipment owned by the Chancery Offices of the Archdiocese and used for current operations, held for future development, or available for sale. Properties of operating parishes are not included. Purchased fixed assets are recorded at the lower of cost or fair value. Donated fixed assets are recorded at fair value at the date of the gift. Assets held for sale are listed at the lower of cost or fair value.

Buildings and building improvements are depreciated over 10 to 40 years, and furniture and equipment is depreciated over 3 to 7 years.

Cor Christi Fund: These are internally restricted funds invested for the purpose of producing income. The income is used as the Archbishop designates.

Restricted and unrestricted revenue and support: Contributions are recognized when the donor makes a promise to give to the Archdiocese that is, in substance, unconditional.

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. Temporarily restricted net assets are either time restricted, i.e., The Archbishop's Call to Share, or purpose restricted, i.e., The Future Full of Hope Capital Campaign. However, if a restriction is fulfilled in the same time period in which the contribution is received, the Chancery Offices of the Archdiocese reports the support as unrestricted.

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.

Cash and cash equivalents: For purposes of reporting cash flows, the Chancery Offices of the Archdiocese considers all unrestricted highly liquid investments purchased with a maturity of three months or less to be cash equivalents. The Chancery Offices of the Archdiocese maintains cash balances and money market accounts in excess of insured amounts at several local financial institutions and brokerage firms. Accounts at each institution are insured by the Federal Deposit Insurance Corporation for up to \$250,000. Management believes that the risk of loss is minimal, due to the strength of the institutions, and has not experienced any such losses.

Investments: Investments are recorded at fair value. Fair value of publicly traded debt and equity securities is determined by quoted market prices. Fair value of mutual funds is determined by the value of the underlying assets within the fund. Fair value of alternative investments is estimated using net asset value per share. See Note 2 for a discussion of fair value measurements.

## Chancery Offices of the Archdiocese of Kansas City in Kansas

### Notes to Financial Statements

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

Accounts and loans receivable: The Chancery Offices of the Archdiocese has elected to use the “reserve method” in accounting for bad debts. Under this method, all uncollectible accounts are charged to the allowance account, and the bad debt expense is determined by adjusting the balance in the allowance account to a reserve considered reasonable by management based upon factors and circumstances of individual accounts or loans.

A loan is deemed uncollectible when management believes it is reasonably possible that they will not receive all of the recorded principal and interest amounts plus future interest amounts.

Interest is not charged on past due accounts receivable. Loans are considered past due based on individual loan terms. Accounts are past due after 365 days. Loans and accounts that are considered uncollectible are charged off to bad debt expense.

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.

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.

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

Land held for resale: Represents land contributed to the Archdiocese held for future sale, for which no sales contract is currently in place. The land was recorded at the appraised value on the date of the gift and is measured at the carrying amount less estimated cost to sell.

Interest in net assets of the Catholic Foundation of Northeast Kansas: The Archdiocese has assets that are held as endowments with the Catholic Foundation of Northeast Kansas. These are recorded at the fair value of the underlying assets in the endowments.

Deferred revenue: Subscriptions for The Leaven renew annually on the first of October. The deferred revenue from The Leaven is that portion of subscription income attributable to the July, August and September issues that has not been earned as of the fiscal year-end.

Accrued health and dental care claims: The Archdiocese has a self-insured health care plan. Accrued health and dental care claims consist of reported claims and incurred but not reported claims. The accrual consists of any probable losses and losses which can be reasonably estimated based upon statistical and historical experiences.

Deposits payable: Deposits payable consist of funds being held by the Chancery Offices of the Archdiocese on behalf of parishes, cemeteries, Archdiocesan institutions, and others within the Archdiocese of Kansas City in Kansas.

Income taxes: The Organization is exempt from federal income tax under provisions of Section 501(c)(3) of the Internal Revenue Code; accordingly, no provision for income taxes has been made in the accompanying financial statements. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation under Section 509(a)(2).

## Chancery Offices of the Archdiocese of Kansas City in Kansas

### Notes to Financial Statements

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

Uncertain tax provisions, if any, are recorded in accordance with FASB ASC 740, *Income Taxes*, which 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, 2013 and 2012.

Fundraising costs: The Organization expenses fundraising costs as incurred. Total expense for fundraising for the years ended June 30, 2013 and 2012 was \$749,605 and \$1,188,001, respectively.

Use of estimates: The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosures 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.

Implemented accounting pronouncements: The Archdiocese adopted Financial Accounting Standards Board (FASB) Accounting Standards Update 2011-04, *Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRSs* (ASU 2011-04). ASU 2011-04 amended ASC 820, *Fair Value Measurements and Disclosures*, and enhanced certain fair value reporting disclosures. The amendment was effective and was adopted for the period ending June 30, 2013.

Recently issued accounting pronouncements: In April 2013, the FASB issued ASU 2013-06, *Not-for-Profit Entities* (Topic 958). The objective of this Update is to address the diversity in practice about what guidance not-for-profit entities should apply for recognizing and measuring personnel services received from an affiliate, that is, a party that directly or indirectly, through one or more intermediaries, controls, is controlled by, or is under common control with the recipient not-for-profit entity. The amendments in this Update are effective prospectively for fiscal years beginning after June 15, 2014. Office management is currently evaluating the effect that the provision of ASU 2013-06 will have on the financial statements.

#### Note 2. Fair Value Measurements

The Fair Value Measurements and Disclosures Topic of the FASB Accounting Standards Codification, 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 and 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, the topic establishes fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under the topic are described below:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the entity has the ability to access.

## Chancery Offices of the Archdiocese of Kansas City in Kansas

### Notes to Financial Statements

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#### Note 2. Fair Value Measurements (Continued)

Level 2 – Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation of other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair market value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Assets recorded at fair value on a recurring basis: A description of the valuation methodologies used for assets 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 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 transparency around inputs to the valuation including alternative investments, securities are classified with the Level 3 of the valuation hierarchy. The Archdiocese's Fund of hedge fund limited partnerships does not have a readily determinable fair value based on quoted market price. As such, it has been classified as a Level 3 investment. The Archdiocese reports the fair value of level 3 investments using the practical expedient. The practical expedient allows for the use of net asset value (NAV), either as reported by the investee fund or as adjusted by the Archdiocese based on various factors. Annually, the net asset value from the respective funds' audited financial statements as of December 31 is adjusted to the Archdiocese's year-end of June 30 for capital calls, proceeds from distributions, and gains and losses that are included in earnings and recorded on the Archdiocese's Statement of Activities.

Interest in net assets of the Catholic Foundation of Northeast Kansas: The Archdiocese has assets that are held as endowments with the Catholic Foundation of Northeast Kansas (CFNEK). CFNEK's investments are classified Levels 1, 2 and 3; therefore, since the Archdiocese's investment is in CFNEK, not individual investments, all of the Archdiocese's investment in CFNEK is classified as Level 3.

Land held for sale: Valued based on independent appraisals.

## Chancery Offices of the Archdiocese of Kansas City in Kansas

### Notes to Financial Statements

#### Note 2. Fair Value Measurements (Continued)

The following table summarizes assets and liabilities measured at fair value on a recurring basis as of June 30, 2013 and 2012, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value.

	June 30, 2013			
	Total	Level 1	Level 2	Level 3
<b>Investments</b>				
<b>Fixed income securities:</b>				
Certificates of deposit	\$ 13,750,000	\$ 13,750,000	\$ -	\$ -
U.S. Treasuries	10,489,331	10,489,331	-	-
<b>Equity securities:</b>				
<b>Common stock:</b>				
Consumer discretionary	607,032	607,032	-	-
Consumer staples	280,936	280,936	-	-
Energy	414,923	414,923	-	-
Financial	517,758	517,758	-	-
Healthcare	368,995	368,995	-	-
Industrial	360,180	360,180	-	-
Information technology	493,539	493,539	-	-
Materials	228,835	228,835	-	-
Telecommunications	80,683	80,683	-	-
Utilities	57,888	57,888	-	-
Other	20,202	20,202	-	-
Privately held company	13,574	-	-	13,574
<b>Mutual funds:</b>				
International stock mutual funds	1,126,901	1,126,901	-	-
Global real estate mutual funds	1,115,332	1,115,332	-	-
Fixed income mutual funds	5,511,484	2,348,607	3,162,877	-
<b>Alternative investments:</b>				
Managed futures limited partnerships	953,357	-	953,357	-
Fund of hedge fund limited partnerships	2,754,113	-	-	2,754,113
	<b>39,145,063</b>	<b>32,261,142</b>	<b>4,116,234</b>	<b>2,767,687</b>
Land held for sale	967,500	-	-	967,500
Interest in net assets of the				
Catholic Foundation of Northeast Kansas	7,209,933	-	-	7,209,933
	<b>\$ 47,322,496</b>	<b>\$ 32,261,142</b>	<b>\$ 4,116,234</b>	<b>\$ 10,945,120</b>

## Chancery Offices of the Archdiocese of Kansas City in Kansas

### Notes to Financial Statements

#### Note 2. Fair Value Measurements (Continued)

	June 30, 2012			
	Total	Level 1	Level 2	Level 3
Investments				
Fixed income securities:				
Certificates of deposit	\$ 3,500,000	\$ 3,500,000	\$ -	\$ -
U.S. Treasuries	2,004,047	2,004,047	-	-
Equity securities:				
Common stock:				
Consumer discretionary	344,730	344,730	-	-
Consumer staples	186,592	186,592	-	-
Energy	328,760	328,760	-	-
Financial	258,872	258,872	-	-
Healthcare	219,881	219,881	-	-
Industrial	229,834	229,834	-	-
Information technology	441,718	441,718	-	-
Materials	204,326	204,326	-	-
Telecommunications	73,556	73,556	-	-
Utilities	30,167	30,167	-	-
Other	383,594	383,594	-	-
Privately held company	13,046	-	-	13,046
Mutual funds:				
International stock mutual funds	869,843	869,843	-	-
Global real estate mutual funds	318,118	318,118	-	-
Fixed income mutual funds	6,142,747	2,499,657	3,643,090	-
Alternative investments:				
Managed futures limited partnerships	1,084,553	-	1,084,553	-
Fund of hedge fund limited partnerships	3,408,840	-	-	3,408,840
	20,043,224	11,893,695	4,727,643	3,421,886
Interest in net assets of the				
Catholic Foundation of Northeast Kansas	6,662,030	-	-	6,662,030
	<u>\$ 26,705,254</u>	<u>\$ 11,893,695</u>	<u>\$ 4,727,643</u>	<u>\$ 10,083,916</u>



## Chancery Offices of the Archdiocese of Kansas City in Kansas

### Notes to Financial Statements

#### Note 2. Fair Value Measurements (Continued)

The following table presents additional information about assets measured at fair value on a recurring basis which the Archdiocese has utilized Level 3 inputs to determine fair value:

	Interest in Net Assets of the Catholic Foundation of Northeast Kansas	Alternative Investments	Privately Held Company
Beginning Balance - July 1, 2012	\$ 6,662,030	\$ 3,408,840	\$ 13,046
Purchases	238,106	35,261	-
Unrealized gains	481,622	314,241	528
Realized gains	212,812	46,217	-
Sales/withdrawals	(384,637)	(1,050,446)	-
Ending Balance - June 30, 2013	<u>\$ 7,209,933</u>	<u>\$ 2,754,113</u>	<u>\$ 13,574</u>

	Interest in Net Assets of the Catholic Foundation of Northeast Kansas	Alternative Investments	Privately Held Company
Beginning Balance - July 1, 2011	\$ 7,122,587	\$ 3,524,173	\$ 11,217
Purchases	59,962	350,000	-
Unrealized gains	(754,122)	(90,783)	1,829
Realized gains (losses)	563,034	(22,282)	-
Sales/withdrawals	(329,431)	(352,268)	-
Ending Balance - June 30, 2012	<u>\$ 6,662,030</u>	<u>\$ 3,408,840</u>	<u>\$ 13,046</u>

The following table sets forth additional disclosures of the Archdiocese's investments whose fair value is estimated using net asset value per share (or its equivalent) as of June 30, 2013 and 2012:

Investment	Fair Value at June 30, 2013	Unfunded Commitment	Redemption Frequency	Redemption Notice Period
<b>Alternative Investments:</b>				
Arden Alternative Advisors, Spc (A)	\$ 1,123,790	\$ -	Quarterly	60 days
Private Advisors Hedged Equity Fund, LTD (B)	820,771	-	Annual	60 days
Berens Capital Fund, Ltd. (D)	774,291	-	Annual	90 days
ACL Alternative Fund (F)	953,357	-	Quarterly	60 days
Blackstone (G)	35,261	-	Quarterly	None
	<u>\$ 3,707,470</u>	<u>\$ -</u>		

## Chancery Offices of the Archdiocese of Kansas City in Kansas

### Notes to Financial Statements

#### Note 2. Fair Value Measurements (Continued)

Investment	Fair Value at June 30, 2012	Unfunded Commitment	Redemption Frequency	Redemption Notice Period
Alternative Investments:				
Arden Alternative Advisors, Spc (A)	\$ 1,041,125	\$ -	Quarterly	60 days
Private Advisors Hedged Equity Fund, LTD (B)	945,474	-	Annual	60 days
Austin Capital All Seasons Offshore Fund, Ltd. (C)	36,783	-	Quarterly	65 days
Berens Capital Fund, Ltd. (D)	689,336	-	Annual	90 days
K2 Overseas Long Short Fund, Ltd. (E)	696,123	-	Quarterly	91 days
ACL Alternative Fund (F)	1,084,553	-	Quarterly	60 days
	<u>\$ 4,493,393</u>	<u>\$ -</u>		

- (A) This is a diversified, multi-strategy investment fund designated to provide investors with consistent returns with low volatility and low beta to equity and fixed income indices. The fund allocated to specialized relative value and event-driven managers to support this strategy.
- (B) This fund invests with hedge funds that focus on long and short equity investing in order to achieve a mix of value and growth, stock capitalizations and sector exposures.
- (C) This fund is in liquidation.
- (D) This fund invests in a selection of alternative money managers who specialize in long-short equity and event-driven strategies. Its differentiating characteristics are that it invests globally, and has value bias.
- (E) This is a multi-strategy fund whose objective is to seek superior investment returns with less volatility than the S&P 500 Index using long/short credit hedge funds investing across credit asset classes such as high yield bond, investment grade bond corporate loans, and distressed debt.
- (F) This fund invests in a range of trading styles, including long-term trend-following, short-term systematic, value, discretionary macro and specialist FX strategies. Market exposure is diversified in global currency, financial and commodity markets.
- (G) This fund will focus on high yield lending and purchases of legacy loans from banks and insurance companies and is expected to invest up to 30 percent of its capital outside of the U.S., primarily in Europe.

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

## Chancery Offices of the Archdiocese of Kansas City in Kansas

### Notes to Financial Statements

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#### Note 2. Fair Value Measurements (Continued)

FASB ASC 825, *Financial Instruments*, requires disclosure of the fair value of financial assets and financial liabilities, including those financial assets and financial liabilities that are not measured and reported at fair value on a recurring or nonrecurring basis. Financial instruments are described as cash or contractual obligations or rights to pay or to receive cash. The methodologies for estimating fair value of financial assets and financial liabilities that are measured at fair value on a recurring or nonrecurring basis are discussed above. The fair value approximates carrying value for cash and cash equivalents, receivables, accounts payable, accrued liabilities and other current liabilities due to the short-term maturity of these instruments.

The fair values estimates presented are based on pertinent information available to management as of June 30, 2013 and 2012. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not 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 3. Pledges Receivable

Pledge receivables (less allowance for uncollectible pledges) at June 30, 2013 to be received in subsequent years:

	Call to Share	Private Appeal	Total
Year ending:			
2014	1,283,915	\$ 2,191,500	\$ 3,475,415
2015	-	2,176,000	2,176,000
2016	-	1,165,500	1,165,500
2017	-	392,600	392,600
2018	-	67,000	67,000
	<u>1,283,915</u>	<u>5,992,600</u>	<u>7,276,515</u>
Less:			
Discount	-	(111,551)	(111,551)
Allowance for uncollectible	<u>(162,594)</u>	<u>(299,630)</u>	<u>(462,224)</u>
Total pledges receivable	<u>\$ 1,121,321</u>	<u>\$ 5,581,419</u>	<u>\$ 6,702,740</u>

Pledges receivable of \$3,224,542 and (\$3,485,548 less \$261,006 of allowance for uncollectible pledges) at June 30, 2012 were to be received during the year ending June 30, 2013.

The Archdiocese annually sponsors the Archbishop's Call to Share fund drive in the six weeks prior to Lent for the following year's funding. Pledges received in the current fiscal year for expenditures in the subsequent fiscal year are, therefore, temporarily restricted. The contributions from the fund drive are used to fund supra-parochial needs, services and ministries in the Archdiocese. The contributions pledged for fiscal year 2014 during the year ended June 30, 2013 were \$5,331,221 (\$5,421,406 less \$90,185 of parish rebates). The contributions pledged for fiscal year 2013 during the year ended June 30, 2012 were \$5,133,990 (\$5,253,262 less \$119,282 of parish rebates). Pledges received in the current year for current year use are reported as unrestricted revenues. Such contributions were \$129,057 and \$144,773 during the years ended June 30, 2013 and 2012, respectively.

## Chancery Offices of the Archdiocese of Kansas City in Kansas

### Notes to Financial Statements

#### Note 3. Pledges Receivable (Continued)

The Archdiocese initiated the Private Appeal campaign in 2012 for the purpose of reducing debt for Archdiocesan high schools. Pledges received in the Private Appeal campaign are, therefore, temporarily restricted. The contributions pledged during the years ended June 30, 2013 and 2012 were \$1,100,596 and \$8,509,654, respectively.

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

Land, buildings and equipment comprise the following at June 30, 2013 and 2012:

	2013	2012
Operating land and building	\$ 19,537,256	\$ 18,492,886
Possible future use sites	7,810,550	7,783,131
Furniture and equipment	2,658,249	2,551,627
	<u>30,006,055</u>	<u>28,827,644</u>
Less: Accumulated depreciation	12,927,061	12,220,923
	<u>\$ 17,078,994</u>	<u>\$ 16,606,721</u>

#### Note 5. Investments

Investments comprise the following at June 30, 2013 and 2012:

	2013		
	Cost	Fair Value	Unrealized Appreciation
Certificates of deposit	\$ 13,750,000	\$ 13,750,000	\$ -
Mutual funds	7,172,752	7,753,717	580,965
U.S. Government securities	10,489,331	10,489,331	-
Equity securities	3,232,611	3,444,545	211,934
Alternative investments	3,531,926	3,707,470	175,544
	<u>\$ 38,176,620</u>	<u>\$ 39,145,063</u>	<u>\$ 968,443</u>

## Chancery Offices of the Archdiocese of Kansas City in Kansas

### Notes to Financial Statements

#### Note 5. Investments (Continued)

	2012		
	Cost	Fair Value	Unrealized Appreciation
Certificates of deposit	\$ 3,500,000	\$ 3,500,000	\$ -
Mutual funds	6,916,061	7,330,707	414,646
U.S. Government securities	2,004,047	2,004,047	-
Equity securities	2,760,898	2,715,077	(45,821)
Alternative investments	4,609,504	4,493,393	(116,111)
	<u>\$ 19,790,510</u>	<u>\$ 20,043,224</u>	<u>\$ 252,714</u>

The following summarizes the investment returns (losses) for the years ended June 30, 2013 and 2012:

	2013	2012
Interest and dividend income	\$ 2,144,946	\$ 2,543,689
Realized gains	271,906	196,738
Unrealized gains (losses) on investments	715,191	(812,916)
	<u>\$ 3,132,043</u>	<u>\$ 1,927,511</u>

Included in the interest income amounts above are \$1,830,404 and \$2,263,764 related to interest income on loans receivable for the years ended June 30, 2013 and 2012, respectively.

#### Note 6. Loans Receivable

Loans receivable comprise the following at June 30, 2013 and 2012:

	2013	2012
Parishes	\$ 32,225,999	\$ 35,903,601
Archdiocesan institutions	18,398,969	17,691,982
Other	97,784	111,345
	<u>50,722,752</u>	<u>53,706,928</u>
Less: Allowance for doubtful accounts	(2,542,714)	(3,035,396)
	<u>\$ 48,180,038</u>	<u>\$ 50,671,532</u>

The Organization's loans receivable consist of funds disbursed to parishes, cemeteries, Archdiocesan institutions, and other entities within the Archdiocese of Kansas City in Kansas. 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.

## Chancery Offices of the Archdiocese of Kansas City in Kansas

### Notes to Financial Statements

#### Note 6. Loans Receivable (Continued)

The aging of the loan portfolio as of June 30, 2013 and 2012 is summarized below:

<b>June 30, 2013</b>	<b>Current</b>	<b>Past Due</b>	<b>Total</b>
Loans	\$ 38,401,722	\$ 12,321,030	\$ 50,722,752
<b>As a percentage of the total loan portfolio</b>	<b>80.45%</b>	<b>19.55%</b>	<b>100.00%</b>

  

June 30, 2012	Current	Past Due	Total
Loans	\$ 41,610,216	\$ 12,096,712	\$ 53,706,928
<b>As a percentage of the total loan portfolio</b>	<b>77.47%</b>	<b>22.53%</b>	<b>100.00%</b>

An analysis of the allowance for doubtful accounts during the year ended June 30, 2013 and 2012 is as follows:

	<b>2013</b>	<b>2012</b>
Balance, beginning of year	\$ 3,035,396	\$ 2,730,000
(Decrease) increase in provision for bad debts	(446,078)	548,443
Loans charged off, net of recoveries	(46,604)	(243,047)
Balance, end of year	<b>\$ 2,542,714</b>	<b>\$ 3,035,396</b>

#### Note 7. Lines of Credit and Non-Recourse Loans

The Archdiocese has an unsecured line of credit with a local bank for \$5,000,000. The line matures on November 28, 2013 and has an interest rate equal to the one-month LIBOR (0.25% at June 30, 2013) plus 2%. There were no borrowings outstanding on this line as of June 30, 2013 and 2012.

The Archdiocese has an unsecured line of credit with a local bank for \$5,000,000. The line matures on December 1, 2014 and has an interest rate equal to the bank's prime rate (3.25% at June 30, 2013). There were no borrowings outstanding on this line as of June 30, 2013 and 2012.

#### Note 8. Interest in Net Assets of the Catholic Foundation of Northeast Kansas

The Chancery Offices of the Archdiocese has assets invested in the Catholic Foundation of Northeast Kansas that are held as endowments. The aggregate amount, recognized in the statement of financial position as an interest in the net assets of the Foundation, at June 30, 2013 is \$7,209,933 (2012 - \$6,662,030). The following details the purpose restrictions of the interest in the net assets of the Catholic Foundation of Northeast Kansas.

The amounts listed as temporarily restricted below are donor restricted and the earnings on these funds are temporarily restricted for the purpose stated below.

## Chancery Offices of the Archdiocese of Kansas City in Kansas

### Notes to Financial Statements

#### Note 8. Interest in Net Assets of the Catholic Foundation of Northeast Kansas (Continued)

The amounts listed as permanently restricted below are donor restricted. The permanently endowed funds are to be held in perpetuity. With the exception of the Archbishop Discretion Endowment, the earnings on the endowments are temporarily restricted for the purpose stated below. The earnings on the Archbishop Discretion Endowment are unrestricted.

	2013	2012
Unrestricted	\$ (66,930)	\$ (414,010)
Temporarily Restricted:		
Poor and Needy of the World	87,833	133,224
Education of Priests and Seminarians	3,849,131	3,779,915
Cultural Outreach Ministry	606,217	606,216
Youth Religious Camp Scholarships	294,715	151,180
	<u>4,837,896</u>	<u>4,670,535</u>
Permanently Restricted:		
Archbishop Discretion Endowment	110,300	110,300
Education of Priests and Seminarians	1,412,435	1,412,435
Lay Ministry Development	882,770	882,770
Mary Sue Cosentino Camp Tekakwitha Scholarship	33,462	-
	<u>2,438,967</u>	<u>2,405,505</u>
Total	<u>\$ 7,209,933</u>	<u>\$ 6,662,030</u>

#### Note 9. Deposits Payable

Deposits payable comprise the following at June 30, 2013 and 2012:

	2013	2012
Parishes	\$ 35,541,004	\$ 31,642,627
Cemeteries	2,186,403	2,113,758
Archdiocesan institutions	28,277,306	26,629,268
Other	753,499	1,540,333
	<u>\$ 66,758,212</u>	<u>\$ 61,925,986</u>

Interest expense to related parties was \$729,851 and \$1,339,577 for the years ended June 30, 2013 and 2012, respectively.

## Chancery Offices of the Archdiocese of Kansas City in Kansas

### Notes to Financial Statements

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#### Note 10. Health and Dental Care Plans

The Archdiocese has a self-insured health care plan, which is administered by a third-party administrator. This plan provides for payments of hospitalization and medical benefits for lay employees and priests of the Archdiocese, with excess claims funded by an insurance carrier. The carrier provides reinsurance on claims that exceed \$200,000 for the policy year ending December 31, 2013. Plan premium income received for this plan for the year ended June 30, 2013 was \$16,797,797 (2012 - \$16,425,615); expenses were \$15,968,451 (2012 - \$16,009,601). Total plan assets as of June 30, 2013 were \$7,681,140 (2012 - \$6,915,989), which have been reflected as unrestricted designated net assets on the statement of financial position.

The Archdiocese also has a self-insured dental plan for lay employees and priests, which is administered by a third-party administrator. Plan premium income received for this plan for the year ended June 30, 2013 was \$1,595,186 (2012 - \$1,566,955); expenses were \$1,371,692 (2012 - \$1,366,601). Total plan assets as of June 30, 2013 were \$1,641,791 (2012 - \$1,354,101), which have been reflected as unrestricted designated net assets on the statement of financial position.

Incurred but not reported health and dental care claims accrued at both June 30, 2013 and 2012 were \$1,200,000 and \$1,500,000, respectively.

#### Note 11. Retirement Funds

Priest retirement plan and other benefits: The Archdiocese has established a separate, self-administered retirement and disability plan for priests of the Archdiocese. All recognized Archdiocesan organizations may participate in the plan. In accordance with plan documents, the Archdiocese 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 Retirement Plan for Priests of the Archdiocese of Kansas City in Kansas and the employee Identification number of the plan is 481205425. The assets for the plan are held in a separate trust for the benefit of the participants. The fund provides a monthly pension benefit and certain health and dental insurance premiums to retired priests and is also used to provide support for priests with disabilities. The cost of providing the benefits provided under the plan shall be paid annually, as determined by the Retirement Committee acting with the advice of the Plan actuary. The parishes or agencies of the Archdiocese 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, 2012:

	Total Plan Net Assets	Present Value of Accumulated Plan Benefits	Total Contributions	Funded Status
* July 1, 2012	\$ 4,994,664	\$ 10,477,747	\$ 623,820	Less than 65% funded
July 1, 2011	5,240,927	9,287,679	612,891	Less than 65% funded

\* Incorporates change in assumed rate of return (from 8% to 7% rate of return).



## Chancery Offices of the Archdiocese of Kansas City in Kansas

### Notes to Financial Statements

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#### Note 11. Retirement Funds (Continued)

Lay and deacon employees retirement plan: The Archdiocese established a separate self-administered, noncontributory retirement plan for lay employees. All recognized Archdiocesan organizations may participate in the plan. In accordance with plan documents, the Archdiocese 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 Retirement Plan for Lay and Deacon Employees of Archdiocese of Kansas City in Kansas and the employee identification number of the plan is 481205425. The assets for the plan are held in a separate trust for the benefit of the participants. Employees become partially vested at three years of service and 100% vested after seven 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 death benefit for active vested employees is the accrued benefit the employee earned to date of death. The table below presents certain financial information about the plan from the most recent audit report and actuarial certification as of July 1, 2012:

	Total Plan Net Assets	Present Value of Accumulated Plan Benefits	Total Contributions	Funded Status
* <b>July 1, 2012</b>	<b>\$ 39,943,570</b>	<b>\$ 59,690,873</b>	<b>\$ 3,386,020</b>	<b>Between 65% and 80% funded</b>
July 1, 2011	40,436,513	49,111,727	3,231,413	Greater than 80% funded

\* Incorporates changes in actuarial cost method, salary increase assumptions and assumed investment rate of return (from 8% to 7% annual rate).

Subsequent to year-end, the Archdiocese approved the freezing of the Lay employees retirement plan effective January 1, 2014.

The recognized Archdiocesan organizations currently contribute 4.5% (4.5% at June 30, 2012) of total payroll dollars to the retirement plan. Contributions to this plan for the year ended June 30, 2013 from the Chancery Offices were \$165,461 (2012 - \$160,911).

## Chancery Offices of the Archdiocese of Kansas City in Kansas

### Notes to Financial Statements

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#### Note 12. Restricted Net Assets

Temporarily restricted net assets are available for the following purposes or periods at June 30, 2013 and 2012:

	2013	2012
Restrictions as to use:		
Education of priests and seminarians	\$ 2,748,250	\$ 2,503,393
Other restricted net assets	2,509,139	1,886,978
Restrictions as to time:		
Private Appeal	7,258,909	7,601,432
Archbishop's Call to Share	5,168,625	4,979,623
Total temporarily restricted net assets	<u>\$ 17,684,923</u>	<u>\$ 16,971,426</u>

#### Note 13. Endowments

The Chancery Offices of the Archdiocese of Kansas City in Kansas has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as adopted by the State of Kansas applies to the Organization and, in accordance with UPMIFA, the Chancery Offices of the Archdiocese considers the following factors in determining whether to expend or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purpose of the Chancery Offices of the Archdiocese and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation or deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the Chancery Offices of the Archdiocese
7. The investment policies of the Chancery Offices of the Archdiocese

#### Spending Policy

The Chancery Offices of the Archdiocese of Kansas City in Kansas receives a distribution from the donor-restricted endowment funds based on the language of the funds' governing documents in Catholic Foundation of Northeast Kansas (CFNEK). CFNEK's definition of income is determined to be 5% of the average of the previous three year-end market values. The distributions received are shown as temporarily restricted for the intended purpose as stated in the endowment.

The Chancery Offices of the Archdiocese of Kansas City in Kansas also receives distributions from quasi-endowments held by CFNEK. The distributions from the CFNEK quasi-endowments, for the education of priests and seminarians and cultural outreach, are 5% of the average of the previous three year-end market values. This allows for a predictable stream of funding to the programs supported by the endowment. The fund for the "poor and needy of the world" is governed by the specific agreement with CFNEK which allows the Archbishop to distribute the original principal for the intended purpose.

**Chancery Offices of the Archdiocese of Kansas City in Kansas**

**Notes to Financial Statements**

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**Note 13. Endowments (Continued)**

**Investment Return Objectives, Risk Parameters and Strategies**

The Archdiocese has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long term. Accordingly, the investment process seeks to achieve an after cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a well diversified asset mix that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution of 5% while growing the funds if possible. Therefore, it is expected, over time, to produce an average rate of return of approximately 8% annually. Actual returns in any given year may vary from this amount. Asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

The following is activity related to endowment net assets for the year ended June 30, 2013 and 2012:

	2013			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<b>Endowment net assets, beginning of year</b>	<b>\$ (414,010)</b>	<b>\$ 4,670,535</b>	<b>\$ 2,405,505</b>	<b>\$ 6,662,030</b>
<b>Investment return:</b>				
<b>Investment income</b>	218,018	4,922	-	222,940
<b>Net appreciation (realized     and unrealized)</b>	<b>479,264</b>	<b>5,185</b>	-	<b>484,449</b>
<b>Total endowment         investment return</b>	<b>697,282</b>	<b>10,107</b>	-	<b>707,389</b>
<b>Contributions</b>	-	212,755	33,462	246,217
<b>Appropriation of endowment assets for expenditure</b>	<b>(350,202)</b>	<b>(55,501)</b>	-	<b>(405,703)</b>
<b>Endowment net assets,     end of year</b>	<b>\$ (66,930)</b>	<b>\$ 4,837,896</b>	<b>\$ 2,438,967</b>	<b>\$ 7,209,933</b>

**Chancery Offices of the Archdiocese of Kansas City in Kansas**

**Notes to Financial Statements**

**Note 13. Endowments (Continued)**

	2012			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment net assets, beginning of year	\$ 66,687	\$ 4,650,395	\$ 2,405,505	\$ 7,122,587
Investment return:				
Investment income	102,484	2,042	-	104,526
Net (depreciation) (realized and unrealized)	(288,311)	(7,303)	-	(295,614)
Total endowment investment return	(185,827)	(5,261)	-	(191,088)
Contributions	-	59,962	-	59,962
Appropriation of endowment assets for expenditure	(294,870)	(34,561)	-	(329,431)
Endowment net assets, end of year	<u>\$ (414,010)</u>	<u>\$ 4,670,535</u>	<u>\$ 2,405,505</u>	<u>\$ 6,662,030</u>

**Note 14. Net Assets Released from Restrictions**

Net assets were released from restrictions by incurring expenses satisfying the restricted purpose specified or by the occurrence of other events during 2013 and 2012.

	2013	2012
Time Restrictions:		
Archbishop's Call to Share	\$ 4,979,623	\$ 4,895,344
Private Appeal	1,031,789	487,421
Purpose Restrictions:		
Future Full of Hope	870	34,411
Contributions to various designated organizations	2,564,552	2,511,802
	<u>\$ 8,576,834</u>	<u>\$ 7,928,978</u>

**Note 15. Board-Designated Unrestricted Net Assets**

Board-designated unrestricted net assets at June 30 comprised the following:

	2013	2012
Health and dental care plans	\$ 9,322,931	\$ 8,270,090
Other designations	1,527,950	1,736,440
	<u>\$ 10,850,881</u>	<u>\$ 10,006,530</u>

## **Chancery Offices of the Archdiocese of Kansas City in Kansas**

### **Notes to Financial Statements**

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#### **Note 16. Commitments and Contingencies**

In April 1998, Villa St. Francis, Inc. entered into a 25-year lease agreement for a nursing home facility in Olathe, Kansas. The lease agreement calls for \$50,000 payments each month during the 25-year term of the lease. The Archdiocese has given a guarantee limited to 12 months' worth of obligations under the lease.

The Chancery Offices of the Archdiocese of Kansas City in Kansas has not been named as a defendant in any lawsuits.

The Archdiocese has approximately 6.0% participation interest in Catholic Umbrella Pool II (the Pool), a separate and distinct fund within The Catholic Mutual Relief Society of America, Administrator for the Pool. This entirely separate and distinct fund is a self-insurance fund providing excess liability coverage for its membership, which consists of 52 small to medium-sized dioceses. Effective July 1, 2003, the Pool is responsible for 50% of individual casualty claims of its members, which exceed \$1,500,000 to a limit of \$5,000,000.

In addition, effective July 1, 2007, the Pool began insuring 5% of coverage provided by the Administrator, in excess of \$1,500,000 up to \$5,000,000, for morality certificates between 1.786% to 5% and up to \$20,500,000 for liability certificates. Participating dioceses are liable (in proportion to their participation interest) for any losses beyond the Pool's ability to fund such losses.

#### **Note 17. Subsequent Events**

Management has evaluated and disclosed subsequent events up to and including September 24, 2013, which is the date the financial statements were available to be issued.