

Chancery Offices of the Archdiocese of Kansas City in Kansas

Financial Report
June 30, 2018

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RSM US LLP

Independent Auditor's Report

Most Reverend Joseph F. Naumann
Archbishop and Audit Committee of the
Archdiocese of Kansas City in 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, 2018 and 2017, 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, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The additional consolidating detail for the Chancery Offices of the Archdiocese of Kansas City in Kansas presented on the statements of financial position is presented for the purposes of additional analysis rather than to present the financial position of the funds and is not a required part of the financial statements. This 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 statements of financial position 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 statements of financial position as a whole.

RSM US LLP

Kansas City, Missouri
October 3, 2018

Chancery Offices of the Archdiocese of Kansas City in Kansas

**Statements of Financial Position
June 30, 2018 and 2017**

	Current	Deposit and Loan	Plant	Cor Christi	Property and Liability Insurance	Health/Dental Care Plans	2018	2017
Assets								
Cash and cash equivalents	\$ 15,794,926	\$ -	\$ -	\$ 2,810,306	\$ -	\$ -	\$ 18,605,232	\$ 23,281,999
Investments (Notes 2 and 5)	24,741,762	-	-	13,245,963	-	-	37,987,725	36,645,045
Accrued interest receivable	87,344	230,504	-	-	-	-	317,848	207,784
Accounts receivable, net	1,839,132	-	-	-	323,360	2,452,103	4,614,595	6,010,929
Pledges receivable, net (Note 3)	3,436,485	-	-	-	-	-	3,436,485	2,234,459
Prepaid expenses	179,681	-	-	-	-	-	179,681	333,607
Interest in net assets of the Catholic Foundation of Northeast Kansas (Notes 2 and 8)	7,891,047	-	-	-	-	-	7,891,047	7,707,861
Loans receivable, net (Note 6)	-	30,277,881	-	-	-	-	30,277,881	29,495,468
Land, buildings and equipment, net (Note 4)	-	-	15,748,646	1	-	-	15,748,647	15,912,536
Due to/from other funds	(27,986,412)	20,093,318	(3,952,816)	(59,570)	727,320	11,178,160	-	-
Total assets	\$ 25,983,965	\$ 50,601,703	\$ 11,795,830	\$ 15,996,700	\$ 1,050,680	\$ 13,630,263	\$ 119,059,141	\$ 121,829,688

(Continued)

Chancery Offices of the Archdiocese of Kansas City in Kansas

Statements of Financial Position (Continued)

June 30, 2018 and 2017

	Current	Deposit and Loan	Plant	Cor Christi	Property and Liability Insurance	Health/Dental Care Plans	2018	2017
Liabilities and Net Assets								
Liabilities:								
Accounts payable and accrued expenses	\$ 1,203,731	\$ -	\$ -	\$ -	\$ -	\$ 201,899	\$ 1,405,630	\$ 2,117,704
Due to lay and priest retirement trust fund	10,424	-	-	-	-	-	10,424	137,950
Pledges payable	-	-	-	-	-	-	-	110,000
Accrued IBNR claims	-	-	-	-	400,000	1,200,000	1,600,000	1,500,000
Collections held for transmittal	143,644	-	-	-	-	-	143,644	151,642
Deposits payable (Note 9)	-	50,601,703	-	-	-	-	50,601,703	54,812,447
Deferred revenue	549,585	-	-	-	-	-	549,585	1,616,791
Total liabilities	1,907,384	50,601,703	-	-	400,000	1,401,899	54,310,986	60,446,534
Net assets (deficit):								
Unrestricted:								
Undesignated	416,186	-	11,795,830	-	-	-	12,212,016	12,651,928
Undesignated—endowments (Note 13)	122,339	-	-	-	-	-	122,339	(25,886)
Designated (Note 15)	3,397,524	-	-	15,996,700	650,680	12,228,364	32,273,268	32,197,046
Total unrestricted net assets	3,936,049	-	11,795,830	15,996,700	650,680	12,228,364	44,607,623	44,823,088
Restricted:								
Temporarily restricted (Note 12):								
Education of priests and seminarians	4,670,051	-	-	-	-	-	4,670,051	4,486,198
Appeals	10,346,204	-	-	-	-	-	10,346,204	7,177,055
Other	2,538,672	-	-	-	-	-	2,538,672	2,350,036
Permanently restricted (Notes 8 and 13)	2,585,605	-	-	-	-	-	2,585,605	2,546,777
Total restricted net assets	20,140,532	-	-	-	-	-	20,140,532	16,560,066
Total net assets	24,076,581	-	11,795,830	15,996,700	650,680	12,228,364	64,748,155	61,383,154
Total liabilities and net assets	\$ 25,983,965	\$ 50,601,703	\$ 11,795,830	\$ 15,996,700	\$ 1,050,680	\$ 13,630,263	\$ 119,059,141	\$ 121,829,688

See notes to financial statements.

Chancery Offices of the Archdiocese of Kansas City in Kansas

**Statement of Activities
Year Ended June 30, 2018**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues:				
Archbishop's Call to Share (Note 3)	\$ 157,134	\$ 6,391,764	\$ -	\$ 6,548,898
One Faith Capital Campaign (Note 3)	-	4,565,609	-	4,565,609
Private appeal campaign (Note 3)	-	5,725	-	5,725
Archdiocesan collections	-	502,569	-	502,569
Archdiocesan assessments	5,050,297	1,688,001	-	6,738,298
Health and dental plan premiums (Note 10)	24,702,120	-	-	24,702,120
Property and liability insurance	1,185,011	-	-	1,185,011
Contributions and bequests	262,767	542,295	38,828	843,890
Investment income (Note 5)	2,103,403	-	-	2,103,403
Change in net assets of the Catholic Foundation of Northeast Kansas	152,528	393,772	-	546,300
Other revenue:				
Administration	418,091	-	-	418,091
Conversion	913,350	-	-	913,350
Education	1,789,562	20,311	-	1,809,873
Evangelization	1,373,418	59,879	-	1,433,297
Outreach	73,240	35,951	-	109,191
Stewardship	227,756	-	-	227,756
Net assets released from restrictions (Note 14)	10,451,811	(10,451,811)	-	-
Total revenues	48,860,488	3,754,065	38,828	52,653,381
Expenses:				
Pastoral priorities:				
Conversion	2,767,728	-	-	2,767,728
Evangelization	2,692,423	-	-	2,692,423
Education	6,720,466	-	-	6,720,466
Outreach	2,397,895	-	-	2,397,895
Stewardship	5,603,070	-	-	5,603,070
Total ministry and program services	20,181,582	-	-	20,181,582
Supporting services:				
Administrative	1,884,937	-	-	1,884,937
Other:				
Interest (Note 9)	557,574	-	-	557,574
Bad-debt expense	8,931	212,427	-	221,358
Property and liability insurance	1,047,409	-	-	1,047,409
Health and dental care expense (Note 10)	24,602,182	-	-	24,602,182
Cor Christi Fund distributions	420,027	-	-	420,027
Private appeal distributions	373,311	-	-	373,311
Total supporting services	28,894,371	212,427	-	29,106,798
Total expenses	49,075,953	212,427	-	49,288,380
Increase (decrease) in net assets	(215,465)	3,541,638	38,828	3,365,001
Net assets, beginning of year	44,823,088	14,013,289	2,546,777	61,383,154
Net assets, end of year	\$ 44,607,623	\$ 17,554,927	\$ 2,585,605	\$ 64,748,155

See notes to financial statements.

Chancery Offices of the Archdiocese of Kansas City in Kansas

**Statement of Activities
Year Ended June 30, 2017**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues:				
Archbishop's Call to Share (Note 3)	\$ 150,022	\$ 6,231,425	\$ -	\$ 6,381,447
Private appeal campaign (Note 3)	-	27,309	-	27,309
Archdiocesan collections	-	494,100	-	494,100
Archdiocesan assessments	4,753,677	1,870,001	-	6,623,678
Health and dental plan premiums (Note 10)	22,651,263	-	-	22,651,263
Property and liability insurance	1,788,672	-	-	1,788,672
Contributions and bequests	34,948	528,191	9,900	573,039
Investment income (Note 5)	2,428,524	-	-	2,428,524
Change in net assets of the Catholic Foundation of Northeast Kansas	305,037	445,113	-	750,150
Other revenue:				
Administration	412,559	-	-	412,559
Conversion	841,078	-	-	841,078
Education	1,801,791	14,257	-	1,816,048
Evangelization	1,570,139	40,071	-	1,610,210
Outreach	76,945	32,538	-	109,483
Stewardship	336,618	150	-	336,768
Gain on disposal of land, building and equipment	117,088	-	-	117,088
Net assets released from restrictions (Note 14)	10,565,073	(10,565,073)	-	-
Total revenues	47,833,434	(881,918)	9,900	46,961,416
Expenses:				
Pastoral priorities:				
Conversion	3,104,746	-	-	3,104,746
Evangelization	2,652,679	-	-	2,652,679
Education	6,506,205	-	-	6,506,205
Outreach	2,432,306	-	-	2,432,306
Stewardship	5,035,826	-	-	5,035,826
Total ministry and program services	19,731,762	-	-	19,731,762
Supporting services:				
Administrative	1,722,278	-	-	1,722,278
Other:				
Interest (Note 9)	522,874	-	-	522,874
Bad-debt expense (Note 6)	288,966	95,870	-	384,836
Property and liability insurance	1,275,595	-	-	1,275,595
Health and dental care expense (Note 10)	23,666,875	-	-	23,666,875
Cor Christi Fund distributions	701,665	-	-	701,665
Private appeal distributions	1,638,271	-	-	1,638,271
Future Full of Hope distributions	150	-	-	150
Total supporting services	29,816,674	95,870	-	29,912,544
Total expenses	49,548,436	95,870	-	49,644,306
Increase (decrease) in net assets	(1,715,002)	(977,788)	9,900	(2,682,890)
Net assets, beginning of year	46,538,090	14,991,077	2,536,877	64,066,044
Net assets, end of year	<u>\$ 44,823,088</u>	<u>\$ 14,013,289</u>	<u>\$ 2,546,777</u>	<u>\$ 61,383,154</u>

See notes to financial statements.

Chancery Offices of the Archdiocese of Kansas City in Kansas

**Statements of Cash Flows
Years Ended June 30, 2018 and 2017**

	2018	2017
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ 3,365,001	\$ (2,682,890)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities:		
Depreciation	797,152	774,595
Change in allowance for accounts and pledges receivable	(206,925)	1,280,681
Amortization of pledge discount	(5,511)	(21,288)
Realized gain on sale of investments	(441,865)	(428,875)
Unrealized (gain) loss on investments	252,392	(152,351)
Net amortization (accretion) for investments discount/premium	35,095	(32,344)
Increase in fair value of investments held at the Catholic Foundation of Northeast Kansas	(440,719)	(621,557)
Allowance provision for loans receivable, net of recoveries	(38,146)	(242,000)
Gain on sale of land, building and equipment	-	(117,088)
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	1,657,334	(481,676)
Pledges receivable, net	(1,250,590)	907,195
Accrued interest receivable	(110,064)	88,885
Prepaid expenses	153,926	184,304
Increase (decrease) in:		
Accounts payable and accrued expenses	(712,074)	479,809
Due to lay and priest retirement trust fund	(127,526)	(150,397)
Pledges payable	(110,000)	70,000
Accrued IBNR claims	100,000	300,000
Collections held for transmittal	(7,998)	(146,978)
Deferred revenue	(1,067,206)	311,344
Net cash provided by (used in) operating activities	1,842,276	(680,631)
Cash flows from investing activities:		
Proceeds from sales of land, buildings and equipment	-	1,069,278
Purchases of land, buildings and equipment	(633,263)	(508,716)
Purchases of investments	(22,711,130)	(29,583,703)
Proceeds from sale of investments	21,522,828	21,027,412
Withdrawals in interest in Catholic Foundation of Northeast Kansas	257,533	145,846
(Increase) decrease in loans receivable, net	(744,267)	6,488,353
Net cash used in investing activities	(2,308,299)	(1,361,530)

(Continued)

Chancery Offices of the Archdiocese of Kansas City in Kansas

Statements of Cash Flows (Continued)
Years Ended June 30, 2018 and 2017

	2018	2017
Cash flows from financing activities:		
Increase (decrease) in deposits payable, net	<u>\$ (4,210,744)</u>	<u>\$ 5,704,372</u>
Net cash provided by (used in) financing activities	<u>(4,210,744)</u>	<u>5,704,372</u>
Net increase (decrease) in cash and cash equivalents	(4,676,767)	3,662,211
Cash and cash equivalents:		
Beginning of year	<u>23,281,999</u>	19,619,788
End of year	<u>\$ 18,605,232</u>	<u>\$ 23,281,999</u>
Supplemental disclosures of cash flow information:		
Cash payments for interest	<u>\$ 557,574</u>	<u>\$ 522,874</u>
Supplemental schedule of noncash investing activities:		
Real estate transferred from land held for sale	<u>\$ -</u>	<u>\$ (523,739)</u>

See notes to financial statements.

Chancery Offices of the Archdiocese of Kansas City in Kansas

Notes to Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies

Nature of activities: The accompanying financial statements of the Chancery Offices of the Archdiocese of Kansas City in Kansas (the Chancery) 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 (the Archdiocese). The Archdiocese consists of 21 counties in northeastern Kansas.

The accompanying financial statements exclude the accounting of other activities of the Archdiocese, such as the following: parishes, schools, cemeteries, homes, campus centers, Catholic Charities, foundations, retirement plans, regional offices, etc., or assets, liabilities and guarantees of 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:

Basis of presentation: The Chancery prepares its financial statements in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP), 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 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 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 that 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, the accounts of the Chancery 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 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 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.

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

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, 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 1.0 percent (2017—1.0 percent) and 3.75 percent (2017—3.5 percent), respectively.

Chancery Offices of the Archdiocese of Kansas City in Kansas

Notes to Financial Statements

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

Plant Fund: The Plant Fund includes only land, furniture, buildings and equipment owned by 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 cost. 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 three to seven years.

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

Property and Liability Insurance Fund: The Property and Liability Insurance Fund is composed of premiums paid by Archdiocesan institutions to fund the self-insurance portion of claims for which the Archdiocese is responsible, less claims paid and an estimate for claims incurred but not yet reported.

Health/Dental Care Plans Fund: The Health/Dental Care Plans Fund is composed of premiums paid by Archdiocesan institutions for health and dental coverage, less administrative costs, claims paid and an estimate for claims incurred but not yet reported.

Restricted and unrestricted revenue and support: Contributions are recognized when the donor makes a promise to give to the Chancery 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 or purpose restricted. However, if a restriction is fulfilled in the same time period in which the contribution is received, the Chancery 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 considers all unrestricted highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

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 quoted market prices or 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.

Accounts and loans receivable: The Chancery 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.

Chancery Offices of the Archdiocese of Kansas City in Kansas

Notes to Financial Statements

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

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.

Interest in net assets of the Catholic Foundation of Northeast Kansas: The Chancery 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 Chancery administers a self-insured health care plan for participating employers in the Archdiocese. 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 that can be reasonably estimated based upon statistical and historical experiences.

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

Income taxes: The Chancery 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 Chancery 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).

Uncertain tax provisions, if any, are recorded in accordance with the *FASB Accounting Standards Codification* (ASC) Topic 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, 2018 and 2017.

Chancery Offices of the Archdiocese of Kansas City in Kansas

Notes to Financial Statements

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

Fundraising costs: The Chancery expenses fundraising costs as incurred. Total expense for fundraising for the years ended June 30, 2018 and 2017, was \$1,837,367 and \$747,923, respectively.

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 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.

Recent accounting pronouncements: Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. This guidance will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The new standard permits the use of either the retrospective or cumulative-effect transition method. In August 2015, the FASB issued ASU No. 2015-14, which defers the effective date of ASU 2014-09 one year, making it effective for annual reporting periods beginning after December 15, 2018. The Chancery is evaluating the effect the standard will have on its financial statements and related disclosures. The Chancery has not yet selected a transition method and has not determined the effect of the standard on ongoing financial reporting.

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for Profit Entities*. The new standard changes presentation and disclosure requirements with the intention of helping not-for-profits provide more relevant information about their resources to donors, grantors, creditors and other financial statement users. This pronouncement decreases the number of net assets classes from three to two. The new classes will be *net assets with donor restrictions* and *net assets without donor restrictions*. The standard will take effect for annual financial statements issued for fiscal years beginning after December 15, 2017, and for interim periods within fiscal years beginning after December 15, 2018. Therefore, this ASU will be effective for the Chancery's fiscal year ending June 30, 2019. Management is in the process of evaluating the impact of this new guidance.

Note 2. Fair Value Measurements

The Fair Value Measurements and Disclosures topic of the ASC 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

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.

Alternative investments: The Chancery reports the fair value of alternative 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 Chancery based on various factors. Annually, the NAV from the respective funds' audited financial statements as of December 31 is adjusted to the Chancery'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 Chancery's statements of activities.

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

Chancery Offices of the Archdiocese of Kansas City in Kansas

Notes to Financial Statements

Note 2. Fair Value Measurements (Continued)

The following tables summarize assets and liabilities measured at fair value on a recurring basis as of June 30, 2018 and 2017, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

	June 30, 2018			
	Total	Level 1	Level 2	Level 3
Investments:				
Fixed-income securities:				
Certificates of deposit	\$ 6,993,717	\$ 6,993,717	\$ -	\$ -
U.S. Treasuries	17,612,829	17,612,829	-	-
Equity securities, common stock:				
Consumer discretionary	179,008	179,008	-	-
Consumer staples	300,692	300,692	-	-
Energy	324,071	324,071	-	-
Financial	777,489	777,489	-	-
Health care	83,691	83,691	-	-
Industrial	213,122	213,122	-	-
Information technology	274,222	274,222	-	-
Materials	180,581	180,581	-	-
Telecommunications	126,927	126,927	-	-
Utilities	68,045	68,045	-	-
Privately held company	14,278	-	-	14,278
Other	224,012	224,012	-	-
Mutual funds:				
Global real estate	788,477	788,477	-	-
Fixed-income	7,054,004	3,408,860	3,645,144	-
	35,215,165	31,555,743	3,645,144	14,278
Investments measured at net asset value:				
Managed futures limited partnerships	703,839			
Fund of hedge fund limited partnerships	2,068,721			
Total investments	37,987,725			
Interest in net assets of the Catholic Foundation of Northeast Kansas	7,891,047	-	-	7,891,047
	<u>\$ 45,878,772</u>	<u>\$ 31,555,743</u>	<u>\$ 3,645,144</u>	<u>\$ 7,905,325</u>

Chancery Offices of the Archdiocese of Kansas City in Kansas

Notes to Financial Statements

Note 2. Fair Value Measurements (Continued)

	June 30, 2017			
	Total	Level 1	Level 2	Level 3
Investments:				
Fixed-income securities:				
Certificates of deposit	\$ 7,250,000	\$ 7,250,000	\$ -	\$ -
U.S. Treasuries	16,532,344	16,532,344	-	-
Equity securities, common stock:				
Consumer discretionary	183,740	183,740	-	-
Consumer staples	244,122	244,122	-	-
Energy	331,381	331,381	-	-
Financial	867,065	867,065	-	-
Health care	48,033	48,033	-	-
Industrial	132,060	132,060	-	-
Information technology	278,066	278,066	-	-
Materials	144,729	144,729	-	-
Telecommunications	172,027	172,027	-	-
Utilities	51,335	51,335	-	-
Privately held company	14,142	-	-	14,142
Other	35,437	35,437	-	-
Mutual funds:				
Global real estate	839,284	839,284	-	-
Fixed-income	7,599,752	3,229,892	4,369,860	-
	<u>34,723,517</u>	<u>30,339,515</u>	<u>4,369,860</u>	<u>14,142</u>
Investments measured at net asset value:				
Managed futures limited partnerships	701,017			
Fund of hedge fund limited partnerships	1,220,511			
Total investments	<u>36,645,045</u>			
Interest in net assets of the Catholic Foundation of Northeast Kansas	7,707,861	-	-	7,707,861
	<u>\$ 44,352,906</u>	<u>\$ 30,339,515</u>	<u>\$ 4,369,860</u>	<u>\$ 7,722,003</u>

Chancery Offices of the Archdiocese of Kansas City in Kansas

Notes to Financial Statements

Note 2. Fair Value Measurements (Continued)

The following tables present additional information about assets measured at fair value on a recurring basis for which the Chancery has utilized Level 3 inputs to determine fair value:

	Interest in Net Assets of the Catholic Foundation of Northeast Kansas	Privately Held Company
Beginning balance—July 1, 2017	\$ 7,707,861	\$ 14,142
Additions	38,828	136
Unrealized losses	(63,164)	-
Realized gains	513,885	-
Withdrawals	(306,363)	-
Ending balance—June 30, 2018	<u>\$ 7,891,047</u>	<u>\$ 14,278</u>

	Interest in Net Assets of the Catholic Foundation of Northeast Kansas	Privately Held Company
Beginning balance—July 1, 2016	\$ 7,232,150	\$ 14,142
Additions	167,023	-
Unrealized gains	125,931	-
Realized gains	495,626	-
Withdrawals	(312,869)	-
Ending balance—June 30, 2017	<u>\$ 7,707,861</u>	<u>\$ 14,142</u>

The following table sets forth additional disclosures of the Chancery investments whose fair value is estimated using NAV per share (or its equivalent) as of June 30, 2018 and 2017:

Investment	Fair Value at June 30		Unfunded Commitment	Redemption Frequency	Redemption Notice Period
	2018	2017			
Arden Alternative Advisors, Spc (A)	\$ 76,173	\$ 111,960	\$ -	Quarterly	60 days
Berens Capital Fund, Ltd. (B)	-	497,950	-	Annual	90 days
ACL Alternative Fund (C)	703,839	701,017	-	Quarterly	60 days
Blackstone BREDS II (D)	52,718	256,327	-	Quarterly	None
Blackstone-Offshore BEPII (E)	493,116	354,274	-	Quarterly	None
Blackstone-Income BREIT (F)	516,582	-	-	Monthly	3 days
Hamilton Lane (G)	75,646	-	-	7 years	None
HPC Millenium (H)	854,486	-	-	Quarterly	90 days
	<u>\$ 2,772,560</u>	<u>\$ 1,921,528</u>	<u>\$ -</u>		

(A) This is a diversified, multistrategy investment fund designated to provide investors with consistent returns with low volatility and low beta to equity and fixed-income indices. The fund is allocated to specialized relative value and event-driven managers to support this strategy.

Chancery Offices of the Archdiocese of Kansas City in Kansas

Notes to Financial Statements

Note 2. Fair Value Measurements (Continued)

- (B) This fund invests in a selection of alternative money managers who specialize in long-term and short-term equity and event-driven strategies. Its differentiating characteristics are that it invests globally and has value bias.
- (C) This fund invests in a range of trading styles, including long-term trend-following, short-term systematic, value, discretionary macro and specialist forex (FX) strategies. Market exposure is diversified in global currency, financial and commodity markets.
- (D) This fund focuses on high-yield lending and purchases of legacy loans from banks and insurance companies and invests up to 30 percent of its capital outside of the U.S., primarily in Europe.
- (E) This fund seeks to invest primarily in privately negotiated investments involving the acquisition of principally controlling or control-oriented interests in the energy and natural resources sectors broadly, including those companies and projects within the following target sectors: (i) oil and gas exploration and production, (ii) midstream, (iii) energy services/equipment, (iv) petroleum refining and marketing, (v) power generation (fossil and renewable), (vi) metals, (vii) minerals/mining (including coal), (viii) timber and (ix) other sectors within the energy and natural resources industries.
- (F) This is an income producing real estate fund, which targets to invest 80 percent in real estate assets across multiple property types including retail, office, apartment, industrial and self-storage properties. The remainder of the portfolio is invested in real estate debt securities including commercial mortgage-backed securities (CMBS), mortgages, loans, mezzanine and other forms of debt. As a non-traded vehicle, the value of shares is expected to be more closely tied to real estate fundamentals as opposed to public equities. This fund generally provides monthly repurchase offers of at least 2 percent of NAV not to exceed 5 percent of NAV for the quarter. There is a one-year soft lock, with a 5 percent early redemption fee.
- (G) This is a private credit fund, which invests in middle-market leveraged loans where there is an increased need for private financing. Relative to large liquid loans, the middle-market loans have higher spreads.
- (H) This is a multi-strategy global and highly diversified hedge fund with a focus on investment strategies that exploit market inefficiencies to produce absolute return with low correlation to global capital markets. The underlying manager seeks to deliver absolute returns with relatively low volatility by focusing on high-level diversification, tight control of directional market exposures, and a risk management framework that can result in high level of liquidity and systematic movement of capital based on real-time trading profit and losses. The manager believes that alpha is best achieved by trading professionals that are narrowly focused to maximize expertise, and combined on a platform that provides trading and operational economies of scale.

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

ASC Topic 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.

Chancery Offices of the Archdiocese of Kansas City in Kansas

Notes to Financial Statements

Note 2. Fair Value Measurements (Continued)

The fair values estimates presented are based on pertinent information available to management as of June 30, 2018 and 2017. 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; therefore, current estimates of fair value may differ significantly from the amounts presented herein.

Note 3. Pledges Receivable

Pledges receivable (less allowance for uncollectible pledges) at June 30, 2018, to be received in subsequent years are as follows:

	Call to Share	Private Appeal	One Faith, One Family, One Future in Christ	Total
Years ending:				
2019	\$ 1,377,703	\$ 380,936	\$ 474,510	\$ 2,233,149
2020	-	75,750	484,910	560,660
2021	-	2,500	406,703	409,203
2022	-	-	363,570	363,570
2023	-	-	268,835	268,835
	<u>1,377,703</u>	<u>459,186</u>	<u>1,998,528</u>	<u>3,835,417</u>
Less:				
Discount	-	8,829	99,391	108,220
Allowance for uncollectible	106,710	84,076	99,926	290,712
Total pledges receivable	<u>\$ 1,270,993</u>	<u>\$ 366,281</u>	<u>\$ 1,799,211</u>	<u>\$ 3,436,485</u>

Note 4. Land, Buildings and Equipment

Land, buildings and equipment comprise the following at June 30, 2018 and 2017:

	2018	2017
Operating land and building	\$ 20,684,407	\$ 20,292,610
Possible future use sites	8,066,856	8,066,852
Furniture and equipment	3,448,708	3,215,574
	<u>32,199,971</u>	<u>31,575,036</u>
Less accumulated depreciation	16,451,324	15,662,500
	<u>\$ 15,748,647</u>	<u>\$ 15,912,536</u>

Chancery Offices of the Archdiocese of Kansas City in Kansas

Notes to Financial Statements

Note 5. Investments

Investments comprise the following at June 30, 2018 and 2017:

	2018		
	Cost	Fair Value	Unrealized Appreciation (Depreciation)
Certificates of deposit	\$ 6,993,689	\$ 6,993,717	\$ 28
Mutual funds	7,207,356	7,842,481	635,125
U.S. government securities	17,721,216	17,612,829	(108,387)
Equity securities	2,761,435	2,766,138	4,703
Alternative investments	2,661,971	2,772,560	110,589
	<u>\$ 37,345,667</u>	<u>\$ 37,987,725</u>	<u>\$ 642,058</u>

	2017		
	Cost	Fair Value	Unrealized Appreciation
Certificates of deposit	\$ 7,250,000	\$ 7,250,000	\$ -
Mutual funds	7,149,767	7,955,066	805,299
U.S. government securities	16,532,344	16,532,344	-
Equity securities	2,419,478	2,502,137	82,659
Alternative investments	2,297,408	2,405,498	108,090
	<u>\$ 35,648,997</u>	<u>\$ 36,645,045</u>	<u>\$ 996,048</u>

The following summarizes the investment returns for the years ended June 30, 2018 and 2017:

	2018	2017
Interest and dividend income	\$ 1,913,930	\$ 1,847,298
Realized and unrealized gains on investments, net	189,473	581,226
	<u>\$ 2,103,403</u>	<u>\$ 2,428,524</u>

Included in the interest income amounts above are \$1,132,561 and \$1,067,015 related to interest income on loans receivable for the years ended June 30, 2018 and 2017, respectively.

Chancery Offices of the Archdiocese of Kansas City in Kansas

Notes to Financial Statements

Note 6. Loans Receivable

Loans receivable comprise the following at June 30, 2018 and 2017:

	2018	2017
Parishes	\$ 22,491,036	\$ 22,060,737
Archdiocesan institutions	9,036,699	8,722,731
	<u>31,527,735</u>	<u>30,783,468</u>
Less allowance for doubtful accounts	(1,249,854)	(1,288,000)
	<u>\$ 30,277,881</u>	<u>\$ 29,495,468</u>

The Chancery's loans receivable consist of funds disbursed to parishes, cemeteries, Archdiocesan institutions, and other entities within the Archdiocese. The Chancery 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 loan portfolio as of June 30, 2018 and 2017, is summarized below:

	June 30, 2018		
	Current	Past Due	Total
Loans	<u>\$ 21,236,067</u>	<u>\$ 10,291,668</u>	<u>\$ 31,527,735</u>
As a percentage of the total loan portfolio	<u>67.36%</u>	<u>32.64%</u>	<u>100.00%</u>
	June 30, 2017		
	Current	Past Due	Total
Loans	<u>\$ 20,445,699</u>	<u>\$ 10,337,769</u>	<u>\$ 30,783,468</u>
As a percentage of the total loan portfolio	<u>66.42%</u>	<u>33.58%</u>	<u>100.00%</u>

An analysis of the allowance for doubtful accounts during the years ended June 30, 2018 and 2017, is as follows:

	2018	2017
Balance, beginning of year	\$ 1,288,000	\$ 1,530,000
Increase in provision for bad debts	47,102	369,111
Loans charged off, net of recoveries	(85,248)	(611,111)
Balance, end of year	<u>\$ 1,249,854</u>	<u>\$ 1,288,000</u>

Note 7. Lines of Credit and Nonrecourse Loans

The Chancery has an unsecured line of credit with a local bank for \$5,000,000. The line matures on December 1, 2018, and has an interest rate equal to the bank's prime rate (5.0 percent at June 30, 2018). There were no borrowings outstanding on this line as of June 30, 2018 and 2017.

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

The Chancery has assets invested in the Catholic Foundation of Northeast Kansas that are held as endowments. The aggregate amount, recognized in the statements of financial position as an interest in the net assets of the Catholic Foundation of Northeast Kansas, at June 30, 2018, is \$7,891,047 (2017—\$7,707,861). 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.

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 and the Archdiocesan Endowment, the earnings on the endowments are temporarily restricted for the purpose stated below. The earnings on the Archbishop Discretion Endowment are unrestricted.

	June 30	
	2018	2017
Unrestricted	\$ 122,339	\$ (25,886)
Temporarily restricted:		
Poor and needy of the world	99,595	103,463
Education of priests and seminarians	4,123,542	4,123,542
Cultural outreach ministry	606,217	606,217
Youth religious camp scholarships	353,749	353,748
	<u>5,183,103</u>	<u>5,186,970</u>
Permanently restricted:		
Archbishop Discretion Endowment	110,300	110,300
Archdiocesan Endowment	15,684	14,684
Education of priests and seminarians	1,412,434	1,412,434
Lay ministry development	882,771	882,772
Youth religious camp scholarships	164,416	126,587
	<u>2,585,605</u>	<u>2,546,777</u>
Total	<u>\$ 7,891,047</u>	<u>\$ 7,707,861</u>

Chancery Offices of the Archdiocese of Kansas City in Kansas

Notes to Financial Statements

Note 9. Deposits Payable

Deposits payable comprise the following at June 30, 2018 and 2017:

	2018	2017
Parishes	\$ 36,844,279	\$ 39,633,848
Cemeteries	2,148,496	2,148,090
Archdiocesan institutions	11,495,193	12,762,826
Other	113,735	267,683
	<u>\$ 50,601,703</u>	<u>\$ 54,812,447</u>

Interest expense to related parties was \$557,574 and \$522,874 for the years ended June 30, 2018 and 2017, respectively.

Note 10. Health and Dental Care Plans

The Chancery 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 provided reinsurance on claims that exceed \$200,000 for the policy year ending December 31, 2017. For the policy year beginning January 1, 2018, the carrier provides reinsurance on claims that exceed \$400,000. Plan premium income received for this plan for the year ended June 30, 2018, was \$22,860,416 (2017—\$20,918,578); expenses were \$22,639,335 (2017—\$21,930,915). Total plan assets as of June 30, 2018, were \$10,593,563 (2017—\$10,372,482), which have been reflected as unrestricted designated net assets on the statements of financial position.

The Chancery 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, 2018, was \$1,841,704 (2017—\$1,732,685); expenses were \$1,962,847 (2017—\$1,735,960). Total plan assets as of June 30, 2018, were \$1,634,802 (2017—\$1,755,945), which have been reflected as unrestricted designated net assets on the statements of financial position.

Incurred but not reported health and dental care claims accrued as of June 30, 2018 and 2017, were \$1,200,000 for both years.

Chancery Offices of the Archdiocese of Kansas City in Kansas

Notes to Financial Statements

Note 11. Retirement Funds

Priest retirement plan and other benefits: The Archdiocese has a separate retirement and disability plan for priests of the Archdiocese. The plan name is the Retirement Plan for Priests of the Archdiocese of Kansas City in Kansas, and the employer identification number of the plan is 48-1205425. 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, with additional funding provided through the annual Archbishop's Call to Share. The table below presents certain financial information about the plan from the most recent audit report and actuarial certification as of July 1, 2017:

	Total Plan Net Assets	Present Value of Accumulated Plan Benefits	Total Contributions	Funded Status
July 1, 2017	\$ 6,163,161	\$ 11,826,582	\$ 1,060,426	Less than 65% funded
July 1, 2016	5,484,802	11,456,461	837,238	Less than 65% funded

Lay and deacon employees' retirement plan: The Archdiocese has a separate noncontributory retirement plan for lay employees. All recognized Archdiocesan organizations may participate in the plan. In accordance with plan documents, the Chancery 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 (the Lay), and the employer identification number of the plan is 48-1205425. 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 percent 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, 2017:

	Total Plan Net Assets	Present Value of Accumulated Plan Benefits	Total Contributions	Funded Status
July 1, 2017	\$ 39,806,937	\$ 76,303,970	\$ 2,358,993	Less than 65% funded
July 1, 2016	39,156,345	68,720,019	1,912,178	Less than 65% funded

The Archdiocese approved the freezing of the Lay employees retirement plan effective January 1, 2014.

The recognized Archdiocesan organizations contributed 3.0 percent and 2.8 percent of total payroll dollars to the retirement plan for the years ended June 30, 2018 and 2017, respectively. Contributions to this plan for the year ended June 30, 2018, from the Chancery were \$150,501 (2017—\$133,617).

Chancery Offices of the Archdiocese of Kansas City in Kansas

Notes to Financial Statements

Note 11. Retirement Funds (Continued)

Archdiocese of Kansas City in Kansas 401(k) plan for deacons and lay employees: The Archdiocese's 401(k) plan covers deacons and lay employees. The plan allows employees to make contributions of up to 100 percent of their compensation, subject to IRS annual limits. The Archdiocesan employers make matching contributions of up to 50 percent of eligible employee contributions up to 4 percent of pay (2 percent maximum). Matching contributions to this plan for the years ended June 30, 2018 and 2017, from the Chancery were \$72,259 and \$67,782, respectively. All eligible employees receive a discretionary 2.0 percent contribution regardless of whether they make contributions to the plan or not. The discretionary contributions as of June 30, 2018 and 2017, were \$89,176 and \$88,396, respectively. The processing of the discretionary contributions changed as of January 1, 2018. Prior to January 1, 2018, the discretionary contributions were held by the Chancery for all locations until fiscal year-end and, if an employee terminated before year-end, their discretionary contributions were returned to the employer. All discretionary contributions from prior to January 1, 2018, for employees not terminated were forwarded to the plan's third-party administrator in March 2018. As of January 1, 2018, all contributions (voluntary, match and discretionary) are being sent to the plan's third-party administrator after each pay date.

Note 12. Restricted Net Assets

Temporarily restricted net assets are available for the following purposes or periods at June 30, 2018 and 2017:

	2018	2017
Restrictions as to use:		
Education of priests and seminarians	\$ 4,670,051	\$ 4,486,198
Other restricted net assets	2,538,672	2,350,036
Restrictions as to time:		
Private appeal	680,603	1,053,955
Archbishop's Call to Share	6,285,054	6,123,100
One Faith, One Family, One Future in Christ	3,380,547	-
Total temporarily restricted net assets	<u>\$ 17,554,927</u>	<u>\$ 14,013,289</u>

Note 13. Endowments

The Chancery has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as adopted by the State of Kansas applies to the Chancery and, in accordance with UPMIFA, the Chancery 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 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 Archdiocese
7. The investment policies of the Chancery

Chancery Offices of the Archdiocese of Kansas City in Kansas

Notes to Financial Statements

Note 13. Endowments (Continued)

Spending policy: The Chancery receives a distribution from the donor-restricted endowment funds based on the language of the funds' governing documents in CFNEK. CFNEK's definition of income is determined to be 4 percent (4 percent for 2017) 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 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 4 percent 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.

Investment return objectives, risk parameters and strategies: The Chancery 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 4 percent while growing the funds, if possible. Therefore, it is expected, over time, to produce an average rate of return of approximately 8 percent 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 years ended June 30, 2018 and 2017:

	2018			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment net assets, beginning of year	\$ (25,886)	\$ 5,186,970	\$ 2,546,777	\$ 7,707,861
Investment return:				
Investment income	123,222	1,701	-	124,923
Net appreciation (realized and unrealized)	321,366	4,432	-	325,798
Total endowment investment income	444,588	6,133	-	450,721
Contributions	-	-	38,828	38,828
Appropriation of endowment assets for expenditure	(296,363)	(10,000)	-	(306,363)
Endowment net assets, end of year	\$ 122,339	\$ 5,183,103	\$ 2,585,605	\$ 7,891,047

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Notes to Financial Statements

Note 13. Endowments (Continued)

	2017			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment net assets, beginning of year	\$ (326,393)	\$ 5,021,666	\$ 2,536,877	\$ 7,232,150
Investment return:				
Investment income	48,058	572	-	48,630
Net depreciation (realized and unrealized)	565,318	7,609	-	572,927
Total endowment investment income	613,376	8,181	-	621,557
Contributions	-	157,123	9,900	167,023
Appropriation of endowment assets for expenditure	(312,869)	-	-	(312,869)
Endowment net assets, end of year	\$ (25,886)	\$ 5,186,970	\$ 2,546,777	\$ 7,707,861

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 2018 and 2017.

	2018	2017
Time restrictions:		
Archbishop's Call to Share	\$ 6,123,099	\$ 5,857,071
Private appeal	373,311	1,638,271
Purpose restrictions:		
One Faith, One Family, One Future in Christ	1,085,136	-
Catholic Charities	488,288	500,631
Education of priests and seminarians	1,941,235	1,901,737
Contributions to various designated organizations	440,742	667,363
	<u>\$ 10,451,811</u>	<u>\$ 10,565,073</u>

Note 15. Board-Designated Unrestricted Net Assets

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

	2018	2017
Health and dental care plans	\$ 12,228,364	\$ 12,128,427
Cor Christi	15,996,700	15,932,486
Other designations	4,048,204	4,136,133
	<u>\$ 32,273,268</u>	<u>\$ 32,197,046</u>

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Notes to Financial Statements

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 \$41,667 payments each month during the 25-year term of the lease. The Chancery has given a guarantee limited to 12 months' worth of obligations under the lease.

The Chancery has not been named as a defendant in any significant lawsuits.

The Chancery has approximately 6.2 percent 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 65 small- to medium-sized dioceses. Effective January 1, 2013, the Pool is responsible for 20 percent of individual casualty claims of its members, which exceed \$500,000 to a limit of \$10,000,000. 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 October 3, 2018, which is the date the financial statements were available to be issued.

Effective July 1, 2018, the Deposit and Loan Fund adopted its own bylaws and was legally separated from the Chancery. Prior to this, the assets and liabilities of the Deposit and Loan Fund were consolidated in the financial statements of the Chancery as there was common governance. The restructuring was undertaken for the benefit of creating a legal veil between the assets of the Deposit and Loan Fund and Chancery.

