

Chancery Offices of the Archdiocese of Kansas City in Kansas

Financial Report
June 30, 2015

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Independent Auditor's Report

Most Reverend Joseph F. Naumann
Archbishop and Audit Committee 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, 2015 and 2014, 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, 2015 and 2014, 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 entity and is not a required part of the financial statements. The consolidating information has been subjected to auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 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
November 2, 2015

Chancery Offices of the Archdiocese of Kansas City in Kansas

Statements of Financial Position

June 30, 2015 and 2014

| | Current | Deposit and Loan | Plant | Cor Christi | 2015 | 2014 |
|--|----------------------|----------------------|----------------------|----------------------|-----------------------|-----------------------|
| Assets | | | | | | |
| Cash and cash equivalents | \$ 16,395,885 | \$ - | \$ - | \$ 1,154,175 | \$ 17,550,060 | \$ 9,727,571 |
| Investments (Notes 2 and 5) | 11,278,586 | - | - | 15,273,281 | 26,551,867 | 46,397,121 |
| Accrued interest receivable | 335,392 | - | - | 5,698 | 341,090 | 201,374 |
| Accounts receivable, net | 8,132,901 | 88,000 | - | - | 8,220,901 | 7,810,381 |
| Pledges receivable, net (Note 3) | 4,452,174 | - | - | - | 4,452,174 | 6,030,746 |
| Prepaid expenses | 418,334 | - | - | - | 418,334 | 94,265 |
| Interest in net assets of the Catholic Foundation of Northeast Kansas (Notes 2 and 8) | 7,535,347 | - | - | - | 7,535,347 | 7,827,693 |
| Loans receivable, net (Note 6) | - | 37,696,762 | - | - | 37,696,762 | 40,287,022 |
| Land held for sale (Note 2) | - | - | 1,491,239 | - | 1,491,239 | 967,500 |
| Land, buildings and equipment, net (Note 4) | - | - | 15,619,804 | - | 15,619,804 | 16,644,354 |
| Due to/from other funds | (8,963,661) | 12,498,832 | (3,531,178) | (3,993) | - | - |
| Total assets | \$ 39,584,958 | \$ 50,283,594 | \$ 13,579,865 | \$ 16,429,161 | \$ 119,877,578 | \$ 135,988,027 |

(Continued)

Chancery Offices of the Archdiocese of Kansas City in Kansas

Statements of Financial Position (Continued)
June 30, 2015 and 2014

| | Current | Deposit and Loan | Plant | Cor Christi | 2015 | 2014 |
|---|----------------------|----------------------|----------------------|----------------------|-----------------------|-----------------------|
| Liabilities and Net Assets | | | | | | |
| Accounts payable and accrued expenses | \$ 1,346,110 | \$ 267,472 | \$ - | \$ - | \$ 1,613,582 | \$ 1,613,614 |
| Pledges payable | 100,000 | - | - | - | 100,000 | 100,000 |
| Accrued health and dental care claims (Note 10) | 1,200,000 | - | - | - | 1,200,000 | 1,200,000 |
| Collections held for transmittal | 239,749 | - | - | - | 239,749 | 183,185 |
| Deposits payable (Note 9) | - | 50,016,122 | - | - | 50,016,122 | 69,291,131 |
| Deferred revenue | 1,261,625 | - | - | - | 1,261,625 | 543,965 |
| Total liabilities | 4,147,484 | 50,283,594 | - | - | 54,431,078 | 72,931,895 |
| Net Assets | | | | | | |
| Unrestricted: | | | | | | |
| Undesignated | 890,315 | - | 13,579,865 | - | 14,470,180 | 14,430,718 |
| Undesignated—Endowments (Note 13) | 67,780 | - | - | - | 67,780 | 453,307 |
| Designated (Note 15) | 16,035,914 | - | - | 16,429,161 | 32,465,075 | 29,689,722 |
| Total unrestricted net assets | 16,994,009 | - | 13,579,865 | 16,429,161 | 47,003,035 | 44,573,747 |
| Restricted: | | | | | | |
| Temporarily restricted (Note 12): | | | | | | |
| Education of Priests and Seminarians | 3,525,320 | - | - | - | 3,525,320 | 3,100,086 |
| Other | 12,406,594 | - | - | - | 12,406,594 | 12,921,748 |
| Permanently restricted (Note 8) | 2,511,551 | - | - | - | 2,511,551 | 2,460,551 |
| Total restricted net assets | 18,443,465 | - | - | - | 18,443,465 | 18,482,385 |
| Total net assets | 35,437,474 | - | 13,579,865 | 16,429,161 | 65,446,500 | 63,056,132 |
| Total liabilities and net assets | \$ 39,584,958 | \$ 50,283,594 | \$ 13,579,865 | \$ 16,429,161 | \$ 119,877,578 | \$ 135,988,027 |

See Notes to Financial Statements.

Chancery Offices of the Archdiocese of Kansas City in Kansas

Statement of Activities Year Ended June 30, 2015

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|--|-------------------|---------------------------|---------------------------|-------------------|
| Revenues: | | | | |
| Archbishop's Call to Share (Note 3) | \$ 164,524 | \$ 5,871,470 | \$ - | \$ 6,035,994 |
| Private appeal campaign (Note 3) | - | 1,451,204 | - | 1,451,204 |
| Archdiocesan collections | - | 499,693 | - | 499,693 |
| Archdiocesan assessments | 4,477,914 | 1,929,990 | - | 6,407,904 |
| Health and dental plan premiums (Note 10) | 19,641,145 | - | - | 19,641,145 |
| Contributions and bequests | 202,753 | 413,103 | 51,000 | 666,856 |
| Investment income (Note 5) | 1,788,003 | - | - | 1,788,003 |
| Change in net assets of the Catholic Foundation of Northeast Kansas | (381,160) | 294,437 | - | (86,723) |
| Other revenue | 2,138,351 | 97,650 | - | 2,236,001 |
| Gain on disposal of land, building and equipment | 48,263 | - | - | 48,263 |
| Auxiliary services—The Leaven | 1,193,896 | - | - | 1,193,896 |
| Auxiliary services—Pastoral Center | 667,063 | - | - | 667,063 |
| Auxiliary services—Prairie Star Ranch | 350,309 | - | - | 350,309 |
| Restrictions satisfied (Note 14) | 10,577,300 | (10,577,300) | - | - |
| Total revenues | 40,868,361 | (19,753) | 51,000 | 40,899,608 |
| Expenditures | | | | |
| Ministry and Program Services: | | | | |
| Pastoral | 637,112 | - | - | 637,112 |
| Religious personnel | 2,590,151 | - | - | 2,590,151 |
| Education | 5,793,714 | - | - | 5,793,714 |
| Social services | 2,107,037 | - | - | 2,107,037 |
| Auxiliary services—The Leaven | 1,076,386 | - | - | 1,076,386 |
| Auxiliary services—Pastoral Center | 1,113,176 | - | - | 1,113,176 |
| Auxiliary services—Prairie Star Ranch | 540,237 | - | - | 540,237 |
| Total ministry and program services | 13,857,813 | - | - | 13,857,813 |
| Supporting Services: | | | | |
| Administrative | 3,767,954 | - | - | 3,767,954 |
| Fundraising: | | | | |
| Stewardship and development | 746,605 | - | - | 746,605 |
| Other: | | | | |
| Interest (Note 9) | 778,397 | - | - | 778,397 |
| Bad debt expense (Note 6) | (577,053) | 70,167 | - | (506,886) |
| Health and dental care expense (Note 10) | 17,241,071 | - | - | 17,241,071 |
| Cor Christi Fund distributions | 532,270 | - | - | 532,270 |
| Private Appeal distributions | 2,091,716 | - | - | 2,091,716 |
| Future Full of Hope distributions | 300 | - | - | 300 |
| Total supporting services | 24,581,260 | 70,167 | - | 24,651,427 |
| Total expenditures | 38,439,073 | 70,167 | - | 38,509,240 |
| Increase (decrease) in net assets | 2,429,288 | (89,920) | 51,000 | 2,390,368 |
| Net assets, beginning of year | 44,573,747 | 16,021,834 | 2,460,551 | 63,056,132 |
| Net assets, end of year | \$ 47,003,035 | \$ 15,931,914 | \$ 2,511,551 | \$ 65,446,500 |

See Notes to Financial Statements.

Chancery Offices of the Archdiocese of Kansas City in Kansas

Statement of Activities Year Ended June 30, 2014

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|--|-------------------|---------------------------|---------------------------|-------------------|
| Revenues: | | | | |
| Archbishop's Call to Share (Note 3) | \$ 134,086 | \$ 5,681,760 | \$ - | \$ 5,815,846 |
| Private appeal campaign (Note 3) | - | 2,911,843 | - | 2,911,843 |
| Archdiocesan collections | - | 494,093 | - | 494,093 |
| Archdiocesan assessments | 4,375,076 | 1,480,009 | - | 5,855,085 |
| Health and dental plan premiums (Note 10) | 18,994,922 | - | - | 18,994,922 |
| Contributions and bequests | 118,285 | 610,688 | 21,584 | 750,557 |
| Investment income (Note 5) | 3,508,310 | - | - | 3,508,310 |
| Change in net assets of the Catholic Foundation of Northeast Kansas | 524,438 | 271,991 | - | 796,429 |
| Other revenue | 2,096,169 | 80,634 | - | 2,176,803 |
| (Loss) on disposal of land, building and equipment | (1,988) | - | - | (1,988) |
| Auxiliary services—The Leaven | 1,145,865 | - | - | 1,145,865 |
| Auxiliary services—Pastoral Center | 760,869 | - | - | 760,869 |
| Auxiliary services—Prairie Star Ranch | 334,971 | - | - | 334,971 |
| Restrictions satisfied (Note 14) | 13,086,504 | (13,086,504) | - | - |
| Total revenues | 45,077,507 | (1,555,486) | 21,584 | 43,543,605 |
| Expenditures: | | | | |
| Ministry and Program Services: | | | | |
| Pastoral | 917,204 | - | - | 917,204 |
| Religious personnel | 2,676,927 | - | - | 2,676,927 |
| Education | 5,413,677 | - | - | 5,413,677 |
| Social services | 1,644,020 | - | - | 1,644,020 |
| Faith Initiative | 170,866 | - | - | 170,866 |
| Auxiliary services—The Leaven | 975,704 | - | - | 975,704 |
| Auxiliary services—Pastoral Center | 1,157,476 | - | - | 1,157,476 |
| Auxiliary services—Prairie Star Ranch | 511,978 | - | - | 511,978 |
| Total ministry and program services | 13,467,852 | - | - | 13,467,852 |
| Supporting Services: | | | | |
| Administrative | 3,600,288 | - | - | 3,600,288 |
| Fundraising: | | | | |
| Stewardship and development | 739,657 | - | - | 739,657 |
| Other: | | | | |
| Interest (Note 9) | 764,911 | - | - | 764,911 |
| Bad debt expense | 619,561 | 107,603 | - | 727,164 |
| Health and dental care expense (Note 10) | 17,583,255 | - | - | 17,583,255 |
| Cor Christi Fund distributions | 552,273 | - | - | 552,273 |
| Private Appeal distributions | 5,160,141 | - | - | 5,160,141 |
| Future Full of Hope distributions | 555 | - | - | 555 |
| Parish rebates (Note 3) | 228,341 | - | - | 228,341 |
| Total supporting services | 29,248,982 | 107,603 | - | 29,356,585 |
| Total expenditures | 42,716,834 | 107,603 | - | 42,824,437 |
| Increase (decrease) in net assets | 2,360,673 | (1,663,089) | 21,584 | 719,168 |
| Net assets, beginning of year | 42,213,074 | 17,684,923 | 2,438,967 | 62,336,964 |
| Net assets, end of year | \$ 44,573,747 | \$ 16,021,834 | \$ 2,460,551 | \$ 63,056,132 |

See Notes to Financial Statements.

Chancery Offices of the Archdiocese of Kansas City in Kansas

**Statements of Cash Flows
Years Ended June 30, 2015 and 2014**

| | 2015 | 2014 |
|--|-------------------|------------------|
| Cash flows from operating activities: | | |
| Increase in net assets | \$ 2,390,368 | \$ 719,168 |
| Adjustments to reconcile increase in net assets to net cash provided by operating activities: | | |
| Depreciation | 771,922 | 778,299 |
| Realized (gain) on sale of investments | (527,535) | (493,159) |
| Unrealized (gain) loss on investments | 573,410 | (1,134,509) |
| Net discount accretion | (5,871) | (125,323) |
| (Increase) decrease in fair value of investments held at the Catholic Foundation of Northeast Kansas | 86,885 | (796,429) |
| Allowance provision for loans receivable, net of recoveries | (606,000) | 633,286 |
| (Gain) loss on sale of land, building and equipment | (48,263) | 1,988 |
| Changes in assets and liabilities: | | |
| (Increase) decrease in: | | |
| Accounts receivable | (410,520) | (215,073) |
| Pledges receivable, net | 1,578,572 | 671,994 |
| Accrued interest receivable | (139,716) | (10,260) |
| Prepaid expenses | (324,069) | (6,277) |
| Increase (decrease) in: | | |
| Accounts payable and accrued expenses | (32) | 624,273 |
| Pledges payable | - | 20,000 |
| Collections held for transmittal | 56,564 | (46,754) |
| Deferred revenue | 717,660 | (181,818) |
| Net cash provided by operating activities | 4,113,375 | 439,406 |
| Cash flows from investing activities: | | |
| Proceeds from sales of land, buildings and equipment | 50,042 | - |
| Purchases of land, buildings and equipment | (272,890) | (345,647) |
| Purchases of investments | (10,250,000) | (20,415,465) |
| Withdrawals in interest in Catholic Foundation of Northeast Kansas | 205,461 | 178,669 |
| Proceeds from sale of investments | 30,055,250 | 14,916,398 |
| Decrease in loans receivable, net | 3,196,260 | 7,259,730 |
| Net cash provided by investing activities | 22,984,123 | 1,593,685 |

(Continued)

Chancery Offices of the Archdiocese of Kansas City in Kansas

Statements of Cash Flows (Continued)
Years Ended June 30, 2015 and 2014

| | 2015 | 2014 |
|--|-----------------------------|---------------------|
| Cash flows from financing activities: | | |
| (Decrease) increase in deposits payable, net | <u>(19,275,009)</u> | 2,532,919 |
| Net cash (used in) provided by financing activities | <u>(19,275,009)</u> | <u>2,532,919</u> |
| | | |
| Net increase in cash and cash equivalents | 7,822,489 | 4,566,010 |
| | | |
| Cash and cash equivalents: | | |
| Beginning of year | <u>9,727,571</u> | 5,161,561 |
| End of year | <u>\$ 17,550,060</u> | <u>\$ 9,727,571</u> |
| | | |
| Supplemental disclosures of cash flow information: | | |
| Cash payments for interest | <u>\$ 778,397</u> | <u>\$ 764,911</u> |
| | | |
| Supplemental schedule of noncash investing activities: | | |
| Real Estate transferred to land held for sale | <u>\$ 523,739</u> | <u>\$ -</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: 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:

Basis of presentation: The Chancery 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 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 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 Archdiocese, the accounts 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 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 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.

Funds entrusted to the Chancery 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

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 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 percent to 1.5 percent and 3.5 percent respectively.

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 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 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.

Chancery Offices of the Archdiocese of Kansas City in Kansas

Notes to Financial Statements

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

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.

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 sale: Represents land contributed to the Chancery 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 lower of fair market value less estimated cost to sell or carrying value.

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 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 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).

Chancery Offices of the Archdiocese of Kansas City in Kansas

Notes to Financial Statements

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

Uncertain tax provisions, if any, are recorded in accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Codification (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, 2015 and 2014.

Fundraising costs: The Chancery expenses fundraising costs as incurred. Total expense for fundraising for the years ended June 30, 2015 and 2014 was \$746,605 and \$739,657, 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.

Recently issued accounting pronouncements: Accounting Standards Update (ASU) 2015-07, Fair Value Measurement (Topic 820): Disclosures for Investments in certain Entities That Calculate Net Asset Value Per Share (or Its Equivalent)—This ASU removes the requirement to categorize within the fair value hierarchy investments for which fair values are measured at NAV using the practical expedient. Removing those investments from the fair value hierarchy not only eliminates the diversity in practice in how investments measured at NAV (or its equivalent) with future redemption dates are classified, but also ensures that all investments categorized in the fair value hierarchy are classified using a consistent approach. For all non-public entities, the ASU is effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. A reporting entity should apply the amendments retrospectively to all periods presented. Early application is permitted. The Chancery has elected early adoption of this ASU for the years ended June 30, 2015 and 2014.

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

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 net asset value 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 Statement 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 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.

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, 2015 and 2014, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value.

| | June 30, 2015 | | | |
|--|----------------------|-------------------|---------------------|---------------------|
| | Total | Level 1 | Level 2 | Level 3 |
| Investments | | | | |
| Fixed income securities: | | | | |
| Certificates of deposit | \$ 5,750,000 | \$ 5,750,000 | \$ - | \$ - |
| U.S. Treasuries | 5,505,871 | 5,505,871 | - | - |
| Equity securities: | | | | |
| Common stock: | | | | |
| Consumer discretionary | 510,849 | 510,849 | - | - |
| Consumer staples | 406,304 | 406,304 | - | - |
| Energy | 506,722 | 506,722 | - | - |
| Financial | 1,001,163 | 1,001,163 | - | - |
| Healthcare | 403,501 | 403,501 | - | - |
| Industrial | 263,567 | 263,567 | - | - |
| Information technology | 559,792 | 559,792 | - | - |
| Materials | 332,661 | 332,661 | - | - |
| Telecommunications | 197,825 | 197,825 | - | - |
| Utilities | 127,597 | 127,597 | - | - |
| Other | 69,983 | 69,983 | - | - |
| Privately held company | 13,928 | - | - | 13,928 |
| Mutual funds: | | | | |
| International stock mutual funds | 855,000 | 855,000 | - | - |
| Global real estate mutual funds | 1,175,014 | 1,175,014 | - | - |
| Fixed income mutual funds | 5,386,444 | 822,931 | 4,563,513 | - |
| Alternative investments: | | | | |
| Managed futures limited partnerships | 722,370 | - | - | - |
| Fund of hedge fund limited partnerships | 2,763,276 | - | - | - |
| | <u>26,551,867</u> | <u>18,488,780</u> | <u>4,563,513</u> | <u>13,928</u> |
| Land held for sale | 1,491,239 | - | - | 1,491,239 |
| Interest in net assets of the Catholic Foundation of Northeast Kansas | 7,535,347 | - | - | 7,535,347 |
| | <u>\$ 35,578,453</u> | <u>18,488,780</u> | <u>\$ 4,563,513</u> | <u>\$ 9,040,514</u> |

Chancery Offices of the Archdiocese of Kansas City in Kansas

Notes to Financial Statements

Note 2. Fair Value Measurements (Continued)

| | June 30, 2014 | | | |
|---|----------------------|-------------------|---------------------|---------------------|
| | Total | Level 1 | Level 2 | Level 3 |
| Investments | | | | |
| Fixed income securities: | | | | |
| Certificates of deposit | \$ 9,000,000 | \$ 9,000,000 | \$ - | \$ - |
| U.S. Treasuries | 18,625,324 | 18,625,324 | - | - |
| Money market | 2,508,765 | 2,508,765 | - | - |
| Equity securities: | | | | |
| Common stock: | | | | |
| Consumer discretionary | 805,269 | 805,269 | - | - |
| Consumer staples | 463,347 | 463,347 | - | - |
| Energy | 607,345 | 607,345 | - | - |
| Financial | 727,164 | 727,164 | - | - |
| Healthcare | 445,187 | 445,187 | - | - |
| Industrial | 412,312 | 412,312 | - | - |
| Information technology | 587,274 | 587,274 | - | - |
| Materials | 301,212 | 301,212 | - | - |
| Telecommunications | 159,791 | 159,791 | - | - |
| Utilities | 88,075 | 88,075 | - | - |
| Other | 19,233 | 19,233 | - | - |
| Privately held company | 13,244 | - | - | 13,244 |
| Mutual funds: | | | | |
| International stock mutual funds | 1,193,614 | 1,193,614 | - | - |
| Global real estate mutual funds | 1,226,557 | 1,226,557 | - | - |
| Fixed income mutual funds | 5,272,326 | 1,142,767 | 4,129,559 | - |
| Alternative investments: | | | | |
| Managed futures limited partnerships | 805,806 | - | - | - |
| Fund of hedge fund limited partnerships | 3,135,276 | - | - | - |
| | 46,397,121 | 38,313,236 | 4,129,559 | 13,244 |
| Land held for sale | 967,500 | - | - | 967,500 |
| Interest in net assets of the | | | | |
| Catholic Foundation of Northeast Kansas | 7,827,693 | - | - | 7,827,693 |
| | <u>\$ 55,192,314</u> | <u>38,313,236</u> | <u>\$ 4,129,559</u> | <u>\$ 8,808,437</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 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, 2014 | \$ 7,827,693 | \$ 13,244 |
| Purchases | 94,331 | - |
| Unrealized gains (losses) | (388,425) | 684 |
| Realized gains | 301,540 | - |
| Sales | (94,331) | - |
| Withdrawals | (205,461) | - |
| Ending Balance—June 30, 2015 | <u>\$ 7,535,347</u> | <u>\$ 13,928</u> |

| | Interest in Net Assets of the Catholic Foundation of Northeast Kansas | Privately Held Company |
|--------------------------------|---|------------------------------|
| Beginning Balance—July 1, 2013 | \$ 7,209,933 | \$ 13,574 |
| Purchases | 87,528 | - |
| Unrealized gains (losses) | 478,487 | (330) |
| Realized gains | 317,942 | - |
| Sales | (87,528) | - |
| Withdrawals | (178,669) | - |
| Ending Balance—June 30, 2014 | <u>\$ 7,827,693</u> | <u>\$ 13,244</u> |

The following table sets forth additional disclosures of the Chancery investments whose fair value is estimated using net asset value per share (or its equivalent) as of June 30, 2015 and 2014:

| Investment | Fair Value at June 30, 2015 | Unfunded Commitment | Redemption Frequency | Redemption Notice Period |
|---|--------------------------------|------------------------|-------------------------|-----------------------------|
| Alternative Investments: | | | | |
| Arden Alternative Advisors, Spc (A) | \$ 1,232,684 | \$ - | Quarterly | 60 days |
| Private Advisors Hedged Equity Fund, LTD (B) | 447,361 | - | Annual | 60 days |
| Berens Capital Fund, Ltd. (C) | 833,496 | - | Annual | 90 days |
| ACL Alternative Fund (D) | 722,370 | - | Quarterly | 60 days |
| Blackstone (E) | 249,735 | - | Quarterly | None |
| | <u>\$ 3,485,646</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, 2014 | Unfunded Commitment | Redemption Frequency | Redemption Notice Period |
|---|--------------------------------|------------------------|-------------------------|-----------------------------|
| Alternative Investments: | | | | |
| Arden Alternative Advisors, Spc (A) | \$ 1,176,734 | \$ - | Quarterly | 60 days |
| Private Advisors Hedged Equity Fund, LTD (B) | 897,225 | - | Annual | 60 days |
| Berens Capital Fund, Ltd. (C) | 840,068 | - | Annual | 90 days |
| ACL Alternative Fund (D) | 805,806 | - | Quarterly | 60 days |
| Blackstone (E) | 221,249 | - | Quarterly | None |
| | <u>\$ 3,941,082</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 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.
- (D) 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.
- (E) 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 Chancery does not have assets and liabilities recorded at fair value on a nonrecurring basis.

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, 2015 and 2014. 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.

Chancery Offices of the Archdiocese of Kansas City in Kansas

Notes to Financial Statements

Note 3. Pledges Receivable

Pledge receivables (less allowance for uncollectible pledges) at June 30, 2015 to be received in subsequent years:

| | Call to Share | Private Appeal | Total |
|-----------------------------|---------------------|---------------------|---------------------|
| Year ending: | | | |
| 2016 | \$ 1,337,026 | \$ 1,785,163 | \$ 3,122,189 |
| 2017 | - | 757,270 | 757,270 |
| 2018 | - | 612,170 | 612,170 |
| 2019 | - | 216,620 | 216,620 |
| 2020 | - | 71,750 | 71,750 |
| Thereafter | - | 65,000 | 65,000 |
| | <u>1,337,026</u> | <u>3,507,973</u> | <u>4,844,999</u> |
| Less: | | | |
| Discount | - | (62,682) | (62,682) |
| Allowance for uncollectible | (150,143) | (180,000) | (330,143) |
| Total pledges receivable | <u>\$ 1,186,883</u> | <u>\$ 3,265,291</u> | <u>\$ 4,452,174</u> |

Note 4. Land, Buildings and Equipment

Land, buildings and equipment comprise the following at June 30, 2015 and 2014:

| | 2015 | 2014 |
|--------------------------------|----------------------|----------------------|
| Operating land and building | \$ 19,769,429 | \$ 19,649,444 |
| Possible future use sites | 7,331,885 | 7,839,891 |
| Furniture and equipment | 2,912,727 | 2,859,040 |
| | <u>30,014,041</u> | <u>30,348,375</u> |
| Less: Accumulated depreciation | 14,394,237 | 13,704,021 |
| | <u>\$ 15,619,804</u> | <u>\$ 16,644,354</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, 2015 and 2014:

| | 2015 | | |
|----------------------------|----------------------|----------------------|-------------------------|
| | Cost | Fair Value | Unrealized Appreciation |
| Certificates of deposit | \$ 5,750,000 | \$ 5,750,000 | \$ - |
| Mutual funds | 6,608,684 | 7,416,458 | 807,774 |
| U.S. Government securities | 5,505,871 | 5,505,871 | - |
| Equity securities | 4,196,391 | 4,393,892 | 197,501 |
| Alternative investments | 2,961,719 | 3,485,646 | 523,927 |
| | <u>\$ 25,022,665</u> | <u>\$ 26,551,867</u> | <u>\$ 1,529,202</u> |

| | 2014 | | |
|----------------------------|----------------------|----------------------|-------------------------|
| | Cost | Fair Value | Unrealized Appreciation |
| Certificates of deposit | \$ 9,000,000 | \$ 9,000,000 | \$ - |
| Money market | 2,508,765 | 2,508,765 | - |
| Mutual funds | 6,536,804 | 7,692,497 | 1,155,693 |
| U.S. Government securities | 18,625,324 | 18,625,324 | - |
| Equity securities | 4,012,713 | 4,629,478 | 616,765 |
| Alternative investments | 3,610,905 | 3,941,082 | 330,177 |
| | <u>\$ 44,294,511</u> | <u>\$ 46,397,146</u> | <u>\$ 2,102,635</u> |

The following summarizes the investment returns (losses) for the years ended June 30, 2015 and 2014:

| | 2015 | 2014 |
|--|---------------------|---------------------|
| Interest and dividend income | \$ 1,833,878 | \$ 1,880,642 |
| Realized gains | 527,535 | 493,159 |
| Unrealized gains (losses) on investments | (573,410) | 1,134,509 |
| | <u>\$ 1,788,003</u> | <u>\$ 3,508,310</u> |

Included in the interest income amounts above are \$1,400,307 and \$1,614,077 related to interest income on loans receivable for the years ended June 30, 2015 and 2014, 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, 2015 and 2014:

| | 2015 | 2014 |
|---------------------------------------|----------------------|----------------------|
| Parishes | \$ 25,585,242 | \$ 27,432,973 |
| Archdiocesan institutions | 14,587,290 | 15,920,683 |
| Other | 94,230 | 109,366 |
| | <u>40,266,762</u> | <u>43,463,022</u> |
| Less: Allowance for doubtful accounts | (2,570,000) | (3,176,000) |
| | <u>\$ 37,696,762</u> | <u>\$ 40,287,022</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, 2015 and 2014 is summarized below:

| June 30, 2015 | Current | Past Due | Total |
|---|----------------------|----------------------|----------------------|
| Loans | <u>\$ 30,031,984</u> | <u>\$ 10,234,778</u> | <u>\$ 40,266,762</u> |
| As a percentage of the total loan portfolio | <u>74.58%</u> | <u>25.42%</u> | <u>100.00%</u> |
| June 30, 2014 | Current | Past Due | Total |
| Loans | <u>\$ 31,751,785</u> | <u>\$ 11,711,237</u> | <u>\$ 43,463,022</u> |
| As a percentage of the total loan portfolio | <u>73.05%</u> | <u>26.95%</u> | <u>100.00%</u> |

An analysis of the allowance for doubtful accounts during the year ended June 30, 2015 and 2014 is as follows:

| | 2015 | 2014 |
|--|---------------------|---------------------|
| Balance, beginning of year | \$ 3,176,000 | \$ 2,542,714 |
| Increase (decrease) in provision for bad debts | (577,053) | 619,561 |
| Loans charged off, net of recoveries | (28,947) | 13,725 |
| Balance, end of year | <u>\$ 2,570,000</u> | <u>\$ 3,176,000</u> |

Chancery Offices of the Archdiocese of Kansas City in Kansas

Notes to Financial Statements

Note 7. Lines of Credit and Non-Recourse Loans

The Chancery has an unsecured line of credit with a local bank for \$5,000,000. The line matures on February 28, 2015 and has an interest rate equal to the one-month LIBOR (0 percent at June 30, 2015) plus 2 percent. There were no borrowings outstanding on this line as of June 30, 2015 and 2014.

The Chancery has an unsecured line of credit with a local bank for \$5,000,000. The line matures on December 1, 2015 and has an interest rate equal to the bank's prime rate (1.75 percent at June 30, 2015). There were no borrowings outstanding on this line as of June 30, 2015 and 2014.

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 statement of financial position as an interest in the net assets of the Foundation, at June 30, 2015 is \$7,535,347 (2014—\$7,827,693). 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 Mary, Star of the New Evangelization Endowment, the earnings on the endowments are temporarily restricted for the purpose stated below. The earnings on the Archbishop Discretion Endowment are unrestricted.

| | 2015 | 2014 |
|--|---------------------|---------------------|
| Unrestricted | \$ 67,780 | \$ 453,307 |
| Temporarily Restricted: | | |
| Poor and Needy of the World | 96,705 | 97,855 |
| Education of Priests and Seminarians | 3,924,469 | 3,888,769 |
| Cultural Outreach Ministry | 606,217 | 606,217 |
| Youth Religious Camp Scholarships | 328,625 | 320,994 |
| | <u>4,956,016</u> | <u>4,913,835</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 | 39,212 | 33,462 |
| Mary, Star of the new Evangelization | 12,684 | 11,434 |
| Fr. Tom Tank Prairie Star Ranch Scholarship | 54,150 | 10,150 |
| | <u>2,511,551</u> | <u>2,460,551</u> |
| Total | <u>\$ 7,535,347</u> | <u>\$ 7,827,693</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, 2015 and 2014:

| | 2015 | 2014 |
|---------------------------|----------------------|----------------------|
| Parishes | \$ 28,243,098 | \$ 34,940,415 |
| Cemeteries | 2,163,051 | 2,136,807 |
| Archdiocesan institutions | 19,229,583 | 31,857,377 |
| Other | 380,390 | 356,532 |
| | <u>\$ 50,016,122</u> | <u>\$ 69,291,131</u> |

Interest expense to related parties was \$778,397 and \$764,911 for the years ended June 30, 2015 and 2014, 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 provides reinsurance on claims that exceed \$200,000 for the policy year ending December 31, 2015. Plan premium income received for this plan for the year ended June 30, 2015 was \$18,020,838 (2014—\$17,370,575); expenses were \$15,678,874 (2014—\$16,034,096). Total plan assets as of June 30, 2015 were \$11,359,583 (2014—\$9,017,619), which have been reflected as unrestricted designated net assets on the statement 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, 2015 was \$1,620,307 (2014—\$1,624,347); expenses were \$1,562,197 (2014—\$1,549,159). Total plan assets as of June 30, 2015 were \$1,755,088 (2014—\$1,716,979), 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, 2015 and 2014 were \$1,200,000.

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 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 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 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, 2014:

| | Total Plan Net Assets | Present Value of Accumulated Plan Benefits | Total Contributions | Funded Status |
|--------------|--------------------------|--|------------------------|-------------------------|
| July 1, 2014 | \$ 5,625,628 | \$ 10,392,896 | \$ 450,579 | Less than 65% funded |
| July 1, 2013 | \$ 5,242,053 | \$ 10,154,264 | \$ 572,783 | Less than 65% funded |

Chancery Offices of the Archdiocese of Kansas City in Kansas

Notes to Financial Statements

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 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 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 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, 2014:

| | Total Plan Net Assets | Present Value of Accumulated Plan Benefits | Total Contributions | Funded Status |
|--------------|--------------------------|--|------------------------|-------------------------------|
| July 1, 2014 | \$ 48,253,904 | \$ 67,195,132 | \$ 2,959,756 | Between 65% and 80% funded |
| July 1, 2013 | \$ 43,415,166 | \$ 64,020,189 | \$ 3,450,711 | Between 65% and 80% funded |

During the prior year, the Archdiocese approved the freezing of the Lay employees retirement plan effective January 1, 2014.

The recognized Archdiocesan organizations currently contribute 2.3 percent of total payroll dollars to the retirement plan. Contributions to this plan for the year ended June 30, 2015, from the Archdiocese were \$94,210 (2014—\$130,639).

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 max). Matching contributions to this plan for the years ended June 30, 2015 and 2014 from the Chancery were \$60,735 and \$27,488, respectively. All eligible employees employed at the end of the calendar year receive a discretionary 2 percent contribution. The accrued discretionary contribution as of June 30, 2015 and 2014 was \$19,027 and \$34,396, respectively.

Chancery Offices of the Archdiocese of Kansas City in Kansas

Notes to Financial Statements

Note 12. Restricted Net Assets

Temporarily restricted net assets are available for the following purposes or periods at June 30, 2015 and 2014:

| | 2015 | 2014 |
|---|----------------------|----------------------|
| Restrictions as to use: | | |
| Education of priests and seminarians | \$ 3,525,320 | \$ 3,100,086 |
| Other restricted net assets | 2,359,543 | 2,500,996 |
| Restrictions as to time: | | |
| Private Appeal | 4,325,724 | 4,886,250 |
| Archbishop's Call to Share | 5,721,327 | 5,534,502 |
| Total temporarily restricted net assets | <u>\$ 15,931,914</u> | <u>\$ 16,021,834</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 Archdiocese

Spending policy: The Chancery 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 4 percent (4 percent for 2014) 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.

Chancery Offices of the Archdiocese of Kansas City in Kansas

Notes to Financial Statements

Note 13. Endowments (Continued)

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 year ended June 30, 2015 and 2014:

| | 2015 | | | Total |
|--|--------------|------------------------|------------------------|--------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | |
| Endowment net assets, beginning of year | \$ 453,307 | \$ 4,913,835 | \$ 2,460,551 | \$ 7,827,693 |
| Investment return: | | | | |
| Investment income | 76,762 | 928 | - | 77,690 |
| Net appreciation (realized and unrealized) | (162,497) | (2,078) | - | (164,575) |
| Total endowment investment return | (85,735) | (1,150) | - | (86,885) |
| Contributions | - | 43,331 | 51,000 | 94,331 |
| Appropriation of endowment assets for expenditure | (299,792) | - | - | (299,792) |
| Endowment net assets, end of year | \$ 67,780 | \$ 4,956,016 | \$ 2,511,551 | \$ 7,535,347 |

Chancery Offices of the Archdiocese of Kansas City in Kansas

Notes to Financial Statements

Note 13. Endowments (Continued)

| | 2014 | | | Total |
|--|-------------------|------------------------|------------------------|---------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | |
| Endowment net assets, beginning of year | \$ (66,930) | \$ 4,837,896 | \$ 2,438,967 | \$ 7,209,933 |
| Investment return: | | | | |
| Investment income | 117,072 | 1,358 | - | 118,430 |
| Net appreciation (realized and unrealized) | 669,362 | 8,637 | - | 677,999 |
| Total endowment investment return | 786,434 | 9,995 | - | 796,429 |
| Contributions | - | 65,944 | 21,584 | 87,528 |
| Appropriation of endowment assets for expenditure | (266,197) | - | - | (266,197) |
| Endowment net assets, end of year | <u>\$ 453,307</u> | <u>\$ 4,913,835</u> | <u>\$ 2,460,551</u> | <u>\$ 7,827,693</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 2015 and 2014.

| | 2015 | 2014 |
|---|----------------------|----------------------|
| Time Restrictions: | | |
| Archbishop's Call to Share | \$ 5,534,504 | \$ 5,168,627 |
| Private Appeal | 2,091,707 | 5,324,157 |
| Purpose Restrictions: | | |
| Future Full of Hope | 300 | 555 |
| Contributions to various designated organizations | 2,950,789 | 2,593,165 |
| | <u>\$ 10,577,300</u> | <u>\$ 13,086,504</u> |

Note 15. Board-Designated Unrestricted Net Assets

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

| | 2015 | 2014 |
|------------------------------|----------------------|----------------------|
| Health and dental care plans | \$ 13,134,671 | \$ 10,734,598 |
| Cor Christi | 16,429,161 | \$ 16,769,224 |
| Other designations | 2,901,243 | 2,185,900 |
| | <u>\$ 32,465,075</u> | <u>\$ 29,689,722</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 \$41,666.67 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 6.5 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 62 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 November 2, 2015, which is the date the financial statements were available to be issued.

