

# Chancery Offices of the Archdiocese of Kansas City in Kansas

Financial Report  
June 30, 2017

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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

### 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, 2017 and 2016, 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, 2017 and 2016, 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 6, 2017

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

### Statements of Financial Position June 30, 2017 and 2016

	Current	Deposit and Loan	Plant	Cor Christi	Property and Liability Insurance	Health/Dental Care Plans	2017	2016
<b>Assets</b>								
Cash and cash equivalents	\$ 20,017,730	\$ -	\$ -	\$ 3,264,269	\$ -	\$ -	\$ 23,281,999	\$ 19,619,788
Investments (Notes 2 and 5)	23,831,924	-	-	12,813,121	-	-	36,645,045	27,475,184
Accrued interest receivable	49,913	144,780	-	13,091	-	-	207,784	296,669
Accounts receivable, net	2,146,983	-	-	-	1,323,063	2,540,883	6,010,929	6,832,253
Pledges receivable, net (Note 3)	2,234,459	-	-	-	-	-	2,234,459	3,098,047
Prepaid expenses	333,607	-	-	-	-	-	333,607	517,911
Interest in net assets of the Catholic Foundation of Northeast Kansas (Notes 2 and 8)	7,707,861	-	-	-	-	-	7,707,861	7,232,150
Loans receivable, net (Note 6)	-	29,495,468	-	-	-	-	29,495,468	35,741,821
Land held for sale (Note 2)	-	-	-	-	-	-	-	523,739
Land, buildings and equipment, net (Note 4)	-	-	15,912,536	-	-	-	15,912,536	16,606,866
Due to/from other funds	(33,298,173)	25,450,362	(3,594,948)	(57,995)	713,210	10,787,544	-	-
<b>Total assets</b>	<b>\$ 23,024,304</b>	<b>\$ 55,090,610</b>	<b>\$ 12,317,588</b>	<b>\$ 16,032,486</b>	<b>\$ 2,036,273</b>	<b>\$ 13,328,427</b>	<b>\$ 121,829,688</b>	<b>\$ 117,944,428</b>

(Continued)

Chancery Offices of the Archdiocese of Kansas City in Kansas

Statements of Financial Position (Continued)

June 30, 2017 and 2016

	Current	Deposit and Loan	Plant	Cor Christi	Property and Liability Insurance	Health/Dental Care Plans	2017	2016
<b>Liabilities and Net Assets</b>								
Liabilities:								
Accounts payable and accrued expenses	\$ 2,117,704	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,117,704	\$ 1,637,895
Due to lay and priest retirement trust fund	137,950	-	-	-	-	-	137,950	288,347
Pledges payable	10,000	-	-	100,000	-	-	110,000	40,000
Accrued IBNR claims	-	-	-	-	300,000	1,200,000	1,500,000	1,200,000
Collections held for transmittal	151,642	-	-	-	-	-	151,642	298,620
Deposits payable (Note 9)	-	54,812,447	-	-	-	-	54,812,447	49,108,075
Deferred revenue	593,595	-	-	-	1,023,196	-	1,616,791	1,305,447
<b>Total liabilities</b>	<b>3,010,891</b>	<b>54,812,447</b>	<b>-</b>	<b>100,000</b>	<b>1,323,196</b>	<b>1,200,000</b>	<b>60,446,534</b>	<b>53,878,384</b>
Net assets (deficit):								
Unrestricted:								
Undesignated	56,177	278,163	12,317,588	-	-	-	12,651,928	14,548,041
Undesignated—endowments (Note 13)	(25,886)	-	-	-	-	-	(25,886)	(326,393)
Designated (Note 15)	3,423,056	-	-	15,932,486	713,077	12,128,427	32,197,046	32,316,442
<b>Total unrestricted net assets</b>	<b>3,453,347</b>	<b>278,163</b>	<b>12,317,588</b>	<b>15,932,486</b>	<b>713,077</b>	<b>12,128,427</b>	<b>44,823,088</b>	<b>46,538,090</b>
Restricted:								
Temporarily restricted (Note 12):								
Education of priests and seminarians	4,486,198	-	-	-	-	-	4,486,198	3,974,177
Appeals	7,177,055	-	-	-	-	-	7,177,055	8,509,534
Other	2,350,036	-	-	-	-	-	2,350,036	2,507,366
Permanently restricted (Notes 8 and 13)	2,546,777	-	-	-	-	-	2,546,777	2,536,877
<b>Total restricted net assets</b>	<b>16,560,066</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>16,560,066</b>	<b>17,527,954</b>
<b>Total net assets</b>	<b>20,013,413</b>	<b>278,163</b>	<b>12,317,588</b>	<b>15,932,486</b>	<b>713,077</b>	<b>12,128,427</b>	<b>61,383,154</b>	<b>64,066,044</b>
<b>Total liabilities and net assets</b>	<b>\$ 23,024,304</b>	<b>\$ 55,090,610</b>	<b>\$ 12,317,588</b>	<b>\$ 16,032,486</b>	<b>\$ 2,036,273</b>	<b>\$ 13,328,427</b>	<b>\$ 121,829,688</b>	<b>\$ 117,944,428</b>

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
<b>Revenues:</b>				
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
<b>Other revenue:</b>				
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 release from restrictions (Note 14)	10,565,073	(10,565,073)	-	-
<b>Total revenues</b>	<b>47,833,434</b>	<b>(881,918)</b>	<b>9,900</b>	<b>46,961,416</b>
<b>Expenses:</b>				
<b>Pastoral priorities:</b>				
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
<b>Total ministry and program services</b>	<b>19,731,762</b>	<b>-</b>	<b>-</b>	<b>19,731,762</b>
<b>Supporting services:</b>				
Administrative	1,722,278	-	-	1,722,278
<b>Other:</b>				
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
<b>Total supporting services</b>	<b>29,816,674</b>	<b>95,870</b>	<b>-</b>	<b>29,912,544</b>
<b>Total expenses</b>	<b>49,548,436</b>	<b>95,870</b>	<b>-</b>	<b>49,644,306</b>
<b>Increase (decrease) in net assets</b>	<b>(1,715,002)</b>	<b>(977,788)</b>	<b>9,900</b>	<b>(2,682,890)</b>
Net assets, beginning of year	46,538,090	14,991,077	2,536,877	64,066,044
Net assets, end of year	\$ 44,823,088	\$ 14,013,289	\$ 2,546,777	\$ 61,383,154

See notes to financial statements.

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

### Statement of Activities Year Ended June 30, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Revenues:</b>				
Archbishop's Call to Share (Note 3)	\$ 140,026	\$ 5,975,260	\$ -	\$ 6,115,286
Private appeal campaign (Note 3)	-	568,523	-	568,523
Archdiocesan collections	-	520,641	-	520,641
Archdiocesan assessments	5,064,182	1,795,000	-	6,859,182
Health and dental plan premiums (Note 10)	20,781,556	-	-	20,781,556
Special multiperil and liability insurance	1,108,815	-	-	1,108,815
Contributions and bequests	62,013	684,678	25,326	772,017
Investment income (Note 5)	1,156,666	-	-	1,156,666
Change in net assets of the Catholic Foundation of Northeast Kansas	(389,709)	351,406	-	(38,303)
<b>Other revenue:</b>				
Administration	381,629	-	-	381,629
Conversion	725,413	-	-	725,413
Education	1,796,788	23,627	-	1,820,415
Evangelization	1,443,412	40,872	-	1,484,284
Outreach	53,438	37,831	-	91,269
Stewardship	548,826	-	-	548,826
Gain on disposal of land, building and equipment	177,765	-	-	177,765
Net assets release from restrictions (Note 14)	10,859,722	(10,859,722)	-	-
<b>Total revenues</b>	<b>43,910,542</b>	<b>(861,884)</b>	<b>25,326</b>	<b>43,073,984</b>
<b>Expenses:</b>				
<b>Pastoral priorities:</b>				
Conversion	2,865,578	-	-	2,865,578
Evangelization	2,429,976	-	-	2,429,976
Education	6,162,344	-	-	6,162,344
Outreach	2,392,870	-	-	2,392,870
Stewardship	4,462,206	-	-	4,462,206
<b>Total ministry and program services</b>	<b>18,312,974</b>	<b>-</b>	<b>-</b>	<b>18,312,974</b>
<b>Supporting services:</b>				
Administrative	1,623,530	-	-	1,623,530
<b>Other:</b>				
Interest (Note 9)	488,776	-	-	488,776
Bad-debt expense (Note 6)	12,833	78,953	-	91,786
Special multiperil and liability insurance	428,851	-	-	428,851
Health and dental care expense (Note 10)	20,772,188	-	-	20,772,188
Cor Christi Fund distributions	455,016	-	-	455,016
Private appeal distributions	2,281,019	-	-	2,281,019
Future Full of Hope distributions	300	-	-	300
<b>Total supporting services</b>	<b>26,062,513</b>	<b>78,953</b>	<b>-</b>	<b>26,141,466</b>
<b>Total expenses</b>	<b>44,375,487</b>	<b>78,953</b>	<b>-</b>	<b>44,454,440</b>
<b>Increase (decrease) in net assets</b>	<b>(464,945)</b>	<b>(940,837)</b>	<b>25,326</b>	<b>(1,380,456)</b>
Net assets, beginning of year	47,003,035	15,931,914	2,511,551	65,446,500
Net assets, end of year	\$ 46,538,090	\$ 14,991,077	\$ 2,536,877	\$ 64,066,044

See notes to financial statements.



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

**Statements of Cash Flows**  
**Years Ended June 30, 2017 and 2016**

	2017	2016
Cash flows from operating activities:		
Decrease in net assets	\$ (2,682,890)	\$ (1,380,456)
Adjustments to reconcile decrease in net assets to net cash provided by (used in) operating activities:		
Depreciation	774,595	766,079
Change in allowance for accounts and pledges receivable	1,280,681	(270,188)
Amortization of pledge discount	(21,288)	(27,054)
Realized gain on sale of investments	(428,875)	(141,113)
Unrealized (gain) loss on investments	(152,351)	685,342
Net discount accretion	(32,344)	(13,365)
(Increase) decrease in fair value of investments held at the Catholic Foundation of Northeast Kansas	(621,557)	114,712
Allowance provision for loans receivable, net of recoveries	(242,000)	7,000
Gain on sale of land, building and equipment	(117,088)	(177,765)
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(481,676)	540,648
Pledges receivable, net	907,195	1,452,369
Accrued interest receivable	88,885	44,421
Prepaid expenses	184,304	(99,577)
Increase (decrease) in:		
Accounts payable and accrued expenses	479,809	24,313
Due to lay and priest retirement trust fund	(150,397)	288,347
Pledges payable	70,000	(60,000)
Accrued IBNR claims	300,000	-
Collections held for transmittal	(146,978)	58,871
Deferred revenue	311,344	43,822
<b>Net cash provided by (used in) operating activities</b>	<b>(680,631)</b>	<b>1,856,406</b>
Cash flows from investing activities:		
Proceeds from sales of land, buildings and equipment	1,069,278	1,180,994
Purchases of land, buildings and equipment	(508,716)	(1,788,870)
Purchases of investments	(29,583,703)	(3,637,656)
Withdrawals in interest in Catholic Foundation of Northeast Kansas	145,846	188,485
Proceeds from sale of investments	21,027,412	2,183,475
Decrease in loans receivable, net	6,488,353	2,994,941
<b>Net cash (used in) provided by investing activities</b>	<b>(1,361,530)</b>	<b>1,121,369</b>

(Continued)

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

**Statements of Cash Flows (Continued)**  
**Years Ended June 30, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
Cash flows from financing activities:		
Increase (decrease) in deposits payable, net	<u>\$ 5,704,372</u>	<u>\$ (908,047)</u>
<b>Net cash provided by (used in) financing activities</b>	<u><b>5,704,372</b></u>	<u><b>(908,047)</b></u>
<b>Net increase in cash and cash equivalents</b>	<b>3,662,211</b>	2,069,728
Cash and cash equivalents:		
Beginning of year	<u>19,619,788</u>	17,550,060
End of year	<u><u>\$ 23,281,999</u></u>	<u>\$ 19,619,788</u>
Supplemental disclosures of cash flow information:		
Cash payments for interest	<u><u>\$ 522,874</u></u>	<u>\$ 488,776</u>
Supplemental schedule of noncash investing activities:		
Real estate transferred from land held for sale	<u><u>\$ (523,739)</u></u>	<u>\$ (967,500)</u>

See notes to financial statements.

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

### Notes to Financial Statements

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

**Nature of activities:** The accompanying financial statements 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 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 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 and 3.5 percent, respectively.

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

### Notes to Financial Statements

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

**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 restricted 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

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#### 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.

**Land held for sale:** 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 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, 2017 and 2016.

**Fundraising costs:** The Chancery expenses fundraising costs as incurred. Total expense for fundraising for the years ended June 30, 2017 and 2016, was \$747,923 and \$750,795, respectively.

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

### Notes to Financial Statements

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

**Use of estimates:** The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) requires management to make estimates and assumptions that affect 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.

**Reclassifications:** Certain comparative balances for the year ended June 30, 2016, have been reclassified to make them consistent with the current-year presentation. The reclassifications had no effect on change in net assets or net asset balances.

**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 ended 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

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

**Level 2:** Inputs to the valuation methodology include:

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

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

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

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

**Assets recorded at fair value on a recurring basis:** A description of the valuation methodologies used for assets on a recurring basis is set forth below:

**Investments:** Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities would include highly liquid government bonds and exchange traded equities. If quoted market prices are not available, then fair values are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flow. Level 2 securities would include U.S. agency securities, mortgage-backed agency securities, obligations of states and political subdivisions, and certain corporate, asset-backed and other securities. In certain cases where there is limited activity or transparency around inputs to the valuation including alternative investments, securities are classified with the Level 3 of the valuation hierarchy.

**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.

**Land held for sale:** Land held for sale is 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 tables summarize assets and liabilities measured at fair value on a recurring basis as of June 30, 2017 and 2016, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

	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	7,115,782	3,229,892	3,885,890	-
	<u>34,239,547</u>	<u>30,339,515</u>	<u>3,885,890</u>	<u>14,142</u>
Investments measured at net asset value:				
Managed futures limited partnerships	701,017			
Fund of hedge fund limited partnerships	<u>1,704,481</u>			
Total investments	<u>36,645,045</u>			
Interest in net assets of the Catholic Foundation of Northeast Kansas	<u>7,707,861</u>	<u>-</u>	<u>-</u>	<u>7,707,861</u>
	<u>\$ 44,352,906</u>	<u>\$ 30,339,515</u>	<u>\$ 3,885,890</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)

	June 30, 2016			
	Total	Level 1	Level 2	Level 3
Investments:				
Fixed-income securities:				
Certificates of deposit	\$ 7,250,000	\$ 7,250,000	\$ -	\$ -
U.S. Treasuries	6,163,365	6,163,365	-	-
Equity securities, common stock:				
Consumer discretionary	299,701	299,701	-	-
Consumer staples	348,355	348,355	-	-
Energy	338,566	338,566	-	-
Financial	830,314	830,314	-	-
Health care	96,598	96,598	-	-
Industrial	121,781	121,781	-	-
Information technology	303,605	303,605	-	-
Materials	160,225	160,225	-	-
Telecommunications	296,802	296,802	-	-
Utilities	74,988	74,988	-	-
Other	191	191	-	-
Privately held company	14,142	-	-	14,142
Mutual funds:				
Global real estate	793,954	793,954	-	-
Fixed-income	7,262,956	1,588,180	5,674,776	-
	24,355,543	18,666,625	5,674,776	14,142
Investments measured at net asset value:				
Managed futures limited partnerships	652,701			
Fund of hedge fund limited partnerships	2,466,940			
Total investments	27,475,184			
Land held for sale	523,739	-	-	523,739
Interest in net assets of the Catholic Foundation of Northeast Kansas	7,232,150	-	-	7,232,150
	<u>\$ 35,231,073</u>	<u>\$ 18,666,625</u>	<u>\$ 5,674,776</u>	<u>\$ 7,770,031</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, 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>

	Interest in Net Assets of the Catholic Foundation of Northeast Kansas	Privately Held Company
Beginning balance—July 1, 2015	\$ 7,535,347	\$ 13,928
Additions	92,400	-
Unrealized gains (losses)	(258,375)	214
Realized gains	143,663	-
Withdrawals	(280,885)	-
Ending balance—June 30, 2016	<u>\$ 7,232,150</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, 2017 and 2016:

Investment	Fair Value at June 30		Unfunded Commitment	Redemption Frequency	Redemption Notice Period
	2017	2016			
Arden Alternative Advisors, Spc (A)	\$ 111,960	\$ 1,171,792	\$ -	Quarterly	60 days
Private Advisors Hedged Equity Fund, LTD (B)	-	405,495	-	Annual	60 days
Berens Capital Fund, Ltd. (C)	497,950	598,745	-	Annual	90 days
ACL Alternative Fund (D)	701,017	652,701	-	Quarterly	60 days
Blackstone (E)	256,327	241,970	-	Quarterly	None
Blackstone-Offshore (F)	354,274	48,938	-	Quarterly	None
Altegris (G)	483,970	-	-	Daily	None
	<u>\$ 2,405,498</u>	<u>\$ 3,119,641</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.

(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.

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

### Notes to Financial Statements

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

- (C) 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.
- (D) 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.
- (E) 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.
- (F) 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.
- (G) The investment objective of this fund is to achieve capital appreciation through the allocation of its assets among a select group of hedge fund managers, each of which employs a variety of investment strategies.

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.

The fair values estimates presented are based on pertinent information available to management as of June 30, 2017 and 2016. 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

Pledges receivable (less allowance for uncollectible pledges) at June 30, 2017, to be received in subsequent years are as follows:

	Call to Share	Private Appeal	Total
Years ending:			
2018	\$ 1,296,603	\$ 856,462	\$ 2,153,065
2019	-	254,120	254,120
2020	-	75,750	75,750
2021	-	-	-
2022	-	-	-
Thereafter	-	2,500	2,500
	<u>1,296,603</u>	<u>1,188,832</u>	<u>2,485,435</u>
Less:			
Discount	-	14,340	14,340
Allowance for uncollectible	108,326	128,310	236,636
Total pledges receivable	<u>\$ 1,188,277</u>	<u>\$ 1,046,182</u>	<u>\$ 2,234,459</u>

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

Land, buildings and equipment comprise the following at June 30, 2017 and 2016:

	2017	2016
Operating land and building	\$ 20,292,610	\$ 19,830,337
Possible future use sites	8,066,852	8,644,198
Furniture and equipment	3,215,574	3,061,340
	<u>31,575,036</u>	<u>31,535,875</u>
Less accumulated depreciation	15,662,500	14,929,009
	<u>\$ 15,912,536</u>	<u>\$ 16,606,866</u>

#### Note 5. Investments

Investments comprise the following at June 30, 2017 and 2016:

	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>

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

### Notes to Financial Statements

#### Note 5. Investments (Continued)

	2016		
	Cost	Fair Value	Unrealized Appreciation (Depreciation)
Certificates of deposit	\$ 7,250,000	\$ 7,250,000	\$ -
Mutual funds	7,252,877	8,056,910	804,033
U.S. government securities	6,163,365	6,163,365	-
Equity securities	3,178,430	2,885,268	(293,162)
Alternative investments	2,786,438	3,119,641	333,203
	<u>\$ 26,631,110</u>	<u>\$ 27,475,184</u>	<u>\$ 844,074</u>

The following summarizes the investment returns (losses) for the years ended June 30, 2017 and 2016:

	2017	2016
Interest and dividend income	\$ 1,847,298	\$ 1,700,895
Realized gains	428,875	141,113
Unrealized gains (losses) on investments	152,351	(685,342)
	<u>\$ 2,428,524</u>	<u>\$ 1,156,666</u>

Included in the interest income amounts above are \$1,067,015 and \$1,356,091 related to interest income on loans receivable for the years ended June 30, 2017 and 2016, respectively.

#### Note 6. Loans Receivable

Loans receivable comprise the following at June 30, 2017 and 2016:

	2017	2016
Parishes	\$ 22,060,737	\$ 26,800,938
Archdiocesan institutions	8,722,731	10,470,883
	30,783,468	37,271,821
Less allowance for doubtful accounts	(1,288,000)	(1,530,000)
	<u>\$ 29,495,468</u>	<u>\$ 35,741,821</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.

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

### Notes to Financial Statements

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

The aging of the loan portfolio as of June 30, 2017 and 2016, is summarized below:

	June 30, 2017		
	Current	Past Due	Total
Loans	\$ 20,445,699	\$ 10,337,769	\$ 30,783,468
As a percentage of the total loan portfolio	66.42%	33.58%	100.00%

  

	June 30, 2016		
	Current	Past Due	Total
Loans	\$ 23,059,026	\$ 14,212,795	\$ 37,271,821
As a percentage of the total loan portfolio	61.86%	38.14%	100.00%

An analysis of the allowance for doubtful accounts during the years ended June 30, 2017 and 2016, is as follows:

	2017	2016
Balance, beginning of year	\$ 1,530,000	\$ 1,505,000
Increase in provision for bad debts	369,111	25,000
Loans charged off, net of recoveries	(611,111)	-
Balance, end of year	\$ 1,288,000	\$ 1,530,000

#### 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, 2017, and has an interest rate equal to the bank's prime rate (4.25 percent at June 30, 2017). There were no borrowings outstanding on this line as of June 30, 2017 and 2016.

#### 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, 2017, is \$7,707,861 (2016—\$7,232,150). The following details the purpose restrictions of the interest in the net assets of the Catholic Foundation of Northeast Kansas.

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

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

### Notes to Financial Statements

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

The amounts listed as permanently restricted below are donor restricted. The permanently endowed funds are to be held in perpetuity. With the exception of the Archbishop Discretion Endowment 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	
	2017	2016
Unrestricted	\$ (25,886)	\$ (326,393)
Temporarily restricted:		
Poor and needy of the world	103,463	95,281
Education of priests and seminarians	4,123,542	3,968,970
Cultural outreach ministry	606,217	606,217
Youth religious camp scholarships	353,748	351,198
	<u>5,186,970</u>	<u>5,021,666</u>
Permanently restricted:		
Archbishop Discretion Endowment	110,300	110,300
Archdiocesan Endowment	14,684	13,684
Education of priests and seminarians	1,412,434	1,412,434
Lay ministry development	882,772	882,772
Youth religious camp scholarships	126,587	117,687
	<u>2,546,777</u>	<u>2,536,877</u>
Total	<u>\$ 7,707,861</u>	<u>\$ 7,232,150</u>

#### Note 9. Deposits Payable

Deposits payable comprise the following at June 30, 2017 and 2016:

	2017	2016
Parishes	\$ 39,633,848	\$ 33,718,046
Cemeteries	2,148,090	2,161,042
Archdiocesan institutions	12,762,826	12,953,968
Other	267,683	275,019
	<u>\$ 54,812,447</u>	<u>\$ 49,108,075</u>

Interest expense to related parties was \$522,874 and \$488,776 for the years ended June 30, 2017 and 2016, respectively.

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

### Notes to Financial Statements

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

The 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, 2017. Plan premium income received for this plan for the year ended June 30, 2017, was \$20,918,578 (2016—\$19,140,039); expenses were \$21,930,915 (2016—\$19,130,671). Total plan assets as of June 30, 2017, were \$10,372,482 (2016—\$11,384,819), 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, 2017, was \$1,732,685 (2016—\$1,641,517); expenses were \$1,735,960 (2016—\$1,641,517). Total plan assets as of June 30, 2017, were \$1,755,945 (2016—\$1,759,220), 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, 2017 and 2016, were \$1,500,000 and 1,200,000, respectively.

#### Note 11. Retirement Funds

**Priest retirement plan and other benefits:** The Archdiocese has a separate 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 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, 2016:

	Total Plan Net Assets	Present Value of Accumulated Plan Benefits	Total Contributions	Funded Status
July 1, 2016	\$ 5,484,802	\$ 11,456,461	\$ 837,238	Less than 65% funded
July 1, 2015	5,463,055	11,989,848	489,265	Less than 65% funded



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

### Notes to Financial Statements

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

**Lay and deacon employees' retirement plan:** The Archdiocese 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, 2016:

	Total Plan Net Assets	Present Value of Accumulated Plan Benefits	Total Contributions	Funded Status
July 1, 2016	\$ 39,156,345	\$ 68,720,019	\$ 1,912,178	Less than 65% funded
July 1, 2015	46,545,718	72,679,495	1,854,527	Less than 65% funded

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

The recognized Archdiocesan organizations contributed 2.8 and 2.3 percent of total payroll dollars to the retirement plan for the years ended June 30, 2017 and 2016, respectively. Contributions to this plan for the year ended June 30, 2017, from the Chancery were \$133,617 (2016—\$105,618).

**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, 2017 and 2016, from the Chancery were \$67,782 and \$68,545, 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, 2017 and 2016, was \$22,473 and \$20,108, respectively.

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

### Notes to Financial Statements

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#### Note 12. Restricted Net Assets

Temporarily restricted net assets are available for the following purposes or periods at June 30, 2017 and 2016:

	2017	2016
Restrictions as to use:		
Education of priests and seminarians	\$ 4,486,198	\$ 3,974,177
Other restricted net assets	2,350,036	2,507,366
Restrictions as to time:		
Private appeal	1,053,955	2,652,463
Archbishop's Call to Share	6,123,100	5,857,071
Total temporarily restricted net assets	<u>\$ 14,013,289</u>	<u>\$ 14,991,077</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

**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 2016) 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 years ended June 30, 2017 and 2016:

	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 appreciation (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
	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 67,780	\$ 4,956,016	\$ 2,511,551	\$ 7,535,347
Investment return:				
Investment income	106,908	1,334	-	108,242
Net depreciation (realized and unrealized)	(220,196)	(2,758)	-	(222,954)
Total endowment investment loss	(113,288)	(1,424)	-	(114,712)
Contributions	-	67,074	25,326	92,400
Appropriation of endowment assets for expenditure	(280,885)	-	-	(280,885)
Endowment net assets, end of year	\$ (326,393)	\$ 5,021,666	\$ 2,536,877	\$ 7,232,150

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

### Notes to Financial Statements

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#### 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 2017 and 2016.

	2017	2016
Time restrictions:		
Archbishop's Call to Share	\$ 5,857,071	\$ 5,721,327
Private appeal	1,638,271	2,281,018
Purpose restrictions:		
Future Full of Hope	150	300
Catholic Charities	500,631	526,543
Education of priests and seminarians	1,901,737	1,797,441
Contributions to various designated organizations	667,213	533,093
	<u>\$ 10,565,073</u>	<u>\$ 10,859,722</u>

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

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

	2017	2016
Health and dental care plans	\$ 12,128,427	\$ 13,144,039
Cor Christi	15,932,486	15,653,372
Other designations	4,136,133	3,519,031
	<u>\$ 32,197,046</u>	<u>\$ 32,316,442</u>

#### 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 6.3 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 54 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 6, 2017, which is the date the financial statements were available to be issued.

