

Chancery Offices of the Archdiocese of Kansas City in Kansas

Financial Report
June 30, 2016

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RSM US LLP

Independent Auditor's Report

Most Reverend Joseph F. Naumann
Archbishop and Audit Committee of the
Archdiocese of Kansas City in Kansas
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, 2016 and 2015, 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, 2016 and 2015, 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. 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
October 17, 2016

Chancery Offices of the Archdiocese of Kansas City in Kansas

Statements of Financial Position

June 30, 2016 and 2015

	Current	Deposit and Loan	Plant	Cor Christi	2016	2015
Assets						
Cash and cash equivalents	\$ 18,069,209	\$ -	\$ -	\$ 1,550,579	\$ 19,619,788	\$ 17,550,060
Investments (Notes 2 and 5)	13,427,506	-	-	14,047,678	27,475,184	26,551,867
Accrued interest receivable	285,079	-	-	11,590	296,669	341,090
Accounts receivable, net	7,634,157	245,096	-	-	7,879,253	8,220,901
Pledges receivable, net (Note 3)	3,098,047	-	-	-	3,098,047	4,452,174
Prepaid expenses	517,911	-	-	-	517,911	418,334
Interest in net assets of the Catholic Foundation of Northeast Kansas (Notes 2 and 8)	7,232,150	-	-	-	7,232,150	7,535,347
Loans receivable, net (Note 6)	-	34,694,821	-	-	34,694,821	37,696,762
Land held for sale (Note 2)	-	-	523,739	-	523,739	1,491,239
Land, buildings and equipment, net (Note 4)	-	-	16,606,866	-	16,606,866	15,619,804
Due to/from other funds	(10,853,989)	14,563,474	(3,753,010)	43,525	-	-
Total assets	\$ 39,410,070	\$ 49,503,391	\$ 13,377,595	\$ 15,653,372	\$ 117,944,428	\$ 119,877,578

(Continued)

Chancery Offices of the Archdiocese of Kansas City in Kansas

Statements of Financial Position (Continued)
June 30, 2016 and 2015

	Current	Deposit and Loan	Plant	Cor Christi	2016	2015
Liabilities and Net Assets						
Liabilities:						
Accounts payable and accrued expenses	\$ 1,242,579	\$ 395,316	\$ -	\$ -	\$ 1,637,895	\$ 1,613,582
Due to lay and priest retirement trust fund	288,347	-	-	-	288,347	-
Pledges payable	40,000	-	-	-	40,000	100,000
Accrued health and dental care claims (Note 10)	1,200,000	-	-	-	1,200,000	1,200,000
Collections held for transmittal	298,620	-	-	-	298,620	239,749
Deposits payable (Note 9)	-	49,108,075	-	-	49,108,075	50,016,122
Deferred revenue	1,305,447	-	-	-	1,305,447	1,261,625
Total liabilities	4,374,993	49,503,391	-	-	53,878,384	54,431,078
Net assets (deficit):						
Unrestricted:						
Undesignated	1,170,446	-	13,377,595	-	14,548,041	14,470,180
Undesignated—endowments (Note 13)	(326,393)	-	-	-	(326,393)	67,780
Designated (Note 15)	16,663,070	-	-	15,653,372	32,316,442	32,465,075
Total unrestricted net assets	17,507,123	-	13,377,595	15,653,372	46,538,090	47,003,035
Restricted:						
Temporarily restricted (Note 12):						
Education of priests and seminarians	3,974,177	-	-	-	3,974,177	3,525,320
Appeals	8,509,534	-	-	-	8,509,534	10,047,051
Other	2,507,366	-	-	-	2,507,366	2,359,543
Permanently restricted (Notes 8 and 13)	2,536,877	-	-	-	2,536,877	2,511,551
Total restricted net assets	17,527,954	-	-	-	17,527,954	18,443,465
Total net assets	35,035,077	-	13,377,595	15,653,372	64,066,044	65,446,500
Total liabilities and net assets	\$ 39,410,070	\$ 49,503,391	\$ 13,377,595	\$ 15,653,372	\$ 117,944,428	\$ 119,877,578

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
Revenues:				
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)
Other revenue:				
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)	-	-
Total revenues	43,910,542	(861,884)	25,326	43,073,984
Expenses:				
Pastoral priorities:				
Conversion	2,878,022	-	-	2,878,022
Evangelization	2,432,408	-	-	2,432,408
Education	6,147,468	-	-	6,147,468
Outreach	2,392,870	-	-	2,392,870
Stewardship	4,462,206	-	-	4,462,206
Total ministry and program services	18,312,974	-	-	18,312,974
Supporting services:				
Administrative	1,623,530	-	-	1,623,530
Other:				
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
Total supporting services	26,062,513	78,953	-	26,141,466
Total expenses	44,375,487	78,953	-	44,454,440
Increase (decrease) in net assets	(464,945)	(940,837)	25,326	(1,380,456)
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

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	4,827,914	1,579,990	-	6,407,904
Health and dental plan premiums (Note 10)	19,641,145	-	-	19,641,145
Special multiperil and liability insurance	696,672	-	-	696,672
Contributions and bequests	202,753	413,403	51,000	667,156
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:				
Administration	491,696	-	-	491,696
Conversion	688,530	-	-	688,530
Education	1,644,448	17,918	-	1,662,366
Evangelization	1,139,020	43,317	-	1,182,337
Outreach	154,815	36,115	-	190,930
Stewardship	780,188	-	-	780,188
Gain on disposal of land, building and equipment	48,263	-	-	48,263
Net assets release from restrictions (Note 14)	10,227,300	(10,227,300)	-	-
Total revenues	42,114,111	(19,753)	51,000	42,145,358
Expenses:				
Pastoral priorities:				
Conversion	2,639,368	-	-	2,639,368
Evangelization	2,265,438	-	-	2,265,438
Education	5,866,277	-	-	5,866,277
Outreach	2,280,215	-	-	2,280,215
Stewardship	4,309,632	-	-	4,309,632
Total ministry and program services	17,360,930	-	-	17,360,930
Supporting services:				
Administrative	1,700,302	-	-	1,700,302
Other:				
Interest (Note 9)	778,397	-	-	778,397
Bad-debt expense (Note 6)	(577,053)	70,167	-	(506,886)
Special multiperil and liability insurance	556,890	-	-	556,890
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	22,323,893	70,167	-	22,394,060
Total expenses	39,684,823	70,167	-	39,754,990
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

**Statements of Cash Flows
Years Ended June 30, 2016 and 2015**

	2016	2015
Cash flows from operating activities:		
(Decrease) increase in net assets	\$ (1,380,456)	\$ 2,390,368
Adjustments to reconcile (decrease) increase in net assets to net cash provided by operating activities:		
Depreciation	766,079	771,922
Change in allowance for accounts and pledges receivable	(270,188)	(1,090,090)
Amortization of pledge discount	(27,054)	(26,351)
Realized gain on sale of investments	(141,113)	(527,535)
Unrealized loss on investments	685,342	573,410
Net discount accretion	(13,365)	(5,871)
(Increase) decrease in fair value of investments held at the Catholic Foundation of Northeast Kansas	114,712	86,885
Allowance provision for loans receivable, net of recoveries	7,000	(606,000)
Gain on sale of land, building and equipment	(177,765)	(48,263)
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	540,648	602,480
Pledges receivable, net	1,452,369	1,682,013
Accrued interest receivable	44,421	(139,716)
Prepaid expenses	(99,577)	(324,069)
Increase (decrease) in:		
Accounts payable and accrued expenses	24,313	(32)
Due to lay and priest retirement trust fund	288,347	-
Pledges payable	(60,000)	-
Collections held for transmittal	58,871	56,564
Deferred revenue	43,822	717,660
Net cash provided by operating activities	1,856,406	4,113,375
Cash flows from investing activities:		
Proceeds from sales of land, buildings and equipment	1,180,994	50,042
Purchases of land, buildings and equipment	(1,788,870)	(272,890)
Purchases of investments	(3,637,656)	(10,250,000)
Withdrawals in interest in Catholic Foundation of Northeast Kansas	188,485	205,461
Proceeds from sale of investments	2,183,475	30,055,250
Decrease in loans receivable, net	2,994,941	3,196,260
Net cash provided by investing activities	1,121,369	22,984,123

(Continued)

Chancery Offices of the Archdiocese of Kansas City in Kansas

**Statements of Cash Flows (Continued)
Years Ended June 30, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
Cash flows from financing activities:		
Decrease in deposits payable, net	<u>\$ (908,047)</u>	<u>\$ (19,275,009)</u>
Net cash used in financing activities	<u>(908,047)</u>	<u>(19,275,009)</u>
Net increase in cash and cash equivalents	2,069,728	7,822,489
Cash and cash equivalents:		
Beginning of year	<u>17,550,060</u>	<u>9,727,571</u>
End of year	<u>\$ 19,619,788</u>	<u>\$ 17,550,060</u>
Supplemental disclosures of cash flow information:		
Cash payments for interest	<u>\$ 488,776</u>	<u>\$ 778,397</u>
Supplemental schedule of noncash investing activities:		
Real estate transferred to (from) land held for sale	<u>\$ (967,500)</u>	<u>\$ 523,739</u>

See notes to financial statements.

Chancery Offices of the Archdiocese of Kansas City in Kansas

Notes to Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies

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

The accompanying financial statements exclude the accounting of other activities of the Archdiocese, such as the following: parishes, schools, cemeteries, homes, campus centers, Catholic Charities, foundations, retirement plans, regional offices, etc., or assets, liabilities and guarantees 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 percent and 3.5 percent, respectively.

Chancery Offices of the Archdiocese of Kansas City in Kansas

Notes to Financial Statements

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

Plant Fund: The Plant Fund includes only land, furniture, buildings and equipment owned by the Archdiocese and used for current operations, held for future development, or available for sale. Properties of operating parishes are not included. Purchased fixed assets are recorded at 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 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.

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.

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.

Chancery Offices of the Archdiocese of Kansas City in Kansas

Notes to Financial Statements

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

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) 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, 2016 and 2015.

Fundraising costs: The Chancery expenses fundraising costs as incurred. Total expense for fundraising for the years ended June 30, 2016 and 2015, was \$750,795 and \$746,605, respectively.

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.

Chancery Offices of the Archdiocese of Kansas City in Kansas

Notes to Financial Statements

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

Reclassifications: Certain comparative balances for the year ended June 30, 2015, have been reclassified to make them consistent with the current-year presentation. The reclassifications had no effect on change in net assets or net assets.

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

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This guidance is intended to improve comparability of accounting treatment for revenue recognition across geographies and industries, and to provide more useful information to financial statement readers through enhanced disclosure requirements. It replaces industry-specific guidance with a principles-based approach for revenue recognition, and is a step toward convergence of U.S. GAAP and International Financial Reporting Standards. In general, it requires revenue recognition to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This ASU, as deferred one year by ASU No. 2015-14, is effective for annual reporting periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 31, 2019. Therefore, this ASU will be effective for the Chancery for the fiscal year ending June 30, 2020. The ASU permits the use of either of two methods: a full retrospective or a retrospective with the cumulative effect and additional disclosures. Management has not yet selected a transition method, as the Chancery is currently evaluating the impact of the new standard on its sources of support and financial statements, and is reviewing its revenue recognition policies and processes for any necessary amendments.

Note 2. Fair Value Measurements

The Fair Value Measurements and Disclosures topic of the FASB ASC, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants and requires the use of valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources, or unobservable, meaning those that reflect the reporting entity’s own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. In that regard, the topic establishes fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under the topic are described below:

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

Chancery Offices of the Archdiocese of Kansas City in Kansas

Notes to Financial Statements

Note 2. Fair Value Measurements (Continued)

Level 2: Inputs to the valuation methodology include:

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

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

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

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

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

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

Alternative investments: The Chancery reports the fair value of alternative investments using the practical expedient. The practical expedient allows for the use of net asset value (NAV), either as reported by the investee fund or as adjusted by the Chancery based on various factors. Annually, the NAV from the respective funds' audited financial statements as of December 31 is adjusted to the Chancery's year-end of June 30 for capital calls, proceeds from distributions, and gains and losses that are included in earnings and recorded on the Chancery's statements of activities.

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

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, 2016 and 2015, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

	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 mutual funds	793,954	793,954	-	-
Fixed-income mutual funds	7,262,956	1,588,180	5,674,776	-
	24,355,543	18,666,625	5,674,776	14,142
Alternative investments:				
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)

	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	-	-
Health care	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	-
	23,066,221	18,488,780	4,563,513	13,928
Alternative investments:				
Managed futures limited partnerships	722,370			
Fund of hedge fund limited partnerships	2,763,276			
Total investments	26,551,867			
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)

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, 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>

	Interest in Net Assets of the Catholic Foundation of Northeast Kansas	Privately Held Company
Beginning balance—July 1, 2014	\$ 7,827,693	\$ 13,244
Additions	94,331	-
Unrealized gains (losses)	(388,425)	684
Realized gains	301,540	-
Withdrawals	(299,792)	-
Ending balance—June 30, 2015	<u>\$ 7,535,347</u>	<u>\$ 13,928</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, 2016 and 2015:

Investment	Fair Value at June 30		Unfunded Commitment	Redemption Frequency	Redemption Notice Period
	2016	2015			
Alternative investments:					
Arden Alternative Advisors, Spc (A)	\$ 1,171,792	\$ 1,232,684	\$ -	Quarterly	60 days
Private Advisors Hedged Equity Fund, LTD (B)	405,495	447,361	-	Annual	60 days
Berens Capital Fund, Ltd. (C)	598,745	833,496	-	Annual	90 days
ACL Alternative Fund (D)	652,701	722,370	-	Quarterly	60 days
Blackstone (E)	241,970	202,235	-	Quarterly	None
Blackstone-Offshore (F)	48,938	47,500	-	Quarterly	None
	<u>\$ 3,119,641</u>	<u>\$ 3,485,646</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

Note 2. Fair Value Measurements (Continued)

- (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.
- (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.

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, 2016 and 2015. 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, 2016, to be received in subsequent years as follows:

	Call to Share	Private Appeal	Total
Years ending:			
2017	\$ 1,357,846	\$ 1,024,494	\$ 2,382,340
2018	-	631,920	631,920
2019	-	229,120	229,120
2020	-	81,750	81,750
2021	-	8,500	8,500
Thereafter	-	59,000	59,000
	<u>1,357,846</u>	<u>2,034,784</u>	<u>3,392,630</u>
Less:			
Discount	-	(35,628)	(35,628)
Allowance for uncollectible	(118,189)	(140,766)	(258,955)
Total pledges receivable	<u>\$ 1,239,657</u>	<u>\$ 1,858,390</u>	<u>\$ 3,098,047</u>

Note 4. Land, Buildings and Equipment

Land, buildings and equipment comprise the following at June 30, 2016 and 2015:

	2016	2015
Operating land and building	\$ 19,830,337	\$ 19,769,429
Possible future use sites	8,644,198	7,331,885
Furniture and equipment	3,061,340	2,912,727
	<u>31,535,875</u>	<u>30,014,041</u>
Less accumulated depreciation	14,929,009	14,394,237
	<u>\$ 16,606,866</u>	<u>\$ 15,619,804</u>

Note 5. Investments

Investments comprise the following at June 30, 2016 and 2015:

	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>

Chancery Offices of the Archdiocese of Kansas City in Kansas

Notes to Financial Statements

Note 5. Investments (Continued)

	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>

The following summarizes the investment returns (losses) for the years ended June 30, 2016 and 2015:

	2016	2015
Interest and dividend income	\$ 1,700,895	\$ 1,833,878
Realized gains	141,113	527,535
Unrealized losses on investments	(685,342)	(573,410)
	<u>\$ 1,156,666</u>	<u>\$ 1,788,003</u>

Included in the interest income amounts above are \$1,356,091 and \$1,400,307 related to interest income on loans receivable for the years ended June 30, 2016 and 2015, respectively.

Note 6. Loans Receivable

Loans receivable comprise the following at June 30, 2016 and 2015:

	2016	2015
Parishes	\$ 26,800,938	\$ 25,585,242
Archdiocesan institutions	10,470,883	14,587,290
Other	-	94,230
	<u>37,271,821</u>	<u>40,266,762</u>
Less allowance for doubtful accounts	(2,577,000)	(2,570,000)
	<u>\$ 34,694,821</u>	<u>\$ 37,696,762</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, 2016 and 2015, is summarized below:

	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%

	June 30, 2015		
	Current	Past Due	Total
Loans	\$ 30,031,984	\$ 10,234,778	\$ 40,266,762
As a percentage of the total loan portfolio	74.58%	25.42%	100.00%

An analysis of the allowance for doubtful accounts during the years ended June 30, 2016 and 2015, is as follows:

	2016	2015
Balance, beginning of year	\$ 2,570,000	\$ 3,176,000
Increase (decrease) in provision for bad debts	12,832	(577,053)
Loans charged off, net of recoveries	(5,832)	(28,947)
Balance, end of year	\$ 2,577,000	\$ 2,570,000

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 February 24, 2017, and has an interest rate equal to the one-month LIBOR (0.50 percent at June 30, 2016) plus 2 percent. There were no borrowings outstanding on this line as of June 30, 2016 and 2015.

The Chancery has an unsecured line of credit with a local bank for \$5,000,000. The line matures on December 1, 2016, and has an interest rate equal to the bank's prime rate (3.50 percent at June 30, 2016). There were no borrowings outstanding on this line as of June 30, 2016 and 2015.

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, 2016, is \$7,232,150 (2015—\$7,535,347). 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 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.

	June 30	
	2016	2015
Unrestricted	\$ (326,393)	\$ 67,780
Temporarily restricted:		
Poor and needy of the world	95,281	96,705
Education of priests and seminarians	3,968,970	3,924,469
Cultural outreach ministry	606,217	606,217
Youth religious camp scholarships	351,198	328,625
	<u>5,021,666</u>	<u>4,956,016</u>
Permanently restricted:		
Archbishop Discretion Endowment	110,300	110,300
Education of priests and seminarians	1,412,434	1,412,435
Lay ministry development	882,772	882,770
Mary, Star of the New Evangelization	13,684	12,684
Youth religious camp scholarships	117,687	93,362
	<u>2,536,877</u>	<u>2,511,551</u>
Total	<u>\$ 7,232,150</u>	<u>\$ 7,535,347</u>

Note 9. Deposits Payable

Deposits payable comprise the following at June 30, 2016 and 2015:

	2016	2015
Parishes	\$ 33,718,046	\$ 28,243,098
Cemeteries	2,161,042	2,163,051
Archdiocesan institutions	12,953,968	19,229,583
Other	275,019	380,390
	<u>\$ 49,108,075</u>	<u>\$ 50,016,122</u>

Interest expense to related parties was \$488,776 and \$778,397 for the years ended June 30, 2016 and 2015, respectively.

Chancery Offices of the Archdiocese of Kansas City in Kansas

Notes to Financial Statements

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, 2016. Plan premium income received for this plan for the year ended June 30, 2016, was \$19,140,039 (2015—\$18,020,838); expenses were \$19,130,671 (2015—\$15,678,874). Total plan assets as of June 30, 2016, were \$11,384,819 (2015—\$11,359,583), 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, 2016, was \$1,641,517 (2015—\$1,620,307); expenses were \$1,641,517 (2015—\$1,562,197). Total plan assets as of June 30, 2016, were \$1,759,220 (2015—\$1,755,088), 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 at both June 30, 2016 and 2015, were \$1,200,000.

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 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. The table below presents certain financial information about the plan from the most recent audit report and actuarial certification as of July 1, 2015:

	Total Plan Net Assets	Present Value of Accumulated Plan Benefits	Total Contributions	Funded Status
July 1, 2015	\$ 5,463,055	\$ 11,989,848	\$ 489,265	Less than 65% funded
July 1, 2014	5,625,628	10,392,896	450,579	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 (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, 2015:

	Total Plan Net Assets	Present Value of Accumulated Plan Benefits	Total Contributions	Funded Status
July 1, 2015	\$ 46,545,718	\$ 72,679,495	\$ 1,854,527	Between 65% and 80% funded
July 1, 2014	48,253,904	67,195,132	2,959,756	Between 65% and 80% funded

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, 2016, from the Chancery were \$105,618 (2015—\$94,210).

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, 2016 and 2015, from the Chancery were \$68,545 and \$60,735, 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, 2016 and 2015, was \$20,108 and \$19,027, 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, 2016 and 2015:

	2016	2015
Restrictions as to use:		
Education of priests and seminarians	\$ 3,974,177	\$ 3,525,320
Other restricted net assets	2,507,366	2,359,543
Restrictions as to time:		
Private appeal	2,652,463	4,325,724
Archbishop's Call to Share	5,857,071	5,721,327
Total temporarily restricted net assets	<u>\$ 14,991,077</u>	<u>\$ 15,931,914</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 Catholic Foundation of Northeast Kansas (CFNEK). CFNEK's definition of income is determined to be 4 percent (4 percent for 2015) 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, 2016 and 2015:

	2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
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
	2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
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 depreciation (realized and unrealized)	(162,497)	(2,078)	-	(164,575)
Total endowment investment loss	(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 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 2016 and 2015.

	2016	2015
Time restrictions:		
Archbishop's Call to Share	\$ 5,721,327	\$ 5,534,504
Private appeal	2,281,018	2,091,707
Purpose restrictions:		
Future Full of Hope	300	300
Catholic Charities	526,543	498,915
Education of priests and seminarians	1,797,441	1,538,111
Contributions to various designated organizations	533,093	563,763
	<u>\$ 10,859,722</u>	<u>\$ 10,227,300</u>

Note 15. Board-Designated Unrestricted Net Assets

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

	2016	2015
Health and dental care plans	\$ 13,144,039	\$ 13,134,671
Cor Christi	15,653,372	16,429,161
Other designations	3,519,031	2,901,243
	<u>\$ 32,316,442</u>	<u>\$ 32,465,075</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 \$41,666.67 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 October 17, 2016, which is the date the financial statements were available to be issued.

