

Chancery Offices of the Archdiocese of Kansas City in Kansas

Financial Report
June 30, 2019

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RSM US LLP

Independent Auditor's Report

Most Reverend Joseph F. Naumann
Archbishop and Audit Committee of the
Archdiocese of Kansas City in Kansas

Report on the Financial Statements

We have audited the accompanying financial statements of the Chancery Offices of the Archdiocese of Kansas City in Kansas, which comprise the statements of financial position as of June 30, 2019 and 2018, 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, 2019 and 2018, 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.

Emphasis of Matter

As described in Note 1 to the financial statements, the Chancery Offices of the Archdiocese of Kansas City in Kansas adopted Accounting Standards Update No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, during the current year. The new standard changes presentation and disclosure requirements with the intention of helping nonprofits provide more relevant information about their resources to donors, grantors, creditors and other financial statement users. The adoption was retrospectively applied to June 30, 2018, the earliest year presented. Our opinion is not modified with respect to this matter.

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
September 16, 2019

Chancery Offices of the Archdiocese of Kansas City in Kansas

**Statements of Financial Position
June 30, 2019 and 2018**

	Current	Plant	Cor Christi	Property and Liability Insurance	Health/Dental Care Plans	2019	2018
Assets							
Cash and cash equivalents	\$ 19,294,140	\$ -	\$ 3,002,951	\$ -	\$ -	\$ 22,297,091	\$ 18,605,232
Investments (Notes 3 and 6)	2,514,775	-	13,182,611	-	-	15,697,386	37,987,725
Accrued interest receivable	6,973	-	-	-	-	6,973	317,848
Accounts receivable, net	2,254,038	-	-	554,594	1,726,359	4,534,991	4,614,595
Pledges receivable, net (Note 4)	15,709,427	-	-	-	-	15,709,427	3,436,485
Prepaid expenses	498,917	-	-	-	-	498,917	179,681
Interest in net assets of the Catholic Foundation of Northeast Kansas (Notes 3 and 9)	8,051,489	-	-	-	-	8,051,489	7,891,047
Loans receivable, net (Note 7)	-	-	-	-	-	-	30,277,881
Land, buildings and equipment, net (Note 5)	-	13,596,081	1	-	-	13,596,082	15,748,647
Due to/from other funds	(7,144,898)	(3,610,897)	(51,183)	789,685	10,017,293	-	-
Total assets	\$ 41,184,861	\$ 9,985,184	\$ 16,134,380	\$ 1,344,279	\$ 11,743,652	\$ 80,392,356	\$ 119,059,141

(Continued)

Chancery Offices of the Archdiocese of Kansas City in Kansas

Statements of Financial Position (Continued)

June 30, 2019 and 2018

	Current	Plant	Cor Christi	Property and Liability Insurance	Health/Dental Care Plans	2019	2018
Liabilities and Net Assets							
Liabilities:							
Accounts payable and accrued expenses	\$ 1,162,652	\$ -	\$ -	\$ -	\$ 183,555	\$ 1,346,207	\$ 1,405,630
Due to Lay and Priest Retirement Trust Fund	6,787	-	-	-	-	6,787	10,424
Due to Deposit and Loan Fund	301,192	-	-	-	-	301,192	-
Pledges payable	33,333	-	-	-	-	33,333	-
Accrued IBNR claims	-	-	-	400,000	1,300,000	1,700,000	1,600,000
Collections held for transmittal	130,397	-	-	-	-	130,397	143,644
Deposits payable (Note 10)	-	-	-	-	-	-	50,601,703
Deferred revenue	578,035	-	-	-	-	578,035	549,585
Total liabilities	2,212,396	-	-	400,000	1,483,555	4,095,951	54,310,986
Net assets (deficit):							
Without donor restrictions:							
Undesignated	519,820	9,985,184	-	-	-	10,505,004	12,212,016
Undesignated—endowments (Note 14)	150,626	-	-	-	-	150,626	122,339
Designated (Note 16)	3,380,650	-	16,134,380	944,279	10,260,097	30,719,406	32,273,268
Total net assets without donor restrictions	4,051,096	9,985,184	16,134,380	944,279	10,260,097	41,375,036	44,607,623
With donor restrictions (Note 9, 13 and 14):							
Education of priests and seminarians	4,477,449	-	-	-	-	4,477,449	4,670,051
Appeals	25,303,012	-	-	-	-	25,303,012	10,346,204
Other	2,535,053	-	-	-	-	2,535,053	2,538,672
Endowments	2,605,855	-	-	-	-	2,605,855	2,585,605
Total net assets with donor restrictions	34,921,369	-	-	-	-	34,921,369	20,140,532
Total net assets	38,972,465	9,985,184	16,134,380	944,279	10,260,097	76,296,405	64,748,155
Total liabilities and net assets	\$ 41,184,861	\$ 9,985,184	\$ 16,134,380	\$ 1,344,279	\$ 11,743,652	\$ 80,392,356	\$ 119,059,141

See notes to financial statements.

Chancery Offices of the Archdiocese of Kansas City in Kansas

**Statement of Activities
Year Ended June 30, 2019**

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues:			
Archbishop's Call to Share (Note 4)	\$ 117,106	\$ 6,181,352	\$ 6,298,458
One Faith Capital Campaign (Note 4)	-	20,664,193	20,664,193
Private Appeal campaign (Note 4)	-	7,284	7,284
Archdiocesan collections	-	2,172,512	2,172,512
Archdiocesan assessments	5,082,091	-	5,082,091
Health and dental plan premiums (Note 11)	25,615,817	-	25,615,817
Property and liability insurance	1,194,851	-	1,194,851
Contributions and bequests	1,030,940	723,183	1,754,123
Investment income (Note 6)	1,056,238	-	1,056,238
Change in net assets of the Catholic Foundation of Northeast Kansas	32,592	427,845	460,437
Other revenue:			
Conversion	872,385	-	872,385
Evangelization	1,176,216	46,276	1,222,492
Education	1,773,135	11,708	1,784,843
Outreach	54,249	31,884	86,133
Stewardship	424,828	-	424,828
Administration	773,697	-	773,697
Gain on disposal of land, building and equipment	223,653	-	223,653
Net assets released from restrictions (Note 15)	14,059,623	(14,059,623)	-
Total revenues	53,487,421	16,206,614	69,694,035
Expenses:			
Pastoral priorities:			
Conversion	2,785,731	-	2,785,731
Evangelization	2,616,382	-	2,616,382
Education	6,655,793	-	6,655,793
Outreach	2,724,707	-	2,724,707
Stewardship	11,043,580	1,425,777	12,469,357
Total ministry and program services	25,826,193	1,425,777	27,251,970
Supporting services:			
Administrative	2,408,479	-	2,408,479
Other:			
Property and liability insurance	901,252	-	901,252
Health and dental care expense (Note 11)	27,584,084	-	27,584,084
Total supporting services	30,893,815	-	30,893,815
Total expenses	56,720,008	1,425,777	58,145,785
Increase (decrease) in net assets	(3,232,587)	14,780,837	11,548,250
Net assets, beginning of year	44,607,623	20,140,532	64,748,155
Net assets, end of year	\$ 41,375,036	\$ 34,921,369	\$ 76,296,405

See notes to financial statements.

Chancery Offices of the Archdiocese of Kansas City in Kansas

Statement of Activities Year Ended June 30, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues:			
Archbishop's Call to Share (Note 4)	\$ 157,134	\$ 6,391,764	\$ 6,548,898
One Faith Capital Campaign (Note 4)	-	4,565,609	4,565,609
Private Appeal campaign (Note 4)	-	5,725	5,725
Archdiocesan collections	-	502,569	502,569
Archdiocesan assessments	5,050,297	1,688,001	6,738,298
Health and dental plan premiums (Note 11)	24,702,120	-	24,702,120
Property and liability insurance	1,185,011	-	1,185,011
Contributions and bequests	262,767	581,123	843,890
Investment income (Note 6)	2,103,403	-	2,103,403
Change in net assets of the Catholic Foundation of Northeast Kansas	152,528	393,772	546,300
Other revenue:			
Conversion	913,350	-	913,350
Evangelization	1,373,418	59,879	1,433,297
Education	1,789,562	20,311	1,809,873
Outreach	73,240	35,951	109,191
Stewardship	227,756	-	227,756
Administration	418,091	-	418,091
Net assets released from restrictions (Note 15)	10,451,811	(10,451,811)	-
Total revenues	48,860,488	3,792,893	52,653,381
Expenses:			
Pastoral priorities:			
Conversion	2,767,728	-	2,767,728
Evangelization	2,692,423	-	2,692,423
Education	6,720,466	-	6,720,466
Outreach	2,397,895	-	2,397,895
Stewardship	6,405,339	212,427	6,617,766
Total ministry and program services	20,983,851	212,427	21,196,278
Supporting services:			
Administrative	1,884,937	-	1,884,937
Other:			
Interest (Note 10)	557,574	-	557,574
Property and liability insurance	1,047,409	-	1,047,409
Health and dental care expense (Note 11)	24,602,182	-	24,602,182
Total supporting services	28,092,102	-	28,092,102
Total expenses	49,075,953	212,427	49,288,380
Increase (decrease) in net assets	(215,465)	3,580,466	3,365,001
Net assets, beginning of year	44,823,088	16,560,066	61,383,154
Net assets, end of year	\$ 44,607,623	\$ 20,140,532	\$ 64,748,155

See notes to financial statements.

Chancery Offices of the Archdiocese of Kansas City in Kansas

Statements of Cash Flows Years Ended June 30, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Increase in net assets	\$ 11,548,250	\$ 3,365,001
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	808,317	797,152
Change in allowance for accounts and pledges receivable	1,867,068	(206,925)
(Amortization) increase of pledge discount	576,531	(5,511)
Realized (gain) loss on sale of investments	131,426	(441,865)
Unrealized (gain) loss on investments	(18,848)	252,392
Net amortization (accretion) for investments discount/premium	-	35,095
Increase in fair value of investments held at the Catholic Foundation of Northeast Kansas	(331,638)	(440,719)
Allowance provision for loans receivable, net of recoveries	-	(38,146)
Gain on sale of land, building and equipment	(223,653)	-
Contribution of land held for sale	1,534,007	-
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(468,397)	1,657,334
Pledges receivable, net	(14,168,540)	(1,250,590)
Accrued interest receivable	2,743	(110,064)
Prepaid expenses	(319,236)	153,926
Increase (decrease) in:		
Accounts payable and accrued expenses	(59,423)	(712,074)
Due to Lay and Priest Retirement Trust Fund	(3,637)	(127,526)
Due to Deposit and Loan Fund	301,192	-
Pledges payable	33,333	(110,000)
Accrued IBNR claims	100,000	100,000
Collections held for transmittal	(13,247)	(7,998)
Deferred revenue	28,450	(1,067,206)
Net cash provided by operating activities	1,324,698	1,842,276
Cash flows from investing activities:		
Proceeds from sales of land, buildings and equipment	479,071	-
Purchases of land, buildings and equipment	(445,177)	(633,263)
Purchases of investments	(11,506,620)	(22,711,130)
Proceeds from sale of investments	33,762,009	21,522,828
Withdrawals in interest in Catholic Foundation of Northeast Kansas	171,196	257,533
(Increase) decrease in loans receivable, net	-	(744,267)
Contributed funds to Deposit and Loan Fund	(20,093,318)	-
Net cash provided by (used in) investing activities	2,367,161	(2,308,299)
Cash flows from financing activities:		
Decrease in deposits payable, net	-	(4,210,744)
Net cash used in financing activities	-	(4,210,744)
Net increase (decrease) in cash and cash equivalents	3,691,859	(4,676,767)
Cash and cash equivalents:		
Beginning of year	18,605,232	23,281,999
End of year	\$ 22,297,091	\$ 18,605,232

(Continued)

Chancery Offices of the Archdiocese of Kansas City in Kansas

**Statements of Cash Flows (Continued)
Years Ended June 30, 2019 and 2018**

	2019	2018
Supplemental disclosures of cash flow information:		
Cash payments for interest	\$ -	\$ 557,574
Supplemental schedule of noncash activities:		
Real estate contributed from land held for sale	\$ 1,534,007	\$ -
Loans and interest receivable, net contributed to Deposit and Loan Fund	\$ 30,508,385	\$ -
Deposits payable contributed to Deposit and Loan Fund	\$ 50,601,703	\$ -

See notes to financial statements.

Chancery Offices of the Archdiocese of Kansas City in Kansas

Notes to Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies

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

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

Effective July 1, 2018, the Deposit and Loan Fund adopted its own bylaws and was legally separated from the Chancery. This was done in order to provide separate and independent governance of the Deposit and Loan Fund. Prior to this, the assets and liabilities of the Deposit and Loan Fund were included in the financial statements of the Chancery as there was common governance.

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

Basis of presentation: The accompanying financial statements are presented using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). In 2019, the Chancery adopted Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 985): Presentation of Financial Statements of Not-for-Profit Entities*. The new standard changes presentation and disclosure requirements with the intention of helping nonprofits provide more relevant information about their resources to donors, grantors, creditors and other financial statement users. This pronouncement decreases the number of net asset classes from three to two. The new classes are net assets without donor restrictions and net assets with donor restrictions. The changes in this standard have been reflected in the financial statements for all years presented.

The net assets without donor restrictions of the Chancery include undesignated net assets, which are available for any purpose, and designated net assets, which have been designated by the Archbishop for specific purposes. The net assets with donor restrictions are those that are stipulated by donors for specific operating purposes or time periods, or 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:

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 1.00% and 3.75% for the year ended June 30, 2018. On July 1, 2018, the Deposit and Loan was set up as a separate Trust from the Chancery.

Chancery Offices of the Archdiocese of Kansas City in Kansas

Notes to Financial Statements

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

Current Fund: Generally, current funds are those currently expendable for either undesignated, designated or donor-restricted purposes. The majority of the funds without donor restrictions 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.

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

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

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

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

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

Net assets without and with donor-restricted 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 without donor restrictions or with donor restrictions, depending on the existence and/or nature of any donor restrictions.

Donor-restricted support is reported as an increase in net assets with donor restrictions. These 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 without donor restrictions.

When a restriction expires (that is, when a stipulated time restriction ends or a purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions 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.

Chancery Offices of the Archdiocese of Kansas City in Kansas

Notes to Financial Statements

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

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 (NAV) per share. See Note 3 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.

Pledges receivable: Unconditional promises to give, less a present value discount and an allowance for uncollectible amounts, are recognized as revenues or gains in the period received and as assets, decreases of liabilities or expenses, depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Land, buildings and equipment: Land, buildings and equipment are carried at cost. Major renewals and betterments are capitalized, and maintenance and repairs that do not improve or extend the life of the respective assets are charged against earnings in the current period.

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

Interest in net assets of the Catholic Foundation of Northeast Kansas: The Chancery has assets that are held as endowments with the Catholic Foundation of Northeast Kansas (CFNEK). 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).

Chancery Offices of the Archdiocese of Kansas City in Kansas

Notes to Financial Statements

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

Uncertain tax provisions, if any, are recorded in accordance with the *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, 2019 and 2018.

Fundraising costs: The Chancery expenses fundraising costs as incurred. Total expense for fundraising for the years ended June 30, 2019 and 2018, was \$2,897,616 and \$1,837,367, respectively.

Use of estimates: The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Functional allocation of expenses: The Chancery Office's expenses have been summarized on a functional basis in the statements of activities. Costs are directly allocated to functional categories where a clear relationship exists. Other costs incurred at the Chancery Office are allocated among specific programs, administrative and other categories, directly where such relationship is clear, and indirectly based on time studies, and other ratable allocation methods.

Recent accounting pronouncements: Financial Accounting Standards Board (FASB) 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 February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in ASC Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal year 2021. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Chancery is currently evaluating the impact of the pending adoption of the new standard on the financial statements.

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*, which simplifies and improves how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance and cash flows. Among other changes, the ASU replaces the three current classes of net assets with two new classes, "net assets with donor restrictions" and "net assets without donor restrictions," and expands disclosures about the nature and amount of any donor restrictions. The standard is effective 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. The Chancery has adopted the standard and retrospectively applied the changes to the 2018 classifications.

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 prior-year amounts have been reclassified to be consistent with current-year classifications. These reclassifications had no effect on the change in net assets or total net assets.

Note 2. Liquidity and Availability of Resources

The Chancery strives to maintain liquidity at a level necessary to fund grant commitments and ongoing operational needs. Excess liquidity is invested in generally short-term, low-risk investments to maximize return while maintaining the shorter duration needed for flexibility to meet both planned and unplanned needs. The table below represents the Chancery's financial assets available to meet the annual operating needs of the upcoming fiscal year:

Financial assets, at June 30, 2019	\$ 66,297,357
Less those unavailable for general expenditures within one year, due to:	
Contractual or donor-imposed restrictions:	
Restrictions by donor with time or purpose restrictions	32,315,514
Donor-restricted endowments	2,605,855
Board designations:	
Quasi-endowment fund, primarily for long-term investing	16,134,380
Amounts set aside for recommended reserve for health and dental	6,464,390
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 8,777,218</u>

Note 3. 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 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.

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

Chancery Offices of the Archdiocese of Kansas City in Kansas

Notes to Financial Statements

Note 3. Fair Value Measurements (Continued)

- 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 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 CFNEK. CFNEK's investments are classified as Levels 1 and 3; therefore, since the Chancery's investment is in CFNEK, not individual investments, all of the Chancery's investment in CFNEK is classified as Level 3.

Chancery Offices of the Archdiocese of Kansas City in Kansas

Notes to Financial Statements

Note 3. Fair Value Measurements (Continued)

The following tables summarize assets and liabilities measured at fair value on a recurring basis as of June 30, 2019 and 2018, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

	June 30, 2019			
	Total	Level 1	Level 2	Level 3
Investments:				
Fixed-income securities:				
Certificates of deposit	\$ 2,500,028	\$ -	\$ 2,500,028	\$ -
Equity securities, common stock:				
Consumer discretionary	170,801	170,801	-	-
Consumer staples	231,947	231,947	-	-
Energy	275,323	275,323	-	-
Financial	745,832	745,832	-	-
Health care	52,766	52,766	-	-
Industrial	236,166	236,166	-	-
Information technology	278,617	278,617	-	-
Materials	231,991	231,991	-	-
Telecommunications	160,960	160,960	-	-
Utilities	60,578	60,578	-	-
Privately held company	124,626	124,626	-	-
Other	14,747	-	-	14,747
Mutual funds:				
Global real estate	819,390	819,390	-	-
Fixed-income	7,255,184	3,690,684	3,564,500	-
	13,158,956	7,079,681	6,064,528	14,747
Investments measured at net asset value:				
Managed futures limited partnerships	748,159			
Fund of hedge fund limited partnerships	1,790,271			
Total investments	15,697,386			
Interest in net assets of CFNEK	8,051,489	-	-	8,051,489
	<u>\$ 23,748,875</u>	<u>\$ 7,079,681</u>	<u>\$ 6,064,528</u>	<u>\$ 8,066,236</u>

Chancery Offices of the Archdiocese of Kansas City in Kansas

Notes to Financial Statements

Note 3. Fair Value Measurements (Continued)

	June 30, 2018			
	Total	Level 1	Level 2	Level 3
Investments:				
Fixed-income securities:				
Certificates of deposit	\$ 6,993,717	\$ -	\$ 6,993,717	\$ -
U.S. Treasuries	17,612,829	17,612,829	-	-
Equity securities, common stock:				
Consumer discretionary	179,008	179,008	-	-
Consumer staples	300,692	300,692	-	-
Energy	324,071	324,071	-	-
Financial	777,489	777,489	-	-
Health care	83,691	83,691	-	-
Industrial	213,122	213,122	-	-
Information technology	274,222	274,222	-	-
Materials	180,581	180,581	-	-
Telecommunications	126,927	126,927	-	-
Utilities	68,045	68,045	-	-
Privately held company	14,278	-	-	14,278
Other	224,012	224,012	-	-
Mutual funds:				
Global real estate	788,477	788,477	-	-
Fixed-income	7,054,004	3,408,860	3,645,144	-
	35,215,165	24,562,026	10,638,861	14,278
Investments measured at net asset value:				
Managed futures limited partnerships	703,839			
Fund of hedge fund limited partnerships	2,068,721			
Total investments	37,987,725			
Interest in net assets of CFNEK	7,891,047	-	-	7,891,047
	<u>\$ 45,878,772</u>	<u>\$ 24,562,026</u>	<u>\$ 10,638,861</u>	<u>\$ 7,905,325</u>

Chancery Offices of the Archdiocese of Kansas City in Kansas

Notes to Financial Statements

Note 3. 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 CFNEK	Privately Held Company
Beginning balance—July 1, 2018	\$ 7,891,047	\$ 14,278
Additions	138,311	-
Unrealized gains	53,990	469
Realized gains	277,648	-
Withdrawals	(309,507)	-
Ending balance—June 30, 2019	<u>\$ 8,051,489</u>	<u>\$ 14,747</u>

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

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, 2019 and 2018:

Investment	Fair Value at June 30		Unfunded Commitment	Redemption Frequency	Redemption Notice Period
	2019	2018			
Arden Alternative Advisors, Spc (A)	\$ 49,943	\$ 76,173	\$ -	Quarterly	60 days
ACL Alternative Fund (B)	748,159	703,839	-	Quarterly	60 days
Blackstone BREDS II (C)	14,229	52,718	-	Quarterly	None
Blackstone-Offshore BEPII (D)	784,004	493,116	-	Quarterly	None
Blackstone-Income BREIT (E)	-	516,582	-	Monthly	3 days
Hamilton Lane (F)	108,048	75,646	-	7 years	None
HPC Millennium (G)	834,047	854,486	-	Quarterly	90 days
	<u>\$ 2,538,430</u>	<u>\$ 2,772,560</u>	<u>\$ -</u>		

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

Chancery Offices of the Archdiocese of Kansas City in Kansas

Notes to Financial Statements

Note 3. Fair Value Measurements (Continued)

- (B) 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.
- (C) This fund focuses on high-yield lending and purchases of legacy loans from banks and insurance companies and invests up to 30% of its capital outside of the United States, primarily in Europe.
- (D) 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.
- (E) This is an income producing real estate fund, which targets to invest 80% in real estate assets across multiple property types including retail, office, apartment, industrial and self-storage properties. The remainder of the portfolio is invested in real estate debt securities including commercial mortgage-backed securities (CMBS), mortgages, loans, mezzanine and other forms of debt. As a nontraded vehicle, the value of shares is expected to be more closely tied to real estate fundamentals as opposed to public equities. This fund generally provides monthly repurchase offers of at least 2% of NAV not to exceed 5% of NAV for the quarter. There is a one-year soft lock, with a 5% early redemption fee.
- (F) This is a private credit fund, which invests in middle-market leveraged loans where there is an increased need for private financing. Relative to large liquid loans, the middle-market loans have higher spreads.
- (G) This is a multistrategy global and highly diversified hedge fund with a focus on investment strategies that exploit market inefficiencies to produce absolute return with low correlation to global capital markets. The underlying manager seeks to deliver absolute returns with relatively low volatility by focusing on high-level diversification, tight control of directional market exposures, and a risk management framework that can result in high level of liquidity and systematic movement of capital based on real-time trading profit and losses. The manager believes that alpha is best achieved by trading professionals that are narrowly focused to maximize expertise, and combined on a platform that provides trading and operational economies of scale.

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

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

Chancery Offices of the Archdiocese of Kansas City in Kansas

Notes to Financial Statements

Note 3. Fair Value Measurements (Continued)

The fair values estimates presented are based on pertinent information available to management as of June 30, 2019 and 2018. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of the financial statements since that date; therefore, current estimates of fair value may differ significantly from the amounts presented herein.

Note 4. Pledges Receivable

Pledges receivable (less allowance for uncollectible pledges) at June 30, 2019, to be received in subsequent years are as follows:

	Call to Share	Private Appeal	One Faith, One Family, One Future in Christ	Total
Years ending:				
2020	\$ 1,241,726	\$ 243,066	\$ 5,338,045	\$ 6,822,837
2021	-	2,500	4,526,378	4,528,878
2022	-	-	3,372,102	3,372,102
2023	-	-	2,567,920	2,567,920
2024	-	-	678,878	678,878
Thereafter	-	-	33,342	33,342
	<u>1,241,726</u>	<u>245,566</u>	<u>16,516,665</u>	<u>18,003,957</u>
Less:				
Discount	-	1,545	683,206	684,751
Allowance for uncollectible	114,330	169,090	1,326,359	1,609,779
Total pledges receivable	<u>\$ 1,127,396</u>	<u>\$ 74,931</u>	<u>\$ 14,507,100</u>	<u>\$ 15,709,427</u>

Note 5. Land, Buildings and Equipment

Land, buildings and equipment comprise the following at June 30, 2019 and 2018:

	2019	2018
Operating land and building	\$ 20,610,198	\$ 20,684,407
Possible future use sites	6,532,846	8,066,856
Furniture and equipment	3,517,674	3,448,708
	<u>30,660,718</u>	<u>32,199,971</u>
Less accumulated depreciation	17,064,636	16,451,324
	<u>\$ 13,596,082</u>	<u>\$ 15,748,647</u>

Chancery Offices of the Archdiocese of Kansas City in Kansas

Notes to Financial Statements

Note 6. Investments

Investments comprise the following at June 30, 2019 and 2018:

	2019		
	Cost	Fair Value	Unrealized Appreciation (Depreciation)
Certificates of deposit	\$ 2,500,028	\$ 2,500,028	\$ -
Mutual funds	7,350,949	8,074,574	723,625
Equity securities	2,595,124	2,584,354	(10,770)
Alternative investments	2,526,352	2,538,430	12,078
	<u>\$ 14,972,453</u>	<u>\$ 15,697,386</u>	<u>\$ 724,933</u>

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

The following summarizes the investment returns for the years ended June 30, 2019 and 2018:

	2019	2018
Interest and dividend income	\$ 943,660	\$ 1,913,930
Realized and unrealized gains on investments, net	112,578	189,473
	<u>\$ 1,056,238</u>	<u>\$ 2,103,403</u>

Included in the interest income amounts above are \$1,649 and \$1,132,561 related to interest income on loans receivable for the years ended June 30, 2019 and 2018, respectively.

Chancery Offices of the Archdiocese of Kansas City in Kansas

Notes to Financial Statements

Note 7. Loans Receivable

Loans receivable comprise the following at June 30, 2019 and 2018:

	2019	2018
Parishes	\$ -	\$ 22,491,036
Archdiocesan institutions	-	9,036,699
	-	31,527,735
Less allowance for doubtful accounts	-	(1,249,854)
	<u>\$ -</u>	<u>\$ 30,277,881</u>

The Chancery's loans receivable consisted 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. As described in Note 1, effective July 1, 2018, the Deposit and Loan Fund was legally separated from the Chancery.

The aging of the loan portfolio as of June 30, 2018, is summarized below:

	June 30, 2018		
	Current	Past Due	Total
Loans	<u>\$ 21,236,067</u>	<u>\$ 10,291,668</u>	<u>\$ 31,527,735</u>
As a percentage of the total loan portfolio	<u>67.36%</u>	<u>32.64%</u>	<u>100.00%</u>

An analysis of the allowance for doubtful accounts during the years ended June 30, 2019 and 2018, is as follows:

	2019	2018
Balance, beginning of year	\$ 1,249,854	\$ 1,288,000
Increase in provision for bad debts	-	47,102
Loans charged off, net of recoveries	-	(85,248)
Contributed to Deposit and Loan Fund	(1,249,854)	
Balance, end of year	<u>\$ -</u>	<u>\$ 1,249,854</u>

Note 8. 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, 2019, and has an interest rate equal to the bank's prime rate of 5.5% less 1.5% (4% at June 30, 2019). There were no borrowings outstanding on this line as of June 30, 2019 and 2018.

Chancery Offices of the Archdiocese of Kansas City in Kansas

Notes to Financial Statements

Note 9. 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, 2019, is \$8,051,489 (2018—\$7,891,047). The following details the purpose restrictions of the interest in the net assets of the Catholic Foundation of Northeast Kansas.

The amounts listed below are donor-restricted. The earnings on these funds are restricted for the purpose stated below. The 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 restricted for the purpose stated below. The earnings on the Archbishop Discretion Endowment are without donor restrictions.

	June 30	
	2019	2018
Without donor restrictions	\$ 150,626	\$ 122,339
With donor restrictions:		
Poor and needy of the world	93,440	99,595
Cultural outreach ministry	606,217	606,217
Youth religious camp scholarships	353,749	353,749
Archbishop Discretion Endowment	110,300	110,300
Archdiocesan Endowment	15,684	15,684
Education of priests and seminarians	5,654,036	5,535,976
Lay ministry development	882,771	882,771
Youth religious camp scholarships	184,666	164,416
	<u>7,900,863</u>	<u>7,768,708</u>
Total	<u>\$ 8,051,489</u>	<u>\$ 7,891,047</u>

Note 10. Deposits Payable

Deposits payable comprise the following at June 30, 2019 and 2018:

	2019	2018
Parishes	\$ -	\$ 36,844,279
Cemeteries	-	2,148,496
Archdiocesan institutions	-	11,495,193
Other	-	113,735
	<u>\$ -</u>	<u>\$ 50,601,703</u>

Interest expense to related parties was \$0 and \$557,574 for the years ended June 30, 2019 and 2018, respectively. As described in Note 1, effective July 1, 2018, the Deposit and Loan Fund was legally separated from the Chancery.

Chancery Offices of the Archdiocese of Kansas City in Kansas

Notes to Financial Statements

Note 11. Health and Dental Care Plans

The Chancery has a self-insured health care plan, which is administered by a third-party administrator. This plan provides for payments of hospitalization and medical benefits for lay employees and priests of the Archdiocese, with excess claims funded by an insurance carrier. The carrier provided reinsurance on claims that exceed \$400,000 for the policy year ended December 31, 2018. For the policy year beginning January 1, 2019, the carrier provides reinsurance on claims that exceed \$400,000. Plan premium income received for this plan for the year ended June 30, 2019, was \$23,722,789 (2018—\$22,860,416); expenses were \$25,707,749 (2018—\$22,639,335). Total plan assets as of June 30, 2019, were \$8,608,605 (2018—\$10,593,563), 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, 2019, was \$1,893,027 (2018—\$1,841,704); expenses were \$1,876,336 (2018—\$1,962,847). Total plan assets as of June 30, 2019, were \$1,651,492 (2018—\$1,634,802), 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, 2019, was \$1,300,000 (2018—\$1,200,000).

Note 12. Retirement Funds

Priest retirement plan and other benefits: The Archdiocese has a separate retirement and disability plan for priests of the Archdiocese. The plan name is the Retirement Plan for Priests of the Archdiocese of Kansas City in Kansas, and the employer identification number of the plan is 48-1205425. The assets for the plan are held in a separate trust for the benefit of the participants. The fund provides a monthly pension benefit and certain health and dental insurance premiums to retired priests and is also used to provide support for priests with disabilities. The cost of providing the benefits provided under the plan shall be paid annually, as determined by the Retirement Committee acting with the advice of the plan actuary. The parishes or agencies of the Archdiocese are assessed annually for the support of the retirement plan, with additional funding provided through the annual Archbishop's Call to Share. The table below presents certain financial information about the plan from the most recent audit report and actuarial certification as of July 1, 2018:

	Total Plan Net Assets	Present Value of Accumulated Plan Benefits	Total Contributions	Funded Status
July 1, 2018	\$ 6,640,703	\$ 11,999,856	\$ 1,037,241	Less than 65% funded
July 1, 2017	6,163,161	11,826,582	1,060,426	Less than 65% funded

Chancery Offices of the Archdiocese of Kansas City in Kansas

Notes to Financial Statements

Note 12. 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% 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, 2018:

	Total Plan Net Assets	Present Value of Accumulated Plan Benefits	Total Contributions	Funded Status
July 1, 2018	\$ 39,832,432	\$ 76,268,805	\$ 2,609,525	Less than 65% funded
July 1, 2017	39,806,937	76,303,970	2,358,993	Less than 65% funded

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

The recognized Archdiocesan organizations contributed 3.5% and 3.0% of total payroll dollars to the retirement plan for the years ended June 30, 2019 and 2018, respectively. Contributions to this plan for the year ended June 30, 2019, from the Chancery were \$181,036 (2018—\$150,501).

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% of their compensation, subject to IRS annual limits. The Archdiocesan employers make matching contributions of up to 50% of eligible employee contributions up to 4% of pay (2% maximum). Matching contributions to this plan for the years ended June 30, 2019 and 2018, from the Chancery were \$73,929 and \$72,259, respectively. All eligible employees receive a discretionary 2.0% contribution regardless of whether they make contributions to the plan or not. The discretionary contributions as of June 30, 2019 and 2018, were \$91,938 and \$89,176, respectively. The processing of the discretionary contributions changed as of January 1, 2018. Prior to January 1, 2018, the discretionary contributions were held by the Chancery for all locations until fiscal year-end and, if an employee terminated before year-end, their discretionary contributions were returned to the employer. All discretionary contributions from prior to January 1, 2018, for employees not terminated were forwarded to the plan's third-party administrator in March 2018. As of January 1, 2018, all contributions (voluntary, match and discretionary) are being sent to the plan's third-party administrator after each pay date.

Chancery Offices of the Archdiocese of Kansas City in Kansas

Notes to Financial Statements

Note 13. Net Assets With Donor Restrictions

Net assets with donor restrictions are available for the following purposes or periods at June 30, 2019 and 2018:

	2019	2018
Restrictions as to use:		
Education of priests and seminarians	\$ 4,477,449	\$ 4,670,051
Other restricted net assets	2,535,053	2,538,672
Restrictions as to time:		
Private appeal	77,263	680,603
Archbishop's Call to Share	6,067,022	6,285,054
One Faith, One Family, One Future in Christ	19,158,727	3,380,547
Endowment	2,605,855	2,585,605
Total donor-restricted net assets	<u>\$ 34,921,369</u>	<u>\$ 20,140,532</u>

Note 14. 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% (4% for 2018) 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% 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 14. 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% while growing the funds, if possible. 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, 2019 and 2018:

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 122,339	\$ 7,768,708	\$ 7,891,047
Investment return:			
Investment income	147,815	1,726	149,541
Net appreciation (realized and unrealized)	179,977	2,120	182,097
Total endowment investment income	327,792	3,846	331,638
Contributions	-	138,311	138,311
Appropriation of endowment assets for expenditure	(299,505)	(10,002)	(309,507)
Endowment net assets, end of year	\$ 150,626	\$ 7,900,863	\$ 8,051,489
	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ (25,886)	\$ 7,733,747	\$ 7,707,861
Investment return:			
Investment income	123,222	1,701	124,923
Net depreciation (realized and unrealized)	321,366	4,432	325,798
Total endowment investment income	444,588	6,133	450,721
Contributions	-	38,828	38,828
Appropriation of endowment assets for expenditure	(296,363)	(10,000)	(306,363)
Endowment net assets, end of year	\$ 122,339	\$ 7,768,708	\$ 7,891,047

Chancery Offices of the Archdiocese of Kansas City in Kansas

Notes to Financial Statements

Note 15. 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 2019 and 2018.

	2019	2018
Time restrictions:		
Archbishop's Call to Share	\$ 6,285,054	\$ 6,123,099
Private appeal	525,610	373,311
Purpose restrictions:		
One Faith, One Family, One Future in Christ	3,659,580	1,085,136
Catholic Charities	517,845	488,288
Education of priests and seminarians	2,331,647	1,941,235
Contributions to various designated organizations	739,887	440,742
	<u>\$ 14,059,623</u>	<u>\$ 10,451,811</u>

Note 16. Board-Designated Net Assets Without Donor Restrictions

Board-designated net assets without donor restrictions at June 30 comprised the following:

	2019	2018
Health and dental care plans	\$ 10,260,097	\$ 12,228,364
Cor Christi	16,134,380	15,996,700
Other designations	4,324,929	4,048,204
	<u>\$ 30,719,406</u>	<u>\$ 32,273,268</u>

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Notes to Financial Statements

Note 17. Functional Expense Allocation

The Chancery office classified expenses functional for the year ended June 30, 2019, as follows:

	Program Services					Supporting Services		Total
	Conversion	Evangelization	Education	Outreach	Stewardship	Administrative	Other	
Salaries and benefits	\$ 1,039,232	\$ 1,066,253	\$ 1,613,813	\$ 667,170	\$ 2,174,448	\$ 690,198	\$ -	\$ 7,251,114
Professional fees and services	138,296	98,422	301,403	59,488	2,062,151	917,820	-	3,577,580
Occupancy	506,452	236,026	120,332	55,155	172,748	453,915	-	1,544,628
Technology	194	2,034	32,133	2,788	39,547	18,705	-	95,401
Ministry and other	438,590	966,750	1,050,361	187,732	1,906,174	257,036	-	4,806,643
Religious	31,346	2,010	7,025	1,460	-	2,115	-	43,956
Subsidies and contributions	608,610	222,058	3,509,466	1,748,888	5,439,483	4,305	-	11,532,810
Depreciation	23,011	22,829	21,260	2,026	674,806	64,385	-	808,317
Diocesan insurance	-	-	-	-	-	-	28,485,336	28,485,336
	<u>\$ 2,785,731</u>	<u>\$ 2,616,382</u>	<u>\$ 6,655,793</u>	<u>\$ 2,724,707</u>	<u>\$ 12,469,357</u>	<u>\$ 2,408,479</u>	<u>\$ 28,485,336</u>	<u>\$ 58,145,785</u>

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Notes to Financial Statements

Note 18. Commitments and Contingencies

In April 1998, Villa St. Francis, Inc. entered into a 25-year lease agreement for a nursing home facility in Olathe, Kansas. The lease agreement calls for \$41,667 payments each month during the 25-year term of the lease. The Chancery has given a guarantee limited to 12 months' worth of obligations under the lease.

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

The Chancery has approximately 6.2% participation interest in Catholic Umbrella Pool II (the Pool), a separate and distinct fund within The Catholic Mutual Relief Society of America, Administrator for the Pool. This entirely separate and distinct fund is a self-insurance fund providing excess liability coverage for its membership, which consists of 65 small- to medium-sized dioceses. Effective January 1, 2013, the Pool is responsible for 20% of individual casualty claims of its members, which exceeds \$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 19. Subsequent Events

Management has evaluated and disclosed subsequent events up to and including September 16, 2019, which is the date the financial statements were available to be issued.

