



Archbishop and Archdiocesan Finance Council of the
Archdiocese of Kansas City in Kansas
Kansas City, Kansas

In accordance with your request, we are attaching the accompanying PDF file, which contains an electronic final version of the financial statements of Chancery Offices of the Archdiocese of Kansas City in Kansas as of June 30, 2011 and 2010. We understand that your request for the electronic copy has been made as a matter of convenience. You understand that electronic transmissions are not entirely secure and that it is possible for confidential financial information to be intercepted by others.

These financial statements and our reports on them are not to be modified in any manner. This final version supersedes all prior drafts. Any preliminary draft version of the financial statements previously provided to you in an electronic formation should be deleted from your computer, and all printed copies of any superseded preliminary draft version should likewise be destroyed.

Professional standards and our firm policies require that we perform certain additional procedures whenever our reports are included, or we are named as accountants, auditors or experts, in a document used in a public or private offering of equity or debt securities. Accordingly, as provided for and agreed to in the terms of our arrangement letter, the Company will not include our reports, or otherwise make reference to us, in any public or private securities offering without first obtaining our consent. Any request to consent is also a matter for which separate arrangements will be necessary. After obtaining our consent, the Company also agrees to provide us with printer's proofs or masters of such offering documents for our review and approval before printing, and with a copy of the final reproduced material for our approval before it is distributed. In the event our auditor/client relationship has been terminated when the Company seeks such consent, we will be under no obligation to grant such consent or approval.

Thank you for the opportunity to serve Chancery Offices of the Archdiocese of Kansas City in Kansas.

McGladrey & Pullen, LLP

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

Financial Report
June 30, 2011

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Independent Auditor's Report

Most Reverend Joseph F. Naumann
Archbishop and Archdiocesan Finance Council of the
Archdiocese of Kansas City in Kansas
Kansas City, Kansas

We have audited the accompanying statements of financial position of the Chancery Offices of the Archdiocese of Kansas City in Kansas as of June 30, 2011 and 2010 and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2011 and 2010 and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

McGladrey & Pullen, LLP

Kansas City, Missouri
September 29, 2011

Chancery Offices of the Archdiocese of Kansas City in Kansas

Statements of Financial Position

June 30, 2011 and 2010

Assets	Current	Deposit and Loan			2011	2010
		Plant	Cor Christi			
Cash and cash equivalents	\$ 9,775,705	\$ -	\$ -	\$ 240,314	\$ 10,016,019	\$ 1,511,853
Investments (Notes 2 and 5)	3,032,014	-	-	15,626,981	18,658,995	13,510,245
Accrued interest receivable	364,632	-	-	1,202	365,834	644,021
Accounts receivable, net	6,484,338	-	-	-	6,484,338	5,968,561
Pledges receivable, net (Note 3)	1,238,240	-	-	-	1,238,240	1,162,338
Prepaid expenses	243,609	-	-	-	243,609	97,102
Interest in net assets of the Catholic Foundation of Northeast Kansas (Notes 2 and 8)	7,122,587	-	-	-	7,122,587	5,867,496
Loans receivable, net (Note 6)	-	55,586,286	-	-	55,586,286	61,999,982
Land, buildings and equipment, net (Note 4)	-	-	16,895,622	-	16,895,622	16,644,213
Due to/from other funds	(3,657,602)	4,985,431	(1,246,078)	(81,751)	-	-
Total assets	\$ 24,603,523	\$ 60,571,717	\$ 15,649,544	\$ 15,786,746	\$ 116,611,530	\$ 107,405,811

(Continued)

Chancery Offices of the Archdiocese of Kansas City in Kansas

Statements of Financial Position (Continued)
June 30, 2011 and 2010

	Current	Deposit and Loan	Plant	Cor Christi	2011	2010
Liabilities and Net Assets						
Accounts payable and accrued expenses	\$ 821,338	\$ -	-	\$ -	\$ 821,338	\$ 418,466
Pledges payable	205,000	-	-	-	205,000	435,000
Accrued health and dental care claims (Note 10)	1,500,000	-	-	-	1,500,000	1,500,000
Collections held for transmittal	232,412	-	-	-	232,412	227,696
Deposits payable (Note 9)	-	60,571,717	-	-	60,571,717	55,485,917
Deferred revenue	710,480	-	-	-	710,480	642,381
Total liabilities	3,469,230	60,571,717	-	-	64,040,947	58,709,460
Net Assets						
Unrestricted:						
Undesignated	120,739	-	15,649,544	15,786,746	31,557,029	31,677,401
Undesignated - Endowments (Note 13)	66,687	-	-	-	66,687	(842,223)
Designated (Note 15)	9,069,196	-	-	-	9,069,196	6,424,475
Total unrestricted net assets	9,256,622	-	15,649,544	15,786,746	40,692,912	37,259,653
Restricted (Note 12):						
Temporarily restricted:						
Education of Priests and Seminarians	2,639,456	-	-	-	2,639,456	2,409,800
Other	6,832,710	-	-	-	6,832,710	6,621,539
Permanently restricted (Note 8)	2,405,505	-	-	-	2,405,505	2,405,359
Total restricted net assets	11,877,671	-	-	-	11,877,671	11,436,698
Total net assets	21,134,293	-	15,649,544	15,786,746	52,570,583	48,696,351
Total liabilities and net assets	\$ 24,603,523	\$ 60,571,717	\$ 15,649,544	\$ 15,786,746	\$ 116,611,530	\$ 107,405,811

See Notes to Financial Statements.

Chancery Offices of the Archdiocese of Kansas City In Kansas

Statement of Activities

Year Ended June 30, 2011

Revenues	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Archbishop's Call to Share (Note 3)	\$ 95,389	\$ 5,214,178	\$ -	\$ 5,309,567
Future Full of Hope Capital Campaign	-	30,883	146	31,029
Archdiocesan collections	-	498,728	-	498,728
Archdiocesan assessments	3,032,058	987,500	-	4,019,558
Health and dental plan premiums (Note 10)	17,002,736	-	-	17,002,736
Contributions and bequests	732,597	894,900	-	1,627,497
Investment income (Note 5)	4,806,094	-	-	4,806,094
Change in net assets of the Catholic Foundation of Northeast Kansas	913,823	272,441	-	1,186,264
Other revenue	1,740,280	61,495	-	1,801,775
Gain on disposal of land, building and equipment	64,454	-	-	64,454
Auxiliary services - The Leaven	1,141,127	-	-	1,141,127
Auxiliary services - Pastoral Center	482,861	-	-	482,861
Auxiliary services - Prairie Star Ranch	234,248	-	-	234,248
Restrictions satisfied (Note 14)	7,200,465	(7,200,465)	-	-
Total revenues	37,446,132	759,660	146	38,205,938
Expenditures				
Ministry and Program Services:				
Pastoral	1,277,461	-	-	1,277,461
Religious personnel	2,015,163	-	-	2,015,163
Education	3,610,672	-	-	3,610,672
Social services	1,740,580	-	-	1,740,580
Auxiliary services - The Leaven	949,169	-	-	949,169
Auxiliary services - Pastoral Center	978,116	-	-	978,116
Auxiliary services - Prairie Star Ranch	497,429	-	-	497,429
Total ministry and program services	11,068,590	-	-	11,068,590
Supporting Services:				
Administrative	3,481,183	-	-	3,481,183
Fundraising:				
Stewardship and development	1,245,136	-	-	1,245,136
Other:				
Interest (Note 9)	1,792,848	-	-	1,792,848
Bad debt expense	942,395	170,082	-	1,112,477
Health and dental care expense (Note 10)	14,609,238	-	-	14,609,238
Cor Christi Fund distributions	389,845	-	-	389,845
Future Full of Hope distributions	31,645	-	-	31,645
Parish rebates (Note 3)	451,993	148,751	-	600,744
Total supporting services	22,944,283	318,833	-	23,263,116
Total expenditures	34,012,873	318,833	-	34,331,706
Increase in net assets	3,433,259	440,827	146	3,874,232
Net assets, beginning of year	37,259,653	9,031,339	2,405,359	48,696,351
Net assets, end of year	\$ 40,692,912	\$ 9,472,166	\$ 2,405,505	\$ 52,570,583

See Notes to Financial Statements.

Chancery Offices of the Archdiocese of Kansas City in Kansas

Statement of Activities Year Ended June 30, 2010

Revenues	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Archbishop's Call to Share (Note 3)	\$ 147,125	\$ 5,022,614	\$ -	\$ 5,169,739
Future Full of Hope Capital Campaign	-	67,732	20,224	87,956
Archdiocesan collections	-	434,667	-	434,667
Archdiocesan assessments	2,833,364	810,687	-	3,644,051
Health and dental plan premiums (Note 10)	15,977,925	-	-	15,977,925
Contributions and bequests	256,823	964,797	-	1,221,620
Investment income (Note 5)	4,095,901	-	-	4,095,901
Change in net assets of the Catholic Foundation of Northeast Kansas	142,260	287,459	-	429,719
Other revenue	2,123,796	48,689	-	2,172,485
Gain on disposal of land, building and equipment	315,727	-	-	315,727
Auxiliary services - The Leaven	1,135,687	-	-	1,135,687
Auxiliary services - Pastoral Center	454,905	-	-	454,905
Auxiliary services - Prairie Star Ranch	249,017	-	-	249,017
Restrictions satisfied (Note 14)	6,917,422	(6,917,422)	-	-
Total revenues	34,649,952	719,223	20,224	35,389,399
Expenditures				
Ministry and Program Services:				
Pastoral	694,760	-	-	694,760
Religious personnel	2,005,840	-	-	2,005,840
Education	3,704,273	-	-	3,704,273
Social services	1,603,035	-	-	1,603,035
Auxiliary services - The Leaven	925,605	-	-	925,605
Auxiliary services - Pastoral Center	844,246	-	-	844,246
Auxiliary services - Prairie Star Ranch	479,369	-	-	479,369
Total ministry and program services	10,257,128	-	-	10,257,128
Supporting Services:				
Administrative	3,584,150	-	-	3,584,150
Fundraising:				
Stewardship and development	624,161	-	-	624,161
Other:				
Interest (Note 9)	1,897,150	-	-	1,897,150
Bad debt expense	800,000	170,282	-	970,282
Health and dental care expense (Note 10)	14,768,236	-	-	14,768,236
Cor Christi Fund distributions	288,665	-	-	288,665
Future Full of Hope distributions	194,928	-	-	194,928
Parish rebates (Note 3)	442,288	113,733	-	556,021
Total supporting services	22,599,578	284,015	-	22,883,593
Total expenditures	32,856,706	284,015	-	33,140,721
Increase in net assets	1,793,246	435,208	20,224	2,248,678
Net assets, beginning of year	35,466,407	8,596,131	2,385,135	46,447,673
Net assets, end of year	\$ 37,259,653	\$ 9,031,339	\$ 2,405,359	\$ 48,696,351

See Notes to Financial Statements.

Chancery Offices of the Archdiocese of Kansas City in Kansas

**Statements of Cash Flows
Years Ended June 30, 2011 and 2010**

	2011	2010
Cash Flows from Operating Activities:		
Increase in net assets	\$ 3,874,232	\$ 2,248,678
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	666,824	640,099
Realized (gain) loss on sale of investments	(167,713)	243,420
Unrealized (gain) on investments	(1,608,180)	(1,237,540)
Net discount accretion	(27,057)	-
(Increase) in fair value of investments held at the Catholic Foundation of Northeast Kansas	(1,186,264)	(429,719)
Allowance for loans receivable	730,000	800,000
(Gain) on sale of land, building and equipment	(64,454)	(315,727)
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(515,777)	(593,477)
Pledges receivable, net	(75,902)	(19,733)
Accrued interest receivable	278,187	(57,215)
Prepaid expenses	(146,507)	15,589
Increase (decrease) in:		
Accounts payable and accrued expenses	402,872	29,963
Pledges payable	(230,000)	(170,000)
Collections held for transmittal	4,716	115,709
Deferred revenue	68,099	124,338
Net cash provided by operating activities	2,003,076	1,394,385
Cash Flows from Investing Activities:		
Proceeds from sales of land, buildings and equipment	203,913	344,318
Purchases of land, buildings and equipment	(1,057,692)	(713,925)
Purchases of investments	(11,100,000)	(1,553,016)
Contributions in interest in Catholic Foundation of Northeast Kansas	(68,827)	(60,166)
Proceeds from sale of investments	7,754,200	1,897,165
Decrease in loans receivable, net	5,683,696	177,764
Net cash provided by investing activities	1,415,290	92,140

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Chancery Offices of the Archdiocese of Kansas City in Kansas

**Statements of Cash Flows (Continued)
Years Ended June 30, 2011 and 2010**

	2011	2010
Cash Flows from Financing Activities:		
Increase in deposits payable, net	5,085,800	3,805,475
Principal payments on line of credit	-	(12,000,000)
Proceeds from line of credit	-	8,000,000
Net cash provided by (used in) financing activities	5,085,800	(194,525)
Net increase in cash and cash equivalents	8,504,166	1,292,000
Cash and Cash Equivalents:		
Beginning of year	1,511,853	219,853
End of year	<u>\$ 10,016,019</u>	<u>\$ 1,511,853</u>
Supplemental Disclosures of Cash Flow Information:		
Cash payments for interest	\$ 1,792,848	\$ 1,897,150
Supplemental Schedule of Noncash Investing and Financing Activities:		
Real estate held for investment and sale transferred to land and buildings	\$ -	\$ 15,521

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 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 (Chancery Offices of the Archdiocese). The Archdiocese of Kansas City in Kansas consists of 21 counties in northeastern Kansas.

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

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

Basis of presentation: The Chancery Offices of the Archdiocese 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 Offices of the Archdiocese 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 Offices of the Archdiocese include unrestricted undesignated net assets, which are available for any purpose, and unrestricted designated net assets, which have been designated by the Archbishop for specific purposes. The temporarily restricted net assets are those which are stipulated by donors for specific operating purposes or time periods. Permanently restricted net assets are those whose use by the organization is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the organization.

Fund accounting: To ensure observance of limitations and restrictions placed on the use of resources available to the Chancery Offices of the Archdiocese, the accounts of the Chancery Offices of the Archdiocese are maintained in accordance with the principles of fund accounting. Resources are classified for accounting and reporting purposes into funds according to the nature and use of such resources. Separate accounts are maintained for each fund.

The assets, liabilities and net assets of the Chancery Offices of the Archdiocese 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 Offices of the Archdiocese are anticipated and allocated in advance, billed for certain auxiliary services, or designated by the Archbishop upon receipt.

The designated and undesignated net assets are available for and used in the regular activities of the Chancery Offices of the Archdiocese.

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

Chancery Offices of the Archdiocese of Kansas City in Kansas

Notes to Financial Statements

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

Deposit and Loan Fund: The Deposit and Loan Fund is composed of excess funds being deposited by parishes, schools and other ministries of the Archdiocese into the chancery offices 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 3% to 3.5% and 4.5%, respectively.

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

Buildings and building improvements are depreciated over 10 to 40 years, and furniture and equipment is depreciated over 3 to 7 years.

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

Restricted and unrestricted revenue and support: Contributions are recognized when the donor makes a promise to give to the Archdiocese 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, i.e., The Archbishop's Call to Share, or purpose restricted, i.e., The Future Full of Hope Capital Campaign. However, if a restriction is fulfilled in the same time period in which the contribution is received, the Chancery Offices of the Archdiocese 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 Offices of the Archdiocese considers all unrestricted highly liquid investments purchased with a maturity of three months or less to be cash equivalents. The Chancery Offices of the Archdiocese maintains cash balances and money market accounts in excess of insured amounts at several local financial institutions and brokerage firms. Accounts at each institution are insured by the Federal Deposit Insurance Corporation for up to \$250,000. Management believes that the risk of loss is minimal, due to the strength of the institutions, and has not experienced any such losses.

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 the value of the underlying assets within the fund. See Note 2 for a discussion of fair value measurements.

Chancery Offices of the Archdiocese of Kansas City in Kansas

Notes to Financial Statements

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

Accounts and loans receivable: The Chancery Offices of the Archdiocese 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 Archdiocese 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 Archdiocese has a self-insured health care plan. Accrued health and dental care claims consist of reported claims and incurred but not reported claims. The accrual consists of any probable losses and losses which can be reasonably estimated based upon statistical and historical experiences.

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

Income taxes: The Organization 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 Organization 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 FASB 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, 2011 and 2010.

Chancery Offices of the Archdiocese of Kansas City in Kansas

Notes to Financial Statements

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

Fundraising costs: The Organization expenses fundraising costs as incurred. Total expense for fundraising for the years ended June 30, 2011 and 2010 was \$1,245,136 and \$624,161, respectively.

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

Note 2. Fair Value Measurements

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

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

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.

Chancery Offices of the Archdiocese of Kansas City in Kansas

Notes to Financial Statements

Note 2. Fair Value Measurements (Continued)

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 activities or transparency around inputs to the valuation including alternative investments, securities are classified with the Level 3 of the valuation hierarchy. The Archdiocese's Fund of hedge fund limited partnerships does not have a readily determinable fair value based on quoted market price. As such, it has been classified as a Level 3 investment. As this fund provides the Archdiocese with a net asset value per share, and has been calculated in accordance with the investment company's guide, the Archdiocese has valued this investment at the net asset value per share plus or minus any adjustments for the net asset value not available as of year-end.

Interest in net assets of the Catholic Foundation of Northeast Kansas: The Archdiocese has assets that are held as endowments with the Catholic Foundation of Northeast Kansas (CFNEK). CFNEK's investments are classified Level 1 and 2; however, since the Archdiocese's investment is in CFNEK, not individual investments, all of the Archdiocese's investment in CFNEK is classified as Level 3.

Chancery Offices of the Archdiocese of Kansas City in Kansas

Notes to Financial Statements

Note 2. Fair Value Measurements (Continued)

The following table summarizes assets and liabilities measured at fair value on a recurring basis as of June 30, 2011 and 2010, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value. Prior-year categories have been reclassified as needed, based on current-year assessments.

	June 30, 2011			
	Total	Level 1	Level 2	Level 3
Investments				
Fixed income securities:				
Certificates of deposit	\$ 1,000,000	\$ 1,000,000	\$ -	\$ -
Fixed income mutual funds	5,019,459	2,602,696	2,416,763	-
U.S. Treasuries	2,020,797	2,020,797	-	-
Equity securities:				
Common Stock:				
Consumer Discretionary	386,379	386,379	-	-
Consumer Staples	384,068	384,068	-	-
Energy	610,174	610,174	-	-
Financial	371,832	371,832	-	-
Healthcare	244,626	244,626	-	-
Industrial	366,678	366,678	-	-
Information Technology	323,383	323,383	-	-
Materials	647,019	647,019	-	-
Telecommunications	140,308	140,308	-	-
Utilities	88,562	88,562	-	-
Privately held company	11,217	-	-	11,217
Domestic stock mutual funds	1,226,757	1,226,757	-	-
International stock mutual funds	791,301	791,301	-	-
Global real estate mutual funds	578,261	578,261	-	-
Alternative investments:				
Managed futures limited partnerships	924,001	924,001	-	-
Fund of hedge fund limited partnerships	3,524,173	-	-	3,524,173
	18,658,995	12,706,842	2,416,763	3,535,390
Interest in net assets of the				
Catholic Foundation of Northeast Kansas	7,122,587	-	-	7,122,587
	\$ 25,781,582	\$ 12,706,842	\$ 2,416,763	\$ 10,657,977

Chancery Offices of the Archdiocese of Kansas City in Kansas

Notes to Financial Statements

Note 2. Fair Value Measurements (Continued)

	June 30, 2010			
	Total	Level 1	Level 2	Level 3
Investments				
Fixed income securities:				
Money market accounts	\$ 737	\$ 737	\$ -	\$ -
Fixed income mutual funds	3,481,928	769,487	2,712,441	-
Equity securities:				
Common Stock:				
Consumer Discretionary	358,858	358,858	-	-
Consumer Staples	307,484	307,484	-	-
Energy	694,673	694,673	-	-
Financial	509,200	509,200	-	-
Healthcare	159,786	159,786	-	-
Industrial	402,298	402,298	-	-
Information Technology	252,334	252,334	-	-
Materials	582,860	582,860	-	-
Telecommunications	118,612	118,612	-	-
Utilities	169,985	169,985	-	-
Other	135,755	135,755	-	-
Privately held company	11,217	-	-	11,217
Domestic stock mutual fund	1,290,542	1,290,542	-	-
International stock mutual funds	344,302	344,302	-	-
Global real estate mutual funds	434,764	434,764	-	-
Alternative investments:				
Managed futures limited partnerships	947,628	947,628	-	-
Fund of hedge fund limited partnerships	3,307,282	-	-	3,307,282
	<u>13,510,245</u>	<u>7,479,305</u>	<u>2,712,441</u>	<u>3,318,499</u>
Interest in net assets of the				
Catholic Foundation of Northeast Kansas	5,867,496	-	-	5,867,496
	<u>\$ 19,377,741</u>	<u>\$ 7,479,305</u>	<u>\$ 2,712,441</u>	<u>\$ 9,185,995</u>

Chancery Offices of the Archdiocese of Kansas City in Kansas

Notes to Financial Statements

Note 2. Fair Value Measurements (Continued)

The following table presents additional information about assets measured at fair value on a recurring basis which the Archdiocese has utilized Level 3 inputs to determine fair value:

	Interest in net assets of the Catholic Foundation of Northeast Kansas	Alternative Investments	Privately Held Company
Beginning Balance - July 1, 2010	\$ 5,867,496	\$ 3,307,282	\$ 11,217
Purchases	43,827	-	-
Unrealized gains	1,029,984	276,122	-
Realized gains (losses)	96,760	(2,531)	-
Net income	84,520	-	-
Sales	-	(56,700)	-
Ending Balance - June 30, 2011	<u>\$ 7,122,587</u>	<u>\$ 3,524,173</u>	<u>\$ 11,217</u>

	Interest in net assets of the Catholic Foundation of Northeast Kansas	Alternative Investments	Privately Held Company
Beginning Balance - July 1, 2009	\$ 5,377,611	\$ 2,625,815	\$ 11,217
Purchases	36,667	1,000,000	-
Unrealized gains	364,162	317,406	-
Realized losses	(55)	(121,918)	-
Net income	89,111	-	-
Sales	-	(514,021)	-
Ending Balance - June 30, 2010	<u>\$ 5,867,496</u>	<u>\$ 3,307,282</u>	<u>\$ 11,217</u>

The following table sets forth additional disclosures of the Archdiocese's investments whose fair value is estimated using net asset value per share (or its equivalent) as of June 30, 2011 and 2010:

Investment	Fair Value at June 30, 2011	Unfunded Commitment	Redemption Frequency	Redemption Notice Period
Alternative Investments:				
Arden Alternative Advisors, Spc (A)	\$ 1,263,736	\$ -	Quarterly	60 days
Private Advisors Hedged Equity Fund, LTD (B)	1,087,191	-	Annual	60 days
Austin Capital All Seasons Offshore Fund, Ltd. (C)	78,877	-	Quarterly	65 days
Berens Capital Fund, Ltd. (D)	571,436	-	Annual	90 days
K2 Overseas Long Short Fund, Ltd. (E)	522,933	-	Quarterly	91 days
	<u>\$ 3,524,173</u>	<u>\$ -</u>		

Chancery Offices of the Archdiocese of Kansas City in Kansas

Notes to Financial Statements

Note 2. Fair Value Measurements (Continued)

Investment	Fair Value at June 30, 2010	Unfunded Commitment	Redemption Frequency	Redemption Notice Period
Alternative Investments:				
Arden Alternative Advisors, Spc (A)	\$ 1,178,033	\$ -	Quarterly	60 days
Private Advisors Hedged Equity Fund, LTD (B)	987,679	-	Annual	60 days
Austin Capital All Seasons Offshore Fund, ltd. (C)	133,626	-	Quarterly	65 days
Berens Capital Fund, Ltd. (D)	481,431	-	Annual	90 days
K2 Overseas Long Short Fund, Ltd. (E)	526,513	-	Quarterly	91 days
	<u>\$ 3,307,282</u>	<u>\$ -</u>		

- (A) This is a diversified, multi-strategy investment fund designated to provide investors with consistent returns with low volatility and low beta to equity and fixed income indices. The fund allocated to specialized relative value and event-driven managers to support this strategy.
- (B) This fund invests with hedge funds that focus on long and short equity investing in order to achieve a mix of value and growth, stock capitalizations and sector exposures.
- (C) This fund is in liquidation.
- (D) This fund invests in a selection of alternative money managers who specialize in long-short equity and event-driven strategies. It's differentiating characteristics are that it invests globally, and has value bias.
- (E) This is a multi-strategy fund whose objective is to seek superior investment returns with less volatility than the S&P 500 Index using long/short credit hedge funds investing across credit asset classes such as high yield bond, investment grade bond corporate loans, and distressed debt.

The Organization 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, 2011 and 2010. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of the financial statements since that date, and therefore, current estimates of fair value may differ significantly from the amounts presented herein.

Chancery Offices of the Archdiocese of Kansas City in Kansas

Notes to Financial Statements

Note 3. Pledges Receivable

Pledge receivables of \$1,238,240 (\$1,408,322 less \$170,082 of allowance for uncollectible pledges) at June 30, 2011 are to be received during the year ending June 30, 2012.

The Archdiocese annually sponsors the Archbishop's Call to Share fund drive in the six weeks prior to Lent for the following year's funding. Pledges received in the current fiscal year for expenditures in the subsequent fiscal year are, therefore, temporarily restricted. The contributions from the fund drive are used to fund supra-parochial needs, services and ministries in the Archdiocese. The contributions pledged for fiscal year 2012 during the year ended June 30, 2011 were \$5,065,427 (\$5,214,178 less \$148,751 of parish rebates). The contributions pledged for fiscal year 2011 during the year ended June 30, 2010 were \$4,908,881 (\$5,022,614 less \$113,733 of parish rebates). Pledges received in the current year for current year use are reported as unrestricted revenues. Such contributions were \$95,389 and \$147,125 during the years ended June 30, 2011 and 2010, respectively.

Note 4. Land, Buildings and Equipment

Land, buildings and equipment comprise the following at June 30, 2011 and 2010:

	2011	2010
Operating land and building	\$ 18,207,970	\$ 17,433,776
Possible future use sites	7,818,253	7,847,399
Furniture and equipment	2,460,635	2,340,718
	28,486,858	27,621,893
Less: Accumulated depreciation	11,591,236	10,977,680
	\$ 16,895,622	\$ 16,644,213

Note 5. Investments

Investments comprise the following at June 30, 2011 and 2010:

	2011		
	Cost	Fair Value	Unrealized Appreciation
Certificates of deposit	\$ 1,000,000	\$ 1,000,000	\$ -
Mutual funds	7,003,773	7,615,778	612,005
U.S. Government securities	2,020,797	2,020,797	-
Equity securities	3,136,878	3,574,246	437,368
Alternative investments	4,433,746	4,448,174	14,428
	\$ 17,595,194	\$ 18,658,995	\$ 1,063,801

Chancery Offices of the Archdiocese of Kansas City in Kansas

Notes to Financial Statements

Note 5. Investments (Continued)

	2010		
	Cost	Fair Value	Unrealized Appreciation (Depreciation)
Mutual funds	\$ 5,391,890	\$ 5,551,536	\$ 159,646
Equity securities	4,132,456	3,703,799	(428,657)
Alternative investments	4,530,978	4,254,910	(276,068)
	<u>\$ 14,055,324</u>	<u>\$ 13,510,245</u>	<u>\$ (545,079)</u>

The following summarizes the investment returns (losses) for the years ended June 30, 2011 and 2010:

	2011	2010
Interest and dividend income	\$ 3,030,201	\$ 3,101,781
Realized gains (losses)	167,713	(243,420)
Unrealized gains on investments	1,608,180	1,237,540
	<u>\$ 4,806,094</u>	<u>\$ 4,095,901</u>

Included in the interest income amounts above are \$2,699,536 and \$2,838,430 related to interest income on loans receivable for the years ended June 30, 2011 and 2010, respectively.

Note 6. Loans Receivable

Loans receivable comprise the following at June 30, 2011 and 2010:

	2011	2010
Parishes	\$ 40,287,883	\$ 44,962,427
Archdiocesan institutions	17,955,931	18,986,720
Other	72,472	50,835
	<u>58,316,286</u>	63,999,982
Less: Allowance for doubtful accounts	<u>(2,730,000)</u>	(2,000,000)
	<u>\$ 55,586,286</u>	<u>\$ 61,999,982</u>

Chancery Offices of the Archdiocese of Kansas City in Kansas

Notes to Financial Statements

Note 7. Lines of Credit and Non-Recourse Loans

The Archdiocese has an unsecured line of credit with a local bank for \$5,000,000. The line matures on November 30, 2011 and has an interest rate equal to the one-month LIBOR (0.25% at June 30, 2011) plus 2%. There were no borrowings outstanding on this line as of June 30, 2011 and 2010.

The Archdiocese has an unsecured line of credit with a local bank for \$5,000,000. The line matures on December 1, 2011 and has an interest rate equal to the bank's prime rate (3.25% at June 30, 2011). There were no borrowings outstanding on this line as of June 30, 2011 and 2010.

Note 8. Interest in Net Assets of the Catholic Foundation of Northeast Kansas

The Chancery Offices of the Archdiocese has assets invested in the Catholic Foundation of Northeast Kansas that are held as endowments. The aggregate amount, recognized in the statement of financial position as an interest in the net assets of the Foundation, at June 30, 2011 is \$7,122,587 (2010 - \$5,867,496). 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 is temporarily restricted for the purpose stated below.

The amounts listed as permanently restricted below are donor restricted. The permanently endowed funds are to be held in perpetuity. With the exception of the Archbishop Discretion Endowment, the earnings on the endowments is temporarily restricted for the purpose stated below. The earnings on the Archbishop Discretion Endowment is unrestricted.

	2011	2010
Unrestricted	<u>\$ 66,687</u>	<u>\$ (842,223)</u>
Temporarily Restricted:		
Poor and Needy of the World	168,485	174,892
Education of Priests and Seminarians	3,744,539	3,392,112
Cultural Outreach Ministry	606,216	606,172
Youth Religious Camp Scholarships	131,155	131,184
	<u>4,650,395</u>	<u>4,304,360</u>
Permanently Restricted:		
Archbishop Discretion Endowment	110,300	110,300
Education of Priests and Seminarians	1,412,435	1,412,344
Lay Ministry Development	882,770	882,715
	<u>2,405,505</u>	<u>2,405,359</u>
Total	<u>\$ 7,122,587</u>	<u>\$ 5,867,496</u>

Chancery Offices of the Archdiocese of Kansas City in Kansas

Notes to Financial Statements

Note 9. Deposits Payable

Deposits payable comprise the following at June 30, 2011 and 2010:

	2011	2010
Parishes	\$ 32,520,139	\$ 31,274,221
Cemeteries	2,320,677	2,129,227
Archdiocesan institutions	24,739,202	21,572,304
Other	991,699	510,165
	<u>\$ 60,571,717</u>	<u>\$ 55,485,917</u>

Interest expense to related parties was \$1,792,848 and \$1,766,817 for the years ended June 30, 2011 and 2010, respectively.

Note 10. Health and Dental Care Plans

The Archdiocese 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, 2011. Plan premium income received for this plan for the year ended June 30, 2011 was \$15,480,620 (2010 - \$14,489,970); expenses were \$13,354,844 (2010 - \$13,351,616). Total plan assets as of June 30, 2011 were \$6,499,975 (2010 - \$4,374,199), which have been reflected as unrestricted designated net assets on the statement of financial position.

The Archdiocese 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, 2011 was \$1,522,116 (2010 - \$1,487,955); expenses were \$1,254,394 (2010 - \$1,416,620). Total plan assets as of June 30, 2011 were \$1,153,747 (2010 - \$886,026), which have been reflected as unrestricted designated net assets on the statement of financial position.

Incurred but not reported health and dental care claims accrued at both June 30, 2011 and 2010 were \$1,500,000.

Note 11. Retirement Funds

Priest retirement plan and other benefits: The Archdiocese has established a separate, self-administered retirement and disability plan for priests of the Archdiocese. 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.

Chancery Offices of the Archdiocese of Kansas City in Kansas

Notes to Financial Statements

Note 11. Retirement Funds (Continued)

Lay employees retirement plan: The Archdiocese established a separate self-administered, noncontributory retirement plan for lay employees. 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 recognized Archdiocesan organizations currently contribute 4.5% (3.5% at June 30, 2010) of total payroll dollars to the retirement plan. Contributions to this plan for the year ended June 30, 2011 from the Chancery Offices were \$146,473 (2010 - \$111,029).

Management believes that the retirement plans are adequately funded based on the latest actuarial study by an independent actuary firm.

Note 12. Restricted Net Assets

Temporarily restricted net assets are available for the following purposes or periods at June 30, 2011 and 2010:

	2011	2010
Restrictions as to use:		
Education of priests and seminarians	\$ 2,639,456	\$ 2,409,800
Other restricted net assets	1,937,367	1,882,128
Future Full of Hope Capital Campaign	-	813
Restrictions as to time:		
Archbishop's Call to Share	4,895,343	4,738,598
Total temporarily restricted net assets	<u>\$ 9,472,166</u>	<u>\$ 9,031,339</u>

Note 13. Endowments

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

Chancery Offices of the Archdiocese of Kansas City in Kansas

Notes to Financial Statements

Note 13. Endowments (Continued)

Spending Policy

The Chancery Offices of the Archdiocese of Kansas City in Kansas 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 5% 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 Offices of the Archdiocese of Kansas City in Kansas 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, is 5% of the average of the previous three year-end market values. This allows for a predictable stream of funding to the programs supported by the endowment. The fund for the "poor and needy of the world" is governed by the specific agreement with CFNEK which allows the Archbishop to distribute the original principal for the intended purpose.

Investment Return Objectives, Risk Parameters and Strategies

The Archdiocese 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 5% while growing the funds if possible. Therefore, it is expected, over time, to produce an average rate of return of approximately 8% annually. Actual returns in any given year may vary from this amount. Asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

The following is activity related to endowment net assets for the year ended June 30, 2011 and 2010:

	2011			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment net assets, beginning of year	\$ (842,223)	\$ 4,304,360	\$ 2,405,359	\$ 5,867,496
Investment return:				
Investment income	80,982	3,540	-	84,522
Net appreciation (realized and unrealized)	1,111,689	15,055	-	1,126,744
Total endowment investment return	\$ 1,192,671	\$ 18,595	\$ -	\$ 1,211,266
Contributions	-	352,440	146	352,586
Appropriation of endowment assets for expenditure	(283,761)	(25,000)	-	(308,761)
Endowment net assets, end of year	<u>\$ 66,687</u>	<u>\$ 4,650,395</u>	<u>\$ 2,405,505</u>	<u>\$ 7,122,587</u>

Chancery Offices of the Archdiocese of Kansas City in Kansas

Notes to Financial Statements

Note 13. Endowments (Continued)

	2010			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment net assets, beginning of year	\$ (978,747)	\$ 3,971,223	\$ 2,385,135	\$ 5,377,611
Investment return:				
Investment income	84,308	4,803	-	89,111
Net appreciation (realized and unrealized)	358,551	5,556	-	364,107
Total endowment investment return	\$ 442,859	\$ 10,359	\$ -	\$ 453,218
Contributions	-	346,278	20,224	366,502
Appropriation of endowment assets for expenditure	(306,335)	(23,500)	-	(329,835)
Endowment net assets, end of year	<u>\$ (842,223)</u>	<u>\$ 4,304,360</u>	<u>\$ 2,405,359</u>	<u>\$ 5,867,496</u>

Note 14. Net Assets Released from Restrictions

Net assets were released from restrictions by incurring expenses satisfying the restricted purpose specified or by the occurrence of other events during 2011 and 2010.

	2011	2010
Time Restrictions:		
Archbishop's Call to Share	\$ 4,738,599	\$ 4,422,666
Purpose Restrictions:		
Future Full of Hope	31,650	194,928
Contributions to various designated organizations	2,430,216	2,299,828
	<u>\$ 7,200,465</u>	<u>\$ 6,917,422</u>

Note 15. Board-Designated Unrestricted Net Assets

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

	2011	2010
Health and dental care plans	\$ 7,653,722	\$ 5,260,225
Other designations	1,415,474	1,164,250
	<u>\$ 9,069,196</u>	<u>\$ 6,424,475</u>

Chancery Offices of the Archdiocese of Kansas City in Kansas

Notes to Financial Statements

Note 16. Commitments and Contingencies

In April 1998, Villa St. Francis, Inc. entered into a 25-year lease agreement for a nursing home facility in Olathe, Kansas. The lease agreement calls for \$50,000 payments each month during the 25-year term of the lease. The Archdiocese has given a guarantee limited to 12 months' worth of obligations under the lease.

The Chancery Offices of the Archdiocese of Kansas City in Kansas has not been named as a defendant in any lawsuits.

The Archdiocese has approximately 6.0% 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 52 small to medium-sized dioceses. Effective July 1, 2003, the Pool is responsible for 50% of individual casualty claims of its members, which exceed \$1,500,000 to a limit of \$5,000,000.

In addition, effective July 1, 2007, the Pool began insuring 5% of coverage provided by the Administrator, in excess of \$1,500,000 up to \$5,000,000, for morality certificates between 1.786% to 5% and up to \$20,500,000 for liability certificates. Participating dioceses are liable (in proportion to their participation interest) for any losses beyond the Pool's ability to fund such losses.

Note 17. Recently Issued Accounting Guidance

In January 2010, the Financial Accounting Standards Board issued an amendment on the Fair Value Measurements and Disclosures Topic which requires new disclosures and reasons for transfer of financial assets and liabilities between Level 1 and 2. This amendment also clarifies that fair value measurement disclosures are required for each class of financial assets and liabilities, and those disclosures should include a discussion of inputs and valuation techniques. It further clarifies that reconciliation of Level 3 measurement should separately present purchases, sales, issuances and settlements instead of netting these changes.

With respect to matters other than Level 3 measurements, the amendment was effective for periods beginning on or after December 15, 2009. The guidance related to Level 3 measurements is effective for periods beginning on or after December 15, 2010.

In May 2011, the FASB issued Accounting Standards Update (ASU) 2011-04, Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRSs (ASU 2011-04). ASU 2011-04 amended ASC 820, Fair Value Measurements and Disclosures, to converge the fair value measurement guidance in GAAP and international Financial Reporting Standards (IFRSs). Some of the amendments clarify the application of existing fair value measurement requirements, while other amendments change a particular principle in ASC 820. In addition, ASU 2011-04 requires additional fair value disclosures. The amendments are to be applied prospectively and are effective for annual periods beginning after December 15, 2011.

Note 18. Subsequent Events

Management has evaluated and disclosed subsequent events up to and including September 29, 2011, which is the date the financial statements were available to be issued.