

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

Financial Report
June 30, 2012

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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, 2012 and 2011 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, 2012 and 2011 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 LLP

Kansas City, Missouri
September 24, 2012

Chancery Offices of the Archdiocese of Kansas City in Kansas

Statements of Financial Position

June 30, 2012 and 2011

| Assets | Current | Deposit and Loan | | Plant | Cor Christi | 2012 | | 2011 | |
|---|----------------------|----------------------|----------------------|----------------------|-----------------------|-----------------------|---------------|------|--|
| | | | | | | | | | |
| Cash and cash equivalents | \$ 13,111,686 | \$ - | \$ - | \$ - | \$ 331,066 | \$ 13,442,752 | \$ 10,016,019 | | |
| Investments (Notes 2 and 5) | 5,517,093 | - | - | - | 14,526,131 | 20,043,224 | 18,658,995 | | |
| Accrued interest receivable | 244,777 | - | - | - | 581 | 245,358 | 365,834 | | |
| Accounts receivable, net | 7,078,447 | 99,380 | - | - | - | 7,177,827 | 6,484,338 | | |
| Pledges receivable, net (Note 3) | 9,009,046 | - | - | - | - | 9,009,046 | 1,238,240 | | |
| Prepaid expenses | 79,315 | - | - | - | - | 79,315 | 243,609 | | |
| Interest in net assets of the Catholic Foundation of Northeast Kansas (Notes 2 and 8) | 6,662,030 | - | - | - | - | 6,662,030 | 7,122,587 | | |
| Loans receivable, net (Note 6) | - | 50,671,532 | - | - | - | 50,671,532 | 55,586,286 | | |
| Land, buildings and equipment, net (Note 4) | - | - | 16,606,721 | - | - | 16,606,721 | 16,895,622 | | |
| Due to/from other funds | (9,889,551) | 11,406,143 | (1,436,036) | - | (80,556) | - | - | | |
| Total assets | \$ 31,812,843 | \$ 62,177,055 | \$ 15,170,685 | \$ 14,777,222 | \$ 123,937,805 | \$ 116,611,530 | | | |

(Continued)

Chancery Offices of the Archdiocese of Kansas City in Kansas

Statements of Financial Position (Continued)

June 30, 2012 and 2011

| | Current | Deposit and Loan | Plant | Cor Christi | 2012 | 2011 |
|---|----------------------|----------------------|----------------------|----------------------|-----------------------|-----------------------|
| Liabilities and Net Assets | | | | | | |
| Accounts payable and accrued expenses | \$ 660,353 | \$ 251,069 | \$ - | \$ - | \$ 911,422 | \$ 821,338 |
| Pledges payable | 195,000 | - | - | - | 195,000 | 205,000 |
| Accrued health and dental care claims (Note 10) | 1,500,000 | - | - | - | 1,500,000 | 1,500,000 |
| Collections held for transmittal | 470,065 | - | - | - | 470,065 | 232,412 |
| Deposits payable (Note 9) | - | 61,925,986 | - | - | 61,925,986 | 60,571,717 |
| Deferred revenue | 523,356 | - | - | - | 523,356 | 710,480 |
| Total liabilities | 3,348,774 | 62,177,055 | - | - | 65,525,829 | 64,040,947 |
| Net Assets (Deficit) | | | | | | |
| Unrestricted: | | | | | | |
| Undesignated | (505,382) | - | 15,170,685 | 14,777,222 | 29,442,525 | 31,557,029 |
| Undesignated - Endowments (Note 13) | (414,010) | - | - | - | (414,010) | 66,687 |
| Designated (Note 15) | 10,006,530 | - | - | - | 10,006,530 | 9,069,196 |
| Total unrestricted net assets | 9,087,138 | - | 15,170,685 | 14,777,222 | 39,035,045 | 40,692,912 |
| Restricted (Note 12): | | | | | | |
| Temporarily restricted: | | | | | | |
| Education of Priests and Seminarians | 2,503,393 | - | - | - | 2,503,393 | 2,639,456 |
| Other | 14,468,033 | - | - | - | 14,468,033 | 6,832,710 |
| Permanently restricted (Note 8) | 2,405,505 | - | - | - | 2,405,505 | 2,405,505 |
| Total restricted net assets | 19,376,931 | - | - | - | 19,376,931 | 11,877,671 |
| Total net assets | 28,464,069 | - | 15,170,685 | 14,777,222 | 58,411,976 | 52,570,583 |
| Total liabilities and net assets | \$ 31,812,843 | \$ 62,177,055 | \$ 15,170,685 | \$ 14,777,222 | \$ 123,937,805 | \$ 116,611,530 |

See Notes to Financial Statements.

Chancery Offices of the Archdiocese of Kansas City in Kansas

Statement of Activities Year Ended June 30, 2012

| Revenues | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|--|----------------------|---------------------------|---------------------------|----------------------|
| Archbishop's Call to Share (Note 3) | \$ 144,773 | \$ 5,253,262 | \$ - | \$ 5,398,035 |
| Future Full of Hope Capital Campaign | - | 34,408 | - | 34,408 |
| Private Appeal Campaign (Note 3) | - | 8,509,654 | - | 8,509,654 |
| Archdiocesan collections | - | 497,003 | - | 497,003 |
| Archdiocesan assessments | 3,171,700 | 1,019,511 | - | 4,191,211 |
| Health and dental plan premiums (Note 10) | 17,992,570 | - | - | 17,992,570 |
| Contributions and bequests | 349,923 | 475,344 | - | 825,267 |
| Investment income (Note 5) | 1,927,511 | - | - | 1,927,511 |
| Change in net assets of the Catholic Foundation of Northeast Kansas | (476,020) | 254,934 | - | (221,086) |
| Other revenue | 2,385,177 | 78,560 | - | 2,463,737 |
| (Loss) on disposal of land, building and equipment | (37,014) | - | - | (37,014) |
| Auxiliary services - The Leaven | 1,142,786 | - | - | 1,142,786 |
| Auxiliary services - Pastoral Center | 659,753 | - | - | 659,753 |
| Auxiliary services - Prairie Star Ranch | 255,346 | - | - | 255,346 |
| Restrictions satisfied (Note 14) | 7,928,978 | (7,928,978) | - | - |
| Total revenues | 35,445,483 | 8,193,698 | - | 43,639,181 |
| Expenditures | | | | |
| Ministry and Program Services: | | | | |
| Pastoral | 1,025,693 | - | - | 1,025,693 |
| Religious personnel | 2,313,119 | - | - | 2,313,119 |
| Education | 4,379,651 | - | - | 4,379,651 |
| Social services | 1,565,570 | - | - | 1,565,570 |
| Auxiliary services - The Leaven | 965,792 | - | - | 965,792 |
| Auxiliary services - Pastoral Center | 1,023,330 | - | - | 1,023,330 |
| Auxiliary services - Prairie Star Ranch | 437,123 | - | - | 437,123 |
| Total ministry and program services | 11,710,278 | - | - | 11,710,278 |
| Supporting Services: | | | | |
| Administrative | 3,666,417 | - | - | 3,666,417 |
| Fundraising: | | | | |
| Stewardship and development | 1,034,890 | - | - | 1,034,890 |
| Other: | | | | |
| Interest (Note 9) | 1,365,724 | - | - | 1,365,724 |
| Bad debt expense | 546,158 | 575,156 | - | 1,121,314 |
| Health and dental care expense (Note 10) | 17,376,202 | - | - | 17,376,202 |
| Cor Christi Fund distributions | 601,000 | - | - | 601,000 |
| Private Appeal distributions | 253,000 | - | - | 253,000 |
| Future Full of Hope distributions | 34,411 | - | - | 34,411 |
| Parish rebates (Note 3) | 515,270 | 119,282 | - | 634,552 |
| Total supporting services | 25,393,072 | 694,438 | - | 26,087,510 |
| Total expenditures | 37,103,350 | 694,438 | - | 37,797,788 |
| Increase (decrease) in net assets | (1,657,867) | 7,499,260 | - | 5,841,393 |
| Net assets, beginning of year | 40,692,912 | 9,472,166 | 2,405,505 | 52,570,583 |
| Net assets, end of year | \$ 39,035,045 | \$ 16,971,426 | \$ 2,405,505 | \$ 58,411,976 |

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

**Statements of Cash Flows
Years Ended June 30, 2012 and 2011**

| | 2012 | 2011 |
|---|------------------|------------------|
| Cash Flows from Operating Activities: | | |
| Increase in net assets | \$ 5,841,393 | \$ 3,874,232 |
| Adjustments to reconcile increase in net assets to net cash (used in) provided by operating activities: | | |
| Depreciation | 709,844 | 666,824 |
| Realized (gain) loss on sale of investments | (196,738) | (167,713) |
| Unrealized (gain) loss on investments | 812,916 | (1,608,180) |
| Net discount accretion | (4,047) | (27,057) |
| (Increase) in fair value of investments held at the Catholic Foundation of Northeast Kansas | (221,086) | (1,186,264) |
| Allowance provision for loans receivable | 548,443 | 730,000 |
| Loans charged off, net of recoveries | (243,047) | - |
| (Gain) loss on sale of land, building and equipment | 37,014 | (64,454) |
| Changes in assets and liabilities: | | |
| (Increase) decrease in: | | |
| Accounts receivable | (693,489) | (515,777) |
| Pledges receivable, net | (7,770,806) | (75,902) |
| Accrued interest receivable | 120,476 | 278,187 |
| Prepaid expenses | 164,294 | (146,507) |
| Increase (decrease) in: | | |
| Accounts payable and accrued expenses | 90,084 | 402,872 |
| Pledges payable | (10,000) | (230,000) |
| Collections held for transmittal | 237,653 | 4,716 |
| Deferred revenue | (187,124) | 68,099 |
| Net cash (used in) provided by operating activities | (764,220) | 2,003,076 |
| Cash Flows from Investing Activities: | | |
| Proceeds from sales of land, buildings and equipment | 1,805,805 | 203,913 |
| Purchases of land, buildings and equipment | (2,263,762) | (1,057,692) |
| Purchases of investments | (7,717,973) | (11,100,000) |
| (Contributions) withdrawals in interest in Catholic Foundation of Northeast Kansas | 681,643 | (68,827) |
| Proceeds from sale of investments | 5,721,613 | 7,754,200 |
| Decrease in loans receivable, net | 4,609,358 | 5,683,696 |
| Net cash provided by investing activities | 2,836,684 | 1,415,290 |

(Continued)

Chancery Offices of the Archdiocese of Kansas City in Kansas

**Statements of Cash Flows (Continued)
Years Ended June 30, 2012 and 2011**

| | <u>2012</u> | <u>2011</u> |
|--|----------------------|----------------------|
| Cash Flows from Financing Activities: | | |
| Increase in deposits payable, net | <u>1,354,269</u> | 5,085,800 |
| Net cash provided by financing activities | <u>1,354,269</u> | <u>5,085,800</u> |
| | | |
| Net increase in cash and cash equivalents | 3,426,733 | 8,504,166 |
| | | |
| Cash and Cash Equivalents: | | |
| Beginning of year | <u>10,016,019</u> | 1,511,853 |
| End of year | <u>\$ 13,442,752</u> | <u>\$ 10,016,019</u> |
| | | |
| Supplemental Disclosures of Cash Flow Information: | | |
| Cash payments for interest | \$ 1,792,848 | \$ 1,792,848 |

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 1% to 3.5% and 3.5% to 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. Fair value of alternative investments is estimated using net asset value per share. See Note 2 for a discussion of fair value measurements.

Chancery Offices of the Archdiocese of Kansas City in Kansas

Notes to Financial Statements

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

Accounts and loans receivable: The Chancery 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, 2012 and 2011.

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, 2012 and 2011 was \$1,188,001 and \$1,245,136, 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 Levels 1, 2 and 3; therefore, 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, 2012 and 2011, 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, 2012 | | | |
|---|----------------------|----------------------|---------------------|----------------------|
| | Total | Level 1 | Level 2 | Level 3 |
| Investments | | | | |
| Fixed income securities: | | | | |
| Certificates of deposit | \$ 3,500,000 | \$ 3,500,000 | \$ - | \$ - |
| U.S. Treasuries | 2,004,047 | 2,004,047 | - | - |
| Equity securities: | | | | |
| Common stock: | | | | |
| Consumer discretionary | 344,730 | 344,730 | - | - |
| Consumer staples | 186,592 | 186,592 | - | - |
| Energy | 328,760 | 328,760 | - | - |
| Financial | 258,872 | 258,872 | - | - |
| Healthcare | 219,881 | 219,881 | - | - |
| Industrial | 229,834 | 229,834 | - | - |
| Information technology | 441,718 | 441,718 | - | - |
| Materials | 204,326 | 204,326 | - | - |
| Telecommunications | 73,556 | 73,556 | - | - |
| Utilities | 30,167 | 30,167 | - | - |
| Other | 383,594 | 383,594 | - | - |
| Privately held company | 13,046 | - | - | 13,046 |
| Mutual funds: | | | | |
| International stock mutual funds | 869,843 | 869,843 | - | - |
| Global real estate mutual funds | 318,118 | 318,118 | - | - |
| Fixed income mutual funds | 6,142,747 | 2,499,657 | 3,643,090 | - |
| Alternative investments: | | | | |
| Managed futures limited partnerships | 1,084,553 | - | 1,084,553 | - |
| Fund of hedge fund limited partnerships | 3,408,840 | - | - | 3,408,840 |
| | 20,043,224 | 11,893,695 | 4,727,643 | 3,421,886 |
| Interest in net assets of the | | | | |
| Catholic Foundation of Northeast Kansas | 6,662,030 | - | - | 6,662,030 |
| | \$ 26,705,254 | \$ 11,893,695 | \$ 4,727,643 | \$ 10,083,916 |

Chancery Offices of the Archdiocese of Kansas City in Kansas

Notes to Financial Statements

Note 2. Fair Value Measurements (Continued)

| | June 30, 2011 | | | |
|---|----------------------|----------------------|---------------------|----------------------|
| | Total | Level 1 | Level 2 | Level 3 |
| Investments | | | | |
| Fixed income securities: | | | | |
| Certificates of deposit | \$ 1,000,000 | \$ 1,000,000 | \$ - | \$ - |
| 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 |
| Mutual funds: | | | | |
| 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 | - | - |
| Fixed income mutual funds | 5,019,459 | 2,602,696 | 2,416,763 | - |
| Alternative investments: | | | | |
| Managed futures limited partnerships | 924,001 | - | 924,001 | - |
| Fund of hedge fund limited partnerships | 3,524,173 | - | - | 3,524,173 |
| | <u>18,658,995</u> | <u>11,782,841</u> | <u>3,340,764</u> | <u>3,535,390</u> |
| Interest in net assets of the | | | | |
| Catholic Foundation of Northeast Kansas | 7,122,587 | - | - | 7,122,587 |
| | <u>\$ 25,781,582</u> | <u>\$ 11,782,841</u> | <u>\$ 3,340,764</u> | <u>\$ 10,657,977</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, 2011 | \$ 7,122,587 | \$ 3,524,173 | \$ 11,217 |
| Purchases | 59,962 | 350,000 | - |
| Unrealized gains | (754,122) | (90,783) | 1,829 |
| Realized gains (losses) | 563,034 | (22,282) | - |
| Sales/withdrawals | (329,431) | (352,268) | - |
| Ending Balance - June 30, 2012 | \$ 6,662,030 | \$ 3,408,840 | \$ 13,046 |

| | 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) | 181,280 | (2,531) | - |
| Sales | - | (56,700) | - |
| Ending Balance - June 30, 2011 | \$ 7,122,587 | \$ 3,524,173 | \$ 11,217 |

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, 2012 and 2011:

| Investment | Fair Value at June 30, 2012 | Unfunded Commitment | Redemption Frequency | Redemption Notice Period |
|---|--------------------------------|------------------------|-------------------------|-----------------------------|
| Alternative Investments: | | | | |
| Arden Alternative Advisors, Spc (A) | \$ 1,041,125 | \$ - | Quarterly | 60 days |
| Private Advisors Hedged Equity Fund, LTD (B) | 945,474 | - | Annual | 60 days |
| Austin Capital All Seasons Offshore Fund, ltd. (C) | 36,783 | - | Quarterly | 65 days |
| Berens Capital Fund, Ltd. (D) | 689,336 | - | Annual | 90 days |
| K2 Overseas Long Short Fund, Ltd. (E) | 696,123 | - | Quarterly | 91 days |
| ACL Alternative Fund (F) | 1,084,553 | - | Quarterly | 60 days |
| | \$ 4,493,393 | \$ - | | |

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, 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 |
| ACL Alternative Fund (F) | 924,001 | - | Quarterly | 60 days |
| | <u>\$ 4,448,174</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.
- (F) This fund invests in a range of trading styles, including long-term trend-following, short-term systematic, value, discretionary macro and specialist FX strategies. Market exposure is diversified in global currency, financial and commodity markets.

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.

Chancery Offices of the Archdiocese of Kansas City in Kansas

Notes to Financial Statements

Note 2. Fair Value Measurements (Continued)

The fair values estimates presented are based on pertinent information available to management as of June 30, 2012 and 2011. 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.

Note 3. Pledges Receivable

Pledge receivables (less allowance for uncollectible pledges) at June 30, 2012 to be received in subsequent years:

| | Call to Share | Private Appeal | Total |
|-----------------------------|---------------------|---------------------|---------------------|
| Year ending: | | | |
| 2013 | 1,352,548 | \$ 2,133,000 | \$ 3,485,548 |
| 2014 | - | 3,133,000 | 3,133,000 |
| 2015 | - | 2,120,000 | 2,120,000 |
| 2016 | - | 120,000 | 120,000 |
| 2017 | - | 910,000 | 910,000 |
| | <u>1,352,548</u> | <u>8,416,000</u> | <u>9,768,548</u> |
| Less: | | | |
| Discount | - | 184,346 | 184,346 |
| Allowance for uncollectible | <u>154,356</u> | <u>420,800</u> | <u>575,156</u> |
| Total pledges receivable | <u>\$ 1,198,192</u> | <u>\$ 7,810,854</u> | <u>\$ 9,009,046</u> |

Pledges receivable of \$1,238,240 (\$1,408,322 less \$170,082 of allowance for uncollectible pledges) at June 30, 2011 were 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 2013 during the year ended June 30, 2012 were \$5,133,979 (\$5,253,261 less \$119,282 of parish rebates). 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). Pledges received in the current year for current year use are reported as unrestricted revenues. Such contributions were \$144,773 and \$95,389 during the years ended June 30, 2012 and 2011, respectively.

The Archdiocese initiated the Private Appeal campaign in the current year for the purposes to reduce debt for Archdiocesan high schools. Pledges received in the current fiscal year for expenditures in subsequent fiscal years are, therefore, temporarily restricted. The contributions pledged during the year ended June 30, 2012 were \$8,088,854, net of discount and allowance.

Chancery Offices of the Archdiocese of Kansas City in Kansas

Notes to Financial Statements

Note 4. Land, Buildings and Equipment

Land, buildings and equipment comprise the following at June 30, 2012 and 2011:

| | 2012 | 2011 |
|--------------------------------|----------------------|----------------------|
| Operating land and building | \$ 18,492,886 | \$ 18,207,970 |
| Possible future use sites | 7,783,131 | 7,818,253 |
| Furniture and equipment | 2,551,627 | 2,460,635 |
| | 28,827,644 | 28,486,858 |
| Less: Accumulated depreciation | 12,220,923 | 11,591,236 |
| | \$ 16,606,721 | \$ 16,895,622 |

Note 5. Investments

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

| | 2012 | | |
|----------------------------|----------------------|----------------------|----------------------------|
| | Cost | Fair Value | Unrealized Appreciation |
| Certificates of deposit | \$ 3,500,000 | \$ 3,500,000 | \$ - |
| Mutual funds | 6,916,061 | 7,330,707 | 414,646 |
| U.S. Government securities | 2,004,047 | 2,004,047 | - |
| Equity securities | 2,760,898 | 2,715,077 | (45,821) |
| Alternative investments | 4,609,504 | 4,493,393 | (116,111) |
| | \$ 19,790,510 | \$ 20,043,224 | \$ 252,714 |

| | 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)

The following summarizes the investment returns (losses) for the years ended June 30, 2012 and 2011:

| | 2012 | 2011 |
|--|---------------------|---------------------|
| Interest and dividend income | \$ 2,543,689 | \$ 3,030,201 |
| Realized gains | 196,738 | 167,713 |
| Unrealized gains (losses) on investments | (812,916) | 1,608,180 |
| | <u>\$ 1,927,511</u> | <u>\$ 4,806,094</u> |

Included in the interest income amounts above are \$2,263,764 and \$2,699,536 related to interest income on loans receivable for the years ended June 30, 2012 and 2011, respectively.

Note 6. Loans Receivable

Loans receivable comprise the following at June 30, 2012 and 2011:

| | 2012 | 2011 |
|---------------------------------------|----------------------|----------------------|
| Parishes | \$ 35,903,601 | \$ 40,287,883 |
| Archdiocesan institutions | 17,691,982 | 17,955,931 |
| Other | 111,345 | 72,472 |
| | <u>53,706,928</u> | <u>58,316,286</u> |
| Less: Allowance for doubtful accounts | (3,035,396) | (2,730,000) |
| | <u>\$ 50,671,532</u> | <u>\$ 55,586,286</u> |

The Organization's loans receivable consist of funds disbursed to parishes, cemeteries, Archdiocesan institutions, and other entities within the Archdiocese of Kansas City in Kansas. The Organization determined its allowance for estimated losses on these loans by analyzing financial results, factors and circumstances of individual accounts or loans. All loans have the same terms and therefore are considered to be in the same class of loan.

The aging of the loan portfolio, as of June 30, 2012, is summarized below:

| | Current | Past Due | Total |
|---|----------------------|----------------------|----------------------|
| Loans | <u>\$ 41,610,216</u> | <u>\$ 12,096,712</u> | <u>\$ 53,706,928</u> |
| As a percentage of the total loan portfolio | <u>77.47%</u> | <u>22.53%</u> | <u>100.00%</u> |

Chancery Offices of the Archdiocese of Kansas City in Kansas

Notes to Financial Statements

Note 6. Loans Receivable (Continued)

An analysis of the allowance for doubtful accounts during the year ended June 30, 2012 is as follows:

| | |
|--------------------------------------|---------------------|
| Balance, beginning of year | \$ 2,730,000 |
| Provision for bad debts | 548,443 |
| Loans charged off, net of recoveries | (243,047) |
| Balance, end of year | <u>\$ 3,035,396</u> |

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, 2012 and has an interest rate equal to the one-month LIBOR (0.25% at June 30, 2012) plus 2%. There were no borrowings outstanding on this line as of June 30, 2012 and 2011.

The Archdiocese has an unsecured line of credit with a local bank for \$5,000,000. The line matures on December 1, 2012 and has an interest rate equal to the bank's prime rate (3.25% at June 30, 2012). There were no borrowings outstanding on this line as of June 30, 2012 and 2011.

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, 2012 is \$6,662,030 (2011 - \$7,122,587). The following details the purpose restrictions of the interest in the net assets of the Catholic Foundation of Northeast Kansas.

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

Chancery Offices of the Archdiocese of Kansas City in Kansas

Notes to Financial Statements

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

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

| | 2012 | 2011 |
|--------------------------------------|---------------------|---------------------|
| Unrestricted | \$ (414,010) | \$ 66,687 |
| Temporarily Restricted: | | |
| Poor and Needy of the World | 133,224 | 168,485 |
| Education of Priests and Seminarians | 3,779,915 | 3,744,539 |
| Cultural Outreach Ministry | 606,216 | 606,216 |
| Youth Religious Camp Scholarships | 151,180 | 131,155 |
| | <u>4,670,535</u> | <u>4,650,395</u> |
| Permanently Restricted: | | |
| Archbishop Discretion Endowment | 110,300 | 110,300 |
| Education of Priests and Seminarians | 1,412,435 | 1,412,435 |
| Lay Ministry Development | 882,770 | 882,770 |
| | <u>2,405,505</u> | <u>2,405,505</u> |
| Total | <u>\$ 6,662,030</u> | <u>\$ 7,122,587</u> |

Note 9. Deposits Payable

Deposits payable comprise the following at June 30, 2012 and 2011:

| | 2012 | 2011 |
|---------------------------|----------------------|----------------------|
| Parishes | \$ 31,642,627 | \$ 32,520,139 |
| Cemeteries | 2,113,758 | 2,320,677 |
| Archdiocesan institutions | 26,629,268 | 24,739,202 |
| Other | 1,540,333 | 991,699 |
| | <u>\$ 61,925,986</u> | <u>\$ 60,571,717</u> |

Interest expense to related parties was \$1,339,577 and \$1,792,848 for the years ended June 30, 2012 and 2011, respectively.

Chancery Offices of the Archdiocese of Kansas City in Kansas

Notes to Financial Statements

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, 2012. Plan premium income received for this plan for the year ended June 30, 2012 was \$16,425,615 (2011 - \$15,480,620); expenses were \$16,009,601 (2011 - \$13,354,844). Total plan assets as of June 30, 2012 were \$6,915,989 (2011 - \$6,499,975), 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, 2012 was \$1,566,955 (2011 - \$1,522,116); expenses were \$1,366,601 (2011 - \$1,254,394). Total plan assets as of June 30, 2012 were \$1,354,101 (2011 - \$1,153,747), 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, 2012 and 2011 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.

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% (4.5% at June 30, 2011) of total payroll dollars to the retirement plan. Contributions to this plan for the year ended June 30, 2012 from the Chancery Offices were \$160,911 (2011 - \$146,473).

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

Chancery Offices of the Archdiocese of Kansas City in Kansas

Notes to Financial Statements

Note 12. Restricted Net Assets

Temporarily restricted net assets are available for the following purposes or periods at June 30, 2012 and 2011:

| | 2012 | 2011 |
|---|----------------------|---------------------|
| Restrictions as to use: | | |
| Education of priests and seminarians | \$ 2,503,393 | \$ 2,639,456 |
| Other restricted net assets | 1,886,978 | 1,937,367 |
| Restrictions as to time: | | |
| Private Appeal | 7,601,432 | - |
| Archbishop's Call to Share | 4,979,623 | 4,895,343 |
| Total temporarily restricted net assets | <u>\$ 16,971,426</u> | <u>\$ 9,472,166</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

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.

Chancery Offices of the Archdiocese of Kansas City in Kansas

Notes to Financial Statements

Note 13. Endowments (Continued)

Investment Return Objectives, Risk Parameters and Strategies

The 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, 2012 and 2011:

| | 2012 | | | Total |
|--|---------------------|-----------------------------------|-----------------------------------|---------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | |
| Endowment net assets, beginning of year | \$ 66,687 | \$ 4,650,395 | \$ 2,405,505 | \$ 7,122,587 |
| Investment return: | | | | |
| Investment income | 102,484 | 2,042 | - | 104,526 |
| Net (depreciation) (realized and unrealized) | (288,311) | (7,303) | - | (295,614) |
| Total endowment investment return | (185,827) | (5,261) | - | (191,088) |
| Contributions | - | 59,962 | - | 59,962 |
| Appropriation of endowment assets for expenditure | (294,870) | (34,561) | - | (329,431) |
| Endowment net assets, end of year | \$ (414,010) | \$ 4,670,535 | \$ 2,405,505 | \$ 6,662,030 |

Chancery Offices of the Archdiocese of Kansas City in Kansas

Notes to Financial Statements

Note 13. Endowments (Continued)

| | 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> |

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 2012 and 2011.

| | 2012 | 2011 |
|---|---------------------|---------------------|
| Time Restrictions: | | |
| Archbishop's Call to Share | \$ 4,895,344 | \$ 4,738,599 |
| Private Appeal | 487,421 | - |
| Purpose Restrictions: | | |
| Future Full of Hope | 34,411 | 31,650 |
| Contributions to various designated organizations | 2,511,802 | 2,430,216 |
| | <u>\$ 7,928,978</u> | <u>\$ 7,200,465</u> |

Note 15. Board-Designated Unrestricted Net Assets

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

| | 2012 | 2011 |
|------------------------------|----------------------|---------------------|
| Health and dental care plans | \$ 8,270,090 | \$ 7,653,722 |
| Other designations | 1,736,440 | 1,415,474 |
| | <u>\$ 10,006,530</u> | <u>\$ 9,069,196</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 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 24, 2012, which is the date the financial statements were available to be issued.