



Catholic Diocese of Kansas City – St. Joseph  
Central Financing Operations  
Kansas City, Missouri

In accordance with your request, we are attaching the accompanying PDF file, which contains an electronic final version of the financial statements of the Catholic Diocese of Kansas City – St. Joseph Central Financing Operations 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provided to you in an electronic formation should be deleted from your computer, and all printed copies of any superseded preliminary draft version should likewise be destroyed.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 the Catholic Diocese of Kansas City – St. Joseph Central Financing Operations.

*McGladrey & Pullen, LLP*

**Catholic Diocese of  
Kansas City – St. Joseph  
Central Financing Operations**

Financial Report  
June 30, 2011

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**Independent Auditor's Report  
on the Financial Statements**

Most Reverend Robert W. Finn, D.D., Bishop  
Catholic Diocese of Kansas City – St. Joseph  
Central Financing Operations  
Kansas City, Missouri

We have audited the accompanying statements of financial position of the Catholic Diocese of Kansas City – St. Joseph Central Financing Operations 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 management of the Diocese. 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 Catholic Diocese of Kansas City – St. Joseph Central Financing Operations 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  
October 10, 2011

**Catholic Diocese of Kansas City – St. Joseph  
Central Financing Operations**

**Statements of Financial Position  
June 30, 2011 and 2010**

	Current	Plant	Custodian	Endowment	Deposit & Loan	2011	2010
<b>Assets</b>							
Cash and cash equivalents	\$ 1,136,643	\$ 73,191	\$ 149,015	\$ 145,194	\$ -	\$ 1,504,043	\$ 2,406,845
Loans and accounts receivable, net (Note 2)	2,707,923	-	-	324,658	28,519,706	31,552,287	35,350,552
Pledges receivable, net (Note 3)	197,599	-	-	-	-	197,599	255,983
Land, buildings and equipment, net (Notes 4 and 8)	-	14,793,191	-	-	1,551,334	16,344,525	3,716,886
Beneficial interest in others (Note 5)	-	-	-	505,128	-	505,128	421,413
Investments (Note 6)	6,339,853	-	-	11,903,522	-	18,243,375	18,810,624
<b>Total assets</b>	<b>\$ 10,382,018</b>	<b>\$ 14,866,382</b>	<b>\$ 149,015</b>	<b>\$ 12,878,502</b>	<b>\$ 30,071,040</b>	<b>\$ 68,346,957</b>	<b>\$ 60,962,303</b>
<b>Liabilities</b>							
Accounts payable	\$ 358,997	\$ -	\$ -	\$ -	\$ -	\$ 358,997	\$ 447,409
Notes payable (Notes 7 and 8)	-	6,894,630	-	-	2,500,000	9,394,630	3,900,000
Parish deposits (Note 9)	-	-	-	-	15,358,533	15,358,533	16,908,114
Other short-term deposits	-	-	149,015	-	3,041,233	3,190,248	3,678,259
Annuities payable (Note 10)	-	-	-	1,086,599	-	1,086,599	1,326,634
Long-term deposits payable:							
Cemetery perpetual care funds	-	-	-	-	6,051,156	6,051,156	5,909,066
Property and casualty reserves	-	-	-	-	2,495,574	2,495,574	1,969,377
Long-term disability reserves	-	-	-	-	624,544	624,544	609,963
Retired priests benefit obligations (Note 11)	7,108,526	-	-	-	-	7,108,526	6,457,601
Deferred revenue	291,677	-	-	-	-	291,677	290,141
<b>Total liabilities</b>	<b>7,759,200</b>	<b>6,894,630</b>	<b>149,015</b>	<b>1,086,599</b>	<b>30,071,040</b>	<b>45,960,484</b>	<b>41,496,564</b>
Commitments and contingencies (Note 15 and 16)							
<b>Net Assets</b>							
Unrestricted:							
Designated funds	2,143,910	73,191	-	4,014,238	-	6,231,339	4,489,717
Designated for annuities (Note 10)	-	-	-	84,160	-	84,160	184,703
Expended for plant	-	7,898,561	-	-	-	7,898,561	2,165,552
Undesignated reserve	341,348	-	-	-	-	341,348	5,114,311
<b>Total unrestricted net assets</b>	<b>2,485,258</b>	<b>7,971,752</b>	<b>-</b>	<b>4,098,398</b>	<b>-</b>	<b>14,555,408</b>	<b>11,954,283</b>
Restricted:							
Temporarily:							
Other (Note 12)	137,560	-	-	-	-	137,560	125,709
Endowments (Note 12)	-	-	-	4,383,557	-	4,383,557	4,121,279
<b>Total temporarily restricted net assets</b>	<b>137,560</b>	<b>-</b>	<b>-</b>	<b>4,383,557</b>	<b>-</b>	<b>4,521,117</b>	<b>4,246,988</b>
Permanently:							
Endowments (Note 12)	-	-	-	3,309,948	-	3,309,948	3,264,468
<b>Total net assets</b>	<b>2,622,818</b>	<b>7,971,752</b>	<b>-</b>	<b>11,791,903</b>	<b>-</b>	<b>22,386,473</b>	<b>19,465,739</b>
<b>Total liabilities and net assets</b>	<b>\$ 10,382,018</b>	<b>\$ 14,866,382</b>	<b>\$ 149,015</b>	<b>\$ 12,878,502</b>	<b>\$ 30,071,040</b>	<b>\$ 68,346,957</b>	<b>\$ 60,962,303</b>

See Notes to Financial Statements.

**Catholic Diocese of Kansas City – St. Joseph  
Central Financing Operations**

**Statements of Activities  
Years Ended June 30, 2011 and 2010**

	Current	Plant	Endowment	Deposit & Loan	2011	2010
<b>Changes in Unrestricted and Designated Net Assets</b>						
Revenues and gains:						
Current contributions, Bishop's Annual Appeal	\$ 2,095,767	\$ -	\$ -	\$ -	\$ 2,095,767	\$ 2,101,972
Other revenues from operations:						
Other diocesan collections	80,304	-	-	-	80,304	65,358
Diocesan share in national collections	46,578	-	-	-	46,578	43,317
Diocesan assessments	6,338,650	-	-	-	6,338,650	6,284,674
Bequests	317,886	-	-	-	317,886	920,924
Contributions	2,389,296	-	117,554	-	2,506,850	937,172
Fees for service	481,597	-	-	-	481,597	402,908
Other revenues from operations, net	1,648,412	-	-	-	1,648,412	757,587
Lease revenue	-	9,860	-	-	9,860	61,637
Auxiliary service (insurance, publications)	13,464,015	-	-	-	13,464,015	13,871,381
<b>Total income from operations</b>	<b>26,862,505</b>	<b>9,860</b>	<b>117,554</b>	<b>-</b>	<b>26,989,919</b>	<b>25,446,930</b>
Released from restrictions, other (Note 13)	149	-	-	-	149	41,398
Gain on sale of property	-	225,451	-	-	225,451	-
Investment income (loss), realized (Note 6)	-	-	(82,321)	1,611,914	1,529,593	1,695,476
Unrealized gains (losses) (Note 6)	-	-	431,466	995,642	1,427,108	1,541,272
Change in value of split interest agreements (Notes 5 and 10)	-	-	308,074	-	308,074	627,635
<b>Total revenues and gains</b>	<b>26,862,654</b>	<b>235,311</b>	<b>774,773</b>	<b>2,607,556</b>	<b>30,480,294</b>	<b>29,352,711</b>
Operating expenses:						
Pastoral services	(2,799,756)	-	-	-	(2,799,756)	(3,521,529)
Religious personnel development	(1,103,862)	-	-	-	(1,103,862)	(1,983,896)
Education	(2,921,381)	-	-	-	(2,921,381)	(2,689,084)
Social services	(657,735)	-	-	-	(657,735)	(636,294)
Diocesan administration	(4,466,105)	-	(3,000)	-	(4,469,105)	(3,115,243)
Provision for doubtful accounts	-	-	-	-	-	(275,000)
Auxiliary service (insurance, publications)	(13,480,368)	-	-	-	(13,480,368)	(13,614,694)
	(25,429,207)	-	(3,000)	-	(25,432,207)	(25,835,740)
Depreciation	-	(250,849)	-	-	(250,849)	(120,381)
Unrestricted endowment payments	-	-	(714,765)	-	(714,765)	(441,096)
Interest on debt	-	(225,503)	-	(75,894)	(301,397)	(217,443)
Interest on deposits	-	-	-	(529,026)	(529,026)	(600,914)
<b>Total expenses</b>	<b>(25,429,207)</b>	<b>(476,352)</b>	<b>(717,765)</b>	<b>(604,920)</b>	<b>(27,228,244)</b>	<b>(27,215,574)</b>
Transfers to/from other funds:						
(To) from plant fund	(6,045,367)	6,046,781	(1,414)	-	-	-
(To) from unrestricted endowments	(70,235)	-	70,235	-	-	-
(To) from deposit and loan fund	2,002,636	-	-	(2,002,636)	-	-
<b>Total transfers</b>	<b>(4,112,966)</b>	<b>6,046,781</b>	<b>68,821</b>	<b>(2,002,636)</b>	<b>-</b>	<b>-</b>
Increase (decrease) in unrestricted net assets before change in post-employment benefit plan liability	(2,679,519)	5,805,740	125,829	-	3,252,050	2,137,137
Changes in post-employment benefit plan liability (Note 11)	(650,925)	-	-	-	(650,925)	(999,008)
Increase (decrease) in unrestricted net assets	(3,330,444)	5,805,740	125,829	-	2,601,125	1,138,129

(Continued)

Catholic Diocese of Kansas City – St. Joseph  
Central Financing Operations

Statements of Activities (Continued)  
Years Ended June 30, 2011 and 2010

	Current	Plant	Endowment	Deposit & Loan	2011	2010
<b>Changes in Temporarily Restricted Net Assets</b>						
Revenues and gains:						
Restricted contributions	12,000	-	-	-	<b>12,000</b>	-
Endowment contributions and bequests	-	-	44,335	-	<b>44,335</b>	32,062
Endowment investment income, realized (Note 6)	-	-	205,837	-	<b>205,837</b>	105,687
Endowment unrealized gains (Note 6)	-	-	13,883	-	<b>13,883</b>	35,425
Endowment income (loss), other - net	-	-	(1,777)	-	<b>(1,777)</b>	8,714
Restrictions satisfied:						
Other assets released from restriction (Note 13)	(149)	-	-	-	<b>(149)</b>	(20,000)
Restrictions satisfied - endowment payments to beneficiaries (Note 13)	-	-	-	-	-	(117,964)
Restrictions satisfied - endowment transfers to current fund (Note 13)	-	-	-	-	-	(23,534)
Reclassification of net assets (Note 18)	-	-	-	-	-	(151,781)
<b>Increase (decrease) in temporarily restricted net assets</b>	<b>11,851</b>	<b>-</b>	<b>262,278</b>	<b>-</b>	<b>274,129</b>	<b>(131,391)</b>
<b>Changes in Permanently Restricted Net Assets</b>						
Revenues and gains:						
Contributions and bequests - endowments (Note 14)	-	-	45,480	-	<b>45,480</b>	48,491
Reclassification of net assets (Note 18)	-	-	-	-	-	151,781
<b>Increase in permanently restricted net assets</b>	<b>-</b>	<b>-</b>	<b>45,480</b>	<b>-</b>	<b>45,480</b>	<b>200,272</b>
<b>Total Change in Net Assets</b>	<b>(3,318,593)</b>	<b>5,805,740</b>	<b>433,587</b>	<b>-</b>	<b>2,920,734</b>	<b>1,207,010</b>
Net assets, beginning of year	5,941,411	2,166,012	11,358,316	-	<b>19,465,739</b>	18,258,729
Net assets, end of year	<b>\$ 2,622,818</b>	<b>\$ 7,971,752</b>	<b>\$ 11,791,903</b>	<b>\$ -</b>	<b>\$ 22,386,473</b>	<b>\$ 19,465,739</b>

See Notes to Financial Statements.

**Catholic Diocese of Kansas City – St. Joseph  
Central Financing Operations**

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

	2011	2010
<b>Cash Flows from Operating Activities:</b>		
Cash received from donors, parishes and schools	\$ 26,126,796	\$ 25,306,425
Cash paid to suppliers, employees, and other	(25,838,335)	(26,031,433)
Interest received	1,082,010	1,962,751
Interest paid	(631,530)	(818,357)
<b>Net cash provided by operating activities</b>	<b>738,941</b>	<b>419,386</b>
<b>Cash Flows from Investing Activities:</b>		
Purchases of investments	(4,400,000)	(2,350,436)
Proceeds from sale and maturities of investments	7,146,391	2,584,484
Purchases of land, buildings, and equipment	(13,151,326)	(67,541)
Proceeds from sale of land held for development	-	605,747
Proceeds from sale of property	498,289	-
Change in loans receivable, net	4,124,997	4,111,939
<b>Net cash (used in) provided by investing activities</b>	<b>(5,781,649)</b>	<b>4,884,193</b>
<b>Cash Flows from Financing Activities:</b>		
Principal borrowings on notes payable	7,000,000	500,000
Principal payments on notes payable	(1,505,370)	(6,500,000)
Change in deposits payable, net	(1,354,724)	1,467,677
<b>Net cash provided by (used in) financing activities</b>	<b>4,139,906</b>	<b>(4,532,323)</b>
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(902,802)</b>	<b>771,256</b>
<b>Cash and Cash Equivalents:</b>		
Beginning	2,406,845	1,635,589
Ending	<b>\$ 1,504,043</b>	<b>\$ 2,406,845</b>

(Continued)

**Catholic Diocese of Kansas City – St. Joseph  
Central Financing Operations**

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

	2011	2010
Reconciliation of Increase in Net Assets to Net Cash Provided by		
Operating Activities:		
Increase in net assets	\$ 2,920,734	\$ 1,207,010
Adjustments to reconcile the increase in net assets to net cash provided by operating activities:		
Depreciation	250,849	120,381
Gain on sale of property	(225,451)	-
Unrealized (gains) on investments	(2,071,743)	(1,576,697)
(Gain) loss on sale of investments	(39,360)	144,913
Provision for allowance on accounts receivable	-	275,000
Change in value of split-interest agreements	(308,074)	(627,635)
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(326,732)	(311,645)
Bishop's Annual Appeal pledges receivable	58,384	(11,907)
Beneficial interest in others	(83,715)	(16,675)
Increase (decrease) in:		
Accounts payable	(88,412)	(83,782)
Priests retirement obligations	650,925	1,421,363
Deferred revenue	1,536	(120,940)
<b>Net cash provided by operating activities</b>	<b>\$ 738,941</b>	<b>\$ 419,386</b>

See Notes to Financial Statements.

**Catholic Diocese of Kansas City – St. Joseph  
Central Financing Operations**

**Notes to Financial Statements**

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**Note 1. Nature of Activities and Significant Account Policies**

Nature of activities: The accompanying financial statements include all funds maintained by and directly under the control of the Diocesan Central Financing Operations. The statements do not include the accounts of some related entities of the Diocese, such as parishes, schools, Catholic Charities, Catholic Cemeteries, self-insurance fund, and some other corporations; the Priests' Retirement Plan Trust or the Lay Retirement Plan Trust; nor any institution owned and operated by religious orders of men or women. Each is a distinct operating entity, maintains separate accounts, and carries on its own services and programs.

The following is a summary of the Organization's significant accounting policies:

Basis of presentation: The financial statement presentation follows the recommendations of FASB Accounting Standards Codification (ASC) 958, *Financial Statements of Not-for-Profit Organizations*. Under FASB ASC 958, the Diocese 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. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted Net Assets

Net assets that are not subject to donor-imposed stipulations

Temporarily Restricted Net Assets

Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Organization and/or the passage of time

Permanently Restricted Net Assets

Net assets subject to donor-imposed stipulations that expire neither by the passage of time nor by actions of the Organization

Restricted and unrestricted revenue and support: Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions.

Donor-restricted support is presented as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. 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. Donor-restricted support whose restrictions are satisfied in the same reporting period in which the contributions are received are classified as unrestricted donations.

Fund accounting: To ensure observance of limitations and restrictions placed on the use of resources available to the Central Financing Operations, the accounts of the Central Financing Operations 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.

**Catholic Diocese of Kansas City – St. Joseph  
Central Financing Operations**

**Notes to Financial Statements**

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

The assets, liabilities and net assets of the Central Financing Operations 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 Central Financing Operations are either anticipated and allocated in advance, billed for certain auxiliary services, or designated by the Bishop upon receipt.

The designated and undesignated net assets are available for and used in the regular activities of the Central Financing Operations.

Plant Fund

The Central Financing Operations follows the practice of deducting equipment expenditures in the year of purchase unless the equipment is significant and expected to have a useful life which extends beyond the current period. The Plant Fund includes only land, buildings and equipment owned by the Central Financing Operations used for current operations, held for future development, or available for sale. Properties of operating parishes are not included. Assets are listed at historical cost or, if donated, fair value. Buildings are depreciated over 40 years and all building improvements are depreciated over the remaining life of the building. Furniture and fixtures are depreciated over 8 years.

Custodian Fund

These funds are universal church collections, Propagation of the Faith receipts, special collections temporarily deposited before being transmitted to designated agencies, and Bishop's Charity Funds.

Generally, these assets are entrusted to the Central Financing Operations by persons who are not directly controlled by the Central Financing Operations, solely for the purpose of receiving, holding and disbursing such funds upon the authority of the depositor.

Endowment Fund

These are restricted funds invested for the purpose of producing income. They consist of: 1) permanently restricted endowment funds, wherein the donors have stipulated that the principal be invested and maintained intact, with only the investment income available for expenditure; 2) temporarily restricted endowment funds, donated with provisions that the principal may be expended under the circumstances designated in the trust agreement; and 3) unrestricted funds designated as internal endowments by the Bishop to be used as he designates.

Split-interest agreements are recorded in the endowment fund. The assets are recorded at fair value and the annuity payables are recorded at the estimated present value of estimated future payments plus any residual payments to outside beneficiaries.

Deposit & Loan Fund

The Deposit & Loan Fund is comprised of government asbestos loans as well as deposits by Diocesan parishes and institutions, cemetery perpetual care funds, and property and casualty insurance funds. Borrowed funds and parish deposits are used to provide financing for capital improvements in parishes and Diocesan institutions.

Funds entrusted to the Central Financing Operations for safekeeping are invested through commercial banks and fixed income and equity investment managers.

**Catholic Diocese of Kansas City – St. Joseph  
Central Financing Operations**

**Notes to Financial Statements**

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

Cash and cash equivalents: For purposes of reporting cash flows, the Central Financing Operations considers all unrestricted highly liquid investments purchased with a maturity of three months or less to be cash equivalents. The Central Financing Operations maintains cash balances and money market accounts in excess of insured amounts at several financial institutions which are primarily located in Kansas City, Missouri. Management believes that the risk of loss is minimal due to the strength of the institutions. The Company has not experienced any losses on such accounts.

Loans and accounts receivable: Loans and accounts receivable are obligations due from Diocesan parishes and institutions. Loans receivable are stated at the amount of unpaid principal. The allowance on loans receivable is based on management's review of specific loans and current economic conditions that may affect the borrower's ability to repay. Accounts receivable are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a monthly basis. Management determines the allowance for doubtful accounts by regularly evaluating individual parish and institution receivables and considering the parish and institution's financial condition, credit history, and current economic conditions. Accounts receivable are written off when deemed uncollectible. Recoveries of accounts receivable previously written off are recorded when received.

An accounts receivable is considered to be past due if any portion of the receivable balance is outstanding for more than 90 days. Interest is not charged on past due accounts receivable.

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.

Investments: Investments are recorded at fair value. Unrealized gains and losses are recorded in the statement of activities. See Note 17 for fair value information.

Land, buildings and equipment: Land, buildings and equipment are carried at cost. Major renewals and betterments are capitalized and maintenance and repairs which 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.

Beneficial interest in others: The Central Financing Operations has been named as a beneficiary in two trusts in which Central Financing Operations is not the trustee. When Central Financing Operations is notified of the existence of the trust, a beneficial interest (an asset) and contribution revenue are recorded at the present value of the estimated future cash receipts.

Parish deposits: Parish deposits consist of funds being held by the Central Financing Operations on behalf of parishes within the Catholic Diocese of Kansas City – St. Joseph.

Long-term deposits payable: Long-term deposits payable consist of funds being held by the Central Financing Operations on behalf of the Diocesan Insurance Office for property and casualty and long-term disability reserves and cemetery perpetual care funds.

**Catholic Diocese of Kansas City – St. Joseph  
Central Financing Operations**

**Notes to Financial Statements**

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

Deferred revenue: The Central Financing Operations receives grant and other monies on an advance basis. The deferred revenue reported by the Central Financing Operations consists of monies received which have not been spent at year-end or where the service has not been performed.

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 the reported amounts of assets and liabilities and disclosure 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.

Income taxes: The Central Financing Operations is exempt from income taxes under provisions of Section 501(c)(3) of the Internal Revenue Code. Uncertain tax provisions, if any, are recorded in accordance with FASB ASC 740, *Income Taxes* (previously FIN 48). FASB ASC 740 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 or 2010.

Donated or contributed services and materials: The Central Financing Operations provides free use of land and buildings owned by the Catholic Diocese of Kansas City – St. Joseph to several of its schools and parishes. Management believes that the fair value of use of similar facility space under similar circumstances is not readily determinable. Therefore, neither a contribution nor rental income has been recorded for the use of the facilities. Had such amounts been recorded, rental income would have increased and contributions would have increased but the net effect would not have changed net assets for the year and would have had no effect on the statement of financial position.

Fundraising: The Diocese participates in various fundraising activities, which mainly consist of stewardship and development office activities. The expenses related to these activities are recorded on the statement of activities as diocesan administrative expenses and totaled \$539,030 and \$497,963 for the years ended June 30, 2011 and 2010, respectively.

Recently issued accounting pronouncements: In January 2010, the Financial Accounting Standards Board (FASB) issued an amendment on the Fair Value Measurements and Disclosures Topic which requires new disclosures and reasons for transfers of financial assets and liabilities between Levels 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 measurements 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 adoption of this amendment in 2011 had no impact on the financial statements or disclosures. 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. Plan management is currently evaluating the effect that the provisions of ASU 2011-04 will have on the Plan's financial statements.

**Catholic Diocese of Kansas City – St. Joseph  
Central Financing Operations**

**Notes to Financial Statements**

**Note 2. Loans and Accounts Receivable**

Loans and accounts receivable are composed of the following at June 30, 2011 and 2010:

	<b>2011</b>	2010
Parish loans	<b>\$ 27,166,755</b>	\$ 31,765,977
Diocesan high schools and other Diocesan entities	<b>887,704</b>	372,946
Mortgage loans	<b>65,329</b>	72,130
Other	<b>3,707,499</b>	3,414,499
	<b>31,827,287</b>	35,625,552
Less allowance for uncollectible accounts	<b>(275,000)</b>	(275,000)
	<b>\$ 31,552,287</b>	\$ 35,350,552

**Note 3. Pledges Receivable**

Pledges receivable for the Bishop's Annual Appeal at June 30 are due as follows:

	<b>2011</b>	2010
Due in less than one year	<b>\$ 302,110</b>	\$ 361,082
Less:		
Allowance for uncollectible pledges	<b>(104,511)</b>	(105,099)
Total pledges receivable	<b>\$ 197,599</b>	\$ 255,983

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

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

	<b>2011</b>	2010
Operating properties	<b>\$ 22,814,587</b>	\$ 11,615,240
Land held for development	<b>1,551,334</b>	1,551,334
Assets held for resale	<b>70,000</b>	70,000
	<b>24,435,921</b>	13,236,574
Less accumulated depreciation	<b>8,091,396</b>	9,519,688
	<b>\$ 16,344,525</b>	\$ 3,716,886

**Catholic Diocese of Kansas City – St. Joseph  
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**Notes to Financial Statements**

**Note 5. Beneficial Interest in Others**

The Central Financing Operations has been named as a beneficiary in trusts in which the Central Financing Operations is not the trustee. When the Central Financing Operations is notified of the existence of the trust, a beneficial interest receivable and contribution revenue are recorded at the present value of the estimated future cash receipts. Included in permanently restricted net assets is \$267,489 at June 30, 2011 and 2010 of permanently endowed funds held by the Endowment Trust Fund for Catholic Education, with the income to be used for ministry formation. The balance of the beneficial interest in others on the statement of financial position is \$259,961 and \$217,319 as of June 30, 2011 and 2010, respectively.

The Central Financing Operations has an interest in the Catholic Community Foundation, which has an interest in the Greater Kansas City Community Foundation through donations the Central Financing Operations had provided to the Foundation. The assets held at the Foundation are donor directed and the Central Financing Operations has named itself as the sole beneficiary of the funds. Included in temporarily restricted net assets is \$245,167 at June 30, 2011 (\$204,094 at June 30, 2010), with the principal and income to be used for the *Catholic Key*, the Catholic Diocesan newspaper.

**Note 6. Investments**

The following schedule shows life-to-date gains on different types of investments:

	2011		
	Cost	Fair Value	Unrealized Appreciation (Depreciation)
Corporate stocks and bonds	\$ 205,140	\$ 210,981	\$ 5,841
Mutual funds	12,453,784	13,972,737	1,518,953
Money market funds	1,388,403	1,388,403	-
U.S. Government obligations	2,634,188	2,671,254	37,066
	<u>\$ 16,681,515</u>	<u>\$ 18,243,375</u>	<u>\$ 1,561,860</u>

  

	2010		
	Cost	Fair Value	Unrealized Appreciation (Depreciation)
Corporate stocks and bonds	\$ 300,454	\$ 316,126	\$ 15,672
Mutual funds	12,343,206	12,334,279	(8,927)
Money market funds	168,606	168,606	-
U.S. Government obligations	5,863,606	5,991,613	128,007
	<u>\$ 18,675,872</u>	<u>\$ 18,810,624</u>	<u>\$ 134,752</u>

**Catholic Diocese of Kansas City – St. Joseph  
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**Notes to Financial Statements**

**Note 6. Investments (Continued)**

Investments are stated at fair value as of June 30, 2011 and 2010. The following schedule summarizes the investment return and its classification in the statement of activities for the years ended June 30, 2011 and 2010:

	Unrestricted	Temporarily Restricted	Total 2011	Unrestricted	Temporarily Restricted	Total 2010
Interest income	\$ 1,495,223	\$ 162,697	\$ 1,657,920	\$ 1,845,401	\$ 100,675	\$ 1,946,076
Realized gains (losses)	34,370	43,140	77,510	(149,925)	5,012	(144,913)
Investment income	1,529,593	205,837	1,735,430	1,695,476	105,687	1,801,163
Unrealized gains (losses) on investments	1,427,108	13,883	1,440,991	1,541,272	35,425	1,576,697
	<u>\$ 2,956,701</u>	<u>\$ 219,720</u>	<u>\$ 3,176,421</u>	<u>\$ 3,236,748</u>	<u>\$ 141,112</u>	<u>\$ 3,377,860</u>

Included in the interest income amounts above are \$1,070,950 and \$1,224,037 related to interest income on loans receivable for the years ended June 30, 2011 and 2010, respectively.

**Note 7. Line of Credit**

The Central Financing Operations has an unsecured \$8 million line of credit with a commercial bank. The line of credit expires February 28, 2012. The line of credit bears interest at LIBOR plus 200 basis points (2.1875% at June 30, 2011), at one-, two-, three-, six-, or twelve-month options. Principal is to be repaid at maturity, with interest due monthly. The line of credit also bears an unused commitment fee of 25 basis points. Borrowings outstanding on this line of credit at June 30, 2011 and 2010 were \$2,500,000 and \$3,900,000, respectively. The agreement contains certain restrictive covenants, including the maintenance of a fixed charge coverage ratio.

**Note 8. Pledged Assets and Long-Term Debt**

The Central Financing Operations has an outstanding note payable to a bank due in monthly payments of principal and interest of \$38,285 thru September 1, 2015 and a final payment of \$6,171,757 due on October 1, 2015. The note bears interest at 4.28% and is collateralized by certain real estate. The outstanding balance of the note at June 30, 2011 was \$6,894,630.

Aggregate maturities required on long-term debt at June 30, 2011 are due in future years as follows:

2012	\$ 162,629
2013	170,644
2014	178,198
2015	186,086
2016	6,197,073
	<u>\$ 6,894,630</u>

**Catholic Diocese of Kansas City – St. Joseph  
Central Financing Operations**

**Notes to Financial Statements**

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**Note 9. Parish Deposits Payable**

In the parish deposits payable account, amounts of \$15,358,533 and \$16,908,114 as of June 30, 2011 and 2010, respectively, consist of numerous deposits made to the Central Financing Operations that are payable on demand and bear a 1.25% interest rate as of June 30, 2011 and 2010.

**Note 10. Charitable Gift Annuities**

The Diocese has received numerous charitable gift annuities, and it has been named a beneficiary of several of them. The annuities are reported at their respective present values, based on the life expectancies of any live beneficiaries, and have been discounted using a risk-free rate that was effective at the time of the initial gift (3.18% as of June 30, 2011).

Assets, liabilities and net assets associated with the charitable gift annuities reported in the endowment fund at June 30, 2011 and 2010 are as follows:

	2011	2010
Annuity investments	\$ 1,170,759	\$ 1,511,337
Annuities payable	(1,086,599)	(1,326,634)
Unrestricted net assets, designated for annuities	<u>\$ 84,160</u>	<u>\$ 184,703</u>

The Central Financing Operations received charitable gift annuities of \$75,000 and \$44,628 for the years ended June 30, 2011 and 2010, respectively. The change in the value of the charitable gift annuities was \$(224,359) and \$(284,874) for the years ended June 30, 2011 and 2010, respectively.

**Note 11. Postretirement Benefits Other Than Pensions**

The Central Financing Operations sponsors a defined benefit postretirement health care plan and a defined benefit postretirement long-term care plan that cover eligible priests. The plans are non-contributory, with no changes anticipated in the future. The Central Financing Operations funding policy is to contribute annually to each plan in order to cover any benefits which are recognized.

FASB ASC 715, *Compensation – Retirement Benefits*, requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan (other than a multi-employer plan) as an asset or a liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through changes in unrestricted net assets of a not-for-profit organization. The underfunded portion of the plans, \$7,108,526 and \$6,457,601 as of June 30, 2011 and 2010, respectively, is included as a liability on the statement of financial position.

**Catholic Diocese of Kansas City – St. Joseph  
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**Notes to Financial Statements**

**Note 11. Postretirement Benefits Other Than Pensions (Continued)**

The following sets forth the health care and long-term care plans' combined funded status reconciled with the amount shown in the Central Financing Operations' statement of financial position at June 30, 2011 and 2010:

	2011	2010
Accumulated postretirement benefit obligation:		
Retirees	\$ 3,438,699	\$ 2,925,056
Fully eligible active plan participants	695,053	598,779
Other active plan participants	2,974,774	2,933,766
	<u>7,108,526</u>	<u>6,457,601</u>
Plan assets at fair value	-	-
Accumulated postretirement benefit obligation in excess of plan assets (long-term disability reserves)	<u>\$ 7,108,526</u>	<u>\$ 6,457,601</u>
Amounts not yet reflected in net periodic benefit cost:		
Prior service credit	\$ 1,923,763	\$ 2,090,178
Accumulated loss	(4,191,023)	(3,982,625)
	<u>\$ (2,267,260)</u>	<u>\$ (1,892,447)</u>
Change in Benefit Obligation	2011	2010
Benefit obligation, beginning of year	\$ 6,457,601	\$ 5,036,238
Service and interest costs	522,212	413,252
Effect of plan amendment	-	-
Benefits paid	(347,640)	(248,055)
Actuarial (gain) loss	476,353	1,256,166
Benefit obligation, end of year	<u>\$ 7,108,526</u>	<u>\$ 6,457,601</u>

**Catholic Diocese of Kansas City – St. Joseph  
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**Notes to Financial Statements**

**Note 11. Postretirement Benefits Other Than Pensions (Continued)**

For 2011, the weighted average discount rate used in determining the accumulated postretirement benefit obligation was 5.45% (5.45% for 2010). The plan assets are not subject to federal income taxes.

	<b>2011</b>	2010
Assumed health care cost trend rates at June 30:		
Health care cost trend rate assumed for next year	<b>10%</b>	10%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	<b>5%</b>	5%
Year that the rate reaches the ultimate trend rate	<b>2018</b>	2017

The Diocese expects to contribute \$376,296 to its retirement plans for the year ended June 30, 2011.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

2012	\$	376,296
2013		409,273
2014		432,484
2015		452,742
2016		470,100
Years 2017 - 2021		2,482,312

**Note 12. Restricted Net Assets**

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

	<b>2011</b>	2010
Restrictions as to use:		
Education of priests	<b>\$ 1,558,364</b>	\$ 1,431,279
Education of children	<b>509,587</b>	430,975
Maintenance and upkeep of property and plant	<b>1,129,762</b>	1,128,265
Construction of facilities	<b>525,572</b>	525,026
Other restricted net assets	<b>797,831</b>	731,443
Total temporarily restricted net assets	<b><u>\$ 4,521,117</u></b>	<b><u>\$ 4,246,988</u></b>

Permanently restricted net assets consist of endowment fund assets to be held indefinitely. The income from the assets is to be expended for the education of priests and for ministry formation. The balance as of June 30, 2011 and 2010 was \$3,309,948 and \$3,264,468, respectively.

**Catholic Diocese of Kansas City – St. Joseph  
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**Notes to Financial Statements**

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**Note 13. Net Assets Released from Restrictions**

During 2011 and 2010, other assets were released from restrictions by incurring expenses satisfying the restricted purpose specified:

	2011		2010
Endowment payments	\$ -	\$	141,498
Other	149		20,000
	<u>\$ 149</u>	<u>\$</u>	<u>161,498</u>

**Note 14. Support Our Seminarians**

The Central Financing Operations participates in a fundraising event called Greater Kansas City Support Our Seminarians Scholarship Endowment. The other event sponsors are the Archdiocese of Kansas City, Kansas and Conception Abbey in Conception, Missouri. The purpose of the event is to provide aid to a student or students studying for the priesthood in the Roman Catholic Church from either diocese at Conception Seminary College.

Money raised was placed in an endowment account, with the principal of the endowment kept in perpetuity, and awards of aid by scholarships were made from endowment earnings. The Central Financing Operations has had no collection, deposit or custodial responsibilities for the fund.

In 1996, the agreement was amended. Beginning in 1999, the proceeds from the fundraising event were to be divided among the three sponsoring entities equally. Each diocese would continue to deposit its share of fundraising proceeds into the endowment. After each diocese had attained a sum of \$250,000 in the fund, each diocese could allocate and spend the interest from its share of the endowment which exceeded \$250,000 to support seminarians in other seminaries. These earnings would be considered as temporarily restricted net assets when received by each diocese for the purpose mentioned.

In 1998, the agreement was further amended. Beginning with the year 2000 Support our Seminarians event, the one-third share of the proceeds from the event is to benefit any seminarian from the Archdiocese of Kansas City, Kansas and the one-third share of the proceeds from the event is to benefit any seminarian from the Diocese of Kansas City – St. Joseph; the shares are to be paid out directly to the Archdiocese and the Diocese to manage with their other seminary funds. The one-third share of the proceeds that goes to Conception Seminary College will be used for the education of all seminarians at Conception Seminary College. During the years ended June 30, 2011 and 2010, the Diocese had received \$45,480 and \$48,491, respectively. As of June 30, 2011 and 2010, the Diocese has \$752,219 and \$706,740, respectively, recorded as permanently restricted net assets in the endowment fund relating to this agreement.

**Catholic Diocese of Kansas City – St. Joseph  
Central Financing Operations**

**Notes to Financial Statements**

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**Note 15. Bond Financing**

During the year ended June 30, 2005, the Catholic Diocese of Kansas City – St. Joseph issued \$6,200,000 of Health and Educational Facilities Revenue Bonds (bonds) through the Missouri Health and Educational Facilities Authority (Authority) on behalf of St. Pius X High School for a renovation project of the existing school facility. At June 30, 2010 the outstanding balances on the bonds were \$6,030,000. On January 12, 2011, the 2004 series bonds were redeemed and 2011 series bonds totaling \$5,805,000 were issued through the Authority. The bonds are not recorded on the financial statements of the Central Financing Operations, as St. Pius X High School is responsible for repayment of the bond issue. At June 30, 2011, the outstanding balances on the bonds were \$5,805,000, which is recorded on the financial statements of St. Pius X High School.

**Note 16. Contingencies**

The Central Financing Operations has been named as a defendant in lawsuits which management believes to be without merit. The Central Financing Operations has authorized counsel to provide a vigorous defense against all claims.

**Note 17. Fair Value Measurements**

FASB ASC 820 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. FASB ASC 820 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, FASB ASC 820 establishes fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

- Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.
- Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
- Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

**Catholic Diocese of Kansas City – St. Joseph  
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**Notes to Financial Statements**

**Note 17. Fair Value Measurements (Continued)**

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

Investments: Where quoted prices are available in an active market, securities are classified within level 1 of the valuation hierarchy. Level 1 securities would include highly liquid government bonds and exchange traded equities. If quoted market prices are not available, then fair values are estimated by 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.

Beneficial Interest in Others: Valued at the value of the underlying investments held by the Greater Kansas City Community Foundation (GKCCF) and by the Endowment Trust Fund for Catholic Education (ETF) which consist of investments classified as Level 1 and 2.

The following tables summarize the assets measured at fair value on a recurring basis, segregated by the general classification of such instruments pursuant to the valuation hierarchy:

	<b>June 30, 2011</b>			
	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b>Investments:</b>				
<b>Fixed income securities:</b>				
<b>Corporate bonds</b>	\$ 210,969	\$ -	\$ 210,969	\$ -
<b>Municipal bonds</b>	27,412	-	27,412	-
<b>U.S. Government corporations     and agencies</b>	2,606,235	-	2,606,235	-
<b>Money market funds</b>	1,388,403	1,388,403	-	-
<b>Equity securities:</b>				
<b>Equity mutual funds:</b>				
<b>Intermediate-term bonds</b>	5,926,334	5,926,334	-	-
<b>World stock</b>	2,343,285	2,343,285	-	-
<b>Large blend</b>	5,628,057	5,628,057	-	-
<b>Other various mutual funds</b>	75,061	75,061	-	-
<b>Corporate stocks:</b>				
<b>Industrial goods</b>	37,619	37,619	-	-
<b>Beneficial interest in others</b>	505,128	-	505,128	-
	<b>\$ 18,748,503</b>	<b>\$ 15,398,759</b>	<b>\$ 3,349,744</b>	<b>\$ -</b>

**Catholic Diocese of Kansas City – St. Joseph  
Central Financing Operations**

**Notes to Financial Statements**

**Note 17. Fair Value Measurements (Continued)**

	June 30, 2010			
	Total	Level 1	Level 2	Level 3
Investments:				
Fixed income securities:				
Corporate bonds	\$ 316,126	\$ -	\$ 316,126	\$ -
Municipal bonds	26,052	-	26,052	-
U.S. Government corporations and agencies	5,649,435	-	5,649,435	-
Money market funds	168,606	168,606	-	-
Equity securities:				
Equity mutual funds:				
Intermediate-term bonds	5,824,394	5,824,394	-	-
World stock	2,376,977	2,376,977	-	-
Large blend	4,069,298	4,069,298	-	-
Other various mutual funds	63,610	63,610	-	-
Corporate stocks:				
Industrial goods	316,126	316,126	-	-
Beneficial interest in others	421,413	-	421,413	-
	<u>\$ 19,232,037</u>	<u>\$ 12,819,011</u>	<u>\$ 6,413,026</u>	<u>\$ -</u>

The Central Financing Operations does not have assets and liabilities recorded at fair market value on a nonrecurring basis.

The fair value estimates presented are based on pertinent information available to management at June 30, 2011. Although management is not aware of any factors that would significantly affect the estimated fair value measurements, such amounts have 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 18. Endowments**

In July 2006, the Uniform Law Commission approved the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) as a modernized version of the Uniform Management of Institutional Funds Act of 1972 (UMIFA), the model act on which most states and the District of Columbia have based their primary laws governing the investment and management of donor-restricted endowment funds by not-for-profit organizations.

Among its changes, UPMIFA prescribes new guidelines for expenditure of a donor-restricted endowment fund (in the absence of overriding, explicit donor stipulations). Its predecessor, UMIFA, focused on the prudent spending of the net appreciation of the fund. UPMIFA instead focuses on the entirety of a donor-restricted endowment fund, that is, both original gift amount(s) and net appreciation. UPMIFA eliminates UMIFA's *historic-dollar-value* threshold, an amount below which an organization could not spend from the fund, in favor of a more robust set of guidelines about what constitutes prudent spending, explicitly requiring consideration of the duration and preservation of the fund.

**Catholic Diocese of Kansas City – St. Joseph  
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**Notes to Financial Statements**

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**Note 18. Endowments (Continued)**

The Diocesan Central Financing Operations' endowment includes both donor-restricted endowment funds and funds designated by the Management to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by Management to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

*Interpretation of Existing Law*

The Management of the Diocesan Central Financing Operations has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary (historical-dollar-value threshold). As a result of this interpretation, the Diocesan Central Financing Operations classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The following information is related to the endowments under the direction of the Diocesan Central Financing Operations:

*Return Objectives and Risk Parameters*

The Diocesan Central Financing Operations has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period (s) as well as Management-designated funds. Under this policy, as approved by the Management, the endowment assets (exclusive of the Charitable Gift Annuity Fund and Seminarian Fund) are invested following the Diocesan Central Financing guidelines as determined by Management in consultation with the Diocesan Finance Council. The endowments are paid a rate determined by Management in consultation with the Diocesan Finance Council.

The endowment assets of the Charitable Gift Annuity Fund and the Seminarian Fund are invested in a manner intended to produce results which exceed the benchmark for the blended market indices for each fund.

*Strategies Employed for Achieving Objectives*

To satisfy its long-term rate-of-return objectives of the endowments invested per the Central Financing guidelines as determined by Management, the Diocesan Central Financing Operations employs a return strategy of utilizing the internal earning rate as set by Management based on market rates.

To satisfy its long-term rate-of-return objectives of the Charitable Gift Annuity and Seminarian Funds, the Diocesan Central Financing Operations relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The organization targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives with prudent risk constraints.

**Catholic Diocese of Kansas City – St. Joseph  
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**Notes to Financial Statements**

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**Note 18. Endowments (Continued)**

*Spending Policy and How the Investment Objectives Relate to Spending Policy*

The Diocesan Central Financing Operations has a policy of appropriating for distribution the interest earned in the current year by the endowment funds (exclusive of the Charitable Gift Annuity fund) as well as allows for the distribution of the principal as per the stipulations of the donor as well as Management designated funds. This is consistent with the organization's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

The Diocesan Central Financing Operations has a policy of distribution for the Charitable Gift Annuity in accordance with the specific guidelines of the annuitant agreement.

*Funds with Deficiencies*

From time to time, the fair value of assets associated with the endowment funds may fall below the level that the donor or UPMIFA requires the Diocesan Financing Operations to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in temporarily restricted and unrestricted net assets. Deficiencies as of June 30, 2011 and 2010 totaled \$7,528 and \$59,900, respectively. These deficiencies result from unfavorable market fluctuations that occur shortly after the investment of new permanently restricted contributions.

Changes in endowment net assets for the fiscal years ended June 30, 2011 and 2010 are as follows:

	<b>June 30, 2011</b>			<b>Total</b>
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	
<b>Endowment net assets, beginning of year</b>	<b>\$ 3,972,569</b>	<b>\$ 4,121,279</b>	<b>\$ 3,264,468</b>	<b>\$ 11,358,316</b>
<b>Net investment income</b>	<b>(362,674)</b>	<b>217,943</b>	<b>-</b>	<b>(144,731)</b>
<b>Change in value of split interest agreements</b>	<b>308,074</b>	<b>-</b>	<b>-</b>	<b>308,074</b>
<b>Contributions</b>	<b>190,468</b>	<b>44,335</b>	<b>45,480</b>	<b>280,283</b>
<b>Appropriation of endowment assets for expenditure</b>	<b>(10,039)</b>	<b>-</b>	<b>-</b>	<b>(10,039)</b>
<b>Endowment net assets (deficit), end of year</b>	<b>\$ 4,098,398</b>	<b>\$ 4,383,557</b>	<b>\$ 3,309,948</b>	<b>\$ 11,791,903</b>

**Catholic Diocese of Kansas City – St. Joseph  
Central Financing Operations**

**Notes to Financial Statements**

**Note 18. Endowments (Continued)**

	June 30, 2010			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment net assets, beginning of year	\$ 3,743,730	\$ 4,232,670	\$ 3,064,196	\$ 11,040,596
Net asset reclassification based on change in law	-	(151,781)	151,781	-
Endowment net assets after reclassification	3,743,730	4,080,889	3,215,977	11,040,596
Net investment income	437,514	141,112	-	578,626
Change in value of split interest agreements	194,945	-	-	194,945
Contributions	60,379	40,776	48,491	149,646
Appropriation of endowment assets for expenditure	(441,096)	(141,498)	-	(582,594)
Transfers to/from other funds	(22,903)	-	-	(22,903)
Endowment net assets (deficit), end of year	<u>\$ 3,972,569</u>	<u>\$ 4,121,279</u>	<u>\$ 3,264,468</u>	<u>\$ 11,358,316</u>

**Note 19. Subsequent Events**

Management has evaluated and disclosed subsequent events up to and including October 10, 2011, which is the date the financial statements were available to be issued.