

**Catholic Diocese of
Kansas City – St. Joseph
Diocesan Insurance Office**

Financial Report
(Reviewed)
June 30, 2011

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Independent Accountant's Report on the Financial Statements

The Most Reverend Robert Finn, D.D., Bishop
Catholic Diocese of Kansas City-St. Joseph
Diocesan Insurance Office
Kansas City, Missouri

We have reviewed the accompanying statements of financial position of the Catholic Diocese of Kansas City-St. Joseph Diocesan Insurance Office as of June 30, 2011 and 2010, and the related statements of activities and changes in net assets (deficit) for the years then ended. A review includes primarily applying analytical procedures to management's financial data and making inquiries of Diocesan personnel. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Our responsibility is to conduct the reviews in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance that there are no material modifications that should be made to the financial statements. We believe that the results of our procedures provide a reasonable basis for our report.

Based on our reviews, with the exception of the matter described in the following paragraph, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

Statements of cash flows for the years ended June 30, 2011 and 2010 have not been presented. Accounting principles generally accepted in the United States of America require that such statements be presented when financial statements purport to present financial position and results of activities of the organization.

McGladrey & Pullen, LLP

Kansas City, Missouri
October 10, 2011

**Catholic Diocese of Kansas City – St. Joseph
Diocesan Insurance Office**

**Statements of Financial Position
June 30, 2011 and 2010
See Accountant's Review Report**

Assets	2011	2010
Current Assets:		
Cash	\$ 94,431	\$ 77,084
Prepaid premiums	124,754	66,097
Accounts receivable (Note 2)	124,151	135,239
Total current assets	343,336	278,420
Office Equipment	41,242	41,241
Less accumulated depreciation	(40,880)	39,610
	362	1,631
Investments (Note 6)		
Deposits with Catholic Diocese of Kansas City – St. Joseph	3,120,118	2,579,340
Investments, National Catholic Risk Retention Group Stock	1,693	1,693
	3,121,811	2,581,033
	\$ 3,465,509	\$ 2,861,084
Liabilities and Net Assets		
Current Liabilities:		
Auto premium reserve	\$ 133,014	\$ 138,092
Claims and expenses payable (Note 5)	1,300,000	730,000
Total current liabilities	1,433,014	868,092
Claims Incurred but Not Reported	1,251,537	843,546
Unrestricted Net Assets:		
Designated (Note 3)	760,523	1,129,011
Undesignated	20,435	20,435
	780,958	1,149,446
	\$ 3,465,509	\$ 2,861,084

See Notes to Financial Statements.

**Catholic Diocese of Kansas City – St. Joseph
Diocesan Insurance Office**

**Statements of Activities
Years Ended June 30, 2011 and 2010
See Accountant's Review Report**

	2011	2010
Revenues:		
Premium income:		
Clergy benefits	\$ 1,189,521	\$ 1,142,990
Lay employee benefits	7,109,241	6,769,572
Property and casualty program	3,799,715	3,665,065
Other revenue from operations:		
Other	11,882	16,268
Recovery from excess insurer	698,730	1,601,000
Total operating revenues	12,809,089	13,194,895
Investment income	55,162	31,629
Total revenues	12,864,251	13,226,524
Expenses:		
Operating expenses:		
Benefit expense:		
Clergy benefits	1,201,544	1,150,580
Clergy postretirement benefits	-	250,000
Lay employee benefits	7,130,487	6,790,859
Property and casualty expense:		
Administration	1,267,940	1,210,498
Insured and uninsured claims	3,097,080	1,192,087
Office administration	127,697	125,899
Total operating expenses	12,824,748	10,719,923
Increase in incurred but not reported claims	407,991	166,545
Total expenses	13,232,739	10,886,468
Net revenues (under) over expenses	\$ (368,488)	\$ 2,340,056

See notes to financial statements.

**Catholic Diocese of Kansas City – St. Joseph
Diocesan Insurance Office**

**Statements of Changes in Net Assets (Deficit)
Years Ended June 30, 2011 and 2010
See Accountant's Review Report**

	2011	2010
Unrestricted Net Assets:		
Beginning of year	\$ 1,149,446	\$ (1,190,610)
Net revenues (under) over expenses	(368,488)	2,340,056
End of year	<u>\$ 780,958</u>	<u>\$ 1,149,446</u>

See Notes to Financial Statements.

**Catholic Diocese of Kansas City – St. Joseph
Diocesan Insurance Office**

**Notes to Financial Statements
See Accountant’s Review Report**

Note 1. Nature of Organization and Significant Accounting Policies

Nature of organization: Since January 1, 1975, the Diocese has participated in the Bishop’s Plan of Protected Self-Insurance, a program developed by Arthur J. Gallagher & Co. of Chicago. Under this plan, the Diocese self-insures the property and casualty coverages (except for boiler insurance) on all Diocesan-owned parishes and institutions. In addition, the Diocese self-insures for workers’ compensation and automobile liability. The plan includes a limit on each claim payable by the Diocese. Claims in excess of this self-insured retention are insured by licensed insurance carriers. Under the Bishop’s plan, the Diocese contracts for the administration of claims, appraisals, and safety inspections and recommendations. The Diocesan Finance Office coordinates the placement of coverage, payment of claims, and collection of premiums with insurance companies and service providers.

In addition to the self-insurance coverages, the Diocesan Insurance Office administers the Priests’ group health insurance plan, the lay employee benefit plan, boiler insurance, student accident insurance, long-term and short-term disability, and other special coverages.

Premiums for the self-insurance coverages are based on loss cost factors published for the State of Missouri by the Insurance Services Office, a national rating organization, then multiplied by an industry experience factor and discounted by the Diocese according to the current claims experience for each type of coverage. Premiums are collected by the Diocesan office and used to pay claims as they are incurred. Premiums for insured coverages are collected by the Diocese and forwarded to the companies.

The financial statements of the Catholic Diocese of Kansas City-St. Joseph Diocesan Insurance Office (Organization) have been prepared in accordance with Accounting Principles and Reporting Practices for Churches and Church-Related Organizations, adopted by the National Conference of Catholic Bishops. The accounting principles promulgated by the above conference do not differ in any material respects from accounting principles generally accepted in the United States of America.

A summary of the Organization’s significant accounting policies follows:

Basis of presentation: Financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958, Not-for Profit Entities. Under ASC 958, the Organization is required to report 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 accompanying financial statements include all insurance funds maintained by the Central Administrative Offices of the Diocese of Kansas City-St. Joseph. The services performed by the Diocesan Insurance Office are not necessarily required by the operation of the Diocesan administrative offices and could be contracted out to others, or administered by the Diocese as an “auxiliary service.”

Revenue recognition: The Organization recognizes premiums and reimbursements as revenue as they are earned.

Fair value of financial instruments: Financial instruments are described as cash and cash or contractual obligations or rights to pay or receive cash. The fair value of certain financial instruments approximates the carrying value because of the short-term maturity of the instruments, which include cash, accounts receivable, accounts payable, accrued expenses and other current liabilities.

**Catholic Diocese of Kansas City – St. Joseph
Diocesan Insurance Office**

**Notes to Financial Statements
See Accountant's Review Report**

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

Accounts receivables: Accounts receivables 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 customer receivables and considering a customer's financial condition, credit history, and current economic conditions. Trade receivables are written off when deemed uncollectible. Recoveries of trade receivables previously written off are recorded when received.

An account 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 trade receivables.

Office equipment: Office equipment is carried at cost or, if donated, at the approximate fair value at the date of donation. 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 net assets in the current period. Depreciation is computed using the straight-line method over the useful lives of the assets, ranging from 3 to 5 years.

Use of estimates: The preparation of financial statements in accordance with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect certain 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. Significant estimates subject to change in the near term include claims incurred but not reported.

Claims incurred but not reported: Claims incurred but not reported have been estimated using information provided by the claims administrator, who used factors taken from industry-wide data supplied to insurance companies.

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 the 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

**Catholic Diocese of Kansas City – St. Joseph
Diocesan Insurance Office**

**Notes to Financial Statements
See Accountant’s Review Report**

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

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.

Note 2. Accounts Receivable

Accounts receivable consisted of the following at June 30:

	2011	2010
Automobile and school bus premiums - priests and parishes	\$ 119,596	\$ 118,523
Property and casualty premiums - parishes and institutions	2,724	9,709
Other	1,831	7,007
	<u>\$ 124,151</u>	<u>\$ 135,239</u>

Note 3. Designated Net Assets

Designated net assets (deficit) consisted of the following at June 30:

	2011	2010
Long-term disability reserve	\$ 624,542	\$ 609,961
Self-insurance loss reserve	(338,598)	40,664
Weekly disability income reserve	298,633	303,508
Priests' medical reimbursement reserve	(7,120)	4,904
Premium reserve - increased SIR	108,570	108,570
Other reserves	74,496	61,404
	<u>\$ 760,523</u>	<u>\$ 1,129,011</u>

Note 4. Income Taxes

The Diocesan Insurance Office is maintained by the Catholic Diocese of Kansas City-St. Joseph, Inc., which is exempt from federal income tax under provisions of Section 501(c)(3) of the Internal Revenue Code.

The Church 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.

**Catholic Diocese of Kansas City – St. Joseph
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Note 5. Commitments

In connection with pending first-party and third-party claims, the Self-Insurance Fund financial statements include accruals of a liability of \$1,150,000 and \$730,000 as of June 30, 2011 and 2010, respectively. The first-party claims are property damage claims asserted by insured parishes. The third-party claims are liability claims brought by third parties asserting workers' compensation, property damage and personal injury claims, including sexual misconduct claims.

Additional sexual misconduct or other claims, which may or may not be timely, may be filed in the future. If there are any such additional claims, the Self-Insurance Fund expects that it will incur future charges related to the defense of such matters but cannot reasonably estimate the potential costs it will incur or the future reimbursements it may receive. The Self-Insurance Fund expects that it will fund its obligations in connection with any such matters from its own assets.

Payments made to satisfy the loss contingency could have a material impact on the Catholic Diocese and the Diocesan Insurance Office and, in the future, could impact the activities, programs and ministries of the Administrative Office it provides for parishes and schools in the Catholic Diocese.

Note 6. Fair Value Measurements

The Diocesan Insurance Office has adopted the provisions of FASB ASC 820, Fair Value Measurements and Disclosures, for assets measured at fair value. 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.

A description of the valuation methodologies used for assets on a recurring basis is set forth below.

Investments: Valued at the value of the underlying investments.

**Catholic Diocese of Kansas City – St. Joseph
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**Notes to Financial Statements
See Accountant’s Review Report**

Note 6. Fair Value Measurements (Continued)

Short-term financial instruments: Includes receivables and payables arising in the ordinary course of business. Value is approximated due to the relatively short period of time between their origination and expected realization.

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:

	June 30, 2011			
	Total	Level 1	Level 2	Level 3
Investments:				
Deposits with Catholic Diocese of Kansas City - St. Joseph	\$ 3,120,118	\$ -	\$ 3,120,118	\$ -
National Catholic Risk Retention Group Stock	1,693	-	-	1,693
	<u>\$ 3,121,811</u>	<u>\$ -</u>	<u>\$ 3,120,118</u>	<u>\$ 1,693</u>

	June 30, 2010			
	Total	Level 1	Level 2	Level 3
Investments:				
Deposits with Catholic Diocese of Kansas City - St. Joseph	\$ 2,829,340	\$ -	\$ 2,829,340	\$ -
National Catholic Risk Retention Group Stock	1,693	-	-	1,693
	<u>\$ 2,831,033</u>	<u>\$ -</u>	<u>\$ 2,829,340</u>	<u>\$ 1,693</u>

The fair value of investments categorized as level 3 investments was \$1,693 as of June 30, 2011 and 2010. There were no realized or unrealized gain/losses, purchases or sales reported by the Diocesan Insurance Office during the year ending June 30, 2011 and 2010.

The Diocesan Insurance Office 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.