

McGladrey & Pullen

Certified Public Accountants

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

Financial Report
06.30.09

Contents

Independent Auditor's Report on the Financial Statements	1
--	---

Financial Statements	
Statements of Financial Position	2
Statements of Activities	3
Statements of Cash Flows	5
Notes to Financial Statements	7

Independent Auditor's Report on the Supplementary Information	23
---	----

Supplementary Information	
Graphs	
Total Cash and Investments – All Funds	24
Loans to High Schools	25
Deposit and Loan Fund	26
Bishop's Annual Appeal/TWC Revenue Pledge Amounts	27
Endowment Fund	28
Undesignated Fund Balance – Current Fund	29

McGladrey & Pullen

Certified Public Accountants

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, 2009 and 2008 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, 2009 and 2008 and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

McGladrey & Pullen, LLP

Kansas City, Missouri
September 25, 2009

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

**Statements of Financial Position
June 30, 2009 and 2008**

Assets	Current	Plant	Custodian	Endowment	Deposit & Loan	2009	2008
Cash and cash equivalents	\$ 1,484,248	\$ 3,462	\$ 147,879	\$ -	\$ -	\$ 1,635,589	\$ 1,817,409
Loans and accounts receivable (Note 2)	2,349,518	-	-	1,874,187	35,202,141	39,425,846	41,372,302
Bishop's Annual Appeal pledges receivable (Note 3)	244,076	-	-	-	-	244,076	316,389
Land, buildings and equipment, net (Note 4)	-	2,218,391	-	-	2,157,082	4,375,473	4,237,105
Beneficial interest in others (Note 5)	-	-	-	404,738	-	404,738	535,781
Investments (Note 6)	7,329,638	-	-	10,283,250	-	17,612,888	19,214,613
Total assets	\$ 11,407,480	\$ 2,221,853	\$ 147,879	\$ 12,562,175	\$ 37,359,223	\$ 63,698,610	\$ 67,493,599
Liabilities							
Accounts payable	\$ 531,191	\$ -	\$ -	\$ -	\$ -	\$ 531,191	\$ 642,128
Notes payable (Note 7)	-	-	-	-	9,900,000	9,900,000	7,500,000
Parish deposits (Note 8)	-	-	-	-	16,350,040	16,350,040	17,024,709
Other short-term deposits	-	-	147,879	-	3,633,392	3,781,271	3,547,270
Annuities payable (Note 9)	432,690	-	-	1,521,579	-	1,954,269	2,113,993
Long-term deposits payable:							
Cemetery perpetual care funds	-	-	-	-	5,828,334	5,828,334	5,704,190
Property and casualty reserves	-	-	-	-	810,847	810,847	5,069,059
Long-term disability reserves	-	-	-	-	836,610	836,610	824,554
Retired priests benefit obligations (Note 10)	5,036,238	-	-	-	-	5,036,238	6,992,019
Deferred revenue	411,081	-	-	-	-	411,081	291,215
Total liabilities	6,411,200	-	147,879	1,521,579	37,359,223	45,439,881	49,709,137
Net Assets							
Unrestricted:							
Designated funds	561,202	3,462	-	3,660,136	-	4,224,800	4,236,024
Designated for annuities (Note 9)	-	-	-	83,594	-	83,594	102,977
Expended for plant	-	2,218,391	-	-	-	2,218,391	2,082,185
Undesignated reserve	4,289,369	-	-	-	-	4,289,369	3,724,820
Total unrestricted net assets	4,850,571	2,221,853	-	3,743,730	-	10,816,154	10,146,006
Restricted:							
Temporarily:							
Other restricted net assets (Note 11)	145,709	-	-	-	-	145,709	160,708
Endowments temporarily restricted (Note 11)	-	-	-	4,232,670	-	4,232,670	4,314,237
Total temporarily restricted net assets	145,709	-	-	4,232,670	-	4,378,379	4,474,945
Permanently:							
Endowments permanently restricted (Note 11)	-	-	-	3,064,196	-	3,064,196	3,163,511
Total net assets	4,996,280	2,221,853	-	11,040,596	-	18,258,729	17,784,462
Total liabilities and net assets	\$ 11,407,480	\$ 2,221,853	\$ 147,879	\$ 12,562,175	\$ 37,359,223	\$ 63,698,610	\$ 67,493,599

See Notes to Financial Statements.

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

Statements of Activities
Years Ended June 30, 2009 and 2008

	Current	Plant	Endowment	Deposit & Loan	2009	2008
Changes in Unrestricted and Designated Net Assets						
Revenues and gains:						
Current contributions, Bishop's Annual Appeal	\$ 1,836,832	\$ -	\$ -	\$ -	\$ 1,836,832	\$ 1,677,848
Other revenues from operations:						
Other diocesan collections	83,400	-	-	-	83,400	77,530
Diocesan share in national collections	60,168	-	-	-	60,168	64,214
Diocesan assessments	6,176,611	-	-	-	6,176,611	6,312,789
Bequests	533,722	-	-	-	533,722	252,506
Contributions	834,016	-	130,000	-	964,016	1,478,653
Fees for service	582,494	-	-	-	582,494	349,317
Other revenues from operations, net	787,663	-	-	-	787,663	1,555,527
Lease revenue	-	41,520	-	-	41,520	35,529
Auxiliary service (insurance, publications)	11,687,760	-	-	-	11,687,760	15,710,793
Total income from operations	22,582,666	41,520	130,000	-	22,754,186	27,514,706
Released from restrictions, other (Note 12)	87,099	-	-	-	87,099	167,410
Investment income, realized (Note 6)	-	-	159,611	2,356,560	2,516,171	3,497,104
Unrealized (losses) (Note 6)	-	-	(494,500)	(1,636,164)	(2,130,664)	(1,531,800)
Change in value of split interest agreements (Note 9)	(432,690)	-	592,414	-	159,724	438,259
Total revenues and gains	22,237,075	41,520	387,525	720,396	23,386,516	30,085,679
Operating expenses:						
Pastoral services	(2,892,778)	-	-	-	(2,892,778)	(3,228,173)
Religious personnel development	(2,098,848)	-	-	-	(2,098,848)	(1,856,512)
Education	(2,900,107)	-	-	-	(2,900,107)	(3,291,245)
Social services	(709,802)	-	-	-	(709,802)	(888,692)
Diocesan administration	(3,003,256)	-	-	-	(3,003,256)	(2,748,253)
Auxiliary service (insurance, publications)	(11,744,329)	-	-	-	(11,744,329)	(15,762,131)
	(23,349,120)	-	-	-	(23,349,120)	(27,775,006)
Depreciation	-	(112,696)	-	-	(112,696)	(100,088)
Unrestricted endowment payments	-	-	(366,161)	-	(366,161)	(373,655)
Interest paid on debt	-	-	-	(328,340)	(328,340)	(997,341)
Interest paid on deposits	-	-	-	(713,454)	(713,454)	(745,740)
Total expenses	(23,349,120)	(112,696)	(366,161)	(1,041,794)	(24,869,771)	(29,991,830)
Transfers to/from other funds:						
(To) from plant fund	5,241	178,600	(183,841)	-	-	-
(To) from unrestricted endowments	57,403	-	(57,403)	-	-	-
(To) from deposit and loan fund	(321,398)	-	-	321,398	-	-
Total transfers	(258,754)	178,600	(241,244)	321,398	-	-
Changes in post-employment benefit plan liability (Note 10)	2,153,403	-	-	-	2,153,403	-
Increase (decrease) in unrestricted net assets	782,604	107,424	(219,880)	-	670,148	93,849

(Continued)

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

Statements of Activities (Continued)
Years Ended June 30, 2009 and 2008

	Current	Plant	Endowment	Deposit & Loan	2009	2008
Changes in Temporarily Restricted Net Assets						
Revenues and gains:						
Restricted contributions	-	-	-	-	-	15,490
Endowment contributions and bequests	-	-	417,862	-	417,862	430,210
Endowment investment income, realized (Note 6)	-	-	81,935	-	81,935	179,497
Endowment unrealized (losses) (Note 6)	-	-	(123,654)	-	(123,654)	(68,340)
Endowment income (loss), other - net	-	-	(320)	-	(320)	(3,189)
Restrictions satisfied:						
Other assets released from restriction (Note 12)	(15,000)	-	-	-	(15,000)	(15,000)
Restrictions satisfied - endowment payments to beneficiaries (Note 12)	-	-	(425,658)	-	(425,658)	(445,472)
Restrictions satisfied - endowment transfers to current fund (Note 12)	-	-	(31,731)	-	(31,731)	(56,052)
Increase (decrease) in temporarily restricted net assets	(15,000)	-	(81,566)	-	(96,566)	37,144
Changes in Permanently Restricted Net Assets						
Revenues and gains:						
Contributions and bequests - endowments	-	-	48,812	-	48,812	56,637
Investment income - endowments, realized (Note 6)	-	-	64,411	-	64,411	118,855
Unrealized losses (Note 6)	-	-	(158,832)	-	(158,832)	(51,792)
Restrictions satisfied - endowment payments to beneficiaries (Note 12)	-	-	(13,337)	-	(13,337)	(13,512)
Restrictions satisfied - endowment transfer to current fund (Note 12)	-	-	(40,369)	-	(40,369)	(101,358)
Increase (decrease) in permanently restricted net assets	-	-	(99,315)	-	(99,315)	8,830
Total Change in Net Assets	767,604	107,424	(400,761)	-	474,267	139,823
Net assets, beginning of year	4,228,676	2,114,429	11,441,357	-	17,784,462	17,644,639
Net assets, end of year	\$ 4,996,280	\$ 2,221,853	\$ 11,040,596	\$ -	\$ 18,258,729	\$ 17,784,462

See Notes to Financial Statements.

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

**Statements of Cash Flows
Years Ended June 30, 2009 and 2008**

	2009	2008
Cash Flows from Operating Activities:		
Cash received from donors, parishes and schools	\$ 22,775,677	\$ 23,937,075
Cash paid to suppliers, employees, and other	(23,131,862)	(24,092,016)
Interest received	2,181,566	2,168,859
Interest paid	(1,041,794)	(1,743,081)
Net cash provided by operating activities	783,587	270,837
Cash Flows from Investing Activities:		
Purchases of investments	(4,243,679)	(8,126,270)
Proceeds from sale and maturities of investments	3,683,471	11,089,652
Purchases of land, buildings, and equipment	(251,064)	(1,180,960)
Change in loans receivable, net	2,008,545	(420,951)
Net cash provided by investing activities	1,197,273	1,361,471
Cash Flows from Financing Activities:		
Principal borrowings on notes payable	6,000,000	1,500,000
Principal payments on notes payable	(3,600,000)	(4,505,955)
Change in deposits payable, net	(4,562,680)	817,836
Net cash (used in) financing activities	(2,162,680)	(2,188,119)
Net (decrease) in cash and cash equivalents	(181,820)	(555,811)
Cash and Cash Equivalents:		
Beginning	1,817,409	2,373,220
Ending	\$ 1,635,589	\$ 1,817,409

(Continued)

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

**Statements of Cash Flows (Continued)
Years Ended June 30, 2009 and 2008**

	2009	2008
Reconciliation of Increase in Net Assets to Net Cash Provided by		
Operating Activities:		
Increase in net assets	\$ 474,267	\$ 139,823
Adjustments to reconcile the increase in net assets to net cash provided by operating activities:		
Depreciation	112,696	108,088
Unrealized loss on investments	2,413,150	1,651,932
Gain on sale of investments	(251,217)	(825,122)
Change in value of split-interest agreements	(159,724)	(438,259)
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(62,089)	(19,034)
Diocesan Capital Campaign pledges receivable	-	(316,389)
Bishop's Annual Appeal pledges receivable	72,313	297,355
Beneficial interest in others	131,043	28,223
Increase (decrease) in:		
Accounts payable	(110,937)	(104,611)
Priests retirement obligations	(1,955,781)	(43,596)
Deferred revenue	119,866	(207,573)
Net cash provided by operating activities	\$ 783,587	\$ 270,837

See Notes to Financial Statements.

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

Notes to Financial Statements

Note 1. Nature of Activities and Significant Accounting 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 the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, 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

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, and capital improvements to Diocesan schools paid for by the Central Financing Operations. Properties of operating parishes are not included. Assets are listed at historical cost or, if donated, fair value.

The American Institute of Certified Public Accountants has adopted a policy of requiring depreciation on church-owned property. Accordingly, the Central Financing Operations includes in this report depreciation on all buildings. Buildings are depreciated over 40 years and all building improvements are depreciated over the remaining life of the building.

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.

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

Notes to Financial Statements

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

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.

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. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. Management believes that the risk of loss is minimal due to the strength of the institutions.

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. Investments consist of corporate stocks and bonds, U.S. Governmental obligations, and mutual funds. Fair value is determined by quoted market prices.

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

Notes to Financial Statements

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

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 trusts: 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.

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 federal income tax under provisions of Section 501(c)(3) of the Internal Revenue Code.

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.

**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, 2009 and 2008:

	2009	2008
Parish loans	\$ 34,695,026	\$ 38,648,391
Diocesan high schools and other Diocesan entities	655,971	311,361
Mortgage loans	86,359	98,959
Other	3,988,490	2,313,591
	<u>\$ 39,425,846</u>	<u>\$ 41,372,302</u>

Note 3. Pledges Receivable

Pledges receivable at June 30 are due as follows:

	2009	2008
	Bishop's Annual Appeal	Bishop's Annual Appeal
Due in less than one year	\$ 335,918	\$ 398,324
Less:		
Allowance for uncollectible pledges	91,842	81,935
Total pledges receivable	<u>\$ 244,076</u>	<u>\$ 316,389</u>

Note 4. Land, Buildings and Equipment

Land, buildings and equipment comprise the following at June 30, 2009 and 2008:

	2009	2008
Operating properties	\$ 11,322,400	\$ 11,071,336
Land held for development	2,382,380	2,382,380
Assets held for resale	70,000	70,000
	<u>13,774,780</u>	<u>13,523,716</u>
Less accumulated depreciation	9,399,307	9,286,611
	<u>\$ 4,375,473</u>	<u>\$ 4,237,105</u>

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

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 \$210,613 at June 30, 2009 (\$262,906 at June 30, 2008) of permanently endowed funds held by the Endowment Trust Fund for Catholic Education, with the income to be used for ministry formation.

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 \$194,125 at June 30, 2009 (\$272,875 at June 30, 2008), 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:

	2009		
	Cost	Fair Value	Unrealized Appreciation (Depreciation)
Corporate stocks and bonds	\$ 458,000	\$ 411,082	\$ (46,918)
Mutual funds	4,887,830	4,955,223	67,392
Money market funds	154,498	154,498	-
U.S. Government obligations	13,591,075	12,092,085	(1,498,990)
	\$ 19,091,403	\$ 17,612,888	\$ (1,478,515)

	2008		
	Cost	Fair Value	Unrealized Appreciation (Depreciation)
Corporate stocks and bonds	\$ 879,108	\$ 816,422	\$ (62,686)
Mutual funds	13,465,107	13,399,689	(65,418)
U.S. Government obligations	4,984,750	4,998,502	13,752
	\$ 19,328,965	\$ 19,214,613	\$ (114,352)

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

Notes to Financial Statements

Note 6. Investments (Continued)

Investments are stated at fair value as of June 30, 2009 and 2008. The following schedule summarizes the investment return and its classification in the statement of activities for the years ended June 30, 2009 and 2008:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2009	Total 2008
Interest income	\$ 2,262,173	\$ 84,716	\$ 64,411	\$ 2,411,300	\$ 2,970,334
Realized gains (losses)	253,998	(2,781)	-	251,217	825,122
Unrealized gains (losses) on investments	(2,130,664)	(123,654)	(158,832)	(2,413,150)	(1,651,932)
	<u>\$ 385,507</u>	<u>\$ (41,719)</u>	<u>\$ (94,421)</u>	<u>\$ 249,367</u>	<u>\$ 2,143,524</u>

Included in the interest income amounts above are \$1,512,662 and \$2,489,915 related to interest income on loans receivable for the years ended June 30, 2009 and 2008, respectively.

Note 7. Line of Credit

The Central Financing Operations has an unsecured \$13.5 million line of credit with a commercial bank. The line of credit expires February 28, 2010. The line of credit bears interest at LIBOR (0.3163% at June 30, 2009) plus 200 basis points, 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 50 basis points. Borrowings outstanding on this line of credit at June 30, 2009 and 2008 were \$9,900,000 and \$7,500,000, respectively.

Note 8. Parish Deposits Payable

In the parish deposits payable account, amounts of \$16,350,040 and \$17,024,709 as of June 30, 2009 and 2008, respectively, consist of numerous deposits made to the Central Financing Operations that are payable on demand and bear a 1.25% and a 2.25% interest rate as of June 30, 2009 and 2008, respectively.

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

Notes to Financial Statements

Note 9. 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 (3.5% as of June 30, 2009).

Assets, liabilities and net assets associated with the charitable gift annuities reported in the endowment fund at June 30, 2009 and 2008 are as follows:

	2009	2008
Annuity investments	\$ 1,605,173	\$ 2,216,970
Annuities payable	(1,521,579)	(2,113,993)
Unrestricted net assets, designated for annuities	<u>\$ 83,594</u>	<u>\$ 102,977</u>

Included in the annuity payable balance on the statement of financial position is \$432,690, which represents the difference between the market value of one of the annuity investments and the expected future annuity payments. This additional liability is recorded as an annuity payable balance in the current fund in the statement of financial position.

The Central Financing Office received charitable gift annuities of \$130,001 and \$164,966 for the years ended June 30, 2009 and 2008, respectively. The change in the value of the charitable gift annuities was \$(457,135) and \$(362,316) for the years ended June 30, 2009 and 2008, respectively.

Note 10. 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.

The Diocese adopted Financial Accounting Standards Board (FASB) Statement No. 158, *Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans*, during 2007. This Statement 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, \$5,036,238 and \$6,992,019 as of June 30, 2009 and 2008, respectively, is included as a liability on the statement of financial position.

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

Notes to Financial Statements

Note 10. 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, 2009 and 2008:

	2009	2008
Accumulated postretirement benefit obligation:		
Retirees	\$ 2,606,441	\$ 3,522,105
Fully eligible active plan participants	433,374	688,507
Other active plan participants	1,996,423	2,781,407
	<u>5,036,238</u>	<u>6,992,019</u>
Plan assets at fair value	<u>-</u>	<u>-</u>
Accumulated postretirement benefit obligation in excess of plan assets (long-term disability reserves)	<u>\$ 5,036,238</u>	<u>\$ 6,992,019</u>
Amounts not yet reflected in net periodic benefit cost:		
Prior service credit	\$ 2,256,593	\$ -
Accumulated loss	(2,901,977)	(2,798,787)
	<u>\$ (645,384)</u>	<u>\$ (2,798,787)</u>
Change in Benefit Obligation	2009	2008
Benefit obligation, beginning of year	\$ 6,992,019	\$ 7,035,615
Service and interest costs	524,281	545,438
Effect of plan amendment (A)	(2,298,197)	-
Benefits paid	(436,275)	(540,011)
Actuarial (gain) loss	254,410	(49,023)
Benefit obligation, end of year	<u>\$ 5,036,238</u>	<u>\$ 6,992,019</u>

(A) Effective April 1, 2009, the Central Financing Operation amended their postretirement benefit policy. The post-65 retired priests were moved from a self-funded plan to a fully insured individual Blue Cross Blue Shield Medicare Supplement and Medicare Part D. The Diocese covers the necessary copayment and coinsurance requirements under the revised plans in addition to the premiums. The effect of this change was to decrease the benefit obligation liability by \$2,298,197.

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

Notes to Financial Statements

Note 10. Postretirement Benefits Other Than Pensions (Continued)

For 2009, the weighted average discount rate used in determining the accumulated postretirement benefit obligation was 6.50% (6.25% for 2008). The plan assets are not subject to federal income taxes.

	2009	2008
Assumed health care cost trend rates at June 30:		
Health care cost trend rate assumed for next year	9%	10%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	5%	5%
Year that the rate reaches the ultimate trend rate	2015	2013

The Diocese expects to contribute \$320,983 to its retirement plans for the year ended June 30, 2010.

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

2010	\$	320,983
2011		336,573
2012		349,329
2013		366,341
2014		373,828
Years 2015 - 2019		1,920,935

Note 11. Restricted Net Assets

Temporarily restricted net assets are available for the following purposes or periods at June 30, 2009 and 2008:

	2009	2008
Restrictions as to use:		
Education of priests	\$ 1,436,544	\$ 1,454,079
Education of children	435,919	454,764
Maintenance and upkeep of property and plant	1,114,637	1,087,100
Construction of facilities	524,450	523,874
Other restricted net assets	866,829	955,128
Total temporarily restricted net assets	<u>\$ 4,378,379</u>	<u>\$ 4,474,945</u>

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, 2009 and 2008 was \$3,064,196 and \$3,163,511, respectively.

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

Notes to Financial Statements

Note 12. Net Assets Released from Restrictions

During 2009 and 2008, other assets were released from restrictions by incurring expenses satisfying the restricted purpose specified:

	2009	2008
Endowment payments	\$ 511,095	\$ 616,396
Other	15,000	15,000
	<u>\$ 526,095</u>	<u>\$ 631,396</u>

Note 13. 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. As of June 30, 2009 and 2008, the Diocese had received \$48,813 and \$56,638, respectively.

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

Notes to Financial Statements

Note 14. 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 on behalf of St. Pius X High School for a renovation project of the existing school facility. 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, 2009 and 2008, the outstanding balance on the bonds was \$6,200,000, which is recorded on the financial statements of St. Pius X High School.

Note 15. Contingencies

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

In August 2008, the Diocese agreed to a \$10,000,000 settlement in connection with all of the then-pending lawsuits brought by 47 plaintiffs asserting sexual misconduct claims. This settlement was paid in fiscal year 2009 by the Diocesan Insurance Office, along with proceeds from insurance companies. The liability for the settlement is included in the separately issued financial statements of the Diocesan Insurance Office.

Note 16. Fair Value Measurements

Effective July 1, 2008, the Central Financing Operations adopted the provisions of SFAS No. 157, *Fair Value Measurements*, for assets and liabilities measured and reported at fair value. SFAS defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements.

SFAS No. 157 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. SFAS No. 157 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, SFAS No. 157 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.

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

Notes to Financial Statements

Note 16. Fair Value Measurements (Continued)

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.

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 and Beneficial Interest in Others: 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.

The following table summarizes 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, 2009			
	Total	Level 1	Level 2	Level 3
Investments:				
Fixed income securities	\$ 12,092,085	\$ -	\$ 12,092,085	\$ -
Equity securities	5,366,305	5,366,305	-	-
Beneficial interest in others	404,738	-	404,738	-
	<u>\$ 17,863,128</u>	<u>\$ 5,366,305</u>	<u>\$ 12,496,823</u>	<u>\$ -</u>

Investments recorded on the Statement of Financial Position, consist of \$154,498 of money market funds which are recorded at cost, and therefore not included in the above table.

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, 2009. 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.

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

Notes to Financial Statements

Note 17. Subsequent Events

Management has evaluated and disclosed subsequent events up to and including September 25, 2009, which is the date the financial statements were available to be issued.

Note 18. Endowments

In August 2008, the FASB issued FASB Staff position No. 117-1, Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act and Enhanced Disclosures for All Endowment Funds. The remaining provisions of FSP 117-1 will be effective when the State of Missouri adopts UPMIFA.

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 46 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. A number of states already have enacted a version of UPMIFA, and many of the remaining states are expected to do so over the next few years. Missouri has not yet adopted UPMIFA.

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. Management is currently assessing the possible impact of UPMIFA once adopted by the State of Missouri.

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.

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

Notes to Financial Statements

Note 18. Endowments (Continued)

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.

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.

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

Notes to Financial Statements

Note 19. Recently Issued Accounting Standard

The following accounting standard, issued but not yet effective, may affect the future financial reporting by the Central Financing Operations:

In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement 109*. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. FIN 48 prescribes a comprehensive model for recognizing, measuring, presenting and disclosing in the financial statements tax positions taken or expected to be taken on a tax return including positions that the organization is exempt from income taxes or not subject to income taxes on unrelated business income. If there are changes in net assets as a result of application of FIN 48 these will be accounted for as an adjustment to the opening balance of net assets. Additional disclosures about the amounts of such liabilities will be required also. The Central Financing Operations presently discloses or recognizes income tax positions based on management's estimate of whether it is reasonably possible or probable, respectively, that a liability has been incurred for unrecognized income tax benefits by applying FASB Statement No. 5, *Accounting for Contingencies*. The Central Financing Operations has elected to defer the application of Interpretation 48 in accordance with FASB Staff Position (FSP) FIN 48-3. This FSP defers the effective date of Interpretation 48 for nonpublic enterprises, such as the Central Financing Operations, included within its scope to the annual financial statements for fiscal years beginning after December 15, 2008. The Central Financing Operations will be required to adopt FIN 48 in its 2010 annual financial statements. Management is currently assessing the impact of FIN 48 on its statement of financial position and statement of activities and has not determined if the adoption of FIN 48 will have a material effect on its financial statements.

McGladrey & Pullen

Certified Public Accountants

Independent Auditor's Report on the Supplementary Information

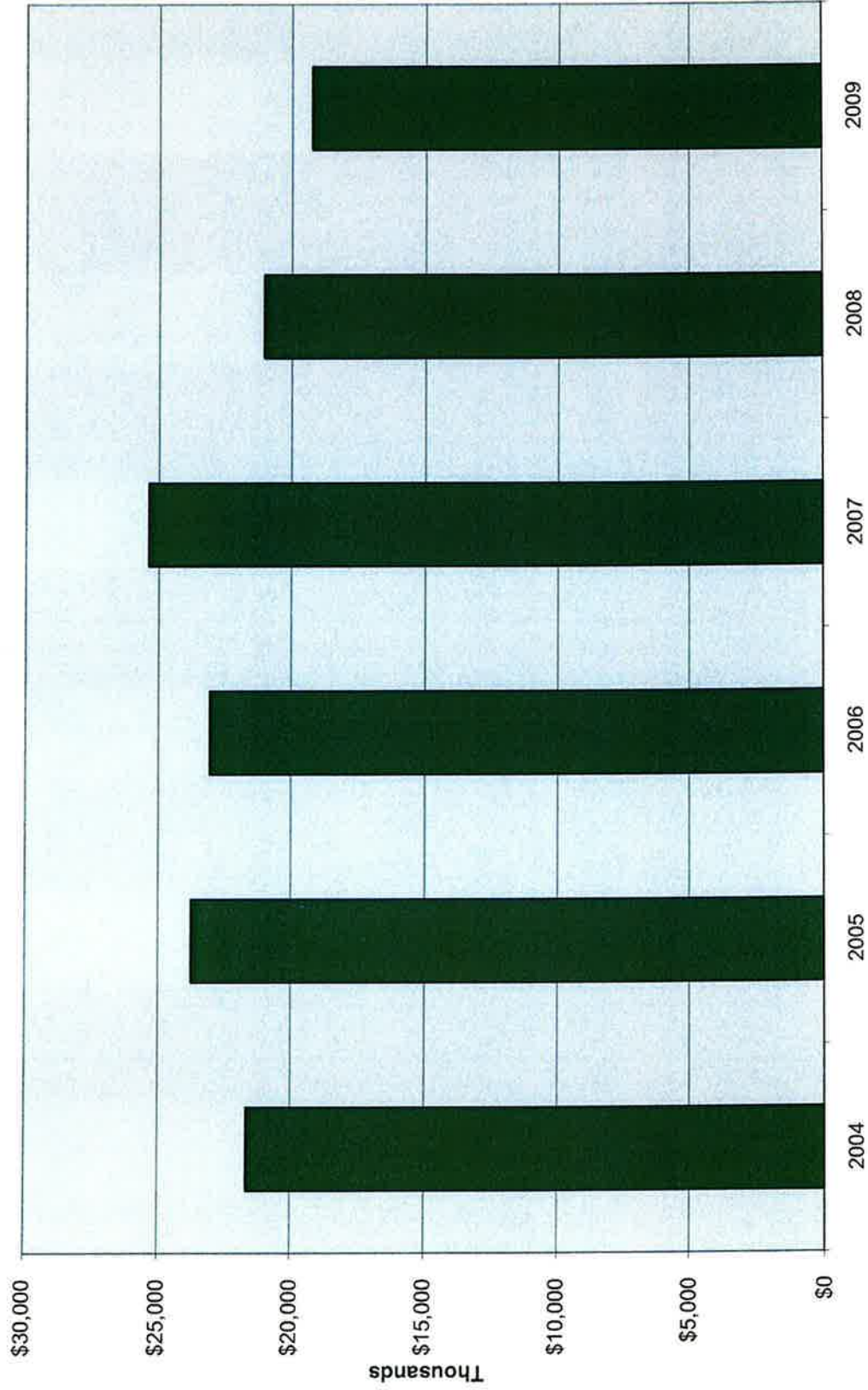
Most Reverend Robert W. Finn, D.D., Bishop
Catholic Diocese of Kansas City – St. Joseph
Central Financing Operations
Kansas City, Missouri

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

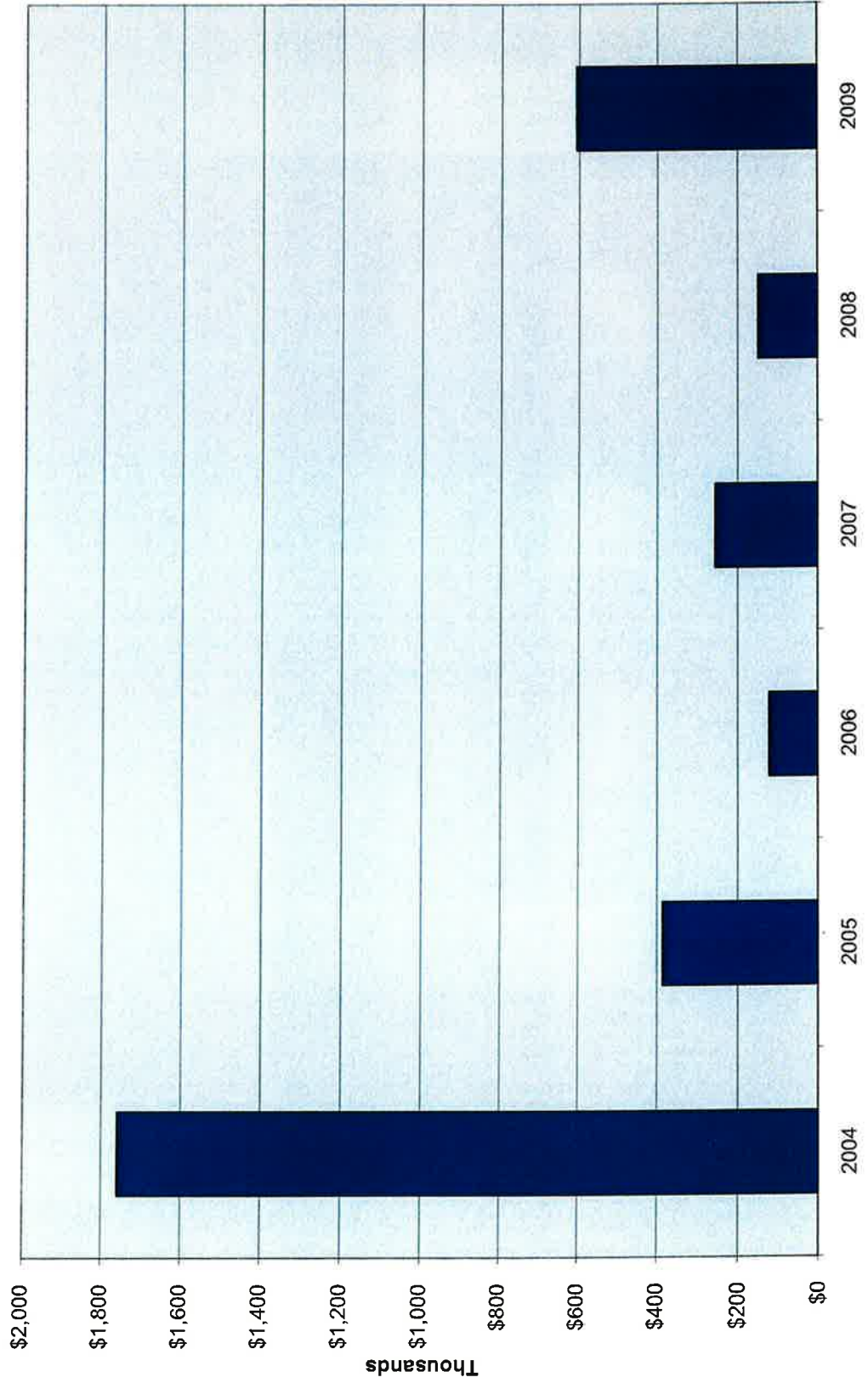
McGladrey & Pullen, LLP

Kansas City, Missouri
September 25, 2009

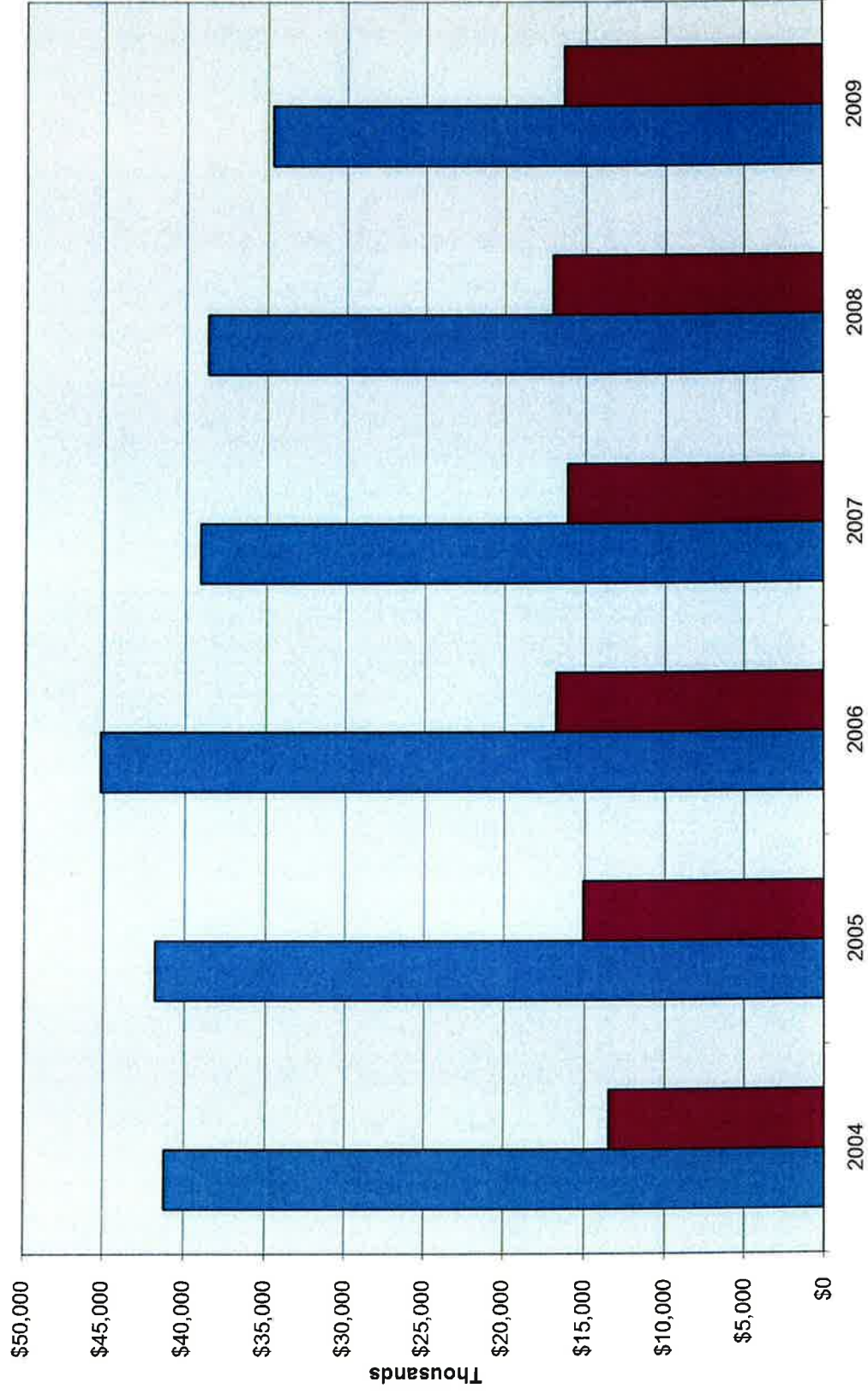
Catholic Diocese of Kansas City - St. Joseph Total Cash & Investments All Funds All Funds



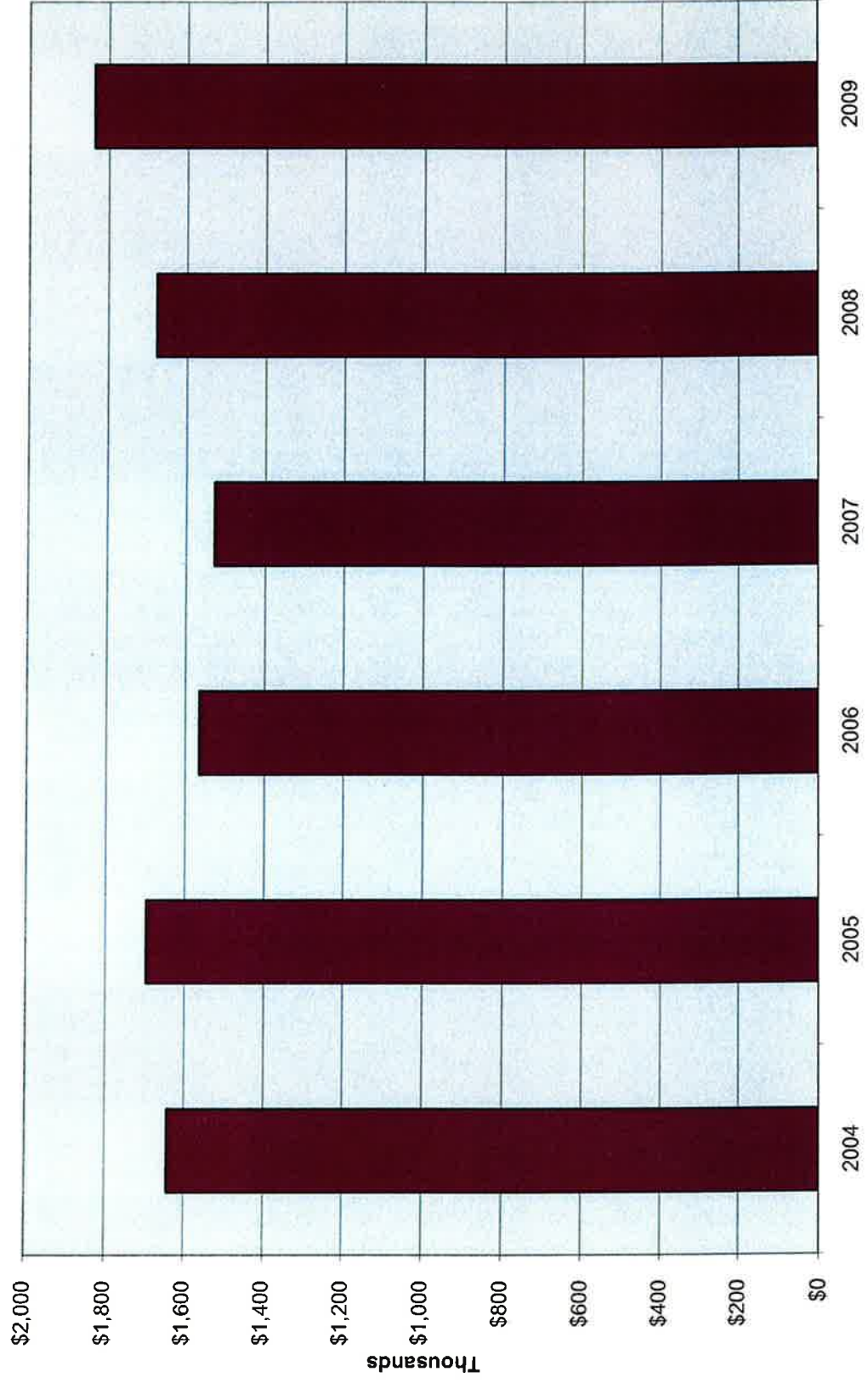
Catholic Diocese of Kansas City - St. Joseph Operating Loans to High Schools



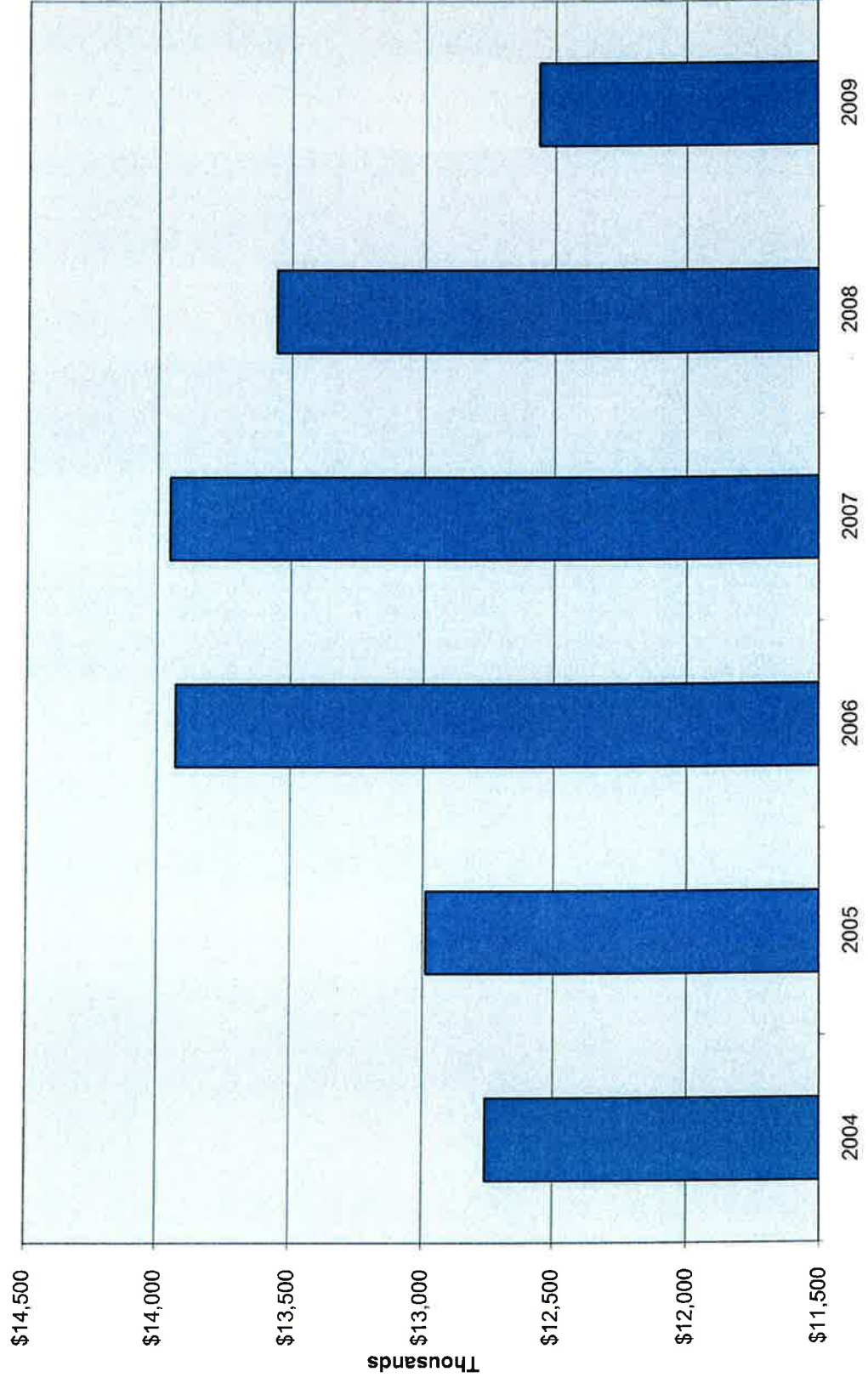
Catholic Diocese of Kansas City - St. Joseph Deposit and Loan Fund



Catholic Diocese of Kansas City - St. Joseph Bishops Annual Appeal Pledge Amounts



Catholic Diocese of Kansas City - St. Joseph Endowment Fund



Catholic Diocese of Kansas City - St. Joseph Undesignated Fund Balance - Current Fund

