

Archdiocese of St. Louis

Combined Financial Statements
(Excluding Parishes) as of and for the
Years Ended June 30, 2016 and 2015, and
Independent Auditors' Report

ARCHDIOCESE OF ST. LOUIS

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Independent Auditors' Report

The Most Reverend Robert J. Carlson
Archbishop of St. Louis
Archdiocese of St. Louis
St. Louis, Missouri

Report On The Financial Statements

We have audited the accompanying combined financial statements of the Archdiocese of St. Louis (the Archdiocese), which comprise the combined statement of financial position as of June 30, 2016, and the related combined statements of activities, cash flows and functional expenses for the year then ended, and the related notes to the financial statements.

Management's Responsibility For The Financial Statements

Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of combined financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these combined financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement. The financial statements of the St. Louis Archdiocesan Fund were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of the Archdiocese of St. Louis as of June 30, 2016, and the changes in its net assets and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Report Issued By Predecessor Auditor

The combined financial statements of the Archdiocese of St. Louis for the year ended June 30, 2015, were audited by another auditor who expressed an unmodified opinion on those statements on October 30, 2015.

Other Reporting Required By Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 2, 2016 on our consideration of the Archdiocese's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Archdiocese's internal control over financial reporting and compliance.

RubinBrown LLP

November 2, 2016

ARCHDIOCESE OF ST. LOUIS

COMBINED STATEMENT OF FINANCIAL POSITION AS OF JUNE 30, 2016 AND 2015 (In thousands)

	2016	2015		2016	2015
ASSETS			LIABILITIES AND NET ASSETS		
CASH AND CASH EQUIVALENTS	\$ 20,142	\$ 17,593	ACCOUNTS PAYABLE AND ACCRUED EXPENSES	\$ 14,666	\$ 14,542
RESTRICTED CASH AND INVESTMENTS	10,029	10,216	CLAIMS PAYABLE	9,635	9,875
INVESTMENTS	604,509	616,677	DEFERRED REVENUES	17,137	17,656
RECEIVABLE ON UNSETTLED INVESTMENT SALES	221	2,175	ACCRUED FUTURE CARE COSTS	55,710	55,710
ACCOUNTS RECEIVABLE — Net of allowance for doubtful accounts of \$3,013 in 2016 and \$2,381 in 2015	6,851	6,983	DUE TO ARCHDIOCESAN PARISHES	9,294	8,694
GRANTS, PLEDGES AND BEQUESTS RECEIVABLE — Net of allowance for doubtful accounts of \$1,779 in 2016 and \$4,289 in 2015	17,553	19,524	DEPOSIT LIABILITIES	141,950	138,599
LOANS TO ARCHDIOCESAN PARISHES AND OTHER CATHOLIC ORGANIZATIONS — Net of allowance for loan losses of \$2,990 in 2016 and \$3,077 in 2015	19,182	24,187	PAYABLE ON UNSETTLED INVESTMENT PURCHASES	295	2,334
OTHER NOTES RECEIVABLE — Net of allowance for doubtful accounts of \$87 in 2016 and \$84 in 2015	9,969	9,636	NOTES PAYABLE	79,265	77,363
DUE FROM ARCHDIOCESAN PARISHES — Net of allowance for doubtful accounts of \$7,525 in 2016 and \$7,326 in 2015	883	1,158	REFUNDABLE ADVANCES	15,432	15,307
CEMETERY LAND AND IMPROVEMENTS AVAILABLE FOR INTERMENT AND MAUSOLEUMS	9,654	9,587	PRIESTS' RETIREMENT LIABILITY	144,262	144,977
OTHER ASSETS	6,318	6,187	OTHER LIABILITIES	<u>27,563</u>	<u>30,410</u>
PROPERTY AND EQUIPMENT — Net of accumulated depreciation of \$182,604 in 2016 and \$173,082 in 2015	204,267	200,955	Total liabilities	<u>515,209</u>	<u>515,467</u>
			NET ASSETS:		
			Unrestricted:		
			Undesignated	(57,388)	(59,785)
			Designated	344,080	356,780
			Noncontrolling interest in subsidiaries	<u>6,474</u>	<u>5,387</u>
			Total unrestricted	293,166	302,382
			Temporarily restricted	36,203	42,432
			Permanently restricted	<u>65,000</u>	<u>64,597</u>
			Total net assets	<u>394,369</u>	<u>409,411</u>
TOTAL	<u>\$909,578</u>	<u>\$924,878</u>	TOTAL	<u>\$909,578</u>	<u>\$924,878</u>

See notes to combined financial statements.

ARCHDIOCESE OF ST. LOUIS

COMBINED STATEMENT OF ACTIVITIES FOR THE YEARS ENDED JUNE 30, 2016 AND 2015 (In thousands)

	2016	2015
CHANGE IN UNRESTRICTED NET ASSETS:		
Operating:		
Revenues, gains and losses:		
Contributions, pledges, bequests and grants, net of direct fund-raising expenses of \$2,234 in 2016 and \$2,209 in 2015	\$ 38,914	\$ 43,131
Government fees and grants	37,397	35,844
Net investment (loss) gain	(1,523)	2,574
Tuition and student fees, net of scholarships of \$10,851 in 2016 and \$9,594 in 2015	29,377	30,755
Fees and services, net of expenses of \$2,447 in 2016 and \$2,460 in 2015	74,700	72,752
Insurance premiums	34,483	31,681
Net loss on sale, disposal or impairment of property	(209)	(82)
Other revenues	<u>1,104</u>	<u>735</u>
Total unrestricted revenues, gains and losses	<u>214,243</u>	<u>217,390</u>
Net assets released from restrictions:		
Restrictions satisfied by time	3,371	3,524
Restrictions satisfied by purpose	<u>15,508</u>	<u>11,942</u>
Total net assets released from restrictions	<u>18,879</u>	<u>15,466</u>
Total unrestricted revenues, gains and other support	<u>233,122</u>	<u>232,856</u>
Expenses:		
Program	216,016	247,758
Management and general	18,732	17,382
Fund-raising	<u>7,663</u>	<u>7,198</u>
Total expenses	<u>242,411</u>	<u>272,338</u>
Change in unrestricted net assets from operating activities	<u>(9,289)</u>	<u>(39,482)</u>
Nonoperating revenues (expenses):		
Pension-related changes other than net periodic pension cost	(1,133)	(391)
Interest on note receivable	-	1,178
Capital contribution from noncontrolling interest	1,370	831
Transfers for deficiencies of endowment investments	<u>(163)</u>	<u>(127)</u>
Total nonoperating revenues	<u>74</u>	<u>1,491</u>
Change in unrestricted net assets	<u>(9,215)</u>	<u>(37,991)</u>

ARCHDIOCESE OF ST. LOUIS

COMBINED STATEMENT OF ACTIVITIES — CONTINUED FOR THE YEARS ENDED JUNE 30, 2016 and 2015 (In thousands)

	2016	2015
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS:		
Contributions, pledges, bequests and grants	\$ 14,852	\$ 11,024
Net investment (loss) gain	(2,366)	289
Net assets released from restrictions	(18,879)	(15,466)
Transfers for deficiencies of endowment investments	<u>163</u>	<u>127</u>
Change in temporarily restricted net assets	<u>(6,230)</u>	<u>(4,026)</u>
CHANGE IN PERMANENTLY RESTRICTED NET ASSETS:		
Contributions, pledges, bequests and grants	469	2,083
Net investment loss	<u>(66)</u>	<u>(54)</u>
Change in permanently restricted net assets	<u>403</u>	<u>2,029</u>
CHANGE IN NET ASSETS	(15,042)	(39,988)
NET ASSETS — Beginning of year	<u>409,411</u>	<u>449,399</u>
NET ASSETS — End of year	<u>\$ 394,369</u>	<u>\$ 409,411</u>

See notes to combined financial statements.

(Concluded)

ARCHDIOCESE OF ST. LOUIS

COMBINED STATEMENT OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2016 AND 2015 (In thousands)

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (15,042)	\$ (39,988)
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation and amortization	12,605	11,948
Net investment loss	18,493	10,718
Allocation of (loss) gain on Investment Fund investments	(1,214)	455
Provision for uncollectible loans and receivables	2,159	2,240
Accrued interest income	(332)	(1,501)
Asset retirement obligation	-	4,351
Net loss on sale, disposal or impairment of property	209	82
Forgiveness of note payable	(60)	(33)
Contributions restricted for long-term investment	(469)	(2,083)
Contributions restricted for purchase of property and equipment	(1,485)	(2,262)
Contributions received - property and equipment	(93)	-
Capital contribution from noncontrolling interest	(1,445)	(906)
Distributions from noncontrolling interest	75	75
Pension and postretirement plan changes other than net periodic benefit costs	1,133	391
Changes in assets and liabilities relating to operating activities:		
Accounts receivable	(1,960)	(1,220)
Grants, pledges and bequests receivable	949	3,392
Due from Archdiocesan parishes	146	(474)
Cemetery land and improvements held for interment and mausoleums	(67)	(254)
Other assets	(146)	(379)
Accounts payable and accrued expenses	(474)	(601)
Claims payable	(240)	(1,726)
Deferred revenues	(519)	704
Accrued future care costs	-	63
Due to Archdiocesan parishes	600	8,049
Priests' retirement liability	(715)	18,291
Other liabilities	(3,980)	1,058
 Net cash from operating activities	 <u>8,128</u>	 <u>10,390</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net decrease in restricted cash and investments	187	2,256
Net (increase) decrease in short-term money market investments	(6,686)	14,230
Payments for the purchase of investments	(280,015)	(501,100)
Proceeds from sale of investments	280,291	473,744
Disbursement of loans to Archdiocesan parishes and other Catholic organizations	(3,369)	(2,066)
Repayment of loans by Archdiocesan parishes and other Catholic organizations	8,461	6,541
Disbursement of other notes receivable	(41)	(72)
Repayment of other notes receivable	20	17
Payments for additions to property and equipment	(15,437)	(14,730)
Proceeds from sale of property and equipment	17	4,739
 Net cash from investing activities	 <u>(16,572)</u>	 <u>(16,441)</u>

(Continued)

ARCHDIOCESE OF ST. LOUIS

COMBINED STATEMENT OF CASH FLOWS — CONTINUED

FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

(In thousands)

	2016	2015
CASH FLOWS FROM FINANCING ACTIVITIES:		
Decrease in deposit liabilities	\$ 4,565	\$ (4,548)
Contributions restricted for long-term investment	343	1,681
Contributions restricted for purchase of property and equipment	2,628	3,745
Capital contribution from noncontrolling interest	1,445	906
Distribution from noncontrolling interest	(75)	(75)
Payments on notes payable	(415)	(3,341)
Borrowings on notes payable	2,377	3,023
Proceeds from continuing care advance fees	2,523	2,005
Repayment of continuing care advance fees	<u>(2,398)</u>	<u>(1,975)</u>
Net cash from financing activities	<u>10,993</u>	<u>1,421</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,549	(4,630)
CASH AND CASH EQUIVALENTS — Beginning of year	<u>17,593</u>	<u>22,223</u>
CASH AND CASH EQUIVALENTS — End of year	<u>\$ 20,142</u>	<u>\$ 17,593</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest	\$ 1,495	\$ 1,661
Noncash investing and financing transactions:		
Receivable on unsettled investment sales	221	2,175
Payable on unsettled investment purchases	295	2,334
Property and equipment additions included in accounts payable and accrued expenses	1,785	1,187

See notes to combined financial statements.

(Concluded)

THE ARCHDIOCESE OF ST. LOUIS

COMBINED STATEMENT OF FUNCTIONAL EXPENSES FOR THE YEARS ENDED JUNE 30, 2016 AND 2015 (In thousands)

	Program					Support			Total Expenses	
	Catholic Charities	Education	Adminis- tration	Other Ministries	St. Louis Archdiocesan Fund	Total	Management and General	Fund-Raising		Total
2016										
Salaries	\$ 38,476	\$ 26,567	\$ 583	\$ 9,028	\$ -	\$ 74,654	\$ 9,544	\$ 4,029	\$ 13,573	\$ 88,227
Health and retirement benefits	7,433	6,385	145	2,573	-	16,536	2,075	681	2,756	19,292
Payroll taxes	<u>2,781</u>	<u>1,891</u>	<u>41</u>	<u>495</u>	<u>-</u>	<u>5,208</u>	<u>630</u>	<u>295</u>	<u>925</u>	<u>6,133</u>
Total salaries and related expenses	48,690	34,843	769	12,096	-	96,398	12,249	5,005	17,254	113,652
Occupancy	6,021	3,763	-	1,831	-	11,615	1,166	109	1,275	12,890
Supplies and equipment	6,440	3,517	48	1,810	1	11,816	1,167	1,069	2,236	14,052
Fees and services	4,686	2,835	4,235	4,316	2,196	18,268	1,548	1,327	2,875	21,143
Assistance to individuals	8,393	1	-	2	-	8,396	-	-	-	8,396
Insurance claims and premiums paid	1,133	822	32,233	261	-	34,449	259	25	284	34,733
Grants and assessments	236	970	14,587	1,303	-	17,096	7	35	42	17,138
Interest expense	1,050	-	-	-	(742)	308	2	-	2	310
Other expenses	1,120	402	(52)	678	42	2,190	465	81	546	2,736
Provision for doubtful accounts	1,082	977	-	53	(87)	2,025	150	(16)	134	2,159
Provision for future care costs	-	-	-	2,814	-	2,814	-	-	-	2,814
Depreciation	<u>5,235</u>	<u>3,147</u>	<u>-</u>	<u>2,259</u>	<u>-</u>	<u>10,641</u>	<u>1,719</u>	<u>28</u>	<u>1,747</u>	<u>12,388</u>
Total expenses	<u>\$ 84,086</u>	<u>\$ 51,277</u>	<u>\$ 51,820</u>	<u>\$ 27,423</u>	<u>\$ 1,410</u>	<u>\$ 216,016</u>	<u>\$ 18,732</u>	<u>\$ 7,663</u>	<u>\$ 26,395</u>	<u>\$ 242,411</u>

THE ARCHDIOCESE OF ST. LOUIS

COMBINED STATEMENT OF FUNCTIONAL EXPENSES FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

(In thousands)

	Program						Support			Total Expenses
	Catholic Charities	Education	Adminis- tration	Other Ministries	St. Louis Archdiocesan Fund	Total	Management and General	Fund-Raising	Total	
2015										
Salaries	\$ 35,771	\$ 26,924	\$ 567	\$ 8,610	\$ -	\$ 71,872	\$ 8,909	\$ 3,719	\$ 12,628	\$ 84,500
Health and retirement benefits	6,614	3,924	142	2,282	-	12,962	1,822	601	2,423	15,385
Payroll taxes	<u>2,598</u>	<u>1,920</u>	<u>39</u>	<u>481</u>	<u>-</u>	<u>5,038</u>	<u>592</u>	<u>270</u>	<u>862</u>	<u>5,900</u>
Total salaries and related expenses	44,983	32,768	748	11,373	-	89,872	11,323	4,590	15,913	105,785
Occupancy	5,818	3,606	1	1,970	-	11,395	1,219	105	1,324	12,719
Supplies and equipment	6,376	3,527	59	2,021	-	11,983	1,197	1,060	2,257	14,240
Fees and services	5,275	2,480	4,432	4,685	2,237	19,109	1,155	1,247	2,402	21,511
Assistance to individuals	8,698	-	-	6	-	8,704	-	-	-	8,704
Insurance claims and premiums paid	1,248	866	51,216	287	-	53,617	271	24	295	53,912
Grants and assessments	681	475	26,812	1,747	-	29,715	2	41	43	29,758
Interest expense	1,214	-	-	-	902	2,116	5	-	5	2,121
Other expenses	1,029	429	4,344	626	40	6,468	203	82	285	6,753
Provision for doubtful accounts	720	764	-	28	326	1,838	382	20	402	2,240
Provision for future care costs	-	-	-	2,848	-	2,848	-	-	-	2,848
Depreciation	<u>4,927</u>	<u>2,992</u>	<u>-</u>	<u>2,174</u>	<u>-</u>	<u>10,093</u>	<u>1,625</u>	<u>29</u>	<u>1,654</u>	<u>11,747</u>
Total expenses	<u>\$ 80,969</u>	<u>\$ 47,907</u>	<u>\$ 87,612</u>	<u>\$ 27,765</u>	<u>\$ 3,505</u>	<u>\$ 247,758</u>	<u>\$ 17,382</u>	<u>\$ 7,198</u>	<u>\$ 24,580</u>	<u>\$ 272,338</u>

ARCHDIOCESE OF ST. LOUIS

NOTES TO COMBINED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2016 AND 2015 (In thousands)

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization — The combined financial statements include the accounts of certain organizations (excluding parishes), which report to the Archbishop of St. Louis and which operate under the auspices of the Archdiocese of St. Louis (the “Archdiocese”). The parishes of the Archdiocese are excluded from the combined financial statements because the Archdiocese does not maintain an economic interest in the parishes. These organizations generally are grouped as follows:

Catholic Charities — Entities of the Archdiocese which provide social services to residents of the Archdiocese through three primary areas: elderly services, children services, and family and community services.

Education — Catholic Education Office, Archdiocesan and regional high schools, Archdiocesan elementary schools (excluding parish schools), Department of Special Education, and St. Mary’s Special School, all of which maintain a mission to deliver high quality Catholic education to residents of the Archdiocese.

Administration — Entities of the Archdiocese which provide administrative services and financial support to parishes, schools, and agencies of the Archdiocese.

Other Ministries — Catholic Cemeteries, Kenrick-Glennon Seminary, clergy-related offices, St. Louis Review, Mission Office, and other entities that serve the other pastoral needs of the residents of the Archdiocese.

The St. Louis Archdiocesan Fund (the “Fund”) — A separate charitable trust that encompasses the majority of the financial and investment activities of the Archdiocese.

All significant intradiocesan balances and transactions have been eliminated.

Cash — The Archdiocese maintains its cash accounts primarily with banks located in Missouri. The Archdiocese has cash balances on deposit with Missouri banks at June 30, 2016 in the amount of \$14,656 that exceeded the balance insured by the Federal Deposit Insurance Corporation.

Cash Equivalents — The Archdiocese maintains several money market accounts to provide liquidity for daily operations. Money market accounts may be invested in short-term U.S. Government and Agency securities, corporate bonds, and mortgage-backed securities with an average effective duration under three months. Money market accounts held for liquidity are carried at cost which approximates fair value and are recorded in cash and cash equivalents.

Each investment manager also may hold cash in a money market account from time to time due to the timing of settlements of securities purchased or sold and interest and dividends received. A money market account held temporarily by an investment manager is carried in investments.

Restricted Cash and Investments — Restricted cash and investments represent funds whose use is limited under U.S. Department of Housing and Urban Development (HUD) regulatory agreements, State of Missouri Department of Labor (MDOL) requirements, escrow amounts related to environmental liabilities and other purposes.

Investments — Investments are carried at fair value based on quoted market prices when available. When a market price is not readily available, management estimates the fair value based on information obtained from the investment custodian or the investment manager. Net realized gains or losses on sales of investments are based on the difference between the proceeds received and the cost of the investments sold. Sales and purchases of investments are recognized based upon the trade date of each transaction. Recording transactions based upon trade date results in payable or receivable at year-end on unsettled purchases and sales. Interest income is recognized when earned. Dividend income is recognized when dividends are declared. Investment income or loss (including realized and unrealized gains and losses on investments, interest, and dividends) is reported as an increase or decrease in unrestricted net assets in investment gain (loss) unless such income or loss is temporarily or permanently restricted by explicit donor stipulation or by law.

Accounts Receivable — Accounts receivable consists primarily of services earned at the various entities and billed monthly or as services are rendered. Each entity has established an allowance for doubtful accounts based on prior experience. Balances deemed uncollectible are written off through a charge against the allowance.

Grants, Pledges and Bequests Receivable — Grants, pledges and bequests receivable that are expected to be collected within one year are recorded at net realizable value. Grants, pledges, and bequests receivable that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as revenue until the conditions are substantially met. Each entity has established an allowance for doubtful grants, pledges and bequests based on past due aging and prior experience. Balances deemed uncollectible are written off through a charge against the allowance.

Loans to Archdiocesan Parishes and Other Catholic Organizations — Archdiocesan loans are carried at the unpaid principal balance net of an allowance for loan loss. Interest income is accrued on the unpaid principal balance as earned.

Interest income on loans is discontinued at the time a loan becomes 90 days delinquent. Past due status is based on the contractual terms of the loan. Loans are placed on nonaccrual status or charged off at an earlier date if collection of principal or interest is considered doubtful. All interest accrued but not received for loans placed on nonaccrual is reversed against interest income. Interest received on such loans is accounted for on the cash-basis method until qualifying for return to accrual status.

A loan is considered impaired when, based on the current information and events, it is probable that the Archdiocese will be unable to collect the scheduled payments of principal and interest when due according to the contractual terms of the loan agreements. Factors considered by the Archdiocese in determining impairment include payment status and the probability of collecting scheduled principal and interest payments when due.

Restructured loans involve the granting of some concession to the borrower involving a loan modification, such as payment schedule changes or principal charge-offs. A trouble debt restructuring (TDR) includes a loan modification where the borrower is experiencing financial difficulty and a

concession is granted to that borrower that would not otherwise be considered. A TDR may be accrual or nonaccrual based on the performance of the borrower and the Archdiocese's assessment of collectability.

Allowance for Loan Loss (ALL) – The ALL represents the Archdiocese's estimate of probable and inherent credit losses in the loan portfolio. Estimating the ALL requires the exercise of significant judgment, the use of estimates, assumptions and historical data related to the loans and respective borrowers, and the use of qualitative factors such as economic conditions, all of which are subject to change. Loan losses are charged against the ALL while recoveries of amounts previously charged off are credited to the ALL.

The Archdiocese's ALL consists of specific reserves on certain impaired loans and general reserves for non-impaired loans based on a regular analysis of the loan portfolio. The general reserve is based on qualitative factors driven by the Archdiocese's internal credit rating system as well as consideration of historical losses. All loans in the portfolio are assigned an initial credit rating at the time of origination and the Archdiocese has established a systematic review on an annual basis, which covers a majority sample of loans to assess their credit risk. When assessing credit risk, the Archdiocese considers such factors as payment history, financial stability, and leadership. All loans that have not been identified for specific reserves are included in the general reserve pool, segregated by internal credit ratings, and allocated a reserve amount based on credit rating. Once the allocations have been made, the ALL is reviewed and approved by The St. Louis Archdiocesan Fund's Board of Trustees.

Other Notes Receivable — Loans have been made to nonaffiliated entities of the Archdiocese. The notes have various payment terms with interest rates up to 4.47%. Remaining loan terms range from 2 to 3 years. The balance is substantially related to one entity.

Due from/to Archdiocesan Parishes — The Archdiocese has receivables and payables resulting from operating and investing transactions with the parishes. In addition, grants that have been awarded to parishes for various reasons and scholarships awarded to students were accrued at year end. All grants and scholarships will be paid in the next year.

Cemetery Land and Improvements Available for Interment and Mausoleums — Land and improvements available for interment and mausoleums are recorded at original cost plus the cost of improvements, reduced by the cost of items sold.

Other Assets — Other assets primarily include prepayments for goods or services not yet received, deferred financing costs and assets held for sale.

Deferred financing costs represent costs incurred to obtain financing for construction of facilities. These costs have been deferred and are being amortized over the term of the related obligation.

Property and Equipment — Property and equipment are recorded at cost. All acquisitions of property in excess of \$10 and expenditures for improvements and betterments in excess of \$10 that prolong the useful lives of assets are capitalized. Maintenance and repairs are charged to expense as incurred.

Property and equipment is depreciated using the straight-line method over the following useful lives:

Land improvements	10–25 years
Buildings and building improvements	5–40 years
Furniture, fixtures, and equipment	3–10 years

Impairment of Assets — If facts and circumstances suggest that a long-lived asset, or related group of assets, may be impaired, the carrying value is reviewed. If a review indicates that the carrying value of such asset, or related group of assets, is not recoverable based on projected undiscounted net cash flows related to the asset over its remaining life, the carrying value of such asset is reduced to its estimated fair value. There were no impairments during the years ended June 30, 2016 and 2015.

Claims Payable — Claims payable represents claims known and pending payment, in addition to the estimated aggregate liability expected to be incurred, based upon actual claims data and estimates of claims incurred but not yet reported for the Self-Funded Employee Benefit Plan and the Office of Risk Management (see Note 7). Estimates for legal actions include the attorney fees anticipated to resolve unsettled matters.

Deferred Revenues — Deferred revenues consist of tuition and student fees received in advance, non-refundable entrance fees for retirement living accommodations, grant funds that have not been spent on program services, proceeds received for interment services not yet performed, and subscription proceeds received in advance of circulation. Tuition and student fees collected in advance are recognized on a straight-line basis as revenue in the following fiscal school year. Grant funds that have not been spent on program services are deferred until the expense is incurred. Revenues for interment services not yet performed are deferred until the services are performed. Revenues for subscriptions are deferred until the circulation is performed.

Residents of retirement living facilities pay a one-time entrance fee entitling them to accommodations for as long as they are able to live independently. A portion of the entrance fee is recorded as deferred revenue and is amortized into income using the straight-line method over the estimated remaining life expectancy of the resident. The remaining portion of the entrance fee is recorded as a refundable advance liability and upon leaving the facility, the resident, or resident's estate, is entitled to the refundable advance amount once the subsequent tenant pays his/her entrance fee.

Accrued Future Care Costs — In connection with each sale of a lot or crypt, the Catholic Cemeteries of the Archdiocese of St. Louis (the "Cemeteries") contractually agrees to provide certain perpetual endowed care maintenance of the lot or crypt. Accrued future care costs represent the estimated contractual costs of the Cemeteries to maintain its existing graves and crypts in the future, discounted to present value at the rate of 7.5% in 2016 and 2015. The maintenance costs used to estimate the liability are based upon a five-year rolling average and are assumed to escalate at an inflation rate of 2.50% per year in 2016 and 2015. The change in this estimated liability from the beginning to the end of each year is recorded as a provision for future care costs within program expenses in the combined statements of activities.

Funds designated for endowed care are invested, and are contractually restricted; however, they are not segregated in the accompanying combined statement of financial position. The Cemeteries have deposited a portion of the proceeds from sales of plots and crypts in accounts maintained separately at the Fund. Total amounts invested are approximately \$91,000 in 2016 and \$95,000 in 2015.

Deposits — The Archdiocese holds deposits from Archdiocesan parishes and other Catholic agencies in two separate sub-funds, the Depositor Fund and the Investment Fund.

The Depositor Fund consists of demand, money market and time deposit accounts on which fixed rate interest is paid approximating market returns. Time deposit accounts have stated maturity dates from three months to five years. Depositors may make deposits and withdrawals from accounts at any time subject to early withdrawal penalties on time deposit accounts and excess withdrawal penalties on money market accounts.

The Investment Fund consists of investment accounts that earn a rate of return tied to the market performance of the investment portfolio held by the Archdiocese and are generally considered long-term investments by the depositors. Earnings and principal may generally be withdrawn from the Investment Fund once a year. Each account is invested according to one of the several assigned allocation plans that is selected by the depositor and which consists of an investment mix of fixed income securities and equity securities (e.g. Plan "A" consists of 25% fixed income securities and 75% equity securities). The entire return from the investment portfolio is allocated to the Investment Fund accounts each month.

Refundable Advances — Refundable advances represents amounts owed to residents of Our Lady of Life, an entrance fee community. As of June 30, 2016 and 2015, \$15,432 and \$15,307, respectively is due to residents upon their leaving the facility and is payable upon the subsequent tenant paying his/her entrance fee.

Split Interest Gift Arrangements — The Archdiocese has entered into split interest gift arrangements that are mainly comprised of gift annuities and charitable trusts. Gift annuities provide that the annuitants will receive payments for life. The payments will continue even if related assets have been exhausted. At the death of the annuitants, all remaining assets, if any, are directed in accordance with the related agreements.

Charitable trusts provide that the income beneficiaries will receive payments for life, so long as there are assets available in the trust. At the death of the income beneficiaries, all remaining assets are directed in accordance with the related agreements.

At June 30, 2016 and 2015, the Archdiocese held investments of \$2,955 and \$3,392, respectively, associated with these split interest agreements, which are recorded as investments on the combined statement of financial position.

The liability for split interest gift arrangements represents the present value of these obligations due to the annuitants and income beneficiaries. The present value was calculated based upon life expectancies using discount factors determined at the date of the gift that range from 1.2% to 9.6%. At June 30, 2016 and 2015, the liability was \$1,348 and \$1,404, respectively.

Other Liabilities — Other liabilities primarily include the present value of annuity liabilities, environmental liabilities, including those for which an escrow is recorded in restricted cash and investments, funds held for others, early teacher retirement liabilities, and unfunded pension obligations.

Environmental Liabilities — The Archdiocese establishes a liability for environmental liabilities when it is probable that a liability has been incurred and the Archdiocese has the ability to reasonably estimate the liability. The Archdiocese is subject to environmental remediation related to a previously donated property. The Archdiocese subsequently sold the property. At June 30, 2016 and 2015, the Archdiocese accrued \$3,081 and \$3,361, respectively for the estimated cost of remediation. The estimate is not discounted, as the timing of the anticipated cash payments is not fixed or readily determinable. The Archdiocese is unable to predict with certainty the ultimate resolution of such liability, but expects it to extend several years into the future.

The costs associated with the eventual remediation and abatement of asbestos has been recognized in the financial statements for properties owned by the Archdiocese. The estimated cost of the abatement was determined by a third-party firm. As of June 30, 2016 and 2015, the conditional asset retirement liability is \$4,291 and \$4,351, respectively. There is no interest included in the balance.

A conditional asset retirement obligation includes a legal obligation associated with the retirement of a tangible long-lived asset in which the timing and or method of settling the obligation is conditional on a future event that may or may not be within the control of the Archdiocese. Recognition of a liability is required for the fair value of a conditional asset retirement obligation if the fair value can be reasonably estimated, even if conditioned on a future event. The Archdiocese records the fair value of a liability for a legal obligation associated with an asset retirement in the period in which the obligation is incurred.

Net Assets — The following is a description of the three classifications of net assets:

Unrestricted Net Assets represent those net assets whose use is not restricted by donors. Unrestricted net assets include amounts designated by the Archdiocese or agency boards of directors for specific purposes. Unrestricted net assets of certain combined organizations are designated because such net assets are to be used solely to support the operations of that specific organization. Net assets equal to the net book value of property and equipment, net of the related notes payable, are designated as the existence of such net assets creates a limitation on the use of those net assets. Negative undesignated net assets reflect losses that are expected to be repaid from future revenue sources.

Temporarily Restricted Net Assets represent those net assets whose use has been limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Archdiocese pursuant to those stipulations.

Permanently Restricted Net Assets represent those net assets whose use has been limited by donor-imposed stipulations that they must be maintained in perpetuity, the income of which is to be used by the Archdiocese in accordance with the stipulations imposed by the donor.

Noncontrolling Interest in Subsidiaries — The Archdiocese records the noncontrolling interest in the net assets of combined entities as a separate component of the appropriate class of net assets in the combined statement of financial position. Distributions to and contributions from noncontrolling owners are reported in the combined statement of activities and cash flows from financing activities.

Contributions, Pledges, Bequests and Grants — The Archdiocese recognizes contributions, pledges, bequests, and grants as revenue at the time an unconditional promise is received. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are specified for future periods or restricted by the donor for specific purposes are reported as temporarily or permanently restricted revenue that increases those net assets.

During 2016 and 2015, fund-raising revenue was \$6,529 and \$6,794, respectively, net of direct fund-raising expenses of \$2,234 and \$2,209, respectively, and is included in contributions, pledges, bequests, and grants in the combined statements of activities.

Government Fees and Grants — Government fees and grant revenue are recognized as services are rendered.

Contributed Property — Contributed property and equipment are recorded at fair value at the date of donation and are reported as unrestricted contribution revenue. Contributions of such property and equipment of \$93 in 2016, which approximates the fair values on the dates of donation, are included in

the combined financial statements. There were no contributions of such property and equipment in 2015. Contributions of cash and other assets restricted for the acquisition of property and equipment are reported as temporarily restricted revenue; those restrictions expire when the property and equipment are placed in service by the Archdiocese.

In-Kind Contributions — Included as contribution revenue in the combined financial statements are in-kind contributions of goods and services (excluding contributed property and equipment) of \$2,827 in 2016 and \$2,913 in 2015. Contributed goods are recorded at fair value at the date of contribution. Contributed services represent the amount of estimated professional worth in excess of the salary paid to the person providing such services. Estimated professional worth is determined by researching comparable professional salaries in the community.

Net Patient Service Revenue — Elderly and congregate revenue is recognized when services are provided. Payments received in advance of service are recorded as deferred revenue. Service revenue is reported at the estimated net realizable amounts from residents/patients, third-party payors and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Payment for services under the Medicaid program is based on defined prospective cost of service rather than on the basis of standard billing rates for such services. Services rendered to Part A Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a resident/patient's classification within the "resource utilization grouping" system. Services rendered to Part B Medicare program beneficiaries are paid based on the Medicare allowable fee schedule.

Expenses — The Archdiocese categorizes its expenses as follows:

Program expenses relate to activities that result in goods and services being distributed to beneficiaries that fulfill the purposes or mission for which the organization exists. The Archdiocese considers all expenses, excluding fund-raising expenses, of certain of its organizations to be program expenses as those organizations exist solely to fulfill a specific purpose/mission of the Archdiocese.

Management and general expenses relate to administrative activities that are not identifiable with a single program or fund-raising activity, but that are indispensable to the conduct of those activities and to the Archdiocese's existence.

Fund-raising expenses relate to activities that involve inducing potential donors to contribute financially or in-kind to the Archdiocese.

To properly reflect employee benefits by function, the premiums for health, dental and workers compensation insurance and priests benefits paid by each agency are included in health and retirement benefits expense in the applicable program or supporting function with an offsetting credit reducing insurance claims and premiums paid expense under the administration program on the combined statement of functional expenses.

Income Taxes — The individual agencies that comprise the Archdiocese are listed in the *Official Catholic Directory* and therefore are tax-exempt public charities under Section 501(c)(3) and Section 509(a) of the Internal Revenue Code, except for Holy Infant & St. Joseph Associates LP, Rosati Apartments LP and St. John Neumann Associates LP. Holy Infant & St. Joseph Associates LP, Rosati Apartments LP and St. John Neumann Associates LP are partnerships established as pass-through entities for tax purposes. As such, the Archdiocese can only be taxed on income from any activities unrelated to their charitable purpose. At June 30, 2016 and 2015, the Archdiocese had not earned any

such revenue; therefore, no tax expense has been recorded. The Archdiocese does not have any uncertain tax positions.

Fair Value of Financial Instruments — The carrying amounts of accounts receivable, due to/from Archdiocesan parishes, receivable/payable on unsettled investment sales/purchases, accounts payable and accrued expenses, deferred revenue, refundable advances, claims payable and other liabilities approximate fair value due to the short period to maturity. Assets held for sale are carried at fair value based on an appraisal. The grants, pledges and bequests receivable, and the loans receivable from Archdiocesan parishes approximate fair value due to the similarity of the discount or variable interest rates with the current market rate on loans with similar maturities. Investment Fund liabilities' carrying value approximate fair value because they generate returns based upon current market returns. Customer time deposits are issued with a stated maturity between three months and five years with a fixed interest rate for the term of the instrument. The carrying value of customer demand deposits and money market accounts approximates fair value due to their short-term nature. The fair value of other notes receivable is determined using current interest rates compared to book value. The fair value of the notes payable, excluding the HUD mortgages eligible for forgiveness and other forgivable loans is determined using current interest rates for similar debt, compared to the book value. Forgivable loans are excluded as the loans do not mature or bear interest. Therefore, the estimate of fair value is not practicable. The fair value of time deposits is estimated using the rates currently offered for deposits of similar remaining maturities.

	<u>Time Deposits</u>		<u>Notes Receivable</u>		<u>Notes Payable</u>	
	2016	2015	2016	2015	2016	2015
Fair value	\$ 25,970	\$ 27,886	\$ 9,951	\$ 9,511	\$ 38,221	\$ 32,166
Carrying value	25,831	27,567	9,969	9,636	35,983	34,021

Fair Value Measurements — Accounting Standards Codification (ASC) 820 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. These principles apply to fair value measurements required under other accounting guidance that require or permit fair value measurement, the Financial Accounting Standards Board (FASB) having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. The Archdiocese reports its entire investment portfolio at fair value on a recurring basis.

The ASC defines fair value and establishes a hierarchal framework which prioritizes and ranks the market price observability used in fair value measurements. Market price observability is affected by a number of factors, including the type of asset or liability and the characteristics specific to the asset or liability being measured. Assets and liabilities with readily available, active, quoted market prices or for which fair value can be measured from actively quoted prices generally are deemed to have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value. The inputs used to measure fair value must be classified into one of three levels as follows:

Level 1 — Quoted prices in an active market for identical assets and liabilities; specifically, values for short-term money market investments, publicly held mutual fund investments, equities, exchange traded notes and U.S. Treasury securities represent unadjusted quoted prices for identical assets in active markets accessible at the measurement date.

Level 2 — Observable inputs other than Level 1, quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, and

model-derived prices whose inputs are observable or whose significant value drivers are observable. Specifically, values for government securities (other than U.S. Treasury securities), municipal bonds and most corporate bonds are primarily derived from an independent third party that uses other inputs that are observable or can be corroborated by market data. These inputs generally include market interest rates and volatilities, credit spreads and yield curves. Values for mortgage-backed securities are derived primarily from an independent third party that uses other inputs that are observable or can be corroborated by market data. These inputs generally include credit default rates, credit prepayment rates and loss severity ratios. Values for privately held commingled fund investments are based on the net asset value calculated for each of the pooled funds of which the Archdiocese owns a percentage. The calculated net asset value is based on the aggregation of values for the individual securities comprising the pool. These privately held commingled funds invest primarily in equity and cash-equivalent securities, and have specific investment objectives. Most of the privately held commingled funds invest in foreign equity securities with the goal of achieving long-term growth in markets outside of the United States. In addition, the Archdiocese has an investment in a privately held commingled fund whose objective is to provide a defensive equity exposure relative to the performance of the S&P 500 stock market index. There are notice restrictions up to 60 days on investment redemption related to these pooled funds. There are also certain discretionary restrictions held by the fund manager based on the size of the requested redemption. Based on their investment strategy and intent, the Archdiocese believes the likelihood of these discretionary redemption restrictions being invoked by a fund manager is remote. There are no unfunded commitments related to these investments.

Level 3 — Assets and liabilities whose significant value drivers are unobservable. Unobservable inputs reflect the Archdiocese's best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

Observable inputs are based on market data obtained from independent sources, while unobservable inputs are based on the Archdiocese's market assumptions. Unobservable inputs require significant management judgment or estimation. In some cases, the inputs used to measure an asset or liability may fall into different levels of the fair value hierarchy. In those instances, the fair value measurement is required to be classified using the lowest level of input that is significant to the fair value measurement. Such determination requires significant management judgment. In accordance with this guidance, the Archdiocese is not permitted to adjust quoted market prices in an active market, even if the Archdiocese owns a large investment, the sale of which could reasonably impact the quoted prices. See Note 4, Fair Value Measurements, for further details on the Archdiocese's assets measured at fair value.

Derivative Contracts — The Archdiocese permits investment managers to invest in To Be Announced (TBA) future security trades for the purposes of acquiring agency mortgage backed securities (MBS) and managing investment yield. These TBA securities meet the definition of a derivative investment under ASC 815, *Derivatives and Hedging*. The Archdiocese recorded derivative contracts at fair value based on quoted market prices in "Investments" on the combined statement of financial position, with changes in the fair value of derivatives recorded in "Net investment (loss) gain" on the combined statement of activities. TBA future contracts are obligations to buy or sell a quantity of MBS at a predetermined rate or price at a future date. These derivatives are not designated hedging instruments. The objective of these derivative holdings is to participate in the primary market for agency MBS, pursuant to yield management objectives. At June 30, 2016, the Archdiocese possessed 6,600 notional units of TBA securities at a fair value of \$22, with an underlying liability value of \$6,931. The gross fair market asset value of these securities was \$6,953. At June 30, 2015, the Archdiocese possessed 6,400 notional units of TBA securities at a fair value of \$(22), with an underlying liability value of \$6,695. The gross fair market asset value of these securities was \$6,673.

Use of Estimates — The preparation of combined financial statements in conformity 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 disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The Archdiocese invests in various securities which, in general, are exposed to various risks, such as interest rate risk, credit risk, and default risk, and overall market volatility. Due to the level of risk associated with certain investment securities, changes in the values of investment securities could materially affect the amounts reported in the combined statements of financial position and activities.

New Accounting Pronouncements—In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers*, which provides guidance for revenue recognition. The standard's core principle is that an entity will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new guidance is effective for the Archdiocese July 1, 2018. The Archdiocese is currently assessing the potential impact of the adoption of this standard on its financial statements.

In April 2015, the FASB issued new guidance for debt issuance costs as a part of the simplification and productivity initiative. Under this guidance, debt issuance costs will be presented as a direct reduction from the carrying amount of the debt liability, consistent with the presentation of debt discounts. The amortization of debt issuance costs will be reported as interest expense. The recognition and measurement guidance for debt issuance costs is not affected by the amendment. In August 2015, the FASB released clarifying guidance for debt issuance costs related to line-of-credit arrangements that may be deferred and for presenting debt issuance costs as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. The new guidance is to be applied on a retrospective basis and reported as a change in an accounting principle. This guidance is effective for annual reporting periods beginning after December 15, 2015, including interim periods within that reporting period. Early adoption is permitted for financial statements that have not been previously issued. The Archdiocese is currently assessing the potential impact of the adoption of this standard on its financial statements.

In August 2016, the FASB issued new guidance for the presentation of financial statements of not-for-profits to enhance the understandability of the financial statements and provide more relevant information. Under this guidance, net assets classifications will be reduced from three to two, “without donor restrictions” and “with donor restrictions,” and additional disclosures of board-designated funds will be required. Investment returns will be reported net of external and direct internal investment expenses, and those netted expenses will no longer require disclosure. Organizations will be required to present their expenses by both their natural classification and their functional classification on the face of the statement of activities, as a separate statement or in the notes to the financial statements. The method used to allocate costs among programs and supporting activities functions will be required to be disclosed. New disclosures related to liquidity and availability of resources will be required, including qualitative information that discloses how the organization manages its liquid resources to meet its cash flow needs and quantitative information regarding the availability of financial assets to meet these needs. This guidance is effective for fiscal years beginning after December 15, 2017; however, early adoption is permitted. This guidance is to be applied on a retrospective basis for all years presented; however, organizations will have the option to omit the analysis of expenses by both functional and natural classification and the liquidity disclosures for any years presented before the year of adoption. The

Archdiocese is currently assessing the potential impact adoption of this standard will have on its financial statements.

2. RESTRICTED CASH AND INVESTMENTS

Restricted cash and investments at June 30, 2016 and 2015, consist of the following:

	2016	2015
Restricted accounts at FDIC insured financial institutions	\$ 2,766	\$ 2,929
Money markets — U.S. government securities	6,268	6,207
U.S. Treasury bonds	995	995
U.S. Treasury bills	<u>-</u>	<u>85</u>
Total restricted cash and investments	<u>\$ 10,029</u>	<u>\$ 10,216</u>

HUD regulatory agreements limit the use of \$5,408 of the total restricted cash and investments in 2016 and \$5,006 in 2015. MDOL requirements limit the use of the U.S. Treasury bonds.

3. INVESTMENTS

Investments at June 30, 2016 and 2015 consist of the following:

	2016	2015
Short-term money market investments	\$ 24,077	\$ 17,391
Equities	107,716	105,767
Publicly held mutual fund investments	10,038	18,796
Privately held commingled fund investments	164,210	178,165
U.S. government and agency securities	26,094	24,386
Corporate and municipal bonds	196,433	189,702
Asset and mortgage-backed securities	51,973	52,989
Exchange traded notes	<u>22,563</u>	<u>28,088</u>
Total investments held in The St. Louis Archdiocesan Fund	<u>603,104</u>	<u>615,284</u>
Money market — U.S. government securities	12	4
Corporate bonds	297	312
Publicly held mutual fund investments	<u>1,096</u>	<u>1,077</u>
Total investments held outside of The St. Louis Archdiocesan Fund	<u>1,405</u>	<u>1,393</u>
Total investments	<u>\$ 604,509</u>	<u>\$ 616,677</u>

Income (loss) from investments consists of the following:

	2016	2015
Interest and dividend income	\$ 14,538	\$ 13,527
Realized gains	7,600	24,846
Unrealized losses	<u>(26,093)</u>	<u>(35,564)</u>
 Total investment income (loss)	 <u>\$ (3,955)</u>	 <u>\$ 2,809</u>

4. FAIR VALUE MEASUREMENTS

The valuation of assets measured at fair value in the Archdiocese's statement of financial position at June 30, 2016 and 2015 is summarized below:

	Fair Value Measurements at June 30, 2016			
	June 30, 2016	(Level 1)	(Level 2)	(Level 3)
Short-term money market investments	\$ 24,077	\$ 24,077	\$ -	\$ -
Equities	107,716	107,323	388	5
Publicly held mutual fund investments	10,038	10,038	-	-
Privately held commingled fund investments	164,210	-	164,210	-
U.S. government and agency securities	26,094	23,285	2,809	-
Corporate and municipal bonds	196,433	-	194,920	1,513
Asset and mortgage-backed securities	51,973	-	51,849	124
Exchange traded notes	<u>22,563</u>	<u>22,563</u>	<u>-</u>	<u>-</u>
 Investments held in The St. Louis Archdiocesan Fund	 <u>603,104</u>	 <u>187,286</u>	 <u>414,176</u>	 <u>1,642</u>
 Money market — U.S. government securities	 12	 12	 -	 -
Corporate and municipal bonds	297	-	297	-
Publicly held mutual fund investments	<u>1,096</u>	<u>1,096</u>	<u>-</u>	<u>-</u>
 Investments held outside of The St. Louis Archdiocesan Fund	 <u>1,405</u>	 <u>1,108</u>	 <u>297</u>	 <u>-</u>
 Total investments	 <u>\$ 604,509</u>	 <u>\$ 188,394</u>	 <u>\$ 414,473</u>	 <u>\$ 1,642</u>
 Money market — U.S. government securities	 \$ 6,268	 \$ 6,268	 -	 \$ -
U.S. Treasury bonds	<u>995</u>	<u>995</u>	<u>-</u>	<u>-</u>
 Restricted cash and investments (see Note 2)	 <u>\$ 7,263</u>	 <u>\$ 7,263</u>	 <u>\$ -</u>	 <u>\$ -</u>

	Fair Value Measurements at June 30, 2015			
	June 30, 2015	(Level 1)	(Level 2)	(Level 3)
Short-term money market investments	\$ 17,391	\$ 17,391	\$ -	\$ -
Equities	105,767	105,381	371	15
Publicly held mutual fund investments	18,796	18,796	-	-
Privately held commingled fund investments	178,165	-	178,165	-
U.S. government and agency securities	24,386	20,983	3,403	-
Corporate and municipal bonds	189,702	-	188,189	1,513
Asset and mortgage-backed securities	52,989	-	52,839	150
Exchange traded notes	28,088	28,088	-	-
	<u>615,284</u>	<u>190,639</u>	<u>422,967</u>	<u>1,678</u>
Investments held in The St. Louis Archdiocesan Fund				
Money market — U.S. government securities	4	4	-	-
Corporate and municipal bonds	312	-	312	-
Publicly held mutual fund investments	1,077	1,077	-	-
	<u>1,393</u>	<u>1,081</u>	<u>312</u>	<u>-</u>
Investments held outside of The St. Louis Archdiocesan Fund				
Total investments	<u>\$ 616,677</u>	<u>\$ 191,720</u>	<u>\$ 423,279</u>	<u>\$ 1,678</u>
Money market — U.S. government securities	\$ 6,207	\$ 6,207	\$ -	\$ -
U.S. Treasury bonds	995	995	-	-
U.S. Treasury bills	85	85	-	-
	<u>7,287</u>	<u>7,287</u>	<u>-</u>	<u>-</u>
Restricted cash and investments (see Note 2)	<u>\$ 7,287</u>	<u>\$ 7,287</u>	<u>\$ -</u>	<u>\$ -</u>

Certain issues may be transferred between Level 1 and Level 2 if the observability of inputs changes relative to a security's pricing during the period. The value of transfers is based on the value of the particular security on the final day of the fiscal year in which the transfer occurred.

Additional information pertaining to the changes in the fair value of the Archdiocese's investments classified as Level 3 for the years ended June 30, 2016 and 2015 is presented below:

	Year Ended June 30, 2016			
	Asset and Mortgage- backed Securities	Corporate and Municipal Bonds	Equities	Total
Investments:				
Balance — July 1	\$ 150	\$ 1,513	\$ 15	\$ 1,678
Net gains/(losses)	(26)	3	-	(23)
Sales and settlements	-	(3)	(11)	(14)
Transfers in	-	-	1	1
	<u>-</u>	<u>-</u>	<u>1</u>	<u>1</u>
Balance — June 30	<u>\$ 124</u>	<u>\$ 1,513</u>	<u>\$ 5</u>	<u>\$ 1,642</u>

	Year Ended June 30, 2015			
	Asset and Mortgage- backed Securities	Corporate and Municipal Bonds	Equities	Total
Investments:				
Balance — July 1	\$ 131	\$ 1,511	\$ -	\$ 1,642
Net gains	19	9	-	28
Sales and settlements	-	(7)	-	(7)
Transfers in	-	-	15	15
	<u>-</u>	<u>-</u>	<u>15</u>	<u>15</u>
Balance — June 30	<u>\$ 150</u>	<u>\$ 1,513</u>	<u>\$ 15</u>	<u>\$ 1,678</u>

The total unrealized gains/(losses) included in the balances for investments classified as Level 3 at June 30, 2016 and 2015 were \$396 and \$432, respectively.

5. GRANTS, PLEDGES AND BEQUESTS RECEIVABLE

Grants, pledges and bequests receivable at June 30, 2016 and 2015, consist of the following:

	2016	2015
Due in less than one year	\$ 14,270	\$ 17,722
Due in one to five years	4,019	4,955
Due in more than five years	1,127	1,199
Less discounts	<u>(84)</u>	<u>(63)</u>
Grants, pledges and bequests receivable before allowance for doubtful accounts	19,332	23,813
Allowance for doubtful accounts	<u>(1,779)</u>	<u>(4,289)</u>
Grants, pledges and bequests receivable	<u>\$ 17,553</u>	<u>\$ 19,524</u>

6. LOANS TO ARCHDIOCESAN PARISHES AND OTHER CATHOLIC ORGANIZATIONS

Loans represent amounts receivable from parishes and other Catholic organizations with various payment terms bearing interest at variable rates that approximate market for loans of similar terms. The average variable rate was 3.25% and 3.50% in 2016 and 2015, respectively. Remaining loan terms range from 1 to 17 years. At June 30, 2016, the Archdiocese has committed to extend an additional \$6,906 under line of credit arrangements with certain parishes and other Catholic organizations.

As of June 30, 2016, the Archdiocese’s loan portfolio included no loans between 60 and 89 days past due and one loan in the amount of \$540 more than 90 days past due.

Changes in the allowance for loan losses for the years ended June 30, 2016 and 2015 consist of the following:

	<u>Year Ended June 30,</u>	
	<u>2016</u>	<u>2015</u>
Allowance for uncollectible loans — beginning of year	\$ 3,077	\$ 2,751
Provision for uncollectible loans	<u>(87)</u>	<u>326</u>
Allowance for uncollectible loans — end of year	<u>\$ 2,990</u>	<u>\$ 3,077</u>

Impaired loans for the years ended June 30, 2016 and 2015, consist of the following:

	<u>Year Ended June 30,</u>	
	<u>2016</u>	<u>2015</u>
Outstanding balance of impaired loans	\$ 540	\$ 540
Allowance for loan loss on impaired loans	<u>(540)</u>	<u>(540)</u>
Balance of impaired loans with no specific loan allowance	<u>\$ -</u>	<u>\$ -</u>

Impaired loans as of June 30, 2016 and 2015 included one delinquent loan placed on non-accrual in the amount of \$540 and no trouble debt restructuring (TDR) loans.

7. SELF-INSURANCE

The Archdiocese administers a Self-Funded Employee Benefit Plan (the “Plan”). The Plan purchases health insurance coverage for claims in excess of certain amounts. Such coverage also is effective if aggregate cash payments exceed defined limits. The Archdiocese made cash basis claim payments of \$38,390 in 2016 and \$35,355 in 2015.

The Archdiocese has an Office of Risk Management (the “Office”). The Office provides self-insurance for property, general liability, and workers’ compensation insurance coverage up to \$1,500, \$500, and \$1,000 per occurrence, respectively. The Office procures additional property, general liability, and workers’ compensation insurance coverage in amounts considered appropriate by management of the Archdiocese. Limited health care professional liability is included within general liability insurance. The coverages resulted in total receivables of \$216 and \$185 at June 30, 2016 and 2015, respectively, which are included in accounts receivable. In accordance with the MDOL requirements, the Office maintains escrowed securities, which are included in restricted cash and investments, and a letter of credit of \$1,200, to be used in the event claim obligations are not met.

8. PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2016 and 2015 consist of the following:

	2016	2015
Land and land improvements	\$ 43,492	\$ 42,042
Buildings and building improvements	300,089	288,350
Furniture, fixtures and equipment	35,484	34,442
Construction in progress	<u>7,806</u>	<u>9,203</u>
Property and equipment — at cost	386,871	374,037
Less accumulated depreciation	<u>(182,604)</u>	<u>(173,082)</u>
Property and equipment — net	<u>\$ 204,267</u>	<u>\$ 200,955</u>

The Archdiocese had outstanding construction commitments at June 30, 2016 and 2015 of \$1,795 and \$6,538, respectively.

9. DEPOSIT LIABILITIES

Total deposits as of June 30, 2016 and 2015 consist of the following:

	2016	2015
Depositors' Fund:		
Demand accounts	\$ 21,660	\$ 18,149
Money market accounts	45,600	41,296
Time deposit accounts	<u>25,831</u>	<u>27,567</u>
Total Depositors' Fund	<u>93,091</u>	<u>87,012</u>
Investment Fund:		
Nonendowed accounts	5,340	7,166
Endowed accounts	40,564	41,029
Annuity accounts	<u>2,955</u>	<u>3,392</u>
Total Investment Fund	<u>48,859</u>	<u>51,587</u>
Total deposit liabilities	<u>\$ 141,950</u>	<u>\$ 138,599</u>

The scheduled maturities of time deposits as of June 30 are as follows:

	2016	2015
Aging of Maturities of Time Deposits:		
Maturing in 1 year	\$ 16,158	\$ 14,725
Maturing in 2 years	6,491	5,399
Maturing in 3 years	1,685	5,882
Maturing in 4 years	916	770
Maturing in 5 years	455	552
Maturing in more than 5 years	126	239
Total time deposits	<u>\$ 25,831</u>	<u>\$ 27,567</u>

As of June 30, 2016 and 2015, the aggregate amount of time deposit accounts each with a minimum denomination of \$100 or more was \$17,504 and \$18,942, respectively.

10. NOTES PAYABLE

At June 30, 2016 and 2015, notes payable consist of the following:

	2016	2015
Note payable to Gershman Investment Corporation (“Gershman”); requires monthly payments of \$48 including principal and interest at 4.375%; matures 2051; secured by deed of trust on property at Mary Queen and Mother Association; insured by FHA	\$ 10,291	\$ 10,409
HUD note payable maturing 2021; payable in monthly installments of \$26 including principal and interest at 6.88%; secured by property at St. Patrick Apartments	1,238	1,460
Note payable to Lancaster Pollard Mortgage Company (“Lancaster”); requires monthly payments of \$29 including principal and interest at 4.35% through 2052; secured by deed of trust on the property of Holy Infant & St. Joseph Associates, LP; insured by HUD	6,390	6,463
Note payable to Missouri Housing Development Commission (“MHDC”); maximum borrowing of \$2.2 million; non-interest bearing with annual payments based on 50% of surplus cash; matures 2052; secured by a deed of trust on property of Holy Infant & St. Joseph Associates, LP; subordinate to the Lancaster debt	2,200	2,200
Note payable to St. Louis County through Home Investment Partnership Act (HOME); requires monthly principal payments equal to the lesser of (i) equal annual installments, (ii) 50% of net operating cash flow, or (iii) surplus cash; matures 2055; non-interest bearing; secured by a second priority HOME deed of trust on property of St. John Neumann	250	-
Note payable to Lancaster Pollard Mortgage Company (“Lancaster”); maximum borrowing of \$5.1 million; interest only payments at 3.52% through June 2016 with monthly installments of principal and interest of \$20 thereafter; matures 2055; secured by deed of trust on property of St. John Neumann Associates, LP; insured by HUD	4,878	2,752
HUD mortgages eligible for forgiveness (see below)	37,674	37,674
Note payable to NFF New Markets Fund VIII, LLC; requires quarterly payments of interest at 1.394% through July 2017, principal and interest payments at 5.57% thereafter; matures 2045; secured by a deed of trust	10,726	10,726
Other loans at St. Patrick Center, Rosati Apartments LP and Queen of Peace Center eligible for forgiveness; secured by deeds of trust	5,608	5,668
Other notes payable at various maturities; noninterest bearing	<u>10</u>	<u>11</u>
Total	<u>\$ 79,265</u>	<u>\$ 77,363</u>

Estimated maturities of the notes over the next five years are as follows:

2017	\$ 572
2018	930
2019	787
2020	828
2021	738
Thereafter	<u>32,128</u>
 Total	 35,983
 HUD mortgages eligible for forgiveness	 37,674
Other loans eligible for forgiveness	<u>5,608</u>
	 <u>\$ 79,265</u>

Interest expense related to the notes was \$1,033 and \$1,192 for the years ended June 30, 2016 and 2015.

HUD Insured Mortgage with Gershman Investment Corp. — On November 1, 2011, Mary Queen and Mother Association (the “Association”), an entity of the Archdiocese, refinanced their original mortgage with a 4.375% Deed of Trust Note with Gershman in the amount of \$10,786. The loan is payable in monthly installments of \$48, including interest, with the final installment payable in December 2051. Substantially all of the real property of the Association is pledged as collateral under the mortgage agreement.

Holy Infant & St. Joseph Associates, LP — During March 2012, Holy Infant & St. Joseph Associates, LP, an entity of the Archdiocese, entered into a loan agreement with Lancaster Pollard Mortgage Company with maximum borrowing of \$6,600 in order to refinance existing HUD debt and finance renovations. Repayment terms include interest only (4.35%) through June 2013, and monthly payments of \$29 thereafter. All remaining principal and interest is due February 2052. This mortgage is secured by the land, buildings, leases and other related assets of the Holy Infant & St. Joseph Associates, LP, an entity of the Archdiocese, and is insured by the United States Department of Housing and Urban Development (HUD).

On March 15, 2012, the Industrial Development Authority of St. Louis, Missouri, authorized the issuance of its Senior Housing Revenue Bonds (GNMA Collateralized-Holy Infant and St. Joseph Apartments) and delivered Series 2012 in the maximum aggregate principal amount of \$6,600, bearing interest at 3.95% and which mature on annual dates through February 2052. By terms of the issue, the County of St. Louis has no direct obligation for payment of the bonds. The Series 2012 Bonds are collateralized by a GNMA Security. The GNMA Security is backed by a 4.35% HUD insured loan with Lancaster Pollard Mortgage Company.

A non-interest bearing loan from the Missouri Housing Development Commission has been obtained by Holy Infant & St. Joseph Associates, LP, an entity of the Archdiocese, and has a current balance of \$2,200. Repayment terms include annual payments of 50% of surplus cash of Holy Infant & St. Joseph Associates, LP, an entity of the Archdiocese, for 40 years and the loan is secured by a mortgage on the facilities that is subordinate to the Lancaster Pollard mortgage.

St. John Neumann Associates, LP — During May 2015, St. John Neumann Associates, LP, an entity of the Archdiocese, entered into a loan agreement with Lancaster Pollard Mortgage Company with maximum borrowing of \$5.1 million in order to refinance existing HUD debt and finance renovations.

Repayment terms include interest only (3.52%) through June 2016, and monthly payments of \$20 thereafter. All remaining principal and interest is due April 2055. This mortgage is secured by the land, buildings, leases and other related assets of the St. John Neumann Associates, LP, an entity of the Archdiocese, and is insured by HUD.

On April 17, 2015, the Industrial Development Authority of St. Louis, Missouri, authorized the issuance of its Senior Housing Revenue Bonds (GNMA Collateralized – St. John Neumann Apartments) and delivered Series 2015 in the maximum aggregate principal amount of \$5,066, bearing interest at 3.10% and which mature on annual dates through April 2055. By terms of the issue, the County of St. Louis has no direct obligation for payment of the bonds. The Series 2015 Bonds are collateralized by a GNMA Security. The GNMA Security is backed by a 3.52% HUD insured loan with Lancaster Pollard Mortgage Company.

HUD Mortgages Eligible for Forgiveness — The certified HUD projects have mortgages with 40-year terms through HUD. These mortgages bear no interest and repayment is not required as long as the housing remains available for the purpose stipulated in each HUD agreement. However, if these facilities are used for other purposes, the mortgages would be considered to be in default and the entire principal would become immediately payable. Assuming no event of default by the end of the mortgage term, HUD will release the borrower from any repayment obligation. These mortgages have been recorded at their full, undiscounted face value. The amounts related to each mortgage are as follows:

Fiscal		
Year of Maturity		
2028	St. Patrick Center	\$ 400
2035	St. Agnes Apartments, Inc.	4,803
2036	Rosati Group Home	400
2039	Pope John Paul II Apartments, Inc.	4,970
2041	St. Patrick Apartments II, Inc.	4,327
2045	Holy Angels Apartments, Inc.	5,510
2045	St. Clare of Assisi Senior Village, Inc.	1,536
2047	Holy Angels Apartments II, Inc.	5,265
2048	St. Patrick Center	1,017
2050	St. William Apartments, Inc.	4,646
2052	St. William Apartments II, Inc.	4,800
		<u>\$ 37,674</u>

11. EMPLOYEE AND PRIESTS' BENEFITS

The Archdiocese participates in various defined contribution plans, including multi-employer plans, covering full-time employees of the Archdiocese who have completed one year of service and are not covered by other plans. Contributions under the plans are a percentage of participants' wages. Expense under these plans was \$3,499 and \$3,162 for the years ended June 30, 2016 and 2015.

The Archdiocese sponsors two defined benefit plans covering certain employees of Catholic Charities of St. Louis and the Catholic Cemeteries of St. Louis, entities of the Archdiocese (collectively the Plans). These plans generally cover all eligible employees of these entities who have completed one year of service. Retirement benefits for the plans are based on compensation and years of service. Assets for

these plans are largely invested with insurance companies and funding is determined by actuarial valuations or a percentage of compensation. The benefit obligation is recognized in the combined statement of financial position in other liabilities. Effective July 1, 2011, Catholic Charities of St. Louis amended its plan, which resulted in the following changes to the major plan provisions: 1) Benefit accruals ceased for participants as of June 30, 2011; 2) Compensation after July 1, 2011 is not included in the benefit calculation; and 3) No employee is eligible to become a plan participant in the plan on or after the effective date. Effective July 1, 2016, Catholic Cemeteries of St. Louis amended its plan, which resulted in the following changes: 1) the amendment became effective as of January 1, 2016; 2) provisions of the amendment apply to participants who terminate employment on or after January 1, 2016; 3) a separate plan and trust, which shall maintain the rights, benefits and privileges based upon the plan in effect at time of termination, will be created for former participants and beneficiaries who are currently collecting a monthly benefit; and 4) termination of the plan for active employees.

The Archdiocese has a potential obligation to a number of education personnel for an early retirement incentive. The obligation is based on compensation at retirement or compensation as of the last year of teaching.

The liability for the Plans and the teachers' early retirement contractual obligation is included in the balance of Other Liabilities in the Statement of Financial Position.

In addition to the above employee benefit plans, the Archdiocese sponsors retirement benefits for priests. The benefits include medical, disability, death, infirm and housing, and, in certain limited circumstances, salary continuation for early retirees.

The Archdiocese uses a June 30 measurement date for its two defined benefit plans and the teachers' early retirement contractual obligation ("Benefit Plans") and for the priests' retirement benefits.

Summary information at June 30 is as follows:

	Benefit Plans		Priests' Retirement Benefits	
	2016	2015	2016	2015
Projected benefit obligation	\$ (30,295)	\$ (30,572)	\$ (144,262)	\$ (144,977)
Fair value of plan assets	<u>12,461</u>	<u>13,717</u>	<u>-</u>	<u>-</u>
Funded status	<u>(17,834)</u>	<u>(16,855)</u>	<u>(144,262)</u>	<u>(144,977)</u>
Accrued benefit cost	<u>\$ (17,834)</u>	<u>\$ (16,855)</u>	<u>\$ (144,262)</u>	<u>\$ (144,977)</u>
Accumulated benefit obligation	<u>\$ (29,742)</u>	<u>\$ (29,893)</u>		
Benefit costs	\$ 1,387	\$ (1,337)	\$ 5,045	\$ 23,883
Employer contributions	1,538	1,161	5,760	5,592
Benefits paid	(2,913)	(1,588)	(5,760)	(5,592)

The pension plans recognized as a component of benefit cost for the years ended June 30, 2016 and 2015 the following:

	Benefit Plans		Priests' Retirement Benefits	
	2016	2015	2016	2015
Service cost	\$ 1,139	\$ (1,320)	\$ 2,615	\$ 2,268
Interest cost	779	758	6,671	5,564
Expected return on plan assets	(1,035)	(874)	-	-
Recognized actuarial (gain) or loss	175	99	(4,241)	16,051
Loss due to settlement	329	-	-	-
	<u>\$ 1,387</u>	<u>\$ (1,337)</u>	<u>\$ 5,045</u>	<u>\$ 23,883</u>

Amounts recognized on the statement of activities for pension changes other than net periodic benefit costs consist of the following:

	2016	2015
Net loss - pension plan	\$ 1,307	\$ 521
Net prior service cost	<u>(174)</u>	<u>(130)</u>
	<u>\$ 1,133</u>	<u>\$ 391</u>

Items not yet recognized as a component of net periodic pension cost at June 30, 2016 and 2015:

	2016	2015
Net loss	\$ 5,019	\$ 3,887

Estimated effect in the next fiscal year of amortizing items not yet recognized as a component of net periodic pension cost:

Net loss	\$ 309
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No plan assets are expected to be returned to the Archdiocese during the year ending June 30, 2017. The weighted average actuarial assumptions used in determining the benefit obligation areas follows:

	Benefit Plans		Priests' Retirement Benefits	
	2016	2015	2016	2015
Weighted-average assumptions:				
Discount rate	4.00%-4.20%	4.20%-4.70%	4.00%	4.70%
Expected return on plan assets	7.50%-8.00%	7.50%-8.00%	N/A	N/A
Rate of compensation increase	0.0%-2.00%	0.0%-3.00%	N/A	N/A

The weighted average actuarial assumptions used in determining the net periodic pension cost are as follows:

	Benefit Plans		Priests' Retirement Benefits	
	2016	2015	2016	2015
Weighted-average assumptions:				
Discount rate	4.00%-4.25%	4.50%	4.70 %	4.50%
Expected return on plan assets	7.50%-8.00%	7.50%-8.00%	N/A	N/A
Rate of compensation increase	0.0%-2.00%	0.0%-3.00%	N/A	N/A

The Archdiocese's long-term, annual rate-of-return-on-assets assumption is determined based upon a combination of review of historical returns on pension plan assets, and advice from the plan actuaries and investment managers as to general expectations of long-term prospective returns on plan assets.

Asset allocations for the funded defined benefit plans are as follows:

	2016		2015	
	Amount	%	Amount	%
Equity	\$ 7,616	61 %	\$ 8,807	64 %
Fixed income	3,679	30	3,581	26
Cash	1,166	9	1,329	10
Total	<u>\$ 12,461</u>	<u>100 %</u>	<u>\$ 13,717</u>	<u>100 %</u>

For the two funded defined benefit plans, the Archdiocese makes investment decisions to seek to increase the value of plan assets while recognizing the need to preserve asset value in order to enhance the ability of the plans to meet their obligations to plan participants and their beneficiaries when due. The preservation of capital is of prime importance to achieve the stated objectives over a long-term time horizon. To achieve this obligation, the Catholic Charities of St. Louis plan maintains an investment composition of approximately 60% equity securities and 40% fixed income securities, including cash and cash equivalents. The Catholic Cemeteries of St. Louis plan maintains an investment composition of approximately 70% equity securities, 27% fixed income securities, and 3% cash.

In accordance with ASC 820-10, the Plans classify the pension plan investments into Level 1, which refers to securities valued using quoted prices from active markets for identical assets; Level 2, which refers to securities not traded on an active market but for which observable market inputs are readily available; and Level 3, which refers to securities valued based on significant unobservable inputs. As required by ASC 820-10, assets and liabilities are classified in their entirety based on the lowest level of

input that is significant to the fair value measurement. The valuation of plan assets measured at fair value at June 30, 2016 and 2015 is summarized below:

Fair Value Measurements at June 30, 2016				
	Fair Value June 30, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Short-term money market investments	\$ 1,166	\$ 82	\$ 1,084	\$ -
Fixed income funds	431	431		
Common stock (a)	1,005	1,005		
Common stock separate accounts (b)	6,611	-	6,611	-
Bond separate accounts (c)	<u>3,248</u>	<u>-</u>	<u>3,248</u>	<u>-</u>
Total investments	<u>\$ 12,461</u>	<u>\$ 1,518</u>	<u>\$ 10,943</u>	<u>\$ -</u>

Fair Value Measurements at June 30, 2015				
	Fair Value June 30, 2015	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Short-term money market investments	\$ 1,329	\$ 177	\$ 1,152	\$ -
Fixed income funds	484	484	-	-
Common stock (a)	1,084	1,084	-	-
Common stock separate accounts (b)	7,723	-	7,723	-
Bond separate accounts (c)	<u>3,097</u>	<u>-</u>	<u>3,097</u>	<u>-</u>
Total investments	<u>\$13,717</u>	<u>\$ 1,745</u>	<u>\$11,972</u>	<u>\$ -</u>

- (a) This category represents a portfolio of equity investments comprised of U.S. equities. The equities are comprised of investments focusing on large, mid and small cap companies.
- (b) This category represents a portfolio of equity investments comprised of equity index funds that invest in U.S. equities and non-U.S. equities. The equities are comprised of investments focusing on large, mid and small cap companies and non-U.S. equities are comprised of international funds.
- (c) This category represents a portfolio of fixed income investments in mutual funds comprised of investment grade U.S. government bonds and notes and corporate bonds from diverse industries.

The Archdiocese plans to contribute \$1,427 to the defined benefit plans and \$5,842 for priests' retirement benefits in 2017.

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

	Benefit Plans	Priests' Retirement Benefits
2017	\$ 6,119	\$ 5,842
2018	4,000	6,033
2019	3,208	6,251
2020	3,526	6,471
2021	1,975	6,622
Years 2022–2026	7,690	36,538

The assumed future healthcare cost trend rate is approximately 6%–10%, gradually declining to 5.0% over eight years.

In December 2003 the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the “Act”) was signed into law. The Act introduced a prescription drug benefit under Medicare (Medicare Part D) and a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent (as that term is defined in the Act) to Medicare Part D. ASC 715-60, *Compensation-Retirement Benefits*, permits a sponsor of a postretirement health care plan that provides a prescription drug benefit to make a one-time election to defer accounting for the effects of the Act.

The Archdiocese recognized the effects of the Act on the Archdiocese’s priests’ retirement benefit obligation in 2005. The Archdiocese has qualified for the subsidy under the Act since the prescription drug benefits provided under the Archdiocese’s postretirement healthcare plan generally requires lower premiums from covered retirees and has lower deductibles than the benefits provided in Medicare Part D and, therefore, are “actuarially equivalent” to or better than the benefits provided under the Act. In addition, the Archdiocese does not anticipate any material change in the participation rate or per capita claims costs as a result of the Act. The subsidy lowered the priests’ retirement benefit obligation cumulatively by approximately \$5,022 and \$3,225 in 2016 and 2015, respectively, and reduced the net periodic benefit cost for 2016 by approximately \$215, including a \$65 reduction in service cost and \$150 reduction in interest cost on the benefit obligation. It reduced the net periodic benefit cost for 2015 by approximately \$198, including a \$62 reduction in service cost and \$136 reduction in interest cost on the benefit obligation.

In October 2014, the Society of Actuaries finalized pension mortality tables that increase lifetime expectancy of the plan participants and as a result the Archdiocese’s Priests’ retirement benefit obligation. This change increased the Priests’ retirement benefit liability by \$18,000 for 2015.

12. LEASES

The Archdiocese leases office facilities and various office equipment under operating leases expiring through 2033. At June 30, 2016, future minimum rental payments related to the noncancelable operating leases are as follows:

2017	\$ 787
2018	553
2019	440
2020	395
2021	370
Thereafter	<u>1,415</u>
Total	<u>\$ 3,960</u>

Rent expense was \$1,637 and \$1,694, respectively, (\$54 and \$76, respectively, of contributed rent) in 2016 and 2015.

13. CONTINGENCIES

The Archdiocese is involved in various claims, proceedings, and legal actions. These actions can involve claims for compensatory or punitive damages, as well as other types of relief. Among the pending or potential legal claims against the Archdiocese are some related to allegations of past misconduct by clergy and others. While the ultimate resolution of claims, proceedings, or legal action cannot be predicted with certainty, management, based upon consultation with outside counsel, does not believe that any such claim, proceeding, or legal action, either alone or in the aggregate, will have a material adverse effect on the combined financial position of the Archdiocese but could be material to its changes in net assets or cash flows in one or more future years.

The Archdiocese is the general partner in several for profit enterprises. As general partner, the Archdiocese has made certain guarantees to fund operating deficiencies and priority returns. In addition, since these for profit enterprises were created for tax credit purposes, the Archdiocese has made guarantees to the limited partners for certain tax benefits. All of these for profit enterprises require compliance with certain terms, covenants and/or regulations. Non-compliance is a condition for default and recapture of credits. As of June 30, 2016, no such events have occurred.

The healthcare industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments of patient services previously billed. Management believes the Archdiocese is in substantial compliance with fraud and abuse statutes as well as other applicable government laws and regulations. While no regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

Financial awards from federal, state and local governments in the form of grants are subject to special audit. Such audits could result in claims against the Archdiocese for disallowed costs or noncompliance with grantor restrictions. No provision has been made for any liabilities that may arise from such audits since the amounts, if any, cannot be determined at this time.

As a condition for the Fund to make a \$1.4 million loan to a parish, the Archdiocese agreed to guarantee payment of the note. The guarantee will remain in effect as long as the credit agreement remains in effect. The Archdiocese does not carry a liability for the parish guarantee of \$1.4 million at June 30, 2016 and 2015 as management does not consider it probable that payment will be required under the guarantee.

14. NET ASSETS

Net assets at June 30, 2016 and 2015, are as follows:

	2016	2015
Unrestricted net assets:		
Undesignated	<u>\$ (57,388)</u>	<u>\$ (59,785)</u>
Designated:		
The St. Louis Archdiocesan Fund	95,155	96,196
Perpetual care fund investments in excess of future care cost liability	35,973	39,786
Self-funded insurance reserves	55,521	56,280
Catholic Charities Federation	9,972	13,493
Specific purposes designated by the Archdiocese	7,358	12,366
Property and equipment, net of notes payable	125,002	123,592
Endowments	<u>15,099</u>	<u>15,067</u>
Total designated	<u>344,080</u>	<u>356,780</u>
Noncontrolling interest in subsidiaries	<u>6,474</u>	<u>5,387</u>
Total unrestricted net assets	<u>293,166</u>	<u>302,382</u>
Temporarily restricted net assets:		
Time restricted	<u>7,235</u>	<u>7,082</u>
Purpose restricted:		
Capital expansion or replacement	3,118	4,126
Accumulated earnings on endowments	17,921	23,535
Other purposes	<u>7,929</u>	<u>7,689</u>
Total purpose restrictions	<u>28,968</u>	<u>35,350</u>
Total temporarily restricted net assets	<u>36,203</u>	<u>42,432</u>
Permanently restricted net assets:		
Endowments	64,892	64,436
Gift annuities	<u>108</u>	<u>161</u>
Permanently restricted net assets	<u>65,000</u>	<u>64,597</u>
Total net assets	<u>\$ 394,369</u>	<u>\$ 409,411</u>

15. ENDOWMENTS

The Archdiocese of St. Louis' endowments and earnings on endowments consist of 93 individual funds established for a variety of purposes including education, operations, scholarships, operations of the Kenrick Glennon Seminary, parish viability and fundraising campaigns. Its endowments include both donor-restricted endowment funds and funds designated by the Boards of Directors to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by Boards of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

All endowments within the combined financial statements of the Archdiocese are governed by endowment fund operating policies which are considered to be the gift instruments. The policies follow a standard format with a few optional changes. The definition of "Contribution Base" is standard among all policies.

For purposes of the operating policies, the "Contribution Base" is the total amount of all contributions and other transfers that have been made to the Endowment Fund by (i) donors, (ii) the parishes, and (iii) the Endowment Committee out of Endowment Fund Income.

This policy was established at the time that Missouri law favored "historical dollar value". Missouri enacted the Uniform Prudent Management of Institutional Funds Act in August 2009.

All endowments within the combined financial statements have adopted the Total Return Spending Policy (TRSP) (formerly called the Prudent Person Guideline). The TRSP suggests an amount to be distributed which is designed to allow for a reasonable stream of distributions, while preserving the value of the Endowment against inflation and a volatile market. The calculation applies an applicable distribution percentage (based on investment allocation of the endowment) to the average value of the endowment over a period of twelve calendar quarters. A distribution is allowed out of undistributed income only if undistributed income is positive. Appropriations from permanently restricted endowments may only be made upon receipt of further clarification from the donor or written approval from a donor to release principal from the endowment. Appropriations from temporarily restricted and board designated endowments may only be made by the agency's governing bodies and responsible officers. All endowments are invested in the Fund. The Endowment Committees of all accounts select from a variety of plans, each of which consists of three components: equity securities, fixed income securities, and cash accounts. Performance returns are calculated separately for each of these three components within the portfolio and allocated to each account based upon the percentage of equity securities, fixed income securities, and cash within the account during each month. In the absence of

donor stipulations laws to the contrary, losses on the investments shall reduce temporarily restricted net assets and any remaining loss reduces unrestricted net assets.

Endowment Net Asset Composition by Type of Fund as of June 30, 2016

	Unrestricted	Board Designated	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ (362)	\$ -	\$ 17,921	\$ 64,892	\$ 82,451
Board-designated endowment funds	<u>(171)</u>	<u>15,099</u>	<u>-</u>	<u>-</u>	<u>14,928</u>
	<u>\$ (533)</u>	<u>\$ 15,099</u>	<u>\$ 17,921</u>	<u>\$ 64,892</u>	<u>\$ 97,379</u>

Endowment Net Asset Composition by Type of Fund as of June 30, 2015

	Unrestricted	Board Designated	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ (199)	\$ -	\$ 23,535	\$ 64,436	\$ 87,772
Board-designated endowment funds	<u>(95)</u>	<u>15,067</u>	<u>-</u>	<u>-</u>	<u>14,972</u>
	<u>\$ (294)</u>	<u>\$ 15,067</u>	<u>\$ 23,535</u>	<u>\$ 64,436</u>	<u>\$ 102,744</u>

Changes in Endowment Net Assets

	Unrestricted	Board Designated	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets — June 30, 2014	\$ (165)	\$ 16,936	\$ 26,816	\$ 62,277	\$ 105,864
Investment return:					
Investment income	-	274	32	-	306
Net gain (loss) (realized and unrealized)	<u>-</u>	<u>(216)</u>	<u>338</u>	<u>-</u>	<u>122</u>
Total investment return	-	58	370	-	428
Contributions	-	408	10	2,159	2,577
Appropriation of endowment assets for expenditure	-	(2,337)	(3,788)	-	(6,125)
Other changes — transfers for deficiencies of endowment investments	<u>(129)</u>	<u>2</u>	<u>127</u>	<u>-</u>	<u>-</u>
Endowment net assets — June 30, 2015	(294)	15,067	23,535	64,436	102,744
Investment return:					
Investment income	-	295	1,693	-	1,988
Net gain (loss) (realized and unrealized)	<u>-</u>	<u>(695)</u>	<u>(3,802)</u>	<u>-</u>	<u>(4,497)</u>
Total investment return	-	(400)	(2,109)	-	(2,509)
Contributions	-	1,000	507	456	1,963
Appropriation of endowment assets for expenditure	-	(644)	(4,175)	-	(4,819)
Other changes — transfers for deficiencies of endowment investments	<u>(239)</u>	<u>76</u>	<u>163</u>	<u>-</u>	<u>-</u>
Endowment net assets — June 30, 2016	<u>\$ (533)</u>	<u>\$ 15,099</u>	<u>\$ 17,921</u>	<u>\$ 64,892</u>	<u>\$ 97,379</u>

16. NONCONTROLLING INTEREST IN SUBSIDIARIES

	Total	Controlling Interest	Noncontrolling Interest
Balance — June 30, 2014	\$ 5,617	\$ 717	\$ 4,900
Excess of expenses over revenues from operations	(363)	(19)	(344)
Capital contribution from noncontrolling interest, net of distribution	<u>831</u>	<u>-</u>	<u>831</u>
Change in unrestricted net assets	<u>468</u>	<u>(19)</u>	<u>487</u>
Balance — June 30, 2015	6,085	698	5,387
Excess of expenses over revenues from operations	(1,512)	(1,229)	(283)
Capital contribution from noncontrolling interest, net of distribution	<u>1,370</u>	<u>-</u>	<u>1,370</u>
Change in unrestricted net assets	<u>(142)</u>	<u>(1,229)</u>	<u>1,087</u>
Balance — June 30, 2016	<u>\$ 5,943</u>	<u>\$ (531)</u>	<u>\$ 6,474</u>

17. RELATED PARTY TRANSACTIONS

The financial activities of the Archdiocese include transactions with related parties. These transactions are entered into in the normal course of business and are included in the combined financial statements as follows:

	2016	2015
Revenues and gains for the year ended June 30:		
Contributions and grants from parishes and parish schools	\$ 907	\$ 960
Fees and assessments (1)	29,257	28,476
Insurance premiums (2)	30,221	27,859
Expenses for the year ended June 30:		
Grants to parishes and parish schools	12,696	19,466
Occupancy expense	118	94
Fees and services	55	58

- (1) Annually, the Archdiocese charges the parishes and elementary schools an assessment to fund the cost of Archdiocesan administration and administration in the Catholic Education Office and to provide a portion of the funding for the Archdiocesan secondary schools. In addition, fees are charged for participation in the priests' retirement program, subscriptions to the St. Louis Review and other support services.
- (2) The Archdiocese assesses individual parishes and schools insurance premiums for participation in the Archdiocesan self-insurance programs for property, general liability, workers' compensation and health insurance.

18. SUBSEQUENT EVENT

The preparation of combined financial statements in accordance with GAAP requires the consideration of events or transactions that occur after the financial statement date but before the financial statements are issued or available to be issued. Depending on the nature of the subsequent event, financial statement recognition or disclosure of the subsequent event is required. In preparing its financial statements, the Archdiocese has evaluated subsequent events through November 2, 2016, the date the financial statements were available to be issued. There have been no subsequent events of a significant or material nature except as follows. In September 2016, the Archbishop approved the closing of John F. Kennedy Catholic High School at the end of the 2016-2017 school year. Management has performed a recoverability test on the program and assets held and have determined that no impairment loss needs to be recognized.

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