

**PRIESTS' MUTUAL BENEFIT  
SOCIETY OF THE DIOCESE  
OF JEFFERSON CITY, INC.**

Jefferson City, Missouri

**INDEPENDENT AUDITORS' REPORT**

For The Year Ended June 30, 2011

# **TABLE OF CONTENTS**

	<u>PAGE</u>
<b>INDEPENDENT AUDITORS' REPORT</b> .....	1
<b>FINANCIAL STATEMENTS:</b>	
Statement of Financial Position.....	2
Statement of Activities.....	3
Statement of Cash Flows (Indirect Method).....	4
Notes to the Financial Statements.....	5 – 10



# Evers & Company, CPA's, L.L.C.

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## INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of the  
**Priests' Mutual Benefit Society of the Diocese of Jefferson City, Inc.**  
Jefferson City, Missouri:

We have audited the accompanying statement of financial position of the **Priests' Mutual Benefit Society of the Diocese of Jefferson City, Inc.** (PMBS) (a nonprofit organization) as of June 30, 2011, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of PMBS's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the **Priests' Mutual Benefit Society of the Diocese of Jefferson City, Inc.** as of June 30, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

*Evers & Company, CPA's, LLC*

EVERS & COMPANY, CPA's, L.L.C.  
Jefferson City, Missouri

November 8, 2011

**PRIEST MUTUAL BENEFIT SOCIETY OF THE DIOCESE  
OF JEFFERSON CITY, INC.**

Jefferson City, Missouri

**STATEMENT OF FINANCIAL POSITION**

June 30, 2011

**Assets**

Cash and cash equivalents	\$ 56,106
Investments, at fair value	
Funds on Deposit with The Catholic Diocese of Jefferson City Fund:	
Deposit and loan program	775,324
Cash and cash equivalents	63,776
Fixed income securities	4,084,206
Equity endowment	<u>2,762,191</u>
Total Investments	<u>7,685,497</u>
 Pledged contributions receivable, net	 <u>873,416</u>
 Total Assets	 <u><u>\$ 8,615,019</u></u>

**Liabilities**

Accounts payable	<u>\$ 56</u>
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**Net Assets**

Unrestricted	3,609,967
Permanently restricted	<u>5,004,996</u>
Total Net Assets	<u><u>8,614,963</u></u>
 Total Liabilities and Net Assets	 <u><u>\$ 8,615,019</u></u>

See accompanying notes to the financial statements.

**PRIEST MUTUAL BENEFIT SOCIETY OF THE DIOCESE  
OF JEFFERSON CITY, INC.**  
Jefferson City, Missouri

**STATEMENT OF ACTIVITIES**  
For the Year Ended June 30, 2011

Revenues, Gains, and Other Support	Unrestricted	Permanently Restricted	Total
Contributions	\$ 464,475	\$ 42,236	\$ 506,711
Other income	2	-	2
Investing activity			
Investment income	249,343	-	249,343
Net unrealized gain (loss) on investments	350,325	-	350,325
Total Revenues, Gains, and Other Support	<u>1,064,145</u>	<u>42,236</u>	<u>1,106,381</u>
<b>Expenses</b>			
Retirement benefits	409,630	-	409,630
Health insurance benefits	103,898	-	103,898
Conferences attended	2,591	-	2,591
Administrative expenses	24,633	-	24,633
Total Expenses	<u>540,752</u>	<u>-</u>	<u>540,752</u>
Change in net assets	<u>523,393</u>	<u>42,236</u>	<u>565,629</u>
Net assets, beginning of year	3,086,574	5,003,787	8,090,361
Prior period adjustment	-	(41,027)	(41,027)
Net assets, beginning of year, as restated	<u>3,086,574</u>	<u>4,962,760</u>	<u>8,049,334</u>
Net assets, end of year	<u>\$ 3,609,967</u>	<u>\$ 5,004,996</u>	<u>\$ 8,614,963</u>

See accompanying notes to the financial statements.

**PRIEST MUTUAL BENEFIT SOCIETY OF THE DIOCESE  
OF JEFFERSON CITY, INC.**

Jefferson City, Missouri

**STATEMENT OF CASH FLOWS (INDIRECT METHOD)**

For the Year Ended June 30, 2011

Cash Flows from Operating Activities		
Change in net assets	\$	565,629
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Net unrealized and realized losses/(gains) on investments		(350,325)
Decrease in pledged contributions receivable		1,343,129
Increase in accounts payable		56
Net Cash Provided (Used) by Operating Activities		<u>1,558,489</u>
Cash Flows from Investing Activities		
Proceeds from maturity/sale of investments		242,000
Purchase of investments		<u>(1,810,333)</u>
Net Cash Provided (Used) by Investing Activities		<u>(1,568,333)</u>
Net change in cash and cash equivalents		(9,844)
Cash and cash equivalents - beginning of year		<u>65,950</u>
Cash and cash equivalents - end of year	\$	<u><u>56,106</u></u>

**Supplemental Disclosures of Cash Flow Information:**

Cash paid during the year for:

Income taxes	\$	-
Interest	\$	-

See accompanying notes to the financial statements.

**PRIESTS' MUTUAL BENEFIT SOCIETY OF THE DIOCESE  
OF JEFFERSON CITY, INC.**  
Jefferson City, Missouri

**NOTES TO THE FINANCIAL STATEMENTS**  
For The Year Ended June 30, 2011

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

**Organization and Nature of Activities**

The Priests' Mutual Benefit Society of the Diocese of Jefferson City, Inc. (PMBS) is a nonprofit organization designed to provide retirement and health insurance benefits exclusively for priests of the Diocese of Jefferson City. PMBS was organized on April 1, 1988, to provide benefits to priests who retired after July 1, 1981. PMBS is governed by a Board of Trustees consisting of the Bishop, four elected priests, and two persons appointed by the Bishop. The Board is responsible for determining the amount of benefits.

**Basis of Accounting**

The books and records of PMBS are maintained and the financial statements are prepared on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

**Basis of Presentation**

PMBS is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets based upon the existence or absence of donor-imposed restrictions. As of June 30, 2011, PMBS had unrestricted and permanently restricted net assets and no temporarily restricted net assets.

**Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and changes therein and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

**PRIESTS' MUTUAL BENEFIT SOCIETY OF THE DIOCESE  
OF JEFFERSON CITY, INC.**  
Jefferson City, Missouri

**NOTES TO THE FINANCIAL STATEMENTS**  
For The Year Ended June 30, 2011

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Cont'd)**

**Cash and Cash Equivalents**

Cash and cash equivalents are defined as cash balances held in bank accounts and short term investments with an original maturity no longer than three months. Deposit accounts designated for long-term purposes or received with donor-imposed restrictions limiting the use to long-term purposes are not considered cash and cash equivalents.

PMBS also maintains some deposits with the Catholic Diocese of Jefferson City Fund. However, PMBS does not consider funds on deposit with the Diocese of Jefferson City Fund to be cash equivalents and accounts for them like other investments.

**Income Tax**

PMBS is exempt from federal income tax as part of the Catholic Church under provisions of Section 501(c)(3) of the Internal Revenue Code. In addition, due to religious activities, PMBS is not required to file an IRS Form 990. However, income from certain activities not directly related to the Fund's exempt purpose is subject to taxation as unrelated business income. The Fund has no unrelated business income for the year ended June 30, 2011.

**Fair Value Measurements**

Market value was determined using Level 1 inputs for equity funds, which are quoted market prices for identical securities in active markets and Level 2 inputs for fixed income securities, which are quoted prices for similar securities in active markets. Level 2 inputs were derived using the market approach, which is a valuation technique that uses prices and other relevant information generated by market transactions involving identical or comparable (that is, similar) assets, liabilities, or a group of assets and liabilities, such as a business. The market prices were derived from investment broker statements as of June 30, 2011. Fair value measurements using Level 3 inputs for pledged contribution receivables are unobservable inputs for the asset and rely on management's own assumptions. Level 3 inputs were derived using the income approach, which is a valuation technique used to convert future cash flows to a single present amount. The measurement is based on the value indicated by current market expectations about those future cash flows.

**Other Contributions**

The Diocese of Jefferson City provides annual contributions from the Catholic Stewardship Appeal and other sources. Although it has not expressed any intention to do so, the Diocese of Jefferson City may reduce annual contributions as they deem necessary.



**PRIESTS' MUTUAL BENEFIT SOCIETY OF THE DIOCESE  
OF JEFFERSON CITY, INC.**  
Jefferson City, Missouri

**NOTES TO THE FINANCIAL STATEMENTS**  
For The Year Ended June 30, 2011

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Cont'd)**

**Pledged Contributions Receivable**

The Diocese of Jefferson City Jubilee Fund conducted the Grateful Memories Faithful Future Capital Campaign in which donors could designate their contributions to the PMBS. These pledges are recognized as contributions when the donor makes a promise to give to PMBS that is, in substance, unconditional. These unconditional promises to give due in the next year are reflected as pledged contributions receivable in less than one year in Note 3 and are recorded at their net realizable value. The unconditional promises to give due in subsequent years are reflected as pledged contributions receivable in one to five years in Note 3 and are recorded at the present value of their net realizable value, using risk-free interest rates applicable to the years in which the promises are to be received to discount the amounts. The payments made on this receivable are based on the collection of the pledges within the Diocese of Jefferson City Jubilee Fund. An allowance for uncollectible promises is provided based on management's evaluation of potential uncollectible promises receivable at year end. The discount at June 30, 2011 was \$2,504.

**Subsequent Events**

PMBS evaluates events and transactions occurring subsequent to the date of the financial statements for matters requiring recognition or disclosure in the financial statements. The accompanying financial statements consider events through November 8, 2011, which is the date the financial statements were available to be issued.

**NOTE 2 – CONCENTRATIONS:**

PMBS invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the amounts reported in the statement of financial position.

PMBS places its cash and cash equivalents with credit-worthy, high quality financial institutions. Balances at these institutions are insured by FDIC up to \$250,000. There were no uninsured balances as of June 30, 2011.

PMBS has funds on deposit with the Catholic Diocese of Jefferson City Fund of \$775,324 which comprise 9% of PMBS's net assets. PMBS also has investments held in the name of the Catholic Diocese of Jefferson City Fund of \$6,910,173 which comprises 80% of PMBS's net assets.

**PRIESTS' MUTUAL BENEFIT SOCIETY OF THE DIOCESE  
OF JEFFERSON CITY, INC.**  
Jefferson City, Missouri

**NOTES TO THE FINANCIAL STATEMENTS**  
For The Year Ended June 30, 2011

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**NOTE 3 - RELATED PARTY:**

PMBS is related through the Bishop of the Diocese of Jefferson City to the following entities: The Catholic Diocese of Jefferson City; The Catholic Diocese of Jefferson City Fund; Diocesan Excellence in Education Fund, Inc.; The Diocese of Jefferson City Jubilee Fund; the Fr. Augustine Tolton Regional Catholic High School in Columbia; Helias Catholic High School in Jefferson City; The Jefferson City Diocesan Chancery Building Fund, Inc; and all parishes under the Bishop. PMBS maintains separate books and records. All financial information for the above entities is presented separately and is excluded from this report.

During the fiscal year, The Catholic Diocese of Jefferson City Fund allocated net investment income to PMBS of \$576,690 on the investments held in its name for PMBS. As of June 30, 2011, the account balance held by The Catholic Diocese of Jefferson City Fund was \$6,910,173.

The Catholic Diocese of Jefferson City Fund holds investments in the deposit and loan program for PMBS of \$775,324 as of June 30, 2011. During the fiscal year ended June 30, 2011, The Catholic Diocese of Jefferson City Fund paid \$7,602 in interest income to PMBS for these investments.

During the fiscal year ended June 30, 2011, PMBS deposited \$1,576,365 and made withdrawals of \$242,000 from accounts with The Catholic Diocese of Jefferson City Fund.

During the fiscal year ended June 30, 2011, the Diocese of Jefferson City contributed \$439,700 in funding to the Priests' Mutual Benefit Society of the Diocese of Jefferson City, Inc.. The Diocese of Jefferson City also invoiced PMBS \$132,588 during the year for reimbursement of retirement payments, health insurance premiums, accounting and administrative support, and conference fees. As of June 30, 2011, PMBS had paid \$132,532, leaving a balance due of \$56.

As of June 30, 2011, the Diocese of Jefferson City Jubilee Fund owes PMBS \$875,920 for contributions that have been pledged for priest retirement.

Pledged contributions receivable at June 30, 2011, are as follows:

Contributions Receivable from Diocese of Jefferson City	
Jubilee Fund	\$ 875,920
Less: discounts to net present value and allowance for uncollectible	<u>(2,504)</u>
	<u>\$ 873,416</u>

Discount rate used on long-term promises to give was 4.16%.

Receivable in less than one year	\$ 815,154
Receivable in one to five years	<u>60,766</u>
	<u>\$ 875,920</u>

**PRIESTS' MUTUAL BENEFIT SOCIETY OF THE DIOCESE  
OF JEFFERSON CITY, INC.**  
Jefferson City, Missouri

**NOTES TO THE FINANCIAL STATEMENTS**  
For The Year Ended June 30, 2011

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**NOTE 4 – FUNCTIONAL ALLOCATION OF EXPENSES:**

PMBS categorizes its expenses as follows:

*Program services* relate to activities that result in goods and services being distributed to beneficiaries that fulfill the purposes or mission for which the organization exists. PMBS considers all expenses, excluding support services, to be program services.

*Support services* relate to the administrative activities that are not identifiable with a single program or activity, but that are indispensable to the conduct of those activities and to PMBS's existence.

Expenses by function for the year ended June 30, 2011 were as follows:

EXPENSES	
Program services	
Retirement Benefits	\$409,630
Health Insurance Benefits	103,898
Supporting services	
Management and general	<u>27,224</u>
TOTAL EXPENSES	<u>\$540,752</u>

**NOTE 5 – PERMANENTLY RESTRICTED NET ASSETS:**

Permanently restricted net assets consist of contributions made to PMBS through the Grateful Memories Faithful Future campaign ran by the Diocese of Jefferson City Jubilee Fund, and other miscellaneous restricted donations. These contributions are to be held indefinitely. Only the income from these assets can be used to support the purposes of PMBS.

Investment Return Objectives, Risk Parameters and Strategies

PMBS has adopted investment policies, approved by the Board of Trustees, for assets that attempt to provide a predictable stream of funding to PMBS programs while also maintaining the purchasing power of those assets over the long-term. Accordingly, the investment process seeks to achieve an average total annual rate of return which consists of the Consumer Price Index (CPI) plus 4%. Assets are invested in a diversified asset mix, which includes equity and fixed income securities. PMBS expects its assets, over time, to produce an average rate of return of approximately 6% annually. Actual returns in any given year may vary from this amount.

Spending Policy

PMBS sets its spending policy at a rate to ensure the assets grow at a nominal average rate of 4% annually. This is consistent with PMBS's objective to maintain the purchasing power of the assets as well as to provide additional real growth through new gifts and investment return.

**PRIESTS' MUTUAL BENEFIT SOCIETY OF THE DIOCESE  
OF JEFFERSON CITY, INC.**  
Jefferson City, Missouri

**NOTES TO THE FINANCIAL STATEMENTS**  
For The Year Ended June 30, 2011

**NOTE 6 – FAIR VALUE MEASUREMENTS:**

Fair values of assets measured on a recurring basis at June 30, 2011 are as follows:

	Cost	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Quoted Prices in Active Markets for Similar Assets (Level 2)	Significant Unobservable Inputs (Level 3)
Equity Securities	\$ 2,552,850	\$ 2,762,191	\$ 2,762,191	\$ -	-
Fixed Income Securities	4,001,047	4,084,206	-	4,084,206	-
Pledged Contributions Receivable, net	873,416	873,416	-	-	873,416

Fair value for the pledged contributions receivable is determined by calculating the present value of future contributions expected to be received, using a 4.16% discount rate.

**Pledged Contributions Receivable, net**

Balance, July 1, 2010	\$ 2,216,545
Change in allowance and discount	42,236
Payments from Jubilee Fund	<u>(1,385,365)</u>
Balance, June 30, 2011	<u>\$ 873,416</u>

**NOTE 7 – PRIOR PERIOD ADJUSTMENT:**

PMBS calculates the present value of future cash flows for pledges expected to be collected in more than one year. This fair value measurement method of valuing the pledges allows for contribution revenue to be recognized consistently over the time period of the pledge. During the current year it was noted that the discount factor used to calculate the present value of future cash flows for pledges had been revised annually. Generally accepted accounting principles allows for the change in present value due only to the passage of time and not the change in discount rate. A prior period adjustment was made at June 30, 2010 to restate net assets and contributions receivable by a decrease of \$41,027.