

**FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT**

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

**June 30, 2012**

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

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## Independent Auditors' Report

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

We have audited the accompanying statement of net assets available for benefits of the Priests' Mutual Benefit Society of the Diocese of Jefferson City, Inc. (the "Plan") as of June 30, 2012, and the related statement of changes in net assets available for benefits for the year then ended. These financial statements are the responsibility of the Plan'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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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.

As discussed in Note 8 to the financial statements, the Plan's financial statements do not include a comparative statement of net assets available for benefits. The financial statements also do not present information regarding the Plan's accumulated benefits and the changes in accumulated benefits as required by accounting principles generally accepted in the United States of America. The Plan's Board of Trustees has not quantified the amount of, or changes in, the Plan's accumulated benefits and, in the absence of an actuarial determination, these amounts and their effects on the financial statements are not reasonably determinable.

In our opinion, except for the effect on the financial statements of the matters discussed in the preceding paragraph, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial status of the Priests' Mutual Benefit Society of the Diocese of Jefferson City, Inc. as of June 30, 2012, and the changes in its financial status for the year then ended in conformity with accounting principles generally accepted in the United States of America.

*Kerker, Eck & Brunkel LLP*

St. Louis, Missouri  
December 3, 2012

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

**STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS**  
June 30, 2012

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<b>Assets</b>	
Cash and cash equivalents	\$ 33,964
Investments	
Funds on deposit with The Catholic Diocese of Jefferson City Fund	
Depositor's fund	1,022,462
Pooled investments	7,671,260
Pledged contributions receivable, net	<u>75,071</u>
 Total assets	 8,802,757
 Permanently restricted net assets - unavailable for benefits	 <u>5,007,365</u>
 Net assets available for benefits	 <u>\$ 3,795,392</u>

See accompanying notes to the financial statements.

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

**STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS**  
Year Ended June 30, 2012

	<u>Total</u>
<b>Additions</b>	
Contributions	
Employer	\$ 325,000
Other	300
	<u>325,300</u>
Investment Income	
Interest and dividends	253,409
Gain on sale of investments	27,962
Net appreciation in fair value of investments	67,165
	<u>348,536</u>
Total additions	673,836
<b>Deductions</b>	
Benefits paid to participants	
Retirement benefits	351,893
Health insurance benefits	105,669
Conferences attended	1,682
Administrative expenses	29,167
	<u>488,411</u>
Total deductions	488,411
Net Increase	185,425
Net assets available for benefits at July 1, 2011	<u>3,609,967</u>
Net assets available for benefits at June 30, 2012	<u>\$ 3,795,392</u>

See accompanying notes to the financial statements.

**PRIESTS' MUTUAL BENEFIT SOCIETY OF THE DIOCESE  
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Jefferson City, Missouri

**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2012

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**NOTE 1 – DESCRIPTION OF PLAN**

The following brief description of the Priests' Mutual Benefit Society of the Diocese of Jefferson City, Inc. (the Plan) is provided for general information purposes only. Participants should refer to the Plan document for a more complete description of the Plan's provisions.

General

The Plan is a noncontributory defined benefit plan established on April 1, 1988, to provide retirement and health insurance benefits exclusively for priests of the Diocese of Jefferson City (Diocese) who retire after July 1, 1981. The Plan is governed by a Board of Trustees consisting of the Bishop of the Diocese of Jefferson City, four elected priests, and two persons appointed by the Bishop.

Eligibility

Priests become participants of the Plan on the first day of the month following incardination or ordination.

Pension Benefits

Benefits are determined from time to time by the Bishop of the Diocese of Jefferson City, following a recommendation of the Trustees of the Plan. A priest may receive the maximum benefit in effect at the time of his retirement provided he has delayed his retirement until age 70 and has at least 20 years of service. A priest who retires prior to age 70 may receive a reduced benefit of one half of one percent per month for every month prior to age 70 the priest actually retires. A priest who retires prior to completing 20 years of service with the Diocese because he was incardinated into the Diocese or ordained after age 50, would have reduced benefits as determined by the Bishop of the Diocese of Jefferson City after consultation with the Trustees of the Plan. Benefits are paid only upon actual retirement and only during the life of the priest. The maximum monthly pension benefit payable during the period from July 1, 2011 to May 31, 2012 was \$1,553. Effective June 1, 2012, the maximum monthly pension benefit was increased to \$1,600.

**PRIESTS' MUTUAL BENEFIT SOCIETY OF THE DIOCESE  
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**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2012

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**NOTE 1 – DESCRIPTION OF PLAN** (Cont'd)

Disability Benefits

Prior to normal retirement age of 70, the Plan provides for disability benefits in an amount equal to the amount of the normal retirement benefit, with reduction for awards made as a result of injuries suffered while engaged in activities that are work-related. To be eligible for disability benefits under the plan the priest must be unable to perform his customary duties and to follow his regular activities by reason of any medically determined physical or mental impairment which can be expected to result in death or which has lasted or can be expected to last for a continuous period of not less than twelve (12) months.

Health Insurance Benefits

The Plan pays for health insurance premiums of retired and disabled priests which is a secondary payer to Medicare.

Vesting

Participants in the Plan do not vest in retirement benefits provided under the Plan.

In the event a priest who is a participant in the Plan leaves active service with the Diocese to be incardinated into another diocese, a payment not to exceed an amount established by the Trustees may be made to the other diocese in connection with such transfer.

Contributions and Funding Policy

The Diocese, affiliated entities and other persons may make contributions to the Plan in amounts sufficient to fund the Plan. During the year ended June 30, 2012, the amount contributed by the Diocese was \$325,000.

Other

The Diocese intends to continue this Plan indefinitely; however, the Diocese reserves the right to adjust the benefits payable to any participant at any given time. The benefit may be adjusted upward, downward or eliminated altogether by the Bishop of the Diocese of Jefferson City following consultation with the Trustees of the Plan. In the event the Plan is terminated, the assets of the Plan will continue to be used exclusively to provide retirement and health insurance benefits for the retired and disabled priests of the Diocese of Jefferson City.



**PRIESTS' MUTUAL BENEFIT SOCIETY OF THE DIOCESE  
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**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2012

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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Basis of Accounting

The books and records 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.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

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

Income Tax Status

The plan is exempt from taxation pursuant to Section 501(a) as an organization described in Section 501(c)(3) of the Internal Revenue Code. Therefore, no provision for income taxes has been made in the financial statements. As a "church plan," it is generally not subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

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**NOTES TO THE FINANCIAL STATEMENTS**  
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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Cont'd)

Investments

Investments are reported at fair value. The Plan's investments are managed with investments of affiliates in the Catholic Diocese of Jefferson City Fund. Fair value of the underlying investments in the Catholic Diocese of Jefferson City Fund 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 cash and cash equivalents and 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 fair value was derived from investment broker statements as of June 30, 2012. Fair value measurements using Level 3 inputs for pledged contributions receivable 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 value amount. The measurement is based on the value indicated by current market expectations about those future cash flows.

Pooled investment fund interest and dividends, realized gains and losses, and unrealized gains and losses are allocated based on the proportionate share of each entity's fair value at the time of allocation. The financial statements of each entity reflect only that entity's share of the pooled fund.

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 Plan. These pledges are recognized as contributions when the donor makes a promise to give to the Plan that is, in substance, unconditional. An unconditional promise has also been made by the Board of the Directors of the Diocese of the Jefferson City Jubilee Fund to give a portion of the undesignated pledges they received from the Campaign to the Plan. These unconditional promises to give due in the next year are reflected as pledged contributions receivable in less than one year in Note 7 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 7 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. The discount at June 30, 2012 was \$135.

**PRIESTS' MUTUAL BENEFIT SOCIETY OF THE DIOCESE  
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Jefferson City, Missouri

**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2012

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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Cont'd)

Payment of Benefits

Benefit payments to participants are recorded when paid.

Administrative Expenses

The Plan is responsible for paying the majority of the administrative expense. Most expenses are paid by the Diocese, the Plan Sponsor, and reimbursed by the Plan.

Subsequent Events

The Plan 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 December 3, 2012, which is the date the financial statements were available to be issued.

**PRIESTS' MUTUAL BENEFIT SOCIETY OF THE DIOCESE  
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**NOTES TO THE FINANCIAL STATEMENTS**  
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**NOTE 3 – INVESTMENTS**

A portion of the Plan's investments are held in a pooled investment account with the Catholic Diocese of Jefferson City Fund. Pooled investments include common stocks, equity mutual funds, municipal bonds, U.S. government agency securities, fixed income mutual funds and cash and cash equivalents. The Plan's investments at June 30, 2012 were allocated 1% to cash and cash equivalents, 40% equities and 59% fixed income.

The Plan deposits funds in excess of three months of operating needs in the Catholic Diocese of Jefferson City Fund. The Depositor's fund program operates similar to a money market account and pays interest on the deposited funds competitive with current market rates. Interest rates on deposits varied at June 30, 2012 from 1.75% to 3.75%, depending on the term of the deposit.

The following table presents the fair value of investments as of June 30, 2012.

	<u>Cost</u>	<u>Fair Value</u>
Pooled Investments	\$ 7,311,566	\$ 7,671,260 *
Depositor's Fund	<u>1,022,462</u>	<u>1,022,462 *</u>
Total investments	<u>\$ 8,334,028</u>	<u>\$ 8,693,722</u>

\* Represents 5% or more of the Plan's net assets available for benefits as of June 30, 2012.

During the year ended June 30, 2012, the Plan's pooled investments (including gains and losses on investments held during the year) appreciated in the amount of \$67,165.

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**NOTES TO THE FINANCIAL STATEMENTS**  
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**NOTE 4 – FAIR VALUE MEASUREMENT**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Fair values of assets measured on a recurring basis at June 30, 2012 are as follows:

	<u>Cost</u>	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Pooled Investments					
Cash and cash equivalents	\$ 64,100	\$ 64,128	\$ -	\$ 64,128	\$ -
Equity securities	2,930,226	3,043,454	3,043,454	-	-
Fixed income securities	4,317,240	4,563,678	-	4,563,678	-
	<u>7,311,566</u>	<u>7,671,260</u>	<u>3,043,454</u>	<u>4,627,806</u>	<u>-</u>
Depositor's Fund	1,022,462	1,022,462	-	1,022,462	-
Total investments	<u>8,334,028</u>	<u>8,693,722</u>	<u>3,043,454</u>	<u>5,650,268</u>	<u>-</u>
Pledged contributions receivable, net	75,071	75,071	-	-	75,071
	<u>\$8,409,099</u>	<u>\$ 8,768,793</u>	<u>\$ 3,043,454</u>	<u>\$ 5,650,268</u>	<u>\$ 75,071</u>

The following sets forth a summary of the changes in fair value of the Trust Fund's level 3 assets for the year ended June 30, 2012. 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.

Balance at July 1, 2011	\$ 873,416
Change in allowance and discount	2,369
Payments from the Diocese of Jefferson City	
Jubilee Fund	<u>(800,714)</u>
Balance at June 30, 2012	<u>\$ 75,071</u>

**PRIESTS' MUTUAL BENEFIT SOCIETY OF THE DIOCESE  
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Jefferson City, Missouri

**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2012

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**NOTE 5 – PERMANENTLY RESTRICTED NET ASSETS – UNAVAILABLE FOR BENEFITS**

Permanently restricted net assets consist of contributions made to the Plan through the Grateful Memories Faithful Future campaign conducted 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 the Plan.

Investment Return Objectives, Risk Parameters and Strategies

The Plan has adopted investment policies, approved by the Board of Trustees, for assets that attempt to provide a predictable stream of funding to the Plan 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. The Plan 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

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

The following sets forth a summary of the changes in the permanently restricted net assets – unavailable for benefits for the year ended June 30, 2012.

Balance at July 1, 2011	\$5,004,996
Change in allowance and discount	<u>2,369</u>
Balance at June 30 2012	<u>\$5,007,365</u>

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

**NOTES TO THE FINANCIAL STATEMENTS**  
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**NOTE 6 – CONCENTRATION OF CREDIT RISK**

The Plan places its cash and cash equivalents with credit-worthy, high quality financial institutions. Balances on interest-bearing accounts are insured by the Federal Deposit Insurance Corporation FDIC up to \$250,000. Non-interest bearing account balances are covered by FDIC insurance up to an unlimited balance. There were no uninsured balances as of June 30, 2012.

The Plan 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 and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in risks in the near term would materially affect the amounts reported in the statement of net assets available for benefits.

**NOTE 7 - RELATED PARTY**

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

During the year ended June 30, 2012, the Catholic Diocese of Jefferson City Fund allocated net investment income to the Plan of \$336,033 on the investments held in its name for the Plan. As of June 30, 2012, the account balance held by the Catholic Diocese of Jefferson City Fund was \$7,671,260.

The Catholic Diocese of Jefferson City Fund holds investments in the deposit and loan program of \$1,022,462 as of June 30, 2012. During the fiscal year ended June 30, 2012, the Catholic Diocese of Jefferson City Fund paid \$12,503 in interest to the Plan on these investments.

During the fiscal year ended June 30, 2012, Plan deposited \$780,000 and made withdrawals of \$100,000 from accounts with the Catholic Diocese of Jefferson City Fund.

During the fiscal year ended June 30, 2012, the Diocese of Jefferson City contributed \$325,000 in funding to the Plan. The Diocese of Jefferson City also invoiced the Plan \$107,618 during the year for reimbursement of health insurance premiums, accounting and administrative support, and conference fees. As of June 30, 2012, the amount has been paid in full.

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**NOTES TO THE FINANCIAL STATEMENTS**  
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**NOTE 7 – RELATED PARTY** (Cont'd)

During the year ending June 30, 2012, The Diocese of Jefferson City Jubilee Fund remitted \$800,714 to the Plan for contributions received on behalf of priest retirement. As of June 30, 2012, the Diocese of Jefferson City Jubilee Fund owes the Plan \$75,206 for contributions that have been pledged for priest retirement.

Pledged contributions receivable at June 30, 2012, are as follows:

Contributions Receivable from Diocese of Jefferson City Jubilee Fund	\$ 75,206
Less: discounts to net present value and allowance for uncollectible	<u>(135)</u>
	<u>\$ 75,071</u>

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

Receivable in less than one year	\$ 73,826
Receivable in one to five years	<u>1,380</u>
	<u>\$ 75,206</u>

**NOTE 8 – DEPARTURES FROM GENERALLY ACCEPTED ACCOUNTING PRINCIPLES**

General accepted accounting principles (GAAP) requires defined benefit pension plans present a comparative statement of net assets available for benefits. The Plan has elected not to include the comparative statement of net assets available for benefits. GAAP also requires defined benefit pension plans to disclose significant information about the Plan. These significant disclosures rely on an actuarial valuation and include the actuarial present value of accumulated plan benefits, changes in the actuarial present value of accumulated plan benefits and a description of the significant assumptions used to determine the actuarial present value of accumulated plan benefits. Since the Plan has not engaged the services of an actuary, the effect of these departures from accounting principles generally accepted in the United States of America on the Plan's financial statements has not been determined.