

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

FINANCIAL STATEMENTS

June 30, 2017 and 2016

**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 financial statements of the Priests' Mutual Benefit Society of the Diocese of Jefferson City, Inc. (the "Plan"), which comprise the statements of net assets available for benefits as of June 30, 2017 and 2016, and the related statements of changes in net assets available for benefits for the years 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 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 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 financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Plan's preparation and fair presentation of the 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 Plan'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 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 financial statements referred to above 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, 2017 and 2016, and the changes in its financial status for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Kerber, Eck & Braeckel LLP

St. Louis, Missouri
January 9, 2018

Other Locations

Belleville, IL • Carbondale, IL • Columbia, IL • Litchfield, IL • Harrisburg, IL • Springfield, IL • Cape Girardeau, MO • Milwaukee, WI

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

**STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS
June 30,**

	<u>2017</u>	<u>2016</u>
Assets		
Cash and cash equivalents	\$ 98,616	\$ 198,738
Investments		
Funds on deposit with The Catholic Diocese of Jefferson City Fund		
Depositor's fund	119,860	177,741
Pooled investments	<u>10,387,197</u>	<u>9,665,952</u>
Total assets	10,605,673	10,042,431
Liabilities		
Accrued liabilities	<u>65,000</u>	<u>-</u>
Net assets	10,540,673	10,042,431
Net assets permanently restricted for endowment	<u>5,147,120</u>	<u>5,147,040</u>
Net assets available for benefits	<u>\$ 5,393,553</u>	<u>\$ 4,895,391</u>

See notes to financial statements.

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

STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
Years ended June 30,

	<u>2017</u>	<u>2016</u>
Additions		
Investment income		
Interest and dividends	\$ 229,727	\$ 246,107
Gain on sale of investments	77,332	71,538
Net appreciation (depreciation) in fair value of investments	445,794	(78,241)
Investment management fees	(29,488)	(27,767)
	<u>723,365</u>	<u>211,637</u>
Contributions		
Employer	282,000	267,000
Other	51,724	156,323
	<u>333,724</u>	<u>423,323</u>
Total additions	1,057,089	634,960
Deductions		
Benefits paid to or on behalf of participants		
Retirement benefits	443,802	373,379
Health insurance benefits	91,660	90,921
Administrative expenses	23,465	22,516
	<u>558,927</u>	<u>486,816</u>
Total deductions	558,927	486,816
Net increase	498,162	148,144
Net assets available for benefits, beginning of year	<u>4,895,391</u>	<u>4,747,247</u>
Net assets available for benefits, end of year	<u>\$ 5,393,553</u>	<u>\$ 4,895,391</u>

See notes to financial statements.

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

NOTES TO FINANCIAL STATEMENTS

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 Catholic 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 Catholic 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 Catholic 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 Catholic 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 years ended June 30, 2017 and 2016 was \$1,835 and \$1,782, respectively. Effective July 1, 2017, the maximum monthly pension benefit was increased to \$1,872.

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.

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NOTES TO FINANCIAL STATEMENTS

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 years ended June 30, 2017 and 2016, the amount contributed was \$333,724 and \$423,323, respectively.

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 Catholic 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 Catholic Diocese of Jefferson City.

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, the actuarial present value of accumulated plan benefits 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.

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NOTES TO FINANCIAL STATEMENTS

Recent Accounting Pronouncements

In July 2015, the Financial Accounting Standards Board (FASB) issued FASB Accounting Standards Update (ASU) No. 2015-12. The ASU requires that all investments be disaggregated based only on general type, eliminating the need to disaggregate the investments multiple ways. In addition, the ASU eliminates the requirements to disclose individual investments that represent 5% or more of net assets available for benefits and the net appreciation or depreciation for investments by general type. The Plan adopted this accounting standards update for the year ended June 30, 2017.

Prior year disclosures have been revised to reflect the retrospective application of this accounting standards update.

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).

Investments

The Plan's investments are managed with investments of affiliates in The Catholic Diocese of Jefferson City Fund. Pooled investment fund interest and dividends, realized gains and losses, unrealized gains and losses and management fees 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.

Investments are reported at fair value. 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 and in the principal and most advantageous market for the asset or liability.

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Fair value of the underlying investments in The Catholic Diocese of Jefferson City Fund was determined using Level 1 inputs for common stocks, fixed income mutual funds and alternative mutual funds, which are quoted market prices for identical securities in active markets. Fair value is determined using Level 2 inputs for cash and cash equivalents, corporate bonds, municipal bonds, U.S. government agency securities and certificates of deposit 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. Fair values were provided by investment broker statements as of June 30, 2017 and 2016.

Payment of Benefits

Benefit payments to participants are recorded when paid.

Actuarial Present Value of Accumulated Plan Benefits

Accumulated plan benefits are those future periodic payments that are attributable under the Plan's provisions to the service participants have rendered. Accumulated plan benefits include benefits expected to be paid to retired, disabled and present priests of the Catholic Diocese of Jefferson City. Benefits payable under all circumstances are included to the extent they are deemed attributable to service rendered to the valuation date.

The actuarial present value of the accumulated plan benefits was determined by the independent actuarial firm as of June 30, 2017 and 2016. It is the amount that results from applying actuarial assumptions to adjust the accumulated plan benefits to reflect the time value of money (through discounts for interest) and the probability of payments (by means of decrements such as death, disability, termination or retirement) between the valuation date and the expected date of payment.

The following table presents actuarial assumptions as of June 30,:

	2017	2016
Retirement age	75	75
Discount rate	3.8%	3.4%
Termination rate per year	2.0% prior to age 50, 1.0% thereafter	2.0% prior to age 50, 1.0% thereafter
Mortality rates	RP-2014 Generational Mortality (Scale MP16)	RP-2014 Generational Mortality (Scale MP15)
Disability rates	1985 Males-SSA Set F(93)	1985 Males-SSA Set F(93)
Healthcare cost trend rates	7.5% declining to a maximum of 4.0%	8.0% declining to a maximum of 4.5%

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NOTES TO FINANCIAL STATEMENTS

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 January 9, 2018, which is the date the financial statements were available to be issued.

NOTE 3 – INVESTMENTS

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 from 1.5% to 3.5% at June 30, 2017 and 2016, depending on the term of the deposit.

The majority of the Plan's investments are held in a pooled investment account with The Catholic Diocese of Jefferson City Fund. Pooled investments include cash and cash equivalents, common stocks, certificates of deposit, municipal bonds, corporate bonds, U.S. government agency securities, fixed income mutual funds and alternative investment funds. The Plan's investments at June 30, 2017 were allocated 1% to cash and cash equivalents, 52% to equity securities and 47% to fixed income securities. The Plan's investments at June 30, 2016 were allocated 1% to cash and cash equivalents, 49% to equity securities and 50% to fixed income securities.

The cost and fair value of investments at June 30, 2017 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	\$ 87,474	\$ 87,474	\$ -	\$ 87,474	\$ -
Equity securities	3,862,701	5,364,699	5,364,699	-	-
Fixed income securities	5,132,862	4,935,024	3,503,867	1,431,157	-
	<u>9,083,037</u>	<u>10,387,197</u>	<u>8,868,566</u>	<u>1,518,631</u>	<u>-</u>
Depositor's Fund	119,860	119,860	-	119,860	-
	<u>\$ 9,202,897</u>	<u>\$ 10,507,057</u>	<u>\$ 8,868,566</u>	<u>\$ 1,638,491</u>	<u>\$ -</u>

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The cost and fair value of investments at June 30, 2016 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	\$ 86,176	\$ 86,176	\$ -	\$ 86,176	\$ -
Equity securities	3,686,061	4,752,773	4,752,773	-	-
Fixed income securities	<u>5,035,349</u>	<u>4,827,003</u>	<u>3,137,552</u>	<u>1,689,451</u>	-
	8,807,586	9,665,952	7,890,325	1,775,627	-
Depositor's Fund	<u>177,741</u>	<u>177,741</u>	-	177,741	-
	<u>\$ 8,985,327</u>	<u>\$ 9,843,693</u>	<u>\$ 7,890,325</u>	<u>\$ 1,953,368</u>	<u>\$ -</u>

NOTE 4 – ENDOWMENT

The Plan has adopted standards for reporting of endowments. These standards provide guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) and improves disclosures about an organization's endowed funds (both donor-restricted endowment funds and board-designated endowment funds).

The Plan has donor-restricted endowment funds established through the Grateful Memories Faithful Future Capital campaign. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Plan has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Plan classifies as permanently restricted net assets (a) the original value of the gifts donated to the permanent endowment, (b) the original value of the subsequent gifts to the permanent endowment, and (c) accumulation to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Plan.

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NOTES TO FINANCIAL STATEMENTS

During the years ended June 30, 2017 and 2016, the Plan's donor-restricted endowment net assets had the following activity:

Balance at July 1, 2015	\$ 5,146,962
Permanently restricted contributions received	<u>78</u>
Balance at June 30, 2016	5,147,040
Permanently restricted contributions received	<u>80</u>
Balance at June 30, 2017	<u><u>\$ 5,147,120</u></u>

Investment Return Objectives, Risk Parameters and Strategies

The Plan has adopted investment policies, approved by the Board of Trustees, that attempt to provide a predictable stream of funding to the Plan while also maintaining the corpus of those assets over the long-term. 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 corpus of the endowment assets are maintained.

NOTE 5 – CONCENTRATION OF CREDIT RISK

The Plan places its cash and cash equivalents with credit-worthy, high quality financial institutions. Balances on accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. There were no uninsured balances as of June 30, 2017 and 2016.

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 statements of net assets available for benefits.

Investment accounts on deposit with The Catholic Diocese of Jefferson City Fund comprise approximately 99% and 98% of the Plan's total assets at June 30, 2017 and 2016, respectively.

**PRIESTS' MUTUAL BENEFIT SOCIETY OF THE DIOCESE OF JEFFERSON CITY, INC.
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NOTES TO FINANCIAL STATEMENTS

NOTE 6 – ACTUARIAL VALUATION

The actuarially computed present value of accumulated plan benefits as of June 30, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Nonvested benefits:		
Retirement benefits		
Participants currently receiving payments	\$ 3,432,774	\$ 3,259,142
Other participants	<u>6,780,525</u>	<u>7,533,834</u>
	10,213,299	10,792,976
Medical and dental benefits		
Participants currently receiving payments	1,196,898	1,183,674
Other participants	<u>2,690,971</u>	<u>3,187,292</u>
	<u>3,887,869</u>	<u>4,370,966</u>
Actuarial present value of accumulated plan benefits	<u>\$ 14,101,168</u>	<u>\$ 15,163,942</u>

**PRIESTS' MUTUAL BENEFIT SOCIETY OF THE DIOCESE OF JEFFERSON CITY, INC.
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NOTES TO FINANCIAL STATEMENTS

Changes in accumulated plan benefits for the plan years ending June 30, 2017 and 2016 are as follows:

	<u>Retirement benefits</u>	<u>Medical and dental benefits</u>	<u>Total</u>
Actuarial present value of accumulated plan benefits at July 1, 2015	\$ 9,037,856	\$ 2,937,404	\$ 11,975,260
Actuarial gains	(214,197)	(95,469)	(309,666)
Plan amendments	264,042	-	264,042
Interest	362,661	118,785	481,446
Benefits paid	(384,912)	(80,404)	(465,316)
Health cost trend rates	-	82,442	82,442
Assumption changes	2,989,209	1,325,675	4,314,884
Programming adjustments	(1,261,683)	-	(1,261,683)
Claims, administrative and service costs	-	82,533	82,533
Actuarial present value of accumulated plan benefits at June 30, 2016	10,792,976	4,370,966	15,163,942
Actuarial (gains) losses	41,350	(332)	41,018
Plan amendments	201,491	-	201,491
Interest	360,221	147,321	507,542
Benefits paid	(396,459)	(75,967)	(472,426)
Health cost trend rates	-	(191,548)	(191,548)
Assumption changes	(786,280)	(347,567)	(1,133,847)
Claims, administrative and service costs	-	(15,004)	(15,004)
Actuarial present value of accumulated plan benefits at June 30, 2017	<u>\$ 10,213,299</u>	<u>\$ 3,887,869</u>	<u>\$ 14,101,168</u>

NOTE 7 – RELATED PARTIES

The Plan is related through the Bishop of the Catholic Diocese of Jefferson City to the following entities: The Catholic 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 Parish Development Corporation; The Diocese of Jefferson City Jubilee Retirement Trust Fund, the Fr. Augustine Tolton Regional Catholic 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; and Parishes within the Jefferson City Diocese. The Plan maintains separate books and records. All financial information for the above entities is presented separately and is excluded from this report.

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

NOTES TO FINANCIAL STATEMENTS

The Plan had the following investment accounts balances held by The Catholic Diocese of Jefferson City Fund as of June 30,:

	<u>2017</u>	<u>2016</u>
Depositor's Fund	\$ 119,860	\$ 177,741
Pooled investments	10,387,197	9,665,952

The Plan had the following transactions with The Catholic Diocese of Jefferson City Fund during the years ended June 30,:

	<u>2017</u>	<u>2016</u>
Net investment income allocated to the Plan on pooled investments	\$ 721,243	\$ 207,940
Interest paid to the Plan on depositor's fund investments	2,120	3,697
Withdrawals	60,000	200,000

The Plan had the following transactions with The Catholic Diocese of Jefferson City – Chancery Office during the years ended June 30,:

	<u>2017</u>	<u>2016</u>
Contributions to the Plan	\$ 282,000	\$ 267,000
Amounts invoiced to the Plan for reimbursement of health insurance premiums, accounting, professional, administrative support, and conference fees	10,964	12,312

NOTE 8 – CONTINGENCIES

The Board of Trustees approved a \$65,000 payment to the Diocese of Kansas City – St. Joseph for a Priest of that Diocese who worked in the Diocese of Jefferson City for numerous years. This approved payment is recorded as an accrued liability in the Statement of Net Assets Available for Benefits at June 30, 2017. The Diocese of Kansas City – St. Joseph is requesting funds in excess of the approved payments and funds that have already been transferred for the Priest's benefit. Negotiations between the Bishops of the two Dioceses are ongoing at June 30, 2017.