The St. Louis Archdiocesan Fund

Financial Statements as of and for the
Years Ended June 30, 2013 and 2012, and
Independent Auditors' Report

THE ST. LOUIS ARCHDIOCESAN FUND

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Deloitte.

Deloitte & Touche LLP
Suite 300
100 South 4th Street
St. Louis, MO 63102-1821
USA

Tel: +1 314 342 4900
Fax: +1 314 342 1100
www.deloitte.com

INDEPENDENT AUDITORS' REPORT

Most Reverend Robert J. Carlson
Archbishop of St. Louis

We have audited the accompanying financial statements of The St. Louis Archdiocesan Fund (the "Fund"), which comprise the statements of financial position as of June 30, 2013 and 2012, and the related statements of activities and cash flows 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 auditor's 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 Fund'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 Fund'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 position of The St. Louis Archdiocesan Fund as of June 30, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

October 22, 2013

THE ST. LOUIS ARCHDIOCESAN FUND

STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2013 AND 2012
(In thousands)

	2013	2012
ASSETS		
CASH AND CASH EQUIVALENTS	$ 18,104	$ 17,736
INVESTMENTS — At fair value	526,186	478,613
RECEIVABLE ON UNSETTLED INVESTMENT SALES	12,659	4,230
ACCRUED INTEREST AND DIVIDENDS	1,807	1,423
LOANS:		
Archdiocesan agencies	9,894	11,929
Archdiocesan parishes	34,503	34,618
Other Catholic organizations	1,669	1,944
	46,066	48,491
Allowance for uncollectible loans	(6,182)	(6,182)
Net loans	39,884	42,309
OTHER RECEIVABLES	43	92
TOTAL	$ 598,683	$ 544,403
LIABILITIES AND NET ASSETS		
DEPOSITS:		
Archdiocesan agencies	$ 373,214	$ 355,068
Archdiocesan parishes	121,953	112,590
Other Catholic organizations	11,491	13,083
Total deposits	506,658	480,741
PAYABLE ON UNSETTLED INVESTMENT PURCHASES	15,498	1,750
ACCOUNTS PAYABLE AND ACCRUED EXPENSES	511	376
Total liabilities	522,667	482,867
UNRESTRICTED NET ASSETS	76,016	61,536
TOTAL	$ 598,683	$ 544,403

See notes to financial statements.

THE ST. LOUIS ARCHDIOCESAN FUND

STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012
(In thousands)

	2013	2012
CHANGES IN UNRESTRICTED NET ASSETS:		
Revenues and other changes:		
Net gain (loss) on investments	$ 34,046	$ (11,999)
Interest and dividends on investments	15,150	14,370
Interest on loans	1,887	1,645
Fees	2,792	2,516
Other	143	41
Total revenues and other changes	54,018	6,573
Expenses:		
Program:		
Interest on Depositors' Fund	1,020	1,435
Allocation of gain (loss) to Restricted Fund	34,460	(6,816)
Provision for uncollectible loans		100
Grants — intradiocesan	2,000	1,500
Total program	37,480	(3,781)
Support services:		
Fees and services	2,028	2,010
Other expenses	30	17
Total support services	2,058	2,027
Total expenses	39,538	(1,754)
CHANGE IN UNRESTRICTED NET ASSETS	14,480	8,327
NET ASSETS — Beginning of year	61,536	53,209
NET ASSETS — End of year	$ 76,016	$ 61,536

See notes to financial statements.

THE ST. LOUIS ARCHDIOCESAN FUND

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012
(In thousands)

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in unrestricted net assets	$ 14,480	$ 8,327
Adjustments to reconcile change in unrestricted net assets to net cash from operating activities:		
Net (gain) loss on investments	(34,046)	11,999
Allocation of gain (loss) on Restricted Fund investments	34,460	(6,817)
Provision for uncollectible loans		100
Changes in assets and liabilities:		
Accrued interest and dividends	(384)	96
Other receivables	49	(39)
Accounts payable and accrued expenses	135	(424)
Net cash from operating activities	14,694	13,242
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net decrease (increase) in short-term money market investments	3,259	(20,719)
Purchases of investments	(539,534)	(932,825)
Proceeds from sales and maturities of investments	528,067	967,520
Disbursement of loans	(9,223)	(7,102)
Proceeds from loan repayments	11,648	8,803
Net cash from investing activities	(5,783)	15,677
CASH FLOWS FROM FINANCING ACTIVITIES — Decrease in deposits	(8,543)	(23,477)
INCREASE IN CASH AND CASH EQUIVALENTS	368	5,442
CASH AND CASH EQUIVALENTS — Beginning of year	17,736	12,294
CASH AND CASH EQUIVALENTS — End of year	$ 18,104	$ 17,736
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION — Interest paid	$ 1,021	$ 1,435
NONCASH ACTIVITIES:		
Purchase of investments unsettled	$ 15,498	$ 1,750
Sale of investments unsettled	12,659	4,230

See notes to financial statements.

1. SIGNIFICANT ACCOUNTING POLICIES

The St. Louis Archdiocesan Fund (the "Fund") is a charitable trust that encompasses the financing and investing activities of the Archdiocese of St. Louis (the "Archdiocese"). The Fund is consolidated within the Archdiocese of St. Louis.

The Fund maintains assets received from the Archdiocese and its agencies and its related parishes. These amounts generally represent funds in excess of current operating needs and have been set aside to fund future programs or to assist the missions of the Archdiocese. The Fund invests in marketable securities and provides loans to parishes and agencies. The resulting income is used to pay interest and returns to the parishes and agencies. Interest on deposits is paid to parishes and agencies based on rates established for the terms of the deposits selected by the depositors. Returns on pooled investment assets are paid to parishes and agencies based on actual interest, dividends and net realized and unrealized gains and losses earned on the parishes' and agencies' pro rata share of the investments held by the Fund.

Cash — The Fund maintains its cash accounts primarily with two banks located in Missouri. The Fund has cash balances on deposit at June 30, 2013, in the amount of $8,707 that exceeded the balance insured by the Federal Deposit Insurance Corporation.

Cash Equivalents — The Fund 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.

Loans — The Fund originates and holds loans to Archdiocese parishes and agencies from which it receives interest at agreed upon rates. Loans are reported at their outstanding principal balance plus unpaid accrued interest.

The allowance for uncollectible loans represents management's estimate of probable losses inherent in the Fund's lending activities, including unfunded lending commitments. Credit exposure deemed to be uncollectible is charged against this account. Cash recovered on previously charged off amounts is recorded as a recovery to this account. The Fund performs periodic and systematic detailed reviews of its lending portfolio to identify credit risk and to assess the overall collectability of the portfolio. Loans are reviewed on an individual basis and assigned a credit rating. When assessing credit risk, the Fund considers such factors as payment history, financial stability, and leadership.

Investments — The Fund's investments are carried at fair value based on quoted market prices when available. When a market price is not readily available, the Fund may estimate fair value based on information obtained from the investment custodian or the investment manager. Sales and purchases of investments are recognized based upon the trade date of each transaction. Recording transactions based upon trade date results in a 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.

Deposits — The Fund holds deposits from Archdiocesan parishes and agencies to which it pays interest at agreed-upon rates which approximate market rates. The deposits are held in either customer demand deposits and money market accounts, which have no defined maturity, or time deposits, which are issued with a stated maturity between three months and five years with a fixed interest rate for the term of the instrument. All deposits are carried at cost. Parishes and agencies can also earn returns reflective of the pooled investments by depositing long term funds in the Restricted Fund. Restricted Fund liabilities are carried at the contractual value.

Fair Value of Financial Instruments — The Fund's investments are carried at fair value. The loans to Archdiocesan parishes and agencies carrying value approximates fair value due to the loans' variable interest rates that approximate market rates. The carrying value of customer demand deposits and money market accounts approximates fair value due to their short-term nature. Restricted Fund liabilities carrying value approximate fair value because they generate returns based upon current market returns. Included in total deposits at June 30, 2013 and 2012, respectively, is $52,001 and $64,172 in time deposits, with an estimated fair market value of $52,120 and $64,152, respectively. The fair value of time deposits is estimated using the rates currently offered for deposits of similar remaining maturities.

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

The Fund invests in various securities which, in general, are exposed to various risks, such as interest rate risk, credit risk, 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 statements of financial position and activities.

Fair Value Measurements — Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures*, 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 Fund reports its entire investment portfolio at fair value.

The ASC defines fair value and establishes a hierarchical 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 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 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 credit default rates, credit prepayment rates and loss severity ratios. Values for privately held comingled fund investments are based on the net asset value calculated for each of the pooled funds of which the Fund owns a percentage. The calculated net asset value is based on the aggregation of values for the individual securities comprising the pool, which are based on quoted prices for identical assets in active markets accessible at the measurement date. These privately held comingled funds invest primarily in foreign equity securities with the goal of achieving long term growth in emerging and other markets outside of the United States. There are notice restrictions of 30-90 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 Fund believes the likelihood of these discretionary redemption restrictions being invoked by a fund manager is remote; and

Level 3 — Assets and liabilities whose significant value drivers are unobservable. Unobservable inputs reflect the Fund'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 Fund'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 Fund is not permitted to adjust quoted market prices in an active market, even if the Fund owns a large investment, the sale of which could reasonably impact the quoted prices. See Note 2, *Fair Value Measurements*, for further details on the Fund's assets measured at fair value.

Derivative Contracts — The Fund 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 Accounting Standards Codification (ASC) 815, *Derivatives and Hedging*. The Fund recorded derivative contracts at fair value based on quoted market prices in "Investments" on the statement of financial position, with changes in the fair value of derivatives recorded in "net gain (loss) on investments" on the statements 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, 2013, the fund possessed 14,100 notional units of TBA securities at a fair value of $(196), with an underlying liability value of $14,481. The gross fair market asset value of these securities was $14,285. At June 30, 2012, the fund possessed 7,800 notional units of TBA securities at a fair value of $15, with an underlying liability value of $8,301. The gross fair market asset value of these securities was $8,316.

2. FAIR VALUE MEASUREMENTS

The valuation of assets measured at fair value in the Fund's statements of financial position at June 30, 2013 and 2012, is summarized below:

		Fair Value Measurements		
Description	**Fair Value, June 30, 2013**	**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	$ 28,314	$ 28,314	$ -	$ -
Equities	105,088	104,705	383	
U.S. government and agency securities	48,579	40,661	7,918	
Asset and mortgage-backed securities	35,275		35,144	131
Publicly held mutual fund investments	103,136	103,136		
Privately held comingled fund investments	74,728		74,728	
Corporate and municipal bonds	131,066		129,231	1,835
Total investments	$ 526,186	$ 276,816	$ 247,404	$ 1,966

		Fair Value Measurements		
Description	**Fair Value, June 30, 2012**	**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	$ 32,972	$ 32,972	$ -	$ -
Equities	92,609	92,538	71	
U.S. government and agency securities	29,933	27,761	2,172	
Asset and mortgage-backed securities	19,512		19,512	
Publicly held mutual fund investments	211,032	211,032		
Privately held comingled fund investments	16,434		16,434	
Corporate and municipal bonds	76,121		74,317	1,804
Total investments	$ 478,613	$ 364,303	$ 112,506	$ 1,804

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.

In the prior year, the Fund classified $211 million in publicly held mutual fund investments as Level 2 investments. During the current year, the Fund concluded that because the investments are held by registered investment companies and have daily quoted prices, that a Level 1 classification of these investments was preferable application of the Fair Value hierarchy accounting principle. As a result, the

Fund adjusted the prior year disclosure to move the $211 in publicly held mutual funds from Level 2 to Level 1.

Additional information pertaining to the changes in the fair value of the Fund's investments classified as Level 3 for the years ended June 30, 2013 and 2012, is presented below:

	Year Ended June 30, 2013			Year Ended June 30, 2012		
	Mortgage-Backed Securities	Corporate Securities	Total	Mortgage-Backed Securities	Corporate Securities	Total
Balance — July 1	$ -	$ 1,804	$ 1,804	$ -	$ 3,174	$ 3,174
Net gains (losses)		31	31		(152)	(152)
Purchases			-		370	370
Sales and settlements			-		(1,588)	(1,588)
Transfers in	131		131			-
Balance — June 30	$ 131	$ 1,835	$ 1,966	$ -	$ 1,804	$ 1,804

The total gain or loss on investments, including restricted and unrestricted funds, was comprised of $17,306 realized gains and $16,740 unrealized gain in 2013; and $17,557 realized gains and $29,556 unrealized loss in 2012.

3. LOANS

Loans represent amounts receivable from parishes and agencies with various payment terms bearing interest at variable rates that approximate market for loans of similar terms. The average variable rates for 2013 and 2012 were 3.65% and 3.90%, respectively. Remaining loan terms range from 1 to 17 years. At June 30, 2013, the Fund has committed to extend an additional $10,377 under line of credit arrangements with certain parishes and schools.

Changes in the allowance for uncollectible loans for the years ended June 30, 2013 and 2012, consist of the following:

	Year Ended June 30,	
	2013	2012
Allowance for uncollectible loans — beginning of year	$ 6,182	$ 6,082
Provision for uncollectible loans		100
Allowance for uncollectible loans — end of year	$ 6,182	$ 6,182

The Fund evaluates loans on an individual basis. If, in the judgment of management, it appears that timely repayment of a loan is not likely, the loan may be placed on a non-accrual status, assigned a higher risk rating and placed on a loan watch list. The Fund may also in certain instances modify repayment terms of a loan to maximize the likelihood of collection. For loans placed on non-accrual status, the Fund will suspend the interest due on the loan and will no longer recognize the interest as earned on the statement of activities. Any payments received on the non-accrual loans will be applied to principal reduction. Should improvements in the borrower's financial condition warrant removal from a non-accrual status, the Fund will once again begin accruing interest on the loan and recognize it as earned on the statement of activities.

If, in the judgment of management, collection of a loan is not likely, the Fund will consider the loan impaired. Impaired loans for the years ended June 30, 2013 and 2012, consist of the following:

	Year Ended June 30, 2013	2012
Outstanding balance of impaired loans	$ 3,032	$ 4,922
Allowance for loan loss on impaired loans	(3,032)	(4,288)
Balance of impaired loans with no specific loan allowance	$ -	$ 634

4. DEPOSITS

The table below displays the deposit balances, average annual interest rates offered on term deposits, and average annual rates of return paid on the Depositors' Fund pooled investment assets; and the annual return on the Restricted Fund, for the years ended June 30, 2013 and 2012.

	2013	2012
Depositors' Fund:		
Demand accounts; 0.30% in 2013, 0.38% in 2012	$ 47,243	$ 42,931
Money market accounts; 0.35% in 2013, 0.46% in 2012	117,602	117,830
Three month deposits; 0.17% in 2013, 0.23% in 2012	653	751
Six month deposits; 0.27% in 2013, 0.34% in 2012	6,209	6,037
Nine month deposits; 0.29% in 2013, 0.40% in 2012	567	668
One year deposits; 0.34% in 2013, 0.52% in 2012	19,789	33,001
Two year deposits; 0.59% in 2013, 0.74% in 2012	4,752	4,380
Three year deposits; 0.80% in 2013, 1.04% in 2012	14,848	15,042
Four year deposits; 1.07% in 2013, 1.33% in 2012	4,281	3,402
Five year deposits; 1.18% in 2013, 1.55% in 2012	464	456
Priests' deferred compensation; 8.00% in 2013, 8.00% in 2012	438	434
Total Depositors' Fund	216,846	224,932
Restricted Fund; 13.44% in 2013, (2.60)% in 2012:		
Nonendowed unrestricted funds	163,197	138,154
Donor restricted and internally designated funds	121,980	112,792
Annuities	4,635	4,863
Total Restricted Fund	289,812	255,809
Total deposits	$ 506,658	$ 480,741

Deposits to and withdrawals from the Depositors' Fund are allowed at any time subject to early withdrawal penalties on time deposits and excess monthly withdrawal penalties on money market deposits. The Restricted Fund is used by the depositors to invest amounts that are either unrestricted and undesignated, designated, temporarily and or permanently restricted by the depositor. The principal of temporarily restricted and internally designated amounts placed in the Restricted Fund may be withdrawn only when the donor-imposed restriction or internal designation is satisfied. Earnings and principal generally may be withdrawn from the Restricted Fund once a year.

Accounts in the Restricted Fund are assigned to one of several plans based upon the restrictions or designations placed upon the funds. Each plan has many accounts, 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. The entire return from funds invested in the Restricted Fund is allocated each month to the accounts held in the Restricted Fund.

5. TRANSACTIONS WITH THE ARCHDIOCESE OF ST. LOUIS

The Fund makes periodic grants to the Archdiocese, generally from accumulated net assets in excess of current and anticipated future operating needs, to fund the operations of the Archdiocese. Such grants were $2,000 and $1,500 in 2013 and 2012, respectively, and are included in Grants — intradiocesan expense in the statements of activities.

Management fees for Restricted Fund deposits charged by the Fund to the depositors were $2,783 and $2,508 in 2013 and 2012, respectively, and are included in fees revenue in the statements of activities.

6. SUBSEQUENT EVENT

The preparation of 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 Fund has evaluated subsequent events through October 22, 2013, the date the financial statements were available to be issued.

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