

DIOCESE OF KALAMAZOO

FINANCIAL STATEMENTS

**For the Year Ended June 30, 2019
With Comparative Totals for 2018**

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SEBER TANS, PLC

CONSULTANTS & CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

The Most Reverend Paul J. Bradley, Bishop of Kalamazoo
Diocese of Kalamazoo

Report on the Financial Statements

We have audited the accompanying financial statements of the Diocese of Kalamazoo (a nonprofit organization) (the Diocese), which comprise the statement of financial position as of June 30, 2019, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 error or fraud.

Auditors' Responsibility

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 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 entity'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 Diocese'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 Diocese of Kalamazoo as of June 30, 2019, and changes in its net assets and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter – Change in Accounting Policy

As discussed in Note A to the financial statements, the Diocese implemented Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial statements of Not-for-Profit Entities for the year ended June 30, 2019. Accordingly, the Diocese has adjusted the presentation in these financial statements. The ASU has been applied retrospectively, except for the presentation of expenses by both natural classification and functional classification and the liquidity and availability disclosures, as allowed under the ASU. The ASU did not have a material impact on the classification of net assets. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited the Diocese of Kalamazoo's 2018 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated March 12, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.



Seber Tans, PLC
Kalamazoo, Michigan
April 24, 2020

Diocese of Kalamazoo
Statements of Financial Position
June 30, 2019 with Comparative Totals for 2018

	Without Donor Restriction	With Donor Restriction	Combined Totals June 30,	
			2019	2018
ASSETS				
Current Assets				
Cash and cash equivalents	\$ 626,380	\$ 1,539,173	\$ 2,165,553	\$ 2,426,855
Notes receivable	35,615	-	35,615	39,954
Accounts receivable	465,789	1,884,950	2,350,739	1,839,646
Prepaid expenses	-	-	-	10,000
Total Current Assets	<u>1,127,784</u>	<u>3,424,123</u>	<u>4,551,907</u>	<u>4,316,455</u>
Investments held at National Catholic Invest Pool	<u>7,018,502</u>	<u>-</u>	<u>7,018,502</u>	<u>7,175,206</u>
Beneficial Interest in Foundation	<u>7,485,207</u>	<u>3,022,076</u>	<u>10,507,283</u>	<u>9,886,569</u>
Property and Equipment				
Land improvements	728,868	-	728,868	728,868
Buildings and improvements	2,042,055	-	2,042,055	2,357,929
Furnishings and equipment	662,013	-	662,013	662,013
Total	<u>3,432,936</u>	<u>-</u>	<u>3,432,936</u>	<u>3,748,810</u>
Accumulated depreciation	<u>1,512,469</u>	<u>-</u>	<u>1,512,469</u>	<u>1,515,586</u>
Net Property and Equipment	<u>1,920,467</u>	<u>-</u>	<u>1,920,467</u>	<u>2,233,224</u>
Total Assets	<u>\$ 17,551,960</u>	<u>\$ 6,446,199</u>	<u>\$ 23,998,159</u>	<u>\$ 23,611,454</u>
LIABILITIES AND NET ASSETS				
Current Liabilities				
Accounts payable	\$ 106,899	\$ -	\$ 106,899	\$ 82,134
Accrued compensation	150,744	-	150,744	139,209
Custodial funds payable	424,741	-	424,741	255,890
Total Current Liabilities	<u>682,384</u>	<u>-</u>	<u>682,384</u>	<u>477,233</u>
Net Assets				
Without Donor Restriction				
Undesignated	16,286,452	-	16,286,452	10,824,964
Designated	583,124	-	583,124	530,272
With Donor Restriction	<u>-</u>	<u>6,446,199</u>	<u>6,446,199</u>	<u>11,778,985</u>
Total Net Assets	<u>16,869,576</u>	<u>6,446,199</u>	<u>23,315,775</u>	<u>23,134,221</u>
Total Liabilities and Net Assets	<u>\$ 17,551,960</u>	<u>\$ 6,446,199</u>	<u>\$ 23,998,159</u>	<u>\$ 23,611,454</u>

See Accompanying Notes to Financial Statements

Diocese of Kalamazoo
Statements of Activities and Changes in Net Assets
For the Year Ended June 30, 2019 with Comparative Totals for 2018

	Without Donor Restriction	With Donor Restriction	Combined Totals June 30,	
			2019	2018
Revenues and Other Support				
Bishop's Annual Appeal	\$ -	\$ 3,424,123	\$ 3,424,123	\$ 3,436,825
Donations and grants	736,419	287,340	1,023,759	1,050,084
Fees	274,754	-	274,754	465,591
Miscellaneous and reclassifications	8,040	-	8,040	52,382
Investment income	118,887	29,357	148,244	123,240
Net assets released from restrictions	9,073,606	(9,073,606)	-	-
Total Revenues and Other Support	10,211,706	(5,332,786)	4,878,920	5,128,122
Expenses				
Program services				
Pastoral formation	891,658	-	891,658	929,685
Christian formation	436,285	-	436,285	410,442
Family ministry	692,900	-	692,900	644,354
Education	650,059	-	650,059	666,628
Christian service	475,359	-	475,359	441,230
Outreach	136,372	-	136,372	133,931
Diocesan services and administration	2,148,509	-	2,148,509	1,483,114
Fundraising	4,451	-	4,451	1,295
Total Expenses	5,435,593	-	5,435,593	4,710,679
Change in Net Assets Before Other Income	4,776,113	(5,332,786)	(556,673)	417,443
Other Income				
Net appreciation of investments	738,227	-	738,227	800,535
Change in Net Assets	5,514,340	(5,332,786)	181,554	1,217,978
Net Assets at Beginning of Year	11,355,236	11,778,985	23,134,221	21,916,243
Net Assets at End of Year	\$ 16,869,576	\$ 6,446,199	\$ 23,315,775	\$ 23,134,221

See Accompanying Notes to Financial Statements

Diocese of Kalamazoo
Statements of Cash Flows
For the Year Ended June 30, 2019 with Comparative Totals for 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 181,554	\$ 1,217,978
Adjustments to reconcile change in net assets to net cash provided by (used by) operating activities:		
Depreciation	69,533	76,702
Gain on sale of real estate	(87,457)	-
Net appreciation of investments	(738,227)	(800,535)
Change in:		
Accounts and notes receivable	(506,754)	226,493
Prepaid expenses	10,000	(4,342)
Accounts payable	24,765	(36,449)
Accrued compensation	11,535	11,611
Custodial payable	168,851	100,480
Net Cash Provided by (Used by) Operating Activities	<u>(866,200)</u>	<u>791,938</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Sale (purchase) of investments, net	274,217	(284,990)
Proceeds from sale of real estate	330,681	-
Net Cash Provided by (Used by) Investing Activities	<u>604,898</u>	<u>(284,990)</u>
Net Change in Cash and Cash Equivalents	(261,302)	506,948
Cash and cash equivalents at beginning of year	<u>2,426,855</u>	<u>1,919,907</u>
Cash and Cash Equivalents at End of Year	<u>\$ 2,165,553</u>	<u>\$ 2,426,855</u>

See Accompanying Notes to Financial Statements

Diocese of Kalamazoo
Notes to Financial Statements
For the Year Ended June 30, 2019 with Comparative Totals for 2018

NOTE A – Summary of Significant Accounting Policies

Organization Purpose

The Diocese of Kalamazoo (the Diocese) provides governance and administers programs and services for the Roman Catholic parishes, schools and other affiliated organizations within nine counties of Southwestern Michigan. The accompanying financial statements include only those funds over which the Diocese maintains operational control. They do not include the financial condition and results of operations of the foundation, trust, parishes, schools, and other affiliated organizations. Under laws of the State of Michigan, all assets and liabilities of the parishes are in the name of the Bishop; however, each parish, school, or other organization is an operation distinct from the Diocese, maintains separate accounts, carries on its own services and programs, and reports annually to its respective constituency. The payments of promissory notes signed by the Bishop for the various parishes are the primary responsibility of the parishes and are not included in these financial statements.

Basis of Presentation

The financial statements of the Diocese have been prepared on the accrual basis of accounting. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Diocese and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general and not subject to donor (or certain grantor) restrictions. The Diocese has designated, from net assets without donor restrictions, funds which have been set aside for future needs of the Diocese.

Net Assets With Donor Restrictions – Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

The Diocese has approximately \$6,446,000 in Net Assets with Donor Restrictions.

Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires the use of management's estimates. These estimates affect the amounts reported in the financial statements and the disclosures provided. Actual results may differ from management's estimates.

Functional Allocation of Expenses

Expenses are summarized by functional classification in the statement of activities. Such expenses are charged to the related functional area as described in Note J.

Diocese of Kalamazoo
Notes to Financial Statements
For the Year Ended June 30, 2019 with Comparative Totals for 2018

NOTE A – Summary of Significant Accounting Policies (Continued)

Comparative Financial Information

The financial statements include certain prior-year summarized comparative information. With respect to the statement of activities, the prior year information is presented in total, not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Diocese's financial statements for the year ended June 30, 2018.

Risk

The Diocese utilizes various investment instruments, which are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in their values could occur in the near term and such changes could materially affect the amounts reported in the financial statements.

Additionally, some investments held by the Diocese are invested in the securities of foreign companies, which involve special risks and considerations not typically associated with investing in securities of U.S. companies. These risks include devaluation of currencies, and less reliable, possible adverse, political and economic developments. Moreover, securities of many foreign companies and their markets may be less liquid and their prices more volatile than those of securities of comparable U.S. companies.

Cash Equivalents

For purposes of the statement of cash flows, the Diocese considers deposit accounts, money market funds, and certificates of deposit with original maturity of three months or less to be cash equivalents. However, cash balances held by investment managers are classified with investments in the accompanying financial statements.

The Diocese maintains most of its cash balances at one financial institution. The bank balances are insured by the Federal Deposit Insurance Corporation up to \$250,000. The Diocese had approximately \$2,200,000 in excess of the insured limits at June 30, 2019.

Financial Instruments

The Diocese's financial instruments consist of cash balances, accounts and notes receivable, investments (including beneficial interest in foundation), and accounts payable. The Diocese's estimates of fair value approximate their carrying amounts as of June 30, 2019 and 2018.

Accounts Receivable

Accounts receivable, resulting primarily from the Bishop's Annual Appeal, represent unconditional promises to give and are due and payable within one year. No allowance for uncollectible promises has been recorded as management expects that such receivables are fully collectible at June 30, 2019 and 2018. Periodically management reviews account receivable balances and may write-off uncollectible amounts.

Diocese of Kalamazoo
Notes to Financial Statements
For the Year Ended June 30, 2019 with Comparative Totals for 2018

NOTE A – Summary of Significant Accounting Policies (Continued)

Investments, Beneficial Interest in Foundation, and Investment Income

The Diocese has funds invested with the National Catholic Investment Pool (the Investment Pool) (formerly the Diocesan Investment Pool) and a third-party investment advisor indirectly through the Catholic Foundation of Southwestern Michigan (the Foundation). Investments made directly to the Investment Pool are reported as Investment in the accompanying financial statements. Investments made with the Foundation are reported as Beneficial Interest in Foundation in the accompanying financial statements. Investments in the Investment Pool and with the Foundation consist of cash, certificates of deposits, mutual funds, corporate bonds and government bonds.

The Michigan Catholic Conference (MCC, Inc.) is the administrator of the Investment Pool. The assets of the Investment Pool are held by the Northern Trust Company (Custodian) and are managed by independent investment managers. The Foundation assets are held by Charles Schwab, who invest the assets at the Foundation's direction. Investments are stated at fair value based on their closing value as reported on a national securities exchange.

Property and Equipment

Purchased assets are stated at cost. Donations of property and equipment are recorded at their market value on date of donation. Property and equipment are depreciated over the estimated useful lives using the straight-line method. Depreciation expense was approximately \$70,000 and \$77,000 for the years ended June 30, 2019 and 2018.

Contributions

Contributions to the Diocese are recorded as revenue when a donor makes a promise to give that is, in substance, unconditional. Contributions that are restricted by the donor are reported as donor restricted net assets. When a restriction is fulfilled, donor restricted net assets are reclassified to unrestricted net assets.

Income Taxes

In a determination letter dated March 25, 1946, and updated annually since that time, the Internal Revenue Service ruled that all organizations listed in The Official Catholic Directory are exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Diocese is listed in the 2018 edition of The Official Catholic Directory and, therefore, is exempt from federal income taxes. The Diocese has evaluated relevant criteria and determined that no significant contingencies exist with regard to its tax positions.

Diocese of Kalamazoo
Notes to Financial Statements
For the Year Ended June 30, 2019 with Comparative Totals for 2018

NOTE A – Summary of Significant Accounting Policies (Continued)

Change in Accounting Principle

On August 18, 2016, FASB issued Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The ASU has been applied retrospectively, except for the presentation of expenses by both natural classification and functional classification and the liquidity and availability disclosures, as allowed under the ASU. The ASU did not have a material impact on the classification of net assets. Our opinion is not modified with respect to this matter

NOTE B – Investments and Beneficial Interest in Foundation

The Diocese's investments, including the beneficial interest in the foundation, appreciated in fair value for the years ended June 30, as follows:

	<u>2019</u>	<u>2018</u>
Net realized gain on investments	\$ 673,480	\$ 405,790
Net unrealized gain on investments	64,747	394,745
	<u>\$ 738,227</u>	<u>\$ 800,535</u>

The Foundation was formed in 2016 for the benefit of the Diocese and its parishes, schools, and other organizations. The Foundation holds funds of the participating organizations, including the Diocese, and invests these funds for the benefit of the participating organizations. The Diocese is a beneficiary organization of the Foundation and recognizes its rights to assets held by the Foundation on its behalf. The Diocese has recognized its rights to these assets by recording its beneficial interest in the Foundation assets in the accompanying financial statements. The income or loss (including realized and unrealized gains and losses on investments, interest, and dividends) is included in the increase or decrease in net assets in the accompanying financial statements based on the presence or absence of donor restrictions.

Diocese of Kalamazoo
Notes to Financial Statements
For the Year Ended June 30, 2019 with Comparative Totals for 2018

NOTE C – Financial Instruments and Fair Value Measurements

As described in Note A, the Diocese's estimates of the fair value of financial assets and liabilities approximate carrying value. Financial accounting standards establish a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described as follows:

- Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Diocese has the ability to access.
- Level 2 Inputs to the valuation methodology include:
- quoted prices for similar assets or liabilities in active markets;
 - quoted prices for identical or similar assets or liabilities in inactive markets;
 - inputs other than quoted prices that are observable for the asset or liability;
 - inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.
- Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The following table summarizes the valuation of the Diocese's financial instruments by the aforementioned pricing categories at June 30, 2019:

	Total	Quoted Prices in Active Markets (Level 1)	Prices with Other Observable Inputs (Level 2)	Prices with Unobservable Inputs (Level 3)
Cash and cash equivalents	\$ 22	\$ 22	\$ -	\$ -
Mutual Funds:				
Diamond Hill Large Cap Value	1,806,767	1,806,767	-	-
Wells Capital Growth	1,830,810	1,830,810	-	-
Rhumbline - International	329,818	329,818	-	-
Loomis Sayles Small/Mid Cap	711	711	-	-
Palisade Capital Small/Mid Cap	675,038	675,038	-	-
Blackrock Intermediate Bond	685,953	-	685,953	-
Boyd Watterson Short Term Bond	1,689,382	-	1,689,382	-
Beneficial Interest in The Catholic Foundation of Southwestern Michigan	10,507,283	10,323,236	184,047	-
Subtotal	<u>\$ 17,525,785</u>	<u>\$ 14,966,403</u>	<u>\$ 2,559,382</u>	<u>\$ -</u>

Diocese of Kalamazoo
Notes to Financial Statements
For the Year Ended June 30, 2019 with Comparative Totals for 2018

NOTE C – Financial Instruments and Fair Value Measurements (Continued)

The following table summarizes the valuation of the Diocese's financial instruments by the aforementioned pricing categories at June 30, 2018:

	Total	Quoted Prices in Active Markets (Level 1)	Prices with Other Observable Inputs (Level 2)	Prices with Unobservable Inputs (Level 3)
Cash and cash equivalents	\$ 22	\$ 22	\$ -	\$ -
Mutual Funds:				
Diamond Hill Large Cap Value	1,933,087	1,933,087	-	-
Wells Capital Growth	2,007,710	2,007,710	-	-
Rhumblin - International	261,454	261,454	-	-
Loomis Sayles Small/Mid Cap	711,750	711,750	-	-
Blackrock Intermediate Bond	522,649	-	522,649	-
Boyd Watterson Short Term Bond	1,738,534	-	1,738,534	-
Beneficial Interest in The Catholic Foundation of Southwestern Michigan	9,886,569	9,707,479	179,090	-
Total Investments	<u>\$ 17,061,775</u>	<u>\$ 14,621,502</u>	<u>\$ 2,440,274</u>	<u>\$ -</u>

The following table reconciles the changes in fair value of investments held at the Catholic Foundation of Southwest Michigan the years ended June 30, 2019 and 2018:

Balance at July 1, 2017	\$ 9,636,380
Change in investment value	49,086
Net contributions	<u>201,103</u>
Balance June 30, 2018	9,886,569
Change in investment value	248,996
Net contributions	<u>(10,135,565)</u>
Balance June 30, 2019	<u>\$ -</u>

For the assets held by The Catholic Foundation of Southwest Michigan (the Foundation), a description of the Foundation's investment policies and holdings can be found in the Foundation's financial statements. Generally, the Foundation invests in fixed income and equity instruments that are traded in the open market. The change in the investment value of assets held at the Foundation, as shown in the table above, has been included in net appreciation of investments in the accompanying statement of activities.

Diocese of Kalamazoo
Notes to Financial Statements
For the Year Ended June 30, 2019 with Comparative Totals for 2018

NOTE D – Donor Restricted Net Assets

Donor restricted net assets are available for the following purposes at June 30:

	2019	2018
Time restricted contribution	\$ -	\$ 5,500,000
Bishops Annual Appeal, future services	3,424,123	3,400,148
Battle Creek Health Care Fund	1,411,243	1,405,212
Education of priests and seminarians	1,168,607	1,031,969
Needs of the poor and disadvantaged	92,389	120,715
Endowed for men in the priesthood	220,260	212,841
Other	129,577	108,100
	<u>\$ 6,446,199</u>	<u>\$ 11,778,985</u>

In 2016, the Diocese received a contribution of \$6,814,000. The contribution, which was otherwise unrestricted, contained a clause requiring \$5,500,000 to be restricted from use through June 30, 2018, should any claims be made on the donor's estate. The restriction expired on July 1, 2019.

Donor restricted net assets includes \$205,422 at June 30, 2019 and 2018, respectively, that is restricted for investment in perpetuity, the income from which is expendable to support the education of men for the priesthood.

NOTE E – Retirement Plans

The Diocese participates in the Michigan Catholic Conference Lay Employees Retirement Plan (Lay Plan), a multi-employer defined benefit pension plan established for the benefit of lay employees of the Catholic dioceses, parishes, schools, and other diocesan organizations. The Lay Plan number and Employer Identification Number is 38-1971920.

The Diocese's contributions to the Lay Plan were approximately \$113,000 and \$99,000 for the years ended June 30, 2019 and 2018, respectively. The amount of contributions to the Lay Plan was 8.6% of wages of all covered employees. The Diocese's contributions to the Lay Plan did not represent more than 5% of the total contributions received by the Lay Plan.

Specific Plan information for the Diocese is not available from the Lay Plan's administrator. If the Diocese terminates its participation in the Lay Plan, the Diocese would be obligated to make a contribution to the Lay Plan in an amount equal to its proportionate share of any unfunded liability. The termination liability would be calculated by the actuaries as outlined in the Lay Plan document.

The Diocese also sponsors the Priests' Retirement Plan (Priests' Plan) through the Michigan Catholic Conference, a defined benefit pension plan established for the benefit of priests ordained or incardinated in the Diocese. The Priests' Plan number and employer identification number is 20-8419571.

Diocese of Kalamazoo
Notes to Financial Statements
For the Year Ended June 30, 2019 with Comparative Totals for 2018

NOTE E – Retirement Plans (Continued)

The Diocese sponsors the Priests' Plan on behalf of the parishes in southwestern Michigan. The amount of contributions required during the year is allocated to the various parishes served. The Diocese contribution to the priest retirement plan for priest compensated by the Diocese was \$0 and \$60,867 for the years ended June 30, 2019 and 2018, respectively.

Specific plan information for the Diocese is not available from the Priests' Plan administrator. In the event of termination of the Priests' Plan, assets would be allocated in the following order of preference: 1) to provide for continuance of pension payments to retirees; 2) to provide for payment of pension benefits to all other priest participants based on their accrued benefits as of the termination date; and 3) to the Diocese if any assets remained. No retiree, participant, or other person has any rights or claims under the Priests' Plan in excess of the assets available to pay benefits.

The following information is based on the valuation reports of the Lay Plan and Priests' Plan as of July 1, 2019:

	Michigan Catholic Conference Lay Employees' Retirement Plan	Michigan Catholic Conference Priests' Plan
Total fair value of plan assets	\$ 1,312,900,000	\$ 7,730,112
Actuarial present value of accumulated plan benefits	1,450,800,000	4,878,677
Total contributions received by the plan during previous fiscal year	27,598,493	384,000
Funded Ratio	90.5%	158.4%

NOTE F – Self Insurance

The Diocese is self-insured for general liability, property, vehicle and other liabilities for up to one million dollars. Insurance for losses above the self-insured liability has been purchased through MCC. The self-funded insurance obligation is managed by MCC to whom the Diocese makes annual contributions. Contributions are made in amounts the MCC determines necessary to fulfill expected future losses. Expense is recorded at the time contributions are made. The Diocese does not record a liability for the self-funded insurance unless it becomes aware of a substantial claim incurred for which additional funding will be necessary. From time to time the MCC evaluates expected future liabilities and may return amounts to the Diocese that are deemed to be over funding of expected obligations. In 2018, the MCC returned to the Diocese \$500,000 (\$250,000 from each of the worker's compensation and general liability funds) which was deemed to be an overfunding of liability requirements. These funds were recorded as donation and grant income.

The general liability insurance coverage purchased for losses in excess of one million dollars does not cover any claims for Diocesan obligations for abuse or misconduct committed by priests. The Diocese is self-insured for all such claims.

Diocese of Kalamazoo
Notes to Financial Statements
For the Year Ended June 30, 2019 with Comparative Totals for 2018

NOTE F – Self Insurance (Continued)

The Diocese is authorized by the Michigan Department of Insurance and Financial Services to self-insure no-fault risk for its vehicles for the twelve-month certification period ending June 30, 2019. An authorized self-insurer is required to establish a fully funded loss reserve to pay claims which are anticipated in, and/or submitted for payment during, the certification period, as well as to pay claims which have been incurred and submitted before then but have not yet been paid. The loss reserve for the Diocese has been determined by a qualified actuary and is fully funded as of the commencement of the current certification period. Included in cash is approximately \$20,000 and \$19,000 at June 30, 2019 and 2018, respectively, restricted to cover the estimated loss reserve; the Diocese has recorded a corresponding liability.

NOTE G – Cash Flow Information

The Diocese did not pay any cash for interest during the years ended June 30, 2019 and 2018.

NOTE H – Commitments and Contingencies

In September 2018, the Michigan Attorney General initiated an investigation into the sexual abuse of minors in the Catholic Church in Michigan. The Attorney General stated in February 2019, that the investigation may take as long as two years. The seven Dioceses of Michigan each have pledged full cooperation with the investigation. The Diocese has not received any information from the State as to potential findings of the investigation.

NOTE I – Liquidity and availability of Resources

The following table reflects the Diocese of Kalamazoo financial assets as of June 30, 2019, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the balance sheet date.

	<u>2019</u>
Cash and cash equivalents	\$ 2,165,553
Accounts receivable	2,350,739
Investments	7,018,502
Beneficial interest in Foundation	<u>10,507,283</u>
Financial assets	22,042,077
Less financial assets unavailable for general expenditures within one year -	
Purpose restricted assets	<u>3,022,076</u>
Financial assets available to meet cash needs for general purposes within one year	<u><u>\$ 19,020,001</u></u>

Diocese of Kalamazoo
Notes to Financial Statements
For the Year Ended June 30, 2019 with Comparative Totals for 2018

NOTE I – Liquidity and availability of Resources (Continued)

While the Diocese has no intent to use investment assets and the beneficial interest held in the Foundation, these assets, to the extent they are not restricted by the donor, are available for general use. Restricted assets as shown on the accompanying statement of financial position includes \$1,539,173 in cash and \$1,884,950 in accounts receivable which are derived from the Bishop's Annual Appeal and are intended to be used for the general expenditures of the Diocese in the fiscal year beginning July 1, 2019 and ending June 30, 2020. Therefore, these assets are available to meet the liquidity needs of the Diocese and are shown as such in this footnote.

NOTE J – Statement of Functional Expenses

Costs of providing program and support services have been reported on a functional basis in the Statement of Activities and in the schedule of Functional Expenses included in this footnote. Functional expenses are typically aligned by department; therefore, salaries and benefits did not require allocation. The financial statements report other categories of expenses that are attributable to more than one program or support function. Therefore, these expenses required allocation on a reasonable basis that is consistently applied. As such, expenses utilized by all employees, such as occupancy, utilities, supplies, and insurance have been allocated on the basis office space square footage. Information technology costs such as support services, general computer related costs, and communication expenses have been allocated based on headcount in each department. Expenses deemed to be indirect to employee work are considered to be management and general expenses. Costs have been allocated between the various programs and support services based on estimates, as determined by management. Although the methods of allocation used were considered reasonable, other methods could have been used that would have produced different amounts.

Functional Expenses by natural category for the fiscal year ended June 30, 2019 were as follows:

		Support Services		
	Programs	Services and Administration	Fundraising	Total
Compensation and benefits	\$ 1,951,697	\$ 912,509	\$ -	\$ 2,864,206
Professional Fees	90,980	569,303	-	660,283
Seminars, ministry, meetings	343,670	80,943	-	424,613
Catholic charities	390,577	25	-	390,602
Education, Tuition & Fees	206,775	-	-	206,775
Printing, postage, supplies	92,692	81,490	-	174,182
Dues & subscriptions	82,126	84,468	-	166,594
Travel & Lodging	100,864	28,803	-	129,667
Utilities	2,108	113,765	-	115,873
Depreciation	-	69,533	-	69,533
Buildings & Equipment	4,364	106,578	-	110,942
Miscellaneous	16,779	37,652	4,451	58,882
Bank and investment fees	-	45,265	-	45,265
Supplies	-	18,175	-	18,175
Total	<u>\$ 3,282,633</u>	<u>\$ 2,148,509</u>	<u>\$ 4,451</u>	<u>\$ 5,435,593</u>

Diocese of Kalamazoo
Notes to Financial Statements
For the Year Ended June 30, 2019 with Comparative Totals for 2018

NOTE K – Subsequent Event

As a result of the spread of the COVID-19 coronavirus, economic uncertainties have arisen which are likely to negatively impact the Diocese. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration. Therefore, while the Diocese expects this matter to negatively impact its operating results in some way and reduce, at least temporarily, the value of its investments; the financial impact and duration cannot be reasonably estimated at this time. Management has evaluated subsequent events through April 24, 2020, the date on which the financial statements were available to be issued.