

CATHOLIC FOUNDATION OF SOUTHWESTERN MICHIGAN

FINANCIAL STATEMENTS

For the Years Ended June 30, 2020 and 2019

TABLE OF CONTENTS

	<u>Page No.</u>
Independent Auditors' Report	1
Financial Statements	
Statements of Financial Position	2
Statements of Activities and Changes in Net Assets	3
Statements of Cash Flows	4
Notes to Financial Statements	5-9

SEBER TANS, PLC

CONSULTANTS & CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

The Most Reverend Paul J. Bradley, Bishop of Kalamazoo
Catholic Foundation of Southwestern Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the Catholic Foundation of Southwestern Michigan (a nonprofit organization) (the Foundation), which comprise the statements of financial position as of June 30, 2020 and 2019, 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 error or fraud.

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 audits 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 Foundation'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 Foundation'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 Catholic Foundation of Southwestern Michigan as of June 30, 2020 and 2019, and the changes in its net assets and cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Seber Tans, PLC

Seber Tans, PLC
Kalamazoo, Michigan
November 16, 2020

Catholic Foundation of Southwestern Michigan
Statements of Financial Position
June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Assets		
Cash and cash equivalents	\$ 3,048,700	\$ 3,095,535
Investments	<u>5,716,465</u>	<u>7,415,374</u>
Total Assets	<u>\$ 8,765,165</u>	<u>\$ 10,510,909</u>
Liabilities and Net Assets		
Liabilities		
Due to related party	\$ 68,012	\$ 3,626
Deposit liabilities	<u>8,697,153</u>	<u>10,507,283</u>
Total Liabilities	8,765,165	10,510,909
Net Assets	<u>-</u>	<u>-</u>
Total Liabilities and Net Assets	<u>\$ 8,765,165</u>	<u>\$ 10,510,909</u>

See Accompanying Notes to the Financial Statements

Catholic Foundation of Southwestern Michigan
Statements of Activities and Changes in Net Assets
For the Years Ended June 30, 2020 and 2019

	2020	2019
Revenue		
Interest and dividends	\$ 189,655	\$ 474,224
Net realized and unrealized investment gain (loss)	137,599	(203,735)
Total Revenue	327,254	270,489
Investment Advisor and Bank Fees	19,428	21,493
Unallocated net revenues	307,826	248,996
Allocation of earnings	307,826	248,996
Change in Net Assets	-	-
Net Assets at Beginning of Year	-	-
Net Assets at End of Year	\$ -	\$ -

See Accompanying Notes to the Financial Statements

Catholic Foundation of Southwestern Michigan
Statements of Cash Flows
For the Years Ended June 30, 2020 and 2019

	2020	2019
Cash Flows from Operating Activities		
Change in Net Assets	\$ -	\$ -
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Allocation of earnings	307,826	248,996
Net appreciation (depreciation) in fair value of investments, including realized gains and losses	(137,599)	203,735
Change in accounts payable	64,386	(38,518)
Net Cash Provided by Operating Activities	<u>234,613</u>	<u>414,213</u>
Cash Flows from Investing Activities		
Sales (purchases) of investments, net	<u>1,528,682</u>	<u>(681,284)</u>
Cash Flows from Financing Activities		
Deposits received from (returned to) participants, net	<u>(1,810,130)</u>	<u>620,714</u>
Net Change in Cash	(46,835)	353,643
Cash at Beginning of Period	<u>3,095,535</u>	<u>2,741,892</u>
Cash at End of Period	<u>\$ 3,048,700</u>	<u>\$ 3,095,535</u>

See Accompanying Notes to the Financial Statements

Catholic Foundation of Southwestern Michigan
Notes to Financial Statements
For the Years Ended June 30, 2020 and 2019

NOTE A – Summary of Significant Accounting Policies

Organization Purpose

The Catholic Foundation of Southwestern Michigan (the Foundation) is a not-for-profit corporation established for the exclusive benefit of the Roman Catholic Diocese of Kalamazoo (Diocese) and its parishes, schools, and other organizations (collectively known as participants). The Foundation holds funds of participating organizations, including the Diocese, and invests these funds for the benefit of the participating organizations. Funds held by the Foundation are either designated, restricted for specific purposes, time restricted, or endowed.

As of June 30, 2020 and 2019, all funds held by the Foundation were deposited by participating organizations; therefore, the accompanying financial statements do not report net assets of the Foundation.

The Foundation does not have any employees. Administrative and support services are provided by Diocesan staff. Through the date of this financial statement, the cost of these services has been borne by the Diocese. In future years, the Foundation may be charged an annual fee to reimburse the Diocese for services provided.

These financial statements are not intended to, and do not, reflect the activities of the Roman Catholic Diocese of Kalamazoo as a whole.

Basis of Accounting

The Foundation maintains its records on the accrual basis of accounting.

Cash Equivalents

For purposes of the statement of cash flows, the Foundation considers deposit accounts and money market funds with an original maturity of three months or less to be cash equivalents. Cash balances in investment funds are classified with investments in the accompanying financial statements. The Foundation maintains all 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 \$2,800,000 in excess of the insured limits at June 30, 2020.

Contributions

Contributions for which the Foundation has discretion as to the use of the funds are recorded as income when an unconditional promise to give is received.

Investments

Investments are carried at fair value, determined by quoted market prices and other relevant information generated by market transactions. Realized and unrealized gains and losses and other investment earnings are included in the statements of activities as net change in fair value of investments.

Catholic Foundation of Southwestern Michigan
Notes to Financial Statements
For the Years Ended June 30, 2020 and 2019

NOTE A – Summary of Significant Accounting Policies (Continued)

Earnings Allocated to Participant Accounts

Earnings allocated to participant accounts consist of interest, dividends and the net change in the fair value of investments, less investment and administrative expenses.

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 2019 edition of The Official Catholic Directory and, therefore, is exempt from federal income taxes. As a service provider to the Diocese, the Foundation is exempt from federal income taxes under Section 501(c)(3). The Diocese has evaluated relevant criteria and determined that no significant contingencies exist with regard to the Foundation's tax positions.

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.

Allocations and Presentation of Functional Expenses

The Foundation's sole activity is holding, investing and managing investments. Therefore, all costs are incurred in pursuit of this objective and cost allocation is not applicable. The Diocese performs all administration for the Foundation. While the Diocese has the right to charge the Foundation an administrative fee, it is not currently charging a fee. The Statements of Activities presents all expenses incurred by the Trust by natural category and function

Risk

The Foundation 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 Foundation 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.

Catholic Foundation of Southwestern Michigan
Notes to Financial Statements
For the Years Ended June 30, 2020 and 2019

NOTE B – Investments and Liquidity

Investments consist of the following at June 30:

	2020	2019
Mission Diocese Fund	\$ 183,993	\$ 184,041
Funds held by Investment Manager	5,532,472	7,231,333
	<u>\$ 5,716,465</u>	<u>\$ 7,415,374</u>

The Foundation's investments (including investments purchased, sold, and held) depreciated in fair value during year ended June 30, 2020 and 2019, as follows:

	2020	2019
Net realized gain (loss) on investments	\$ 72,404	\$ (4,366)
Net unrealized gain (loss) on investments	65,195	(199,368)
	<u>\$ 137,599</u>	<u>\$ (203,734)</u>

All assets, which consist of cash and investments, are available to pay expenses as they are incurred.

NOTE C – Financial Instruments and Fair Value Measurements

As described in Note A, the Foundation'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 Foundation 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.

Catholic Foundation of Southwestern Michigan
Notes to Financial Statements
For the Years Ended June 30, 2020 and 2019

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

The following table summarizes the valuation of the Foundation's financial instruments by the aforementioned pricing categories at June 30, 2020:

	Total	Quoted Prices in Active Markets (Level 1)	Prices with Other Observable Inputs (Level 2)	Prices with Unobservable Inputs (Level 3)
Funds Held by Investment Manager:				
Cash and cash equivalents	\$ 785	\$ 785	\$ -	\$ -
Fixed Income	2,112,025	2,112,025	-	-
Bond Funds	617,313	617,313	-	-
Other Assets	2,802,349	2,802,349	-	-
Mission Diocese Fund:				
Fixed Income	22,079	-	22,079	-
Alternative Equity	51,518	-	51,518	-
Global Equity	91,996	-	91,996	-
Real Assets	18,400	-	18,400	-
Total Investments	<u>\$ 5,716,465</u>	<u>\$ 5,532,472</u>	<u>\$ 183,993</u>	<u>\$ -</u>

The following table summarizes the valuation of the Foundation'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)
Funds Held by Investment Manager:				
Cash and cash equivalents	\$ 14,746	\$ 14,746	\$ -	\$ -
Fixed Income	6,163,290	6,163,290	-	-
Bond Funds	617,313	617,313	-	-
Other Assets	435,985	435,985	-	-
Mission Diocese Fund:				
Fixed Income	22,085	-	22,085	-
Alternative Equity	51,531	-	51,531	-
Global Equity	92,021	-	92,021	-
Real Assets	18,404	-	18,404	-
Total Investments	<u>\$ 7,415,374</u>	<u>\$ 7,231,333</u>	<u>\$ 184,041</u>	<u>\$ -</u>

The Mission Diocese Fund assets are valued based on fair values in quoted prices but are reported to the Diocese in aggregated groups.

NOTE D – Cash Flow Information

The Foundation did not incur or pay any interest expense during the years ended June 30, 2020 and 2019, respectively.

Catholic Foundation of Southwestern Michigan
Notes to Financial Statements
For the Years Ended June 30, 2020 and 2019

NOTE E – Subsequent Events

As a result of the spread of the COVID-19 coronavirus, economic uncertainties have arisen which are likely to negatively impact the Foundation. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration. Therefore, while this matter may negatively impact the Foundation's 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 November 16, 2020, the date on which the financial statements were available to be issued.