

DIOCESE OF KALAMAZOO PARISH DEPOSIT & LOAN FUND TRUST

FINANCIAL STATEMENTS

For the Years Ended June 30, 2020 and 2019

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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 Parish Deposit & Loan Fund Trust

Report on the Financial Statements

We have audited the accompanying financial statements of the Diocese of Kalamazoo Parish Deposit & Loan Fund Trust (a nonprofit organization) (the Trust), 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 Trust'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 Trust'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 Parish Deposit & Loan Fund Trust 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

Diocese of Kalamazoo Parish Deposit & Loan Fund Trust
Statements of Financial Position
June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Assets		
Cash and cash equivalents	\$ 4,828,429	\$ 2,913,782
Investments	16,487,858	15,916,481
Account receivable from the Diocese	-	244,208
Loans receivable	<u>2,001,782</u>	<u>2,113,712</u>
Total Assets	<u>\$ 23,318,069</u>	<u>\$ 21,188,183</u>
Liabilities and Net Assets		
Accounts payable	\$ 6,947	\$ 8,677
Deposits payable	<u>23,311,122</u>	<u>21,179,506</u>
Total Liabilities	23,318,069	21,188,183
Net Assets	<u>-</u>	<u>-</u>
Total Liabilities and Net Assets	<u>\$ 23,318,069</u>	<u>\$ 21,188,183</u>

See Accompanying Notes to the Financial Statements

Diocese of Kalamazoo Parish Deposit & Loan Fund Trust
Statements of Activities and Changes in Net Assets
For the Years Ended June 30, 2020 and 2019

	2020	2019
Revenue		
Interest income from loans	\$ 93,905	\$ 126,765
Interest and dividends from investments	331,880	327,680
Net appreciation of investments	308,078	943,913
Total Revenue	733,863	1,398,358
Investment advisor fees	59,951	58,649
Net Revenue Before Administrative Expense	673,912	1,339,709
Administrative expense	61,967	53,516
Unallocated net revenues	611,945	1,286,193
Allocation of earnings	(611,945)	(1,286,193)
Change in Net Assets	-	-
Net Assets at Beginning of Year	-	-
Net Assets at End of Year	\$ -	\$ -

See Accompanying Notes to the Financial Statements

Diocese of Kalamazoo Parish Deposit & Loan Fund Trust
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 net revenues to participants	611,945	1,286,193
Net appreciation in fair value of investments and realized gains	(308,078)	(943,913)
Change in accounts receivable	244,208	(244,208)
Change in accounts payable	(1,730)	7
Net Cash Provided By Operating Activities	<u>546,345</u>	<u>98,079</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments, net	<u>(875,244)</u>	<u>(1,535,510)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment from loans receivable from parishes, net	111,930	270,640
Increase in deposits payable to parishes, net	<u>2,131,616</u>	<u>1,057,869</u>
	2,243,546	1,328,509
Net Change in Cash	1,914,647	(108,922)
Cash at Beginning of Year	<u>2,913,782</u>	<u>3,022,704</u>
Cash at End of Year	<u>\$ 4,828,429</u>	<u>\$ 2,913,782</u>

See Accompanying Notes to the Financial Statements

Diocese of Kalamazoo Parish Deposit & Loan Fund Trust
Notes to Financial Statements
For the Years Ended June 30, 2020 and 2019

NOTE A – Summary of Significant Accounting Policies

Organization Purpose

The Diocese of Kalamazoo Parish Deposit & Loan Fund Trust (the Trust) operates a Deposit and Loan Fund that accepts excess reserves from the parishes of the Diocese of Kalamazoo (the Diocese) and either invests or loans these funds to other parishes of the Diocese for construction and renovation projects.

The Trust loans or invests in accordance with its by-laws for the benefit of the participating Parishes, Schools, or other organizations. The Trust does not have an ownership interest in the Trust assets. Therefore, the accompanying financial statements do not report net assets for the Trust. All assets are due to the participating Parishes.

The Trust does not have any employees. The Diocesan staff provide administrative and support services to the Trust for which the Diocese charges an annual fee of 0.25% of assets.

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 Presentation and Income Allocation

The financial statements of the Trust have been prepared on the accrual basis of accounting. Revenues consisting of interest and dividends are recognized when earned. Realized gains and losses are recognized when incurred. Unrealized gains and losses are recognized based on changes in the fair value of investments. Expenses are recorded when incurred. Monthly, the net activity of the Trust is allocated to the participating Parishes based on each Parish's percentage of average monthly deposits outstanding to the total outstanding deposits of the Trust.

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.

Risk

The Trust utilizes various investment instruments, which are exposed to 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 Trust 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.

Diocese of Kalamazoo Parish Deposit & Loan Fund Trust
Notes to Financial Statements
For the Years Ended June 30, 2020 and 2019

NOTE A – Summary of Significant Accounting Policies (Continued)

Financial Instruments

The Trust's financial instruments consist of cash and cash equivalents, investments, loans receivable, accounts payable, and deposits payable. The Trust's estimates of fair value approximate their carrying amounts as of June 30, 2020 and 2019.

Cash Equivalents

For purposes of the statement of cash flows, Trust management considers deposit accounts, money market funds, and certificates of deposits 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 Trust 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 Trust had approximately \$4,575,000 in excess of the insured limits at June 30, 2020.

Loans Receivable

Loans to Parishes were made at annual interest rates ranging from 2.5% to 5.5%. Interest is recorded on an accrual basis. Payments greater than 180 days delinquent would be considered past due and placed on non-accrual status. As of June 30, 2020, all payments have been received when due. All loans receivable are uncollateralized.

Deposits Payable

Deposits payable represent amounts due to parishes. The deposits may be withdrawn by the parishes at any time. Deposits payable receive monthly allocations of the Trust net activity (net income or loss).

Investments and Investment Income

Investments consist of cash and funds held in the National Catholic Investment Pool (the Investment Pool). The Michigan Catholic Conference (MCC) 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 Investment Pool's funds consist of fixed income and equity securities. Funds are stated at fair value based on their closing values as reported on a national securities exchange.

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 Trust 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 Trust's tax positions.

Diocese of Kalamazoo Parish Deposit & Loan Fund Trust
Notes to Financial Statements
For the Years Ended June 30, 2020 and 2019

NOTE A – Summary of Significant Accounting Policies (Continued)

Allocations and Presentation of Functional Expenses

The Trust's sole activity is the operation of a deposit and loan fund. Given the nature of the Trust's activities, all costs are directly incurred for either investment related activities or for general and administrative expenses. Therefore, the Trust does not have allocated costs. Additionally, since the Diocese performs all administration for the Trust and charges them an administrative fee, the Statements of Activities presents all expenses incurred by the Trust by natural category and function.

NOTE B – Liquidity

The Trust has the following assets available to pay trust obligations coming due within the next twelve months:

	2020	2019
Cash	\$ 4,828,429	\$ 2,913,782
Investments	16,487,858	15,916,481
Account receivable from the Diocese	-	244,208
	<u>\$ 21,316,287</u>	<u>\$ 19,074,471</u>

The above assets are available to pay expenses and other obligations of the Trust as they become due. While all Deposits Payable are payable on demand, Trust management believes it is highly unlikely that all depositors would demand repayment.

The Trust's loans receivable balance shown on the accompanying statement of financial position is comprised of two loans, one to a Parrish and one to a Catholic School System. The loans are primarily not available to meet current obligations of the Trust as the loans are receivable in the monthly payments over remaining terms of 12 and 30 years.

NOTE C – Investments

The Trust's investments (including investments purchased, sold, and held during the year) appreciation in fair value for the years ended June 30 as follows:

	2020	2019
Net realized gain (loss) on investments	\$ 331,993	\$ 1,265,739
Net unrealized gain on investments	(23,915)	(321,826)
	<u>\$ 308,078</u>	<u>\$ 943,913</u>

Diocese of Kalamazoo Parish Deposit & Loan Fund Trust
Notes to Financial Statements
For the Years Ended June 30, 2020 and 2019

NOTE D – Financial Instruments and Fair Value Measurements

As described in Note A, the Trust'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 Trust 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 Trust'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)
Investment Pool:				
Cash and cash equivalents	\$ 148	\$ 148	\$ -	\$ -
Diamond Hill Large Cap Value	3,165,679	3,165,679	-	-
Wells Capital Growth	3,898,311	3,898,311	-	-
Rhumblin - International	709,227	709,227	-	-
Palisade Capital Small/Mid Cap	1,419,867	1,419,867	-	-
Blackrock Intermediate Bond	1,674,533	-	1,674,533	-
Boyd Watterson Short Term Bond	5,620,093	-	5,620,093	-
Total Investments	<u>\$ 16,487,858</u>	<u>\$ 9,193,232</u>	<u>\$ 7,294,626</u>	<u>\$ -</u>

Diocese of Kalamazoo Parish Deposit & Loan Fund Trust
Notes to Financial Statements
For the Years Ended June 30, 2020 and 2019

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

The following table summarizes the valuation of the Trust'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)
Investment Pool:				
Cash and cash equivalents	\$ 46	\$ 46	\$ -	\$ -
Diamond Hill Large Cap Value	3,353,487	3,353,487	-	-
Wells Capital Growth	3,316,910	3,316,910	-	-
Rhumblin - International	753,002	753,002	-	-
Loomis Sayles Small/Mid Cap	1,632	1,632	-	-
Palisade Capital Small/Mid Cap	1,549,995	1,549,995	-	-
Blackrock Intermediate Bond	1,558,331	-	1,558,331	-
Boyd Watterson Short Term Bond	5,383,077	-	5,383,077	-
Total Investments	<u>\$ 15,916,481</u>	<u>\$ 8,975,073</u>	<u>\$ 6,941,407</u>	<u>\$ -</u>

NOTE E – Cash Flow Information

The Trust did not pay any cash for interest during the years ended June 30, 2020 and 2019.

NOTE F – Subsequent Events

As a result of the spread of the COVID-19 coronavirus, economic uncertainties have arisen which may negatively impact the Trust. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration. Therefore, while this matter may negatively impact the Trust's 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.