

**CATHOLIC FOUNDATION OF SOUTHWESTERN MICHIGAN
AND AFFILIATE**

**CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

For the Years Ended June 30, 2021 and 2020

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SEBER TANS, PLC

CONSULTANTS & CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of the Catholic Foundation of Southwestern Michigan and Affiliate (a nonprofit organization) (the "Foundation"), which comprise the consolidated statements of financial position as of June 30, 2021 and 2020, and the related consolidated statements of activities and changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Catholic Foundation of Southwestern Michigan and Affiliate as of June 30, 2021 and 2020, and the changes in their net assets and cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating statements on page 12 and 13 are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Seber Tans, PLC

Seber Tans, PLC
Kalamazoo, Michigan
March 30, 2022

Catholic Foundation of Southwestern Michigan and Affiliate
Consolidated Statements of Financial Position
June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Assets		
Current Assets		
Cash	\$ 2,790,800	\$ 3,048,700
Accounts receivable from related parties	2,474	-
Total Current Assets	<u>2,793,274</u>	<u>3,048,700</u>
Investments	241,176	5,716,465
Property and Equipment - Land	<u>1,250,442</u>	<u>-</u>
Total Assets	<u>\$ 4,284,892</u>	<u>\$ 8,765,165</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable to related parties	\$ 21,837	\$ 68,012
Other accrued liabilities	23,241	-
Deposit liabilities	<u>2,898,333</u>	<u>8,697,153</u>
Total Liabilities	<u>2,943,411</u>	<u>8,765,165</u>
Net Assets without Donor Restrictions	<u>1,341,481</u>	<u>-</u>
Total Liabilities and Net Assets	<u>\$ 4,284,892</u>	<u>\$ 8,765,165</u>

See Accompanying Notes to Consolidated Financial Statements.

Catholic Foundation of Southwestern Michigan and Affiliate
Consolidated Statements of Activities and Changes in Net Assets
For the Years Ended June 30, 2021 and 2020

	2021	2020
Revenues		
Contribution income	\$ 1,444,666	\$ -
Investment interest and dividends	40,084	189,655
Net appreciation of investments	40,182	137,599
Total Revenues	<u>1,524,932</u>	<u>327,254</u>
Expenses		
Professional services	100,401	-
Office expense	4,058	-
Investment advisor and bank fees	7,721	19,428
Total Expenses	<u>112,180</u>	<u>19,428</u>
Change in Net Assets Before Allocation of Earnings	1,412,752	307,826
Allocation of Earnings	<u>71,271</u>	<u>307,826</u>
Change in Net Assets	1,341,481	-
Net Assets at Beginning of Year	<u>-</u>	<u>-</u>
Net Assets at End of Year	<u><u>\$ 1,341,481</u></u>	<u><u>\$ -</u></u>

See Accompanying Notes to Consolidated Financial Statements.

Catholic Foundation of Southwestern Michigan and Affiliate
Consolidated Statements of Cash Flows
For the Years Ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash Flows from Operating Activities		
Change in net assets	\$ 1,341,481	\$ -
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Net unrealized gain on investments	(105,160)	(135,507)
Changes in operating assets and liabilities which provided (used) cash:		
Accounts receivable	(2,474)	-
Accounts payable	(46,175)	64,386
Other accrued liabilities	23,241	-
Net Cash Provided by (Used in) Operating Activities	<u>1,210,913</u>	<u>(71,121)</u>
Cash Flows from Investing Activities		
Purchase of property	(1,250,442)	-
Sales of investments	5,620,772	2,016,982
Purchases of investments	(40,323)	(182,566)
Net Cash Provided by Investing Activities	<u>4,330,007</u>	<u>1,834,416</u>
Cash Flows from Financing Activities		
Net deposits returned to participants	<u>(5,798,820)</u>	<u>(1,810,130)</u>
Net Change in Cash	(257,900)	(46,835)
Cash at Beginning of Year	<u>3,048,700</u>	<u>3,095,535</u>
Cash at End of Year	<u>\$ 2,790,800</u>	<u>\$ 3,048,700</u>

See Accompanying Notes to Consolidated Financial Statements.

Catholic Foundation of Southwestern Michigan and Affiliate
Notes to the Consolidated Financial Statements
For the Years Ended June 30, 2021 and 2020

NOTE A – Summary of Significant Accounting Policies

Organization Purpose and Consolidation Policy

The Catholic Foundation of Southwestern Michigan (“CFSM”) and Affiliate (collectively, the “Foundation”) is a not-for-profit organization established for the exclusive benefit of the Roman Catholic Diocese of Kalamazoo (the “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.

The consolidated financial statements of the Foundation include the accounts of The Sanctuary at St. Ann, L3C (the “Sanctuary”), an affiliate organization controlled by CFSM’s board of directors. The Sanctuary was formed on December 4, 2020 pursuant to the filing of its Articles of Incorporation with the state of Michigan. The purpose of the Sanctuary is to hold land purchased for the benefit of CFSM and its related parties. All material intercompany transactions and balances have been eliminated in consolidation.

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 consolidated 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 Foundation have been prepared on the accrual basis of accounting. The net assets and revenues, expenses, gains, and losses of the Foundation are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Foundation 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 Foundation has designated, from net assets without donor restrictions, funds which have been set aside for future needs of the Foundation.

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 stipulate time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

As of June 30, 2020, all funds held by CFSM were deposited by participating organizations. Donor restrictions, if any, are reported at the Participant level; therefore, the accompanying consolidated financial statements do not report net assets of CFSM as of this date. During the year ended June 30, 2021, the Diocese allocated a percentage of funds to CFSM at which time CFSM began to report its allocation as net assets without donor restriction.

As of June 30, 2021, the Sanctuary had no net assets with donor restrictions.

Catholic Foundation of Southwestern Michigan and Affiliate
Notes to the Consolidated Financial Statements
For the Years Ended June 30, 2021 and 2020

NOTE A – Summary of Significant Accounting Policies (Continued)

Cash Equivalents and Concentrations

For purposes of the consolidated statements of cash flows, certain deposit amounts, money market funds, and certificates of deposits held by investment managers 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 Foundation had approximately \$2,541,000 in excess of the insured limits at June 30, 2021.

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.

The Foundation holds funds of the participating organizations, including the Diocese, and invests these funds for their benefit. The Foundation's investments are currently held with the Mission Diocese Fund, who invests the assets at the Foundation's direction. In December 2020, certain time restrictions on approximately \$5,532,000 of investments held by the Foundation with Charles Schwab expired and, as a result, the investments were directly transferred to the Diocese

Property and Equipment

Land, buildings, and equipment are recorded at cost. Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as net assets without donor restrictions unless the donor has restricted the donated asset for a specific purpose. As of June 30, 2021, the Foundation's property and equipment consists entirely of land, which is not depreciated under generally accepted accounting principles. Maintenance and repairs are expensed as incurred.

Deposit Liabilities

Deposit liabilities represent amounts due to Participants, who receive monthly allocations of the underlying investment's net activity (income or loss). The deposits may be withdrawn by the Participants at any time.

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.

Catholic Foundation of Southwestern Michigan and Affiliate
Notes to the Consolidated Financial Statements
For the Years Ended June 30, 2021 and 2020

NOTE A – Summary of Significant Accounting Policies (Continued)

Allocations and Presentation of Functional Expenses

The Foundation's primary activity is the holding, investing and managing investments. Given the nature of the Foundation's activities, all costs are directly incurred for either investment related activities or for general and administrative expenses. Therefore, the Foundation does not have allocated costs. The statement of activities accordingly presents all expenses incurred by the Foundation by natural category and function. Additionally, the Diocese performs all administration for the Foundation but does not currently charge them an administrative fee (but retains the right to do so in the future).

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 current edition of The Official Catholic Directory and, therefore, is exempt from federal income taxes. As a service provider to the Diocese, CFSM 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 CFSM's tax positions.

The Sanctuary is a low-profit limited liability corporation with a mission to significantly further the charitable, educational, and other exempt purposes of its tax-exempt members. As a flow-through organization, the Sanctuary is exempt from federal and state income taxes. CFSM has evaluated relevant criteria and determined that no significant contingencies exist with regard to the Sanctuary's tax positions.

Risk

The Foundation 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 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.

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 consolidated financial statements and the disclosures provided. Actual results may differ from management's estimates.

Catholic Foundation of Southwestern Michigan and Affiliate
Notes to the Consolidated Financial Statements
For the Years Ended June 30, 2021 and 2020

NOTE B – Liquidity and Availability of Resources

The Foundation has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations are due. Financial assets available for general expenditure, without donor or other restrictions limiting their use, within one year of the statement of financial position, comprised the following as of June 30:

	2021	2020
Cash	\$ 2,790,800	\$ 3,048,700
Accounts receivable from related parties	2,474	-
Investments	241,176	5,716,465
Financial assets available to meet cash needs for general purposes within one year	<u>\$ 3,034,450</u>	<u>\$ 8,765,165</u>

While management realizes there could be unanticipated liquidity needs, they believe that the financial assets in the table above are sufficient to meet operating needs within a minimum of one year of the statement of financial position date. Additionally, although all deposit liabilities are payable on demand, management believes it is highly unlikely that all depositors would demand repayment.

NOTE C – Investments

Investments consist of the following at June 30:

	2021	2020
Mission Diocese Fund	\$ 241,176	\$ 183,993
Funds held by Investment Manager	-	5,532,472
Total investments	<u>\$ 241,176</u>	<u>\$ 5,716,465</u>

The Foundation's investments appreciated in fair value the years ended June 30 as follows:

	2021	2020
Net realized gain (loss) on investments	\$ (64,978)	\$ 2,092
Net unrealized gain on investments	105,160	135,507
Net appreciation of investments	<u>\$ 40,182</u>	<u>\$ 137,599</u>

Catholic Foundation of Southwestern Michigan and Affiliate
Notes to the Consolidated Financial Statements
For the Years Ended June 30, 2021 and 2020

NOTE D – 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.

The following table summarizes the valuation of the Foundation's financial instruments by the aforementioned pricing categories at June 30, 2021:

	Total	Quoted Prices in Active Markets (Level 1)	Prices with Other Observable Inputs (Level 2)	Prices with Unobservable Inputs (Level 3)
Mission Diocese Fund:				
Fixed Income	\$ 28,941	\$ -	\$ 28,941	\$ -
Alternative Equity	67,529	-	67,529	-
Global Equity	120,588	-	120,588	-
Real Assets	24,119	-	24,119	-
Total Investments	<u>\$ 241,176</u>	<u>\$ -</u>	<u>\$ 241,176</u>	<u>\$ -</u>

Catholic Foundation of Southwestern Michigan and Affiliate
Notes to the Consolidated Financial Statements
For the Years Ended June 30, 2021 and 2020

NOTE D – 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	Prices in Active Markets (Level 1)	with Other Observable Inputs (Level 2)	Prices with Unobservable Inputs (Level 3)
Funds Held by Investment Manager:				
Cash and cash equivalents	\$ 786	\$ 786	\$ -	\$ -
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	18,399	-	18,399	-
Total Investments	<u>\$ 5,716,465</u>	<u>\$ 5,532,473</u>	<u>\$ 183,992</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.

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 consolidated 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.

NOTE E – Related Party Transactions

The Foundation does not have any employees. Administrative and support services are provided by Diocesan staff. During the years ended June 30, 2021 and 2020, the cost of these services has been borne by the Diocese but not quantified. In future years, the Diocese may accumulate such costs and charge an annual fee for services provided. Additionally, the Diocese will occasionally pay certain expenses on behalf of the Foundation. As of June 30, 2021 and 2020, amounts owed to the Diocese totaled \$21,837 and \$68,012 for reimbursement of expenses. Additionally, as of June 30, 2021, the Diocese owed the Foundation \$2,474 in investment income earned on the Foundation's behalf. There was no such amount owed to the Foundation as of June 30, 2020.

Catholic Foundation of Southwestern Michigan and Affiliate
Notes to the Consolidated Financial Statements
For the Years Ended June 30, 2021 and 2020

NOTE F – Commitments and Contingencies

On March 11, 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide which are, to various extents, still in place as of this report's date. These recommendations resulted in mandates from federal and state agencies which are negatively impacting the Foundation. The pandemic has restricted the ability to conduct religious services and educational classes and it is anticipated to negatively impact giving at Parishes and revenues of affiliated schools. In addition, while the Foundation's results of operations, cash flows, and financial condition could be further negatively impacted, the extent of the impact cannot be reasonably estimated at this time.

NOTE G – Subsequent Events

Management has evaluated subsequent events through March 30, 2022, the date on which the consolidated financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

Catholic Foundation of Southwestern Michigan and Affiliate
Consolidating Statement of Financial Position
June 30, 2021

	Catholic Foundation of Southwestern Michigan	The Sanctuary at St. Ann	Eliminations	Consolidated Total
Assets				
Current Assets				
Cash	\$ 2,790,800	\$ -	\$ -	\$ 2,790,800
Accounts receivable from related parties	2,474	-	-	2,474
Total Current Assets	2,793,274	-	-	2,793,274
Investments	241,176	85,378	(85,378)	241,176
Property and Equipment - Land	-	1,250,442	-	1,250,442
Total Assets	\$ 3,034,450	\$ 1,335,820	\$ (85,378)	\$ 4,284,892
Liabilities and Net Assets				
Liabilities				
Accounts payable to related parties	\$ -	\$ 21,837	\$ -	\$ 21,837
Other accrued liabilities	6,901	16,340	-	23,241
Deposit liabilities	2,983,711	-	(85,378)	2,898,333
Total Liabilities	2,990,612	38,177	(85,378)	2,943,411
Net Assets without Donor Restrictions	43,838	1,297,643	-	1,341,481
Total Liabilities and Net Assets	\$ 3,034,450	\$ 1,335,820	\$ (85,378)	\$ 4,284,892

See Independent Auditors' Report.

Catholic Foundation of Southwestern Michigan and Affiliate
Consolidating Statement of Activities and Changes in Net Assets
For the Year Ended June 30, 2021

	Catholic Foundation of Southwestern Michigan	The Sanctuary at St. Ann	Eliminations	Consolidated Total
Revenues				
Contribution income	\$ 84,353	\$ 1,360,313	\$ -	\$ 1,444,666
Investment interest and dividends	40,084	-	-	40,084
Net appreciation of investments	40,182	9	(9)	40,182
Total Revenues	164,619	1,360,322	(9)	1,524,932
Expenses				
Professional services	38,349	62,052	-	100,401
Office expense	3,431	627	-	4,058
Investment advisor and bank fees	7,721	-	-	7,721
Total Expenses	49,501	62,679	-	112,180
Change in Net Assets Before Allocation of Earnings	115,118	1,297,643	(9)	1,412,752
Allocation of Earnings	71,280	-	(9)	71,271
Change in Net Assets	43,838	1,297,643	-	1,341,481
Net Assets at Beginning of Year	-	-	-	-
Net Assets at End of Year	\$ 43,838	\$ 1,297,643	\$ -	\$ 1,341,481

See Independent Auditors' Report.