

**DIOCESE OF KALAMAZOO**

**FINANCIAL STATEMENTS**

**For the Year Ended June 30, 2021  
With Comparative Totals for 2020**

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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

We have audited the accompanying financial statements of the Diocese of Kalamazoo (a nonprofit organization) (the "Diocese"), which comprise the statements of financial position as of June 30, 2021 and 2020, 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 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, 2021 and 2020, 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.

*Seber Tans, PLC*

Seber Tans, PLC  
Kalamazoo, Michigan  
March 30, 2022

**Diocese of Kalamazoo**  
**Statements of Financial Position**  
**June 30, 2021 with Comparative Totals for June 30, 2020**

	Without Donor Restriction	With Donor Restriction	Combined Totals June 30,	
			2021	2020
<b>ASSETS</b>				
Current Assets				
Cash and cash equivalents	\$ 1,521,328	\$ 1,980,803	\$ 3,502,131	\$ 2,783,196
Accounts receivable (net of allowance)	2,287,256	781,645	3,068,901	3,183,816
Notes receivable	34,626	-	34,626	39,888
Total Current Assets	3,843,210	2,762,448	6,605,658	6,006,900
Investments				
Investments directly held	11,021,580	-	11,021,580	5,183,363
Beneficial Interests	-	2,897,751	2,897,751	8,697,153
Total Investments	11,021,580	2,897,751	13,919,331	13,880,516
Property and Equipment				
Land improvements	728,868	-	728,868	728,868
Buildings and improvements	2,042,055	-	2,042,055	2,042,055
Furnishings and equipment	662,013	-	662,013	662,013
	3,432,936	-	3,432,936	3,432,936
Accumulated depreciation	1,651,290	-	1,651,290	1,581,879
Net Property and Equipment	1,781,646	-	1,781,646	1,851,057
<b>Total Assets</b>	<b>\$ 16,646,436</b>	<b>\$ 5,660,199</b>	<b>\$ 22,306,635</b>	<b>\$ 21,738,473</b>
<b>LIABILITIES AND NET ASSETS</b>				
Current Liabilities				
Accounts payable	\$ 255,798	\$ -	\$ 255,798	\$ 49,401
Accrued compensation and benefits	199,860	-	199,860	196,302
Custodial funds payable	281,796	-	281,796	177,664
Other accrued liabilities	147,639	-	147,639	98,285
Total Current Liabilities	885,093	-	885,093	521,652
Long-term Debt	-	-	-	915,149
Net Assets				
Without Donor Restriction				
Undesignated	15,258,823	-	15,258,823	15,030,579
Designated	502,520	-	502,520	398,298
With Donor Restriction	-	5,660,199	5,660,199	4,872,795
Total Net Assets	15,761,343	5,660,199	21,421,542	20,301,672
<b>Total Liabilities and Net Assets</b>	<b>\$ 16,646,436</b>	<b>\$ 5,660,199</b>	<b>\$ 22,306,635</b>	<b>\$ 21,738,473</b>

See Accompanying Notes to Financial Statements

**Diocese of Kalamazoo**  
**Statements of Activities and Changes in Net Assets**  
**For the Year Ended June 30, 2021 with Comparative Totals for 2020**

	Without Donor Restriction	With Donor Restriction	Combined Totals June 30,	
			2021	2020
Revenues and Other Support				
Bishop's Annual Appeal	\$ -	\$ 2,762,448	\$ 2,762,448	\$ 1,715,714
Donations and grants	84,124	383,632	467,756	395,206
Fees	385,632	-	385,632	456,706
Investment income	88,928	-	88,928	122,199
Miscellaneous income	2,876,490	-	2,876,490	159,007
Net assets released from restrictions	2,358,676	(2,358,676)	-	-
Total Revenues and Other Support	5,793,850	787,404	6,581,254	2,848,832
Expenses				
Program services				
Pastoral formation	876,080	-	876,080	1,275,879
Christian formation	464,400	-	464,400	633,879
Family ministry	758,957	-	758,957	796,675
Education	760,815	-	760,815	939,061
Christian service	365,159	-	365,159	461,514
Outreach	140,035	-	140,035	120,250
Total Program Services	3,365,446	-	3,365,446	4,227,258
Diocesan services and administration	3,389,400	-	3,389,400	2,011,281
Fundraising	6,889	-	6,889	7,818
Total Expenses	6,761,735	-	6,761,735	6,246,357
Change in Net Assets Before Other Income	(967,885)	787,404	(180,481)	(3,397,525)
Other Income				
Net appreciation of investments	1,300,351	-	1,300,351	383,422
<b>Change in Net Assets</b>	<b>332,466</b>	<b>787,404</b>	<b>1,119,870</b>	<b>(3,014,103)</b>
Net Assets at Beginning of Year	15,428,877	4,872,795	20,301,672	23,315,775
<b>Net Assets at End of Year</b>	<b>\$ 15,761,343</b>	<b>\$ 5,660,199</b>	<b>\$ 21,421,542</b>	<b>\$ 20,301,672</b>

See Accompanying Notes to Financial Statements

**Diocese of Kalamazoo**  
**Statements of Cash Flows**  
**For the Years Ended June 30, 2021 and 2020**

	2021	2020
<b>Cash Flows from Operating Activities</b>		
Change in net assets	\$ 1,119,870	\$ (3,014,103)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation expense	69,411	69,411
Bad debt expense	10,551	40,000
Net unrealized gain on investments	(703,942)	(216,914)
Forgiveness of long-term debt	(915,149)	-
Changes in operating assets and liabilities which provided (used) cash:		
Accounts and notes receivable	109,626	(877,351)
Accounts payable	206,397	52,248
Custodial funds payable	104,132	(247,077)
Accrued compensation, benefits, and other liabilities	52,912	34,097
Net Cash Provided by (Used in) Operating Activities	<u>53,808</u>	<u>(4,159,689)</u>
<b>Cash Flows from Investing Activities</b>		
Proceeds from sale of investments	1,762,656	3,862,183
Purchases of investments	(1,097,529)	-
Net Cash Provided by Investing Activities	<u>665,127</u>	<u>3,862,183</u>
<b>Cash Flows from Financing Activities</b>		
Proceeds from long-term debt	<u>-</u>	<u>915,149</u>
<b>Net Change in Cash and Cash Equivalents</b>	<b>718,935</b>	<b>617,643</b>
Cash and Cash Equivalents at Beginning of Year	<u>2,783,196</u>	<u>2,165,553</u>
<b>Cash and Cash Equivalents at End of Year</b>	<b><u>\$ 3,502,131</u></b>	<b><u>\$ 2,783,196</u></b>

See Accompanying Notes to Financial Statements

**Diocese of Kalamazoo**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2021 with Comparative Totals for 2020**

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**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.

At June 30, 2021 and 2020, the Diocese has approximately \$5,660,000 and \$4,873,000, respectively, in net assets with donor restrictions.

Cash Equivalents and Concentrations

For purposes of the statements 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 \$3,618,000 in excess of the insured limits as of June 30, 2021.



**Diocese of Kalamazoo**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2021 with Comparative Totals for 2020**

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**NOTE A – Summary of Significant Accounting Policies (Continued)**

Accounts Receivable

Accounts receivable, resulting primarily from the Bishop's Annual Appeal or from advances to assist parishes or schools, represent unconditional promises to give and are due and payable within one year. As of June 30, 2021 and 2020, the Diocese had provided an allowance for potentially uncollectible accounts of approximately \$40,000. Management periodically reviews account receivable balances and may write-off uncollectible amounts.

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 Investments Directly Held in the accompanying financial statements. Investments made with the Foundation are reported as Beneficial Interests 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 holds funds of the participating organizations, including the Diocese, and invests these funds for their benefit. 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 Foundation assets are currently held in bank deposits or investments 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 (see Note D). The resulting impact to the Diocese's financial statements resulted in a transfer between Investments Directly Held and Beneficial Interests on the statement of financial position.

Investments are stated at fair value based on their closing value as reported on a national securities exchange. The Diocese interest in income or loss of the Foundation (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.

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 \$69,000 in each of the years ended June 30, 2021 and 2020.

**Diocese of Kalamazoo**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2021 with Comparative Totals for 2020**

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**NOTE A – Summary of Significant Accounting Policies (Continued)**

Revenue Recognition

The Diocese follows Accounting Standards Update (“ASU”) No. 2018-08 Not-for-Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 958). Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or a notification of a beneficial interest is received. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met. Recognized 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.

Functional Allocation of Expenses

The costs of providing the Diocese’s programs and supporting services have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the program and supporting services benefited. Payroll and related tax as well as employee benefits are allocated based on time and effort. Occupancy costs, maintenance expenses, telephone and depreciation expense are allocated on the basis of square footage. Such expenses are charged to the related functional area as described in Note I. Although the methods of allocation used are considered appropriate, other methods could be used that would produce different amounts.

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. The Diocese has evaluated relevant criteria and determined that no significant contingencies exist with regard to its tax positions.

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, 2020.

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.

**Diocese of Kalamazoo**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2021 with Comparative Totals for 2020**

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**NOTE A – Summary of Significant Accounting Policies (Continued)**

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.

**NOTE B – Liquidity and Availability of Resources**

The Diocese 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 and cash equivalents	\$ 3,502,131	\$ 2,783,196
Accounts receivable	3,068,901	3,183,816
Investments	11,021,580	5,183,363
Beneficial interest in Foundation	2,897,751	8,697,153
Financial assets	<u>20,490,363</u>	<u>19,847,528</u>
Less financial assets unavailable for general expenditures within one year - Purpose restricted assets	<u>2,897,751</u>	<u>3,164,680</u>
Financial assets available to meet cash needs for general purposes within one year	<u><u>\$ 17,592,612</u></u>	<u><u>\$ 16,682,848</u></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.

**NOTE C – Investments and Beneficial Interest**

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

	2021	2020
Net realized gain on investments	\$ 596,410	\$ 166,508
Net unrealized gain on investments	703,941	216,914
	<u><u>\$ 1,300,351</u></u>	<u><u>\$ 383,422</u></u>

**Diocese of Kalamazoo**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2021 with Comparative Totals for 2020**

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**NOTE D – 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.

Generally, the Foundation invests in cash, and fixed income and equity instruments that are traded in the open market. The change in the investment value of assets held at the Foundation has been included in net appreciation of investments in the accompany statement of activities.

The following table summarizes the valuation of the Diocese'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)
Cash and cash equivalents	\$ 210,354	\$ 210,354	\$ -	\$ -
Bond funds	617,312	617,312	-	-
Exchange traded funds	3,670,701	3,670,701	-	-
Fixed income	1,049,124	-	1,049,124	-
Mutual funds:				
Diamond Hill Large Cap Value	1,464,907	1,464,907	-	-
Wells Capital Growth	1,414,279	1,414,279	-	-
Rhumblin - International	277,001	277,001	-	-
Palisade Capital Small/Mid Cap	615,805	615,805	-	-
Blackrock Intermediate Bond	483,217	-	483,217	-
Boyd Watterson Short Term Bond	1,218,880	-	1,218,880	-
Beneficial Interest in The Catholic Foundation of Southwestern Michigan	2,897,751	2,897,751	-	-
Total Investments	<u>\$ 13,919,331</u>	<u>\$ 11,168,110</u>	<u>\$ 1,702,097</u>	<u>\$ -</u>

**Diocese of Kalamazoo**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2021 with Comparative Totals for 2020**

**NOTE D – 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, 2020:

	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	\$ 68	\$ 68	\$ -	\$ -
Mutual funds:				
Diamond Hill Large Cap Value	1,211,801	1,211,801	-	-
Wells Capital Growth	1,566,093	1,566,093	-	-
Rhumbline - International	211,142	211,142	-	-
Palisade Capital Small/Mid Cap	419,936	419,936	-	-
Blackrock Intermediate Bond	528,358	-	528,358	-
Boyd Watterson Short Term Bond	1,245,965	-	1,245,965	-
Beneficial Interest in The Catholic Foundation of Southwestern Michigan	8,697,153	8,697,153	-	-
Total Investments	<u>\$ 13,880,516</u>	<u>\$ 12,106,193</u>	<u>\$ 1,774,323</u>	<u>\$ -</u>

**NOTE E – Notes Payable**

During the year ended June 30, 2020, the Diocese received a \$915,149 Paycheck Protection Program Loan ("PPP") administered by the Small Business Administration. The proceeds were used to maintain employees of the Diocese, Parishes, and affiliated Schools who would otherwise have been negatively impacted by the impacts of the COVID-19 pandemic. During the year ended June 30, 2021, the Diocese applied for and received full forgiveness of the loan.

**NOTE F – Donor Restricted Net Assets**

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

	2021	2020
Bishops Annual Appeal, future services	\$ 2,762,448	\$ 1,708,115
Battle Creek Health Care Fund	1,296,821	1,416,279
Education of priests and seminarians	404,566	441,833
Needs of the poor and disadvantaged	680,241	742,902
Endowed for men in the priesthood	188,637	206,014
Other	327,486	357,652
	<u>\$ 5,660,199</u>	<u>\$ 4,872,795</u>

Donor restricted net assets includes \$206,014 at June 30, 2021 and 2020 that is restricted for investment in perpetuity, the income from which is expendable to support the education of men for the priesthood.

**Diocese of Kalamazoo**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2021 with Comparative Totals for 2020**

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**NOTE G – Retirement Plans**

The Diocese participates in the Michigan Catholic Conference Lay Employees Retirement Plan (the “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 \$239,000 and \$122,000 for the years ended June 30, 2021 and 2020, respectively. 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 (the “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.

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 not required to make a contribution to the plan for the years ended June 30, 2021 and 2020, 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, 2020 (the most recent available):

	Michigan Catholic Conference Lay Employees' Retirement Plan	Michigan Catholic Conference Priests' Plan
Total fair value of plan assets	\$ 1,264,410,535	\$ 8,582,952
Actuarial present value of accumulated plan benefits	1,463,960,471	5,846,924
Total contributions received by the plan during previous fiscal year	27,806,094	367,000
Funded ratio	86.4%	146.8%

**Diocese of Kalamazoo**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2021 with Comparative Totals for 2020**

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**NOTE H – 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.

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.

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, 2021. 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 \$19,000 and \$18,000 at June 30, 2021 and 2020, respectively, reserved to cover the estimated loss reserve; the Diocese has recorded a corresponding liability.

**NOTE I – 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.

**Diocese of Kalamazoo**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2021 with Comparative Totals for 2020**

**NOTE I – Statement of Functional Expenses (Continued)**

Functional expenses by natural category for the fiscal year ended June 30, 2021 were as follows:

	Programs	Support Services		Total
		Services and Administration	Fundraising	
Bank and investment fees	\$ -	\$ 54,742	\$ -	\$ 54,742
Buildings and equipment	6,452	124,218	-	130,670
Catholic charities	310,632	1,578,187	-	1,888,819
Depreciation	-	69,411	-	69,411
Dues and subscriptions	23,202	24,638	-	47,840
Education, tuition and fees	130,766	-	-	130,766
Employee benefits	1,441,526	327,333	-	1,768,859
Miscellaneous	245,068	9,074	6,889	261,030
Office supplies	133,480	91,734	-	225,214
Professional fees	138,571	178,963	-	317,534
Salaries and wages	673,517	739,797	-	1,413,314
Seminars, ministry, and meetings	179,255	71,228	-	250,483
Travel and lodging	81,818	12,555	-	94,373
Utilities	1,159	107,520	-	108,679
	<u>\$ 3,365,446</u>	<u>\$ 3,389,400</u>	<u>\$ 6,889</u>	<u>\$ 6,761,735</u>

Functional expenses by natural category for the fiscal year ended June 30, 2020 were as follows:

	Programs	Support Services		Total
		Services and Administration	Fundraising	
Bank and investment fees	\$ -	\$ 79,765	\$ -	\$ 79,765
Buildings and equipment	9,921	104,511	-	114,432
Catholic charities	379,858	-	-	379,858
Depreciation	-	69,411	-	69,411
Dues and subscriptions	14,166	102,538	-	116,704
Education, tuition and fees	196,494	-	-	196,494
Employee benefits	1,442,336	282,730	-	1,725,066
Miscellaneous	197,448	115,053	7,818	320,319
Office supplies	93,228	120,070	-	213,298
Professional fees	115,991	327,221	-	443,212
Salaries and wages	1,032,813	641,404	-	1,674,217
Seminars, ministry, and meetings	643,621	46,801	-	690,422
Travel and lodging	99,991	21,083	-	121,074
Utilities	1,391	100,694	-	102,085
	<u>\$ 4,227,258</u>	<u>\$ 2,011,281</u>	<u>\$ 7,818</u>	<u>\$ 6,246,357</u>



**Diocese of Kalamazoo**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2021 with Comparative Totals for 2020**

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**NOTE J – Related Party Transactions**

The Diocese of Kalamazoo Parish Deposit & Loan Fund Trust (the “Trust”)

The Trust operates a Deposit and Loan Fund that accepts excess reserves from the parishes of the Diocese and either invests or loans these funds to other parishes of the Diocese for construction and renovation projects. As of June 30, 2021 and 2020, the Diocese has recorded a payable amount of \$86,883 and \$0 to the Trust for excess reserves collected by the Diocese to be deposited on behalf of various parishes.

The Diocesan staff provide administrative and support services to the Trust for which the Diocese charges an annual fee of 0.25 percent of assets. As of June 30, 2021 and 2020, the Diocese has accounts receivable from the Trust of \$68,608 and \$6,947, respectively, for outstanding administrative fees owed. Total fees charged to the Trust during the years ended June 30, 2021 and 2020 totaled \$63,751 and \$58,967, respectively.

Catholic Foundation of Southwestern Michigan and Affiliate (the “Foundation”)

The Foundation holds funds of participating organizations, including the Diocese, and invests these funds for the benefit of the participating organizations. 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.

Additionally, the Diocesan staff provide administrative and support services to the Foundation. 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.

**NOTE K – 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 several 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.

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 Diocese. 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. As a result, the Diocese significantly reduced the Bishop’s Annual Appeal for the year ended June 30, 2020 and is utilizing cost savings to continue its mission and operations. In addition, while the Diocese’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 L – Subsequent Events**

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