

Diocese of Kalamazoo

Financial Statements

Year Ended June 30, 2007
With Comparative Totals for 2006



BDO Seidman, LLP
Accountants and Consultants

Diocese of Kalamazoo

Financial Statements

**Year Ended June 30, 2007
With Comparative Totals for 2006**

Diocese of Kalamazoo

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Independent Auditors' Report

The Most Reverend James A. Murray
Bishop of Kalamazoo
Diocese of Kalamazoo
Kalamazoo, Michigan

We have audited the accompanying statement of financial position of the Diocese of Kalamazoo (the Diocese) as of June 30, 2007, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Diocese's management. 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 includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2007, and the results of its operations and changes in its net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.



We have also previously audited, in accordance with auditing standards generally accepted in the United States of America, the statement of financial position as of June 30, 2006, and the related statements of activities and cash flows for the year then ended and we expressed an unqualified opinion on them in our report dated August 25, 2006. The financial statements as of June 30, 2007, include prior year summarized comparative information. 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, 2006, from which the summarized information was derived.

BDO Seidman, LLP

Certified Public Accountants

September 10, 2007

	<i>Unrestricted</i>	<i>Temporarily Restricted</i>
Assets:		
Cash and cash equivalents (Note 1)	\$ 5,077,095	\$ 1,735,571
Accounts receivable	406,053	1,736,459
Notes and deposits receivable (Note 3)	6,796,307	-
Interest receivable	13,448	-
Prepaid expenses	684	-
	12,293,587	3,472,030
Investments (Note 2)	10,720,170	-
Property, Plant, and Equipment (Note 1):		
Land improvements	174,763	-
Buildings and improvements	1,784,075	-
Furnishings and equipment	642,820	-
	2,601,658	-
Less accumulated depreciation	895,351	-
Net Property, Plant, and Equipment	1,706,307	-
Total Assets	\$ 24,720,064	\$ 3,472,030
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 144,020	\$ -
Accrued compensation	71,431	-
Notes and deposits payable (Note 3)	17,303,992	-
Total Liabilities	17,519,443	-
Commitments (Note 6)		
Net Assets (Note 4):		
Unrestricted:		
Undesignated	3,001,335	-
Designated for property, plant, and equipment	1,706,307	-
Other designated	2,492,979	-
Temporarily restricted	-	3,472,030
Permanently restricted	-	-
Total Net Assets	7,200,621	3,472,030
Total Liabilities and Net Assets	\$ 24,720,064	\$ 3,472,030

Diocese of Kalamazoo

Statement of Financial Position June 30, 2007 With Comparative Totals for 2006

<i>Permanently Restricted</i>	<i>Combined Total</i>	
	<i>June 30,</i> <i>2007</i>	<i>2006</i>
\$ 10,843	\$ 6,823,509	\$ 5,106,777
-	2,142,512	2,110,530
-	6,796,307	7,115,252
-	13,448	8,914
-	684	1,087
10,843	15,776,460	14,342,560
34,847	10,755,017	10,201,103
-	174,763	174,763
-	1,784,075	1,629,169
-	642,820	516,866
-	2,601,658	2,320,798
-	895,351	847,730
-	1,706,307	1,473,068
\$ 45,690	\$ 28,237,784	\$26,016,731
\$ -	\$ 144,020	\$ 567,230
-	71,431	103,493
-	17,303,992	15,906,570
-	17,519,443	16,577,293
-	3,001,335	2,830,435
-	1,706,307	1,473,068
-	2,492,979	1,769,873
-	3,472,030	3,325,240
45,690	45,690	40,822
45,690	10,718,341	9,439,438
\$ 45,690	\$ 28,237,784	\$26,016,731

See accompanying independent auditors' report and notes to financial statements.

	<i>Unrestricted</i>	<i>Temporarily Restricted</i>
Revenues and Other Support:		
Campaign contributions (Note 1)	\$ -	\$ 2,845,133
Investment income	989,272	4,063
Grants and donations	176,377	164,991
Collections	124,192	-
Fees	183,957	-
Miscellaneous	444,865	-
Net assets released from restrictions:		
Satisfaction of purpose restrictions	133,701	(133,197)
Expiration of time restrictions	2,734,200	(2,734,200)
Total Revenues and Other Support	4,786,564	146,790
Expenses:		
Programs and services:		
Pastoral Formation	757,656	-
Christian Formation	564,244	-
Deposit and loan program	731,721	-
Christian Service	395,979	-
Family Ministry	412,144	-
Outreach	366,174	-
Education	262,708	-
Diocesan services and administration	1,168,307	-
Collection and donations	199,778	-
Total Expenses	4,858,711	-
Change in Net Assets Before Other Income	(72,147)	146,790
Other Income - Net appreciation of investments (Note 2)	1,199,392	-
Change in Net Assets	1,127,245	146,790
Net Assets, beginning of year	6,073,376	3,325,240
Net Assets, end of year	\$ 7,200,621	\$ 3,472,030

Diocese of Kalamazoo

Statement of Activities Year Ended June 30, 2007 With Comparative Totals for 2006

<i>Permanently Restricted</i>	<i>Combined Total</i>	
	<i>Year ended June 30, 2007</i>	<i>2006</i>
\$ -	\$ 2,845,133	\$ 2,734,200
1,286	994,621	832,995
-	341,368	496,457
-	124,192	153,640
-	183,957	209,074
-	444,865	314,436
(504)	-	-
-	-	-
782	4,934,136	4,740,802
-	757,656	807,874
-	564,244	684,146
-	731,721	592,172
-	395,979	463,568
-	412,144	429,298
-	366,174	418,442
-	262,708	262,827
-	1,168,307	997,785
-	199,778	202,444
-	4,858,711	4,858,556
782	75,425	(117,754)
4,086	1,203,478	479,173
4,868	1,278,903	361,419
40,822	9,439,438	9,078,019
\$ 45,690	\$10,718,341	\$ 9,439,438

See accompanying independent auditors' report and notes to financial statements.

Diocese of Kalamazoo

Statement of Cash Flows Year Ended June 30, 2007 With Comparative Totals for 2006

<i>Year ended June 30,</i>	<i>Combined Total</i>	
	<i>2007</i>	<i>2006</i>
Operating Activities:		
Change in net assets	\$ 1,278,903	\$ 361,419
Depreciation	72,107	50,672
Net appreciation of investments	(1,203,478)	(479,173)
Gain on sale of fixed asset	(21,677)	-
Changes in assets and liabilities:		
Accounts receivable	(31,982)	(408,085)
Other assets	(4,131)	9,006
Accounts payable and accrued expenses	(455,272)	(8,642)
Cash Used in Operating Activities	(365,530)	(474,803)
Investing Activities:		
Purchase of property and equipment	(367,548)	(138,328)
Proceeds from sale of fixed asset	83,879	-
Proceeds from sale of investments	1,389,684	685,585
Purchase of investments	(740,120)	(1,698,163)
Cash Provided by (Used in) Investing Activities	365,895	(1,150,906)
Financing Activities:		
Net deposits by parishes - deposit and loan program	1,397,422	532,575
Net advances to parishes - deposit and loan program	292,949	(2,450,456)
Repayments of other notes payable	25,996	101,109
Cash Provided by (Used in) Financing Activities	1,716,367	(1,816,772)
Net Increase (Decrease) in Cash and Cash Equivalents	1,716,732	(3,442,481)
Cash and Cash Equivalents, beginning of year	5,106,777	8,549,258
Cash and Cash Equivalents, end of year	\$ 6,823,509	\$ 5,106,777
Supplemental Disclosure of Cash Flow Information -		
Cash paid during the year for interest	\$ 731,721	\$ 592,172

See accompanying independent auditors' report and notes to financial statements.

Diocese of Kalamazoo

Notes to Financial Statements

1. Summary of Accounting Policies

Organization and Principles of Reporting

The Diocese of Kalamazoo (the Diocese) provides governance and administers programs and services for the Roman Catholic parishes, schools, and other affiliated organizations within a nine-county area 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 for the aforementioned entities.

Basis of Accounting

The financial statements of the Diocese have been prepared on the accrual basis of accounting.

Financial Statement Presentation

Net assets and changes in net assets are classified into three types: unrestricted, temporarily restricted, and permanently restricted that are based on the existence or absence of donor-imposed restrictions.

Descriptions of the asset classes are as follows:

Unrestricted Net Assets - Represent funds available for support of current diocesan operations.

Temporarily Restricted Net Assets - Represent funds whose use is limited by donor-imposed stipulations that expire either by passage of time or fulfillment of the stipulations. The funds are reported as temporarily restricted revenues upon receipt and are transferred to unrestricted net assets when the time or purpose restrictions have been met, even if restrictions are met in the same period as the contribution is made.

See accompanying independent auditors' report.

Diocese of Kalamazoo

Notes to Financial Statements

Permanently Restricted Net Assets - Represent funds subject to donor-imposed stipulations requiring that the principal be permanently invested.

Comparative totals for 2006 are included for informational purposes only and do not constitute a presentation in conformity with accounting principles generally accepted in the United States of America.

Cash and Cash Equivalents

Cash and cash equivalents consist of deposit accounts, certificates of deposit, and money market funds with an original maturity of three months or less when purchased. Accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. At June 30, 2007 and 2006, the Diocese had approximately \$6,691,000 and \$4,967,000, in excess of FDIC insured limits, respectively.

Investments

Investments consist of mutual funds and the Michigan Catholic Conference Socially Responsible Investment Pool (the Investment Pool) (formerly the Diocesan Investment Pool), a commingled trust. Mutual funds are stated at fair market value based on their closing values on a national securities exchange. The Investment Pool consists of fixed income and equity securities, and is valued at the Diocese's share of the fair market value of the underlying assets as determined by the custodian.

Campaign Receivables

Campaign receivables represent unconditional promises to give and are due and payable within one year. No allowance for uncollectible promises has been recorded as management expects that such receivables are fully collectible.

See accompanying independent auditors' report.

Diocese of Kalamazoo

Notes to Financial Statements

Property, Plant, and Equipment

Assets are stated at cost, if purchased, or at market value on date of acquisition, if donated. Depreciation is provided over the estimated useful lives of the assets by the straight-line method. Depreciation expense for the years ended June 30, 2007 and 2006 was approximately \$72,000 and \$51,000, respectively.

Contributions

Contributions are recorded as revenue when an unconditional promise to give has been received. The Diocese reports contributions of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

Income Tax Status

In a determination letter dated March 25, 1946, and updated annually since that time, the Internal Revenue Service has 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 2006 edition of The Official Catholic Directory and, therefore, is exempt from federal income taxes.

Agency Transactions

The Diocese is a party to certain agreements where it acts as a fiscal agent and has limited or no authority over the disbursement of related assets. There are no income or expenses recorded in the financial statements for such transactions.

See accompanying independent auditors' report.

Diocese of Kalamazoo

Notes to Financial Statements

Functional Classification of Expenses

Expenses are summarized by functional classification in the Statement of Activities. Such expenses are charged directly to the functional area.

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.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. Investments

Investments consist of the following:

<i>June 30,</i>	<i>2007</i>	<i>2006</i>
Mutual funds	\$ 2,095,844	\$ 1,780,330
Investment pool	8,659,173	7,721,260
Certificates of deposit (maturity of greater than three months when purchased)	-	699,513
	\$ 10,755,017	\$10,201,103

See accompanying independent auditors' report.

Diocese of Kalamazoo

Notes to Financial Statements

The Diocese's investments (including investments purchased, sold, and held during the year) appreciated (depreciated) in fair value as follows:

<i>Year ended June 30,</i>	<i>2007</i>	<i>2006</i>
Mutual funds	\$ 168,607	\$ 59,216
Investment pool	1,034,871	419,957
	\$ 1,203,478	\$ 479,173
<i>Year ended June 30,</i>	<i>2007</i>	<i>2006</i>
Net realized gain on investments	\$ 396,172	\$ 685,586
Net unrealized gain (loss) on investments	807,306	(206,413)
	\$ 1,203,478	\$ 479,173

3. Notes and Deposits Receivable and Payable

The Diocese operates a Deposit and Loan Fund that accepts excess reserves from the parishes of the Diocese, pays a guaranteed return of 4.5%, loans these funds to other parishes of the Diocese for construction and renovation projects, and charges 5.5%. Interest is recorded on an accrual basis. Funds on deposit with the Diocese are demand deposits and totaled approximately \$17,304,000 and \$15,907,000, at June 30, 2007 and 2006, respectively. Funds due to the Diocese are demand notes and deposits and totaled approximately \$6,796,000 and \$7,115,000 at June 30, 2007 and 2006, respectively. All notes and deposits receivable and payable are uncollateralized.

See accompanying independent auditors' report.

Diocese of Kalamazoo

Notes to Financial Statements

4. Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

<i>June 30,</i>	<i>2007</i>	<i>2006</i>
Diocesan Services Appeal programs and services	\$ 2,845,133	\$ 2,734,200
Education of priests and seminarians	362,398	342,753
Needs of the poor and disadvantaged	167,039	149,156
Spanish speaking apostolate	7,480	7,480
American Indian apostolate	138	138
Other	89,842	91,513
	\$ 3,472,030	\$ 3,325,240

Permanently restricted net assets of approximately \$46,000 and \$41,000 at June 30, 2007 and 2006, respectively, are restricted to investment in perpetuity, the income from which is expendable to support the education of men for the priesthood.

5. Retirement Plan

The Diocese contributes to a statewide-defined benefit plan covering substantially all lay employees. The plan is administered by the Michigan Catholic Conference (MCC). Contributions to the plan are based on a percentage of covered employees' wages and were approximately \$67,000 and \$65,000 for the years ended June 30, 2007 and 2006, respectively. The pension plan assets exceeded the actuarially computed value of vested benefits as of June 30, 2006 and 2005, the date of the last actuarial valuation. The weighted average assumed rate of return was 8%. Information as to the actuarial present value of vested and nonvested accumulated plan benefits and the plan's net assets available for benefits attributable to employees of the Diocese is not available since the MCC does not compute it for each participating diocese.

See accompanying independent auditors' report.

Diocese of Kalamazoo

Notes to Financial Statements

6. Contingent Liabilities and Commitments

Rights and Obligations of Ownership

Under the laws of the state of Michigan, all assets and liabilities of the parishes are in the name of the Bishop. 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.

Leases

Several vehicles and copying equipment are leased by the Diocese under agreements that are classified as operating leases.

The approximate future minimum lease payments are as follows:

<u>Year ending June 30,</u>		
2008	\$	19,000
2009	\$	17,000
2010	\$	17,000
2011	\$	6,000

Management expects that in the normal course of business these leases will be renewed or replaced.

Total rental expense was approximately \$14,000 and \$8,000 for the years ended June 30, 2007 and 2006, respectively.

7. Supplemental Material - Real Property Replacement Value

For statutory reporting purposes, the replacement value of the real property (buildings) of parishes, schools, and institutions controlled by the Diocese is in excess of \$20,000,000 as determined by Marshall Swift Valuation Services cost indices as of June 30, 2007 and 2006.

See accompanying independent auditors' report.