

Diocese of Kalamazoo

Financial Statements

Year Ended June 30, 2009
With Comparative Totals for 2008



BDO Seidman, LLP
Accountants and Consultants



Diocese of Kalamazoo

Financial Statements

**Year Ended June 30, 2009
With Comparative Totals for 2008**

Diocese of Kalamazoo

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Independent Auditors' Report

The Most Reverend Paul J. Bradley
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, 2009, 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, 2009, 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, 2008, 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 22, 2008. The financial statements as of June 30, 2009, 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, 2008, from which the summarized information was derived.


Certified Public Accountants

November 5, 2009

	<i>Unrestricted</i>	<i>Temporarily Restricted</i>
Assets (Note 1):		
Cash and cash equivalents (Note 6)	\$ 2,206,023	\$ 1,567,207
Accounts receivable	637,614	1,880,429
Notes and deposits receivable (Note 3)	9,996,122	-
Interest receivable	28,008	-
Prepaid expenses	737	-
	12,868,504	3,447,636
Investments (Notes 2 and 6)	6,997,631	-
Property, Plant, and Equipment (Note 7):		
Land improvements	174,763	-
Buildings and improvements	1,921,809	-
Furnishings and equipment	657,416	-
	2,753,988	-
Less accumulated depreciation	1,034,371	-
Net Property, Plant, and Equipment	1,719,617	-
Total Assets	\$ 21,585,752	\$ 3,447,636

Liabilities and Net Assets (Note 1):

Liabilities:		
Accounts payable	\$ 254,820	\$ -
Accrued compensation	116,526	-
Notes and deposits payable (Note 3)	17,794,273	-
Total Liabilities	18,165,619	-
Commitments (Note 6)		
Net Assets:		
Unrestricted:		
Undesignated	664,988	-
Designated for property, plant, and equipment	1,719,617	-
Other designated	1,035,528	-
Temporarily restricted (Note 4)	-	3,447,636
Permanently restricted (Note 4)	-	-
Total Net Assets	3,420,133	3,447,636
Total Liabilities and Net Assets	\$ 21,585,752	\$ 3,447,636

Diocese of Kalamazoo

Statement of Financial Position

June 30, 2009

With Comparative Totals for 2008

<i>Permanently Restricted</i>	<i>Combined Total</i>	
	<i>June 30,</i>	
	<i>2009</i>	<i>2008</i>
\$ 10,843	\$ 3,784,073	\$ 4,721,454
-	2,518,043	2,427,755
-	9,996,122	8,061,657
-	28,008	-
-	737	577
<u>10,843</u>	<u>16,326,983</u>	<u>15,211,443</u>
<u>25,849</u>	<u>7,023,480</u>	<u>9,297,147</u>
-	174,763	174,763
-	1,921,809	1,784,075
-	657,416	657,416
-	2,753,988	2,616,254
-	1,034,371	968,374
-	1,719,617	1,647,880
<u>\$ 36,692</u>	<u>\$ 25,070,080</u>	<u>\$ 26,156,470</u>
\$ -	\$ 254,820	\$ 169,615
-	116,526	86,895
-	17,794,273	16,692,300
-	18,165,619	16,948,810
-	664,988	2,030,645
-	1,719,617	1,647,880
-	1,035,528	1,933,569
-	3,447,636	3,552,777
36,692	36,692	42,789
<u>36,692</u>	<u>6,904,461</u>	<u>9,207,660</u>
<u>\$ 36,692</u>	<u>\$ 25,070,080</u>	<u>\$ 26,156,470</u>

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)	\$ -	\$ 2,971,594
Investment income	661,616	625
Grants and donations	14,801	442,754
Collections	104,349	-
Fees	169,925	-
Miscellaneous	362,146	-
Net assets released from restrictions:		
Satisfaction of purpose restrictions	548,612	(548,520)
Expiration of time restrictions	2,971,594	(2,971,594)
Total Revenues and Other Support	4,833,043	(105,141)
Expenses:		
Programs and services:		
Pastoral formation	797,922	-
Christian formation	701,908	-
Deposit and loan program	532,380	-
Christian service	434,488	-
Family ministry	409,492	-
Outreach	337,926	-
Education	722,289	-
Diocesan services and administration	1,004,528	-
Collection and donations	73,739	-
Total Expenses	5,014,672	-
Change in Net Assets Before Other Income	(181,629)	(105,141)
Net Income -		
Net depreciation of investments (Note 2)	(2,010,332)	-
Change in Net Assets	(2,191,961)	(105,141)
Net Assets, beginning of year	5,612,094	3,552,777
Net Assets, end of year	\$ 3,420,133	\$ 3,447,636

Diocese of Kalamazoo

Statement of Activities Year Ended June 30, 2009 With Comparative Totals for 2008

<i>Permanently Restricted</i>	<i>Combined Total</i>	
	<i>Year ended June 30, 2009</i>	<i>2008</i>
\$ -	\$ 2,971,594	\$ 2,971,594
464	662,705	994,369
-	457,555	279,879
-	104,349	94,742
-	169,925	300,789
-	362,146	415,544
(92)	-	-
-	-	-
<u>372</u>	<u>4,728,274</u>	<u>5,056,917</u>
-	797,922	772,261
-	701,908	700,151
-	532,380	705,144
-	434,488	437,089
-	409,492	403,851
-	337,926	352,168
-	722,289	313,714
-	1,004,528	1,253,046
-	73,739	146,365
-	<u>5,014,672</u>	<u>5,083,789</u>
372	(286,398)	(26,872)
<u>(6,469)</u>	<u>(2,016,801)</u>	<u>(1,483,809)</u>
(6,097)	(2,303,199)	(1,510,681)
<u>42,789</u>	<u>9,207,660</u>	<u>10,718,341</u>
<u>\$ 36,692</u>	<u>\$ 6,904,461</u>	<u>\$ 9,207,660</u>

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

Diocese of Kalamazoo

Statement of Cash Flows Year Ended June 30, 2009 With Comparative Totals for 2008

<i>Year ended June 30,</i>	<i>Combined Total</i>	
	<i>2009</i>	<i>2008</i>
Operating Activities:		
Change in net assets	\$ (2,303,199)	\$ (1,510,681)
Adjustment to reconcile the change in net assets to net cash used in operating activities:		
Depreciation	65,997	73,023
Net depreciation of investments	2,016,801	1,483,809
Changes in assets and liabilities:		
Accounts receivable	(90,288)	(285,243)
Other assets	(28,168)	13,555
Accounts payable and accrued expenses	114,836	41,059
Cash Used in Operating Activities	(224,021)	(184,478)
Investing Activities:		
Purchase of property and equipment	(137,734)	(14,596)
Proceeds from sale of investments	(656,957)	749,859
Purchase of investments	913,823	(775,798)
Cash Provided by (Used in) Investing Activities	119,132	(40,535)
Financing Activities:		
Net deposits by parishes - deposit and loan program	1,101,973	(611,692)
Net advances to parishes - deposit and loan program	(1,922,159)	(1,260,981)
Repayments of other notes payable	(12,306)	(4,369)
Cash Used in Financing Activities	(832,492)	(1,877,042)
Net Decrease in Cash and Cash Equivalents	(937,381)	(2,102,055)
Cash and Cash Equivalents, beginning of year	4,721,454	6,823,509
Cash and Cash Equivalents, end of year	\$ 3,784,073	\$ 4,721,454
Supplemental Disclosure of Cash Flow Information -		
Cash paid during the year for interest	\$ 532,380	\$ 705,144

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.

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

Comparative totals for 2008 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.

See accompanying independent auditors' report.

Diocese of Kalamazoo

Notes to Financial Statements

Cash and Cash Equivalents

Cash and cash equivalents consist of deposit accounts and money market funds with an original maturity of three months or less when purchased. Accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At June 30, 2009 and 2008, the Diocese had approximately \$3,764,000 and \$4,621,000, in excess of FDIC insured limits, respectively. The Diocese participates in a cash management sweep account with its financial institution whereby balances in an interest-free account are automatically transferred each night into an interest-bearing investment pool. The transferred funds are collateralized by securities the bank owns.

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. MCC, Inc. is the administrator of the Investment Pool. The assets of the Investment Pool are held by the Northern Trust Company and are managed by independent investment managers. 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. Investments held in the Investment Pool are stated at fair value determined by Northern Trust Company, based on quoted market prices.

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.

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. The estimated lives range from five to 50 years. Depreciation expense for the years ended June 30, 2009 and 2008 was approximately \$66,000 and \$73,000, respectively. Maintenance and repairs are charged to expense as incurred.

See accompanying independent auditors' report.

Diocese of Kalamazoo

Notes to Financial Statements

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 2009 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.

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.

See accompanying independent auditors' report.

Diocese of Kalamazoo

Notes to Financial Statements

Additionally, some investments held by the Plan 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, less reliable information about issuers, different securities transaction clearance and settlement practices, and 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 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.

New Accounting Standards

SFAS No. 157

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 157, *Fair Value Measurements* (SFAS 157). This statement clarifies the definition of fair value, establishes a framework for measuring fair value, and expands the disclosures on fair value measurements. SFAS 157 is effective for the fiscal years beginning after November 15, 2007.

The Diocese elected to delay adoption for its non-financial assets and non-financial liabilities, as permitted, and has not yet determined the impact of these provisions on its Statement of Activities or Statement of Financial Position.

See Note 6 for implementation of this standard to financial assets during the year ended June 30, 2009.

See accompanying independent auditors' report.

Diocese of Kalamazoo

Notes to Financial Statements

SFAS No. 165

In May 2009, the FASB issued Statement of Financial Accounting Standards No. 165, *Subsequent Events*. The new standard is effective for annual financial reporting periods ending after June 15, 2009, and was adopted by the Diocese on that date, as described in Note 9.

2. Investments

Investments consist of the following:

<i>June 30,</i>	<i>2009</i>	<i>2008</i>
Mutual funds	\$ 1,285,094	\$ 1,747,206
Investment pool	5,738,386	7,549,941
	\$ 7,023,480	\$ 9,297,147

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

<i>Year ended June 30,</i>	<i>2009</i>	<i>2008</i>
Mutual funds	\$ (485,942)	\$ (588,396)
Investment pool	(1,530,859)	(895,413)
	\$ (2,016,801)	\$ (1,483,809)

<i>Year ended June 30,</i>	<i>2009</i>	<i>2008</i>
Net realized gain (loss) on investments	\$ (1,026,968)	\$ 355,859
Net unrealized loss on investments	(989,833)	(1,839,668)
	\$ (2,016,801)	\$ (1,483,809)

See accompanying independent auditors' report.

Diocese of Kalamazoo

Notes to Financial Statements

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 2.75%, 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 \$17,794,000 and \$16,692,000, at June 30, 2009 and 2008, respectively. Funds due to the Diocese are demand notes and deposits and totaled approximately \$9,996,000 and \$8,062,000 at June 30, 2009 and 2008, respectively. All notes and deposits receivable and payable are uncollateralized.

4. **Restricted Net Assets** Temporarily restricted net assets are available for the following purposes:

<i>June 30,</i>	<i>2009</i>	<i>2008</i>
Diocesan Services Appeal programs and services	\$ 2,971,594	\$ 2,971,594
Education of priests and seminarians	366,610	347,528
Needs of the poor and disadvantaged	42,734	163,866
Other	66,698	69,789
	\$ 3,447,636	\$ 3,552,777

Permanently restricted net assets of approximately \$37,000 and \$43,000 at June 30, 2009 and 2008, 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 \$77,000 and \$73,000 for the years ended June 30, 2009 and 2008, respectively. The MCC pension plan assets exceeded the actuarially computed value of vested benefits as of June 30, 2008 and 2007, 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. The obligation for unfunded benefits, if any, would reside with the MCC.

See accompanying independent auditors' report.

Diocese of Kalamazoo

Notes to Financial Statements

6. Fair Value Measurements

In September 2006, the FASB issued SFAS 157, which clarifies the definition of fair value, establishes a framework for measuring fair value, and expands the disclosures on fair value measurements. The statement requires fair value measurements to be classified in one of the following three categories:

Level 1 - Financial instruments with unadjusted, quoted prices listed on active market exchanges for identical assets and liabilities.

Level 2 - Financial instruments lacking unadjusted, quoted prices from active market exchanges, including over-the-counter traded financial instruments. The prices for the financial instruments are determined using prices for recently traded financial instruments with similar underlying terms as well as directly or indirectly observable inputs, such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 - Financial instruments that are not actively traded on a market exchange. This category includes situations where there is little, if any, market activity for the financial instrument. The prices are determined using significant unobservable inputs or valuation techniques.

Effective June 30, 2008, the Diocese adopted the provisions of SFAS 157 and FSP FAS 157-3 for financial assets and liabilities. There was no impact to the financial statements as a result of the adoption of SFAS 157 or FSP FAS 157-3, except as disclosed below. The following table presents the Diocese's financial assets and liabilities that are measured at fair value on a recurring basis at June 30, 2009:

	<i>Quoted Prices in Active Markets for Identical Assets (Level 1)</i>	<i>Significant Other Observable Inputs (Level 2)</i>	<i>Significant Unobservable Inputs (Level 3)</i>	<i>Total</i>
Cash and cash equivalents	\$ 3,784,073	\$ -	\$ -	\$ 3,784,073
Investments	\$ 7,011,730	\$ 11,750	\$ -	\$ 7,023,480

See accompanying independent auditors' report.

Diocese of Kalamazoo

Notes to Financial Statements

**7. 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

A vehicle 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 Ended June 30,</u>	
2010	\$ 16,000
2011	\$ 6,000

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

Total rental expense was approximately \$17,000 and \$14,000 for the years ended June 30, 2009 and 2008, respectively.

**8. 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, 2009 and 2008.

9. Subsequent Events

The Diocese's management has evaluated the period from June 30, 2009, through November 5, 2009, the date the financial statements were available for issuance, for subsequent events requiring recognition or disclosure in the financial statements. During the period, no material, recognizable subsequent events were identified.

See accompanying independent auditors' report.