



Diocese of Kalamazoo

Financial Statements

Year Ended June 30, 2011
With Comparative Totals for 2010

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, 2011, 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.

The Diocese presents supplemental material on real property replacement value in Note 8 which has not been subjected to our audit procedures. Accordingly, we express no opinion on the information in Note 8.

In our opinion, except for the supplemental information contained in Note 8, the financial statements referred to above present fairly, in all material respects, the financial position of the Diocese of Kalamazoo as of June 30, 2011, 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, 2010, 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 November 2, 2010. The financial statements as of June 30, 2011, 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, 2010, from which the summarized information was derived.


Certified Public Accountants

October 31, 2011

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Diocese of Kalamazoo

Statement of Financial Position at June 30, 2011 With Comparative Totals for 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Combined Total	
				June 30, 2011	2010
Assets (Note 1):					
Cash and cash equivalents	\$ 3,878,306	\$ 1,653,490	\$ 10,843	\$ 5,542,639	\$ 6,290,315
Accounts receivable	270,356	1,571,982	-	1,842,338	2,337,994
Notes and deposits receivable (Note 4)	8,818,992	-	-	8,818,992	9,494,174
Other	21,412	-	-	21,412	27,928
	12,989,066	3,225,472	10,843	16,225,381	18,150,411
Investments (Notes 2 and 3)	8,402,971	-	36,019	8,438,990	7,060,229
Property, Plant, and Equipment (Notes 7 and 8):					
Land improvements	197,256	-	-	197,256	174,763
Buildings and improvements	2,461,943	-	-	2,461,943	2,461,943
Furnishings and equipment	657,416	-	-	657,416	657,416
	3,316,615	-	-	3,316,615	3,294,122
Less accumulated depreciation	1,166,461	-	-	1,166,461	1,100,287
Net Property, Plant, and Equipment	2,150,154	-	-	2,150,154	2,193,835
Total Assets	\$ 23,542,191	\$ 3,225,472	\$ 46,862	\$ 26,814,525	\$ 27,404,475
Liabilities and Net Assets (Note 1):					
Liabilities:					
Accounts payable	\$ 1,080,066	\$ -	\$ -	\$ 1,080,066	\$ 629,594
Accrued compensation	117,250	-	-	117,250	118,339
Notes and deposits payable (Note 4)	17,959,079	-	-	17,959,079	19,836,244
Total Liabilities	19,156,395	-	-	19,156,395	20,584,177
Commitments (Note 7)					
Net Assets:					
Unrestricted:					
Undesignated	425,853	-	-	425,853	(14,049)
Designated for property, plant, and equipment	2,150,154	-	-	2,150,154	2,193,835
Other designated	1,809,789	-	-	1,809,789	1,172,802
Temporarily restricted (Note 5)	-	3,225,472	-	3,225,472	3,428,578
Permanently restricted (Note 5)	-	-	46,862	46,862	39,132
Total Net Assets	4,385,796	3,225,472	46,862	7,658,130	6,820,298
Total Liabilities and Net Assets	\$ 23,542,191	\$ 3,225,472	\$ 46,862	\$ 26,814,525	\$ 27,404,475

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

Diocese of Kalamazoo

Statement of Activities for the Year Ended June 30, 2011 With Comparative Totals for 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Combined Total	
				Year ended June 30, 2011	2010
Revenues and Other Support (Note 1):					
Campaign contributions	\$ -	\$ 2,762,169	\$ -	\$ 2,762,169	\$ 2,808,235
Investment income	591,951	293	422	592,666	614,826
Fees	201,671	-	-	201,671	196,188
Grants and donations	31,603	139,096	-	170,699	280,922
Collections	-	-	-	-	407,150
Miscellaneous	533,764	-	3,673	537,437	384,229
Net assets released from restrictions:					
Satisfaction of purpose restrictions	296,539	(296,429)	(110)	-	-
Expiration of time restrictions	2,808,235	(2,808,235)	-	-	-
Total Revenues and Other Support	4,463,763	(203,106)	3,985	4,264,642	4,691,550
Expenses (Note 1):					
Programs and services:					
Pastoral formation	824,246	-	-	824,246	900,631
Christian formation	592,041	-	-	592,041	652,445
Deposit and loan program	578,318	-	-	578,318	573,589
Family ministry	447,330	-	-	447,330	403,421
Education	422,621	-	-	422,621	318,377
Christian service	427,355	-	-	427,355	440,500
Outreach	120,096	-	-	120,096	334,059
Diocesan services and administration	1,851,171	-	-	1,851,171	1,343,709
Collection and donations	24,246	-	-	24,246	444,853
Total Expenses	5,287,424	-	-	5,287,424	5,411,584
Change in Net Assets Before Other Income	(823,661)	(203,106)	3,985	(1,022,782)	(720,034)
Other Income -					
Net appreciation of investments (Note 2)	1,856,869	-	3,745	1,860,614	635,871
Change in Net Assets	1,033,208	(203,106)	7,730	837,832	(84,163)
Net Assets, beginning of year	3,352,588	3,428,578	39,132	6,820,298	6,904,461
Net Assets, end of year	\$ 4,385,796	\$ 3,225,472	\$ 46,862	\$ 7,658,130	\$ 6,820,298

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

Diocese of Kalamazoo

Statements of Cash Flows Years Ended June 30, 2011 and 2010

	<i>Combined Total</i>	
	<i>Year ended June 30,</i>	
	<i>2011</i>	<i>2010</i>
Operating Activities:		
Change in net assets	\$ 837,832	\$ (84,163)
Adjustments to reconcile the change in net assets to net cash used in operating activities:		
Depreciation	66,174	65,915
Provision for uncollectible accounts	293,296	-
Net appreciation of investments	(1,860,614)	(635,871)
Changes in operating assets and liabilities:		
Accounts receivable	202,360	180,049
Other assets	6,516	817
Accounts payable and accrued expenses	449,383	376,587
Cash Used in Operating Activities	(5,053)	(96,666)
Investing Activities:		
Purchase of property and equipment	(22,493)	(540,133)
Proceeds from sale of investments	1,261,319	1,194,710
Purchase of investments	(779,466)	(595,588)
Cash Provided by Investing Activities	459,360	58,989
Financing Activities:		
Net deposits by parishes - deposit and loan program	(1,877,165)	2,041,971
Net payments to parishes - deposit and loan program	707,965	503,604
Repayments of other notes payable	(32,783)	(1,656)
Cash Provided by (Used in) Financing Activities	(1,201,983)	2,543,919
Net Increase (Decrease) in Cash and Cash Equivalents	(747,676)	2,506,242
Cash and Cash Equivalents, beginning of year	6,290,315	3,784,073
Cash and Cash Equivalents, end of year	\$ 5,542,639	\$ 6,290,315
Supplemental Disclosure of Cash Flow Information -		
Cash paid during the year for interest	\$ 578,318	\$ 573,589

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 2010 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 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, 2011 and 2010, the Diocese had approximately \$5,293,000 and \$6,040,000, 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.

See accompanying independent auditors' report.

Diocese of Kalamazoo

Notes to Financial Statements

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.

Accounts Receivable

Accounts receivable from the Diocesan fundraising campaign 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, 2011 and 2010 was approximately \$66,000. Maintenance and repairs are charged to expense as incurred.

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 2010 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 Classifications of Expenses

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

See accompanying independent auditors' report.

Diocese of Kalamazoo

Notes to Financial Statements

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, 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

Accounting Standards Codification

The Financial Accounting Standards Board's (FASB) Accounting Standards Codification (ASC) became effective on July 1, 2010. At that date, the ASC became FASB's official source of authoritative U.S. generally accepted accounting principles (GAAP) applicable to all public and nonpublic nongovernmental entities, superseding existing guidance issued by the FASB, the American Institute of Certified Public Accountants (AICPA), the Emerging Issues Task Force (EITF) and other related literature. The FASB also issues Accounting Standards Updates (ASU). An ASU communicates amendments to the ASC. An ASU also provides information to help a user of GAAP understand how and why GAAP is changing and when the changes will be effective. The Diocese has implemented the Codification in the financial statements by providing references to the ASC topics.

Updates to Fair Value Measurements and Disclosures

In 2010, FASB Staff Position 157-4, *Disclosures Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly* (FSP), was issued and later codified into ASC Topic 820, which expanded disclosures and required that major category for debt and equity securities in the fair value hierarchy table be determined on the basis of the nature and risks of the investments.

See accompanying independent auditors' report.

Diocese of Kalamazoo

Notes to Financial Statements

Subsequent Events

In May, 2010, the FASB issued ASC 855, *Subsequent Events*, which was updated in February, 2010, by ASC Update 2010-09: *Amendments to Certain Recognition and Disclosure Requirements*. This guidance establishes general standards of accounting and disclosure of events that occur after the balance sheet date but before financial statements are issued or available to be issued. In particular, the guidance sets forth the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements and the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. The adoption of the guidance is effective immediately and is reflected in Note 9 to the financial statements.

New Accounting Standards to Be Adopted

In January, 2010, the FASB issued ASU No. 2010-06, *Fair Value Measurements and Disclosures* (ASU No. 2010-06), which amends ASC Topic 820 (originally issued as FASB Statement No. 157, *Fair Value Measurements*), adding new disclosure requirements for Levels 1 and 2, separate disclosures of purchases, sales, issuances, and settlements relating to Level 3 measurements and clarification of existing fair value disclosures. ASU No. 2010-06 is effective for periods beginning after December 15, 2010, except for the requirement to provide Level 3 activity of purchases, sales, issuances, and settlements on a gross basis, which will be effective for fiscal years beginning after December 15, 2010. The Diocese is currently evaluating the impact ASU No. 2010-06 will have on the financial statements.

2. *Investments*

Investments consist of the following:

<u>June 30,</u>	<u>2011</u>	<u>2010</u>
Mutual funds	\$ 1,815,258	\$ 1,412,390
Investment pool	6,623,732	5,647,839
	<u>\$ 8,438,990</u>	<u>\$ 7,060,229</u>

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

<u>Year ended June 30,</u>	<u>2011</u>	<u>2010</u>
Mutual funds	\$ 386,360	\$ 118,521
Investment pool	1,474,254	517,350
	<u>\$ 1,860,614</u>	<u>\$ 635,871</u>

<u>Year ended June 30,</u>	<u>2011</u>	<u>2010</u>
Net realized gain on investments	\$ 702,876	\$ 534,710
Net unrealized gain on investments	1,157,738	101,161
	<u>\$ 1,860,614</u>	<u>\$ 635,871</u>

See accompanying independent auditors' report.

Diocese of Kalamazoo

Notes to Financial Statements

3. Fair Value Measurements

The Diocese has estimated fair value using available market information and valuation methodologies believed to be appropriate for these purposes. Considerable judgment and a high degree of subjectivity are involved in developing these estimates and, accordingly, they are not necessarily indicative of amounts that the Diocese would realize upon disposition.

The fair value hierarchy consists of three broad levels:

- *Level 1* - Quoted prices in active markets for identical assets or liabilities that the entity has the ability to access.
- *Level 2* - Observable inputs, other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data.
- *Level 3* - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities. This includes certain pricing models, discounted cash flow methodologies, and similar techniques that use significant unobservable inputs.

The following tables set forth by level within the fair value hierarchy the Diocese's investment assets and investment liabilities at fair value, as of June 30, 2011 and 2010. As required by ASC Topic 820-10, assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

<u>Investments Assets at Fair Value as of June 30, 2011</u>				
	<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>	<u>Total</u>
Investment Pool:				
Cash Equivalents	\$ 871,757	\$ -	\$ -	\$ 871,757
Diamond Hill Large Cap Value	2,206,516	-	-	2,206,516
Evergreen Large Cap Growth	2,944,095	-	-	2,944,095
World Asset International Equities	596,758	4,606	-	601,364
Total Investment Pool	6,619,126	4,606	-	6,623,732
Mutual Fund -				
Lord Abbett Affiliated Fund	1,815,258	-	-	1,815,258
Total	\$ 8,434,384	\$ 4,606	\$ -	\$ 8,438,990

See accompanying independent auditors' report.

Diocese of Kalamazoo

Notes to Financial Statements

Investments Assets at Fair Value as of June 30, 2010

	(Level 1)	(Level 2)	(Level 3)	Total
Investment Pool:				
Cash Equivalents	\$ 990,988	\$ -	\$ -	\$ 990,988
Diamond Hill Large Cap Value	1,910,679	-	-	1,910,679
Evergreen Large Cap Growth	2,246,756	-	-	2,246,756
World Asset International Equities	485,341	14,075	-	499,416
Total Investment Pool	5,633,764	14,075	-	5,647,839
Mutual Fund -				
Lord Abbett Affiliated Fund	1,412,390	-	-	1,412,390
Total	\$ 7,046,154	\$ 14,075	\$ -	\$ 7,060,229

As of June 30, 2011 and 2010, the Diocese had no assets classified within Level 3.

4. 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% for deposits up to \$499,999 and 3.25% for deposits of \$500,000 or higher. The Diocese 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 \$17,959,000 and \$19,836,000, at June 30, 2011 and 2010, respectively. Funds due to the Diocese are demand notes and deposits and totaled approximately \$8,819,000 and \$9,494,000 at June 30, 2011 and 2010, respectively. All notes and deposits receivable and payable are uncollateralized.

5. Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

<i>June 30,</i>	<i>2011</i>	<i>2010</i>
Diocesan Services Appeal programs and services	\$ 2,762,169	\$ 2,808,235
Education of priests and seminarians	296,868	332,049
Needs of the poor and disadvantaged	18,854	166,013
Other	147,581	122,281
	\$ 3,225,472	\$ 3,428,578

Permanently restricted net assets of approximately \$47,000 and \$39,000 at June 30, 2011 and 2010, respectively, are restricted to investment in perpetuity, the income from which is expendable to support the education of men for the priesthood.

See accompanying independent auditors' report.

Diocese of Kalamazoo

Notes to Financial Statements

6. 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 \$88,000 and \$77,000 for the years ended June 30, 2011 and 2010, respectively. The MCC pension plan assets exceeded the actuarially computed value of vested benefits as of June 30, 2010 and 2008, the dates of the last actuarial valuations. 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 Diocese'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.

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

The Diocese leases a vehicle and copying equipment under agreements that are classified as operating leases.

The approximate future minimum lease payments are as follows:

	<u>Year ended June 30,</u>	
2012	\$	31,000
2013	\$	25,000
2014	\$	14,000
2015	\$	14,000

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

Total rental expense was approximately \$31,000 and \$20,000 for the years ended June 30, 2011 and 2010, respectively.

See accompanying independent auditors' report.

Diocese of Kalamazoo

Notes to Financial Statements

8. Supplemental Material - Real Property Replacement Value (Unaudited)

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, 2011 and 2010.

9. Subsequent Events

The Diocese's policy is to evaluate all events or transactions that occur from the year-end date through the date of the issuance of the Diocese's financial statements. The Diocese has evaluated the period from July 1, 2011 through October 31, 2011, the date the Diocese's financial statements were available for issuance, for subsequent events requiring recognition or disclosure in the financial statements. During the period, no material recognizable events were identified.

See accompanying independent auditors' report.