

DIOCESE OF KALAMAZOO

FINANCIAL STATEMENTS

For the Year Ended June 30, 2014 with Comparative Totals for 2013

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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

Report on the Financial Statements

We have audited the accompanying financial statements of Diocese of Kalamazoo (a nonprofit organization), which comprise the statement of financial position as of June 30, 2014, and the related statements of activities, and cash flows for the year 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, 2014, and the changes in net assets and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Diocese of Kalamazoo's 2013 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 5, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013, is consistent, in all material respects, with the audit financial statements from which it has been derived.

Seber Tans, PLC

Seber Tans, PLC
Kalamazoo, Michigan
September 25, 2014

Diocese of Kalamazoo
Statement of Financial Position
June 30, 2014 with Comparative Totals for 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Combined Total	
				2014	June 30, 2013
ASSETS					
Current Assets					
Cash and cash equivalents	\$ 7,061,154	\$ 1,781,336	\$ 3,300	\$ 8,845,790	\$ 9,742,328
Accounts receivable	155,898	1,965,109	-	2,121,007	1,846,056
Notes and deposits receivable	7,085,418	-	-	7,085,418	7,813,108
Other	-	-	-	-	16,597
Total Current Assets	14,302,470	3,746,445	3,300	18,052,215	19,418,089
Investments	13,931,651	1,371,404	209,902	15,512,957	10,099,827
Property and Equipment					
Land improvements	197,256	-	-	197,256	197,256
Buildings and improvements	2,146,635	-	-	2,146,635	2,146,635
Furnishings and equipment	662,013	-	-	662,013	662,013
	3,005,904	-	-	3,005,904	3,005,904
Less: accumulated depreciation	1,248,802	-	-	1,248,802	1,197,496
Net Property and Equipment	1,757,102	-	-	1,757,102	1,808,408
Total Assets	\$ 29,991,223	\$ 5,117,849	\$ 213,202	\$ 35,322,274	\$ 31,326,324
LIABILITIES AND NET ASSETS					
Liabilities					
Accounts payable	\$ 784,458	\$ -	\$ -	\$ 784,458	\$ 512,645
Accrued compensation	120,352	-	-	120,352	108,121
Notes and deposits payable	21,890,114	-	-	21,890,114	20,673,181
Total Liabilities	22,794,924	-	-	22,794,924	21,293,947
Net Assets					
Unrestricted					
Undesignated	1,289,193	-	-	1,289,193	796,772
Designated for Property and Equipment	1,757,102	-	-	1,757,102	1,808,408
Other designated	4,150,004	-	-	4,150,004	2,532,024
Temporarily Restricted	-	5,117,849	-	5,117,849	4,717,199
Permanently Restricted	-	-	213,202	213,202	177,974
Total Net Assets	7,196,299	5,117,849	213,202	12,527,350	10,032,377
Total Liabilities and Net Assets	\$ 29,991,223	\$ 5,117,849	\$ 213,202	\$ 35,322,274	\$ 31,326,324

See Accompanying Notes to Financial Statements

Diocese of Kalamazoo
Statement of Activities
For the Year Ended June 30, 2014 with Comparative Totals for 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Combined Totals June 30,	
				2014	2013
Revenues and Other Support					
Bishop's Annual Appeal and Contributions	\$ 10,000	\$ 3,211,679	\$ -	\$ 3,221,679	\$ 3,028,456
Investment income	495,658	12,205	2,067	509,930	563,025
Fees	298,311	-	-	298,311	213,802
Grants and donations	75,462	797,423	9,968	882,853	465,756
Miscellaneous and reclassifications	768,236	-	-	768,236	450,188
Net assets released from restrictions:					-
Satisfaction of purpose restrictions	788,288	(788,288)	-	-	-
Expiration of time restrictions	3,018,456	(3,018,456)	-	-	-
Total Revenues and Other Support	<u>5,454,411</u>	<u>214,563</u>	<u>12,035</u>	<u>5,681,009</u>	<u>4,721,227</u>
Expenses					
Program services					
Pastoral formation	1,091,888	-	-	1,091,888	599,957
Christian formation	332,971	-	-	332,971	325,367
Deposit and loan program	660,877	-	-	660,877	604,205
Family ministry	492,425	-	-	492,425	398,941
Education	519,647	-	-	519,647	377,631
Christian service	457,690	-	-	457,690	475,282
Outreach	114,060	-	-	114,060	119,654
Diocesan services and administration	1,301,347	-	-	1,301,347	1,176,470
Total Expenses	<u>4,970,905</u>	<u>-</u>	<u>-</u>	<u>4,970,905</u>	<u>4,077,507</u>
Change in Net Assets Before Other Income	483,506	214,563	12,035	710,104	643,720
Other Income					
Net appreciation of investments	1,575,589	186,087	23,193	1,784,869	943,924
Change in Net Assets	<u>2,059,095</u>	<u>400,650</u>	<u>35,228</u>	<u>2,494,973</u>	<u>1,587,644</u>
Net assets at beginning of year	5,137,204	4,717,199	177,974	10,032,377	8,444,733
Net Assets at End of Year	<u>\$ 7,196,299</u>	<u>\$ 5,117,849</u>	<u>\$ 213,202</u>	<u>\$ 12,527,350</u>	<u>\$ 10,032,377</u>

See Accompanying Notes to Financial Statements

Diocese of Kalamazoo
Statement of Cash Flows
For the Year Ended June 30, 2014 with Comparative Totals for 2013

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 2,494,973	\$ 1,587,644
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	51,306	53,927
Grant received	-	(50,000)
Provision for uncollectible accounts	-	71,590
Net appreciation of investments	(1,784,869)	(943,924)
Change in:		
Accounts receivable	(274,951)	(221,629)
Other assets	16,597	(119)
Accounts payable	271,813	212,818
Accrued compensation	12,231	15,602
Net Cash Provided by Operating Activities	<u>787,100</u>	<u>725,909</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	<u>(3,628,261)</u>	<u>(178,248)</u>
Net Cash Used by Investing Activities	<u>(3,628,261)</u>	<u>(178,248)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayments of notes payable by parishes - deposit and loan program	(2,488,738)	(2,270,776)
Receipts on notes payable to parishes - deposit and loan program	3,705,671	3,905,611
Receipts from notes receivable parishes - deposit and loan program	764,685	551,197
Advances on notes receivable from parishes - deposit and loan program	(36,995)	(24,715)
Net receipts (repayments) of other notes payable	-	6,731
Net Cash Provided by Financing Activities	<u>1,944,623</u>	<u>2,168,048</u>
Net Change in Cash and Cash Equivalents	(896,538)	2,715,709
Cash and cash equivalents at beginning of year	<u>9,742,328</u>	<u>7,026,619</u>
Cash and Cash Equivalents at End of Year	<u>\$ 8,845,790</u>	<u>\$ 9,742,328</u>

See Accompanying Notes to Financial Statements

Diocese of Kalamazoo
Notes to Financial Statements
For the Year Ended June 30, 2014 with Comparative Totals for 2013

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 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 or school is an operation distinct from the Diocese, maintains separate accounts, carries 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 also 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:

Unrestricted net assets are not subject to donor-imposed restrictions. Designated funds are unrestricted funds which have been set aside for property and equipment and future needs of the Diocese.

Temporarily restricted net assets are subject to donor-imposed restrictions that may or will be met, either by the actions of the Diocese and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently restricted net assets are subject to donor-imposed restrictions and maintained permanently by the Diocese. Generally, the donors of these assets permit the Diocese to use all or part of the income earned on any related investments for general or specific purposes.

Comparative totals for 2013 are included for information purposes only and do not constitute a presentation in conformity with accounting principles generally accepted in the United States of America.

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.

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.

Diocese of Kalamazoo
Notes to Financial Statements
For the Year Ended June 30, 2014 with Comparative Totals for 2013

NOTE A – Summary of Significant Accounting Policies (Continued)

Functional Allocation of Expenses

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

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.

Cash Equivalents

For purposes of the statement of cash flows, the Diocese considers deposit accounts and money market funds with original maturity of three months or less to be cash equivalents.

The Diocese maintains all of its cash balances at one financial institution. The bank balances are insured by the Federal Deposit Insurance Corporation up to \$250,000. The Diocese had approximately \$8,674,000 and \$9,519,000 in excess of the insured limits at June 30, 2014 and 2013, respectively.

Financial Instruments

The Diocese's financial instruments consist of cash balances, accounts receivable, notes and deposits receivable, accounts payable, and notes and deposits payable. The Diocese's estimates of fair value approximate their carrying amounts as of June 30, 2014 and 2013.

Investments and Investment Income

Investments consist of mutual funds, the Michigan Catholic Conference Socially Responsible Investment Pool (the Investment Pool) (formerly the Diocesan Investment Pool), a commingled trust and the Mission Diocese Fund, LLC. Mutual funds are stated at fair value based on their closing values on a national securities exchange. 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 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. The Mission Diocese Fund, LLC (MDF) is an investment fund that is managed by the Catholic Church Extension Society of the United States. The purpose of MDF is to provide a vehicle by which members can pool their investable assets.

Diocese of Kalamazoo
Notes to Financial Statements
For the Year Ended June 30, 2014 with Comparative Totals for 2013

NOTE A – Summary of Significant Accounting Policies (Continued)

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 at June 30, 2014. However, periodically management reviews accounts receivable and may write-off uncollectible amounts. During 2013, \$71,590 was recorded as uncollectible.

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 \$51,300 and \$53,900 for the years ended June 30, 2014 and 2013, respectively.

Contributions

Contributions to the Diocese are recorded as revenue when a donor makes a promise to give that is, in substance, unconditional. Contributions that are restricted by the donor are reported as temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction is fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets.

Income Taxes

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 STET Catholic Directory are exempt from federal income taxes under Section 501(c)3 of the Internal Revenue Code. The Diocese is listed in the 2014 edition of The Official Catholic Directory and, therefore, is exempt from federal income taxes.

NOTE B – Investments

Investments consist of the following at June 30:

	<u>2014</u>	<u>2013</u>
Mission Diocese Fund	\$ 152,933	\$ 124,921
Investment Pool	15,360,024	9,974,906
	<u>\$15,512,957</u>	<u>\$ 10,099,827</u>

The Diocese's investments (including investments purchased, sold, and held during the year) appreciated in fair value as follows as of June 30:

	<u>2014</u>	<u>2013</u>
Net realized gain on investments	\$ 863,542	\$ 910,961
Net unrealized gain on investments	921,327	32,963
	<u>\$ 1,784,869</u>	<u>\$ 943,924</u>

Diocese of Kalamazoo
Notes to Financial Statements
For the Year Ended June 30, 2014 with Comparative Totals for 2013

NOTE C – 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.

The following table summarizes the valuation of the Diocese’s financial instruments by the aforementioned pricing categories at June 30, 2014:

	Total	Quoted Prices in Active Markets (Level 1)	Prices with Other Observable Inputs (Level 2)	Prices with Unobservable Inputs (Level 3)
Investment Pool:				
Cash and cash equivalents	\$ 1,572	\$ 1,572	\$ -	\$ -
Diamond Hill Large Cap Value	4,066,961	4,066,961	-	-
Wells Capital Growth	6,444,269	6,444,269	-	-
Rhumblin - International	682,227	682,227	-	-
Loomis Sayles Small/Mid Cap	1,252,191	1,252,191	-	-
Boyd Watterson Short Term Bond	2,912,804	39,999	2,872,805	-
Mission Diocese Fund				
Long-only Equity	61,173	-	61,173	-
International Mixed Allocation Fund	22,940	-	22,940	-
Fixed Income	30,587	-	30,587	-
Marketable Alternative Equity	38,233	-	38,233	-
Total Investments	<u>\$ 15,512,957</u>	<u>\$ 12,487,219</u>	<u>\$ 3,025,738</u>	<u>\$ -</u>

Diocese of Kalamazoo
Notes to Financial Statements
For the Year Ended June 30, 2014 with Comparative Totals for 2013

NOTE C – 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, 2013:

	Total	Quoted Prices in Active Markets (Level 1)	Prices with Other Observable Inputs (Level 2)	Prices with Unobservable Inputs (Level 3)
Investment Pool:				
Cash and cash equivalents	\$ 1,544,210	\$ 1,544,210	\$ -	\$ -
Diamond Hill Large Cap Value	2,119,708	2,119,708	-	-
Wells Capital Growth	3,269,054	3,269,054	-	-
Loomis Sayles Small/Mid Cap	668,706	668,706	-	-
Boyd Watterson Short Term Bond	1,806,711	69,541	1,737,170	-
World Asset International Equities	566,516	491,319	75,197	-
Mission Diocese Fund				
Long-only Equity	50,969	50,969	-	-
International Mixed Allocation Fund	17,114	17,114	-	-
Fixed Income	19,363	19,363	-	-
Marketable Alternative Equity	37,476	37,476	-	-
Total Investments	<u>\$ 10,099,827</u>	<u>\$ 8,287,460</u>	<u>\$ 1,812,367</u>	<u>\$ -</u>

In fiscal year 2014, the Diocese determined that monies invested in the Mission Diocese Fund (MDF) were more appropriately classified as Level 2 assets. The MDF assets are valued based on fair values in quoted prices but are reported to the Diocese in aggregated groups.

NOTE D – 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 rate of return of 2.75% for deposits up to \$499,999 and 3.25% for deposits \$500,000 or higher. Funds on deposit with the Diocese are demand deposits and totaled approximately \$21,890,000 and \$20,673,000 at June 30, 2014 and 2013, respectively.

The Diocese loans these funds to other parishes of the Diocese for construction and renovation projects, and charges an interest rate of 5.5%. Interest is recorded on an accrual basis. Payments greater than 180 days delinquent are considered past due and placed on non-accrual status. As of June 30, 2014, all payments have been received when due. Funds due to the Diocese are demand notes and deposits totaled approximately \$7,033,000 and \$7,760,000 as of June 30, 2014 and 2013, respectively. No allowance for loan losses has been provided; Diocese management believes all amounts are collectible. All notes and deposits receivable and payable are uncollateralized.

Diocese of Kalamazoo
Notes to Financial Statements
For the Year Ended June 30, 2014 with Comparative Totals for 2013

NOTE E – Restricted Net Assets

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

	<u>2014</u>	<u>2013</u>
Diocesan Services Appeal programs and services	\$ 3,211,679	\$ 3,018,456
Battle Creek Health Care Fund	1,374,689	1,186,383
Education of priests and seminarians	311,506	344,184
Needs of the poor and disadvantaged	23,952	24,363
Other	196,023	143,813
	<u>\$ 5,117,849</u>	<u>\$ 4,717,199</u>

Permanently restricted net assets totaled approximately \$213,200 and \$178,000 at June 30, 2014 and 2013, respectively and are restricted for investment in perpetuity, the income from which is expendable to support the education of men for the priesthood.

NOTE F – Retirement Plans

The Diocese participates in the Michigan Catholic Conference Lay Employees Retirement Plan (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 \$64,639 and \$82,346 for the years ended June 30, 2014 and 2013, respectively. The amount of contributions to the Lay Plan was 6.6 percent of wages of all covered employees until June 30, 2013. Effective July 1, 2013 the contribution to the Lay Plan was increased to 7.1 percent. The Diocese's contributions to the Lay Plan did not represent more than 5 percent 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 (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 and then the parishes make their contributions directly to MCC. The Diocese contribution allocation is insignificant and has been paid by the parishes. During the year ended June 30, 2014, the Diocese received a special bequest for a contribution to the Priests' Plan and asked the parishes to take a special collection to help reduce the unfunded liability of the Priests' Plan. These amounts are included in miscellaneous revenues and retirement plan expense and total approximately \$392,000. The Diocese intends to request that Parishes take a special offering in each of the next four years for the purpose of improving the Plans funded ratio.

Diocese of Kalamazoo
Notes to Financial Statements
For the Year Ended June 30, 2014 with Comparative Totals for 2013

NOTE F – Retirement Plans (Continued)

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, 2013:

	Michigan Catholic Conference Lay Employees' Retirement Plan	Michigan Catholic Conference Priests' Plan
Total fair value of plan assets	\$ 1,200,845,031	\$ 4,401,627
Actuarial present value of accumulated plan benefits	1,342,726,447	6,414,707
Total contributions received by the plan during previous fiscal year	20,523,895	316,130
Funded Ratio	89.40%	68.62%

NOTE G – Leases

The Diocese leases a vehicle and office equipment under non-cancellable operating lease agreements expiring in fiscal year 2015. Management expects that in the normal course of business these leases will be renewed or replaced. Total rental expense was approximately \$34,000 and \$26,000 for the years ended June 30, 2014 and 2013, respectively.

NOTE H – No-Fault Self-Insurance Loss Reserve

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 Diocese is authorized by the Michigan Department of Insurance and Financial Services to self-insure no-fault risk for its vehicles for the 12 month certification period ending June 30, 2015. 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 fully funded as of the commencement of the current certification period. Included in cash is approximately \$18,800 and \$24,000 at June 30, 2014 and 2013, respectively, restricted to cover the estimated loss reserve; the Diocese has recorded a corresponding liability.

**Diocese of Kalamazoo
Notes to Financial Statements
For the Year Ended June 30, 2014 with Comparative Totals for 2013**

NOTE I – Cash Flow Information

Cash paid for interest totaled \$660,877 and \$604,205 during the years ended June 30, 2014 and 2013, respectively.

NOTE J – Subsequent Events

Management has evaluated subsequent events through September 25, 2014, the date on which the financial statements were available to be issued.