

CATHOLIC FOUNDATION OF SOUTHWESTERN MICHIGAN

FINANCIAL STATEMENTS

For the Period from March 1, 2016 (Inception) to June 30, 2016

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SEBER TANS, PLC

CONSULTANTS & CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

The Most Reverend Paul J. Bradley, Bishop of Kalamazoo
Catholic Foundation of Southwestern Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the Catholic Foundation of Southwestern Michigan (a nonprofit organization) (the Foundation), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities and cash flows for the period from March 1, 2016 (Inception) to June 30, 2016, 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 Foundation'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 Foundation'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 Catholic Foundation of Southwestern Michigan as of June 30, 2016, and the changes in its net assets and cash flows for the period from March 1, 2016, (Inception) to June 30, 2016, in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink that reads "Seber Tans, PLC". The signature is written in a cursive, flowing style.

Seber Tans, PLC
Kalamazoo, Michigan
February 17, 2017

**Catholic Foundation of Southwestern Michigan
Statement of Financial Position
June 30, 2016**

Assets

Cash and cash equivalents	\$ 2,393,172
Investments	<u>6,958,585</u>
Total Assets	<u>\$ 9,351,757</u>

Liabilities and Net Assets

Liabilities	
Due to related party	\$ 5,769
Deposit liabilities	<u>9,345,988</u>
Total Liabilities	9,351,757
Net Assets	<u>-</u>
Total Liabilities and Net Assets	<u>\$ 9,351,757</u>

See Accompanying Notes to the Financial Statements

Catholic Foundation of Southwestern Michigan
Statement of Activities
For the Period from March 1, 2016 (Inception) to June 30, 2016

Revenue	
Interest and dividends	\$ 42,232
Net realized and unrealized investment gain	<u>90,760</u>
Total Revenue	132,992
Investment Advisor and Bank Fees	<u>320</u>
Net Revenue Before Administrative Expense	132,672
Administrative expense	<u>-</u>
Unallocated net revenues	132,672
Allocation of earnings	<u>132,672</u>
Change in Net Assets	-
Net Assets at Beginning of Year	<u>-</u>
Net Assets at End of Year	<u><u>\$ -</u></u>

See Accompanying Notes to the Financial Statements

**Catholic Foundation of Southwestern Michigan
Statement of Cash Flows
For the Period from March 1, 2016 (Inception) to June 30, 2016**

Cash Flows from Operating Activities	
Change in Net Assets	\$ -
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Net change in fair value of investments	90,007
Change in accounts payable	<u>5,769</u>
Net Cash Provided by Operating Activities	<u>95,776</u>
 Cash Flows from Investing Activities	
Purchase of investments, net	(7,048,592)
 Cash Flows from Financing Activities	
Deposits received from participants, net	<u>9,345,988</u>
 Net Change in Cash	2,393,172
 Cash at Beginning of Period	<u>-</u>
 Cash at End of Period	<u><u>\$ 2,393,172</u></u>

See Accompanying Notes to the Financial Statements

Catholic Foundation of Southwestern Michigan
Notes to Financial Statements
For the Period from March 1, 2016 (Inception) to June 30, 2016

NOTE A – Summary of Significant Accounting Policies

Organization Purpose

The Catholic Foundation of Southwestern Michigan (the Foundation) is a not-for-profit corporation established for the exclusive benefit of the Roman Catholic Diocese of Kalamazoo (Diocese) and its parishes, schools, and other organizations (collectively known as participants). The Foundation holds funds of participating organizations, including the Diocese, and invests these funds for the benefit of the participating organizations. Funds held by the Foundation are either designated, restricted for specific purposes, time restricted, or endowed.

The Foundation does not have any employees. Administrative and support services are provided by Diocesan staff. Services provided during the start-up period through the date of this financial statement have been borne by the Diocese. In future periods the Foundation may be charged an annual fee to reimburse the Diocese for services provided.

These financial statements are not intended to, and do not, reflect the activities of the Roman Catholic Diocese of Kalamazoo as a whole.

Basis of Accounting

The Foundation maintains its records on the accrual basis of accounting.

Cash Equivalents

For purposes of the statement of cash flows, the Foundation considers deposit accounts and money market funds with an original maturity of three months or less to be cash equivalents. Cash balances in investment funds are classified with investments in the accompanying financial statements. The Foundation 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 \$2,100,000 in excess of the insured limits at June 30, 2016.

Contributions

Contributions for which the Foundation has discretion as to the use of the funds are recorded as income when an unconditional promise to give is received.

Investments

Investments are carried at fair value, determined by quoted market prices and other relevant information generated by market transactions. Realized and unrealized gains and losses and other investment earnings are included in the statements of activities as net change in fair value of investments.

Catholic Foundation of Southwestern Michigan
Notes to Financial Statements
For the Period from March 1, 2016 (Inception) to June 30, 2016

NOTE A – Summary of Significant Accounting Policies (Continued)

Earnings Allocated to Participant Accounts

Earnings allocated to participant accounts consist of interest and dividends and the net change in the fair value of investments, less investment and administrative expenses.

Income Taxes

In a determination letter dated March 25, 1946, and updated annually since that time, the Internal Revenue Service ruled that all organizations listed in The Official Catholic Directory are exempt from federal income taxes under Section 501(c) 3 of the Internal Revenue Code. The Diocese is listed in the 2016 edition of The Official Catholic Directory and, therefore, is exempt from federal income taxes. As a service provider to the Diocese, the Foundation is exempt from federal income taxes under Section 501(c) 3. The Diocese has evaluated relevant criteria and determined that no significant contingencies exist with regard to the Foundation's tax positions.

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.

Risk

The Foundation 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 Foundation 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.

NOTE B – Investments

Investments consist of the following at June 30, 2016:

Mission Diocese Fund	\$	144,485
Funds held by Investment Manager		6,814,100
	\$	<u>6,958,585</u>

Catholic Foundation of Southwestern Michigan
Notes to Financial Statements
For the Period from March 1, 2016 (Inception) to June 30, 2016

NOTE B – Investments (Continued)

The Foundation's investments (including investments purchased, sold, and held) appreciated in fair value during the period from March 1, 2016, (inception) to June 30, 2016, as follows:

Net realized gain on investments	\$	753
Net unrealized gain on investments		90,007
	\$	<u>90,760</u>

NOTE C – Financial Instruments and Fair Value Measurements

As described in Note A, the Foundation'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 Foundation 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.

Catholic Foundation of Southwestern Michigan
Notes to Financial Statements
For the Period from March 1, 2016 (Inception) to June 30, 2016

NOTE C – Financial Instruments and Fair Value Measurements (Continued)

The following table summarizes the valuation of the Foundation's financial instruments by the aforementioned pricing categories at June 30, 2016:

	Total	Quoted Prices in Active Markets (Level 1)	Prices with Other Observable Inputs (Level 2)	Prices with Unobservable Inputs (Level 3)
Funds Held by Investment Manager:				
Cash and cash equivalents	\$ 49,636	\$ 49,636	\$ -	\$ -
Fixed Income	6,060,537	6,060,537	-	-
Bond Funds	150,408	150,408	-	-
Other Assets	553,519	553,519	-	-
Mission Diocese Fund:				
Fixed Income	21,673	-	21,673	-
Alternative Equity	43,345	-	43,345	-
Global Equity	62,129	-	62,129	-
Real Assets	17,338	-	17,338	-
Total Investments	<u>\$ 6,958,585</u>	<u>\$ 6,814,100</u>	<u>\$ 144,485</u>	<u>\$ -</u>

The Mission Diocese Fund assets are valued based on fair values in quoted prices but are reported to the Diocese in aggregated groups.

NOTE D – Cash Flow Information

The Foundation did not incur or pay any interest expense during the period from March 1, 2016, (Inception) to June 30, 2016.

NOTE E – Subsequent Events

Management has evaluated subsequent events through February 17, 2017, the date on which the financial statements were available to be issued.