

Catholic Community Foundation of Mid-Michigan

Financial Statements

December 31, 2018



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Independent Auditors' Report

Management and the Board of Trustees
Catholic Community Foundation of Mid-Michigan
Saginaw, Michigan

We have audited the accompanying financial statements of Catholic Community Foundation of Mid-Michigan which comprise the statement of financial position as of December 31, 2018, and the related statements of activities, functional expenses, 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 fraud or error.

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 entity'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 Catholic Community Foundation of Mid-Michigan as of December 31, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Adoption of New Accounting Standards

As described in Note 1 to the financial statements, Catholic Community Foundation of Mid-Michigan changed its method of accounting for net assets, investment expense, and functional expenses in 2018 as required by the provisions of FASB Accounting Standards Update 2016-14 *Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to that matter.

Yeo & Yeo, P.C.

Saginaw, MI

November 14, 2019

Catholic Community Foundation of Mid-Michigan
Statement of Financial Position
December 31, 2018

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Assets			
Current assets			
Cash	\$ 261,184	\$ 30,690	\$ 291,874
Promises to give, net of allowance for doubtful accounts of \$85,514	-	138,985	138,985
Prepaid expenses	<u>50</u>	<u>-</u>	<u>50</u>
Total current assets	261,234	169,675	430,909
Cash - investments	-	109	109
Long-term investments	-	26,111,735	26,111,735
Promises to give, net of current portion	<u>-</u>	<u>717,456</u>	<u>717,456</u>
Total assets	<u>\$ 261,234</u>	<u>\$ 26,998,975</u>	<u>\$ 27,260,209</u>
Liabilities and net assets			
Current liabilities			
Accounts payable	\$ 83,392	\$ -	\$ 83,392
Payroll liabilities	7,680	-	7,680
Annuity obligations, current portion	<u>-</u>	<u>96,804</u>	<u>96,804</u>
Total current liabilities	91,072	96,804	187,876
Annuity obligations, net of current portion	-	95,266	95,266
Long-term debt	<u>220,649</u>	<u>-</u>	<u>220,649</u>
Total liabilities	<u>311,721</u>	<u>192,070</u>	<u>503,791</u>

See Accompanying Notes to the Financial Statements

Catholic Community Foundation of Mid-Michigan
Statement of Financial Position
December 31, 2018

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Net assets			
Without donor restrictions			
Undesignated (deficit)	\$ (50,487)	\$ -	\$ (50,487)
With donor restrictions			
Perpetual in nature	-	18,412,966	18,412,966
Purpose restrictions	-	7,729,568	7,729,568
Time-restricted for future periods	-	664,371	664,371
Total with donor restrictions	<u>-</u>	<u>26,806,905</u>	<u>26,806,905</u>
Total net assets (deficit)	<u>(50,487)</u>	<u>26,806,905</u>	<u>26,756,418</u>
Total liabilities and net assets	<u>\$ 261,234</u>	<u>\$ 26,998,975</u>	<u>\$ 27,260,209</u>

See Accompanying Notes to the Financial Statements

Catholic Community Foundation of Mid-Michigan
Statement of Activities
For the Year Ended December 31, 2018

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenue, support and gains			
Contributions	\$ 127,962	\$ 721,983	\$ 849,945
Net investment activity	(77,483)	(1,107,485)	(1,184,968)
Change in value of split-interest agreements	-	48,530	48,530
Net assets released from restrictions	<u>1,438,364</u>	<u>(1,438,364)</u>	<u>-</u>
Total revenue, support and gains	<u>1,488,843</u>	<u>(1,775,336)</u>	<u>(286,493)</u>
Expenses			
Program services			
Grants	998,053	-	998,053
Other program expenses	99,876	-	99,876
Management and general	24,972	-	24,972
Fundraising	<u>216,344</u>	<u>-</u>	<u>216,344</u>
Total expenses	<u>1,339,245</u>	<u>-</u>	<u>1,339,245</u>
Change in net assets	149,598	(1,775,336)	(1,625,738)
Net assets (deficit) - beginning of year	<u>(200,085)</u>	<u>28,582,241</u>	<u>28,382,156</u>
Net assets (deficit) - end of year	<u>\$ (50,487)</u>	<u>\$ 26,806,905</u>	<u>\$ 26,756,418</u>

See Accompanying Notes to the Financial Statements

Catholic Community Foundation of Mid-Michigan
Statement of Functional Expenses
For the Year Ended December 31, 2018

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Grants	\$ 998,053	\$ -	\$ -	\$ 998,053
Payroll and related costs				
Salaries and wages	37,790	9,448	47,239	94,477
Payroll taxes	2,745	687	3,433	6,865
Retirement	2,913	728	3,641	7,282
Employee benefits	<u>6,524</u>	<u>1,631</u>	<u>8,155</u>	<u>16,310</u>
Total payroll and related costs	<u>49,972</u>	<u>12,494</u>	<u>62,468</u>	<u>124,934</u>
Advertising and marketing	2,619	655	3,275	6,549
Conferences and meetings	463	116	580	1,159
Contract services	19,324	4,831	24,155	48,310
Miscellaneous	709	178	888	1,775
Occupancy	4,985	1,246	6,231	12,462
Office expenses	1,233	309	3,348	4,890
Professional fees	14,914	3,729	18,643	37,286
Travel and transportation	1,726	431	2,157	4,314
Supplies	<u>3,931</u>	<u>983</u>	<u>94,599</u>	<u>99,513</u>
Total expenses included in the expenses section on the statement of activities	<u>\$ 1,097,929</u>	<u>\$ 24,972</u>	<u>\$ 216,344</u>	<u>\$ 1,339,245</u>

See Accompanying Notes to the Financial Statements

Catholic Community Foundation of Mid-Michigan
Statement of Cash Flows
For the Year Ended December 31, 2018

Cash flows from investing activities	
Change in net assets	\$ (1,625,738)
Items not requiring cash	
Unrealized loss on investments	2,598,095
Realized gain on investments	(864,225)
Change in value of split-interest agreements	(48,530)
Changes in assets and liabilities	
Promises to give	18,303
Prepaid expenses	399
Accounts payable	56,333
Payroll liabilities	<u>1,915</u>
Net cash provided by operating activities	136,552
Cash flows from investing activities	
Purchases of investments	(544,587)
Cash flows from financing activities	
Principal payments on notes	<u>(97,500)</u>
Net change in cash and cash equivalents	(505,535)
Cash and cash equivalents - beginning of year	<u>797,518</u>
Cash and cash equivalents- end of year	<u><u>\$ 291,983</u></u>

See Accompanying Notes to the Financial Statements

Catholic Community Foundation of Mid-Michigan
Notes to the Financial Statements
December 31, 2018

Note 1 - Summary of Significant Accounting Policies

Nature of Activities

The Catholic Community Foundation of Mid-Michigan (the "Foundation") is a non-profit organization whose mission is to develop and manage funds to secure and further God's work in Mid-Michigan communities. The Foundation is guided by Gospel values and the teachings of the Catholic Church.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Basis of Presentation

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net assets without donor restrictions - Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

Net assets with donor restrictions - Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Cash

As of December 31, 2018, \$17,414 of cash was in excess of the amount insured by the FDIC.

Promises to Give

Contributions are recognized when the donor makes a promise to give to the Foundation that is, in substance, unconditional.

The Foundation initially records unconditional promises to give at fair value using the income approach and subsequently amortizes them using the original discount rate.

Investments

Investments are stated at fair value. Donated investments are reflected as contributions at their fair values at date of receipt. Investment income is reported net of direct investment expenses.

Revenue and Revenue Recognition

Revenue is recognized when earned. Program service fees are deferred to the applicable period in which the related services are performed or expenditures are incurred, respectively. Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

Annuity Obligations

Charitable gift annuities are recognized in the period the contract is executed. Assets are recorded at fair value and an annuity obligation is recorded at the fair value of the life expected future cash flows.

Catholic Community Foundation of Mid-Michigan
Notes to the Financial Statements
December 31, 2018

Functional Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statement of activities. The statement of functional expenses presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Amounts have been distributed equitably based on payroll and related costs which are allocated based on an estimate of where efforts are made. Certain fundraising expenses are allocated based on actual.

Income Tax Status

The Foundation is qualified as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code, and is classified as an organization other than a private foundation, as described in Section 509(a). The Foundation files information returns in the U.S. Federal and Michigan jurisdiction.

Risks and Uncertainties

The Foundation invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the balance sheet.

Use of 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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Variance Power

Federal regulations require that the governing body of a community foundation "must have the power...to modify any restriction or condition on the distribution of funds for any specified charitable purposes or to specified organization if in the sole judgment of the governing body...such restriction or condition becomes, in effect, unnecessary, incapable of fulfillment, or inconsistent with the charitable needs of the community or area served."

Subsequent Events

Management has evaluated subsequent events through November 14, 2019, which is the date the financial statements were available to be issued.

Change in Accounting Principle

On August 18, 2016, FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958) - *Presentation of Financial Statements of Not-for-Profit Entities*. The update addressed the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Foundation has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented.

Catholic Community Foundation of Mid-Michigan
Notes to the Financial Statements
December 31, 2018

Note 2 - Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

Cash	\$	291,874
Promises to give, net		138,985
Cash - investments		109
Long-term investments		26,111,735
Promises to give, net of current portion		<u>717,456</u>
Total financial assets - end of year		27,260,159
Less: Financial assets unavailable for general expenditures within one year, due to:		
Restricted by donor with time or purpose restrictions		<u>25,693,388</u>
Financial assets available to meet cash needs for general expenditures within one year	\$	<u>1,566,771</u>

Our endowment funds consist of donor-restricted endowments. Income from donor-restricted endowments is restricted for specific purposes, with the exception of the amounts available for general use. Donor-restricted endowment funds are not available for general expenditure.

Our endowment of \$26,806,905 is subject to an annual spending policy as described in Note 8. Although we do not intend to spend from this endowment (other than amounts appropriated for general expenditure as part of our Board's annual budget approval and appropriation), these amounts could be made available if necessary.

The Foundation's goal is generally to maintain financial assets to meet at least one month of expenditures. As part of its liquidity plan, excess cash is invested with the ability to liquidate within one month, if needed. Account balances are closely monitored to ensure sufficient funds are available to pay upcoming expenditures.

Note 3 - Promises to Give

Promises to give are scheduled to be collected as follows:

Less than one year	\$	224,499
One to five years		578,671
More than five years		<u>250,000</u>
		1,053,170
Less allowance for doubtful accounts		(85,514)
Less discount to net present value		<u>(111,215)</u>
	\$	<u>856,441</u>

Management has elected the fair value option for promises to give in order to simplify the accounting for promises to give made in multiple years. The promises to give are discounted using a rate of 3%.

Note 4 - Investments

The Foundation's investments are in trust with the National Catholic Investment Pool (NCIP). The NCIP is a uniquely designed investment program for Catholic Dioceses and other 501(c)(3) Catholic entities listed in the Kenedy Directory. The NCIP offers investment diversification using eleven separately managed portfolios. In addition, all investments are screened using the socially responsible factors established by the United States Conference of Catholic Bishops (USCCB). The Michigan Catholic Conference (MCC) has administered the NCIP for over 15 years. The NCIP provides a diversified array of high quality active and passive managers. Cap Trust is the financial consultant and Northern Trust is the custodian. Each participant sets their own asset allocation and chooses which of the separately managed portfolios that they would like to use for their particular investment strategy.

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The fair value of the investment account consisted of the following at December 31, 2018:

Cash and equivalents	\$ 262,916
Equities	18,594,643
Fixed income	<u>7,254,285</u>
Total investments	<u>\$ 26,111,844</u>

Net investment activity is composed of the following at December 31, 2018:

Dividends and interest	\$ 626,385
Realized gain	864,225
Unrealized loss	(2,598,095)
Less: investment fees	<u>(77,483)</u>
	<u>\$ (1,184,968)</u>

Note 5 - Loan Payable

The Foundation has a loan agreement with the Diocese of Saginaw for unpaid service agreements amounts. The balance as of December 31, 2018 was \$220,649. Interest of .5% of the unpaid balance is to be paid annually. Interest only payments are due until February 1, 2021, at which time a three year balloon will occur in which the final payment is due.

Interest expense for 2018 amounted to \$795.

Note 6 - Net Assets With Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes and periods at December 31, 2018:

Endowments:

Subject to appropriation and expenditure when a specified event occurs:

Restricted by donors for
 Donor advised funds \$ 2,850,200

Subject to NFP endowment spending policy and appropriation

Parish	265,733
Catholic school	4,083,286
Catholic education	213,924
College scholarship	150,903
Operational	34,804
Miscellaneous	5,555
Assistance to the poor	139,696
Priest and religious retirement	47,711
Cemetery	15,020
Seminarian and vocations	576,723
Catholic agencies	5,796
Operating designated	4,588

Perpetual in nature 17,804,111

Not subject to spending policy or appropriation:

Perpetual in nature
 Charitable gift annuities 608,855

Total net assets with donor restrictions **\$ 26,806,905**

Catholic Community Foundation of Mid-Michigan
Notes to the Financial Statements
December 31, 2018

Note 7 - Net Assets Released from Donor Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by the donors as follows for the year ended December 31, 2018:

Restricted-purpose spending-rate distributions and appropriations	
Parish	\$ 164,005
Catholic school	699,750
Catholic education	47,616
College scholarship	32,194
Operational	15,995
Miscellaneous	8,925
Assistance to the poor	102,991
Priest and religious retirement	18,039
Cemetery	4,602
Seminarian and vocations	179,028
Catholic agencies	3,409
Operating designated	89
Charitable gift annuities	10,407
Donor advised funds	<u>151,314</u>
	<u>\$ 1,438,364</u>

Note 8 - Endowments

The Foundation's endowment consists entirely of donor-restricted endowment funds and is classified based on those donor-imposed restrictions.

Interpretation of Relevant Law

The board of directors of the Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the date of the donor-restricted endowment funds, unless there are explicit donor stipulations to the contrary. At December 31, 2018, there were no such donor stipulations. As a result of this interpretation, we retain in perpetuity (a) the original value of initial and subsequent gift amounts (including promises to give net of discount and allowance for doubtful accounts donated to the Endowment and (b) any accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure by us in a manner consistent with the standard of prudence prescribed by UPMIFA. We consider the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) The duration and preservation of the fund; (2) The purposes of the organization and the donor-restricted endowment fund; (3) General economic conditions ; (4) The possible effect of inflation and deflation; (5) The expected total return from income and the appreciation of investments; (6) Other resources of the organization; and (7) The investment policies of the organization.

Catholic Community Foundation of Mid-Michigan
Notes to the Financial Statements
December 31, 2018

The endowment net asset composition by type of fund as of December 31, 2018 is as follows:

	With Donor Restrictions
Donor-restricted	
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	\$ 18,412,966
Accumulated investment gains	8,393,939
	\$ 26,806,905

Changes in endowment net assets for the year ended December 31, 2018 are as follows:

	With Donor Restrictions
Beginning of year	\$ 28,582,241
Contributions	721,983
Distributions	(1,438,364)
Net investment activity	(1,058,955)
End of year	\$ 26,806,905

Return Objectives and Risk Parameters

The Foundation has adopted a policy to ensure a total return (yield plus capital appreciation) necessary to preserve and enhance (in real dollar terms) the principal of the funds, and at the same time, provide a dependable source of support for current projects of the Foundation.

Strategies Employed for Achieving Objectives

The Foundation's investments are diversified to minimize the risk of large losses and investment in securities that conflict with the official moral and social teachings of the Roman Catholic Church are prohibited. The return objectives of the investments are to meet or exceed cumulative annual total return over a five-year moving average of a balanced market index comprised of 55% S&P 1500, 10% MSCI EAFE, and 35% Lehman Brothers Intermediate Government Credit Bond Index. The Foundation allocates 60% of its funds to equity investments, 30% of its funds to fixed investments, and 10% to other investment vehicles.

Spending Policy and How the Investment Objectives Relate to Spending Policy

When it is possible to do so without invading investment principal, disbursements are on a semi-annual basis at the discretion of the Board of Trustees. The Foundation's policy is to make the semi-annual disbursements based on the most recent twelve quarters fair market value rolling average asset values.

Note 9 - Fair Value Measurements

The following tables represent information about the Foundation's assets and liabilities measured at fair value on a recurring basis at December 31, 2018, and the valuation techniques used by the Foundation to determine those fair values.

In general, fair values determined by Level 1 inputs use quoted prices in active markets for identical assets or liabilities that the Foundation has the ability to access.

Catholic Community Foundation of Mid-Michigan
Notes to the Financial Statements
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Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets and liabilities in active markets, and other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset or liability.

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in the entirety are categorized based on the lowest level input that is significant to the valuation. The Foundation's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

Disclosures concerning assets and liabilities measured at fair value on a recurring basis are as follows as of December 31, 2018:

	Balance at December 31 2018	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Cash and equivalents	\$ 262,916	\$ 262,916	\$ -
Equities	18,594,643	18,594,643	-
Fixed income	<u>7,254,285</u>	<u>-</u>	<u>7,254,285</u>
	<u>\$ 26,111,844</u>	<u>\$ 18,857,559</u>	<u>\$ 7,254,285</u>