

**ROMAN CATHOLIC DIOCESE
OF GRAND RAPIDS**

FINANCIAL STATEMENTS
June 30, 2007 and 2006

ROMAN CATHOLIC DIOCESE OF GRAND RAPIDS
Grand Rapids, Michigan

FINANCIAL STATEMENTS
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Crowe Chizek and Company LLC
Member Horwath International

REPORT OF INDEPENDENT AUDITORS

Most Reverend Walter A. Hurley
Roman Catholic Diocese of Grand Rapids
Grand Rapids, Michigan

We have audited the accompanying statements of financial position of the Roman Catholic Diocese of Grand Rapids (Diocese) as of June 30, 2007 and 2006, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Diocesan management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Roman Catholic Diocese of Grand Rapids as of June 30, 2007 and 2006, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Crowe Chizek and Company LLC

Crowe Chizek and Company LLC

Grand Rapids, Michigan
September 25, 2007

ROMAN CATHOLIC DIOCESE OF GRAND RAPIDS
STATEMENTS OF FINANCIAL POSITION
June 30, 2007 and 2006

	-----2 0 0 7-----				-----2 0 0 6-----			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
ASSETS								
Cash	\$ 26,411	\$ 283,365		\$ 309,776	\$ 58,630	\$ 237,311		\$ 295,941
Money market funds	<u>2,058,516</u>	<u>2,232,963</u>		<u>4,291,479</u>	<u>1,414,051</u>	<u>2,801,501</u>		<u>4,215,552</u>
Total cash and cash equivalents	2,084,927	2,516,328		4,601,255	1,472,681	3,038,812		4,511,493
Investments (Note 3)								
Michigan Catholic Conference Socially Responsible Investment Pool	9,515,156	1,370,151		10,885,307	10,026,250	855,945		10,882,195
Government agency obligations		367,111		367,111		243,573		243,573
The Catholic Foundation of West Michigan	<u>9,937,676</u>	<u>1,684,232</u>	<u>\$ 62,398</u>	<u>11,684,306</u>	<u>8,938,336</u>	<u>1,469,432</u>	<u>\$ 62,398</u>	<u>10,470,166</u>
	19,452,832	3,421,494	62,398	22,936,724	18,964,586	2,568,950	62,398	21,595,934
Receivables								
Campaign (Note 4)	188,611	1,572,288		1,760,899	169,690	1,407,871		1,577,561
Notes (Note 5)	1,242,541	176,849		1,419,390	1,758,772	183,136		1,941,908
Due from Cathedral Square Inc. (Note 9)	3,275,969			3,275,969				
Other	<u>311,742</u>			<u>311,742</u>	<u>542,662</u>	<u>2,044</u>		<u>544,706</u>
	5,018,863	1,749,137		6,768,000	2,471,124	1,593,051		4,064,175
Property and equipment								
Land	583,525			583,525	584,660			584,660
Buildings and improvements	3,119,688			3,119,688	2,748,833			2,748,833
Furnishings and equipment	<u>944,542</u>			<u>944,542</u>	<u>905,837</u>			<u>905,837</u>
	4,647,755			4,647,755	4,239,330			4,239,330
Accumulated depreciation	<u>(1,862,043)</u>			<u>(1,862,043)</u>	<u>(1,508,469)</u>			<u>(1,508,469)</u>
	2,785,712			2,785,712	2,730,861			2,730,861
Assets held for sale (Note 6)	2,319,262			2,319,262	2,319,262			2,319,262
Other assets	<u>248,131</u>			<u>248,131</u>	<u>300,348</u>			<u>300,348</u>
	248,131			248,131	300,348			300,348
Total assets	<u>\$ 31,909,727</u>	<u>\$ 7,686,959</u>	<u>\$ 62,398</u>	<u>\$ 39,659,084</u>	<u>\$ 28,258,862</u>	<u>\$ 7,200,813</u>	<u>\$ 62,398</u>	<u>\$ 35,522,073</u>

(Continued)

ROMAN CATHOLIC DIOCESE OF GRAND RAPIDS
STATEMENTS OF FINANCIAL POSITION
June 30, 2007 and 2006

	-----2 0 0 7-----				-----2 0 0 6-----			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
LIABILITIES AND NET ASSETS								
Liabilities								
Accounts payable and accrued expenses	\$ 734,754	\$ 289,219		\$ 1,023,973	\$ 712,965	\$ 243,588		\$ 956,553
Funds held for others (Note 9)	<u>1,998,036</u>			<u>1,998,036</u>				
Total liabilities	2,732,790	289,219		3,022,009	712,965	243,588		956,553
Net assets								
Unrestricted								
Designated	14,323,248			14,323,248	15,715,383			15,715,383
Undesignated	9,748,715			9,748,715	6,780,391			6,780,391
Net investment in property and equipment	5,104,974			5,104,974	5,050,123			5,050,123
Temporarily restricted (Note 7)		7,397,740		7,397,740		6,957,225		6,957,225
Permanently restricted (Note 7)			\$ 62,398	62,398			\$ 62,398	62,398
	<u>29,176,937</u>	<u>7,397,740</u>	<u>62,398</u>	<u>36,637,075</u>	<u>27,545,897</u>	<u>6,957,225</u>	<u>62,398</u>	<u>34,565,520</u>
Total liabilities and net assets	<u>\$ 31,909,727</u>	<u>\$ 7,686,959</u>	<u>\$ 62,398</u>	<u>\$ 39,659,084</u>	<u>\$ 28,258,862</u>	<u>\$ 7,200,813</u>	<u>\$ 62,398</u>	<u>\$ 35,522,073</u>

See accompanying notes to financial statements.

ROMAN CATHOLIC DIOCESE OF GRAND RAPIDS
STATEMENTS OF ACTIVITIES
Years ended June 30, 2007 and 2006

	-----2 0 0 7-----				-----2 0 0 6-----			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues and other support								
Campaign contributions	\$ 327,007	\$ 4,532,420		\$ 4,859,427	\$ 355,742	\$ 4,448,324		\$ 4,804,066
Interest and dividends	1,233,063	153,944		1,387,007	1,172,006	113,104		1,285,110
Net change in fair value of investments (Note 3)	1,479,145	149,819		1,628,964	(301,697)	(53,530)		(355,227)
Gain on sale of property and equipment	1,019			1,019	578,370			578,370
Contributions and other revenues	982,725	274,101		1,256,826	2,431,628	236,518		2,668,146
Net assets released from restrictions								
Satisfaction of restrictions	221,445	(221,445)			363,801	(363,801)		
Expiration of time restrictions	<u>4,448,324</u>	<u>(4,448,324)</u>			<u>4,321,550</u>	<u>(4,321,550)</u>		
	8,692,728	440,515		9,133,243	8,921,400	59,065		8,980,465
Expenses								
Programs and services								
Pastoral Services	1,108,437			1,108,437	1,332,481			1,332,481
Clergy and Religious Services	579,045			579,045	507,269			507,269
Catholic Charities	782,961			782,961	947,304			947,304
Education	177,473			177,473	339,560			339,560
Finance and Administration	1,733,243			1,733,243	1,596,423			1,596,423
General Administration	1,095,126			1,095,126	1,287,673			1,287,673
Disposition of land and building (Note 9)					1,211,111			1,211,111
Donations	548,665			548,665	563,580			563,580
Depreciation	353,574			353,574	397,034			397,034
Office of Communications	129,934			129,934	128,104			128,104
Faith Magazine	222,412			222,412				
Televised programming	147,261			147,261	139,050			139,050
Fundraising	<u>183,557</u>			<u>183,557</u>	<u>229,931</u>			<u>229,931</u>
	7,061,688			7,061,688	8,679,520			8,679,520
Increase in net assets	1,631,040	440,515		2,071,555	241,880	59,065		300,945
Net assets at beginning of year	<u>27,545,897</u>	<u>6,957,225</u>	<u>\$ 62,398</u>	<u>34,565,520</u>	<u>27,304,017</u>	<u>6,898,160</u>	<u>\$ 62,398</u>	<u>34,264,575</u>
Net assets at end of year	<u>\$ 29,176,937</u>	<u>\$ 7,397,740</u>	<u>\$ 62,398</u>	<u>\$ 36,637,075</u>	<u>\$ 27,545,897</u>	<u>\$ 6,957,225</u>	<u>\$ 62,398</u>	<u>\$ 34,565,520</u>

See accompanying notes to financial statements.

ROMAN CATHOLIC DIOCESE OF GRAND RAPIDS
 STATEMENTS OF CASH FLOWS
 Years ended June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Cash flows from operating activities		
Change in net assets	\$ 2,071,555	\$ 300,945
Adjustments to reconcile the change in net assets to net cash from operating activities		
Depreciation	353,574	397,034
Net change in fair value of investments	(1,628,964)	355,227
Gain on sale of property and equipment	(1,019)	(578,370)
Disposition of land and building		1,211,111
Change in assets and liabilities		
Campaign and other receivables	49,626	(619,261)
Due from Cathedral Square Inc.	(3,275,969)	
Other assets	52,217	(10,004)
Funds held for others	1,998,036	
Accounts payable and accrued expenses	<u>67,420</u>	<u>73,647</u>
Net cash from operating activities	<u>(313,524)</u>	<u>1,130,329</u>
 Cash flows from investing activities		
Net change in pooled investments:		
Michigan Catholic Conference Socially Responsible Investment Pool	995,175	1,586,404
The Catholic Foundation of West Michigan	(583,463)	(863,797)
Proceeds from sale of investments	35,717	66,955
Purchase of investments	(159,255)	(1,065)
Increase in notes receivable	(11,115)	
Payment on notes receivable	533,633	126,600
Proceeds from sale of property and equipment	2,153	715,345
Purchase of property and equipment	<u>(409,559)</u>	<u>(536,596)</u>
Net cash from investing activities	<u>403,286</u>	<u>1,093,846</u>
 Net change in cash and cash equivalents	 89,762	 2,224,175
 Cash and cash equivalents at beginning of year	 <u>4,511,493</u>	 <u>2,287,318</u>
 Cash and cash equivalents at end of year	 <u>\$ 4,601,255</u>	 <u>\$ 4,511,493</u>

See accompanying notes to financial statements.

ROMAN CATHOLIC DIOCESE OF GRAND RAPIDS
NOTES TO FINANCIAL STATEMENTS
June 30, 2007 and 2006

NOTE 1 - OVERVIEW OF THE DIOCESE

The Roman Catholic Diocese of Grand Rapids ("Diocese") provides governance and administers programs and services for the Roman Catholic parishes, schools and other affiliated organizations within an eleven-county area of Western Michigan. The accompanying financial statements include only those funds over which the administrative office of the Diocese maintains daily operational control. They do not include the financial condition and results of operations of the parishes, schools and affiliated organizations, including the Deposit and Loan Program, The Catholic Foundation of West Michigan and Cathedral Square, Inc. These organizations may or may not be separate corporations under civil law and may or may not be under the control of the Bishop; however, each is an operating entity distinct from the Diocese, maintains separate accounts, carries on its own services and programs, and reports annually to its respective constituency.

NOTE 2 - SUMMARY OF ACCOUNTING POLICIES

Basis of Accounting: Revenues and expenses are recorded 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 - based on the existence or absence of donor-imposed restrictions.

Descriptions of the asset classes are as follows:

Unrestricted - Represent funds available for support of current Diocesan operations.

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

Cash and cash equivalents: Cash and cash equivalents consist of bank deposit accounts and money market funds, which may, at times, exceed federally insured limits.

Contributions: Contributions are recorded as income 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.

Investments: Investments are carried at fair value, determined by quoted market prices, plus any accrued interest.

(Continued)

ROMAN CATHOLIC DIOCESE OF GRAND RAPIDS
NOTES TO FINANCIAL STATEMENTS
June 30, 2007 and 2006

NOTE 2 - SUMMARY OF ACCOUNTING POLICIES (Continued)

Allowances: Management establishes allowances for losses on its pledges and notes receivable based on historic loss experience, current economic conditions and information about specific pledge or borrower situations. Losses are charged off against the allowance when management deems further collection efforts will not produce additional recoveries.

Property and Equipment: Assets are stated at cost, if purchased, or at fair value on the date of acquisition, if donated. Depreciation is provided over the estimated useful lives of the assets by the straight-line method. Contributions recognized by the Diocese which are restricted for the acquisition of property and equipment are reclassified to unrestricted net assets when the assets are placed in service. From time to time, the Diocese purchases property and equipment for related organizations. These expenditures are reported as expenses in the statements of activities.

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 of Grand Rapids is listed in the 2007 edition and, therefore, is exempt from federal income taxes.

Split-Interest Agreements: The Diocese is party to split-interest agreements with certain donors. Under each agreement, the donor has contributed funds to be held by the Diocese, with the Diocese as either the beneficiary or one of the beneficiaries. As a condition of accepting the gift, the Diocese is required to pay a specified amount each year to the donor until his or her death. Upon death of the donor, the remaining funds, or the portion of funds designated to the Diocese, become the property of the Diocese.

Obligations under split-interest agreements represent the present value of future payments required to beneficiaries under the agreements and are included in accounts payable and accrued expenses in the statement of financial position at June 30, 2007 and 2006. The present value is computed based on the normal life expectancy of the donor or designated beneficiaries using discount rates ranging from 4 percent to 7 percent.

Functional Classification of Expenses: Expenses incurred for programs and services are summarized by functional classification in the statement of activities. Such expenses are charged directly to the specific programs and services.

Accounting Estimates: The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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.

(Continued)

ROMAN CATHOLIC DIOCESE OF GRAND RAPIDS
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2007 and 2006

NOTE 2 - SUMMARY OF ACCOUNTING POLICIES (Continued)

Collections and Disbursements on Behalf of Others: Assets the Diocese receives that are designated by donors for other organizations are not reflected as revenues in the statements of activities when the Diocese has no authority to redirect the use of such assets. The Diocese records the fair value of such amounts received as assets and liabilities in the statement of financial position. Funds received on behalf of national collections include the Catholic Campaign for Human Development, Catholic Relief Services (formerly American Bishops' Overseas Appeal), Retirement Fund for Religious, Operation Rice Bowl and Hurricane Disaster collections. During the years ended in 2007 and 2006, the Diocese received funds totaling approximately \$660,000 and \$1,115,000, respectively, and remitted such funds to the appropriate national organizations.

Reclassifications: Certain prior year amounts have been reclassified to conform to the current year presentation.

NOTE 3 - INVESTMENTS

The Michigan Catholic Conference Socially Responsible Investment Pool was established in order to allow Michigan dioceses and related organizations to pool funds for investment in the fixed income and equity markets using socially responsible investment guidelines.

The Catholic Foundation of West Michigan is a not-for-profit corporation established for the exclusive benefit of parishes, schools and organizations in the Diocese. Its purpose is to create a collective investment for endowment funds and certain funds designated by management to be held as endowments.

The investments of the Diocese are as follows:

	<u>2007</u>	<u>2006</u>
Fixed income securities	\$ 10,871,271	\$ 11,871,311
Equity securities	11,698,342	9,481,050
U.S. Government agency obligations	<u>367,111</u>	<u>243,573</u>
	<u>\$ 22,936,724</u>	<u>\$ 21,595,934</u>

Net realized and unrealized gains and (losses) on investments reflected in the statements of activities were as follows:

	<u>2007</u>	<u>2006</u>
Michigan Catholic Conference Socially Responsible Investment Pool	\$ 998,287	\$ 22,366
The Catholic Foundation of West Michigan	<u>630,677</u>	<u>(377,773)</u>
	<u>\$ 1,628,964</u>	<u>\$ (355,227)</u>

(Continued)

ROMAN CATHOLIC DIOCESE OF GRAND RAPIDS
NOTES TO FINANCIAL STATEMENTS
June 30, 2007 and 2006

NOTE 4 - CAMPAIGN RECEIVABLES

Catholic Services Appeal campaign receivables represent unconditional promises to give and are due and payable within one year. Receivables from donors consist of the following:

	<u>2007</u>	<u>2006</u>
Contributions receivable	\$ 2,106,563	\$ 2,109,536
Less allowance for uncollectible promises	<u>(345,664)</u>	<u>(531,975)</u>
	<u>\$ 1,760,899</u>	<u>\$ 1,577,561</u>

NOTE 5 - NOTES RECEIVABLE

Notes receivable consist of:

	<u>2007</u>	<u>2006</u>
4.5% land contract; monthly payments, including interest, of \$1,200; principal balance due in full by July 1, 2008	\$ 176,849	\$ 183,136
5.0% note; monthly payments, including interest, of \$12,892; due January 3, 2020	1,037,170	1,523,043
5.0% note; monthly payments, including interest, of \$3,588; due September 25, 2012	173,109	206,968
Other notes	<u>32,262</u>	<u>28,761</u>
	<u>\$ 1,419,390</u>	<u>\$ 1,941,908</u>

At June 30, 2007 and 2006, no allowance for losses was needed since, in management's opinion, all notes are fully collectible.

NOTE 6- ASSETS HELD FOR SALE

The Diocese plans to sell, and management is actively marketing, the facilities used in its business operations. The Diocese has valued the assets at the lower of their carrying value or fair value, based on selling prices for similar assets. The assets held for sale as of June 30, 2007 and 2006 consist of the following:

Buildings and improvements	\$ 2,736,330	
Furnishings and equipment	<u>419,941</u>	
	3,156,271	
Accumulated depreciation	<u>(837,009)</u>	
	<u>\$ 2,319,262</u>	

On June 13, 2007, the Diocese received an offer for the above facilities in an amount exceeding the carrying value. Completion of the sale is contingent, among other things, upon completion of the due diligence procedures.

(Continued)

ROMAN CATHOLIC DIOCESE OF GRAND RAPIDS
NOTES TO FINANCIAL STATEMENTS
June 30, 2007 and 2006

NOTE 7 - RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	<u>2007</u>	<u>2006</u>
Catholic Services Appeal Campaign programs	\$ 4,533,077	\$ 4,455,433
Education of priests, seminarians and sisters	1,303,595	971,988
Retirement needs	404,804	466,622
Needs of the poor and disadvantaged	371,793	339,097
Vocations	701,985	629,176
Support of Foundation	59,726	88,551
Project Rachel operations	<u>22,760</u>	<u>6,358</u>
	<u>\$ 7,397,740</u>	<u>\$ 6,957,225</u>

Permanently restricted net assets are invested in perpetuity, the income from which is expendable for the following purposes:

	<u>2007</u>	<u>2006</u>
Education of seminarians	<u>\$ 62,398</u>	<u>\$ 62,398</u>

NOTE 8 - PENSION PLANS

The Diocese participates in the Michigan Catholic Conference Lay Employees' Retirement Plan, a multi-employer defined benefit pension plan organized for the benefit of lay employees of the Michigan Roman Catholic dioceses, parishes, schools and other diocesan organizations. Substantially all Diocesan employees are covered under the plan. The Diocese's contributions to the plan are made in amounts equal to 6.6% of employee compensation. In addition, the Diocese makes contributions to the Clergy Fund of the Diocese of Grand Rapids for certain priests not involved in parish work. Pension expense, which is funded as accrued, was \$95,884 and \$98,883 for the years ended June 30, 2007 and 2006, respectively.

The actuarial value of plan benefits and net assets available for benefits, with respect to the employees and priests mentioned above, are not available since the information is not calculated separately for each participating organization. However, on an overall basis, the actuarial present value of the plans' net assets exceeds the actuarial present value of the plans' accumulated benefits as of July 1, 2006, the date of the latest actuarial valuations.

(Continued)

ROMAN CATHOLIC DIOCESE OF GRAND RAPIDS
NOTES TO FINANCIAL STATEMENTS
June 30, 2007 and 2006

NOTE 9 - RELATED PARTIES

During the year ended June 30, 2006, the Diocese transferred land and a building having a cost, net of accumulated depreciation, of \$1,211,111 to Cathedral Square Inc., a related corporation which was formed in 2006 to acquire and hold the land and buildings in the area immediately surrounding the Cathedral of St. Andrew in Grand Rapids, Michigan.

The Cathedral Square Project ("the Project") involves the redevelopment of such area through the construction of an office building and conference center for use by the Diocese; extension of pedestrian walkways connecting the campus facilities, including Catholic Central High School; enhancement of campus landscaping; construction of a parking garage; and creation of additional public parking spaces. As of June 30, 2007, the Diocese has advanced funds of \$3,275,969 to Cathedral Square, Inc. to fund the master plan, architectural design and site preparation phases of the Project; the advances are shown as receivables in the statement of financial position. While the scope of the Project has not been fully determined, the cost, when completed, will be \$18,000,000 to \$22,000,000. The Diocese and Cathedral Square, Inc. are in the process, as co-obligors, of issuing limited obligation revenue bonds through the Michigan Strategic Fund for eligible Project costs.

The Diocese is also in the process of issuing limited obligation revenue bonds through the Michigan Strategic Fund for the eligible costs associated with the construction of two gymnasiums by Catholic Central High School and West Catholic High School; the estimated cost of the gymnasiums is \$8,000,000. At June 30, 2007, money market funds and liabilities include \$1,998,036 held for construction of the gymnasiums.

Catholic Human Development Outreach (CHDO), an affiliated organization, had previously received an endowment that was restricted for the support of a specific program. That program has since ended and, in accordance with the donor stipulation, this endowment is to be transferred to the Diocese. At June 30, 2007 and 2006, the Diocese has a receivable from CHDO in the amount of \$260,000 for the balance of the endowment.