The Parish Savings and Loan Trust

Financial Report
June 30, 2019

Contents

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Independent Auditor's Report

To the Most Reverend Bishop Earl Boyea
and George Landolt
The Parish Savings and Loan Trust

We have audited the accompanying financial statements of The Parish Savings and Loan Trust (the "Trust"), which comprise the balance sheet as of June 30, 2019 and 2018 and the related statements of activities and changes in net assets and cash flows for the years 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.

Auditor's Responsibility

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 audits to obtain reasonable assurance about whether the financial statements are free from 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 auditor's 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 The Parish Savings and Loan Trust as of June 30, 2019 and 2018 and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 2 to the financial statements, the Trust adopted the provisions of Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

Plante & Moran, PLLC

April 10, 2020

Balance Sheet

June 30, 2019 and 2018

	2019	2018
Assets		
Cash and cash equivalents	$ 7,166,800	$ 6,555,422
Accounts receivable	53,432	70,778
Investments (Note 3)	48,831,902	41,320,596
Accrued interest receivable	40,378	293,679
Loans - Parishes, schools, and other - Net of allowance for doubtful loans of $2,263,171 and $1,330,495 at June 30, 2019 and 2018, respectively	21,184,750	26,056,302
Prepaid expenses and other assets	28,311	-
Total assets	**$ 77,305,573**	**$ 74,296,777**
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued liabilities	$ 24,338	$ 128,841
Parishes, schools, and other deposits	69,095,486	66,428,746
Total liabilities	69,119,824	66,557,587
Net Assets - Without donor restrictions	8,185,749	7,739,190
Total liabilities and net assets	**$ 77,305,573**	**$ 74,296,777**

See notes to financial statements.

Statement of Activities and Changes in Net Assets

Years Ended June 30, 2019 and 2018

	2019	2018
Changes in Net Assets without Donor Restrictions		
Revenue and other support:		
Dividend income	$ 390,395	$ 91,364
Net realized and unrealized gain (loss) on investments	1,743,234	(92,694)
Interest income - Net	1,305,225	582,984
Total revenue and other support	3,438,854	581,654
Expenses:		
Distributions to depositors	1,776,465	474,727
Operational expenses	225,213	6,729
Recovery of bad debt	-	(200,000)
Bad debt and loan forgiveness	990,617	-
Total expenses	2,992,295	281,456
Increase in Net Assets without Donor Restrictions - Before transfer	446,559	300,198
Transfer from the Catholic Diocese of Lansing (Note 4)	-	7,438,992
Increase in Net Assets	446,559	7,739,190
Net Assets - Beginning of year	7,739,190	-
Net Assets - End of year	**$ 8,185,749**	**$ 7,739,190**

See notes to financial statements.

Statement of Cash Flows

Years Ended June 30, 2019 and 2018

	2019	2018
Cash Flows from Operating Activities		
Increase in net assets	$ 446,559	$ 7,739,190
Adjustments to reconcile increase in net assets to net cash and cash equivalents from operating activities:		
Net asset transfer from the Diocese of Lansing	-	(7,438,992)
Bad debt and loan forgiveness	990,617	-
(Gain) loss on sale of investments	(1,743,234)	92,694
Changes in operating assets and liabilities that provided (used) cash and cash equivalents:		
Accounts receivable	17,346	(70,778)
Accrued interest receivable	253,301	(114,128)
Prepaid expenses and other assets	(28,311)	-
Accounts payable	(104,503)	128,841
Deposits	2,666,740	5,745,117
Net cash and cash equivalents provided by operating activities	2,498,515	6,081,944
Cash Flows from Investing Activities		
Purchases of investments	(11,972,772)	(325,056)
Proceeds from sales and maturities of investments	6,204,700	2,398,815
Proceeds from loan payments	6,115,896	668,807
Issuance of loans	(2,234,961)	(2,770,211)
Cash received from the Diocese of Lansing related to transfer	-	501,123
Net cash and cash equivalents (used in) provided by investing activities	(1,887,137)	473,478
Net Increase in Cash and Cash Equivalents	611,378	6,555,422
Cash and Cash Equivalents - Beginning of year	6,555,422	-
Cash and Cash Equivalents - End of year	**$ 7,166,800**	**$ 6,555,422**
Significant Noncash Transactions		
Investments	$ -	$ 43,487,049
Loans	-	23,954,898
Accrued interest receivable	-	179,551
Deposits	-	(60,683,629)

See notes to financial statements.

Note 1 - Nature of Business

The Parish Savings and Loan Trust (the "Trust") is a not-for-profit organization established in the state of Michigan in 2018. The Parish Savings and Loan Trust's Ecclesiastical Trustee is charged with assuring the Trust's transparency in operations and accountability to the people of the Diocese. The Trust is engaged in the savings of funds from and loans to diocesan units, which are related parties. The Trust provides savings and loan services primarily in the central area of lower Michigan. All loans and deposit balances previously held by the Catholic Diocese of Lansing Savings and Loan Program (the "Savings and Loan Program") were transferred to the Trust effective March 1, 2018, and the statement of activities and changes in net assets and statement of cash flows reflect activity after the effective date.

Note 2 - Significant Accounting Policies

Cash Equivalents

The Trust considers all investments with an original maturity of three months or less when purchased to be cash equivalents. However, this excludes any cash that is included in the Trust's investment portfolio.

Accounts Receivable

Accounts receivable consist of amounts due from related parties.

Concentrations of Credit Risk

Custodial credit risk is the risk that, in the event of a bank failure, the Trust's deposits may not be returned to it. At year end, a significant portion of the Trust's cash balance was held at one financial institution and exceeds the Federal Deposit Insurance Corporation (FDIC) insurance limits. Management believes that, due to the dollar amounts of cash deposits and the type of accounts held, it is impractical to insure all deposits.

Investments

Investments are stated at fair value. Investment income is recorded when earned.

Loans

Loans receivable are reported at the original issue amount plus accrued interest, less principal repaid. Interest is recognized according to terms of the specific loans. Loans made to diocesan units range from $5,000 to $5,400,000 and have varying maturities of 5 to 20 years, and the majority bear an interest rate of 5.0 percent during 2019 and 2018. At June 30, 2019 and 2018, an individual parish has loans that represent more than 25 and 18 percent, respectively, of the outstanding loans. Interest was paid on deposits at a rate of 2.5 percent during 2019 and 2018.

The Trust considers loans and receivables to be impaired when, based upon current information and events, the Trust believes it is probable that it will be unable to collect all amounts due. The allowance for doubtful loans is reviewed annually and is considered adequate to cover potentially uncollectible loans at June 30, 2019 and 2018.

Parishes, Schools, and Other Deposits

Parishes, schools, and other deposits are composed of funds held by the Trust for depositors within individual accounts. The funds deposited with the Trust are invested. Fixed-rate interest of 2.5 percent is allocated to depositor accounts and is recognized within distributions to depositors expense.

Classification of Net Assets

Net assets of the Trust are classified based on the presence or absence of donor-imposed restrictions.

Note 2 - Significant Accounting Policies (Continued)

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions or for which the donor-imposed restrictions have expired or been fulfilled. Net assets in this category may be expended for any purpose in performing the primary objectives of the Trust.

Earnings, gains, and losses on donor-restricted net assets are classified as net assets without donor restrictions unless specifically restricted by the donor or by applicable state law.

Tax Status

The Trust is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, and the Trust is a religious entity, which is exempt from tax filings; therefore, a provision for income taxes has not been included in the financial statements.

Use of Estimates

The preparation of financial statements in conformity with 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

Risks and Uncertainties

The Trust 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 financial statements.

Adoption of New Accounting Pronouncement

For the year ended June 30, 2019, the Trust adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This standard requires net assets to be classified in two categories, net assets without donor restrictions and net assets with donor restrictions, rather than the three previous classifications. This standard also requires changes in the way certain information is aggregated and reported by the Trust, including disclosures of quantitative and qualitative information about the liquidity and availability of resources and the presentation of expenses by both functional and natural classification. The standard also clarifies the definition of management and general and prohibits certain expenses from being allocated out of management and general.

As a result of the adoption of this standard, the financial information for the year ended June 30, 2018 has been restated as follows: management and general expenses decreased by $33,601 and interest income decreased by $33,601 when investment expenses were netted against interest income. Additionally, $7,739,190 previously reported as unrestricted net assets is now reported as net assets without donor restrictions. The standard has been retrospectively applied.

Subsequent Events

The financial statements and related disclosures include evaluation of events up through and including April 10, 2020, which is the date the financial statements were available to be issued. The large-scale COVID-19 pandemic may have a material adverse effect on business operations over an extended period of time. While it is not yet possible to estimate the financial impact, a large-scale pandemic could have a material adverse effect on the Trust's investment revenue, collection of loans, liquidity, investment holdings, and operating results. See Note 3 for additional information regarding general market declines.

Note 3 - Fair Value Measurements

Accounting standards require certain assets and liabilities be reported at fair value in the financial statements and provide a framework for establishing that fair value. The framework for determining fair value is based on a hierarchy that prioritizes the inputs and valuation techniques used to measure fair value.

The following presents information about the Trust's assets measured at fair value on a recurring basis at June 30, 2019 and 2018 and the valuation techniques used by the Trust to determine those fair values.

Fair values determined by Level 1 inputs use quoted prices in active markets for identical assets that the Trust has the ability to access.

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 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. These Level 3 fair value measurements are based primarily on management's own estimates using pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the asset.

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

At June 30, 2019 and 2018, all investments were held in a Michigan Catholic Conference investment pool and were valued based on Level 2 inputs. Total investments balance held at Michigan Catholic Conference was $48,831,902 and $41,320,596 at June 30, 2019 and 2018, respectively. The assets held by the Michigan Catholic Conference investment pool consist of investments in mutual funds, equity securities, fixed-income securities, and money markets for which an active market exists.

Subsequent to year end, the Trust's investment portfolio has incurred a significant decline in fair value, consistent with the general decline in financial markets. However, because the values of individual investments fluctuate with market conditions, the amount of losses that will be recognized in subsequent periods, if any, cannot be determined.

Note 4 - Net Asset Transfers

Effective March 1, 2018, the Trust received a transfer of net assets from the Catholic Diocese of Lansing, a related party, primarily consisting of investment, deposit, and loan balances related to the Savings and Loan Program. The Trust will administer the Savings and Loan Program for the benefit of trust participants. Total net asset transfers received for the year ended December 31, 2018 were $7,438,992. There were no net asset transfers received during the year ended June 30, 2019.

Note 5 - Functional Expenses

The Trust provides various services to its members. Expenses related to providing these services are as follows as of June 30:

	2019	2018
Program services:		
Distributions to depositors	$ 1,776,465	$ 474,727
Recovery of bad debt	-	(200,000)
Bad debt and loan forgiveness	990,617	-
Total program services	2,767,082	274,727
General and administrative - Contracted services	225,213	6,729
Total	$ 2,992,295	$ 281,456

Note 6 - Liquidity and Availability of Resources

The following reflects the Trust's financial assets as of June 30 reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the balance sheet date:

	2019	2018
Cash and cash equivalents	$ 7,166,800	$ 6,555,422
Accounts receivable	53,432	70,778
Investments	48,831,902	41,320,596
Accrued interest receivable	40,378	293,679
Loans - Parishes, schools, and other - Net	21,184,750	26,056,302
Financial assets - At year end	77,277,262	74,296,777
Less those unavailable for general expenditures within one year due to - Contractual restrictions - Funds held in agency for others	69,095,486	66,428,746
Financial assets available to meet cash needs for general expenditures within one year	$ 8,181,776	$ 7,868,031

While the full amounts of loans may not be collected within one year, the same holds true for funds held in agency for others. Due to the nature of the business, the Trust is engaged in the savings from and loans to diocesan units. The Trust would not expect to disburse the funds held in agency for others within one year. The current portion of the loans due is $3,220,212 and $3,242,070 at June 30, 2019 and 2018, respectively.

The Trust has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

The Trust also realizes there could be unanticipated liquidity needs.

Note 7 - Contingent Liabilities

The Trust is contingently liable in respect to litigation and claims incidental to the ordinary course of its operations. In the opinion of management, based on its consultation with legal counsel, the amount of loss, if any, is unknown at this time. Therefore, no provision has been made in the accompanying financial statements for losses that might result from the ultimate disposition of these matters.