

**Roman Catholic Diocese of Gaylord  
Deposit and Loan Program**

FINANCIAL STATEMENTS  
AND REPORT OF INDEPENDENT  
CERTIFIED PUBLIC ACCOUNTANTS

June 30, 2019

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## REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Most Reverend Steven J. Raica  
Bishop of the Diocese of Gaylord  
Roman Catholic Diocese of Gaylord Deposit and Loan Program

We have audited the accompanying financial statements of the ***Roman Catholic Diocese of Gaylord Deposit and Loan Program*** (the "Program"), which comprise the statements of financial position as of June 30, 2019, 2018 and 2017, and the related statements of activities and functional expenses 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 Program'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 Program's system of 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.

Most Reverend Steven J. Raica  
Bishop of the Diocese of Gaylord  
Roman Catholic Diocese of Gaylord Deposit and Loan Program  
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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 Roman Catholic Diocese of Gaylord Deposit and Loan Program as of June 30, 2019, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Emphasis of a Matter - Accounting Standards Update***

As discussed in Note B to the financial statements, the Program adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* for the years ended June 30, 2019, 2018 and 2017. Our opinion is not modified with respect to this matter.

*Dennis, Gartland & Niergarth*

May 12, 2020

**Roman Catholic Diocese of Gaylord  
Deposit and Loan Program**

STATEMENTS OF FINANCIAL POSITION

June 30,

	2019	2018	2017
<b>ASSETS</b>			
Cash and cash equivalents	\$ 3,030,450	\$ 3,020,104	\$ 5,080,986
Investments in marketable securities	25,854,396	33,382,190	31,419,547
Loans due within one year	426,369	469,157	552,594
Accounts receivable	-	20,906	-
Accrued interest receivable	13,183	7,448	13,606
Total current assets	29,324,398	36,899,805	37,066,733
Loans due after one year	5,811,869	3,223,967	3,566,249
	<b>\$ 35,136,267</b>	<b>\$ 40,123,772</b>	<b>\$ 40,632,982</b>
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Accounts payable	\$ -	\$ 1,570	\$ 412
Deposits	26,727,123	32,535,349	34,898,067
Total current liabilities	26,727,123	32,536,919	34,898,479
<b>NET ASSETS</b>			
Without donor restrictions	8,409,144	7,586,853	5,734,503
	<b>\$ 35,136,267</b>	<b>\$ 40,123,772</b>	<b>\$ 40,632,982</b>

The accompanying notes are an integral part of these financial statements.

**Roman Catholic Diocese of Gaylord  
Deposit and Loan Program**

STATEMENTS OF ACTIVITIES AND FUNCTIONAL EXPENSES

Years ended June 30,

	<u>2019</u>	<u>2018</u>	<u>2017</u>
<b>SUPPORT AND REVENUE</b>			
Investment income, net of investment expense	\$ 624,561	\$ 661,761	\$ 450,522
Loan interest income	158,786	156,780	166,282
Net gain on investments	<u>859,181</u>	<u>1,703,974</u>	<u>1,686,858</u>
 Total support and revenue	 <u>1,642,528</u>	 <u>2,522,515</u>	 <u>2,303,662</u>
<b>EXPENSES</b>			
Program expenses			
Interest	743,527	597,405	554,853
Contribution to Parishes	-	-	142,471
General and administrative	<u>76,710</u>	<u>72,760</u>	<u>71,500</u>
 Total expenses	 <u>820,237</u>	 <u>670,165</u>	 <u>768,824</u>
<b>CHANGE IN NET ASSETS</b>	822,291	1,852,350	1,534,838
<b>NET ASSETS, beginning of year</b>	<u>7,586,853</u>	<u>5,734,503</u>	<u>4,199,665</u>
<b>NET ASSETS, end of year</b>	<u>\$ 8,409,144</u>	<u>\$ 7,586,853</u>	<u>\$ 5,734,503</u>

The accompanying notes are an integral part of these financial statements.

**Roman Catholic Diocese of Gaylord  
Deposit and Loan Program**

STATEMENTS OF CASH FLOWS

Years ended June 30,

	2019	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Change in net assets	\$ 822,291	\$ 1,852,350	\$ 1,534,838
Adjustments to reconcile change in net assets to net cash from operating activities			
Net (gain) loss on investments	(859,181)	(1,703,974)	(1,686,858)
Investment income reinvested, net	(613,025)	(658,669)	(448,410)
Increase (decrease) in accounts payable	(1,570)	1,158	412
(Increase) decrease in accounts receivable	20,906	(20,906)	-
(Increase) decrease in accrued interest receivable	<u>(5,735)</u>	<u>6,158</u>	<u>45,650</u>
Net cash flows from operating activities	<u>(636,314)</u>	<u>(523,883)</u>	<u>(554,368)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Withdrawal from (deposit to) investments pool	9,000,000	400,000	(5,500,000)
Loan payments received	521,797	566,184	1,068,039
New loans distributed	<u>(3,066,911)</u>	<u>(140,466)</u>	<u>(705,933)</u>
Net cash flows from investing activities	<u>6,454,886</u>	<u>825,718</u>	<u>(5,137,894)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Net deposits (withdrawals) by Parishes and other Diocesan organizations	<u>(5,808,226)</u>	<u>(2,362,717)</u>	<u>7,508,046</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	10,346	(2,060,882)	1,815,784
Cash and cash equivalents, beginning of year	<u>3,020,104</u>	<u>5,080,986</u>	<u>3,296,790</u>
Cash and cash equivalents, end of year	<u>\$ 3,030,450</u>	<u>\$ 3,020,104</u>	<u>\$ 5,112,574</u>
Additional information			
Interest paid during the year	<u>\$ 743,527</u>	<u>\$ 597,405</u>	<u>\$ 554,853</u>

The accompanying notes are an integral part of these financial statements.

# Roman Catholic Diocese of Gaylord Deposit and Loan Program

## NOTES TO FINANCIAL STATEMENTS

### NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### *Organization*

The Roman Catholic Diocese of Gaylord Deposit and Loan Program (the "Program") provides a means whereby Parishes and other Diocesan organizations may make deposits with or borrow from the Program.

The Program was created by the Roman Catholic Diocese of Gaylord (the "Diocese") under the Catholic Bishop of Gaylord's corporation sole status. Its office is located within the Diocesan Pastoral Center offices in Gaylord, Michigan.

#### *Basis of Accounting*

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. The accounting principles and reporting practices used to prepare the accompanying financial statements are those set forth in Financial Accounting Standards Board Accounting Standards Codification Topic 958, *Not-for-Profit Entities*.

The Program reports information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

**Net Assets Without Donor Restrictions** - Net assets that are not subject to or are no longer subject to donor-imposed stipulations.

**Net Assets With Donor Restrictions** - Net assets whose use is limited by donor-imposed time and/or purpose restrictions. There were no net assets with donor restrictions for the years ended June 30, 2019, 2018 and 2017, respectively.

#### *Investments*

Investments in marketable equity securities with readily determinable fair values and investments in debt securities are valued at their fair value in the statements of financial position. Participation in investment pools are valued at the fair value of the underlying securities on a pro-rata basis. Realized and unrealized gains and losses are included in the change in net assets.

The Program participates in an investment pool sponsored by the Michigan Catholic Conference (the "MCC"). The Program is credited or charged for its pro-rata share of all income, gains, losses and expenses. Information on individual pool transactions is not available and, therefore, the statements of cash flows does not present proceeds on the sale or cash used to purchase investments, except for deposits to or withdrawals from the pool.



***Cash and Cash Equivalents***

For purposes of the statements of cash flows, the Program considers all unmanaged cash and highly liquid investments with initial maturities of three months or less to be cash equivalents. Amounts held in a pooled demand deposit account owned by the Diocese on behalf of the Program are classified as cash and cash equivalents, but amounts managed by the MCC for investment purposes are not.

***Use of Estimates in the Preparation of Financial Statements***

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 revenues and expenses during the reporting period. Actual amounts could differ from those estimates.

***Subsequent Events***

The Roman Catholic Diocese of Gaylord Deposit and Loan Program has evaluated subsequent events and transactions for potential recognition and disclosure through May 12, 2020, the date the financial statements were available to be issued.

***Market Losses***

The economy has experienced a significant downturn subsequent to year-end, resulting in market losses on investments. Management is not currently able to determine if these market losses will be other than temporary. Investment fair values could change by significant amounts in the near-term.

***COVID-19***

The Program believes it understands the risk associated with COVID-19. The Program is in the process of implementing risk mitigation tactics as to the risk of the impact of COVID-19 related to all aspects of the Program's business transactions with customers and vendors and human interaction within and outside of the Program. The effect of potential interruption of business operations is unknown at this time.

**NOTE B - RECLASSIFICATION**

In the year ended June 30, 2019, the Program adopted the provisions of Financial Accounting Standards Board ASU 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities. As a result, the Program's investment fees of \$73,464, \$83,150 and \$73,120 for the years ended June 30, 2019, 2018 and 2017, respectively, were reclassified against investment income.

NOTES TO FINANCIAL STATEMENTS - Continued

**NOTE C - 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, are comprised of the following at June 30:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Cash and cash equivalents	\$ 3,030,450	\$ 3,020,104	\$ 5,080,986
Investments in marketable securities	25,854,396	33,382,190	31,419,547
Loans due within one year	426,369	469,157	552,594
Accounts receivable	-	20,906	-
Accrued interest receivable	13,183	7,448	13,606
Less: deposits	<u>(26,727,123)</u>	<u>(32,535,349)</u>	<u>(34,898,067)</u>
Totals	<u>\$ 2,597,275</u>	<u>\$ 4,364,456</u>	<u>\$ 2,168,666</u>

**NOTE D - CASH AND CASH EQUIVALENTS**

The Program maintains its cash in a pooled account administered by the Roman Catholic Diocese of Gaylord. Each participant's share of the pooled account is displayed on its statement of financial position as cash and cash equivalents, or, in the case of an overdraft, as outstanding checks. At June 30, 2019, the Program's balance represented about 61% of the pool.

Some of the accounts exceed Federally insured limits resulting in uninsured balances for the entire pool of approximately \$4.6 million at June 30, 2019.

**NOTE E - INVESTMENTS**

Investments are stated at fair value and are summarized as follows as of June 30:

	<u>2019</u>		<u>2018</u>		<u>2017</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Investment Pool						
Money market funds	\$ 7,233,024	\$ 7,233,023	\$ 4,120,358	\$ 4,120,358	\$ 7,513,601	\$ 7,513,601
Stock mutual funds	10,365,240	12,469,596	17,185,856	19,402,250	12,038,779	13,724,086
Bond mutual funds	<u>6,152,723</u>	<u>6,151,777</u>	<u>10,052,366</u>	<u>9,859,582</u>	<u>10,243,043</u>	<u>10,181,860</u>
	<u>\$23,750,987</u>	<u>\$25,854,396</u>	<u>\$31,358,580</u>	<u>\$33,382,190</u>	<u>\$29,795,423</u>	<u>\$31,419,547</u>

NOTES TO FINANCIAL STATEMENTS - Continued

**NOTE F - LOANS**

The Program grants unsecured loans to Catholic Parishes and other Catholic organizations within the Diocese, which consists of a 21-county area in Northern Lower Michigan. Repayment terms vary. The interest rate of 4% for the years ended June 30, 2019, 2018 and 2017 was recommended by the Roman Catholic Diocese of Gaylord's Finance Council and approved by the Bishop.

A Parish and a Catholic School, each with loan balances in excess of \$830,000, account for approximately 77% of the total balance.

Loan payment schedules show principal payments to be received by the Program as follows:

<u>Years Ending June 30,</u>	<u>Amount</u>
2020	\$ 426,369
2021	433,867
2022	431,272
2023	398,009
2024	300,358
2025-2029	570,427
2030-2033	<u>3,677,936</u>
	<u>\$ 6,238,238</u>

**NOTE G - INTEREST BEARING DEPOSITS**

Interest bearing deposits are due on demand to Parishes and other Catholic organizations. The interest rate is 2% for the years ended June 30, 2018 and 2017, and an additional 1% for a total of 3% for the year ended June 30, 2019 and is paid to depositors semi-annually. Interest of \$743,527, \$597,405 and \$554,853 was accrued and paid to Parishes and other Catholic organizations during the years ended June 30, 2019, 2018 and 2017, respectively.

**NOTE H - RELATED PARTY TRANSACTIONS AND ACCOUNTS**

All participants in the Program are Parishes or other Catholic organizations under the control of or otherwise affiliated with the Bishop of Gaylord. The Program is administered by the Roman Catholic Diocese of Gaylord Pastoral Center ("Pastoral Center").

The Pastoral Center had deposits with the Program of \$710,725, \$595,740 and \$583,668 on June 30, 2019, 2018 and 2017, respectively. Interest expense for these deposits for the years ended June 30, 2019, 2018 and 2017 was \$18,531, \$11,761 and \$11,216, respectively.

The Program pays a fee to the Pastoral Center for administrative support. The administrative support fee for the years ended June 30, 2019, 2018 and 2017 was \$65,000.

## NOTE I - INCOME TAXES

The Roman Catholic Diocese of Gaylord and thereby the Program are exempt from Federal income taxes under Internal Revenue Code Section 501(c)(3). The Roman Catholic Diocese of Gaylord has also been classified as other than a private foundation within the meaning of 509(a). Accordingly, no provision for income taxes has been included in the accompanying financial statements.

As a religious organization, the Roman Catholic Diocese of Gaylord is not required to file information returns with the Internal Revenue Service, and Internal Revenue Code Section 7611 severely limits the Internal Revenue Service's ability to initiate an inquiry or examination. Thus, the Program believes it does not have any reasonable exposure to Internal Revenue Service examinations.

## NOTE J - FAIR VALUE MEASUREMENTS

Financial Accounting Standards Board Accounting Standards Codification Topic 820-10, *Fair Value Measurements*, establishes 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 below:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Program 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; and
- 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 asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2019.

Michigan Catholic Conference ("*MCC*") *Investment Pool Mutual funds*: Valued at the net asset value ("*NAV*") of underlying shares held on behalf of the Program at year-end.

NOTES TO FINANCIAL STATEMENTS - Continued

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Program believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Program's assets at fair value:

<u>Level 2 Assets at Fair Value as of June 30.</u>			
	<u>2019</u>	<u>2018</u>	<u>2017</u>
MCC Investment Pool Mutual Funds			
Cash & Cash Equivalents	\$ 7,233,023	\$ 4,120,358	\$ 7,513,601
Equity Growth	1,645,779	2,119,139	2,369,262
Equity Value	1,478,915	1,986,064	2,297,496
Equity Mid/Small Cap	704,826	1,123,552	1,005,020
Equity Large Cap	3,059,654	4,141,855	2,861,480
Equity International	3,078,409	5,172,517	4,483,585
Equity Balanced	374,693	1,564,081	707,243
Bond - Intermediate	2,127,320	3,295,042	-
Bond - Short-Term	<u>6,151,777</u>	<u>9,859,582</u>	<u>10,181,860</u>
Total	<u>\$25,854,396</u>	<u>\$33,382,190</u>	<u>\$31,419,547</u>