

**Roman Catholic Diocese of Gaylord  
Pastoral Center**

FINANCIAL STATEMENTS  
AND REPORT OF INDEPENDENT  
CERTIFIED PUBLIC ACCOUNTANTS

June 30, 2019 and 2018

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## REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

The Most Reverend Steven J. Raica  
Bishop of the Diocese of Gaylord  
Roman Catholic Diocese of Gaylord Pastoral Center

We have audited the accompanying financial statements of the ***Roman Catholic Diocese of Gaylord Pastoral Center*** (the "Diocese"), which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of activities, 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 Diocese'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 Diocese 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.

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 Roman Catholic Diocese of Gaylord Pastoral Center as of June 30, 2019 and 2018, 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 - Funds Presented***

As discussed in Note A to the financial statements, the financial statements being presented are only for funds for which the Roman Catholic Diocese of Gaylord Pastoral Center retains operational control and do not reflect the assets, liabilities, and results of operations of parishes, schools, and other diocesan programs and organizations. Accordingly, the accompanying financial statements are not intended to present the financial position of the parishes, schools, and other diocesan programs and organizations as of June 30, 2019 and 2018 or the changes in their net assets and cash flows for the years then ended, in conformity 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 Diocese 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 and 2018. Our opinion is not modified with respect to this matter.

***Other Matter***

***Report on Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information on pages 21 - 22 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Dennis, Gartland & Niergarth*

**Roman Catholic Diocese of Gaylord  
Pastoral Center**

STATEMENTS OF FINANCIAL POSITION

June 30,

	2019	2018
<b>ASSETS</b>		
Cash and cash equivalents	\$ 1,965,599	\$ 1,774,279
Investments in marketable securities	11,235,712	10,601,462
Deposits with Deposit and Loan Program	710,725	595,740
Accounts receivable	456,836	539,088
Pledges receivable, net	1,837,061	1,794,721
Inventory	274,172	274,856
Prepaid expense	-	3,600
Total current assets	16,480,105	15,583,746
Land, buildings and equipment, net of accumulated depreciation	2,531,218	2,568,047
Total assets	\$19,011,323	\$18,151,793
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts payable	\$ 179,260	\$ 175,972
Deferred revenue	111,050	100,000
Accrued retirement and payroll withholdings	114,583	108,670
Due to other organizations	182,571	181,751
Total liabilities	587,464	566,393
<b>NET ASSETS</b>		
Without donor restrictions		
Designated	11,598,583	11,620,251
Undesignated	1,965,722	1,202,273
With donor restrictions for use in future years	3,594,009	3,534,438
With donor restrictions in perpetuity		
Perpetual care of cemetery	418,465	413,017
Endowments	847,080	815,421
Total net assets	18,423,859	17,585,400
Total liabilities and net assets	\$19,011,323	\$18,151,793

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

**Roman Catholic Diocese of Gaylord  
Pastoral Center**

STATEMENTS OF ACTIVITIES

Years ended June 30,

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
<b>SUPPORT AND REVENUE</b>						
CSA campaign	\$ -	\$ 3,557,689	\$ 3,557,689	\$ -	\$ 3,496,377	\$ 3,496,377
Professional fees	441,545	-	441,545	453,586	-	453,586
Grants	213,475	-	213,475	188,000	-	188,000
Cemetery income	74,607	5,448	80,055	61,120	-	61,120
Center for Catholic studies fees	106,221	-	106,221	277,097	-	277,097
Conference and stipends fees	68,544	-	68,544	49,730	-	49,730
Contributions	780,371	-	780,371	603,215	-	603,215
Investment income, net of fees	245,133	-	245,133	215,538	3,465	219,003
Net gain (loss) on investment	357,634	31,659	389,293	202,709	57,073	259,782
Unrealized gain (loss) on investments	20,823	-	20,823	331,560	-	331,560
Gain (loss) on disposal of property	3,028	-	3,028	-	-	-
Program and other revenue	40,547	-	40,547	129,117	-	129,117
Assets released from restrictions	<u>3,498,118</u>	<u>(3,498,118)</u>	<u>-</u>	<u>3,373,033</u>	<u>(3,373,033)</u>	<u>-</u>
Total support and revenue	<u>5,850,046</u>	<u>96,678</u>	<u>5,946,724</u>	<u>5,884,705</u>	<u>183,882</u>	<u>6,068,587</u>
<b>EXPENSES</b>						
Program services						
Sanctifying	1,583,849	-	1,583,849	1,412,946	-	1,412,946
Teaching	<u>1,229,863</u>	<u>-</u>	<u>1,229,863</u>	<u>1,467,905</u>	<u>-</u>	<u>1,467,905</u>
Total program services	<u>2,813,712</u>	<u>-</u>	<u>2,813,712</u>	<u>2,880,851</u>	<u>-</u>	<u>2,880,851</u>
Supporting services						
Governing	1,837,251	-	1,837,251	1,756,414	-	1,756,414
Stewardship	<u>140,024</u>	<u>-</u>	<u>140,024</u>	<u>137,079</u>	<u>-</u>	<u>137,079</u>
Total supporting services	<u>1,977,275</u>	<u>-</u>	<u>1,977,275</u>	<u>1,893,493</u>	<u>-</u>	<u>1,893,493</u>
Total expenses	<u>4,790,987</u>	<u>-</u>	<u>4,790,987</u>	<u>4,774,344</u>	<u>-</u>	<u>4,774,344</u>
<b>CHANGES IN NET ASSETS</b>	1,059,059	96,678	1,155,737	1,110,361	183,882	1,294,243
<b>NET ASSETS, beginning of year</b>	12,822,524	4,762,876	17,585,400	11,762,163	4,578,994	16,341,157
Transfer in (out)	<u>(317,278)</u>	<u>-</u>	<u>(317,278)</u>	<u>(50,000)</u>	<u>-</u>	<u>(50,000)</u>
<b>NET ASSETS, end of year</b>	<u>\$ 13,564,305</u>	<u>\$ 4,859,554</u>	<u>\$ 18,423,859</u>	<u>\$ 12,822,524</u>	<u>\$ 4,762,876</u>	<u>\$ 17,585,400</u>

-5- The accompanying notes are an integral part of these financial statements.

**Roman Catholic Diocese of Gaylord  
Pastoral Center**

**STATEMENT OF FUNCTIONAL EXPENSES**

Year ended June 30, 2019

	Program Services			Supporting Services			Total Functional Expenses
	Sanctifying	Teaching	Total	Governing	Stewardship	Total	
Salaries	\$ 132,193	\$ 517,412	\$ 649,605	\$ 661,960	\$ 62,184	\$ 724,144	\$1,373,749
Employee benefits	27,746	120,099	147,845	232,491	33,628	266,119	413,964
Taxes	7,082	31,417	38,499	44,612	4,474	49,086	87,585
Total salaries, benefits, and taxes	167,021	668,928	835,949	939,063	100,286	1,039,349	1,875,298
Donations to others	619,588	46,830	666,418	-	-	-	666,418
Seminarian	299,841	-	299,841	-	-	-	299,841
Priest and pastoral care	310,893	13,981	324,874	4,830	-	4,830	329,704
Instructional and program	35,463	139,676	175,139	25,298	-	25,298	200,437
Bookstore and Catholic studies	-	56,980	56,980	-	-	-	56,980
Conferences, stipends	40,345	7,752	48,097	9,594	-	9,594	57,691
Printing and production	7,907	156,391	164,298	1,572	8,897	10,469	174,767
Capital projects	-	8,861	8,861	-	-	-	8,861
Equipment repair & maintenance	271	358	629	196,618	-	196,618	197,247
Utilities, insurance and taxes	1,694	-	1,694	99,852	-	99,852	101,546
Office administration	6,780	52,423	59,203	115,212	30,076	145,288	204,491
Professional services	52,437	6,224	58,661	115,142	-	115,142	173,803
Travel, mileage, education and meetings	29,467	58,559	88,026	58,614	765	59,379	147,405
Uncollectible pledges	-	-	-	44,732	-	44,732	44,732
Scholarships	-	12,900	12,900	-	-	-	12,900
Monuments, markers, foundation	9,668	-	9,668	-	-	-	9,668
Other	2,474	-	2,474	-	-	-	2,474
Total expenses before depreciation	1,583,849	1,229,863	2,813,712	1,610,527	140,024	1,750,551	4,564,263
Depreciation	-	-	-	226,724	-	226,724	226,724
Total expenses	<u>\$1,583,849</u>	<u>\$1,229,863</u>	<u>\$2,813,712</u>	<u>\$1,837,251</u>	<u>\$ 140,024</u>	<u>\$1,977,275</u>	<u>\$4,790,987</u>

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

**Roman Catholic Diocese of Gaylord  
Pastoral Center**

**STATEMENT OF FUNCTIONAL EXPENSES**

Year ended June 30, 2018

	Program Services			Supporting Services			Total Functional Expenses
	Sanctifying	Teaching	Total	Governing	Stewardship	Total	
Salaries	\$ 127,834	\$ 669,310	\$ 797,144	\$ 629,941	\$ 55,424	\$ 685,365	\$1,482,509
Employee benefits	30,965	118,486	149,451	209,003	28,329	237,332	386,783
Taxes	6,399	29,712	36,111	42,916	3,993	46,909	83,020
Total salaries, benefits, and taxes	165,198	817,508	982,706	881,860	87,746	969,606	1,952,312
Donations to others	610,783	47,430	658,213	-	-	-	658,213
Seminarian	285,104	-	285,104	-	-	-	285,104
Priest and pastoral care	149,174	14,721	163,895	12,893	-	12,893	176,788
Instructional and program	43,870	223,036	266,906	6,086	-	6,086	272,992
Bookstore and Catholic studies	-	59,908	59,908	-	-	-	59,908
Conferences, stipends	37,422	7,057	44,479	10,802	-	10,802	55,281
Printing and production	567	160,717	161,284	1,516	8,299	9,815	171,099
Capital projects	-	6,396	6,396	-	-	-	6,396
Equipment repair & maintenance	8,900	1,589	10,489	201,112	-	201,112	211,601
Utilities, insurance and taxes	1,980	-	1,980	97,994	-	97,994	99,974
Office administration	6,243	51,575	57,818	237,529	39,776	277,305	335,123
Professional services	55,814	15,237	71,051	58,125	-	58,125	129,176
Travel, mileage, education and meetings	28,326	54,145	82,471	40,615	1,258	41,873	124,344
Scholarships	-	10,495	10,495	-	-	-	10,495
Monuments, markers, foundation	11,520	-	11,520	-	-	-	11,520
Other	8,045	(1,909)	6,136	-	-	-	6,136
Total expenses before depreciation	1,412,946	1,467,905	2,880,851	1,548,532	137,079	1,685,611	4,566,462
Depreciation	-	-	-	207,882	-	207,882	207,882
Total expenses	<u>\$1,412,946</u>	<u>\$1,467,905</u>	<u>\$2,880,851</u>	<u>\$1,756,414</u>	<u>\$ 137,079</u>	<u>\$1,893,493</u>	<u>\$4,774,344</u>

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



**Roman Catholic Diocese of Gaylord  
Pastoral Center**

STATEMENTS OF CASH FLOWS

Years ended June 30,

	<u>2019</u>	<u>2018</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 1,155,737	\$ 1,294,243
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation expense	226,724	207,882
Investment income reinvested, net of investment fees	(219,816)	(194,359)
Net gain on sales of investment of marketable securities	(389,292)	(259,782)
Unrealized gain on investments in marketable securities	(20,823)	(331,400)
Decrease in pledges and other receivables	39,912	70,658
Decrease in other assets	4,283	66,199
Increase in accounts payable and other liabilities	<u>21,070</u>	<u>37,976</u>
Net cash flows from operating activities	<u>817,795</u>	<u>891,417</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of property and equipment	(189,895)	(87,473)
Deposits to Deposit and Loan Program, net	(114,983)	(12,073)
MCC investment purchases	(4,319)	(5,274)
Transfer to Northern Michigan Catholic Foundation	<u>(317,278)</u>	<u>(50,000)</u>
Net cash flows used by investing activities	<u>(626,475)</u>	<u>(154,820)</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	191,320	736,597
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	<u>1,774,279</u>	<u>1,037,682</u>
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<u><u>\$ 1,965,599</u></u>	<u><u>\$ 1,774,279</u></u>

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

**Roman Catholic Diocese of Gaylord  
Pastoral Center**

NOTES TO FINANCIAL STATEMENTS

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Organization***

The Roman Catholic Diocese of Gaylord was established on July 20, 1971 by His Holiness Pope Paul VI. Twenty-one counties, which originally had been part of the Diocese of Saginaw or the Diocese of Grand Rapids, were joined to form the Roman Catholic Diocese of Gaylord. Located in the Northern Lower Peninsula of Michigan, the Diocese encompasses of 75 Parishes, 14 Catholic Schools, and other related institutions.

These financial statements report on the Roman Catholic Diocese of Gaylord Pastoral Center (the "Diocese") located in Gaylord, Michigan. The Diocese houses the office of the Bishop, who is the pastoral leader of the Diocese of Gaylord, and its administrative head. The Diocese performs a number of administrative and program service functions to aid the Bishop in carrying out the mission of the church.

***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 ("FASB ASC") No. 958, *Not-For-Profit Entities*.

***Financial Statement Presentation***

The accompanying financial statements have been prepared on the accrual basis of accounting and accordingly, reflect all significant receivables, payables and other liabilities. The Diocese 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.

Revenue and support are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Expirations of donor restrictions on the net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

## NOTES TO FINANCIAL STATEMENTS - Continued

### ***Reporting Entity***

The Diocese and each of the related Parishes, schools, and programs are under the common control of the Bishop of Gaylord as corporation sole. Consequently, the Diocese does not have a controlling financial interest in any of the Parishes, schools, or programs, and combined financial statements are not presented.

The accompanying financial statements exclude the assets, liabilities, activities and cash flows of the Roman Catholic Diocese of Gaylord Deposit and Loan Program. Accordingly, these financial statements do not present the combined financial position of the Diocese and this related program.

### ***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 changes in net assets.

The Diocese participates in investment pools sponsored by the Michigan Catholic Conference and Mission Diocese Fund, LLC. The Diocese 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 statement of cash flows does not present proceeds on the sale or cash used to purchase investments.

### ***Contributions***

Monetary and non-monetary contributions received, including unconditional promises to give, are generally recognized as revenue in the period received at their fair values. Conditional promises to give are recognized when the conditions are substantially met.

Support arising from contributed services of certain religious and lay personnel has not been recorded in the financial statements as the rendering of such services does not involve creation of non-financial assets, and such services would not typically be procured if not provided by donation.

### ***Cash Equivalents***

For purposes of the statements of cash flows, the Diocese considers all unmanaged cash and highly liquid investments with initial maturities of three months or less to be cash equivalents. Amounts held in the Roman Catholic Diocese of Gaylord Deposit and Loan Program and by investment advisors for investment purposes are not classified as cash equivalents.

### ***Inventories***

Inventory is valued at the lower-of-cost (first-in, first-out) or market.

***Land, Buildings and Equipment***

The Diocese follows the practice of capitalizing all expenditures for the acquisition of land, buildings and equipment which have an estimated useful life of three or more years. The fair value of donated fixed assets is similarly capitalized. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets. Estimated useful lives are as follows:

Buildings	40 years
Automobiles	5 years
Furniture and equipment	3-10 years

***Catholic Services Appeal***

Collections from the Catholic Services Appeal ("CSA") Fund Drive are allocated to Diocesan operations and programs, and to provide for local and national charitable contributions.

The targeted amount of CSA donations for the following year's fund drive are recorded as with donor restrictions. The targeted amount of the CSA Fund Drive donations for each Parish is computed based upon the following two factors:

- (a) The Parishes' ordinary income which consists of Sunday and Holy Day offerings, loose plate collections and children's offerings; and,
- (b) Parish parishioner count.

An overall average Diocesan target for each factor is developed. The individual Parish target is based on the average factors of (a) and (b) described above.

***Pledges Receivable***

CSA pledges are recorded in the statement of financial position when the targeted amount is determined. All pledges are expected to be collected within one year. The Diocese provides for probable uncollectible amounts greater than one year through a charge to bad debt expense and a credit to an allowance for doubtful accounts. Pledges receivable at June 30, 2019 and 2018 are net of allowances for doubtful accounts of \$220,010 and \$267,585, respectively.

***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.

***Functional Allocation of Expenses***

The costs of program and supporting services activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Salaried labor and overhead expenses have been allocated among program and supporting activities based upon job descriptions. Overhead was allocated based on a variety of factors related to labor and usage. Governing expenses (within supporting services) include both administrative costs of the Diocese as well as the cost of administrative services provided to Parishes and schools.

***Subsequent Events***

The Roman Catholic Diocese of Gaylord Pastoral Center 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 Diocese believes it understands the risk associated with COVID-19. The Diocese 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 Diocese's business transactions with customers and vendors and human interaction within and outside of the Diocese. The effect of potential interruption of business operations is unknown at this time.

**NOTE B - RECLASSIFICATIONS**

In the year ended June 30, 2019, the Diocese 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 Diocese's investment fees of \$33,269 and \$31,458 for the years ended June 30, 2019 and 2018, respectively, were reclassified against investment income.

The Diocese elected to separate the Oakwood Cemetery fund from the Operating fund during the year ended June 30, 2019. As a result, the Oakwood Cemetery fund's beginning net deficit balance of \$2,429 was reclassified from the Operating fund's original beginning net asset balance of \$5,111,667. This resulted in the Operating fund's beginning net asset balance being changed to \$5,114,096.

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>
Cash	\$ 1,965,599	\$ 1,774,279
Investments in marketable securities	11,235,712	10,601,462
Deposits with Deposit and Loan Program	710,725	595,740
Accounts receivable	456,836	539,088
Pledges receivable, net	1,837,061	1,794,721
Less investments with donor restrictions		
Olson Fund	(692,999)	(668,202)
Catholic Extension Seminarian Education	<u>(190,401)</u>	<u>(185,280)</u>
Totals	<u>\$16,205,933</u>	<u>\$15,305,290</u>

**NOTE D - CASH AND CASH EQUIVALENTS**

The Diocese maintains pooled bank accounts, which include cash owned by the Roman Catholic Diocese of Gaylord Deposit and Loan Program. Each entity reports its portion of the pooled account on its respective balance sheet as cash and cash equivalents. The Diocese portion of the pooled cash and cash equivalents was \$1,965,599 (39% of the pool) and \$1,774,279 (37% of the pool) for the years ended June 30, 2019 and 2018, respectively.

Some of the accounts exceed Federally insured limits, resulting in uninsured balances for the entire pool of approximately \$4.6 million and \$4.2 at June 30, 2019 and 2018, respectively.

**NOTE E - INVESTMENTS IN MARKETABLE SECURITIES**

Investments comprise the following:

	<u>2019</u>		<u>2018</u>	
	<u>Cost</u>	<u>Market Value</u>	<u>Cost</u>	<u>Market Value</u>
Money market mutual funds	\$ 196,321	\$ 196,321	\$ 190,407	\$ 190,407
Stock mutual funds	5,813,554	6,606,473	5,299,433	6,185,027
Bond mutual funds	<u>4,434,276</u>	<u>4,432,918</u>	<u>4,344,113</u>	<u>4,226,028</u>
	<u>\$10,444,151</u>	<u>\$11,235,712</u>	<u>\$ 9,833,953</u>	<u>\$10,601,462</u>

NOTES TO FINANCIAL STATEMENTS - Continued

Investment custody and management is performed by the Michigan Catholic Conference and Mission Diocese Fund, LLC, who manage investment pools on behalf of participating Diocese and other Catholic organizations. Amounts reported represent the pro-rata interest in the underlying securities cost, fair value, realized and unrealized gains and losses, investment income and expense.

**NOTE F - FIXED ASSETS**

The composition of land, buildings and equipment is as follows:

	<u>2019</u>	<u>2018</u>
Land and buildings	\$ 5,164,016	\$ 5,116,253
Furniture and equipment	1,437,272	1,320,519
Automobiles	<u>86,349</u>	<u>85,055</u>
Total land, buildings and equipment, at cost	6,687,637	6,521,827
Less accumulated depreciation	<u>(4,156,419)</u>	<u>(3,953,780)</u>
Total land, building and equipment, net of accumulated depreciation	<u>\$ 2,531,218</u>	<u>\$ 2,568,047</u>

Depreciation expense amounted to \$226,724 and \$207,882 for the years ended June 30, 2019 and 2018, respectively.

**NOTE G - FAIR VALUE MEASUREMENTS**

FASB ASC No. 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 Diocese 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.

NOTES TO FINANCIAL STATEMENTS - Continued

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.

*Pool Mutual funds:* Valued at the net asset value ("NAV") of underlying shares held at year-end.

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 Plan 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 Plan's assets at fair value:

	<u>Level 2 Assets at Fair Value as of June 30,</u>	
	<u>2019</u>	<u>2018</u>
Pool Mutual Funds		
Money Market	\$ 196,320	\$ 190,407
Equity Mid/Small Cap	475,076	479,025
Equity Large Cap	1,708,929	1,559,699
Asset Allocation Fund	520,131	505,141
Equity Value	852,017	758,462
Equity Growth	959,002	850,156
Equity International	2,091,319	2,032,544
Bond-Intermediate	1,124,139	1,048,848
Bond-Short-Term	<u>3,308,779</u>	<u>3,177,180</u>
Total	<u>\$11,235,712</u>	<u>\$10,601,462</u>



**NOTE H - ENDOWMENTS**

The Diocese endowment consists of multiple funds established for a variety of purposes. Its endowment consist of donor restricted donations, and net investment appreciation/depreciation. Net assets associated with endowment funds are classified and reported based on the existence of donor-imposed restrictions.

Endowment net assets are classified as the following as of June 30:

	<u>2019</u>	<u>2018</u>
With donor restrictions for use in future years	\$ 36,320	\$ 38,061
With donor restrictions in perpetuity		
Olson Fund	656,679	630,141
Catholic Extension	<u>190,401</u>	<u>185,280</u>
	<u>\$ 883,400</u>	<u>\$ 853,482</u>

The net changes in endowment net assets with donor restrictions are as follows for June 30:

	<u>2019</u>	<u>2018</u>
Endowment net assets, beginning of year	\$ 853,482	\$ 797,378
Investment income	<u>29,918</u>	<u>56,104</u>
Endowment net assets, end of year	<u>\$ 883,400</u>	<u>\$ 853,482</u>

***Return Objectives and Risk Parameters***

The Bishop has adopted investment and spending policies for each category of endowment assets that attempts to obtain the best total return on its assets consistent with low risk and preservation of principal. The Bishop's objective is for short-term investments (less than three years) to receive a total return better than could be received through a typical savings account, with minimum risk of principal. The goal for long-term assets is to receive a total return higher than the rate of inflation. Assets must also be invested in moral and socially responsible investments.

***Strategies Employed for Achieving Objectives***

The Diocese is the beneficiary of endowment funds held by the Northern Michigan Catholic Foundation; such funds are subject to Foundation objectives and strategies, which are consistent with those of the Diocese.

To meet investment objectives for remaining endowment funds, the Bishop has set a target asset allocation of 50% fixed income and 50% equity, with periodic review and rebalancing when target percentages exceed +/- 10%. Investments are held with the Michigan Catholic Conference and Mission Diocese Fund to help insure they are moral and socially responsible.

***Spending Policy and How the Investment Objectives Relate to Spending Policy***

For the Olson Fund, capital gains, net of capital losses are required to be added to the corpus of the fund. Cumulative net capital gains totaling \$448,097, have been added to the original corpus of \$208,582. Interest and dividends are added to the spendable net assets without donor restrictions of the endowment.

For the Catholic Extension Seminarian Education Endowment, the original corpus from contributions solicited by the Diocese and partially matched by Catholic Extension is with donor restrictions. Net investment income and gains are with donor restrictions until used by the Diocese for the education of seminarians.

**NOTE I - INTERESTS IN NET ASSETS OF NORTHERN MICHIGAN CATHOLIC FOUNDATION**

The Diocese is the beneficiary under established agency endowment funds with the Northern Michigan Catholic Foundation ("Foundation"); such funds are subject to Foundation objectives and strategies. These assets are reported exclusively on the books of the Foundation.

These funds provide income to the Diocese in perpetuity. The Diocese is provided with the option of receiving a distribution of the investment income (interest and dividends) or reinvesting it. Distributions to the Diocese from the agency endowment funds are limited by the Foundation's distribution policies; they are included in the Statements of Activities as contributions.

The market value of these agency endowment funds held by the Foundation was \$11,752,607 and \$9,258,095 at June 30, 2019 and 2018, respectively. Distributions to the Diocese from the Foundation for the years ended June 30, 2019 and 2018 were \$66,393 and \$71,455, respectively.

**NOTE J - RETIREMENT PLANS**

***Lay Employees' Plan***

The Diocese contributes to a cost-sharing multiple-employer, State-wide pension plan which covers substantially all lay employees. The plan is administered by the Michigan Catholic Conference ("MCC"). Contributions to the plan are based on a percentage (determined annually by MCC) of covered employees' wages and amounted to \$98,623 and \$97,916 for the years ended June 30, 2019 and 2018, respectively.

Information as to the actuarial present value of vested and nonvested accumulated plan benefits, the plan's net assets available for benefits attributable to employees of the Diocese and other plan data are not available since the MCC does not compute such information for each participating employer.

## NOTES TO FINANCIAL STATEMENTS - Continued

### ***Priests' Plan***

Effective January 1, 2004, the Bishop established the Diocese of Gaylord Priests' Retirement Plan and Trust (the "Plan") for the purpose of accumulating and distributing the money set aside for the benefit of priests who are ordained or incardinated in the Diocese of Gaylord and who provide services within the Diocese as a priest. The Plan is funded by the Diocese and Parishes.

Retirement benefits are based on age and years of service at retirement. The Plan also provides a post-retirement medical benefit.

The following information, which includes the Diocese as well as related Parishes and other organizations, is based on the most recent actuarial review conducted as of July 1, 2018.

Actuarial accrued liability	\$ 6,422,282
Market value of plan assets	9,228,549
Overfunded accrued liability	2,806,267
Interest rate	6.5%
Annual post-retirement premium increase	6.0%

### ***Post-Retirement Benefits***

In connection with the establishment of the Priests' Plan described above, the Diocese has created a Priests' Health and Welfare Fund (the "Fund") for the purpose of providing support to priests who are not eligible to participate in the retirement plan or who otherwise have special needs. The Fund does not provide any specified level of benefit and, therefore, the benefits that will actually be paid are contingent upon the outcome of unknown future events. This amount is not subject to reasonable estimation and no liability has been established in these financial statements. However, the net assets designated for future use within the fund totaled \$2,929,178 as of June 30, 2019.

## **NOTE K - CONTINGENCIES AND COMMITMENTS**

### ***Other Organizations***

As indicated in Note A, the assets, liabilities, activities and cash flows of the Parishes, schools, programs and other Catholic organizations are not part of the accompanying financial statements. Management of the Diocese is not aware of any commitments or contingencies of these other Diocesan organizations that would have a material impact on these financial statements.

## **NOTE L - SELF-INSURANCE PROGRAMS**

The Diocese participates in the Michigan Catholic Conference Protected Self-Insurance Program (the "Program"). The Program provides coverage for losses of property, liability and operation of Diocesan vehicles. Insurance expense representing the Diocese's contribution to the Program for the years ended June 30, 2019 and 2018 was \$48,137 and \$43,943, respectively. Premiums paid by all Parishes in excess of reserves for claims are made available to the Diocese.

## NOTES TO FINANCIAL STATEMENTS - Continued

The Diocese also self insures for unemployment and workers' compensation, as administered by the Michigan Catholic Conference. Potential claims are not expected to have a significant impact on the financial statements.

### *Michigan No-Fault Self-Insurance Loss Reserve*

The Diocese is authorized by the Michigan Department of Insurance and Financial Services to self-insure no-fault risk for its vehicles for the 12 month certification period ending June 30, 2019. An authorized self-insurer is required to establish a fully funded loss reserve to pay claims which are anticipated in, or submitted for payment during, the certification period, as well as to pay claims which have been incurred and submitted before then but have not yet been paid. The loss reserve for the Diocese has been determined by a qualified actuary and fully funded as of the commencement of the current certification period. The loss reserve is held at a financial institution and has a balance of \$18,104 as of June 30, 2019.

## **NOTE M - INCOME TAXES**

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

As a religious organization, the Diocese 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 Diocese believes it does not have any reasonable exposure to Internal Revenue Service examinations.

**SUPPLEMENTARY FINANCIAL INFORMATION**

**Roman Catholic Diocese of Gaylord  
Pastoral Center**

**SCHEDULE OF FINANCIAL POSITION BY FUND CLASSIFICATION**

June 30, 2019  
(With Comparative Totals for June 30, 2018)

	Expendable Funds					Nonexpendable Funds				Total	2018 Total
	Operating	Reserve	Oakwood Cemetery	Priests	Bishop's Donations	Trust and Agency	Olson Fund	Endowment	Fixed Assets		
<b>ASSETS</b>											
Cash and cash equivalents	\$ 1,729,997	\$ 202,567	\$ (592,307)	\$ 319,980	\$ 25,492	\$ 182,571	\$ 9,604	\$ -	\$ 87,695	\$ 1,965,599	\$ 1,774,279
Investments in marketable securities	2,470,070	4,808,826	589,878	2,493,215	-	-	683,395	190,328	-	11,235,712	10,601,462
Investment in Deposit and Loan Program	-	710,652	-	-	-	-	-	73	-	710,725	595,740
Accounts receivable	37,516	302,955	-	116,365	-	-	-	-	-	456,836	539,088
Pledges receivable	1,837,061	-	-	-	-	-	-	-	-	1,837,061	1,794,721
Prepaid Expense	-	-	-	-	-	-	-	-	-	-	3,600
Inventory	44,303	-	229,869	-	-	-	-	-	-	274,172	274,856
<b>Total current assets</b>	<b>6,118,947</b>	<b>6,025,000</b>	<b>227,440</b>	<b>2,929,560</b>	<b>25,492</b>	<b>182,571</b>	<b>692,999</b>	<b>190,401</b>	<b>87,695</b>	<b>16,480,105</b>	<b>15,583,746</b>
Land, buildings and equipment, net of accumulated depreciation	-	-	-	-	-	-	-	-	2,531,218	2,531,218	2,568,047
<b>Total assets</b>	<b>\$ 6,118,947</b>	<b>\$ 6,025,000</b>	<b>\$ 227,440</b>	<b>\$ 2,929,560</b>	<b>\$ 25,492</b>	<b>\$ 182,571</b>	<b>\$ 692,999</b>	<b>\$ 190,401</b>	<b>\$ 2,618,913</b>	<b>\$ 19,011,323</b>	<b>\$ 18,151,793</b>
<b>LIABILITIES AND NET ASSETS</b>											
<b>LIABILITIES</b>											
Accounts payable	\$ 178,878	\$ -	\$ -	\$ 382	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 179,260	\$ 175,972
Deferred revenue	111,050	-	-	-	-	-	-	-	-	111,050	100,000
Accrued retirement and payroll withholdings	114,583	-	-	-	-	-	-	-	-	114,583	108,670
Due to other organizations	-	-	-	-	-	182,571	-	-	-	182,571	181,751
<b>Total liabilities</b>	<b>404,511</b>	<b>-</b>	<b>-</b>	<b>382</b>	<b>-</b>	<b>182,571</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>587,464</b>	<b>566,393</b>
<b>NET ASSETS</b>											
Without donor restrictions											
Designated											
Future operating costs	-	710,652	-	2,929,178	-	-	-	-	-	3,639,830	3,826,585
Capital purchases	-	-	-	-	-	-	-	-	2,618,913	2,618,913	2,885,611
Bishop's donations	-	-	-	-	25,492	-	-	-	-	25,492	25,401
Diocesan reserve	-	5,314,348	-	-	-	-	-	-	-	5,314,348	4,882,654
Undesignated	2,156,747	-	(191,025)	-	-	-	-	-	-	1,965,722	1,202,273
With donor restrictions for use in future years	3,557,689	-	-	-	-	-	36,320	-	-	3,594,009	3,534,438
With donor restrictions in perpetuity											
Perpetual care of cemetery	-	-	418,465	-	-	-	-	-	-	418,465	413,017
Olson Fund	-	-	-	-	-	-	656,679	-	-	656,679	630,141
Catholic Extension Seminarian Education	-	-	-	-	-	-	-	190,401	-	190,401	185,280
<b>Total net assets</b>	<b>5,714,436</b>	<b>6,025,000</b>	<b>227,440</b>	<b>2,929,178</b>	<b>25,492</b>	<b>-</b>	<b>692,999</b>	<b>190,401</b>	<b>2,618,913</b>	<b>18,423,859</b>	<b>17,585,400</b>
<b>Total liabilities and net assets</b>	<b>\$ 6,118,947</b>	<b>\$ 6,025,000</b>	<b>\$ 227,440</b>	<b>\$ 2,929,560</b>	<b>\$ 25,492</b>	<b>\$ 182,571</b>	<b>\$ 692,999</b>	<b>\$ 190,401</b>	<b>\$ 2,618,913</b>	<b>\$ 19,011,323</b>	<b>\$ 18,151,793</b>

**Roman Catholic Diocese of Gaylord  
Pastoral Center**

**SCHEDULE OF ACTIVITIES BY FUND CLASSIFICATION**

Year Ended June 30, 2019

(With Comparative Totals for the Year Ended June 30, 2018)

	Expendable Funds					Nonexpendable Funds			Total	2018 Total
	Operating	Reserve	Oakwood Cemetery	Priests	Bishop's Donations	Olson Fund	Endowment	Fixed Assets		
<b>SUPPORT AND REVENUE</b>										
CSA campaign	\$ 3,557,689	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,557,689	\$ 3,496,377
Professional fees	441,545	-	-	-	-	-	-	-	441,545	453,586
Grants	198,475	15,000	-	-	-	-	-	-	213,475	188,000
Cemetery income	-	-	80,055	-	-	-	-	-	80,055	61,120
Center for Catholic studies fees	106,221	-	-	-	-	-	-	-	106,221	277,097
Conference and stipends fees	49,592	18,952	-	-	-	-	-	-	68,544	49,730
Contributions	353,519	367,274	-	58,724	-	-	854	-	780,371	603,215
Investment income, net of fees	54,079	99,532	7,204	54,164	91	11,160	18,903	-	245,133	219,003
Net gain (loss) on investment	84,867	165,222	24,567	85,632	-	27,906	1,099	-	389,293	259,782
Unrealized gain (loss) on investments	5,137	10,006	(653)	4,905	-	(1,369)	2,797	-	20,823	331,560
Gain (loss) on disposal of property	-	-	-	-	-	-	-	3,028	3,028	-
Other revenue	40,547	-	-	-	-	-	-	-	40,547	129,117
<b>Total support and revenue</b>	<b>4,891,671</b>	<b>675,986</b>	<b>111,173</b>	<b>203,425</b>	<b>91</b>	<b>37,697</b>	<b>23,653</b>	<b>3,028</b>	<b>5,946,724</b>	<b>6,068,587</b>
<b>EXPENSES</b>										
Office of the Bishop	176,861	-	-	-	-	-	-	-	176,861	183,905
Administrative services and fundraising	1,015,364	-	-	-	-	-	-	-	1,015,364	826,683
Communications	360,265	-	-	-	-	-	-	-	360,265	373,870
Peace and Justice	82,023	-	-	-	-	-	-	-	82,023	80,611
Faith Formation	614,566	-	-	-	-	-	-	-	614,566	623,572
Building and grounds	265,940	-	-	-	-	-	-	-	265,940	253,182
Worship/Liturgy	109,864	-	-	-	-	-	-	-	109,864	116,695
Support of clergy	47,029	-	-	305,741	-	-	-	-	352,770	179,892
Vocations	349,910	-	-	-	-	-	-	-	349,910	333,642
Tribunal	196,388	-	-	-	-	-	-	-	196,388	134,927
Local grants	451,881	-	-	-	-	-	-	-	451,881	443,101
Hispanic Ministry	113,314	-	-	-	-	-	-	-	113,314	103,534
National donations	214,537	-	-	-	-	-	-	-	214,537	215,112
Depreciation	-	-	-	-	-	-	-	226,724	226,724	207,882
Oakwood Diocesan Cemetery	-	-	60,780	-	-	-	-	-	60,780	75,530
Professional fees	-	61,522	-	-	-	-	-	-	61,522	-
Priest wages and benefits	-	35,260	-	-	-	-	-	-	35,260	-
Conference	-	42,913	-	-	-	-	-	-	42,913	-
Other	47,205	-	-	-	-	12,900	-	-	60,105	616,071
Transfers to others	-	-	-	-	-	-	-	-	-	6,135
<b>Total expenses</b>	<b>4,045,147</b>	<b>139,695</b>	<b>60,780</b>	<b>305,741</b>	<b>-</b>	<b>12,900</b>	<b>-</b>	<b>226,724</b>	<b>4,790,987</b>	<b>4,774,344</b>
<b>CHANGES IN NET ASSETS</b>	<b>846,524</b>	<b>536,291</b>	<b>50,393</b>	<b>(102,316)</b>	<b>91</b>	<b>24,797</b>	<b>23,653</b>	<b>(223,696)</b>	<b>1,155,737</b>	<b>1,294,243</b>
Transfers in (out)	(246,184)	606,055	179,476	(199,423)	-	-	(614,200)	(43,002)	(317,278)	(50,000)
<b>NET ASSETS, beginning of year</b>	<b>5,114,096</b>	<b>4,882,654</b>	<b>(2,429)</b>	<b>3,230,917</b>	<b>25,401</b>	<b>668,202</b>	<b>780,948</b>	<b>2,885,611</b>	<b>17,585,400</b>	<b>16,341,157</b>
<b>NET ASSETS, end of year</b>	<b>\$ 5,714,436</b>	<b>\$ 6,025,000</b>	<b>\$ 227,440</b>	<b>\$ 2,929,178</b>	<b>\$ 25,492</b>	<b>\$ 692,999</b>	<b>\$ 190,401</b>	<b>\$ 2,618,913</b>	<b>\$ 18,423,859</b>	<b>\$ 17,585,400</b>