

**Roman Catholic Diocese of Gaylord  
Pastoral Center**

FINANCIAL STATEMENTS  
AND REPORT OF INDEPENDENT  
CERTIFIED PUBLIC ACCOUNTANTS

June 30, 2020 and 2019

# CONTENTS

	<u>Page</u>
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS.....	2
STATEMENTS OF FINANCIAL POSITION.....	4
STATEMENTS OF ACTIVITIES.....	5
STATEMENTS OF FUNCTIONAL EXPENSES	
FOR THE YEAR ENDED JUNE 30, 2020.....	6
FOR THE YEAR ENDED JUNE 30, 2019.....	7
STATEMENTS OF CASH FLOWS.....	8
NOTES TO FINANCIAL STATEMENTS.....	9
SUPPLEMENTARY FINANCIAL INFORMATION	
SCHEDULE OF FINANCIAL POSITION BY FUND CLASSIFICATION.....	21
SCHEDULE OF ACTIVITIES BY FUND CLASSIFICATION.....	22



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## REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

The Most Reverend Walter A. Hurley  
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, 2020 and 2019, 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, 2020 and 2019, 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, 2020 and 2019 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.

***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*

February 17, 2021

**Roman Catholic Diocese of Gaylord  
Pastoral Center**

STATEMENTS OF FINANCIAL POSITION

June 30,

	2020	2019
<b>ASSETS</b>		
Cash and cash equivalents	\$ 758,380	\$ 1,965,599
Investments in marketable securities	11,676,425	11,235,712
Deposits with Deposit and Loan Program	821,366	710,725
Accounts receivable	148,651	442,190
Pledges receivable, net	2,641,385	1,837,061
Inventory	230,381	274,172
Land held for sale	1,300,000	-
Total current assets	17,576,588	16,465,459
Land, buildings and equipment, net of accumulated depreciation	2,794,435	2,680,818
Total assets	\$20,371,023	\$19,146,277
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts payable	\$ 201,514	\$ 179,260
Deferred revenue	100,000	111,050
Accrued retirement and payroll withholdings	154,905	114,583
Due to other organizations	1,419,241	182,571
Total liabilities	1,875,660	587,464
<b>NET ASSETS</b>		
Without donor restrictions		
Designated	11,668,483	11,733,537
Undesignated	2,601,052	1,965,722
With donor restrictions for use in future years	2,938,254	3,594,009
With donor restrictions in perpetuity		
Perpetual care of cemetery	426,108	418,465
Endowments	861,466	847,080
Total net assets	18,495,363	18,558,813
Total liabilities and net assets	\$20,371,023	\$19,146,277

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,

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
<b>SUPPORT AND REVENUE</b>						
CSA campaign	\$ -	\$ 2,905,053	\$ 2,905,053	\$ -	\$ 3,557,689	\$ 3,557,689
Professional fees	467,534	-	467,534	441,545	-	441,545
Grants	365,967	-	365,967	279,870	-	279,870
Cemetery income	72,191	7,643	79,834	74,607	5,448	80,055
Center for Catholic studies fees	53,773	-	53,773	106,221	-	106,221
Conference and stipends fees	32,916	-	32,916	68,544	-	68,544
Contributions	512,016	-	512,016	780,371	-	780,371
Investment income, net of fees	239,652	-	239,652	245,133	-	245,133
Net gain (loss) on investment	190,808	14,459	205,267	357,634	31,659	389,293
Unrealized gain (loss) on investments	24,107	-	24,107	20,823	-	20,823
Gain (loss) on disposal of property	(720)	-	(720)	3,028	-	3,028
Program and other revenue	154,755	-	154,755	40,547	-	40,547
Assets released from restrictions	<u>3,560,881</u>	<u>(3,560,881)</u>	<u>-</u>	<u>3,498,118</u>	<u>(3,498,118)</u>	<u>-</u>
Total support and revenue	<u>5,673,880</u>	<u>(633,726)</u>	<u>5,040,154</u>	<u>5,916,441</u>	<u>96,678</u>	<u>6,013,119</u>
<b>EXPENSES</b>						
Program services	<u>2,522,641</u>	<u>-</u>	<u>2,522,641</u>	<u>2,725,282</u>	<u>-</u>	<u>2,725,282</u>
Supporting services						
General and Administrative	2,475,457	-	2,475,457	1,925,681	-	1,925,681
Fundraising	<u>105,506</u>	<u>-</u>	<u>105,506</u>	<u>140,024</u>	<u>-</u>	<u>140,024</u>
Total supporting services	2,580,963	-	2,580,963	2,065,705	-	2,065,705
Contribution to Northern Michigan Catholic Foundation	<u>-</u>	<u>-</u>	<u>-</u>	<u>383,673</u>	<u>-</u>	<u>383,673</u>
Total expenses	<u>5,103,604</u>	<u>-</u>	<u>5,103,604</u>	<u>5,174,660</u>	<u>-</u>	<u>5,174,660</u>
<b>CHANGES IN NET ASSETS</b>	570,276	(633,726)	(63,450)	741,781	96,678	838,459
<b>NET ASSETS</b> , beginning of year, as restated	13,699,259	4,859,554	18,558,813	12,957,478	4,762,876	17,720,354
<b>NET ASSETS</b> , end of year	<u>\$ 14,269,535</u>	<u>\$ 4,225,828</u>	<u>\$ 18,495,363</u>	<u>\$ 13,699,259</u>	<u>\$ 4,859,554</u>	<u>\$ 18,558,813</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, 2020

	Program Services	Supporting Services			Total Functional Expenses
		General and Administrative	Fundraising	Total	
Salaries	\$ 558,951	\$ 947,016	\$ 44,775	\$ 991,791	\$ 1,550,742
Employee benefits	133,686	306,023	20,647	326,670	460,356
Taxes	34,724	63,260	3,237	66,497	101,221
<b>Total salaries, benefits, and taxes</b>	<b>727,361</b>	<b>1,316,299</b>	<b>68,659</b>	<b>1,384,958</b>	<b>2,112,319</b>
Donations to others	595,615	317,763	-	317,763	913,378
Seminarian	243,120	-	-	-	243,120
Priest and pastoral care	227,333	14,103	-	14,103	241,436
Instructional and program	210,593	5,050	-	5,050	215,643
Bookstore and Catholic studies	87,825	-	-	-	87,825
Conferences, stipends	22,891	8,834	-	8,834	31,725
Printing and production	12,488	-	14,369	14,369	26,857
Communications and media	148,344	-	-	-	148,344
Equipment repair & maintenance	15,746	152,601	-	152,601	168,347
Utilities, insurance and taxes	2,402	102,636	-	102,636	105,038
Office administration	67,041	190,275	22,373	212,648	279,689
Professional services	86,662	70,500	-	70,500	157,162
Travel, mileage, education and meetings	57,751	46,496	105	46,601	104,352
Scholarships	13,800	-	-	-	13,800
Monuments, markers, foundation	3,669	-	-	-	3,669
<b>Total expenses before depreciation</b>	<b>2,522,641</b>	<b>2,224,557</b>	<b>105,506</b>	<b>2,330,063</b>	<b>4,852,704</b>
Depreciation	-	250,900	-	250,900	250,900
<b>Total expenses</b>	<b>\$ 2,522,641</b>	<b>\$ 2,475,457</b>	<b>\$ 105,506</b>	<b>\$ 2,580,963</b>	<b>\$ 5,103,604</b>

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
		General and Administrative	Fundraising	Total	
Salaries	\$ 599,582	\$ 711,983	\$ 62,184	\$ 774,167	\$ 1,373,749
Employee benefits	131,592	248,743	33,628	282,371	413,963
Taxes	36,679	46,431	4,474	50,905	87,584
<b>Total salaries, benefits, and taxes</b>	<b>767,853</b>	<b>1,007,157</b>	<b>100,286</b>	<b>1,107,443</b>	<b>1,875,296</b>
Donations to others	666,418	-	-	-	666,418
Seminarian	299,841	-	-	-	299,841
Priest and pastoral care	320,044	9,660	-	9,660	329,704
Instructional and program	175,139	25,298	-	25,298	200,437
Bookstore and Catholic studies	60,609	-	-	-	60,609
Conferences, stipends	44,468	9,594	-	9,594	54,062
Printing and production	111,424	77	8,897	8,974	120,398
Communications and media	52,637	-	-	-	52,637
Capital projects	8,861	-	-	-	8,861
Equipment repair & maintenance	629	196,618	-	196,618	197,247
Utilities, insurance and taxes	1,694	99,852	-	99,852	101,546
Office administration	57,217	118,929	30,076	149,005	206,222
Professional services	58,661	115,142	-	115,142	173,803
Travel, mileage, education and meetings	74,742	71,898	765	72,663	147,405
Uncollectible pledges	-	44,732	-	44,732	44,732
Scholarships	12,900	-	-	-	12,900
Monuments, markers, foundation	9,668	-	-	-	9,668
Other	2,477	-	-	-	2,477
<b>Total expenses before depreciation</b>	<b>2,725,282</b>	<b>1,698,957</b>	<b>140,024</b>	<b>1,838,981</b>	<b>4,564,263</b>
Depreciation	-	226,724	-	226,724	226,724
<b>Total expenses</b>	<b>\$ 2,725,282</b>	<b>\$ 1,925,681</b>	<b>\$ 140,024</b>	<b>\$ 2,065,705</b>	<b>\$ 4,790,987</b>

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>2020</u>	<u>2019</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ (63,450)	\$ 838,459
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation expense	250,900	226,724
Investment income reinvested, net of investment fees	(226,699)	(219,816)
Net gain on sales of investment of marketable securities	(204,549)	(389,292)
Unrealized gain on investments in marketable securities	(24,900)	(20,823)
(Increase) decrease in pledges and other receivables	(510,786)	39,912
Decrease in inventory	43,792	4,283
(Decrease) increase in accounts payable and other liabilities	<u>(11,803)</u>	<u>21,070</u>
Net cash flows from operating activities	<u>(747,495)</u>	<u>500,517</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of property and equipment	(365,237)	(189,895)
Deposits to Deposit and Loan Program, net	(94,487)	(114,983)
MCC investment purchases	<u>-</u>	<u>(4,319)</u>
Net cash flows used by investing activities	<u>(459,724)</u>	<u>(309,197)</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	(1,207,219)	191,320
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	<u>1,965,599</u>	<u>1,774,279</u>
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<u>\$ 758,380</u>	<u>\$ 1,965,599</u>
<b>NON-CASH TRANSACTION</b>		
Land donation	<u>\$ 1,300,000</u>	<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 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 Held For Sale***

During the year ended June 30, 2020, the Diocese gained fiduciary rights to land valued at \$1,300,000. This land is held for sale, and all proceeds will be for the benefit of priest retirement.

***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, 2020 and 2019 are net of allowances for doubtful accounts of \$67,744 and \$220,010, 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.

## NOTES TO FINANCIAL STATEMENTS - Continued

### *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.

### *Reclassification*

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

### *Subsequent Events*

The Roman Catholic Diocese of Gaylord Pastoral Center has evaluated subsequent events and transactions for potential recognition and disclosure through February 17, 2021, the date the financial statements were available to be issued.

### *COVID-19*

On March 10, 2020 the World Health Organization declared the coronavirus outbreak (COVID-19) a pandemic. The Diocese closed on-site operations on March 23, 2020 when the State of Michigan instituted a Stay Home Stay Safe Order. Some staff have returned to in-office operations and others are working remotely. 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 the Diocese operations. The extent to which the pandemic impacts other future funding or operations will depend on future developments, which are highly uncertain at this time and cannot be predicted.

To mitigate the uncertainty surrounding the effect on business operations, the Diocese secured borrowings in the amount of \$414,461 on July 24, 2020 through the Paycheck Protection Program (“PPP”). The Diocese has met certain requirements allowing for the forgiveness of the loan funds obtained under this program. The application for forgiveness of these funds has not been submitted at this time.

## **NOTE B - PRIOR PERIOD RESTATEMENT**

The Diocese restated beginning net assets effective for July 1, 2018 to account for land that was donated to the Diocese many years ago. The restatement included an increase to assets for the land donation, and reduction of a receivable balance related to expenses incurred by the Diocese since receiving the land donation. Details of the restatement are as follows:

Beginning net assets, July 1, 2018, <i>as originally presented</i>	\$17,585,400
Addition of donated land for \$149,600, net of related expenses totaling \$14,646	<u>134,954</u>
Beginning net assets, July 1, 2018, <i>as restated</i>	<u><u>\$17,720,354</u></u>

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>2020</u>	<u>2019</u>
Cash	\$ 758,380	\$ 1,965,599
Investments in marketable securities	11,676,425	11,235,712
Deposits with Deposit and Loan Program	821,366	710,725
Accounts receivable	148,651	442,190
Pledges receivable, net	2,641,385	1,837,061
Less investments with donor restrictions		
Olson Fund	(704,390)	(692,999)
Catholic Extension Seminarian Education	<u>(190,277)</u>	<u>(190,401)</u>
Totals	<u>\$15,151,540</u>	<u>\$15,307,887</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 \$758,380 (10% of the pool) and \$1,965,599 (39% of the pool) for the years ended June 30, 2020 and 2019, respectively.

Some of the accounts exceed Federally insured limits, resulting in uninsured balances for the entire pool of approximately \$6.8 million and \$4.6 at June 30, 2020 and 2019, respectively.

**NOTE E - INVESTMENTS IN MARKETABLE SECURITIES**

Investments comprise the following:

	<u>2020</u>		<u>2019</u>	
	<u>Cost</u>	<u>Market Value</u>	<u>Cost</u>	<u>Market Value</u>
Money market mutual funds	\$ 199,016	\$ 199,016	\$ 196,321	\$ 196,321
Stock mutual funds	6,563,162	7,329,787	5,813,554	6,606,473
Bond mutual funds	<u>4,096,365</u>	<u>4,147,622</u>	<u>4,434,276</u>	<u>4,432,918</u>
	<u>\$10,858,543</u>	<u>\$11,676,425</u>	<u>\$10,444,151</u>	<u>\$11,235,712</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>2020</u>	<u>2019</u>
Land and buildings	\$ 5,458,585	\$ 5,313,616
Furniture and equipment	1,410,677	1,437,272
Automobiles	<u>86,349</u>	<u>86,349</u>
Total land, buildings and equipment, at cost	6,955,611	6,837,237
Less accumulated depreciation	<u>(4,161,176)</u>	<u>(4,156,419)</u>
Total land, building and equipment, net of accumulated depreciation	<u>\$ 2,794,435</u>	<u>\$ 2,680,818</u>

Depreciation expense amounted to \$250,900 and \$226,724 for the years ended June 30, 2020 and 2019, 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, 2020.

*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>2020</u>	<u>2019</u>
Pool Mutual Funds		
Money Market	\$ 199,016	\$ 196,320
Equity Mid/Small Cap	695,151	475,076
Equity Large Cap	2,230,883	1,708,929
Asset Allocation Fund	1,095,604	520,131
Equity Value	1,070,917	852,017
Equity Growth	1,175,869	959,002
Equity International	1,634,213	2,091,319
Bond-Intermediate	1,798,890	1,124,139
Bond-Short-Term	<u>1,775,882</u>	<u>3,308,779</u>
Total	<u>\$11,676,425</u>	<u>\$11,235,712</u>



NOTES TO FINANCIAL STATEMENTS - Continued

**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>2020</u>	<u>2019</u>
With donor restrictions for use in future years	\$ 33,201	\$ 36,320
With donor restrictions in perpetuity		
Olson Fund	671,189	656,679
Catholic Extension	<u>190,277</u>	<u>190,401</u>
	<u>\$ 894,667</u>	<u>\$ 883,400</u>

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

	<u>2020</u>	<u>2019</u>
Endowment net assets, beginning of year	\$ 883,400	\$ 853,482
Investment income	<u>11,267</u>	<u>29,918</u>
	<u>\$ 894,667</u>	<u>\$ 883,400</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 \$462,607, 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 \$10,227,129 and \$10,100,284 at June 30, 2020 and 2019, respectively. Distributions to the Diocese from the Foundation for the years ended June 30, 2020 and 2019 were \$172,519 and \$66,393, 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 \$109,822 and \$98,623 for the years ended June 30, 2020 and 2019, 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, 2019.

Actuarial accrued liability	\$ 6,674,588
Market value of plan assets	9,779,148
Overfunded accrued liability	3,104,560
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 \$2,975,087 and \$2,929,178 as of June 30, 2020 and 2019, respectively.

## **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, 2020 and 2019 was \$52,589 and \$48,137, 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, 2020. 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 \$20,011 as of June 30, 2020.

### **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, 2020

(With Comparative Totals for June 30, 2019)

	Expendable Funds					Nonexpendable Funds				Total	2019 Total
	Operating	Reserve	Oakwood Cemetery	Priests	Bishop's Donations	Trust and Agency	Olson Fund	Endowment	Fixed Assets		
<b>ASSETS</b>											
Cash and cash equivalents	\$ 793,531	\$ 53,760	\$ (623,712)	\$ 306,441	\$ 25,614	\$ 119,241	\$ (4,190)	\$ -	\$ 87,695	\$ 758,380	\$ 1,965,599
Investments in marketable securities	2,668,187	4,899,872	617,242	2,592,267	-	-	708,580	190,277	-	11,676,425	11,235,712
Investment in Deposit and Loan Program	-	821,366	-	-	-	-	-	-	-	821,366	710,725
Accounts receivable	47,348	10,654	12,051	78,598	-	-	-	-	-	148,651	442,190
Pledges receivable	2,641,385	-	-	-	-	-	-	-	-	2,641,385	1,837,061
Inventory	8,522	-	221,859	-	-	-	-	-	-	230,381	274,172
Land held for sale	-	-	-	-	-	1,300,000	-	-	-	1,300,000	-
<b>Total current assets</b>	<b>6,158,973</b>	<b>5,785,652</b>	<b>227,440</b>	<b>2,977,306</b>	<b>25,614</b>	<b>1,419,241</b>	<b>704,390</b>	<b>190,277</b>	<b>87,695</b>	<b>17,576,588</b>	<b>16,465,459</b>
Land, buildings and equipment, net of accumulated depreciation	-	149,600	-	-	-	-	-	-	2,644,835	2,794,435	2,680,818
<b>Total assets</b>	<b>\$ 6,158,973</b>	<b>\$ 5,935,252</b>	<b>\$ 227,440</b>	<b>\$ 2,977,306</b>	<b>\$ 25,614</b>	<b>\$ 1,419,241</b>	<b>\$ 704,390</b>	<b>\$ 190,277</b>	<b>\$ 2,732,530</b>	<b>\$ 20,371,023</b>	<b>\$ 19,146,277</b>
<b>LIABILITIES AND NET ASSETS</b>											
<b>LIABILITIES</b>											
Accounts payable	\$ 199,295	\$ -	\$ -	\$ 2,219	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 201,514	\$ 179,260
Deferred revenue	100,000	-	-	-	-	-	-	-	-	100,000	111,050
Accrued retirement and payroll withholdings	154,905	-	-	-	-	-	-	-	-	154,905	114,583
Due to other organizations	-	-	-	-	-	1,419,241	-	-	-	1,419,241	182,571
<b>Total liabilities</b>	<b>454,200</b>	<b>-</b>	<b>-</b>	<b>2,219</b>	<b>-</b>	<b>1,419,241</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,875,660</b>	<b>587,464</b>
<b>NET ASSETS</b>											
Without donor restrictions											
Designated											
Future operating costs	-	821,366	-	2,975,087	-	-	-	-	-	3,796,453	3,639,830
Capital purchases	-	-	-	-	-	-	-	-	2,732,530	2,732,530	2,618,913
Bishop's donations	-	-	-	-	25,614	-	-	-	-	25,614	25,492
Diocesan reserve	-	5,113,886	-	-	-	-	-	-	-	5,113,886	5,449,302
Undesignated	2,799,720	-	(198,668)	-	-	-	-	-	-	2,601,052	1,965,722
With donor restrictions for use in future years	2,905,053	-	-	-	-	-	33,201	-	-	2,938,254	3,594,009
With donor restrictions in perpetuity											
Perpetual care of cemetery	-	-	426,108	-	-	-	-	-	-	426,108	418,465
Olson Fund	-	-	-	-	-	-	671,189	-	-	671,189	656,679
Catholic Extension Seminarian Education	-	-	-	-	-	-	-	190,277	-	190,277	190,401
<b>Total net assets</b>	<b>5,704,773</b>	<b>5,935,252</b>	<b>227,440</b>	<b>2,975,087</b>	<b>25,614</b>	<b>-</b>	<b>704,390</b>	<b>190,277</b>	<b>2,732,530</b>	<b>18,495,363</b>	<b>18,558,813</b>
<b>Total liabilities and net assets</b>	<b>\$ 6,158,973</b>	<b>\$ 5,935,252</b>	<b>\$ 227,440</b>	<b>\$ 2,977,306</b>	<b>\$ 25,614</b>	<b>\$ 1,419,241</b>	<b>\$ 704,390</b>	<b>\$ 190,277</b>	<b>\$ 2,732,530</b>	<b>\$ 20,371,023</b>	<b>\$ 19,146,277</b>

**Roman Catholic Diocese of Gaylord  
Pastoral Center**

**SCHEDULE OF ACTIVITIES BY FUND CLASSIFICATION**

Year Ended June 30, 2020

(With Comparative Totals for the Year Ended June 30, 2019)

	Expendable Funds					Nonexpendable Funds			Total	2019 Total
	Operating	Reserve	Oakwood Cemetery	Priests	Bishop's Donations	Olson Fund	Endowment	Fixed Assets		
<b>SUPPORT AND REVENUE</b>										
CSA campaign	\$ 2,905,053	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,905,053	\$ 3,557,689
Professional fees	467,534	-	-	-	-	-	-	-	467,534	441,545
Grants	365,967	-	-	-	-	-	-	-	365,967	279,870
Cemetery income	-	-	79,834	-	-	-	-	-	79,834	80,055
Center for Catholic studies fees	53,773	-	-	-	-	-	-	-	53,773	106,221
Conference and stipends fees	32,916	-	-	-	-	-	-	-	32,916	68,544
Contributions	367,336	135,129	-	8,832	-	-	719	-	512,016	780,371
Investment income, net of fees	53,949	117,666	6,127	50,900	122	10,681	207	-	239,652	245,133
Net gain (loss) on investment	45,619	88,823	10,867	46,052	-	12,668	1,238	-	205,267	389,293
Unrealized gain (loss) on investments	5,651	11,011	2,109	5,709	-	1,842	(2,215)	-	24,107	20,823
Gain (loss) on disposal of property	-	-	-	-	-	-	-	(720)	(720)	3,028
Other revenue	154,755	-	-	-	-	-	-	-	154,755	40,547
<b>Total support and revenue</b>	<b>4,452,553</b>	<b>352,629</b>	<b>98,937</b>	<b>111,493</b>	<b>122</b>	<b>25,191</b>	<b>(51)</b>	<b>(720)</b>	<b>5,040,154</b>	<b>6,013,119</b>
<b>EXPENSES</b>										
Office of the Bishop	343,495	-	-	-	-	-	-	-	343,495	198,988
Administrative services and fundraising	846,458	-	-	-	-	-	-	-	846,458	847,672
Communications	379,636	-	-	-	-	-	-	-	379,636	383,593
Peace and Justice	72,773	-	-	-	-	-	-	-	72,773	82,023
Faith Formation	634,456	-	-	-	-	-	-	-	634,456	651,244
Building and grounds	545,190	-	-	-	-	-	-	-	545,190	458,962
Worship/Liturgy	96,869	-	-	-	-	-	-	-	96,869	80,974
Support of clergy	28,968	-	-	214,834	-	-	-	-	243,802	352,770
Vocations	318,784	-	-	-	-	-	-	-	318,784	349,910
Tribunal	183,589	-	-	-	-	-	-	-	183,589	196,388
Hispanic and Native American Ministry	123,442	-	-	-	-	-	-	-	123,442	113,314
National and local donations	576,230	-	-	-	-	-	-	-	576,230	617,302
Depreciation	-	-	-	-	-	-	-	250,900	250,900	204,597
Oakwood Diocesan Cemetery	-	-	62,849	-	-	-	-	-	62,849	60,780
Professional fees	-	1,679	-	-	-	-	-	-	1,679	61,522
Priest wages and benefits	-	49,931	-	-	-	-	-	-	49,931	35,260
Conference	-	-	-	-	-	-	-	-	-	42,913
School grants	-	253,500	-	-	-	-	-	-	253,500	-
Other	1,470	104,751	-	-	-	13,800	-	-	120,021	52,775
Contribution to Northern Michigan Catholic Foundation	-	-	-	-	-	-	-	-	-	383,673
<b>Total expenses</b>	<b>4,151,360</b>	<b>409,861</b>	<b>62,849</b>	<b>214,834</b>	<b>-</b>	<b>13,800</b>	<b>-</b>	<b>250,900</b>	<b>5,103,604</b>	<b>5,174,660</b>
<b>CHANGES IN NET ASSETS</b>	<b>301,193</b>	<b>(57,232)</b>	<b>36,088</b>	<b>(103,341)</b>	<b>122</b>	<b>11,391</b>	<b>(51)</b>	<b>(251,620)</b>	<b>(63,450)</b>	<b>838,459</b>
Transfers in (out)	(310,856)	(167,470)	(36,088)	149,250	-	-	(73)	365,237	-	-
<b>NET ASSETS, beginning of year, as restated</b>	<b>5,714,436</b>	<b>6,159,954</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>18,558,813</b>	<b>17,720,354</b>
<b>NET ASSETS, end of year</b>	<b>\$ 5,704,773</b>	<b>\$ 5,935,252</b>	<b>\$ 227,440</b>	<b>\$ 2,975,087</b>	<b>\$ 25,614</b>	<b>\$ 704,390</b>	<b>\$ 190,277</b>	<b>\$ 2,732,530</b>	<b>\$ 18,495,363</b>	<b>\$ 18,558,813</b>