

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

FINANCIAL STATEMENTS  
AND REPORT OF INDEPENDENT  
CERTIFIED PUBLIC ACCOUNTANTS

June 30, 2021, 2020 and 2019

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## REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Most Reverend Walter A. Hurley  
Bishop of the Diocese of Gaylord  
Roman Catholic Diocese of Gaylord Deposit and Loan Program

We have audited the accompanying financial statements of the ***Roman Catholic Diocese of Gaylord Deposit and Loan Program*** (the "Program") (a nonprofit organization), which comprise the statements of financial position as of June 30, 2021, 2020 and 2019, and the related statements of activities and functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Program's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Program's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Most Reverend Walter A. Hurley  
Bishop of the Diocese of Gaylord  
Roman Catholic Diocese of Gaylord Deposit and Loan Program

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 Deposit and Loan Program as of June 30, 2021, 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.

*Dennis, Gartland & Niergarth*

Certified Public Accountants  
Traverse City, Michigan

February 2, 2022

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

STATEMENTS OF FINANCIAL POSITION

June 30,

	2021	2020	2019
<b>ASSETS</b>			
Cash and cash equivalents	\$ 2,175,567	\$ 6,652,927	\$ 3,030,450
Investments in marketable securities	31,778,862	22,809,409	25,854,396
Loans due within one year	376,282	365,349	426,369
Accrued interest receivable	11,469	13,118	13,183
Total current assets	34,342,180	29,840,803	29,324,398
Loans due after one year	4,918,389	5,709,033	5,811,869
	<b>\$ 39,260,569</b>	<b>\$ 35,549,836</b>	<b>\$ 35,136,267</b>
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Accounts payable	\$ 516,832	\$ -	\$ -
Deposits	26,174,184	26,521,877	26,727,123
Total current liabilities	26,691,016	26,521,877	26,727,123
<b>NET ASSETS</b>			
Without donor restrictions	12,569,553	9,027,959	8,409,144
	<b>\$ 39,260,569</b>	<b>\$ 35,549,836</b>	<b>\$ 35,136,267</b>

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

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

STATEMENTS OF ACTIVITIES AND FUNCTIONAL EXPENSES

Years ended June 30,

	Without Donor Restrictions		
	2021	2020	2019
<b>SUPPORT AND REVENUE</b>			
Investment income, net of investment expense	\$ 424,096	\$ 479,826	\$ 624,561
Loan interest income	224,722	255,222	158,786
Net gain on investments	3,548,421	494,674	859,181
Total support and revenue	4,197,239	1,229,722	1,642,528
<b>EXPENSES</b>			
Program expenses			
Interest	551,507	503,264	743,527
General and administrative	104,138	107,643	76,710
Total expenses	655,645	610,907	820,237
<b>CHANGE IN NET ASSETS</b>	3,541,594	618,815	822,291
<b>NET ASSETS, beginning of year</b>	9,027,959	8,409,144	7,586,853
<b>NET ASSETS, end of year</b>	\$ 12,569,553	\$ 9,027,959	\$ 8,409,144

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

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

STATEMENTS OF CASH FLOWS

Years ended June 30,

	2021	2020	2019
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Change in net assets	\$ 3,541,594	\$ 618,815	\$ 822,291
Adjustments to reconcile change in net assets to net cash from operating activities			
Gain on investments	(3,548,421)	(494,674)	(859,181)
Investment income reinvested, net	(421,032)	(460,339)	(613,025)
Increase (decrease) in accounts payable	516,832	-	(1,570)
Decrease (increase) in accounts receivable	-	-	20,906
Decrease (increase) in accrued interest receivable	<u>1,649</u>	<u>65</u>	<u>(5,735)</u>
Net cash flows from operating activities	<u>90,622</u>	<u>(336,133)</u>	<u>(636,314)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
(Deposit to) withdrawal from investments pool	(5,000,000)	4,000,000	9,000,000
Loan payments received	1,120,281	1,455,845	521,797
New loans distributed	<u>(340,570)</u>	<u>(1,291,989)</u>	<u>(3,066,911)</u>
Net cash flows from investing activities	<u>(4,220,289)</u>	<u>4,163,856</u>	<u>6,454,886</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Net withdrawals by Parishes and other Diocesan organizations	<u>(347,693)</u>	<u>(205,246)</u>	<u>(5,808,226)</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	(4,477,360)	3,622,477	10,346
Cash and cash equivalents, beginning of year	<u>6,652,927</u>	<u>3,030,450</u>	<u>3,020,104</u>
Cash and cash equivalents, end of year	<u>\$ 2,175,567</u>	<u>\$ 6,652,927</u>	<u>\$ 3,030,450</u>
Additional information			
Interest paid during the year	<u>\$ 551,507</u>	<u>\$ 503,264</u>	<u>\$ 743,527</u>

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

# Roman Catholic Diocese of Gaylord Deposit and Loan Program

## NOTES TO FINANCIAL STATEMENTS

### NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### *Organization*

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

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

#### *Basis of Accounting*

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

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

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

**Net Assets With Donor Restrictions** - Net assets whose use is limited by donor-imposed time and/or purpose restrictions. There were no net assets with donor restrictions for the years ended June 30, 2021, 2020 and 2019, respectively.

#### *Investments*

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

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



## NOTES TO FINANCIAL STATEMENTS - Continued

### ***Cash and Cash Equivalents***

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

### ***Revenue Recognition***

As described in Note B, the Program adopted the provisions of the Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") No 2014-09, *Revenue from Contracts with Customers* (Topic 606), as amended, during the year ended June 30, 2021.

The Program derives its revenues primarily from investment income.

Interest income and realized and unrealized gains or losses from investments are included as changes in the appropriate net asset category in the accompanying statements of activities and functional expenses.

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

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from those estimates.

### ***Subsequent Events***

The Roman Catholic Diocese of Gaylord Deposit and Loan Program has evaluated subsequent events and transactions for potential recognition and disclosure through February 2, 2022, the date the financial statements were available to be issued.

## **NOTE B - REVENUE RECOGNITION TRANSITION**

On July 1, 2020, the Program adopted ASU No. 2014-09, *Revenue from Contracts with Customers* (Topic 606), as amended. Analysis of various provisions of this standard resulted in no significant changes in the way the Program recognizes revenue and, therefore, no changes to the previously issued audited financial statements were required on a retrospective basis. The presentation and disclosures of revenue have been enhanced in accordance with the standard.

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>2021</u>	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 2,175,567	\$ 6,652,927	\$ 3,030,450
Investments in marketable securities	31,778,862	22,809,409	25,854,396
Loans due within one year	376,282	365,349	426,369
Accrued interest receivable	11,469	13,118	13,183
Less: deposits	<u>(26,174,184)</u>	<u>(26,521,877)</u>	<u>(26,727,123)</u>
Totals	<u>\$ 8,167,996</u>	<u>\$ 3,318,926</u>	<u>\$ 2,597,275</u>

**NOTE D - CASH AND CASH EQUIVALENTS**

Until restructuring of the Deposit and Loan Fund, as described in Note L-Subsequent Events, the Program maintains its cash in a pooled account administered by the Roman Catholic Diocese of Gaylord. Each participant's share of the pooled account is displayed on its statement of financial position as cash and cash equivalents, or, in the case of an overdraft, as outstanding checks. The Program's balance represented about 34%, 90% and 61% of the pool for the years ended June 30, 2021, 2020 and 2019, respectively.

Some of the accounts exceed Federally insured limits resulting in uninsured balances for the entire pool of approximately \$5.7 million, \$6.8 million and \$4.6 million for the years ended June 30, 2021, 2020 and 2019, respectively.

**NOTE E - INVESTMENTS**

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

	<u>2021</u>		<u>2020</u>		<u>2019</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Investment Pool						
Money market funds	\$ 269,418	\$ 269,418	\$ 3,291,757	\$ 3,291,757	\$ 7,233,024	\$ 7,233,023
Stock mutual funds	12,164,501	16,991,684	8,481,809	10,487,603	8,345,017	10,342,276
Bond mutual funds	<u>14,528,702</u>	<u>14,517,760</u>	<u>8,772,387</u>	<u>9,030,049</u>	<u>8,172,946</u>	<u>8,279,097</u>
	<u>\$26,962,621</u>	<u>\$31,778,862</u>	<u>\$20,545,953</u>	<u>\$22,809,409</u>	<u>\$23,750,987</u>	<u>\$25,854,396</u>

NOTES TO FINANCIAL STATEMENTS - Continued

**NOTE F - LOANS**

The Program grants unsecured loans to Catholic Parishes and other Catholic organizations within the Diocese, which consists of a 21-county area in Northern Lower Michigan. Repayment terms vary. The interest rate of 4% for the years ended June 30, 2021, 2020 and 2019 was recommended by the Roman Catholic Diocese of Gaylord's Finance Council and approved by the Bishop.

A Parish and a Catholic School, each with loan balances in excess of \$695,000, account for approximately 75% of the total balance at June 30, 2021.

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

<u>Years Ending June 30,</u>	<u>Amount</u>
2022	\$ 376,282
2023	390,872
2024	406,323
2025	423,351
2026	347,014
2027-2031	703,234
2032-2036	<u>2,647,595</u>
	<u>\$ 5,294,671</u>

**NOTE G - DEPOSITS**

Deposits are due on demand to Parishes and other Catholic organizations. The interest rate was 2% with an additional 1% paid per discretion of the finance council for the year ended June 30, 2019. The interest rate was 2% for the years ended June 30, 2020 and 2021 and is paid to depositors semi-annually. Interest of \$551,507, \$503,264 and \$743,527 was accrued and paid to Parishes and other Catholic organizations during the years ended June 30, 2021, 2020 and 2019, respectively.

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

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

The Pastoral Center had deposits with the Program of \$0, \$821,366 and \$710,725 on June 30, 2021, 2020 and 2019, respectively. The deposit balance reduction to \$0 at June 30, 2021 is further detailed at Note L. Interest expense for these deposits for the years ended June 30, 2021, 2020 and 2019 was \$22,209, \$16,082 and \$18,531, respectively.

The Program pays a fee to the Pastoral Center for administrative support. The administrative support fee for the years ended June 30, 2021 and 2020 was \$85,000, and year ended June 30, 2019 was \$65,000.

## NOTE I - INCOME TAXES

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

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

## NOTE J - FAIR VALUE MEASUREMENTS

Financial Accounting Standards Board Accounting Standards Codification Topic 820-10, *Fair Value Measurements*, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Program has the ability to access.

Level 2 - Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability; and
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2021.

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

NOTES TO FINANCIAL STATEMENTS - Continued

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

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

<u>Level 2 Assets at Fair Value as of June 30.</u>			
	<u>2021</u>	<u>2020</u>	<u>2019</u>
MCC Investment Pool Mutual Funds			
Cash & Cash Equivalents	\$ 269,418	\$ 3,291,757	\$ 7,233,023
Equity Growth	2,210,304	1,495,643	1,645,779
Equity Value	2,387,164	1,365,322	1,478,915
Equity Mid/Small Cap	1,600,695	868,070	704,826
Equity Large Cap	4,688,873	2,824,675	3,059,654
Equity International	3,526,991	2,078,617	3,078,409
Equity Balanced	-	881,936	374,693
Equity GSA	1,212,730	973,340	-
Treasury Bill - Short-Term	1,364,927	-	-
Bond - Intermediate	7,036,090	4,496,727	2,127,320
Bond - Short-Term	<u>7,481,670</u>	<u>4,533,322</u>	<u>6,151,777</u>
Total	<u>\$31,778,862</u>	<u>\$22,809,409</u>	<u>\$25,854,396</u>

**NOTE K - RISKS AND UNCERTAINTIES**

***COVID-19***

On March 10, 2020, the World Health Organization declared the coronavirus outbreak (COVID-19) a pandemic. The Program believes it understands the risk associated with COVID-19. The Program has implemented risk mitigation tactics related to its operations within and outside of the Program in response to the risks caused by COVID-19. The extent to which the pandemic impacts operations will depend on future developments, which are highly uncertain at this time, and cannot be predicted.

**NOTE L - SUBSEQUENT EVENTS**

The Diocese of Gaylord's Deposit and Loan Program ("Program") will be restructured as of July 1, 2021. Prior to July 1, 2021, the Program existed as an implied trust, meaning that the Diocese held the funds for the participants' benefit, but without certain advantages available to express trusts. Effective July 1, 2021, the eligible participants will deposit their assets with the Bishop, as Trustee of the new Diocese of Gaylord Deposit and Loan Program Trust (the "DLP Trust"). The DLP Trust is an express trust that is intended to qualify as an asset protection trust under the Michigan Qualified Dispositions in Trust Act ("Act"). Qualification under this Act generally restricts a creditor's ability to reach the assets in trust, which is a significant benefit to the Program participants that did not necessarily exist prior to the restructuring.

There are three documents that govern the program: the Trust Agreement, Bylaws, and Participation Agreements. The Trust Agreement is the main governing document for the Program, and contains details as to the administration and management of the participants' accounts and other trust assets. The Bylaws set forth the procedures by which participants may request withdrawals and loans, as well as how interest is allocated among the participants. Finally, each participant will sign a Participation Agreement confirming the participant's intent to participate in the Program.

The Bishop is the Trustee of the DLP Trust and, as such, has ultimate authority and control over the Program. The assets of the DLP Trust are divided into shares (or "accounts") for each participant. Each participant's account will reflect the contributions such participant makes to the Program, as increased for interest earned and decreased for withdrawals and expenses charged to the account. The DLP Trust has legal title to all Program assets, including the assets in the participants' accounts. Each participant has a beneficial interest in the DLP Trust, limited to the amount of assets in such participant's account. This structure allows the DLP Trust to qualify for the enhanced creditor protections under the Act.

Participants may request withdrawals and loans from the DLP Trust in accordance with the procedures set forth in the Bylaws. A participant may withdraw up to the amount held in such participant's account, but loan requests may exceed that amount. The Bishop, as Trustee, will approve (or deny, if appropriate) requests for withdrawals and loans. In reviewing such requests, the Bishop may consult with the Diocesan Finance Council and the College of Consultants.