

Roman Catholic Diocese of Gaylord

FINANCIAL STATEMENTS
AND REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS

June 30, 2010 and 2009

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

The Most Reverend Bernard A. Hebda
Roman Catholic Diocese of Gaylord

We have audited the accompanying statements of financial position of the *Roman Catholic Diocese of Gaylord* (the "Diocese") as of June 30, 2010 and 2009, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of Diocesan management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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 as of June 30, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary financial information listed in the table of contents is presented for the purposes of additional analysis and is not a required part of the basic financial statements of the Diocese. Such information has been subjected to the auditing procedures applied during the audits of the basic financial statements and, in our opinion, it is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Dennis, Gartland & Niergarth

September 30, 2010

Roman Catholic Diocese of Gaylord

STATEMENTS OF FINANCIAL POSITION

June 30,

	2010	2009
ASSETS		
Cash and cash equivalents	\$ 1,051,085	\$ 2,337,687
Investment in marketable securities	4,021,928	3,548,001
Deposits with Deposit and Loan Program	364,390	334,424
Receivable from Northern Michigan Catholic Foundation	172,987	-
Pledge receivables	1,894,312	1,945,041
Other current assets	687,856	572,244
Total current assets	8,192,558	8,737,397
Interest in Northern Michigan Catholic Foundation	4,914,530	3,907,753
Land, buildings and equipment, net of accumulated depreciation	3,404,823	3,449,269
Total assets	\$16,511,911	\$16,094,419
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and other liabilities	\$ 129,620	\$ 133,529
Due to Parishes and other Diocesan organizations	115,017	119,037
Total current liabilities	244,637	252,566
Deferred Priest compensation and education liability	10,061	68,343
Total liabilities	254,698	320,909
NET ASSETS		
Unrestricted		
Designated	7,986,847	7,777,145
Undesignated	(497,511)	270,839
Temporarily restricted		
Endowments	101,005	108,515
Native American programs	23,604	23,604
Use in future years	3,052,960	3,061,294
Permanently restricted		
Perpetual care of cemetery	382,814	382,814
Endowments	5,207,494	4,149,299
Total net assets	16,257,213	15,773,510
Total liabilities and net assets	\$16,511,911	\$16,094,419

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

Roman Catholic Diocese of Gaylord

STATEMENTS OF ACTIVITIES

Years ended June 30,

	2010				2009			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUE								
CSA campaign	\$ -	\$ 3,028,729	\$ -	\$ 3,028,729	\$ -	\$ 3,061,294	\$ -	\$ 3,061,294
Contributions	100,979	-	-	100,979	56,030	-	-	56,030
Investment income	142,503	-	-	142,503	182,591	3,122	-	185,713
Net (loss) gain on investment	331,565	-	43,909	375,474	(428,925)	-	(57,287)	(486,212)
Loss on sale of property	(19,991)	-	-	(19,991)	(18,750)	-	-	(18,750)
Program and other revenue	797,423	-	-	797,423	1,071,347	-	-	1,071,347
Change in interest in Northern Michigan Catholic Foundation	-	101,005	-	101,005	-	108,515	-	108,515
Assets released from restrictions	3,145,578	(3,145,578)	-	-	3,092,804	(3,092,804)	-	-
Total support and revenue	<u>4,498,057</u>	<u>(15,844)</u>	<u>43,909</u>	<u>4,526,122</u>	<u>3,955,097</u>	<u>80,127</u>	<u>(57,287)</u>	<u>3,977,937</u>
EXPENSES								
Office of the Bishop	168,477	-	-	168,477	147,720	-	-	147,720
Administrative services	883,333	-	-	883,333	716,238	-	-	716,238
Communications	248,182	-	-	248,182	347,214	-	-	347,214
Peace and Justice	64,917	-	-	64,917	54,380	-	-	54,380
Faith Formation	459,206	-	-	459,206	478,989	-	-	478,989
Building and grounds	228,084	-	-	228,084	214,229	-	-	214,229
Worship/Liturgy	111,119	-	-	111,119	125,842	-	-	125,842
Support of clergy	136,791	-	-	136,791	99,417	-	-	99,417
Vocations	309,057	-	-	309,057	222,988	-	-	222,988
Tribunal	87,019	-	-	87,019	84,330	-	-	84,330
Local grants	414,878	-	-	414,878	421,274	-	-	421,274
Hispanic Ministry	69,088	-	-	69,088	59,812	-	-	59,812
National donations	230,466	-	-	230,466	229,865	-	-	229,865
Depreciation	242,184	-	-	242,184	221,456	-	-	221,456
Investment management expense	23,044	-	-	23,044	12,604	-	-	12,604
Oakwood Diocesan Cemetery	150,789	-	-	150,789	162,623	-	-	162,623
Other	215,785	-	-	215,785	329,759	-	-	329,759
Total expenses	<u>4,042,419</u>	<u>-</u>	<u>-</u>	<u>4,042,419</u>	<u>3,928,740</u>	<u>-</u>	<u>-</u>	<u>3,928,740</u>
CHANGES IN NET ASSETS	455,638	(15,844)	43,909	483,703	26,357	80,127	(57,287)	49,197
NET ASSETS, beginning of year	8,047,984	3,193,413	4,532,113	15,773,510	8,042,599	3,113,286	4,568,428	15,724,313
Transfer to Northern Michigan Catholic Foundation	(1,014,286)	-	1,014,286	-	(20,972)	-	20,972	-
NET ASSETS, end of year	<u>\$ 7,489,336</u>	<u>\$ 3,177,569</u>	<u>\$ 5,590,308</u>	<u>\$ 16,257,213</u>	<u>\$ 8,047,984</u>	<u>\$ 3,193,413</u>	<u>\$ 4,532,113</u>	<u>\$ 15,773,510</u>

-4- The accompanying notes are an integral part of these financial statements.

Roman Catholic Diocese of Gaylord

STATEMENTS OF CASH FLOWS

Years ended June 30,

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 483,703	\$ 49,197
Adjustments to reconcile change in net assets in net cash from operating activities		
Depreciation expense	242,184	221,456
Investment income reinvested, net	(92,488)	(126,048)
Net loss (gain) on sales of investment of marketable securities	(169,356)	391,711
Net loss on sale of property and equipment	19,991	18,750
Unrealized loss (gain) on investments in marketable securities	(212,084)	102,722
Non-cash change in interest in Northern Michigan Catholic Foundation	(115,292)	(129,487)
Increase in pledges and other receivables	(122,259)	(116,300)
Increase in other assets	(115,612)	(100,314)
Increase (decrease) in accounts payable and other liabilities	(66,210)	5,025
Net cash flows (used) provided by operating activities	(147,423)	316,712
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property and equipment	(217,729)	(136,977)
Additions to deposits with Deposit and Loan Program	(29,965)	(96,988)
Distribution from Northern Michigan Catholic Foundation	108,515	160,940
Transfer to Northern Michigan Catholic Foundation	(1,000,000)	-
Net cash flows used by investing activities	(1,139,179)	(73,025)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,286,602)	243,687
CASH AND CASH EQUIVALENTS, beginning of year	2,337,687	2,094,000
CASH AND CASH EQUIVALENTS, end of year	\$ 1,051,085	\$ 2,337,687

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

Roman Catholic Diocese of Gaylord

NOTES TO FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Roman Catholic Diocese of Gaylord (the "Diocese") was established on July 20, 1971. 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 is composed of eighty Parishes. The Diocesan accounting functions included in this report are maintained at the Diocesan Administrative 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 No. 958, *Not-For-Profit Entities*.

Financial Statement Presentation

All financial transactions have been recorded and reported by asset classes as follows:

Unrestricted Net Assets represent net assets generally available for support of Diocesan operations.

Temporarily Restricted Net Assets represent net assets restricted by a donor, grantor or other outside party for particular operating purposes or for use in a specified future period. These assets are reported as revenue when the Diocese receives the assets and are transferred to Unrestricted Net Assets when the purpose restriction or time restrictions have been met.

Permanently Restricted Net Assets represent assets subject to restrictions of gift and trust instruments requiring that the principal be invested in perpetuity and the income only be used for particular purposes. Income received by these assets is reported as revenue in the Temporarily Restricted Funds until the Diocese has incurred expenses in compliance with the underlying gift or trust instruments.

Reporting Entity

The accompanying financial statements exclude the assets, liabilities and operations of the Diocesan Deposit and Loan Program, the Northern Michigan Catholic Foundation, Parishes and related Parish organizations, parish cemeteries, schools, foundations and other similar entities located within the Roman Catholic Diocese of Gaylord. Each of these affiliated entities, although ultimately responsible to the Bishop, is an operating entity distinct from the Administrative Offices of the Diocese. Each entity maintains separate financial records, and carries on its own services and programs.

NOTES TO FINANCIAL STATEMENTS - Continued

The Diocese reports as an asset its interest in the Northern Michigan Catholic Foundation related to permanent transfers for which the Diocese has specified itself or a related organization as the income beneficiary. It also reports as an asset amounts deposited with the Deposit and Loan Program.

Investments

Investments in marketable equity securities with readily determinable fair values and investments in debt securities, are valued at their fair market 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 an investment pool sponsored by the Michigan Catholic Conference. 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 by the 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.

Interest in Northern Michigan Catholic Foundation

The Diocesan interest in the Northern Michigan Catholic Foundation includes amounts transferred to the Foundation by the Diocese, naming itself or an affiliated organization as the beneficiary. The Diocesan interest is increased by additional transfers and the results of Foundation operations (distributable investment income) and decreased by distributions.

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 temporarily restricted support. 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.

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.

NOTE B - CASH AND CASH EQUIVALENTS

The Diocese maintains a pooled cash account, which includes 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 \$1,051,085 and \$2,337,687 for the years ended June 30, 2010 and 2009, respectively.

NOTES TO FINANCIAL STATEMENTS - Continued

The cash accounts composing the pool are maintained at various insured financial institutions in the name of the Diocese. The accounts were fully insured at June 30, 2010.

NOTE C - INVESTMENTS

Investments comprise the following:

	2010		2009	
	Cost	Market Value	Cost	Market Value
Money market mutual funds	\$ 5	\$ 5	\$ 42	\$ 42
Stock mutual funds	2,213,459	1,938,731	2,297,907	1,887,684
Bond mutual funds	<u>2,070,441</u>	<u>2,083,192</u>	<u>1,724,113</u>	<u>1,660,275</u>
	<u>\$ 4,283,905</u>	<u>\$ 4,021,928</u>	<u>\$ 4,022,062</u>	<u>\$ 3,548,001</u>

Investment custody and management is performed by the Michigan Catholic Conference who manages an investment pool 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 D - INTEREST IN NORTHERN MICHIGAN CATHOLIC FOUNDATION

The interest in Northern Michigan Catholic Foundation (the "Foundation") changed as follows:

	2010	2009
Beginning balance	\$ 3,907,753	\$ 3,939,206
Transfers to Foundation	1,014,287	20,972
Change resulting from Foundation operation	101,005	108,515
Distributions	<u>(108,515)</u>	<u>(160,940)</u>
Ending balance	<u>\$ 4,914,530</u>	<u>\$ 3,907,753</u>

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE E - FIXED ASSETS

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

	<u>2010</u>	<u>2009</u>
Land and buildings	\$ 4,852,497	\$ 4,754,467
Furniture and equipment	1,055,858	1,018,016
Automobiles	<u>83,622</u>	<u>55,873</u>
Total land, buildings and equipment, at cost	5,991,977	5,828,356
Less accumulated depreciation	<u>(2,587,154)</u>	<u>(2,379,087)</u>
Total land, building and equipment, net of accumulated depreciation	<u>\$ 3,404,823</u>	<u>\$ 3,449,269</u>

NOTE F - FAIR VALUE MEASUREMENTS

Financial Accounting Standards Board Accounting Standards Codification 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 Plan 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;
- 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.

NOTES TO FINANCIAL STATEMENTS - Continued

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, 2010.

Mutual funds: Valued at the net asset value ("NAV") of 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 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual Funds				
June 30, 2010	<u>\$ 4,021,928</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,021,928</u>
June 30, 2009	<u>\$ 3,548,001</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,548,001</u>

NOTE G - ENDOWMENTS

The Diocese endowment consists of multiple funds established for a variety of purposes. Its endowment consist of donor restricted donations, and realized and unrealized losses. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

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

	<u>2010</u>	<u>2009</u>
Unrestricted	\$ 423,963	\$ 384,226
Temporarily restricted	101,005	108,515
Permanently restricted	<u>5,207,494</u>	<u>4,149,299</u>
	<u>\$ 5,732,462</u>	<u>\$ 4,642,040</u>

NOTES TO FINANCIAL STATEMENTS - Continued

The net changes in endowment net assets are as follows for June 30, 2010:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 384,226	\$ 108,515	\$ 4,149,299	\$ 4,642,040
Investment income	27,078	-	-	27,078
Change in interest in Northern Michigan Catholic Foundation	-	101,005	-	101,005
Net appreciation (realized and unrealized)	-	-	43,909	43,909
Contributions	-	-	1,014,286	1,014,286
Appropriation of endowment assets for expenditure	108,515	(108,515)	-	-
Actual expenditures	<u>(95,856)</u>	<u>-</u>	<u>-</u>	<u>(95,856)</u>
Endowment net assets, end of year	<u>\$ 423,963</u>	<u>\$ 101,005</u>	<u>\$ 5,207,494</u>	<u>\$ 5,732,462</u>

Return Objectives and Risk Parameters

The Board 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 Board 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

A significant portion of endowment funds are held as an interest in Northern Michigan Catholic Foundation; such funds are subject to Foundation objectives and strategies.

To meet investment objectives for remaining endowment funds, the board 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 to help insure they are moral and socially responsible.

NOTES TO FINANCIAL STATEMENTS - Continued

Spending Policy and How the Investment Objectives Relate to Spending Policy

For the Olson Fund, capital gains, net of capital losses, have been added to the original corpus of \$208,582. Interest and dividends are added to the spendable unrestricted net assets of the endowment.

For other endowments held by the Northern Michigan Catholic Foundation, the Foundation Board, with the consent of affected donors and beneficiaries, has established a policy that calls for the distribution and/or reinvestment of investment income. Beneficiaries are provided with the option of receiving a distribution of the investment income (interest and dividends) earned during a fiscal year in two equal installments on December 1 and June 1 of the following fiscal year. Such distributions are recorded when paid. Alternatively, the beneficiary may elect to contribute the earnings to permanently restricted assets.

NOTE H - FUNCTIONAL EXPENSES

The Diocese provides various services to residents within its geographic area. Expenses related to providing these services are as follows:

	<u>2010</u>	<u>2009</u>
Program services		
Office of the Bishop	\$ 168,477	\$ 147,720
Communications	248,182	347,214
Peace and Justice	64,917	54,380
Faith Formation	459,206	478,989
Worship/Liturgy	111,119	125,842
Support of clergy	136,791	99,417
Vocations	309,057	222,988
Tribunal	87,019	84,330
Local grants	414,878	421,274
Hispanic Ministry	69,088	59,812
National donations	230,466	229,865
Oakwood Diocesan Cemetery	<u>150,789</u>	<u>162,623</u>
Total program services	<u>2,449,989</u>	<u>2,434,454</u>
General and administrative		
Administrative services	\$ 730,753	\$ 565,882
Buildings and grounds	228,084	214,229
Depreciation	242,184	221,456
Investment manager expense	23,044	12,604
Other	<u>215,785</u>	<u>329,759</u>
Total general and administrative	<u>1,439,850</u>	<u>1,343,930</u>
Fundraising	<u>152,580</u>	<u>150,356</u>
Total expenses	<u>\$ 4,042,419</u>	<u>\$ 3,928,740</u>

NOTE I - RETIREMENT PLANS

Lay Employees' Plan

The Diocese contributes to a 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 \$61,324 and \$56,434 for the years ended June 30, 2010 and 2009, 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 Roman Catholic Diocese of Gaylord and other plan data are not available since the MCC does not compute such information for each participating Diocese.

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 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 multiple employers, including the Diocese, parishes and other Catholic organizations.

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

The following information is based on the most recent actuarial review conducted as of July 1, 2009.

Actuarial accrued liability	\$ 7,772,709
Market value of Plan assets	5,156,308
Unfunded accrued liability	2,616,401
Contributions (all employers)	350,814
Interest rate	8%
Annual post-retirement premium increase	6%

Post-Retirement Benefits

In connection with the establishment of the Priests' Plan described above, the Diocese has created a Priests' Health and Welfare 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 \$2,440,758 as of June 30, 2010.

NOTE J - CONTINGENCIES AND COMMITMENTS

Other Diocesan Organizations

As indicated in Note A, the assets, liabilities, activities and cash flows of the Parishes and other Catholic organizations are excluded from the accompanying financial statements. The Diocese, under current State statutes, owns all of the assets of the Parishes within the Diocese and of certain other Catholic organizations and is contingently liable for all third-party debts of the Parishes and the other Catholic organizations.

The Diocese is also contingently liable for any claims against the Parishes and certain other Catholic organizations arising from legal actions and other claims incidental to normal operations of these organizations. Management of the Diocese is not aware of any commitments or contingencies of other Diocesan organizations that would have a material impact on these financial statements.

NOTE K - 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. The Roman Catholic Diocese of Gaylord's property (including parish property) which has been assessed at well over \$20 million makes them eligible for the Program which requires \$5 million in net worth. Insurance expense representing the Roman Catholic Diocese of Gaylord's contribution to the Program for the years ended June 30, 2010 and 2009, was \$31,314 and \$28,490, respectively. Premiums paid by all Diocesan Parishes and agencies in excess of reserves for claims are made available to the Diocese.

The Diocese also self insures for unemployment and workers' compensation through the Michigan Catholic Conference.

NOTE L - INCOME TAXES

The Roman Catholic Diocese of Gaylord is exempt from Federal income taxes under Internal Revenue Code Section 501(c)(3). The Diocese has also been 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.

NOTE M - SUBSEQUENT EVENTS

The Roman Catholic Diocese of Gaylord has evaluated events and transactions to June 30, 2010 for potential recognition and disclosure through September 30, 2010, the date the financial statements were available to be issued. Management has not identified any subsequent events through September 30, 2010.

SUPPLEMENTARY FINANCIAL INFORMATION

Roman Catholic Diocese of Gaylord

SCHEDULE OF FINANCIAL POSITION BY FUND CLASSIFICATION

June 30, 2010

(With Comparative Totals for June 30, 2009)

	Expendable Funds				Nonexpendable Funds				Total	2009 Total
	Operating	Reserve	Priests	Bishop's Donations	Trust and Agency	Olson	Endowment	Fixed Assets		
ASSETS										
Cash and cash equivalents	\$ (19,001)	\$ 147,649	\$ 908,690	\$ 25,210	\$ 112,586	\$ (8,863)	\$ -	\$ 57,801	\$ 1,224,072	\$ 2,337,687
Investments in marketable securities	1,102,305	991,979	1,461,819	-	3,420	462,405	-	-	4,021,928	3,548,001
Investment in Deposit and Loan Program	-	-	-	-	-	-	364,390	-	364,390	334,424
Pledges receivable	1,894,312	-	-	-	-	-	-	-	1,894,312	1,945,041
Other current assets	112,779	384,667	71,239	-	9,174	-	-	109,997	687,856	572,244
Total current assets	3,090,395	1,524,295	2,441,748	25,210	125,180	453,542	364,390	167,798	8,192,558	8,737,397
Interest in Northern Michigan Catholic Foundation	-	-	-	-	-	-	4,914,530	-	4,914,530	3,907,753
Land, buildings and equipment, net of accumulated depreciation	-	-	-	-	-	-	-	3,404,823	3,404,823	3,449,269
Total assets	<u>\$ 3,090,395</u>	<u>\$ 1,524,295</u>	<u>\$ 2,441,748</u>	<u>\$ 25,210</u>	<u>\$ 125,180</u>	<u>\$ 453,542</u>	<u>\$ 5,278,920</u>	<u>\$ 3,572,621</u>	<u>\$ 16,511,911</u>	<u>\$ 16,094,419</u>
LIABILITIES AND NET ASSETS										
LIABILITIES										
Accounts payable and other liabilities	\$ 128,528	\$ -	\$ 990	\$ -	\$ 102	\$ -	\$ -	\$ -	\$ 129,620	\$ 133,529
Due to Parishes and other Diocesan organizations	-	-	-	-	115,017	-	-	-	115,017	119,037
Total current liabilities	128,528	-	990	-	115,119	-	-	-	244,637	252,566
Deferred Priest compensation and education liability	-	-	-	-	10,061	-	-	-	10,061	68,343
Total liabilities	<u>128,528</u>	<u>-</u>	<u>990</u>	<u>-</u>	<u>125,180</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>254,698</u>	<u>320,909</u>
NET ASSETS										
Unrestricted										
Designated										
Future operating costs	-	-	2,440,758	-	-	-	364,390	-	2,805,148	2,380,626
Capital purchases	-	-	-	-	-	-	-	3,572,621	3,572,621	3,720,987
Bishop's donations	-	-	-	25,210	-	-	-	-	25,210	30,657
Olson Fund	-	-	-	-	-	59,573	-	-	59,573	49,802
Diocesan reserve	-	1,524,295	-	-	-	-	-	-	1,524,295	1,595,073
Undesignated	(497,511)	-	-	-	-	-	-	-	(497,511)	270,839
Temporarily restricted										
For specified use										
Native American Program	23,604	-	-	-	-	-	-	-	23,604	23,604
Northern Michigan Catholic Foundation	-	-	-	-	-	-	101,005	-	101,005	108,515
For use in future years	3,052,960	-	-	-	-	-	-	-	3,052,960	3,061,294
Permanently restricted										
Perpetual care of cemetery	382,814	-	-	-	-	-	-	-	382,814	382,814
Olson Fund	-	-	-	-	-	393,969	-	-	393,969	350,061
Endowments at Northern Michigan Catholic Foundation	-	-	-	-	-	-	4,813,525	-	4,813,525	3,799,238
Total net assets	<u>2,961,867</u>	<u>1,524,295</u>	<u>2,440,758</u>	<u>25,210</u>	<u>-</u>	<u>453,542</u>	<u>5,278,920</u>	<u>3,572,621</u>	<u>16,257,213</u>	<u>15,773,510</u>
Total liabilities and net assets	<u>\$ 3,090,395</u>	<u>\$ 1,524,295</u>	<u>\$ 2,441,748</u>	<u>\$ 25,210</u>	<u>\$ 125,180</u>	<u>\$ 453,542</u>	<u>\$ 5,278,920</u>	<u>\$ 3,572,621</u>	<u>\$ 16,511,911</u>	<u>\$ 16,094,419</u>

Roman Catholic Diocese of Gaylord

SCHEDULE OF ACTIVITIES BY FUND CLASSIFICATION

Year Ended June 30, 2010

(With Comparative Totals for the Year Ended June 30, 2009)

	Expendable Funds						Fixed Assets	Total	2009 Total
	Operating	Reserve	Priests	Bishop's Donations	Olson Fund	Endowment			
SUPPORT AND REVENUE									
CSA campaign	\$ 3,028,729	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,028,729	\$ 3,061,294
Contributions	12,350	56,200	30,000	-	-	2,429	-	100,979	56,030
Investment income	34,341	45,006	35,617	88	12,835	14,243	373	142,503	185,713
Net(loss) gains on investment	128,343	141,379	61,843	-	43,909	-	-	375,474	(486,212)
Gain (loss) on sale of property	88	29,921	-	-	-	-	(50,000)	(19,991)	(18,750)
Program and other revenue	572,227	6,843	218,153	-	-	-	200	797,423	1,071,347
Change in interest in Northern Michigan Catholic Foundation	-	-	-	-	-	101,005	-	101,005	108,515
Total support and revenue	3,776,078	279,349	345,613	88	56,744	117,677	(49,427)	4,526,122	3,977,937
EXPENSES									
Office of the Bishop	164,907	-	-	3,570	-	-	-	168,477	147,720
Administrative services	883,333	-	-	-	-	-	-	883,333	716,238
Communications	248,182	-	-	-	-	-	-	248,182	347,214
Peace and Justice	64,917	-	-	-	-	-	-	64,917	54,380
Faith Formation	459,206	-	-	-	-	-	-	459,206	478,989
Building and grounds	228,084	-	-	-	-	-	-	228,084	214,229
Worship/Liturgy	111,119	-	-	-	-	-	-	111,119	125,842
Support of clergy	41,497	-	95,294	-	-	-	-	136,791	99,417
Vocations	309,057	-	-	-	-	-	-	309,057	222,988
Tribunal	87,019	-	-	-	-	-	-	87,019	84,330
Local grants	414,878	-	-	-	-	-	-	414,878	421,274
Hispanic Ministry	69,088	-	-	-	-	-	-	69,088	59,812
National donations	230,466	-	-	-	-	-	-	230,466	229,865
Depreciation	-	-	-	-	-	-	242,184	242,184	221,456
Investment management expense	2,559	12,407	5,013	-	3,065	-	-	23,044	12,604
Oakwood Diocesan Cemetery	150,789	-	-	-	-	-	-	150,789	162,623
Other	55,259	158,561	-	1,965	-	-	-	215,785	329,759
Total expenses	3,520,360	170,968	100,307	5,535	3,065	-	242,184	4,042,419	3,928,740
CHANGES IN NET ASSETS	255,718	108,381	245,306	(5,447)	53,679	117,677	(291,611)	483,703	49,197
Transfers in (out)	(1,032,402)	(179,159)	149,250	-	-	919,066	143,245	-	-
NET ASSETS, beginning of year	3,738,551	1,595,073	2,046,202	30,657	399,863	4,242,177	3,720,987	15,773,510	15,724,313
NET ASSETS, end of year	\$ 2,961,867	\$ 1,524,295	\$ 2,440,758	\$ 25,210	\$ 453,542	\$ 5,278,920	\$ 3,572,621	\$ 16,257,213	\$ 15,773,510

Roman Catholic Diocese of Gaylord

SCHEDULE OF OTHER CURRENT ASSETS AND ACCOUNTS PAYABLE AND OTHER LIABILITIES

June 30, 2010
(With Comparative Totals for June 30, 2009)

	Other Current Assets						2009 Total
	Operating	Reserve	Priests	Trust and Agency	Fixed Assets	Total	
Accounts and notes receivable	\$ 50,836	\$ 384,667	\$ 71,239	\$ 9,174	\$ -	\$ 515,916	\$ 432,925
Prepaid expense	29,425	-	-	-	-	29,425	-
Supplies inventory	<u>32,518</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>109,997</u>	<u>142,515</u>	<u>139,319</u>
Total	<u>\$ 112,779</u>	<u>\$ 384,667</u>	<u>\$ 71,239</u>	<u>\$ 9,174</u>	<u>\$ 109,997</u>	<u>\$ 687,856</u>	<u>\$ 572,244</u>
	Accounts Payable and Other Liabilities						2009 Total
	Operating	Reserve	Priests	Trust and Agency	Fixed Assets	Total	
Accounts payable	\$ 95,933	\$ -	\$ 990	\$ 102	\$ -	\$ 97,025	\$ 107,867
Accrued retirement and payroll withholdings	<u>32,595</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>32,595</u>	<u>25,662</u>
Total	<u>\$ 128,528</u>	<u>\$ -</u>	<u>\$ 990</u>	<u>\$ 102</u>	<u>\$ -</u>	<u>\$ 129,620</u>	<u>\$ 133,529</u>