

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

FINANCIAL STATEMENTS
AND REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS

June 30, 2020, 2019 and 2018

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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"), which comprise the statements of financial position as of June 30, 2020, 2019 and 2018, and the related statements of activities and functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

Most Reverend 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 Roman Catholic Diocese of Gaylord Deposit and Loan Program as of June 30, 2020, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Dennis, Gartland & Niergarth

February 17, 2021

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

STATEMENTS OF FINANCIAL POSITION

June 30,

	2020	2019	2018
ASSETS			
Cash and cash equivalents	\$ 6,652,927	\$ 3,030,450	\$ 3,020,104
Investments in marketable securities	22,809,409	25,854,396	33,382,190
Loans due within one year	365,349	426,369	469,157
Accounts receivable	-	-	20,906
Accrued interest receivable	13,118	13,183	7,448
Total current assets	29,840,803	29,324,398	36,899,805
Loans due after one year	5,709,033	5,811,869	3,223,967
	\$ 35,549,836	\$ 35,136,267	\$ 40,123,772
LIABILITIES			
CURRENT LIABILITIES			
Accounts payable	\$ -	\$ -	\$ 1,570
Deposits	26,521,877	26,727,123	32,535,349
Total current liabilities	26,521,877	26,727,123	32,536,919
NET ASSETS			
Without donor restrictions	9,027,959	8,409,144	7,586,853
	\$ 35,549,836	\$ 35,136,267	\$ 40,123,772

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,

	2020	2019	2018
SUPPORT AND REVENUE			
Investment income, net of investment expense	\$ 479,826	\$ 624,561	\$ 661,761
Loan interest income	255,222	158,786	156,780
Net gain on investments	494,674	859,181	1,703,974
Total support and revenue	1,229,722	1,642,528	2,522,515
EXPENSES			
Program expenses			
Interest	503,264	743,527	597,405
General and administrative	107,643	76,710	72,760
Total expenses	610,907	820,237	670,165
CHANGE IN NET ASSETS	618,815	822,291	1,852,350
NET ASSETS, beginning of year	8,409,144	7,586,853	5,734,503
NET ASSETS, end of year	\$ 9,027,959	\$ 8,409,144	\$ 7,586,853

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,

	2020	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Change in net assets	\$ 618,815	\$ 822,291	\$ 1,852,350
Adjustments to reconcile change in net assets to net cash from operating activities			
Gain (loss) on investments	(494,674)	(859,181)	(1,703,974)
Investment income reinvested, net	(460,339)	(613,025)	(658,669)
Increase (decrease) in accounts payable	-	(1,570)	1,158
(Increase) decrease in accounts receivable	-	20,906	(20,906)
(Increase) decrease in accrued interest receivable	65	(5,735)	6,158
Net cash flows from operating activities	(336,133)	(636,314)	(523,883)
CASH FLOWS FROM INVESTING ACTIVITIES			
Withdrawal from investments pool	4,000,000	9,000,000	400,000
Loan payments received	1,455,845	521,797	566,184
New loans distributed	(1,291,989)	(3,066,911)	(140,466)
Net cash flows from investing activities	4,163,856	6,454,886	825,718
CASH FLOWS FROM FINANCING ACTIVITIES			
Net deposits (withdrawals) by Parishes and other Diocesan organizations	(205,246)	(5,808,226)	(2,362,717)
NET CHANGE IN CASH AND CASH EQUIVALENTS	3,622,477	10,346	(2,060,882)
Cash and cash equivalents, beginning of year	3,030,450	3,020,104	5,080,986
Cash and cash equivalents, end of year	\$ 6,652,927	\$ 3,030,450	\$ 3,020,104
Additional information			
Interest paid during the year	\$ 503,264	\$ 743,527	\$ 597,405

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, 2020, 2019 and 2018, 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.

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 17, 2021, the date the financial statements were available to be issued.

NOTE B - 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>	<u>2018</u>
Cash and cash equivalents	\$ 6,652,927	\$ 3,030,450	\$ 3,020,104
Investments in marketable securities	22,809,409	25,854,396	33,382,190
Loans due within one year	365,349	426,369	469,157
Accounts receivable	-	-	20,906
Accrued interest receivable	13,118	13,183	7,448
Less: deposits	<u>(26,521,877)</u>	<u>(26,727,123)</u>	<u>(32,535,349)</u>
Totals	<u>\$ 3,318,926</u>	<u>\$ 2,597,275</u>	<u>\$ 4,364,456</u>

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE C - CASH AND CASH EQUIVALENTS

The Program maintains its cash in a pooled account administered by the Roman Catholic Diocese of Gaylord. Each participant's share of the pooled account is displayed on its statement of financial position as cash and cash equivalents, or, in the case of an overdraft, as outstanding checks. At June 30, 2020, the Program's balance represented about 90% of the pool.

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

NOTE D - INVESTMENTS

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

	<u>2020</u>		<u>2019</u>		<u>2018</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	\$ 3,291,757	\$ 3,291,757	\$ 7,233,024	\$ 7,233,023	\$ 4,120,358	\$ 4,120,358
Stock mutual funds	12,781,523	14,984,330	10,365,240	12,469,596	17,185,856	19,402,250
Bond mutual funds	<u>4,472,673</u>	<u>4,533,322</u>	<u>6,152,723</u>	<u>6,151,777</u>	<u>10,052,366</u>	<u>9,859,582</u>
	<u>\$20,545,953</u>	<u>\$22,809,409</u>	<u>\$23,750,987</u>	<u>\$25,854,396</u>	<u>\$31,358,580</u>	<u>\$33,382,190</u>

NOTE E - 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, 2020, 2019 and 2018 was recommended by the Roman Catholic Diocese of Gaylord's Finance Council and approved by the Bishop.

A Parish and two Catholic Schools, all with loan balances in excess of \$694,000, account for approximately 86% of the total balance.

NOTES TO FINANCIAL STATEMENTS - Continued

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

<u>Years Ending June 30,</u>	<u>Amount</u>
2021	\$ 365,349
2022	363,866
2023	350,701
2024	350,760
2025	339,839
2026-2030	881,793
2031-2035	<u>3,422,074</u>
	<u>\$ 6,074,382</u>

NOTE F - INTEREST BEARING DEPOSITS

Interest bearing deposits are due on demand to Parishes and other Catholic organizations. The interest rate was 2% for the year ended June 30, 2018, and an additional 1% for a total of 3% for the year ended June 30, 2019. The interest rate was 2% for year ended June 30, 2020 and is paid to depositors semi-annually. Interest of \$503,264, \$743,527 and \$597,405 was accrued and paid to Parishes and other Catholic organizations during the years ended June 30, 2020, 2019 and 2018, respectively.

NOTE G - 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 \$821,366, \$710,725 and \$595,740 on June 30, 2020, 2019 and 2018, respectively. Interest expense for these deposits for the years ended June 30, 2020, 2019 and 2018 was \$16,082, \$18,531 and \$11,761, respectively.

The Program pays a fee to the Pastoral Center for administrative support. The administrative support fee for the year ended June 30, 2020 was \$85,000, and years ended June 30, 2019 and 2018 was \$65,000.

NOTE H - 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.

NOTES TO FINANCIAL STATEMENTS - Continued

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 I - 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, 2020.

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>2020</u>	<u>2019</u>	<u>2018</u>
MCC Investment Pool Mutual Funds			
Cash & Cash Equivalents	\$ 3,291,757	\$ 7,233,023	\$ 4,120,358
Equity Growth	1,495,643	1,645,779	2,119,139
Equity Value	1,365,322	1,478,915	1,986,064
Equity Mid/Small Cap	868,070	704,826	1,123,552
Equity Large Cap	2,824,675	3,059,654	4,141,855
Equity International	2,078,617	3,078,409	5,172,517
Equity Balanced	881,936	374,693	1,564,081
Equity GSA	973,340	-	-
Bond - Intermediate	4,496,727	2,127,320	3,295,042
Bond - Short-Term	<u>4,533,322</u>	<u>6,151,777</u>	<u>9,859,582</u>
Total	<u>\$22,809,409</u>	<u>\$25,854,396</u>	<u>\$33,382,190</u>

NOTE J - COMMITMENTS AND CONTINGENCIES

COVID-19

On March 10, 2020 the World Health Organization declared the coronavirus outbreak (COVID-19) a pandemic. The Program 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 Program believes they understand the risk associated with COVID-19. The Program is in the process of implementing risk mitigation tactics as to the risk of the impact of COVID-19 related to all aspects of the Program's business transactions and human interaction within and outside of the Program. 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.