

**Roman Catholic Diocese of Gaylord
Pastoral Center**

FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT

June 30, 2022 and 2021

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INDEPENDENT AUDITOR'S REPORT

The Most Reverend Jeffrey J. Walsh
Bishop of the Diocese of Gaylord
Roman Catholic Diocese of Gaylord Pastoral Center

Opinion

We have audited the accompanying financial statements of the ***Roman Catholic Diocese of Gaylord Pastoral Center*** (the "Diocese") (a nonprofit organization), which comprise the statements of financial position as of June 30, 2022 and 2021, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

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, 2022, and 2021, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statement section of our report. We are required to be independent of the Diocese and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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, and for 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.

The Most Reverend Jeffrey J. Walsh
Bishop of the Diocese of Gaylord
Roman Catholic Diocese of Gaylord Pastoral Center

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Diocese's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Diocese's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

The Most Reverend Jeffrey J. Walsh
Bishop of the Diocese of Gaylord
Roman Catholic Diocese of Gaylord Pastoral Center

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 24 - 25 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.

Other Information

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, 2022 and 2021 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.

Dennis, Gartland & Niergarth

Certified Public Accountants
Traverse City, Michigan

December 19, 2022

**Roman Catholic Diocese of Gaylord
Pastoral Center**

STATEMENTS OF FINANCIAL POSITION

June 30,

	2022	2021
ASSETS		
Cash and cash equivalents	\$ 3,952,692	\$ 4,230,887
Investments in marketable securities	20,178,540	14,362,286
Accounts receivable	262,518	244,689
Refundable employer taxes	115,571	129,309
Pledges receivable, net	1,362,311	1,040,614
Inventory	186,517	193,547
Land held for sale	825,000	1,550,000
Prepaid expense	3,650	59,250
Total current assets	26,886,799	21,810,582
Land, buildings and equipment, net of accumulated depreciation	2,612,166	2,868,587
Total assets	\$29,498,965	\$24,679,169
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 202,428	\$ 215,888
Deferred revenue	20,000	44,000
Accrued retirement and payroll withholdings	84,284	107,124
Due to other organizations	1,078,752	1,688,894
Total liabilities	1,385,464	2,055,906
NET ASSETS		
Without donor restrictions		
Designated	19,564,898	13,922,447
Undesignated	3,657,273	3,997,950
With donor restrictions for use in future years	3,522,100	3,205,692
With donor restrictions in perpetuity		
Perpetual care of cemetery	436,247	430,796
Endowments	932,983	1,066,378
Total net assets	28,113,501	22,623,263
Total liabilities and net assets	\$29,498,965	\$24,679,169

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,

	2022			2021		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE						
CSA campaign - contributions	\$ -	\$ 3,493,256	\$ 3,493,256	\$ -	\$ 3,175,684	\$ 3,175,684
Professional fees	526,224	-	526,224	485,745	-	485,745
Grants	344,114	-	344,114	588,096	-	588,096
Cemetery income	81,702	5,451	87,153	78,087	4,688	82,775
Conference and stipends fees	43,850	-	43,850	34,650	-	34,650
Contributions	387,447	-	387,447	689,857	-	689,857
Investment income, net of fees	408,751	-	408,751	212,685	-	212,685
Net gain (loss) on investments	1,215,242	(140,010)	1,075,232	441,154	204,912	646,066
Unrealized gain (loss) on investments	(3,945,462)	-	(3,945,462)	1,895,144	-	1,895,144
Gain (loss) on disposal of property	213,742	-	213,742	500	-	500
Program and other revenue	174,964	-	174,964	104,147	-	104,147
Assets released from restrictions	3,175,684	(3,175,684)	-	2,908,246	(2,908,246)	-
Total support and revenue	<u>2,626,258</u>	<u>183,013</u>	<u>2,809,271</u>	<u>7,438,311</u>	<u>477,038</u>	<u>7,915,349</u>
EXPENSES						
Program services	<u>2,500,943</u>	<u>-</u>	<u>2,500,943</u>	<u>2,277,059</u>	<u>-</u>	<u>2,277,059</u>
Supporting services						
General and administrative	2,128,942	-	2,128,942	2,020,604	-	2,020,604
Fundraising	<u>255,765</u>	<u>-</u>	<u>255,765</u>	<u>184,076</u>	<u>-</u>	<u>184,076</u>
Total supporting services	<u>2,384,707</u>	<u>-</u>	<u>2,384,707</u>	<u>2,204,680</u>	<u>-</u>	<u>2,204,680</u>
Total expenses	<u>4,885,650</u>	<u>-</u>	<u>4,885,650</u>	<u>4,481,739</u>	<u>-</u>	<u>4,481,739</u>
CHANGES IN NET ASSETS BEFORE OTHER INCOME	(2,259,392)	183,013	(2,076,379)	2,956,572	477,038	3,433,610
PPP loan forgiveness	-	-	-	414,461	-	414,461
Employee retention tax credit	<u>-</u>	<u>-</u>	<u>-</u>	<u>279,829</u>	<u>-</u>	<u>279,829</u>
CHANGES IN NET ASSETS	(2,259,392)	183,013	(2,076,379)	3,650,862	477,038	4,127,900
NET ASSETS, beginning of year	17,920,397	4,702,866	22,623,263	14,269,535	4,225,828	18,495,363
Net transfer in (out)	<u>7,566,617</u>	<u>-</u>	<u>7,566,617</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET ASSETS, end of year	<u>\$ 23,227,622</u>	<u>\$ 4,885,879</u>	<u>\$ 28,113,501</u>	<u>\$ 17,920,397</u>	<u>\$ 4,702,866</u>	<u>\$ 22,623,263</u>

-6- 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, 2022

	Program Services	Supporting Services			Total Functional Expenses
		General and Administrative	Fundraising	Total	
Salaries	\$ 630,298	\$ 572,688	\$ 72,395	\$ 645,083	\$ 1,275,381
Employee benefits	176,708	168,297	27,719	196,016	372,724
Taxes	40,186	32,545	5,210	37,755	77,941
Total salaries, benefits, and taxes	847,192	773,530	105,324	878,854	1,726,046
Donations to others	526,550	48,857	-	48,857	575,407
Seminarian	116,514	-	-	-	116,514
Priest and pastoral care	132,721	15,793	-	15,793	148,514
Instructional and program	167,780	60,375	-	60,375	228,155
Bookstore and Catholic studies	3,098	-	-	-	3,098
Conferences, stipends	47,876	5,267	-	5,267	53,143
Printing and production	23,768	9,072	30,367	39,439	63,207
Communications and media	185,047	-	-	-	185,047
Equipment repair and maintenance	2,069	121,598	-	121,598	123,667
Utilities, insurance and taxes	6,030	118,644	-	118,644	124,674
Office administration	45,635	95,828	51,093	146,921	192,556
Professional services	346,377	548,119	68,917	617,036	963,413
Travel, mileage, education and meetings	24,147	56,510	64	56,574	80,721
Scholarships	12,400	-	-	-	12,400
Monuments, markers, foundation	13,739	-	-	-	13,739
Total expenses before depreciation	2,500,943	1,853,593	255,765	2,109,358	4,610,301
Depreciation	-	275,349	-	275,349	275,349
Total expenses	\$ 2,500,943	\$ 2,128,942	\$ 255,765	\$ 2,384,707	\$ 4,885,650

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, 2021

	Program Services	Supporting Services			Total Functional Expenses
		General and Administrative	Fundraising	Total	
Salaries	\$ 544,711	\$ 696,299	\$ 57,770	\$ 754,069	\$ 1,298,780
Employee benefits	155,935	227,703	26,477	254,180	410,115
Taxes	34,368	40,334	4,034	44,368	78,736
Total salaries, benefits, and taxes	735,014	964,336	88,281	1,052,617	1,787,631
Donations to others	624,415	69,865	-	69,865	694,280
Seminarian	189,471	-	-	-	189,471
Priest and pastoral care	177,584	15,839	-	15,839	193,423
Instructional and program	126,735	1,105	-	1,105	127,840
Bookstore and Catholic studies	8,164	-	-	-	8,164
Conferences, stipends	843	4,790	-	4,790	5,633
Printing and production	1,780	10,319	46,230	56,549	58,329
Communications and media	177,669	-	-	-	177,669
Equipment repair and maintenance	1,367	141,824	-	141,824	143,191
Utilities, insurance and taxes	3,438	109,730	-	109,730	113,168
Office administration	44,612	61,815	36,119	97,934	142,546
Professional services	150,237	350,151	13,346	363,497	513,734
Travel, mileage, education and meetings	16,165	22,573	100	22,673	38,838
Scholarships	12,200	-	-	-	12,200
Monuments, markers, foundation	7,365	-	-	-	7,365
Total expenses before depreciation	2,277,059	1,752,347	184,076	1,936,423	4,213,482
Depreciation	-	268,257	-	268,257	268,257
Total expenses	\$ 2,277,059	\$ 2,020,604	\$ 184,076	\$ 2,204,680	\$ 4,481,739

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,

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (2,076,379)	\$ 4,127,900
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation expense	275,349	268,257
Investment income reinvested, net of investment fees	(402,569)	(210,317)
Net gain on sales of investment of marketable securities	(1,075,232)	(646,067)
Unrealized loss (gain) on investments in marketable securities	3,945,462	(1,895,144)
(Increase) decrease in pledges and other receivables	(339,526)	1,504,733
(Increase) decrease in refundable employer taxes	13,738	(129,309)
(Increase) decrease in inventory	62,630	(22,417)
(Decrease) increase in accounts payable and other liabilities	54,558	(70,469)
Net cash flows from operating activities	458,031	2,927,167
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property and equipment	(168,528)	(341,694)
Proceeds from sale of assets	149,600	-
Withdrawal from (deposits to) Deposit and Loan Program Trust, net	7,566,617	845,364
MCC investment purchases	(10,783,915)	-
MCC investment withdrawals	2,500,000	41,670
Net cash flows from investing activities	(736,226)	545,340
NET CHANGE IN CASH AND CASH EQUIVALENTS	(278,195)	3,472,507
CASH AND CASH EQUIVALENTS, beginning of year	4,230,887	758,380
CASH AND CASH EQUIVALENTS, end of year	\$ 3,952,692	\$ 4,230,887
NON-CASH TRANSACTION		
Land donation	\$ -	\$ 250,000

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, 16 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.

NOTES TO FINANCIAL STATEMENTS - Continued

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. The Diocese classifies donor restricted contributions as without donor restrictions to the extent that donor restrictions were met in the year the contribution was received.

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 status. Consequently, the Diocese does not have a controlling financial interest in any of the Parishes, schools, or programs, including the Roman Catholic Diocese of Gaylord Deposit and Loan Trust program and combined financial statements are not presented.

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.

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 statements of cash flows does not present proceeds on the sale or cash used to purchase investments.

Accounts Receivable and Allowance for Uncollectible Accounts

Accounts receivable consists primarily of amounts due from parishes. Accounts receivable are stated at the amount management expects to collect from outstanding balances. Based on management's assessment of the history with various parishes, the Diocese has not established reserves for uncollectible accounts.

Pledges Receivable

CSA pledges are recorded in the statements 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, 2022 and 2021 are net of allowances for doubtful accounts of \$71,549 and \$75,664, respectively.

Inventories

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

Land Held For Sale

During the years ended June 30, 2022 and 2021, the Diocese held fiduciary rights to land valued at \$825,000 and \$1,550,000, respectively. This land is held for sale, and all proceeds are donor designated 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. Repairs and maintenance costs are expensed as incurred. 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

Revenue Recognition

The Diocese primarily derives its revenue from the Catholic Services Appeal, professional fees, cemetery fees, contributions, and grants.

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 using the Parishes' ordinary income which consists of Sunday and Holy Day offerings, loose plate collections and children's offerings.

NOTES TO FINANCIAL STATEMENTS - Continued

Professional and Cemetery Fees

Professional and cemetery fees are derived from contracts with customers. Their respective revenues are recognized over time as the Diocese satisfies its performance obligations, or at the point in time when control of product transfers to the customer. Receivables from contracts with customers are reported on the statements of financial position. Contract liabilities from contracts with customers are reported within deferred revenues on the statements of financial position.

Contributions and Grants

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.

Grant funds are recognized as revenues when spent for their intended purpose.

Use of Estimates in the Preparation of Financial Statements

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

Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statements of activities. The statement 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.

NOTE B - PAYCHECK PROTECTION PROGRAM AND FORGIVENESS

The Diocese received a \$414,461 loan under the Paycheck Protection Program ("PPP") administered by a Small Business Administration ("SBA") approved partner. The loan was uncollateralized and fully guaranteed by the Federal government. The Diocese used the loan proceeds for eligible expenses and met the conditions for loan forgiveness as of June 30, 2021. The Diocese recognized \$414,461 as other income for the year ended June 30, 2021.

NOTE C - EMPLOYEE RETENTION TAX CREDITS

In response to the Coronavirus emergency, The Coronavirus Aid, Relief and Economic Security Act ("CARES Act") was signed into law on March 27, 2020. The CARES Act provides, among other things, a refundable payroll tax credit of 50% of the first \$10,000 of qualified wages per employee for wages paid or incurred from March 13, 2020 through December 31, 2020. Effective January 1, 2021, The Consolidated Appropriations Act, 2021 increased the payroll tax credit from 50% to 70% up to \$10,000 of qualified wages per quarter per employee through June 30, 2021 for eligible employers. In connection therewith, such payroll tax credits through June 30, 2021 totaling \$279,829 are included in other income within the statements of activities. The Diocese received \$13,738 and \$150,520 of the credit within the year ended June 30, 2022 and 2021, respectively. The balance to be received is recorded as refundable employer taxes totaling \$115,571 within the statements of financial position.

NOTE D - 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>2022</u>	<u>2021</u>
Cash	\$ 3,952,692	\$ 4,230,887
Investments in marketable securities	20,178,540	14,362,286
Accounts receivable	262,518	244,689
Employee retention credit receivable	115,571	129,309
Pledges receivable, net	1,362,311	1,040,614
Less investments with donor restrictions		
Olson Fund	(748,501)	(846,971)
Catholic Extension Seminarian Education	<u>(213,326)</u>	<u>(249,415)</u>
Total	<u>\$24,909,805</u>	<u>\$18,911,399</u>

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE E - CASH AND CASH EQUIVALENTS

As of June 30, 2021, the Diocese maintained pooled bank accounts, which included cash owned by the Roman Catholic Diocese of Gaylord Deposit and Loan Program. Each entity reported 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 \$4,230,887 (66% of the pool) for the year ended June 30, 2021.

Effective July 1, 2021, the Diocese of Gaylord discontinued pooling cash for the Deposit and Loan program as it is now separately a trust.

Some of the accounts exceed Federally insured limits, resulting in uninsured balances of approximately \$3.7 million and \$5.7 million at June 30, 2022 and 2021, respectively.

NOTE F - INVESTMENTS IN MARKETABLE SECURITIES

Investments comprise the following at June 30:

	2022		2021	
	Cost	Market Value	Cost	Market Value
Money market mutual funds	\$ 294,213	\$ 294,213	\$ 262,920	\$ 262,920
Stock mutual funds	10,671,414	9,966,346	6,083,281	8,743,118
Bond mutual funds	<u>10,457,001</u>	<u>9,917,981</u>	<u>5,350,662</u>	<u>5,356,248</u>
	<u>\$21,422,628</u>	<u>\$20,178,540</u>	<u>\$11,696,863</u>	<u>\$14,362,286</u>

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.

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE G - FIXED ASSETS

The composition of land, buildings and equipment is as follows at June 30:

	<u>2022</u>	<u>2021</u>
Land and buildings	\$ 5,624,218	\$ 5,735,516
Furniture and equipment	1,573,783	1,475,441
Automobiles	<u>59,500</u>	<u>59,500</u>
Total land, buildings and equipment, at cost	7,257,501	7,270,457
Less accumulated depreciation	<u>(4,645,335)</u>	<u>(4,401,870)</u>
Total land, building and equipment, net of accumulated depreciation	<u>\$ 2,612,166</u>	<u>\$ 2,868,587</u>

Depreciation expense amounted to \$275,349 and \$268,257 for the years ended June 30, 2022 and 2021, respectively.

NOTE H - 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.

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

NOTES TO FINANCIAL STATEMENTS - Continued

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, 2022.

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 Diocese 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 Diocese's assets at fair value:

	<u>Level 2 Assets at Fair Value as of June 30,</u>	
	<u>2022</u>	<u>2021</u>
Pool Mutual Funds		
Money Market	\$ 294,213	\$ 262,920
Equity Mid/Small Cap	1,030,993	983,329
Equity Large Cap	5,133,757	2,839,934
Asset Allocation Fund	2,305,240	1,234,446
Equity Value	740,453	1,447,436
Equity Growth	607,138	1,349,316
Equity International	2,454,005	2,123,103
Bond-Intermediate	3,595,696	2,051,343
Bond-Short-Term	<u>4,017,045</u>	<u>2,070,459</u>
Total	<u>\$20,178,540</u>	<u>\$14,362,286</u>

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE I - ENDOWMENTS

The Diocese endowment consists of two funds established for a specific purpose. 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>2022</u>	<u>2021</u>
With donor restrictions for use in future years	\$ 28,844	\$ 30,008
With donor restrictions in perpetuity		
Olson Fund	719,657	816,963
Catholic Extension	<u>213,326</u>	<u>249,415</u>
Subtotal with donor restrictions in perpetuity	<u>\$ 932,983</u>	<u>\$ 1,066,378</u>
	<u>\$ 961,827</u>	<u>\$ 1,096,386</u>

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

	<u>2022</u>	<u>2021</u>
Endowment net assets, beginning of year	\$ 1,096,386	\$ 894,667
Investment income (loss)	<u>(134,559)</u>	<u>201,719</u>
Endowment net assets, end of year	<u>\$ 961,827</u>	<u>\$ 1,096,386</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. These endowment funds are not reported in the financial statements of the Roman Catholic Diocese of Gaylord Pastoral Center.

NOTES TO FINANCIAL STATEMENTS - Continued

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 \$511,075, 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 J - 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; such distributions are included in the statements of activities as grants.

The market value of these agency endowment funds held by the Foundation was \$15,618,474 and \$12,523,057 at June 30, 2022 and 2021, respectively. Distributions to the Diocese from the Foundation for the years ended June 30, 2022 and 2021 were \$149,025 and \$402,294, respectively.

NOTE K - 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 \$91,682 and \$90,766 for the years ended June 30, 2022 and 2021, 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, 2021.

Actuarial accrued liability	\$ 7,831,006
Market value of plan assets	11,319,443
Overfunded accrued liability	3,488,437
Interest rate	5.5%
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 \$3,181,686 and \$3,542,514 as of June 30, 2022 and 2021, respectively.

NOTE L - OPERATING LEASES

The Diocese has multiple operating leases for copiers. The leases require monthly payments ranging from \$131 to \$802 through December 2025. Lease expense related to the copiers was \$24,937 for the year ended June 30, 2022.

Future minimum rentals under the lease are as follows:

Year Ending June 30,	Annual Minimum Lease Payment
2023	\$ 23,366
2024	19,068
2025	19,068
2026	<u>8,747</u>
	<u>\$ 70,249</u>

NOTE M - 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 N - RISKS AND UNCERTAINTIES

COVID-19

On March 10, 2020, the World Health Organization declared the coronavirus outbreak (COVID-19) a pandemic. The Diocese believes it understands the risk associated with COVID-19. The Diocese has implemented risk mitigation tactics related to its operations within and outside of the Diocese 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 O - 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, 2022 and 2021 was \$48,896 and \$52,119, respectively. Premiums paid by all Parishes in excess of reserves for claims are made available to the Diocese.

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 ended June 30, 2022. 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 \$22,830 as of June 30, 2022.

NOTE P - 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.

NOTE Q - SUBSEQUENT EVENTS

The Roman Catholic Diocese of Gaylord Pastoral Center has evaluated subsequent events and transactions for potential recognition and disclosure through December 19, 2022, the date the financial statements were available to be issued.

Sale of Land Held for Sale

In July 2020, the Diocese gained fiduciary rights to land valued at \$1,300,000. The fair market value of this land as of June 30, 2022 was \$825,000. This land was held for sale during the year ended June 30, 2022. The Diocese sold the property for \$825,000 on August 16, 2022. All proceeds, net of \$43,592 in closing costs, are donor designated for the benefit of priest retirement.

SUPPLEMENTARY FINANCIAL INFORMATION

**Roman Catholic Diocese of Gaylord
Pastoral Center**

SCHEDULE OF FINANCIAL POSITION BY FUND CLASSIFICATION

June 30, 2022

(With Comparative Totals for June 30, 2021)

	Expendable Funds					Nonexpendable Funds				Total	2021 Total
	Operating	Reserve	Oakwood Cemetery	Priests	Bishop's Donations	Trust and Agency	Olson Fund	Endowment	Fixed Assets		
ASSETS											
Cash and cash equivalents	\$ 2,949,163	\$ 959,782	\$ (589,010)	\$ 218,467	\$ 51,121	\$ 253,752	\$ 21,222	\$ -	\$ 88,195	\$ 3,952,692	\$ 4,230,887
Investments in marketable securities	3,226,153	12,453,606	688,723	2,869,453	-	-	727,279	213,326	-	20,178,540	14,362,286
Accounts receivable	54,584	112,595	940	94,399	-	-	-	-	-	262,518	244,689
Refundable employer taxes	-	115,571	-	-	-	-	-	-	-	115,571	129,309
Pledges receivable	1,362,311	-	-	-	-	-	-	-	-	1,362,311	1,040,614
Prepaid expense	3,650	-	-	-	-	-	-	-	-	3,650	59,250
Inventory	5,449	-	181,068	-	-	-	-	-	-	186,517	193,547
Land held for sale	-	-	-	-	-	825,000	-	-	-	825,000	1,550,000
Total current assets	7,601,310	13,641,554	281,721	3,182,319	51,121	1,078,752	748,501	213,326	88,195	26,886,799	21,810,582
Land, buildings and equipment, net of accumulated depreciation	-	-	-	-	-	-	-	-	2,612,166	2,612,166	2,868,587
Total assets	\$ 7,601,310	\$ 13,641,554	\$ 281,721	\$ 3,182,319	\$ 51,121	\$ 1,078,752	\$ 748,501	\$ 213,326	\$ 2,700,361	\$ 29,498,965	\$ 24,679,169
LIABILITIES AND NET ASSETS											
LIABILITIES											
Accounts payable	\$ 182,941	\$ 9,824	\$ 9,030	\$ 633	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 202,428	\$ 215,888
Deferred revenue	20,000	-	-	-	-	-	-	-	-	20,000	44,000
Accrued retirement and payroll withholdings	84,284	-	-	-	-	-	-	-	-	84,284	107,124
Due to other organizations	-	-	-	-	-	1,078,752	-	-	-	1,078,752	1,688,894
Total liabilities	287,225	9,824	9,030	633	-	1,078,752	-	-	-	1,385,464	2,055,906
NET ASSETS											
Without donor restrictions											
Designated											
Future operating costs	-	-	-	3,181,686	-	-	-	-	-	3,181,686	3,542,514
Capital purchases	-	-	-	-	-	-	-	-	2,700,361	2,700,361	2,807,182
Bishop's donations	-	-	-	-	51,121	-	-	-	-	51,121	51,116
Diocesan reserve	-	13,631,730	-	-	-	-	-	-	-	13,631,730	7,521,635
Undesignated	3,820,829	-	(163,556)	-	-	-	-	-	-	3,657,273	3,997,950
With donor restrictions for use in future years	3,493,256	-	-	-	-	-	28,844	-	-	3,522,100	3,205,692
With donor restrictions in perpetuity											
Perpetual care of cemetery	-	-	436,247	-	-	-	-	-	-	436,247	430,796
Olson Fund	-	-	-	-	-	-	719,657	-	-	719,657	816,963
Catholic Extension Seminarian Education	-	-	-	-	-	-	-	213,326	-	213,326	249,415
Total net assets	7,314,085	13,631,730	272,691	3,181,686	51,121	-	748,501	213,326	2,700,361	28,113,501	22,623,263
Total liabilities and net assets	\$ 7,601,310	\$ 13,641,554	\$ 281,721	\$ 3,182,319	\$ 51,121	\$ 1,078,752	\$ 748,501	\$ 213,326	\$ 2,700,361	\$ 29,498,965	\$ 24,679,169

**Roman Catholic Diocese of Gaylord
Pastoral Center**

SCHEDULE OF ACTIVITIES BY FUND CLASSIFICATION

Year ended June 30, 2022

(With Comparative Totals for the Year Ended June 30, 2021)

	Expendable Funds					Nonexpendable Funds			Total	2021 Total
	Operating	Reserve	Oakwood Cemetery	Priests	Bishop's Donations	Olson Fund	Endowment	Fixed Assets		
SUPPORT AND REVENUE										
CSA campaign	\$ 3,493,256	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,493,256	\$ 3,175,684
Professional fees	526,224	-	-	-	-	-	-	-	526,224	485,745
Grants	321,127	18,000	-	4,987	-	-	-	-	344,114	588,096
Cemetery income	-	-	87,153	-	-	-	-	-	87,153	82,775
Conference and stipends fees	43,850	-	-	-	-	-	-	-	43,850	34,650
Contributions	311,812	44,807	-	30,002	-	-	826	-	387,447	689,857
Investment income, net of fees	60,294	271,504	10,269	54,928	5	11,236	515	-	408,751	212,685
Net gain (loss) on investment	155,780	703,021	34,234	138,555	-	36,839	6,803	-	1,075,232	646,066
Unrealized gain (loss) on investments	(585,329)	(2,535,969)	(125,167)	(520,619)	-	(134,145)	(44,233)	-	(3,945,462)	1,895,144
Gain (loss) on disposal of property	-	213,742	-	-	-	-	-	-	213,742	500
Other revenue	109,012	8,335	-	57,617	-	-	-	-	174,964	104,147
Total support and revenue	4,436,026	(1,276,560)	6,489	(234,530)	5	(86,070)	(36,089)	-	2,809,271	7,915,349
EXPENSES										
Office of the Bishop	309,291	-	-	-	-	-	-	-	309,291	282,932
Administrative services and fundraising	1,068,277	-	-	-	-	-	-	-	1,068,277	843,437
Communications	439,117	-	-	-	-	-	-	-	439,117	369,736
Faith Formation	700,322	-	-	-	-	-	-	-	700,322	470,410
Building and grounds	301,624	-	-	-	-	-	-	-	301,624	357,308
Worship/Liturgy	100,259	-	-	-	-	-	-	-	100,259	89,897
Support of clergy	53,502	-	-	126,298	-	-	-	-	179,800	178,896
Vocations	166,702	-	-	-	-	-	-	-	166,702	223,048
Tribunal	227,104	-	-	-	-	-	-	-	227,104	241,285
Hispanic and Native American Ministry	178,074	-	-	-	-	-	-	-	178,074	159,986
National and local donations	504,950	-	-	-	-	-	-	-	504,950	595,324
Depreciation	-	-	-	-	-	-	-	275,349	275,349	268,257
Oakwood Diocesan Cemetery	-	-	83,993	-	-	-	-	-	83,993	99,786
Professional fees	-	85,636	-	-	-	-	-	-	85,636	116,361
Priest wages and benefits	-	94,541	-	-	-	-	-	-	94,541	3,015
School grants	-	-	-	-	-	-	-	-	-	30,000
Other	30,249	127,962	-	-	-	12,400	-	-	170,611	152,061
Total expenses	4,079,471	308,139	83,993	126,298	-	12,400	-	275,349	4,885,650	4,481,739
OTHER INCOME										
PPP loan forgiveness	-	-	-	-	-	-	-	-	-	414,461
Employee retention tax credit	-	-	-	-	-	-	-	-	-	279,829
Total other income	-	-	-	-	-	-	-	-	-	694,290
CHANGES IN NET ASSETS	356,555	(1,584,699)	(77,504)	(360,828)	5	(98,470)	(36,089)	(275,349)	(2,076,379)	4,127,900
Transfers in (out)	(296,705)	7,694,794	-	-	-	-	-	168,528	7,566,617	-
NET ASSETS, beginning of year	7,254,235	7,521,635	350,195	3,542,514	51,116	846,971	249,415	2,807,182	22,623,263	18,495,363
NET ASSETS, end of year	\$ 7,314,085	\$ 13,631,730	\$ 272,691	\$ 3,181,686	\$ 51,121	\$ 748,501	\$ 213,326	\$ 2,700,361	\$ 28,113,501	\$ 22,623,263