

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

FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT

June 30, 2022, 2021 and 2020

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INDEPENDENT AUDITOR'S REPORT

Most Reverend Jeffrey J. Walsh
Bishop of the Diocese of Gaylord
Roman Catholic Diocese of Gaylord Deposit and Loan Program Trust

Opinion

We have audited the accompanying financial statements of the ***Roman Catholic Diocese of Gaylord Deposit and Loan Program Trust*** (the "Program") (a nonprofit organization), which comprise the statements of financial position as of June 30, 2022, 2021 and 2020, 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Roman Catholic Diocese of Gaylord Deposit and Loan Program Trust as of June 30, 2022, 2021 and 2020, 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 of 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 Statements section of this report. We are required to be independent of the Program 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.

Most Reverend Jeffrey J. Walsh
Bishop of the Diocese of Gaylord
Roman Catholic Diocese of Gaylord Deposit and Loan Program Trust

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 from 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 Program'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 Program'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.

Dennis, Gartland & Niergarth

Certified Public Accountants
Traverse City, Michigan

December 19, 2022

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

STATEMENTS OF FINANCIAL POSITION

June 30,

	2022	2021	2020
ASSETS			
Cash and cash equivalents	\$ 3,791,693	\$ 2,175,567	\$ 6,652,927
Investments in marketable securities	21,522,693	31,778,862	22,809,409
Loans due within one year	305,656	376,282	365,349
Accrued interest receivable	13,263	11,469	13,118
Total current assets	25,633,305	34,342,180	29,840,803
Loans due after one year	4,405,235	4,918,389	5,709,033
	\$ 30,038,540	\$ 39,260,569	\$ 35,549,836
LIABILITIES			
CURRENT LIABILITIES			
Accounts payable	\$ 386	\$ 516,832	\$ -
Deposits	32,528,853	26,174,184	26,521,877
Total current liabilities	32,529,239	26,691,016	26,521,877
NET ASSETS			
Without donor restrictions	(2,490,699)	12,569,553	9,027,959
	\$ 30,038,540	\$ 39,260,569	\$ 35,549,836

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

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

STATEMENTS OF ACTIVITIES AND FUNCTIONAL EXPENSES

Years ended June 30,

	Without Donor Restrictions		
	2022	2021	2020
SUPPORT AND REVENUE			
Investment income, net of investment expense	\$ 363,873	\$ 424,096	\$ 479,826
Loan interest income	201,526	224,722	255,222
Net (loss) gain on investments	<u>(2,341,180)</u>	<u>3,548,421</u>	<u>494,674</u>
Total support and revenue	<u>(1,775,781)</u>	<u>4,197,239</u>	<u>1,229,722</u>
EXPENSES			
Program expenses			
Interest	610,912	551,507	503,264
General and administrative	<u>106,942</u>	<u>104,138</u>	<u>107,643</u>
Total expenses	<u>717,854</u>	<u>655,645</u>	<u>610,907</u>
CHANGE IN NET ASSETS	(2,493,635)	3,541,594	618,815
NET ASSETS, beginning of year	12,569,553	9,027,959	8,409,144
Net assets, transfer out	<u>(12,566,617)</u>	<u>-</u>	<u>-</u>
NET ASSETS, end of year	<u>\$ (2,490,699)</u>	<u>\$ 12,569,553</u>	<u>\$ 9,027,959</u>

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

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

STATEMENTS OF CASH FLOWS

Years ended June 30,

	2022	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES			
Change in net assets	\$ (2,493,635)	\$ 3,541,594	\$ 618,815
Adjustments to reconcile change in net assets to net cash from operating activities			
Loss (gain) on investments	2,341,180	(3,548,421)	(494,674)
Investment income reinvested, net	(363,873)	(421,032)	(460,339)
Increase (decrease) in accounts payable	(516,446)	516,832	-
Decrease (increase) in accrued interest receivable	(1,794)	1,649	65
Transfer out to Diocesan Pastoral Center	<u>(12,566,617)</u>	<u>-</u>	<u>-</u>
Net cash flows from operating activities	<u>(13,601,185)</u>	<u>90,622</u>	<u>(336,133)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
(Deposit to) withdrawal from investments pool	8,278,862	(5,000,000)	4,000,000
Loan payments received	655,843	1,120,281	1,455,845
New loans distributed	<u>(72,063)</u>	<u>(340,570)</u>	<u>(1,291,989)</u>
Net cash flows from investing activities	<u>8,862,642</u>	<u>(4,220,289)</u>	<u>4,163,856</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Net deposit (withdrawals) by Parishes and other Diocesan organizations	<u>6,354,669</u>	<u>(347,693)</u>	<u>(205,246)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	1,616,126	(4,477,360)	3,622,477
Cash and cash equivalents, beginning of year	<u>2,175,567</u>	<u>6,652,927</u>	<u>3,030,450</u>
Cash and cash equivalents, end of year	<u>\$ 3,791,693</u>	<u>\$ 2,175,567</u>	<u>\$ 6,652,927</u>
Additional information			
Interest paid during the year	<u>\$ 610,912</u>	<u>\$ 551,507</u>	<u>\$ 503,264</u>

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

Roman Catholic Diocese of Gaylord Deposit and Loan Program

NOTES TO FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Roman Catholic Diocese of Gaylord Deposit and Loan Program Trust (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, 2022, 2021 and 2020, respectively.

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 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.

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.

NOTES TO FINANCIAL STATEMENTS - Continued

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.

Revenue Recognition

The Program derives its revenues primarily from investment income.

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

Use of Estimates in the Preparation of Financial Statements

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

Subsequent Events

The Roman Catholic Diocese of Gaylord Deposit and Loan Program Trust 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.

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>2022</u>	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 3,791,693	\$ 2,175,567	\$ 6,652,927
Investments in marketable securities	21,522,693	31,778,862	22,809,409
Loans due within one year	305,656	376,282	365,349
Accrued interest receivable	13,263	11,469	13,118
Less: deposits	(32,528,853)	(26,174,184)	(26,521,877)
Less: accounts payable	<u>(386)</u>	<u>(516,832)</u>	<u>-</u>
Totals	<u>\$ (6,895,934)</u>	<u>\$ 7,651,164</u>	<u>\$ 3,318,926</u>

NOTES TO FINANCIAL STATEMENTS - Continued

At June 30, 2022, the deposit liabilities of the Trust exceed the Trust's assets as shown above. Should all participants in the program request withdrawal of 100% of their deposits, the Trust would be unable to meet its commitments. Based on its operating history, the Trust believes that it will be able to meet all expected withdrawal requests during the next year.

NOTE C - CASH AND CASH EQUIVALENTS

As of June 30, 2021, the Program maintained its cash in pooled bank accounts administered by the Roman Catholic Diocese of Gaylord. Each entity reported its portion of the pooled account on its respective balance sheet as cash and cash equivalents. The Program's portion of the pooled cash and cash equivalents was \$2,175,567 (34% of the pool) for the year ended June 30, 2021.

Effective July 1, 2021, the Roman Catholic Diocese of Gaylord discontinued pooling cash for the Program as it is now separately a trust.

Some of the accounts exceed Federally insured limits resulting in uninsured balances for the entire cash balance of approximately \$3.5 million, \$5.7 million and \$6.8 million for the years ended June 30, 2022, 2021 and 2020, respectively.

NOTE D - INVESTMENTS

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

	<u>2022</u>		<u>2021</u>		<u>2020</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	\$ 153,869	\$ 153,869	\$ 269,418	\$ 269,418	\$ 3,291,757	\$ 3,291,757
Stock mutual funds	12,695,010	10,346,799	12,164,501	16,991,684	8,481,809	10,487,603
Bond mutual funds	<u>11,639,056</u>	<u>11,022,025</u>	<u>14,528,702</u>	<u>14,517,760</u>	<u>8,772,387</u>	<u>9,030,049</u>
	<u>\$24,487,935</u>	<u>\$21,522,693</u>	<u>\$26,962,621</u>	<u>\$31,778,862</u>	<u>\$20,545,953</u>	<u>\$22,809,409</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, 2022, 2021 and 2020 was recommended by the Roman Catholic Diocese of Gaylord's Finance Council and approved by the Bishop.

A Parish and a Catholic School, each with loan balances in excess of \$1 million, account for approximately 63% of the total balance at June 30, 2022.

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>
2023	\$ 305,656
2024	316,743
2025	330,114
2026	343,564
2027	331,071
2028-2032	846,315
2033-2038	<u>2,237,428</u>
	<u>\$ 4,710,891</u>

NOTE F - DEPOSITS

Deposits are due on demand to Parishes and other Catholic organizations. The interest rate was 2% for the years ended June 30, 2022, 2021 and 2020 and is paid or credited to depositors semi-annually. Interest of \$610,912, \$551,507 and \$503,264 was accrued and credited to Parishes and other Catholic organizations during the years ended June 30, 2022, 2021 and 2020, respectively.

NOTE G - RELATED PARTY TRANSACTIONS AND ACCOUNTS

The Diocese of Gaylord’s Deposit and Loan Program (“Program”) was restructured as of July 1, 2021. Prior to July 1, 2021, all participants in the Program were Parishes or other Catholic organizations under the control of or otherwise affiliated with the Bishop of Gaylord. The Program was administered by the Roman Catholic Diocese of Gaylord Pastoral Center ("Pastoral Center"). The Program existed as an implied trust, meaning that the Diocese held the funds for the participants’ benefit, but without certain advantages available to express trusts. Effective July 1, 2021, the eligible participants will deposit their assets with the Bishop, as Trustee of the new Diocese of Gaylord Deposit and Loan Program Trust (the “DLP Trust”). The DLP Trust is an express trust that is intended to qualify as an asset protection trust under the Michigan Qualified Dispositions in Trust Act (“Act”). Qualification under this Act generally restricts a creditor’s ability to reach the assets in trust, which is a significant benefit to the Program participants that did not necessarily exist prior to the restructuring.

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

NOTES TO FINANCIAL STATEMENTS - Continued

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

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

The Pastoral Center had deposits with the Program of \$0, \$0 and \$821,366 on June 30, 2022, 2021 and 2020, respectively. Interest expense for these deposits for the years ended June 30, 2022, 2021 and 2020 was \$0, \$22,209 and \$16,082, respectively. For the fiscal year ended June 30, 2022, the Pastoral Center is not a participant in the Program.

The Program pays a fee to the Pastoral Center for administrative support. The administrative support fee for the years ended June 30, 2022, 2021 and 2020 was \$85,000.

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.

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, 2022.

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>2022</u>	<u>2021</u>	<u>2020</u>
MCC Investment Pool Mutual Funds			
Cash & Cash Equivalents	\$ 153,869	\$ 269,418	\$ 3,291,757
Equity Growth	601,131	2,210,304	1,495,643
Equity Value	575,108	2,387,164	1,365,322
Equity Mid/Small Cap	806,030	1,600,695	868,070
Equity Large Cap	4,099,284	4,688,873	2,824,675
Equity International	2,027,597	3,526,991	2,078,617
Equity Balanced	-	-	881,936
Equity GSA	1,102,327	1,212,730	973,340
Equity Multi-Strategy Fund	1,135,322	-	-
Treasury Bill - Short-Term	-	1,364,927	-
Bond - Intermediate	5,421,766	7,036,090	4,496,727
Bond - Short-Term	<u>5,600,259</u>	<u>7,481,670</u>	<u>4,533,322</u>
Total	<u>\$21,522,693</u>	<u>\$31,778,862</u>	<u>\$22,809,409</u>

NOTE J - RISKS AND UNCERTAINTIES

COVID-19

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