

Audited Financial Statements

ROMAN CATHOLIC
DIOCESE OF MARQUETTE

Years Ended October 31, 2019 and 2018

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ROMAN CATHOLIC DIOCESE OF MARQUETTE

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INDEPENDENT AUDITOR'S REPORT

The Most Reverend John F. Doerfler, Bishop of Marquette
Roman Catholic Diocese of Marquette
Marquette, Michigan

We have audited the accompanying financial statements of the Roman Catholic Diocese of Marquette (Diocese), which comprise the statements of financial position as of October 31, 2019 and 2018, and the related statements of activities 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 audit 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 entity'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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

The Most Reverend John F. Doerfler, Bishop of Marquette
Roman Catholic Diocese of Marquette

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Roman Catholic Diocese of Marquette as of October 31, 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.

Makela, Toutant, Hill, Nardi & Katona, P.C.

February 27, 2020

STATEMENTS OF FINANCIAL POSITION

ROMAN CATHOLIC DIOCESE OF MARQUETTE

	October 31	
	2019	2018
ASSETS		
Cash and cash equivalents	\$ 517,283	\$ 822,593
Investments	22,769,444	22,344,348
Pledges receivable, net	1,309,209	1,315,728
Accounts and notes receivable, net	1,072,594	1,328,492
Other assets	6,510	3,247
Land, buildings, and equipment, net	<u>2,044,997</u>	<u>2,009,448</u>
TOTAL ASSETS	<u>\$ 27,720,037</u>	<u>\$ 27,823,856</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	\$ 487,998	\$ 1,636,904
Other liabilities	19,571	23,640
Note payable	428,261	447,241
TOTAL LIABILITIES	<u>935,830</u>	<u>2,107,785</u>
NET ASSETS		
Without donor restrictions	23,610,322	22,529,939
With donor restrictions	<u>3,173,885</u>	<u>3,186,132</u>
TOTAL NET ASSETS	<u>26,784,207</u>	<u>25,716,071</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 27,720,037</u>	<u>\$ 27,823,856</u>

See notes to financial statements.

STATEMENT OF ACTIVITIES

ROMAN CATHOLIC DIOCESE OF MARQUETTE

	Year Ended October 31, 2019		
	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES AND SUPPORT			
UPCSA Campaign contributions		\$ 2,097,648	\$ 2,097,648
Investment return designated for current operations	\$ 1,215,768		1,215,768
Insurance rebate	100,202		100,202
Bequests, donations, and grants	63,841	203,119	266,960
U.P. Catholic newspaper	217,323		217,323
Miscellaneous	193,666		193,666
Net assets released from restrictions	2,392,768	(2,392,768)	0
TOTAL REVENUES AND SUPPORT	4,183,568	(92,001)	4,091,567
EXPENSES			
Executive and support services	247,700		247,700
Ministry personnel services	882,785		882,785
Spiritual development services	116,561		116,561
Catholic education/formation services	482,073		482,073
Catholic schools support	297,072		297,072
Communication services	405,471		405,471
Judicial services	74,188		74,188
Catholic Social Services subsidy	338,592		338,592
Diocesan donations and other services	198,901		198,901
Financial services	420,255		420,255
Development and UPCSA Campaign	313,313		313,313
Building and grounds	172,782		172,782
Depreciation	112,255		112,255
TOTAL EXPENSES	4,061,948	0	4,061,948
REVENUES AND SUPPORT IN EXCESS (DEFICIT) OF EXPENSES	121,620	(92,001)	29,619
OTHER CHANGES IN NET ASSETS			
Investment return greater than amount designated for current operations	958,763	79,754	1,038,517
TOTAL OTHER CHANGES IN NET ASSETS	958,763	79,754	1,038,517
CHANGE IN NET ASSETS	1,080,383	(12,247)	1,068,136
Net assets at beginning of year	22,529,939	3,186,132	25,716,071
NET ASSETS AT END OF YEAR	\$ 23,610,322	\$ 3,173,885	\$ 26,784,207

See notes to financial statements.

STATEMENT OF ACTIVITIES

ROMAN CATHOLIC DIOCESE OF MARQUETTE

	Year Ended October 31, 2018		
	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES AND SUPPORT			
UPCSA Campaign contributions		\$ 2,087,171	\$ 2,087,171
Investment return designated for current operations	\$ 1,082,047	11,674	1,093,721
Insurance rebate	89,894		89,894
Bequests, donations, and grants	21,334	546,104	567,438
U.P. Catholic newspaper	219,906		219,906
Miscellaneous	66,648	13,400	80,048
Net assets released from restrictions	2,378,613	(2,378,613)	0
TOTAL REVENUES AND SUPPORT	3,858,442	279,736	4,138,178
EXPENSES			
Executive and support services	256,088		256,088
Ministry personnel services	788,016		788,016
Spiritual development services	119,621		119,621
Catholic education/formation services	484,841		484,841
Catholic schools support	344,099		344,099
Communication services	399,147		399,147
Judicial services	50,846		50,846
Catholic Social Services subsidy	335,580		335,580
Diocesan donations and other services	1,506,496		1,506,496
Financial services	449,715		449,715
Development and UPCSA Campaign	321,370		321,370
Building and grounds	162,152		162,152
Depreciation	134,424		134,424
Bad debt	45,837		45,837
TOTAL EXPENSES	5,398,232	0	5,398,232
REVENUES AND SUPPORT IN EXCESS (DEFICIT) OF EXPENSES	(1,539,790)	279,736	(1,260,054)
OTHER CHANGES IN NET ASSETS			
Investment return less than amount designated for current operations	(906,441)	(4,866)	(911,307)
Loss on transfer of charitable gift annuities	(273,185)		(273,185)
TOTAL OTHER CHANGES IN NET ASSETS	(1,179,626)	(4,866)	(1,184,492)
CHANGE IN NET ASSETS	(2,719,416)	274,870	(2,444,546)
Net assets at beginning of year	25,249,355	2,911,262	28,160,617
NET ASSETS AT END OF YEAR	\$ 22,529,939	\$ 3,186,132	\$ 25,716,071

See notes to financial statements.

STATEMENTS OF CASH FLOWS

ROMAN CATHOLIC DIOCESE OF MARQUETTE

	Year Ended October 31	
	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,068,136	\$ (2,444,546)
Adjustments to reconcile change in net assets to net cash and cash equivalents from operating activities:		
Depreciation	112,255	134,424
Realized and unrealized (gains) losses on investment securities	(1,814,442)	256,972
Gain on disposal of land, buildings, and equipment		(4,409)
Bad debt expense		45,837
(Increase) Decrease in:		
Pledges receivable	6,519	(79,876)
Accounts and notes receivable	255,898	2,296
Other assets	(3,263)	6,207
Increase (Decrease) in:		
Accounts payable and accrued expenses	(1,148,906)	1,091,981
Annuities payable		(61,377)
Other liabilities	(4,069)	(59)
NET CASH AND CASH EQUIVALENTS USED BY OPERATING ACTIVITIES	(1,527,872)	(1,052,550)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of land, buildings, and equipment	(147,804)	(49,420)
Net investment pool withdrawals	1,389,346	1,322,796
Proceeds from sale of land, buildings, and equipment		25,259
NET CASH AND CASH EQUIVALENTS PROVIDED BY INVESTING ACTIVITIES	1,241,542	1,298,635
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on note payable	(18,980)	(18,209)
NET CASH AND CASH EQUIVALENTS USED BY FINANCING ACTIVITIES	(18,980)	(18,209)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(305,310)	227,876
Cash and cash equivalents at beginning of year	822,593	594,717
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 517,283	\$ 822,593

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

ROMAN CATHOLIC DIOCESE OF MARQUETTE

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

The Roman Catholic Diocese of Marquette (Diocese) was established in 1857. The Diocese consists of 72 parishes, 21 missions, and nine schools located in the Upper Peninsula of Michigan. The Diocesan administrative office is located in Marquette, Michigan.

The accompanying financial statements include only those funds for which the Diocese retains operational control and exclude the accounts of parishes, schools, foundations, other institutions, or agencies of the Diocese.

Under Michigan law, all assets and liabilities of the parishes, schools, foundations, other institutions, or agencies are in the name of the Bishop. All borrowings by parishes, schools, foundations, other institutions, or agencies in the Diocese are made on the credit rating of the Diocese. Promissory notes signed by the Bishop for these entities are the primary responsibility of the entity receiving the loan and are not included in these financial statements.

The main sources of income are the annual Upper Peninsula Catholic Services Appeal and investment income.

Basis of Accounting

The financial statements of the Diocese have been prepared on the accrual basis of accounting.

Financial Statement Presentation

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.

Descriptions of the asset classes are as follows:

Net Assets Without Donor Restrictions--Net assets that are not subject to, or are no longer subject to, donor-imposed stipulations. The Diocese may designate, from net assets without donor restrictions, funds for specific use.

Net Assets With Donor Restrictions--Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Revenues 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.

NOTES TO FINANCIAL STATEMENTS--Continued

ROMAN CATHOLIC DIOCESE OF MARQUETTE

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

Gains and losses 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.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include checking, savings, and money market funds.

Investments

Diocesan investments are deposited with the Michigan Catholic Conference's National Catholic Investment Pool (MCC Investment Pool) along with the investments of other dioceses, parishes, schools, and other institutions. Participation in the investment pool is valued at the fair value of the underlying securities on a pro rata basis. The Diocese is credited or charged for its pro rata share of all income, gains, losses, and expenses. Information on individual pool transactions is not available and, therefore, the statement of cash flows does not present proceeds on the sale or purchase of specific securities. Rather, only the net additions to or withdrawals from the pool are reported on the statement.

Donor-restricted investment income and unrealized gains or losses are reported as increases or decreases in net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Accounts and Notes Receivable

The Diocese has long-term accounts and notes receivable from parishes, institutions, and individuals with varying maturities that do not bear interest. These notes are subject to repayment under various terms. Notes receivable are stated at the amount the Diocese expects to collect from outstanding balances.

Allowance for Doubtful Accounts and Notes Receivable

Bad debts are provided for on the allowance method based on historical experience and management's evaluation of outstanding accounts and notes receivable at the end of each year.

NOTES TO FINANCIAL STATEMENTS--Continued

ROMAN CATHOLIC DIOCESE OF MARQUETTE

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

Losses are charged against the allowance when management determines that further collection efforts will not produce additional recoveries.

Promises to Give

Unconditional promises to give are recognized as receivables and as revenue in the period in which the Diocese is notified by the donor of his or her commitment to make a contribution. The Diocese uses the allowance method to estimate uncollectible pledges receivable based on management's analysis of specific pledges outstanding.

Property and Equipment

Assets are stated at cost, if purchased, or at market value on date of acquisition, if donated. Capital items costing in excess of \$1,000 are capitalized. Depreciation is provided for on the straight-line method over the following estimated useful lives:

Buildings	50 years
Building improvements	20 years
Land improvements	15 years
Vehicles	5 years
Equipment and furnishings	6 years
Computer equipment	3 years

Contributions

Contributions received are recorded as net assets with donor restrictions or net assets without donor restrictions depending on the absence or existence and nature of any donor restrictions.

The Diocese reports gifts of cash and other assets as net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Contributed Services

Support arising from contributed services of certain religious 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 need to be procured if not provided by donation.

NOTES TO FINANCIAL STATEMENTS--Continued

ROMAN CATHOLIC DIOCESE OF MARQUETTE

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

Upper Peninsula Catholic Services Appeal

Collections from the Upper Peninsula Catholic Services Appeal (UPCSA) are allocated to Diocesan operations and programs to provide for local and national charitable contributions.

The targeted amounts of UPCSA donations for the following year's appeal are recorded as donor-restricted support. The targeted amount of the UPCSA appeal donations for each parish is computed based on the following two factors:

- a. The parish's ordinary income, which consists of Sunday and Holy Day offerings, loose collections, children's offerings, and fuel collections, is reduced by 100 percent of any subsidies paid to schools for parishes supporting Catholic schools
- b. The number of parish contributing envelope holders

The individual parish goals are based on the three-year average of factors (a) and (b) described above.

Catholic Schools Support

The accompanying statements of activities include support provided to the nine Catholic schools within the Diocese from a specific assessment from each parish that is collected by the Diocese and remitted to the schools.

New Accounting Pronouncement

During the year ended October 31, 2019, the Diocese adopted the requirements of the Financial Accounting Standards Board's Accounting Standards Update No. 2016-14 - *Presentation of Financial Statements of Not-for-Profit Entities* (Update). The Update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return between not-for-profit entities. The Update changes the following aspects of the Diocese's financial statements:

- The unrestricted net asset classification has been renamed net assets without donor restrictions.
- The temporarily restricted and permanently restricted net asset classifications have been renamed net assets with donor restrictions.
- The financial statements include a new disclosure about liquidity and availability of resources and expanded disclosures related to functional allocation of expenses.

NOTES TO FINANCIAL STATEMENTS--Continued

ROMAN CATHOLIC DIOCESE OF MARQUETTE

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

Subsequent Events

Subsequent events were evaluated through February 27, 2020, which is the date the financial statements were available to be issued.

NOTE B--LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use within one year of October 31, 2019, comprise of the following:

	<u>October 31, 2019</u>
Cash and cash equivalents	\$ 517,283
Investments	22,769,444
Pledges receivable, net	1,309,209
Accounts and notes receivable, net	<u>1,072,595</u>
	25,668,531
Less amounts not anticipated to be collected in the coming year:	
Needy parish loans receivable	(513,000)
Due from parishes - hymnals	(339,000)
Less assets unavailable for general expenditures because of donor-restricted net assets for specific purpose	(1,076,237)
Less assets set aside for:	
Michigan no-fault self-insurance loss reserve	<u>(10,630)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u><u>\$ 23,729,664</u></u>

As part of the Diocese's liquidity management, the Diocese structures its financial assets to be available as general expenditures, liabilities, and other obligations come due, while also trying to maximize the investment of its available funds.

Net assets with donor restrictions restricted for the passage of time are related to the 52nd UPCSAs, are available for operations on November 1, 2019.

NOTES TO FINANCIAL STATEMENTS--Continued

ROMAN CATHOLIC DIOCESE OF MARQUETTE

NOTE C--CONCENTRATION OF CREDIT RISK

At times, the Diocese maintains deposits with financial institutions that are either not insured by the Federal Deposit Insurance Corporation (FDIC) or exceed FDIC insurance limits. As of October 31, 2019 and 2018, uninsured cash balances totaled \$408,077 and \$815,935, respectively. Management does not believe that it is subject to any significant custodial credit risk in connection with these deposits.

NOTE D--INVESTMENTS

Investments consist of the following:

	October 31	
	2019	2018
MCC Investment Pool	<u>\$ 22,769,444</u>	<u>\$ 22,344,348</u>

Investment return is comprised of:

	Year Ended October 31	
	2019	2018
Realized and unrealized gains (losses)	\$ 1,814,442	\$ (256,972)
Interest and dividends	<u>439,843</u>	<u>439,386</u>
TOTAL INVESTMENT RETURN	<u>\$ 2,254,285</u>	<u>\$ 182,414</u>

Investment return is reported net of fees, which were \$80,983 and \$84,136 for the years ended October 31, 2019 and 2018, respectively.

Generally accepted accounting principles in the United States of America establish 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 observable inputs (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 consist of unadjusted quoted prices in active markets for identical assets and have the highest priority.

Level 2: Inputs consist of observable inputs other than quoted prices for identical assets.

Level 3: Inputs consist of unobservable inputs and have the lowest priority.

The Diocese uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments.

NOTES TO FINANCIAL STATEMENTS--Continued

ROMAN CATHOLIC DIOCESE OF MARQUETTE

NOTE D--INVESTMENTS--Continued

The following table presents information about the Diocesan investments measured at fair value on a recurring basis at October 31, and the valuation techniques used by the Diocese to determine those fair values.

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Total
<u>October 31, 2019:</u>			
MCC Investment Pool			
Short-term investments:			
Money market funds	\$ 160		\$ 160
Equity securities:			
Large cap	6,021,294		6,021,294
Mid/small cap	3,375,484		3,375,484
International	4,770,196		4,770,196
Fixed income securities		\$ 7,709,841	7,709,841
Alternatives		892,469	892,469
	<u>\$ 14,167,134</u>	<u>\$ 8,602,310</u>	<u>\$ 22,769,444</u>
<u>October 31, 2018:</u>			
MCC Investment Pool			
Short-term investments:			
Money market funds	\$ 161		\$ 161
Equity securities:			
Large cap	5,642,450		5,642,450
Mid/small cap	3,363,940		3,363,940
International	4,645,298		4,645,298
Fixed income securities		\$ 7,772,993	7,772,993
Alternatives		919,506	919,506
	<u>\$ 13,651,849</u>	<u>\$ 8,692,499</u>	<u>\$ 22,344,348</u>

The Diocese administers parish, mission, school, and other religious organizations' participation in the MCC Investment Pool. The amounts deposited with the MCC Investment Pool on behalf of these other organizations were \$34,723,033 and \$31,464,877 as of October 31, 2019 and 2018, respectively. These amounts have been excluded from these financial statements because these funds are not within the operational control of the Diocese.

NOTES TO FINANCIAL STATEMENTS--Continued

ROMAN CATHOLIC DIOCESE OF MARQUETTE

NOTE E--PLEDGES RECEIVABLE

Pledges receivable represent outstanding pledges for the Upper Peninsula Catholic Services Appeal (UPCSA). Pledges receivable are comprised of the following:

	October 31	
	2019	2018
	<u> </u>	<u> </u>
50th UPCSА		\$ 20,996
51st UPCSА	\$ 29,786	1,294,732
52nd UPCSА	<u>1,279,423</u>	
 PLEDGES RECEIVABLE, NET	 <u>\$ 1,309,209</u>	 <u>\$ 1,315,728</u>

Payments on pledges receivable are expected to be collected in less than one year. Based on historical collection, the Diocese has determined an allowance for uncollectible pledges receivable is not warranted.

NOTE F--ACCOUNTS AND NOTES RECEIVABLE

Accounts and notes receivable are comprised of the following:

	October 31	
	2019	2018
	<u> </u>	<u> </u>
Due from parishes - hymnals	\$ 425,800	\$ 798,637
Needy Parish Loans receivable	624,362	556,097
Other accounts receivable	<u>82,542</u>	<u>53,334</u>
TOTAL ACCOUNTS AND NOTES RECEIVABLE	<u>1,132,704</u>	<u>1,408,068</u>
Allowance for uncollectible accounts and notes receivable	<u>(60,110)</u>	<u>(79,576)</u>
 ACCOUNTS AND NOTES RECEIVABLE, NET	 <u>\$ 1,072,594</u>	 <u>\$ 1,328,492</u>

NOTES TO FINANCIAL STATEMENTS--Continued

ROMAN CATHOLIC DIOCESE OF MARQUETTE

NOTE G--LAND, BUILDINGS, AND EQUIPMENT

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

	October 31	
	2019	2018
Land	\$ 462,035	\$ 462,035
Land improvements	71,490	71,490
Buildings	1,325,472	1,325,472
Building improvements	2,131,765	1,993,709
Vehicles	116,310	116,310
Furnishings and equipment	254,800	245,052
	<u>4,361,872</u>	<u>4,214,068</u>
Less accumulated depreciation	<u>(2,316,875)</u>	<u>(2,204,620)</u>
LAND, BUILDINGS, AND EQUIPMENT, NET	<u>\$ 2,044,997</u>	<u>\$ 2,009,448</u>

NOTE H--SPLIT-INTEREST AGREEMENTS

During 2018, the Diocese made the determination to have the Catholic Church Extension Society of the United States of America (Catholic Extension) administer the existing charitable gift annuities of the Diocese, as well as all future charitable gift annuities. As such, the Diocese transferred the assets associated with the charitable gift annuities, as well as the corresponding liability, to Catholic Extension. The resulting loss associated with the transfer has been presented separately on the statement of activities in 2018. The Diocese is not responsible for any future payments to the annuitants.

Upon the death of annuitants, 90 percent of the remaining balance will be sent to the Diocese, as directed by the donor. Any distribution to the Diocese will be recorded as gift income at that time.

NOTES TO FINANCIAL STATEMENTS--Continued

ROMAN CATHOLIC DIOCESE OF MARQUETTE

NOTE I--NOTE PAYABLE

The note payable is as follows:

	October 31	
	2019	2018
	<hr/>	
Unsecured note payable to a local bank, in monthly installments of \$3,101, including interest at 4.10%, with the final balloon payment due August 1, 2022.	\$ 428,261	\$ 447,241
	<hr/>	<hr/>

Future anticipated principal payments of the note payable are as follows:

Year Ending October 31	Amount
<hr/>	<hr/>
2020	\$ 20,040
2021	20,877
2022	387,344
	<hr/>
	\$ 428,261
	<hr/>

Interest expense for the years ended October 31, 2019 and 2018, was \$18,385 and \$19,166, respectively. Interest paid for the years ended October 31, 2019 and 2018, was \$18,453 and \$19,225, respectively.

NOTE J--CONTINGENT LIABILITIES

The Diocese is party to various legal claims arising in the normal course of carrying out its activities. Management believes that the financial responsibility which may be incurred in settlement of such claims would not be material to Diocesan financial position or results of operations.

As indicated in Note A, the accounts of parishes, schools, foundations, other institutions, or agencies of the Diocese have been excluded from the accompanying financial statements. The Diocese is contingently liable for all liabilities of the parishes, schools, foundations, other institutions, or agencies of the Diocese.

As of October 31, 2019, promissory notes totaling \$332,391 have been signed by the Bishop, or his designee, for these parishes, schools, foundations, other institutions, or agencies of the Diocese.

NOTES TO FINANCIAL STATEMENTS--Continued

ROMAN CATHOLIC DIOCESE OF MARQUETTE

NOTE K--NET ASSETS

Net assets with donor restrictions are restricted for the following purposes or periods:

	October 31	
	2019	2018
Time restrictions	\$ 2,097,648	\$ 2,087,171
Purpose restrictions	1,076,237	1,098,961
TOTAL	<u>\$ 3,173,885</u>	<u>\$ 3,186,132</u>

NOTE L--ENDOWMENTS

As of October 31, 2019 and 2018, Diocesan endowments consisted of one donor-restricted fund, established for scholarship purposes. Net assets associated with the endowment fund are classified and reported based on the existence or absence of donor-imposed restrictions. The endowment funds of the Diocese have been invested in the Michigan Catholic Conference's National Catholic Investment Pool.

The Bishop and Diocesan Finance Council have interpreted Michigan's version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Diocese classifies as net assets with donor restrictions (a) the original value of gifts to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the applicable donor gift instrument, if applicable.

The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Diocese in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Diocese considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the endowment fund
- The purposes of the Diocese and the donor-restricted endowment fund
- General economic factors
- The possible effect of inflation or deflation
- The expected total return from income and appreciation of investments
- Other resources of the Diocese
- The investment policy of the Diocese

NOTES TO FINANCIAL STATEMENTS--Continued

ROMAN CATHOLIC DIOCESE OF MARQUETTE

NOTE L--ENDOWMENTS--Continued

The following represents the changes in endowment fund net assets:

	<u>Net Assets With Donor Restrictions</u>
Endowment net assets at October 31, 2017	\$ 266,557
Investment return:	
Realized and unrealized losses	(3,001)
Interest and dividends	<u>5,154</u>
Total investment return	2,153
Appropriation of endowment assets for expenditure	<u>(10,600)</u>
Endowment net assets at October 31, 2018	258,110
Investment return:	
Realized and unrealized gains	5,529
Interest and dividends	<u>23,782</u>
Total investment return	29,311
Appropriation of endowment assets for expenditure	<u>0</u>
Endowment net assets at October 31, 2019	<u>\$ 287,421</u>

The Diocesan Finance Council makes recommendations to the Bishop annually regarding annual spending from any endowment funds. For the years ended October 31, 2019 and 2018, the spending allocation was 4.5 percent, using a five-year weighted average.

The Diocese has adopted an investment policy for endowment assets. The investment objectives are to preserve capital, to achieve long-term growth of assets without undue exposure to risk through prudent diversification measures, and to achieve and maintain total asset levels that meet the needs of the participants. The Diocesan Finance Council uses the services of a third party to select investment managers and evaluate performance objectives. A specific investment benchmark index for evaluation is determined for all investment managers hired by the third party and is used to evaluate the manager's performance on a one-, three-, and five-year time horizon each quarter.

NOTES TO FINANCIAL STATEMENTS--Continued

ROMAN CATHOLIC DIOCESE OF MARQUETTE

NOTE M--FUNCTIONAL EXPENSES

Expenses have been allocated between program services and supporting services (management and general and fundraising). Expenses that can be identified with program or supporting services are charged directly to the program or supporting service benefited. Other expenses, which apply to more than one functional category, have been allocated on various bases, as determined by management.

Functional expenses by natural classification is as follows:

	Year Ended October 31, 2019			
	Program Services	Management and General	Fundraising	Total
Salaries and wages, lay	\$ 579,934	\$ 352,366	\$ 168,414	\$ 1,100,714
Salaries and wages, clergy	363,390			363,390
Employee benefits	215,311	112,265	54,581	382,157
Purchased services	96,119	40,087		136,206
Educational costs	475,996			475,996
Other facilities, buildings, and grounds	332,082			332,082
Office	135,781	16,011	7,003	158,795
Grants and direct assistance	942,216			942,216
Other	170,392			170,392
	<u>\$ 3,311,221</u>	<u>\$ 520,729</u>	<u>\$ 229,998</u>	<u>\$ 4,061,948</u>

NOTE N--PENSION PLANS

Michigan Catholic Conference Lay Employees' Retirement Plan

The Diocese participates in the Michigan Catholic Conference Lay Employees' Retirement Plan (Lay Plan), a multi-employer defined benefit pension plan. The Lay Plan number and employer identification number is 38-1971920.

Contributions to the Lay Plan were \$98,641 and \$97,291 for the years ended October 31, 2019 and 2018, respectively. The amount of Diocesan contributions to the Lay Plan was 8.6 percent of wages of all covered employees for the years ended October 31, 2019 and 2018. Based on information as of June 30, 2019, the year end of the Lay Plan, Diocesan contributions to the Lay Plan did not represent more than 5 percent of the total contributions received by the Lay Plan.

Specific Lay Plan information for the Diocese is not available from the plan's administrator. If the Diocese terminates its participation in the Lay Plan, the Diocese would be responsible for making a contribution for its proportional share of any unfunded liability. The termination liability would be calculated by the actuaries, as outlined in the Lay Plan document, at the time of withdrawal.

NOTES TO FINANCIAL STATEMENTS--Continued

ROMAN CATHOLIC DIOCESE OF MARQUETTE

NOTE N--PENSION PLANS--Continued

The following information is based on the most recent Lay Plan financial statements:

	June 30	
	2019	2018
Total plan assets available for benefits	\$ 1,315,058,545	\$ 1,312,949,053
Actuarial present value of accumulated plan benefits	\$ 1,469,920,323	\$ 1,450,827,098
Total contributions received by the plan	\$ 27,381,469	\$ 27,598,493
Indicated funding level	89.5%	90.5%

Diocese of Marquette Priests' Retirement Plan

The Diocese also contributes to the Diocese of Marquette Priests' Retirement Plan (Priests' Plan), a defined benefit pension plan established for the benefit of priests ordained or incardinated in the Diocese. The Priests' Plan number and employer identification number is 20-1769136.

Contributions to the Priests' Plan were \$26,946 and \$20,960 for the years ended October 31, 2019 and 2018, respectively, by the Diocese on behalf of the priests employed directly by the Diocese.

Specific Priests' Plan information for the Diocese is not available from the plan's administrator. In the event of termination of the Priests' Plan, assets would be allocated in the following order of preference: (1) to provide for continuance of pension payments to retirees, (2) to provide for payment of pension benefits to all other priest participants based on their accrued benefits as of the termination date, and (3) to the Diocese, if any assets remained. No retiree, participant, or other person has any rights or claims under the Priests' Plan in excess of the assets available to pay benefits.

The following information is based on the most recent Priest's Plan financial statements:

	June 30	
	2019	2018
Total plan assets available for benefits	\$ 9,447,581	\$ 9,466,827
Actuarial present value of accumulated plan benefits	\$ 8,581,503	\$ 8,130,924
Total contributions received by the plan	\$ 249,170	\$ 312,645
Indicated funding level	110.1%	116.4%

NOTES TO FINANCIAL STATEMENTS--Continued

ROMAN CATHOLIC DIOCESE OF MARQUETTE

NOTE O--INCOME TAXES

In a determination letter dated March 25, 1946, and updated annually since that time, the Internal Revenue Service has ruled that all organizations listed in The Official Catholic Directory (OCD) are exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

The Roman Catholic Diocese of Marquette is listed in the 2019 edition of the OCD and, therefore, is exempt from federal income taxes. A determination letter issued December 11, 1970, also affirmed the non-private foundation status of organizations listed in the OCD.

NOTE P--DIOCESAN COLLECTIONS

The Diocese collects and remits contributions from individuals and affiliated organizations for various charitable beneficiaries. These amounts have been excluded from the Diocesan statement of activities. Amounts remitted approximate the amounts collected for both years.

Diocesan collections were as follows:

	Year Ended October 31	
	2019	2018
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Collection Receipts:		
Bishops' Relief--Rice Bowl	\$ 44,305	\$ 54,489
Holy Land and Communications	13,775	17,232
Campaign for Human Development	10,937	15,065
Peter's Pence	12,424	15,067
Black and Native American	10,517	13,524
Religious Retirement Collection	14,230	23,680
Propagation of the Faith	15,095	14,229
Catholic Home Mission Appeal	15,142	12,547
Diocesan Catholic Schools	36,963	45,261
Diocesan Priests' Retirement	99,408	108,801
Church in Africa	9,619	10,401
Catholic University	7,339	9,136
Other collections	36,156	96,948
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TOTAL COLLECTIONS	\$ 325,910	\$ 436,380
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NOTES TO FINANCIAL STATEMENTS--Continued

ROMAN CATHOLIC DIOCESE OF MARQUETTE

NOTE Q--SELF-INSURANCE PLAN

The Diocese participates in a self-insurance plan with the other Michigan dioceses for workers' compensation, liability, and property coverage. The plan is managed by the Michigan Catholic Conference and claims are administered by a third-party administrator. Initial losses of up to \$1,000,000 for workers' compensation, \$1,000,000 for liability, and \$1,000,000 for property per occurrence are the responsibility of the plan. The premiums paid to the plan by the Diocese are recorded as expenses in the statement of activities.

The plan's specific reinsurance carrier is responsible for all claims in excess of \$1,000,000 for workers' compensation, \$1,000,000 for liability, and \$1,000,000 for property per occurrence up to the statutory limit of \$100,000,000 for workers' compensation per occurrence, \$100,000,000 for liability per occurrence, and \$210,000,000 for property per occurrence.

NOTE R--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 ending June 30, 2020. An authorized self-insurer is required to establish a fully-funded loss reserve to pay claims which are anticipated in, and/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. This self-insurance loss reserve was \$10,630 and \$10,446 as of June 30, 2019 and 2018, respectively.

NOTE S--RELATED-PARTY TRANSACTIONS

Employees of the Diocese provide administrative and other support services to the Upper Peninsula Catholic Foundation, Inc. The Diocese bills the Upper Peninsula Catholic Foundation, Inc., for these services. The amounts billed to the Upper Peninsula Catholic Foundation, Inc., totaled \$42,000 for each of the years ended October 31, 2019 and 2018, respectively.