

Audited Financial Statements

ROMAN CATHOLIC  
DIOCESE OF MARQUETTE

October 31, 2016

Audited Financial Statements

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## INDEPENDENT AUDITOR'S REPORT

The Most Reverend John F. Doerfler  
Bishop of the 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, 2016 and 2015, 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 the 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, 2016 and 2015, 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, P.C.*

February 10, 2017

Marquette, Michigan

STATEMENTS OF FINANCIAL POSITION

ROMAN CATHOLIC DIOCESE OF MARQUETTE

	October 31	
	2016	2015
<b>ASSETS</b>		
Cash and cash equivalents	\$ 1,306,649	\$ 1,024,099
Investments	23,577,388	23,844,241
Pledges receivable, net	1,157,030	1,288,072
Accounts and notes receivable, net	677,285	792,715
Other assets	22,826	7,664
Land, buildings, and equipment, net	<u>2,216,638</u>	<u>2,304,854</u>
TOTAL ASSETS	<u>\$ 28,957,816</u>	<u>\$ 29,261,645</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 410,955	\$ 389,649
Annuities payable	77,284	112,112
Amounts payable to parishes		15,496
Other liabilities	23,745	23,796
Note payable	483,513	500,923
TOTAL LIABILITIES	<u>995,497</u>	<u>1,041,976</u>
<b>NET ASSETS</b>		
Unrestricted:		
Designated	10,016,980	10,085,609
Undesignated	11,197,522	11,740,841
Net investment in land, buildings, and equipment	<u>2,216,638</u>	<u>2,304,854</u>
TOTAL UNRESTRICTED NET ASSETS	23,431,140	24,131,304
Temporarily restricted	2,826,649	2,869,925
Permanently restricted	<u>1,704,530</u>	<u>1,218,440</u>
TOTAL NET ASSETS	<u>27,962,319</u>	<u>28,219,669</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 28,957,816</u>	<u>\$ 29,261,645</u>

See notes to financial statements.

# STATEMENT OF ACTIVITIES

## ROMAN CATHOLIC DIOCESE OF MARQUETTE

	Year Ended October 31, 2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<b>REVENUES</b>				
UPCSA Campaign contributions		\$ 2,080,642		\$ 2,080,642
Investment return designated for current operations	\$ 809,500	62,773		872,273
Insurance rebate	120,978			120,978
Bequests, donations, and grants	82,732	205,677	\$ 486,090	774,499
U.P. Catholic newspaper	219,184			219,184
Miscellaneous	21,685	11,156		32,841
Net assets released from restrictions	2,370,175	(2,370,175)		0
<b>TOTAL REVENUES</b>	<b>3,624,254</b>	<b>(9,927)</b>	<b>486,090</b>	<b>4,100,417</b>
<b>EXPENSES</b>				
Executive and support services	236,307			236,307
Ministry personnel services	744,859			744,859
Spiritual development services	32,138			32,138
Catholic education/formation services	473,558			473,558
Catholic schools support	336,764			336,764
Communication services	390,100			390,100
Judicial services	46,615			46,615
Catholic Social Services subsidy	329,000			329,000
Diocesan donations and other services	143,937			143,937
Financial services	419,431			419,431
Development and UPCSA Campaign	235,683			235,683
Building and grounds	148,400			148,400
Depreciation	151,366			151,366
<b>TOTAL EXPENSES</b>	<b>3,688,158</b>	<b>0</b>	<b>0</b>	<b>3,688,158</b>
Change in net assets before change in investments	(63,904)	(9,927)	486,090	412,259
Investment return less than amounts designated for current operations	(636,260)	(33,349)		(669,609)
<b>CHANGE IN NET ASSETS</b>	<b>(700,164)</b>	<b>(43,276)</b>	<b>486,090</b>	<b>(257,350)</b>
Net assets at beginning of year	24,131,304	2,869,925	1,218,440	28,219,669
<b>NET ASSETS AT END OF YEAR</b>	<b>\$ 23,431,140</b>	<b>\$ 2,826,649</b>	<b>\$ 1,704,530</b>	<b>\$ 27,962,319</b>

See notes to financial statements.

# STATEMENT OF ACTIVITIES

## ROMAN CATHOLIC DIOCESE OF MARQUETTE

	Year Ended October 31, 2015			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<b>REVENUES</b>				
UPCSA Campaign contributions		\$ 2,053,064		\$ 2,053,064
Investment return designated for current operations	\$ 756,089	57,176		813,265
Insurance rebate	507,827			507,827
Bequests, donations, and grants	330,065	240,179	\$ 154,315	724,559
U.P. Catholic newspaper	208,689			208,689
Miscellaneous	5,399	8,761		14,160
Net assets released from restrictions	2,356,502	(2,356,502)		0
<b>TOTAL REVENUES</b>	<b>4,164,571</b>	<b>2,678</b>	<b>154,315</b>	<b>4,321,564</b>
<b>EXPENSES</b>				
Executive and support services	230,200			230,200
Ministry personnel services	706,201			706,201
Spiritual development services	33,047			33,047
Catholic education/formation services	541,261			541,261
Catholic schools support	334,693			334,693
Communication services	410,424			410,424
Judicial services	40,265			40,265
Catholic Social Services subsidy	329,000			329,000
Diocesan donations and other services	167,283			167,283
Financial services	294,580			294,580
Development and UPCSA Campaign	190,149			190,149
Building and grounds	160,666			160,666
Depreciation	151,394			151,394
Capital campaign--parishes and schools	15,000			15,000
Bad debt expense	211,521			211,521
<b>TOTAL EXPENSES</b>	<b>3,815,684</b>	<b>0</b>	<b>0</b>	<b>3,815,684</b>
Change in net assets before change in investments	348,887	2,678	154,315	505,880
Investment return less than amounts designated for current operations	(281,179)	(28,508)		(309,687)
<b>CHANGE IN NET ASSETS</b>	<b>67,708</b>	<b>(25,830)</b>	<b>154,315</b>	<b>196,193</b>
Net assets at beginning of year	24,063,596	2,895,755	1,064,125	28,023,476
<b>NET ASSETS AT END OF YEAR</b>	<b>\$ 24,131,304</b>	<b>\$ 2,869,925</b>	<b>\$ 1,218,440</b>	<b>\$ 28,219,669</b>

See notes to financial statements.

## STATEMENTS OF CASH FLOWS

### ROMAN CATHOLIC DIOCESE OF MARQUETTE

	Year Ended October 31	
	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ (257,350)	\$ 196,193
Adjustments to reconcile change in net assets to net cash and cash equivalents from operating activities:		
Depreciation	151,366	151,394
Provision for uncollectible accounts		211,521
Realized and unrealized (gains) losses on investment securities	199,870	(103,526)
Contributions restricted for long-term purposes	(486,090)	(154,315)
Non-monetary donation	(21,850)	
(Increase) Decrease in:		
Pledges receivable	110,667	(38,882)
Accounts and notes receivable	115,430	(255,590)
Other assets	6,688	(4,151)
Increase (Decrease) in:		
Accounts payable and accrued expenses	21,306	(36,268)
Amounts payable to parishes	(15,496)	(100,187)
Annuities payable	(34,828)	(41,073)
Other liabilities	(51)	1,614
<b>NET CASH AND CASH EQUIVALENTS USED BY OPERATING ACTIVITIES</b>	<b>(210,338)</b>	<b>(173,270)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of land, buildings, and equipment	(63,150)	(33,420)
Net investment pool withdrawals	66,983	234,632
<b>NET CASH AND CASH EQUIVALENTS PROVIDED BY INVESTING ACTIVITIES</b>	<b>3,833</b>	<b>201,212</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from contributions restricted for long-term purposes	506,465	278,831
Principal payments on note payable	(17,410)	(5,572)
Proceeds from note payable		506,495
<b>NET CASH AND CASH EQUIVALENTS PROVIDED BY FINANCING ACTIVITIES</b>	<b>489,055</b>	<b>779,754</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>282,550</b>	<b>807,696</b>
Cash and cash equivalents at beginning of year	1,024,099	216,403
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>\$ 1,306,649</b>	<b>\$ 1,024,099</b>

See notes to financial statements.

## NOTES TO FINANCIAL STATEMENTS

### ROMAN CATHOLIC DIOCESE OF MARQUETTE

October 31, 2016

#### 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, 22 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 the above 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 three classes of net assets (i.e., unrestricted, temporarily restricted, and permanently restricted) based on the existence or nature of any donor-imposed restrictions.

Descriptions of the asset classes are as follows:

Unrestricted Net Assets: Represent funds available for support of current Diocesan operations.

Temporarily Restricted Net Assets: Represent funds whose use is limited by donor-imposed stipulations that expire either by passage of time or fulfillment of the stipulations. The funds are reported as temporarily restricted revenues upon receipt and are transferred to unrestricted net assets when the time or purpose restrictions have been met.

Permanently Restricted Net Assets: Represent funds subject to donor-imposed stipulations requiring that the principal be permanently invested.

## NOTES TO FINANCIAL STATEMENTS--Continued

### ROMAN CATHOLIC DIOCESE OF MARQUETTE

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

##### 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 which are principally invested in short-term U.S. Government Securities.

##### Investments

Investments are carried at fair value. The majority of Diocesan investments are deposited with the Michigan Catholic Conference's The National Catholic Investment Pool (MCC Investment Pool) along with the investments of other dioceses, parishes, schools, and other institutions.

##### Accounts and Notes Receivable

The Diocese has long-term 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. 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.

NOTES TO FINANCIAL STATEMENTS--Continued

ROMAN CATHOLIC DIOCESE OF MARQUETTE

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

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 unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions.

The Diocese reports gifts of cash and other assets as temporarily or permanently restricted support 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, temporarily restricted net assets are reclassified to unrestricted net assets 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.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. These expenses are accounted for by either directly charging such costs to the specific programs and activities to which they relate or allocating among the program and supporting services benefited.

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 temporarily 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 (1) a specific assessment from each parish that is collected by the Diocese and remitted to the schools and (2) earnings distributed to the schools from board designated endowment funds.

Reclassifications

Certain amounts as of and for the year ended October 31, 2015, have been reclassified to conform to the current year's presentation.

Subsequent Events

Subsequent events were evaluated through February 10, 2017, which is the date the financial statements were available to be issued.

NOTES TO FINANCIAL STATEMENTS--Continued

ROMAN CATHOLIC DIOCESE OF MARQUETTE

NOTE B--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, 2016, uninsured cash balances totaled \$1,191,896. Management does not believe that it is subject to any significant custodial credit risk in connection with these deposits.

NOTE C--ACCOUNTS AND NOTES RECEIVABLE

The components of accounts and notes receivable are as follows:

	October 31	
	2016	2015
Holy Cross Cemetery	\$ 17,567	\$ 330,588
Needy Parish Loans receivable	618,050	743,166
Other accounts receivable	75,406	80,956
TOTAL ACCOUNTS AND NOTES RECEIVABLE	<u>711,023</u>	<u>1,154,710</u>
Allowance for uncollectible accounts and notes receivable	<u>(33,738)</u>	<u>(361,995)</u>
ACCOUNTS AND NOTES RECEIVABLE, NET	<u>\$ 677,285</u>	<u>\$ 792,715</u>

NOTE D--INVESTMENTS

Diocesan investments represent participation in the MCC Investment Pool. The following represents a summary of Diocesan investments:

	October 31	
	2016	2015
MCC Investment Pool (60% equities / 40% fixed)	<u>\$ 23,577,388</u>	<u>\$ 23,844,241</u>

Investment return is comprised of:

	Year Ended October 31	
	2016	2015
Realized and unrealized gains (losses)	\$ (199,870)	\$ 103,526
Interest and dividends	<u>402,534</u>	<u>400,052</u>
TOTAL INVESTMENT RETURN	<u>\$ 202,664</u>	<u>\$ 503,578</u>

NOTES TO FINANCIAL STATEMENTS--Continued

ROMAN CATHOLIC DIOCESE OF MARQUETTE

NOTE D--INVESTMENTS--Continued

Investment return is reported net of fees, which were \$81,623 and \$86,593 for the years ended October 31, 2016 and 2015, respectively.

The following table presents information about 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. Accounting principles generally accepted 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 consists of three broad levels: 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.

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
<u>October 31, 2016:</u>				
MCC Investment Pool	\$ 0	\$ 23,577,388	\$ 0	\$ 23,577,388
<u>October 31, 2015:</u>				
MCC Investment Pool	\$ 0	\$ 23,844,241	\$ 0	\$ 23,844,241

The Diocese administers parish, mission, school, and other religious organization's participation in the MCC Investment Pool. The amounts deposited with the MCC Investment Pool on behalf of these other organizations were \$26,325,832 and \$26,365,169 as of October 31, 2016 and 2015, respectively. These amounts have been excluded from the 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--LAND, BUILDINGS, AND EQUIPMENT

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

	October 31	
	2016	2015
Land	\$ 462,035	\$ 462,035
Land improvements	71,490	71,490
Buildings	1,325,472	1,325,472
Building improvements	1,983,464	1,938,361
Vehicles	107,551	107,551
Furnishings and equipment	237,014	244,135
	<u>4,187,026</u>	<u>4,149,044</u>
Less accumulated depreciation	<u>(1,970,388)</u>	<u>(1,844,190)</u>
LAND, BUILDINGS, AND EQUIPMENT, NET	<u>\$ 2,216,638</u>	<u>\$ 2,304,854</u>

NOTE F--PENSION PLANS

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 \$80,413 and \$77,175 for the years ended October 31, 2016 and 2015, respectively. The amount of Diocesan contributions to the Lay Plan was 7.6 percent of wages of all covered employees for the period July 1, 2014 through June 30, 2015. The rate increased to 8.1 percent effective July 1, 2015 through June 30, 2016. Effective July 1, 2016, the rate increased to 8.6 percent. Based on information as of June 30, 2016, 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.

The Diocese also contributes to the Michigan Catholic Conference 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.

NOTES TO FINANCIAL STATEMENTS--Continued

ROMAN CATHOLIC DIOCESE OF MARQUETTE

NOTE F--PENSION PLANS--Continued

Contributions to the Priests' Plan were \$37,728 and \$47,896 for the years ended October 31, 2016 and 2015, respectively. Based on information as of June 30, 2016, Diocesan contributions to the Priests' Plan did not represent more than 5 percent of the total contributions received by the Priests' Plan.

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 plan financial statements as of and for the year ended June 30, 2016:

	<u>Lay Plan</u>	<u>Priests' Plan</u>
Total plan assets available for benefits	\$ 1,211,590,895	\$ 9,125,253
Actuarial present value of accumulated plan benefits	\$ 1,450,159,731	\$ 10,513,277
Total contributions received by the plan	\$ 25,705,756	\$ 218,674
Indicated funding level	83.5%	86.8%

NOTE G--NET ASSETS

Certain unrestricted net assets have been designated by the Bishop for the following purposes:

	October 31	
	<u>2016</u>	<u>2015</u>
Charitable gift annuities	\$ 77,284	\$ 112,112
Equipment and improvements	500,000	500,000
Native American and Outreach to the Poor	95,744	101,637
Seminarians and vocations	5,600,000	5,600,000
Parish and school promissory notes	100,000	100,000
Needy Parish Fund	1,140,923	1,140,923
Catholic schools	1,869,100	1,902,589
Divine Worship Initiative	575,043	569,978
Hospitality Lecture Fund	58,886	58,370
TOTAL	<u>\$ 10,016,980</u>	<u>\$ 10,085,609</u>

NOTES TO FINANCIAL STATEMENTS--Continued

ROMAN CATHOLIC DIOCESE OF MARQUETTE

NOTE G--NET ASSETS--Continued

Temporarily restricted net assets are available for the following purposes:

	October 31	
	2016	2015
Sabbaticals	\$ 224,264	\$ 222,277
Campaign for Human Development	4,723	4,379
Poverty Program (Rice Bowl)	99,745	102,666
Parish Charitable Gift Annuities	21,471	21,471
Catholic Services Appeal--program and services	2,080,642	2,053,064
Mahoney Carmelite Fund	195,041	227,201
Undistributed endowment earnings	200,763	238,867
	<u>2,826,649</u>	<u>2,869,925</u>
TOTAL	<u>\$ 2,826,649</u>	<u>\$ 2,869,925</u>

Permanently restricted net assets are comprised of the following:

	October 31	
	2016	2015
Anderson Cathedral Trust	\$ 53,147	\$ 53,147
Anderson Memorial Masses	83,358	83,358
Seminary Fund	100,000	100,000
Poor Parish Fund	50,000	50,000
Retired and Active Priest Mass Stipend Fund	100,000	100,000
Lay Ministry Fund	45,277	45,277
Vignetto Seminary Trust	258,255	258,255
Peter Vukelich Trust	93,427	93,427
Bessette Seminary Fund	79,515	79,515
Menze Scholarship Fund	201,146	201,146
Seminarian Endowment Fund	342,455	154,315
Bishop Baraga Catholic School	297,950	
	<u>1,704,530</u>	<u>1,218,440</u>
TOTAL	<u>\$ 1,704,530</u>	<u>\$ 1,218,440</u>

NOTES TO FINANCIAL STATEMENTS--Continued

ROMAN CATHOLIC DIOCESE OF MARQUETTE

NOTE H--ENDOWMENTS

Diocesan endowments consist of 12 donor-restricted funds established for a variety of purposes. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

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 permanently restricted net assets (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 in 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

The following represents the endowment fund net assets composition by type of fund:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<u>October 31, 2016:</u>			
Donor-restricted endowment funds	<u>\$ 200,763</u>	<u>\$ 1,704,530</u>	<u>\$ 1,905,293</u>
<u>October 31, 2015:</u>			
Donor-restricted endowment funds	<u>\$ 238,867</u>	<u>\$ 1,218,440</u>	<u>\$ 1,457,307</u>

NOTES TO FINANCIAL STATEMENTS--Continued

ROMAN CATHOLIC DIOCESE OF MARQUETTE

NOTE H--ENDOWMENTS--Continued

The following represents the changes in endowment fund net assets:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets at October 31, 2014	\$ 267,354	\$ 1,064,125	\$ 1,331,479
Investment return:			
Realized and unrealized gains	6,192		6,192
Interest and dividends	22,476		22,476
Total investment return	<u>28,668</u>	0	<u>28,668</u>
Contributions		154,315	154,315
Appropriation of endowment assets for expenditure	<u>(57,155)</u>		<u>(57,155)</u>
Endowment net assets at October 31, 2015	238,867	1,218,440	1,457,307
Investment return:			
Realized and unrealized losses	(9,192)		(9,192)
Interest and dividends	38,616		38,616
Total investment return	<u>29,424</u>	0	<u>29,424</u>
Contributions		486,090	486,090
Appropriation of endowment assets for expenditure	<u>(67,528)</u>		<u>(67,528)</u>
Endowment net assets at October 31, 2016	<u>\$ 200,763</u>	<u>\$ 1,704,530</u>	<u>\$ 1,905,293</u>

The Diocesan Finance Council makes recommendations to the Bishop annually regarding annual spending from any endowment funds. Annual spending may not exceed seven percent of the permanently restricted net assets, using a five-year weighted average. For the years ended October 31, 2016 and 2015, the spending allocation was 4.5 percent.

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 I--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 2016 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 J--FUNCTIONAL EXPENSES

The functional presentation of Diocesan expenses is as follows:

	Year Ended October 31	
	2016	2015
Program services	\$ 2,496,971	\$ 2,562,174
Management and general	955,504	1,048,361
Fundraising	235,683	205,149
	<hr/>	<hr/>
TOTAL	<u>\$ 3,688,158</u>	<u>\$ 3,815,684</u>

NOTE K--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	
	2016	2015
Collection Receipts:		
Bishops' Relief--Rice Bowl	\$ 64,276	\$ 86,243
Holy Land and Communications	40,160	36,861
Campaign for Human Development	24,964	24,042
Peter's Pence	31,689	32,913
Black and Native American	24,603	24,664
Religious Retirement Collection	53,863	49,287
Propagation of the Faith	42,635	33,652
Catholic Home Mission Appeal	22,368	24,462
Diocesan Catholic Schools	39,056	53,053
Diocesan Priests' Retirement	96,358	111,376
Church in Africa	8,600	9,891
Other collections	74,368	92,372
	<hr/>	<hr/>
TOTAL COLLECTIONS	<u>\$ 522,940</u>	<u>\$ 578,816</u>

## NOTES TO FINANCIAL STATEMENTS--Continued

### ROMAN CATHOLIC DIOCESE OF MARQUETTE

#### NOTE L--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, and other entities within the Diocese. Promissory notes totaling approximately \$-0- and \$28,000 at October 31, 2016 and 2015, respectively, have been signed by the Bishop for these parishes, schools, and other entities.

#### NOTE M--SPLIT-INTEREST AGREEMENTS

The Diocese administers various charitable gift annuities. A charitable gift annuity provides for the payment of distributions to the grantor or other designated beneficiaries over the annuity term (usually the designated beneficiary's lifetime). At the end of the annuity's term, the remaining assets are available for the Diocese or other designated beneficiary's use. The portion of the annuity attributable to the present value of the future benefits to be received by the Diocese is recorded in the statement of activities as a contribution in the period the annuity is established. Such contributions totaled \$-0- and \$5,821 for the years ended October 31, 2016 and 2015, respectively. The present value of the estimated future payments, reported as annuities payable on the statements of financial position, is calculated using discount rates ranging between 4.5 percent and 10.4 percent and applicable mortality tables.

#### NOTE N--REAL PROPERTY REPLACEMENT VALUE

The replacement value of the real property (buildings) of parishes, schools, and institutions owned by the Diocese is in excess of \$20,000,000 as determined by Marshall Swift Valuation Services cost indices as of October 31, 2016. The buildings included in this valuation are comprised substantially of buildings excluded from plant assets in the accompanying financial statements as discussed in Note A.

NOTES TO FINANCIAL STATEMENTS--Continued

ROMAN CATHOLIC DIOCESE OF MARQUETTE

NOTE O--PLEDGES RECEIVABLE

Pledges receivable are comprised of the following:

	October 31	
	2016	2015
Upper Peninsula Catholic Services Appeal	\$ 1,157,030	\$ 1,267,697
Our Faith in the Future Capital Campaign		82,543
Total unconditional pledges receivable	1,157,030	1,350,240
Less allowance for uncollectible pledges receivable		(62,168)
PLEDGES RECEIVABLE, NET	\$ 1,157,030	\$ 1,288,072

Payments on pledges receivable are expected to be collected in less than one year.

NOTE P--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, 2017. 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.

NOTE Q--NOTE PAYABLE

The note payable is as follows:

	October 31	
	2016	2015
Unsecured note payable to a local bank, in monthly installments of \$3,017, including interest at 3.75%, with the final balloon payment due June 1, 2018	\$ 483,513	\$ 500,923

NOTES TO FINANCIAL STATEMENTS--Continued

ROMAN CATHOLIC DIOCESE OF MARQUETTE

NOTE Q--NOTE PAYABLE--Continued

Future principal payments of the note payable are as follows:

<u>Year Ending October 31</u>	<u>Amount</u>
2017	\$ 18,143
2018	<u>465,370</u>
	<u>\$ 483,513</u>

Interest expense for the years ended October 31, 2016 and 2015, was \$18,797 and \$8,111, respectively. Interest paid for the years ended October 31, 2016 and 2015, was \$18,852 and \$6,516, respectively.

NOTE R--RELATED-PARTY TRANSACTIONS

Employees of the Diocese provide administrative and other support services to the Endowment Foundation of the Diocese of Marquette. The Diocese bills the Endowment Foundation of the Diocese of Marquette for these services. The amounts billed to the Endowment Foundation of the Diocese of Marquette totaled \$37,333 and \$32,762 for the years ended October 31, 2016 and 2015, respectively.

NOTE S--SUBSEQUENT EVENTS

The Diocese will be contributing certain permanently restricted assets to the Upper Peninsula Catholic Foundation, Inc., during the fiscal year ending October 31, 2017.

The Upper Peninsula Catholic Foundation, Inc., is both a public juridic person and a Michigan nonprofit corporation. The purpose of the Upper Peninsula Catholic Foundation, Inc., is to act as a repository to maintain and pool existing endowed funds, as well as to provide opportunities to create new endowed funds throughout the Diocese exclusively for such religious, charitable, and educational purposes as permitted for organizations defined in Section 501(c)(3) of the Internal Revenue Code.