

Audited Financial Statements

ENDOWMENT FOUNDATION
OF THE DIOCESE OF MARQUETTE

October 31, 2015

Audited Financial Statements

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Endowment Foundation of the Diocese of Marquette
Marquette, Michigan

We have audited the accompanying financial statements of the Endowment Foundation of the Diocese of Marquette, a not-for-profit organization, which comprise the statement of financial position as of October 31, 2015, and the related statements of activities and cash flows for the year 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 audit. We conducted our audit 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.

Board of Directors
Endowment Foundation of the Diocese of Marquette

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Endowment Foundation of the Diocese of Marquette as of October 31, 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements

The 2014 financial statements were compiled by us. The objective of a compilation is to assist management in presenting financial information in the form of financial statements without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the financial statements. We have not audited or reviewed the 2014 financial statements and accordingly, do not express an opinion or provide any assurance about whether the financial statements are in accordance with accounting principles generally accepted in the United States of America.

Makola, Toutant, Hill & Nardi, P.C.

Marquette, Michigan

February 9, 2016

STATEMENTS OF FINANCIAL POSITION

ENDOWMENT FOUNDATION OF THE DIOCESE OF MARQUETTE

	October 31	
	2015	2014
	<u>Audited</u>	<u>Unaudited</u>
ASSETS		
Cash and cash equivalents--held by fiscal agent	\$ 52,087	\$ 121,980
Investments	7,959,911	7,902,037
Accounts receivable, net	36,455	64,598
Pledges receivable, net	18,000	19,000
Other assets	<u>7,729</u>	<u>5,967</u>
TOTAL ASSETS	<u><u>\$ 8,074,182</u></u>	<u><u>\$ 8,113,582</u></u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	<u>\$ 1,425</u>	<u>\$ 1,052</u>
TOTAL LIABILITIES	<u>1,425</u>	<u>1,052</u>
NET ASSETS		
Temporarily restricted	1,252,238	1,343,054
Permanently restricted	<u>6,820,519</u>	<u>6,769,476</u>
TOTAL NET ASSETS	<u><u>8,072,757</u></u>	<u><u>8,112,530</u></u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 8,074,182</u></u>	<u><u>\$ 8,113,582</u></u>

See notes to financial statements.

STATEMENT OF ACTIVITIES

ENDOWMENT FOUNDATION OF THE DIOCESE OF MARQUETTE

	Year Ended October 31, 2015			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
REVENUES AND SUPPORT				
Contributions			\$ 51,043	\$ 51,043
Investment return designated for current operations		\$ 272,368		272,368
Miscellaneous		1,760		1,760
Net assets released from restrictions	\$ 255,586	(255,586)		0
TOTAL REVENUES AND SUPPORT	255,586	18,542	51,043	325,171
EXPENSES				
Program services--grants				
Catholic schools	103,684			103,684
Faith formation programs	62,160			62,160
Catholic Social Services of the Upper Peninsula	20,737			20,737
Catholic action	20,737			20,737
Management and general	34,622			34,622
Fundraising	13,646			13,646
TOTAL EXPENSES	255,586	0	0	255,586
Change in net assets before change in investments	0	18,542	51,043	69,585
Investment return less than amounts designated for current operations		(109,358)		(109,358)
CHANGE IN NET ASSETS	0	(90,816)	51,043	(39,773)
Net assets at beginning of year	0	1,343,054	6,769,476	8,112,530
NET ASSETS AT END OF YEAR	\$ 0	\$ 1,252,238	\$ 6,820,519	\$ 8,072,757

See notes to financial statements.

STATEMENT OF ACTIVITIES

ENDOWMENT FOUNDATION OF THE DIOCESE OF MARQUETTE

	Year Ended October 31, 2014 (Unaudited)			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES AND SUPPORT				
Contributions			\$ 259,898	\$ 259,898
Investment return designated for current operations		\$ 258,342		258,342
Miscellaneous		1,399		1,399
Capital campaign			32,459	32,459
Net assets released from restrictions	\$ 241,509	(241,509)		0
TOTAL REVENUES AND SUPPORT	241,509	18,232	292,357	552,098
EXPENSES				
Program services--grants				
Catholic schools	98,812			98,812
Faith formation programs	54,706			54,706
Catholic Social Services of the Upper Peninsula	19,762			19,762
Catholic action	13,335			13,335
Management and general	37,991			37,991
Fundraising	16,903			16,903
TOTAL EXPENSES	241,509	0	0	241,509
Change in net assets before change in investments		18,232	292,357	310,589
Investment return in excess of amounts designated for current operations		146,644		146,644
CHANGE IN NET ASSETS	0	164,876	292,357	457,233
Net assets at beginning of year	0	1,178,178	6,477,119	7,655,297
NET ASSETS AT END OF YEAR	\$ 0	\$ 1,343,054	\$ 6,769,476	\$ 8,112,530

See notes to financial statements.

STATEMENTS OF CASH FLOWS

ENDOWMENT FOUNDATION OF THE DIOCESE OF MARQUETTE

	Year Ended October 31	
	2015	2014
	Audited	Unaudited
CASH FROM OPERATING ACTIVITIES		
Change in net assets	\$ (39,773)	\$ 457,233
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Realized and unrealized gains on investment securities	(31,862)	(253,196)
Contributions restricted for long-term purposes	(51,043)	(292,357)
(Increase) Decrease in:		
Accounts receivable	638	(24,567)
Other assets	(1,762)	(968)
Increase (Decrease) in:		
Accounts payable and accrued expenses	373	(314)
NET CASH AND CASH EQUIVALENTS USED BY OPERATING ACTIVITIES	(123,429)	(114,169)
CASH FROM INVESTING ACTIVITIES--Net deposits to investment pool	(26,012)	(454,617)
CASH FROM FINANCING ACTIVITIES--Proceeds from contributions restricted for long-term purposes	79,548	293,357
NET DECREASE IN CASH AND CASH EQUIVALENTS	(69,893)	(275,429)
Cash and cash equivalents at beginning of year	121,980	397,409
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 52,087	\$ 121,980

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

ENDOWMENT FOUNDATION OF THE DIOCESE OF MARQUETTE

October 31, 2015

NOTE A--NATURE OF OPERATIONS

The Endowment Foundation of the Diocese of Marquette, also known as the Legacy of Faith Endowment Foundation (Foundation), is a not-for-profit organization established to provide support for Catholic schools, parish religious education, Catholic Social Services of the Upper Peninsula, and special ministries within the Roman Catholic Diocese of Marquette (Diocese) that have critical need. The Foundation is a permanent endowment that provides a stable base for that funding.

The Foundation is a public juridic person under the jurisdiction of the Diocesan Bishop, and it receives administrative services and operating support from the Diocese.

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

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

Financial Statement Presentation

The Foundation has presented its financial statements in accordance with generally accepted accounting principles for not-for-profit organizations in the United States of America. Under this guidance, the Foundation is required to report information regarding its financial position and activities according to three classes of net assets (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 Foundation operations or designated by the Board of Directors for a specific use.

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.

Cash and Cash Equivalents

The Foundation defines cash and cash equivalents as highly liquid, short-term investments with a maturity at the date of acquisition of three months or less. The Foundation's cash is held by the Diocese in an account designated for the Foundation.

NOTES TO FINANCIAL STATEMENTS--Continued

ENDOWMENT FOUNDATION OF THE DIOCESE OF MARQUETTE

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

Accounts Receivable

The Foundation has accounts receivable from parishes and institutions that are stated at unpaid balances, less an allowance for doubtful accounts. As of October 31, 2015 and 2014, the allowance for doubtful accounts was \$10,000. Bad debts are provided on the allowance method based on historical experience and management's evaluation of outstanding accounts. Losses are charged against the allowance when management determines that further collection efforts will not produce additional recoveries.

Investments

The Foundation's investments are stated at fair value. Donor-restricted investment income and unrealized gains or losses are reported as increases or decreases in temporarily restricted net assets. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

The Foundation 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.

Contributions

All pledges receivable and amounts received that are donor-restricted for future periods or donor-restricted for specific purposes are reported as temporarily or permanently restricted, depending upon the nature of the restriction. Temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the statement of activities as net assets released from restriction when the donor-stipulated time restriction ends or the purpose restriction is accomplished by the Foundation. All gifts granted to the Foundation are recorded at fair value at the time of receipt.

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

Donated services are recognized as revenues at their estimated fair value only when they create or enhance nonfinancial assets or they require specialized skills which would need to be purchased if they were not donated. No such amounts have been recognized in the statements of activities because the criteria for recognition have not been satisfied.

NOTES TO FINANCIAL STATEMENTS--Continued

ENDOWMENT FOUNDATION OF THE DIOCESE OF MARQUETTE

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

Grants

In connection with its annual budget process, the Foundation communicates its intent to support various organizations of the Diocese with estimated grants. Management does not consider this intent to support or the communication of this intent to support an unconditional promise to give. The Foundation grant is recorded in the year in which the grant is distributed.

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.

Functional Allocation of Expenses

The costs of providing program and other activities have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

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 Endowment Foundation of the Diocese of Marquette is listed in the 2015 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.

Subsequent Events

Subsequent events were evaluated through February 9, 2016, which was the date the financial statements were available to be issued.

NOTES TO FINANCIAL STATEMENTS--Continued

ENDOWMENT FOUNDATION OF THE DIOCESE OF MARQUETTE

NOTE C--INVESTMENTS

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

	October 31	
	2015	2014
MCC Investment Pool (60% equities / 40% fixed)	<u>\$ 7,959,911</u>	<u>\$ 7,902,037</u>

Investment return for the years ended is comprised of:

	October 31	
	2015	2014
Realized and unrealized gains	\$ 31,862	\$ 253,196
Interest and dividends	<u>131,148</u>	<u>151,790</u>
TOTAL INVESTMENT RETURN	<u>\$ 163,010</u>	<u>\$ 404,986</u>

Investment return is reported net of fees, which approximated \$31,300 and \$30,500 for the years ended October 31, 2015 and 2014, respectively.

The following table presents information about the Foundation's investments measured at fair value on a recurring basis at October 31, and the valuation techniques used by the Foundation to determine those fair values. 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 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 Foundation 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, 2015:</u>				
MCC Investment Pool	<u>\$ 0</u>	<u>\$ 7,959,911</u>	<u>\$ 0</u>	<u>\$ 7,959,911</u>
<u>October 31, 2014:</u>				
MCC Investment Pool	<u>\$ 0</u>	<u>\$ 7,902,037</u>	<u>\$ 0</u>	<u>\$ 7,902,037</u>

NOTES TO FINANCIAL STATEMENTS--Continued

ENDOWMENT FOUNDATION OF THE DIOCESE OF MARQUETTE

NOTE D--PLEDGES RECEIVABLE

Pledges receivable represent amounts due from donors for multiyear unconditional pledges. Payments on the pledges are expected to be received as follows:

	October 31	
	2015	2014
Receivable in less than one year	\$ 1,000	\$ 1,000
Receivable in one to five years	12,000	13,000
Receivable in more than five years	5,000	5,000
TOTAL UNCONDITIONAL PLEDGES RECEIVABLE	\$ 18,000	\$ 19,000

The Foundation believes a present value discount is not material to these financial statements. The Foundation has evaluated pledges receivable and does not believe an allowance for doubtful accounts is needed.

NOTE E--ENDOWMENTS

On September 15, 2009, the Uniform Prudent Management of Institutional Funds Act (UPMIFA) was signed into law in the State of Michigan. The Board of Directors have interpreted 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 Foundation 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 Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation 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 Foundation and the 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 Foundation
- The investment policy of the Foundation

NOTES TO FINANCIAL STATEMENTS--Continued

ENDOWMENT FOUNDATION OF THE DIOCESE OF MARQUETTE

NOTE E--ENDOWMENTS--Continued

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

	Temporarily Restricted	Permanently Restricted	Total
<u>October 31, 2015:</u>			
Donor-restricted endowment funds	<u>\$ 1,252,238</u>	<u>\$ 6,820,519</u>	<u>\$ 8,072,757</u>
<u>October 31, 2014:</u>			
Donor-restricted endowment funds	<u>\$ 1,343,054</u>	<u>\$ 6,769,476</u>	<u>\$ 8,112,530</u>

The following represents the changes in endowment fund net assets:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at October 31, 2013	\$ 1,178,178	\$ 6,477,119	\$ 7,655,297
Investment return:			
Realized and unrealized gains	253,196		253,196
Interest and dividends	151,790		151,790
Total investment return	<u>404,986</u>	<u>0</u>	<u>404,986</u>
Contributions	1,399	292,357	293,756
Appropriation of endowment assets for expenditure	<u>(241,509)</u>		<u>(241,509)</u>
Endowment net assets at October 31, 2014	1,343,054	6,769,476	8,112,530
Investment return:			
Realized and unrealized gains	31,862		31,862
Interest and dividends	131,148		131,148
Total investment return	<u>163,010</u>	<u>0</u>	<u>163,010</u>
Contributions	1,760	51,043	52,803
Appropriation of endowment assets for expenditure	<u>(255,586)</u>		<u>(255,586)</u>
Endowment net assets at October 31, 2015	<u>\$ 1,252,238</u>	<u>\$ 6,820,519</u>	<u>\$ 8,072,757</u>

NOTES TO FINANCIAL STATEMENTS--Continued

ENDOWMENT FOUNDATION OF THE DIOCESE OF MARQUETTE

NOTE E--ENDOWMENTS--Continued

The Spending Policy Sub-Committee makes recommendations to the Board of Directors annually regarding annual spending from the 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, 2015 and 2014, the spending allocation was four and a half percent and five percent, respectively.

The Foundation 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 Board of Directors 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 used to evaluate the manager's performance on a one, three, and five year time horizon each quarter.