

Audited Financial Statements

UPPER PENINSULA
CATHOLIC FOUNDATION, INC.

For the Year Ended June 30, 2018, and for the Period from
January 15, 2016 (Inception) to June 30, 2017

TABLE OF CONTENTS

UPPER PENINSULA CATHOLIC FOUNDATION, INC.

Independent Auditor's Report	1
Financial Statements	
Statements of Financial Position.....	3
Statements of Activities.....	4
Statements of Cash Flows	6
Notes to Financial Statements	7

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Upper Peninsula Catholic Foundation, Inc.
Marquette, Michigan

Report on Financial Statements

We have audited the accompanying financial statements of the Upper Peninsula Catholic Foundation, Inc., a nonprofit organization, which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities and cash flows for the year ended June 30, 2018, and for the period from January 15, 2016 (inception) to June 30, 2017, 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 audits 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.

Board of Directors
Upper Peninsula Catholic Foundation, Inc.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Upper Peninsula Catholic Foundation, Inc., as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the year ended June 30, 2018, and for the period from January 15, 2016 (inception) to June 30, 2017, in accordance with accounting principles generally accepted in the United States of America.

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

September 27, 2018

STATEMENTS OF FINANCIAL POSITION

UPPER PENINSULA CATHOLIC FOUNDATION, INC.

June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
Cash	\$ 2,365	\$ 15,000
Investments	11,769,003	10,858,490
Accounts receivable		4,800
Pledges receivable, net	15,300	16,500
Other assets	<u>11,606</u>	<u>10,201</u>
TOTAL ASSETS	<u>\$ 11,798,274</u>	<u>\$ 10,904,991</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	<u>\$ 5,411</u>	<u>\$ 20,156</u>
TOTAL LIABILITIES	5,411	20,156
NET ASSETS (DEFICIT)		
Unrestricted	3,001	(134)
Temporarily restricted	2,224,081	1,793,269
Permanently restricted	<u>9,565,781</u>	<u>9,091,700</u>
TOTAL NET ASSETS	<u>11,792,863</u>	<u>10,884,835</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 11,798,274</u>	<u>\$ 10,904,991</u>

See notes to financial statements.

STATEMENT OF ACTIVITIES

UPPER PENINSULA CATHOLIC FOUNDATION, INC.

Year Ended June 30, 2018

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUES AND SUPPORT				
Contributions	\$ 527	\$ 4,949	\$ 474,081	\$ 479,557
Investment return	2,462	882,045		884,507
Net assets released from restrictions	<u>456,182</u>	<u>(456,182)</u>		<u>0</u>
TOTAL REVENUES AND SUPPORT	459,171	430,812	474,081	1,364,064
EXPENSES				
Program services	395,210			395,210
Supporting services:				
Management and general	43,007			43,007
Fundraising	<u>17,819</u>			<u>17,819</u>
TOTAL SUPPORTING SERVICES	60,826	0	0	60,826
TOTAL EXPENSES	456,036	0	0	456,036
CHANGE IN NET ASSETS	3,135	430,812	474,081	908,028
Net assets (deficit) at beginning of period	<u>(134)</u>	<u>1,793,269</u>	<u>9,091,700</u>	<u>10,884,835</u>
NET ASSETS AT END OF PERIOD	<u>\$ 3,001</u>	<u>\$ 2,224,081</u>	<u>\$ 9,565,781</u>	<u>\$ 11,792,863</u>

See notes to financial statements.

STATEMENT OF ACTIVITIES

UPPER PENINSULA CATHOLIC FOUNDATION, INC.

For the Period from January 15, 2016 (Inception) to June 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES AND SUPPORT				
Contributions	\$ 65	\$ 6,271	\$ 771,614	\$ 777,950
Investment return		912,764		912,764
Net assets released from restrictions	321,061	(321,061)		0
TOTAL REVENUES AND SUPPORT	321,126	597,974	771,614	1,690,714
EXPENSES				
Program services	291,039			291,039
Supporting services:				
Management and general	22,237			22,237
Fundraising	7,984			7,984
TOTAL SUPPORTING SERVICES	30,221	0	0	30,221
TOTAL EXPENSES	321,260	0	0	321,260
CHANGE IN NET ASSETS	(134)	597,974	771,614	1,369,454
Net assets at beginning of period	0	0	0	0
Net assets transferred in during period	0	1,195,295	8,320,086	9,515,381
NET ASSETS (DEFICIT) AT END OF PERIOD	\$ (134)	\$ 1,793,269	\$ 9,091,700	\$ 10,884,835

See notes to financial statements.

STATEMENTS OF CASH FLOWS

UPPER PENINSULA CATHOLIC FOUNDATION, INC.

Year Ended June 30, 2018, and the Period from January 15, 2016 (Inception) to June 30, 2017

	<u>2018</u>	<u>2017</u>
CASH FROM OPERATING ACTIVITIES		
Change in net assets	\$ 908,028	\$ 1,369,454
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Realized and unrealized gains on investments	(680,738)	(782,830)
Contributions restricted for long-term purposes	(923,969)	(771,614)
(Increase) Decrease in:		
Pledges receivable		(16,500)
Accounts receivable	4,800	(4,800)
Other assets	(1,405)	(10,201)
Increase (Decrease) in:		
Accounts payable and accrued expenses	(14,745)	20,156
NET CASH USED BY OPERATING ACTIVITIES	<u>(708,029)</u>	<u>(196,335)</u>
CASH FROM INVESTING ACTIVITIES--Net deposits to investment pools	(229,775)	(559,779)
CASH FROM FINANCING ACTIVITIES--Proceeds from contributions restricted for long-term purposes	925,169	771,114
NET INCREASE (DECREASE) IN CASH	<u>(12,635)</u>	<u>15,000</u>
Cash at beginning of period	<u>15,000</u>	<u>0</u>
CASH AT END OF PERIOD	<u>\$ 2,365</u>	<u>\$ 15,000</u>

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

UPPER PENINSULA CATHOLIC FOUNDATION, INC.

NOTE A--NATURE OF OPERATIONS

The Upper Peninsula Catholic Foundation, Inc. (Foundation), is a nonprofit corporation established 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 Roman Catholic Diocese of Marquette (Diocese) exclusively for such religious, charitable, and educational purposes as permitted for organizations defined in Section 501(c)(3) of the Internal Revenue Code.

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.

These financial statements are not intended to, and do not, reflect the activities of the Diocese as a whole.

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 nonprofit 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.

NOTES TO FINANCIAL STATEMENTS--Continued

UPPER PENINSULA CATHOLIC FOUNDATION, INC.

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

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Expirations of temporarily restricted net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions.

Cash

For financial statement purposes, the Foundation considers all cash in demand deposit accounts and cash in savings accounts to be classified as cash.

Investments

The majority of the Foundation investments are deposited with the Michigan Catholic Conference's National Catholic Investment Pool along with the investments of other dioceses, parishes, schools, and institutions. Participation in the investment pool is valued at the fair value of the underlying securities on a pro-rata basis. The Foundation 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 cash used to purchase specific securities. 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 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.

Accounts Receivable

Accounts receivable represent unspent grant funds to be returned to the Foundation. As of June 30, 2018 and 2017, the Foundation believes that all accounts receivable are fully collectible; therefore, no allowance for doubtful accounts is recorded in the accompanying financial statements.

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 restrictions 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.

NOTES TO FINANCIAL STATEMENTS--Continued

UPPER PENINSULA CATHOLIC FOUNDATION, INC.

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

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.

Grants

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, to be an unconditional promise to give. The Foundation grants are recorded in the year in which the grants are 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 Upper Peninsula Catholic Foundation, Inc., is listed in the 2018 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 September 27, 2018, which was the date the financial statements were available to be issued.

NOTES TO FINANCIAL STATEMENTS--Continued

UPPER PENINSULA CATHOLIC FOUNDATION, INC.

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

Reclassifications

Certain reclassifications have been made to the prior year financial statements in order for them to be in conformity with the current year presentation.

NOTE C--INVESTMENTS

Investments consist of the following:

	June 30	
	2018	2017
MCC National Catholic Investment Pool	\$ 11,617,438	\$ 10,742,235
Mission Diocese Fund	151,565	116,255
TOTAL INVESTMENTS	<u>\$ 11,769,003</u>	<u>\$ 10,858,490</u>

Investment return for the year ended June 30, 2018, and for the period from January 15, 2016 (inception) to June 30, 2017, is comprised of the following:

	2018	2017
Realized and unrealized gains	\$ 680,738	\$ 782,830
Interest and dividends	243,104	158,708
Investment fees	<u>(39,335)</u>	<u>(28,774)</u>
TOTAL INVESTMENT RETURN	<u>\$ 884,507</u>	<u>\$ 912,764</u>

NOTES TO FINANCIAL STATEMENTS--Continued

UPPER PENINSULA CATHOLIC FOUNDATION, INC.

NOTE D--FAIR VALUE MEASUREMENTS

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

The following tables present information about the Foundation's investments measured at fair value on a recurring basis at June 30 and the valuation techniques used by the Foundation to determine those fair values.

	June 30, 2018		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Total
MCC National Catholic Investment Pool			
Short-term investments:			
Money market funds	\$ 80		\$ 80
Equity securities:			
Large cap	2,876,988		2,876,988
Mid/small cap	1,793,303		1,793,303
International	2,527,037		2,527,037
Fixed income securities		\$ 3,938,695	3,938,695
Alternatives		481,335	481,335
Mission Diocese Fund			
Cash equivalents	2,122		2,122
Global equity	78,965		78,965
Alternative equity	36,982		36,982
Real assets	16,824		16,824
Fixed income		16,672	16,672
TOTAL INVESTMENTS	<u>\$ 7,332,301</u>	<u>\$ 4,436,702</u>	<u>\$ 11,769,003</u>

NOTES TO FINANCIAL STATEMENTS--Continued

UPPER PENINSULA CATHOLIC FOUNDATION, INC.

NOTE D--FAIR VALUE MEASUREMENTS--Continued

	June 30, 2017		Total
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	
MCC National Catholic Investment Pool			
Short-term investments:			
Money market funds	\$ 76		\$ 76
Equity securities:			
Large cap	2,436,349		2,436,349
Mid/small cap	1,577,089		1,577,089
International	2,281,374		2,281,374
Fixed income securities		\$ 3,977,275	3,977,275
Alternatives		470,072	470,072
Mission Diocese Fund			
Cash equivalents	3,488		3,488
Global equity	61,034		61,034
Alternative equity	28,482		28,482
Real assets	9,882		9,882
Fixed income		13,369	13,369
TOTAL INVESTMENTS	\$ 6,397,774	\$ 4,460,716	\$ 10,858,490

NOTE E--PLEDGES RECEIVABLE

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

	June 30	
	2018	2017
Receivable in less than one year	\$ 5,300	\$ 1,500
Receivable in one to five years	10,000	15,000
TOTAL PLEDGES RECEIVABLE	\$ 15,300	\$ 16,500

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

NOTES TO FINANCIAL STATEMENTS--Continued

UPPER PENINSULA CATHOLIC FOUNDATION, INC.

NOTE F--ENDOWMENTS

The Foundation's endowment consists of 17 individual funds established for a variety of purposes, including donor-restricted endowment funds. The majority of the endowment funds of the Foundation have been invested together in the Michigan Catholic Conference's National Catholic Investment Pool (Note C).

Interpretation of Relevant Law

The Board of Directors of the Foundation 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 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 as 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 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 Foundation
- The investment policies of the Foundation

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>June 30, 2018:</u>			
Donor-restricted endowment funds	<u>\$ 2,224,081</u>	<u>\$ 9,565,781</u>	<u>\$ 11,789,862</u>
<u>June 30, 2017:</u>			
Donor-restricted endowment funds	<u>\$ 1,793,269</u>	<u>\$ 9,091,700</u>	<u>\$ 10,884,969</u>

NOTES TO FINANCIAL STATEMENTS--Continued

UPPER PENINSULA CATHOLIC FOUNDATION, INC.

NOTE F--ENDOWMENTS--Continued

The following represents the changes in endowment fund net assets:

	Temporarily Restricted	Permanently Restricted	Total
	<u> </u>	<u> </u>	<u> </u>
Endowment net assets at January 15, 2016	\$ 0	\$ 0	\$ 0
Endowments transferred in during period	1,195,295	8,320,086	9,515,381
Investment return:			
Realized and unrealized gains	782,830		782,830
Interest and dividends	158,708		158,708
Investment fees	(28,774)		(28,774)
Total investment return	<u>912,764</u>	<u>0</u>	<u>912,764</u>
Contributions	6,271	771,614	777,885
Appropriation of endowment assets for expenditure	<u>(321,061)</u>	<u> </u>	<u>(321,061)</u>
Endowment net assets at June 30, 2017	1,793,269	9,091,700	10,884,969
Investment return:			
Realized and unrealized gains	678,740		678,740
Interest and dividends	242,519		242,519
Investment fees	(39,214)		(39,214)
Total investment return	<u>882,045</u>	<u>0</u>	<u>882,045</u>
Contributions	4,949	474,081	479,030
Appropriation of endowment assets for expenditure	<u>(456,182)</u>	<u> </u>	<u>(456,182)</u>
Endowment net assets at June 30, 2018	<u>\$ 2,224,081</u>	<u>\$ 9,565,781</u>	<u>\$ 11,789,862</u>

NOTES TO FINANCIAL STATEMENTS--Continued

UPPER PENINSULA CATHOLIC FOUNDATION, INC.

NOTE F--ENDOWMENTS--Continued

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the Foundation to retain as a fund of perpetual duration. These deficiencies are the result of unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that were deemed prudent by the Foundation. Losses on the investments of a donor-restricted endowment fund reduce temporarily restricted net assets to the extent that restrictions on the net appreciation of the fund have not been met before the loss occurs. Any remaining loss reduces unrestricted net assets. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level are classified as an increase in unrestricted net assets. The aggregate amount of funds that had fallen below their original gift value was \$-0- as of June 30, 2018 and 2017.

Return Objectives and Risk Parameters

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.

Strategies Employed for Achieving Objectives

To address its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Foundation's Spending Policy Sub-Committee makes recommendations to the Board of Directors annually regarding annual spending from the endowment funds. For the year ended June 30, 2018, and from January 15, 2016 (inception) to June 30, 2017, the spending allocation was 4.5%. The goal of such a spending policy is to allow the endowment to maintain its purchasing power, achieve a reasonable degree of stability and predictability in income availability for operations, and to achieve a balance between present and future needs.

NOTES TO FINANCIAL STATEMENTS--Continued

UPPER PENINSULA CATHOLIC FOUNDATION, INC.

NOTE G--RELATED-PARTY TRANSACTIONS

Employees of the Diocese provide administrative and other support services to the Foundation. The Diocese bills the Foundation for these services. The amounts billed to the Foundation totaled \$46,500 for the year ended June 30, 2018, and \$23,250 for the period January 15, 2016 (inception) to June 30, 2017. These amounts have been reported as a component of management and general and fundraising expenses in the accompanying statements of activities.