

Audited Financial Statements

UPPER PENINSULA  
CATHOLIC FOUNDATION, INC.

Years Ended June 30, 2021 and 2020

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 Functional Expenses ..... 6

    Statements of Cash Flows ..... 8

    Notes to Financial Statements ..... 9

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, 2021 and 2020, and the related statements of activities, functional expenses, 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.

Board of Directors  
Upper Peninsula Catholic Foundation, Inc.

**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, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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

September 29, 2021

STATEMENTS OF FINANCIAL POSITION

UPPER PENINSULA CATHOLIC FOUNDATION, INC.

June 30, 2021 and 2020

|                                       | <u>2021</u>          | <u>2020</u>          |
|---------------------------------------|----------------------|----------------------|
| <b>ASSETS</b>                         |                      |                      |
| Cash                                  | \$ 59,312            | \$ 69,715            |
| Investments                           | 18,506,022           | 13,661,678           |
| Pledges receivable, net               | 25,431               | 36,159               |
| Other assets                          | <u>15,281</u>        | <u>14,459</u>        |
| TOTAL ASSETS                          | <u>\$ 18,606,046</u> | <u>\$ 13,782,011</u> |
| <b>LIABILITIES AND NET ASSETS</b>     |                      |                      |
| <b>LIABILITIES</b>                    |                      |                      |
| Accounts payable and accrued expenses | \$ 21,436            | \$ 4,344             |
| TOTAL LIABILITIES                     | <u>21,436</u>        | <u>4,344</u>         |
| <b>NET ASSETS</b>                     |                      |                      |
| Without donor restrictions            | 41,627               | 27,237               |
| With donor restrictions               | <u>18,542,983</u>    | <u>13,750,430</u>    |
| TOTAL NET ASSETS                      | <u>18,584,610</u>    | <u>13,777,667</u>    |
| TOTAL LIABILITIES AND NET ASSETS      | <u>\$ 18,606,046</u> | <u>\$ 13,782,011</u> |

See notes to financial statements.

STATEMENT OF ACTIVITIES

UPPER PENINSULA CATHOLIC FOUNDATION, INC.

Year Ended June 30, 2021

|                                       | <u>Without Donor<br/>Restrictions</u> | <u>With Donor<br/>Restrictions</u> | <u>Total</u>                |
|---------------------------------------|---------------------------------------|------------------------------------|-----------------------------|
| <b>REVENUES AND SUPPORT</b>           |                                       |                                    |                             |
| Contributions                         | \$ 1,442                              | \$ 1,712,212                       | \$ 1,713,654                |
| Investment return                     | 705                                   | 3,616,138                          | 3,616,843                   |
| Net assets released from restrictions | <u>535,797</u>                        | <u>(535,797)</u>                   | <u>0</u>                    |
| <b>TOTAL REVENUES AND SUPPORT</b>     | <b>537,944</b>                        | <b>4,792,553</b>                   | <b>5,330,497</b>            |
| <b>EXPENSES</b>                       |                                       |                                    |                             |
| Program services                      | 456,679                               |                                    | 456,679                     |
| Supporting services:                  |                                       |                                    |                             |
| Management and general                | 44,415                                |                                    | 44,415                      |
| Fundraising                           | <u>22,460</u>                         |                                    | <u>22,460</u>               |
| <b>TOTAL SUPPORTING SERVICES</b>      | <b>66,875</b>                         | <b>0</b>                           | <b>66,875</b>               |
| <b>TOTAL EXPENSES</b>                 | <b>523,554</b>                        | <b>0</b>                           | <b>523,554</b>              |
| <b>CHANGE IN NET ASSETS</b>           | <b>14,390</b>                         | <b>4,792,553</b>                   | <b>4,806,943</b>            |
| Net assets at beginning of year       | <u>27,237</u>                         | <u>13,750,430</u>                  | <u>13,777,667</u>           |
| <b>NET ASSETS AT END OF YEAR</b>      | <b><u>\$ 41,627</u></b>               | <b><u>\$ 18,542,983</u></b>        | <b><u>\$ 18,584,610</u></b> |

See notes to financial statements.

STATEMENT OF ACTIVITIES

UPPER PENINSULA CATHOLIC FOUNDATION, INC.

Year Ended June 30, 2020

|                                       | <u>Without Donor<br/>Restrictions</u> | <u>With Donor<br/>Restrictions</u> | <u>Total</u>                |
|---------------------------------------|---------------------------------------|------------------------------------|-----------------------------|
| <b>REVENUES AND SUPPORT</b>           |                                       |                                    |                             |
| Contributions                         | \$ 10,359                             | \$ 568,610                         | \$ 578,969                  |
| Investment return                     | 93                                    | 271,941                            | 272,034                     |
| Net assets released from restrictions | <u>527,124</u>                        | <u>(527,124)</u>                   | <u>0</u>                    |
| <b>TOTAL REVENUES AND SUPPORT</b>     | <b>537,576</b>                        | <b>313,427</b>                     | <b>851,003</b>              |
| <b>EXPENSES</b>                       |                                       |                                    |                             |
| Program services                      | 449,838                               |                                    | 449,838                     |
| Supporting services:                  |                                       |                                    |                             |
| Management and general                | 48,288                                |                                    | 48,288                      |
| Fundraising                           | <u>22,987</u>                         |                                    | <u>22,987</u>               |
| <b>TOTAL SUPPORTING SERVICES</b>      | <u>71,275</u>                         | <u>0</u>                           | <u>71,275</u>               |
| <b>TOTAL EXPENSES</b>                 | <u>521,113</u>                        | <u>0</u>                           | <u>521,113</u>              |
| <b>CHANGE IN NET ASSETS</b>           | <b>16,463</b>                         | <b>313,427</b>                     | <b>329,890</b>              |
| Net assets at beginning of year       | <u>10,774</u>                         | <u>13,437,003</u>                  | <u>13,447,777</u>           |
| <b>NET ASSETS AT END OF YEAR</b>      | <b><u>\$ 27,237</u></b>               | <b><u>\$ 13,750,430</u></b>        | <b><u>\$ 13,777,667</u></b> |

See notes to financial statements.

STATEMENT OF FUNCTIONAL EXPENSES

UPPER PENINSULA CATHOLIC FOUNDATION, INC.

Year Ended June 30, 2021

|                                 | <u>Program<br/>Services</u> | <u>Management<br/>and General</u> | <u>Fundraising</u>      | <u>Total</u>             |
|---------------------------------|-----------------------------|-----------------------------------|-------------------------|--------------------------|
| Grants, net of amounts returned | \$ 456,679                  |                                   |                         | \$ 456,679               |
| Service agreement               |                             | \$ 28,125                         | \$ 16,875               | 45,000                   |
| Office supplies                 |                             | 265                               | 265                     | 530                      |
| Marketing materials             |                             | 4,098                             | 4,099                   | 8,197                    |
| Legal fees                      |                             | 1,475                             |                         | 1,475                    |
| Audit fees                      |                             | 5,650                             |                         | 5,650                    |
| Occupancy                       |                             | 3,000                             |                         | 3,000                    |
| Software                        |                             | 1,550                             |                         | 1,550                    |
| Other                           |                             | 252                               | 1,221                   | 1,473                    |
|                                 | <u>456,679</u>              | <u>44,415</u>                     | <u>22,460</u>           | <u>523,554</u>           |
| <b>TOTAL EXPENSES</b>           | <b><u>\$ 456,679</u></b>    | <b><u>\$ 44,415</u></b>           | <b><u>\$ 22,460</u></b> | <b><u>\$ 523,554</u></b> |

See notes to financial statements.



STATEMENT OF FUNCTIONAL EXPENSES

UPPER PENINSULA CATHOLIC FOUNDATION, INC.

Year Ended June 30, 2020

|                                 | Program<br>Services | Management<br>and General | Fundraising      | Total             |
|---------------------------------|---------------------|---------------------------|------------------|-------------------|
| Grants, net of amounts returned | \$ 449,838          |                           |                  | \$ 449,838        |
| Service agreement               |                     | \$ 27,500                 | \$ 16,500        | 44,000            |
| Office supplies                 |                     | 382                       | 382              | 764               |
| Marketing materials             |                     | 641                       | 641              | 1,282             |
| Legal fees                      |                     | 5,414                     |                  | 5,414             |
| Audit fees                      |                     | 5,500                     |                  | 5,500             |
| Occupancy                       |                     | 3,000                     |                  | 3,000             |
| Software                        |                     | 1,500                     |                  | 1,500             |
| Other                           |                     | 4,351                     | 4,344            | 8,695             |
| Bishop's Ambassadors            |                     |                           | 1,120            | 1,120             |
| <b>TOTAL EXPENSES</b>           | <b>\$ 449,838</b>   | <b>\$ 48,288</b>          | <b>\$ 22,987</b> | <b>\$ 521,113</b> |

See notes to financial statements.

STATEMENTS OF CASH FLOWS

UPPER PENINSULA CATHOLIC FOUNDATION, INC.

Years Ended June 30, 2021 and 2020

|   | <u>2021</u>             | <u>2020</u>             |
|---|-------------------------|-------------------------|
| OPERATING ACTIVITIES  |                         |                         |
| Change in net assets  | \$4,806,943             | \$ 329,890              |
| Adjustments to reconcile change in net assets to net cash used by operating activities: |                         |                         |
| Realized and unrealized gains on investments  | (3,381,122)             | (26,162)                |
| Contributions restricted for long-term purposes   | (1,712,212)             | (568,610)               |
| Increase in:  |                         |                         |
| Other assets  | (822)                   | (1,488)                 |
| Increase in:  |                         |                         |
| Accounts payable and accrued expenses   | 17,092                  | 3,374                   |
| NET CASH USED BY OPERATING ACTIVITIES   | <u>(270,121)</u>        | <u>(262,996)</u>        |
| INVESTING ACTIVITIES  |                         |                         |
| Net deposits to investment pools  | <u>(1,463,222)</u>      | <u>(343,992)</u>        |
| NET CASH USED BY INVESTING ACTIVITIES   | <u>(1,463,222)</u>      | <u>(343,992)</u>        |
| FINANCING ACTIVITIES  |                         |                         |
| Proceeds from contributions restricted for long-term purposes                           | <u>1,722,940</u>        | <u>574,226</u>          |
| NET CASH PROVIDED BY FINANCING ACTIVITIES   | <u>1,722,940</u>        | <u>574,226</u>          |
| NET DECREASE IN CASH  | <u>(10,403)</u>         | <u>(32,762)</u>         |
| Cash at beginning of year   | <u>69,715</u>           | <u>102,477</u>          |
| CASH AT END OF YEAR   | <u><u>\$ 59,312</u></u> | <u><u>\$ 69,715</u></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.

The accompanying financial statements include only funds for the Foundation and 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 in accordance with generally accepted accounting principles in the United States of America (U.S. GAAP).

##### Financial Statement Presentation

The Foundation 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 Board of Directors 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.

## NOTES TO FINANCIAL STATEMENTS--Continued

### UPPER PENINSULA CATHOLIC FOUNDATION, INC.

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

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. 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.

#### Revenue Recognition

Revenue is recognized when earned. Revenue from fee-for-services and exchange transactions are recognized as the services are performed. Revenue from contributions is recognized at the time an unconditional promise to give or transfer of assets is made.

#### 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's investments are deposited with the Michigan Catholic Conference's (MCC) 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 net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restriction and reported in the statement of activities as net assets released from restrictions.

#### Contributions

All pledges receivable and amounts received that are donor-restricted for future periods or donor-restricted for specific purposes are reported as net assets with donor restrictions. Net assets with donor restrictions are reclassified to net assets without donor restrictions 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, are provided by individuals possessing those skills, and would typically 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. The Diocese has reduced grant expense by \$21,436 and \$-0- for the years ended June 30, 2021 and 2020, respectively, representing the return of previously distributed grant awards.

#### 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

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.

#### 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 2021 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.

NOTES TO FINANCIAL STATEMENTS--Continued

UPPER PENINSULA CATHOLIC FOUNDATION, INC.

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

Subsequent Events

Subsequent events were evaluated through September 29, 2021, which was the date the financial statements were available to be issued.

NOTE C--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 June 30, 2021 and 2020, comprise of the following:

|   | <u>2021</u>             | <u>2020</u>             |
|---|-------------------------|-------------------------|
| Cash  | \$ 59,312               | \$ 69,715               |
| Investments   | 18,506,022              | 13,661,678              |
| Pledges receivable, net, collected in less than one year  | <u>24,431</u>           | <u>26,159</u>           |
| Total financial assets, excluding noncurrent receivables  | 18,589,765              | 13,757,552              |
| Less amounts unavailable for general expenditures due to: |                         |                         |
| Donor-imposed restrictions:                               |                         |                         |
| Cash  | (711)                   | (40,315)                |
| Investments   | (18,501,560)            | (13,659,497)            |
| Pledges receivable, net, collected in less than one year  | <u>(24,431)</u>         | <u>(26,159)</u>         |
| <b>FINANCIAL ASSETS AVAILABLE TO MEET CASH NEEDS</b>      |                         |                         |
| <b>FOR GENERAL EXPENDITURES WITHIN ONE YEAR</b>           | <u><u>\$ 63,063</u></u> | <u><u>\$ 31,581</u></u> |

The Foundation charges an administrative fee of 0.75% to all funds based on a weighted average of the December 31 invested asset balance. Administrative fees are charged to each fund. Administrative fee income (general fund) and administrative fee expense (other funds) is netted in the presentation of the statement of activities. Estimated administrative fees available for general expenditures during the year ending June 30, 2022, are \$98,518.

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 ending June 30, 2022, the spending allocation will be 4.5%. Estimated grant expenditures during the year ending June 30, 2022, are \$556,929, which will be funded by withdrawals from the investment pool in accordance with the approved spending policy.

NOTES TO FINANCIAL STATEMENTS--Continued

UPPER PENINSULA CATHOLIC FOUNDATION, INC.

NOTE D--INVESTMENTS

Investments consist of the following:

|                                       | June 30              |                      |
|---------------------------------------|----------------------|----------------------|
|                                       | 2021                 | 2020                 |
| MCC National Catholic Investment Pool | \$ 18,301,913        | \$ 13,505,963        |
| Mission Diocese Fund                  | <u>204,109</u>       | <u>155,715</u>       |
| TOTAL INVESTMENTS                     | <u>\$ 18,506,022</u> | <u>\$ 13,661,678</u> |

Investment return for the years ended June 30, 2021 and 2020, is comprised of the following:

|                               | 2021                | 2020              |
|-------------------------------|---------------------|-------------------|
| Realized and unrealized gains | \$ 3,381,122        | \$ 26,162         |
| Interest and dividends        | 293,115             | 290,424           |
| Investment fees               | <u>(57,394)</u>     | <u>(44,552)</u>   |
| TOTAL INVESTMENT RETURN       | <u>\$ 3,616,843</u> | <u>\$ 272,034</u> |

NOTE E--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.





NOTES TO FINANCIAL STATEMENTS--Continued

UPPER PENINSULA CATHOLIC FOUNDATION, INC.

NOTE F--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          |                  |
|----------------------------------|------------------|------------------|
|                                  | 2021             | 2020             |
| Receivable in less than one year | \$ 24,431        | \$ 26,159        |
| Receivable in one to five years  | 1,000            | 10,000           |
| TOTAL PLEDGES RECEIVABLE         | <u>\$ 25,431</u> | <u>\$ 36,159</u> |

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 uncollectible pledges is needed.

NOTE G--ENDOWMENTS

The Foundation's endowment consists of 30 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 MCC National Catholic Investment Pool (Note D).

Interpretation of Relevant Law

The Board of Directors of the Foundation has 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 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 in the permanent endowment is available for appropriation 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

NOTES TO FINANCIAL STATEMENTS--Continued

UPPER PENINSULA CATHOLIC FOUNDATION, INC.

NOTE G--ENDOWMENTS--Continued

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

|            | June 30              |                      |
|------------|----------------------|----------------------|
|            | 2021                 | 2020                 |
| Fund type: |                      |                      |
| Education  | \$ 10,489,744        | \$ 8,656,312         |
| Parish     | 289,871              | 229,148              |
| School     | 4,114,898            | 3,057,088            |
| Vocations  | 2,894,461            | 1,754,933            |
| Other      | 754,009              | 52,949               |
|            | <u>\$ 18,542,983</u> | <u>\$ 13,750,430</u> |

The following represents the changes in endowment fund net assets:

|   | <u>Net Assets With<br/>Donor Restrictions</u> |
|---|---|
| Endowment net assets at June 30, 2019             | \$ 13,437,003                                 |
| Investment return:                                |   |
| Realized and unrealized gains                     | 26,124  |
| Interest and dividends                            | 290,363                                       |
| Investment fees                                   | (44,546)                                      |
| Total investment return                           | <u>271,941</u>                                |
| Contributions                                     | 568,610                                       |
| Appropriation of endowment assets for expenditure | <u>(527,124)</u>                              |
| Endowment net assets at June 30, 2020             | 13,750,430                                    |
| Investment return:                                |   |
| Realized and unrealized gains                     | 3,380,466                                     |
| Interest and dividends                            | 293,054                                       |
| Investment fees                                   | (57,382)                                      |
| Total investment return                           | <u>3,616,138</u>                              |
| Contributions                                     | 1,712,212                                     |
| Appropriation of endowment assets for expenditure | <u>(535,797)</u>                              |
| Endowment net assets at June 30, 2021             | <u>\$ 18,542,983</u>                          |

## NOTES TO FINANCIAL STATEMENTS--Continued

### UPPER PENINSULA CATHOLIC FOUNDATION, INC.

#### NOTE G--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 value of the original and subsequent donor gift amounts. Deficiencies are the result of unfavorable market fluctuations that occur shortly after the investment of new contributions for donor-restricted endowment funds and continued appropriations for certain programs that are deemed prudent by the Foundation. The Foundation maintains policies that permit spending from underwater endowment funds, depending on the degree to which the fund is underwater, unless otherwise precluded by donor intent or relevant laws and regulations.

The aggregate amount of funds that had fallen below their original gift value was \$-0- at June 30, 2021 and 2020.

##### 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 years ended June 30, 2021 and 2020, the spending allocation was 4.5%. The goal of such a spending policy is to allow the endowment to maintain its purchasing power, to 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 H--RELATED-PARTY TRANSACTIONS

Employees of the Diocese provide administrative and other support services to the Foundation. The Diocese bills the Foundation for these services, as well as occupancy and software costs. The amounts billed to the Foundation totaled \$49,550 and \$48,500 for the years ended June 30, 2021 and 2020, respectively. These amounts have been reported as a component of management and general and fundraising expenses in the accompanying statements of activities.

#### NOTE I--RISKS AND UNCERTAINTIES

The Foundation may be subject to social and natural catastrophic events that are beyond it's control, such as health epidemics, natural disasters, and other catastrophes, which could materially and adversely affect Upper Great Lakes' results of operations and financial condition.

Should the COVID-19 pandemic continue, or the local and national economies be materially impacted, the Foundation could see a decrease in investment market values and reduced investment return. The Foundation is continuing to monitor the situation. Any potential impact to the Foundation's future operations and financial condition is unknown at this time.