

**THE PARISH EXPANSION FUND OF THE DIOCESE OF BISMARCK  
BISMARCK, NORTH DAKOTA**

AUDITED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

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## INDEPENDENT AUDITOR'S REPORT

The Board of Directors  
The Parish Expansion Fund of the Diocese of Bismarck  
Bismarck, North Dakota

We have audited the accompanying financial statements of The Parish Expansion Fund of the Diocese of Bismarck (a nonprofit organization), which comprise the statements of financial position as of June 30, 2020 and 2019, and the related statements of activities and changes in net assets, 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 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.

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 Parish Expansion Fund of the Diocese of Bismarck as of June 30, 2020 and 2019, and the changes in its net assets, functional expenses and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink that reads "Brady Martz". The signature is written in a cursive, flowing style.

**BRADY, MARTZ & ASSOCIATES, P.C.**  
**BISMARCK, NORTH DAKOTA**

November 19, 2020

**THE PARISH EXPANSION FUND OF THE DIOCESE OF BISMARCK**  
**STATEMENTS OF FINANCIAL POSITION**  
**JUNE 30, 2020 AND 2019**

	2020	2019
<b>ASSETS</b>		
Cash and cash equivalents	\$ 3,787,684	\$ 1,858,411
Notes receivable, net of allowance for doubtful accounts	5,719,605	5,434,126
Interest receivable	109,674	75,495
Investments	12,455,627	10,558,434
Total assets	\$ 22,072,590	\$ 17,926,466
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Due to related party	\$ 100,000	\$ 102,287
Interest payable	167,954	162,212
Notes payable	19,126,737	15,435,127
Total liabilities	19,394,691	15,699,626
<b>NET ASSETS</b>		
Without donor restrictions	2,677,899	2,226,840
Total liabilities and net assets	\$ 22,072,590	\$ 17,926,466

See Notes to the Financial Statements

**THE PARISH EXPANSION FUND OF THE DIOCESE OF BISMARCK**  
**STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**FOR THE YEARS ENDED JUNE 30, 2020 AND 2019**

	2020	2019
<b>SUPPORT AND REVENUE</b>		
Investment and interest income	\$ 580,150	\$ 551,410
Realized and unrealized gain (loss) on investments	121,818	220,405
Total support and revenue	701,968	771,815
 <b>EXPENSES</b>		
Program	167,750	162,922
Management & General	83,159	82,011
Total expenses	250,909	244,933
 <b>INCREASE IN NET ASSETS WITHOUT DONOR RESTRICTION</b>	451,059	526,882
<b>NETS ASSETS WITHOUT DONOR RESTRICTIONS,</b>		
<b>BEGINNING OF YEAR</b>	2,226,840	1,699,958
<b>NET ASSETS WITHOUT DONOR RESTRICTIONS,</b>		
<b>END OF YEAR</b>	\$ 2,677,899	\$ 2,226,840

See Notes to the Financial Statements

**THE PARISH EXPANSION FUND OF THE DIOCESE OF BISMARCK**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED JUNE 30, 2020 AND 2019**

	2020	2019
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets without donor restrictions	\$ 451,059	\$ 526,882
Adjustments to reconcile change in net assets to net cash from operating activities:		
Realized and unrealized (gain) loss on investments	(121,818)	(220,405)
Repayment of due to related party through recharacterization to contribution	(2,287)	2,287
Effects on operating cash flows due to changes in:		
Interest receivable	(34,179)	7,194
Interest payable	5,742	51,392
	298,517	367,350
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Principal repayments of notes receivable	1,220,796	1,052,408
Issuance of notes receivable	(1,506,275)	(1,776,653)
Purchase of investments	(5,049,606)	(2,185,775)
Proceeds from sale of investments	3,274,233	2,514,807
	(2,060,852)	(395,213)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from notes payable	7,194,332	4,529,547
Repayment of notes payable	(3,502,724)	(4,331,600)
Transfer of notes payable	-	(10,000)
	3,691,608	187,947
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	1,929,273	160,084
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	1,858,411	1,698,327
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	\$ 3,787,684	\$ 1,858,411
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>		
Cash paid during the year for interest	\$ 162,008	\$ 111,530

See Notes to the Financial Statements

**THE PARISH EXPANSION FUND OF THE DIOCESE OF BISMARCK**  
**STATEMENTS OF FUNCTIONAL EXPENSES**  
**FOR THE YEARS ENDED JUNE 30, 2020 AND 2019**

	2020		
	Program	Management & General	Total
Interest	\$ 167,750	\$ 3,038	\$ 170,788
Administrative expense	-	41,830	41,830
Professional and legal expense	-	38,291	38,291
	\$ 167,750	\$ 83,159	\$ 250,909
	2019		
	Program	Management & General	Total
Interest	\$ 162,922	\$ 31,753	\$ 194,675
Professional and miscellaneous contract services	-	350	350
Meals and groceries	-	206	206
Office supplies	-	387	387
Administrative expense	-	41,590	41,590
Professional and legal expense	-	7,725	7,725
	\$ 162,922	\$ 82,011	\$ 244,933

See Notes to the Financial Statements



**THE PARISH EXPANSION FUND OF THE DIOCESE OF BISMARCK**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2020 AND 2019**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Organization*

The Parish Expansion Fund of the Diocese of Bismarck (Fund) is a nonprofit organization that provides a lending and depository service for the parishes and related entities of the Diocese of Bismarck.

*Basis of Presentation*

The financial statements of The Parish Expansion Fund of the Diocese of Bismarck have been prepared in accordance with U.S. generally accepted accounting principles ("US GAAP"), which require The Parish Expansion Fund of the Diocese of Bismarck to report information regarding its financial position and activities according to the following net asset classifications:

*Net assets without donor restrictions:* Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of The Parish Expansion Fund of the Diocese of Bismarck's management and the board of directors.

*Net assets with donor restrictions:* Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of The Parish Expansion Fund of the Diocese of Bismarck or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity. The Fund has no net assets with donor restrictions as of June 30, 2020 and 2019.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities.

*Investments*

Investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets.

*Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

**THE PARISH EXPANSION FUND OF THE DIOCESE OF BISMARCK**  
**NOTES TO THE FINANCIAL STATEMENTS – CONTINUED**  
**JUNE 30, 2020 AND 2019**

*Cash and Cash Equivalents*

Cash and cash equivalents include highly liquid investments with an original maturity of three months or less, excluding assets whose use is limited or restricted.

*Notes Receivable and Allowance for Doubtful Accounts*

Notes receivable are reported at their recorded investment adjusted for any allowance for doubtful accounts.

The Fund evaluates each parish or individual's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Fund upon extension of credit, is based on management's credit evaluation of counterparty.

Interest income is accrued on the unpaid principal balance. Notes receivable are placed on non-accrual or charged-off at an earlier date if collection of principal or interest is considered doubtful. All current year interest accrued but not collected for notes receivable that are placed on non-accrual or charged off is reversed against current period income. All prior year interest accrued but not collected is charged-off against the allowance for doubtful accounts. The interest on these notes' receivable is accounted for on the cash-basis or cost-recovery method, until qualifying for return on accrual. Notes receivable are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

The allowance for doubtful accounts is established as losses are estimated to have occurred through a provision for bad debts charged to earnings. Bad debts are charged against the allowance when management believes the collectability of a note receivable is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for doubtful accounts is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the notes receivable in light of historical experience, the nature and volume of the portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available.

A note receivable is considered impaired when, based on current information and events, it is probable that the Fund will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the note agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Notes receivables that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the notes receivable and the borrowers' prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

**THE PARISH EXPANSION FUND OF THE DIOCESE OF BISMARCK**  
**NOTES TO THE FINANCIAL STATEMENTS – CONTINUED**  
**JUNE 30, 2020 AND 2019**

Impairment is measured on a note-by-note basis by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the note is collateral dependent.

*Investments - Fair Value Measurement*

FASB ASC Topic 820, *Fair Value Measurements*, establishes 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 unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB ASC Topic 820 are described below:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2 Inputs to the valuation methodology include:

Quoted prices for similar assets or liabilities in active markets; Quoted prices for identical or similar assets or liabilities in inactive markets; Inputs other than quoted prices that are observable for the asset or liability; Inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value. There have been no changes in the methodologies used at June 30, 2020 and 2019.

**Mutual Funds:** Valued at the daily closing prices as reported by the fund. Mutual funds held by the Organization are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily NAV and to transact at that price. The mutual funds held by the Organization are deemed to be actively traded.

**Fixed Income Bonds:** Evaluated pricing models that vary by asset class and incorporate available trade, bid and other market information, and for structured securities also incorporate cash flow and, when available, loan performance data to value fixed income securities including CMO's, mutual fund bonds, mortgage backed bonds, and corporate bonds. To evaluate a wide range of fixed-income securities, evaluators draw parallels from the trading and quoting of bonds with similar features (comparable to bonds). Characteristics used to identify comparable

**THE PARISH EXPANSION FUND OF THE DIOCESE OF BISMARCK**  
**NOTES TO THE FINANCIAL STATEMENTS – CONTINUED**  
**JUNE 30, 2020 AND 2019**

securities may include such things as: sector, type of bond, coupon, credit quality ratings, bond insurance or other credit enhancements, maturity, call, put sinking fund or other early redemption features.

U.S. Government Securities: Valued using pricing models maximizing the use of observable inputs for similar securities.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

*Income Taxes*

The Fund is exempt from federal income tax under provisions of Section 501(c)(3) of the Internal Revenue Code. The Fund is deemed to be a church related organization and as such is not required to file an annual informational tax return to the Internal Revenue Service.

The Fund's policy is to evaluate the likelihood that its uncertain tax positions will prevail upon examination based on the extent to which those positions have substantial support within the Internal Revenue Code and Regulations, Revenue Rulings, court decisions, and other evidence.

*Reclassifications of Prior Year Information*

Certain reclassifications have been made to the 2019 financial statements to conform to the 2020 presentation. Such reclassifications had no effect on net assets as previously reported.

**NOTE 2 NOTES RECEIVABLE**

Notes receivable at June 30, 2020 and 2019, consist of the following:

Payor	Interest Rate	Maturity Date	2020 Maturity Balance	2019 Maturity Balance	Security
Parishes	2.50% - 3.01%	(1)	\$ 5,724,605	\$ 5,439,126	Unsecured
Allowance for doubtful accounts			<u>(5,000)</u>	<u>(5,000)</u>	
Total notes receivable			<u>\$ 5,719,605</u>	<u>\$ 5,434,126</u>	

(1) The notes are due over various time periods on demand to 15 years.

**THE PARISH EXPANSION FUND OF THE DIOCESE OF BISMARCK**  
**NOTES TO THE FINANCIAL STATEMENTS – CONTINUED**  
**JUNE 30, 2020 AND 2019**

**NOTE 3 INVESTMENTS**

Investments are stated at fair value and are summarized as follows as of June 30, 2020 and 2019:

**June 30, 2020**

	<u>Cost</u>	<u>Fair Value</u>
Mortgage backed securities:		
GNMA	\$ 139	\$ 150
Mutual funds:		
Fixed Income - Bonds	5,539,213	5,685,854
Certificates of deposit	1,800,327	1,800,628
Corporate bonds:		
Fixed Income	<u>4,889,797</u>	<u>4,968,995</u>
	<u>\$ 12,229,476</u>	<u>\$ 12,455,627</u>

The Fund had a net realized gain of \$27,768 for the year ended June 30, 2020. For the same period, the Fund had an unrealized gain on investments of \$94,050.

**June 30, 2019**

	<u>Cost</u>	<u>Fair Value</u>
Mortgage backed securities:		
GNMA	\$ 225	\$ 251
Mutual funds:		
Fixed Income - Bonds	4,025,288	4,103,214
Certificates of deposit	1,343,734	1,343,734
Corporate bonds:		
Fixed Income	<u>5,057,505</u>	<u>5,111,235</u>
	<u>\$ 10,426,752</u>	<u>\$ 10,558,434</u>

The Fund had a net realized loss of \$101,248 for the year ended June 30, 2019. For the same period, the Fund had an unrealized gain on investments of \$321,653.

**THE PARISH EXPANSION FUND OF THE DIOCESE OF BISMARCK**  
**NOTES TO THE FINANCIAL STATEMENTS – CONTINUED**  
**JUNE 30, 2020 AND 2019**

**NOTE 4 FAIR VALUE MEASUREMENTS**

Assets measured at fair value on a recurring basis as of June 30, 2020 are summarized as follows:

Description	Total Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Mortgage backed securities:				
GNMA	\$ 150	\$ -	\$ 150	\$ -
Mutual funds:				
Fixed Income - Bonds	5,685,854	5,685,854	-	-
Corporate bonds:				
Fixed Income	4,968,995	-	4,968,995	-
	<u>\$ 10,654,999</u>	<u>\$ 5,685,854</u>	<u>\$ 4,969,145</u>	<u>\$ -</u>

Assets measured at fair value on a recurring basis as of June 30, 2019 are summarized as follows:

Description	Total Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Mortgage backed securities:				
GNMA	\$ 251	\$ -	\$ 251	\$ -
Mutual funds:				
Fixed Income - Bonds	4,103,214	4,103,214	-	-
Corporate bonds:				
Fixed Income	5,111,235	-	5,111,235	-
	<u>\$ 9,214,700</u>	<u>\$ 4,103,214</u>	<u>\$ 5,111,486</u>	<u>\$ -</u>

**THE PARISH EXPANSION FUND OF THE DIOCESE OF BISMARCK**  
**NOTES TO THE FINANCIAL STATEMENTS – CONTINUED**  
**JUNE 30, 2020 AND 2019**

**NOTE 5 NOTES PAYABLE**

Notes payable at June 30, 2020 and 2019, consist of the following:

Payor	Interest Rate	Maturity Date	2020 Maturity Balance	2019 Maturity Balance	Security
Parishes	0.6%-1.84%	Demand	\$ 18,843,177	\$ 15,155,922	Unsecured
Priests and trusts	0.6%-1.37%	Demand	<u>283,560</u>	<u>279,205</u>	Unsecured
Total notes payable			<u>\$ 19,126,737</u>	<u>\$ 15,435,127</u>	

**NOTE 6 RELATED PARTY**

The Parish Expansion Fund of the Diocese of Bismarck is affiliated with the Diocese of Bismarck through common Board of Director members. The Fund provides a lending and depository function for the parishes and related entities of the Diocese of Bismarck. At June 30, 2020 and 2019, the Fund had \$100,000 due to the Diocese of Bismarck. There was no amount due from the Diocese of Bismarck at June 30, 2020 and 2019.

The Diocese of Bismarck has entered into a management agreement with The Parish Expansion Fund of the Diocese of Bismarck to provide technical and professional services at an annual rate of \$41,580. Expenses under this agreement are included in administrative expenses and total \$41,580 for each of the years ended June 30, 2020 and 2019.

**THE PARISH EXPANSION FUND OF THE DIOCESE OF BISMARCK**  
**NOTES TO THE FINANCIAL STATEMENTS – CONTINUED**  
**JUNE 30, 2020 AND 2019**

**NOTE 7 AVAILABILITY AND LIQUIDITY**

The Fund monitors its liquidity so that it is able to meet its operating needs and other commitments. The following table reflects the Fund’s financial assets available within one year of the statement of financial position as of June 30, 2020 and 2019 for general expenditures. The various notes that make up the notes payable could be requested on demand so the financial assets available to meet general expenditures could be less than what is disclosed in the table.

Financial assets at year end:	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 3,787,684	\$ 1,858,411
Interest receivable	109,674	75,495
Investments	12,455,627	10,558,434
Notes receivable collectible within one year	<u>1,059,000</u>	<u>1,203,000</u>
Total financial assets	<u>17,411,985</u>	<u>13,695,340</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 17,411,985</u>	<u>\$ 13,695,340</u>

**NOTE 8 CONCENTRATION OF CREDIT RISK**

The Fund’s cash balances are maintained in a bank deposit account. Funds are moved to an investment sweep account nightly. As of June 30, 2020, the Fund had no deposits in excess of federally insured limits.

Notes receivable as of June 30, 2020 and 2019, are due from Catholic parishes and associated individuals located in western North Dakota.

**NOTE 9 ACCOUNTING FOR UNCERTAINTY IN INCOME TAXES**

It is the opinion of management that the Fund has no significant uncertain tax positions that would be subject to change upon examination.

**NOTE 10 COMMITMENTS**

During the current year, the Church of St. Mary’s in Bismarck had received an approval from the Fund on a loan request of \$300,000. As of June 30, 2020, none of this had been drawn down.



**THE PARISH EXPANSION FUND OF THE DIOCESE OF BISMARCK**  
**NOTES TO THE FINANCIAL STATEMENTS – CONTINUED**  
**JUNE 30, 2020 AND 2019**

**NOTE 11 FUTURE PRONOUNCEMENTS**

**ASU 2016-02, *Leases (Topic 842)***

During 2016, the FASB issued guidance to change the accounting for leases. The main provision of ASU 2016-01 is that lessees will be required to recognize lease assets and lease liabilities for most long-term leases, including those classified as operating leases under GAAP. The ASU is effective for the Fund for fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022.

Management has not yet determined what effect this pronouncement will have on the Fund's financial statements.

With the exception of the standard discussed above, we have not identified any new accounting pronouncements that have potential significance to the Fund's financial statements.

**NOTE 12 SUBSEQUENT EVENTS**

No significant events occurred subsequent to the Fund's year end. Subsequent events have been evaluated through November 19, 2020, which is the date these financial statements were available to be issued.