



Financial Statements  
June 30, 2019

# Diocese of Fargo



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## Independent Auditor's Report

The Most Reverend John T. Folda and the Corporate Board  
Diocese of Fargo  
Fargo, North Dakota

### Report on the Financial Statements

We have audited the accompanying statement of financial position of Diocese of Fargo as of June 30, 2019 and the related statement of activities, statement of functional expenses 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 qualified audit opinion.

**Basis for Qualified Opinion**

As more fully described in Note 8 to the financial statements, the Diocese has not determined the cost of its defined benefit pension plan in accordance with accounting principles generally accepted in the United States, of America, which require the cost of employees' pensions to be recognized over the employees' respective service period and a liability to be recognized when the accumulated benefit obligation exceeds the fair value of plan assets. Quantification of the effects of that departure of the financial statements has not been determined.

**Qualified Opinion**

In our opinion, except for the possible effects of the matter discussed in the Basis for Qualified Opinion paragraph, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Diocese of Fargo as of June 30, 2019, 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.

**Change in Accounting Principle**

As discussed in Note 1 to the financial statements, the Diocese has adopted the provisions of Financial Accounting Standards Board Accounting Standard Update No. 2016-14, *Presentation of Financial Statement for Not-for-Profit Entities*. Accordingly, the July 1, 2018 net asset balances have been adjusted to adopt this standard. Our opinion is not modified with respect to this matter.

The image shows a handwritten signature in cursive script that reads "Eide Sully LLP". The signature is written in black ink and is positioned above the typed name and date.

Fargo, North Dakota  
November 6, 2019

Diocese of Fargo  
Statement of Financial Position  
June 30, 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<b>Assets</b>			
Cash	\$ 2,033,603	\$ -	\$ 2,033,603
Accounts receivable	146,294	-	146,294
Promises to give - Net of allowance of \$73,000	-	250,000	250,000
	<u>2,179,897</u>	<u>250,000</u>	<u>2,429,897</u>
Total current assets			
Long-term Note Receivable	20,637	-	20,637
Investments	31,959,557	2,055,804	34,015,361
Plant Assets - Net of Accumulated Depreciation of \$2,816,033	5,076,956	-	5,076,956
Beneficial Interest in Investments	-	22,941,218	22,941,218
	<u>39,237,047</u>	<u>25,247,022</u>	<u>64,484,069</u>
Total assets			
<b>Liabilities and Net Assets</b>			
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Accounts payable	\$ 602,317	\$ -	\$ 602,317
Accrued payroll expenses	94,555	-	94,555
Funds held for others	17,264,038	-	17,264,038
	<u>17,960,910</u>	<u>-</u>	<u>17,960,910</u>
Total current liabilities			
<b>Net Assets</b>			
Without donor restrictions	21,276,137	-	21,276,137
With donor restrictions	-	25,247,022	25,247,022
	<u>21,276,137</u>	<u>25,247,022</u>	<u>46,523,159</u>
Total liabilities and net assets	<u>\$ 39,237,047</u>	<u>\$ 25,247,022</u>	<u>\$ 64,484,069</u>

Diocese of Fargo  
Statement of Activities  
Year Ended June 30, 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<b>Revenue and Other Support</b>			
Contributions and bequests	\$ 3,746,320	\$ 2,305,804	\$ 6,052,124
Investment and interest gain	1,006,024	-	1,006,024
Allocation of administrative fees	18,000	-	18,000
Change in beneficial interest in investments	-	950,780	950,780
Miscellaneous income	11,032	-	11,032
Net assets released from restrictions			
Expiration of time restrictions	2,418,469	(2,418,469)	-
	<u>7,199,845</u>	<u>838,115</u>	<u>8,037,960</u>
<b>Expenses</b>			
Program and support services			
Internal programs	1,667,640	-	1,667,640
External programs	1,123,766	-	1,123,766
Seminarian and clergy	1,186,410	-	1,186,410
Universal church	50,617	-	50,617
Canonical Administration	535,034	-	535,034
Civil management and general	934,096	-	934,096
Fundraising development	382,340	-	382,340
	<u>5,879,903</u>	<u>-</u>	<u>5,879,903</u>
<b>Change in Net Assets</b>			
Without donor restrictions	1,319,942	-	1,319,942
With donor restrictions	-	838,115	838,115
Net Assets, Beginning of Year	<u>19,956,195</u>	<u>24,408,907</u>	<u>44,365,102</u>
Net Assets, End of Year	<u><u>\$ 21,276,137</u></u>	<u><u>\$ 25,247,022</u></u>	<u><u>\$ 46,523,159</u></u>

Diocese of Fargo  
Statement of Functional Expenses  
Year Ended June 30, 2019

	Program Services					Canonical Administration	Civil Management and General	Fundraising Development	Total
	Internal Programs	External Programs	Seminarian & Clergy	Universal Church	Subtotal				
Salary, Wages & Benefits	\$ 798,005	\$ -	\$ 268,647	\$ -	\$ 1,066,652	\$ 251,410	\$ 574,948	\$ 189,344	\$ 2,082,354
Contracted Work	90,243	-	25,300	-	115,543	5,460	79,963	30,000	230,966
Legal & Audit	883	-	14,684	-	15,567	30,700	25,098	7,709	79,074
Meals, Travel, Lodging, Retreats & Conferences	69,229	-	68,625	-	137,854	24,953	17,745	11,635	192,187
Office Related Expenses	71,671	-	15,698	-	87,369	52,282	108,810	24,179	272,640
Occupancy/Utilities	63,092	-	1,964	-	65,056	61,446	76,129	6,813	209,444
Educational Services and Materials	17,327	-	508,307	-	525,634	742	50	-	526,426
Other Program Costs	515,520	-	131,988	-	647,508	49,389	569	108,598	806,064
Grants/Subsidies	4,055	1,123,766	150,026	50,617	1,328,464	-	-	-	1,328,464
	<u>1,630,025</u>	<u>1,123,766</u>	<u>1,185,239</u>	<u>50,617</u>	<u>3,989,647</u>	<u>476,382</u>	<u>883,312</u>	<u>378,278</u>	<u>5,727,619</u>
Depreciation	<u>37,615</u>	<u>-</u>	<u>1,171</u>	<u>-</u>	<u>38,786</u>	<u>58,652</u>	<u>50,784</u>	<u>4,062</u>	<u>152,284</u>
Total	<u>\$ 1,667,640</u>	<u>\$ 1,123,766</u>	<u>\$ 1,186,410</u>	<u>\$ 50,617</u>	<u>\$ 4,028,433</u>	<u>\$ 535,034</u>	<u>\$ 934,096</u>	<u>\$ 382,340</u>	<u>\$ 5,879,903</u>

Diocese of Fargo  
Statement of Cash Flows  
Year Ended June 30, 2019

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	2019
Operating Activities	
Change in net assets	\$ 2,158,057
Adjustment to reconcile change in net assets to net cash used for operating activities	
Depreciation	152,284
Change in unrealized gain on investments	(1,234,594)
Contributions of securities	(352,947)
Loss on sale of equipment	5,369
Change in beneficial interest	(950,780)
Changes in operating assets and liabilities	
Accounts receivable	65,939
Promises to give	39,700
Accounts payable	(25,590)
Accrued payroll taxes	(3,867)
Net Cash used for Operating Activities	(146,429)
Investing Activities	
Purchases of investments	(4,084,594)
Proceeds from sales of investments	313,634
Payments received on note receivable	10,677
Purchase of property and equipment	(50,275)
Funds held for others	1,708,814
Net Cash used for Investing Activities	(2,101,744)
Net Change in Cash	(2,248,173)
Cash, Beginning of Year	4,281,776
Cash, End of Year	\$ 2,033,603



## **Note 1 - Principal Activity and Significant Accounting Policies**

### **Organization**

Diocese of Fargo is a nonprofit organization established for the oversight of the mission of the Catholic Church in the territory of this diocese.

The financial statements of Diocese of Fargo have been prepared in accordance with Accounting Principles and Reporting Practices for Churches and Church-Related Organizations, adopted by the National Conference of Catholic Bishops, the Leadership Conference of Women Religious and the Conference of Major Superiors of Men which does not differ from accounting principles generally accepted in the United States of America.

### **Cash**

The Diocese is including its checking and savings accounts as cash in these statements. There are no other highly liquid investments, which are considered cash equivalents.

### **Receivables and Credit Policies**

Receivables are uncollateralized obligations due 30 days from the invoice date. The receivables are non-interest bearing. The carrying amount of the receivables is reduced by an amount that reflects management's best estimate of the amounts that will not be collected. As of June 30, 2019, the allowance was \$0. Notes receivable are stated at principal balance amount and are unsecured.

### **Promises to Give**

Promises to give expected to be collected within one year are recorded at net realizable value. The promises to give represent amounts pledged to the Organization from individuals for the annual God's Gift Appeal. These receivables are all due within the next year. Management determines the allowance for uncollectable promises to give based on historical experience. At June 30, 2019, the allowance was \$73,000.

### **Property and Equipment**

Plant acquisitions are capitalized at cost when purchased or at fair value at date of gift when donated. Buildings have been recorded at their insured values. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of assets ranging from 5-40 years. When assets are sold or otherwise disposed of, the cost and related depreciation or amortization are removed from the accounts, and any remaining gain or loss is included in the statement of activities. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently.

The Diocese reviews the carrying values of property and equipment for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There were no indicators of asset impairment during the year ended June 30, 2019.

### **Beneficial Interest in Assets Held by Catholic Development Foundation**

The Diocese has a beneficial interest in assets held by the Catholic Development Foundation. The funds were received from donors who restricted the income for the benefit of the Diocese. Distributions from the funds are made in accordance with spending policies adopted by the foundation's board. The spending policies allow for steady and predictable distributions from the funds. Income earned will be transferred to the Diocese for use as amounts are expended by the Diocese for purposes specified by the donors. During the year ended June 30, 2019, the Diocese received \$775,303 from the Foundation. The Diocese has recorded its remaining interest in the Foundation as an asset totaling \$22,941,218 at June 30, 2019.

### **Investments**

Investment purchases are recorded at cost, or if donated, at fair value on the date of donation. Thereafter, investments are reported at their fair values in the statement of financial position. Net investment gain/(loss) is reported in the statement of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less investment management and custodial fees.

### **Net Assets**

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

*Net Assets Without Donor Restrictions* – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

*Net Assets With Donor Restrictions* – Net assets subject to donor (or certain grantor) restrictions. Some donor imposed (or grantor) 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 restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. The Diocese reports contributions restricted by donors as increases in net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends, or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. Donor 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.

### **Revenue and Revenue Recognition**

Revenue is recognized when earned. Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received.

### **Donated Services**

Volunteers contribute significant amounts of time to Diocese of Fargo's program services, administration, and fundraising and development activities; however, the financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by generally accepted accounting principles.

### **Functional Allocation of Expenses**

The costs of program and supporting services activities have been summarized on a functional basis in the statement of activities. The statement of functional expenses presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefitted. The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include depreciation, which are allocated on a square footage basis, as well as salaries, wages and benefits, and other, which are allocated on the basis of estimates of time and effort.

### **Income Taxes**

The Diocese is exempt from federal income tax under provisions of Section 501(c)(3) of the Internal Revenue Code of 1986 and by virtue thereof is also exempt from the payment of an income tax to the state of North Dakota.

### **Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles 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. Actual results could differ from those estimates and those differences could be material.

### **Financial Instruments and Credit Risk**

The Diocese manages deposit concentration risk by placing cash and investments with financial institutions believed by management to be creditworthy. At times, amounts on deposit may exceed insured limits or include uninsured investments in money market mutual funds. To date, the Diocese has not experienced losses in any of these accounts. Credit risk associated with accounts receivable and promises to give is considered to be limited due to high historical collection rates. Investments are made by diversified investment managers whose performance is monitored by management and the Investment Committee of the Diocesan Finance Council. Although the fair values of investments are subject to fluctuation on a year-to-year basis, management, the Investment Committee, and the Diocesan Finance Council believe that the investment policies and guidelines are prudent for the long-term welfare of the Diocese.

### Change in Accounting Policy

As of July 1, 2018, the Diocese adopted the provisions of Accounting Standards Update (ASU) 2016-14, Presentation of Financial Statements for Not-For-Profit Entities. The provisions of the ASU replace the existing three classes of net assets with two new classes (net assets without donor restrictions and net assets with donor restrictions) and enhance the disclosure requirements for the Diocese’s donor restricted endowment funds and underwater endowments. The ASU introduces new disclosure requirements to provide information about what is included or excluded from the Diocese’s intermediate measure of operations as well as disclosures to improve a financial statement user’s ability to assess the Diocese’s liquidity and exposure to risk. The ASU also introduces new reporting requirements to present expenses by both function and natural classification in a single location and to present investment returns on the statements of activities net of external and direct internal investment expenses.

The Diocese has adopted this standard as management believes the standard improves the usefulness and understandability of the Organization’s financial reporting.

### Subsequent Events

The Diocese has evaluated subsequent events through November 6, 2019, the date which the financial statements were available to be issued.

### Note 2 - Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise of the following as of June 30, 2019:

Cash	\$ 405,797
Accounts receivable	146,294
Promises to give	250,000
Investments	15,855,491
Beneficial interest spending-rate distributions and appropriations	798,966
	<u>\$ 17,456,548</u>

Beneficial interest consists of donor-restricted contributions. Income from donor-restricted endowments is restricted for specific purpose, with the exception of the amounts available for general use. Donor-restricted endowment funds are not available for general expenditure.

As part of a liquidity management plan, cash in excess of daily requirements is invested in various money market funds.

### **Note 3 - Fair Value Measurements and Disclosures**

Certain assets and liabilities are reported at fair value in the financial statements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal, or most advantageous, market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Inputs used to determine fair value refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available. A three-tier hierarchy categorizes the inputs as follows:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the Diocese can access at the measurement date.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and market-corroborated inputs.

Level 3 – Unobservable inputs for the asset or liability. In these situations, the Diocese develops inputs using the best information available in the circumstances.

In some cases, the inputs used to measure the fair value of an asset or a liability might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to entire measurement requires judgment, taking into account factors specific to the asset or liability. The categorization of an asset within the hierarchy is based upon the pricing transparency of the asset and does not necessarily correspond to the Diocese's assessment of the quality, risk or liquidity profile of the asset or liability.

A significant portion of the Diocese's investment assets are classified within Level 1 because they are comprised of individual equities with readily determinable fair values based on daily redemption values. The Diocese invests in fixed income bonds/securities traded in the financial markets. Those fixed income bonds/securities are valued by the custodians of the securities using pricing models based on credit quality, time to maturity, stated interest rates and market-rate assumptions, and are classified within Level 2.

The following table presents assets measured at fair value on a recurring basis at June 30, 2019:

	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total
June 30, 2019				
Managed portfolios				
Government securities	\$ -	\$ 597,195	\$ -	\$ 597,195
Municipal bonds	-	1,360,963	-	1,360,963
Mortgage backed security	-	482,376	-	482,376
Corporate bonds	-	4,909,523	-	4,909,523
Commercial mortgaged-backed securities	-	3,715,197	-	3,715,197
Money market	-	917,908	-	917,908
Other	-	100,000	-	100,000
Treasury notes	-	3,983,109	-	3,983,109
Equity Securities				
Consumer Discretionary	2,053,685	-	-	2,053,685
Consumer Staples	1,382,546	-	-	1,382,546
Energy	435,272	-	-	435,272
Financial	2,443,302	-	-	2,443,302
Healthcare	3,037,488	-	-	3,037,488
Industrials	2,322,808	-	-	2,322,808
Information Technology	3,629,776	-	-	3,629,776
Materials	500,553	-	-	500,553
Real Estate	480,308	-	-	480,308
Telecom Services	1,134,691	-	-	1,134,691
Utilities	327,411	-	-	327,411
Other	-	-	201,250	201,250
	<u>17,747,840</u>	<u>16,066,271</u>	<u>201,250</u>	<u>34,015,361</u>
Beneficial interest in investment	<u>13,535,319</u>	<u>9,405,899</u>	<u>-</u>	<u>22,941,218</u>
Total	<u>\$ 31,283,159</u>	<u>\$ 25,472,170</u>	<u>\$ 201,250</u>	<u>\$ 56,956,579</u>

The fair value of managed portfolios and other equity investments is determined by reference to quoted prices in active markets.

Below is a reconciliation of the beginning and ending balance of investments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended June 30, 2019:

Level 3, beginning of year	\$	208,295
Change in fair value of CUP II		<u>(7,045)</u>
Level 3, end of year	\$	<u>201,250</u>

Net investment return consists of the following for the years ended June 30, 2019:

	<u>Current Without Donor Restrictions</u>	<u>Custodial Without Donor Restriction</u>	<u>Total</u>
Interest and dividends	\$ 407,116	\$ 321,592	\$ 728,708
Net change in realized gain	96,155	116,629	212,784
Net change in unrealized gain	578,672	655,921	1,234,593
Fees	<u>(75,919)</u>	<u>(87,472)</u>	<u>(163,391)</u>
Investment income	<u>\$ 1,006,024</u>	<u>\$ 1,006,670</u>	<u>\$ 2,012,694</u>

**Note 4 - Property and Equipment**

Property and equipment consist of the following at June 30, 2019

Land and improvements	\$ 1,714,431
Buildings and improvements	5,893,448
Equipment and fixtures	<u>285,110</u>
	7,892,989
Less accumulated depreciation	<u>(2,816,033)</u>
Net property and equipment	<u>\$ 5,076,956</u>

Depreciation expense totaled \$152,284 for the year ended June 30, 2019.

**Note 5 - Custodial Funds**

Funds received and held by the Diocese as agent for others are as follows as of June 30, 2019.

Insurance and benefits payable to parishes	\$ 467,834
Insurance reserve fund- property and liability	3,546,462
Priest's retirement reserve fund	69,676
Priest's health reserve fund	8,380,774
Priest's dental reserve fund	1,450,169
Special care program for priests	1,073,893
Diocesan-wide self-insured health plan	<u>2,743,064</u>
	<u><u>\$ 17,731,872</u></u>

**Note 6 - Endowment**

The Diocese of Fargo contributed the endowment funds to the Catholic Development Foundation. The endowment now consists of beneficial interest which is donor-restricted endowment funds that are being used for seminary and clergy education. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors has interpreted the State Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the date of the donor-restricted endowment funds, unless there are explicit donor stipulations to the contrary. At June 30, 2019, there were no such donor stipulations. As a result of this interpretation, the Diocese retains in perpetuity (a) the original value of initial and subsequent gift amounts donated to the Endowment and (b) any accumulations to the Endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure in a manner consistent with the standard of prudence prescribed by UPMIFA. The following factors are considered in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the organization and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the organization
- The investment policies of the organization.



As of June 30, 2019, endowment net asset composition by type of fund is as follows:

	Without Donor Restriction	With Donor Restrictions	Total
Donor-restricted endowment funds			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	\$ -	\$ 18,228,352	\$ 18,228,352
Accumulated investment gains	-	4,712,866	4,712,866
	<u>\$ -</u>	<u>\$ 22,941,218</u>	<u>\$ 22,941,218</u>

From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). The Diocese has interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. No endowment funds were underwater as of June 30, 2019.

#### Investment and Spending Policies

Investment and spending policies for the Endowment were adopted that attempt to provide a predictable stream of funding for operations while seeking to maintain the purchasing power of the endowment assets. Over time, long-term rates of return should be equal to an amount sufficient to maintain the purchasing power of the Endowment assets to provide the necessary capital to fund the spending policy and to cover the costs of managing the Endowment investments. The target annual rate of return is that of a five-year moving average of various market indexes. Actual returns in any given year may vary from this amount. To satisfy this long-term rate-of-return objective, the investment portfolio is structured on a total-return approach through which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Diocese targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

The Diocese has a policy of appropriating for distribution each year 5 percent of its endowment fund's average fair value over the market value at the end of the previous 5 fiscal years. In establishing this policy, the Diocese considered the long-term expected return on its endowment. The Diocese's spending policy is such that the corpus of the endowment will be maintained in perpetuity.

Changes in Endowment net assets for the year ended June 30, 2019 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, June 30, 2018	\$ -	\$ 21,990,438	\$ 21,990,438
Change in beneficial interest in investment	-	950,780	950,780
Endowment net assets, June 30, 2019	<u>\$ -</u>	<u>\$ 22,941,218</u>	<u>\$ 22,941,218</u>

**Note 7 - Net Assets with Donor Restrictions**

Net assets with donor restrictions are restricted for the following purposes or periods as of June 30, 2019:

Subject to Expenditure for Specific Purpose God's Gift Given for Subsequent Fiscal Year	<u>\$ 2,055,804</u>
Subject to the Passage of Time Promises to give, for God's Gift	<u>250,000</u>
Endowments	
Subject to appropriation and expenditure when a specified event occurs	
Restricted by donors for Seminary and clergy education	<u>4,712,866</u>
Perpetual in nature, earnings from which are subject to endowment spending policy appropriation Seminary and clergy education	<u>18,228,352</u>
Total endowments	<u>22,941,218</u>
	<u><u>\$ 25,247,022</u></u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by the donors as follows for the years ended June 30, 2019:

Satisfaction of purpose restrictions God's Gift Given for Subsequent Fiscal Year	<u><u>\$ 2,418,469</u></u>
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**Note 8 - Retirement Plans**

The Diocese has a non-contributory 401(k) plan. The plan covers all parish, school, and diocesan lay employees who have worked at least 1,000 hours in an annual period and have completed one year of continuous service. Under the terms of the plan, the participating employer is to make a 6 percent of salary annual contribution. Diocesan Contributions to the plan for the years ended June 30, 2019 totaled \$72,879.

The Diocese contributions to a multiemployer defined benefit pension plan for priests were \$400,000 for the years end June 30, 2019. This plan is sponsored by the Diocese and administered by a separate Board of Trustees. The Diocese has not determined the cost of its defined benefit pension plan in accordance with accounting principles generally accepted in the United States of America, which require the cost of employees' pensions to be recognized over the employees' respective service period and a liability to be recognized when the accumulated benefit obligations exceeds the fair value of the plan assets. Quantification of the effects of the departure on the financial statements has not been determined. Contributions are determined in accordance with biennial actuary recommendations which were last performed on July 1, 2018 at which time the plan was funded at approximately 93% using 6% investment returns. Using 7% investment return the plan would be funded at 105%.

#### **Note 9 - Related Party Transactions**

Diocese of Fargo has entered into agreements with the Catholic Development Foundation to provide services for management and administration of all activities. A service fee of 50 basis points or .50% of asset values was received for accounting, administrative support, development, and management functions. The service fee was \$330,263 for years ended June 30, 2019.

Diocese of Fargo has entered into agreements with the Catholic Church Deposit & Loan Fund of Eastern North Dakota to provide services for management and administration of all activities. A service fee of 75 basis points or .75% of asset values was received for accounting, administrative support, and management functions. The service fee was \$398,252 for years ended June 30, 2019.

Accounts receivable from the Catholic Church Deposit & Loan Fund of Eastern North Dakota were \$69,250 as of June 30, 2019.

**Note 10 - Adjustment Resulting from Change in Accounting Policy**

As disclosed in Note 1, the Diocese adopted the provisions of ASU 2016-14, *Presentation of Financial Statements for Not-For-Profit Entities*, as of July 1, 2018. As a part of the adoption, changes were made to the presentation of the financial statements and the classification of net assets. Following is a summary of the effects of the change in accounting policy in the Diocese's July 1, 2018 net assets:

	<u>As Previously Reported</u>	<u>Adoption of ASU 2016-14</u>	<u>As Adjusted</u>
Net Assets, Beginning of Year			
Unrestricted	19,956,195	\$ (19,956,195)	\$ -
Temporarily Restricted	6,376,582	(6,376,582)	-
Permanently Restricted	18,032,325	(18,032,325)	-
Net assets without donor restrictions	-	19,956,195	19,956,195
Net assets with donor restrictions	-	24,408,907	24,408,907



Supplementary Information  
June 30, 2019

## Diocese of Fargo



## Independent Auditor's Report on Supplementary Information

The Most Reverend John T. Folda and the Corporate Board  
Diocese of Fargo  
Fargo, North Dakota

We have audited the financial statements of Diocese of Fargo as of and for the year ended June 30, 2019 and our report thereon dated November 6, 2019, which appears on page 1, was qualified because of the omission of disclosure for the defined benefit Pension Plan for Priests. Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information on pages 20 through 22 is presented for the purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Eide Bailly LLP*

Fargo, North Dakota  
November 6, 2019

Diocese of Fargo  
Schedule of Contributions and Bequests  
Year Ended June 30, 2019

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God's Gift	\$ 2,947,509
Other Contributions and Bequests	
Grants	567,343
Endowment fund proceeds	764,999
	1,332,342
Programming Donations/Contributions	
Business office administration/management fees	481,788
Chancery	3,011
Liturgy	2,525
Technology revenue	1,432
Properties office	6,000
Parish service department	38,487
Development/stewardship	263,557
Media/communications office	259,756
CEF	
Catechesis and Evangelization	52,242
Youth	33,124
Young Disciples	50,599
Family Life	95,654
Respect Life	29,180
Marriage Tribunal	4,630
Continuing education for Priests	35,728
Pastoral Center office rental	201,321
Seminary education	5,643
Vocation Office	643
Permanent Diaconate	26,454
Priest disability	10
	1,591,784
Other Donations	180,489
	\$ 6,052,124

Diocese of Fargo  
Schedule of Program and Support Services  
Year Ended June 30, 2019

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Faith Education	
Education subsidy - Catholic Schools	\$ 80,202
Liturgy office/commission	41,553
North Dakota Catholic Conference	106,112
Media and communications	323,466
CEF	
Administration	45,267
Evangelization	130,027
Catechesis	90,532
Schools	80,018
Youth	152,540
Young Disciples	86,498
Catholic University	7,421
Catholic Communications	5,939
Newman Student Centers	160,000
Special needs ministry	4,912
	<u>1,314,487</u>
Sick and Elderly Priests	
Priests' Mutual Aid Fund	150,026
Priests' disability	134,215
	<u>284,241</u>
Vocations	
Permanent Diaconate office	87,009
Seminary education	625,718
Continuing education for priests	79,325
Vocation office	108,948
	<u>901,000</u>



Diocese of Fargo  
Schedule of Program and Support Services  
Year Ended June 30, 2019

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Family Life	
Catholic Charities North Dakota	200,400
Respect Life Office	59,253
Catholic Relief Services	37,257
Native American Mission	355,165
Migrant program	31,980
Poor Parish Subsidy	24,700
Family Life Office	296,324
Tribunal	304,495
Rural Life	3,937
	1,313,511
Cathedral Subsidy	150,000
Other Catholic Apostolates	26,408
Total program services expense	3,989,647
Administrative and Management	
Finance office	415,055
Bishop's office	138,425
Chancellor's office	125,386
Technology	42,160
Vicar for clergy office	82,974
Human resources	93,745
Bishop's residence	85,551
Properties office	94,870
Pastoral Center operations	158,902
USCCB programs and dues	43,823
Priests Council	223
Parish service department	78,581
	1,359,695
Development and Stewardship	378,277
Depreciation	152,284
Total supporting expenses	1,890,256
	\$ 5,879,903