



Financial Statements
June 30, 2020 and 2019

Catholic Church Deposit & Loan Fund of Eastern North Dakota



Catholic Church Deposit & Loan Fund of Eastern North Dakota

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Independent Auditor's Report

The Most Reverend John T. Folda and the Corporate Board
Catholic Church Deposit & Loan Fund of Eastern North Dakota
Fargo, North Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of Catholic Church Deposit & Loan Fund of Eastern North Dakota which comprise the statements of financial position as of June 30, 2020 and 2019, and the related statements of activities and 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Catholic Church Deposit & Loan Fund of Eastern North Dakota as of June 30, 2020 and 2019, 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.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Fargo, North Dakota

November 5, 2020

Catholic Church Deposit & Loan Fund of Eastern North Dakota

Statements of Financial Position

June 30, 2020 and 2019

	2020	2019
Assets		
Cash	\$ 594,496	\$ 1,044,739
Interest Receivable	307,990	199,807
Notes Receivable	16,733,063	14,937,787
Investments	43,749,041	38,455,204
Land	2,386,496	4,273,750
Total assets	\$ 63,771,086	\$ 58,911,287
 Liabilities and Net Assets		
Liabilities		
Accounts Payable	\$ 77,669	\$ 69,250
Notes Payable - Parishes	32,674,189	32,916,099
Notes Payable - Cemeteries	5,978,033	5,848,935
Notes Payable - Schools	5,247,511	3,709,195
Notes Payable - Miscellaneous Catholic Entities	3,098,719	2,695,257
Notes Payable - Diocese of Fargo	7,500,217	6,999,611
Total liabilities	54,576,338	52,238,347
 Net Assets		
Without donor restrictions	9,194,748	6,672,940
Total liabilities and net assets	\$ 63,771,086	\$ 58,911,287

Catholic Church Deposit & Loan Fund of Eastern North Dakota

Statements of Activities and Functional Expenses
Years Ended June 30, 2020 and 2019

	2020	2019
Support and Revenue		
Investment and interest income, net of fees	\$ 4,548,687	\$ 2,447,003
Lease revenue	34,646	39,297
Total revenues	4,583,333	2,486,300
Functional Expenses		
Program Expenses		
Interest expense on notes payable	1,549,441	1,537,749
Grants	38,000	30,700
Real estate taxes and other	15,781	2,420
Management and General		
Management service fees	458,303	398,252
Total expenses	2,061,525	1,969,121
Change in Net Assets Without Donor Restrictions	2,521,808	517,179
Net Assets Without Donor Restrictions, Beginning of Year	6,672,940	6,155,761
Net Assets Without Donor Restrictions, End of Year	\$ 9,194,748	\$ 6,672,940

Catholic Church Deposit & Loan Fund of Eastern North Dakota

Statements of Cash Flows
Years Ended June 30, 2020 and 2019

	2020	2019
Operating Activities		
Change in net assets	\$ 2,521,808	\$ 517,179
Adjustments to reconcile change in net assets to net cash used for operating activities		
Realized and unrealized gain on investments	(3,197,915)	(1,046,528)
Change in assets and liabilities		
Interest receivable	(108,183)	(62,204)
Accounts payable	8,419	(1,545)
Net Cash used for Operating Activities	(775,871)	(593,098)
Investing Activities		
Purchases of investment securities	(6,253,008)	(9,825,685)
Purchase of land	(2,773)	(973,887)
Proceeds from sale of land	4,147,113	-
Proceeds from sale of investment securities	1,900,000	900,000
Payments received on notes receivable	452,982	815,699
Issuance of notes receivable	(2,248,258)	(95,000)
Net Cash used for Investing Activities	(2,003,944)	(9,178,873)
Financing Activities		
Withdrawals from notes payable	(9,250,091)	(4,138,710)
Deposits to notes payable	11,579,663	13,084,113
Net Cash from Financing Activities	2,329,572	8,945,403
Net Change in Cash	(450,243)	(826,568)
Cash, Beginning of Year	1,044,739	1,871,307
Cash, End of Year	\$ 594,496	\$ 1,044,739
Supplemental Disclosure for Non-cash Investing Activity		
Cash payments for interest supplemental disclosure	\$ 1,549,441	\$ 1,537,749

Note 1 - Principal Activity and Significant Accounting Policies

Organization

The Catholic Church Deposit & Loan Fund of Eastern North Dakota (the Fund) was incorporated in 1937 under the laws of the state of North Dakota to promote the educational, religious, benevolent and charitable interests of the Catholic Church in the Fargo Diocese.

Basis of Presentation

The financial statements of the Fund have been prepared on the accrual basis. The accompanying financial statements do not include the assets, liabilities, net assets, or financial activities of any other institutions or organizations providing services at the diocesan level of administration which are fiscally responsible to the bishop of the Diocese of Fargo. The statements do not include the assets, liabilities, net assets, and financial activities of various religious orders, lay societies, and religious organizations which operate within the Diocese, but which are not fiscally responsible to the Bishop, and parishes and their related institutions.

The Fund reports information regarding its financial position and activities according to two classes of net assets: without donor restrictions and with donor restrictions.

Cash

The Fund is including 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

Notes receivable are unsecured. Management reviews all notes receivable balances periodically and adjusts the allowance accounts based on current economic conditions and past experience. All notes receivable are considered collectible.

Investments and Investment Income

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.

Land

Land is recorded at its purchase price and held as an investment until the use of the land is determined. The Fund reviews the carrying value of land for impairment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable. Based on this review there was no impairment at June 30, 2020 and 2019.

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 (or grantor) 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 restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. The Fund 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. Net assets are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resources was restricted has been fulfilled, or both.

Revenue and Revenue Recognition

The Fund recognizes support revenue when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the fee for the arrangement is fixed or determinable and collectability is reasonably determined. The Fund has monthly and semi-annual leasing arrangements in place for owned property, revenue is recognized on a straight line basis over the life of the lease.

Functional Allocation of Expenses

The costs of program and supporting services activities have been detailed on a functional and natural basis in the statements of activities. These expenses are generally directly attributable to a functional category with no significant allocations between program service activities and supporting service activities. There were no fundraising and advancement expenses for the years ended June 30, 2020 and 2019.

Income Taxes

Catholic Church Deposit & Loan Fund of Eastern North Dakota 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 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.

Catholic Church Deposit & Loan Fund of Eastern North Dakota

Notes to Financial Statements

June 30, 2020 and 2019

Concentrations of Credit Risk

The Fund 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 Fund has not experienced losses in any of these accounts. Investments are made by diversified investment managers whose performance is monitored by management and the Investment Committee of the Board of Directors. Although the fair values of investments are subject to fluctuation on a year-to-year basis, management and the Investment Committee believe that the investment policies and guidelines are prudent for the long-term welfare of the Fund.

The Fund also grants credit to parishes and institutions primarily within the geographic territory of the Fargo Diocese, in Eastern North Dakota.

Subsequent Events

The Fund has evaluated subsequent events through November 5, 2020, 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 the following:

	<u>2020</u>	<u>2019</u>
Cash	\$ 594,496	\$ 1,044,739
Investments	<u>6,291,425</u>	<u>1,423,701</u>
	<u>\$ 6,885,921</u>	<u>\$ 2,468,440</u>

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

Note 3 - Notes Receivable

The notes receivable balances consist of unsecured notes due from parishes and other religious institutions within the Fargo diocese. The notes rates as of June 30, 2020 and 2019, were 3.00% and 4.50%, respectively, and are due on demand. However, since the intent is to pay back the notes over time, these notes are considered long-term.

The notes with St. John Paul II Catholic Schools Network and St. James Basilica of Jamestown for St. John's Academy are the exception. The notes bear interest at a rate intended to mirror market available tax-exempt financing for school facilities. The rates as of June 30, 2020 and 2019 were 2.66% and 3.42%, respectively.

Note 4 - Fair Value of Assets

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 Fund 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 Fund 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 Fund's assessment of the quality, risk or liquidity profile of the asset or liability.

A significant portion of the Fund'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 Fund 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.

Catholic Church Deposit & Loan Fund of Eastern North Dakota

Notes to Financial Statements

June 30, 2020 and 2019

The following table presents assets and liabilities measured at fair value on a recurring basis, except those measured at cost as identified below, at June 30, 2020:

	Quoted Prices Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total
June 30, 2020				
Managed portfolio				
Government Securities	\$ -	\$ 355,061	\$ -	\$ 355,061
US treasury notes	-	6,030,221	-	6,030,221
Government MBS/CMO	-	687,810	-	687,810
Municipal securities	-	2,298,487	-	2,298,487
Corporate bonds	-	6,159,640	-	6,159,640
Commercial	-	5,486,837	-	5,486,837
Money market fund	-	13,134,047	-	13,134,047
Accrued Income	-	100,476	-	100,476
Equity securities				
Communication Services	800,653	-	-	800,653
Consumer discretionary	1,234,052	-	-	1,234,052
Consumer staples	770,687	-	-	770,687
Energy	138,116	-	-	138,116
Financial	925,604	-	-	925,604
Healthcare	1,565,691	-	-	1,565,691
Industrials	1,021,412	-	-	1,021,412
Information technology	2,361,307	-	-	2,361,307
Materials	271,029	-	-	271,029
Real estate	277,891	-	-	277,891
Utilities	130,020	-	-	130,020
	<u>9,496,462</u>	<u>34,252,579</u>	<u>-</u>	<u>43,749,041</u>
Total	<u>\$ 9,496,462</u>	<u>\$ 34,252,579</u>	<u>\$ -</u>	<u>\$ 43,749,041</u>

Catholic Church Deposit & Loan Fund of Eastern North Dakota

Notes to Financial Statements

June 30, 2020 and 2019

The following table presents assets and liabilities measured at fair value on a recurring basis, except those measured at cost as identified below, at June 30, 2019:

	Quoted Prices Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total
June 30, 2019				
Managed portfolio				
Government Securities	\$ -	\$ 773,908	\$ -	\$ 773,908
US treasury notes	-	6,346,402	-	6,346,402
Government MBS/CMO	-	749,755	-	749,755
Municipal securities	-	1,987,925	-	1,987,925
Corporate bonds	-	5,926,575	-	5,926,575
Commercial	-	4,770,958	-	4,770,958
Money market fund	-	8,713,358	-	8,713,358
Accrued Income	-	155,223	-	155,223
Equity securities				
Consumer discretionary	668,105	-	-	668,105
Consumer staples	900,880	-	-	900,880
Energy	680,086	-	-	680,086
Financial	357,442	-	-	357,442
Healthcare	1,188,043	-	-	1,188,043
Industrials	1,443,449	-	-	1,443,449
Information technology	974,814	-	-	974,814
Materials	1,996,367	-	-	1,996,367
Real estate	255,231	-	-	255,231
Telecom services	317,523	-	-	317,523
Utilities	249,160	-	-	249,160
	<u>\$ 9,031,100</u>	<u>\$ 29,424,104</u>	<u>\$ -</u>	<u>\$ 38,455,204</u>
Total				

Note 5 - Notes Payable

The notes payable balances consist of unsecured notes payable due on demand to various parishes and other religious institutions. For the years ended June 30, 2020 and 2019, the notes bear interest at rates of 2.25% and 3.5%, respectively. They are considered long-term thus, future repayments are not determinable.

Note 6 - Line of Credit

At June 30, 2020, the Catholic Church Deposit & Loan Fund of Eastern North Dakota has a line of credit. The \$8 million line of credit is secured by the investment portfolio. This line carries an interest rate of 3.25% and matures on January 2, 2021 with an option to renew on a yearly basis with an adjustable rate. As of June 30, 2020 and 2019, the outstanding balance on this line of credit was \$0.

Note 7 - Related Party Transactions

The Catholic Church Deposit & Loan Fund has entered into agreements with the Diocese of Fargo for services provided by management and administration of all activities. A service fee of 75 basis points or .75% of asset values is paid to Diocese of Fargo accounting, administrative support, and management functions. The service fee was \$458,303 and \$398,252 for years ended June 30, 2020 and 2019, respectively.

Notes payable to the Diocese of Fargo were \$7,500,217 and \$6,999,611 for years ended June 30, 2020 and 2019, respectively. Accounts payable to the Diocese of Fargo were \$77,669 and \$69,250 for years ended June 30, 2020 and 2019, respectively.