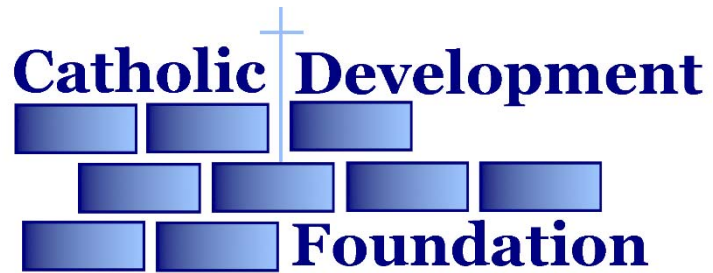




Financial Statements  
June 30, 2019 and 2018

**Catholic Development**  
  
**Foundation**

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Financial Statements

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## Independent Auditor's Report

The Most Reverend John T. Folda and the Corporate Board  
Catholic Development Foundation  
Fargo, North Dakota

### Report on the Financial Statements

We have audited the accompanying financial statements of Catholic Development Foundation, which comprise the statements of financial position as of June 30, 2019 and 2018, 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 Development Foundation as of June 30, 2019 and 2018, 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.

**Change in Accounting Principle**

As discussed in Note 1 to the financial statements, the Foundation has adopted the provisions of Financial Accounting Standards Board Accounting Standards Update No. 2016-14, *Presentation of Financial Statements for Not-For-Profit Entities*. Accordingly, the June 30, 2018 financial statements have been adjusted to adopt this standard. Our opinion is not modified with respect to this matter.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Fargo, North Dakota  
November 6, 2019

Catholic Development Foundation  
Statements of Financial Position  
June 30, 2019 and 2018

|                                    | 2019          | 2018<br>(As Adjusted) |
|------------------------------------|---------------|-----------------------|
| <b>Assets</b>                      |               |                       |
| Cash                               | \$ 216,467    | \$ 1,002,828          |
| Promises to give, net              | 710,000       | -                     |
| Investments                        | 52,659,061    | 48,028,436            |
| <br>                               |               |                       |
| Assets limited as to use           |               |                       |
| Funds invested for others          | 13,494,846    | 12,711,022            |
| Annuities managed for others       | 2,793,053     | 2,748,469             |
| Total assets                       | \$ 69,873,427 | \$ 64,490,755         |
| <br>                               |               |                       |
| <b>Liabilities and Net Assets</b>  |               |                       |
| <b>Liabilities</b>                 |               |                       |
| Accounts payable                   | \$ 28,818     | \$ 27,172             |
| Funds invested for others          | 13,494,846    | 12,711,022            |
| Annuities managed for others       | 2,793,053     | 2,748,469             |
| Total liabilities                  | 16,316,717    | 15,486,663            |
| <br>                               |               |                       |
| <b>Net Assets</b>                  |               |                       |
| Without donor restrictions         | 359,903       | 288,556               |
| With donor restrictions            |               |                       |
| Perpetual in nature                | 39,724,496    | 36,778,476            |
| Purpose restrictions               | 13,398,666    | 11,859,968            |
| Time-restricted for future periods | 73,645        | 77,092                |
| Total net assets                   | 53,196,807    | 48,715,536            |
| Total net assets                   | 53,556,710    | 49,004,092            |
| Total liabilities and net assets   | \$ 69,873,427 | \$ 64,490,755         |

Catholic Development Foundation  
Statements of Activities and Functional Expenses  
Years Ended June 30, 2019 and 2018

|   | 2019                          |                            |                      | 2018   |   |                      |
|---|-------------------------------|----------------------------|----------------------|--|---|----------------------|
|   | Without Donor<br>Restrictions | With Donor<br>Restrictions | Total                | Without Donor<br>Restrictions<br>(As Adjusted) | With Donor<br>Restrictions<br>(As Adjusted) | Total                |
| Support and Revenue                     |                               |                            |                      |  |   |                      |
| Contributions                           | \$ 58,160                     | \$ 3,895,838               | \$ 3,953,998         | \$ 11,412                                      | \$ 1,697,330                                | \$ 1,708,742         |
| Investment gain, net                    | 27,925                        | 3,780,713                  | 3,808,638            | 31,298   | 4,683,155                                   | 4,714,453            |
| Net assets released<br>from restriction | <u>3,195,280</u>              | <u>(3,195,280)</u>         | <u>-</u>             | <u>2,312,994</u>                               | <u>(2,312,994)</u>                          | <u>-</u>             |
| Total revenue                           | <u>3,281,365</u>              | <u>4,481,271</u>           | <u>7,762,636</u>     | <u>2,355,704</u>                               | <u>4,067,491</u>                            | <u>6,423,195</u>     |
| Functional Expenses                     |                               |                            |                      |  |   |                      |
| Program expense                         |                               |                            |                      |  |   |                      |
| Earnings distributed                    | 2,958,047                     | -                          | 2,958,047            | 2,087,083                                      | -   | 2,087,083            |
| Management and general                  |                               |                            |                      |  |   |                      |
| Administrative fees                     | 62,993                        | -                          | 62,993               | 59,291   | -   | 59,291               |
| Fundraising and development             |                               |                            |                      |  |   |                      |
| Administrative fees                     | <u>188,978</u>                | <u>-</u>                   | <u>188,978</u>       | <u>177,871</u>                                 | <u>-</u>                                    | <u>177,871</u>       |
| Total expenses                          | <u>3,210,018</u>              | <u>-</u>                   | <u>3,210,018</u>     | <u>2,324,245</u>                               | <u>-</u>                                    | <u>2,324,245</u>     |
| Change in Net Assets                    | 71,347                        | 4,481,271                  | 4,552,618            | 31,459   | 4,067,491                                   | 4,098,950            |
| Net Assets,<br>Beginning of Year        | <u>288,556</u>                | <u>48,715,536</u>          | <u>49,004,092</u>    | <u>257,097</u>                                 | <u>44,648,045</u>                           | <u>44,905,142</u>    |
| Net Assets, End of Year                 | <u>\$ 359,903</u>             | <u>\$ 53,196,807</u>       | <u>\$ 53,556,710</u> | <u>\$ 288,556</u>                              | <u>\$ 48,715,536</u>                        | <u>\$ 49,004,092</u> |

## Catholic Development Foundation

### Statements of Cash Flows

Years Ended June 30, 2019 and 2018

|   | 2019         | 2018         |
|---|--------------|--------------|
| Operating Activities  |              |              |
| Change in net assets  | \$ 4,552,618 | \$ 4,098,950 |
| Adjustments to reconcile change in net assets to net cash from operating activities |              |              |
| Contributed investments   | (72,692)     | (380,523)    |
| Realized and unrealized gain on investments   | (2,699,771)  | (3,676,040)  |
| Change in assets and liabilities  |              |              |
| Promise to give   | (710,000)    | -            |
| Accounts payable  | 1,646        | 2,390        |
| Net funds invested for others   | 828,408      | 914,283      |
| Net change in assets limited to use   | (828,408)    | (914,283)    |
| Net Cash from Operating Activities  | 1,071,801    | 44,777       |
| Investing Activities  |              |              |
| Proceeds from sale of investments   | 612,000      | 1,523,000    |
| Purchase of investments   | (2,470,162)  | (1,643,004)  |
| Net Cash used for Investing Activities  | (1,858,162)  | (120,004)    |
| Net Change in Cash  | (786,361)    | (75,227)     |
| Cash, Beginning of Period   | 1,002,828    | 1,078,055    |
| Cash, End of Period   | \$ 216,467   | \$ 1,002,828 |

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

### **Organization**

The Catholic Development Foundation (Foundation) was incorporated in 1989 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. The Catholic Development Foundation serves as an “umbrella” Foundation for all Catholic entities in the Fargo diocese.

### **Basis of Presentation**

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

The Foundation reports gifts of cash and other assets as restricted support 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 statement of activities as net assets released from restrictions.

### **Cash**

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

### **Promises to Give**

The Foundation records unconditional promises to give that are expected to be collected within one year at net realizable value. Unconditional promises to give expected to be collected in future years are initially recorded at fair value using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset. In subsequent years, amortization of the discounts is included in contribution revenue in the statements of activities. Allowance for uncollectable promises to give is determined based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Promises to give are written off when deemed uncollectable. There was no allowance at June 30, 2019.



### 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 statements of financial position. Net investment return/(loss) is reported in the statement of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less external and direct internal investment expenses.

### Funds Invested for Others

Assets limited as to use represent the fair value of the investments. Realized and unrealized gains and losses are not included in the statement of activities.

Funds invested for others include the following:

- Funds invested by parishes, agencies, cemeteries, schools, and other religious entities represent deposits that are endowment or perpetual care in nature and are accountable to the local Ordinary. As such, these deposits are expected to remain in the Foundation perpetually.
- Annuity and unitrust funds invested represent irrevocable gifts to the Foundation for a designated charitable cause at the death of the donor. One hundred percent of the value of the annuity or unitrust is held by the Foundation. It is expected that 50-60% of the value will remain at the time of the donor's death, to be distributed at that time to the designated charitable beneficiary or held as an endowment for a specific charitable cause as designated by the donor. By retaining 100% of the value until the death of the donor, the Foundation is able to maintain an adequate reserve against unusual market conditions and/or donors who out-live mortality table estimates.

### Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor 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 Foundation 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**

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. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

### **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. The program expenses are generally directly attributable to a functional category with no significant allocations between program service activities and supporting service activities. The supporting service activities require allocation between management and general and fundraising and development on a reasonable basis that is consistently applied. These supporting service activities are allocated on a basis of estimates of time and effort.

### **Income Taxes**

The Catholic Development Foundation 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.

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

The Foundation 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 Foundation 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 Foundation.

### Change in Accounting Principle

As of July 1, 2018, the Foundation 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). The ASU introduces new disclosure requirements to provide information about what is included or excluded from the Foundation's intermediate measure of operations as well as disclosures to improve a financial statement user's ability to assess the Foundation'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 amendments should be applied on a retrospective basis; however, if presenting comparative financial statements, the ASU allows for the option to omit, for any periods presented before the period of adoption, the analysis of expenses by both natural classification and functional classification (the separate presentation of expenses by functional classification and expenses by natural classification is still required), and the disclosure about liquidity and availability of resources. The Foundation has elected to present comparative information for the analysis of expenses by both natural classification and functional classification. However, the Foundation has elected not to present comparative information for the disclosure about liquidity and availability of resources.

The Foundation has adopted this standard as management believes the standard improves the usefulness and understandability of the Foundation's financial reporting.

### Subsequent Events

The Foundation 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 the following:

|             |                   |
|-------------|-------------------|
| Cash        | \$ 216,467        |
| Investments | 172,254           |
|             | <u>388,721</u>    |
|             | <u>\$ 388,721</u> |

Endowment funds consist of donor-restricted endowments. Income from donor-restricted endowments is restricted for specific purposes. 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 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 Foundation 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 Foundation 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 Foundation's assessment of the quality, risk or liquidity profile of the asset or liability.

A significant portion of the Foundation'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 Foundation 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 Foundation has a contribution receivable that is reported at fair value using the present value of the policy holder's life expectancy.

# Catholic Development Foundation

Notes to Financial Statements

June 30, 2019 and 2018

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<br>Prices in<br>Active Markets<br>(Level 1) | Other<br>Observable<br>Inputs<br>(Level 2) | Unobservable<br>Inputs<br>(Level 3) | Total                |
|---|--|--|-------------------------------------|----------------------|
| June 30, 2019                           |  |  |                                     |                      |
| Managed portfolios                      |  |  |                                     |                      |
| Government securities                   | \$ -   | \$ 971,139                                 | \$ -                                | \$ 971,139           |
| Government mortgaged-backed securities  | -  | 941,858                                    | -                                   | 941,858              |
| Municipal bonds                         | -  | 2,378,540                                  | -                                   | 2,378,540            |
| Corporate bonds                         | -  | 8,384,949                                  | -                                   | 8,384,949            |
| Commercial mortgaged -backed securities | -  | 6,849,898                                  | -                                   | 6,849,898            |
| Money market                            | -  | 724,223                                    | -                                   | 724,223              |
| Treasury notes                          | -  | 8,383,919                                  | -                                   | 8,383,919            |
| Mutual funds                            | 39   | -  | -                                   | 39                   |
| Equity Securities                       |  |  |                                     |                      |
| Communication Services                  | 2,726,330  | -  | -                                   | 2,726,330            |
| Consumer Discretionary                  | 4,449,717  | -  | -                                   | 4,449,717            |
| Consumer Staples                        | 3,117,580  | -  | -                                   | 3,117,580            |
| Energy                                  | 1,209,322  | -  | -                                   | 1,209,322            |
| Financial                               | 5,501,995  | -  | -                                   | 5,501,995            |
| Healthcare                              | 6,742,203  | -  | -                                   | 6,742,203            |
| Industrials                             | 4,918,023  | -  | -                                   | 4,918,023            |
| Information Technology                  | 8,407,432  | -  | -                                   | 8,407,432            |
| Materials                               | 1,128,729  | -  | -                                   | 1,128,729            |
| Real Estate                             | 1,179,835  | -  | -                                   | 1,179,835            |
| Utilities                               | 879,872  | -  | -                                   | 879,872              |
| Other                                   |  |  |                                     |                      |
| Real Estate Investment Trust            | -  | 51,357                                     | -                                   | 51,357               |
|   | <u>\$ 40,261,077</u>                               | <u>\$ 28,685,883</u>                       | <u>\$ -</u>                         | <u>\$ 68,946,960</u> |

Catholic Development Foundation

Notes to Financial Statements

June 30, 2019 and 2018

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, 2018:

|  | Quoted<br>Prices in<br>Active Markets<br>(Level 1) | Other<br>Observable<br>Inputs<br>(Level 2) | Unobservable<br>Inputs<br>(Level 3) | Total                |
|--|--|--|-------------------------------------|----------------------|
| June 30, 2018                          |  |  |                                     |                      |
| Managed portfolios                     |  |  |                                     |                      |
| Government securities                  | \$ -   | \$ 636,161                                 | \$ -                                | \$ 636,161           |
| Government mortgaged-backed securities | -  | 1,405,849                                  | -                                   | 1,405,849            |
| Municipal bonds                        | -  | 1,836,948                                  | -                                   | 1,836,948            |
| Corporate bonds                        | -  | 7,665,872                                  | -                                   | 7,665,872            |
| Commercial mortgaged-backed securities | -  | 5,155,788                                  | -                                   | 5,155,788            |
| Money market                           | -  | 2,731,753                                  | -                                   | 2,731,753            |
| Treasury notes                         | -  | 3,203,099                                  | -                                   | 3,203,099            |
| Mutual funds                           | 30   | -  | -                                   | 30                   |
| Equity Securities                      |  |  |                                     |                      |
| Consumer Discretionary                 | 5,491,787  | -  | -                                   | 5,491,787            |
| Consumer Staples                       | 2,675,343  | -  | -                                   | 2,675,343            |
| Energy                                 | 1,867,695  | -  | -                                   | 1,867,695            |
| Financial                              | 5,533,771  | -  | -                                   | 5,533,771            |
| Healthcare                             | 5,977,749  | -  | -                                   | 5,977,749            |
| Industrials                            | 6,056,487  | -  | -                                   | 6,056,487            |
| Information Technology                 | 9,664,827  | -  | -                                   | 9,664,827            |
| Materials                              | 1,330,479  | -  | -                                   | 1,330,479            |
| Real Estate                            | 1,158,488  | -  | -                                   | 1,158,488            |
| Telecom Services                       | 461,989  | -  | -                                   | 461,989              |
| Utilities                              | 633,812  | -  | -                                   | 633,812              |
|  | <u>\$ 40,852,457</u>                               | <u>\$ 22,635,470</u>                       | <u>\$ -</u>                         | <u>\$ 63,487,927</u> |

Earnings on investments for funds held for others totaled \$1,170,252 and \$1,490,678 for the years ended June 30, 2019 and 2018.

**Note 4 - Promises to Give**

Unconditional promises to give are estimated to be collected as follows at June 30, 2019 and 2018:

|   | 2019              | 2018        |
|---|-------------------|-------------|
| Within one year                             | \$ 100,000        | \$ -        |
| In one to five years                        | 400,000           | -           |
| Over five years                             | 450,000           | -           |
|   | 950,000           | -           |
| Less discount to net present value at 5.00% | (240,000)         | -           |
| Endowment promises to give, net             | <u>\$ 710,000</u> | <u>\$ -</u> |

At June 30, 2019, one donor accounted for all promises to give. There were no promises to give at June 30, 2018.

Promises to give totaling \$50,000 received during the year ended June 30, 2019 were restricted by the donor for the teacher pay endowment and were reported as contributions with donor restrictions.

## Note 5 - Endowment

The Foundation's endowment (the Endowment) consists of funds established for restricted purposes. The endowment includes donor-restricted endowment funds. 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 of the Foundation has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) 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, Foundation retains in perpetuity (a) the original value of initial and subsequent gift amounts (including promises to give net of discount and allowance for doubtful accounts) 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:

|  | <u>Without Donor<br/>Restrictions</u> | <u>With Donor<br/>Restrictions</u> | <u>Total</u>         |
|--|---------------------------------------|------------------------------------|----------------------|
| Donor-restricted endowment funds   |                                       |                                    |                      |
| Original donor-restricted gift amount<br>and amounts required to be<br>maintained in perpetuity by donor | \$ -                                  | \$ 39,724,496                      | \$ 39,724,496        |
| Accumulated investment gains   | -                                     | 8,713,162                          | 8,713,162            |
|  | <u>\$ -</u>                           | <u>\$ 48,437,658</u>               | <u>\$ 48,437,658</u> |

## Catholic Development Foundation

Notes to Financial Statements

June 30, 2019 and 2018

As of June 30, 2018, endowment net asset composition by type of fund is as follows:

|  | Without Donor<br>Restrictions | With Donor<br>Restrictions | Total         |
|--|-------------------------------|----------------------------|---------------|
| Donor-restricted endowment funds   |                               |                            |               |
| Original donor-restricted gift amount<br>and amounts required to be<br>maintained in perpetuity by donor | \$ -                          | \$ 36,778,476              | \$ 36,778,476 |
| Accumulated investment gains   | -                             | 7,309,588                  | 7,309,588     |
|  | \$ -                          | \$ 44,088,064              | \$ 44,088,064 |

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 Foundation has interpreted SPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. No endowment funds were underwater as of June 30, 2019 and 2018.

### 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 Foundation 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 Foundation 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 Foundation considered the long-term expected return on its endowment. The Foundation'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<br>Restrictions | With Donor<br>Restrictions | Total         |
|---|-------------------------------|----------------------------|---------------|
| Endowment net assets, June 30, 2018                                   | \$ -                          | \$ 44,088,064              | \$ 44,088,064 |
| Investment return, net  | -                             | 3,186,969                  | 3,186,969     |
| Contributions   | -                             | 2,946,019                  | 2,946,019     |
| Appropriation of endowment assets<br>pursuant to spending-rate policy | -                             | (1,783,394)                | (1,783,394)   |
| Endowment net assets, June 30, 2019                                   | \$ -                          | \$ 48,437,658              | \$ 48,437,658 |



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June 30, 2019 and 2018

Changes in Endowment net assets for the year ended June 30, 2018 are as follows:

|   | Without Donor<br>Restrictions | With Donor<br>Restrictions | Total         |
|---|-------------------------------|----------------------------|---------------|
| Endowment net assets, June 30, 2017                                   | \$ -                          | \$ 40,226,577              | \$ 40,226,577 |
| Investment return, net  | -                             | 4,014,697                  | 4,014,697     |
| Contributions   | -                             | 1,444,956                  | 1,444,956     |
| Appropriation of endowment assets<br>pursuant to spending-rate policy | -                             | (1,598,166)                | (1,598,166)   |
| Endowment net assets, June 30, 2018                                   | \$ -                          | \$ 44,088,064              | \$ 44,088,064 |

**Note 6 - Net Assets with Donor Restrictions**

Net assets with donor restrictions are restricted for the following purposes or periods.

|  | 2019         | 2018         |
|--|--------------|--------------|
| Subject to Expenditure for Specified Purpose |              |              |
| Parishes                                     |              |              |
| Building project                             | \$ 1,759,867 | \$ 2,255,221 |
| JP II Catholic Schools Network               |              |              |
| Building project                             | 1,905,374    | 1,927,221    |
| Scholarships                                 | 79,926       | 75,058       |
| Other Catholic Schools                       |              |              |
| General use                                  | 103,767      | 101,081      |
| Building project                             | -            | 100,000      |
| Scholarships                                 | 15,857       | 11,493       |
| Seminarian and Clergy Education              |              |              |
| Programming                                  | 9,109        | 8,257        |
| Other charitable organizations               |              |              |
| General use                                  | 811,604      | 72,049       |
|  | 4,685,504    | 4,550,380    |
| Subject to the Passage of Time               |              |              |
| Scholarship fund                             | 73,645       | 77,092       |

# Catholic Development Foundation

Notes to Financial Statements

June 30, 2019 and 2018

|  | 2019          | 2018          |
|--|---------------|---------------|
| Endowments   |               |               |
| Subject to appropriation and expenditure when a specified event occurs                           |               |               |
| Parishes   |               |               |
| General use  | 1,104,057     | 930,484       |
| Building project   | 44,697        | 31,128        |
| Programming  | 164,520       | 151,726       |
| Cemeteries   |               |               |
| General use  | 116,770       | 94,583        |
| JP II Catholic Schools Network   |               |               |
| General use  | 584,112       | 486,926       |
| Programming  | 553,980       | 103,820       |
| Scholarships   | 1,185,894     | 639,589       |
| Other Catholic Schools   |               |               |
| General use  | 19,135        | 16,632        |
| Programming  | 21,890        | 18,506        |
| Scholarships   | 46,875        | 41,999        |
| Seminarian and Clergy Education  |               |               |
| Programming  | 4,433,754     | 3,735,213     |
| Diocesan Programs  |               |               |
| General use  | 235,948       | 191,764       |
| Programming  | 43,163        | 31,136        |
| Other charitable organizations   |               |               |
| General use  | 158,367       | 836,082       |
|  | 8,713,162     | 7,309,588     |
| Perpetual Endowments, earnings from which are subject to endowment spending policy appropriation |               |               |
| Parishes   |               |               |
| General use  | 5,051,739     | 4,636,150     |
| Building project   | 153,200       | 138,200       |
| Programming  | 385,500       | 384,730       |
| Cemeteries   |               |               |
| General use  | 281,552       | 257,959       |
| JP II Catholic Schools Network   |               |               |
| General use  | 3,010,972     | 3,000,972     |
| Programming  | 4,944,109     | 2,948,191     |
| Scholarships   | 3,401,837     | 3,208,825     |
| Other Catholic Schools   |               |               |
| General use  | 266,912       | 235,187       |
| Programming  | 144,146       | 140,510       |
| Scholarships   | 121,586       | 88,294        |
| Seminarian and Clergy Education  |               |               |
| Programming  | 16,523,493    | 16,399,574    |
| Diocesan Programs  |               |               |
| General use  | 1,428,209     | 1,413,209     |
| Programming  | 232,462       | 219,542       |
| Other charitable organizations   |               |               |
| General use  | 3,778,779     | 3,707,133     |
|  | 39,724,496    | 36,778,476    |
| Total endowments   | 48,437,658    | 44,088,064    |
|  | \$ 53,196,807 | \$ 48,715,536 |

## Catholic Development Foundation

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June 30, 2019 and 2018

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 and 2018:

|                                      | 2019         | 2018         |
|--------------------------------------|--------------|--------------|
| Expiration of time restrictions      |              |              |
| Scholarship fund                     | \$ 8,500     | \$ 8,500     |
| Administrative fees                  | 250,423      | 235,961      |
| Satisfaction of purpose restrictions |              |              |
| Parishes                             |              |              |
| General use                          | 250,210      | 195,819      |
| Building project                     | 646,441      | 102,477      |
| Programming                          | 23,978       | 19,537       |
| Cemeteries                           |              |              |
| General use                          | 4,580        | 4,415        |
| JP II Catholic Schools Network       |              |              |
| General use                          | 153,161      | 139,974      |
| Building project                     | 145,953      | 145,953      |
| Programming                          | 141,645      | 128,762      |
| Scholarships                         | 179,872      | 118,644      |
| Other Catholic Schools               |              |              |
| General use                          | 27,045       | 23,349       |
| Building project                     | 100,000      | -            |
| Programming                          | 7,742        | 7,533        |
| Scholarships                         | 3,651        | 1,356        |
| Seminarian and Clergy Education      |              |              |
| Programming                          | 696,299      | 652,730      |
| Diocesan Programs                    |              |              |
| General use                          | 68,709       | 64,312       |
| Programming                          | 10,295       | 8,300        |
| Other charitable organizations       |              |              |
| General use                          | 476,776      | 455,372      |
|                                      | \$ 3,195,280 | \$ 2,312,994 |

### Note 7 - Related Party Transactions

The Catholic Development Foundation has entered into agreements with the Diocese of Fargo for services provided for management and administration of all activities. A service fee of 50 basis points or .50% of asset values is paid to Diocese of Fargo accounting, administrative support, development, and management functions. The service fee was \$330,263 and \$312,888, of which \$79,263 and \$75,726 was charged to funds held for others, for years ended June 30, 2019 and 2018, respectively.

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Notes to Financial Statements

June 30, 2019 and 2018

Diocese of Fargo had beneficial interests in endowments owned and held by the Foundation of \$22,941,218 and \$21,990,438 for years ended June 30, 2019 and 2018, respectively; providing distributed earnings of \$775,303 and \$725,342 for years ended June 30, 2019 and 2018, respectively.

**Note 8 - Adjustment Resulting from Change in Accounting Policy**

As disclosed in Note 1, the Foundation 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 Foundation's June 30, 2018 net assets:

|                                       | As Previously<br>Reported | Adoption of<br>ASU 2016-14 | As Adjusted |
|---------------------------------------|---------------------------|----------------------------|-------------|
| Unrestricted net assets               | \$ 288,556                | \$ (288,556)               | \$ -        |
| Temporarily restricted                | 11,937,060                | (11,937,060)               | -           |
| Permanently restricted                | 36,778,476                | (36,778,476)               | -           |
| Net assets without donor restrictions | -                         | 288,556                    | 288,556     |
| Net assets with donor restrictions    | -                         | 48,715,536                 | 48,715,536  |

|                                       | As Previously<br>Reported | Adoption of<br>ASU 2016-14 | As Adjusted |
|---------------------------------------|---------------------------|----------------------------|-------------|
| Net Assets, Beginning of Year         |                           |                            |             |
| Unrestricted                          | \$ 257,097                | \$ (257,097)               | \$ -        |
| Temporarily Restricted                | 9,314,525                 | (9,314,525)                | -           |
| Permanently Restricted                | 35,333,520                | (35,333,520)               | -           |
| Net assets without donor restrictions | -                         | 257,097                    | 257,097     |
| Net assets with donor restrictions    | -                         | 44,648,045                 | 44,648,045  |
| Net Assets, End of Year               |                           |                            |             |
| Unrestricted                          | 288,556                   | (288,556)                  | -           |
| Temporarily Restricted                | 11,937,060                | (11,937,060)               | -           |
| Permanently Restricted                | 36,778,476                | (36,778,476)               | -           |
| Net assets without donor restrictions | -                         | 288,556                    | 288,556     |
| Net assets with donor restrictions    | -                         | 48,715,536                 | 48,715,536  |