



Financial Statements  
June 30, 2016 and 2015

# Catholic Church Deposit & Loan Fund of Eastern North Dakota



Catholic Church Deposit & Loan Fund of Eastern North Dakota

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June 30, 2016 and 2015

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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, 2016 and 2015, and the related statements of activities, 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, 2016 and 2015, 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 black ink that reads "Eide Sully LLP". The signature is written in a cursive, flowing style.

Fargo, North Dakota  
November 15, 2016

Catholic Church Deposit & Loan Fund of Eastern North Dakota  
 Statements of Financial Position  
 Years Ended June 30, 2016 and 2015

	2016	2015
<b>Assets</b>		
Cash	\$ 3,265,331	\$ 4,767,636
Interest Receivable	58,504	63,246
Notes Receivable	13,482,469	9,353,311
Investments	18,349,537	24,058,496
Land	3,263,905	4,670,759
Total assets	\$ 38,419,746	\$ 42,913,448
<b>Liabilities and Net Assets</b>		
Accounts payable	\$ 60,904	\$ 62,660
Notes Payable - Individuals	-	4,826,182
Notes Payable - Parishes	18,833,228	16,248,709
Notes Payable - Cemeteries	4,869,181	4,723,749
Note Payable - Schools	2,966,250	3,256,674
Notes Payable - Miscellaneous Catholic Entities	2,236,201	2,102,641
Notes Payable - Diocese of Fargo	3,859,884	4,493,190
Total liabilities	32,825,648	35,713,805
Unrestricted Net Assets	5,594,098	7,199,643
Total liabilities and net assets	\$ 38,419,746	\$ 42,913,448

Catholic Church Deposit & Loan Fund of Eastern North Dakota

Statements of Activities

Years Ended June 30, 2016 and 2015

	2016	2015
Support and Revenue		
Investment and interest income, net of fees	\$ 606,579	\$ 986,892
Lease Revenue	39,556	37,459
	646,135	1,024,351
Expenses		
Interest expense on notes payable	764,774	814,831
Management service fees	295,482	326,134
Grants	1,188,968	35,862
Real estate taxes	2,456	8,363
	2,251,680	1,185,190
Change in Unrestricted Net Assets	(1,605,545)	(160,839)
Unrestricted Net Assets, Beginning of Year	7,199,643	7,360,482
Unrestricted Net Assets, End of Year	\$ 5,594,098	\$ 7,199,643

Catholic Church Deposit & Loan Fund of Eastern North Dakota

Statements of Cash Flows  
Years Ended June 30, 2016 and 2015

	2016	2015
Cash Flows from Operating Activities		
Change in net assets	\$ (1,605,545)	\$ (160,839)
Adjustments to reconcile change in net assets to net cash from (used for) operating activities		
Realized and unrealized loss on investments	257,593	1,256,550
Land donation expense	1,152,053	-
Changes in assets and liabilities		
Interest receivable	4,742	(39,722)
Accounts Payable	(1,756)	(4,220)
	(192,913)	1,051,769
Net Cash (used for) from Operating Activities		
Cash Flows from Investing Activities		
Purchases of investment securities	(548,634)	(2,073,873)
Proceeds from sale of land	446,993	-
Purchase of Land	(192,192)	(139,229)
Proceeds from sale of investment securities	6,000,000	8,000,000
Payments received on notes receivable	1,567,813	885,626
Issuance of notes receivable	(5,696,971)	(6,820,337)
	1,577,009	(147,813)
Net Cash from (used for) Investing Activities		
Cash Flow from Financing Activity		
Deposits to notes payable	(9,985,514)	(10,631,102)
Withdrawals from notes payable	7,099,113	8,396,359
	(2,886,401)	(2,234,743)
Net Cash used for Financing Activities		
Net Change in Cash	(1,502,305)	(1,330,787)
Cash, Beginning of Year	4,767,636	6,098,423
Cash, End of Year	\$ 3,265,331	\$ 4,767,636
Supplemental Disclosure for Noncash Investing Activities		
Decrease in property and equipment from donation expense	\$ 1,152,053	\$ -

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

### **Organization**

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 financial statements present the organization's financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Unrestricted net assets are available for use in general operations. There are no temporarily restricted or permanently restricted net assets.

### **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 stated at principal balance amount and are collateralized by land and buildings. 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**

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, 2016 and 2015.

## **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:

*Unrestricted Net Assets* – Net assets available for use in general operations.

*Temporarily Restricted Net Assets* – Net assets subject to donor restrictions that may or will be met by expenditures or actions of the Foundation and/or the passage of time, and certain income earned on permanently restricted net assets that has not yet been appropriated for expenditure by the Foundation's Board of Directors.

The Foundation reports contributions as temporarily 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, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

*Permanently Restricted Net Assets* – Net assets whose use is limited by donor-imposed restrictions that neither expire by the passage of time nor can be fulfilled or otherwise removed by action of the Foundation. The restrictions stipulate that resources be maintained permanently but permit the Foundation to expend the income generated in accordance with the provisions of the agreements.

## **Revenue and Revenue Recognition**

The Fund recognizes 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.

## **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.

## **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 Company has evaluated subsequent events through November 15, 2016, the date which the financial statements were available to be issued.

### **Note 2 - Notes Receivable**

The notes receivable balances consist of unsecured notes due from parishes and other religious institutions within the Fargo diocese. Most notes bear interest of 3% per annum, for the years ended June 30, 2016 and 2015, 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 note with St. John Paul II Catholic School Network is the exception. The note bears interest at a rate intended to mirror market available tax-exempt financing for school facilities. The rate as of June 30, 2016 and 2015 was 2.09% and 1.84%, respectively.

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

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.

# Catholic Church Deposit & Loan Fund of Eastern North Dakota

Notes to Financial Statements

June 30, 2016 and 2015

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.

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, 2016:

	Quoted Prices Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total
June 30, 2016				
Managed portfolio				
Government Securities	\$ -	\$ 1,861,284	\$ -	\$ 1,861,284
US treasury notes	-	3,068,325	-	3,068,325
Municipal securities	-	965,170	-	965,170
Corporate bonds	-	4,428,501	-	4,428,501
Commercial	-	2,732,458	-	2,732,458
Money market fund	-	170,885	-	170,885
Equity securities				
Consumer discretionary	601,423	-	-	601,423
Consumer staples	434,600	-	-	434,600
Energy	264,603	-	-	264,603
Financial	611,214	-	-	611,214
Healthcare	801,048	-	-	801,048
Industrials	583,749	-	-	583,749
Information technology	1,175,036	-	-	1,175,036
Materials	236,417	-	-	236,417
Real estate	185,098	-	-	185,098
Telecom services	109,656	-	-	109,656
Utilities	120,070	-	-	120,070
	<u>\$ 5,122,914</u>	<u>\$ 13,226,623</u>	<u>\$ -</u>	<u>\$ 18,349,537</u>

# Catholic Church Deposit & Loan Fund of Eastern North Dakota

Notes to Financial Statements

June 30, 2016 and 2015

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, 2015:

	Quoted Prices Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total
June 30, 2015				
Managed portfolio				
Government Securities	\$ -	\$ 1,506,097	\$ -	\$ 1,506,097
US treasury notes	-	2,550,366	-	2,550,366
Municipal securities	-	819,604	-	819,604
Corporate bonds	-	7,857,618	-	7,857,618
Foreign securities	-	76,120	-	76,120
Commercial	-	3,897,322	-	3,897,322
Money market fund	-	354,982	-	354,982
Equity securities				
Consumer discretionary	977,997	-	-	977,997
Consumer staples	543,507	-	-	543,507
Energy	476,788	-	-	476,788
Financial	1,296,077	-	-	1,296,077
Healthcare	1,162,014	-	-	1,162,014
Industrials	1,050,983	-	-	1,050,983
Information technology	1,030,909	-	-	1,030,909
Materials	307,592	-	-	307,592
Telecom services	44,086	-	-	44,086
Utilities	106,434	-	-	106,434
	<u>\$ 6,996,387</u>	<u>\$ 17,062,109</u>	<u>\$ -</u>	<u>\$ 24,058,496</u>

Net investment return consists of the following for years ended June 30, 2016 and 2015:

	2016	2015
Interest and dividend income on investments	\$ 555,313	\$ 700,746
Net unrealized and realized gain/(loss)	(151,938)	285,269
Interest income from notes receivable	308,860	154,575
Investment management fees	(105,656)	(153,698)
	<u>\$ 606,579</u>	<u>\$ 986,892</u>

**Note 4 - Notes Payable**

The notes payable balances consist of unsecured notes payable due on demand to various individuals, parishes, and other religious institutions. For the years ended June 30, 2016 and 2015, the notes bear interest at rates of 2.50%. They are considered long term, thus, future repayments are not determinable.

**Note 5 - Line of Credit**

At June 30, 2016, 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 3.50%, and matures on January 2, 2017 with an option to renew on a yearly basis with an adjustable rate. As of June 30, 2016 and 2015, the outstanding balance on this line of credit was \$0.

**Note 6 - 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 \$295,482 and \$326,134 for years ended June 30, 2016 and 2015, respectively.

Notes payable to the Diocese of Fargo were \$3,859,884 and \$4,493,190 for years ended June 30, 2016 and 2015, respectively. Notes payable to diocesan personnel were \$0 and \$76,589 for years ended June 30, 2016 and 2015, respectively. Accounts payable to the Diocese of Fargo were \$60,904 and \$62,660 for years ended June 30, 2016 and 2015, respectively.