



Financial Statements  
June 30, 2016 and 2015

**Catholic Development**  
[Redacted]  
[Redacted] [Redacted] [Redacted] [Redacted]  
[Redacted] [Redacted] **Foundation**

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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, 2016 and 2015, and the related statements of activities, changes in net assets, 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, 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 Bailly LLP". The signature is written in a cursive, flowing style.

Fargo, North Dakota  
November 15, 2016

Catholic Development Foundation  
 Statements of Financial Position  
 June 30, 2016 and 2015

	2016	2015
<b>Assets</b>		
Cash	\$ 1,130,606	\$ 958,936
Accounts receivable	172,288	-
Investments	40,527,807	40,264,535
Assets limited as to use		
Funds invested for others	10,613,192	10,383,046
Annuities/Unitrusts	2,102,694	1,641,750
Total assets	\$ 54,546,587	\$ 53,248,267
 <b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts payable	\$ 22,657	\$ 22,188
Funds invested for others	10,613,192	10,383,046
Annuities/Unitrusts	2,102,694	1,641,750
Total liabilities	12,738,543	12,046,984
 <b>Net Assets</b>		
Unrestricted	239,558	240,823
Temporary restricted	7,487,421	9,340,051
Permanently restricted	34,081,065	31,620,409
Total net assets	41,808,044	41,201,283
Total liabilities and net assets	\$ 54,546,587	\$ 53,248,267

	2016			Total All Funds
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Support and Revenue				
Contributions	\$ 11,081	\$ 43,866	\$ 2,460,656	\$ 2,515,603
Investment gain	9,709	167,405	-	177,114
Net assets released from restriction	<u>2,063,901</u>	<u>(2,063,901)</u>	<u>-</u>	<u>-</u>
Total revenue	<u>2,084,691</u>	<u>(1,852,630)</u>	<u>2,460,656</u>	<u>2,692,717</u>
Expenses				
Administrative fees	207,867	-	-	207,867
Earnings distributed	<u>1,878,089</u>	<u>-</u>	<u>-</u>	<u>1,878,089</u>
Total expenses	<u>2,085,956</u>	<u>-</u>	<u>-</u>	<u>2,085,956</u>
Change in Net Assets	(1,265)	(1,852,630)	2,460,656	606,761
Net Assets, Beginning of Year	<u>240,823</u>	<u>9,340,051</u>	<u>31,620,409</u>	<u>41,201,283</u>
Net Assets, End of Year	<u>\$ 239,558</u>	<u>\$ 7,487,421</u>	<u>\$ 34,081,065</u>	<u>\$ 41,808,044</u>

See Notes to Financial Statements

Catholic Development Foundation  
 Statements of Activities  
 Years Ended June 30, 2016 and 2015

2015			
Unrestricted	Temporarily Restricted	Permanently Restricted	Total All Funds
\$ 7,354	\$ 2,152,325	\$ 2,157,460	\$ 4,317,139
7,848	1,149,411	-	1,157,259
1,983,120	(1,983,120)	-	-
1,998,322	1,318,616	2,157,460	5,474,398
199,094	-	-	199,094
1,792,725	-	-	1,792,725
1,991,819	-	-	1,991,819
6,503	1,318,616	2,157,460	3,482,579
234,320	8,021,435	29,462,949	37,718,704
\$ 240,823	\$ 9,340,051	\$ 31,620,409	\$ 41,201,283

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

	2016	2015
Operating Activities		
Change in net assets	\$ 606,761	\$ 3,482,579
Adjustments to reconcile change in net assets to net cash from operating activities		
Contributed investments	(10,546)	(2,244,369)
Realized and unrealized (gain) loss on investments	556,467	(385,348)
Change in assets and liabilities		
Accounts receivable	(172,288)	-
Accounts payable	469	3,182
Net funds invested for others	691,090	648,614
Net change in assets limited to use	(691,090)	(648,614)
Net Cash from Operating Activities	980,863	856,044
Investing Activities		
Proceeds from sale of investments	98,550	564,200
Purchase of investments	(907,743)	(1,199,072)
Net Cash used for Investing Activities	(809,193)	(634,872)
Net Change in Cash	171,670	221,172
Cash, Beginning of Period	958,936	737,764
Cash, End of Period	\$ 1,130,606	\$ 958,936



## **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 three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

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, temporarily restricted net assets are reclassified to unrestricted net assets 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.

### **Receivables**

Accounts receivable consists of a real estate investment that is in the process of being sold.

### **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 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.

### **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-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.

**Temporarily and Permanently Restricted Net Assets**

Temporarily restricted net assets include monies received which have not been expended for their specified purpose and income earned, not yet disbursed from permanently restricted net assets. Permanently restricted net assets have been restricted by the donors to be maintained by the Foundation in perpetuity. The income is restricted by the donor for various charitable causes.

Permanently restricted net assets as of June 30, 2016 and 2015 are summarized as follows:

	<u>2016</u>	<u>2015</u>
Permanently restricted endowment corpus		
Parishes	\$ 4,432,161	\$ 4,232,478
Cemeteries	165,793	153,043
Catholic Schools		
JP II Catholic Schools Network	7,920,088	6,998,082
Other Catholic Schools	275,341	264,191
Seminarian & Clergy Education	16,227,958	16,155,564
Diocesan Programs	1,542,088	338,699
Other charitable organizations	3,517,636	3,478,352
	<u>\$ 34,081,065</u>	<u>\$ 31,620,409</u>

Temporarily restricted net assets as of June 30, 2016 and 2015 are summarized as follows:

	<u>2016</u>	<u>2015</u>
Unspent endowment earnings		
Parishes	\$ 434,715	\$ 584,533
Cemeteries	45,083	46,608
Catholic Schools		
JP II Catholic Schools Network	176,594	500,039
Other Catholic Schools	15,487	25,867
Seminarian and Clergy Education	1,478,346	2,246,650
Diocesan Programs	27,676	23,426
Other charitable organizations	365,849	533,470
	<u>2,543,750</u>	<u>3,960,593</u>
Other temporarily restricted holdings		
Hommerding Trust Grant Fund	2,813,391	3,100,740
Fr. James Ermer Scholarship (Non Endowed)	62,571	53,133
St. James Catholic High School Fund	100,192	98,681
Diane Brooks/Youth Scholarship Fund	27,646	28,039
Holy Family St. Mary School Default Fund	4,027	2,808
Harriet B. Greving Scholarship Fund	78,867	88,289
The Hoffart Family Donor Advised Fund	1,855,755	2,004,597
Seminary Needs Funds	1,222	3,171
	<u>\$ 7,487,421</u>	<u>\$ 9,340,051</u>

### **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.

### **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.

### **Subsequent Events**

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

## Note 2 - 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, 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, 2016:

	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total
June 30, 2016				
Managed portfolios				
Government securities	-	770,053	-	770,053
Government mortgaged -backed securities	-	2,200,093	-	2,200,093
Municipal bonds	-	1,188,597	-	1,188,597
Corporate bonds	-	7,960,954	-	7,960,954
Commercial mortgaged -backed securities	-	4,556,198	-	4,556,198
Money market	-	1,138,227	-	1,138,227
Treasury notes	-	4,287,556	-	4,287,556
Equity Securities				
Consumer Discretionary	3,881,781	-	-	3,881,781
Consumer Staples	2,604,188	-	-	2,604,188
Energy	1,469,721	-	-	1,469,721
Financial	3,671,560	-	-	3,671,560
Healthcare	5,035,867	-	-	5,035,867
Industrials	3,859,773	-	-	3,859,773
Information Technology	6,967,082	-	-	6,967,082
Materials	1,615,317	-	-	1,615,317
Real Estate	962,066	-	-	962,066
Telecom Services	488,304	-	-	488,304
Utilities	586,357	-	-	586,357
	<u>\$ 31,142,016</u>	<u>\$ 22,101,677</u>	<u>\$ -</u>	<u>\$ 53,243,693</u>

Catholic Development Foundation

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 in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total
June 30, 2015				
Managed portfolios				
Government securities	\$ -	\$ 40,458	\$ -	\$ 40,458
Foreign government	-	61,024	-	61,024
Government mortgaged -backed securities	-	1,770,737	-	1,770,737
Municipal bonds	-	499,900	-	499,900
Corporate bonds	-	8,776,061	-	8,776,061
Commercial mortgaged -backed securities	-	4,469,670	-	4,469,670
Money market	-	1,261,593	-	1,261,593
Treasury notes	-	4,201,728	-	4,201,728
Equity Securities				
Consumer Discretionary	4,314,374	-	-	4,314,374
Consumer Staples	2,679,109	-	-	2,679,109
Energy	1,836,677	-	-	1,836,677
Financial	5,257,285	-	-	5,257,285
Healthcare	4,828,305	-	-	4,828,305
Industrials	5,032,476	-	-	5,032,476
Information Technology	5,032,500	-	-	5,032,500
Materials	1,702,321	-	-	1,702,321
Telecom Services	143,170	-	-	143,170
Utilities	381,944	-	-	381,944
	<u>\$ 31,208,161</u>	<u>\$ 21,081,170</u>	<u>\$ -</u>	<u>\$ 52,289,331</u>

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

	2016	2015
Interest and dividend income on investments	\$ 733,581	\$ 771,911
Net realized and unrealized gain/(loss) on investments, less investment management fees of \$210,577 in 2016 and \$251,854 in 2015	<u>(556,467)</u>	<u>385,348</u>
Earnings on investments	<u>\$ 177,114</u>	<u>\$ 1,157,259</u>

### **Note 3 - Endowment**

The Foundation's 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.

#### **Interpretation of Relevant Law**

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 classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by Foundation in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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

Permanently restricted net assets are the portion of perpetual endowment funds that are required to be retained permanently either by explicit donor stipulation or by SPMIFA. The composition of Endowment Net Assets are composed entirely of donor permanently restricted funds.



Changes in Endowment net assets for the years ended June 30, 2016 and 2015 are as follows:

	Temporarily Restricted	Permanently Restricted	Total
Balance, June 30, 2014	\$ 4,472,030	\$ 29,462,949	\$ 33,934,979
Contributions	-	2,157,460	2,157,460
Appropriation of endowment assets for expenditure	(1,511,591)	-	(1,511,591)
Investment gain	1,000,154	-	1,000,154
Balance, June 30, 2015	3,960,593	31,620,409	35,581,002
Contributions	-	2,460,656	2,460,656
Appropriation of endowment assets for expenditure	(1,577,795)	-	(1,577,795)
Investment gain	160,952	-	160,952
Balance, June 30, 2016	<u>\$ 2,543,750</u>	<u>\$ 34,081,065</u>	<u>\$ 36,624,815</u>

### Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or SPMIFA requires the Foundation to retain as a fund of perpetual duration. In accordance with generally accepted accounting principles, deficiencies of this nature are reported in unrestricted net assets. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board of Directors. It is the Foundation's policy to fund any deficiencies; accordingly there were no such deficiencies as of June 30, 2016 and 2015.

### Return Objectives and Risk Parameters

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity or for a donor-specified period. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the investment objectives of the Investment Policy Statement, with moderate level of investment risk.

### Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in 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.

### **Spending Policy and How the Investment Objectives Relate to Spending Policy**

The Foundation has a policy of appropriating for distribution each year five (5) percent of its endowment fund's average fair value over the market value at the end of the previous five (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.

### **Note 4 - 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 \$265,359 and \$259,125 for years ended June 30, 2016 and 2015, respectively.

Diocese of Fargo had beneficial interests in endowments owned and held by the Foundation of \$19,276,068 and \$18,729,127 for years ended June 30, 2016 and 2015, respectively; providing distributed earnings of \$762,153 and \$677,282 for years ended June 30, 2016 and 2015, respectively.