



Financial Statements  
June 30, 2011 and 2010

# Catholic Church Deposit & Loan Fund of Eastern North Dakota



Catholic Church Deposit & Loan Fund of Eastern North Dakota

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June 30, 2011 and 2010

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## Independent Auditor's Report

The Most Reverend Samuel J. Aquila and The Corporate Board  
Catholic Church Deposit & Loan Fund of Eastern North Dakota  
Fargo, North Dakota

We have audited the accompanying statements of financial position of Catholic Church Deposit & Loan Fund of Eastern North Dakota, as of June 30, 2011 and 2010, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we do not express such an opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2011 and 2010, and the results of its activities and its cash flows for the years then ended in conformity 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, 2011

Catholic Church Deposit & Loan Fund of Eastern North Dakota  
 Statements of Financial Position  
 Years Ended June 30, 2011 and 2010

	2011	2010
<b>Assets</b>		
Cash	\$ 1,511,948	\$ -
Interest Receivable	78,257	35,616
Notes Receivable [12 and 14]	5,445,467	4,979,647
Investments	30,382,170	33,446,019
Land	661,281	636,281
Total assets	\$ 38,079,123	\$ 39,097,563
 <b>Liabilities and Net Assets</b>		
Accounts payable	\$ 53,300	\$ -
Checks in excess of deposits	-	50,895
Line of credit	-	6,857,305
Notes Payable - Individuals [55 and 55]	3,543,689	3,372,408
Notes Payable - Parishes [224 and 223]	17,395,904	15,171,443
Notes Payable - Cemeteries [118 and 116]	4,070,940	3,904,277
Note Payable - Schools [9 and 9]	1,734,805	1,878,116
Notes Payable - Miscellaneous Catholic Entities [41 and 48]	1,735,032	1,630,663
Notes Payable - Diocese of Fargo	5,019,912	4,197,804
Total liabilities	33,553,582	37,062,911
Unrestricted Net Assets	4,525,541	2,034,652
Total liabilities and net assets	\$ 38,079,123	\$ 39,097,563

[ ] - Indicates Number of Notes, for 2011 and 2010, Respectively

Catholic Church Deposit & Loan Fund of Eastern North Dakota  
 Statements of Activities  
 Years Ended June 30, 2011 and 2010

	2011	2010
Support and Revenue		
Investment and interest income	\$ 3,940,459	\$ 4,081,792
Total revenues	3,940,459	4,081,792
Expenses		
Interest expense on notes payable	679,802	782,465
Investment management fees	175,620	159,674
Interest expense on line of credit	283,255	32,706
Management service fees	257,180	267,185
Grants	53,300	-
Real estate taxes	413	359
Total expenses	1,449,570	1,242,389
Change in Unrestricted Net Assets	2,490,889	2,839,403
Unrestricted Net Assets (Deficit), Beginning of Year	2,034,652	(804,751)
Unrestricted Net Assets, End of Year	\$ 4,525,541	\$ 2,034,652

# Catholic Church Deposit & Loan Fund of Eastern North Dakota

Statements of Cash Flows  
Years Ended June 30, 2011 and 2010

	2011	2010
Operating Activities		
Change in net assets	\$ 2,490,889	\$ 2,839,403
Change in unrealized gain on investments	(1,295,919)	(1,226,833)
Changes in assets and liabilities		
Interest receivable	(42,641)	(28,773)
Accounts Payable	53,300	-
Checks in excess of deposits	(50,895)	(24,497)
Net Cash from Operating Activities	1,154,734	1,559,300
Investing Activities		
Purchases of investment securities	(2,316,165)	(2,565,031)
Purchase of Land	(25,000)	-
Proceeds from sale of investment securities	6,675,933	1,508,053
Payments received on notes receivable	1,781,540	2,687,702
Issuance of notes receivable	(2,247,360)	(4,670,910)
Net Cash used for Investing Activities	3,868,948	(3,040,186)
Financing Activity		
Net change in line of credit	(6,857,305)	6,857,305
Deposits to notes payable	11,134,015	9,984,533
Withdrawals from notes payable	(7,788,444)	(16,498,880)
Net Cash from Financing Activities	(3,511,734)	342,958
Net Change in Cash	1,511,948	(1,137,928)
Cash, Beginning of Year	-	1,137,928
Cash, End of Year	\$ 1,511,948	\$ -

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

### **Organization and Principal Activity**

Catholic Church Deposit & Loan Fund of Eastern North Dakota 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 Catholic Church Deposit & Loan Fund of Eastern North Dakota 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.

### **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**

Investments are carried at fair value as determined by current market prices.

### **Fair Value Measurements**

The Organization has determined the fair value of certain assets in accordance with generally accepted accounting principles, which provide a framework for measuring fair value.

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques should maximize the use of observable inputs and minimize the use of unobservable inputs. A fair value hierarchy is also established in which the valuation inputs are prioritized into three broad levels.

Level 1 inputs consist of quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the related asset or liability. Level 3 inputs are unobservable inputs related to the asset or liability.

### **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.

The Organization has adopted the provisions of FASB Accounting Standards Codification Topic ASC 740-10, on July 1, 2009. The implementation of this standard had no impact on the financial statements. As of both the date of adoption, and as of June 30, 2011, the unrecognized tax benefit accrual was zero.

### **Concentrations of Credit Risk**

Catholic Church Deposit & Loan Fund of Eastern North Dakota grants credit to parishes and institutions located primarily in Eastern North Dakota.

### **Use of 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.

### **Subsequent Events**

The Company has evaluated subsequent events through November 15, 2011, the date which the financial statements were available to be issued.

### **Reclassification**

Certain reclassifications have been made to the 2010 financial statements to conform to the 2011 financial report format. These reclassifications have no affect on net assets.

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

The notes receivable balances consist of unsecured notes due from parishes and other religious institutions within the Fargo diocese. The notes bear interest of 3% per annum, for the years ended June 30, 2011 and 2010, respectively, and are due on demand. However, since the intent is to pay back the notes over time, these notes are considered long-term.

Catholic Church Deposit & Loan Fund of Eastern North Dakota

Notes to Financial Statements

June 30, 2011 and 2010

**Note 3 - Fair Value of Assets**

Investments are stated at fair value and are summarized as follows as of June 30, 2011 and 2010:

	2011	2010
Managed Portfolios	\$ 30,382,170	\$ 33,446,019

The related fair values of these assets and liabilities are determined as follows:

	Quoted Prices Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
June 30, 2011			
Managed portfolio			
Government Securities	\$ -	\$ 3,858,993	\$ -
US treasury notes	-	3,661,996	-
Municipal securities	-	680,947	-
Corporate bonds	-	7,749,174	-
Commercial	-	3,126,257	-
Money market fund	-	875,873	-
Equity securities			
Basic materials	-	-	-
Consumer discretionary	1,432,669	-	-
Consumer staples	1,403,875	-	-
Energy	937,252	-	-
Exchange traded fund	-	-	-
Financial	1,375,249	-	-
Healthcare	915,542	-	-
Industrials	1,339,606	-	-
Information technology	1,958,611	-	-
Materials	655,792	-	-
Telecom services	164,714	-	-
Utilities	245,620	-	-
Total	\$ 10,428,930	\$ 19,953,240	\$ -

Catholic Church Deposit & Loan Fund of Eastern North Dakota

Notes to Financial Statements

June 30, 2011 and 2010

	Quoted Prices Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
June 30, 2010			
Managed portfolio			
Government Securities	\$ -	\$ 8,325,825	\$ -
Municipal securities	-	2,490,396	-
Corporate bonds	-	13,597,982	-
Money Market Fund	-	929,429	-
Equity securities			
Basic materials	127,095	-	-
Consumer discretionary	640,432	-	-
Consumer staples	1,286,124	-	-
Energy	915,496	-	-
Exchange traded fund	80,470	-	-
Financial	1,427,856	-	-
Healthcare	590,454	-	-
Industrials	892,881	-	-
Information technology	1,302,609	-	-
Materials	391,314	-	-
Telecom services	242,022	-	-
Utilities	205,634	-	-
Total	\$ 8,102,387	\$ 25,343,632	\$ -

The following schedule summarizes the investment return and its classification in the statement of activities for the years ended June 30, 2011 and 2010:

	2011	2010
Interest and dividend income on investments	\$ 1,188,454	\$ 1,282,836
Net unrealized and realized gain	2,599,587	2,671,834
Interest income from notes receivable	152,418	127,122
Investment and interest income	\$ 3,940,459	\$ 4,081,792
Investment management fees	\$ (175,621)	\$ (159,675)
Interest expense on line of credit	(283,255)	(32,706)
Investment fees	\$ (458,876)	\$ (192,381)
Net interest and investment income	\$ 3,481,583	\$ 3,889,411

**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, 2011 and 2010, the notes bear interest at rates of 2.25%. They are considered long term, thus, future repayments are not determinable.

**Note 5 - Line of Credit**

At June 30, 2011, the Catholic Church Deposit & Loan had a line of credit. The \$12 million line of credit is secured by the investment portfolio. This line carries an interest rate of 3.75%, and matures on January 2, 2012 with an option to renew on a yearly basis with an adjustable rate. As of June 30, 2011 and 2010, the outstanding balance on this line of credit was \$0 and \$6,857,305, respectively.

**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 \$257,180 and \$267,185 for years ended June 30, 2011 and 2010, respectively.

Notes payable to the Diocese of Fargo were \$5,019,912 and \$4,197,801 for years ended June 30, 2011 and 2010, respectively. Notes payable to diocesan personnel were \$70,004 and \$93,538 for years ended June 30, 2011 and 2010, respectively.