



Financial Statements
June 30, 2011 and 2010

Catholic Development Foundation



Catholic Development Foundation

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Independent Auditor's Report

The Most Reverend Samuel J. Aquila and The Corporate Board
Catholic Development Foundation
Fargo, North Dakota

We have audited the accompanying statements of financial position of the Catholic Development Foundation as of June 30, 2011 and 2010, and the related statements of activities, changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Foundation'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 Foundation's internal control over financial reporting. Accordingly, we do not express such an opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 the Catholic Development Foundation as of June 30, 2011 and 2010, and the results of its activities and 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 Development Foundation
 Statements of Financial Position
 June 30, 2011 and 2010

	2011	2010
Assets		
Cash	\$ 129,275	\$ 510,900
Investments	9,194,902	7,590,654
Assets limited as to use Funds invested for others	9,799,363	8,205,778
Total assets	\$ 19,123,540	\$ 16,307,332
 Liabilities and Net Assets		
Liabilities		
Funds invested for others	\$ 9,799,363	\$ 8,205,778
Annuities/Unitrusts	1,428,111	1,486,650
Total liabilities	11,227,474	9,692,428
 Net Assets		
Unrestricted net assets (deficit)	175,650	(93,891)
Temporary restricted net assets	745,735	80,275
Permanently restricted net assets	6,974,681	6,628,520
Total net assets	7,896,066	6,614,904
Total liabilities and net assets	\$ 19,123,540	\$ 16,307,332

2011

	Unrestricted		Temporarily Restricted	Permanently Restricted	Total All Funds
	General	Endowment Deficit			
Support and Revenue					
Contributions	\$ 141,877	\$ -	\$ 105,245	\$ 346,161	\$ 593,283
Investment gain	9,746	47,758	1,142,145	-	1,199,649
Net assets released from restriction	581,930	-	(581,930)	-	-
Total revenue	<u>733,553</u>	<u>47,758</u>	<u>665,460</u>	<u>346,161</u>	<u>1,792,932</u>
Expenses					
Administrative fees	36,478	-	-	-	36,478
Earnings distributed	475,292	-	-	-	475,292
Total expenses	<u>511,770</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>511,770</u>
Change in Net Assets	221,783	47,758	665,460	346,161	1,281,162
Net Assets (deficit), Beginning of Year	<u>(46,133)</u>	<u>(47,758)</u>	<u>80,275</u>	<u>6,628,520</u>	<u>6,614,904</u>
Net Assets (deficit), End of Year	<u>\$ 175,650</u>	<u>\$ -</u>	<u>\$ 745,735</u>	<u>\$ 6,974,681</u>	<u>\$ 7,896,066</u>

Catholic Development Foundation
 Statements of Activities
 Years Ended June 30, 2011 and 2010

2010				
Unrestricted	Endowment	Temporarily	Permanently	Total All
General	Deficit	Restricted	Restricted	Funds
\$ 5,384	\$ -	\$ 310,275	\$ 254,872	\$ 570,531
-	664,644	51,048	-	715,692
281,048	-	(281,048)	-	-
286,432	664,644	80,275	254,872	1,286,223
33,537	-	-	-	33,537
331,183	-	-	-	331,183
364,720	-	-	-	364,720
(78,288)	664,644	80,275	254,872	921,503
32,155	(712,402)	-	6,373,648	5,693,401
\$ (46,133)	\$ (47,758)	\$ 80,275	\$ 6,628,520	\$ 6,614,904

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

	2011	2010
Operating Activities		
Change in net assets	\$ 1,281,162	\$ 921,503
Adjustment to reconcile change in net assets to cash flows from operating activities		
Realized gain and change in unrealized gain on investments	(1,004,894)	(513,895)
Net Cash from Operating Activities	276,268	407,608
Investing Activities		
Increase in assets limited as to use	1,535,046	1,303,003
Net change in funds invested for others	(1,593,585)	(1,255,213)
Proceeds from sale of investments	-	315,233
Purchase of investments	(599,354)	(408,068)
Net Cash used for Investing Activities	(657,893)	(45,045)
Net Change in Cash	(381,625)	362,563
Cash, Beginning of Period	510,900	148,337
Cash, End of Period	\$ 129,275	\$ 510,900

Note 1 - Principal Activity and Significant Accounting Policies

Organization and Principal Activity

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.

Concentration of Credit Risk

Catholic Development Foundation maintains various cash balances at one financial institution. Accounts at that institution are insured by the Federal Deposit Insurance Corporation up to the maximum limit.

Investments and Investment Income

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the balance sheet. Investment income or loss (including realized gains and losses on investments, interest, and dividends) is included in revenues in excess of expenses unless the income or loss is restricted by donor or law. Unrealized gains and losses on investments are excluded from revenues in excess of expenses unless the investments are trading securities.

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.

The Foundation has adopted the provisions of FASB Accounting Standards Codification Topic ASC 740-10 (previously Financial Interpretation No. 48, Accounting for Uncertainty in Income Taxes), 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.

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.

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.

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. At June 30, 2011 and 2010 the Foundation had \$6,974,681 and \$6,628,520, respectively in permanently restricted net assets. Of the June 30, 2011 and 2010 balance, \$379,985 and \$314,196, respectively, was restricted for various purposes of the Diocese of Fargo; the remainder is restricted for other charitable organizations. Temporarily restricted net assets as of June 30, 2011 and 2010 are summarized as follows:

	2011	2010
Unspent endowment earnings	\$ 641,942	\$ -
Harriet B. Greving endowment fund	103,783	-
Our Daily Bread gift	-	80,275
	\$ 745,725	\$ 80,275

Fair Value Measurements

The Foundation 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.

Reclassification

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

Subsequent Events

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

Note 2 - Fair Value of Assets

Assets measured at fair value on a recurring basis at June 30, 2011 and 2010, respectively, are as follows:

	2011	2010
Investments	\$ 9,194,902	\$ 7,590,654
Funds invested for others	9,799,363	8,205,778
	\$ 18,994,265	\$ 15,796,432

Catholic Development Foundation

Notes to Financial Statements

June 30, 2011 and 2010

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

	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
	<u> </u>	<u> </u>	<u> </u>
June 30, 2011			
Managed portfolios			
Government Securities	\$ -	\$ 2,542,721	\$ -
Municipal bonds	-	141,673	-
Corporate Bonds	-	4,249,263	-
Money market	-	648,371	-
Other	-	67,831	-
Equity Securities			
Consumer Discretionary	1,752,556	-	-
Consumer Staples	1,674,655	-	-
Energy	899,125	-	-
Exchange Traded Fund	1,380,750	-	-
Financial	808,793	-	-
Healthcare	1,677,307	-	-
Industrials	2,005,430	-	-
Information Technology	826,885	-	-
Materials	125,923	-	-
Telecom Services	192,982	-	-
	<u>\$ 11,344,406</u>	<u>\$ 7,649,859</u>	<u>\$ -</u>

Catholic Development Foundation
Notes to Financial Statements
June 30, 2011 and 2010

	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
June 30, 2010			
Managed portfolios			
Government Securities	\$ -	\$ 2,262,581	\$ -
Municipal bonds	-	653,239	-
Corporate Bonds	-	3,734,160	-
Money market	-	393,182	-
Other	-	69,230	-
Equity Securities			
Basic Materials	113,879	-	-
Consumer Discretionary	720,339	-	-
Consumer Staples	1,438,412	-	-
Energy	968,228	-	-
Exchange Traded Fund	64,986	-	-
Financial	1,508,902	-	-
Healthcare	481,248	-	-
Industrials	1,008,075	-	-
Information Technology	1,299,728	-	-
Materials	536,466	-	-
Telecom Services	378,100	-	-
Utilities	165,677	-	-
	<u>\$ 8,684,040</u>	<u>\$ 7,112,392</u>	<u>\$ -</u>

Investment Income

The following schedule summarizes the investment return for funds held by the Foundation 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	\$ 194,755	\$ 201,797
Net realized and unrealized gain on investments	1,004,894	513,895
Earnings on investments	<u>\$ 1,199,649</u>	<u>\$ 715,692</u>

Note 3 - Endowment

The Foundation's endowment consists of funds established for unrestricted 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.

	Endowment Deficit	Temporarily Restricted	Permanently Restricted	Total
Balance, June 30, 2009	\$ (712,402)	\$ -	\$ 6,373,648	\$ 5,661,246
Contributions	-	80,275	254,872	335,147
Appropriation of endowment assets for expenditure	-	(51,048)	-	(51,048)
Investment gain	664,644	51,048	-	715,692
Balance, June 30, 2010	(47,758)	80,275	6,628,520	6,661,037
Contributions	-	-	346,161	346,161
Appropriation of endowment assets for expenditure	-	(581,930)	-	(581,930)
Investment gain	47,758	1,143,607	-	1,191,365
Balance, June 30, 2011	\$ -	\$ 641,952	\$ 6,974,681	\$ 7,616,633

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, 2011 and 2010.

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 \$90,575 and \$81,050 for years ended June 30, 2011 and 2010, respectively.

Diocese of Fargo had beneficial interests in endowments owned and held by the Foundation of \$418,254 and \$309,504 for years ended June 30, 2011 and 2010, respectively; providing distributed earnings of \$16,701 and \$16,765 for years ended June 30, 2011 and 2010, respectively.