



Financial Statements
June 30, 2011 and 2010
Diocese of Fargo



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Independent Auditor's Report

The Most Reverend Samuel J. Aquila and The Corporate Board
Diocese of Fargo
Fargo, North Dakota

We have audited the accompanying statements of financial position of Diocese of Fargo 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.

Except as discussed in the following paragraphs, 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 audits 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 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.

Because of the research required to provide proper classification based on donor intent and legal ramification of gifts given pursuant to a written agreement versus a bequest in a will, Diocese of Fargo chose not to make the distinction between classifications for these statements as they relate to the endowment funds. This lack of classification does not impair the values of the endowments, but only the clarification of their required disclosure according to accounting principles generally accepted in the United States of America. Accordingly, we were unable to form an opinion regarding the classification of endowment funds as permanently restricted or temporarily restricted in the accompanying statements of financial position and statements of activities as of June 30, 2011 and 2010.

Because of the extent of the disclosures required related to the defined benefit Pension Plan for Priests, the Diocese of Fargo chose not to record the defined benefit plan as required by accounting principles generally accepted in the United States of America.

In our opinion, except for the effects of the classification of the endowment fund net assets and the effects of the unrecorded defined benefit plan, the financial statements referred to above present fairly, in all material respects, the financial position of Diocese of Fargo 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

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	Current Funds		
	Unrestricted Operating Fund	Temporarily Restricted	Total
Assets			
Cash	\$ 44,572	\$ -	\$ 44,572
Accounts receivable	75,198	-	75,198
Pledges receivable (net of allowance of \$50,000)	-	284,160	284,160
Interfund balances	23	-	23
Current portion of notes receivable	2,185	-	2,185
Total current assets	121,978	284,160	406,138
Long-Term Note Receivable, Less Current Maturities (Net of Allowance of \$30,599)	3,503,096	-	3,503,096
Investments	9,544,713	1,922,071	11,466,784
Beneficial Interest in Investments	-	-	-
Plant Assets (Net of Accumulated Depreciation of \$1,643,047)	-	-	-
Total assets	<u>\$ 13,169,787</u>	<u>\$ 2,206,231</u>	<u>\$ 15,376,018</u>
Liabilities and Net Assets			
Liabilities			
Current Liabilities			
Accounts payable	\$ 118,183	\$ -	\$ 118,183
Current portion of notes payable	2,722	-	2,722
Accrued payroll taxes	23,068	-	23,068
Funds held for others	-	-	-
Total current liabilities	143,973	-	143,973
Long-Term Notes Payable	3,606,088	-	3,606,088
Total liabilities	3,750,061	-	3,750,061
Net Assets			
Unrestricted			
Undesignated	7,657,493	-	7,657,493
Designated by corporate board	1,762,233	-	1,762,233
	<u>9,419,726</u>	<u>-</u>	<u>9,419,726</u>
Temporarily restricted	-	2,206,231	2,206,231
Permanently restricted	-	-	-
	<u>9,419,726</u>	<u>2,206,231</u>	<u>11,625,957</u>
Total liabilities and net assets	<u>\$ 13,169,787</u>	<u>\$ 2,206,231</u>	<u>\$ 15,376,018</u>

See Notes to Financial Statements

Diocese of Fargo
Statement of Financial Position
June 30, 2011

Unrestricted Plant Funds	Custodial Funds	Endowment Funds	Grand Total
\$ -	\$ 1,419,408	\$ -	\$ 1,463,980
-	-	-	75,198
-	-	-	284,160
-	(23)	-	-
-	-	-	2,185
-	1,419,385	-	1,825,523
-	-	-	3,503,096
-	6,538,309	8,905,650	26,910,743
-	-	418,247	418,247
4,565,261	-	-	4,565,261
<u>\$ 4,565,261</u>	<u>\$ 7,957,694</u>	<u>\$ 9,323,897</u>	<u>\$ 37,222,870</u>
\$ -	\$ 465,437	\$ -	\$ 583,620
-	-	-	2,722
-	-	-	23,068
-	7,492,257	-	7,492,257
-	7,957,694	-	8,101,667
-	-	-	3,606,088
-	7,957,694	-	11,707,755
4,565,261	-	380,368	12,603,122
-	-	-	1,762,233
4,565,261	-	380,368	14,365,355
-	-	-	2,206,231
-	-	8,943,529	8,943,529
4,565,261	-	9,323,897	25,515,115
<u>\$ 4,565,261</u>	<u>\$ 7,957,694</u>	<u>\$ 9,323,897</u>	<u>\$ 37,222,870</u>

	Current Funds		
	Unrestricted Operating Fund	Temporarily Restricted	Total
Assets			
Cash	\$ 187,499	\$ -	\$ 187,499
Accounts receivable	402,284	-	402,284
Pledges receivable (net of allowance of \$50,000)	-	317,143	317,143
Interfund balances	(283,519)	-	(283,519)
Current portion of notes receivable	2,071	-	2,071
Total current assets	308,335	317,143	625,478
Long-Term Note Receivable, Less Current Maturities (Net of Allowance of \$30,599)	3,505,627	-	3,505,627
Investments	8,416,633	1,661,920	10,078,553
Beneficial Interest in Investments	-	-	-
Plant Assets (Net of Accumulated Depreciation of \$1,512,789)	-	-	-
Total assets	<u>\$ 12,230,595</u>	<u>\$ 1,979,063</u>	<u>\$ 14,209,658</u>
Liabilities and Net Assets			
Liabilities			
Accounts payable	\$ 209,580	\$ -	\$ 209,580
Current portion of notes payable	2,592	-	2,592
Accrued payroll taxes	20,836	-	20,836
Funds held for others	-	-	-
Total current liabilities	233,008	-	233,008
Long-Term Notes Payable, Less Current Maturities	3,608,087	-	3,608,087
Total liabilities	3,841,095	-	3,841,095
Net Assets			
Unrestricted			
Undesignated	6,746,453	-	6,746,453
Designated by corporate board	1,643,047	-	1,643,047
	8,389,500	-	8,389,500
Temporarily restricted	-	1,979,063	1,979,063
Permanently restricted	-	-	-
	8,389,500	1,979,063	10,368,563
Total liabilities and net assets	<u>\$ 12,230,595</u>	<u>\$ 1,979,063</u>	<u>\$ 14,209,658</u>

See Notes to Financial Statements

Diocese of Fargo
Statement of Financial Position
June 30, 2010

Unrestricted Plant Funds	Custodial Funds	Endowment Funds	Grand Total
\$ -	\$ 911,907	\$ -	\$ 1,099,406
-	-	-	402,284
-	-	-	317,143
-	(55,701)	339,220	-
-	-	-	2,071
-	856,206	339,220	1,820,904
-	-	-	3,505,627
-	5,563,457	7,436,406	23,078,416
-	-	309,504	309,504
4,671,466	-	-	4,671,466
<u>\$ 4,671,466</u>	<u>\$ 6,419,663</u>	<u>\$ 8,085,130</u>	<u>\$ 33,385,917</u>
\$ -	\$ 476,746	\$ -	\$ 686,326
-	-	-	2,592
-	-	-	20,836
-	5,942,917	-	5,942,917
-	6,419,663	-	6,652,671
-	-	-	3,608,087
-	6,419,663	-	10,260,758
4,671,466	-	-	11,417,919
-	-	(666,186)	976,861
4,671,466	-	(666,186)	12,394,780
-	-	-	1,979,063
-	-	8,751,316	8,751,316
4,671,466	-	8,085,130	23,125,159
<u>\$ 4,671,466</u>	<u>\$ 6,419,663</u>	<u>\$ 8,085,130</u>	<u>\$ 33,385,917</u>

	Current Funds		
	Unrestricted Undesignated Operating Fund	Temporarily Restricted	Total
Revenue and Other Support			
Contributions and bequests	\$ 2,333,040	\$ 2,282,269	\$ 4,615,309
Investment and interest gain	1,149,043	-	1,149,043
Miscellaneous	-	-	-
Endowment contributions	-	-	-
Net assets released from restrictions			
Satisfaction of program restrictions	413,827	(163,827)	250,000
Expiration of time restrictions	1,891,274	(1,891,274)	-
	<u>5,787,184</u>	<u>227,168</u>	<u>6,014,352</u>
Expenses			
Program and support services			
Faith Education	1,294,133	-	1,294,133
Sick and elderly priests	228,581	-	228,581
Vocations	764,109	-	764,109
Family life	655,439	-	655,439
Development and stewardship	285,199	-	285,199
Contributions to Cathedral and Foundation	138,035	-	138,035
Chancery functions	1,340,895	-	1,340,895
	<u>4,706,391</u>	<u>-</u>	<u>4,706,391</u>
Other Increases (Decreases)			
Increase in funds held for others	-	-	-
Net funds received for (paid to) others	-	-	-
Depreciation expense	-	-	-
Loss on sale of property and equipment	-	-	-
Net transfers (to) from other funds	(50,567)	-	(50,567)
	<u>(50,567)</u>	<u>-</u>	<u>(50,567)</u>
Change in Net Assets			
Unrestricted	1,030,226	-	1,030,226
Temporarily restricted	-	227,168	227,168
Permanently restricted	-	-	-
Net Assets, Beginning of Year	<u>8,389,500</u>	<u>1,979,063</u>	<u>10,368,563</u>
Change in beneficial interest in investments	-	-	-
Net Assets, End of Year	<u>\$ 9,419,726</u>	<u>\$ 2,206,231</u>	<u>\$ 11,625,957</u>

See Notes to Financial Statements

Diocese of Fargo
Statement of Activities
Year Ended June 30, 2011

Unrestricted Plant Funds	Custodial Funds	Endowment Funds	Grand Total
\$ -	\$ -	\$ -	\$ 4,615,309
-	333,971	1,293,600	2,776,614
-	(29,518)	(40,000)	(69,518)
-	-	126,424	126,424
-	-	(250,000)	-
-	-	-	-
<u>-</u>	<u>304,453</u>	<u>1,130,024</u>	<u>7,448,829</u>
-	-	-	1,294,133
-	-	-	228,581
-	-	-	764,109
-	-	-	655,439
-	-	-	285,199
-	-	-	138,035
-	-	-	1,340,895
<u>-</u>	<u>-</u>	<u>-</u>	<u>4,706,391</u>
-	1,549,340	-	1,549,340
-	(1,853,793)	-	(1,853,793)
(156,772)	-	-	(156,772)
-	-	-	-
50,567	-	-	-
<u>(106,205)</u>	<u>(304,453)</u>	<u>-</u>	<u>(461,225)</u>
(106,205)	-	937,811	1,861,832
-	-	-	227,168
-	-	192,213	192,213
<u>4,671,466</u>	<u>-</u>	<u>8,085,130</u>	<u>23,125,159</u>
-	-	108,743	108,743
<u>\$ 4,565,261</u>	<u>\$ -</u>	<u>\$ 9,323,897</u>	<u>\$ 25,515,115</u>

	Current Funds		
	Unrestricted Undesignated Operating Fund	Temporarily Restricted	Total
Revenue and Other Support			
Contributions and bequests	\$ 2,313,560	\$ 1,959,225	\$ 4,272,785
Investment and interest gain	851,917	-	851,917
Miscellaneous	-	-	-
Endowment contributions	-	-	-
Net assets released from restrictions			
Satisfaction of program restrictions	19,124	(19,124)	-
Expiration of time restrictions	1,889,136	(1,889,136)	-
	<u>5,073,737</u>	<u>50,965</u>	<u>5,124,702</u>
Expenses			
Program and support services			
Faith Education	1,038,331	-	1,038,331
Sick and elderly priests	297,824	-	297,824
Vocations	928,311	-	928,311
Family life	722,779	-	722,779
Development and stewardship	282,084	-	282,084
Chancery functions	1,176,243	-	1,176,243
	<u>4,445,572</u>	<u>-</u>	<u>4,445,572</u>
Other Increases (Decreases)			
Increase in funds held for others	-	-	-
Net funds received for (paid to) others	-	-	-
Depreciation expense	-	-	-
Loss on sale of property and equipment	(10,538)	-	(10,538)
Net transfers (to) from other funds	(158,759)	-	(158,759)
	<u>(169,297)</u>	<u>-</u>	<u>(169,297)</u>
Change in Net Assets			
Unrestricted	458,868	-	458,868
Temporarily restricted	-	50,965	50,965
Permanently restricted	-	-	-
Net Assets, Beginning of Year	<u>7,930,632</u>	<u>1,928,098</u>	<u>9,858,730</u>
Change in beneficial interest in investments	-	-	-
Net Assets, End of Year	<u>\$ 8,389,500</u>	<u>\$ 1,979,063</u>	<u>\$ 10,368,563</u>

See Notes to Financial Statements

Diocese of Fargo
Statement of Activities
Year Ended June 30, 2010

Unrestricted Plant Funds	Custodial Funds	Endowment Funds	Grand Total
\$ -	\$ -	\$ -	\$ 4,272,785
-	203,745	862,174	1,917,836
-	(11,931)	(40,000)	(51,931)
-	-	53,502	53,502
-	-	-	-
-	-	-	-
<u>-</u>	<u>191,814</u>	<u>875,676</u>	<u>6,192,192</u>
-	-	-	1,038,331
-	-	-	297,824
-	-	-	928,311
-	-	-	722,779
-	-	-	282,084
-	-	-	1,176,243
<u>-</u>	<u>-</u>	<u>-</u>	<u>4,445,572</u>
-	418,853	-	418,853
-	(610,667)	-	(610,667)
(153,257)	-	-	(153,257)
-	-	-	(10,538)
158,759	-	-	-
<u>5,502</u>	<u>(191,814)</u>	<u>-</u>	<u>(355,609)</u>
5,502	-	507,978	972,348
-	-	-	50,965
-	-	367,698	367,698
<u>4,665,964</u>	<u>-</u>	<u>6,899,950</u>	<u>21,424,644</u>
-	-	309,504	309,504
<u>\$ 4,671,466</u>	<u>\$ -</u>	<u>\$ 8,085,130</u>	<u>\$ 23,125,159</u>

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

	2011	2010
Operating Activities		
Change in net assets	\$ 2,389,956	\$ 1,391,011
Adjustment to reconcile excess (deficiency) of support and revenue over (under) expenses to cash flows provided by operating activities		
Depreciation	156,772	153,257
Gain on sale of property and equipment	-	10,540
Change in unrealized loss on investments	(2,220,451)	(832,163)
Changes in operating assets and liabilities		
Accounts receivable	327,086	(375,585)
Pledges receivable	32,983	15,026
Accounts payable	(102,706)	175,798
Bond payable	(1,869)	
Deferred revenue	-	-
Accrued payroll taxes	2,232	1,547
Funds held for others	1,549,340	418,853
Net Cash from Operating Activities	2,133,343	958,284
Investing Activities		
Purchases of investments	(2,306,797)	(6,270,143)
Proceeds from sales of investments	586,178	1,277,361
Payments received on note receivable	2,417	2,576
Distribution of notes receivable	-	-
Purchase of property and equipment	(50,567)	(169,299)
Net Cash used for Investing Activities	(1,768,769)	(5,159,505)
Net Change in Cash	364,574	(4,201,221)
Cash, Beginning of Year	1,099,406	5,300,627
Cash, End of Year	\$ 1,463,980	\$ 1,099,406
Supplemental Disclosure of Cash Flow Information		
Interest paid on bonds		
Variable	\$ 34,127	\$ 47,425
Supplemental Disclosure of Non Cash Transactions		
Financing of special assessments through long term notes payable	\$ -	\$ 110,679

Note 1 - Principal Activity and Significant Accounting Policies

Principal Business Activity

Diocese of Fargo bears responsibility for the oversight of the mission of the Catholic Church in the territory of this diocese.

The financial statements of Diocese of Fargo have been prepared in accordance with Accounting Principles and Reporting Practices for Churches and Church-Related Organizations, adopted by the National Conference of Catholic Bishops, the Leadership Conference of Women Religious and the Conference of Major Superiors of Men which does not differ from accounting principles generally accepted in the United States of America.

Receivables and Credit Policies

Receivables are uncollateralized obligations due 30 days from the invoice date. The receivables are non-interest bearing. The carrying amount of the receivables is reduced by an amount that reflects management's best estimate of the amounts that will not be collected. Notes receivable are stated at principal balance amount and are collateralized by land and buildings.

Basis of Financial Statement Presentation

The accompanying financial statements include the assets, liabilities, net assets, and financial activities of all institutions and organizations providing services at the diocesan level of administration, which are fiscally responsible to the bishop of Diocese of Fargo. All significant inter-organizational balances and transactions have been eliminated. 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 organization 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. In addition, the accounts are maintained in accordance with the principles of fund accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds that are in accordance with the nature and purpose of such funds. Separate accounts are maintained for each fund.

The assets, liabilities and net assets of the Diocese are reported in self-balancing funds as follows:

Current Funds – Unrestricted Operating Fund - include all unrestricted resources available for support of diocesan operations.

Current Funds – Unrestricted Designated by the Corporate Board - include funds designated for asset replacement.

Current Funds – Temporarily Restricted - include funds to be used for support of diocesan operations for the subsequent fiscal year, and other revenue received for specific purposes.

Plant Funds – include all resources expended for property and equipment acquisitions, and the related accumulated depreciation.

Custodial Funds – represent funds received and held by the Diocese as fiscal agent for others.

Endowment Funds – are subject to restrictions of gift instruments requiring that the principal be invested for a certain period of time and only the income be utilized.

Revenue Recognition

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a 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.

Donated Services

No amounts have been reflected in the financial statements for donated services. The organization pays for most services requiring specific expertise, however, a substantial number of volunteers have donated their time in support of the organization.

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.

Investments

All investments are stated at fair market value. Realized and unrealized gains and losses are included in the statement of activities.

Pledges Receivable

Pledges receivable represent amounts pledged to the Organization from individuals for the annual God's Gift Appeal. These receivables are all due within the next year.

Fair Value Measurements

The Company has determined the fair value of certain assets and liabilities in accordance with the provisions of Topic ASC 820, "Fair Value Measurements and Disclosures", which provides a framework for measuring fair value under generally accepted accounting principles

Topic ASC 820 defines fair value 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. Topic ASC 820 requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs. Topic ASC 820 also establishes a fair value hierarchy, which prioritizes the valuation inputs 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.

Plant Assets

Plant acquisitions are capitalized at cost when purchased or at fair value at date of gift when donated. Buildings have been recorded at their insured values. Depreciation is provided for over the estimated useful lives of the assets using the straight-line method. The estimated useful lives used in the computation of depreciation range from 5-40 years.

Income Taxes

The Diocese 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 Diocese of Fargo 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.

Concentration of Credit Risk

The Diocese maintains various cash balances at one financial institution. Accounts at that institution are insured by the Federal Deposit Insurance Corporation. At times during the year, the organization's balances exceeded the insured limit.

Subsequent Events

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

	2011				2010 Total
	Current Funds	Custodial Funds	Endowment Funds	Total	
Managed portfolios	\$ 11,466,784	\$ 6,312,273	\$ 8,905,650	\$ 26,684,707	\$ 22,885,590
Other	-	226,036	-	226,036	192,826
	\$ 11,466,784	\$ 6,538,309	\$ 8,905,650	\$ 26,910,743	\$ 23,078,416

Included in other investments is an investment with the Catholic Church Deposit & Loan Fund of Eastern North Dakota, a separate corporate entity which serves as a deposit and loan fund for Catholic institutions. Also included in other investments is an investment with the Catholic Umbrella Pool II, a self-insurance fund for certain dioceses of the Roman Catholic Church.

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)
June 30, 2011			
Managed portfolios			
Government securities	\$ -	\$ 5,021,879	\$ -
Municipal bonds	-	267,228	-
Corporate bonds	-	6,776,715	-
Money market	-	1,113,082	-
Other	-	121,975	-
Equity Securities			
Basic Materials	-	-	-
Consumer Discretionary	2,044,656	-	-
Consumer Staples	1,967,249	-	-
Energy	1,035,175	-	-
Exchange Traded Fund	-	-	-
Financial	1,631,030	-	-
Healthcare	928,939	-	-
Industrials	2,046,730	-	-
Information Technology	2,350,743	-	-
Materials	1,028,820	-	-
Telecom Services	138,635	-	-
Utilities	211,851	-	-
Other	-	-	226,036
Total	<u>\$ 13,383,828</u>	<u>\$ 13,300,879</u>	<u>\$ 226,036</u>

Diocese of Fargo
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	\$ -	\$ 4,473,822	\$ -
Municipal bonds	-	1,052,979	-
Corporate bonds	-	6,020,672	-
Money market	-	1,111,956	-
Other	-	114,759	-
Equity Securities			
Basic Materials	133,185	-	-
Consumer Discretionary	851,972	-	-
Consumer Staples	1,700,956	-	-
Energy	1,109,347	-	-
Exchange Traded Fund	65,881	-	-
Financial	1,778,843	-	-
Healthcare	529,485	-	-
Industrials	1,172,436	-	-
Information Technology	1,488,469	-	-
Materials	667,207	-	-
Telecom Services	436,690	-	-
Utilities	176,931	-	-
Other	-	-	192,826
Total	<u>\$ 10,111,402</u>	<u>\$ 12,774,188</u>	<u>\$ 192,826</u>

The fair value of managed portfolios and other equity investments is determined by reference to quoted prices in active markets.

Following is a reconciliation of activity for CUP II measured at fair value based upon significant unobservable (non-market) information.

	2011	2010
Level 3, beginning of year	\$ 192,826	\$ 163,889
Change in fair value of CUP II	33,210	28,937
Level 3, end of year	<u>\$ 226,036</u>	<u>\$ 192,826</u>

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 Total
	Current Unrestricted	Custodial Temporarily Restricted	Endowment Temporarily Restricted	Total	
Interest and dividends	\$ 298,569	\$ 137,995	\$ 237,390	\$ 673,954	\$ 639,412
Net change in realized gain	178,692	361,931	201,019	741,642	538,345
Net change in unrealized gain (loss)	712,293	(155,414)	901,212	1,458,091	832,163
Fees	(40,511)	(10,541)	(46,021)	(97,073)	(92,084)
Investment income (loss)	\$ 1,149,043	\$ 333,971	\$ 1,293,600	\$ 2,776,614	\$ 1,917,836

Note 3 - Notes Receivable

Notes Receivable and Corresponding Bonds Payable

Diocese of Fargo borrowed \$8 million in the form of revenue bonds through Wells Fargo Brokerage Services, LLC, for the construction of Shanley High School and Sullivan Middle School. The Diocese entered into these agreements on behalf of Blessed John Paul II Catholic Schools Network (the Network). The funds were released to the Network as construction invoices became due. The Network makes all payments due on the bonds therefore there is no income or expense recognition for the Diocese relating to these payments. (see Note 6)

The following schedule summarizes the notes receivable for the years ended June 30, 2011 and 2010:

	2011	2010
Variable note receivable (.90% at June 30, 2011), due in quarterly installments of interest only, to July 2017, secured by property	\$ 3,500,000	\$ 3,500,000
Other miscellaneous notes due (net of allowance of \$30,599)	5,281	7,698
	3,505,281	3,507,698
Less current maturities	(2,185)	(2,071)
Long-term notes receivable, less current maturities	\$ 3,503,096	\$ 3,505,627

Note 4 - Plant Assets

The following schedule summarizes plant assets stated at cost as of June 30, 2011 and 2010

	2011	2010
Land and improvements	\$ 283,433	\$ 277,619
Buildings and improvements	5,799,256	5,765,060
Equipment and fixtures	244,805	271,834
	6,327,494	6,314,513
Less accumulated depreciation	(1,762,233)	(1,643,047)
Net plant assets	\$ 4,565,261	\$ 4,671,466

Depreciation expense totaled \$156,772 and \$153,257 the years ended June 30, 2011 and 2010.

Note 5 - Corporate Board Designated Net Assets

The corporate board designated net assets totaling \$1,762,233 and \$1,643,047 as of June 30, 2011 and 2010, respectively, are designated for asset replacement. The amount represents 100% of the accumulated depreciation for the years ended June 30, 2011 and 2010.

Note 6 - Long Term Bond Payable and Long Term Note Payable

The following schedule summarizes the long-term bond payable and long term debt for the years ended June 30, 2011 and 2010:

	2011	2010
Variable bond payable to bank (.90% at June 30, 2010), due in quarterly installments of interest only, to July 2017, secured by property	\$ 3,500,000	\$ 3,500,000
Unpaid special assessments payable, due in variable payments, including interest ranging from 4.94% to 5.96%, to June 2034	108,810	110,679
Total notes payable	3,608,810	3,610,679
Less current maturities	(2,722)	(2,592)
Notes payable, less current maturities	\$ 3,606,088	\$ 3,608,087

Long-term bonds payable maturities are as follows:

<u>Year ending June 30,</u>	
2012	\$ 2,722
2013	2,860
2014	3,005
2015	3,156
2016	3,315
Thereafter	<u>3,593,752</u>
	<u><u>\$ 3,608,810</u></u>

Note 7 - Temporarily Restricted Net Assets

The Diocese follows the practice of temporarily restricting revenues received from the God's Gift program until the program's fiscal year has begun in order to reflect a proper matching of revenues and expenses and, thereby, providing information of total program results. Revenues received in connection with the aforementioned are included in temporarily restricted amounts. Temporarily restricted net assets also includes monies received which have not yet been expended for their specified purposes. Temporarily restricted net assets as of June 30, 2011 and 2010 are summarized as follows:

	<u>2011</u>	<u>2010</u>
God's Gift	\$ 2,057,404	\$ 1,891,274
Other	<u>148,827</u>	<u>87,789</u>
	<u><u>\$ 2,206,231</u></u>	<u><u>\$ 1,979,063</u></u>

Note 8 - Custodial Funds

Funds received and held by the Diocese as agent for others are as follows as of June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Insurance and benefits payable to parishes	\$ 414,533	\$ 422,469
Retirement/401(k) contribution	50,905	54,278
Insurance reserve fund	1,760,542	1,463,693
Retirement reserve fund	9,501	-
Health reserve fund	3,735,775	2,699,721
Dental reserve fund	876,423	722,800
Special Care Program for Priests	883,979	863,876
Catholic Umbrella Pool II	<u>226,036</u>	<u>192,826</u>
	<u><u>\$ 7,957,694</u></u>	<u><u>\$ 6,419,663</u></u>

Note 9 - Endowment

Diocese of Fargo'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 Diocese of Fargo 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, Diocese of Fargo 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 Diocese of Fargo in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, Diocese of Fargo 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.

	Unrestricted Board Designated	Temporarily Restricted	Permanently Restricted	Total
Balance, June 30, 2009	\$ (1,483,668)	\$ -	\$ 8,383,618	\$ 6,899,950
Contributions	-	-	53,502	53,502
Investment gain	822,174	-	-	822,174
Change in beneficial interest in investments	(4,692)	-	314,196	309,504
Balance, June 30, 2010	(666,186)	-	8,751,316	8,085,130
Contributions	-	-	126,424	126,424
Investment gain	1,043,600	250,000	-	1,293,600
Allocated administrative costs	(40,000)	-	-	(40,000)
Appropriated for expenditure	-	(250,000)	-	(250,000)
Change in beneficial interest in investments	42,954	-	65,789	108,743
Balance, June 30, 2011	\$ 380,368	\$ -	\$ 8,943,529	\$ 9,323,897

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 Diocese of Fargo 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 Diocese of Fargo's policy to fund any deficiencies; accordingly there were no such deficiencies as of June 30, 2011 and 2010.

Return Objectives and Risk Parameters

Diocese of Fargo 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 organization must hold in perpetuity or for a donor-specified period(s). 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, Diocese of Fargo 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). Diocese of Fargo 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

Diocese of Fargo 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, Diocese of Fargo considered the long-term expected return on its endowment. Diocese of Fargo spending policy is such that the corpus of the endowment will be maintained in perpetuity.

Note 10 - Beneficial Interest in Assets Held by Catholic Development Foundation

The Diocese has a beneficial interest in assets held by the Catholic Development Foundation. The funds were received from donors who restricted the income for the benefit of the Diocese.

Distributions from the funds are made in accordance with spending policies adopted by the foundation's board. The spending policies allow for steady and predictable distributions from the funds. Income earned will be transferred to the Diocese for use as amounts are expended by the Diocese for purposes specified by the donors. During the years ended June 30, 2011 and 2010, the Diocese received \$16,701 and \$16,765 from the Foundation. The Diocese has recorded its remaining interest in the Foundation as an asset totaling \$418,247 and 309,504 at June 30, 2011 and 2010.

Note 11 - Retirement Plans

The Diocese has a non-contributory 401(k) plan. The plan covers all parish, school and diocesan lay employees who have worked at least 1,000 hours in an annual period and have completed one year of continuous service. Under the terms of the plan, the participating employer is to make a 6 percent of salary annual contribution. Contributions to the plan for the years ended June 30, 2011 and 2010 totaled \$571,168 and \$544,661 of which \$59,517 and \$61,775 were diocesan contributions.

The Diocese also participates in a multi-employer defined benefit plan. The plan covers all priests ordained for and incarnated into the Fargo Diocese. Contributions to the plan for the years ended June 30, 2011 and 2010 totaled \$360,000 and \$375,000, respectively. As of June 30, 2011 and 2010, the plan was funded 104 percent and 98 percent, respectively based on the April 1, 2010 actuarial study.

Note 12 - Contingency

From time-to-time, the Diocese has received allegations that individuals associated with the Diocese have created situations whereby negligent employment and/or supervision have occurred. There is no liability recorded as of June 30, 2011 and 2010.

Note 13 - Related Party Transactions

Diocese of Fargo has entered into agreements with Cardinal Muench Seminary to provide accounting services. The fee received for these services was \$20,000 per year for years ended June 30, 2011 and 2010.

Diocese of Fargo provides an operating subsidy and endowment fund earnings to Cardinal Muench Seminary. The subsidy paid was \$0 and \$150,000 for years ended June 30, 2011 and 2010, respectively.

Diocese of Fargo has entered into agreements with the Catholic Development Foundation to provide services for management and administration of all activities. A service fee of 50 basis points or .50% of asset values was received for accounting, administrative support, development and management functions. The service fee was \$90,757 and \$81,050 for years ended June 30, 2011 and 2010, respectively.

Diocese of Fargo has entered into agreements with the Catholic Church Deposit & Loan Fund of Eastern North Dakota to provide services for management and administration of all activities. A service fee of 75 basis points or .75% of asset values was received for accounting, administrative support, and management functions. The service fee was \$257,180 and \$267,185 for years ended June 30, 2011 and 2010, respectively.

See also: Note 10.



Supplementary Information
June 30, 2011 and 2010
Diocese of Fargo



Independent Auditor's Report on Supplementary Information

The Most Reverend Samuel J. Aquila and The Corporate Board
Diocese of Fargo
Fargo, North Dakota

We have audited the financial statements of Diocese of Fargo as of and for the years ended June 30, 2011 and 2010 and our report thereon dated November 15, 2011 which expressed an unqualified opinion on those financial statements, appears on page 1. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of contribution and bequests, schedule of program and support services and schedule of deposits of Diocesan Trust and funds is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subject to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

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

Diocese of Fargo
Schedules of Contributions and Bequests
Years Ended June 30, 2011 and 2010

	2011	2010
God's Gift	\$ 2,564,070	\$ 2,449,022
Other Contributions and Bequests		
Grants	381,377	350,662
Programming Donations/Contributions		
Business office administration/management fees	387,326	389,943
Chancery	6,209	6,568
Liturgy	1,833	8,150
Technology revenue	3,153	3,191
Properties office	23,552	18,684
Parish service	20,737	11,436
Development/stewardship	46,074	41,500
Media/communications office	218,737	210,656
CEF		
Catechesis and Evangelization	12,189	8,438
Youth	48,128	59,002
Catholic Come Home	28,397	-
Visitation Chapel	13,906	-
World Youth Day	129,805	63,983
Young Deciples	57,424	56,077
EPS	10,031	8,428
Family Life	54,409	52,716
Pro-life	40,869	37,973
Graduate studies	-	101
Marriage Tribunal	4,480	7,364
Cardinal Muench	50,878	111,207
Pastoral Center office rental	157,882	158,261
Major seminary education	14,932	26,451
Vocations office	695	-
Vicar for Clergy	-	875
Permanent Diaconate	20,499	13,336
Priest disability	15,862	16,000
Health care ministry	-	-
	1,368,007	1,310,340
Other Donations	301,855	162,761
	\$ 4,615,309	\$ 4,272,785

Diocese of Fargo
Schedules of Program and Support Services
Years Ended June 30, 2011 and 2010

	2011	2010
Faith Education		
Education subsidy - Catholic Schools	\$ 54,358	\$ 53,820
Liturgy office/commission	24,307	20,594
Campaign for Human Development	4,850	-
North Dakota Catholic Conference	79,203	60,477
North Dakota Conference of Churches	6,305	6,240
Media and communications	250,504	245,855
CEF		
Administration	83,212	79,221
Catechesis and Evangelization	141,291	136,215
Schools	53,013	49,089
Youth	123,235	170,039
Catholics Come Home	52,418	-
Visitation Chapel	7,789	-
Young deciples	73,600	58,900
World Youth Day	172,490	9,300
EPS	32,262	29,576
Catholic University	6,060	6,000
Catholic Communications	4,850	4,800
Newman Student Centers	94,600	78,000
Special needs ministry	20,485	20,744
Priests spiritual direction	9,301	9,461
Ecumenical Commission	-	-
	1,294,133	1,038,331
 Sick and Elderly Priests		
Priests' Mutual Aid Fund	115,000	115,000
Priests' disability	113,581	182,824
	228,581	297,824
 Vocations		
Permanent Diaconate office	71,036	64,340
Seminary operations	-	195,000
Major theology education and scholarships	503,441	364,852
Continuing education for priests	93,035	242,704
Graduate studies for priests	10,563	1,584
Vocations office	86,034	59,831
	764,109	928,311

Diocese of Fargo
Schedules of Program and Support Services
Years Ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Family Life		
Catholic Charities North Dakota	143,420	142,000
Respect Life Office	101,003	99,679
Catholic Relief Services	18,180	18,000
Native American Mission	86,550	80,162
Migrant program	16,372	16,666
Poor Parish Subsidy/Matching fund	18,000	98,000
Family Life Office	82,142	79,401
Tribunal	187,272	186,272
Rural Life	2,500	2,500
Health care ministry	-	99
	<u>655,439</u>	<u>722,779</u>
Development and Stewardship	<u>285,199</u>	<u>282,084</u>
Contributions to Cathedral and Foundation	<u>138,035</u>	<u>-</u>
Chancery Functions		
Finance office	384,454	294,633
Bishop's office	136,653	130,747
Chancellor's office	117,929	124,571
Technology	71,541	66,700
Vicar for clergy office	125,966	149,273
Human resources	67,295	64,555
Bishop's residence	133,568	95,816
Properties office	55,368	40,656
Pastoral Center operations	128,985	156,226
USCCB programs and dues	40,556	37,221
Priests Council	4,582	4,453
Parish service department	73,998	11,392
	<u>1,340,895</u>	<u>1,176,243</u>
	<u>\$ 4,706,391</u>	<u>\$ 4,445,572</u>