



Financial Statements
June 30, 2017 and 2016
Diocese of Fargo



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Independent Auditor's Report

The Most Reverend John T. Folda and the Corporate Board
Diocese of Fargo
Fargo, North Dakota

Report on the Financial Statements

We have audited the accompanying statements of financial position of Diocese of Fargo as of June 30, 2017 and 2016 and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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 consolidated 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 consolidated 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 qualified audit opinion.

Basis for Qualified Opinion

As more fully described in Note 10 to the financial statements, the Diocese has not determined the cost of its defined benefit pension plan in accordance with accounting principles generally accepted in the United States, of America, which require the cost of employees' pensions to be recognized over the employees' respective service period and a liability to be recognized when the accumulated benefit obligation exceeds the fair value of plan assets. Quantification of the effects of that departure of the financial statements has not been determined.

Qualified Opinion

In our opinion, except for the possible effects of the matter discussed in the Basis for Qualified Opinion paragraph, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Diocese of Fargo as of June 30, 2017 and 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in cursive script that reads "Eide Bailly LLP". The signature is written in dark ink and is positioned above the typed name and date.

Fargo, North Dakota
November 8, 2017

Diocese of Fargo
Statements of Financial Position
June 30, 2017

	Operating Funds			Custodial Funds	Endowment Funds	Grand Total
	Unrestricted	Temporarily Restricted	Total			
Assets						
Cash	\$ 2,696,522	\$ -	\$ 2,696,522	\$ 2,350,726	\$ -	\$ 5,047,248
Accounts receivable	217,862	-	217,862	-	-	217,862
Promises to give (net of allowance of \$60,000)	-	309,000	309,000	-	-	309,000
Total current assets	2,914,384	309,000	3,223,384	2,350,726	-	5,574,110
Investments	11,100,617	2,071,679	13,172,296	11,954,730	-	25,127,026
Plant Assets (Net of Accumulated Depreciation of \$2,555,501)	4,980,415	-	4,980,415	-	-	4,980,415
Beneficial Interest in Investments	-	-	-	-	20,547,885	20,547,885
Total assets	\$ 18,995,416	\$ 2,380,679	\$ 21,376,095	\$ 14,305,456	\$ 20,547,885	\$ 56,229,436
Liabilities and Net Assets						
Liabilities						
Current Liabilities						
Accounts payable	\$ 241,382	\$ -	\$ 241,382	\$ 504,851	\$ -	\$ 746,233
Accrued payroll expenses	96,094	-	96,094	-	-	96,094
Funds held for others	-	-	-	13,800,605	-	13,800,605
Total current liabilities	337,476	-	337,476	14,305,456	-	14,642,932
Net Assets						
Unrestricted	18,657,940	-	18,657,940	-	-	18,657,940
Temporarily restricted	-	2,380,679	2,380,679	-	2,619,519	5,000,198
Permanently restricted	-	-	-	-	17,928,366	17,928,366
	<u>18,657,940</u>	<u>2,380,679</u>	<u>21,038,619</u>	<u>-</u>	<u>20,547,885</u>	<u>41,586,504</u>
Total liabilities and net assets	\$ 18,995,416	\$ 2,380,679	\$ 21,376,095	\$ 14,305,456	\$ 20,547,885	\$ 56,229,436

Diocese of Fargo
Statements of Financial Position
June 30, 2016

	Operating Funds			Custodial Funds	Endowment Funds	Grand Total
	Unrestricted	Temporarily Restricted	Total			
Assets						
Cash	\$ 2,068,493	\$ -	\$ 2,068,493	\$ 1,902,113	\$ -	\$ 3,970,606
Accounts receivable	127,603	-	127,603	-	-	127,603
Promises to give (net of allowance of \$58,000)	-	325,975	325,975	-	-	325,975
Total current assets	2,196,096	325,975	2,522,071	1,902,113	-	4,424,184
Long-Term Note Receivable,	3,500,000	-	3,500,000	-	-	3,500,000
Investments	10,639,092	2,055,067	12,694,159	10,891,154	-	23,585,313
Plant Assets (Net of Accumulated Depreciation of \$2,408,680)	5,075,564	-	5,075,564	-	-	5,075,564
Beneficial Interest in Investments	-	-	-	-	19,276,068	19,276,068
Total assets	\$ 21,410,752	\$ 2,381,042	\$ 23,791,794	\$ 12,793,267	\$ 19,276,068	\$ 55,861,129
Liabilities and Net Assets						
Liabilities						
Accounts payable	\$ 238,658	\$ -	\$ 238,658	\$ 503,611	\$ -	\$ 742,269
Accrued payroll expenses	82,928	-	82,928	-	-	82,928
Funds held for others	-	-	-	12,289,656	-	12,289,656
Total current liabilities	321,586	-	321,586	12,793,267	-	13,114,853
Long-Term Notes Payable	3,500,000	-	3,500,000	-	-	3,500,000
Total liabilities	3,821,586	-	3,821,586	12,793,267	-	16,614,853
Net Assets						
Unrestricted	17,589,166	-	17,589,166	-	-	17,589,166
Temporarily restricted	-	2,381,042	2,381,042	-	1,506,022	3,887,064
Permanently restricted	-	-	-	-	17,770,046	17,770,046
Total liabilities and net assets	\$ 21,410,752	\$ 2,381,042	\$ 23,791,794	\$ 12,793,267	\$ 19,276,068	\$ 55,861,129

Diocese of Fargo
Statements of Activities
Year Ended June 30, 2017

	Operating Funds			Custodial Funds	Endowment Funds	Grand Total
	Unrestricted	Temporarily Restricted	Total			
Revenue and Other Support						
Contributions and bequests	\$ 3,079,458	\$ 2,380,679	\$ 5,460,137	\$ -	\$ -	5,460,137
Investment and interest gain	573,759	-	573,759	1,453,933	-	2,027,692
Allocation of administrative fees	15,000	-	15,000	(15,000)	-	-
Change in beneficial interest in investments	-	-	-	-	1,271,817	1,271,817
Net assets released from restrictions						
Satisfaction of program restrictions	806,547	-	806,547	-	-	806,547
Expiration of time restrictions	2,381,042	(2,381,042)	-	-	-	-
	<u>6,855,806</u>	<u>(363)</u>	<u>6,855,443</u>	<u>1,438,933</u>	<u>1,271,817</u>	<u>9,566,193</u>
Expenses						
Program and support services						
Faith Education	1,236,174	-	1,236,174	-	-	1,236,174
Sick and elderly priests	231,464	-	231,464	-	-	231,464
Vocations	828,866	-	828,866	-	-	828,866
Family life	1,191,523	-	1,191,523	-	-	1,191,523
Development and stewardship	343,785	-	343,785	-	-	343,785
Cathedral Subsidy	150,000	-	150,000	-	-	150,000
Contributions to foundation /other catholic apostolates	407,518	-	407,518	-	-	407,518
Chancery functions	1,273,756	-	1,273,756	-	-	1,273,756
Depreciation expense	146,821	-	146,821	-	-	146,821
Miscellaneous	(22,875)	-	(22,875)	188,391	-	165,516
	<u>5,787,032</u>	<u>-</u>	<u>5,787,032</u>	<u>188,391</u>	<u>-</u>	<u>5,975,423</u>
Other Increases (Decreases)						
Increase in funds held for others	-	-	-	1,956,740	-	1,956,740
Net funds paid to others	-	-	-	(3,207,282)	-	(3,207,282)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,250,542)</u>	<u>-</u>	<u>(1,250,542)</u>
Change in Net Assets						
Unrestricted	1,068,774	-	1,068,774	-	-	1,068,774
Temporarily restricted	-	(363)	(363)	-	1,113,497	1,113,134
Permanently restricted	-	-	-	-	158,320	158,320
Net Assets, Beginning of Year	<u>17,589,166</u>	<u>2,381,042</u>	<u>19,970,208</u>	<u>-</u>	<u>19,276,068</u>	<u>39,246,276</u>
Net Assets, End of Year	<u>\$ 18,657,940</u>	<u>\$ 2,380,679</u>	<u>\$ 21,038,619</u>	<u>\$ -</u>	<u>\$ 20,547,885</u>	<u>\$ 41,586,504</u>

Diocese of Fargo
Statements of Activities
Year Ended June 30, 2016

	Operating Funds			Custodial Funds	Endowment Funds	Grand Total
	Unrestricted	Temporarily Restricted	Total			
Revenue and Other Support						
Contributions and bequests	\$ 2,958,478	\$ 2,381,042	\$ 5,339,520	\$ -	\$ -	\$ 5,339,520
Investment and interest gain	107,753	-	107,753	250,243	-	357,996
Allocation of administrative fees	15,000	-	15,000	(15,000)	-	-
Change in beneficial interest in investments	-	-	-	-	546,941	546,941
Net assets released from restrictions						
Satisfaction of program restrictions	795,671	(49,304)	746,367	-	-	746,367
Expiration of time restrictions	2,332,018	(2,332,018)	-	-	-	-
	<u>6,208,920</u>	<u>(280)</u>	<u>6,208,640</u>	<u>235,243</u>	<u>546,941</u>	<u>6,990,824</u>
Expenses						
Program and support services						
Faith Education	1,380,855	-	1,380,855	-	-	1,380,855
Sick and elderly priests	260,278	-	260,278	-	-	260,278
Vocations	886,546	-	886,546	-	-	886,546
Family life	1,066,277	-	1,066,277	-	-	1,066,277
Development and stewardship	456,861	-	456,861	-	-	456,861
Cathedral Subsidy	150,000	-	150,000	-	-	150,000
Contributions to foundation /other catholic apostolates	602,849	-	602,849	-	-	602,849
Chancery functions	1,293,263	-	1,293,263	-	-	1,293,263
Depreciation expense	141,810	-	141,810	-	-	141,810
Miscellaneous	7,811	-	7,811	155,117	-	162,928
	<u>6,246,550</u>	<u>-</u>	<u>6,246,550</u>	<u>155,117</u>	<u>-</u>	<u>6,401,667</u>
Other Increases (Decreases)						
Increase in funds held for others	-	-	-	961,680	-	961,680
Net funds paid to others	-	-	-	(1,041,806)	-	(1,041,806)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>(80,126)</u>	<u>-</u>	<u>(80,126)</u>
Change in Net Assets						
Unrestricted	(37,630)	-	(37,630)	-	-	(37,630)
Temporarily restricted	-	(280)	(280)	-	(753,657)	(753,937)
Permanently restricted	-	-	-	-	1,300,598	1,300,598
Net Assets, Beginning of Year	<u>17,626,796</u>	<u>2,381,322</u>	<u>20,008,118</u>	<u>-</u>	<u>18,729,127</u>	<u>38,737,245</u>
Net Assets, End of Year	<u>\$ 17,589,166</u>	<u>\$ 2,381,042</u>	<u>\$ 19,970,208</u>	<u>\$ -</u>	<u>\$ 19,276,068</u>	<u>\$ 39,246,276</u>

Diocese of Fargo
Statements of Cash Flows
Years Ended June 30, 2017 and 2016

	2017	2016
Operating Activities		
Change in net assets	\$ 2,340,228	\$ 509,031
Adjustment to reconcile change in net assets to net cash from (used for) operating activities		
Depreciation	146,821	141,810
Change in unrealized gain on investments	(981,369)	289,036
Contributions of securities	(803,809)	(214,125)
Loss on sale of equipment	-	2,800
Change in beneficial interest	(1,271,817)	(546,941)
Changes in operating assets and liabilities		
Accounts receivable	(90,259)	(7,593)
Promises to give	16,975	(8,891)
Accounts payable	3,964	(63,289)
Accrued payroll taxes	13,166	(5,307)
Funds held for others	1,510,949	933,172
Net Cash from Operating Activities	884,849	1,029,703
Investing Activities		
Purchases of investments	(965,163)	(878,743)
Proceeds from sales of investments	1,208,628	1,496,732
Purchase of property and equipment	(51,672)	(582,847)
Net Cash from (used for) Investing Activities	191,793	35,142
Net Change in Cash	1,076,642	1,064,845
Cash, Beginning of Year	3,970,606	2,905,761
Cash, End of Year	\$ 5,047,248	\$ 3,970,606
Supplemental Disclosure of Cash Flow Information		
Interest paid on bonds		
Variable	\$ 58,000	\$ 35,000

Note 1 - Principal Activity and Significant Accounting Policies

Organization

Diocese of Fargo is a nonprofit organization established 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.

Cash

The Diocese 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 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.

Promises to Give

Promises to give expected to be collected within one year are recorded at net realizable value. The promises to give represent amounts pledged to the Organization from individuals for the annual God's Gift Appeal. These receivables are all due within the next year. Management determines the allowance for uncollectable promises to give based on historical experience. At June 30, 2017 and 2016, the allowance was \$60,000 and \$58,000, respectively.

Property and Equipment

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 and amortization are computed using the straight-line method over the estimated useful lives of assets ranging from 5-40 years. When assets are sold or otherwise disposed of, the cost and related depreciation or amortization are removed from the accounts, and any remaining gain or loss is included in the statement of activities. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently.

The Diocese reviews the carrying values of property and equipment for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There were no indicators of asset impairment during the years ended June 30, 2017 and 2016.

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, 2017 and 2016, the Diocese received \$874,332 and \$762,153 from the Foundation. The Diocese has recorded its remaining interest in the Foundation as an asset totaling \$20,547,885 and \$19,276,068 at June 30, 2017 and 2016.

Investments

Investment purchases are recorded at cost, or if donated, at fair value on the date of donation. Thereafter, investments are reported at their fair values in the statement of financial position. Net investment gain/(loss) is reported in the statement of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less investment management and custodial fees.

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 Diocese 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 Diocese's Corporate Board.

The Diocese reports contributions as temporarily restricted support if they are 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. When revenue is received in connection with the aforementioned it is included in temporarily restricted amounts. Temporarily restricted net assets also include monies received which have not yet been expended for their specified purposes.

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 Diocese. When revenue is received in connection with the aforementioned it is included in temporarily restricted amounts.

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.

Donated Services

Volunteers contribute significant amounts of time to Diocese of Fargo's program services, administration, and fundraising and development activities; however, the financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by generally accepted accounting principles.

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.

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 at the date of the financial statements 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 Diocese 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 Diocese has not experienced losses in any of these accounts. Credit risk associated with accounts receivable and promises to give is considered to be limited due to high historical collection rates. Investments are made by diversified investment managers whose performance is monitored by management and the Investment Committee of the Diocesan Finance Council. Although the fair values of investments are subject to fluctuation on a year-to-year basis, management, the Investment Committee, and the Diocesan Finance Council believe that the investment policies and guidelines are prudent for the long-term welfare of the Diocese.

Functional Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Note 8 presents total expenses by function.

Subsequent Events

The Diocese has evaluated subsequent events through November 8, 2017, the date which the financial statements were available to be issued.

Note 2 - Fair Value Measurements and Disclosures

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 Diocese 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 Diocese 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 Diocese's assessment of the quality, risk or liquidity profile of the asset or liability.

A significant portion of the Diocese'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 Diocese invests in fixed income bonds/securities traded in the financial markets. Those fixed income bonds/securities are valued by the custodians of the securities using pricing models based on credit quality, time to maturity, stated interest rates and market-rate assumptions, and are classified within Level 2.

The following table presents assets measured at fair value on a recurring basis at June 30, 2017:

	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total
June 30, 2017				
Managed portfolios				
Government securities	\$ -	\$ 729,818	\$ -	\$ 729,818
Municipal bonds	-	965,340	-	965,340
Mortgage backed security	-	802,047	-	802,047
Corporate bonds	-	4,893,743	-	4,893,743
Commercial mortgaged-backed securities	-	2,449,916	-	2,449,916
Money market	-	556,947	-	556,947
Other	-	100,000	-	100,000
Treasury notes	-	1,767,211	-	1,767,211
Equity Securities				
Consumer Discretionary	1,847,289	-	-	1,847,289
Consumer Staples	851,335	-	-	851,335
Energy	451,067	-	-	451,067
Financial	1,880,104	-	-	1,880,104
Healthcare	1,911,598	-	-	1,911,598
Industrials	1,956,034	-	-	1,956,034
Information Technology	2,516,292	-	-	2,516,292
Materials	581,678	-	-	581,678
Real Estate	254,297	-	-	254,297
Telecom Services	107,396	-	-	107,396
Utilities	191,218	-	-	191,218
Unit Investment Trust	87,518	-	-	87,518
Other	-	-	226,178	226,178
Beneficial interest in investment	12,739,689	7,808,196	-	20,547,885
Total	\$ 25,375,515	\$ 20,073,218	\$ 226,178	\$ 45,674,911

The following table presents assets measured at fair value on a recurring basis 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	\$ -	\$ 424,224	\$ -	\$ 424,224
Municipal bonds	-	680,776	-	680,776
Mortgage backed security	-	1,264,029	-	1,264,029
Corporate bonds	-	4,639,870	-	4,639,870
Commercial mortgaged-backed securities	-	2,506,002	-	2,506,002
Money market	-	754,362	-	754,362
Other	-	100,000	-	100,000
Treasury notes	-	2,628,500	-	2,628,500
Equity Securities				
Consumer Discretionary	1,323,145	-	-	1,323,145
Consumer Staples	834,457	-	-	834,457
Energy	480,328	-	-	480,328
Financial	1,242,011	-	-	1,242,011
Healthcare	1,689,192	-	-	1,689,192
Industrials	1,330,393	-	-	1,330,393
Information Technology	2,287,872	-	-	2,287,872
Materials	565,632	-	-	565,632
Real Estate	304,974	-	-	304,974
Telecom Services	139,166	-	-	139,166
Utilities	179,855	-	-	179,855
Other	-	-	210,525	210,525
Beneficial interest in investment	10,794,598	8,481,470	-	19,276,068
Total	<u>\$ 21,171,623</u>	<u>\$ 21,479,233</u>	<u>\$ 210,525</u>	<u>\$ 42,861,381</u>

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

Below is a reconciliation of the beginning and ending balance of investments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended June 30, 2017 and 2016:

	2017	2016
Level 3, beginning of year	\$ 210,525	\$ 212,211
Change in fair value of CUP II	15,653	(1,686)
Level 3, end of year	<u>\$ 226,178</u>	<u>\$ 210,525</u>

Net investment return consists of the following for the years ended June 30, 2017 and 2016:

	2017			2016 Total
	Current Unrestricted	Custodial Temporarily Restricted	Total	
Interest and dividends	\$ 281,495	\$ 291,151	\$ 572,646	\$ 532,343
Net change in realized gain	(78,827)	699,260	620,433	36,216
Net change in unrealized gain (loss)	442,333	539,036	981,369	(97,863)
Fees	(71,242)	(75,514)	(146,756)	(112,700)
Investment income	\$ 573,759	\$ 1,453,933	\$ 2,027,692	\$ 357,996

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 St. 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. On June 30, 2017 the Network paid off the note receivable of \$3,500,000, then the diocese paid off the note payable of \$3,500,000. (Note 5)

The following schedule summarizes the notes receivable for the years ended June 30, 2017 and 2016:

	2017	2016
Variable note receivable, due in quarterly installments of interest only, paid in full as of June 30, 2017	\$ -	\$ 3,500,000

Note 4 - Property and Equipment

Property and equipment consists of the following at June 30, 2017 and 2016

	2017	2016
Land and improvements	\$ 1,429,979	\$ 1,429,979
Buildings and improvements	5,799,256	5,799,256
Equipment and fixtures	306,681	255,009
	7,535,916	7,484,244
Less accumulated depreciation	(2,555,501)	(2,408,680)
	\$ 4,980,415	\$ 5,075,564

Depreciation expense totaled \$146,821 and \$141,810 the years ended June 30, 2017 and 2016.

Note 5 - 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, 2017 and 2016:

	2017	2016
Variable bond payable to Wells Fargo, due in quarterly installments of interest only, paid in full on June 30, 2017	\$ -	\$ 3,500,000

Note 6 - Temporarily Restricted Net Assets

Temporarily restricted net assets as of June 30, 2017 and 2016 are summarized as follows:

	2017	2016
God's Gift	\$ 2,380,679	\$ 2,381,042
Unspent Endowment earnings	2,619,519	1,506,022
	\$ 5,000,198	\$ 3,887,064

Note 7 - Custodial Funds

Funds received and held by the Diocese as agent for others are as follows as of June 30, 2017 and 2016

	2017	2016
Insurance and benefits payable to parishes	\$ 504,851	\$ 503,611
Insurance reserve fund	2,776,811	2,577,842
Retirement reserve fund	147,784	136,530
Health reserve fund	7,222,585	6,622,664
Dental reserve fund	1,276,095	1,152,092
Special Care Program for Priests	1,012,433	990,002
Health self-Insurance	1,138,716	600,000
Catholic Umbrella Pool II	226,181	210,526
	\$ 14,305,456	\$ 12,793,267

Note 8 - Functional Expenses

The Diocese provides oversight for the Catholic Churches in their territory. Expenses related to providing these services by functional class for the years ended June 30, 2017 and 2016 are as follows:

	2017	2016
Program	\$ 4,815,235	\$ 5,163,218
Development	343,785	456,861
General and administrative	628,012	626,471
	\$ 5,787,032	\$ 6,246,550

Note 9 - Endowment

The Diocese of Fargo contributed the endowment funds to the Catholic Development Foundation. The endowment now consists of beneficial interest which is donor-restricted endowment funds that are being used for seminary and clergy education. 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.

Investment and Spending Policies

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.

	Temporarily Restricted	Permanently Restricted	Total
Balance, June 30, 2015	\$ 2,259,679	\$ 16,469,448	\$ 18,729,127
Change in beneficial interest in investments	<u>(753,657)</u>	<u>1,300,598</u>	<u>546,941</u>
Balance, June 30, 2016	1,506,022	17,770,046	19,276,068
Change in beneficial interest in investments	<u>1,113,497</u>	<u>158,320</u>	<u>1,271,817</u>
Balance, June 30, 2017	<u><u>\$ 2,619,519</u></u>	<u><u>\$ 17,928,366</u></u>	<u><u>\$ 20,547,885</u></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 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, 2017 and 2016.

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 - 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. Diocesan Contributions to the plan for the years ended June 30, 2017 and 2016 totaled \$68,769 and \$66,882, respectively.

The Diocese contributions to a multiemployer defined benefit pension plan for priests were \$497,216 and \$375,000 for years end June 30, 2017 and 2016, respectively. This plan is sponsored by the Diocese and administered by a separate Board of Trustees. The Diocese has not determined the cost of its defined benefit pension plan in accordance with accounting principles generally accepted in the United States of America, which require the cost of employees' pensions to be recognized over the employees' respective service period and a liability to be recognized when the accumulated benefit obligations exceeds the fair value of the plan assets. Quantification of the effects of the departure on the financial statements has not been determined. Contributions are determined in accordance with biennial actuary recommendations which were last performed on April 1, 2016 at which time the plan was funded at approximately 93%.

Note 11 - Related Party Transactions

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 \$284,107 and \$265,359 for years ended June 30, 2017 and 2016, 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 \$299,927 and \$295,482 for years ended June 30, 2017 and 2016, respectively.

Accounts receivable from the Catholic Church Deposit & Loan Fund of Eastern North Dakota were \$61,497 and \$60,904 for the years ended June 30, 2017 and 2016, respectively.



Supplementary Information
June 30, 2017 and 2016
Diocese of Fargo



Independent Auditor's Report on Supplementary Information

The Most Reverend John T. Folda 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, 2017 and 2016 and our report thereon dated November 8, 2017, which appears on page 1, was qualified because of the omission of disclosure for the defined benefit Pension Plan for Priests. Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information on pages 21 through 23 is presented for the 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 subjected to the auditing procedures applied in the audits 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 8, 2017

Diocese of Fargo
Schedules of Contributions and Bequests
Years Ended June 30, 2017 and 2016

	2017	2016
God's Gift	\$ 2,991,155	\$ 3,018,756
Other Contributions and Bequests		
Grants	480,560	429,829
Endowment fund proceeds	60,369	-
	540,929	429,829
Programming Donations/Contributions		
Business office administration/management fees	372,442	363,402
Vicar general	-	5,915
Chancery	2,842	2,822
Liturgy	-	100
Technology revenue	1,636	1,425
Properties office	6,000	6,000
Parish service department	32,692	28,541
Development/stewardship	213,900	199,839
Media/communications office	256,674	254,216
CEF		
Catechesis and Evangelization	14,429	9,848
Youth	10,438	32,721
World Youth Day	928	214,123
Young Disciples	38,417	47,047
Family Life	107,882	69,496
Respect Life	44,767	29,336
Marriage Tribunal	2,989	4,176
Continuing education for Priests	36,122	47,400
Pastoral Center office rental	191,234	188,922
Seminary education	35,158	36,558
Vocation Office	109	-
Permanent Diaconate	26,541	21,412
Priest disability	2,500	-
Insurance claim proceeds	-	31,857
	1,397,700	1,595,156
Other Donations	530,353	295,779
	\$ 5,460,137	\$ 5,339,520

Diocese of Fargo
Schedules of Program and Support Services
Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Faith Education		
Education subsidy - Catholic Schools	\$ 73,735	\$ 70,648
Liturgy office/commission	39,872	40,195
Campaign for Human Development	5,542	5,542
North Dakota Catholic Conference	103,541	96,411
Media and communications	303,899	244,320
CEF		
Administration	48,154	44,101
Catechesis and Evangelization	206,818	97,820
Schools	74,188	67,672
Youth	138,382	171,001
World Youth Day	3,204	257,754
Young Disciples	60,782	97,194
Catholic University	6,925	6,925
Catholic Communications	5,653	5,542
Newman Student Centers	143,499	151,500
Special needs ministry	21,980	24,230
	<u>1,236,174</u>	<u>1,380,855</u>
Sick and Elderly Priests		
Priests' Mutual Aid Fund	142,800	140,000
Priests' disability	88,664	120,278
	<u>231,464</u>	<u>260,278</u>
Vocations		
Permanent Diaconate office	73,728	98,050
Seminary education	581,458	558,137
Continuing education for priests	78,910	71,111
Graduate studies for priests	-	60,293
Vocation office	94,770	98,955
	<u>828,866</u>	<u>886,546</u>

Diocese of Fargo
Schedules of Program and Support Services
Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Family Life		
Catholic Charities North Dakota	174,250	170,000
Respect Life Office	99,938	77,370
Catholic Relief Services	21,185	20,770
Native American Mission	255,520	200,000
Migrant program	25,700	20,900
Poor Parish Subsidy	8,200	11,500
Family Life Office	300,223	247,794
Tribunal	302,107	315,243
Rural Life	4,400	2,700
	<u>1,191,523</u>	<u>1,066,277</u>
Development and Stewardship	<u>343,785</u>	<u>456,861</u>
Cathedral Subsidy	<u>150,000</u>	<u>150,000</u>
Other Catholic Apostolates	<u>407,518</u>	<u>602,849</u>
Depreciation	<u>146,821</u>	<u>141,810</u>
Miscellaneous	<u>(22,875)</u>	<u>7,811</u>
Chancery Functions		
Finance office	371,661	368,589
Bishop's office	135,037	140,552
Chancellor's office	120,145	119,816
Technology	32,237	46,824
Vicar for clergy office	73,981	82,697
Human resources	93,412	92,660
Bishop's residence	69,063	73,936
Properties office	88,375	80,434
Pastoral Center operations	162,855	162,203
USCCB programs and dues	48,568	45,727
Priests Council	4,792	8,260
Parish service department	73,630	71,565
	<u>1,273,756</u>	<u>1,293,263</u>
	<u>\$ 5,787,032</u>	<u>\$ 6,246,550</u>