

**THE CATHOLIC FOUNDATION OF
EASTERN MONTANA, INC.**

FINANCIAL REPORT

December 31, 2021 and 2020



C O N T E N T S

	<u>PAGE</u>
INDEPENDENT AUDITOR'S REPORT	1 and 2
FINANCIAL STATEMENTS	
Statements of Financial Position.....	3
Statements of Activities.....	4 and 5
Statements of Cash Flows	6
Notes to Financial Statements	7 through 19

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
The Catholic Foundation of Eastern Montana, Inc.
Great Falls, Montana

Opinion

We have audited the accompanying financial statements of The Catholic Foundation of Eastern Montana, Inc., (the Foundation) (a nonprofit organization) which comprise the statements of financial position as of December 31, 2021 and 2020, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Catholic Foundation of Eastern Montana, Inc. as of December 31, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Foundation and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Foundation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.


Great Falls, Montana
April 11, 2022

FINANCIAL STATEMENTS

THE CATHOLIC FOUNDATION OF EASTERN MONTANA, INC.
 STATEMENTS OF FINANCIAL POSITION
 December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
ASSETS		
Cash and cash equivalents	\$ 1,238,503	\$ 826,366
Certificate of deposit	50,297	25,000
Interest receivable	37,490	35,838
Prepaid expenses	-	1,018
Investments	18,142,778	15,339,490
Land and buildings	399,884	399,884
Beneficial interest in life insurance trust	88,123	85,955
Total assets	<u>\$ 19,957,075</u>	<u>\$ 16,713,551</u>
LIABILITIES AND NET ASSETS		
Accounts payable	\$ 12,894	\$ 10,775
Accrued vacation	30,958	22,386
Charitable gift annuities	383,753	366,540
Agency funds payable	<u>2,764,641</u>	<u>2,482,218</u>
Total liabilities	<u>3,192,246</u>	<u>2,881,919</u>
NET ASSETS		
Without donor restrictions	3,951,744	3,488,751
With donor restrictions	<u>12,813,085</u>	<u>10,342,881</u>
Total net assets	<u>16,764,829</u>	<u>13,831,632</u>
Total liabilities and net assets	<u>\$ 19,957,075</u>	<u>\$ 16,713,551</u>

Notes to Financial Statements are an integral part of these statements.

THE CATHOLIC FOUNDATION OF EASTERN MONTANA, INC.
STATEMENTS OF ACTIVITIES
Year Ended December 31, 2021

	Without donor restrictions	With donor restrictions	Total
REVENUES, GAINS, AND OTHER SUPPORT			
Contributions	\$ 154,763	\$ 1,155,340	\$ 1,310,103
Investment income, net	394,848	1,902,368	2,297,216
Steffen property income	18,955	-	18,955
Other	4,544	-	4,544
Assets released from program and time restrictions	587,504	(587,504)	-
Total revenues, gains, and other support	1,160,614	2,470,204	3,630,818
EXPENSES			
Program:			
Endowment and other distributions to beneficiaries	464,800	-	464,800
Grants to Catholic organizations	71,696	-	71,696
Allocations to Agency Funds Payable	(134,512)	-	(134,512)
Total program expenses	401,984	-	401,984
Management and general:			
Employee benefits	25,226	-	25,226
Interest expense	6,615	-	6,615
Office expense	34,083	-	34,083
Payroll taxes	13,918	-	13,918
Professional fees	33,827	-	33,827
Steffen property expenses	3,721	-	3,721
Wages	178,247	-	178,247
Total management and general	295,637	-	295,637
Total expenses	697,621	-	697,621
Change in net assets	462,993	2,470,204	2,933,197
Net assets, beginning of year	3,488,751	10,342,881	13,831,632
Net assets, end of year	\$ 3,951,744	\$ 12,813,085	\$ 16,764,829

Notes to Financial Statements are an integral part of this statement.

THE CATHOLIC FOUNDATION OF EASTERN MONTANA, INC.
STATEMENTS OF ACTIVITIES (CONTINUED)
Year Ended December 31, 2020

	Without donor restrictions	With donor restrictions	Total
REVENUES, GAINS, AND OTHER SUPPORT			
Contributions	\$ 1,140	\$ 713,931	\$ 715,071
Investment income, net	449,778	1,614,772	2,064,550
Steffen property income	26,524	-	26,524
Other	25,879	-	25,879
Assets released from program and time restrictions	<u>519,373</u>	<u>(519,373)</u>	<u>-</u>
Total revenues, gains, and other support	<u>1,022,694</u>	<u>1,809,330</u>	<u>2,832,024</u>
 EXPENSES			
Program:			
Endowment and other distributions to beneficiaries	686,966	-	686,966
Grants to Catholic organizations	49,000	-	49,000
Allocations to Agency Funds Payable	<u>(389,514)</u>	<u>-</u>	<u>(389,514)</u>
Total program expenses	<u>346,452</u>	<u>-</u>	<u>346,452</u>
 Management and general:			
Employee benefits	15,391	-	15,391
Interest expense	6,766	-	6,766
Office expense	18,512	-	18,512
Payroll taxes	10,138	-	10,138
Professional fees	33,361	-	33,361
Steffen property expenses	25,358	-	25,358
Wages	<u>148,430</u>	<u>-</u>	<u>148,430</u>
Total management and general	<u>257,956</u>	<u>-</u>	<u>257,956</u>
Total expenses	<u>604,408</u>	<u>-</u>	<u>604,408</u>
Change in net assets	418,286	1,809,330	2,227,616
Net assets, beginning of year	<u>3,070,465</u>	<u>8,533,551</u>	<u>11,604,016</u>
Net assets, end of year	<u>\$ 3,488,751</u>	<u>\$ 10,342,881</u>	<u>\$ 13,831,632</u>

Notes to Financial Statements are an integral part of this statement.

THE CATHOLIC FOUNDATION OF EASTERN MONTANA, INC.
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 2,933,197	\$ 2,227,616
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Unrealized (gain) on investments and agency funds	(1,324,348)	(1,043,566)
Realized (gain) on sale of securities and agency funds	(760,315)	(823,615)
Perpetually restricted contributions	(1,233,514)	(688,909)
Contributed land	-	41,250
Changes in operating assets and liabilities:		
Interest receivable	(1,652)	1,040
Prepaid expenses	1,018	(1,018)
Beneficial interest in life insurance trust	(2,168)	(2,146)
Accounts payable	2,119	2,178
Accrued vacation	8,572	(857)
Charitable gift annuities	17,213	34,213
Agency funds payable	<u>282,423</u>	<u>282,934</u>
Net cash flows from operating activities	<u>(77,455)</u>	<u>29,120</u>
 CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of securities	(3,755,945)	(4,894,628)
Proceeds from sale of securities	<u>3,012,023</u>	<u>4,305,527</u>
Net cash flows from investing activities	<u>(743,922)</u>	<u>(589,101)</u>
 CASH FLOWS FROM FINANCING ACTIVITIES		
Perpetually restricted contributions	<u>1,233,514</u>	<u>688,909</u>
Net cash flows from financing activities	<u>1,233,514</u>	<u>688,909</u>
Net change in cash and cash equivalents	412,137	128,928
Cash and cash equivalents, beginning of year	<u>826,366</u>	<u>697,438</u>
Cash and cash equivalents, end of year	<u>\$ 1,238,503</u>	<u>\$ 826,366</u>

Notes to Financial Statements are an integral part of these statements.

THE CATHOLIC FOUNDATION OF EASTERN MONTANA, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2021 and 2020

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

The Catholic Foundation of Eastern Montana, Inc. (the Foundation) is a nonprofit, religious corporation formed in 1999. A Board of Directors manages the affairs and assets of the Foundation. The mission of the Foundation is: in joyful relationship with Christ and our donors, the Catholic Foundation of Eastern Montana builds permanent, everlasting endowments to secure a vibrant future for Catholic parishes, schools, and ministries in our diocese.

The Foundation shall have the following specific purposes:

- a) To promote, expand and strengthen the Roman Catholic Church in the Diocese.
- b) Consistent with the expressed needs and priorities of the Diocese, to support and assist the Diocese by seeking and securing, investing, and managing long-term, endowed financial support to benefit the Diocese and its entities and other Catholic organizations located within the geographical borders of the Diocese.
- c) To manage and administer the funds and property donated to the Foundation consistent with the intent of the donors.
- d) To engage in other lawful activity which may hereafter be authorized from time to time by the Board; provided, however, that the purposes for which the corporation is formed shall at all times be consistent with 501 (c)(3) of the Internal Revenue Code, as it now exists or as is may be amended from time to time.
- e) to hold and exercise all rights and powers conferred on nonprofit organizations under Mont. Code Ann. 35-2-118, of the Montana Nonprofit Corporation Act; provided however, that the Foundation shall not engage in any activities or exercise any powers that are not in furtherance of the stated purposes of the Foundation and the Diocese.

Basis of Accounting

The Foundation's financial statements are presented in accordance with accounting principles generally accepted in the United States of America (GAAP), as codified by the Financial Accounting Standards Board.

Basis of Presentation

In accordance with GAAP, the Foundation reports information regarding its financial position and activities according to two classes: net assets without donor restrictions and net assets with donor restrictions. The net asset classes are reported as follows:

Net assets without donor restrictions – Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of Foundation management and the board of directors.

THE CATHOLIC FOUNDATION OF EASTERN MONTANA, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
December 31, 2021 and 2020

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

Net assets with donor restrictions – Net assets that are subject to donor-imposed stipulations. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Foundation or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statement of activities. When restrictions are satisfied in the same year received, the contributions are included in net assets without donor restrictions.

Use of Estimates

The preparation of financial statements in conformity with GAAP includes the use of estimates that affect the financial statements and disclosures. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Foundation considers cash and all highly liquid investments with a maturity date of 90 days or less to be cash equivalents. Money market funds have been included in investments rather than cash equivalents.

Occasionally the Foundation maintains cash balances in excess of FDIC insurance limits of \$250,000. The Foundation does not believe that it is exposed to a significant credit risk as deposits are maintained in high quality financial institutions. At December 31, 2021 and 2020, the Foundation's uninsured cash balances totaled \$699,483 and \$485,514, respectively.

Investments

The Foundation carries investments at their estimated fair values in the statements of financial position.

A significant portion of the Foundation's investments are subject to the risk of value fluctuations that is inherent in the market. As such, the value of the Foundation's assets may change frequently. To help manage this risk, the Foundation utilizes professional investment managers who oversee the Foundation's portfolio and make changes deemed necessary, within the parameters of the Foundation's investment policies. Investment income, net of expenses and net realized gains (losses), are pooled and allocated monthly to the participating funds based upon the value of their accounts in relation to the total value of all accounts at the beginning of each month. Contributions are allocated at the beginning of the month. Distributions of the net investment income, if any, are paid annually. Unrealized gains (losses) are not distributed. On the statement of activities, net investment income includes interest and dividends earned, realized gains (losses) on sale of investments, and unrealized gains (losses).

THE CATHOLIC FOUNDATION OF EASTERN MONTANA, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
December 31, 2021 and 2020

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Charitable Gift Annuities

Charitable gift annuities require annual payments at a fixed rate specified in the contract to a designated beneficiary over the beneficiary's lifetime, with payments commencing upon contribution. The payment is based on value of the assets at the date of donation. Deferred gift annuities are similar but delay the start of annual payments to a future date. The financial statements include a liability representing the present value of the payments required by those contracts over the beneficiaries' expected lives as determined by mortality tables.

Donated Land and Buildings

Donations of land and buildings are recorded as contributions at their estimated fair value at the date of the donation. Assets donated with explicit restrictions regarding their use are reported as increases in restricted net assets. Land and buildings are not being depreciated as the value of the buildings is negligible.

Revenue Recognition

The Foundation recognizes contributions when cash, securities, or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. Conditional promises to give – that is, those with a measurable performance or other barrier and right of return – are not recognized until the conditions on which they depend have been met.

Advertising

Advertising costs are expensed as incurred. Advertising expense for the years ended December 31, 2021 and 2020, was \$305 and \$1,409, respectively, and included in office expense on the statement of activities.

Income Tax Status

In an annually updated ruling, the Internal Revenue Service has held that the agencies, instrumentalities and educational, charitable, and religious institutions operated, supervised, or controlled by or in connection with the Roman Catholic Church in the United States, its territories or possessions appearing in the "Official Catholic Directory" are exempt from federal income tax under the provisions of Section 501(c)(3) of the Internal Revenue Code. The Foundation is listed in the "Official Catholic Directory" and therefore is exempt from income tax and income tax filings. Accordingly, the accompanying financial statements reflect no provision for income taxes.

Functional Expenses

The expenses of the Foundation are categorized as program for direct payments to parishes and other organizations and all other expenses are categorized as management and general. Fundraising expenses on behalf of the Foundation are considered to be negligible, thus not reported separately.

THE CATHOLIC FOUNDATION OF EASTERN MONTANA, INC.
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 December 31, 2021 and 2020

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Agency Transactions

The Foundation is a recipient organization, accepting assets from a donor and agreeing to (a) use those assets on behalf of the specified beneficiary or (b) disburse those assets, the return on investment of those assets, or both to that beneficiary. Assets received from an organization for the benefit of that organization are recorded as an agency liability by the Foundation, payable to that organization. The liability, Agency Funds Payable, is recorded at the fair value of the asset.

Reclassifications

Certain amounts in the 2020 statement of activities have been reclassified to conform to the presentation of the 2021 statement of activities. These reclassifications had no effect on previously reported amounts..

Subsequent Events

Management has evaluated subsequent events through April 11, 2022, the date, which the financial statements were available for issue.

NOTE 2. INVESTMENTS

The Foundation holds investments with third-party investment custodians. Investments carried at fair value as of December 31, 2021 and 2020, are as follows:

	2021		
	Average Cost	Fair Value	Cumulative Appreciation
Debt securities	\$ 5,672,215	\$ 5,698,438	\$ 26,223
Equity securities	<u>6,637,313</u>	<u>12,444,340</u>	<u>5,807,027</u>
	<u>\$ 12,309,528</u>	<u>\$ 18,142,778</u>	<u>\$ 5,833,250</u>
	2020		
	Average Cost	Fair Value	Cumulative Appreciation
Debt securities	\$ 4,706,711	\$ 4,903,675	\$ 196,964
Equity securities	<u>6,347,926</u>	<u>10,435,815</u>	<u>4,087,889</u>
	<u>\$ 11,054,637</u>	<u>\$ 15,339,490</u>	<u>\$ 4,284,853</u>

THE CATHOLIC FOUNDATION OF EASTERN MONTANA, INC.
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 December 31, 2021 and 2020

NOTE 2. INVESTMENTS (CONTINUED)

Net investment income at December 31, 2021 and 2020 consisted of the following:

	<u>2021</u>	<u>2020</u>
Interest and dividend income	\$ 253,020	\$ 229,622
Unrealized gain (loss):		
Investments	1,548,397	1,238,112
Agency funds	(224,049)	(194,546)
Realized gain (loss):		
Investments	953,202	1,018,584
Agency funds	(192,887)	(194,969)
Investment fees	(40,467)	(32,253)
	<u>\$ 2,297,216</u>	<u>\$ 2,064,550</u>

Seven investments were in continuous loss position for twelve months or more as of December 31, 2021 and 2020. The total amount of the unrealized losses associated with the securities were \$43,081 and \$25,627 as of December 31, 2021 and 2020, respectively. Management has evaluated the securities and believes the loss position to be temporary.

NOTE 3. FAIR VALUE MEASUREMENTS

The Foundation has determined the fair value of its investments and liabilities in accordance with GAAP. This standard establishes a fair value hierarchy, which prioritizes the valuation into three broad levels:

- Level 1: Quoted prices in active markets for identical assets or liabilities,
- Level 2: Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities, and
- Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Following is a description of the valuation methodologies used for investments measured at fair value. There have been no changes in the methodologies used at December 31, 2021 and 2020.

U.S. Government and Municipal Debt Securities: Valued at the closing price reported on the active market on which the individual securities are traded.

Corporate Debt Securities: Valued at the closing price reported on the active market on which the individual securities are traded.

Corporate Stocks: Certain common stocks are valued at the closing price reported in the active market in which the individual securities are traded.

THE CATHOLIC FOUNDATION OF EASTERN MONTANA, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
December 31, 2021 and 2020

NOTE 3. FAIR VALUE MEASUREMENTS (CONTINUED)

Mutual Funds: Valued at net asset value (NAV). The NAV is based on the value of the underlying assets owned by the fund, minus its liabilities, and then divided by the number of shares held by the Foundation at year end. The NAV is quoted in an active market.

Money Market Funds: Valued at \$1 (cash equivalents).

Annuity obligations: Valued based on the present value of the expected future cash flows based on the donor or beneficiaries' life expectancies and using applicable federal rates updated annually.

Investment assets are classified in their entirety based upon the lowest level of input that is significant at the fair value measurement.

The following tables presents by level, within the fair value hierarchy, the Foundation's investment assets at fair value, as of December 31, 2021:

	Fair Value	Quoted Prices (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Debt securities:				
Municipal debt securities	\$ 32,403	\$ -	\$ 32,403	\$ -
Corporate debt securities	<u>5,666,035</u>	<u>-</u>	<u>5,666,035</u>	<u>-</u>
Total debt securities	5,698,438	-	5,698,438	-
Equity securities:				
U.S. equity stocks	9,557,078	9,557,078	-	-
Developed foreign stocks	876,338	876,338	-	-
U.S. listed real estate stocks	1,024,230	1,024,230	-	-
Mutual funds	400,185	400,185	-	-
Money market funds	<u>586,509</u>	<u>586,509</u>	<u>-</u>	<u>-</u>
Total equity securities	<u>12,444,340</u>	<u>12,444,340</u>	<u>-</u>	<u>-</u>
	<u>\$ 18,142,778</u>	<u>\$ 12,444,340</u>	<u>\$ 5,698,438</u>	<u>\$ -</u>

The following table sets forth by level, within the fair value hierarchy, the Foundation's liabilities measured at fair value on a recurring basis as of December 31, 2021:

	Fair Value	Quoted Prices (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Charitable gift annuities	<u>\$ 383,753</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 383,753</u>

THE CATHOLIC FOUNDATION OF EASTERN MONTANA, INC.
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 December 31, 2021 and 2020

NOTE 3. FAIR VALUE MEASUREMENTS (CONTINUED)

The following tables presents by level, within the fair value hierarchy, the Foundation's investment assets at fair value, as of December 31, 2020:

	Fair Value	Quoted Prices (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Debt securities:				
Municipal debt securities	\$ 34,738	\$ -	\$ 34,738	\$ -
Corporate debt securities	4,868,937	-	4,868,937	-
Total debt securities	4,903,675	-	4,903,675	-
Equity securities:				
U.S. equity stocks	8,461,914	8,461,914	-	-
Developed foreign stocks	528,020	528,020	-	-
U.S. listed real estate stocks	445,062	445,062	-	-
Mutual funds	381,913	381,913	-	-
Money market funds	618,906	618,906	-	-
Total equity securities	10,435,815	10,435,815	-	-
	<u>\$ 15,339,490</u>	<u>\$ 10,435,815</u>	<u>\$ 4,903,675</u>	<u>\$ -</u>

The following table sets forth by level, within the fair value hierarchy, the Foundation's liabilities measured at fair value on a recurring basis as of December 31, 2020:

	Fair Value	Quoted Prices (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Charitable gift annuities	\$ 366,540	\$ -	\$ -	\$ 366,540

NOTE 4. LIQUIDITY AND AVAILABILITY

The Foundation regularly monitors the availability of resources required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. The Foundation utilizes its annual budget as its primary monitoring tool.

The Foundation receives significant contributions with donor restrictions to be used in accordance with the associated purpose restrictions. The majority of these contributions are to establish or add additional amounts to endowments that will exist in perpetuity. The income generated from such endowments is used to fund the respective Catholic parishes, schools, and ministries and other operating needs, when appropriate.

THE CATHOLIC FOUNDATION OF EASTERN MONTANA, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
December 31, 2021 and 2020

NOTE 4. LIQUIDITY AND AVAILABILITY (CONTINUED)

The Foundation's board approves an appropriation from endowment earnings between 3%-4.5% of the endowment asset balance based on the average balance in the fund over the past twelve quarters. In addition, the Foundation receives support without donor restrictions.

Financial assets available for general expenditure include only those without donor or other restrictions limiting their use within one year of the balance sheet date. General expenditures include those listed within the management and general classification on the statement of activities.

Management has identified the following assets as of December 31, 2021 and 2020 as available for general expenditures in 2022 and 2021:

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 1,238,503	\$ 826,366
Operating investments	<u>5,329,693</u>	<u>4,996,609</u>
	<u>\$ 6,568,196</u>	<u>\$ 5,822,975</u>

Operating investments exclude the Foundation's endowment fund, other investments with donor restrictions, and agency funds.

NOTE 5. BENEFICIAL INTEREST IN TRUST

The Foundation is the remainder beneficiary of a charitable remainder annuity trust. Under the terms of the trust, net income is used to care for a certain named individual for life. Additionally, the principal may be invaded to care for the individual. Upon the death of the individual, all of the assets remaining in the trust will be distributed to the Foundation. The Foundation's share of the remainder interest of the trust was \$88,123 and \$85,955 as of December 31, 2021 and 2020, respectively.

NOTE 6. ENDOWMENT

The Foundation maintains endowments within its perpetually restricted net assets established for the greatest needs of the Foundation. Contributions to the endowment funds are subject to donor restrictions that stipulate the original principal of the gift is to be held and invested by the Foundation indefinitely, and income from the fund is to be expended for the greatest needs of the Foundation. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

THE CATHOLIC FOUNDATION OF EASTERN MONTANA, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
December 31, 2021 and 2020

NOTE 6. ENDOWMENT (CONTINUED)

Interpretation of Relevant Law

The Foundation has interpreted the Montana Uniform Prudent Management of Institutional Funds Act (UPMIFA) 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, the Foundation classifies as perpetually restricted net assets (a) the original value of gifts donated to the permanent endowment, and (b) the original value of subsequent gifts to the perpetually restricted endowment. The remaining portion of the donor-restricted endowment fund that is not classified as perpetually restricted is classified as time or purpose restricted, until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the Foundation considers the following factors when making a determination to appropriate or accumulate donor-restricted endowment funds.

- The duration and preservation of the fund,
- The purpose of the Foundation and the donor-restricted endowment fund,
- General economic conditions,
- The possible effect of inflation and deflation,
- The expected total return from income and the appreciation of investments,
- Other resources of the Foundation, and
- The investment policies of the Foundation.

Spending Policy

Purpose – The goal of the spending policy is to provide funding from the endowment fund(s) to the various beneficiaries, in a disciplined and reasonable approach, while at the same time attempting to do so in a predictable, reasonable, and consistent basis.

The spending policy helps to determine the payout rate from the endowment of the beneficiaries. A 4.5% ceiling and a 3% floor have been put in place on endowment asset balances based on the average balance in the fund over the past twelve quarters, to help moderate spending during times of volatile periods. Both rates can be changed by the Board of Directors of the Foundation, but act to provide stability and long-term growth in the Foundation.

These limitations do not apply to endowments less than one-year old, or endowments with less than \$10,000 invested. In these cases, the Board of Directors determines the distribution amount.

Earnings and losses will only be assigned to endowed funds within the Foundation.

THE CATHOLIC FOUNDATION OF EASTERN MONTANA, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
December 31, 2021 and 2020

NOTE 6. ENDOWMENT (CONTINUED)

Spending Policy (Continued)

Determining the Distribution Rate – The Finance Committee of the Foundation will make an annual recommendation for the distributions within the approved guidelines to the Board of Directors.

Endowment Investment Policy

Timing of Distributions – Distributions to the beneficiaries will be made as soon as possible after the fiscal year-end, but no later than 150 days after year-end.

Investment Objective – The obligations of the Foundation are long-term in nature; consequently, the investment of the endowment assets has a long-term focus. The endowment assets are invested in accordance with sound investment practices that emphasize long-term investment fundamentals. The primary investment objectives are, first, the preservation of purchasing power of the principal. The second objective is the generation of a reasonable income to support the specific programs as identified by the donors. These objectives are achieved through a well-diversified portfolio structure in a manner consistent with the investment policy when read in its entirety.

Risk Tolerance – The Foundation examined two important factors that affect the portfolio risk tolerance: financial ability to accept risk within the investment program and the willingness to accept return volatility. The Foundation is comfortable with a low to moderate risk strategy.

However, safety and soundness is considered essential in the selection of securities. Specifically, approved investments may be in blue chip stocks, corporate bonds, time certificates of deposit, commercial paper, US Treasury securities, government agency offerings, money market funds, bank security agreements, and savings accounts.

Strategies for Achieving Objectives – To satisfy its long-term 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).

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 UPMIFA requires the Foundation to retain as a fund of perpetual duration. At December 31, 2021 and 2020 there were no funds and one fund in a loss position, respectively. The total amount of the fund in a loss position at December 31, 2020 was \$3,816. Management has evaluated the funds and believe the loss position to be temporary.

THE CATHOLIC FOUNDATION OF EASTERN MONTANA, INC.
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 December 31, 2021 and 2020

NOTE 6. ENDOWMENT (CONTINUED)

Funds with Deficiencies (Continued)

Endowment net asset composition by type of fund are as follows:

	<u>With donor restrictions</u>
<u>2021:</u>	
Donor permanently restricted endowment	<u>\$ 8,113,133</u>
<u>2020:</u>	
Donor permanently restricted endowment	<u>\$ 6,879,619</u>

Changes in net asset composition by type of fund for the year ended December 31, 2021 and 2020, is as follows:

	<u>With donor restrictions</u>
Endowment net assets, January 1, 2020	\$ 6,190,710
Contributions	<u>688,909</u>
Endowment net assets, December 31, 2020	6,879,619
Contributions	<u>1,233,514</u>
Endowment net assets, December 31, 2021	<u>\$ 8,113,133</u>

NOTE 7. NET ASSETS WITH DONOR RESTRICTIONS

Donor restricted net assets exist for the following purposes as of December 31:

Subject to expenditure once purpose or time restrictions are met:

	<u>2021</u>	<u>2020</u>
Foundation	\$ 68,994	\$ 43,190
Diocese	709,961	496,688
Schools	1,469,325	1,133,082
Parish	1,873,412	1,317,516
Priest retirement	223,575	159,069
Other Catholic organizations	<u>354,685</u>	<u>313,717</u>
	<u>\$ 4,699,952</u>	<u>\$ 3,463,262</u>

THE CATHOLIC FOUNDATION OF EASTERN MONTANA, INC.
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 December 31, 2021 and 2020

NOTE 7. NET ASSETS WITH DONOR RESTRICTIONS (CONTINUED)

Perpetual in nature:

	<u>2021</u>	<u>2020</u>
Foundation	\$ 127,811	\$ 115,521
Diocese	1,282,838	1,112,773
Schools	2,009,701	1,789,628
Parish	3,386,306	2,835,454
Priest retirement	336,535	326,633
Other Catholic organizations	<u>969,942</u>	<u>699,610</u>
	<u>\$ 8,113,133</u>	<u>\$ 6,879,619</u>

Net assets were released from donor restrictions by incurring expenses satisfying the purpose or time restrictions specified by donors as follows:

	<u>2021</u>	<u>2020</u>
Foundation	\$ 6,384	\$ 3,924
Diocese	84,935	103,064
Schools	157,700	139,320
Parish	196,442	181,865
Priest retirement	18,393	52,892
Other Catholic organizations	<u>123,650</u>	<u>38,308</u>
	<u>\$ 587,504</u>	<u>\$ 519,373</u>

NOTE 8. PLANNED GIFT LIABILITIES

The Foundation is subject to certain provisions of the Montana Code Annotated which specify that a charitable organization may only issue a “qualified charitable gift annuity” if it meets the following statutory requirements on the date of the annuity agreement:

- Has a minimum of \$300,000 net assets or has a minimum of \$100,000 in unrestricted cash, cash equivalents, or publicly traded securities, exclusive of the assets funding the annuity agreement;
- Has been in continuous operations for at least three years or is a successor or affiliate of a charitable organization that has been in continuous operations for at least three years; and
- Maintains a separate annuity fund with at least one-half the value of the initial amount transferred for outstanding annuities.

If the charitable organization cannot meet the requirements, the issuance of a qualified charitable gift annuity by a charitable organization must be commercially insured by a licensed insurance company that is qualified to do business in Montana.

THE CATHOLIC FOUNDATION OF EASTERN MONTANA, INC.
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 December 31, 2021 and 2020

NOTE 8. PLANNED GIFT LIABILITIES (CONTINUED)

For the years ended December 31, 2021 and 2020, the Foundation met the requirements to issue qualified charitable gift annuities.

The liability for each type of planned gift described in Note 1 changes each year with receipts of new gifts, payments under contracts, change in trust asset values, and the change in the present value of required payments to beneficiaries. The present value of the future payments over the beneficiaries' estimated remaining lives was calculated using the original discount rates at the date of the gift and applicable mortality tables.

The following summarizes the change in planned gift liabilities for the years ended December 31, 2021 and 2020:

Estimated present value of liability at January 1, 2020	\$ 332,327
Increase in estimated present value of liability from contributions	217,388
Decrease in estimated present value due to payments to beneficiaries	(162,744)
Decrease in estimated present value due to release from beneficiaries	<u>(20,431)</u>
Estimated present value of liability at December 31, 2020	366,540
Increase in estimated present value of liability from contributions	216,144
Decrease in estimated present value due to payments to beneficiaries	(166,576)
Decrease in estimated present value due to release from beneficiaries	<u>(32,355)</u>
Estimated present value of liability at December 31, 2021	<u>\$ 383,753</u>

NOTE 9. RELATED PARTY TRANSACTIONS

The Foundation holds assets on behalf of the Diocese. Contributions during the years ended December 31, 2021 and 2020 were \$168,914 and \$63,952, respectively. Allocations for the years ended December 31, 2021 and 2020 were \$54,576 and \$77,706, respectively. Total assets held on behalf of the Diocese at December 31, 2021 and 2020 was \$1,992,800 and \$1,609,461, respectively.

NOTE 10. PENSION PLAN

The Foundation provides a 403(b) defined contribution pension plan for lay employees through Christian Brothers Retirement Services. For permanent full-time and part-time, the Foundation contribution is equal to 6% of gross salary. Employees may also contribute to the plan on a voluntary basis from their salary, subject to certain annual limits. For the years ended December 31, 2021 and 2020, employer costs were \$9,600 and \$7,677, respectively.



CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS ADVISORS

www.azworld.com

MEMBER: AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS