

**The accompanying financial statements and report are intended for the original recipient. They must be presented in their entirety and may not be modified in any manner.**



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

**FINANCIAL REPORT**

**December 31, 2017 and 2016**



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## INDEPENDENT AUDITOR'S REPORT

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

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, 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 audit 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 financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the organization's preparation and fair presentation of the 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 audit opinion.

**Opinion**

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, 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.

*Anderson Zurmuehlen & Co., P.C.*  
Great Falls, Montana  
April 5, 2018

FINANCIAL STATEMENTS

THE CATHOLIC FOUNDATION OF EASTERN MONTANA, INC.  
 STATEMENTS OF FINANCIAL POSITION  
 December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 485,283	\$ 568,192
Accounts receivable - related party	32,019	-
Interest receivable	35,624	34,421
Investments	11,435,467	10,289,976
Land and buildings	399,884	399,884
Beneficial interest in life insurance trust	<u>79,584</u>	<u>77,502</u>
Total assets	<u>\$ 12,467,861</u>	<u>\$ 11,369,975</u>
<b>LIABILITIES AND NET ASSETS</b>		
Accounts payable	\$ 3,810	\$ 6,200
Accrued vacation	17,757	11,504
Charitable gift annuities	258,199	284,724
Agency funds payable	<u>1,787,058</u>	<u>1,710,157</u>
Total liabilities	<u>2,066,824</u>	<u>2,012,585</u>
<b>NET ASSETS</b>		
Unrestricted	1,316,175	1,563,720
Temporarily restricted	2,498,799	1,737,509
Permanently restricted	<u>6,586,063</u>	<u>6,056,161</u>
Total net assets	<u>10,401,037</u>	<u>9,357,390</u>
Total liabilities and net assets	<u>\$ 12,467,861</u>	<u>\$ 11,369,975</u>

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

THE CATHOLIC FOUNDATION OF EASTERN MONTANA, INC.  
STATEMENT OF ACTIVITIES  
Year Ended December 31, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS, AND OTHER SUPPORT				
Contributions	\$ 172,030	\$ 1,535,946	\$ 529,902	\$ 2,237,878
Net investment income	100,417	1,220,921	-	1,321,338
Ranch income	27,218	-	-	27,218
Administrative fee income	180,875	-	-	180,875
Diocesan income	100,000	-	-	100,000
Other	94,327	-	-	94,327
Change in split-interest agreements	(26,525)	-	-	(26,525)
Assets released from restrictions	<u>1,995,577</u>	<u>(1,995,577)</u>	<u>-</u>	<u>-</u>
Total revenues, gains, and other support	<u>2,643,919</u>	<u>761,290</u>	<u>529,902</u>	<u>3,935,111</u>
EXPENSES				
Program:				
Allocations to other organizations	<u>2,429,832</u>	<u>-</u>	<u>-</u>	<u>2,429,832</u>
Total program expenses	<u>2,429,832</u>	<u>-</u>	<u>-</u>	<u>2,429,832</u>
Management and general:				
Advertising	3,802	-	-	3,802
Bank service charges	25,243	-	-	25,243
Employee benefits	18,400	-	-	18,400
Interest	6,318	-	-	6,318
Meetings and travel	1,691	-	-	1,691
Miscellaneous	448	-	-	448
Office management	168,802	-	-	168,802
Online donation fees	5,465	-	-	5,465
Payroll taxes	16,229	-	-	16,229
Postage	4,784	-	-	4,784
Professional fees	44,779	-	-	44,779
Ranch	4,659	-	-	4,659
Telephone	1,651	-	-	1,651
Wages	<u>159,341</u>	<u>-</u>	<u>-</u>	<u>159,341</u>
Total management and general	<u>461,632</u>	<u>-</u>	<u>-</u>	<u>461,632</u>
Total expenses	<u>2,891,464</u>	<u>-</u>	<u>-</u>	<u>2,891,464</u>
Change in net assets	(247,545)	761,290	529,902	1,043,647
Net assets, beginning of year	<u>1,563,720</u>	<u>1,737,509</u>	<u>6,056,161</u>	<u>9,357,390</u>
Net assets, end of year	<u>\$ 1,316,175</u>	<u>\$ 2,498,799</u>	<u>\$ 6,586,063</u>	<u>\$ 10,401,037</u>

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



THE CATHOLIC FOUNDATION OF EASTERN MONTANA, INC.  
STATEMENT OF ACTIVITIES  
Year Ended December 31, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>REVENUES, GAINS, AND OTHER SUPPORT</b>				
Contributions	\$ 388,619	\$ 1,857,245	\$ 333,165	\$ 2,579,029
Net investment income	149,208	360,026	-	509,234
Ranch income	12,444	-	-	12,444
Administrative fee income	180,975	-	-	180,975
Diocesan income	125,000	-	-	125,000
Other	1,358	-	-	1,358
Change in split-interest agreements	23,252	-	-	23,252
Assets released from restrictions	<u>2,519,924</u>	<u>(2,519,924)</u>	<u>-</u>	<u>-</u>
Total revenues, gains, and other support	<u>3,400,780</u>	<u>(302,653)</u>	<u>333,165</u>	<u>3,431,292</u>
<b>EXPENSES</b>				
<b>Program:</b>				
Allocations to other organizations	<u>2,448,251</u>	<u>-</u>	<u>-</u>	<u>2,448,251</u>
Total program expenses	<u>2,448,251</u>	<u>-</u>	<u>-</u>	<u>2,448,251</u>
<b>Management and general:</b>				
Advertising	3,999	-	-	3,999
Bank service charges	24,067	-	-	24,067
Employee benefits	18,373	-	-	18,373
Interest expense	7,681	-	-	7,681
Meetings and travel	994	-	-	994
Miscellaneous	121	-	-	121
Office management	203,378	-	-	203,378
Online donation fees	4,632	-	-	4,632
Payroll taxes	10,176	-	-	10,176
Postage	5,781	-	-	5,781
Professional fees	29,990	-	-	29,990
Ranch	2,608	-	-	2,608
Telephone	803	-	-	803
Wages	<u>145,184</u>	<u>-</u>	<u>-</u>	<u>145,184</u>
Total management and general	<u>457,787</u>	<u>-</u>	<u>-</u>	<u>457,787</u>
Total expenses	<u>2,906,038</u>	<u>-</u>	<u>-</u>	<u>2,906,038</u>
Change in net assets	494,742	(302,653)	333,165	525,254
Net assets, beginning of year	<u>1,068,978</u>	<u>2,040,162</u>	<u>5,722,996</u>	<u>8,832,136</u>
Net assets, end of year	<u>\$ 1,563,720</u>	<u>\$ 1,737,509</u>	<u>\$ 6,056,161</u>	<u>\$ 9,357,390</u>

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

THE CATHOLIC FOUNDATION OF EASTERN MONTANA, INC.  
STATEMENTS OF CASH FLOWS  
Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 1,043,647	\$ 525,254
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Unrealized gain on investments	(971,625)	(222,349)
Realized gain on sale of securities	(371,116)	(78,737)
Permanently restricted contributions	(529,902)	(333,165)
Change in operating assets and liabilities:		
Accounts receivable - related party	(32,019)	-
Interest receivable	(1,203)	(5,027)
Beneficial interest in life insurance trust	(2,082)	(77,502)
Accounts payable	(2,390)	2,473
Accrued vacation	6,253	11,379
Long-term charitable gift annuities	(26,525)	23,252
Agency funds payable	<u>76,901</u>	<u>44,350</u>
Net cash flows from operating activities	<u>(810,061)</u>	<u>(110,072)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of securities	(1,893,114)	(599,065)
Proceeds from sale of securities	<u>2,090,364</u>	<u>433,083</u>
Net cash flows from investing activities	<u>197,250</u>	<u>(165,982)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Permanently restricted contributions	<u>529,902</u>	<u>333,165</u>
Net cash flows from financing activities	<u>529,902</u>	<u>333,165</u>
Net change in cash and cash equivalents	(82,909)	57,111
Cash and cash equivalents, beginning of year	<u>568,192</u>	<u>511,081</u>
Cash and cash equivalents, end of year	<u>\$ 485,283</u>	<u>\$ 568,192</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, 2017 and 2016

**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 primary purpose of the Foundation is to create permanent endowments, whose income will be used to fulfill the following goals:

- To promote, expand, and strengthen the Roman Catholic Church in the Diocese of Great Falls-Billings (the Diocese),
- To support the Diocese by seeking and securing, investing, and managing financial support to benefit the programs of the Diocese,
- To manage and administer the funds and property donated to the Foundation consistent with the intent of the donors,
- Consistent with the expressed needs and priorities of the Diocese, to support and assist, financially or in any other manner, the religious, educational, charitable, and medical institutions or programs operated by or under the auspices of the Bishop and the Diocese,
- 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 Foundation is formed shall at all times be consistent with 501(c)(3) of the Internal Revenue Code, as it now exists or as it may be amended from time to time, and
- To hold and exercise all rights and powers conferred on nonprofit organizations under Montana Code Annotated 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 three classes of net assets:

*Unrestricted* – Net assets that are not subject to donor-imposed restrictions. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors.

*Temporarily Restricted* – Net assets that are subject to donor-imposed restrictions that can be fulfilled by actions of the Foundation pursuant to those restrictions or that expire by passage of time.

*Permanently Restricted* – Net assets subject to donor-imposed restrictions that are maintained permanently by the Foundation.

THE CATHOLIC FOUNDATION OF EASTERN MONTANA, INC.  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
December 31, 2017 and 2016

**NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Basis of Presentation (Continued)**

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed 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 as unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Gains and losses on assets or liabilities are reported as increases or decreases in unrestricted net assets, unless their use is restricted by explicit donor stipulation or by law.

**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, 2017 and 2016, the Foundation's uninsured cash balances totaled \$353,762 and \$429,817, 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, 2017 and 2016

**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.

**Advertising**

Advertising costs are expensed as incurred. Advertising expense for the years ended December 31, 2017 and 2016, was \$3,802 and \$3,999, respectively.

**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 or management and general. Fundraising expenses on behalf of the Foundation are considered to be negligible, thus not reported separately.

**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 reclassifications have been made to the December 31, 2016 financial statements to conform to the December 31, 2017 presentation. Such reclassifications had no effect on previously reported amounts.

THE CATHOLIC FOUNDATION OF EASTERN MONTANA, INC.  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
December 31, 2017 and 2016

**NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Subsequent Events**

Management has evaluated subsequent events through April 5, 2018, the date, which the financial statements were available for issue.

**NOTE 2. INVESTMENTS**

The Foundation has determined the fair value of its investments 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.
- 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.

The Foundation's policy for determining the timing of significant transfers between Levels 1 and 2 is at the end of the reporting period.

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, 2017 and 2016.

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

*Corporate Bonds:* 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.

*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).

The following tables present by level, within the fair value hierarchy, the Foundation's investment assets at fair value, as of December 31, 2017 and 2016. Investment assets are classified in their entirety based upon the lowest level of input that is significant at the fair value measurement.

THE CATHOLIC FOUNDATION OF EASTERN MONTANA, INC.  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
December 31, 2017 and 2016

**NOTE 2. INVESTMENTS (CONTINUED)**

	Fair Value as of December 31, 2017			
	Average Cost	Quoted Prices (Level 1)	Significant Other Observable Inputs (Level 2)	Cumulative Appreciation (Depreciation)
US agency debt securities	\$ 60,061	\$ -	\$ 68,971	\$ 8,910
Municipal bonds	148,567	-	152,806	4,239
Corporate bonds:				
U.S. fixed income	3,441,227	-	3,380,075	(61,152)
Foreign sovereign fixed income	174,695	-	173,003	(1,692)
Total corporate bonds	3,615,922	-	3,553,078	(62,844)
U.S. equity stocks	4,249,074	6,022,355	-	1,773,281
Developed foreign stocks	616,820	742,331	-	125,511
U.S. listed real estate stocks	133,250	180,017	-	46,767
Mutual funds:				
International equities	170,000	231,243	-	61,243
Total mutual funds	170,000	231,243	-	61,243
Money market funds	484,666	484,666	-	-
	<u>\$ 9,478,360</u>	<u>\$ 7,660,612</u>	<u>\$ 3,774,855</u>	<u>\$ 1,957,107</u>

  

	Fair Value as of December 31, 2016			
	Average Cost	Quoted Prices (Level 1)	Significant Other Observable Inputs (Level 2)	Cumulative Appreciation (Depreciation)
US agency debt securities	\$ 60,074	\$ -	\$ 68,529	\$ 8,455
Municipal bonds	225,364	-	236,305	10,941
Corporate bonds:				
U.S. fixed income	3,043,810	-	2,981,532	(62,278)
Foreign sovereign fixed income	225,914	-	221,486	(4,428)
Total corporate bonds	3,269,724	-	3,203,018	(66,706)
U.S. equity stocks	4,301,275	5,217,415	-	916,140
Developed foreign stocks	625,032	702,864	-	77,832
U.S. listed real estate stocks	49,787	81,375	-	31,588
Mutual funds:				
International equities	170,000	177,232	-	7,232
Total mutual funds	170,000	177,232	-	7,232
Money market funds	603,238	603,238	-	-
	<u>\$ 9,304,494</u>	<u>\$ 6,782,124</u>	<u>\$ 3,507,852</u>	<u>\$ 985,482</u>

Thirty-seven and thirty-five investments were in continuous loss position for twelve months or more as of December 31, 2017 and 2016, respectively. The total amount of the unrealized losses associated with the securities were \$197,119 and \$154,123 as of December 31, 2017 and 2016, respectively. Management has evaluated the securities and believes the loss position to be temporary.

THE CATHOLIC FOUNDATION OF EASTERN MONTANA, INC.  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
December 31, 2017 and 2016

**NOTE 3. 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 \$79,584 and \$77,502 as of December 31, 2017 and 2016, respectively.

**NOTE 4. ENDOWMENT**

The Foundation maintains endowments within its permanently 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.

*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 permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, and (b) the original value of subsequent gifts to the permanent endowment. 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 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
- The investment policies of the Foundation



THE CATHOLIC FOUNDATION OF EASTERN MONTANA, INC.  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
December 31, 2017 and 2016

**NOTE 4. ENDOWMENT (CONTINUED)**

*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 at month end, to help moderate spending during times of volatile periods. Both rates can be changed by the Board of Directors of the Foundation, but acts 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 allocated to endowed funds within the Foundation.

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.

Donations received into funds on or before the 15<sup>th</sup> of a month will be allocated earnings for the entire month. Funds received the 16<sup>th</sup> or later in the month will begin receiving earnings beginning with the following full month. Conversely, disbursements from a fund through the 15<sup>th</sup> of a month will not be included toward monthly allocated earnings. Disbursements from the 16<sup>th</sup> forward in a month will be included when receiving allocated earnings.

Timing of Distributions – Distributions to the beneficiaries will be made as soon as possible after the fiscal year-end, but no later than 120 days after year-end.

*Endowment Investment Policy*

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.

THE CATHOLIC FOUNDATION OF EASTERN MONTANA, INC.  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 December 31, 2017 and 2016

**NOTE 4. ENDOWMENT (CONTINUED)**

*Endowment Investment Policy (Continued)*

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, 2017 and 2016 there were three funds in a loss position, respectively. The total amount of funds in a loss position is \$19,413 and \$2,125 at December 31, 2017 and 2016, respectively. Management has evaluated the funds and believe the loss position to be temporary.

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

	Permanently Restricted
<u>2017:</u>	
Donor restricted endowment	<u>\$ 6,586,063</u>
<u>2016:</u>	
Donor restricted endowment	<u>\$ 6,056,161</u>

Changes in net asset composition by type of fund for the year ended December 31, 2017 and 2016, is as follows:

	Permanently Restricted
Endowment net assets, January 1, 2016	\$ 5,722,996
Contributions	<u>333,165</u>
Endowment net assets, December 31, 2016	6,056,161
Contributions	<u>529,902</u>
Endowment net assets, December 31, 2017	<u>\$ 6,586,063</u>

THE CATHOLIC FOUNDATION OF EASTERN MONTANA, INC.  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 December 31, 2017 and 2016

**NOTE 5. TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS**

Net assets as of December 31, 2017 and 2016 were temporarily and permanently restricted for the following purposes:

	<u>December 31, 2017</u>		<u>December 31, 2016</u>	
	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Greatest needs	\$ 889,704	\$ 1,502,965	\$ 721,924	\$ 1,514,364
Diocese	287,454	877,305	223,039	721,079
Schools	593,006	1,619,203	369,642	1,631,227
Parish	543,527	1,937,432	308,564	1,649,511
Priest retirement	86,355	278,751	66,506	225,299
Other Catholic organizations	98,753	370,407	47,834	314,681
	<u>\$ 2,498,799</u>	<u>\$ 6,586,063</u>	<u>\$ 1,737,509</u>	<u>\$ 6,056,161</u>

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

Purpose or time restriction accomplished:

	<u>2017</u>	<u>2016</u>
Greatest needs	\$ 71,504	\$ 101,784
Diocese	1,689,098	1,568,179
Schools	62,007	91,794
Parish	156,538	733,426
Priest retirement	5,061	10,220
Other Catholic organizations	11,369	14,521
	<u>\$ 1,995,577</u>	<u>\$ 2,519,924</u>

**NOTE 6. 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.

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 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 December 31, 2017 and 2016

**NOTE 6. PLANNED GIFT LIABILITIES (CONTINUED (CONTINUED))**

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.

For the years ended December 31, 2017 and 2016, 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, 2017 and 2016:

Estimated present value of liability at January 1, 2016	\$ 261,472
Increase in estimated present value of liability from contributions	38,997
Decrease in estimated present value due to payments to beneficiaries	<u>(15,745)</u>
Estimated present value of liability at December 31, 2016	284,724
Increase in estimated present value of liability from contributions	23,764
Decrease in estimated present value due to payments to beneficiaries	<u>(50,289)</u>
Change in estimated present value at December 31, 2017	<u>\$ 258,199</u>

**NOTE 7. RELATED PARTY TRANSACTIONS**

The Foundation holds assets on behalf of the Diocese. Contributions during the years ended December 31, 2017 and 2016 were \$1,218,058 and \$1,632,791, respectively. Allocations for the years ended December 31, 2017 and 2016 were \$1,400,604 and \$1,570,176, respectively. Total assets held on behalf of the Diocese at December 31, 2017 and 2016 was \$1,446,739 and \$944,119, respectively.

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**NOTE 8. 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, 2017 and 2016, employer costs were \$8,478 and \$8,434, respectively.

**NOTE 9. COMMITMENTS AND CONTINGENCIES**

On March 31, 2017, the Diocese of Great Falls-Billings filed for Chapter 11 bankruptcy. The Foundation holds assets on behalf of the Diocese, which may be subject to the bankruptcy proceedings. The Foundation does not believe its donor-endowed assets will be subject to bankruptcy proceedings. Similarly, the Diocese may be holding assets on behalf of the Foundation which may also be subject to the bankruptcy proceedings. The Foundation is unaware of any such assets. At December 31, 2017 and 2016, the accompanying financial statements have not been adjusted for this contingency.



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