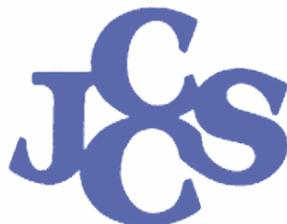


**CATHOLIC FOUNDATION OF  
EASTERN MONTANA, INC.**

**AUDITED FINANCIAL STATEMENTS**

**December 31, 2013**



**Junkermier • Clark**

**Campanella • Stevens • P.C.**

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Certified Public Accountants and Business Advisors



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Certified Public Accountants and Business Advisors

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

## **INDEPENDENT AUDITORS' REPORT**

We have audited the accompanying financial statements of Catholic Foundation of Eastern Montana, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2013, and the related statements of activities and cash flows for the six months 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 entity'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.

## **Basis for Qualified Opinion**

As explained in Note 8 to the financial statements, the Catholic Foundation of Eastern Montana, Inc. is a recipient organization, accepting assets from a donor and agrees to (a) use those assets on behalf of a specified beneficiary or (b) disburse those assets, the return on investment of those assets, or both to that beneficiary. Accounting principles generally accepted in the United States of America require the recipient organization to recognize a liability and not record the such donations as contributions. The effects on the accompanying financial statements of the failure to properly report the agency transactions have not been determined.

## **Opinion**

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Catholic Foundation of Eastern Montana, Inc., as of December 31, 2013, and the changes in its net assets and its cash flows for the six months then ended in accordance with accounting principles generally accepted in the United States of America.

*Junkermier, Clark, Campanella, Stevens, P.C.*

Great Falls, Montana  
June 2, 2014

**CATHOLIC FOUNDATION OF EASTERN MONTANA, INC.**  
**STATEMENT OF FINANCIAL POSITION**  
**December 31, 2013**

**ASSETS**

**CURRENT ASSETS**

Cash and cash equivalents	\$	308,960
Accrued interest receivable		20,232
Land and buildings		<u>399,884</u>

\$ 729,076

**INVESTMENTS, at market**

8,038,959

Total assets

\$ 8,768,035

**LIABILITIES AND NET ASSETS**

**CURRENT LIABILITIES**

Accounts payable	\$	4,566
Gift annuities payable		86,771
Agency funds payable		<u>8,643,054</u>

\$ 8,734,391

**NET ASSETS**

Unrestricted		(7,092)
Temporarily restricted		9,201
Permanently restricted		<u>31,535</u>

33,644

Total liabilities and net assets

\$ 8,768,035

See notes to financial statements.

**CATHOLIC FOUNDATION OF EASTERN MONTANA, INC.**  
**STATEMENT OF ACTIVITIES**  
**Six Months Ended December 31, 2013**

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Totals</b>
<b>REVENUES, GAINS, AND OTHER SUPPORT</b>				
Contributions	\$ 81,875	\$ -	\$ 1,093,464	\$ 1,175,339
Investment income	79,363	392	-	79,755
Net realized and unrealized gain	618,333	2,378	-	620,711
Ranch income	6,600	-	-	6,600
Change in value of split-interest agreements	-	-	(662)	(662)
Net assets released from restrictions through the satisfaction of program requirements	392	(392)	-	-
	<u>786,563</u>	<u>2,378</u>	<u>1,092,802</u>	<u>1,881,743</u>
Total revenues, gains, and other support				
	<u>786,563</u>	<u>2,378</u>	<u>1,092,802</u>	<u>1,881,743</u>
<b>EXPENSES AND ALLOCATIONS</b>				
Management and general				
Bank service charges	7,355	-	-	7,355
Interest expense	2,069	-	-	2,069
Printing and reproduction	795	-	-	795
Meetings and travel	181	-	-	181
Office supplies	210	-	-	210
Ranch expenses	6,570	-	-	6,570
Professional fees	4,042	-	-	4,042
Licenses and permits	500	-	-	500
	<u>21,722</u>	<u>-</u>	<u>-</u>	<u>21,722</u>
Total expenses				
	<u>21,722</u>	<u>-</u>	<u>-</u>	<u>21,722</u>
Allocations to other organizations	766,247	-	1,081,027	1,847,274
	<u>766,247</u>	<u>-</u>	<u>1,081,027</u>	<u>1,847,274</u>
Total expenses and allocations				
	<u>787,969</u>	<u>-</u>	<u>1,081,027</u>	<u>1,868,996</u>
<b>CHANGE IN NET ASSETS</b>	<u>(1,406)</u>	<u>2,378</u>	<u>11,775</u>	<u>12,747</u>
Net assets, beginning of period	-	-	-	-
Prior period adjustment	(5,686)	6,823	19,760	20,897
	<u>(5,686)</u>	<u>6,823</u>	<u>19,760</u>	<u>20,897</u>
Net assets, beginning of period restated				
	<u>(5,686)</u>	<u>6,823</u>	<u>19,760</u>	<u>20,897</u>
<b>NET ASSETS, END OF PERIOD</b>	<u>\$ (7,092)</u>	<u>\$ 9,201</u>	<u>\$ 31,535</u>	<u>\$ 33,644</u>

See notes to financial statements.

**CATHOLIC FOUNDATION OF EASTERN MONTANA, INC.**  
**STATEMENT OF CASH FLOWS**  
**For the Six Months Ended December 31, 2013**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Change in net assets	\$	12,747
Non-cash items included in change in net assets:		
Unrealized gain on investments		(590,075)
Realized gain on sale of securities		(30,636)
Change in:		
Accrued interest receivable		(258)
Accounts payable		266
Gift annuities payable		5,339
Agency funds payable		<u>1,688,670</u>
Net cash provided by operating activities		\$ 1,086,053

**CASH FLOWS FROM INVESTING ACTIVITIES**

Purchase of securities		(1,039,915)
Sale of securities		<u>52,024</u>
Net cash used by investing activities		<u>(987,891)</u>

**NET CHANGE IN CASH**

		98,162
Cash, beginning of period		<u>210,798</u>

**CASH, END OF PERIOD**

\$ 308,960

**SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION**

Cash paid during six month period for interest		<u><u>\$ 2,069</u></u>
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See notes to financial statements.

**CATHOLIC FOUNDATION OF EASTERN MONTANA, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2013**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES**

Nature of Activities:

The Catholic Foundation of Eastern Montana, Inc. (the Foundation) is a non-profit religious corporation formed in 1999. A Board of Trustees 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:

- a. To promote, expand and strengthen the Roman Catholic Church in the Diocese of Great Falls-Billings,
- b. To administer and distribute (for religious, educational and other charitable purposes) property donated to the Foundation in accordance with the terms of the gifts, bequests or devises to the Foundation or in accordance with determinations by the Board of Trustees pursuant to the Foundation's bylaws,
- c. 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 Diocese of Great Falls-Billings,
- d. To promote Roman Catholic doctrines, evangelization, Christian education and missionary work in the Diocese of Great Falls-Billings, and that are undertaken by said Diocese elsewhere, and
- e. To assist worthy, talented or needy men and women in pursuing studies useful to the Diocese of Great Falls-Billings.

Basis of Presentation:

The Foundation's financial statements are presented in accordance with U.S. generally accepted accounting principles (GAAP) which requires the Foundation to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. A description of the three net asset categories follows:

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 whose use by the Organization is subject to donor-imposed restrictions that can be fulfilled by actions of the Organization pursuant to those restrictions or that expire by the passage of time.

Permanently Restricted - Net assets subject to donor-imposed restrictions that they be maintained permanently by the Organization.

Contributions are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. 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. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions.

In addition, the Foundation accounts for contributions received for the benefit of others as liabilities to those organizations.

**CATHOLIC FOUNDATION OF EASTERN MONTANA, INC.**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**December 31, 2013**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (Continued)**

**Basis of Accounting:**

The financial statements of the Organization have been prepared on the accrual basis.

**Cash Equivalents:**

For purposes of the statement of cash flows, the Foundation considers cash and all highly liquid investments with a maturity of three months or less to be cash equivalents.

**Investment Securities:**

The Foundation investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair values in the statement 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.

Investment income net of expenses and net realized gains (losses) are pooled and allocated monthly to the participating organizations 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.

**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.

**Income Taxes:**

The Foundation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

**Functional Expenses:**

The expenses of the Foundation are management and general expenses.

**Use of Estimates:**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**CATHOLIC FOUNDATION OF EASTERN MONTANA, INC.**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**December 31, 2013**

**2. INVESTMENTS**

Investments include the following at December 31, 2013:

	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Gain (Loss)</u>
U.S. government and municipal bonds	\$ 846,091	\$ 866,900	\$ 20,809
Corporate bonds	1,681,591	1,668,929	(12,662)
Corporate stock	3,700,590	5,218,786	1,518,196
Equity funds	170,000	187,797	17,797
Money market	<u>96,547</u>	<u>96,547</u>	<u>-</u>
Total investments	<u>\$ 6,494,819</u>	<u>\$ 8,038,959</u>	<u>\$ 1,544,140</u>

The following summarizes changes in the relationships between carrying values and fair values of investments:

	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Gain</u>
December 31, 2013	\$ 6,494,819	\$ 8,038,959	\$ 1,544,140
June 30, 2012	5,476,292	6,430,357	<u>954,065</u>
Total increase in net unrealized gain			<u>\$ 590,075</u>

**CATHOLIC FOUNDATION OF EASTERN MONTANA, INC.**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**December 31, 2013**

**3. FAIR VALUE MEASUREMENTS**

The Foundation determines the fair value of its investments according to GAAP which provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The fair value hierarchy gives the highest priority to unadjusted observable quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable input (level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 - unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2 - quoted prices which are not active, quoted prices for similar assets or liabilities in active markets or inputs other than quoted prices that are observable (either directly or indirectly) for substantially the full term of the asset or liability;

Level 3 - significant unobservable prices or inputs where there is little or no market activity for the asset or liability at the measurement date.

The asset or liabilities fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

Fair values of assets measured on a recurring basis at December 31, 2013, are as follows:

	<u>Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
U.S. government and municipal bonds	\$ 866,900	\$ 866,900	\$ -	\$ -
Corporate bonds	1,668,929	1,668,929	-	-
Corporate stock	5,218,786	5,218,786	-	-
Equity funds	187,797	187,797	-	-
Money market	96,547	96,547	-	-
	<u>\$ 8,038,959</u>	<u>\$ 8,038,959</u>	<u>\$ -</u>	<u>\$ -</u>

**CATHOLIC FOUNDATION OF EASTERN MONTANA, INC.**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**December 31, 2013**

**4. ENDOWMENT**

The Foundation's endowment consists of permanently restricted funds established for the greatest needs of the Catholic Foundation of Eastern Montana, Inc. Contributions to the endowment fund 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 Catholic Foundation of Eastern Montana, Inc. As required by generally accepted accounting principles in the United States, 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 presentation 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:

- (1) The duration and preservation of the fund
- (2) The purpose of the Foundation 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 Foundation
- (7) The investment policies of the Foundation

**Spending Policy:**

It is the goal of the Foundation to provide annual distributions to support the programs it has identified within its mission. The Foundation has taken into consideration the impact cash withdrawals play upon the volatility of a portfolio over time.

**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.

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 and money market funds, bank security agreements and savings accounts.

**CATHOLIC FOUNDATION OF EASTERN MONTANA, INC.**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**December 31, 2013**

**4. ENDOWMENT (Continued)**

Endowment Investment Policy (Continued):

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).

Endowment net asset composition as of December 31, 2013, is as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Endowment assets</u>
Endowment funds:				
Donor-restricted endowment funds	\$ 392	\$ 9,201	\$ 437	\$ 10,030
Annuity endowment funds	-	-	31,098	31,098
Total	<u>\$ 392</u>	<u>\$ 9,201</u>	<u>\$ 31,535</u>	<u>\$ 41,128</u>

Changes in endowment net assets for the six month period ending December 31, 2013, are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Endowment assets</u>
Endowment net assets, beginning of year	\$ 1,527	\$ 6,823	\$ 19,760	\$ 28,110
Contributions	-	-	12,437	12,437
Investment income	-	392	-	392
Net appreciation	-	2,378	-	2,378
Change in value of split-interest agreements	-	-	(662)	(662)
Amounts appropriated for expenditure	(1,527)	-	-	(1,527)
Net assets released from restrictions	392	(392)	-	-
Endowment net assets, end of year	<u>\$ 392</u>	<u>\$ 9,201</u>	<u>\$ 31,535</u>	<u>\$ 41,128</u>

**5. SPLIT-INTEREST AGREEMENTS**

The Foundation administers various charitable gift annuities. A charitable gift annuity provides for the payment of distributions to the donor or other designated beneficiary over a specified period. At the end of the specified period, the remaining assets are distributed to the designated beneficiary. The contributions are invested with the general investments of the Foundation and the related annuity liability is recorded as a gift annuity payable. The Foundation calculates the present value of the gift annuity payable using the long-term applicable federal rate in affect at the date of the gift. As a result, investment income earned and changes in the fair value of investments are recognized in the same manner as the income, gains, and losses of the Foundation's other investments. Total charitable and deferred gift annuity contributions received during the six months ended December 31, 2013, was \$149,544.

**CATHOLIC FOUNDATION OF EASTERN MONTANA, INC.**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**December 31, 2013**

**6. RELATED PARTIES**

In addition to providing financial assistance to operating ministries discussed in Notes 1 and 7, the Foundation received accounting services provided by the accounting staff at the Central Administrative Office of the Diocese of Great Falls-Billings. No costs were incurred for these services and no amounts are reflected on the statements of activities for the six months ended December 31, 2013.

**7. DISTRIBUTIONS**

The Foundation distributes net realized income to each parish or organization. Distributions will be made for the six month period ended December 31, 2013, in the amount of \$97,339.

**8. AGENCY TRANSACTIONS**

The Catholic Foundation of Eastern Montana, Inc. is a recipient organization, accepting assets from a donor and agrees to (a) use those assets on behalf of a specified beneficiary or (b) disburse those assets, the return on investment of those assets, or both to that beneficiary. The contributions received in these situations are considered agency transactions and the recipient organization has not received a contribution. Accordingly, it should recognize the agency transaction by recording a liability to the specified beneficiary when it receives the assets from the donor. The amounts should be measured at the fair value of the assets. The Foundation has recorded all contributions received as revenues and reports on the statement of activities an allocation to other organizations to adjust the net assets for the amount of the liability to the other organizations.

**9. PRIOR PERIOD ADJUSTMENT**

During the year ended June 30, 2013, an adjustment was made to correct an error in contributions made directly to the Foundation. These contributions received by the Foundation were recorded as revenues, but then shown as allocations to other organizations and reflected in the statement of financial position as agency fund payable. The adjustment increased total net assets by \$20,897, which consists of (\$5,686) unrestricted net assets, \$6,823 temporarily restricted net assets, and \$19,760 permanently restricted net assets, and decreased the prior year liability by \$20,897.

**10. SUBSEQUENT EVENTS**

Management has evaluated subsequent events through June 2, 2014, the date on which the financial statements were available to be issued.