

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

FINANCIAL REPORT

December 31, 2019 and 2018



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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, 2019 and 2018, 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free 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, 2019 and 2018, 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.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the Foundation has adopted the Accounting Standards Update (ASU) 2018-08, *Not-for-Profit Entities (Topic 605)*. Our opinion is not modified with respect to this matter.

Anderson Zurmuehlen & Co., P.C.
Great Falls, Montana
April 20, 2020

FINANCIAL STATEMENTS

THE CATHOLIC FOUNDATION OF EASTERN MONTANA, INC.
 STATEMENTS OF FINANCIAL POSITION
 December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
Cash and cash equivalents	\$ 697,438	\$ 605,578
Interest receivable	36,878	38,975
Investments	12,908,208	10,644,868
Land and buildings	399,884	399,884
Land - held for sale	41,250	-
Beneficial interest in life insurance trust	<u>83,809</u>	<u>81,686</u>
Total assets	<u>\$ 14,167,467</u>	<u>\$ 11,770,991</u>
LIABILITIES AND NET ASSETS		
Accounts payable	\$ 8,597	\$ 15,566
Accrued vacation	23,243	20,586
Charitable gift annuities	332,327	300,513
Agency funds payable	<u>2,162,266</u>	<u>1,846,852</u>
Total liabilities	<u>2,526,433</u>	<u>2,183,517</u>
NET ASSETS		
Without donor restrictions	1,070,156	968,357
With donor restrictions	<u>10,570,878</u>	<u>8,619,117</u>
Total net assets	<u>11,641,034</u>	<u>9,587,474</u>
Total liabilities and net assets	<u>\$ 14,167,467</u>	<u>\$ 11,770,991</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, 2019

	Without donor restrictions	With donor restrictions	Total
REVENUES, GAINS, AND OTHER SUPPORT			
Contributions	\$ 89,179	\$ 652,449	\$ 741,628
Investment income, net	48,562	1,788,469	1,837,031
Ranch income	38,254	-	38,254
Administrative fee income	197,437	-	197,437
Other	3,228	-	3,228
Assets released from restrictions	489,157	(489,157)	-
Total revenues, gains, and other support	865,817	1,951,761	2,817,578
EXPENSES			
Program:			
Allocations to other organizations	368,441	-	368,441
Total program expenses	368,441	-	368,441
Management and general:			
Bank service charges	438	-	438
Employee benefits	17,179	-	17,179
Interest expense	3,305	-	3,305
Licenses and permits	20	-	20
Meetings and travel	2,090	-	2,090
Miscellaneous	562	-	562
Office management	177,576	-	177,576
Online donation fees	575	-	575
Payroll taxes	9,451	-	9,451
Postage	525	-	525
Professional fees	39,452	-	39,452
Ranch	3,999	-	3,999
Telephone	1,994	-	1,994
Wages	138,411	-	138,411
Total management and general	395,577	-	395,577
Total expenses	764,018	-	764,018
Change in net assets	101,799	1,951,761	2,053,560
Net assets, beginning of year	968,357	8,619,117	9,587,474
Net assets, end of year	\$ 1,070,156	\$ 10,570,878	\$ 11,641,034

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, 2018

	Without donor restrictions	With donor restrictions	Total
REVENUES, GAINS, AND OTHER SUPPORT			
Contributions	\$ 13,962	\$ 1,630,772	\$ 1,644,734
Investment income, net	32,775	98,950	131,725
Ranch income	26,123	-	26,123
Administrative fee income	202,718	-	202,718
Diocesan income	50,000	-	50,000
Other	429	-	429
Assets released from restrictions	<u>2,195,467</u>	<u>(2,195,467)</u>	<u>-</u>
Total revenues, gains, and other support	<u>2,521,474</u>	<u>(465,745)</u>	<u>2,055,729</u>
EXPENSES			
Program:			
Allocations to other organizations	<u>2,405,060</u>	<u>-</u>	<u>2,405,060</u>
Total program expenses	<u>2,405,060</u>	<u>-</u>	<u>2,405,060</u>
Management and general:			
Advertising	1,442	-	1,442
Bank service charges	350	-	350
Employee benefits	18,228	-	18,228
Interest expense	4,074	-	4,074
Licenses and permits	20	-	20
Meetings and travel	2,178	-	2,178
Miscellaneous	150	-	150
Office management	218,120	-	218,120
Online donation fees	(743)	-	(743)
Payroll taxes	11,338	-	11,338
Postage	1,686	-	1,686
Professional fees	46,497	-	46,497
Ranch	4,018	-	4,018
Telephone	1,956	-	1,956
Wages	<u>154,918</u>	<u>-</u>	<u>154,918</u>
Total management and general	<u>464,232</u>	<u>-</u>	<u>464,232</u>
Total expenses	<u>2,869,292</u>	<u>-</u>	<u>2,869,292</u>
Change in net assets	(347,818)	(465,745)	(813,563)
Net assets, beginning of year	<u>1,316,175</u>	<u>9,084,862</u>	<u>10,401,037</u>
Net assets, end of year	<u>\$ 968,357</u>	<u>\$ 8,619,117</u>	<u>\$ 9,587,474</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, 2019 and 2018

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 2,053,560	\$ (813,563)
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Unrealized (gain) loss on investments	(1,320,158)	353,176
Realized (gain) on sale of securities	(312,495)	(286,484)
Perpetually restricted contributions	(669,539)	(483,295)
Contributed land	(41,250)	-
Changes in operating assets and liabilities:		
Accounts receivable - related party	-	32,019
Interest receivable	2,097	(3,351)
Beneficial interest in life insurance trust	(2,123)	(2,102)
Accounts payable	(6,969)	11,756
Accrued vacation	2,657	2,829
Charitable gift annuities	31,814	42,314
Agency funds payable	<u>315,414</u>	<u>59,794</u>
Net cash flows from operating activities	<u>53,008</u>	<u>(1,086,907)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of securities	(3,482,435)	(1,707,946)
Proceeds from sale of securities	<u>2,851,748</u>	<u>2,431,853</u>
Net cash flows from investing activities	<u>(630,687)</u>	<u>723,907</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Perpetually restricted contributions	<u>669,539</u>	<u>483,295</u>
Net cash flows from financing activities	<u>669,539</u>	<u>483,295</u>
Net change in cash and cash equivalents	91,860	120,295
Cash and cash equivalents, beginning of year	<u>605,578</u>	<u>485,283</u>
Cash and cash equivalents, end of year	<u>\$ 697,438</u>	<u>\$ 605,578</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, 2019 and 2018

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.

New Accounting Pronouncements

On August 18, 2016, FASB issued Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. As of December 31, 2018, the Foundation has implemented ASU 2016-14 and has adjusted the presentation in these financial statements accordingly. The changes required by this ASU have been applied retrospectively to all periods presented, which had no effect on the total change in net assets or total assets previously reported.

THE CATHOLIC FOUNDATION OF EASTERN MONTANA, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
December 31, 2019 and 2018

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New Accounting Pronouncements (Continued)

On January 1, 2019, the Foundation adopted FASB ASU 2018-08, *Not-for-Profit Entities (Topic 605)* – Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made as management believes that standard improves the usefulness and understandability of the Foundation’s financial reporting. Analysis of various provisions of this standard resulted in no significant changes in the way the Foundation recognizes revenue, and the ASU has been applied retrospectively to all periods presented, which had no effect on the change in net assets or total assets previously reported.

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.

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, 2019 and 2018, the Foundation’s uninsured cash balances totaled \$462,526 and \$234,717, respectively.

THE CATHOLIC FOUNDATION OF EASTERN MONTANA, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
December 31, 2019 and 2018

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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).

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 conditional on which they depend have been met.

Advertising

Advertising costs are expensed as incurred. Advertising expense for the years ended December 31, 2019 and 2018, was \$-0- and \$1,442, respectively.

THE CATHOLIC FOUNDATION OF EASTERN MONTANA, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
December 31, 2019 and 2018

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

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, 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.

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

THE CATHOLIC FOUNDATION OF EASTERN MONTANA, INC.
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 December 31, 2019 and 2018

NOTE 2. INVESTMENTS (CONTINUED)

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, 2019 and 2018.

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.

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, 2019 and 2018. Investment assets are classified in their entirety based upon the lowest level of input that is significant at the fair value measurement.

	Fair Value as of December 31, 2019				Cumulative Appreciation (Depreciation)
	Average Cost	Quoted Prices (Level 1)	Significant Other Observable Inputs (Level 2)	Total	
Municipal debt securities	\$ 58,941	\$ -	\$ 66,947	\$ 66,947	\$ 8,006
Corporate debt securities:					
U.S. fixed income	3,960,546	-	3,995,290	3,995,290	34,744
Foreign developed debt	<u>299,993</u>	-	<u>308,363</u>	<u>308,363</u>	<u>8,370</u>
Total corporate debt securities	4,260,539	-	4,303,653	4,303,653	43,114
U.S. equity stocks	4,179,796	6,642,668	-	6,642,668	2,462,872
Developed foreign stocks	585,318	817,440	-	817,440	232,122
U.S. listed real estate stocks	290,961	428,825	-	428,825	137,864
Mutual funds:					
International equities	222,524	247,093	-	247,093	24,569
Balanced fund	<u>58,726</u>	<u>74,268</u>	-	<u>74,268</u>	<u>15,542</u>
Total mutual funds	281,250	321,361	-	321,361	40,111
Money market funds	<u>327,314</u>	<u>327,314</u>	-	<u>327,314</u>	-
	<u>\$ 9,984,119</u>	<u>\$ 8,537,608</u>	<u>\$ 4,370,600</u>	<u>\$ 12,908,208</u>	<u>\$ 2,924,089</u>

THE CATHOLIC FOUNDATION OF EASTERN MONTANA, INC.
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 December 31, 2019 and 2018

NOTE 2. INVESTMENTS (CONTINUED)

	Average Cost	Fair Value as of December 31, 2018			Cumulative Appreciation (Depreciation)
		Quoted Prices (Level 1)	Significant Other Observable Inputs (Level 2)	Total	
U.S. agency debt securities	\$ 60,054	\$ -	\$ 65,220	\$ 65,220	\$ 5,166
Municipal debt securities	25,030	-	25,251	25,251	221
Corporate securities:					
U.S. fixed income	3,582,665	-	3,497,179	3,497,179	(85,486)
Foreign sovereign fixed income	<u>249,492</u>	-	<u>243,266</u>	<u>243,266</u>	<u>(6,226)</u>
Total corporate debt securities	3,832,157	-	3,740,445	3,740,445	(91,712)
U.S. equity stocks	3,537,990	5,171,349	-	5,171,349	1,633,359
Developed foreign stocks	707,889	727,080	-	727,080	19,191
U.S. listed real estate stocks	132,168	192,583	-	192,583	60,415
Mutual funds:					
International equities	222,524	194,939	-	194,939	(27,585)
Balanced fund	<u>58,452</u>	<u>63,328</u>	-	<u>63,328</u>	<u>4,876</u>
Total mutual funds	280,976	258,267	-	258,267	(22,709)
Money market funds	<u>464,673</u>	<u>464,673</u>	-	<u>464,673</u>	-
	<u>\$ 9,040,937</u>	<u>\$ 6,813,952</u>	<u>\$ 3,830,916</u>	<u>\$ 10,644,868</u>	<u>\$ 1,603,931</u>

Nineteen and thirty-eight investments were in continuous loss position for twelve months or more as of December 31, 2019 and 2018, respectively. The total amount of the unrealized losses associated with the securities were \$41,262 and \$260,807 as of December 31, 2019 and 2018, respectively. Management has evaluated the securities and believes the loss position to be temporary.

Investment fees totaled \$28,479 and \$27,083 for the years ended December 31, 2019 and 2018, respectively. Net investment income at December 31, 2019 and 2018 consisted of the following:

	<u>2019</u>	<u>2018</u>
Interest and dividend income	\$ 232,857	\$ 225,500
Unrealized gain (loss)	1,320,158	(353,176)
Realized gain	312,495	286,484
Investment fees	<u>(28,479)</u>	<u>(27,083)</u>
	<u>\$ 1,837,031</u>	<u>\$ 131,725</u>

THE CATHOLIC FOUNDATION OF EASTERN MONTANA, INC.
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 December 31, 2019 and 2018

NOTE 3. 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 Foundation's board approves an appropriation from endowment earnings between 3%-4.5% based on market performance of the endowment annually. 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, 2019 and 2018 as available for general expenditures in 2020 and 2019:

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 697,438	\$ 605,578
Operating investments	<u>2,337,330</u>	<u>2,025,751</u>
	<u>\$ 3,034,768</u>	<u>\$ 2,631,329</u>

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

NOTE 4. 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 \$83,809 and \$81,686 as of December 31, 2019 and 2018, respectively.

THE CATHOLIC FOUNDATION OF EASTERN MONTANA, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
December 31, 2019 and 2018

NOTE 5. 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.

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 acts to provide stability and long-term growth in the Foundation.

THE CATHOLIC FOUNDATION OF EASTERN MONTANA, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
December 31, 2019 and 2018

NOTE 5. ENDOWMENT (CONTINUED)

Spending Policy (Continued)

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.

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 120 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, 2019 and 2018 there were one and three funds in a loss position. The total amount of funds in a loss position is \$2,480 and \$15,246 at December 31, 2019 and 2018, respectively. 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, 2019 and 2018

NOTE 5. ENDOWMENT (CONTINUED)

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

	<u>With donor restrictions</u>
<u>2019:</u>	
Donor permanently restricted endowment	<u>\$ 7,738,897</u>
<u>2018:</u>	
Donor permanently restricted endowment	<u>\$ 7,069,358</u>

Changes in net asset composition by type of fund for the year ended December 31, 2019 and 2018, is as follows:

	<u>With donor restrictions</u>
Endowment net assets, January 1, 2018	\$ 6,586,063
Contributions	<u>483,295</u>
Endowment net assets, December 31, 2018	7,069,358
Contributions	<u>669,539</u>
Endowment net assets, December 31, 2019	<u>\$ 7,738,897</u>

NOTE 6. 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>2019</u>	<u>2018</u>
Foundation	\$ 531,061	\$ 282,727
Diocese	356,658	180,991
Schools	807,601	495,800
Parish	826,212	393,625
Priest retirement	133,605	74,948
Other Catholic organizations	<u>176,844</u>	<u>121,668</u>
	<u>\$ 2,831,981</u>	<u>\$ 1,549,759</u>

THE CATHOLIC FOUNDATION OF EASTERN MONTANA, INC.
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 December 31, 2019 and 2018

NOTE 6. NET ASSETS WITH DONOR RESTRICTIONS (CONTINUED)

Perpetual in nature:

	<u>2019</u>	<u>2018</u>
Foundation	\$ 1,598,803	\$ 1,570,327
Diocese	1,034,805	835,578
Schools	1,759,549	1,689,985
Parish	2,428,018	2,205,154
Priest retirement	303,103	290,171
Other Catholic organizations	<u>614,619</u>	<u>478,143</u>
	<u>\$ 7,738,897</u>	<u>\$ 7,069,358</u>

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

	<u>2019</u>	<u>2018</u>
Foundation	\$ 117,770	\$ 688,988
Diocese	57,849	1,163,748
Schools	133,748	127,751
Parish	133,332	157,667
Priest retirement	14,695	15,269
Other Catholic organizations	<u>31,763</u>	<u>42,044</u>
	<u>\$ 489,157</u>	<u>\$ 2,195,467</u>

NOTE 7. 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.

THE CATHOLIC FOUNDATION OF EASTERN MONTANA, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
December 31, 2019 and 2018

NOTE 7. PLANNED GIFT LIABILITIES (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, 2019 and 2018, 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, 2019 and 2018:

Estimated present value of liability at January 1, 2018	\$ 258,199
Increase in estimated present value of liability from contributions	50,787
Decrease in estimated present value due to payments to beneficiaries	(1,643)
Decrease in estimated present value due to release from beneficiaries	<u>(6,830)</u>
Estimated present value of liability at December 31, 2018	300,513
Increase in estimated present value of liability from contributions	204,610
Decrease in estimated present value due to payments to beneficiaries	(123,506)
Decrease in estimated present value due to release from beneficiaries	<u>(49,290)</u>
Estimated present value of liability at December 31, 2019	<u>\$ 332,327</u>

NOTE 8. RELATED PARTY TRANSACTIONS

The Foundation holds assets on behalf of the Diocese. Contributions during the years ended December 31, 2019 and 2018 were \$209,138 and \$1,148,170, respectively. Allocations for the years ended December 31, 2019 and 2018 were \$42,081 and \$1,163,748, respectively. Total assets held on behalf of the Diocese at December 31, 2019 and 2018 was \$1,545,321 and \$1,151,796, respectively.

THE CATHOLIC FOUNDATION OF EASTERN MONTANA, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
December 31, 2019 and 2018

NOTE 9. 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, 2019 and 2018, employer costs were \$7,339 and \$8,216, respectively.

NOTE 10. SUBSEQUENT EVENTS

Subsequent to December 31, 2019, the Foundation's investment portfolio has declined in value due to volatile market conditions related to the COVID-19 pandemic. Because of the uncertainty of future market conditions and the potential impact of pending federal legislation, the Foundation's board and management is uncertain whether the decline in fair value is permanent or temporary. The Foundation's board and management are continuing to monitor the investment portfolio and are regularly meeting with their investment advisor to evaluate the composition of the portfolio during this uncertain time.

Management has evaluated subsequent events through April 20, 2020, the date, which the financial statements were available for issue.



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