



Financial Statements  
June 30, 2020 and 2019  
**Diocese of Fargo**



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## Independent Auditor's Report

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

### Report on the Financial Statements

We have audited the accompanying financial statements of Diocese of Fargo which comprise the statements of financial position as of June 30, 2020 and 2019, and the related statements of activities, statements of functional expenses 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 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 qualified audit opinion.

**Basis for Qualified Opinion**

As more fully described in Note 8 to the financial statements, the Diocese has not determined the cost of its defined benefit pension plan in accordance with accounting principles generally accepted in the United States, of America, which require the cost of employees' pensions to be recognized over the employees' respective service period and a liability to be recognized when the accumulated benefit obligation exceeds the fair value of plan assets. Quantification of the effects of that departure of the financial statements has not been determined.

**Qualified Opinion**

In our opinion, except for the possible effects of the matter discussed in the Basis for Qualified Opinion paragraph, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Diocese of Fargo as of June 30, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Fargo, North Dakota  
November 5, 2020

Diocese of Fargo  
Statements of Financial Position  
June 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
<b>Assets</b>			
Cash	\$ 2,971,699	\$ -	\$ 2,971,699
Accounts receivable	162,366	-	162,366
Promises to give - Net of allowance of \$67,000	-	225,000	225,000
Total current assets	3,134,065	225,000	3,359,065
Long-term Note Receivable	9,414	-	9,414
Investments	34,268,633	2,190,032	36,458,665
Plant Assets - Net of Accumulated Depreciation of \$2,966,331	5,221,328	-	5,221,328
Beneficial Interest in Investments	-	23,967,565	23,967,565
Total assets	<u>\$ 42,633,440</u>	<u>\$ 26,382,597</u>	<u>\$ 69,016,037</u>
<b>Liabilities and Net Assets</b>			
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Accounts payable	\$ 712,209	\$ -	\$ 712,209
Accrued payroll expenses	118,569	-	118,569
Paycheck protection program refundable advance	361,700	-	361,700
Funds held for others	18,815,327	-	18,815,327
Total current liabilities	<u>20,007,805</u>	<u>-</u>	<u>20,007,805</u>
<b>Net Assets</b>			
Without donor restrictions	22,625,635	-	22,625,635
With donor restrictions	-	26,382,597	26,382,597
	<u>22,625,635</u>	<u>26,382,597</u>	<u>49,008,232</u>
Total liabilities and net assets	<u>\$ 42,633,440</u>	<u>\$ 26,382,597</u>	<u>\$ 69,016,037</u>

Diocese of Fargo  
Statements of Financial Position  
June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
<b>Assets</b>			
Cash	\$ 2,033,603	\$ -	\$ 2,033,603
Accounts receivable	146,294	-	146,294
Promises to give - Net of allowance of \$73,000	-	250,000	250,000
Total current assets	2,179,897	250,000	2,429,897
Long-term Note Receivable	20,637	-	20,637
Investments	31,959,557	2,055,804	34,015,361
Plant Assets - Net of Accumulated Depreciation of \$2,816,033	5,076,956	-	5,076,956
Beneficial Interest in Investments	-	22,941,218	22,941,218
Total assets	<u>\$ 39,237,047</u>	<u>\$ 25,247,022</u>	<u>\$ 64,484,069</u>
<b>Liabilities and Net Assets</b>			
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Accounts payable	\$ 602,317	\$ -	\$ 602,317
Accrued payroll expenses	94,555	-	94,555
Funds held for others	17,264,038	-	17,264,038
Total current liabilities	<u>17,960,910</u>	<u>-</u>	<u>17,960,910</u>
<b>Net Assets</b>			
Without donor restrictions	21,276,137	-	21,276,137
With donor restrictions	-	25,247,022	25,247,022
	<u>21,276,137</u>	<u>25,247,022</u>	<u>46,523,159</u>
Total liabilities and net assets	<u>\$ 39,237,047</u>	<u>\$ 25,247,022</u>	<u>\$ 64,484,069</u>

Diocese of Fargo  
Statements of Activities  
Year Ended June 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
<b>Revenue and Other Support</b>			
Contributions and bequests	\$ 3,463,745	\$ 2,415,032	\$ 5,878,777
Investment and interest gain	1,138,123	-	1,138,123
Allocation of administrative fees	18,000	-	18,000
Change in beneficial interest in investments	-	1,026,347	1,026,347
Miscellaneous income (expense)	(27,805)	-	(27,805)
Net assets released from restrictions			
Expiration of time restrictions	2,305,804	(2,305,804)	-
	<u>6,897,867</u>	<u>1,135,575</u>	<u>8,033,442</u>
<b>Expenses</b>			
Program and support services			
Internal programs	1,415,643	-	1,415,643
External programs	942,552	-	942,552
Seminarian and clergy	1,193,546	-	1,193,546
Universal church	49,884	-	49,884
Canonical Administration	571,003	-	571,003
Civil management and general	983,836	-	983,836
Fundraising development	391,905	-	391,905
	<u>5,548,369</u>	<u>-</u>	<u>5,548,369</u>
<b>Change in Net Assets</b>			
Without donor restrictions	1,349,498	-	1,349,498
With donor restrictions	-	1,135,575	1,135,575
Net Assets, Beginning of Year	<u>21,276,137</u>	<u>25,247,022</u>	<u>46,523,159</u>
Net Assets, End of Year	<u>\$ 22,625,635</u>	<u>\$ 26,382,597</u>	<u>\$ 49,008,232</u>

Diocese of Fargo  
Statements of Activities  
Year Ended June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Other Support			
Contributions and bequests	\$ 3,746,320	\$ 2,305,804	\$ 6,052,124
Investment and interest gain	1,006,024	-	1,006,024
Allocation of administrative fees	18,000	-	18,000
Change in beneficial interest in investments	-	950,780	950,780
Miscellaneous income	11,032	-	11,032
Net assets released from restrictions			
Expiration of time restrictions	2,418,469	(2,418,469)	-
	7,199,845	838,115	8,037,960
Expenses			
Program and support services			
Internal programs	1,667,640	-	1,667,640
External programs	1,123,766	-	1,123,766
Seminarian and clergy	1,186,410	-	1,186,410
Universal church	50,617	-	50,617
Canonical Administration	535,034	-	535,034
Civil management and general	934,096	-	934,096
Fundraising development	382,340	-	382,340
	5,879,903	-	5,879,903
Change in Net Assets			
Without donor restrictions	1,319,942	-	1,319,942
With donor restrictions	-	838,115	838,115
Net Assets, Beginning of Year	19,956,195	24,408,907	44,365,102
Net Assets, End of Year	\$ 21,276,137	\$ 25,247,022	\$ 46,523,159



Diocese of Fargo  
Statements of Functional Expenses  
Year Ended June 30, 2020

	Program Services				Subtotal	Canonical Administration	Civil Management and General	Fundraising Development	Total
	Internal Programs	External Programs	Seminarian & Clergy	Universal Church					
Salary, Wages & Benefits	\$ 727,872	\$ -	\$ 300,719	\$ -	\$ 1,028,591	\$ 263,594	\$ 616,390	\$ 198,683	\$ 2,107,258
Contracted Work	73,733	-	-	-	73,733	7,181	80,355	-	161,269
Legal & Audit	661	-	7,707	-	8,368	48,217	34,709	130	91,424
Meals, Travel, Lodging, Retreats & Conferences	51,352	367	60,071	-	111,790	20,348	14,310	3,520	149,968
Office Related Expenses	69,833	-	18,646	-	88,479	63,037	109,884	42,892	304,292
Occupancy/Utilities	64,984	-	2,023	-	67,007	60,400	74,476	7,017	208,900
Educational Services and Materials	4,265	69,560	556,634	-	630,459	778	575	-	631,812
Other Program Costs	390,123	-	90,511	13,198	493,832	44,348	1,338	136,800	676,318
Grants/Subsidies	-	872,625	154,526	36,686	1,063,837	-	-	-	1,063,837
	<u>1,382,823</u>	<u>942,552</u>	<u>1,190,837</u>	<u>49,884</u>	<u>3,566,096</u>	<u>507,903</u>	<u>932,037</u>	<u>389,042</u>	<u>5,395,078</u>
Depreciation	<u>32,820</u>	<u>-</u>	<u>2,709</u>	<u>-</u>	<u>35,529</u>	<u>63,100</u>	<u>51,799</u>	<u>2,863</u>	<u>153,291</u>
Total	<u>\$ 1,415,643</u>	<u>\$ 942,552</u>	<u>\$ 1,193,546</u>	<u>\$ 49,884</u>	<u>\$ 3,601,625</u>	<u>\$ 571,003</u>	<u>\$ 983,836</u>	<u>\$ 391,905</u>	<u>\$ 5,548,369</u>

Diocese of Fargo  
Statements of Functional Expenses  
Year Ended June 30, 2019

	Program Services				Subtotal	Canonical Administration	Civil Management and General	Fundraising Development	Total
	Internal Programs	External Programs	Seminarian & Clergy	Universal Church					
Salary, Wages & Benefits	\$ 798,005	\$ -	\$ 268,647	\$ -	\$ 1,066,652	\$ 251,410	\$ 574,948	\$ 189,344	\$ 2,082,354
Contracted Work	90,243	-	25,300	-	115,543	5,460	79,963	30,000	230,966
Legal & Audit	883	-	14,684	-	15,567	30,700	25,098	7,709	79,074
Meals, Travel, Lodging, Retreats & Conferences	69,229	-	68,625	-	137,854	24,953	17,745	11,635	192,187
Office Related Expenses	71,671	-	15,698	-	87,369	52,282	108,810	24,179	272,640
Occupancy/Utilities	63,092	-	1,964	-	65,056	61,446	76,129	6,813	209,444
Educational Services and Materials	17,327	-	508,307	-	525,634	742	50	-	526,426
Other Program Costs	515,520	-	131,988	-	647,508	49,389	569	108,598	806,064
Grants/Subsidies	4,055	1,123,766	150,026	50,617	1,328,464	-	-	-	1,328,464
	<u>1,630,025</u>	<u>1,123,766</u>	<u>1,185,239</u>	<u>50,617</u>	<u>3,989,647</u>	<u>476,382</u>	<u>883,312</u>	<u>378,278</u>	<u>5,727,619</u>
Depreciation	<u>37,615</u>	<u>-</u>	<u>1,171</u>	<u>-</u>	<u>38,786</u>	<u>58,652</u>	<u>50,784</u>	<u>4,062</u>	<u>152,284</u>
Total	<u>\$ 1,667,640</u>	<u>\$ 1,123,766</u>	<u>\$ 1,186,410</u>	<u>\$ 50,617</u>	<u>\$ 4,028,433</u>	<u>\$ 535,034</u>	<u>\$ 934,096</u>	<u>\$ 382,340</u>	<u>\$ 5,879,903</u>

Diocese of Fargo  
Statements of Cash Flows  
Years Ended June 30, 2020 and 2019

	2020	2019
Operating Activities		
Change in net assets	\$ 2,485,073	\$ 2,158,057
Adjustment to reconcile change in net assets to net cash from (used for) operating activities		
Depreciation	153,291	152,284
Change in unrealized gain on investments	(662,621)	(1,234,593)
Contributions of securities	(3,856)	(352,947)
Loss on sale of equipment	-	5,368
Change in beneficial interest	(1,026,347)	(950,780)
Changes in operating assets and liabilities		
Accounts receivable	(16,072)	65,939
Promises to give	25,000	39,700
Accounts payable	109,892	(25,590)
Accrued payroll taxes	24,014	(3,867)
Net Cash from (used for) Operating Activities	1,088,374	(146,429)
Investing Activities		
Purchases of investments	(1,943,380)	(4,084,594)
Proceeds from sales of investments	166,553	313,634
Payments received on note receivable	11,223	10,677
Purchase of property and equipment	(297,663)	(50,275)
Funds held for others	1,551,289	1,708,814
Net Cash used for Investing Activities	(511,978)	(2,101,744)
Financing Activity		
Proceeds from paycheck protection program refundable advance	361,700	-
Net Cash from Financing Activities	361,700	-
Net Change in Cash	938,096	(2,248,173)
Cash, Beginning of Year	2,033,603	4,281,776
Cash, End of Year	\$ 2,971,699	\$ 2,033,603

## **Note 1 - Principal Activity and Significant Accounting Policies**

### **Organization**

Diocese of Fargo (the Diocese) is a nonprofit organization established for the oversight of the mission of the Catholic Church in the territory of this diocese.

The financial statements of Diocese of Fargo have been prepared in accordance with Accounting Principles and Reporting Practices for Churches and Church-Related Organizations, adopted by the National Conference of Catholic Bishops, the Leadership Conference of Women Religious and the Conference of Major Superiors of Men which does not differ from accounting principles generally accepted in the United States of America.

### **Cash**

The Diocese is including its checking and savings accounts as cash in these statements. There are no other highly liquid investments, which are considered cash equivalents.

### **Receivables and Credit Policies**

Receivables are uncollateralized obligations due 30 days from the invoice date. The receivables are non-interest bearing. The carrying amount of the receivables is reduced by an amount that reflects management's best estimate of the amounts that will not be collected. As of June 30, 2020 and 2019, the allowance was \$0. Notes receivable are stated at principal balance amount and are unsecured.

### **Promises to Give**

The Diocese records unconditional promises to give that are expected to be collected within one year at net realizable value. The promises to give represent amounts pledged to the Organization from individuals for the annual God's Gift Appeal. These receivables are all due within the next year and as such, there is no present value discount applied. Management determines the allowance for uncollectable promises to give based on historical experience. At June 30, 2020 and 2019, the allowance was \$67,000 and \$73,000.

### **Property and Equipment**

Plant acquisitions are capitalized at cost when purchased or at fair value at date of gift when donated. Buildings have been recorded at their insured values. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of assets ranging from 5-40 years. When assets are sold or otherwise disposed of, the cost and related depreciation or amortization are removed from the accounts, and any remaining gain or loss is included in the statement of activities. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently.

The Diocese reviews the carrying values of property and equipment for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There were no indicators of asset impairment during the year ended June 30, 2020 and 2019.

### **Beneficial Interest in Assets Held by Catholic Development Foundation**

The Diocese has a beneficial interest in assets held by the Catholic Development Foundation. The funds were received from donors who restricted the income for the benefit of the Diocese. Distributions from the funds are made in accordance with spending policies adopted by the foundation's board. The spending policies allow for steady and predictable distributions from the funds. Income earned will be transferred to the Diocese for use as amounts are expended by the Diocese for purposes specified by the donors. During the years ended June 30, 2020 and 2019, the Diocese received \$798,125 and \$775,303 from the Foundation. The Diocese has recorded its remaining interest in the Foundation as an asset totaling \$23,967,565 and \$22,941,218 at June 30, 2020 and 2019.

### **Investments**

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

### **Paycheck Protection Program (PPP) Refundable Advance**

The Diocese was granted a \$361,700 loan under the PPP administered by a Small Business Administration (SBA) approved partner. The loan is uncollateralized and is fully guaranteed by the Federal government. The Diocese is eligible for loan forgiveness of up to 100% of the loan, upon meeting certain requirements. The Diocese has initially recorded the loan as a refundable advance and will record the forgiveness in accordance with guidance for conditional contributions when there is no longer a measurable performance or other barrier and a right to return of the PPP loan. Proceeds from the loan are eligible for forgiveness if they are used for certain payroll, rent, and utility expenses. No contribution revenue has been recorded for the year ended June 30, 2020. The Diocese will be required to repay any remaining balance, plus interest accrued at 1 percent, in monthly payments commencing upon notification of forgiveness or partial forgiveness.

### **Net Assets**

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

*Net Assets Without Donor Restrictions* – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

*Net Assets With Donor Restrictions* – Net assets subject to donor (or certain grantor) restrictions. Some donor imposed (or grantor) restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. The Diocese reports contributions restricted by donors as increases in net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends, or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. Donor restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

### **Revenue and Revenue Recognition**

Revenue is recognized when earned. Program service fees and payments under cost-reimbursable contracts received in advance are deferred to the applicable period in which the related services are performed, or expenditures are incurred, respectively.

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

### **Donated Services**

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

### **Functional Allocation of Expenses**

The costs of program and supporting services activities have been summarized on a functional basis in the statement of activities. The statement of functional expenses presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefitted. The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include depreciation, which are allocated on a square footage basis, as well as salaries, wages and benefits, and other, which are allocated on the basis of estimates of time and effort.

### **Income Taxes**

The Diocese is exempt from federal income tax under provisions of Section 501(c)(3) of the Internal Revenue Code of 1986 and by virtue thereof is also exempt from the payment of an income tax to the state of North Dakota.

### **Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and those differences could be material.

### **Financial Instruments and Credit Risk**

The Diocese manages deposit concentration risk by placing cash and investments with financial institutions believed by management to be creditworthy. At times, amounts on deposit may exceed insured limits or include uninsured investments in money market mutual funds. To date, the Diocese has not experienced losses in any of these accounts. Credit risk associated with accounts receivable and promises to give is considered to be limited due to high historical collection rates. Investments are made by diversified investment managers whose performance is monitored by management and the Investment Committee of the Diocesan Finance Council. Although the fair values of investments are subject to fluctuation on a year-to-year basis, management, the Investment Committee, and the Diocesan Finance Council believe that the investment policies and guidelines are prudent for the long-term welfare of the Diocese.

### **Change in Accounting Policy**

The Diocese has adopted the provision of ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (ASU 2018-08)* applicable to contributions received. ASU 2018-08 clarifies and improves the scope and the accounting guidance for contributions received and contributions made. Management has adopted this standard because it assists the Diocese in evaluating whether transactions should be accounted for as contributions or exchange transactions and in determining whether a contribution is conditional. As of July 1, 2019, the Diocese has implemented the provisions of ASU 2018-08 on a modified prospective basis to agreements that were not completed as of the date of adoption or were entered after the date of adoption. Management has determined that the adoption of this standard did not have a significant impact on the Diocese's financial statements.

### **Subsequent Events**

The Diocese has evaluated subsequent events through November 5, 2020, the date the financial statements were available to be issued.

**Note 2 - Liquidity and Availability**

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

	2020	2019
Cash	\$ 1,388,069	\$ 405,797
Accounts receivable	162,366	146,294
Promises to give	225,000	250,000
Investments	16,503,190	15,855,491
Beneficial interest spending-rate distributions and appropriations	824,578	798,966
	\$ 19,103,203	\$ 17,456,548

Beneficial interest consists of donor-restricted contributions. Income from donor-restricted endowments is restricted for specific purpose, with the exception of the amounts available for general use. Donor-restricted endowment funds are not available for general expenditure.

As part of a liquidity management plan, cash in excess of daily requirements is invested in various money market funds.

**Note 3 - Fair Value Measurements and Disclosures**

Certain assets and liabilities are reported at fair value in the financial statements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal, or most advantageous, market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Inputs used to determine fair value refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available. A three-tier hierarchy categorizes the inputs as follows:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the Diocese can access at the measurement date.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and market-corroborated inputs.



Level 3 – Unobservable inputs for the asset or liability. In these situations, the Diocese develops inputs using the best information available in the circumstances.

In some cases, the inputs used to measure the fair value of an asset or a liability might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to entire measurement requires judgment, taking into account factors specific to the asset or liability. The categorization of an asset within the hierarchy is based upon the pricing transparency of the asset and does not necessarily correspond to the Diocese’s assessment of the quality, risk or liquidity profile of the asset or liability.

A significant portion of the Diocese’s investment assets are classified within Level 1 because they are comprised of individual equities with readily determinable fair values based on daily redemption values. The Diocese invests in fixed income bonds/securities traded in the financial markets. Those fixed income bonds/securities are valued by the custodians of the securities using pricing models based on credit quality, time to maturity, stated interest rates and market-rate assumptions, and are classified within Level 2.

The following table presents assets measured at fair value on a recurring basis at June 30, 2020:

	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total
June 30, 2020				
Managed portfolios				
Government securities	\$ -	\$ 344,113	\$ -	\$ 344,113
Municipal bonds	-	1,505,017	-	1,505,017
Mortgage backed security	-	440,009	-	440,009
Corporate bonds	-	4,835,223	-	4,835,223
Commercial mortgage-backed securities	-	4,234,456	-	4,234,456
Money market	-	1,521,251	-	1,521,251
Other	-	100,000	-	100,000
Treasury notes	-	3,598,334	-	3,598,334
Equity Securities				
Consumer Discretionary	2,948,125	-	-	2,948,125
Consumer Staples	1,447,796	-	-	1,447,796
Energy	200,476	-	-	200,476
Financial	1,900,995	-	-	1,900,995
Healthcare	3,695,055	-	-	3,695,055
Industrials	2,610,232	-	-	2,610,232
Information Technology	4,356,854	-	-	4,356,854
Materials	511,699	-	-	511,699
Real Estate	506,517	-	-	506,517
Telecom Services	1,286,856	-	-	1,286,856
Utilities	224,729	-	-	224,729
Other	-	-	190,928	190,928
	<u>19,689,334</u>	<u>16,578,403</u>	<u>190,928</u>	<u>36,458,665</u>
Beneficial interest in investment	<u>14,140,863</u>	<u>9,826,702</u>	<u>-</u>	<u>23,967,565</u>
Total	<u>\$ 33,830,197</u>	<u>\$ 26,405,105</u>	<u>\$ 190,928</u>	<u>\$ 60,426,230</u>

The following table presents assets measured at fair value on a recurring basis at June 30, 2019:

	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total
June 30, 2019				
Managed portfolios				
Government securities	\$ -	\$ 597,195	\$ -	\$ 597,195
Municipal bonds	-	1,360,963	-	1,360,963
Mortgage backed security	-	482,376	-	482,376
Corporate bonds	-	4,909,523	-	4,909,523
Commercial mortgage-backed securities	-	3,715,197	-	3,715,197
Money market	-	917,908	-	917,908
Other	-	100,000	-	100,000
Treasury notes	-	3,983,109	-	3,983,109
Equity Securities				
Consumer Discretionary	2,053,685	-	-	2,053,685
Consumer Staples	1,382,546	-	-	1,382,546
Energy	435,272	-	-	435,272
Financial	2,443,302	-	-	2,443,302
Healthcare	3,037,488	-	-	3,037,488
Industrials	2,322,808	-	-	2,322,808
Information Technology	3,629,776	-	-	3,629,776
Materials	500,553	-	-	500,553
Real Estate	480,308	-	-	480,308
Telecom Services	1,134,691	-	-	1,134,691
Utilities	327,411	-	-	327,411
Other	-	-	201,250	201,250
	<u>17,747,840</u>	<u>16,066,271</u>	<u>201,250</u>	<u>34,015,361</u>
Beneficial interest in investment	<u>13,535,319</u>	<u>9,405,899</u>	<u>-</u>	<u>22,941,218</u>
Total	<u>\$ 31,283,159</u>	<u>\$ 25,472,170</u>	<u>\$ 201,250</u>	<u>\$ 56,956,579</u>

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

Below is a reconciliation of the beginning and ending balance of investments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended June 30, 2020 and 2019:

	2020	2019
Level 3, beginning of year	\$ 201,250	\$ 208,295
Change in fair value of CUP II	<u>(10,322)</u>	<u>(7,045)</u>
Level 3, end of year	<u>\$ 190,928</u>	<u>\$ 201,250</u>

Net investment return consists of the following for the years ended June 30, 2020 and 2019:

	2020			2019 Total
	Current Without Donor Restrictions	Custodial Without Donor Restriction	Total	
Interest and dividends	\$ 413,019	\$ 320,959	\$ 733,978	\$ 728,708
Net change in realized gain	511,049	661,529	1,172,578	212,784
Net change in unrealized gain	287,014	375,607	662,621	1,234,593
Fees	(72,959)	(94,538)	(167,497)	(163,391)
Investment income	\$ 1,138,123	\$ 1,263,557	\$ 2,401,680	\$ 2,012,694

#### Note 4 - Property and Equipment

Property and equipment consist of the following at June 30, 2020 and 2019:

	2020	2019
Land and improvements	\$ 1,929,569	\$ 1,714,431
Buildings and improvements	5,969,223	5,893,448
Equipment and fixtures	288,867	285,110
	8,187,659	7,892,989
Less accumulated depreciation	(2,966,331)	(2,816,033)
Net property and equipment	\$ 5,221,328	\$ 5,076,956

#### Note 5 - Custodial Funds

Funds received and held by the Diocese as agent for others are as follows as of June 30, 2020 and 2019

	2020	2019
Insurance and benefits payable to parishes	\$ 533,746	\$ 467,834
Insurance reserve fund- property and liability	3,875,206	3,546,462
Priest's retirement reserve fund	1,657	69,676
Priest's health reserve fund	8,976,317	8,380,774
Priest's dental reserve fund	1,556,322	1,450,169
Special care program for priests	1,098,103	1,073,893
Diocesan-wide self-insured health plan	3,307,722	2,743,064
	\$ 19,349,073	\$ 17,731,872

**Note 6 - Endowment**

The Diocese of Fargo contributed the endowment funds to the Catholic Development Foundation. The endowment now consists of beneficial interest which is donor-restricted endowment funds that are being used for seminary and clergy education. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors has interpreted the State Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the date of the donor-restricted endowment funds, unless there are explicit donor stipulations to the contrary. At June 30, 2020 and 2019, there were no such donor stipulations. As a result of this interpretation, the Diocese retains in perpetuity (a) the original value of initial and subsequent gift amounts donated to the Endowment and (b) any accumulations to the Endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure in a manner consistent with the standard of prudence prescribed by UPMIFA. The following factors are considered in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the organization 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 organization
- The investment policies of the organization.

As of June 30, 2020, endowment net asset composition by type of fund is as follows:

	Without Donor Restriction	With Donor Restrictions	Total
Donor-restricted endowment funds			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	\$ -	\$ 18,361,273	\$ 18,361,273
Accumulated investment gains	-	5,606,292	5,606,292
	\$ -	\$ 23,967,565	\$ 23,967,565

As of June 30, 2019, endowment net asset composition by type of fund is as follows:

	Without Donor Restriction	With Donor Restrictions	Total
Donor-restricted endowment funds			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	\$ -	\$ 18,228,352	\$ 18,228,352
Accumulated investment gains	-	4,712,866	4,712,866
	<u>\$ -</u>	<u>\$ 22,941,218</u>	<u>\$ 22,941,218</u>

From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). The Diocese has interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. No endowment funds were underwater as of June 30, 2020 and 2019.

#### Investment and Spending Policies

Investment and spending policies for the Endowment were adopted that attempt to provide a predictable stream of funding for operations while seeking to maintain the purchasing power of the endowment assets. Over time, long-term rates of return should be equal to an amount sufficient to maintain the purchasing power of the Endowment assets to provide the necessary capital to fund the spending policy and to cover the costs of managing the Endowment investments. The target annual rate of return is that of a five-year moving average of various market indexes. Actual returns in any given year may vary from this amount. To satisfy this long-term rate-of-return objective, the investment portfolio is structured on a total-return approach through which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Diocese targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

The Diocese has a policy of appropriating for distribution each year 5 percent of its endowment fund's average fair value over the market value at the end of the previous 5 fiscal years. In establishing this policy, the Diocese considered the long-term expected return on its endowment. The Diocese's spending policy is such that the corpus of the endowment will be maintained in perpetuity.

Changes in Endowment net assets for the year ended June 30, 2020 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, June 30, 2019	\$ -	\$ 22,941,218	\$ 22,941,218
Change in beneficial interest in investment	-	1,026,347	1,026,347
Endowment net assets, June 30, 2020	<u>\$ -</u>	<u>\$ 23,967,565</u>	<u>\$ 23,967,565</u>

Changes in Endowment net assets for the year ended June 30, 2019 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, June 30, 2018	\$ -	\$ 21,990,438	\$ 21,990,438
Change in beneficial interest in investment	-	950,780	950,780
Endowment net assets, June 30, 2019	<u>\$ -</u>	<u>\$ 22,941,218</u>	<u>\$ 22,941,218</u>

**Note 7 - Net Assets with Donor Restrictions**

Net assets with donor restrictions are restricted for the following purposes or periods as of June 30, 2020 and 2019:

	2020	2019
Subject to Expenditure for Specific Purpose God's Gift Given for Subsequent Fiscal Year	<u>\$ 2,190,032</u>	<u>\$ 2,055,804</u>
Subject to the Passage of Time Promises to give, for God's Gift	<u>225,000</u>	<u>250,000</u>
Endowments		
Subject to appropriation and expenditure when a specified event occurs		
Restricted by donors for Seminary and clergy education	<u>5,606,292</u>	<u>4,712,866</u>
Perpetual in nature, earnings from which are subject to endowment spending policy appropriation		
Seminary and clergy education	<u>18,361,273</u>	<u>18,228,352</u>
Total endowments	<u>23,967,565</u>	<u>22,941,218</u>
	<u>\$ 26,382,597</u>	<u>\$ 25,247,022</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by the donors as follows for the years ended June 30, 2020 and 2019:

	2020	2019
Satisfaction of purpose restrictions God's Gift Given for Subsequent Fiscal Year	<u>\$ 2,305,804</u>	<u>\$ 2,418,469</u>

**Note 8 - Retirement Plans**

The Diocese has a non-contributory 401(k) plan. The plan covers all parish, school, and diocesan lay employees who have worked at least 1,000 hours in an annual period and have completed one year of continuous service. Under the terms of the plan, the participating employer is to make a 6 percent of salary annual contribution. Diocesan Contributions to the plan for the years ended June 30, 2020 and 2019 totaled \$72,855 and \$72,879.

The Diocese contributions to a single employer defined benefit pension plan for priests were \$515,000 and \$400,000 for the years end June 30, 2020 and 2019. This plan is sponsored by the Diocese and administered by a separate Board of Trustees. The Diocese has not determined the cost of its defined benefit pension plan in accordance with accounting principles generally accepted in the United States of America, which require the cost of employees' pensions to be recognized over the employees' respective service period and a liability to be recognized when the accumulated benefit obligations exceeds the fair value of the plan assets. Quantification of the effects of the departure on the financial statements has not been determined. Contributions are determined in accordance with biennial actuary recommendations which were last performed on July 1, 2020 at which time the plan was funded at approximately 108% using 6% investment returns.

**Note 9 - Related Party Transactions**

Diocese of Fargo has entered into agreements with the Catholic Development Foundation to provide services for management and administration of all activities. A service fee of 50 basis points or .50% of asset values was received for accounting, administrative support, development, and management functions. The service fees were \$356,346 and \$330,263 for years ended June 30, 2020 and 2019.

Diocese of Fargo has entered into agreements with the Catholic Church Deposit & Loan Fund of Eastern North Dakota to provide services for management and administration of all activities. A service fee of 75 basis points or .75% of asset values was received for accounting, administrative support, and management functions. The service fees were \$458,303 and \$398,252 for years ended June 30, 2020 and 2019.

Accounts receivable from the Catholic Church Deposit & Loan Fund of Eastern North Dakota were \$77,669 and \$69,250 as of June 30, 2020 and 2019.



Supplementary Information  
June 30, 2020 and 2019

## Diocese of Fargo





## Independent Auditor's Report on Supplementary Information

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

We have audited the financial statements of Diocese of Fargo as of and for the years ended June 30, 2020 and 2019 and our report thereon dated November 5, 2020, which appears on page 1, was qualified because of the omission of disclosure for the defined benefit Pension Plan for Priests. Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information on pages 23 through 25 is presented for the purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

A handwritten signature in black ink that reads "Eide Bailly LLP".

Fargo, North Dakota  
November 5, 2020

Diocese of Fargo  
Schedule of Contributions and Bequests  
Years Ended June 30, 2020 and 2019

	2020	2019
God's Gift	\$ 3,113,102	\$ 2,947,509
Other Contributions and Bequests		
Grants	361,798	567,343
Endowment fund proceeds	784,439	764,999
	1,146,237	1,332,342
Programming Donations/Contributions		
Business office administration/management fees	551,057	481,788
Chancery	3,345	3,011
Liturgy	1,875	2,525
Technology revenue	2,224	1,432
Properties office	6,000	6,000
Parish service department	49,183	38,487
Development/stewardship	268,123	263,557
Media/communications office	273,092	259,756
CEF		
Catechesis and Evangelization	2,988	52,242
Youth	24,309	33,124
Young Disciples	13,404	50,599
Family Life	53,611	95,654
Respect Life	19,089	29,180
Marriage Tribunal	5,473	4,630
Continuing education for Priests	19,629	35,728
Pastoral Center office rental	206,056	201,321
Seminary education	9,544	5,643
Vocation Office	1,145	643
Permanent Diaconate	25,252	26,454
Priest disability	-	10
	1,535,399	1,591,784
Other Donations	84,039	180,489
	\$ 5,878,777	\$ 6,052,124

Diocese of Fargo  
Schedule of Program and Support Services  
Years Ended June 30, 2020 and 2019

	2020	2019
<b>Faith Education</b>		
Education subsidy - Catholic Schools	\$ 83,100	\$ 80,202
Liturgy office/commission	37,171	41,553
North Dakota Catholic Conference	107,452	106,112
Media and communications	346,789	323,466
<b>CEF</b>		
Administration	48,516	45,267
Evangelization	54,191	130,027
Catechesis	85,223	90,532
Schools	73,987	80,018
Youth	148,289	152,540
Young Disciples	45,608	86,498
Catholic University	7,644	7,421
Catholic Communications	6,117	5,939
Newman Student Centers	127,698	160,000
Special needs ministry	750	4,912
	<b>1,172,535</b>	<b>1,314,487</b>
<b>Sick and Elderly Priests</b>		
Priests' Mutual Aid Fund	154,526	150,026
Priests' disability	105,680	134,215
	<b>260,206</b>	<b>284,241</b>
<b>Vocations</b>		
Permanent Diaconate office	97,543	87,009
Seminary education	684,448	625,718
Continuing education for priests	38,872	79,325
Vocation office	109,768	108,948
	<b>930,631</b>	<b>901,000</b>

Diocese of Fargo  
Schedule of Program and Support Services  
Years Ended June 30, 2020 and 2019

	2020	2019
Family Life		
Catholic Charities North Dakota	190,962	200,400
Respect Life Office	29,059	59,253
Catholic Relief Services	22,925	37,257
Native American Mission	182,500	355,165
Migrant program	27,180	31,980
Poor Parish Subsidy	87,200	24,700
Family Life Office	242,012	296,324
Tribunal	253,688	304,495
Rural Life	4,000	3,937
	1,039,526	1,313,511
Cathedral Subsidy	150,000	150,000
Other Catholic Apostolates	13,198	26,408
Total program services expense	3,566,096	3,989,647
Administrative and Management		
Finance office	415,203	415,055
Bishop's office	143,367	138,425
Chancellor's office	133,666	125,386
Technology	44,766	42,160
Vicar for clergy office	86,475	82,974
Human resources	103,441	93,745
Bishop's residence	91,689	85,551
Properties office	97,486	94,870
Pastoral Center operations	175,626	158,902
USCCB programs and dues	52,591	43,823
Priests Council	116	223
Parish service department	95,514	78,581
	1,439,940	1,359,695
Development and Stewardship	389,042	378,277
Depreciation	153,291	152,284
Total supporting expenses	1,982,273	1,890,256
	\$ 5,548,369	\$ 5,879,903