

**THE PARISH EXPANSION FUND OF THE DIOCESE OF BISMARCK  
BISMARCK, NORTH DAKOTA**

AUDITED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

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CERTIFIED PUBLIC ACCOUNTANTS  
AND CONSULTANTS

## INDEPENDENT AUDITOR'S REPORT

The Board of Directors  
The Parish Expansion Fund of the Diocese of Bismarck  
Bismarck, North Dakota

We have audited the accompanying financial statements of The Parish Expansion Fund of the Diocese of Bismarck (a nonprofit organization), which comprise the statements of financial position as of June 30, 2018 and 2017, 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 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.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Parish Expansion Fund of the Diocese of Bismarck as of June 30, 2018 and 2017, 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 black ink that reads "Brady Martz". The signature is written in a cursive, flowing style.

**BRADY, MARTZ & ASSOCIATES, P.C.  
BISMARCK, NORTH DAKOTA**

November 21, 2018

**THE PARISH EXPANSION FUND OF THE DIOCESE OF BISMARCK**  
**STATEMENTS OF FINANCIAL POSITION**  
**JUNE 30, 2018 AND 2017**

	2018	2017
<b>ASSETS</b>		
Cash and cash equivalents	\$ 110,434	\$ 318,350
Notes receivable, net of allowance for doubtful accounts	4,709,881	4,973,646
Due from related party	-	369
Interest receivable	82,689	58,168
Investments	12,254,954	7,771,560
Total assets	\$ 17,157,958	\$ 13,122,093
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Due to related party	\$ 100,000	\$ 100,000
Interest payable	110,820	81,297
Notes payable	15,247,180	11,242,007
Total liabilities	15,458,000	11,423,304
<b>NET ASSETS</b>		
Unrestricted	1,699,958	1,698,789
Total liabilities and net assets	\$ 17,157,958	\$ 13,122,093

See Notes to the Financial Statements

**THE PARISH EXPANSION FUND OF THE DIOCESE OF BISMARCK**  
**STATEMENTS OF ACTIVITIES**  
**FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

	2018	2017
<b>SUPPORT AND REVENUE</b>		
Investment and interest income	\$ 451,605	\$ 385,287
Realized and unrealized gain (loss) on investments	(288,069)	(59,910)
Total support and revenue	163,536	325,377
 <b>EXPENSES</b>		
Interest expense	88,279	75,987
Other	74,088	71,063
Total expenses	162,367	147,050
 <b>INCREASE IN NET ASSETS</b>	1,169	178,327
 <b>UNRESTRICTED NET ASSETS, BEGINNING OF YEAR</b>	1,698,789	1,520,462
 <b>UNRESTRICTED NET ASSETS, END OF YEAR</b>	\$ 1,699,958	\$ 1,698,789

See Notes to the Financial Statements

**THE PARISH EXPANSION FUND OF THE DIOCESE OF BISMARCK**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 1,169	\$ 178,327
Adjustments to reconcile change in net assets to net cash from operating activities:		
Realized and unrealized (gain) loss on investments	288,069	59,910
Effects on operating cash flows due to changes in:		
Interest receivable	(24,521)	(11,706)
Interest payable	29,523	52,916
Due from related party	369	(369)
	294,609	279,078
 <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Principal repayments of notes receivable	502,641	672,639
Issuance of notes receivable	(238,876)	(567,543)
Purchase of investments	(4,803,616)	(1,136,756)
Proceeds from sale of investments	32,153	326,430
	(4,507,698)	(705,230)
 <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from notes payable	5,372,216	4,176,384
Repayment of notes payable	(1,367,043)	(3,508,192)
	4,005,173	668,192
 <b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	(207,916)	242,040
 <b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	318,350	76,310
 <b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	\$ 110,434	\$ 318,350
 <b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>		
Cash paid during the year for interest	\$ 58,756	\$ 23,071

See Notes to the Financial Statements

**THE PARISH EXPANSION FUND OF THE DIOCESE OF BISMARCK**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Organization*

The Parish Expansion Fund of the Diocese of Bismarck (Fund) is a nonprofit organization that provides a lending and depository service for the parishes and related entities of the Diocese of Bismarck.

*Basis of Presentation*

The accompanying 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.

Financial statement presentation follows the recommendations of the Accounting Standards Codification Topic 958, Accounting for Not-for-Profit Entities. The codification requires the Organization to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The Fund has only unrestricted net assets.

*Investments*

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. Unrealized gains and losses are included in the change in net assets.

The Fund recognizes gains and losses on investments in the designation or restriction owning the investment using the historical cost for that specific investment. Ordinary income from investments is recorded in the designation or restriction owning the investment. It is the policy of the Fund to include restricted investment income, whose restrictions are met in the same reporting period, as unrestricted investment income.

*Use of estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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. Accordingly, actual results could differ from those estimates.

*Cash and Cash Equivalents*

Cash and cash equivalents include highly liquid investments with an original maturity of three months or less, excluding assets whose use is limited or restricted.



**THE PARISH EXPANSION FUND OF THE DIOCESE OF BISMARCK**  
**NOTES TO THE FINANCIAL STATEMENTS – CONTINUED**  
**JUNE 30, 2018 AND 2017**

*Notes Receivable and Allowance for Doubtful Accounts*

Notes receivable are reported at their recorded investment adjusted for any allowance for doubtful accounts.

The Fund evaluates each parish or individual's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Fund upon extension of credit, is based on management's credit evaluation of counterparty.

Interest income is accrued on the unpaid principal balance. Notes receivable are placed on non-accrual or charged-off at an earlier date if collection of principal or interest is considered doubtful. All current year interest accrued but not collected for notes receivable that are placed on non-accrual or charged off is reversed against current period income. All prior year interest accrued but not collected is charged-off against the allowance for doubtful accounts. The interest on these notes receivable is accounted for on the cash-basis or cost-recovery method, until qualifying for return on accrual. Notes receivable are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

The allowance for doubtful accounts is established as losses are estimated to have occurred through a provision for bad debts charged to earnings. Bad debts are charged against the allowance when management believes the collectability of a note receivable is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for doubtful accounts is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the notes receivable in light of historical experience, the nature and volume of the portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available.

A note receivable is considered impaired when, based on current information and events, it is probable that the Fund will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the note agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Notes receivables that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the notes receivable and the borrowers' prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

Impairment is measured on a note-by-note basis by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the note is collateral dependent.

**THE PARISH EXPANSION FUND OF THE DIOCESE OF BISMARCK**  
**NOTES TO THE FINANCIAL STATEMENTS – CONTINUED**  
**JUNE 30, 2018 AND 2017**

*Fair Value Measurement*

The Fund follows Financial Accounting Standards Board ASC Topic 820, Fair Value Measurements. This standard applies to all assets and liabilities that are being measured and reported on a fair value basis. It defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles and expands disclosure about fair value measurements.

When fair value measurements are required, various data is used in determining those values. This statement requires that assets and liabilities that are carried at fair value must be classified and disclosed in the following levels based on the nature of the data used.

- Level 1: Quoted market prices in active markets for identical assets or liabilities.
- Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.
- Level 3: Unobservable inputs that are not corroborated by market data.

The application of valuation techniques applied to similar assets and liabilities has been consistently applied. The following is a description of the valuation methodologies used for instruments measured at fair value:

Investments: The fair value of investments is the market value based on quoted market prices, when available, or market prices provided by recognized broker dealers. If listed prices or quotes are not available, fair value is based upon externally developed models that use unobservable inputs due to the limited market activity of the instrument.

*Income Taxes*

The Fund is exempt from federal income tax under provisions of Section 501(c)(3) of the Internal Revenue Code. The Fund is deemed to be a church related organization and as such is not required to file an annual informational tax return to the Internal Revenue Service.

The Fund's policy is to evaluate the likelihood that its uncertain tax positions will prevail upon examination based on the extent to which those positions have substantial support within the Internal Revenue Code and Regulations, Revenue Rulings, court decisions, and other evidence.

**THE PARISH EXPANSION FUND OF THE DIOCESE OF BISMARCK**  
**NOTES TO THE FINANCIAL STATEMENTS – CONTINUED**  
**JUNE 30, 2018 AND 2017**

**NOTE 2 NOTES RECEIVABLE**

Notes receivable at June 30, 2018 and 2017, consist of the following:

Payor	Interest Rate	Maturity Date	2018 Maturity Balance	2017 Maturity Balance	Security
Parishes	2.50% - 2.99%	(1)	\$ 4,714,881	\$ 4,978,646	Unsecured
Allowance for doubtful accounts			<u>(5,000)</u>	<u>(5,000)</u>	
Total notes receivable			<u>\$ 4,709,881</u>	<u>\$ 4,973,646</u>	

(1) The notes are due over various time periods from on demand to 15 years.

**NOTE 3 INVESTMENTS**

Investments are stated at fair value and are summarized as follows as of June 30, 2018 and 2017:

**June 30, 2018**

	Cost	Fair Value
Money market funds	\$ 854,712	\$ 854,712
Mortgage backed securities:		
GNMA	339	376
Mutual funds:		
Fixed Income - Bonds	4,732,919	4,702,351
Certificates of deposit	1,217,489	1,217,489
Corporate bonds:		
Fixed Income	<u>5,639,042</u>	<u>5,480,025</u>
	<u>\$ 12,444,502</u>	<u>\$ 12,254,954</u>

The Expansion Fund had a net realized loss of \$33 for the year ended June 30, 2018. For the same period, the Expansion Fund had an unrealized loss on investments of \$288,036.

**THE PARISH EXPANSION FUND OF THE DIOCESE OF BISMARCK**  
**NOTES TO THE FINANCIAL STATEMENTS – CONTINUED**  
**JUNE 30, 2018 AND 2017**

**June 30, 2017**

	<u>Cost</u>	<u>Fair Value</u>
Money market funds	\$ 62,341	\$ 62,341
Mortgage backed securities:		
GNMA	421	435
Mutual funds:		
Fixed Income - Bonds	3,141,864	3,226,900
Certificates of deposit	784,460	784,460
Corporate bonds:		
Fixed Income	<u>3,683,894</u>	<u>3,697,424</u>
	<u>\$ 7,672,980</u>	<u>\$ 7,771,560</u>

The Expansion Fund had a net realized loss of \$12 for the year ended June 30, 2017. For the same period, the Expansion Fund had an unrealized loss on investments of \$59,898.

**NOTE 4 FAIR VALUE MEASUREMENTS**

Assets measured at fair value on a recurring basis as of June 30, 2018 are summarized as follows:

<u>Description</u>	<u>Total Carrying Amount</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>
Money market funds	\$ 854,712	\$ 854,712	\$ -	\$ -
Mortgage backed securities:				
GNMA	376	-	376	-
Mutual funds:				
Fixed Income - Bonds	4,702,351	4,702,351	-	-
Corporate bonds:				
Fixed Income	<u>5,480,025</u>	<u>-</u>	<u>5,480,025</u>	<u>-</u>
	<u>\$ 11,037,465</u>	<u>\$ 5,557,063</u>	<u>\$ 5,480,401</u>	<u>\$ -</u>

**THE PARISH EXPANSION FUND OF THE DIOCESE OF BISMARCK**  
**NOTES TO THE FINANCIAL STATEMENTS – CONTINUED**  
**JUNE 30, 2018 AND 2017**

Assets measured at fair value on a recurring basis as of June 30, 2017 are summarized as follows:

Description	Total Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market funds	\$ 62,341	\$ 62,341	\$ -	\$ -
Mortgage backed securities:				
GNMA	435	-	435	-
Mutual funds:				
Fixed Income - Bonds	3,226,900	3,226,900	-	-
Corporate bonds:				
Fixed Income	<u>3,697,424</u>	<u>-</u>	<u>3,697,424</u>	<u>-</u>
	<u>\$ 6,987,100</u>	<u>\$ 3,289,241</u>	<u>\$ 3,697,859</u>	<u>\$ -</u>

**NOTE 5 NOTES PAYABLE**

Notes payable at June 30, 2018 and 2017, consist of the following:

Payor	Interest Rate	Maturity Date	2018 Maturity Balance	2017 Maturity Balance	Security
Parishes	.10%-2.20%	Demand	\$ 14,967,263	\$ 10,962,245	Unsecured
Priests and trusts	.10%-2.20%	Demand	<u>279,917</u>	<u>279,762</u>	Unsecured
Total notes payable			<u>\$ 15,247,180</u>	<u>\$ 11,242,007</u>	

**NOTE 6 RELATED PARTY**

The Parish Expansion Fund of the Diocese of Bismarck is affiliated with the Diocese of Bismarck through common Boards of Director members. The Fund provides a lending and depository function for the parishes and related entities of the Diocese of Bismarck. At June 30, 2018 and 2017, the Fund had \$100,000 due to the Diocese of Bismarck. There was no amount due from the Diocese of Bismarck at June 30, 2018. At June 30, 2017, the Fund was due \$369 from the Diocese.

**THE PARISH EXPANSION FUND OF THE DIOCESE OF BISMARCK**  
**NOTES TO THE FINANCIAL STATEMENTS – CONTINUED**  
**JUNE 30, 2018 AND 2017**

The Diocese of Bismarck has entered into a management agreement with The Parish Expansion Fund of the Diocese of Bismarck to provide technical and professional services at an annual rate of \$41,580. Expenses under this agreement are included in other expenses and total \$41,580 for each of the years ended June 30, 2018 and 2017.

**NOTE 7 CONCENTRATION OF CREDIT RISK**

The Fund's cash balances are maintained in a bank deposit account. Periodically, the Fund has deposits that are in excess of federally insured limits on a temporary basis. As of June 30, 2018 the Fund had no deposits in excess of federally insured limits.

Notes receivable as of June 30, 2018 and 2017, are due from Catholic parishes and associated individuals located in western North Dakota.

**NOTE 8 ACCOUNTING FOR UNCERTAINTY IN INCOME TAXES**

It is the opinion of management that the Fund has no significant uncertain tax positions that would be subject to change upon examination.

**NOTE 9 COMMITMENTS**

During the current year, the Fund had approved an \$800,000 loan request to Dickinson Catholic Schools with a total of \$600,000 that had not been funded as of June 30, 2018.

**NOTE 10 FUTURE PRONOUNCEMENTS**

**ASU 2014-09, Revenue from Contracts with Customers (Topic 606)**

During 2014, FASB issued a new standard related to revenue recognition. ASU 2014-09, upon its effective date, replaces almost all existing revenue recognition guidance, including industry specific guidance, in current U.S. GAAP. Under the new standard, revenue is recognized when a customer obtains control of promised goods or services in an amount that reflects the consideration the entity expects to receive in exchange for those goods or services. In addition, the standard requires disclosure of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The guidance will be effective for the Foundation for annual periods beginning after December 15, 2018, and interim periods within annual reporting periods beginning after December 15, 2019.

**ASU 2016-02, Leases (Topic 842)**

During 2016, the FASB issued guidance to change the accounting for leases. The main provision of ASU 2016-001 is that lessees will be required to recognize lease assets and lease liabilities for most long-term leases, including those classified as operating leases under GAAP. The ASU is effective for the Foundation for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020.

**THE PARISH EXPANSION FUND OF THE DIOCESE OF BISMARCK**  
**NOTES TO THE FINANCIAL STATEMENTS – CONTINUED**  
**JUNE 30, 2018 AND 2017**

**ASU 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities**

This ASU simplifies and improves how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance and cash flows. The ASU is effective for annual financial statements issued for fiscal years beginning after December 15, 2017, and for interim periods within fiscal years beginning after December 15, 2018.

With the exception of the new standards discussed above, we have not identified any other new accounting pronouncements that have potential significance to the Fund's financial statements.

**NOTE 11 SUBSEQUENT EVENTS**

No significant events occurred subsequent to the Fund's year end. Subsequent events have been evaluated through November 21, 2018, which is the date these financial statements were available to be issued.