

**CENTRAL ADMINISTRATIVE OFFICE OF  
THE ROMAN CATHOLIC BISHOP OF  
GREAT FALLS, MONTANA,  
A CORPORATION SOLE**

**GREAT FALLS, MONTANA**

**FINANCIAL STATEMENTS**

**AS OF**

**JUNE 30, 2016 and 2015**

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***Douglas Wilson & Company, P.C.***

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Central Administrative Office of the Roman Catholic Bishop of  
Great Falls, Montana, a Corporation Sole  
Great Falls, Montana

## INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the Central Administrative Office of the Roman Catholic Bishop of Great Falls, Montana, a Corporation Sole (the Chancery), which comprise the statements of financial position as of June 30, 2016 and 2015, 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Central Administrative Office of the Roman Catholic Bishop of Great Falls, Montana, a Corporation Sole, as of June 30, 2016 and 2015, 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 "Douglas Wilson + Company, P.C." The signature is written in a cursive, flowing style.

Great Falls, Montana  
April 10, 2017

**CENTRAL ADMINISTRATIVE OFFICE OF DIOCESE OF GREAT FALLS-BILLINGS**

**GREAT FALLS, MONTANA**

**STATEMENTS OF FINANCIAL POSITION  
AS OF JUNE 30, 2016 AND 2015**

	<b>6/30/16</b>	<b>As Restated 6/30/15</b>
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 1,655,151	\$ 2,063,696
Investments	18,397,235	18,321,968
Accounts Receivable		
Parishes and Institutions	131,943	201,918
Assessments (Net)	1,578,852	1,429,790
Other	91,701	70,179
Deposits and Other Prepaid Expenses	5,319	50,183
Loans and Notes Receivable		
Parishes and Institutions	4,814,821	5,000,755
Other	95,558	97,998
Catholic Foundation of Eastern Montana - Restricted	1,862,866	1,898,437
Property and Equipment (net of accumulated depreciation)	7,557,195	6,958,521
Total Assets	<b>\$ 36,190,641</b>	<b>\$ 36,093,445</b>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities:		
Accounts Payable and Accrued Liabilities	\$ 533,168	\$ 530,506
Deposits Payable to Parishes and Institutions	15,774,735	16,195,195
Interest Payable to Parishes and Institutions	291,650	278,097
Held for Parishes and Institutions	1,415,178	1,401,507
Other Liabilities	65,320	44,394
Postretirement Benefit Obligation	14,455,996	12,776,832
Total Liabilities	32,536,047	31,226,531
Net Assets:		
Unrestricted	(2,254,126)	(1,659,927)
Temporarily Restricted	2,279,133	3,003,312
Permanently Restricted	3,629,587	3,523,529
Total Net Assets	3,654,594	4,866,914
Total Liabilities and Net Assets	<b>\$ 36,190,641</b>	<b>\$ 36,093,445</b>

See accompanying notes to the financial statements.

**CENTRAL ADMINISTRATIVE OFFICE OF DIOCESE OF GREAT FALLS-BILLINGS**

**GREAT FALLS, MONTANA**

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2016**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>6/30/16</u>
<b>Revenues:</b>				
Gifts, Bequests, Grants and Assessments	\$ 1,408,276	\$ 1,815,246	\$ 12,400	\$ 3,235,922
Insurance	284,603	-	-	284,603
Investment Income	677,171	-	-	677,171
Rents and Leases Income	145,272	-	-	145,272
Other Revenue	855,504	-	-	855,504
Fees for Services	1,119,189	-	-	1,119,189
Change in Beneficial Interest in Catholic Foundation of Eastern Montana	(34,906)	(94,772)	93,658	(36,020)
Net Assets Released from Restrictions	<u>2,444,653</u>	<u>(2,444,653)</u>	-	-
Total Revenues	<u>6,899,762</u>	<u>(724,179)</u>	<u>106,058</u>	<u>6,281,641</u>
<b>Expenses:</b>				
Compensation and Benefits	4,427,293	-	-	4,427,293
Property Costs and Depreciation	785,552	-	-	785,552
Office Expenses	157,328	-	-	157,328
Professional Fees	423,249	-	-	423,249
Interest Paid to Parishes and Organizations	296,020	-	-	296,020
Insurance	129,578	-	-	129,578
Other Operating Expenses	774,511	-	-	774,511
Seminarian Expenses	110,922	-	-	110,922
Exchange Program Expenses	170,549	-	-	170,549
Auto, Travel and Meeting Expenses	<u>218,959</u>	-	-	<u>218,959</u>
Total Expenses	<u>7,493,961</u>	<u>-</u>	<u>-</u>	<u>7,493,961</u>
Change in Net Assets	(594,199)	(724,179)	106,058	(1,212,320)
Net Assets at Beginning of Year	<u>(1,659,927)</u>	<u>3,003,312</u>	<u>3,523,529</u>	<u>4,866,914</u>
Net Assets at End of Year	<u>\$ (2,254,126)</u>	<u>\$ 2,279,133</u>	<u>\$ 3,629,587</u>	<u>\$ 3,654,594</u>

See accompanying notes to the financial statements.

**CENTRAL ADMINISTRATIVE OFFICE OF DIOCESE OF GREAT FALLS-BILLINGS**

**GREAT FALLS, MONTANA**

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2015**

	<u>As Restated Unrestricted</u>	<u>As Restated Temporarily Restricted</u>	<u>As Restated Permanently Restricted</u>	<u>As Restated 6/30/15</u>
<b>Revenues:</b>				
Gifts, Bequests, Grants and Assessments	\$ 1,998,394	\$ 2,407,103	\$ 12,525	\$ 4,418,022
Insurance	1,417,094	-	-	1,417,094
Investment Income	1,023,435	-	-	1,023,435
Rents and Leases Income	151,632	-	-	151,632
Other Revenue	1,270,068	-	-	1,270,068
Fees for Services	945,884	-	-	945,884
Change in Beneficial Interest in Catholic Foundation of Eastern Montana	38,488	102,321	49,152	189,961
Net Assets Released from Restrictions	<u>1,632,022</u>	<u>(1,632,022)</u>	<u>-</u>	<u>-</u>
Total Revenues	<u>8,477,017</u>	<u>877,402</u>	<u>61,677</u>	<u>9,416,096</u>
<b>Expenses:</b>				
Compensation and Benefits	6,859,040	-	-	6,859,040
Property Costs and Depreciation	854,818	-	-	854,818
Office Expenses	243,262	-	-	243,262
Professional Fees	404,438	-	-	404,438
Interest Paid to Parishes and Organizations	281,200	-	-	281,200
Insurance	247,939	-	-	247,939
Other Operating Expenses	1,376,510	-	-	1,376,510
Seminarian Expenses	184,046	-	-	184,046
Exchange Program Expenses	87,697	-	-	87,697
Auto, Travel and Meeting Expenses	<u>199,508</u>	<u>-</u>	<u>-</u>	<u>199,508</u>
Total Expenses	<u>10,738,458</u>	<u>-</u>	<u>-</u>	<u>10,738,458</u>
Change in Net Assets	<u>(2,261,441)</u>	<u>877,402</u>	<u>61,677</u>	<u>(1,322,362)</u>
Net Assets at Beginning of Year, as previously stated	1,264,863	2,584,852	4,617,032	8,466,747
Restatement	<u>(663,349)</u>	<u>(458,942)</u>	<u>(1,155,180)</u>	<u>(2,277,471)</u>
Net Assets at Beginning of Year, as restated	<u>601,514</u>	<u>2,125,910</u>	<u>3,461,852</u>	<u>6,189,276</u>
Net Assets at End of Year	<u>\$ (1,659,927)</u>	<u>\$ 3,003,312</u>	<u>\$ 3,523,529</u>	<u>\$ 4,866,914</u>

See accompanying notes to the financial statements.

**CENTRAL ADMINISTRATIVE OFFICE OF DIOCESE OF GREAT FALLS-BILLINGS**

**GREAT FALLS, MONTANA**

**STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2016 and 2015**

	<b>6/30/16</b>	<b>As Restated 6/30/15</b>
Cash Flows from Operating Activities:		
Change in Net Assets	\$ (1,212,320)	\$ (1,322,362)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Bad Debts	4,945	(40,060)
Net Change in Catholic Foundation of Eastern Montana	35,571	(191,086)
Depreciation	343,802	387,005
(Gain) Loss on Sale of Property and Equipment	(225,603)	(271,450)
Contributions Restricted for Long-Term Purposes	(12,400)	(12,525)
Realized and Unrealized Loss on Investments	(271,631)	(442,352)
(Increase) Decrease in Operating Assets:		
Accounts Receivable from Parishes and Institutions	69,975	158,888
Assessments (Net)	(161,083)	(270,561)
Other Receivables	(14,446)	(11,497)
Deposits and Other Prepaid Expenses	44,864	(21,677)
Increase (Decrease) in Operating Liabilities:		
Accounts Payable and Accrued Liabilities	(80,856)	52,682
Interest Payable to Parishes and Institutions	13,553	139,751
Postretirement Benefit Obligation	1,679,164	2,485,574
Other Liabilities	104,444	4,063
Net Cash Provided (Used) by Operating Activities	317,979	644,393
Cash Flows from Investing Activities:		
Sale/Redemption of Investments	3,910,682	4,837,965
Purchases of Investments	(3,714,318)	(4,367,867)
Purchases of Property and Equipment	(1,102,973)	(238,824)
Proceeds from Sales of Property and Equipment	386,100	480,321
New Loans to Parishes and Institutions	(43,529)	(66,891)
Payments Received on Loans to Parishes and Institutions	229,463	390,167
Payments Received on Loans to Others	2,440	45
Net Cash Provided (Used) by Investing Activities	(332,135)	1,034,916
Cash Flows from Financing Activities:		
Proceeds from Contributions Restricted for Long-Term Purposes	12,400	12,525
New Deposits from Parishes and Institutions	1,630,806	1,544,514
Deposits Returned to Parishes and Institutions	(2,051,266)	(1,665,886)
Net Change in Funds Held for Parishes and Institutions	13,671	(333,435)
Net Cash Provided (Used) by Financing Activities	(394,389)	(442,282)
Net Increase (Decrease) in Cash	(408,545)	1,237,027
Cash and Cash Equivalents - Beginning of Year	2,063,696	826,669
Cash and Cash Equivalents - End of Year	<b>\$ 1,655,151</b>	<b>\$ 2,063,696</b>
Interest Paid:		
Deposits in Deposit and Loan Fund	<b>\$ 282,467</b>	<b>\$ 141,449</b>

See accompanying notes to the financial statements.



**CENTRAL ADMINISTRATIVE OFFICE OF DIOCESE OF GREAT FALLS-BILLINGS**

**GREAT FALLS, MONTANA**

**NOTES TO THE FINANCIAL STATEMENTS**

**JUNE 30, 2016**

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**NOTE 1: ORGANIZATION AND NATURE OF ACTIVITIES:**

According to the Code of Canon Law of the Roman Catholic Church, a diocese is "a portion of the people of God which is entrusted for pastoral care to a bishop" (Canon 369). A diocese is normally territorial and is divided into distinct parts called parishes (see Canon 374).

In 1884, Pope Leo XIII created the Diocese of Helena, with boundaries being the same as the present State of Montana. In 1904, the Diocese of Helena was split and the Diocese of Great Falls (now Great Falls-Billings) was established. The Diocese of Great Falls-Billings includes roughly the eastern two-thirds of the State of Montana. The Diocese extends credit to the parishes and schools located within this geographic region. As such, the Diocese's receivables are mainly subject to the economic conditions of this geographic region.

In civil law, the Diocese of Great Falls-Billings is incorporated as the Roman Catholic Bishop of Great Falls, Montana, a Corporation Sole, (the Corporation Sole). The Corporation Sole operates the Central Administrative Office of the Diocese of Great Falls-Billings (the Chancery). Other operating divisions of the Corporation Sole include some 51 parishes, many with missions attached to them, school systems, and various other Catholic programs within the Diocese.

The accompanying financial statements include only the Chancery and those funds over which the Chancery maintains direct operational control, which include Mount Olivet Cemetery, Holy Cross Cemetery and Great Falls Central Catholic High School. Such statements do not include any assets or liabilities of the other operating divisions of the Corporation Sole as described above. In addition, the accompanying financial statements do not include, or pertain to, separate and independent corporate entities affiliated with the Corporation Sole that are located within the Diocese of Great Falls-Billings such as: The Catholic Foundation of Eastern Montana.

A significant portion of the Chancery's revenues is derived from assessments obtained from and fees for services provided to parishes, schools and other Diocesan institutions. The Chancery also administers the Diocesan insurance program.

The Chancery administers a Deposit and Loan Fund for its investments and on behalf of parishes. The funds are held in accounts invested with fund managers. Ownership by parish of the Deposit and Loan Fund is based on the amount held on account.

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

The accounting policies of the Chancery conform to accounting principles generally accepted in the United States of America (GAAP) applicable to not-for-profit entities. A summary of the significant accounting policies consistently applied in the preparation of the accompanying financial statements follows:

**Basis of Presentation** - The Chancery reports information regarding its financial position and activities according to three classes of net assets that are based upon the existence or absence of donor-imposed restrictions as follows:

**Unrestricted Net Assets** - Includes net assets of the Chancery that are not subject to donor-imposed restrictions.

**Temporarily Restricted Net Assets** - Includes net assets of the Chancery received with donor stipulations that limit the use of the net assets. Donor restrictions are stipulated by either a time restriction or a purpose restriction. Upon expiration of a time restriction or completion of a purpose restriction, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restriction. Temporarily restricted amounts received and used during the year flow through the statement of activities as unrestricted.

**Permanently Restricted Net Assets** - Includes net assets whose use has been restricted for investment in perpetuity as donor-restricted endowments. The income from endowments is available for either general operations or specific programs as specified by the donor.

**Method of Accounting** - The financial statements have been prepared on the accrual basis of accounting.

**Use of Estimates** - The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and disclosures at the date of the financial statements, as well as revenues and expenses during the period. Accordingly, actual results could differ from those estimates.

**Cash and Cash Equivalents** - For the purposes of the financial statements, the Chancery considers all highly liquid accounts with an original maturity date of three months or less as cash equivalents, except for cash and cash equivalents held by investment custodians.

**Concentration of Credit Risk** - Financial instruments that potentially subject the Chancery to concentrations of credit risk consist principally of cash and cash equivalents. Such balances with any one institution may, at times, be in excess of the Federal Deposit Insurance Corporation insured limit of \$250,000. At June 30, 2016, the Chancery's uninsured cash balances total \$1,251,949. Risks associated with cash and cash equivalents are mitigated by banking with credit worthy institutions. The Chancery has not experienced any losses in such accounts and believes it is not exposed to any significant risk.

**Investments** - Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair value in the statement of financial position, with current period recognition of increases or decreases in fair value shown in the statement of activities. Investments also include cash and cash equivalents held by investment custodians. Investment income recorded on the statement of activities includes interest and dividend income, as well as realized and unrealized gains and losses.

**Fair Value Measurements** - The Chancery follows the fair value measurement standards which define fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the assets or liabilities in an orderly transaction between market participants on the measurement date. Subsequent changes in fair value of these financial assets and liabilities are recognized in the change in net assets when they occur.

The Chancery determines the fair value of its financial assets and liabilities in accordance with the GAAP hierarchy for measuring fair value. The hierarchy maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Chancery. Unobservable inputs are inputs that reflect the Chancery's assumptions about what market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

The Chancery's financial assets and liabilities measured at fair value on a recurring basis are categorized according to the fair value hierarchy which prioritizes the valuation of inputs into three broad levels as described below:

Level 1 – quoted prices in active markets for identical investments as of the measurement date

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

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

The categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

A significant portion of the Chancery's investments are subject to the risk of value fluctuations that is inherent in the market. As such, the value of the Chancery's assets may change frequently. To help manage this risk, the Chancery utilizes professional investment managers who oversee the Chancery's portfolio.

**Accounts Receivable** - Accounts receivables consist of trade and non-trade receivables and assessments receivable from parishes and other institutions and are stated at the amount the Chancery expects to collect from outstanding balances. Credit is extended based upon the evaluation of the parish or institution's financial condition and other factors and, generally, collateral is not required.

The Chancery provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable.

**Loans and Notes Receivable** - Loans and notes receivable have variable maturity dates and are generally due in accordance with scheduled payments. The amounts are stated at the amount the Chancery expects to collect from outstanding balances. The Chancery expects to collect the full amounts of loans and notes receivable and as such, no allowance for doubtful accounts has been recorded. All loans and notes receivable are current at June 30, 2016 and 2015.

All loans accrue interest monthly in accordance with the applicable interest rates. Interest income is recognized monthly on the accrual basis.

**Property and Equipment** - Property and equipment are held in the name of the Corporation Sole and are stated at cost if purchased or at their estimated fair value at the date of donation. For properties placed in service and for which the Chancery has oversight, depreciation is provided using the straight-line method over the estimated useful lives of the assets as follows:

- Buildings and Improvements - 5 to 50 years.
- Furniture and Equipment - 3 to 10 years.
- Vehicles - 4 to 5 years.

The Chancery capitalizes all purchases of fixed assets that cost \$2,500 or more and that have an estimated economic life longer than one year.

**Deposits Payable to Parishes and Institutions** - The Chancery holds deposits for parishes, schools and institutions. The deposits are invested with the Deposit and Loan Fund in return for income on the investment. Deposit interest rates were 1.5% on short-term deposits, and 2.5% on long-term deposits in both 2016 and 2015. Such deposits are returnable on request.

**Assets Held for Parishes and Institutions** - The Chancery holds assets for various parishes, schools and institutions related to proceeds from special collections administered by the United States Conference of Catholic Bishops, other special collections local to the Diocese and administered by the Chancery, and other deposits administered by the Chancery.

**Gifts, Bequests and Grants** - The Chancery reports gifts, bequests and grants as unrestricted revenue unless they are received with donor stipulations that limit the use of donated assets, in which case they are recorded as temporarily or permanently restricted revenue. Contributions are generally recognized when received.

**Income Taxes** - 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 Roman Catholic Bishop of Great Falls, Montana 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 Allocation of Expenses** - The costs of providing the various programs and other activities of the Chancery have been summarized on a functional basis in Note 17. Certain costs have been allocated among the programs and supporting services benefited.

**Reclassifications** - Certain reclassifications have been made to the 2015 financial statements to conform to the 2016 financial statement report format.

**NOTE 3: INVESTMENTS:**

The Chancery administers investments through independent custodial arrangements for its benefit and the benefit of various Diocesan institutions.

Investments are managed under an investment policy operated under a moderate risk strategy and a balanced approach that is expected to preserve or grow the purchasing power of assets while also reducing the risk of substantial changes in market value from year to year. Investments were held by the following at June 30, 2016 and 2015:

	<u>6/30/16</u>	<u>6/30/15</u>
Deposit and Loan Fund	\$ 14,886,297	\$ 14,857,605
Chancery	490,397	508,307
Mount Olivet Cemetery	3,020,541	2,956,056
Total Investments	<u>\$ 18,397,235</u>	<u>\$ 18,321,968</u>

The Chancery's investment income for the years ended June 30, 2016 and 2015 is as follows:

	<u>6/30/16</u>	<u>6/30/15</u>
Interest and Dividends	\$ 320,447	\$ 486,853
Net Realized and Unrealized Gains (Losses) on Investments	271,631	442,352
Investment Income, Net	592,078	929,205
Deposit and Loan Fund Interest	85,093	94,230
Investment Income	<u>\$ 677,171</u>	<u>\$ 1,023,435</u>

**NOTE 4: FAIR VALUE MEASUREMENTS:**

The following tables present the Chancery's investments measured at fair value on a recurring basis as of June 30, 2016 and 2015:

	<u>2016</u>	<u>Quoted Prices in Active Markets of Identical Assets (Level 1)</u>	<u>Other Observable Inputs (Level 2)</u>	<u>Unobservable Inputs (Level 3)</u>
Money Market Funds	\$ 1,044,226	\$ 1,044,226	\$ -	\$ -
Bank Deposit Funds	-	-	-	-
U.S Treasury and Federal Agency Securities	1,159,811	-	1,159,811	-
Corporate Bonds	3,592,628	-	3,592,628	-
Equity Securities	10,239,148	10,239,148	-	-
Mutual Funds	1,781,516	1,781,516	-	-
Insurance Policies	322,124	-	-	322,124
Other	257,782	-	-	257,782
	<u>\$ 18,397,235</u>	<u>\$ 13,064,890</u>	<u>\$ 4,752,439</u>	<u>\$ 579,906</u>

	2015	Quoted Prices in Active Markets of Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Money Market Funds	\$ 915,651	\$ 915,651	\$ -	\$ -
Bank Deposit Funds	-	-	-	-
U.S Treasury and Federal Agency Securities	513,495	-	513,495	-
Corporate Bonds	3,661,144	-	3,661,144	-
Equity Securities	10,762,828	10,762,828	-	-
Mutual Funds	1,940,926	1,940,926	-	-
Insurance Policies	285,137	-	-	285,137
Other	242,787	-	-	242,787
	<u>\$ 18,321,968</u>	<u>\$ 13,619,405</u>	<u>\$ 4,174,639</u>	<u>\$ 527,924</u>

A significant portion of the Chancery's investments are classified within Level 1 because they are comprised of individual equities and mutual funds with readily determinable fair values based on daily redemption values. The Chancery also invests in fixed income securities that are valued using pricing models and are classified within Level 2. Level 3 assets include the cash surrender value of a life insurance policy and the equity balance of the Chancery's investment in Catholic Umbrella Pool II, which is a self-insurance fund for certain (Arch) Dioceses of which the Diocese of Great Falls-Billings is a member.

Below is a reconciliation of investments measured using significant unobservable inputs (Level 3) for the years ending June 30, 2016 and 2015:

	6/30/16	6/30/15
Beginning of Year, Level 3	\$ 527,924	\$ 410,881
Increase (Decrease) in Fair Value	51,982	117,043
End of Year, Level 3	<u>\$ 579,906</u>	<u>\$ 527,924</u>

#### NOTE 5: ACCOUNTS RECEIVABLE:

Accounts receivable consist of the following at June 30, 2016 and 2015:

	6/30/16	6/30/15
Parishes and Institutions	<u>\$ 131,943</u>	<u>\$ 201,918</u>
Assessments, Net:		
Current Operating Fund Assessment	\$ 429,138	\$ 435,639
Care and Share Assessment	1,330,836	1,175,908
Less: Allowance for Doubtful Accounts	(181,122)	(181,757)
Total Assessments, Net	<u>\$ 1,578,852</u>	<u>\$ 1,429,790</u>

	<u>6/30/16</u>	<u>6/30/15</u>
Other:		
Trade	\$ 82,788	\$ 69,332
Accrued Interest	-	10,575
Miscellaneous	11,165	15,500
Less: Allowance for Doubtful Accounts	(2,252)	(25,228)
Total Other	<u>\$ 91,701</u>	<u>\$ 70,179</u>

**NOTE 6: LOANS AND NOTES RECEIVABLE:**

Loans and notes receivable consist of the following at June 30, 2016 and 2015:

	<u>6/30/16</u>	<u>6/30/15</u>
Parishes and Institutions:		
Parishes Principal	\$ 4,635,676	\$ 4,887,457
Parishes Accrued Interest	151,729	100,899
Miscellaneous	27,416	12,399
Total Parishes and Institutions	<u>\$ 4,814,821</u>	<u>\$ 5,000,755</u>

The loans and notes receivable, which are unsecured, are due at various dates including interest charged at rates between 1.0%-4.0% for the years ended June 30, 2016 and 2015.

	<u>6/30/16</u>	<u>6/30/15</u>
Other:		
Principal	\$ 82,211	\$ 85,869
Accrued Interest	13,347	12,129
	<u>\$ 95,558</u>	<u>\$ 97,998</u>

The other loans and notes receivable are advances to Diocesan priests and seminarians which are unsecured, and are due at various dates including interest charged at 4.0% for the years ended June 30, 2016 and 2015.

**NOTE 7: CATHOLIC FOUNDATION OF EASTERN MONTANA:**

The Chancery has a beneficial interest in assets held by the Catholic Foundation of Eastern Montana (CFEM). The funds were received from donors who restricted the funds, or income from the funds for the benefit of the Chancery. Distributions from the funds are made in accordance with CFEM's spending policies. As of June 30, 2016 and 2015 the Chancery recorded its interest in CFEM as an asset totaling \$1,862,866 and \$1,898,437, respectively.

**NOTE 8: PROPERTY AND EQUIPMENT:**

Property and equipment consists of the following at June 30, 2016 and 2015:

	<u>6/30/16</u>	<u>6/30/15</u>
Land and Land Improvements	\$ 1,330,422	\$ 1,287,841
Building and Improvements	9,529,758	8,701,830
Furniture and Equipment	712,348	667,975
Vehicles	478,031	591,310
Construction in Progress	-	155,179
	<u>12,050,559</u>	<u>11,404,135</u>
Less: Accumulated Depreciation	<u>(4,493,364)</u>	<u>(4,445,614)</u>
	<u><b>\$ 7,557,195</b></u>	<u><b>\$ 6,958,521</b></u>

Depreciation expense amounted to \$343,802 and \$387,005 for the years ended June 30, 2016 and 2015, respectively.

**NOTE 9: SPLIT-INTEREST AGREEMENTS:**

The Chancery is the beneficiary of a charitable remainder annuity trust. The trust provides for distribution payments to designated beneficiaries over the trust's term. At the end of the trust's term, the remaining assets are available for use by the Chancery. There are no net assets recorded by the Chancery related to the trust as the present value of the distribution payments exceed the estimated fair value of the trust's assets at June 30, 2016 and 2015.

**NOTE 10: NET ASSETS:**

Temporarily and permanently restricted net assets as of June 30, 2016 and 2015 are summarized as follows:

	<u>6/30/16</u>	<u>6/30/15</u>
Temporarily Restricted:		
Assessments	\$ 1,699,997	\$ 1,685,456
Catholic Foundation of Eastern Montana	340,825	435,597
Scholarships	238,311	202,017
Capital Campaign	-	66,349
Building	-	613,893
	<u><b>\$ 2,279,133</b></u>	<u><b>\$ 3,003,312</b></u>
Permanently Restricted:		
Seminary Burse	\$ 1,225,366	\$ 1,225,366
Catholic Foundation of Eastern Montana	1,415,376	1,321,618
Cemeteries Perpetual Care	988,845	976,545
	<u><b>\$ 3,629,587</b></u>	<u><b>\$ 3,523,529</b></u>



**NOTE 11: PENSION PLAN - PRIESTS:**

Diocesan priests are covered by a defined benefit pension plan (which operates as a multi-employer plan) which provides for retirement benefits at age 65. The plan also has provision for early retirement at age 60. A participant is 100% vested after ten years of service.

The plan is funded through the Clerical Benefit Association and Wells Fargo Institutional Trust Group serves as trustee. Contributions are made by employer parishes and organizations. The Chancery contributes on behalf of priests on leave, not in active ministry, and employed at the Chancery. In addition, the Chancery made voluntary contributions to the plan in 2016 and 2015 of \$50,000 and \$25,000, respectively.

At June 30, 2016 (the latest valuation date) and 2015, the present value of future plan benefits was approximately \$6,579,000 and \$6,350,000, respectively, using a discount rate of 3.55% and 4.14%, respectively. The market value of assets available for plan benefits at June 30, 2016 (the latest valuation date) and 2015 was approximately \$3,147,000 and 3,123,000, respectively, using an assumed long-term rate of return of 5%.

**NOTE 12: PENSION PLAN – LAY EMPLOYEES:**

The Chancery provides a 403(b) defined contribution pension plan for lay employees through Christian Brothers Retirement Services. For permanent full-time and part-time employees, the Diocesan 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 June 30, 2016 and 2015, employer costs were \$114,544 and \$106,743, respectively.

**NOTE 13: POSTEMPLOYMENT BENEFITS:**

The Chancery provides postretirement health insurance benefits for retired priests. The Chancery has determined the cost of its accumulated postretirement benefit obligation for the years ended June 30, 2016 and 2015 in accordance with accounting principles generally accepted in the United States of America.

The following table provides further information about the Chancery postretirement benefit plan at June 30, 2016 and 2015:

	<u>6/30/16</u>	<u>6/30/15</u>
Benefit Obligation	\$ 14,455,996	\$ 12,776,832
Employer Contributions	-	-
Participant Contributions	-	-
Benefit Payments	256,542	276,348
Fair Value of Plan Assets	-	-
Net Unfunded Status of the Plan	14,455,996	12,776,832

Amounts recognized in the Statement of Financial Position consist of:

	<u>6/30/16</u>	<u>6/30/15</u>
Accrued Benefit Cost	<u>\$ 14,455,996</u>	<u>\$ 12,776,832</u>

The net periodic benefit costs recognized in the change in net assets for 2016 and 2015 were \$1,679,164 and \$2,067,118, respectively.

The assumptions used to determine benefit obligations at June 30, 2016 and 2015 were as follows:

	<u>6/30/16</u>	<u>6/30/15</u>
Discount Rate	4.0%	4.00%
Health Care Cost Trend Rate:		
First Year	9.0%	9.0%
Ultimate	5.0%	5.0%
Years to Ultimate	4 Years	4 Years

**NOTE 14: RELATED PARTIES:**

As disclosed in Note 1, parishes and related institutions that are not fiscally responsible to the Bishop are not included in these financial statements. These financial statements do include various payables and receivables between the Chancery and related parishes and institutions.

The Bishop is a board member of Catholic Social Services of Montana and Montana Catholic Conference. The Chancery made contributions to Catholic Social Services of Montana of \$72,000 for the fiscal years ended June 30, 2016 and 2015, and contributions to Montana Catholic Conference of \$75,000 and \$96,680 for fiscal years ended June 30, 2016 and 2015, respectively.

**NOTE 15: COMMITMENTS AND CONTINGENCIES:**

The Chancery is a defendant in several pending or threatened lawsuits. Two of the lawsuits involving 72 claims have been consolidated and a mediation of these claims is scheduled for March, 2017. The Chancery’s insurer has taken the position that its liability coverage did not commence until March 1, 1974, and, as such, any claims arising prior to this date will not be covered, nor will the insurer pay for the cost of the defense of these claims. As a result, out of the 72 claims, only 17 are claims covered by the Chancery’s liability insurance policies, which could expose the assets of the Chancery to any adverse judgment associated with these claims. In order to reduce the exposure of the assets of the Chancery, in cooperation with its insurer, efforts are being undertaken to resolve all 72 claims via a global mediation.

**NOTE 16: ENDOWMENT:**

The Chancery’s endowment consists of cemetery perpetual care funds established for the on-going upkeep of diocesan cemeteries, the seminary burse fund established for the development and education of priests, and permanently restricted funds held by the Catholic Foundation of Eastern Montana. The endowment assets include donor-restricted endowment funds. As required by generally accepted accounting principles in the United States, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

**Interpretation of Relevant Law:**

The Chancery has interpreted the Montana Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the presentation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result, the Chancery classifies as permanently restricted net assets (a) the original value of gifts

donated to the permanent endowment, and (b) the original value of subsequent gifts to the permanent endowment. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Chancery in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the Chancery considers the following factors when making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purpose of the Chancery and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Chancery
- (7) The investment policies of the Chancery

### **Endowment Spending Policy**

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

### **Endowment Investment Policy**

**Investment Objective** - The obligations of the Chancery 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, 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 Chancery 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 Chancery is comfortable with a low to moderate risk strategy. However, safety and soundness is considered essential in the selection of securities. Specifically, approved investments may be in blue chip stocks, corporate bonds, time certificates of deposit, commercial paper US Treasury securities, government agency offerings and money market funds, bank security agreements and savings accounts.

**Strategies for Achieving Objectives** - To satisfy its long-term objectives, the Chancery 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).

The Chancery's endowment funds are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Balance, June 30, 2014	\$ 99,594	\$ 230,396	\$ 3,461,852	\$ 3,791,842
Contributions	-	-	12,525	12,525
Change in Beneficial Interest in CFEM	<u>7,501</u>	<u>38,973</u>	<u>49,152</u>	<u>95,626</u>
Balance, June 30, 2015	107,095	269,369	3,523,529	3,899,993
Contributions	-	-	12,400	12,400
Change in Beneficial Interest in CFEM	<u>(42,265)</u>	<u>(51,117)</u>	<u>93,658</u>	<u>276</u>
Balance, June 30, 2016	<u><u>\$ 64,830</u></u>	<u><u>\$ 218,252</u></u>	<u><u>\$ 3,629,587</u></u>	<u><u>\$ 3,912,669</u></u>

**NOTE 17: FUNCTIONAL EXPENSES:**

The Chancery's expenses by function for the years ended June 30, 2016 and 2015 were as follows:

	<u>6/30/16</u>	<u>6/30/15</u>
Programs:		
Bishop	\$ 315,686	\$ 338,524
Chancery	317,973	425,010
Moderator of the Curia	164,614	211,451
Ministries	112,950	100,203
Stewardship	208,486	1,104,184
Evangelization	-	108
Tribunal	73,743	61,781
Schools	1,576,697	1,379,448
Priests	2,271,696	3,171,333
Worship	4,606	17,480
Cemeteries	358,321	561,697
Chancellor	128,472	86,929
Parishes	852,041	1,948,542
Special Collection	-	40
Youth and Young Adult Ministry	<u>143,030</u>	<u>42,041</u>
	<u>6,528,315</u>	<u>9,448,771</u>
Supporting Services:		
Business Office	283,694	507,586
Human Resources	117,537	284,303
Properties	<u>564,415</u>	<u>497,798</u>
	<u>965,646</u>	<u>1,289,687</u>
Total	<u><u>\$ 7,493,961</u></u>	<u><u>\$ 10,738,458</u></u>

**NOTE 18: SUBSEQUENT EVENTS:**

The Chancery has evaluated subsequent events through April 10, 2017, the date which the financial statements were available to be issued. The Chancery filed a voluntary petition for Chapter 11 bankruptcy on March 31, 2017. The financial statements do not include any adjustments that might be necessary in relation to the bankruptcy filing.

**NOTE 19: RESTATEMENT:**

The Chancery's beginning net assets at July 1, 2014 were restated to reflect net asset classification corrections of \$(2,277,471) at the Catholic Foundation of Eastern Montana. In addition, the Change in Beneficial Interest in Catholic Foundation of Eastern Montana on the Statement of Activities for the year ended June 30, 2015 was decreased by \$(177,344), and the Catholic Foundation of Eastern Montana – Restricted investment on the Statement of Financial Position as of June 30, 2015 was decreased by \$(2,454,815).