

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

GREAT FALLS, MONTANA

**FINANCIAL STATEMENTS
AS OF
JUNE 30, 2019 and 2018**

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Douglas Wilson & Company, P.C.

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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, 2019 and 2018, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the 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, 2019 and 2018, 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.

Emphasis of Matter

As discussed in Note 1 to the financial statements, in the year ended June 30, 2019, the Organization adopted the Financial Accounting Standards Board's Accounting Update (ASU) 2016-14, *Not-for-Profit (Topic 958) - Presentation of Financial Statements of Not-for-Profit Entities*. The requirements of the ASU have been applied retrospectively to all periods presented. Our opinion is not modified with respect to this matter.

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
January 20, 2020

CENTRAL ADMINISTRATIVE OFFICE OF DIOCESE OF GREAT FALLS-BILLINGS

GREAT FALLS, MONTANA

**STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2019 AND 2018**

	6/30/19	6/30/18
ASSETS		
Cash and Cash Equivalents	\$ 1,642,732	\$ 3,191,943
Investments	5,959,416	5,570,629
Accounts Receivable (net of allowance for doubtful accounts)		
Parishes and Institutions	252,698	266,717
Assessments	1,530,901	1,578,533
Other	371,046	288,030
Deposits and Other Prepaid Expenses	2,325	27,897
Interest in Capital Asset Support Corporation	896,164	2,058,811
Interest in Catholic Foundation of Eastern Montana	2,392,804	2,525,654
Property and Equipment (net of accumulated depreciation)	6,693,851	7,001,941
Total Assets	\$ 19,741,937	\$ 22,510,155
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts Payable and Accrued Liabilities	\$ 433,099	\$ 950,663
Settlement Payable	-	4,500,000
Held for Parishes and Institutions	1,833,997	3,180,113
Other Liabilities	166,326	62,085
Deferred Gain on Sale of Property	200,000	-
Long-Term Debt	2,294,784	-
Postretirement Benefit Obligation	12,517,900	11,531,161
Total Liabilities	17,446,106	20,224,022
Net Assets:		
Net Assets Without Donor Restrictions	(4,003,440)	(4,320,616)
Net Assets With Donor Restrictions	6,299,271	6,606,749
Total Net Assets	2,295,831	2,286,133
Total Liabilities and Net Assets	\$ 19,741,937	\$ 22,510,155

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, 2019**

	Without Donor Restrictions	With Donor Restrictions	6/30/19
Revenues:			
Gifts, Bequests, Grants and Assessments	\$ 1,514,549	1,821,609	\$ 3,336,158
Insurance	227,357	-	227,357
Investment Income	352,660	-	352,660
Rents and Leases Income	245,875	-	245,875
Other Revenue	1,711,657	-	1,711,657
Fees for Services	943,724	-	943,724
Change in Beneficial Interest in Catholic Foundation of Eastern Montana	41,537	(174,387)	(132,850)
Net Assets Released from Restrictions	1,954,700	(1,954,700)	-
Total Revenues	6,992,059	(307,478)	6,684,581
Expenses:			
Compensation and Benefits	2,220,347	-	2,220,347
Postretirement Benefit Obligation	986,739	-	986,739
Property Costs and Depreciation	866,288	-	866,288
Office Expenses	127,758	-	127,758
Professional Fees	1,468,803	-	1,468,803
Interest Paid to Parishes and Organizations	138,342	-	138,342
Insurance	130,964	-	130,964
Other Operating Expenses	329,409	-	329,409
Seminarian Expenses	258,268	-	258,268
Exchange Program Expenses	17,186	-	17,186
Auto, Travel and Meeting Expenses	130,779	-	130,779
Total Expenses	6,674,883	-	6,674,883
 Change in Net Assets	 317,176	 (307,478)	 9,698
 Net Assets at Beginning of Year	 (4,320,616)	 6,606,749	 2,286,133
 Net Assets at End of Year	 \$ (4,003,440)	 \$ 6,299,271	 \$ 2,295,831

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, 2018**

	Without Donor Restrictions	With Donor Restrictions	6/30/18
Revenues, Gains and Other Support:			
Gifts, Bequests, Grants and Assessments	\$ 1,434,993	\$ 1,785,194	\$ 3,220,187
Insurance	189,126	-	189,126
Investment Income	427,777	-	427,777
Rents and Leases Income	116,759	-	116,759
Other Revenue	433,824	-	433,824
Fees for Services	1,112,508	-	1,112,508
Change in Beneficial Interest in Catholic Foundation of Eastern Montana	(64,825)	391,778	326,953
Net Assets Released from Restrictions	1,818,938	(1,818,938)	-
Total Revenues, gains and Other Support	<u>5,469,100</u>	<u>358,034</u>	<u>5,827,134</u>
Expenses:			
Compensation and Benefits	2,042,254	-	2,042,254
Postretirement Benefit Obligation	(1,553,658)	-	(1,553,658)
Property Costs and Depreciation	1,103,179	-	1,103,179
Office Expenses	132,735	-	132,735
Professional Fees	1,041,625	-	1,041,625
Interest Paid to Parishes and Organizations	88	-	88
Insurance	90,290	-	90,290
Other Operating Expenses	592,506	-	592,506
Seminarian Expenses	223,756	-	223,756
Exchange Program Expenses	81,370	-	81,370
Auto, Travel and Meeting Expenses	198,187	-	198,187
Settlement Expenses	4,500,000	-	4,500,000
Total Expenses	<u>8,452,332</u>	<u>-</u>	<u>8,452,332</u>
Change in Net Assets	(2,983,232)	358,034	(2,625,198)
Net Assets at Beginning of Year	<u>(1,337,384)</u>	<u>6,248,715</u>	<u>4,911,331</u>
Net Assets at End of Year	<u>\$ (4,320,616)</u>	<u>\$ 6,606,749</u>	<u>\$ 2,286,133</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, 2019 and 2018**

	<u>6/30/19</u>	<u>6/30/18</u>
Cash Flows from Operating Activities:		
Change in Net Assets	\$ 9,698	\$ (2,625,198)
Adjustments to Reconcile Change in Net Assets to		
Net Cash Provided by Operating Activities:		
Bad Debts	8,239	32,230
Net Change in Catholic Foundation of Eastern Montana	132,850	(326,953)
Depreciation	284,365	308,962
Contributions Restricted for Long-Term Purposes	-	(18,564)
Realized and Unrealized (Gain) Loss on Investments	(254,203)	(315,166)
Realized Gain on Sale of Property and Equipment	(1,181,551)	-
(Increase) Decrease in Operating Assets:		
Accounts Receivable from Parishes and Institutions	5,780	(59,274)
Assessments	47,632	(37,957)
Other Receivables	(83,016)	(172,434)
Deposits and Other Prepaid Expenses	25,572	(5,667)
Increase (Decrease) in Operating Liabilities:		
Accounts Payable and Accrued Liabilities	(517,564)	290,060
Settlement Payable	(4,500,000)	4,500,000
Postretirement Benefit Obligation	986,739	(1,553,658)
Other Liabilities	104,241	(15,253)
Net Cash Provided (Used) by Operating Activities	<u>(4,931,218)</u>	<u>1,128</u>
Cash Flows from Investing Activities:		
Sale/Redemption of Investments	935,351	597,796
Purchases of Investments	(1,069,935)	(645,548)
Proceeds from Sales of Property and Equipment	94,777	-
Purchases of Property and Equipment	(34,717)	-
Deposit on Sale of Property	200,000	-
Net Cash Provided (Used) by Investing Activities	<u>125,476</u>	<u>(47,752)</u>
Cash Flows from Financing Activities:		
Proceeds from Long-Term Debt	3,550,000	-
Payments on Long-Term Debt	(110,000)	-
Proceeds from Contributions Restricted for Long-Term Purposes	-	18,564
Cash Transfers from (to) Capital Asset Support Corporation	1,162,647	396,440
Net Change in Funds Held for Parishes and Institutions	<u>(1,346,116)</u>	<u>1,695,587</u>
Net Cash Provided by Financing Activities	<u>3,256,531</u>	<u>2,110,591</u>
Net Increase (Decrease) in Cash	(1,549,211)	2,063,967
Cash and Cash Equivalents - Beginning of Year	<u>3,191,943</u>	<u>1,127,976</u>
Cash and Cash Equivalents - End of Year	<u><u>\$ 1,642,732</u></u>	<u><u>\$ 3,191,943</u></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, 2019 and 2018**

	<u>6/30/19</u>	<u>6/30/18</u>
SUPPLEMENTAL DISCLOSURES		
Interest Paid on Long-Term Debt	<u>\$ 138,342</u>	<u>\$ -</u>
Noncash Investing and Financing Transactions:		
Proceeds from Sales of Property and Equipment		
Applied to Long-Term Debt	<u>\$ 1,145,216</u>	<u>\$ -</u>

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, 2019

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. 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 50 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 Diocese of Great Falls-Billings Juridic Persons Capital Assets Support Corporation, The Diocese of Great Falls-Billings Juridic Persons Real Property Support Corporation, and 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.

Support Corporations - The Diocese of Great Falls-Billings Juridic Persons Capital Assets Support Corporation (Capital Assets Support Corporation) and The Diocese of Great Falls-Billings Juridic Persons Real Property Support Corporation (Real Property Support Corporation), collectively referred to as the "Support Corporations" are separate and distinct corporations from the Corporation Sole. The Support Corporations exist for the expressed purpose of owning and maintaining certain real properties and capital assets in order for the civil structure of asset ownership to more closely conform with Canon law and to support the mission of parishes, schools and other diocesan entities that are operated civilly by the Corporation Sole.

The process of exploring and implementing the support corporation model has been on-going for several years. As of June 30, 2019, only the Capital Assets Support Corporation is fully operational, whereas the Real Property Support Corporation remains dormant. While the Corporation Sole maintains/will maintain an economic interest in the Support Corporations, it does not have control of or ability to determine the direction of management and policies. Therefore, the financial statements of the Support Corporations are not consolidated with those of the Corporation Sole.

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:

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

Basis of Presentation – The Chancery reports information regarding its financial position and activities according to two classes of net assets: net assets with donor restrictions, and net assets without donor restrictions.

Net Asset Categories –

Net assets with donor restrictions carry restrictions that expire upon the passage of a prescribed period, upon the occurrence of a stated event as specified by the donor or are those that are subject to donor-imposed stipulations that the assets be maintained permanently by the Chancery. The Chancery had \$6,299,271 and 6,606,749 in net assets with donor restrictions at June 30, 2019 and 2018, respectively.

Net assets without donor restrictions are composed of all resources not included in the above category. Included are expendable resources used to support Chancery activities. Donor restricted contributions that are received and expended in the same year are released to net assets without donor restriction. All expenses are recorded as a reduction to net assets without donor restriction. These net assets may be used at the discretion of Chancery management.

Basis 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, 2019, the Chancery's uninsured cash balances total \$1,420,980. 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, net of direct investment expenses.

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.

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.

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.

Gifts, Bequests and Grants – The Chancery reports gifts, bequests and grants as revenue without donor restrictions unless they are received with donor stipulations that limit the use of donated assets, in which case they are recorded as revenue with donor restrictions. 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 16. Certain costs have been allocated among the programs and supporting services benefited.

Reclassifications – Certain reclassifications have been made to the 2018 financial statements to conform to the 2019 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, 2019 and 2018:

The Chancery's investment income for the years ended June 30, 2019 and 2018 is as follows:

	<u>6/30/19</u>	<u>6/30/18</u>
Interest and Dividends	\$ 73,295	\$ 69,251
Net Realized and Unrealized Gain (Loss) on Investments	254,203	315,166
Deposit and Loan Fund Interest	37,354	57,839
Less: Investment Expenses	<u>(12,192)</u>	<u>(14,479)</u>
Investment Income	<u><u>\$ 352,660</u></u>	<u><u>\$ 427,777</u></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, 2019 and 2018:

	<u>2019</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>
Cash and Cash Equivalents	\$ 412,127	\$ 412,127	\$ -	\$ -
U.S Treasury Bonds	490,667	-	490,667	-
Corporate Bonds	1,233,495	-	1,233,495	-
Equity Securities	3,196,952	3,196,952	-	-
Insurance Policies	416,862	-	-	416,862
Other	209,313	-	-	209,313
	<u><u>\$ 5,959,416</u></u>	<u><u>\$ 3,609,079</u></u>	<u><u>\$ 1,724,162</u></u>	<u><u>\$ 626,175</u></u>

		Quoted Prices in Active Markets of Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
	2018			
Cash and Cash				
Equivalents	\$ 376,420	\$ 376,420	\$ -	\$ -
U.S Treasury Bonds	324,236	-	324,236	-
Corporate Bonds	1,150,272	-	1,150,272	-
Equity Securities	3,123,835	3,123,835	-	-
Insurance Policies	380,614	-	-	380,614
Other	215,252	-	-	215,252
	<u>\$ 5,570,629</u>	<u>\$ 3,500,255</u>	<u>\$ 1,474,508</u>	<u>\$ 595,866</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, 2019 and 2018:

	6/30/19	6/30/18
Beginning of Year, Level 3	\$ 595,866	\$ 578,744
Increase (Decrease) in Fair Value	30,309	17,122
End of Year, Level 3	<u>\$ 626,175</u>	<u>\$ 595,866</u>

NOTE 5: ACCOUNTS RECEIVABLE:

Accounts receivable consist of the following at June 30, 2019 and 2018:

	6/30/19	6/30/18
Parishes and Institutions	<u>\$ 252,698</u>	<u>\$ 266,717</u>

	6/30/19	6/30/18
Assessments, Net:		
Current Operating Fund Assessment	\$ 336,635	\$ 291,706
Care and Share Assessment	1,458,159	1,541,828
Less: Allowance for Doubtful Accounts	(263,893)	(255,001)
Total Assessments, Net	<u>\$ 1,530,901</u>	<u>\$ 1,578,533</u>

	<u>6/30/19</u>	<u>6/30/18</u>
Other:		
Trade	\$ 84,562	\$ 58,925
Miscellaneous	295,936	231,357
Less: Allowance for Doubtful Accounts	(9,452)	(2,252)
Total Other	<u>\$ 371,046</u>	<u>\$ 288,030</u>

NOTE 6: PROPERTY AND EQUIPMENT:

Property and equipment consists of the following at June 30, 2019 and 2018:

	<u>6/30/19</u>	<u>6/30/18</u>
Land and Land Improvements	\$ 1,349,228	\$ 1,407,861
Building and Improvements	9,536,929	9,536,929
Furniture and Equipment	718,465	714,848
Vehicles	462,532	461,031
	<u>12,067,154</u>	<u>12,120,669</u>
Less: Accumulated Depreciation	<u>(5,373,303)</u>	<u>(5,118,728)</u>
	<u>\$ 6,693,851</u>	<u>\$ 7,001,941</u>

Depreciation expense amounted to \$284,365 and \$308,962 for the years ended June 30, 2019 and 2018, respectively.

NOTE 7: 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, 2019 and 2018.

NOTE 8: LONG-TERM DEBT:

Long-term debt consists of the following:

	<u>6/30/19</u>
\$1,000,000 unsecured note payable to The Diocese of Great Falls-Billings Juridic Person Capital Assets Support Corporation, payable in monthly, interest only payments at 4% fixed, beginning October 1, 2018, with the full amount of principal due at the maturity date of August 31, 2028.	\$ 1,000,000
\$2,550,000 note payable to St. Labre Indian School Educational Association, payable in monthly, interest only payments at 5.75% fixed, beginning October 1, 2018, with the full amount of principal due at the maturity date of August 31, 2023. This note is secured by real property located in Cascade County, MT and Yellowstone County, MT.	1,294,784
	<u>\$ 2,294,784</u>

The following is a summary of maturities due on the long-term debt as of June 30, 2019:

<u>June 30,</u>	
2020	\$ -
2021	-
2022	-
2023	-
2024	1,294,784
Thereafter	1,000,000
	<u><u>\$ 2,294,784</u></u>

NOTE 9: RESTRICTIONS/LIMITATIONS ON NET ASSETS:

Net assets with donor restrictions as of June 30, 2019 and 2018 are summarized as follows:

	<u>6/30/19</u>	<u>6/30/18</u>
<i>Purpose Restricted:</i>		
Assessments	\$ 1,691,310	\$ 1,700,000
Catholic Foundation of Eastern Montana	340,334	583,165
Scholarships	25,000	161,263
Evangelization	18,800	18,800
	<u>2,075,444</u>	<u>2,463,228</u>
<i>Restricted in Perpetuity:</i>		
Seminary Burse	1,225,366	1,225,366
Catholic Foundation of Eastern Montana	1,966,950	1,898,506
Cemeteries Perpetual Care	1,031,511	1,019,649
	<u>4,223,827</u>	<u>4,143,521</u>
Total Net Assets with Donor Restrictions	<u><u>\$ 6,299,271</u></u>	<u><u>\$ 6,606,749</u></u>

NOTE 10: 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 2019 and 2018 of \$25,000 and \$25,000, respectively.

At June 30, 2019 (the latest valuation date) and 2018, the present value of future plan benefits was approximately \$5,427,000 and \$5,268,000, using a discount rate of 3.5% and 4.0%, respectively. The market value of assets available for plan benefits at June 30, 2019 (the latest valuation date) and 2018 was approximately \$3,900,000 and 3,669,000, using an assumed long-term rate of return of 5%.

NOTE 11: 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, 2019 and 2018, employer costs were \$83,093 and \$80,005, respectively.

NOTE 12: POSTRETIREMENT 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, 2019 and 2018 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, 2019 and 2018:

	<u>6/30/19</u>	<u>6/30/18</u>
Benefit Obligation	\$12,517,900	\$11,531,161
Employer Contributions	341,747	309,786
Participant Contributions	-	-
Benefit Payments	341,747	309,786
Fair Value of Plan Assets	-	-
Net Unfunded Status of the Plan	12,517,900	11,531,161

Amounts recognized in the Statement of Financial Position consist of:

	<u>6/30/19</u>	<u>6/30/18</u>
Accrued Benefit Cost	<u>\$12,517,900</u>	<u>\$11,531,161</u>

The net change in liability recognized in the change in net assets for 2019 and 2018 was \$986,739 and \$(1,553,058), respectively.

The assumptions used to determine benefit obligations at June 30, 2019 and 2018 were as follows:

	<u>6/30/19</u>	<u>6/30/18</u>
Discount Rate	3.50%	4.00%
Health Care Cost Trend Rate:		
First Year	10.0%	9.0%
Ultimate	5.0%	5.0%
Years to Ultimate	4 Years	4 Years

NOTE 13: 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. Related parties and related party transactions are as follows:

Capital Assets Support Corporation - The Corporation Sole irrevocably and unconditionally assigned, transferred and conveyed rights, title and interest in all Deposit and Loan Fund (DLF) assets and liabilities to the Capital Assets Support Corporation in December 2016. The net amount transferred was \$2,411,171 and represents a beneficial interest in the net assets of the Capital Assets Support Corporation. The change in the beneficial interest in the Capital Assets Support Corporation during the year ended June 30, 2018 was \$(396,440) and the total amount of the Chancery's interest in the net assets of the Capital Assets Support Corporation was \$2,058,811 at June 30, 2018. The change in the beneficial interest in the Capital Assets Support Corporation during the year ended June 30, 2019 was \$(1,162,647) and the total amount of the Chancery's interest in the net assets of the Capital Assets Support Corporation is \$896,164 at June 30, 2019.

In addition, during 2019, the Chancery borrowed \$1,000,000 from the Capital Assets Support Corporation (see Note 8). Interest paid to the Capital Assets Support Corporation on the note payable during 2019 amounted to \$28,091.

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, 2019 and 2018 the Chancery recorded its interest in CFEM as an asset totaling \$2,392,804 and \$2,525,654, respectively. In addition, the Chancery provide support to CFEM in the amounts of \$50,000 and \$100,000 for the fiscal years ended June 30, 2019 and 2018, respectively.

Other - The Bishop is a board member of Catholic Social Services of Montana and Montana Catholic Conference. The Chancery supported operations of the Catholic Social Services of Montana in the amount of \$59,000 and \$59,000 for the fiscal years ended June 30, 2019 and 2018, and supported the operations of the Montana Catholic Conference in the amount of \$75,000 and \$75,000 for fiscal years ended June 30, 2019 and 2018, respectively.

NOTE 14: COMMITMENTS AND CONTINGENCIES:

The Chancery is a defendant in several pending or threatened lawsuits. In the opinion of management, the defense of all litigation is covered by insurance.

NOTE 15: 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 net assets with donor restrictions (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 endowment fund classified in net assets with donor restrictions 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).

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

	6/30/19 With Donor Restrictions
Donor Restricted Endowment	<u>\$ 4,223,827</u>

	6/30/18 With Donor Restrictions
Donor Restricted Endowment	<u>\$ 4,143,521</u>

Changes in net asset composition by type of fund for the years ended June 30, 2019 and 2018 are as follows:

Endowment Net Assets, June 30, 2017	\$ 3,969,492
Contributions	18,564
Change in Beneficial Interest in CFEM	<u>155,465</u>
Endowment Net Assets, June 30, 2018	4,143,521
Contributions	11,862
Change in Beneficial Interest in CFEM	<u>68,444</u>
Endowment Net Assets, June 30, 2019	<u>\$ 4,223,827</u>

NOTE 16: FUNCTIONAL EXPENSES:

The Chancery's expenses by both nature and function for the year ended June 30, 2019 are as follows:

	June 30, 2019		
	Program Expenses	General and Administrative	Total
Compensation and Benefits	\$ 2,856,315	\$ 350,771	\$ 3,207,086
Property Costs and Depreciation	475,838	390,444	866,282
Office Expenses	121,073	6,690	127,763
Professional Fees	1,387,124	35,608	1,422,732
Interest Paid to Parishes and Organizations	-	138,342	138,342
Insurance	95,750	35,214	130,964
Other Operating Expenses	354,583	20,899	375,482
Seminarian Expenses	252,958	5,310	258,268
Exchange Program Expenses	17,186	-	17,186
Auto, Travel and Meeting Expenses	117,821	12,957	130,778
Total Expenses	<u>\$ 5,678,648</u>	<u>\$ 996,235</u>	<u>\$ 6,674,883</u>

NOTE 17: LIQUIDITY:

The Chancery regularly monitors the availability of resources required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. The primary tools used to monitor spending and availability of resources is comparing budgeted amounts to actual results as well as regular reviews of cash balances to ensure funds are available for upcoming cash needs throughout the year.

The Chancery primarily receives revenue without donor restrictions throughout the year that are used to operate programs as well as used to pay other operating expenses.

Financial assets available for general expenditure include only those without donor or other restrictions limiting their use within one year of the balance sheet date. General expenditures include those listed within the program, and management and general classifications in Note 16 to the financial statements. Management has identified the following assets as of June 30, 2019 as available for general expenditures in 2020:

Cash and Cash Equivalents	<u>\$ 1,642,732</u>
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NOTE 18: SETTLEMENT FUNDING:

The Chancery accrued a net legal settlement of \$4,500,000 at June 30, 2018, related to the resolution of two lawsuits and the filing of a Chapter 11 bankruptcy plan, which was formally approved by the court in August 2018. Funding of the settlement took place during the year ended June 30, 2019 and funding of the net settlement was as follows:

Funding Proceeds:	
Insurance	\$ 8,000,000
Parishes and Institutions	8,000,000
Total Funding Proceeds	<u>16,000,000</u>
Less: Settlement Costs:	
Settlement	(20,000,000)
Future Claims Fund	(500,000)
Total Settlement Costs	<u>(20,500,000)</u>
Net Settlement Costs Accrued at June 30, 2018	<u>\$ (4,500,000)</u>

NOTE 19: SUBSEQUENT EVENTS:

ASC No. 855: *Subsequent Events* establishes general standards of accounting for and disclosures of events that occur after the statement of financial position date but before the financial statements are issued or are available to be issued. Specifically, it sets forth the period after the statement of financial position date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity should recognize events or transactions occurring after the statement of financial position date in its financial statements, and the disclosures that an entity should make about events or transactions that occurred after the statement of financial position date. In accordance with ASC No. 855, the Chancery evaluated subsequent events through January 20, 2020, the date these financial statements were available to be issued. There were no material subsequent events that require recognition or additional disclosure in these financial statements.