

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

GREAT FALLS, MONTANA

**FINANCIAL STATEMENTS
AS OF
JUNE 30, 2020 and 2019**

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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, 2020 and 2019, 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.

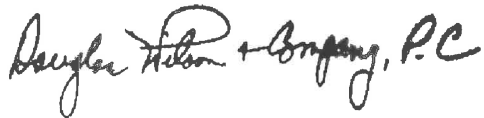
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Correction of Errors

As discussed in Note 19 to the financial statements, certain errors resulting in an understatement of amounts previously reported for deferred gain on sale of property and net assets without donor restriction, and an overstatement of rents and leases income and net assets with donor restriction were discovered by management of the Chancery during the current year. Accordingly, amounts reported for deferred gain on sale of property, rents and leases income, and net assets with and without restriction have been restated in the 2019 financial statements now presented, and adjustments have been made to net assets at June 30, 2019, to correct the errors. 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
May 11, 2021

CENTRAL ADMINISTRATIVE OFFICE OF DIOCESE OF GREAT FALLS-BILLINGS

GREAT FALLS, MONTANA

**STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2020 AND 2019**

	6/30/20	As Restated 6/30/19
ASSETS		
Cash and Cash Equivalents	\$ 1,187,563	\$ 1,642,732
Investments	6,447,106	5,959,416
Accounts Receivable (net of allowance for doubtful accounts)		
Parishes and Institutions	190,201	252,698
Assessments	707,503	1,530,901
Other	421,562	371,046
Deposits and Other Prepaid Expenses	2,294	2,325
Interest in Capital Asset Support Corporation	1,419,997	896,164
Interest in Catholic Foundation of Eastern Montana	2,996,255	2,392,804
Property and Equipment (net of accumulated depreciation)	6,498,298	6,693,851
Total Assets	\$ 19,870,779	\$ 19,741,937
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts Payable and Accrued Liabilities	\$ 401,142	\$ 433,099
Held for Parishes and Institutions	1,560,228	1,833,997
Other Liabilities	242,670	166,326
Deferred Gain on Sale of Property	-	300,000
Long-Term Debt	850,827	2,294,784
Postretirement Benefit Obligation	13,361,222	12,517,900
Total Liabilities	16,416,089	17,546,106
Net Assets:		
Net Assets Without Donor Restrictions	(1,767,977)	(2,412,130)
Net Assets With Donor Restrictions	5,222,667	4,607,961
Total Net Assets	3,454,690	2,195,831
Total Liabilities and Net Assets	\$ 19,870,779	\$ 19,741,937

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, 2020**

	Without Donor Restrictions	With Donor Restrictions	6/30/20
Revenues:			
Gifts, Bequests, Grants and Assessments	\$ 2,524,019	89,615	\$ 2,613,634
Insurance	163,869	-	163,869
Investment Income	547,465	-	547,465
Rents and Leases Income	139,933	-	139,933
Other Revenue	1,836,631	-	1,836,631
Fees for Services	816,202	-	816,202
Change in Beneficial Interest in Catholic Foundation of Eastern Montana	21,985	581,466	603,451
Net Assets Released from Restrictions	56,375	(56,375)	-
Total Revenues	<u>6,106,479</u>	<u>614,706</u>	<u>6,721,185</u>
Expenses:			
Compensation and Benefits	2,156,122	-	2,156,122
Postretirement Benefit Obligation	843,322	-	843,322
Property Costs and Depreciation	746,556	-	746,556
Office Expenses	117,611	-	117,611
Professional Fees	500,205	-	500,205
Interest	105,267	-	105,267
Insurance	162,741	-	162,741
Other Operating Expenses	427,696	-	427,696
Seminarian Expenses	262,051	-	262,051
Exchange Program Expenses	7,218	-	7,218
Auto, Travel and Meeting Expenses	133,537	-	133,537
Total Expenses	<u>5,462,326</u>	<u>-</u>	<u>5,462,326</u>
Change in Net Assets	644,153	614,706	1,258,859
Net Assets at Beginning of Year	<u>(2,412,130)</u>	<u>4,607,961</u>	<u>2,195,831</u>
Net Assets at End of Year	<u><u>\$ (1,767,977)</u></u>	<u><u>\$ 5,222,667</u></u>	<u><u>\$ 3,454,690</u></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, 2019**

	As Restated Without Donor Restrictions	As Restated With Donor Restrictions	As Restated 6/30/19
Revenues, Gains and Other Support:			
Gifts, Bequests, Grants and Assessments	\$ 3,205,859	\$ 130,299	\$ 3,336,158
Insurance	227,357	-	227,357
Investment Income	352,660	-	352,660
Rents and Leases Income	145,875	-	145,875
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	254,700	(254,700)	-
Total Revenues, gains and Other Support	<u>6,883,369</u>	<u>(298,788)</u>	<u>6,584,581</u>
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	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	<u>6,674,883</u>	<u>-</u>	<u>6,674,883</u>
Change in Net Assets	<u>208,486</u>	<u>(298,788)</u>	<u>(90,302)</u>
Net Assets at Beginning of Year, as previously stated	(4,320,616)	6,606,749	2,286,133
Restatement	<u>1,700,000</u>	<u>(1,700,000)</u>	<u>-</u>
Net Assets at Beginning of Year, as restated	<u>(2,620,616)</u>	<u>4,906,749</u>	<u>2,286,133</u>
Net Assets at End of Year	<u>\$ (2,412,130)</u>	<u>\$ 4,607,961</u>	<u>\$ 2,195,831</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, 2020 AND 2019**

	<u>6/30/20</u>	<u>As Restated 6/30/19</u>
Cash Flows from Operating Activities:		
Change in Net Assets	\$ 1,258,859	\$ (90,302)
Adjustments to Reconcile Change in Net Assets to		
Net Cash Provided by Operating Activities:		
Bad Debts	(45,952)	8,239
Net Change in Catholic Foundation of Eastern Montana	(603,451)	132,850
Depreciation	269,381	284,365
Contributions Restricted for Long-Term Purposes	(13,065)	(11,862)
Realized and Unrealized (Gain) Loss on Investments	(458,834)	(254,203)
Realized Gain on Sale of Property and Equipment	(1,453,381)	(1,181,551)
(Increase) Decrease in Operating Assets:		
Accounts Receivable from Parishes and Institutions	108,449	5,780
Assessments	823,398	47,632
Other Receivables	(50,516)	(83,016)
Deposits and Other Prepaid Expenses	31	25,572
Increase (Decrease) in Operating Liabilities:		
Accounts Payable and Accrued Liabilities	(31,957)	(517,564)
Settlement Payable	-	(4,500,000)
Postretirement Benefit Obligation	843,322	986,739
Other Liabilities	76,344	104,241
Net Cash Provided (Used) by Operating Activities	<u>722,628</u>	<u>(5,043,080)</u>
Cash Flows from Investing Activities:		
Sale/Redemption of Investments	494,224	935,351
Purchases of Investments	(523,080)	(1,069,935)
Proceeds from Sales of Property and Equipment	160,425	94,777
Purchases of Property and Equipment	(73,829)	(34,717)
Deposit on Sale of Property	(300,000)	300,000
Net Cash Provided (Used) by Investing Activities	<u>(242,260)</u>	<u>225,476</u>
Cash Flows from Financing Activities:		
Proceeds from Long-Term Debt	-	3,550,000
Payments on Long-Term Debt	(151,000)	(110,000)
Proceeds from Contributions Restricted for Long-Term Purposes	13,065	11,862
Cash Transfers from (to) Capital Asset Support Corporation	(523,833)	1,162,647
Net Change in Funds Held for Parishes and Institutions	<u>(273,769)</u>	<u>(1,346,116)</u>
Net Cash Provided (Used) by Financing Activities	<u>(935,537)</u>	<u>3,268,393</u>
Net Increase (Decrease) in Cash	(455,169)	(1,549,211)
Cash and Cash Equivalents - Beginning of Year	<u>1,642,732</u>	<u>3,191,943</u>
Cash and Cash Equivalents - End of Year	<u><u>\$ 1,187,563</u></u>	<u><u>\$ 1,642,732</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, 2020 AND 2019**

	<u>6/30/20</u>	<u>As Restated 6/30/19</u>
SUPPLEMENTAL DISCLOSURES		
Interest Paid on Long-Term Debt	<u>\$ 105,267</u>	<u>\$ 138,342</u>
Noncash Investing and Financing Transactions:		
Proceeds from Sales of Property and Equipment		
Applied to Long-Term Debt	<u>\$ 1,292,957</u>	<u>\$ 1,145,216</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, 2020

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 conform with Canon law more closely 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, 2020, 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:

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 \$5,222,667 and 4,607,961 in net assets with donor restrictions at June 30, 2020 and 2019, 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, 2020, the Chancery's uninsured cash balances total \$949,036. 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.

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.

The Chancery's investment income for the years ended June 30, 2020 and 2019 is as follows:

	6/30/20	6/30/19
Interest and Dividends	\$ 78,753	\$ 73,295
Net Realized and Unrealized Gain (Loss) on Investments	458,834	254,203
Deposit and Loan Fund Interest	23,833	37,354
Less: Investment Expenses	(13,955)	(12,192)
Investment Income	<u>\$ 547,465</u>	<u>\$ 352,660</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, 2020 and 2019:

		Quoted Prices in Active Markets of Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
	2020			
Cash and Cash Equivalents	\$ 471,916	\$ 471,916	\$ -	\$ -
U.S Treasury Bonds	1,110,086	-	1,110,086	-
Corporate Bonds	682,499	-	682,499	-
Equity Securities	3,540,727	3,540,727	-	-
Insurance Policies	450,833	-	-	450,833
Other	191,045	-	-	191,045
	<u>\$ 6,447,106</u>	<u>\$ 4,012,643</u>	<u>\$ 1,792,585</u>	<u>\$ 641,878</u>

		Quoted Prices in Active Markets of Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
	2019			
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>\$ 5,959,416</u>	<u>\$ 3,609,079</u>	<u>\$ 1,724,162</u>	<u>\$ 626,175</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, 2020 and 2019:

	<u>6/30/20</u>	<u>6/30/19</u>
Beginning of Year, Level 3	\$ 626,175	\$ 595,866
Increase (Decrease) in Fair Value	<u>15,703</u>	<u>30,309</u>
End of Year, Level 3	<u>\$ 641,878</u>	<u>\$ 626,175</u>

NOTE 5: ACCOUNTS RECEIVABLE:

Accounts receivable consist of the following at June 30, 2020 and 2019:

	<u>6/30/20</u>	<u>6/30/19</u>
Parishes and Institutions	<u>\$ 190,201</u>	<u>\$ 252,698</u>

	<u>6/30/20</u>	<u>6/30/19</u>
Assessments, Net:		
Current Operating Fund Assessment	\$ 335,241	\$ 336,635
Care and Share Assessment	586,987	1,458,159
Less: Allowance for Doubtful Accounts	<u>(214,725)</u>	<u>(263,893)</u>
Total Assessments, Net	<u>\$ 707,503</u>	<u>\$ 1,530,901</u>

	<u>6/30/20</u>	<u>6/30/19</u>
Other:		
Trade	\$ 31,431	\$ 84,562
Miscellaneous	399,275	295,936
Less: Allowance for Doubtful Accounts	<u>(9,144)</u>	<u>(9,452)</u>
Total Other	<u>\$ 421,562</u>	<u>\$ 371,046</u>

NOTE 6: PROPERTY AND EQUIPMENT:

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

	<u>6/30/20</u>	<u>6/30/19</u>
Land and Land Improvements	\$ 1,349,228	\$ 1,349,228
Building and Improvements	9,565,699	9,536,929
Furniture and Equipment	763,524	718,465
Vehicles	462,532	462,532
	<u>12,140,983</u>	<u>12,067,154</u>
Less: Accumulated Depreciation	<u>(5,642,685)</u>	<u>(5,373,303)</u>
	<u>\$ 6,498,298</u>	<u>\$ 6,693,851</u>

Depreciation expense amounted to \$269,381 and \$284,365 for the years ended June 30, 2020 and 2019, 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, 2020 and 2019.

NOTE 8: SMALL BUSINESS ADMINISTRATION PAYCHECK PROTECTION PROGRAM:

Included in Other Liabilities on the Statement of Financial Position as of June 30, 2020 is a U.S. Small Business Administration loan (PPP loan) for \$171,816 from the CARES Act. The loan was forgiven on April 7, 2021.

NOTE 9: LONG-TERM DEBT:

Long-term debt consists of the following:

	<u>6/30/20</u>	<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.	\$ 849,000	\$ 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.	<u>1,827</u>	<u>1,294,784</u>
	<u>\$ 850,827</u>	<u>\$ 2,294,784</u>

The following is a summary of maturities due on the long-term debt as of June 30, 2020:

<u>June 30,</u>	
2021	\$ -
2022	-
2023	-
2024	1,827
2025	-
Thereafter	849,000
	<u><u>\$ 850,827</u></u>

NOTE 10: RESTRICTIONS/LIMITATIONS ON NET ASSETS:

Net assets with donor restrictions as of June 30, 2020 and 2019 are summarized as follows:

	<u>6/30/20</u>	<u>As Restated 6/30/19</u>
<i>Purpose Restricted:</i>		
Catholic Foundation of Eastern Montana	\$ 723,481	\$ 340,334
Scholarships	45,174	25,000
Evangelization	18,800	18,800
	<u>787,455</u>	<u>384,134</u>
<i>Restricted in Perpetuity:</i>		
Seminary Burse	1,225,366	1,225,366
Catholic Foundation of Eastern Montana	2,165,270	1,966,950
Cemeteries Perpetual Care	1,044,576	1,031,511
	<u>4,435,212</u>	<u>4,223,827</u>
Total Net Assets with Donor Restrictions	<u><u>\$ 5,222,667</u></u>	<u><u>\$ 4,607,961</u></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 2020 and 2019 of \$25,000 and \$25,000, respectively.

At June 30, 2020 (the latest valuation date) and 2019, the present value of future plan benefits was approximately \$5,979,000 and \$5,427,000, using a discount rate of 2.5 and 3.5%, respectively. The market value of assets available for plan benefits at June 30, 2020 (the latest valuation date) and 2019 was approximately \$4,062,000 and 3,900,000, 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, 2020 and 2019, employer costs were \$87,390 and \$83,093, respectively.

NOTE 13: 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, 2020 and 2019 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, 2020 and 2019:

	<u>6/30/20</u>	<u>6/30/19</u>
Benefit Obligation	\$ 13,361,222	\$ 12,517,900
Employer Contributions	334,355	341,747
Participant Contributions	-	-
Benefit Payments	334,355	341,747
Fair Value of Plan Assets	-	-
Net Unfunded Status of the Plan	13,361,222	12,517,900

Amounts recognized in the Statement of Financial Position consist of:

	<u>6/30/20</u>	<u>6/30/19</u>
Accrued Benefit Cost	<u>\$ 13,361,222</u>	<u>\$ 12,517,900</u>

The net change in liability recognized in the change in net assets for 2020 and 2019 was \$843,322 and \$986,739, respectively.

The assumptions used to determine benefit obligations at June 30, 2020 and 2019 were as follows:

	<u>6/30/20</u>	<u>6/30/19</u>
Discount Rate	2.50%	3.50%
Health Care Cost Trend Rate:		
First Year	10.0%	10.0%
Ultimate	5.0%	5.0%
Years to Ultimate	5 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. 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, 2019 was \$(1,162,647) and the total amount of the Chancery's interest in the net assets of the Capital Assets Support Corporation was \$896,164 at June 30, 2019. The change in the beneficial interest in the Capital Assets Support Corporation during the year ended June 30, 2020 was \$523,833 and the total amount of the Chancery's interest in the net assets of the Capital Assets Support Corporation is \$1,419,997 at June 30, 2020.

In addition, during 2019, the Chancery borrowed \$1,000,000 from the Capital Assets Support Corporation (see Note 9). The Chancery repaid \$151,000 of the note payable in 2020. Interest paid to the Capital Assets Support Corporation on the note payable during 2020 and 2019 amounted to \$37,473 and \$28,091, respectively.

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, 2020 and 2019 the Chancery recorded its interest in CFEM as an asset totaling \$2,996,255 and \$2,392,804, respectively. In addition, the Chancery provide support to CFEM in the amount of \$50,000 for the fiscal years ended June 30, 2019.

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, 2020 and 2019, and supported the operations of the Montana Catholic Conference in the amount of \$75,000 and \$75,000 for fiscal years ended June 30, 2020 and 2019, respectively.

NOTE 15: 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 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 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:

	<u>6/30/20</u> <u>With Donor</u> <u>Restrictions</u>
Donor Restricted Endowment	<u>\$ 4,119,845</u>

	<u>6/30/19</u> <u>With Donor</u> <u>Restrictions</u>
Donor Restricted Endowment	<u>\$ 4,435,212</u>

Changes in net asset composition by type of fund for the years ended June 30, 2020 and 2019 are as follows:

Endowment Net Assets, June 30, 2018	\$ 4,143,521
Contributions	11,862
Net Change in Beneficial Interest in CFEM	68,444
Endowment Net Assets, June 30, 2019	4,223,827
Contributions	13,065
Net Change in Beneficial Interest in CFEM	198,320
Endowment Net Assets, June 30, 2020	<u>\$ 4,435,212</u>

NOTE 17: FUNCTIONAL EXPENSES:

The Chancery's expenses by both nature and function for the year ended June 30, 2020 are as follows:

<u>Department</u>	<u>Expenses</u>			
	<u>6/30/20</u>	<u>Program</u>	<u>Admin</u>	<u>Fund Raising</u>
Bishop	\$ 329,628	\$ 329,628	\$ -	\$ -
Chancery	622,696	622,696	-	-
Curia	97,103	97,103	-	-
Ministries	36,330	36,330	-	-
Stewardship	49,330	49,330	-	-
Evangelization	88,748	88,748	-	-
Tribunal	78,170	78,170	-	-
Business Office	213,523	-	213,523	-
Schools	91,396	91,396	-	-
GFCCHS	1,040,350	1,040,350	-	-
Human Resources	150,357	-	150,357	-
Development	34,149	-	-	34,149
Priest	1,431,825	1,431,825	-	-
Worship	533	533	-	-

(Continued)

<u>Department</u>	<u>Expenses</u>			
	<u>6/30/20</u>	<u>Program</u>	<u>Admin</u>	<u>Fund Raising</u>
Properties	487,409	-	487,409	-
MTO	352,409	352,409	-	-
Holy Cross	180,965	180,965	-	-
Cemetery Admin	4,000	-	4,000	-
Chancellor	111,386	111,386	-	-
Youth & Young Adult Ministry	62,019	62,019	-	-
	<u>\$ 5,462,326</u>	<u>\$ 4,572,888</u>	<u>\$ 855,289</u>	<u>\$ 34,149</u>

<u>Department</u>	<u>Expenses</u>			
	<u>6/30/19</u>	<u>Program</u>	<u>Admin</u>	<u>Fund Raising</u>
Bishop	\$ 324,113	\$ 324,113	\$ -	\$ -
Chancery	1,243,455	1,243,455	-	-
Curia	169,091	169,091	-	-
Ministries	59,817	59,817	-	-
Stewardship	126,255	126,255	-	-
Evangelization	41,005	41,005	-	-
Tribunal	79,911	79,911	-	-
Business Office	209,150	-	209,150	-
Schools	94,862	94,862	-	-
GFCCHS	1,349,151	1,349,151	-	-
Human Resources	118,928	-	118,928	-
Development	329	-	-	329
Priest	1,474,310	1,474,310	-	-
Worship	752	752	-	-
Properties	518,376	-	518,376	-
MTO	351,840	351,840	-	-
Holy Cross	206,776	206,776	-	-
Cemetery Admin	131,450	-	131,450	-
Chancellor	104,685	104,685	-	-
Youth & Young Adult Ministry	70,627	70,627	-	-
	<u>\$ 6,674,883</u>	<u>\$ 5,696,650</u>	<u>\$ 977,904</u>	<u>\$ 329</u>

NOTE 18: 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, 2020 as available for general expenditures in 2021:

Cash and Cash Equivalents	<u>\$ 1,187,563</u>
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NOTE 19: RESTATEMENT:

The Chancery restated the Statement of Activities for the year ended June 30, 2019 for net assets of \$1,700,000 previously classified as donor restricted. The net assets are properly classified as net assets without donor restriction. In addition, the Chancery decreased Rents and Leases Income by \$100,000 on the Statement of Activities for the year ended June 30, 2019, and increased Deferred Gain on Sale of Property on the Statements of Financial Position as of June 30, 2019. The \$100,000 was for an additional deposit on leased property that was subsequently sold in the fiscal year ended June 30, 2020.

NOTE 20: 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 May 11, 2021, the date these financial statements were available to be issued. As of March 23, 2021, the Chancery withdrew its interest in the net assets of the Capital Assets Support Corporation in the amount of \$1,445,268.