



Financial Statements
June 30, 2023 and 2022



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Independent Auditor's Report

The Most Reverend John T. Folda and the Corporate Board
Catholic Development Foundation
Fargo, North Dakota

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Catholic Development Foundation, which comprise the statements of financial position as of June 30, 2023 and 2022, and the related statements of activities and functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of Catholic Development Foundation as of June 30, 2023 and 2022, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Catholic Development Foundation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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; and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Catholic Development Foundation's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities of the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Catholic Development Foundation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Catholic Development Foundation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.



Fargo, North Dakota
December 11, 2023

Catholic Development Foundation
Statements of Financial Position
June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Assets		
Cash	\$ 219,452	\$ 385,217
Promises to give, net of allowance of \$120,000 in 2023 and \$140,000 in 2022	430,000	510,000
Investments	71,494,356	61,749,109
Assets limited as to use		
Funds invested for others	15,524,223	14,619,625
Annuities managed for others	<u>2,778,577</u>	<u>2,474,146</u>
Total assets	<u><u>\$ 90,446,608</u></u>	<u><u>\$ 79,738,097</u></u>
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 55,044	\$ 60,551
Funds invested for others	15,524,223	14,619,625
Annuities managed for others	<u>2,778,577</u>	<u>2,474,146</u>
Total liabilities	<u>18,357,844</u>	<u>17,154,322</u>
Net Assets		
Without donor restrictions	<u>469,926</u>	<u>432,690</u>
With donor restrictions		
Perpetual in nature	57,210,478	51,021,791
Purpose restrictions	14,353,532	11,072,462
Time-restricted for future periods	<u>54,828</u>	<u>56,832</u>
Total net assets with donor restrictions	<u>71,618,838</u>	<u>62,151,085</u>
Total net assets	<u>72,088,764</u>	<u>62,583,775</u>
Total liabilities and net assets	<u><u>\$ 90,446,608</u></u>	<u><u>\$ 79,738,097</u></u>

Catholic Development Foundation
Statements of Activities and Functional Expenses
Years Ended June 30, 2023 and 2022

	2023			2022		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Support and Revenue						
Contributions	\$ 9,055	\$ 6,387,877	\$ 6,396,932	\$ 12,631	\$ 3,249,823	\$ 3,262,454
Net investment return	44,109	6,355,838	6,399,947	(70,919)	(10,727,822)	(10,798,741)
Net assets released from restriction	3,275,962	(3,275,962)	-	3,144,227	(3,144,227)	-
Total revenue	3,329,126	9,467,753	12,796,879	3,085,939	(10,622,226)	(7,536,287)
Functional Expenses						
Program expense						
Earnings distributed	2,956,855	-	2,956,855	2,804,754	-	2,804,754
Management and general						
Administrative fees	83,759	-	83,759	88,533	-	88,533
Fundraising and development						
Administrative fees	251,276	-	251,276	265,598	-	265,598
Total expenses	3,291,890	-	3,291,890	3,158,885	-	3,158,885
Change in Net Assets	37,236	9,467,753	9,504,989	(72,946)	(10,622,226)	(10,695,172)
Net Assets, Beginning of Year	432,690	62,151,085	62,583,775	505,636	72,773,311	73,278,947
Net Assets, End of Year	\$ 469,926	\$ 71,618,838	\$ 72,088,764	\$ 432,690	\$ 62,151,085	\$ 62,583,775

Catholic Development Foundation

Statements of Cash Flows

Years Ended June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Operating Activities		
Change in net assets	\$ 9,504,989	\$ (10,695,172)
Adjustments to reconcile change in net assets to net cash from (used for) operating activities		
Contributed investments	(636,534)	(1,411,162)
Realized and unrealized loss (gain) on investments	(5,168,494)	12,140,402
Change in assets and liabilities		
Promise to give	80,000	70,000
Accounts payable	(5,507)	(137,326)
Net funds invested for others	1,209,029	(3,119,923)
Net change in assets limited to use	<u>(1,209,029)</u>	<u>3,119,923</u>
Net Cash From (Used for) Operating Activities	<u>3,774,454</u>	<u>(33,258)</u>
Investing Activities		
Proceeds from sale of investments	2,600,000	5,900,000
Purchase of investments	<u>(6,540,219)</u>	<u>(5,715,184)</u>
Net Cash From (Used for) Investing Activities	<u>(3,940,219)</u>	<u>184,816</u>
Net Change in Cash	(165,765)	151,558
Cash, Beginning of Year	<u>385,217</u>	<u>233,659</u>
Cash, End of Year	<u><u>\$ 219,452</u></u>	<u><u>\$ 385,217</u></u>

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

The Catholic Development Foundation (Foundation) was incorporated in 1989 under the laws of the state of North Dakota to promote the educational, religious, benevolent and charitable interests of the Catholic Church in the Fargo Diocese. The Foundation serves as an “umbrella” Foundation for all Catholic entities in the Fargo Diocese.

Basis of Presentation

The financial statements of the Foundation have been prepared on the accrual basis. The accompanying financial statements do not include the assets, liabilities, net assets, or financial activities of any other institutions or organizations providing services at the diocesan level of administration which are fiscally responsible to the Bishop of the Diocese of Fargo (Diocese). The statements do not include the assets, liabilities, net assets, and financial activities of various religious orders, lay societies, and religious organizations which operate within the Diocese, but which are not fiscally responsible to the Bishop, and parishes and their related institutions.

The Foundation reports information regarding its financial position and activities according to two classes of net assets: without donor restrictions and with donor restrictions.

The Foundation reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends, or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Cash

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

Promises to Give

The Foundation records unconditional promises to give that are expected to be collected within one year at net realizable value. Unconditional promises to give expected to be collected in future years are initially recorded at fair value using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset. In subsequent years, amortization of the discounts is included in contribution revenue in the statements of activities and functional expenses. Allowance for uncollectable promises to give is determined based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Promises to give are written off when deemed uncollectable. At June 30, 2023 and 2022, the allowance was \$120,000 and \$140,000.

Investments

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

Funds Invested for Others

Assets limited as to use represent the fair value of the investments. Realized and unrealized gains and losses are not included in the statement of activities and functional expenses.

Funds invested for others include the following:

- Funds invested by parishes, agencies, cemeteries, schools, and other religious entities represent deposits that are endowment or perpetual care in nature and are accountable to the local Ordinary. As such, these deposits are expected to remain in the Foundation perpetually.
- Annuity and unitrust funds invested represent irrevocable gifts to the Foundation for a designated charitable cause at the death of the donor. One hundred percent of the value of the annuity or unitrust is held by the Foundation. It is expected that 50-60% of the value will remain at the time of the donor's death, to be distributed at that time to the designated charitable beneficiary or held as an endowment for a specific charitable cause as designated by the donor. By retaining 100% of the value until the death of the donor, the Foundation is able to maintain an adequate reserve against unusual market conditions and/or donors who out-live mortality table estimates.

Net Assets

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

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

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

Revenue and Revenue Recognition

Revenue is recognized when earned. Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met. There were no conditional promises to give received during the years ended June 30, 2023 and 2022.

Functional Allocation of Expenses

The costs of program and supporting services activities have been detailed on a functional and natural basis in the statements of activities and functional expenses. The program expenses are generally directly attributable to a functional category with no significant allocations between program service activities and supporting service activities. The supporting service activities require allocation between management and general and fundraising and development on a reasonable basis that is consistently applied. These supporting service activities are allocated on a basis of estimates of time and effort.

Income Taxes

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

Estimates

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

Financial Instruments and Credit Risk

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

The Foundation maintains its cash in bank accounts which exceed federally insured limits. Accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per depositor, per insured bank, for each account ownership category. June 30, 2023 and 2022, the Foundation had approximately \$170,000 and \$275,000, respectively, in excess of FDIC-insured limits.

Subsequent Events

The Foundation has evaluated subsequent events through December 11, 2023, the date which the financial statements were available to be issued.

Note 2 - Liquidity and Availability

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

	2023	2022
Cash	\$ 219,452	\$ 385,217
Investments	305,518	108,024
	<u>\$ 524,970</u>	<u>\$ 493,241</u>

Endowment funds consist of donor-restricted endowments. Income from donor-restricted endowments is restricted for specific purposes. Donor-restricted endowment funds are not available for general expenditure.

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

Note 3 - Fair Value of Assets

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

A three-tier hierarchy categorizes the inputs as follows:

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

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

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

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

A significant portion of the Foundation's investment assets are classified within Level 1 because they are comprised of individual equities with readily determinable fair values based on daily redemption values. The Foundation invests in fixed income bonds/securities traded in the financial markets and real estate investment trusts. Those fixed income bonds/securities and trusts are valued by the custodians of the securities using pricing models based on credit quality, time to maturity, stated interest rates and market-rate assumptions, and are classified within Level 2. The fair values of alternative fixed income investments are determined using present value techniques and risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the underlying assets and are based on the fair values of trust investments are reported by the trustees. These are considered Level 3 measurements. The Foundation has a contribution receivable that is reported at fair value using the present value of the policy holder's life expectancy.

Catholic Development Foundation

Notes to Financial Statements

June 30, 2023 and 2022

The following table presents assets and liabilities measured at fair value on a recurring basis, except those measured at cost as identified below, at June 30, 2023:

	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total
June 30, 2023				
Managed portfolios				
Government securities	\$ -	\$ 1,648,612	\$ -	\$ 1,648,612
Government mortgaged-backed securities	-	264,934	-	264,934
Foreign government bonds	-	1,819,424	-	1,819,424
Municipal securities	-	1,466,664	-	1,466,664
Corporate bonds	-	6,944,554	-	6,944,554
Commercial mortgaged -backed securities	-	8,457,554	-	8,457,554
Private equity	-	-	4,205,063	4,205,063
Money market	-	3,040,185	-	3,040,185
Treasury notes	-	10,620,148	-	10,620,148
Fixed income mutual funds	2,512,538	-	-	2,512,538
Equity Securities				
Communication Services	2,373,497	-	-	2,373,497
Consumer Discretionary	6,412,366	-	-	6,412,366
Consumer Staples	2,669,383	-	-	2,669,383
Energy	1,364,305	-	-	1,364,305
Financial	7,335,396	-	-	7,335,396
Healthcare	5,976,334	-	-	5,976,334
Industrials	7,766,814	-	-	7,766,814
Information Technology	11,224,899	-	-	11,224,899
Materials	1,981,929	-	-	1,981,929
Real Estate	761,731	-	-	761,731
Utilities	604,034	-	-	604,034
Other				
Real Estate Investment Trust	-	346,792	-	346,792
	<u>\$ 50,983,226</u>	<u>\$ 34,608,867</u>	<u>\$ 4,205,063</u>	<u>\$ 89,797,156</u>

Catholic Development Foundation

Notes to Financial Statements

June 30, 2023 and 2022

The following table presents assets and liabilities measured at fair value on a recurring basis, except those measured at cost as identified below, at June 30, 2022:

	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total
June 30, 2022				
Managed portfolios				
Government securities	\$ -	\$ 218,345	\$ -	\$ 218,345
Government mortgaged-backed securities	-	125,183	-	125,183
Foreign government securities	-	2,045,122	-	2,045,122
Municipal bonds	-	2,120,734	-	2,120,734
Corporate bonds	-	7,303,887	-	7,303,887
Commercial mortgaged -backed securities	-	8,809,189	-	8,809,189
Private equity	-	-	2,304,166	2,304,166
Money market	-	2,681,521	-	2,681,521
Treasury notes	-	9,166,676	-	9,166,676
Uninvested cash	771,901	-	-	771,901
Fixed income exchange traded funds	2,042,460	-	-	2,042,460
Equity Securities				
Communication Services	2,132,079	-	-	2,132,079
Consumer Discretionary	5,234,952	-	-	5,234,952
Consumer Staples	2,793,442	-	-	2,793,442
Energy	1,013,484	-	-	1,013,484
Financial	4,774,574	-	-	4,774,574
Healthcare	6,996,181	-	-	6,996,181
Industrials	5,170,601	-	-	5,170,601
Information Technology	9,690,283	-	-	9,690,283
Materials	1,412,215	-	-	1,412,215
Real Estate	1,122,193	-	-	1,122,193
Utilities	657,032	-	-	657,032
Other				
Real Estate Investment Trust	-	256,660	-	256,660
	<u>\$ 43,811,397</u>	<u>\$ 32,727,317</u>	<u>\$ 2,304,166</u>	<u>\$ 78,842,880</u>

The following is a reconciliation of the beginning and ending balances of assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended June 30, 2023.

Fair Value Measurements at Report Date Using Significant Unobservable Inputs (Level 3)

Balance at, June 30, 2022	\$ 2,304,166
Purchases/contributions of investments	4,200,000
Investment return, net	5,063
Distributions	-
Balance at, June 30, 2023	<u>\$ 4,205,063</u>

The following is a reconciliation of the beginning and ending balances of assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended June 30, 2022.

	Fair Value Measurements at Report Date Using Significant Unobservable Inputs (Level 3)
Balance at, June 30, 2021	\$ -
Purchases/contributions of investments	2,268,615
Investment return, net	35,551
Distributions	-
	<u> </u>
Balance at, June 30, 2022	<u><u>\$ 2,304,166</u></u>

Earnings on investments for funds held for others totaled \$2,122,992 and \$(2,180,296) for the years ended June 30, 2023 and 2022.

Note 4 - Promises to Give

Promises to give are estimated to be collected as follows at June 30, 2023 and 2022:

	2023	2022
Within One Year	\$ 100,000	\$ 100,000
In One to Five Years	400,000	400,000
Over Five Years	150,000	150,000
	<u>650,000</u>	<u>650,000</u>
Less Discount to Net Present Value at 5.00%	<u>(220,000)</u>	<u>(140,000)</u>
Promises to Give, Net	<u><u>\$ 430,000</u></u>	<u><u>\$ 510,000</u></u>

At June 30, 2023 and 2022, one donor accounted for all promises to give.

Note 5 - Endowment

The Foundation's endowment (the Endowment) consists of funds established for restricted purposes. The endowment includes donor-restricted endowment funds. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of the Foundation has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation 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 of this interpretation, Foundation retains in perpetuity (a) the original value of initial and subsequent gift amounts (including promises to give net of discount and allowance for doubtful accounts) donated to the Endowment and (b) any accumulations to the Endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure in a manner consistent with the standard of prudence prescribed by SPMIFA.

The following factors are considered in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the organization and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the organization
- The investment policies of the organization

As of June 30, 2023, endowment net asset composition by type of fund is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-Restricted Endowment Funds			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	\$ -	\$ 57,210,478	\$ 57,210,478
Accumulated investment gains	-	10,414,768	10,414,768
	<u>\$ -</u>	<u>\$ 67,625,246</u>	<u>\$ 67,625,246</u>

As of June 30, 2022, endowment net asset composition by type of fund is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-Restricted Endowment Funds			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	\$ -	\$ 51,021,791	\$ 51,021,791
Accumulated investment gains	-	6,889,519	6,889,519
	<u>\$ -</u>	<u>\$ 57,911,310</u>	<u>\$ 57,911,310</u>

From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). The Foundation has interpreted SPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. As June 30, 2022, funds with original gift values of \$5,039,970, fair values of \$4,638,547, and deficiencies of \$401,424 were reported in net assets with donor restrictions. At June 30, 2023, funds with original gift values of \$2,227,625, fair values of \$2,064,693, and deficiencies of \$199,971 were reported in net assets with donor restrictions.

Investment and Spending Policies

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

The Foundation has a policy of appropriating for distribution each year 5 percent of its endowment fund's average fair value over the market value at the end of the previous 5 fiscal years. The board occasionally approves distributions above 5 percent when there is a unique need or circumstance. In establishing this policy, the Foundation considered the long-term expected return on its endowment. The Foundation's spending policy is such that the corpus of the endowment will be maintained in perpetuity.

Changes in Endowment net assets for the year ended June 30, 2023 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment Net Assets, June 30, 2022	\$ -	\$ 57,911,310	\$ 57,911,310
Investment Return, Net	-	5,656,769	5,656,769
Contributions	-	6,188,687	6,188,687
Appropriation of Endowment Assets Pursuant to Spending-Rate Policy	-	(2,131,520)	(2,131,520)
Endowment Net Assets, June 30, 2023	<u>\$ -</u>	<u>\$ 67,625,246</u>	<u>\$ 67,625,246</u>

Catholic Development Foundation

Notes to Financial Statements

June 30, 2023 and 2022

Changes in Endowment net assets for the year ended June 30, 2022 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment Net Assets, June 30, 2021	\$ -	\$ 67,377,838	\$ 67,377,838
Investment Return, Net	-	(10,300,171)	(10,300,171)
Contributions	-	3,035,908	3,035,908
Appropriation of Endowment Assets Pursuant to Spending-Rate Policy	-	(2,202,265)	(2,202,265)
Endowment Net Assets, June 30, 2022	<u>\$ -</u>	<u>\$ 57,911,310</u>	<u>\$ 57,911,310</u>

Note 6 - Net Assets with Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes or periods:

	2023	2022
Subject to Expenditure for Specified Purpose		
Parishes		
Building project	\$ 1,116,244	\$ 1,400,047
JP II Catholic Schools Network		
General use	461	423
Building project	1,725,653	1,730,066
Scholarships	96,946	88,726
Other Catholic Schools		
General use	134,729	122,470
Scholarships	6,573	7,573
Seminarian and Clergy Education		
Programming	9,142	9,801
Other charitable organizations		
General use	849,016	823,837
	<u>3,938,764</u>	<u>4,182,943</u>
Subject to the Passage of Time		
Scholarship fund	<u>54,828</u>	<u>56,832</u>

Catholic Development Foundation

Notes to Financial Statements

June 30, 2023 and 2022

	2023	2022
Endowments		
Subject to appropriation and expenditure when a specified event occurs		
Parishes		
General use	1,586,931	880,415
Building project	83,341	70,987
Programming	189,940	164,791
Cemeteries		
General use	205,573	149,245
JP II Catholic Schools Network		
General use	676,899	556,174
Programming	754,631	349,989
Scholarships	780,803	471,043
Other Catholic Schools		
General use	(2,158)	(26,543)
Programming	35,175	3,205
Scholarships	80,962	58,247
Seminarian and Clergy Education		
General use	12,542	9,189
Programming	4,403,144	3,232,973
Diocesan Programs		
General use	285,132	227,463
Programming	(22,701)	(63,771)
Other charitable organizations		
General use	1,344,554	806,112
	<u>10,414,768</u>	<u>6,889,519</u>

Catholic Development Foundation

Notes to Financial Statements

June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Perpetual Endowments, earnings from which are subject to endowment spending policy appropriation		
Parishes		
General use	\$ 8,327,223	\$ 7,642,206
Building project	163,300	153,200
Programming	393,626	392,186
Cemeteries		
General use	691,635	660,491
JP II Catholic Schools Network		
General use	3,044,488	3,044,088
Programming	8,443,039	8,067,321
Scholarships	6,085,412	5,123,481
Other Catholic Schools		
General use	573,243	552,701
Programming	949,924	940,883
Scholarships	292,661	261,175
Seminarian and Clergy Education		
General use	28,815	27,815
Programming	17,438,861	17,250,035
Diocesan Programs		
General use	1,462,388	1,456,104
Programming	868,243	864,182
Other charitable organizations		
General use	<u>8,447,620</u>	<u>4,585,923</u>
	<u>57,210,478</u>	<u>51,021,791</u>
Total endowments	<u>67,625,246</u>	<u>57,911,310</u>
	<u>\$ 71,618,838</u>	<u>\$ 62,151,085</u>

Catholic Development Foundation

Notes to Financial Statements

June 30, 2023 and 2022

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by the donors as follows for the years ended June 30, 2023 and 2022:

	2023	2022
Expiration of Time Restrictions		
Scholarship fund	\$ 8,500	\$ 8,500
Administrative fees	332,895	351,991
Satisfaction of Purpose Restrictions		
Parishes		
General use	355,698	312,749
Building project	405,315	183,778
Programming	23,314	23,626
Cemeteries		
General use	16,695	5,410
JP II Catholic Schools Network		
General use	188,357	184,912
Building project	145,953	145,953
Programming	296,675	249,682
Scholarships	249,906	232,750
Other Catholic Schools		
General use	25,261	31,833
Programming	49,542	50,167
Scholarships	9,020	8,288
Seminarian and Clergy Education		
Programming	1,450	750
Scholarships	609,507	784,542
Diocesan Programs		
General use	87,319	85,426
Programming	28,164	34,324
Other charitable organizations		
General use	442,391	449,546
	<u>\$ 3,275,962</u>	<u>\$ 3,144,227</u>

Note 7 - Related Party Transactions

The Foundation has entered into agreements with the Diocese of Fargo for services provided for management and administration of all activities. A service fee of 50 basis points or .50% of asset values is paid to Diocese of Fargo for accounting, administrative support, development, and management functions. The service fee was \$423,448 and \$452,472, of which \$85,147 and \$87,788 was charged to funds held for others, for years ended June 30, 2023 and 2022, respectively.

Diocese of Fargo has beneficial interests in endowments owned and held by the Foundation of \$24,476,425 and \$23,003,990 for years ended June 30, 2023 and 2022, respectively; providing distributed earnings of \$724,990 and \$904,292 for years ended June 30, 2023 and 2022, respectively.