

**THE FOUNDATION FOR THE
DIOCESE OF HELENA, INC.**

FINANCIAL REPORT

June 30, 2011 and 2010

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
The Foundation for the Diocese of Helena, Inc.
Helena, Montana

We have audited the accompanying statements of financial position of the Foundation for the Diocese of Helena, Inc. (the Foundation) as of June 30, 2011 and 2010, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of June 30, 2011 and 2010, and the results of its operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying information shown on page 24 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subject to the auditing procedures applied in the audits of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.



Helena, Montana
September 14, 2011

FINANCIAL STATEMENTS

THE FOUNDATION FOR THE DIOCESE OF HELENA, INC.
STATEMENTS OF FINANCIAL POSITION
June 30, 2011 and 2010

ASSETS	<u>2011</u>	<u>2010</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 695,403	\$ 1,440,320
Net pledges receivable, current	1,735,041	1,928,717
Accounts/Bequest receivable	783	783
Interest receivable	23,534	18,096
Accounts Receivable - Roman Catholic Bishop (RCB)	321,319	218,951
Loans receivable - RCB, current	593,764	87,878
Notes receivable, current	23,122	21,800
Investments	<u>13,813,605</u>	<u>10,265,267</u>
Total current assets	<u>17,206,571</u>	<u>13,981,812</u>
FIXED ASSETS		
Furnishings and equipment, net	<u>16,727</u>	<u>12,068</u>
OTHER RECEIVABLES		
Loans receivable - RCB, net of current portion	975,182	1,068,946
Pledges receivable, net of discount and current portion	1,464,766	2,981,810
Notes receivable, net of current portion	<u>121,574</u>	<u>144,696</u>
Total other receivables	<u>2,561,522</u>	<u>4,195,452</u>
OTHER ASSETS		
Annuities held by RCB	1,725,324	1,560,076
Beneficial interest in charitable remainder trusts	<u>1,058,132</u>	<u>1,038,366</u>
Total other assets	<u>2,783,456</u>	<u>2,598,442</u>
Total assets	<u>\$ 22,568,276</u>	<u>\$ 20,787,774</u>

The Notes to the Financial Statements are an integral part of these statements.

LIABILITIES AND NET ASSETS	<u>2011</u>	<u>2010</u>
CURRENT LIABILITIES		
Accounts payable	\$ 3,941	\$ 3,933
Accrued liabilities	879	727
Earnings distributions payable	312,277	80,105
Compensated absences	<u>3,296</u>	<u>2,118</u>
Total current liabilities	<u>320,392</u>	<u>86,883</u>
Total liabilities	<u>320,392</u>	<u>86,883</u>
NET ASSETS		
Unrestricted	368,856	206,591
Temporarily restricted	5,283,962	5,516,488
Permanently restricted	<u>16,595,065</u>	<u>14,977,812</u>
Total net assets	<u>22,247,883</u>	<u>20,700,891</u>
Total liabilities and net assets	<u>\$ 22,568,276</u>	<u>\$ 20,787,774</u>

THE FOUNDATION FOR THE DIOCESE OF HELENA, INC.
 STATEMENTS OF ACTIVITIES
 Years Ended June 30, 2011 and 2010

	June 30, 2011			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Revenues, gains, and other support:				
Contributions	\$ 9,815	\$ 2,084	\$ 1,198,939	\$ 1,210,838
Capital campaign	-	48,822	-	48,822
Gifts assessment and administrative fee	37,674	-	-	37,674
Interest and dividends	4,089	407,776	-	411,865
Net realized and unrealized gains (losses)				
on investments	54,763	1,729,499	233,300	2,017,563
Transfer of management of endowed assets	-	-	-	-
Change in value of annuities held by RCB	-	-	165,248	165,248
Change in value of split interest agreements	-	-	19,766	19,766
Net assets released from restrictions	2,420,708	(2,420,708)	-	-
Total revenues, gains, and other support	<u>2,527,049</u>	<u>(232,526)</u>	<u>1,617,253</u>	<u>3,911,776</u>
Expenses				
Program:				
Disbursement to participating parish and diocesan funds	349,071	-	-	349,071
Disbursement to participating parish and diocesan funds in capital campaign	1,772,894	-	-	1,772,894
Released to parish building endowments and scholarships	1,000	-	-	1,000
Transfer of management of endowment assets	-	-	-	-
Life insurance expense	4,713	-	-	4,713
Grants	14,265	-	-	14,265
Program operations	89,550	-	-	89,550
Fund raising	13,263	-	-	13,263
Management and general:				
Operations	57,383	-	-	57,383
Life insurance expense	7,447	-	-	7,447
Trustee and administrative fees	55,197	-	-	55,197
Total expenses and losses	<u>2,364,783</u>	<u>-</u>	<u>-</u>	<u>2,364,783</u>
Change in net assets	162,265	(232,526)	1,617,253	1,546,992
Net assets, beginning of year	<u>206,591</u>	<u>5,516,488</u>	<u>14,977,812</u>	<u>20,700,891</u>
Net assets, end of year	<u>\$ 368,856</u>	<u>\$ 5,283,962</u>	<u>\$ 16,595,065</u>	<u>\$ 22,247,883</u>

The Notes to the Financial Statements are an integral part of these statements.

June 30, 2010

Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 14,351	\$ 29,384	\$ 1,693,568	\$ 1,737,303
-	183,314	-	183,314
40,281	-	-	40,281
8,396	395,068	-	403,464
-	-	-	-
38,146	516,311	65,213	619,670
-	20,772	(20,772)	-
-	-	(662,558)	(662,558)
-	-	59,329	59,329
<u>2,633,422</u>	<u>(2,633,422)</u>	<u>-</u>	<u>-</u>
<u>2,734,596</u>	<u>(1,488,573)</u>	<u>1,134,780</u>	<u>2,380,803</u>
345,533	-	-	345,533
2,042,629	-	-	2,042,629
1,000	-	-	1,000
20,772	-	-	20,772
3,645	-	-	3,645
19,433	-	-	19,433
103,164	-	-	103,164
21,284	-	-	21,284
66,746	-	-	66,746
5,760	-	-	5,760
35,056	-	-	35,056
<u>2,665,022</u>	<u>-</u>	<u>-</u>	<u>2,665,022</u>
69,574	(1,488,573)	1,134,780	(284,219)
<u>137,017</u>	<u>7,005,061</u>	<u>13,843,032</u>	<u>20,985,110</u>
<u>\$ 206,591</u>	<u>\$ 5,516,488</u>	<u>\$ 14,977,812</u>	<u>\$ 20,700,891</u>

THE FOUNDATION FOR THE DIOCESE OF HELENA, INC.
 STATEMENTS OF CASH FLOWS
 Years Ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets - increase (decrease)	\$ 1,546,992	\$ (284,219)
Adjustments to reconcile increase in net assets to net cash provided by (used in) operating activities:		
Investment securities donated to the Foundation	(39,662)	(37,061)
Net (gain) loss on investments	(2,017,563)	(619,670)
Depreciation	6,896	6,896
Net change in annuities held by the RCB	(165,248)	662,557
Permanently restricted contributions	(1,198,939)	(1,693,568)
(Increase) decrease in operating assets:		
Accounts and interest receivable	(5,437)	70,072
Due from related party	(102,368)	-
Pledges receivable, net	1,710,720	1,783,512
Beneficial interest in charitable remainder trusts	(19,766)	(59,329)
Increase (decrease) in operating liabilities:		
Accounts payable	8	(1,050)
Accrued liabilities	152	51
Earnings distributions payable	232,172	(9,545)
Due to related party	-	(25,163)
Compensated absences	1,178	(824)
Net cashflows from operating activities	<u>(50,866)</u>	<u>(207,341)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(6,794,881)	(2,535,427)
Proceeds from the sale of investments	5,303,767	1,114,751
Purchase of fixed assets	(11,555)	-
Payments received on notes receivable	21,800	20,533
Advances on loan to related party (RCB)	(500,000)	-
Payments received on loan to related party (RCB)	87,878	82,172
Net cash flows from investing activities	<u>(1,892,990)</u>	<u>(1,317,971)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Permanently restricted contributions	<u>1,198,939</u>	<u>1,693,568</u>
Net cash flows from financing activities	<u>1,198,939</u>	<u>1,693,568</u>
Net change in cash and cash equivalents	(744,917)	168,256
Cash and cash equivalents, beginning of year	<u>1,440,320</u>	<u>1,272,064</u>
Cash and cash equivalents, end of year	<u>\$ 695,403</u>	<u>\$ 1,440,320</u>
NONCASH CONTRIBUTIONS:		
Investment securities donated to the Foundation	<u>\$ 39,662</u>	<u>\$ 37,061</u>

The Notes to Financial Statements are an integral part of these statements.

THE FOUNDATION FOR THE DIOCESE OF HELENA, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity:

The Foundation for the Diocese of Helena, Inc. (the Foundation) is a non-profit corporation. The primary purpose of the Foundation is to create permanent endowments whose income will be used to fulfill the following goals:

- a) To promote, expand and strengthen the Roman Catholic Church in the Diocese of Helena,
- b) To support and assist, financially or in any other manner the religious, educational, charitable and medical institutions or programs operated by or under the auspices of the Diocese of Helena,
- c) To promote Roman Catholic doctrines, evangelism, Christian education and missionary work in the Diocese of Helena, and that are undertaken by said Diocese elsewhere, and
- d) To assist worthy, talented or needy men and women in pursuing studies useful to the Diocese of Helena.

A Board of Trustees manages the affairs and assets of the Foundation. Trustees are nominated and approved by the Board.

Basis of Accounting:

The accompanying financial statements of the Foundation are presented in accordance with accounting principles generally accepted in the United States of America ("GAAP"), as codified by the Financial Accounting Standards Board.

To ensure observance of limitations and restrictions placed on the use of resources available to the Foundation, the accounts of the Foundation are maintained in accordance with the principles of fund accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds established according to their nature and purposes. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds that have similar characteristics have been combined into net asset classifications. Accordingly, all financial transactions have been recorded and reported by net asset classifications.

Restricted and Unrestricted Revenue and Support:

Support received is recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

THE FOUNDATION FOR THE DIOCESE OF HELENA, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2011 and 2010

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The classifications of net assets are:

➤ **Unrestricted Net Assets:**

Unrestricted net assets are net assets that are not subject to donor-imposed stipulations and donor restricted contributions whose restrictions are met in the same reporting period. Funds which the Board of Trustees, rather than a donor or other outside agency, has determined are to be retained and invested. The Board has the right to decide at any time to expend the principal of such funds. The original funds were transferred from the Roman Catholic Bishop (RCB) of Helena, Montana based upon the recommendation of the Foundation's Board and the Bishop.

➤ **Temporarily Restricted Net Assets:**

This represents interest earned on parish and program endowments whose principal was less than \$5,000 as of June 30, 2011 and 2010. Once a parish or program has endowments greater than the established threshold, earnings are paid out quarterly. Unless specifically permanently restricted, gains on endowments are included as temporarily restricted funds. Net assets released from the temporarily restricted fund were for payments to parishes and programs as appropriated by the board.

➤ **Permanently Restricted Net Assets:**

These are funds in which the principal, including gains and losses if stipulated by the donor, are required to be invested and maintained intact and in perpetuity. The income from permanently restricted net assets is to be returned to various parishes and programs for use as described above.

Accounting Estimates:

The preparation of financial statements in conformity with U.S. generally accepted accounting principles above requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period.

Cash and Cash Equivalents:

For purposes of the statements of cash flows, the Foundation considers all checking, savings and money market accounts with maturities of six months or less to be cash equivalents. The Foundations non-interest bearing accounts are subject to unlimited coverage by the FDIC. From time to time, certain bank accounts that are subject to limited FDIC coverage exceeded their insured limits. At June 30, 2011 and 2010, there was \$148,649 and \$912,755 held by the Foundation at financial institutions exceeding federally insured limits, respectively.

Investments:

The investment securities and trusts are shown at fair value. The trust's assets, which consist of marketable securities, are held by investment brokerage firms.

THE FOUNDATION FOR THE DIOCESE OF HELENA, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2011 and 2010

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments (Continued):

Investment income is collected in a single pool and disbursed at quarterly intervals to the participating funds. The allocation to the participating funds is based on the number of units held by each fund at the beginning of the quarter.

Trustee and administrative fees are paid from the principal.

An administrative fee of 1.5% (\$227,355 in 2011 and \$193,707 in 2010) of fair market value was assessed to all participants in the investment pool to fund Foundation operations.

Property and Equipment:

Property and equipment purchased by the Foundation is recorded at historical cost. Donated property is recorded at the estimated fair value on the date of donation. Depreciation expense is computed for fixed assets using the straight-line method over the following useful lives:

Software	3 years
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The Foundation capitalizes all purchases of fixed assets in excess of \$1,000 and that have an estimated useful life longer than one year.

Annuities Held by RCB:

Annuities held by RCB include beneficial interests in charitable gift annuities held by RCB, which are carried at the estimated net realizable value to the Foundation. Net estimated realizable value is calculated by subtracting the estimated annuity liability based on the original discount rate and the life expectancy of the donor from the annuity pool investment fair value.

Promises to Give:

Unconditional promises to give are recognized as revenues or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Income Taxes:

The Foundation for the Diocese of Helena, Inc. is exempt from federal income taxation under the provisions of Internal Revenue Code Section 501(c)(3). A group ruling on this status was received from the Internal Revenue Service in both 2011 and 2010.

The Foundation's policy is to evaluate the likelihood that its uncertain tax positions will prevail upon examination based on the extent to which those positions have substantial support within the Internal Revenue Code and Regulations, Revenue Rulings, court decisions and other evidence. It is the opinion of management that the Foundation has no uncertain tax positions.

THE FOUNDATION FOR THE DIOCESE OF HELENA, INC.
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2011 and 2010

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Donated Services:

Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Foundation. There were no donated services recognized during the years ended June 30, 2011 and 2010.

Retirement Plan:

The Foundation has a retirement plan covering all employees who work at least 20 hours per week and have six months of service. Contributions to the Plan are 6% of eligible wages. Retirement contributions for the fiscal years ended June 30, 2011 and 2010 were \$5,154 and \$5,790, respectively.

Subsequent Events:

Management has evaluated subsequent events through September 14, 2011, the date which the financial statements were available for issue.

NOTE 2. NOTES RECEIVABLE

As part of an endowed planned gift, the Foundation received ownership interest in two apartment complexes. The Foundation's interests have been purchased by partners in the apartment complexes, therefore two notes receivable have been recorded. One note has been paid leaving one note receivable at June 30 which consists of the following:

	<u>2011</u>	<u>2010</u>
Helena Springs note receivable, payments receivable in monthly installments of \$2,600, with interest at 6%, due January 1, 2017, collateralized by security interest	\$ 144,696	\$ 166,496
Less current portion	<u>23,122</u>	<u>21,800</u>
Long term portion	<u>\$ 121,574</u>	<u>\$ 144,696</u>

Maturity of note receivable is as follows:

2012	\$	23,122
2013		24,482
2014		25,958
2015		27,559
2016		29,259
Thereafter		<u>14,316</u>
		<u>\$ 144,696</u>

THE FOUNDATION FOR THE DIOCESE OF HELENA, INC.
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2011 and 2010

NOTE 3. INVESTMENTS

Investments include the following:

	2011		2010	
	COST	FAIR VALUE	COST	FAIR VALUE
Stocks	8,102,345	9,712,080	7,415,150	7,715,782
Bonds	3,831,686	3,975,004	2,333,863	2,454,273
Cash surrender value of life insurance policies	63,785	126,521	63,785	95,212
	<u>\$ 11,997,816</u>	<u>\$ 13,813,605</u>	<u>\$ 9,812,798</u>	<u>\$ 10,265,267</u>

The following tabulation summarizes changes in relationships between carrying values and fair values of investment assets:

	COST	FAIR VALUE	UNREALIZED GAIN (LOSS)
June 30, 2011	\$ 11,997,816	\$ 13,813,605	\$ 1,815,789
June 30, 2010	\$ 9,812,798	\$ 10,265,267	\$ 452,469
Unrealized net gain for fiscal year 2011			<u>\$ 1,363,320</u>
June 30, 2010	\$ 9,812,798	\$ 10,265,267	\$ 452,469
June 30, 2009	\$ 8,379,088	\$ 8,187,860	\$ (191,229)
Unrealized net gain for fiscal year 2010			<u>\$ 643,698</u>

Investment earnings (losses) consist of the following:

	2011	2010
Net realized gains (losses)	\$ 654,243	\$ (24,028)
Net unrealized gains (losses)	<u>1,363,320</u>	<u>643,698</u>
Net realized and unrealized gains (losses)	<u>2,017,563</u>	619,670
Interest and dividends	<u>411,865</u>	<u>403,464</u>
	<u>\$ 2,429,428</u>	<u>\$ 1,023,134</u>

Investments with an unrealized loss position at June 30, 2011 and 2010 are as follows:

	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
2011:						
Description of securities:						
Stocks	\$ 133,740	\$ (18,599)	\$ 159,374	\$ (39,169)	\$ 293,114	\$ (57,768)
Bonds:						
Corporate	294,445	(3,612)	102,650	(14,326)	397,095	(17,938)
US Government	50,270	(252)	-	-	50,270	(252)
Federal Agency	299,634	(1,538)	-	-	299,634	(1,538)
	<u>\$ 778,088</u>	<u>\$ (24,001)</u>	<u>\$ 262,024</u>	<u>\$ (53,495)</u>	<u>\$ 1,040,113</u>	<u>\$ (77,496)</u>

THE FOUNDATION FOR THE DIOCESE OF HELENA, INC.
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2011 and 2010

NOTE 3. INVESTMENTS (CONTINUED)

	<u>Less than 12 months</u>		<u>12 months or more</u>		<u>Total</u>	
	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>
2010:						
Description of securities:						
Stocks	\$ 999,668	\$ (64,163)	\$ 2,144,339	\$ (529,379)	\$ 3,144,007	\$ (593,542)
Bonds:						
Corporate	-	-	291,963	(32,448)	291,963	(32,448)
US Government	25,171	(754)	-	-	25,171	(754)
Federal Agency	-	-	61,594	(1,119)	61,594	(1,119)
	<u>\$ 1,024,839</u>	<u>\$ (64,917)</u>	<u>\$ 2,497,896</u>	<u>\$ (562,946)</u>	<u>\$ 3,522,735</u>	<u>\$ (627,863)</u>

The preceding table shows the Foundation's gross unrealized losses and fair values, aggregated by investment category and length of time the individual securities have been in a continuous unrealized loss position at June 30, 2011 and 2010. Ten and seventy-eight securities were in an unrealized loss position as of June 30, 2011 and 2010, respectively. Management has evaluated these securities and believes the loss position to be temporary as a result of the current market environment and not from any particular credit quality of any of the specific securities.

The Foundation is the beneficiary of four donated life insurance policies. The cash surrender value of the policies is shown as an asset of the Foundation. For two policies, the individual donates the premium amount to the Foundation each year and the Foundation then pays the premium. The donation is shown as a contribution and the premium is shown as life insurance expense. For the other policies, the premiums were prepaid at the time of the gift.

The following is a schedule of face value and cash surrender values of the life insurance policies which are included in investments in the financial statements.

	<u>2011</u>	<u>2010</u>
Cash Surrender Value:		
Life insurance policies, various donors (Face value \$225,000)	\$ 73,202	\$ 54,451
Bishop Elden F. Curtiss (Face value \$100,000)	17,111	14,451
Bishop Alexander J. Brunett (Face value \$200,000)	<u>36,208</u>	<u>26,310</u>
	<u>\$ 126,521</u>	<u>\$ 95,212</u>

THE FOUNDATION FOR THE DIOCESE OF HELENA, INC.
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2011 and 2010

NOTE 4. BENEFICIAL INTEREST IN CHARITABLE REMAINDER TRUSTS

Beneficial interest in charitable remainder trusts consist of the following at June 30:

	<u>2011</u>	<u>2010</u>
Margaret Quinn Unitrust	<u>\$ 1,058,132</u>	<u>\$ 1,038,366</u>

The Foundation is named as beneficiary of 100% of the Quinn trust assets; however, 50% of the assets are restricted for support of non-related, non-religious entities. Changes in the market value of the trusts from year to year are shown as changes in the value of split-interest agreements in the financial statements.

NOTE 5. PLEDGES RECEIVABLE

Unconditional promises to give at June 30 are as follows:

	<u>2011</u>	<u>2010</u>
Receivable in less than one year	\$ 1,735,041	\$ 1,928,717
Receivable in one to five years	1,863,575	3,749,459
Receivable in more than five years	<u>677</u>	<u>1,772</u>
Total unconditional promises to give	3,599,293	5,679,947
Less discounts to net present value	(195,243)	(455,983)
Less allowance for uncollectible promises receivable	<u>(204,243)</u>	<u>(313,438)</u>
Net unconditional promises to give	<u>\$ 3,199,807</u>	<u>\$ 4,910,527</u>

Promises to give receivable in more than one year are discounted at 5%.

NOTE 6. RELATED PARTY TRANSACTIONS

Receivable/payable:

The following tables summarize related party receivables, payables, and operational transactions between the Foundation and RCB.

	<u>2011</u>	<u>2010</u>
Due from RCB	<u>\$ 321,319</u>	<u>\$ 218,951</u>

These are amounts related to endowments and earnings where the Foundation or the RCB were beneficiary.

THE FOUNDATION FOR THE DIOCESE OF HELENA, INC.
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2011 and 2010

NOTE 6. RELATED PARTY TRANSACTIONS (CONTINUED)

Loans Receivable:

The Foundation loaned operating cash to the RCB. The terms required interest only monthly payments of \$7,615 from April 2005 through March 2007, after which time, monthly principal and interest payments of \$13,372 are due on the 18th of the month. Interest is charged at 6.5% and the loan matures April 18, 2020. The principal amounts remaining are \$1,068,946 and \$1,156,824, at June 30, 2011 and 2010, respectively.

The Foundation made a short-term loan of \$500,000 to the RCB on April 8, 2011. The terms of the six month loan require a single payment of principal and interest, on October 8, 2011. Interest is charged at 6% per annum and the loan matures October 8, 2011. The principal amount remaining at June 30, 2011 is \$500,000.

Maturity of the two loans receivable is as follows:

2012	\$ 593,764
2013	100,043
2014	106,743
2015	113,892
2016	121,520
Thereafter	<u>532,984</u>
	<u>\$ 1,568,946</u>

Other Fees:

Administrative and accounting fees paid to the RCB are based on agreements. The rent is negotiated each year. Amounts paid for fiscal 2011 and 2010 are as follows:

	<u>2011</u>	<u>2010</u>
Administrative and accounting fees	<u>\$ 2,000</u>	<u>\$ 2,000</u>
Rent	<u>\$ 6,000</u>	<u>\$ 6,000</u>

NOTE 7. RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes at June 30:

	<u>2011</u>	<u>2010</u>
Parish	\$ 251,249	\$ 108,026
Program	1,829,299	480,974
Capital campaign	<u>3,203,414</u>	<u>4,927,488</u>
	<u>\$ 5,283,962</u>	<u>\$ 5,516,488</u>

THE FOUNDATION FOR THE DIOCESE OF HELENA, INC.
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2011 and 2010

NOTE 7. RESTRICTED NET ASSETS (CONTINUED)

Permanently restricted net assets are endowed for the following purposes at June 30:

	<u>2011</u>	<u>2010</u>
Parish	\$ 1,849,626	\$ 1,623,235
Program	11,961,983	10,756,135
Beneficial interest in annuities	1,725,324	1,560,076
Beneficial interest in trusts	<u>1,058,132</u>	<u>1,038,366</u>
	<u>\$ 16,595,065</u>	<u>\$ 14,977,812</u>

NOTE 8. NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by the expiration time.

	<u>2011</u>	<u>2010</u>
Purpose restrictions accomplished:		
Earnings distribution:		
Parish	\$ 64,716	\$ 51,624
Program	582,098	517,397
Transfer of management of endowed assets	-	20,772
Released to capital campaign recipients	1,772,894	2,042,629
Released to building endowment and scholarship	<u>1,000</u>	<u>1,000</u>
	<u>\$ 2,420,708</u>	<u>\$ 2,633,422</u>

NOTE 9. GAIN CONTINGENCIES

The Foundation has been named as beneficiary in numerous wills. The fair value of such wills cannot be determined with certainty and, therefore, management does not make any assertion to their value or realization. As such, the Foundation's share of such wills is not included in the accompanying financial statements.

THE FOUNDATION FOR THE DIOCESE OF HELENA, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2011 and 2010

NOTE 10. ENDOWMENT NET ASSETS

The Foundation's endowment consists of one fund managed by the Foundation. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Foundation Board has interpreted the Montana Uniform Prudent Management of Institutional Funds Act ("MUPMIFA") 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, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) any accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by MUPMIFA.

In accordance with MUPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund;
- (2) The purposes of the Foundation 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 Foundation; and
- (7) The investment policies of the Foundation.

THE FOUNDATION FOR THE DIOCESE OF HELENA, INC.
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2011 and 2010

NOTE 10. ENDOWMENT NET ASSETS (CONTINUED)

Changes in net asset composition by type of fund for the years ended June 30, 2011 and 2010 are as follows:

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Endowment net assets, June 30, 2009	\$ -	\$ 81,990	\$13,843,032	\$13,925,022
Investment return:				
Investment income	-	388,478	-	388,478
Net appreciation	-	502,819	65,213	568,032
Total investment return	-	891,297	65,213	956,510
Contributions	-	29,384	1,693,568	1,722,952
Change in value of split interest agreements and annuities	-	-	(603,229)	(603,229)
Transfer of management of endowment assets	-	20,772	(20,772)	-
Appropriation for expenditure	-	(581,154)	-	(581,154)
Endowment net assets, June 30, 2010	<u>\$ -</u>	<u>\$ 442,289</u>	<u>\$ 14,977,812</u>	<u>\$ 15,420,101</u>
Investment return:				
Investment income	-	403,317	-	403,317
Net appreciation	-	1,707,085	233,300	1,940,385
Total investment return	-	2,110,402	233,300	2,343,702
Contributions	-	2,084	1,198,939	1,201,023
Change in value of split interest agreements and annuities	-	-	185,014	185,014
Appropriation for expenditure	-	(638,004)	-	(638,004)
Endowment net assets, June 30, 2011	<u>\$ -</u>	<u>\$ 1,916,771</u>	<u>\$ 16,595,065</u>	<u>\$ 18,411,836</u>

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or MUPMIFA requires the Foundation to retain as a fund of perpetual duration. There were no such deficiencies as of June 30, 2011 and 2010.

THE FOUNDATION FOR THE DIOCESE OF HELENA, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2011 and 2010

NOTE 10. ENDOWMENT NET ASSETS (CONTINUED)

Transfer of management of endowed assets:

The Foundation's Board of Trustees approved the transfer of the management of the Covenant House Endowment assets in fiscal year ending June 30, 2010, to the Covenant House. The transfer was determined to be necessary to comply with the mission of the Foundation of the Diocese of Helena as stated in Note 1.

Return Objectives and Risk Parameters

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity or for a donor-specified period(s). The general investment objective is to provide a reasonable current rate of return as well as the potential for long-term growth of income to maintain the purchasing power of the fund over the longer term. The Foundation expects its endowment funds, over time, to provide a reasonable level of current income to support the spending policy authorized by the Board of Trustees and to grow equity assets. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Foundation 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 assets are to be invested in stock and/or bond funds and/or certificates of deposit, augmented by bank and mutual savings bank accounts for short-term holdings. All investments must be in conformity with the socially-responsible tenets of the mission philosophy of the Roman Catholic Church.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Foundation has a policy of appropriating for distribution each year 4.5% of the principal for that year.

NOTE 11. CONCENTRATIONS

At June 30, 2011 and 2010 there was \$671,633 and \$790,537 in contributions from one donor, representing 54% and 42% of contributions.

THE FOUNDATION FOR THE DIOCESE OF HELENA, INC.
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2011 and 2010

NOTE 12. FAIR VALUE MEASUREMENT

Effective July 1, 2007, the Foundation adopted a new accounting pronouncement for measuring fair value under U.S. generally accepted accounting principles. This pronouncement defines fair value as the price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. It requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs. It also establishes a fair value hierarchy, which prioritizes the valuation inputs into three broad levels:

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Fair values of assets and liabilities measured on a recurring basis at June 30, 2011, are as follows:

	Fair Value	Quoted prices in active markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>2011:</u>				
Pledges receivable	\$ 3,199,807	\$ -	\$ -	\$ 3,199,807
Beneficial interest in CRT	1,058,132	1,058,132	-	-
Stocks:				
Consumer discretionary	548,918	548,918	-	-
Consumer staples	366,146	366,146	-	-
Energy	352,833	352,833	-	-
Financials	656,078	656,078	-	-
Healthcare	671,823	671,823	-	-
Industrials	594,019	594,019	-	-
Information technology	823,474	823,474	-	-
Materials	169,834	169,834	-	-
Utilities	103,818	103,818	-	-
International	857,087	857,087	-	-
Bonds:				
Government	811,446	-	811,446	-
Corporate	1,376,217	-	1,376,217	-

THE FOUNDATION FOR THE DIOCESE OF HELENA, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2011 and 2010

NOTE 12. FAIR VALUE MEASUREMENT (CONTINUED)

	Fair Value	Quoted prices in active markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>2011 (Continued):</u>				
Mutual Funds:				
Diversified emerging market funds	294,360	294,360	-	-
Floating rate loans	150,174	150,174	-	-
Foreign large blends	222,967	222,967	-	-
Foreign large value funds	218,010	218,010	-	-
High yield bond funds	102,649	102,649	-	-
Inflation protected bond funds	125,912	125,912	-	-
Inflation protected public obligations				
of the U.S. Treasury	515,582	515,582	-	-
Intermediate term bond funds	785,597	785,597	-	-
Large blend funds	177,432	177,432	-	-
Large growth funds	354,366	354,366	-	-
Large value funds	205,604	205,604	-	-
Mid-cap growth funds	201,799	201,799	-	-
Mid-cap value funds	208,119	208,119	-	-
Moderated allocation funds	898,924	898,924	-	-
Natural resource funds	274,283	274,283	-	-
Real estate funds	200,412	200,412	-	-
World allocation funds	595,020	595,020	-	-
World bond funds	107,427	107,427	-	-
World stock funds	716,754	716,754	-	-
Life insurance	126,521	-	126,521	-
Total	<u>\$ 18,071,544</u>	<u>\$ 12,557,553</u>	<u>\$ 2,314,184</u>	<u>\$ 3,199,807</u>

Following is a reconciliation of beginning and ending values for Level 3 items:

	<u>Pledges Receivable</u>
Fair value at July 1, 2010	\$ 4,910,527
Contributions received	48,822
Payments and distributions	(1,772,894)
Adjustments	13,352
Fair value, at June 30, 2011	<u>\$ 3,199,807</u>

THE FOUNDATION FOR THE DIOCESE OF HELENA, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2011 and 2010

NOTE 12. FAIR VALUE MEASUREMENT (CONTINUED)

Fair values of assets and liabilities measured on a recurring basis at June 30, 2010, are as follows:

	Fair Value	Quoted prices in active markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>2010:</u>				
Pledges receivable	\$ 4,910,527	\$ -	\$ -	\$ 4,910,527
Beneficial interest in CRT	1,038,366	1,038,366	-	-
Stocks:				
Consumer discretionary	482,092	482,092	-	-
Consumer staples	529,315	529,315	-	-
Energy	512,005	512,005	-	-
Financials	622,258	622,258	-	-
Healthcare	580,899	580,899	-	-
Industrials	505,741	505,741	-	-
Information technology	870,703	870,703	-	-
Materials	132,734	132,734	-	-
Telecommunication services	122,459	122,459	-	-
Utilities	181,136	181,136	-	-
Bonds:				
Government	604,507	-	604,507	-
Corporate	675,710	-	675,710	-
Mutual Funds:				
Diversified emerging market funds	148,574	148,574	-	-
Foreign large blends funds	154,806	154,806	-	-
Foreign large value funds	103,729	103,729	-	-
High yield bond funds	95,986	95,986	-	-
Inflation protected bond funds	110,841	110,841	-	-
Intermediate term bond funds	866,563	866,563	-	-
Large blend funds	143,525	143,525	-	-
Large growth funds	276,576	276,576	-	-
Large value funds	190,791	190,791	-	-
Mid-cap growth funds	83,911	83,911	-	-
Mid-cap value funds	74,042	74,042	-	-
Moderated allocation funds	698,115	698,115	-	-
Natural resource funds	121,944	121,944	-	-
Real estate funds	110,451	110,451	-	-
World allocation funds	562,486	562,486	-	-
World bond funds	100,664	100,664	-	-
World stock funds	507,492	507,492	-	-
Life insurance	95,212	-	95,212	-
Total	<u>\$ 16,214,160</u>	<u>\$ 9,928,204</u>	<u>\$ 1,375,429</u>	<u>\$ 4,910,527</u>

THE FOUNDATION FOR THE DIOCESE OF HELENA, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2011 and 2010

NOTE 12. FAIR VALUE MEASUREMENT (CONTINUED)

Following is a reconciliation of beginning and ending values for Level 3 items:

	<u>Pledges Receivable</u>
Fair value at July 1, 2009	\$ 6,694,039
Contributions received	6,050
Payments and distributions	(2,261,957)
Adjustments	<u>472,395</u>
Fair value, at June 30, 2010	<u>\$ 4,910,527</u>

ACCOMPANYING INFORMATION

THE FOUNDATION FOR THE DIOCESE OF HELENA, INC.
SCHEDULES OF FUNCTIONAL EXPENSES
Years Ended June 30, 2011 and 2010

	Program		Fund Raising		Management and General		Total	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Salaries	\$ 52,968	\$ 59,135	\$ 4,294	\$ 4,794	\$ 28,627	\$ 31,961	\$ 85,889	\$ 95,890
Benefits	18,074	17,401	1,465	1,410	9,768	9,406	29,307	28,217
Meals and lodging	125	377	251	754	125	377	502	1,508
Automobile allotment	97	56	194	113	97	56	389	225
Commercial transportation	-	149	-	-	-	149	-	298
Registration fees	524	899	-	-	-	-	524	899
Professional and technical services	6,878	10,265	-	-	6,878	10,265	13,756	20,530
Postage	789	790	64	64	426	427	1,279	1,281
Printing	710	4,713	1,420	9,426	710	4,713	2,840	18,852
Telephone	657	447	-	-	329	224	986	671
Rent	3,700	3,700	300	300	2,000	2,000	6,000	6,000
Office supplies	398	327	-	-	199	164	596	491
Other supplies and materials	213	542	-	-	106	271	319	813
Computer and program supplies	-	-	-	-	3,237	2,946	3,237	2,946
Special functions	-	-	2,100	3,658	-	-	2,100	3,658
On-line giving costs	-	-	1,064	-	-	-	1,064	-
Legal fees and expenses	-	-	-	-	1,456	-	1,456	-
Advertising	-	-	1,766	420	-	-	1,766	420
Dues and subscriptions	164	110	-	-	-	-	164	110
Advisory board meeting	-	-	-	-	1,126	1,489	1,126	1,489
Depreciation expense	4,253	4,253	345	345	2,298	2,298	6,896	6,896
Grants	14,265	19,433	-	-	-	-	14,265	19,433
Sub-total expenses	103,815	122,597	13,263	21,284	57,383	66,746	174,461	210,627
Disbursement to participating funds	349,071	345,533	-	-	-	-	349,071	345,533
Disbursement to participating funds of capital campaign	1,772,894	2,042,629	-	-	-	-	1,772,894	2,042,629
Released to building endowment and scholarships	1,000	1,000	-	-	-	-	1,000	1,000
Transfer of endowment assets	-	20,772	-	-	-	-	-	20,772
Life insurance	4,713	3,645	-	-	7,447	5,760	12,160	9,405
Trustee and administrative fees	-	-	-	-	55,197	35,056	55,197	35,056
Total expenses	<u>\$ 2,231,493</u>	<u>\$ 2,536,176</u>	<u>\$ 13,263</u>	<u>\$ 21,284</u>	<u>\$ 120,027</u>	<u>\$ 107,562</u>	<u>\$ 2,364,783</u>	<u>\$ 2,665,022</u>

The primary purpose of the Foundation is to create permanent endowments whose income will benefit the Diocese, programs and parishes. The Foundation only classifies direct solicitation and/or donor contract expenses as fundraising.