

FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITOR'S REPORT

**Foundation for the Diocese of Helena, Inc.**

*June 30, 2015*

# Foundation for the Diocese of Helena, Inc.

*June 30, 2015*

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## INDEPENDENT AUDITOR'S REPORT

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Foundation for the Diocese of Helena, Inc., which comprise the statement of financial position as of June 30, 2015, and the related statement of activities and changes in net assets and cash flows for the year 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 audit. We conducted our audit 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 Foundation for the Diocese of Helena, Inc. as of June 30, 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of Matter**

As discussed in Note L to the financial statements, ending net assets of the 2014 financial statements have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

## **Other Matters**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

A handwritten signature in cursive script that reads "Wipfli LLP".

Wipfli LLP  
December 9, 2015  
Helena, Montana

# Foundation for the Diocese of Helena, Inc.

## STATEMENT OF FINANCIAL POSITION

as of June 30, 2015

ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	\$ 753,380
Pledges receivable, net of allowance	267,152
Related party receivables	93,542
Current portion of related party note receivable	30,077
Total current assets	<u>1,144,151</u>
NON-CURRENT ASSETS	
Investments	23,409,026
Beneficial interest in annuities held by related party	464,080
Beneficial interest in charitable remainder trusts	287,309
Pledges receivable, net of allowance and discount	227,374
Loan fees, net of amortization of \$187	18,488
Non-current portion of related party note receivable	762,310
Total non-current assets	<u>25,168,587</u>
PROPERTY AND EQUIPMENT, NET	
Land	1,954,250
Buildings, net of accumulated depreciation of \$10,192	1,620,558
Software and equipment, net of accumulated depreciation of \$33,483	3,523
Total property and equipment, net	<u>3,578,331</u>
TOTAL ASSETS	<u>\$ 29,891,069</u>
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES	
Accounts payable	\$ 1,706
Accrued liabilities	11,326
Earnings and grant distributions payable	244,943
In-kind contribution payable to related party	5,925
Grant distribution payable, due to related party	100,000
Current portion of note payable	39,025
Total current liabilities	<u>402,925</u>
NON-CURRENT LIABILITIES	
Notes payable	2,650,628
Non-current portion of in-kind contribution payable to related party	3,578,337
Annuity obligations payable	69,441
Total non-current liabilities	<u>6,298,406</u>
TOTAL LIABILITIES	6,701,331
NET ASSETS	
Unrestricted	553,999
Board designated - Legendary Lodge	(2,674,173)
Temporarily restricted	5,094,083
Permanently restricted	20,215,829
TOTAL NET ASSETS	<u>23,189,738</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 29,891,069</u>

The accompanying notes are an integral part of these financial statements.

**Foundation for the Diocese of Helena, Inc.**  
**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**  
*for the year ended June 30, 2015*

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>REVENUES, GAINS AND OTHER SUPPORT</b>				
Contributions	\$ 150	\$ 2,129,354	\$ 226,169	\$ 2,355,673
Interest and dividends	-	493,457	-	493,457
Realized and unrealized gains and (losses)	(9,987)	(268,633)	-	(278,620)
Change in cash surrender value of life insurance	-	18,326	-	18,326
Change in value of split interest agreements	-	(35,888)	556,191	520,303
Miscellaneous revenue	24,896	-	-	24,896
Administrative and annuity management fees	363,925	-	-	363,925
Net assets released from restrictions	2,403,256	(2,403,256)	-	-
Total revenues, gains, and other support	<u>2,782,240</u>	<u>(66,640)</u>	<u>782,360</u>	<u>3,497,960</u>
<b>EXPENSES</b>				
Program	4,776,083	-	-	4,776,083
Fundraising	16,760	-	-	16,760
Management and general	575,688	-	-	575,688
Total expenses	<u>5,368,531</u>	<u>-</u>	<u>-</u>	<u>5,368,531</u>
Change in net assets	(2,586,291)	(66,640)	782,360	(1,870,571)
Net assets, beginning of year, as previously stated	<u>550,677</u>	<u>4,472,303</u>	<u>20,037,329</u>	<u>25,060,309</u>
Correction of a prior period error	(84,560)	688,420	(603,860)	-
Net assets, beginning of year, restated	466,117	5,160,723	19,433,469	25,060,309
Net assets, end of year	<u>\$ (2,120,174)</u>	<u>\$ 5,094,083</u>	<u>\$ 20,215,829</u>	<u>\$ 23,189,738</u>

The accompanying notes are an integral part of these financial statements.

# Foundation for the Diocese of Helena, Inc.

## STATEMENT OF CASH FLOWS

for the year ended June 30, 2015

### CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ (1,870,571)
Adjustments to reconcile change in net assets to net cash flows from operating activities:	
Depreciation and amortization	11,332
Unrealized loss on investments	64,827
(Increase) decrease in assets	
Due to/from related party	(93,182)
Interest receivable	45,884
Beneficial interest in annuity held by RCB	(464,080)
Beneficial interest in charitable remainder trust	32,349
Loan fee	(18,675)
Increase (decrease) in liabilities	
Accounts payable	(5,044)
Accrued liabilities	(944)
Earnings distributions payable	38,449
In-kind contribution payable	3,584,262
Grant to RCB	(102,487)
Due to related party	(1,303)
Net cash flows from operating activities	<u>726,291</u>

### CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of investments	(7,386,311)
Proceeds from the sale of investments	7,151,298
Purchase of fixed assets	(3,585,000)
Payments received on related party note receivable	21,328
Payments made on annuity obligation	35,762
Net cash flows from investing activities	<u>(3,762,923)</u>

### CASH FLOWS FROM FINANCING ACTIVITIES

Cash received from note payable	2,700,000
Cash paid on note payable	(10,347)
Net cash flows from financing activities	<u>2,689,653</u>
Net change in cash and cash equivalents	(346,979)

Cash and cash equivalents, beginning of year	<u>1,100,359</u>
Cash and cash equivalents, end of year	<u>\$ 753,380</u>

The accompanying notes are an integral part of these financial statements.

**Foundation for the Diocese of Helena, Inc.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
*for the year ended June 30, 2015*

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**NOTE A - 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. The financial statements reflect all significant receivables, payables and other liabilities.

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, 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 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 to be retained and invested, are classified as unrestricted. The Board has the right to decide at any time to expend the principal of such funds.

Continued

**Foundation for the Diocese of Helena, Inc.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
*for the year ended June 30, 2015*

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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**, continued

➤ **Temporarily Restricted Net Assets**

Temporarily restricted net assets are subject to donor-imposed stipulations that may or will be met either by actions of the Foundation and/or the passage of time. Once the permanently restricted balance of the endowment is greater than the established threshold (currently \$5,000), earnings must be paid out quarterly or held as temporarily restricted funds depending upon the endowment fund terms. 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 or had time restrictions, which were met.

➤ **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, and is included in temporarily restricted net assets.

**Accounting Estimates**

The preparation of financial statements in conformity with GAAP 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 reporting period. Actual results could differ from these estimates.

**Cash and Cash Equivalents**

For purposes of the statement of cash flows, the Foundation considers all checking, savings and money market accounts with original maturities of six months or less to be cash equivalents. From time to time, certain bank accounts that are subject to limited FDIC coverage exceeded their insured limits. At June 30, 2015 there was \$541,746 held by the Foundation at financial institutions exceeding federally insured limits.

**Investments**

The Foundation carries investments at their fair values in the financial statements. A significant portion of the Foundation's investments are subject to the risk of value fluctuations that is inherent in the market. As such, the value of the Foundation's assets may change frequently. To help manage this risk, the Foundation utilizes professional investment managers who oversee the Foundation's portfolio and make changes as they see fit, within the parameters of the investment policies of the Foundation.

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 balance of the pool held by each fund at the beginning of the quarter.

An annual administrative fee of 1.5% (\$351,653 in 2015) of fair market value was assessed to all participants in the investment pool to fund Foundation operations. The investment fee is netted with the investment earnings. The administrative fee was changed to 1.25%, effective July 1, 2015.

Continued

# Foundation for the Diocese of Helena, Inc.

## NOTES TO THE FINANCIAL STATEMENTS

*for the year ended June 30, 2015*

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### **NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

#### **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
Building	40 years
Loan Fees	40 years

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 the Roman Catholic Diocese of Helena (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.

The approved and confirmed Chapter 11 Reorganization Plan allows for the Annuity Fund to continue serving its charitable purpose. As of June 30, 2015, the value of the Foundation's beneficial interest of the annuities held at RCB is \$464,080, and the value of the terminated or matured annuities not yet paid to the Foundation is \$92,111.

#### **Concentrations**

Concentrations of credit risk with respect to pledges receivable are minimal due to the large number of contributors comprising the Foundation's contributor base and their dispersion across different industries. The Foundation's contribution income is subject to the general economic conditions of western Montana.

#### **Promises to Give**

Unconditional promises to give (pledges) 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).

#### **Planned Gift Liabilities**

Various planned giving instruments commit the Foundation to future payments to designated beneficiaries as part of the contribution. The following summarizes the types of planned giving instruments and associated liabilities carried by the Foundation:

Continued

**Foundation for the Diocese of Helena, Inc.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
*for the year ended June 30, 2015*

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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**, continued

- *Charitable and Deferred Gift Annuities:*  
 Charitable gift annuities require regularly scheduled payments at a fixed rate specified in the contract to a designated beneficiary over the beneficiary's lifetime, with payments commencing upon contribution. The payment is based on the value of the assets at the date of donation. Deferred gift annuities are similar but delay the start of annual payments to a future date. The financial statements include a liability representing the present value of the payments required by those contracts over the beneficiaries' expected lives as determined by mortality tables.

**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 2015.

**Retirement Plan**

For year ended June 30, 2015, the Foundation employees participated in the 403(b) retirement plan, managed by the Diocese of Helena which covers all employees who work at least 20 hours per week and have completed six months of service. Contributions to the Plan are matched dollar for dollar with a maximum of 3% of eligible wages.

Beginning January 1, 2015, the Foundation employees participated in the 401(k) retirement plan, managed by the Foundation which covers all employees who work at least 20 hours per week. Contributions to the Plan are matched dollar for dollar with a maximum of 3% of eligible wages.

Retirement contributions for the year ended June 30, 2015 were \$2,901.

**Subsequent Events**

Management has evaluated subsequent events through December 9, 2015, the date, which the financial statements were available for issue. Management has determined that there were no subsequent events that required recognition.

**NOTE B - INVESTMENTS**

Investments consisted of the following at June 30, 2015:

	Cost Basis	Fair Value
Description of financial instrument:		
Stocks	\$ 5,788,283	\$ 8,601,738
Bonds	4,595,499	4,546,541
Mutual funds	9,491,921	10,038,525
Real asset funds	21,530	19,073
Life insurance	63,785	203,149
	\$ 19,961,018	\$ 23,409,026

Continued

**Foundation for the Diocese of Helena, Inc.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
*for the year ended June 30, 2015*

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**NOTE B - INVESTMENTS, continued**

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 one policy, 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 paid by the Foundation in 2015.

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 as of June 30, 2015:

Cash surrender value:	
Peter Sullivan	
(Face value \$50,000)	\$ 36,124
Gerald Kuhl	
(Face value \$130,000)	85,393
Alexander Brunett	
(Face value \$200,000)	63,433
Elden Curtiss	
(Face value \$100,000)	18,199
	<u>\$ 203,149</u>

**NOTE C - BENEFICIAL INTEREST IN CHARITABLE REMAINDER TRUSTS**

Beneficial interest in charitable remainder trusts consist of the following at June 30, 2015:

Margaret Quinn Unitrust	<u>\$ 287,309</u>
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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.

Continued

**Foundation for the Diocese of Helena, Inc.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
*for the year ended June 30, 2015*

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**NOTE D - PLEDGES RECEIVABLE**

Unconditional pledges receivable at June 30, 2015 are as follows:

Receivable in less than one year	\$	282,935
Receivable in one to five years		282,935
Total unconditional promises to give		565,870
Less discount to net present value		(39,778)
Less allowance for uncollectible promises receivable		(31,566)
Net unconditional promises to give	\$	494,526

Pledges receivable in more than one year are discounted at 5% based on the Foundation's borrowing rate.

In 2015, the Foundation received a \$100,000 conditional promise to give, which was to be paid when Legendary Lodge was free of encumbrances. Subsequent to year end, the pledge was converted to unconditional by the donor and the Foundation received full payment on the pledge as of November 2015.

**NOTE E - RELATED PARTY TRANSACTIONS**

On January 31, 2014, the RCB filed Chapter 11 bankruptcy; the Chapter 11 Plan was approved and confirmed on March 5, 2015. During bankruptcy process, the Foundation modified its secured loan agreement with the Diocese, reducing the interest rate and forgiving interest accrued but not paid during bankruptcy. Monthly loan payments resumed post-bankruptcy in April 2015 under the modified loan terms.

**Receivable/Payable**

As of June 30, 2015, \$2,873 was due from RCB.

**Loans Receivable**

The Foundation loaned operating cash to the RCB in 2005. During bankruptcy, RCB did not make monthly loan payments (February 2014 – March 2015). On February 5, 2015, the Foundation modified the loan terms which were approved in RCB's bankruptcy Reorganization Plan. The new terms are monthly principal and interest payments of \$4,515, due on the 18<sup>th</sup> of the month. Interest is charged at 3.25% and the loan matures March 18, 2035. \$45,884 in accrued interest was written off in 2015. Unpaid principal not paid during bankruptcy has been added to the current amount from RCB for fiscal year 2015. The principal amounts remaining were \$792,387 at June 30, 2015.

Continued

**Foundation for the Diocese of Helena, Inc.**  
NOTES TO THE FINANCIAL STATEMENTS  
*for the year ended June 30, 2015*

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**NOTE E - RELATED PARTY TRANSACTIONS, continued**

**Loans Receivable, continued**

Principal payments due under the loan are as follows:

2016	\$	30,077
2017		31,069
2018		32,094
2019		33,153
2020		34,247
Thereafter		631,747
	\$	<u>792,387</u>

**Other Fees**

Administrative and accounting fees paid to the RCB are based on agreements. The rent is negotiated each year. For the year ended June 30, 2015, the Foundation paid RCB \$1,000 for administrative and accounting fees and \$11,500 for rent.

**Grant**

The Foundation committed to give a two-year grant to the Diocese of Helena in the amount of \$125,000 per fiscal year 2014 and 2015. Funds from the fiscal year 2014 grant not dispersed as of year-end were added to the 2015 fiscal year grant. On June 4, 2015, the Foundation extended the term of the remaining grant funds, to be expended no later than one month following the release of all liens on the Legendary Lodge property. As of June 30, 2015 the remaining grant commitment due to the Diocese was \$100,000.

**Legendary Lodge: In-kind contribution**

On March 17, 2015, the Foundation purchased the property known as Legendary Lodge from RCB. Prior to purchase, the Foundation obtained an independent appraisal of the property (including land, buildings, and improvements) from a commercial real estate appraiser. The Foundation purchased the Legendary Lodge property from RCB in an arms-length transaction for the appraised value of \$3,585,000.

To purchase the Legendary Lodge property, the Foundation borrowed \$1,700,000 from Opportunity Bank and \$1,000,000 from St. Francis Assisi Parish. In Fiscal Year 2015 the Foundation began a fundraising campaign titled "Preserve the Legacy of Legendary Lodge," and \$903,665 of the funds raised from the campaign was used toward earnest money and down payment at closing. As of June 30, 2015, \$2,689,653 in debt remained on the two loans.

In March 2015, the Foundation signed a 100 year lease with RCB, donating the exclusive use of all buildings, land and water rights of the Legendary Lodge to RCB. The terms of the lease are as follows:

- RCB shall pay the Foundation \$1 per year
- RCB is responsible for maintenance costs and is responsible for loss, liability, damage or expense

Continued

**Foundation for the Diocese of Helena, Inc.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
*for the year ended June 30, 2015*

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**NOTE E - RELATED PARTY TRANSACTIONS, continued**

**Legendary Lodge: In-kind contribution, continued**

Under generally accepted accounting principles, the lease constituted an in-kind contribution to RCB. For the year ended June 30, 2015, the Foundation recognized an in-kind contribution expense for the full value of the Legendary Lodge (\$3,585,000) and an in-kind contribution payable, representing the future in-kind contribution obligation. On an annual basis, the in-kind contribution payable will be reduced and in-kind lease revenue will be recognized at an amortized rate of 3% over 100 years. The in-kind contribution resulted in an unrestricted net asset deficit of \$2,674,173, which is the difference between the contribution expense and “Preserve the Legacy of Legendary Lodge” campaign receipts.

**NOTE F - PLANNED GIFT LIABILITIES**

The Foundation accepted charitable gift annuities where the Foundation is a remainder beneficiary in 2015. GAAP requires a liability to be recorded for the present value of the annuity payments payable to the gift annuitant.

The liability changes each year with receipt of new gifts, payments under contracts, change in trust asset values, and the change in the present value of required payments to beneficiaries. The present value of the estimated future payments was calculated using discount rates applicable at the date of the gift, which ranges from 2.0% to 2.2%, and applicable mortality tables. As of June 30, 2015, the liability was \$69,441.

**NOTE G - NOTES PAYABLE**

In 2015, the Foundation obtained a \$1,700,000 loan from Opportunity Bank for the purchase of Legendary Lodge. Interest on the note is 4.5% with monthly payments of \$9,443. The note is due in March 2040. The outstanding principal balance as of June 30, 2014 was \$1,689,653.

In 2015, the Foundation obtained a \$1,000,000 loan from St. Francis Parish for the purchase of Legendary Lodge. Interest on the note is at 4% with interest only payments of \$40,000 due annually. The full amount of principal and interest is due in March 2020. The outstanding principal balance as of June 30, 2015 was \$1,000,000.

Future principal payments are as follows:

2016	\$	39,025
2017		39,859
2018		41,690
2019		43,605
2020		1,045,609
Thereafter		1,479,865
		\$ 2,689,653

Continued

**Foundation for the Diocese of Helena, Inc.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
*for the year ended June 30, 2015*

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**NOTE H - RESTRICTED NET ASSETS**

Temporarily restricted net assets are available for the following purposes at June 30, 2015:

Parish	\$ 574,223
Program	4,110,110
Gift annuity	409,750
	\$ 5,094,083

Permanently restricted net assets are endowed for the following purposes at June 30, 2015

Parish	\$ 2,382,740
Program	17,276,899
Beneficial interest in annuities held by RCB	556,191
	\$ 20,215,830

The beneficial interest in annuities relates to annuities held at the RCB. In June 30, 2014, \$1,429,716 of the Foundation's beneficial interest in annuities held by RCB were fully written off, due to RCB's bankruptcy filing in January 2014. After the bankruptcy was finalized in 2015, the Foundation and RCB evaluated the remaining annuities and re-calculated the Foundation's interest. The Foundation recognized \$556,191 in revenue from the beneficial interest in annuities in 2015.

**NOTE I - ENDOWMENT NET ASSETS**

The Foundation's endowment consists of one fund managed by the Foundation. As required by GAAP, 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.

Continued

**Foundation for the Diocese of Helena, Inc.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
*for the year ended June 30, 2015*

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**NOTE I - ENDOWMENT NET ASSETS, continued**

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.

In 2015, the Foundation identified a prior period error in the classification of realized and unrealized gains and losses within the permanently restricted net asset category. See Note L.

Changes in net asset composition by type of fund for the years ended June 30, 2015 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, as previously stated, June 30, 2014	\$ -	\$ 4,168,945	\$ 20,037,329	\$ 24,206,274
Correction of a prior period error	-	688,420	(603,860)	84,560
Endowment net assets, as restated, June 30, 2014	-	4,857,365	19,433,469	24,290,834
Investment return:				
Contributions	-	13,366	226,169	239,535
Beneficial interest in annuities	-	-	556,191	556,191
Investment income, net of fees	-	396,576	-	396,576
Net depreciation	-	(137,046)	-	(137,046)
Appropriation of endowment assets for expenditure	-	(1,243,034)	-	(1,243,034)
Endowment net assets, as of June 30, 2015	\$ -	\$ 3,887,227	\$ 20,215,829	\$ 24,103,056

**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. As of June 30, 2015, four funds had deficiencies totaling to \$14,925.

Continued

**Foundation for the Diocese of Helena, Inc.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
*for the year ended June 30, 2015*

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**NOTE I - ENDOWMENT NET ASSETS, continued**

**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 donor-specified periods. 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 accordance with the Foundation's investment policy, which may be amended from time to time. The investment policy states that all investments must conform to the socially responsible philosophy of the Roman Catholic Church.

**Spending Policy and How the Investment Objectives Relate to Spending Policy**

The Foundation calculates the amount available for charitable distribution from the fund each year based on its 12-quarter rolling average fund balance for funds whose fair value on June 30 exceeds the historic value, multiplied by the distribution rate approved by the Board, currently 4.5%.

**NOTE J - FAIR VALUE MEASUREMENT**

The Foundation has adopted the fair value measurement framework for measuring fair. 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.

Continued

**Foundation for the Diocese of Helena, Inc.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
*for the year ended June 30, 2015*

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**NOTE J - FAIR VALUE MEASUREMENT, continued**

Following is a description of the valuation methodologies used for assets measured at fair value. There were no changes to the valuation methodologies in 2015:

*Stocks, Bonds, Mutual Funds, Life Insurance:* Valued at quoted market prices for those investments.

*Real Asset Funds:* Valued at the Foundation's proportionate share of the Mission Diocese Fund's privately held mutual fund.

Fair values of assets at June 30, 2015, are as follows:

Description of financial instrument:	Cost Basis	Assets at fair value as of June 30, 2015			Total
		(Level 1)	(Level 2)	(Level 3)	
Stocks	\$ 5,788,283	\$ 8,601,738	\$ -	\$ -	\$ 8,601,738
Bonds	4,595,499	4,546,541	-	-	4,546,541
Mutual funds	9,491,921	9,892,150	-	146,375	10,038,525
Real asset funds	21,530	19,073	-	-	19,073
Life insurance	63,785	-	203,149	-	203,149
	<u>\$ 19,961,018</u>	<u>\$ 23,059,502</u>	<u>\$ 203,149</u>	<u>\$ 146,375</u>	<u>\$ 23,409,026</u>

**NOTE K - COMMITMENTS AND CONTINGENCIES**

**Annuity Contracts**

The annuity fund holds annuity contracts guaranteeing a specified rate of return to the annuitants during their lifetime. At the time of death, portions of, or the entire remaining principal reverts to the Foundation.

**NOTE L - PRIOR PERIOD CORRECTION**

In 2015, the Foundation identified an error in the accounting treatment of investment gains/losses for numerous permanently restricted endowments, caused by ambiguities in the design of beneficiary election forms. From 2000 through 2014, and subject to the election of the related beneficiaries, the Foundation treated gains/losses as additions/subtractions to the permanently restricted corpus, rather than temporarily restricted or unrestricted net assets. The Foundation determined in 2015 that the beneficiaries of the endowments did not have the ability to place such restrictions on the endowments and reduced accumulated gains/losses from permanently restricted net assets (\$603,860) to temporarily restricted net assets.

Concluded

**SUPPLEMENTAL INFORMATION**

## Foundation for the Diocese of Helena, Inc.

### STATEMENT OF FUNCTIONAL EXPENSES

*for the year ended June 30, 2015*

(See Independent Auditor's Report)

	Program	Fundraising	Management and General	Total
Advertising / sponsorship	\$ -	\$ -	\$ 9,035	\$ 9,035
Automobile	235	469	234	938
Board / committee meetings	1,521	-	-	1,521
Commercial travel	337	-	337	674
Computer and program supplies	6,019	488	3,253	9,760
Depreciation / amortization	6,988	567	3,777	11,332
Donor development	-	4,822	-	4,822
Dues and subscriptions	546	-	-	546
Grants	1,019,412	-	-	1,019,412
In-kind contributions	3,599,182	-	-	3,599,182
Insurance	815	66	440	1,321
Interest expense	17,984	-	-	17,984
Investment manager fees	-	-	463,255	463,255
Legal fees	-	-	26,325	26,325
Life insurance	16,643	-	-	16,643
Meals and lodging	163	326	163	652
Office supplies	1,325	-	663	1,988
On-line giving costs	-	373	-	373
Postage	3,054	248	1,650	4,952
Printing	1,617	3,233	1,616	6,466
Professional and technical services	22,437	-	22,437	44,874
Registration fees	1,044	-	1,044	2,088
Rent	7,092	575	3,833	11,500
Salaries and benefits	68,988	5,593	37,286	111,867
Telephone	681	-	340	1,021
Total expenses	<u>\$ 4,776,083</u>	<u>\$ 16,760</u>	<u>\$ 575,688</u>	<u>\$ 5,368,531</u>