

**CATHOLIC FOUNDATION OF
SOUTHERN MINNESOTA**

**FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITORS'
REPORT**

JUNE 30, 2019 AND 2018

CATHOLIC FOUNDATION OF SOUTHERN MINNESOTA

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Catholic Foundation of Southern Minnesota
Winona, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of Catholic Foundation of Southern Minnesota (the "Foundation") (a nonprofit organization), which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. 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 Catholic Foundation of Southern Minnesota'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 Foundation'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 Catholic Foundation of Southern Minnesota as of June 30, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

As discussed in Note 13 to the financial statements, an error in the recording of service fees was discovered during the year. Accordingly, the 2018 financial statements have been restated to correct this error.

Hawkins Ash CPAs, LLP

La Crosse, Wisconsin
November 13, 2019

**CATHOLIC FOUNDATION OF SOUTHERN
MINNESOTA**

FINANCIAL STATEMENTS

CATHOLIC FOUNDATION OF SOUTHERN MINNESOTA
STATEMENTS OF FINANCIAL POSITION

<u>ASSETS</u>	JUNE 30,	
	2019	2018
		RESTATED
Cash and cash equivalents	\$ 44,350	\$ 82,751
Pledges receivables, net	724,505	2,666,066
Accounts receivable	74,827	54,504
Property and equipment, net	22,944	-
Cash and cash equivalents - restricted	1,371,002	1,519,141
Investments	24,094,999	24,219,069
TOTAL ASSETS	\$ 26,332,627	\$ 28,541,531
<u>LIABILITIES AND NET ASSETS</u>		
LIABILITIES		
Accounts payable and accrued liabilities	\$ 406,179	\$ 553,320
Funds held for others	12,717,436	12,770,960
Pledge payable to Immaculate Heart of Mary Seminary - Phase 2, net	79,670	1,600
Pledges payable to other Catholic religious and charitable institutions within the geographic area of the Diocese - Rooted in Faith Campaign, net	19,503	2,093,850
TOTAL LIABILITIES	13,222,788	15,419,730
NET ASSETS		
Without donor restrictions	262,570	277,264
With donor restrictions	12,847,269	12,844,537
TOTAL NET ASSETS	13,109,839	13,121,801
TOTAL LIABILITIES AND NET ASSETS	\$ 26,332,627	\$ 28,541,531

The accompanying notes are an integral part of these statements.

CATHOLIC FOUNDATION OF SOUTHERN MINNESOTA
STATEMENTS OF ACTIVITIES

YEAR ENDED
JUNE 30

	2019			2018		
	WITHOUT DONOR	WITH DONOR	TOTAL	RESTATED	RESTATED	TOTAL
	RESTRICTIONS	RESTRICTIONS		WITHOUT DONOR	WITH DONOR	
			RESTRICTIONS	RESTRICTIONS		
REVENUE AND OTHER SUPPORT						
Contributions	\$ 77	\$ 2,442,361	\$ 2,442,438	\$ 1,335	\$ 2,491,156	\$ 2,492,491
Service fee revenue	423,936	-	423,936	332,031	-	332,031
Shortfall assessments	-	311,616	311,616	-	334,643	334,643
Investment Income, net of fees	51,734	266,175	317,909	100,501	709,580	810,081
Net assets released from restrictions	3,017,420	(3,017,420)	-	2,829,104	(2,829,104)	-
TOTAL REVENUE AND OTHER SUPPORT	3,493,167	2,732	3,495,899	3,262,971	706,275	3,969,246
EXPENSES						
Program Services	2,954,501	-	2,954,501	2,725,410	-	2,725,410
Supporting Services						
Management & General	304,361	-	304,361	247,654	-	247,654
Fundraising	248,999	-	248,999	158,321	-	158,321
TOTAL SUPPORTING SERVICES	553,360	-	553,360	405,975	-	405,975
TOTAL EXPENSES	3,507,861	-	3,507,861	3,131,385	-	3,131,385
CHANGE IN NET ASSETS	(14,694)	2,732	(11,962)	131,586	706,275	837,861
NET ASSETS, BEGINNING OF YEAR	277,264	12,844,537	13,121,801	145,678	12,138,262	12,283,940
NET ASSETS, END OF YEAR	\$ 262,570	\$ 12,847,269	\$13,109,839	\$ 277,264	\$ 12,844,537	\$13,121,801

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

CATHOLIC FOUNDATION OF SOUTHERN MINNESOTA
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2019

	<u>PROGRAM SERVICES</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUND- RAISING</u>	<u>TOTAL</u>
Distributions to the Diocese	\$ 2,449,764	\$ -	\$ -	\$ 2,449,764
Distributions to others	261,909	-	-	261,909
Distributions to parishes	242,828	-	-	242,828
Payroll	-	91,087	64,079	155,166
Payroll taxes	-	7,169	3,827	10,996
Health insurance	-	31,574	-	31,574
Retirement	-	4,725	2,560	7,285
Appeal expenses	-	-	-	-
Professional fees	-	87,244	8,773	96,017
Supplies	-	39,426	65,366	104,792
Financial institution fees	-	10,988	-	10,988
Insurance	-	6,036	-	6,036
Postage	-	4,614	13,653	18,267
Travel	-	7,388	-	7,388
Relocation	-	324	-	324
Website development and maintenance	-	1,828	-	1,828
Depreciation	-	3,529	-	3,529
Miscellaneous	-	8,429	90,741	99,170
TOTAL FUNCTIONAL EXPENSES	<u>\$ 2,954,501</u>	<u>\$ 304,361</u>	<u>\$ 248,999</u>	<u>\$ 3,507,861</u>

The accompanying notes are an integral part of these statements.

CATHOLIC FOUNDATION OF SOUTHERN MINNESOTA
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2018

	<u>PROGRAM SERVICES</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUND- RAISING</u>	<u>TOTAL</u>
Distributions to the Diocese	\$ 2,369,500	\$ -	\$ -	\$ 2,369,500
Distributions to others	78,101	-	-	78,101
Distributions to parishes	277,809	-	-	277,809
Payroll	-	67,650	68,461	136,111
Payroll taxes	-	5,164	3,711	8,875
Health insurance	-	13,072	3,638	16,710
Retirement	-	3,252	2,334	5,586
Appeal expenses	-	-	4,165	4,165
Professional fees	-	80,756	9,730	90,486
Supplies	-	24,515	49,322	73,837
Financial institution fees	-	10,506	-	10,506
Insurance	-	3,605	-	3,605
Postage	-	2,200	8,178	10,378
Travel	-	8,859	-	8,859
Relocation	-	14,517	-	14,517
Website development and maintenance	-	6,641	-	6,641
Depreciation	-	-	-	-
Miscellaneous	-	6,917	8,782	15,699
TOTAL FUNCTIONAL EXPENSES	<u>\$ 2,725,410</u>	<u>\$ 247,654</u>	<u>\$ 158,321</u>	<u>\$ 3,131,385</u>

The accompanying notes are an integral part of these statements.

CATHOLIC FOUNDATION OF SOUTHERN MINNESOTA
STATEMENTS OF CASH FLOWS

	YEAR ENDED	
	JUNE 30,	
	2019	2018
		RESTATED
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (11,962)	\$ 837,861
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities		
Depreciation	3,529	-
Allowance for uncollectible pledges receivable	186,900	(230,600)
Discount on pledges receivable	(34,800)	(12,400)
Net realized and unrealized (gains) on investments	(228,367)	(1,124,307)
Contributions restricted for investment in endowment	(52,150)	(13,400)
Cash and cash equivalents - restricted	148,139	(170,376)
Change in assets and liabilities		
Decrease (increase) in assets		
Pledges receivable	1,789,461	2,440,544
Accounts receivable	(20,323)	22,124
(Decrease) increase in liabilities		
Cash overdraft	-	(50,235)
Accounts payable and accrued liabilities	(147,141)	401,996
Funds held for others	(53,524)	2,306,971
Immaculate Heart of Mary Seminary - Phase 2 payable, net	78,070	(265,500)
Pledges payable to other Catholic religious and charitable institutions within the geographic area of the Diocese - Rooted in Faith Campaign, net	(2,074,347)	(2,679,914)
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	(416,515)	1,462,764
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(2,048,425)	(25,056,946)
Purchase of fixed assets	(26,473)	-
Proceeds on sales of investments	2,400,862	23,663,533
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	325,964	(1,393,413)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from contributions restricted for endowment	52,150	13,400
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(38,401)	82,751
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	82,751	-
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 44,350	\$ 82,751

The accompanying notes are an integral part of these statements.

CATHOLIC FOUNDATION OF SOUTHERN MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 1 - Nature of Activities and Summary of Significant Accounting Policies

Nature of Activities:

The Catholic Foundation of Southern Minnesota (the "Foundation") is a nonprofit organization organized under Chapter 317A of the Minnesota Statutes. The Foundation is organized and shall be operated exclusively for religious, charitable, and educational purposes within the geographical boundaries of the Diocese of Winona - Rochester (the "Diocese") located in southern Minnesota. The Foundation is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

Summary of Significant Accounting Policies:

Basis of Accounting - The financial statements of the Foundation have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other liabilities.

Basis of Presentation - The accompanying financial statements are prepared in accordance with the accounting principles generally accepted in the United States of America (U.S. GAAP) as codified by the Financial Accounting Standards Board.

The Foundation is required to report information regarding its net assets and activities based on the existence or absence of donor or grantor imposed 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 restrictions. The governing board has designated, from net assets and without donor restrictions, net assets for the education of priests and seminarians.
- *Net Assets With Donor Restrictions* - Net assets subject to donor imposed restrictions. Some donor-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-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Accounting Pronouncements Adopted - On August 18, 2016, the Financial Accounting Standards Board (FASB) issued ASU 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Foundation has adjusted the presentation of these statements accordingly. The Foundation has opted to not disclose liquidity and availability information for 2018 as permitted under the ASU in year of adoption.

Recent Accounting Pronouncements - In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which is a comprehensive new revenue recognition standard that will supersede existing revenue recognition guidance. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. FASB issued ASU 2015-14 that deferred the effective date for annual periods beginning after December 15, 2018. Early adoption is permitted subject to certain limitations. The amendments in this update are required to be applied retrospectively to each prior reporting period presented or with the cumulative effect being recognized at the date of initial application. The Foundation is currently evaluating the impact this guidance will have on the financial statements.

CATHOLIC FOUNDATION OF SOUTHERN MINNESOTA
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2019 AND 2018

NOTE 1 - Nature of Activities and Summary of Significant Accounting Policies - Continued

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows: Restricted Cash (Topic 230)*, which requires that the statement of cash flows explain the change during the period in the total of cash, cash equivalents, and restricted cash or restricted cash equivalents. The amendments in ASU 2016-18 are effective for fiscal years beginning after December 15, 2018. Early adoption is permitted. The amendments in this update are required to be applied retrospectively to each prior reporting period presented. The Foundation is currently evaluating the impact this guidance will have on the financial statements.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958) - Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which clarifies how entities should characterize grants and similar contracts with government agencies and others. It will assist entities in evaluating whether transactions are reciprocal exchange transactions or contributions and if they are conditional or unconditional contributions. The amendments in ASU 2018-08 are effective for fiscal years beginning after December 15, 2018. Early adoption is permitted. The amendments in this update should be applied prospectively; however, retrospective application is permitted. The Foundation is currently evaluating the impact this guidance will have on the financial statements.

Cash and Cash Equivalents - The Foundation's cash and cash equivalents consists of cash on deposit with banks. For purposes of the statements of cash flows, the Foundation considers all unrestricted, highly liquid investments with an initial maturity of three months or less to be cash equivalents. However, the Foundation does not consider cash, money market accounts, or certificates of deposits included as investments to be cash equivalents for the statements of cash flows. The Foundation does not have any cash equivalents as of June 30, 2019 and 2018.

Accounts Receivable - Receivables are stated at the amount the Foundation expects to collect from outstanding balances. Management provides for uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after the Foundation has used reasonable collection efforts are written off through a charge of the valuation allowance and a credit to accounts receivable. Management believes all receivables are collectible; accordingly, no allowance has been recorded.

Pledges Receivable - Unconditional pledges receivable that are expected to be collected within one year are recorded at net realizable value. Unconditional pledges receivable that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using bond interest rates applicable to the years in which the pledges are received. The discount is offset by a corresponding decrease of the related pledges payable to other Catholic religious and charitable institutions within the geographic area of the Diocese listed in the Rooted in Faith Campaign Case Statement and the Immaculate Heart of Mary Seminary - Phase 2 Campaign as described in Note 9. Conditional pledges receivable are not included as support until the conditions are substantially met. Management provides for uncollectible amounts through an adjustment to a valuation allowance based on its assessment of the current status of individual pledges. This allowance is offset by a corresponding decrease of the related pledges payable to Organizations listed in the Rooted in Faith Campaign case statement and Immaculate Heart of Mary Seminary - Phase 2 Campaign as described in Note 9.

Restricted Cash and Cash Equivalents - Restricted cash and cash equivalents consist of deposits held in financial institutions that are donor designated or custodial funds.

Investments - Investments are reported at cost, if purchased, or at fair value, if donated. Thereafter, investments are reported at their fair values in the statements of financial position.

CATHOLIC FOUNDATION OF SOUTHERN MINNESOTA
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2019 AND 2018

NOTE 1 - Nature of Activities and Summary of Significant Accounting Policies - Continued

The aggregate of (a) the unrealized appreciation (depreciation) in the fair value of investments during the year (b) the realized gains (losses) on sales of investments during the year (c) dividend income (d) interest income, and (e) investment fees are reflected in investment return on the statements of activities.

Purchases and sales of securities are recorded on a trade-date basis. Gains and losses on sales of securities are based on average cost and are recorded in the statements of activities in the period in which the securities are sold. Dividends are recorded on the ex-dividend date.

Property and Equipment - All acquisitions of property and equipment in excess of \$5,000 with useful lives greater than one year are capitalized. Purchased property and equipment are carried at cost. Donated property and equipment are carried at the approximate fair value at the date of donation. Depreciation is computed on the straight-line method based on the following estimated useful lives:

<u>Asset</u>	<u>Life</u>
Furniture, fixtures and equipment	7 - 10 years
Vehicles	5 - 7 years
Land improvements	10 - 20 years
Buildings	30 years

Fund Held for Others - The Foundation acts as an agent for other Catholic religious and charitable institutions within the geographic area of the Diocese by managing endowment funds and other assets for them. The Foundation is the custodian for several funds, subject to donor restrictions that are to exclusively benefit a named organization, and the Foundation serves as trustee of a number of charitable trusts. The investment income from funds held for others is distributed to various charities and individuals in accordance with the depositors' directions or donor restrictions as applicable.

Catholic Ministries Appeal - The Foundation's primary source of activity is from the Catholic Ministries Appeal (the "Appeal"). The Foundation solicits donations for the Appeal beginning in the first quarter each year. Each parish within the Diocese has a fundraising goal. In the event a parish exceeds its goal, the Foundation distributes 100% of the excess to the parish in the form of a rebate. After July 1 of the Appeal year, the Board of Directors may approve grants to the Diocese of Winona - Rochester to reimburse the Diocese for expenditures that are consistent with the restricted purposes specifically designated in the Appeal solicitation materials. Appeal funds are recorded as net assets with donor restrictions on the accompanying statements of financial position.

Rooted in Faith Campaign - During the year ended June 30, 2013, the Foundation initiated a five-year, diocesan-wide campaign with a goal of raising \$30,200,000. The campaign was a combined campaign with the Pension Plan for the Priests of the Diocese of Winona - Rochester (Pension Plan), the Immaculate Heart of Mary Seminary (IHM), and the parishes of the Diocese of Winona - Rochester, in addition to including the 2013 Appeal. The funds raised for the Pension Plan, IHM and parishes are reported as agency transactions. The pledges receivable related to these transactions are reported as assets on the accompanying statements of financial position. A corresponding liability, "pledges payable to other Catholic religious and charitable institutions within the geographic area of the Diocese - Rooted in Faith Campaign," is recorded to reflect the obligation to the other Catholic religious and charitable institutions within the geographical areas of the Diocese of Winona - Rochester. The expenses related to the campaign are borne by the Pension Plan and IHM Seminary.

CATHOLIC FOUNDATION OF SOUTHERN MINNESOTA
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2019 AND 2018

NOTE 1 - Nature of Activities and Summary of Significant Accounting Policies - Continued

Revenue Recognition - The Foundation's revenue sources are contributions, investment income, and administrative fees. Revenue is recognized when earned and contributions are recognized when received. Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor restrictions. Contributions restricted by the donor are reported as an increase in net assets without donor restrictions, if the restriction expires during the report period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Administrative fees assessed to funds are based on an analysis of the fee structures used by 26 Catholic Foundations. Fees range from 0.75 to 1.25 percent depending on the level of the involvement of Foundation staff to manage the funds.

In-Kind Contributions - The Foundation records the value of donated goods when there is an objective basis to measure the value. 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. No significant contributions of such goods or services were received during the years ended June 30, 2019 and 2018.

Functional Expenses - The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the program services and supporting activities benefited. Those expenses include salaries and wages, benefits, payroll taxes, professional services and certain office expenses, which are allocated based on estimates of time and usage as determined by a time and cost study.

Advertising Costs - Advertising costs are expensed as incurred and totaled \$3,848 and \$210 for the years ended June 30, 2019 and 2018, respectively.

Tax Status - The Foundation is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. In addition, the Foundation qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(2). The Foundation is also exempt from state taxation.

Accounting for Uncertainty in Income Taxes - U.S. GAAP requires management to evaluate tax positions taken by the Foundation and recognize a tax liability (or asset) if the Foundation has taken an uncertain position that more likely than not would not be sustained upon examination by a taxing authority. Management has analyzed the tax positions taken by the Foundation and has concluded that as of June 30, 2019 and 2018, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. The Foundation is subject to routine audits by taxing jurisdictions, however, there are currently no audits in progress for any tax period. The Foundation will recognize future accrued interest and penalties related to unrecognized tax benefits in income tax expense if incurred.

Use of Estimates - The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

CATHOLIC FOUNDATION OF SOUTHERN MINNESOTA
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2019 AND 2018

NOTE 1 - Nature of Activities and Summary of Significant Accounting Policies - Continued

Reclassifications - Certain accounts in the prior year financial statements have been reclassified for comparative purpose to conform to the presentation of the current year's financial statements.

Subsequent Events - The Foundation evaluated subsequent events through November 13, 2019, the date which the financial statements were available to be issued.

NOTE 2 - Concentration of Cash and Credit Risk

The Foundation maintains its cash balances at several financial institutions that, at times, may exceed the level insured by the Federal Deposit Insurance Corporation (FDIC) of up to \$250,000. The Foundation's deposits at June 30, 2019 and 2018, did not exceed the FDIC insurance threshold.

NOTE 3 - 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:

Cash and cash equivalents	\$ 44,350
Accounts receivable	74,827
Cash and cash equivalents - restricted	1,371,002
Investments	<u>24,094,999</u>
Total financial assets available within one year	25,585,178
Less amounts not available for general expenditure within one year:	
Net assets with donor restrictions	(12,847,269)
Funds held for others	(12,717,436)
Board designated net assets	<u>(19,638)</u>
TOTAL FINANCIAL ASSETS AVAILABLE TO MANAGEMENT FOR GENERAL EXPENDITURE WITHIN ONE YEAR	<u>\$ 835</u>

Liquidity Management

The Foundation maintains a policy of structuring its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

The Foundation's board-designated funds of \$19,638 as described in Note 12. Although the Foundation does not intend to spend from these board-designated funds (other than amounts appropriated for general expenditure as part of the Board's annual budget approval and appropriation), these amounts could be made available if necessary.

NOTE 4 - Investments and Endowment Funds

The following is a summary of investments:

	JUNE 30, 2019		
	COST	FAIR VALUE	UNREALIZED APPRECIATION (DEPRECIATION)
Money Market	\$ 43,806	\$ 43,806	\$ -
Common and Collective Funds	23,916,420	23,855,985	(60,435)
CUIT Short Bond Fund	<u>193,946</u>	<u>195,208</u>	<u>1,262</u>
TOTAL INVESTMENTS	<u>\$ 24,154,172</u>	<u>\$ 24,094,999</u>	<u>\$ (59,173)</u>

CATHOLIC FOUNDATION OF SOUTHERN MINNESOTA
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2019 AND 2018

NOTE 4 - Investments and Endowment Funds - Continued

	JUNE 30, 2018		
	COST	FAIR VALUE	UNREALIZED APPRECIATION (DEPRECIATION)
Opportunistic Bond Fund	\$ 1,006,643	\$ 1,005,276	\$ (1,367)
CUIT Small Cap Equity Bond	234,981	256,842	21,861
Common and Collective Funds	21,189,982	21,061,979	(128,003)
CUIT Small Cap Index Fund	1,881,431	1,707,329	(174,102)
CUIT Short Bond Fund	190,179	187,643	(2,536)
TOTAL INVESTMENTS	<u>\$ 24,503,216</u>	<u>\$ 24,219,069</u>	<u>\$ (284,147)</u>

The following schedule summarizes the investment return and its classification in the statements of activities.

	YEAR ENDED JUNE 30	
	2019	2018
Interest and dividends, net of fees	\$ 215,886	\$ 149,458
Realized gain	8,910	3,482,568
Unrealized gain (loss)	93,113	(2,821,945)
TOTAL INVESTMENT RETURN	<u>\$ 317,909</u>	<u>\$ 810,081</u>

For the years ended June 30, 2019 and 2018, realized and unrealized gains of \$125,573 and \$463,685, respectively, and interest income of \$220,388 and \$138,671, respectively, related to Funds Held for Others, are not included in the statements of activities. Investment income is \$663,870 and \$1,412,437 for all investments, including those that are held for others for the years ended June 30, 2019 and 2018, respectively.

NOTE 5 - Unconditional Promises to Give

The Foundation's pledges receivable consist of pledges to support the IHM Phase 2, Hearts on Fire, Gifts from the Heart, Catholic Ministries Appeal, St. Joachim Plainview Rectory, and the Rooted in Faith Campaigns. The aggregate collection of pledges receivable is as follows:

	JUNE 30,	
	2019	2018
Receivable in less than one year	\$ 1,132,863	\$ 2,019,976
Receivable in one to two years	37,142	939,490
Total pledges receivable	1,170,005	2,959,466
Less: Allowance for uncollectible pledges	(443,300)	(256,400)
Less: Discount to net present value	(2,200)	(37,000)
NET PLEDGE RECEIVABLES	<u>\$ 724,505</u>	<u>\$ 2,666,066</u>

Amounts due in less than one year are reported at net realizable value. Amounts receivable in one to two years are discounted at 1.84 and 2.53 percent as of June 30, 2019 and 2018, respectively, and approximate their fair value.

CATHOLIC FOUNDATION OF SOUTHERN MINNESOTA
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2019 AND 2018

NOTE 5 - Unconditional Promises to Give - Continued

The individual campaign balances are as follows:

	JUNE 30,	
	2019	2018
IHM Phase 2, net	\$ 61,600	\$ 74,085
Catholic Ministries Appeal	470,178	561,891
Rooted in Faith Campaign, net	13,930	1,828,688
Sacred Heart - Gifts from the Heart	75,208	201,302
IHM Hearts on Fire Campaign	300	100
St. Joachim Plainview Rectory	103,289	-
	<u>\$ 724,505</u>	<u>\$ 2,666,066</u>

NOTE 6 - Property and Equipment

A summary of property and equipment is as follows:

	JUNE 30,	
	2019	2018
Vehicles	\$ 21,228	\$ -
Equipment	5,245	-
Accumulated Depreciation	(3,529)	-
NET PROPERTY AND EQUIPMENT	<u>\$ 22,944</u>	<u>\$ -</u>

NOTE 7 - Fair Value Measurements

The Foundation has determined the fair value of certain assets in accordance with the provisions of U.S. GAAP, which provides a framework for measuring fair value under generally accepted accounting principles.

U.S. GAAP defines fair value as the exchange price that would be received for an asset in the principal or most advantageous market for the asset in an orderly transaction between market participants on the measurement date. U.S. GAAP requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs. U.S. GAAP also establishes a fair value hierarchy, which prioritizes the valuation inputs into three broad levels.

Level 1 inputs consist of quoted prices in active markets for identical assets that the reporting entity has the ability to access at the measurement date. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the related asset. Level 3 inputs are unobservable inputs related to the asset.

The asset's fair value measurement within the fair value hierarchy is based on the lowest of any input that is significant to the fair value measurement. There have been no changes in the methodologies used at June 30, 2019 and 2018.

Common/Collective Trust Funds: Valued at net asset value (NAV) of shares held by the Foundation at year end.

Debt securities: Debt securities consisting of corporate bonds are generally valued at the most recent price of the equivalent quoted yield for such securities, or those of comparable maturity, quality, and type. Debt securities are generally classified within Level 2 of the valuation hierarchy.

CATHOLIC FOUNDATION OF SOUTHERN MINNESOTA
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2019 AND 2018

NOTE 7 - Fair Value Measurements - Continued

The methods described above may produce a fair value calculation that may be indicative of net realizable value or reflective of future fair values. Furthermore, while the Catholic Foundation of Southern Minnesota believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Foundation's assets at fair value on a receiving basis as of June 30, 2019 and 2018.

	FAIR VALUE MEASUREMENTS AT REPORTING DATE USING			
	JUNE 30, 2019	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL 1)	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)
Money Market	\$ 43,806	\$ 43,806	\$ -	\$ -
Common and Collective Funds	23,855,985	-	23,855,985	-
CUIT Short Bond Fund	195,208	-	195,208	-
	<u>\$ 24,094,999</u>	<u>\$ 43,806</u>	<u>\$ 24,051,193</u>	<u>\$ -</u>

	FAIR VALUE MEASUREMENTS AT REPORTING DATE USING			
	JUNE 30, 2018	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL 1)	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)
Opportunistic Bond Fund	\$ 1,005,276	\$ -	\$ 1,005,276	\$ -
CUIT Small Cap Equity Bond	256,842	-	256,842	-
Common and Collective Funds	21,061,979	-	21,061,979	-
CUIT Small Cap Index Fund	1,707,329	-	1,707,329	-
CUIT Short Bond Fund	187,643	-	187,643	-
	<u>\$ 24,219,069</u>	<u>\$ -</u>	<u>\$ 24,219,069</u>	<u>\$ -</u>

NOTE 8 - Funds Held for Others

Funds held for others consist of the following:

	JUNE 30	
	2019	2018 RESTATED
Parish endowment funds	\$ 5,015,230	\$ 5,139,153
Cemetery endowment funds	516,043	455,762
Individual charitable trust funds	519,866	544,313
School endowment funds	1,013,964	1,250,914
Immaculate Heart Seminary funds	4,968,420	4,662,721
Other	683,913	718,097
	<u>\$12,717,436</u>	<u>\$12,770,960</u>

CATHOLIC FOUNDATION OF SOUTHERN MINNESOTA
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2019 AND 2018

NOTE 8 - Funds Held for Others - Continued

Some parish and school endowments are to be held in perpetuity for which the contributing Catholic organization is also the sole beneficiary. For these funds, the Foundation retains legal ownership. Other parish and school endowment funds belong to the respective parish or school and are held and managed by the Foundation on their behalf. The Foundation is the custodian for the cemetery endowments subject to the restriction that the annual proceeds be used exclusively for the designated cemetery. Title to assets in the charitable trusts rests with the applicable trust and the Foundation merely serves as trustee. In accordance with GAAP, the Foundation must account for the fair market value of all of these funds as both assets and liabilities on the statements of financial position.

NOTE 9 - Pledges Payable to Diocesan Organizations

Pledges payable to other Catholic religious and charitable institutions within the geographic area of the Diocese for the Rooted in Faith and the Immaculate Heart of Mary - Phase 2 Campaign consist of the following:

	JUNE 30, 2019			
GROSS PAYABLE	LESS: NET PRESENT VALUE DISCOUNT	LESS: ALLOWANCE FOR UNCOLLECTIBLE PLEDGES	NET PAYABLE	
Pension Plan for Priests of the Diocese of Winona - Rochester - Rooted in Faith	\$ 146,659	\$ -	\$ 140,434	\$ 6,225
Immaculate Heart of Mary Seminary - Rooted in Faith	191,891	-	183,747	8,144
Parishes - Rooted in Faith	120,953	-	115,819	5,134
Immaculate Heart of Mary Seminary - Phase 2	85,170	2,200	3,300	79,670
	<u>\$ 544,673</u>	<u>\$ 2,200</u>	<u>\$ 443,300</u>	<u>\$ 99,173</u>

	JUNE 30, 2018			
GROSS PAYABLE	LESS: NET PRESENT VALUE DISCOUNT	LESS: ALLOWANCE FOR UNCOLLECTIBLE PLEDGES	NET PAYABLE	
Pension Plan for Priests of the Diocese of Winona - Rochester - Rooted in Faith	\$ 668,693	\$ 9,075	\$ 71,360	\$ 588,258
Immaculate Heart of Mary Seminary - Rooted in Faith	510,317	6,925	54,459	448,933
Parishes - Rooted in Faith	1,201,140	16,300	128,181	1,056,659
Immaculate Heart of Mary Seminary - Phase 2	8,700	4,700	2,400	1,600
	<u>\$ 2,388,850</u>	<u>\$ 37,000</u>	<u>\$ 256,400</u>	<u>\$ 2,095,450</u>

The net present value discount and allowance for uncollectible pledges related to pledges receivable are offset against pledges payable as described in Note 1.

The aggregate payment of pledges payable is as follows:

	2019	2018
Payable in less than one year	\$ 507,531	\$ 1,495,295
Payable in one to two years	37,142	893,555
Total pledges payable	544,673	2,388,850
Less: Discount to net present value	(2,200)	(37,000)
Less: Allowance for uncollectible pledges	(443,300)	(256,400)
NET PLEDGES PAYABLE	<u>\$ 99,173</u>	<u>\$ 2,095,450</u>

CATHOLIC FOUNDATION OF SOUTHERN MINNESOTA
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2019 AND 2018

NOTE 10 - Grants Expense

The Foundation made the following grants to other Catholic religious and charitable institutions within the geographic area of the Diocese:

	YEARS ENDED JUNE 30	
	2019	2018
Grants to the Diocese of Winona - Rochester	\$ 2,449,764	\$ 2,369,500
Grants to other Catholic religious and charitable institutions within the geographic area of the Diocese	261,909	78,101
	<u>\$ 2,711,673</u>	<u>\$ 2,447,601</u>

NOTE 11 - Net Assets

Included in net assets without donor restrictions are amounts that the Board of Directors has designated for the purpose of the education of priests and seminarians.

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

	JUNE 30	
	2019	2018 RESTATED
Subject to time restriction:		
Charitable Gift Annuity		
To be used by the Catholic Foundation of Southern Minnesota when annuity payments are complete	\$ 31,900	\$ 31,516
Subject to expenditure for specified purpose:		
Catholic Ministries Appeal		
To support specific diocesan ministries	2,234,826	2,236,363
Seminarian Burse		
To be used to support the education of seminarians	585,497	508,791
Education of Priests and Seminarians		
To be used for the education of priests and seminarians	200,431	193,741
Children and Aging in India		
To be used to educate the poor of India by providing tuition, school supplies, uniforms, and other essential needs	123,214	115,571
Seminarian Assistance		
To be used for miscellaneous unexpected expenses	2,968	3,828
	<u>3,178,836</u>	<u>3,089,810</u>
Endowments		
Amounts required to be held in perpetuity		
Charitable Endowment		
Income to be used for the purpose of promoting, assisting, and furthering charitable causes	\$ 1,500,000	\$ 1,500,000
Income to be used for the benefit of Catholic parishes, schools, and institutions	21,713	21,713
Vocational or Trade Scholarships		
Income to be used to provide vocational or trade school scholarships to students from the Church of St. Felix in Wabasha, Minnesota - Cluster	664,315	664,315
Tuition Assistance		
Income to be used to provide tuition assistance for children attending Catholic Schools	1,992,325	1,992,325
Faith Formation		
Income to be used for faith formation needs	958,163	958,163
Education of Clergy		
Income to be used for the purposes of education of candidates to the priesthood, continuing education of priests and deacons, and formation of deacons	1,140,448	1,140,448

CATHOLIC FOUNDATION OF SOUTHERN MINNESOTA
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2019 AND 2018

NOTE 11 - Net Assets - Continued

	JUNE 30	
	2019	2018
Endowments - Continued		
Amounts required to be held in perpetuity - Continued		
Charitable Endowment		
Income to be used for the purpose of paying tuition for Hispanic and other low-income students in elementary and secondary schools in the Diocese of Winona - Rochester	\$ 200,000	\$ 200,000
Income to be used for the purpose to support Totus Tuus program of the Diocese of Winona - Rochester and its funding of scholarships for the needy and eligible youth in the program	59,190	57,040
Income to be used as perpetual care fund for Hart Cemetery	50,000	-
Income to be used for St. Casimir maintenance	10,000	-
	<u>6,596,154</u>	<u>6,534,004</u>
Earnings subject to appropriation and expenditure for specified purposes:		
Charitable Endowment		RESTATED
To be used for the purpose of promoting, assisting, and furthering charitable causes	663,711	655,381
To be used for the benefit of Catholic parishes, schools, and institutions	21,123	21,102
To be used to provide vocational or trade scholarships to students from the Church of St. Felix in Wabasha, Minnesota - cluster	275,779	301,365
Tuition Assistance		
To be used to provide tuition assistance for children attending Catholic schools	753,003	827,713
Faith Formation		
To be used for faith formation needs	448,888	456,290
Education of Clergy		
To be used for the purposes of education of candidates to the priesthood, continuing education of priests and deacons, and formation of deacons	604,312	648,986
To be used as a perpetual care fund for Hart Cemetery	(971)	-
To be used for St. Casimir maintenance	(284)	-
To be used for paying tuition for Hispanic and other low-income students in elementary and secondary schools in the Diocese of Winona - Rochester	133,719	142,814
To be used to further tax-exempt purposes of Catholic Foundation of Southern Minnesota	76,104	72,912
To be used to further tax-exempt purposes of Catholic Charities of the Diocese of Winona - Rochester	95,894	94,147
	<u>3,072,279</u>	<u>3,220,710</u>
TOTAL NET ASSETS WITH DONOR RESTRICTIONS	<u>\$12,847,269</u>	<u>\$12,844,537</u>

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:

	JUNE 30	
	2019	2018
Expiration of time restrictions	\$ 2,416,746	\$ 2,404,199
Satisfaction of purpose restrictions:		
Educational programs	264,602	103,502
Other	336,072	321,403
TOTAL RESTRICTIONS RELEASED	<u>\$ 3,017,420</u>	<u>\$ 2,829,104</u>

CATHOLIC FOUNDATION OF SOUTHERN MINNESOTA
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2019 AND 2018

NOTE 12 - Endowment Funds

The Foundation's endowment fund consists of both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. As required by U.S. GAAP, net assets associated with endowment funds are classified and reported based on the existence of or absence of donor-imposed restrictions.

Interpretation of the Law - The Board of Directors of the Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent any explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as net assets without donor restrictions (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) 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 by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA.

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 purpose 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
7. The investment policies of the Foundation

Investing Policy - The Foundation has adopted an investment policy for endowment assets that attempts to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the principal and 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. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that proposes to preserve capital, provide growth in principal combined with sufficient return on investment that will generate continued income and interest in such a manner to satisfy anticipated liquidity requirements. All investments shall be made consistent with the Socially Responsible Investment Guidelines established by the United States Conference of Catholic Bishops. The Foundation expects its endowment funds, over time to provide an average rate of return of approximately 5 percent annually. Returns in any given year may vary from this amount.

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 (dividends and interest). The Foundation targets a diversified asset allocation across a broad spectrum of investment strategies so as to provide a balance that will meet the total return objectives and avoid undue risk concentration in a single asset class or investment category.

Spending Policy - The Foundation has a policy of appropriating for distribution at the end of the fiscal year, absent any donor-imposed restrictions, based on the total investment earning earned for each endowment. Accordingly, the Foundation expects that this spending policy will allow the endowments to grow at an average rate of 3 percent, less any investment costs and/or fees. This allows the Foundation to meet its goal to maintain the principal and purchasing power of the assets held in perpetuity or for a specified term, as well as allows additional real growth through investment return and new gifts.

CATHOLIC FOUNDATION OF SOUTHERN MINNESOTA
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2019 AND 2018

NOTE 12 - Endowment Funds - Continued

Endowment Net Asset Composition by Type of Fund as of June 30, 2019:

	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>	<u>Total</u>
Donor-restricted endowment funds:			
Original donor-restricted gift and amounts required to be maintained in perpetuity by donors	\$ -	\$ 6,596,154	\$ 6,596,154
Accumulated investment gains	-	3,072,279	3,072,279
TOTAL	<u>\$ -</u>	<u>\$ 9,668,433</u>	<u>\$ 9,668,433</u>

Endowment Net Asset Composition by Type of Fund as of June 30, 2018:

	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>	<u>Total</u>
Donor-restricted endowment funds:		RESTATED	
Original donor-restricted gift and amounts required to be maintained in perpetuity by donors	\$ -	\$ 6,534,004	\$ 6,534,004
Accumulated investment gains	-	3,220,710	3,220,710
TOTAL	<u>\$ -</u>	<u>\$ 9,754,714</u>	<u>\$ 9,754,714</u>

Funds with Deficiencies - From time to time, the fair value of assets associated with donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as fund of perpetual duration (underwater endowments). In accordance with U.S. GAAP, deficiencies of this nature are reported in net assets with donor restrictions. The deficiencies may result from unfavorable market fluctuations that have occurred. The Foundation did not have any such deficiency as of June 30, 2019 and 2018.

Changes in Endowment Net Assets for the Year Ended June 30, 2019:

	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 9,754,714	\$ 9,754,714
Investment return, net	-	257,133	257,133
Contributions	-	67,000	67,000
Appropriation of endowment assets pursuant to spending-rate policy	-	(410,414)	(410,414)
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 9,668,433</u>	<u>\$ 9,668,433</u>

Changes in Endowment Net Assets for the Year Ended June 30, 2018:

	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 9,319,621	\$ 9,319,621
Investment return, net	-	662,629	662,629
Contributions	-	44,281	44,281
Appropriation of endowment assets pursuant to spending-rate policy	-	(271,817)	(271,817)
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 9,754,714</u>	<u>\$ 9,754,714</u>

CATHOLIC FOUNDATION OF SOUTHERN MINNESOTA
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2019 AND 2018

NOTE 13 - Prior Period Adjustment

The Foundation assessed individual funds a service fee to cover both the investment program fees and administrative fees. During the year, it was discovered that the investment income recorded was net of brokerage fees rather than being withdrawn directly from the Foundation's services fees investment fund. This error caused the 2018 service fee revenue to be overstated and 2018 funds held for others to be understated. It also caused the releases from net assets with donor restrictions to be overstated. Accordingly, the 2018 financial statements were adjusted to reflect this change. The 2018 service revenue was decreased by approximately \$38,891, funds held by others was increased by approximately \$38,891, releases from net assets with donor restrictions was increased by \$19,541 and net assets with donor restrictions decreased by \$19,541.