

**CATHOLIC FOUNDATION OF  
SOUTHERN MINNESOTA**

**FINANCIAL STATEMENTS  
WITH INDEPENDENT AUDITORS'  
REPORT**

**JUNE 30, 2016 AND 2015**

# CATHOLIC FOUNDATION OF SOUTHERN MINNESOTA

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## **INDEPENDENT AUDITORS' REPORT**

To the Board of Directors  
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 (a nonprofit organization), which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

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

### ***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 Foundation'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 Catholic Foundation of Southern Minnesota as of June 30, 2016 and 2015, 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.

*Hawkins Ash CPAs, LLP*

La Crosse, Wisconsin  
January 28, 2017

**CATHOLIC FOUNDATION OF SOUTHERN  
MINNESOTA**

**FINANCIAL STATEMENTS**

**CATHOLIC FOUNDATION OF SOUTHERN MINNESOTA**  
**STATEMENTS OF FINANCIAL POSITION**

<u>ASSETS</u>	JUNE 30,	
	2016	2015
Cash and cash equivalents	\$ 329,530	\$ -
Pledges receivables, net	8,391,673	11,189,253
Accounts receivable	202,382	19,480
Cash and cash equivalents - restricted	1,492,850	1,584,663
Investments	20,656,751	22,141,993
<b>TOTAL ASSETS</b>	<b>\$ 31,073,186</b>	<b>\$ 34,935,389</b>
<u>LIABILITIES AND NET ASSETS</u>		
LIABILITIES		
Accounts payable	593,106	1,036,866
Funds held for others	11,034,992	11,699,418
Pledges payable to other Catholic religious and charitable institutions within the geographic area of the diocese - Rooted in Faith Campaign, net	8,509,020	10,698,925
TOTAL LIABILITIES	20,137,118	23,435,209
NET ASSETS		
Unrestricted	72,007	284,759
Temporarily restricted	4,369,557	4,747,457
Permanently restricted	6,494,504	6,467,964
TOTAL NET ASSETS	10,936,068	11,500,180
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 31,073,186</b>	<b>\$ 34,935,389</b>

The accompanying notes are an integral part of these statements.

**CATHOLIC FOUNDATION OF SOUTHERN MINNESOTA**  
**STATEMENTS OF ACTIVITIES**

	YEAR ENDED							
	2016				2015			
	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
<b>REVENUE AND OTHER SUPPORT</b>								
Contributions	20,131	\$ 1,600,210	\$ 26,540	\$ 1,646,881	\$ -	\$ 1,864,556	\$ 30,578	\$ 1,895,134
In-kind contributions	160,109	-	-	160,109	148,897	-	-	148,897
Shortfall assessments	-	608,459	-	608,459	-	441,351	-	441,351
Interest and dividends	11,235	118,527	-	129,762	16,975	101,746	-	118,721
Net realized and unrealized gains on investments	(18,047)	(149,820)	-	(167,867)	33,269	227,298	-	260,567
Net assets released from restrictions	<u>2,555,276</u>	<u>(2,555,276)</u>	<u>-</u>	<u>-</u>	<u>2,744,653</u>	<u>(2,744,653)</u>	<u>-</u>	<u>-</u>
TOTAL REVENUE AND OTHER SUPPORT	<u>2,728,704</u>	<u>(377,900)</u>	<u>26,540</u>	<u>2,377,344</u>	<u>2,943,794</u>	<u>(109,702)</u>	<u>30,578</u>	<u>2,864,670</u>
<b>EXPENSES</b>								
Program Services								
Contributions/grants	2,365,986	-	-	2,365,986	2,626,329	-	-	2,626,329
Rebates to parishes	<u>209,290</u>	<u>-</u>	<u>-</u>	<u>209,290</u>	<u>138,324</u>	<u>-</u>	<u>-</u>	<u>138,324</u>
TOTAL PROGRAM SERVICES	<u>2,575,276</u>	<u>-</u>	<u>-</u>	<u>2,575,276</u>	<u>2,764,653</u>	<u>-</u>	<u>-</u>	<u>2,764,653</u>
Fundraising and administrative expenses								
Personnel	146,838	-	-	146,838	146,459	-	-	146,459
Campaign	112,164	-	-	112,164	107,757	-	-	107,757
Professional	96,746	-	-	96,746	49,288	-	-	49,288
Miscellaneous	<u>10,432</u>	<u>-</u>	<u>-</u>	<u>10,432</u>	<u>35,557</u>	<u>-</u>	<u>-</u>	<u>35,557</u>
TOTAL FUNDRAISING AND ADMINISTRATIVE	<u>366,180</u>	<u>-</u>	<u>-</u>	<u>366,180</u>	<u>339,061</u>	<u>-</u>	<u>-</u>	<u>339,061</u>
TOTAL EXPENSES	<u>2,941,456</u>	<u>-</u>	<u>-</u>	<u>2,941,456</u>	<u>3,103,714</u>	<u>-</u>	<u>-</u>	<u>3,103,714</u>
CHANGE IN NET ASSETS	(212,752)	(377,900)	26,540	(564,112)	(159,920)	(109,702)	30,578	(239,044)
NET ASSETS, BEGINNING OF YEAR	<u>284,759</u>	<u>4,747,457</u>	<u>6,467,964</u>	<u>11,500,180</u>	<u>444,679</u>	<u>4,857,159</u>	<u>6,437,386</u>	<u>11,739,224</u>
<b>NET ASSETS, END OF YEAR</b>	<u><b>\$ 72,007</b></u>	<u><b>\$ 4,369,557</b></u>	<u><b>\$ 6,494,504</b></u>	<u><b>\$10,936,068</b></u>	<u><b>\$ 284,759</b></u>	<u><b>\$ 4,747,457</b></u>	<u><b>\$ 6,467,964</b></u>	<u><b>\$11,500,180</b></u>

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

**CATHOLIC FOUNDATION OF SOUTHERN MINNESOTA**  
**STATEMENTS OF CASH FLOWS**

	YEAR ENDED	
	JUNE 30,	
	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ (564,112)	\$ (239,044)
Adjustments to reconcile change in net assets to net cash (used in) operating activities		
Allowance for uncollectible pledges receivable	(89,000)	(347,000)
Discount on pledges receivable	(459,400)	(362,000)
Net realized and unrealized losses (gains) on investments	368,487	(552,796)
Contributions restricted for investment in endowment	(26,540)	(30,578)
Cash and cash equivalents - restricted	91,813	(1,584,663)
Change in assets and liabilities		
Decrease (increase) in assets		
Pledges receivable	3,345,980	3,944,823
Accounts receivable	(182,902)	19,075
(Decrease) increase in liabilities		
Accounts payables	(443,760)	976,382
Funds held for others	(664,426)	(441,738)
Pledges payable to other Catholic religious and charitable institutions within the geographic area of the diocese - Rooted in Faith Campaign, net	<u>(2,189,905)</u>	<u>(3,658,717)</u>
<b>NET CASH (USED IN) OPERATING ACTIVITIES</b>	<u>(813,765)</u>	<u>(2,276,256)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of investments	(972,754)	(13,129,998)
Proceeds on sales of investments	<u>2,089,509</u>	<u>14,304,589</u>
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<u>1,116,755</u>	<u>1,174,591</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from contributions restricted for endowment	<u>26,540</u>	<u>30,578</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	329,530	(1,071,087)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>-</u>	<u>1,071,087</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u><b>\$ 329,530</b></u>	<u><b>\$ -</b></u>

The accompanying notes are an integral part of these statements.



**CATHOLIC FOUNDATION OF SOUTHERN MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016 AND 2015**

**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 corporation 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 (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.

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.

**Basis of Presentation** - The Foundation is required to report information regarding its net assets and activities in the following three categories:

- *Unrestricted net assets* are net assets that are available for use by or on behalf of the Foundation including amounts available for general and administrative expenses. These unrestricted net assets may also include board-designated funds.
- *Temporarily restricted net assets* are net assets subject to donor-imposed stipulations which limit the use of the donated assets. The stipulations either expire by the passage of time or can be fulfilled by actions of the Foundation pursuant to those stipulations.
- *Permanently restricted net assets* are net assets that have donor imposed restrictions whereby the amounts of the gifts are to be held in perpetuity and only the income generated can be used as stipulated by the donor.

**Cash and Cash Equivalents** - For purposes of the statements of cash flows, the Foundation considers all highly liquid unrestricted investments available for current use with an initial maturity of three months or less to be cash equivalents.

**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 promises 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 diocese listed in the Rooted in Faith Campaign Case Statement as described in Note 7. Conditional promises to give are not included as support until the conditions are substantially met. Management provides for probable uncollectible amounts through an allowance for uncollectible pledges receivable based on its assessment of the current status of outstanding balances. The allowance is offset by a corresponding decrease of the related pledges payable to Organizations listed in the Rooted in Faith Campaign case statement.

**CATHOLIC FOUNDATION OF SOUTHERN MINNESOTA**  
NOTES TO FINANCIAL STATEMENTS - Continued  
JUNE 30, 2016 AND 2015

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

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

**Investments** - Investments consist of marketable debt and equity securities and are stated at market value determined at the statement of financial position date. Realized and unrealized gains and losses on investments are recorded in the accompanying statements of activities. Investment income from unrestricted, temporarily restricted and permanently restricted investments is recognized as unrestricted support if there are no donor restrictions on the income.

Investments in marketable securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the value of investment securities could occur, and such changes could materially affect the value of investments.

**Funds 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 they 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 revenue 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. Unless otherwise restricted by donors, collections that exceed the goal of the Appeal are allocated for the restricted purposes of the Appeal as determined by the Board of Directors. After July 1 of the Appeal year, the Board of Directors may approve grants to the Diocese of Winona 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 temporarily restricted assets 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. Pledges continue to be received for this campaign. The campaign was a combined campaign with the Pension Plan for the Priests of the Diocese of Winona (Pension Plan), the Immaculate Heart of Mary Seminary (IHM), and the parishes of the Diocese of Winona, 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. The expenses related to the campaign are borne by the Pension Plan and IHM Seminary.

**Revenue Recognition** - The Foundation's revenue sources are contributions and investment income. Revenue is recognized when earned and contributions are recognized when received. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

**CATHOLIC FOUNDATION OF SOUTHERN MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS - Continued**  
**JUNE 30, 2016 AND 2015**

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

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires during the report period in which the support is recognized. All other 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 (that is when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

**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.

**Functional Expenses** - The Foundation solicits contributions from parishioners within the Diocese of Winona. Expenses related to the solicitation and administration of the Foundation were as follows:

	YEAR ENDED	
	JUNE 30,	
	2016	2015
Fundraising	\$ 203,176	\$ 203,327
General and administration	163,004	135,734
	<b><u>\$ 366,180</u></b>	<b><u>\$ 339,061</u></b>

**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, 2016 and 2015, 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. The Foundation is no longer subject to Federal tax examination by tax authorities for years before 2013 and state examination for years before 2012.

**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.

**Subsequent Events** - The Foundation evaluated subsequent events through January 28, 2017, the date which the financial statements were available to be issued.

**Reclassifications** - Certain items with the prior year statements have been reclassified to conform to current year classifications. Such classifications had no effect on previously reported net income.

**CATHOLIC FOUNDATION OF SOUTHERN MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS - Continued**  
**JUNE 30, 2016 AND 2015**

**NOTE 2 - Concentration of Credit Risk Arising From Cash Deposits in Excess of Insured Limits**

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 has not experienced any losses in such accounts.

**NOTE 3 - Pledges Receivable**

The Foundation's pledges receivable consist of pledges to support the Catholic Ministries Appeal and the Rooted in Faith Campaign. The aggregate collection of pledges receivable is as follows:

	2016	2015
Receivable in less than one year	\$ 6,039,760	\$ 7,011,914
Receivable in one to five years	3,281,513	5,655,339
Total pledges receivable	9,321,273	12,667,253
Less: Allowance for uncollectible pledges	(880,000)	(969,000)
Less: Discount to net present value	(49,600)	(509,000)
<b>NET PLEDGE RECEIVABLES</b>	<b>\$ 8,391,673</b>	<b>\$ 11,189,253</b>

Amounts due in less than one year are reported at net realizable value. Amounts receivable in one to five years are discounted at 1.150 and 1.850 percent as of June 30, 2016 and 2015, respectively, and approximate their fair value.

	2016	2015
Catholic Ministries Appeal	\$ 521,553	\$ 560,295
Rooted in Faith Campaign, net	7,870,120	10,628,958
	<b>\$ 8,391,673</b>	<b>\$ 11,189,253</b>

**NOTE 4 - 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 based on observable inputs that include: quoted market prices for similar assets or liabilities; quoted market prices that are not in an active market; or other inputs that are observable in the market and can be corroborated by observable market data for substantially the full term of the assets or liabilities.

**CATHOLIC FOUNDATION OF SOUTHERN MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS - Continued**  
**JUNE 30, 2016 AND 2015**

**NOTE 4 - Fair Value Measurements - Continued**

Level 3 inputs are calculated by the use of pricing models and/or discounted cash flow methodologies, as well as financial instruments for which the determination of fair value requires significant management judgment or estimation.

Fair values of assets and liabilities measured on a recurring basis are as follows:

	JUNE 30, 2016	FAIR VALUE MEASUREMENTS AT REPORTING DATE USING		
		QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL 1)	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)
CUIT Interm Dvrs Bond Fund	\$ 8,262,194	\$ -	\$ 8,262,194	\$ -
CUIT Growth Fund	2,474,167	-	2,474,167	-
CUIT International Equity Fund	3,092,709	-	3,092,709	-
CUIT Core Equity Index Fund	2,485,214	-	2,485,214	-
CUIT Val Equity Fund	2,479,595	-	2,479,595	-
CUIT Small Cap Index Fund	1,855,625	-	1,855,625	-
Exchange Trade Funds	4,732	-	4,732	-
BH Growth Fund	2,515	-	2,515	-
Pledges receivable - net	8,391,673	-	-	8,391,673
	<b><u>\$29,048,424</u></b>	<b><u>\$ -</u></b>	<b><u>\$20,656,751</u></b>	<b><u>\$ 8,391,673</u></b>
Pledges payable to other Catholic religious and charitable institutions within the geographic area of the diocese	<b><u>\$ 8,509,020</u></b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 8,509,020</u></b>

	JUNE 30, 2015	FAIR VALUE MEASUREMENTS AT REPORTING DATE USING		
		QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL 1)	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)
CUIT Interm Dvrs Bond Fund	\$ 8,850,571	\$ -	\$ 8,850,571	\$ -
CUIT Growth Fund	2,655,171	-	2,655,171	-
CUIT International Equity Fund	3,318,964	-	3,318,964	-
CUIT Core Equity Index Fund	2,667,210	-	2,667,210	-
CUIT Val Equity Fund	2,658,700	-	2,658,700	-
CUIT Small Cap Index Fund	1,991,377	-	1,991,377	-
Pledges receivable - net	11,189,253	-	-	11,189,253
	<b><u>\$33,331,246</u></b>	<b><u>\$ -</u></b>	<b><u>\$22,141,993</u></b>	<b><u>\$11,189,253</u></b>
Pledges payable to other Catholic religious and charitable institutions within the geographic area of the diocese	<b><u>\$10,698,925</u></b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>	<b><u>\$10,698,625</u></b>

**CATHOLIC FOUNDATION OF SOUTHERN MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS - Continued**  
**JUNE 30, 2016 AND 2015**

**NOTE 4 - Fair Value Measurements - Continued**

Assets measured at fair value on a recovery basis using significant unobservable inputs (Level 3 inputs) are as follows:

	<u>PLEDGE RECEIVABLE, NET</u>	
	<u>2016</u>	<u>2015</u>
Balance, beginning of year	\$ 11,189,253	\$ 14,425,076
Allowance for uncollectible pledges	89,000	347,000
Discount	459,400	362,000
Cash received	(4,192,654)	(6,008,866)
Additional pledges and gifts	1,457,779	2,349,442
Write offs	(611,105)	(285,399)
<b>BALANCE, END OF YEAR</b>	<b><u>\$ 8,391,673</u></b>	<b><u>\$ 11,189,253</u></b>

  

	<u>PLEDGE PAYABLE</u>	
	<u>2016</u>	<u>2015</u>
Balance, beginning of year	\$ 10,698,925	\$ 14,357,642
Allowance for uncollectible pledges	89,000	347,000
Discount	459,400	362,000
Additional pledges and gifts	35,221	205,221
Disbursements made	(2,231,181)	(4,339,587)
Write offs	(542,345)	(233,351)
<b>BALANCE, END OF YEAR</b>	<b><u>\$ 8,509,020</u></b>	<b><u>\$ 10,698,925</u></b>

**NOTE 5 - Investments**

Investments are stated at fair value and consist of the following:

	<u>JUNE 30, 2016</u>		
	<u>COST</u>	<u>FAIR VALUE</u>	<u>UNREALIZED APPRECIATION</u>
CUIT Interm Dvrs Bond Fund	\$ 8,107,649	\$ 8,262,194	\$ 154,545
CUIT Growth Fund	1,287,202	2,474,167	1,186,965
CUIT International Equity Fund	2,722,570	3,092,709	370,139
CUIT Core Equity Index Fund	2,525,553	2,485,214	(40,339)
CUIT Val Equity Fund	1,636,436	2,479,595	843,159
CUIT Small Cap Index Fund	1,216,847	1,855,625	638,778
Exchange Trade Funds	4,980	4,732	(248)
BH Growth Funds	2,515	2,515	-
<b>TOTAL INVESTMENTS</b>	<b><u>\$ 17,503,752</u></b>	<b><u>\$ 20,656,751</u></b>	<b><u>\$ 3,152,999</u></b>

  

	<u>JUNE 30, 2015</u>		
	<u>COST</u>	<u>FAIR VALUE</u>	<u>UNREALIZED APPRECIATION</u>
CUIT Interm Dvrs Bond Fund	\$ 8,973,205	\$ 8,850,571	\$ (122,634)
CUIT Growth Fund	1,393,824	2,655,171	1,261,347
CUIT International Equity Fund	2,591,182	3,318,964	727,782
CUIT Core Equity Index Fund	2,728,357	2,667,210	(61,147)
CUIT Val Equity Fund	1,521,182	2,658,700	1,137,518
CUIT Small Cap Index Fund	1,165,021	1,991,377	826,356
<b>TOTAL INVESTMENTS</b>	<b><u>\$ 18,372,771</u></b>	<b><u>\$ 22,141,993</u></b>	<b><u>\$ 3,769,222</u></b>

**CATHOLIC FOUNDATION OF SOUTHERN MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS - Continued**  
**JUNE 30, 2016 AND 2015**

**NOTE 5 - Investments - Continued**

The following schedule summarizes the investment return and its classification in the Statements of Activities.

	YEAR ENDED	
	JUNE 30	
	2016	2015
Interest and dividends	\$ 129,762	\$ 118,721
Investment fees	(95)	(392)
Realized gain	111,698	1,259,751
Unrealized (loss)	(279,565)	(999,184)
<b>TOTAL INVESTMENT RETURN</b>	<b>\$ (38,200)</b>	<b>\$ 378,896</b>

For the years ended June 30, 2016 and 2015, realized and unrealized gains of \$200,163 and \$292,231, respectively, related to Funds Held for Others, are not included in the statements of activities. Realized and unrealized (losses) gains for all investments, including those that are held for others, totaled (\$368,490) and \$552,798 for the years ended June 30, 2016 and 2015, respectively.

**NOTE 6 - Funds Held for Others**

Funds held for others consist of the following:

	JUNE 30	
	2016	2015
Parish endowment funds	\$ 4,737,990	\$ 5,415,795
Cemetery endowment funds	3,229,328	3,849,945
Individual charitable trust funds	533,953	573,191
School endowment funds	1,216,063	1,466,663
Other	1,317,658	393,824
	<b>\$11,034,992</b>	<b>\$11,699,418</b>

Some parish and school endowments are permanently restricted funds 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.

**CATHOLIC FOUNDATION OF SOUTHERN MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS - Continued**  
**JUNE 30, 2016 AND 2015**

**NOTE 7 - Pledges Payable to Diocesan Organizations - Rooted in Faith Campaign**

Pledges payable to other Catholic religious and charitable institutions within the geographic area of the diocese for the Rooted in Faith Campaign (“pledges payable”) consist of the following:

	JUNE 30, 2016			
GROSS PAYABLE	LESS: NET PRESENT VALUE DISCOUNT	LESS: ALLOWANCE FOR UNCOLLECTIBLE PLEDGES	NET PAYABLE	
Pension Plan for Priests of the Diocese of Winona	\$ 3,648,914	\$ 19,175	\$ 340,203	\$ 3,289,536
Immaculate Heart of Mary Seminary	1,824,457	9,588	170,101	1,644,768
Parishes	3,965,249	20,837	369,696	3,574,716
	<b><u>\$ 9,438,620</u></b>	<b><u>\$ 49,600</u></b>	<b><u>\$ 880,000</u></b>	<b><u>\$ 8,509,020</u></b>

	JUNE 30, 2015			
GROSS PAYABLE	LESS: NET PRESENT VALUE DISCOUNT	LESS: ALLOWANCE FOR UNCOLLECTIBLE PLEDGES	NET PAYABLE	
Pension Plan for Priests of the Diocese of Winona	\$ 4,905,486	\$ 205,051	\$ 390,363	\$ 4,310,072
Immaculate Heart of Mary Seminary	2,452,743	102,526	195,181	2,155,036
Parishes	4,818,696	201,423	383,456	4,233,817
	<b><u>\$12,176,925</u></b>	<b><u>\$ 509,000</u></b>	<b><u>\$ 969,000</u></b>	<b><u>\$10,698,925</u></b>

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:

	2016	2015
Payable in less than one year	\$ 6,157,107	\$ 4,256,312
Payable in one to five years	3,281,513	7,920,613
Total pledges payable	<u>9,438,620</u>	<u>12,176,925</u>
Less: Discount to net present value	(49,600)	(509,000)
Less: Allowance for uncollectible pledges	<u>(880,000)</u>	<u>(969,000)</u>
<b>NET PLEDGES PAYABLE</b>	<b><u>\$ 8,509,020</u></b>	<b><u>\$10,698,925</u></b>



**CATHOLIC FOUNDATION OF SOUTHERN MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS - Continued**  
**JUNE 30, 2016 AND 2015**

**NOTE 8 - Grants Expense**

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

	YEAR ENDED JUNE 30	
	2016	2015
Grants to the Diocese of Winona	\$ 2,320,935	\$ 2,301,629
Grants to other Catholic religious and charitable institutions within the geographic area of the diocese	45,051	324,700
	<b><u>\$ 2,365,986</u></b>	<b><u>\$ 2,626,329</u></b>

**NOTE 9 - Net Assets**

Temporarily restricted net assets consist of the following items:

	JUNE 30	
	2016	2015
Annual Diocese Appeal to support specific diocesan operations	\$ 1,393,905	\$ 1,563,413
Charitable Endowment to be used for the purpose of promoting, assisting, and furthering charitable causes	445,082	497,180
to be used for the benefit of Catholic parishes, schools, and institutions	14,412	14,498
to be used to provide vocational or trade scholarships to students from the Church of St. Felix in Wabasha, Minnesota	239,290	280,354
Tuition Assistance to be used to provide tuition assistance for children attending Catholic schools	643,489	648,818
Faith Formation to be used for faith formation needs	290,376	339,670
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	458,078	520,209
Charitable Endowment to be used for paying tuition for Hispanic and other low-income students in elementary and secondary schools in the Diocese of Winona Area	120,841	122,592
to be used for the purpose of the education of priests and seminarians	39,230	45,699
Charitable Gift Annuity to be used by the Catholic Foundation of Southern Minnesota when annuity payments are complete	27,296	27,405
Seminarian Burse to be used to support the education of seminarians	413,511	424,490
Education of Priests and Seminarians to be used for the education of priest and seminarians	192,105	192,298
Education of Deacons to be used for the education of deacons	-	1,326
Children and Aging in India to be used to educate the poor of India by providing tuition, school supplies, uniforms, and other essential needs	91,942	69,505
	<b><u>\$ 4,369,557</u></b>	<b><u>\$ 4,747,457</u></b>

**CATHOLIC FOUNDATION OF SOUTHERN MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS - Continued**  
**JUNE 30, 2016 AND 2015**

**NOTE 9 - Net Assets - Continued**

Permanently restricted net assets consist of the following purposes:

	JUNE 30	
	2016	2015
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 to provide vocational or trade school scholarships to students from the Church of St. Felix in Wabasha, Minnesota	664,315	664,315
Tuition Assistance		
Income to be used to provide tuition assistance for children attending Catholic Schools	1,991,325	1,991,325
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	1,032,448	1,032,448
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 area	200,000	200,000
Income to be used for the purpose of the education of priests and seminarians	100,000	100,000
Income to be used for the purpose to support Totus Tuus program of the Diocese of Winona and its funding of scholarships for the needy and eligible youth in the program	26,640	-
	<b>\$ 6,494,504</b>	<b>\$ 6,467,964</b>

**NOTE 10 - Endowment Fund**

The Foundation's endowment fund consists of donor-restricted endowment funds. As required by U.S. GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restriction.

**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 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) 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 UPMIFA.

**CATHOLIC FOUNDATION OF SOUTHERN MINNESOTA**  
NOTES TO FINANCIAL STATEMENTS - Continued  
JUNE 30, 2016 AND 2015

**NOTE 10 - Endowment Fund - Continued**

In accordance with 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

**Investment Policy** - The Foundation has adopted an investment policy for endowment assets that attempt 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(s), as well as board-designated funds. 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 State Conference of Catholic Bishops. The Foundation expects its endowment funds, over time to provide an average rate of return of approximately 5 percent annually. Actual 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 (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

**Spending Policy** - The Foundation has a policy of appropriating for distribution at the end of the year, absent any donor-imposed restrictions, based on the total investment earnings 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's goals 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.

**Nature of Restricted Net Assets** - The amount listed as permanently restricted net assets are required to be retained permanently either by explicit donor stipulation or by UPMIFA. The temporarily restricted amounts are the portion of the perpetual endowment fund that is available for various uses as described in Note 9. These amounts will be released from restriction when appropriation is made by the Board of Directors.

**CATHOLIC FOUNDATION OF SOUTHERN MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS - Continued**  
**JUNE 30, 2016 AND 2015**

**NOTE 10 - Endowment Fund - Continued**

**Changes in Endowment Net Assets**

	YEAR ENDED JUNE 30, 2016				TOTAL
	<u>UNRESTRICTED</u>	<u>BOARD DIRECTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>PERMANENTLY RESTRICTED</u>	
Endowment net assets					
Beginning of year	\$ -	\$ -	\$ 2,476,070	\$ 6,467,964	\$ 8,944,034
Investment income	-	-	111,585	-	111,585
Net depreciation (realized and unrealized)	-	-	(141,574)	-	(141,574)
Contributions	-	-	-	26,540	26,540
Appropriation of endowment asset for expenditure	-	-	(188,426)	-	(188,426)
<b>ENDOWMENT NET ASSETS</b>					
<b>END OF YEAR</b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 2,257,655</u></b>	<b><u>\$ 6,494,504</u></b>	<b><u>\$ 8,752,159</u></b>
	YEAR ENDED JUNE 30, 2015				
	<u>UNRESTRICTED</u>	<u>BOARD DIRECTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>PERMANENTLY RESTRICTED</u>	TOTAL
Endowment net assets					
Beginning of year	\$ -	\$ -	\$ 2,571,489	\$ 6,437,386	\$ 9,008,875
Investment income	-	-	96,051	-	96,051
Net depreciation (realized and unrealized)	-	-	212,859	-	212,859
Contributions	-	-	-	30,578	30,578
Appropriation of endowment asset for expenditure	-	-	(404,329)	-	(404,329)
<b>ENDOWMENT NET ASSETS</b>					
<b>END OF YEAR</b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 2,476,070</u></b>	<b><u>\$ 6,467,964</u></b>	<b><u>\$ 8,944,034</u></b>

**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 a fund of perpetual duration. In accordance with U.S. GAAP, deficiencies of this nature are reported in unrestricted net assets. The deficiencies result from unfavorable market fluctuations and withdrawals for expenditures that have occurred. The Foundation's donor-restricted endowments did not have such deficiencies as of June 30, 2016 and 2015.