

**EXPANSION FUND OF THE DIOCESE OF BISMARCK
BISMARCK, NORTH DAKOTA**

Audited Financial Statements

For the Years Ended June 30, 2011 and 2010

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CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Expansion Fund of the Diocese of Bismarck
Bismarck, North Dakota

We have audited the accompanying statements of financial position of Expansion Fund of the Diocese of Bismarck (a nonprofit organization) as of June 30, 2011 and 2010, and the related statements of activities, and cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Expansion Fund of the Diocese of Bismarck as of June 30, 2011 and 2010, and the changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

A handwritten signature in cursive script that reads "Brady Martz".

BRADY, MARTZ & ASSOCIATES, P.C.

October 19, 2011

**EXPANSION FUND OF THE DIOCESE OF BISMARCK
BISMARCK, NORTH DAKOTA**

Statements of Financial Position

June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
ASSETS		
Cash and cash equivalents	\$ 158,632	\$ 141,230
Notes receivable, net of allowance for doubtful accounts	365,899	581,410
Interest receivable	38,859	39,216
Investments	<u>6,050,720</u>	<u>5,429,562</u>
Total assets	<u>\$ 6,614,110</u>	<u>\$ 6,191,418</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Due to related party	\$ 100,000	\$ 100,000
Interest payable	71,271	75,644
Notes payable	<u>5,776,987</u>	<u>5,477,960</u>
Total liabilities	5,948,258	5,653,604
NET ASSETS		
Unrestricted	<u>665,852</u>	<u>537,814</u>
Total liabilities and net assets	<u>\$ 6,614,110</u>	<u>\$ 6,191,418</u>

The accompanying notes are an integral part of these financial statements

**EXPANSION FUND OF THE DIOCESE OF BISMARCK
BISMARCK, NORTH DAKOTA**

Statements of Activities

For the Years Ended June 30, 2011 and 2010

	2011	2010
SUPPORT AND REVENUE		
Investment and interest income	\$ 321,007	\$ 266,065
Realized and unrealized gain (loss) on investments	(15,515)	261,563
Total support and revenue	305,492	527,628
EXPENSES		
Interest expense	119,769	136,606
Other	57,685	56,206
Total expenses	177,454	192,812
INCREASE IN NET ASSETS	128,038	334,816
UNRESTRICTED NET ASSETS, BEGINNING OF YEAR	537,814	202,998
UNRESTRICTED NET ASSETS, END OF YEAR	\$ 665,852	\$ 537,814

The accompanying notes are an integral part of these financial statements

**EXPANSION FUND OF THE DIOCESE OF BISMARCK
BISMARCK, NORTH DAKOTA**

Statements of Cash Flows

For the Years Ended June 30, 2011 and 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 128,038	\$ 334,814
Adjustments to reconcile change in net assets to net cash from operating activities:		
Realized and unrealized (gain) loss on investments	15,515	(261,563)
Effects on operating cash flows due to changes in:		
Interest receivable	357	12,264
Interest payable	(4,373)	(485)
	139,537	85,030
Net cash provided by operating activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
Principal repayments of notes receivable	215,511	354,676
Issuance of notes receivable	-	(635,500)
Purchase of investments	(657,695)	(566,945)
Proceeds from sale of investments	21,022	517,322
	(421,162)	(330,447)
Net cash used by investing activities		
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from notes payable	1,192,164	1,213,030
Repayment of notes payable	(893,137)	(1,101,264)
	299,027	111,766
Net cash provided by financing activities		
NET INCREASE (DECREASE) IN CASH	17,402	(133,651)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	141,230	274,881
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 158,632	\$ 141,230
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the year for interest	\$ 124,142	\$ 137,091

The accompanying notes are an integral part of these financial statements

**EXPANSION FUND OF THE DIOCESE OF BISMARCK
BISMARCK, NORTH DAKOTA**

Notes to Financial Statements

June 30, 2011 and 2010

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Expansion Fund of the Diocese of Bismarck is a nonprofit organization that provides a lending and depository service for the parishes and related entities of the Diocese of Bismarck.

Basis of Presentation

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

Financial statement presentation follows the recommendations of the Accounting Standards Codification Topic 958, Accounting for Not-for-Profit Entities. The codification requires the Organization to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The Fund has only unrestricted net assets.

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets.

The Fund recognizes gains and losses on investments in the designation or restriction owning the investment using the historical cost for that specific investment. Ordinary income from investments is recorded in the designation or restriction owning the investment. It is the policy of the Fund to include restricted investment income, whose restrictions are met in the same reporting period, as unrestricted investment income.

**EXPANSION FUND OF THE DIOCESE OF BISMARCK
BISMARCK, NORTH DAKOTA**

Notes to Financial Statements - Continued

June 30, 2011 and 2010

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with an original maturity of three months or less, excluding assets whose use is limited or restricted.

Notes Receivable and Allowance for Doubtful Accounts

Notes receivable are reported at their fair value adjusted for any allowance for doubtful accounts.

The Fund evaluates each parish or individual's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Fund upon extension of credit, is based on management's credit evaluation of counterparty

Interest income is accrued on the unpaid principal balance. Notes receivable are placed on non-accrual or charged-off at an earlier date if collection of principal or interest is considered doubtful. All current year interest accrued but not collected for notes receivable that are placed on non-accrual or charged off is reversed against interest income. All prior year interest accrued but not collected is charged-off against the allowance for doubtful accounts. The interest on these notes receivable is accounted for on the cash-basis or cost-recovery method, until qualifying for return on accrual. Notes receivable are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

**EXPANSION FUND OF THE DIOCESE OF BISMARCK
BISMARCK, NORTH DAKOTA**

Notes to Financial Statements - Continued

June 30, 2011 and 2010

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Notes Receivable and Allowance for Doubtful Accounts – Continued

The allowance for doubtful accounts is established as losses are estimated to have occurred through a provision for bad debts charged to earnings. Bad debts are charged against the allowance when management believes the uncollectibility of a note receivable is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for doubtful accounts is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of the notes receivable in light of historical experience, the nature and volume of the portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available.

A note receivable is considered impaired when, based on current information and events, it is probable that the Fund will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the note agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Notes receivables that experience insignificant payment delays and payment shortfalls generally are not classified as impairment. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the notes receivable and the borrowers' prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

Impairment is measured on a note-by-note basis by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the note is collateral dependent.

**EXPANSION FUND OF THE DIOCESE OF BISMARCK
BISMARCK, NORTH DAKOTA**

Notes to Financial Statements - Continued

June 30, 2011 and 2010

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Fair Value Measurement

The Fund follows Financial Accounting Standards Board ASC Topic 820, Fair Value Measurements. This standard applies to all assets and liabilities that are being measured and reported on a fair value basis. It defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles and expands disclosure about fair value measurements. The implementation of the standard did not change amounts reported in the financial statements, however, additional disclosures are required.

When fair value measurements are required, various data is used in determining those values. This statement requires that assets and liabilities that are carried at fair value must be classified and disclosed in the following levels based on the nature of the data used.

- Level 1 : Quoted market prices in active markets for identical assets or liabilities.
- Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.
- Level 3: Unobservable inputs that are not corroborated by market data.

The application of valuation techniques applied to similar assets and liabilities has been consistently applied. The following is a description of the valuation methodologies used for instruments measured at fair value:

Investments: The fair value of investments is the market value based on quoted market prices, when available, or market prices provided by recognized broker dealers. If listed prices or quotes are not available, fair value is based upon externally developed models that use unobservable inputs due to the limited market activity of the instrument.

Notes Receivable: The fair value of note receivables is the market value based on the income approach. This approach converts future amounts of cash flows to a single present amount based on current market expectations about those future amounts.

Income Taxes

The Fund is exempt from federal income tax under provisions of Section 501(c)(3) of the Internal Revenue Code. The Fund is deemed to be a church related organization and as such is not required to file an annual informational tax return to the Internal Revenue Service.

**EXPANSION FUND OF THE DIOCESE OF BISMARCK
BISMARCK, NORTH DAKOTA**

Notes to Financial Statements - Continued

June 30, 2011 and 2010

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Income Taxes - Continued

The Fund's policy is to evaluate the likelihood that its uncertain tax positions will prevail upon examination based on the extent to which those positions have substantial support within the Internal Revenue Code and Regulations, Revenue Rulings, court decisions, and other evidence.

NOTE 2 NOTES RECEIVABLE

Notes receivable at June 30, 2011 and 2010, consist of the following:

Payor	Interest Rate	Maturity Date	2011 Maturity Balance	2010 Maturity Balance	Security
Parishes	4% - 4.2%	(1)	\$369,149	\$584,660	Unsecured
Priests	0%	(2)	<u>1,750</u>	<u>1,750</u>	Unsecured
Total notes outstanding			370,899	586,410	
Allowance for doubtful accounts			<u>(5,000)</u>	<u>(5,000)</u>	
Total notes receivable			<u><u>\$365,899</u></u>	<u><u>\$581,410</u></u>	

(1) The notes are due over various time periods from on demand to 15 years.

(2) The notes are due on demand with no specified due date; however, the Funds intent is to collect the notes over time.

**EXPANSION FUND OF THE DIOCESE OF BISMARCK
BISMARCK, NORTH DAKOTA**

Notes to Financial Statements - Continued

June 30, 2011 and 2010

NOTE 3 INVESTMENTS

Investments are stated at fair value and are summarized as follows as of June 30, 2011 and 2010.

June 30, 2011	<u>Cost</u>	<u>Fair Value</u>
Money market funds	\$ 21,045	\$ 21,045
Mortgage backed securities:		
GNMA #2004	7,087	7,029
GNMA #2006	139,000	142,450
GNMA	294,735	292,054
Mutual funds:		
Fixed Income	2,255,149	2,373,304
Certificates of deposit	554,497	554,497
US government bonds:		
Federal Home Loan Bank	261,522	278,120
Federal National Mtg Assn	250,000	246,200
Corporate bonds	2,021,254	2,136,021
	<u>\$5,804,289</u>	<u>\$6,050,720</u>

The Expansion Fund had a net realized gain of \$33,547 for the year ended June 30, 2011. For the same period, the Expansion Fund had an unrealized loss on investments of \$49,062.

June 30, 2010	<u>Cost</u>	<u>Fair Value</u>
Money market funds	\$ 218,058	\$ 218,058
Equity securities (including mutual funds)	1,710,997	1,809,055
Certificates of deposit	768,595	768,595
Bonds:		
US government	514,663	531,466
Corporate	1,921,756	2,102,388
	<u>\$5,134,069</u>	<u>\$5,429,562</u>

The Expansion Fund had a net realized loss of \$37,764 for the year ended June 30, 2010. For the same period, the Expansion Fund had an unrealized gain on investments of \$223,799.

**EXPANSION FUND OF THE DIOCESE OF BISMARCK
BISMARCK, NORTH DAKOTA**

Notes to Financial Statements - Continued

June 30, 2011 and 2010

NOTE 4 FAIR VALUE MEASUREMENTS

Assets measured at fair value on a recurring basis as of June 30, 2011 are summarized as follows:

Description	Total Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market funds	\$ 21,045	\$ 21,045	\$ -	\$ -
Mortgage backed securities:				
GNMA #2004	7,029	-	7,029	-
GNMA #2006	142,450	-	142,450	-
GNMA	292,054	-	292,054	-
Mutual funds:				
Fixed Income	2,373,304	2,373,304	-	-
Certificates of deposit	554,497	-	554,497	-
US government bonds:				
Federal Home Loan Bank	278,120	-	278,120	-
Federal National Mtg Assn	246,200	-	246,200	-
Corporate bonds	2,136,021	-	2,136,021	-
Notes receivable	365,899	-	-	365,899
	<u>\$6,416,619</u>	<u>\$ 2,394,349</u>	<u>\$3,656,371</u>	<u>\$ 365,899</u>

**EXPANSION FUND OF THE DIOCESE OF BISMARCK
BISMARCK, NORTH DAKOTA**

Notes to Financial Statements - Continued

June 30, 2011 and 2010

NOTE 4 FAIR VALUE MEASUREMENTS – CONTINUED

Assets measured at fair value on a recurring basis as of June 30, 2010 are summarized as follows:

Description	Total Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market funds	\$ 218,058	\$ 218,058	\$ -	\$ -
Equity securities (including mutual funds)	1,809,055	1,809,055	-	-
Certificates of deposit	768,595	-	768,595	-
Bonds:	-			
US government	531,466	-	531,466	-
Corporate	2,102,388	-	2,102,388	-
Note receivable	581,410	-	-	581,410
Total	<u>\$6,010,972</u>	<u>\$ 2,027,113</u>	<u>\$3,402,449</u>	<u>\$ 581,410</u>

The following table sets forth a summary of changes in the fair value of the Fund's level 3 assets for the years ended June 30, 2011 and 2010. The only investment within level three is the notes receivable.

	2010	2009
Beginning balance, January 1	\$ 581,410	\$ 300,586
Total gains (losses) (realized/unrealized)	-	-
Purchases, sales, issuances, and settlements (net)	(215,511)	280,824
Transfers in and/or out of Level 3	-	-
Ending balance, December 31	<u>\$ 365,899</u>	<u>\$ 581,410</u>

**EXPANSION FUND OF THE DIOCESE OF BISMARCK
BISMARCK, NORTH DAKOTA**

Notes to Financial Statements - Continued

June 30, 2011 and 2010

NOTE 5 NOTES PAYABLE

Notes payable at June 30, 2011 and 2010, consist of the following:

<u>Payor</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>2011 Maturity Balance</u>	<u>2010 Maturity Balance</u>	<u>Security</u>
Parishes	.10%-5.00%	Demand	\$ 4,842,195	\$ 4,659,749	Unsecured
Priests and individuals	.10%-5.00%	Demand	<u>934,792</u>	<u>818,211</u>	Unsecured
Total notes payable			<u><u>\$ 5,776,987</u></u>	<u><u>\$ 5,477,960</u></u>	

NOTE 6 RELATED PARTY

The Expansion Fund of the Diocese of Bismarck is affiliated with the Diocese of Bismarck through some common Boards of Director members. The Fund provides a lending and depository function for the parishes and related entities of the Diocese of Bismarck. At June 30, 2011 and 2010, the Fund has \$100,000 due to the Diocese of Bismarck.

The Diocese of Bismarck has entered into a management agreement with the Expansion Fund of the Diocese of Bismarck to provide technical and professional services at an annual rate of \$37,800. Expenses under this agreement are included in other expenses totaling \$37,800 for each of the years ended June 30, 2011 and 2010.

NOTE 7 CONCENTRATION OF CREDIT RISK

The Fund's cash balances are maintained in a bank deposit account. Periodically, the Fund has deposits that are in excess of federally insured limits on a temporary basis. As of June 30, 2011 the Fund had no deposits in excess of federally insured limits.

Notes receivable as of June 30, 2011 and 2010 are due from Catholic parishes and associated individuals located in western North Dakota.

**EXPANSION FUND OF THE DIOCESE OF BISMARCK
BISMARCK, NORTH DAKOTA**

Notes to Financial Statements - Continued

June 30, 2011 and 2010

NOTE 8 ACCOUNTING FOR UNCERTAINTY IN INCOME TAXES

It is the opinion of management that the Fund has no significant uncertain tax positions that would be subject to change upon examination.

NOTE 9 COMMITMENTS

As of June 30, 2011 the Fund has approved of loan requests to three parishes for a minimum amount of \$1,950,000 up to \$ \$2,300,000 that had not been funded as of June 30, 2011.

NOTE 10 SUBSEQUENT EVENT

No significant events occurred subsequent to the Fund's year end. Subsequent events have been evaluated through October 19, 2011, which is the date these financial statements were available to be issued.