

**DIOCESE OF BISMARCK  
BISMARCK, NORTH DAKOTA**

AUDITED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

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CERTIFIED PUBLIC ACCOUNTANTS  
AND CONSULTANTS

## INDEPENDENT AUDITOR'S REPORT

The Most Reverend David D. Kagan  
Diocese of Bismarck  
Bismarck, North Dakota

We have audited the accompanying financial statements of the Diocese of Bismarck (a nonprofit organization), which comprise the statements of financial position as of June 30, 2017 and 2016, 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.

### **Auditor's Responsibility**

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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Diocese of Bismarck as of June 30, 2017 and 2016, and the changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



**BRADY, MARTZ & ASSOCIATES, P.C.**  
**BISMARCK, NORTH DAKOTA**

December 10, 2017

**DIOCESE OF BISMARCK**  
**STATEMENTS OF FINANCIAL POSITION**  
**JUNE 30, 2017 AND 2016**

|  | 2017          | 2016          |
|--|---------------|---------------|
| <b>ASSETS</b>  |               |               |
| Cash and cash equivalents  | \$ 1,138,443  | \$ 383,619    |
| Accounts/pledges receivable, net of allowance<br>for doubtful accounts | 522,618       | 736,883       |
| Interest receivable  | 50,583        | 49,756        |
| Due from related parties   | 100,000       | 100,000       |
| Prepaid expenses   | 91,104        | 128,824       |
| Investments  | 21,466,815    | 20,101,176    |
| Mutual investment  | 290,922       | 268,161       |
| Land, buildings and equipment, net<br>of accumulated depreciation      | 4,564,906     | 4,246,510     |
| Total assets   | \$ 28,225,391 | \$ 26,014,929 |
| <br><b>LIABILITIES AND NET ASSETS</b>                                  |               |               |
| <b>LIABILITIES</b>   |               |               |
| Accounts payable and accrued expenses                                  | \$ 1,382,847  | \$ 1,305,166  |
| Pledge payable - Light of Christ                                       | 742,000       | 742,000       |
| Insurance premium payable  | 43,037        | 1,355         |
| Health care payable  | 279,912       | -             |
| Annuities payable  | 1,071,649     | 940,691       |
| Funds held for others  | 352,393       | 165,369       |
| Total liabilities  | 3,871,838     | 3,154,581     |
| <br><b>NET ASSETS</b>  |               |               |
| Unrestricted   |               |               |
| Undesignated   | 16,350,217    | 14,715,699    |
| Designated   | 8,003,336     | 8,144,649     |
| Total unrestricted net assets  | 24,353,553    | 22,860,348    |
| Total liabilities and net assets                                       | \$ 28,225,391 | \$ 26,014,929 |

See Notes to the Financial Statements

**DIOCESE OF BISMARCK**  
**STATEMENTS OF ACTIVITIES**  
**FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

|   | 2017          | 2016          |
|---|---------------|---------------|
| <b>SUPPORT AND REVENUE</b>                      |               |               |
| Contributions and bequests - God's Share        | \$ 3,273,639  | \$ 3,560,602  |
| Contributions and bequests - other              | 211,010       | 78,458        |
| Distributions from Catholic Foundation          | 855,027       | 750,247       |
| Grant income                                    | 86,607        | 150,314       |
| Mineral rights lease and royalty revenue        | 526,092       | 365,504       |
| Investment income                               | 342,146       | 340,693       |
| Net realized and unrealized gain on investments | 1,249,745     | 31,032        |
| Insurance                                       | 286,881       | 150,061       |
| Rent and other revenue                          | 276,798       | 134,901       |
| Admin fee revenue                               | 195,211       | 90,982        |
| Gain (loss) on sale of fixed assets             | (9,295)       | 225,030       |
| Total support and revenue                       | 7,293,861     | 5,877,824     |
| <br><b>EXPENSES</b>                             |               |               |
| Program services                                |               |               |
| Pastoral  | 1,739,231     | 1,551,092     |
| Religious personnel development                 | 1,293,180     | 1,033,143     |
| Religious personnel services                    | 343,099       | 536,666       |
| Education                                       | 597,968       | 2,758,937     |
| Social services                                 | 155,618       | 156,812       |
| Program administration                          | 155,773       | 39,367        |
| Total program services                          | 4,284,869     | 6,076,017     |
| Supporting services:                            |               |               |
| General administration                          | 1,515,787     | 1,566,052     |
| Total expenses                                  | 5,800,656     | 7,642,069     |
| <br><b>INCREASE (DECREASE) IN NET ASSETS</b>    | 1,493,205     | (1,764,245)   |
| <br><b>NET ASSETS, BEGINNING OF YEAR</b>        | 22,860,348    | 24,624,593    |
| <br><b>NET ASSETS, END OF YEAR</b>              | \$ 24,353,553 | \$ 22,860,348 |

See Notes to the Financial Statements

**DIOCESE OF BISMARCK**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

|   | 2017         | 2016           |
|---|--------------|----------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |              |                |
| Change in net assets  | \$ 1,493,205 | \$ (1,764,245) |
| Adjustments to reconcile change in net assets to<br>net cash provided (used) by operating activities: |              |                |
| Depreciation expense  | 148,092      | 183,145        |
| (Gain) loss on sale of fixed assets   | 9,295        | (225,030)      |
| Realized and unrealized (gain) loss on investments  | (1,096,026)  | (64,251)       |
| Change in equity in the undistributed (gain) loss on mutual investment                                | (22,761)     | (4,035)        |
| Effects on operating cash flow due to changes in:   |              |                |
| Accounts/pledges receivable   | 214,265      | 17,287         |
| Interest receivable   | (827)        | 12,996         |
| Prepaid expenses  | 37,720       | (44,308)       |
| Accounts/pledge payable and accrued expenses  | 77,681       | 779,672        |
| Insurance premium payable   | 41,682       | (241,631)      |
| Health care payable   | 279,912      | -              |
| Funds held for others   | 187,024      | 142,551        |
| Net cash provided (used) by operating activities  | 1,369,262    | (1,207,849)    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>   |              |                |
| Purchase of investments   | (7,203,979)  | (5,423,286)    |
| Proceeds from sale of investments   | 7,065,324    | 6,103,530      |
| Purchase of property and equipment  | (475,783)    | 772,292        |
| Proceeds from sale of fixed assets  | -            | 225,018        |
| Net cash provided (used) by investing activities  | (614,438)    | 1,677,554      |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>   |              |                |
| Net change in cash overdraft  | -            | (86,086)       |
| <b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>  | 754,824      | 383,619        |
| <b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>   | 383,619      | -              |
| <b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>   | \$ 1,138,443 | \$ 383,619     |
| <b>SUPPLEMENTAL DISCLOSURE</b>  |              |                |
| Schedule of Noncash Transactions  |              |                |
| Increase (decrease) in annuities payable and investments  | \$ 130,958   | \$ (37,254)    |

See Notes to the Financial Statements

**DIOCESE OF BISMARCK**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2017 AND 2016**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICES**

**Organization**

In evaluating how to define the Diocese of Bismarck (Diocese) for financial reporting purposes, management has considered all potential related institutions and organizations providing services at the Diocesan level of administration which are fiscally responsible to the Diocese of Bismarck.

The financial statements do not include the assets, liabilities and operations of the parishes, schools or other separately incorporated and administered operations of the Roman Catholic Church within the Diocese. In addition, the financial statements do not include the operations and activities of various religious orders, lay societies, and religious organizations which operate within the Diocese, but which are not fiscally responsible to the Diocese.

**Method of Accounting**

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**

Financial statement presentation follows the recommendations of the Accounting Standards Codification Topic 958, Accounting for Not-for-Profit Entities. The codification requires the Diocese 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 Diocese has only unrestricted net assets. Unrestricted net assets include the following net assets that have been designated by the Board of Directors for the following:

|  | <u>2017</u>         | <u>2016</u>         |
|--|---------------------|---------------------|
| Insurance Fund                           | \$ 407,057          | \$ 430,823          |
| Expansion General Fund - Designated      | 3,467,378           | 3,467,378           |
| Administrative facilities                | 1,794,760           | 1,794,760           |
| Program and services                     | 1,347,363           | 1,347,363           |
| Clergy needs                             | 250,000             | 250,000             |
| Reserve Fund for Contingency             | 283,500             | 283,500             |
| Reserve for Technology to be Capitalized | 74,000              | 95,000              |
| Kateri Tekawitha                         | 9,600               | 9,600               |
| Binations                                | 9,235               | 11,437              |
| Summer Program/Rev. M. Mullner Search    | 6,412               | 7,444               |
| Vocations                                | 33,032              | 82,711              |
| Human Development                        | 22,768              | 30,033              |
| Deacon Education                         | 8,044               | 13,140              |
| Fr. Kramer Estate                        | 290,187             | 321,460             |
| Total                                    | <u>\$ 8,003,336</u> | <u>\$ 8,144,649</u> |



**DIOCESE OF BISMARCK**  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
JUNE 30, 2017 AND 2016

**Contributions**

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions.

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting 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 Statement of Activities as net assets released from restrictions. Restricted net assets are reclassified to unrestricted net assets upon satisfaction of the time or purpose restrictions.

**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 Diocese recognizes gains, losses and ordinary income on investments in the designation or restriction owning the investment. It is the policy of the Diocese to include restricted investment income, whose restrictions are met in the same reporting period, as unrestricted investment income.

**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.

**Receivable and Allowance for Uncollectible Receivables**

Accounts receivable are uncollateralized obligations due under normal trade terms requiring payment within 30 days from the invoice date. The receivables are non-interest bearing. Payments on accounts receivable are applied to the earliest unpaid amounts, unless specifically identified. The carrying amount of the accounts receivable is reduced by an amount that reflects management's best estimate of the amounts that will not be collected.

Conditional promises to give are not recognized in the financial statements until the conditions are substantially met. Unconditional promises to give (pledges) that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in more than one year are recorded at fair value, which is measured as the present value of their future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in the contribution revenue.

**DIOCESE OF BISMARCK**  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
JUNE 30, 2017 AND 2016

**Fair Value Measurements**

GAAP established a framework for measuring fair value which 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.

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.

*Annuities Payable*

The Diocese enters into written gift annuity agreements and agrees to pay to the donors an annuity on a monthly, quarterly, semi-annual or annual basis beginning on a set date and for the lifetime of the donor and/or their designated beneficiaries. The Diocese is discharged from payment of the annuity upon the death(s) of the designated recipient(s). The balance of the donated funds is then distributed to the organization described in the gift annuity agreement. Annuities payable are valued based on the fair market value of the underlying investment(s) reduced by the discounted cash flow of estimated payments to the donor based on their expected life.

**Land, Buildings and Equipment, and Depreciation**

Property and equipment is stated at cost, for items purchased and fair market value at the date of the gifts, if donated. Fixed assets are being depreciated over estimated useful lives from 5 to 75 years, using a straight-line method.

The Diocese capitalizes purchases of property and equipment with a cost greater than \$500 and a useful life greater than one year, with the exception of computer equipment which is capitalized regardless of cost. The Diocese also capitalizes expenditures for major additions

**DIOCESE OF BISMARCK**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2017 AND 2016**

and improvements that extend the useful lives of property and equipment. Routine expenditures for repairs and maintenance are charged to expense as incurred.

**Income Taxes**

The Diocese is exempt from federal income tax under provisions of Section 501(c)(3) of the Internal Revenue Code. The Diocese 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 or the State of North Dakota.

The Diocese'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.

**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.

**NOTE 2 CONCENTRATIONS OF CREDIT RISK**

Accounts receivable are due from Catholic parishes and associated individuals located in western North Dakota.

The Diocese maintains cash on deposit at financial institutions. The amounts were insured by the FDIC up to \$250,000 per financial institution. At June 30, 2017, the Diocese was not exposed to any custodial credit risk.

**NOTE 3 ACCOUNTS/PLEDGES RECEIVABLE**

Accounts/pledges receivable at June 30, 2017 and 2016, consist of the following:

|                                  | 2017       | 2016       |
|----------------------------------|------------|------------|
| Due from Parishes for:           |            |            |
| Priests health insurance         | \$ 24,492  | \$ 8,599   |
| Pledges receivable - God's Share | 413,602    | 440,481    |
| Due from Catholic Foundation     | 30,687     | 252,081    |
| Notes receivables                | 65,433     | 50,929     |
| Other receivables                | 28,573     | 24,962     |
| Allowance for doubtful accounts  | (40,169)   | (40,169)   |
|                                  | \$ 522,618 | \$ 736,883 |

Pledges receivable - God's Share are due within one year or less.

**DIOCESE OF BISMARCK**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2017 AND 2016**

**NOTE 4 NOTES RECEIVABLE**

Notes receivables at June 30, 2017 and 2016 are reported in accounts/pledges receivable on the statement of financial position and consist of the following:

| Payor                  | Rate  | Maturity<br>Date | 2017<br>Maturity<br>Balance | 2016<br>Maturity<br>Balance | Security  |
|------------------------|-------|------------------|-----------------------------|-----------------------------|-----------|
| Individual-Lohmann     | 3.32% | 1-Jun-15         | \$ 7,025                    | \$ 7,025                    | Unsecured |
| Individual-Folorunso   | 2.99% | 15-Mar-21        | 18,350                      | 23,500                      | Unsecured |
| Individual-Schafer     | 2.99% | 1-Jun-22         | 17,208                      | 20,404                      | Unsecured |
| Christ the King School | 2.99% | 1-Jan-29         | <u>22,850</u>               | -                           | Unsecured |
| Total all funds        |       |                  | <u>\$65,433</u>             | <u>\$50,929</u>             |           |

**NOTE 5 INVESTMENTS**

Investments are stated at fair value and are summarized as follows as of June 30, 2017:

|  | Cost                 | Fair Value           |
|--|----------------------|----------------------|
| Money market funds                       | \$ 955,593           | \$ 955,593           |
| Equities:                                |                      |                      |
| U.S. large cap                           | 4,123,487            | 6,829,529            |
| U.S. mid cap                             | 2,211,436            | 3,062,111            |
| U.S. small cap                           | 1,081,031            | 1,471,892            |
| International developed/emerging markets | 800,744              | 1,124,999            |
| Mutual funds:                            |                      |                      |
| U.S. large cap                           | 67,159               | 67,159               |
| U.S. mid cap                             | 41,792               | 41,792               |
| U.S. small cap                           | 58,079               | 58,079               |
| International developed/emerging markets | 23,828               | 23,828               |
| Fixed income                             | 261,627              | 261,627              |
| Fixed income:                            |                      |                      |
| Investment grade taxable                 | 7,323,716            | 7,319,292            |
| Investment grade tax exempt              | 49,223               | 49,092               |
| International developed                  | <u>204,211</u>       | <u>201,822</u>       |
|  | <u>\$ 17,201,926</u> | <u>\$ 21,466,815</u> |

**DIOCESE OF BISMARCK**  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
JUNE 30, 2017 AND 2016

Investments are stated at fair value and are summarized as follows as of June 30, 2016:

|  | <u>Cost</u>          | <u>Fair Value</u>    |
|--|----------------------|----------------------|
| Money market funds                       | \$ 1,392,486         | \$ 1,392,486         |
| Equities:                                |                      |                      |
| U.S. large cap                           | 3,773,000            | 5,642,546            |
| U.S. mid cap                             | 2,328,476            | 3,490,356            |
| U.S. small cap                           | 1,055,068            | 1,046,034            |
| International developed/emerging markets | 720,196              | 880,071              |
| Mutual funds:                            |                      |                      |
| U.S. large cap                           | 41,954               | 41,954               |
| U.S. mid cap                             | 70,148               | 70,148               |
| U.S. small cap                           | 56,057               | 56,057               |
| International developed/emerging markets | 23,218               | 23,218               |
| Fixed income                             | 254,007              | 254,007              |
| Fixed income:                            |                      |                      |
| Investment grade taxable                 | 6,616,670            | 6,729,386            |
| International developed                  | 180,567              | 183,443              |
| Global high yield taxable                | 29,547               | 27,860               |
| Public REITs                             | 279,038              | 263,610              |
|  | <u>\$ 16,820,432</u> | <u>\$ 20,101,176</u> |

The Diocese had a realized gain of \$340,192 and an unrealized gain of \$909,553 for the year ended June 30, 2017. The Diocese had a realized gain of \$86,362 and unrealized loss of \$55,330 for the year ended June 30, 2016.

**DIOCESE OF BISMARCK**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2017 AND 2016**

**NOTE 6 FAIR VALUE MEASUREMENTS**

Financial instruments measured at fair value on a recurring basis as of June 30, 2017 are summarized as follows:

| Description                                  | Total<br>Carrying<br>Amount | Quoted Prices<br>in Active<br>Markets for<br>Identical<br>Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
|--|-----------------------------|---|---|--|
| Money market funds                           | \$ 955,593                  | \$ 955,593  | \$ -  | \$ -   |
| Equities:                                    |                             |   |   |  |
| U.S. large cap                               | 6,829,529                   | 6,829,529   | -   | -  |
| U.S. mid cap                                 | 3,062,111                   | 3,062,111   | -   | -  |
| U.S. small cap                               | 1,471,892                   | 1,471,892   | -   | -  |
| International developed/<br>emerging markets | 1,124,999                   | 1,124,999   | -   | -  |
| Mutual funds:                                |                             |   |   |  |
| U.S. large cap                               | 67,159                      | 67,159  | -   | -  |
| U.S. mid cap                                 | 41,792                      | 41,792  | -   | -  |
| U.S. small cap                               | 58,079                      | 58,079  | -   | -  |
| International developed/<br>emerging markets | 23,828                      | 23,828  | -   | -  |
| Fixed income                                 | 261,627                     | 261,627   | -   | -  |
| Fixed income:                                |                             |   |   |  |
| Investment grade taxable                     | 7,319,292                   | -   | 7,319,292   | -  |
| Investment grade tax exempt                  | 49,092                      | -   | 49,092  | -  |
| International developed                      | 201,822                     | -   | 201,822   | -  |
| Total investments at fair value              | <u>\$21,466,815</u>         | <u>\$ 13,896,610</u>  | <u>\$7,570,206</u>  | <u>\$ -</u>  |
| Annuities payable                            | <u>\$ 1,071,649</u>         | <u>\$ -</u>   | <u>\$ -</u>   | <u>\$ 1,071,649</u>                                |

**DIOCESE OF BISMARCK**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2017 AND 2016**

Assets measured at fair value on a recurring basis as of June 30, 2016 are summarized as follows:

| Description                                  | Total<br>Carrying<br>Amount | Quoted Prices<br>in Active<br>Markets for<br>Identical<br>Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
|--|-----------------------------|---|---|--|
| Money market funds                           | \$ 1,392,486                | \$ 1,392,486  | \$ -  | \$ -   |
| Equities:                                    |                             |   |   |  |
| U.S. large cap                               | 5,642,546                   | 5,642,546   | -   | -  |
| U.S. mid cap                                 | 3,490,356                   | 3,490,356   | -   | -  |
| U.S. small cap                               | 1,046,034                   | 1,046,034   | -   | -  |
| International developed/<br>emerging markets | 880,071                     | 880,071   | -   | -  |
| Mutual funds:                                |                             |   |   |  |
| U.S. large cap                               | 41,954                      | 41,954  | -   | -  |
| U.S. mid cap                                 | 70,148                      | 70,148  | -   | -  |
| U.S. small cap                               | 56,057                      | 56,057  | -   | -  |
| International developed/<br>emerging markets | 23,218                      | 23,218  | -   | -  |
| Fixed income                                 | 254,007                     | 254,007   | -   | -  |
| Fixed income:                                |                             |   |   |  |
| Investment grade taxable                     | 6,729,386                   | -   | 6,729,386   | -  |
| International developed                      | 183,443                     | -   | 183,443   | -  |
| Global high yield taxable                    | 27,860                      | -   | 27,860  | -  |
| Public REITs                                 | 263,610                     | 263,610   | -   | -  |
| Total investments at fair value              | <u>\$ 20,101,176</u>        | <u>\$ 13,160,487</u>  | <u>\$ 6,940,689</u>                                       | <u>\$ -</u>  |
| Annuitants payable                           | <u>\$ 940,691</u>           | <u>\$ -</u>   | <u>\$ -</u>   | <u>\$ 940,691</u>                                  |

**DIOCESE OF BISMARCK**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2017 AND 2016**

The following table sets forth a summary of changes in the fair value of the Diocese of Bismarck's level 3 financial instruments which consist entirely of annuities payable for the years ended June 30, 2017 and 2016:

|   | <u>2017</u>         | <u>2016</u>       |
|---|---------------------|-------------------|
| Balance, beginning of year  | \$ 940,691          | \$ 977,945        |
| Total gains (losses) (realized/unrealized)<br>included in increase (decrease) in net assets | -                   | -                 |
| Purchases   | 210,990             | 35,000            |
| Sales   | <u>(80,032)</u>     | <u>(72,254)</u>   |
| Balance, end of year  | <u>\$ 1,071,649</u> | <u>\$ 940,691</u> |

**Qualitative information about Significant Unobservable Inputs Used in Level 3 Fair Value Measurements**

The following table represents the Diocese's Level 3 financial instruments, the valuation techniques used to measure the fair value of those financial instruments, and the significant unobservable inputs and the ranges of values for those inputs.

|      | <u>Instrument</u> | <u>Fair Value</u> | <u>Principle<br/>Valuation<br/>Technique</u> | <u>Unobservable<br/>Inputs</u> | <u>Range of<br/>Significant<br/>Input Values</u> | <u>Weighted<br/>Average</u> |
|------|-------------------|-------------------|--|--------------------------------|--|-----------------------------|
| 2017 | Annuity Payable   | \$1,071,649       | Discounted Cash Flow                         | Discount Rate                  | 5.0% - 10.0%                                     | 7.50%                       |
| 2016 | Annuity Payable   | \$940,691         | Discounted Cash Flow                         | Discount Rate                  | 5.0% - 10.0%                                     | 7.50%                       |

**NOTE 7 CATHOLIC UMBRELLA POOL II MUTUAL INVESTMENT**

The Diocese of Bismarck purchases liability insurance coverage from the Catholic Mutual group (CMG) located in Omaha, Nebraska. On July 1, 1989 CMG created an excess liability pool called the Catholic Umbrella Pool II (CUP II). The Diocese of Bismarck is a charter member of CUP II. The primary purpose of the pool was to provide a self-insurance fund for small or medium sized dioceses for the Roman Catholic Church in North America. CUP II provides approximately 50% of an additional \$4 million layer of liability insurance coverage for the 48 participating dioceses. In addition to the above coverage, CUP II has a 5% participation for coverage in excess of \$1,500,000 up to \$5,000,000 for morality certificates and up to \$20,000,000 for liability certificates.

As of July 1, 1995, CUP II attained its goal and assumed 100% of the individual casualty claims exceeding \$1,500,000 to a limit of \$5,000,000 for the 48 dioceses. Participating dioceses are liable for any losses beyond the Pool's responsibilities to fund such losses. Outstanding claims of approximately \$117,211 have been made against CUP II as of June 30, 2017. There was approximately \$103,384 in outstanding claims as of June 30, 2016.



**DIOCESE OF BISMARCK**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2017 AND 2016**

Participating dioceses share in the operating and investment income and expenses of CUP II based on the contributions for each fiscal year. Participants are liable for claims and expenses incurred during fiscal years in which they participate in CUP II.

The Diocese of Bismarck's equity in the Pool was \$290,922 and \$268,161 as of June 30, 2017 and 2016, respectively. CUP II has established a dividend policy to distribute the participant's equity of a fiscal year after 10 years. The Executive Committee reviews this policy annually. The Diocese's dividend for 2017 and 2016 was \$26,816 and \$26,412, respectively.

**NOTE 8 LAND, BUILDINGS AND EQUIPMENT**

Land, buildings and equipment consist of the following as of June 30, 2017:

|                           | <u>Cost</u>         | <u>Accumulated<br/>Depreciation</u> | <u>Net</u>          |
|---------------------------|---------------------|-------------------------------------|---------------------|
| Future parish sites       | \$ 155,053          | \$ -                                | \$ 155,053          |
| Land and improvements     | 724,698             | -                                   | 724,698             |
| Building and improvements | 4,688,397           | 1,217,394                           | 3,471,003           |
| Technological equipment   | 411,790             | 364,006                             | 47,784              |
| Furniture and fixtures    | 621,870             | 543,859                             | 78,011              |
| Other equipment           | 134,695             | 103,603                             | 31,092              |
| Vehicles                  | 120,204             | 62,939                              | 57,265              |
|                           | <u>\$ 6,856,707</u> | <u>\$ 2,291,801</u>                 | <u>\$ 4,564,906</u> |

Land, buildings and equipment consist of the following as of June 30, 2016:

|                           | <u>Cost</u>         | <u>Accumulated<br/>Depreciation</u> | <u>Net</u>          |
|---------------------------|---------------------|-------------------------------------|---------------------|
| Future parish sites       | \$ 155,053          | \$ -                                | \$ 155,053          |
| Land and improvements     | 724,698             | -                                   | 724,698             |
| Building and improvements | 4,280,809           | 1,131,700                           | 3,149,109           |
| Technological equipment   | 389,177             | 333,093                             | 56,084              |
| Furniture and fixtures    | 615,903             | 538,493                             | 77,410              |
| Other equipment           | 122,497             | 95,530                              | 26,967              |
| Vehicles                  | 124,027             | 66,838                              | 57,189              |
|                           | <u>\$ 6,412,164</u> | <u>\$ 2,165,654</u>                 | <u>\$ 4,246,510</u> |

Depreciation expense for the years ended June 30, 2017 and 2016, was \$148,092 and \$183,145, respectively.

**DIOCESE OF BISMARCK**  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
JUNE 30, 2017 AND 2016

**NOTE 9 FUNDS HELD FOR OTHERS**

The Diocese serves as custodian for many collections in the Diocese. The normal function of the Diocese in these cases is to collect and remit to the proper parties the proceeds from these collections.

**NOTE 10 RETIREMENT PLAN**

The Diocese has adopted a deferred compensation 401(k) Retirement Savings Plan and Trust for the exclusive benefit of all eligible employees and their beneficiaries. Employees are immediately eligible at hire to receive discretionary contributions to the Plan if the employee is of age 21, or upon reaching age 21. Employees are also permitted to make voluntary contributions up to a maximum amount set by the Federal Government, and a maximum amount and percentage allowable by the IRS. The Diocese contributes 4% of the eligible employees' salary. Retirement expenses for the years ended June 30, 2017 and 2016 were \$84,176 and \$84,289, respectively.

**NOTE 11 RELATED PARTY**

The Diocese of Bismarck is affiliated with the Expansion Fund of the Diocese of Bismarck (Expansion Fund) through some common members of their Boards of Directors. The Expansion Fund provides a lending and depository function for the parishes and related entities of the Diocese. At June 30, 2017 and 2016, the Diocese has \$100,000 due from the Expansion Fund.

**NOTE 12 FUNCTIONAL ALLOCATION OF EXPENSES**

The costs of providing the various programs and supporting services have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

**NOTE 13 COMMITMENTS AND CONTINGENCIES**

The Diocese of Bismarck has guaranteed a loan from American Bank Center, Dickinson, North Dakota, to the Dickinson Catholic Schools. The total guarantee is \$4,500,000. As of June 30, 2017, the Diocese has not been requested to fund any part of the guaranteed amount.

**NOTE 14 LINE OF CREDIT**

The Diocese had available a \$250,000 unsecured revolving line of credit note with U.S. Bank. Interest is due monthly with an interest rate equal to U.S. Bank Prime, plus 0.25%. At June 30, 2017, there was no outstanding balance on the line of credit.

**DIOCESE OF BISMARCK**  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
JUNE 30, 2017 AND 2016

**NOTE 15 INCOME TAXES**

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

**NOTE 16 SUBSEQUENT EVENTS**

No significant events occurred subsequent to the Diocese's year end. Subsequent events have been evaluated through December 10, 2017, which is the date these financial statements were available to be issued.



CERTIFIED PUBLIC ACCOUNTANTS  
AND CONSULTANTS

## INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION

The Most Reverend David D. Kagan  
Diocese of Bismarck  
Bismarck, North Dakota

We have audited the financial statements of the Diocese of Bismarck as of and for the years ended June 30, 2017 and 2016, and have issued our report thereon dated December 10, 2017, which contained an unmodified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole.

The Schedule of Changes in Designated Unrestricted Net Assets, Schedule of Changes in Funds Held for Others and the Schedules of Functional Expenses are presented for the purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

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

**BRADY, MARTZ & ASSOCIATES, P.C.**  
**BISMARCK, NORTH DAKOTA**

December 10, 2017

**DIOCESE OF BISMARCK**  
**SCHEDULE OF CHANGES IN DESIGNATED UNRESTRICTED NET ASSETS**  
**FOR THE YEAR ENDED JUNE 30, 2017**

|   | Balance<br>6/30/2016 | Transfers/<br>Additions | Transfers/<br>Disbursements | Balance<br>6/30/2017 |
|---|----------------------|-------------------------|-----------------------------|----------------------|
| (1) Insurance Fund                                  | \$ 430,823           | \$ 246,929              | \$ 270,695                  | \$ 407,057           |
| (2) Expansion General Fund - Designated             | 3,467,378            | -                       | -                           | 3,467,378            |
| (3) Administrative facilities                       | 1,794,760            | -                       | -                           | 1,794,760            |
| (4) Program and services                            | 1,347,363            | -                       | -                           | 1,347,363            |
| (5) Clergy needs                                    | 250,000              | -                       | -                           | 250,000              |
| (6) Reserve Fund for Contingency                    | 283,500              | -                       | -                           | 283,500              |
| (7) Reserve for Technology to be Capitalized        | 95,000               | -                       | 21,000                      | 74,000               |
| Kateri Tekawitha                                    | 9,600                | -                       | -                           | 9,600                |
| Binations   | 11,437               | 12,287                  | 14,489                      | 9,235                |
| Summer Program/Rev. M. Mullner Search               | 7,444                | 4,622                   | 5,654                       | 6,412                |
| Vocations   | 82,711               | 19,895                  | 69,574                      | 33,032               |
| Human Development                                   | 30,033               | 1,320                   | 8,585                       | 22,768               |
| Deacon Education                                    | 13,140               | 102                     | 5,198                       | 8,044                |
| Rev. Thomas Kramer Estate Fund for Special Purposes | 321,460              | -                       | 31,273                      | 290,187              |
|   | <u>\$ 8,144,649</u>  | <u>\$ 285,155</u>       | <u>\$ 426,468</u>           | <u>\$ 8,003,336</u>  |

The purpose of these designations is as follows:

- (1) This designation includes the net activity of the diocesan Offices of Insurance, Parish Resources and Internal Audit, these three offices are in place for risk mitigation at the parish level. For the Office of Insurance it reflects the diocesan fee charged to parishes for insurance, operation of that office and deductibles on insurance claims; for the Office of Parish Resources it reflects the net amount of charges to individual parishes for accounting/ payroll services and operation of that office; for the Office of Internal Audit it reflects the operation of that office.
- (2) This designation is to reserve funds in order to provide the parish expansion fund an adequate loan pool.
- (3) This designation is to reserve funds for future replacement and acquisition of fixed assets, church sites, and Diocesan administrative facilities. Designation of current earnings is added to the fund at the discretion of the Bishop.
- (4) This designation is to reserve funds for future Diocesan administrative programs and supporting services. Designation of current earnings is added to the fund at the discretion of the Bishop.
- (5) This designation is to reserve funds for continued support and assistance for clergy needs. Designation of current earnings is added to the fund at the discretion of the Bishop.
- (6) This designation is to reserve funds for potential claims filed against the Diocese of Bismarck. Designation of current earnings is added to the fund at the discretion of the Bishop.
- (7) This designation is to reserve funds for future technology expenditures to be capitalized. Additions and disbursements will be determined annually based on the approved budget.

**DIOCESE OF BISMARCK**  
**SCHEDULE OF CHANGES IN FUNDS HELD FOR OTHERS**  
**FOR THE YEAR ENDED JUNE 30, 2017**

|                                      | Balance<br>6/30/2016 | Additions         | Transfers/<br>Disbursements | Balance<br>6/30/2017 |
|--------------------------------------|----------------------|-------------------|-----------------------------|----------------------|
| Campaign for Human Development       | \$ 130               | \$ 5,212          | \$ 5,282                    | \$ 60                |
| Indian and Black Missions            | 547                  | 50,480            | 49,891                      | 1,136                |
| Operation Rice Bowl                  | 422                  | 56,302            | 372                         | 56,352               |
| Mass Stipends Fund                   | 19,520               | 11,485            | 17,675                      | 13,330               |
| National Religious Retirement Office | 21,998               | 37,015            | 55,866                      | 3,147                |
| Peter's Pence Collection             | 6,211                | 37,657            | 36,525                      | 7,343                |
| Propagation of Faith                 | 4,235                | 39,007            | 36,565                      | 6,677                |
| Holy Land Collections                | 110                  | 71,444            | 11                          | 71,543               |
| Archdiocese Military Service         | 2,206                | 24,101            | 223                         | 26,084               |
| Bishop Ryan High School              | -                    | 1,067             | 366                         | 701                  |
| L-T Care Fund - Priest               | 69,357               | 150,769           | 131,982                     | 88,144               |
| Retrouvaille Fund - Family Ministry  | 26,235               | 13,395            | 15,388                      | 24,242               |
| Catholic Leadership                  | 1,310                | -                 | -                           | 1,310                |
| Middle East Collection               | 2,096                | -                 | -                           | 2,096                |
| Nepal Earthquake Collection          | 10,052               | 10                | -                           | 10,062               |
| Louisiana Flood Relief               | -                    | 405               | 70                          | 335                  |
| ND Catholic Charities Collection     | -                    | 27,101            | 27,866                      | (765)                |
| Haiti Relief Collection              | -                    | 34,289            | 50                          | 34,239               |
| USCCB Trinity Dome Collection        | -                    | 5,174             | -                           | 5,174                |
| Cust- Amr.Exp-Bowman-M.K.            | -                    | 765               | -                           | 765                  |
| Miscellaneous                        | 940                  | 31,912            | 32,434                      | 418                  |
|                                      | <u>\$ 165,369</u>    | <u>\$ 597,590</u> | <u>\$ 410,566</u>           | <u>\$ 352,393</u>    |

**DIOCESE OF BISMARCK**  
**SCHEDULES OF FUNCTIONAL EXPENSES**  
**FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

|   | <u>2017</u>             | <u>2016</u>             |
|---|-------------------------|-------------------------|
| Pastoral:                                 |                         |                         |
| Bishop's office                           | \$ 261,171              | \$ 218,003              |
| Canonical services                        | 256,162                 | 263,561                 |
| Stewardship office                        | 283,204                 | 259,223                 |
| Office of liturgy                         | 27,953                  | 24,852                  |
| East African Mission                      | 284,424                 | 225,828                 |
| Planned giving office                     | 140,631                 | 214,356                 |
| Dakota Catholic Action                    | 157,764                 | 166,820                 |
| North Dakota Catholic Conference          | 145,649                 | 96,411                  |
| National Catholic Conference of Bishops   | 18,745                  | 17,771                  |
| THIRST Conference                         | 137,778                 | 38,013                  |
| Search for Catholic Ministry              | 13,550                  | 9,054                   |
| Catholic Home Missions Appeal             | 5,000                   | 10,000                  |
| Holy Father missions                      | 5,600                   | 5,600                   |
| Catholic Communication Campaign           | 1,600                   | 1,600                   |
|   | <u>1,600</u>            | <u>1,600</u>            |
| <br>Total pastoral                        | <br><u>\$ 1,739,231</u> | <br><u>\$ 1,551,092</u> |
| <br>Religious personnel development:      |                         |                         |
| Seminarian education & formation          | \$ 960,298              | \$ 735,465              |
| Vocation office                           | 133,991                 | 100,744                 |
| Diaconate formation                       | 120,907                 | 130,880                 |
| Continuing education of priests           | 69,561                  | 63,037                  |
| Vicar General/Vicar Presbyters            | 8,423                   | 3,017                   |
|   | <u>8,423</u>            | <u>3,017</u>            |
| <br>Total religious personnel development | <br><u>\$ 1,293,180</u> | <br><u>\$ 1,033,143</u> |
| <br>Religious personnel services:         |                         |                         |
| Retired priests' expense                  | \$ 166,768              | \$ 221,240              |
| Other priests' care needs                 | 75,770                  | 224,814                 |
| Emmaus Place                              | 97,573                  | 88,203                  |
| Presbyteral council                       | 2,900                   | 2,409                   |
| Priest personnel board                    | 88                      | -                       |
|   | <u>88</u>               | <u>-</u>                |
| <br>Total religious personnel services    | <br><u>\$ 343,099</u>   | <br><u>\$ 536,666</u>   |

**DIOCESE OF BISMARCK**  
**SCHEDULES OF FUNCTIONAL EXPENSES - CONTINUED**  
**FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

|  | <u>2017</u>         | <u>2016</u>         |
|--|---------------------|---------------------|
| Education:                                 |                     |                     |
| Catholic education subsidy                 | \$ 272,900          | \$ 272,900          |
| Catholic schools and educational endowment | 83,668              | 81,379              |
| Faith formation                            | 91,506              | 75,901              |
| Fort Yates Indian Mission                  | 53,676              | 52,020              |
| Other education                            | 27,467              | 64,686              |
| Catholic University                        | 1,000               | 1,000               |
| Holy See                                   | 12,500              | 12,500              |
| Youth ministry                             | 27,648              | 13,440              |
| Gifts & Donation Expense                   | -                   | 2,155,503           |
| Tuition assistance - educators             | 27,603              | 29,608              |
|  | <u>27,603</u>       | <u>29,608</u>       |
| Total education                            | <u>\$ 597,968</u>   | <u>\$ 2,758,937</u> |
| Social services:                           |                     |                     |
| Office of Family Life                      | \$ 98,316           | \$ 82,708           |
| Catholic Relief Services                   | 5,000               | 22,000              |
| Respect life program                       | 47,302              | 47,104              |
| Church in Latin America                    | 5,000               | 5,000               |
|  | <u>5,000</u>        | <u>5,000</u>        |
| Total social services                      | <u>\$ 155,618</u>   | <u>\$ 156,812</u>   |
| General administration:                    |                     |                     |
| Chancery                                   | \$ 200,372          | \$ 223,666          |
| Property management                        | 414,517             | 358,313             |
| Depreciation                               | 148,092             | 183,145             |
| Fiscal                                     | 249,793             | 267,795             |
| Professional fees                          | 147,999             | 174,232             |
| Personnel administration                   | 18,292              | 23,812              |
| Internal Audit                             | 66,027              | 63,798              |
| Insurance program                          | 270,695             | 271,291             |
|  | <u>270,695</u>      | <u>271,291</u>      |
| Total general administration               | <u>\$ 1,515,787</u> | <u>\$ 1,566,052</u> |