

**DIOCESE OF BISMARCK
BISMARCK, NORTH DAKOTA**

AUDITED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

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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 statements of financial position of the Diocese of Bismarck as of June 30, 2012 and 2011, and the related statements of activities, and cash flows for the years then ended. These financial statements are the responsibility of the Diocese'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 audits 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 the Diocese of Bismarck as of June 30, 2012 and 2011, 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.

November 19, 2012

DIOCESE OF BISMARCK
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2012 AND 2011

	2012	2011
ASSETS		
Cash and cash equivalents	\$ 131,766	\$ 111,171
Accounts/pledges receivable, net of allowance for doubtful accounts	1,214,550	733,397
Interest receivable	65,447	64,215
Due from related parties	100,000	100,000
Prepaid expenses	36,839	77,801
Investments	15,245,629	13,672,494
Mutual investment	247,996	271,089
Land, buildings and equipment, net of accumulated depreciation	4,127,824	4,177,724
Total assets	\$ 21,170,051	\$ 19,207,891
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	\$ 1,106,905	\$ 899,586
Insurance premium payable	651,365	447,079
Annuities payable	773,593	656,396
Funds held for others	149,744	128,093
Total liabilities	2,681,607	2,131,154
NET ASSETS		
Unrestricted		
Undesignated	9,768,805	8,929,050
Designated	8,697,481	8,147,687
Total unrestricted net assets	18,466,286	17,076,737
Temporarily restricted	22,158	-
Total net assets	18,488,444	17,076,737
Total liabilities and net assets	\$ 21,170,051	\$ 19,207,891

See Notes to Financial Statements

DIOCESE OF BISMARCK
STATEMENTS OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012

	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUE			
Contributions and bequests - God's Share	\$ 3,103,817	\$ -	\$ 3,103,817
Contributions and bequests - other	90,362	22,158	112,520
Contributions from Provision for the Future	583,063	-	583,063
Contributions - Fr. Kramer Estate	523,460	-	523,460
Grant income	229,011	-	229,011
Mineral rights lease and royalty revenue	518,560	-	518,560
Investment income	277,868	-	277,868
Realized and unrealized loss on investments	(51,738)	-	(51,738)
Rent and other revenue	50,392	-	50,392
Insurance	155,990	-	155,990
Net assets released from restriction:			
Satisfaction of donor restrictions	-	-	-
	5,480,785	22,158	5,502,943
EXPENSES			
Program services			
Pastoral	1,229,506	-	1,229,506
Religious personnel development	806,472	-	806,472
Religious personnel services	426,397	-	426,397
Education	580,178	-	580,178
Social services	103,743	-	103,743
Program administration:			
Funds released to programs	54,948	-	54,948
Total program services	3,201,244	-	3,201,244
Supporting services:			
General administration	889,992	-	889,992
	4,091,236	-	4,091,236
INCREASE IN NET ASSETS	1,389,549	22,158	1,411,707
NET ASSETS, BEGINNING OF YEAR	17,076,737	-	17,076,737
NET ASSETS, END OF YEAR	\$ 18,466,286	\$ 22,158	\$ 18,488,444

See Notes to Financial Statements

DIOCESE OF BISMARCK
STATEMENTS OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011

	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUE			
Contributions and bequests - God's Share	\$ 2,986,234	\$ -	\$ 2,986,234
Contributions and bequests - other	269,596	-	269,596
Contributions from Provision for the Future	459,371	-	459,371
Grant income	209,628	-	209,628
Centennial Celebration	-	6,620	6,620
Mineral rights lease and royalty revenue	50,257	-	50,257
Investment income	253,448	-	253,448
Realized and unrealized gain on investments	1,321,162	-	1,321,162
Rent and other revenue	40,679	-	40,679
Loss on sale of fixed assets	(475)	-	(475)
Insurance	141,570	-	141,570
Net assets released from restriction:			
Satisfaction of donor restrictions	6,620	(6,620)	-
	<u>5,738,090</u>	<u>-</u>	<u>5,738,090</u>
EXPENSES			
Program services			
Pastoral	1,007,348	-	1,007,348
Religious personnel development	721,867	-	721,867
Religious personnel services	444,543	-	444,543
Education	497,118	-	497,118
Social services	114,679	-	114,679
Program administration:			
Funds released to programs	158,935	-	158,935
Total program services	<u>2,944,490</u>	<u>-</u>	<u>2,944,490</u>
Supporting services:			
General administration	<u>840,387</u>	<u>-</u>	<u>840,387</u>
Total expenses	<u>3,784,877</u>	<u>-</u>	<u>3,784,877</u>
INCREASE (DECREASE) IN NET ASSETS	1,953,213	-	1,953,213
NET ASSETS, BEGINNING OF YEAR	<u>15,123,524</u>	<u>-</u>	<u>15,123,524</u>
NET ASSETS, END OF YEAR	<u>\$ 17,076,737</u>	<u>\$ -</u>	<u>\$ 17,076,737</u>

See Notes to Financial Statements

DIOCESE OF BISMARCK
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,411,707	\$ 1,953,213
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation expense	77,303	73,713
(Gain) loss on sale of fixed assets	-	475
Realized and unrealized (gain) loss on investments	144,667	(1,292,404)
Change in equity in the undistributed (gain) loss on mutual investment	23,093	(44,380)
Effects on operating cash flow due to changes in:		
Accounts/pledges receivable	(481,153)	121,353
Interest receivable	(1,232)	(16,238)
Prepaid expenses	40,962	(43,493)
Accounts payable and accrued expenses	207,319	193,925
Insurance premium payable	204,286	(723)
Funds held for others	21,651	17,365
	<u>1,648,603</u>	<u>962,806</u>
 CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(6,804,748)	(4,821,774)
Proceeds from sale of investments	5,204,143	3,788,584
Purchase of property and equipment	(27,403)	(131,695)
	<u>(1,628,008)</u>	<u>(1,164,885)</u>
 NET CHANGE IN CASH AND CASH EQUIVALENTS	 20,595	 (202,079)
 CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	 <u>111,171</u>	 <u>313,250</u>
 CASH AND CASH EQUIVALENTS, END OF YEAR	 <u>\$ 131,766</u>	 <u>\$ 111,171</u>
 SUPPLEMENTAL DISCLOSURE		
Schedule of Noncash Transactions		
Increase (decrease) in annuities payable and investments	\$ 117,197	\$ (16,224)

See Notes to Financial Statements

DIOCESE OF BISMARCK
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

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.

These financial statements do not include the assets and liabilities of the Expansion Fund of the Diocese of Bismarck, which is managed by a separate Board of Directors and is not financially controlled by the Diocese of Bismarck.

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.

DIOCESE OF BISMARCK
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2012 AND 2011

The Diocese has temporarily restricted and unrestricted net assets. Unrestricted net assets include the following net assets that have been designated by the Board of Directors for the following:

	2012	2011
Insurance Fund	\$ 831,189	\$ 798,260
Expansion General Fund - Designated	3,467,376	3,467,376
Administrative facilities	1,794,760	1,794,760
Program and services	1,347,363	1,347,363
Clergy needs	294,816	294,816
Reserve Fund for Contingency	308,500	308,500
Reserve for Technology to be Capitalized	15,000	-
Kateri Tekawitha	9,600	9,600
Rev. M. Mullner Search	9,813	12,120
Vocations	6,045	6,822
Human Development	34,883	33,968
Deacon Education	4,340	4,390
Catholics Come Home	50,336	69,712
Fr. Kramer Estate	523,460	-
Total	\$ 8,697,481	\$ 8,147,687

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

DIOCESE OF BISMARCK
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2012 AND 2011

income, whose restrictions are met in the same reporting period, as unrestricted investment income.

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.

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. 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.

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

DIOCESE OF BISMARCK
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2012 AND 2011

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 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'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 CONCENTRATIONS OF CREDIT RISK

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

At June 30, 2012, the Diocese had \$272,430 on deposit at one financial institution. This account is noninterest bearing and noninterest bearing accounts are 100 percent insured by the Federal Deposit Insurance Corporation (FDIC).

DIOCESE OF BISMARCK
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2012 AND 2011

NOTE 3 ACCOUNTS/PLEDGES RECEIVABLE

Accounts/pledges receivable at June 30, 2012 and 2011, consist of the following:

	<u>2012</u>	<u>2011</u>
Due from Parishes for:		
Property insurance	\$ 790,018	\$ 342,443
Priests health insurance	2,816	3,810
Other	4,090	4,090
Pledges receivable - God's Share	417,030	389,747
Other receivables	40,765	33,477
Allowance for doubtful accounts	<u>(40,169)</u>	<u>(40,170)</u>
	<u><u>\$ 1,214,550</u></u>	<u><u>\$ 733,397</u></u>

As of June 30, 2012 and 2011, there are no accounts receivable in excess of ninety days past due and still accruing interest. Additionally, there are no accounts receivable on non-accrual status as of June 30, 2012 and 2011.

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

NOTE 4 INVESTMENTS

Investments are stated at fair value and are summarized as follows as of June 30, 2012:

	<u>Cost</u>	<u>Fair Value</u>
Money market funds	\$ 1,328,132	\$ 1,328,132
Equities:		
U.S. large cap	2,714,847	3,609,026
U.S. mid cap	1,348,518	1,753,609
U.S. small cap	421,599	476,134
International developed/emerging markets	566,006	681,014
Mutual funds	459,288	459,288
Fixed income:		
Investment grade taxable	6,051,699	6,259,297
International developed	326,304	333,688
Fixed income other	25,007	25,261
Public REITs	249,504	223,748
Commodities	<u>90,714</u>	<u>96,432</u>
	<u><u>\$ 13,581,618</u></u>	<u><u>\$ 15,245,629</u></u>

DIOCESE OF BISMARCK
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2012 AND 2011

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

	<u>Cost</u>	<u>Fair Value</u>
Money market funds	\$ 1,507,582	\$ 1,507,582
Equities:		
U.S. large cap	1,443,064	2,272,127
U.S. mid cap	1,239,172	1,779,670
U.S. small cap	457,063	496,994
International developed/emerging markets	612,274	862,743
Mutual funds	506,186	506,186
Fixed income:		
Investment grade taxable	5,603,197	5,760,456
International developed	100,512	107,619
Fixed income other	99,612	89,406
Public REITs	184,695	176,359
Commodities	90,714	113,352
	<u>\$ 11,844,071</u>	<u>\$ 13,672,494</u>

The Diocese had a net realized gain of \$123,454 for the year ended June 30, 2012 and a net realized gain of \$229,609 for the year ended June 30, 2011, respectively. For the year ended June 30, 2012, the Diocese had an unrealized loss on investments of \$175,192. For the year ended June 30, 2011, the Diocese had an unrealized gain on investments of \$1,091,553.

DIOCESE OF BISMARCK
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2012 AND 2011

NOTE 5 FAIR VALUE MEASUREMENTS

Financial instruments measured at fair value on a recurring basis as of June 30, 2012 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	\$ 1,328,132	\$ 1,328,132	\$ -	\$ -
Equities:				
U.S. large cap	3,609,026	3,609,026	-	-
U.S. mid cap	1,753,609	1,753,609	-	-
U.S. small cap	476,134	476,134	-	-
International developed/ emerging markets	681,014	681,014	-	-
Mutual funds	459,288	459,288	-	-
Fixed income:				
Investment grade taxable	6,259,297	-	6,259,297	-
International developed	333,688	-	333,688	-
Fixed income other	25,261	-	25,261	-
Public REITs	223,748	223,748	-	-
Commodities	96,432	96,432	-	-
Total investments at fair value	\$ 15,245,629	\$ 8,627,383	\$ 6,618,246	\$ -
Annuities payable	\$ 773,593	\$ -	\$ -	773,593

DIOCESE OF BISMARCK
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2012 AND 2011

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	\$ 1,507,582	\$ 1,507,582	\$ -	\$ -
Equities:				
U.S. large cap	2,272,127	2,272,127	-	-
U.S. mid cap	1,779,670	1,779,670	-	-
U.S. small cap	496,994	496,994	-	-
International developed/ emerging markets	862,743	862,743	-	-
Mutual funds	506,186	506,186	-	-
Fixed income:				
Investment grade taxable	5,760,456	-	5,760,456	-
International developed	107,619	-	107,619	-
Fixed income other	89,406	-	89,406	-
Public REITs	176,359	176,359	-	-
Commodities	113,352	113,352	-	-
Total investments at fair value	<u>\$ 13,672,494</u>	<u>\$ 7,715,013</u>	<u>\$ 5,957,481</u>	<u>\$ -</u>
Annuities payable	<u>\$ 656,396</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 656,396</u>

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, 2012 and 2011:

	2012	2011
Balance, beginning of year	\$ 656,396	\$ 670,620
Total gains (losses) (realized/unrealized) included in increase (decrease) in net assets	-	-
Purchases	164,042	-
Sales	(46,845)	(14,224)
Issuances	-	-
Settlements	-	-
Transfers in and/or out of Level 3	-	-
Balance, end of year	<u>\$ 773,593</u>	<u>\$ 656,396</u>

DIOCESE OF BISMARCK
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2012 AND 2011

NOTE 6 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 \$67,000 have been made against CUP II as of June 30, 2012. There was approximately \$64,000 in outstanding claims as of June 30, 2011.

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 \$247,996 and \$271,089 as of June 30, 2012 and 2011, 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 2012 and 2011 was \$27,109 and \$22,671, respectively.

NOTE 7 LAND, BUILDINGS AND EQUIPMENT

Land, buildings and equipment consist of the following as of June 30, 2012:

	Cost	Accumulated Depreciation	Net
Future parish sites	\$ 1,462,363	\$ -	\$ 1,462,363
Land and improvements	656,038	-	656,038
Building and improvements	2,713,682	854,167	1,859,515
Technological equipment	293,518	217,967	75,551
Furniture and fixtures	501,334	464,454	36,880
Other equipment	85,927	74,613	11,314
Vehicles	61,692	35,529	26,163
	<u>\$ 5,774,554</u>	<u>\$ 1,646,730</u>	<u>\$ 4,127,824</u>

DIOCESE OF BISMARCK
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2012 AND 2011

Land, buildings and equipment consist of the following as of June 30, 2011:

	Cost	Accumulated Depreciation	Net
Future parish sites	\$ 1,462,363	\$ -	\$ 1,462,363
Land and improvements	656,038	-	656,038
Building and improvements	2,699,928	817,984	1,881,944
Technological equipment	286,831	186,602	100,229
Furniture and fixtures	495,054	460,805	34,249
Other equipment	85,245	72,605	12,640
Vehicles	61,692	31,431	30,261
	<u>\$ 5,747,151</u>	<u>\$ 1,569,427</u>	<u>\$ 4,177,724</u>

Depreciation expense for the years ended June 30, 2012 and 2011, was \$77,303 and \$73,713, respectively.

NOTE 8 NET ASSETS AND 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 of these collections.

NOTE 9 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. In order to be eligible to receive discretionary contributions to the Plan the employee must have been employed on the last day of the eligibility computation period and completed 1,000 hours of service, attained age 21, and complete a minimum of twelve months of service. 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, 2012 and 2011 were \$64,621 and \$64,417, respectively.

NOTE 10 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, 2012 and 2011, the Diocese has \$100,000 due from the Expansion Fund.

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. Income under this agreement is included in other revenue totaling \$37,800 for each of the years ended June 30, 2012 and 2011.

DIOCESE OF BISMARCK
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2012 AND 2011

NOTE 11 OPERATING LEASES, AS LESSOR

The Diocese of Bismarck leases office space to an unaffiliated lessee. Future minimum rents receivable under a non-cancelable lease that expires in June of 2014 are as follows:

2013	\$	31,200
2014		31,200

The property held for lease is included in building and improvements at a cost of \$457,919 at June 30, 2012 and 2011. Accumulated depreciation on the building was \$117,268 and \$111,162 as of June 30, 2012 and 2011, respectively.

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 GOD'S SHARE COLLECTIONS

Actual cash collections on the 2011 God's Share Appeal were as follows:

Cash collections from January 1, 2011 to June 30, 2011	\$ 2,084,664
Cash collections from July 1, 2011 to June 30, 2012	<u>701,865</u>
Total collections on God's Share 2011 Appeal	<u><u>\$ 2,786,529</u></u>

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, 2012, there was no outstanding balance on the line of credit. The line matures on December 31, 2012.

NOTE 15 COMMITMENTS AND CONTIGENCIES

The Diocese of Bismarck had guaranteed a loan totaling \$1,200,000 from American Bank Center, Bismarck, North Dakota, to the Church of Saint Anne. This loan was paid off during the year ended June 30, 2012 and the Diocese was not requested to fund any part of the guaranteed amount.

As of June 30, 2012, the Diocese of Bismarck has potential claims filed against it for allegations of abuse by a former member of its clergy. The claims have yet to go to mediation, and the amount of loss, if any, is undeterminable as of the date of this report.

DIOCESE OF BISMARCK
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2012 AND 2011

NOTE 16 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 17 SUBSEQUENT EVENTS

No significant events occurred subsequent to the Diocese's year end. Subsequent events have been evaluated through November 19, 2012, 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, 2012 and June 30, 2011, respectively, and have issued our report thereon dated November 19, 2012, which contained an unqualified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The schedules on pages 19 through 22 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.

BRADY, MARTZ & ASSOCIATES, P.C.

November 19, 2012

DIOCESE OF BISMARCK
SCHEDULE OF CHANGES IN DESIGNATED UNRESTRICTED NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2012

	Balance 6/30/2011	Transfers/ Additions	Transfers/ Disbursements	Balance 6/30/2012
(1) Insurance Fund	\$ 798,260	\$ 155,990	\$ 123,061	\$ 831,189
(2) Expansion General Fund - Designated	3,467,376	-	-	3,467,376
(3) Administrative facilities	1,794,760	-	-	1,794,760
(4) Program and services	1,347,363	-	-	1,347,363
(5) Clergy needs	294,816	-	-	294,816
(6) Reserve Fund for Contingency	308,500	-	-	308,500
(7) Reserve for Technology to be Capitalized	-	15,000	-	15,000
Kateri Tekawitha	9,600	-	-	9,600
Binations	-	12,220	12,220	-
Rev. M. Mullner Search	12,120	1,462	3,769	9,813
Vocations	6,822	15,205	15,982	6,045
Human Development	33,968	4,466	3,551	34,883
Deacon Education	4,390	-	50	4,340
Catholics Come Home	69,712	-	19,376	50,336
Rev. Thomas Kramer Estate Fund for Special Purposes	-	523,460	-	523,460
	<u>\$ 8,147,687</u>	<u>\$ 727,803</u>	<u>\$ 178,009</u>	<u>\$ 8,697,481</u>

The purpose of these designations is as follows:

- (1) This balance includes premium savings generated by increasing the policy deductible to \$1,000. It also includes the Diocesan handling fee charged to parishes. The designation is to reserve funds to cover the deductible on insurance claims.
- (2) This designation is to reserve funds in order to provide the 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, 2012

	Balance 6/30/2011	Additions	Transfers/ Disbursements	Balance 6/30/2012
Campaign for Human Development	\$ 1,594	\$ 18,895	\$ 17,866	\$ 2,623
Indian and Black Missions	494	54,030	54,595	(71)
Operation Rice Bowl	1,656	43,482	43,473	1,665
Mass Stipends Fund	6,300	4,735	7,803	3,232
National Religious Retirement Office	3,452	31,257	26,181	8,528
Peter's Pence Collection	12,231	26,246	23,772	14,705
Propagation of Faith	7,518	35,329	31,869	10,978
Holy Land Collections	177	43,586	41,480	2,283
Bishop Ryan High School	-	3,076	2,786	290
Disaster Relief Fund	10,515	18,635	28,459	691
L-T Care Fund - Priest	76,227	49,969	35,146	91,050
Retrouvaille Fund - Family Ministry	6,469	17,000	12,187	11,282
Catholic Leadership	1,310	-	-	1,310
Miscellaneous	150	19,086	18,058	1,178
	<u>\$ 128,093</u>	<u>\$ 365,326</u>	<u>\$ 343,675</u>	<u>\$ 149,744</u>

DIOCESE OF BISMARCK
SCHEDULES OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
Pastoral:		
Bishop's office	\$ 149,730	\$ 146,667
Bishop's contingency	90,451	14,083
Canonical services	183,416	214,229
Stewardship office	161,567	166,008
Office of liturgy	16,262	14,273
East African Mission	183,654	96,516
Planned giving office	211,557	101,828
Communications office	25,000	28,212
Dakota Catholic Action	30,365	40,660
North Dakota Catholic Conference	64,000	79,203
North Dakota Conference of Churches	6,200	6,200
National Catholic Conference of Bishops	13,253	12,956
Search for Catholic Ministry	29,191	31,856
Catholic Home Missions Appeal	17,000	17,000
Holy Father missions	5,600	5,600
Pastoral Planning	40,660	30,457
Catholic Communication Campaign	1,600	1,600
	<u>1,600</u>	<u>1,600</u>
 Total pastoral	 <u>\$ 1,229,506</u>	 <u>\$ 1,007,348</u>
 Religious personnel development:		
Seminarian education & formation	\$ 538,723	\$ 477,405
Vocation office	71,306	65,716
Diaconate formation	144,294	128,429
Continuing education of priests	43,921	43,580
Vicar General/Vicar Presbyters	8,228	6,737
	<u>8,228</u>	<u>6,737</u>
 Total religious personnel development	 <u>\$ 806,472</u>	 <u>\$ 721,867</u>
 Religious personnel services:		
Retired priests' expense	\$ 104,154	\$ 78,177
Other priests' care needs	218,441	292,190
Emmaus Place	101,383	72,008
Presbyteral council	2,419	2,010
Priest personnel board	-	158
	<u>-</u>	<u>158</u>
 Total religious personnel services	 <u>\$ 426,397</u>	 <u>\$ 444,543</u>

DIOCESE OF BISMARCK
SCHEDULES OF FUNCTIONAL EXPENSES - CONTINUED
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
Education:		
Aid to schools	\$ 240,400	\$ 227,102
Catholic schools and educational endowment	90,796	48,950
Faith formation	87,662	85,732
Fort Yates Indian Mission	38,071	38,703
Other education	41,373	25,705
Catholic University	1,000	1,000
Holy See	12,500	12,500
Youth Correctional Center	5,426	4,922
Youth ministry	56,575	48,104
Tuition assistance - educators	6,375	4,400
	<u>6,375</u>	<u>4,400</u>
Total education	<u>\$ 580,178</u>	<u>\$ 497,118</u>
Social services:		
Office of Family Life	\$ 75,789	\$ 87,877
Catholic Relief Services	7,000	7,000
Respect life program	15,954	14,802
Church in Latin America	5,000	5,000
	<u>5,000</u>	<u>5,000</u>
Total social services	<u>\$ 103,743</u>	<u>\$ 114,679</u>
General administration:		
Chancery	\$ 186,818	\$ 177,851
Property management	207,195	200,395
Depreciation	77,303	73,713
Fiscal	133,973	111,558
Professional fees	130,630	109,647
Personnel administration	21,262	27,742
Insurance program	123,060	131,265
Archives	9,751	8,216
	<u>9,751</u>	<u>8,216</u>
Total general administration	<u>\$ 889,992</u>	<u>\$ 840,387</u>