

**DIOCESE OF BISMARCK
BISMARCK, NORTH DAKOTA**

AUDITED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

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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, 2016 and 2015, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

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, 2016 and 2015, 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.

A handwritten signature in black ink that reads "Brady Martz". The signature is written in a cursive, flowing style.

BRADY, MARTZ & ASSOCIATES, P.C.

Bismarck, North Dakota

November 29, 2016

DIOCESE OF BISMARCK
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2016 AND 2015

	2016	2015
ASSETS		
Cash and cash equivalents	\$ 383,619	\$ -
Accounts/pledges receivable, net of allowance for doubtful accounts	736,883	754,170
Interest receivable	49,756	62,752
Due from related parties	100,000	100,000
Prepaid expenses	128,824	84,516
Investments	20,101,176	20,754,423
Mutual investment	268,161	264,126
Land, buildings and equipment, net of accumulated depreciation	4,246,510	5,201,935
Total assets	\$ 26,014,929	\$ 27,221,922
LIABILITIES AND NET ASSETS		
LIABILITIES		
Bank overdraft	\$ -	\$ 86,086
Accounts payable and accrued expenses	1,305,166	1,267,494
Pledge payable - Light of Christ	742,000	-
Insurance premium payable	1,355	242,986
Annuities payable	940,691	977,945
Funds held for others	165,369	22,818
Total liabilities	3,154,581	2,597,329
NET ASSETS		
Unrestricted		
Undesignated	14,715,699	16,398,361
Designated	8,144,649	8,226,232
Total unrestricted net assets	22,860,348	24,624,593
Total liabilities and net assets	\$ 26,014,929	\$ 27,221,922

See Notes to the Financial Statements

DIOCESE OF BISMARCK
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
SUPPORT AND REVENUE		
Contributions and bequests - God's Share	\$ 3,560,602	\$ 3,212,022
Contributions and bequests - other	78,458	174,274
Contributions from Catholic Foundation	750,247	742,339
Grant income	150,314	115,748
Mineral rights lease and royalty revenue	365,504	955,843
Investment income	340,693	341,790
Net realized and unrealized gain on investments	31,032	52,244
Insurance	-	120,438
Rent and other revenue	134,901	99,233
Admin fee revenue	90,982	80,750
Gain on sale of fixed assets	225,030	1,541
Total support and revenue	5,727,763	5,896,222
 EXPENSES		
Program services		
Pastoral	1,551,092	1,540,145
Religious personnel development	1,033,143	936,010
Religious personnel services	536,666	375,493
Education	2,758,937	660,053
Social services	156,812	148,405
Program administration	39,367	150,416
Total program services	6,076,017	3,810,522
Supporting services:		
General administration	1,415,991	1,344,799
Total expenses	7,492,008	5,155,321
 INCREASE (DECREASE) IN NET ASSETS	 (1,764,245)	 740,901
 NET ASSETS, BEGINNING OF YEAR	 24,624,593	 23,883,692
 NET ASSETS, END OF YEAR	 \$ 22,860,348	 \$ 24,624,593

See Notes to the Financial Statements

DIOCESE OF BISMARCK
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (1,764,245)	\$ 740,901
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	183,145	141,980
(Gain) loss on sale of fixed assets	(225,030)	(1,541)
Realized and unrealized (gain) loss on investments	(64,251)	48,654
Change in equity in the undistributed (gain) loss on mutual investment	(4,035)	5,625
Effects on operating cash flow due to changes in:		
Accounts/pledges receivable	17,287	52,564
Interest receivable	12,996	(14,382)
Prepaid expenses	(44,308)	(25,318)
Accounts/pledge payable and accrued expenses	779,672	(15,039)
Insurance premium payable	(241,631)	209,523
Funds held for others	142,551	(104,045)
	<u>(1,207,849)</u>	<u>1,038,922</u>
Net cash provided (used) by operating activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(5,423,286)	(6,786,870)
Proceeds from sale of investments	6,103,530	6,357,360
Purchase of property and equipment	772,292	(630,757)
Proceeds from sale of fixed assets - net of selling expenses	225,018	1,541
	<u>1,677,554</u>	<u>(1,058,726)</u>
Net cash provided (used) by investing activities		
CASH FLOWS FROM FINANCING ACTIVITIES		
Net change in cash overdraft	(86,086)	19,804
NET CHANGE IN CASH AND CASH EQUIVALENTS	383,619	-
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	-	-
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 383,619</u>	<u>\$ -</u>
SUPPLEMENTAL DISCLOSURE		
Schedule of Noncash Transactions		
Increase (decrease) in annuities payable and investments	\$ (37,254)	\$ 106,523

See Notes to Financial Statements

DIOCESE OF BISMARCK
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

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>2016</u>	<u>2015</u>
Insurance Fund	\$ 430,823	\$ 552,053
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	95,000	75,000
Kateri Tekawitha	9,600	9,600
Binations	11,437	250
Summer Program	800	-
Rev. M. Mullner Search	6,644	5,492
Vocations	82,711	86,080
Human Development	30,033	32,780
Deacon Education	13,140	516
Fr. Kramer Estate	321,460	321,460
Total	<u>\$ 8,144,649</u>	<u>\$ 8,226,232</u>

DIOCESE OF BISMARCK
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2016 AND 2015

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, 2016 AND 2015

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

DIOCESE OF BISMARCK
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2016 AND 2015

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.

Reclassification of Prior Year Information

Certain reclassifications have been made within the prior year financial statements in order to conform them with the current year presentation.

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, 2016, the Diocese was not exposed to any custodial credit risk.

NOTE 3 ACCOUNTS/PLEDGES RECEIVABLE

Accounts/pledges receivable at June 30, 2016 and 2015, consist of the following:

	2016	2015
Due from Parishes for:		
Priests health insurance	\$ 8,599	\$ 1,616
Other	-	4,090
Pledges receivable - God's Share	440,481	363,900
Due from Catholic Foundation	252,081	286,788
Other receivables	75,891	137,945
Allowance for doubtful accounts	(40,169)	(40,169)
	\$ 736,883	\$ 754,170

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

DIOCESE OF BISMARCK
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2016 AND 2015

NOTE 4 NOTES RECEIVABLE

Notes receivables at June 30, 2016 and 2015, consist of the following:

Payor	Rate	Maturity Date	2016 Maturity Balance	2015 Maturity Balance	Security
Individual-Lohmann	3.32%	1-Jun-15	\$ 7,025	\$7,025	Unsecured
Individual-Folorunso	2.99%	15-Mar-21	23,500	-	Unsecured
Individual-Schafer	2.99%	1-Jun-22	20,404	-	Unsecured
Total all funds			<u>\$50,929</u>	<u>\$7,025</u>	

NOTE 5 INVESTMENTS

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

	Cost	Fair Value
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>

DIOCESE OF BISMARCK
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2016 AND 2015

Investments are stated at fair value and are summarized as follows as of June 30, 2015:

	<u>Cost</u>	<u>Fair Value</u>
Money market funds	\$ 1,105,584	\$ 1,105,584
Equities:		
U.S. large cap	4,417,520	6,601,797
U.S. mid cap	1,668,896	2,431,863
U.S. small cap	940,309	1,114,738
International developed/emerging markets	792,823	1,083,332
Mutual funds:		
U.S. large cap	104,418	104,418
U.S. mid cap	32,712	32,712
U.S. small cap	14,142	14,142
International developed/emerging markets	82,300	82,300
Fixed income	246,588	246,588
Fixed income:		
Investment grade taxable	7,340,253	7,319,155
International developed	226,017	226,024
Fixed income other	20,872	20,885
Public REITs	409,383	370,885
	<u>\$ 17,401,817</u>	<u>\$ 20,754,423</u>

The Diocese had a realized gain of \$86,362 and an unrealized loss of \$55,330 for the year ended June 30, 2016. The Diocese had a realized gain of \$306,367 and unrealized loss of \$254,123 for the year ended June 30, 2015.

DIOCESE OF BISMARCK
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2016 AND 2015

NOTE 6 FAIR VALUE MEASUREMENTS

Financial instruments measured at fair value on a recurring basis as of June 30, 2016 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	\$ 1,392,486	\$ 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/ 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/ 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>\$ 13,160,488</u>	<u>\$6,940,689</u>	<u>\$ -</u>
Annuities payable	<u>\$ 940,691</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 940,691</u>

DIOCESE OF BISMARCK
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2016 AND 2015

Assets measured at fair value on a recurring basis as of June 30, 2015 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	\$ 1,105,584	\$ 1,105,584	\$ -	\$ -
Equities:				
U.S. large cap	6,601,797	6,601,797	-	-
U.S. mid cap	2,431,863	2,431,863	-	-
U.S. small cap	1,114,738	1,114,738	-	-
International developed/ emerging markets	1,083,332	1,083,332	-	-
Mutual funds:				
U.S. large cap	104,418	104,418	-	-
U.S. mid cap	32,712	32,712	-	-
U.S. small cap	14,142	14,142	-	-
International developed/ emerging markets	82,300	82,300	-	-
Fixed income	246,588	246,588	-	-
Fixed income:				
Investment grade taxable	7,319,155	-	7,319,155	-
International developed	226,024	-	226,024	-
Fixed income other	20,885	-	20,885	-
Public REITs	370,885	370,885	-	-
Total investments at fair value	<u>\$ 20,754,423</u>	<u>\$ 13,188,359</u>	<u>\$ 7,566,064</u>	<u>\$ -</u>
Annuities payable	<u>\$ 977,945</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 977,945</u>

DIOCESE OF BISMARCK
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2016 AND 2015

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, 2016 and 2015:

	2016	2015
Balance, beginning of year	\$ 977,945	\$ 871,422
Total gains (losses) (realized/unrealized) included in increase (decrease) in net assets	-	-
Purchases	35,000	155,000
Sales	(72,254)	(48,477)
Issuances	-	-
Settlements	-	-
Transfers in and/or out of Level 3	-	-
Balance, end of year	\$ 940,691	\$ 977,945

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.

	Instrument	Fair Value	Principle Valuation Technique	Unobservable Inputs	Range of Significant Input Values	Weighted Average
2016	Annuity Payable	\$940,691	Discounted Cash Flow	Discount Rate	5.0% - 10.0%	7.50%
2015	Annuity Payable	\$977,945	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 \$103,384 have been made against CUP II as of June 30, 2016. There was approximately \$113,725 in outstanding claims as of June 30, 2015.

DIOCESE OF BISMARCK
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2016 AND 2015

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 \$268,161 and \$264,126 as of June 30, 2016 and 2015, 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 2016 and 2015 was \$26,412 and \$26,975, respectively.

NOTE 8 LAND, BUILDINGS AND EQUIPMENT

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

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net</u>
Future parish sites	\$ 155,053	\$ -	\$ 155,053
Land and improvements	724,698	-	724,698
Building and improvements	4,280,808	1,131,700	3,149,108
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>\$ 6,412,163</u>	<u>\$ 2,165,654</u>	<u>\$ 4,246,509</u>

Land, buildings and equipment consist of the following as of June 30, 2015:

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net</u>
Future parish sites	\$ 1,489,914	\$ -	\$ 1,489,914
Land and improvements	719,998	-	719,998
Building and improvements	3,810,390	1,038,091	2,772,299
Technological equipment	382,656	294,936	87,720
Furniture and fixtures	539,806	511,021	28,785
Other equipment	118,035	89,723	28,312
Vehicles	124,027	49,120	74,907
	<u>\$ 7,184,826</u>	<u>\$ 1,982,891</u>	<u>\$ 5,201,935</u>

Depreciation expense for the years ended June 30, 2016 and 2015, was \$183,145 and \$141,980, respectively.

DIOCESE OF BISMARCK
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2016 AND 2015

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, 2016 and 2015 were \$84,289 and \$80,271, 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, 2016 and 2015, 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 totaling \$4,500,000, of which approximately \$0 is outstanding at June 30, 2016 from American Bank Center, Dickinson, North Dakota, to the Dickinson Catholic Schools. As of June 30, 2016, 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, 2016, there was no outstanding balance on the line of credit.

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

DIOCESE OF BISMARCK
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2016 AND 2015

NOTE 16 SUBSEQUENT EVENTS

No significant events occurred subsequent to the Diocese's year end. Subsequent events have been evaluated through November 29, 2016, 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, 2016 and 2015, and have issued our report thereon dated November 29, 2016, 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 black ink that reads "Brady Martz".

BRADY, MARTZ & ASSOCIATES, P.C.

Bismarck, North Dakota

November 29, 2016

DIOCESE OF BISMARCK
SCHEDULE OF CHANGES IN DESIGNATED UNRESTRICTED NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2016

	Balance 6/30/2015	Transfers/ Additions	Transfers/ Disbursements	Balance 6/30/2016
(1) Insurance Fund	\$ 552,053	\$ 150,061	\$ 271,291	\$ 430,823
(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	75,000	20,000	-	95,000
Kateri Tekawitha	9,600	-	-	9,600
Binations	250	16,907	5,720	11,437
Summer Program	-	2,950	2,150	800
Rev. M. Mullner Search	5,492	5,801	4,649	6,644
Vocations	86,080	19,100	22,469	82,711
Human Development	32,780	1,377	4,124	30,033
Deacon Education	516	12,879	255	13,140
Rev. Thomas Kramer Estate Fund for Special Purposes	321,460	-	-	321,460
	<u>\$ 8,226,232</u>	<u>\$ 229,075</u>	<u>\$ 310,658</u>	<u>\$ 8,144,649</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, 2016

	Balance 6/30/2015	Additions	Transfers/ Disbursements	Balance 6/30/2016
Campaign for Human Development	\$ 1,012	\$ 4,627	\$ 5,509	\$ 130
Indian and Black Missions	984	92,291	92,728	547
Operation Rice Bowl	547	52,030	52,155	422
Mass Stipends Fund	20,585	12,275	13,340	19,520
National Religious Retirement Office	3,671	74,696	56,369	21,998
Peter's Pence Collection	4,729	47,793	46,311	6,211
Propagation of Faith	(1,104)	98,684	93,345	4,235
Holy Land Collections	500	61,069	61,459	110
Archdiocese Military Service	1,957	249	-	2,206
Bishop Ryan High School	-	1,042	1,042	-
L-T Care Fund - Priest	(33,117)	150,752	48,278	69,357
Retrouvaille Fund - Family Ministry	20,274	25,125	19,164	26,235
Catholic Leadership	1,310	-	-	1,310
Middle East Collection	-	2,096	-	2,096
Nepal Earthquake Collection	-	10,052	-	10,052
Miscellaneous	1,470	32,789	33,319	940
	<u>\$ 22,818</u>	<u>\$ 665,570</u>	<u>\$ 523,019</u>	<u>\$ 165,369</u>

DIOCESE OF BISMARCK
SCHEDULES OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
Pastoral:		
Bishop's office	\$ 218,003	\$ 160,458
Bishop's contingency	-	58,185
Canonical services	263,561	211,496
Stewardship office	259,223	239,064
Office of liturgy	24,852	25,891
East African Mission	225,828	265,281
Planned giving office	214,356	264,284
Dakota Catholic Action	166,820	154,812
North Dakota Catholic Conference	96,411	84,500
National Catholic Conference of Bishops	17,771	16,784
THIRST Conference	38,013	22,138
Search for Catholic Ministry	9,054	13,052
Catholic Home Missions Appeal	10,000	17,000
Holy Father missions	5,600	5,600
Catholic Communication Campaign	1,600	1,600
	<u>\$ 1,551,092</u>	<u>\$ 1,540,145</u>
Religious personnel development:		
Seminarian education & formation	\$ 735,465	\$ 624,586
Vocation office	100,744	117,714
Diaconate formation	130,880	129,851
Continuing education of priests	63,037	62,472
Vicar General/Vicar Presbyters	3,017	1,387
	<u>\$ 1,033,143</u>	<u>\$ 936,010</u>
Religious personnel services:		
Retired priests' expense	\$ 221,240	\$ 204,798
Other priests' care needs	224,814	44,044
Emmaus Place	88,203	124,091
Presbyteral council	2,409	2,416
Priest personnel board	-	144
	<u>\$ 536,666</u>	<u>\$ 375,493</u>

DIOCESE OF BISMARCK
SCHEDULES OF FUNCTIONAL EXPENSES - CONTINUED
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
Education:		
Catholic education subsidy	\$ 272,900	\$ 265,900
Catholic schools and educational endowment	81,379	113,231
Faith formation	75,901	81,275
Fort Yates Indian Mission	52,020	48,464
Other education	64,686	110,201
Catholic University	1,000	1,000
Holy See	12,500	12,500
Youth Correctional Center	-	5,247
Youth ministry	13,440	22,235
Gifts & Donation Expense	2,155,503	-
Tuition assistance - educators	29,608	-
	<u>\$ 2,758,937</u>	<u>\$ 660,053</u>
 Social services:		
Office of Family Life	\$ 82,708	\$ 108,299
Catholic Relief Services	22,000	8,906
Respect life program	47,104	26,200
Church in Latin America	5,000	5,000
	<u>\$ 156,812</u>	<u>\$ 148,405</u>
 General administration:		
Chancery	\$ 223,666	\$ 194,202
Property management	358,313	329,877
Depreciation	183,145	141,980
Fiscal	267,795	244,118
Professional fees	174,232	202,444
Personnel administration	23,812	31,778
Internal Audit	63,798	-
Insurance program	121,230	200,400
	<u>\$ 1,415,991</u>	<u>\$ 1,344,799</u>