

**DIOCESE OF BISMARCK  
BISMARCK, NORTH DAKOTA**

AUDITED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

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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, 2018 and 2017, 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, 2018 and 2017, 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, 2018

**DIOCESE OF BISMARCK**  
**STATEMENTS OF FINANCIAL POSITION**  
**JUNE 30, 2018 AND 2017**

	2018	2017
<b>ASSETS</b>		
Cash and cash equivalents	\$ 406,882	\$ 1,138,443
Accounts/pledges receivable, net of allowance for doubtful accounts	846,088	457,185
Interest receivable	59,575	50,583
Due from related parties	100,000	100,000
Prepaid expenses	134,173	91,104
Investments	23,835,452	21,466,815
Mutual investment	268,033	290,922
Notes receivable	567,040	65,433
Land, buildings and equipment, net of accumulated depreciation	4,772,497	4,564,906
Total assets	\$ 30,989,740	\$ 28,225,391
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 1,246,224	\$ 1,382,847
Pledge payable - Light of Christ	593,600	742,000
Insurance premium payable	-	43,037
Health care payable	326,847	279,912
Annuities payable	1,079,084	1,071,649
Funds held for others	322,320	352,393
Total liabilities	3,568,075	3,871,838
<b>NET ASSETS</b>		
Unrestricted		
Undesignated	19,521,420	16,350,217
Designated	7,900,245	8,003,336
Total unrestricted net assets	27,421,665	24,353,553
Total liabilities and net assets	\$ 30,989,740	\$ 28,225,391

See Notes to the Financial Statements

**DIOCESE OF BISMARCK**  
**STATEMENTS OF ACTIVITIES**  
**FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

	2018	2017
<b>SUPPORT AND REVENUE</b>		
Contributions and bequests - God's Share	\$ 3,539,231	\$ 3,273,639
Contributions and bequests - other	2,031,451	211,010
Distributions from Catholic Foundation	840,580	855,027
Grant income	55,336	86,607
Mineral rights lease and royalty revenue	494,208	526,092
Investment income	377,663	342,146
Net realized and unrealized gain on investments	984,609	1,249,745
Insurance	285,712	286,881
Rent and other revenue	195,583	276,798
Admin fee revenue	205,061	195,211
Gain (loss) on sale of fixed assets	-	(9,295)
Total support and revenue	9,009,434	7,293,861
 <b>EXPENSES</b>		
Program services		
Pastoral	1,736,505	1,739,231
Religious personnel development	1,319,107	1,293,180
Religious personnel services	309,923	343,099
Education	684,847	597,968
Social services	118,639	155,618
Program administration	206,121	155,773
Total program services	4,375,142	4,284,869
Supporting services:		
General administration	1,566,180	1,515,787
Total expenses	5,941,322	5,800,656
 <b>INCREASE (DECREASE) IN NET ASSETS</b>	 3,068,112	 1,493,205
 <b>NET ASSETS, BEGINNING OF YEAR</b>	 24,353,553	 22,860,348
 <b>NET ASSETS, END OF YEAR</b>	 \$ 27,421,665	 \$ 24,353,553

See Notes to the Financial Statements

**DIOCESE OF BISMARCK**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 3,068,112	\$ 1,493,205
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation expense	174,374	148,092
(Gain) loss on sale of fixed assets	-	9,295
Realized and unrealized (gain) loss on investments	(999,453)	(1,096,026)
Change in equity in the undistributed (gain) loss on mutual investment	22,889	(22,761)
Effects on operating cash flow due to changes in:		
Accounts/pledges receivable	(388,903)	214,265
Interest receivable	(8,992)	(827)
Prepaid expenses	(43,069)	37,720
Accounts/pledge payable and accrued expenses	(285,023)	77,681
Insurance premium payable	(43,037)	41,682
Health care payable	46,935	279,912
Funds held for others	(30,073)	187,024
	1,513,760	1,369,262
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of investments	(6,846,378)	(7,203,979)
Proceeds from sale of investments	5,484,629	7,065,324
Purchase of property and equipment	(381,965)	(475,783)
Increase in notes receivable	(501,607)	-
	(2,245,321)	(614,438)
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	(731,561)	754,824
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	1,138,443	383,619
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	\$ 406,882	\$ 1,138,443
<b>SUPPLEMENTAL DISCLOSURE</b>		
Schedule of Noncash Transactions		
Increase (decrease) in annuities payable and investments	\$ 7,435	\$ 130,958

See Notes to the Financial Statements

**DIOCESE OF BISMARCK**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**

**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>2018</u>	<u>2017</u>
Insurance Fund	\$ 433,528	\$ 407,057
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	136,000	283,500
Reserve for Technology to be Capitalized	54,000	74,000
Kateri Tekawitha	9,600	9,600
Binations	21,765	9,235
Summer Program/Rev. M. Mullner Search	8,322	6,412
Vocations	89,584	33,032
Human Development	22,320	22,768
Deacon Education	7,844	8,044
Fr. Kramer Estate	257,781	290,187
Total	<u>\$ 7,900,245</u>	<u>\$ 8,003,336</u>



**DIOCESE OF BISMARCK**  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
JUNE 30, 2018 AND 2017

**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, 2018 AND 2017

**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, 2018 AND 2017

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, 2018, the Diocese was not exposed to any custodial credit risk.

**DIOCESE OF BISMARCK**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2018 AND 2017**

**NOTE 3 ACCOUNTS/PLEDGES RECEIVABLE**

Accounts/pledges receivable at June 30, 2018 and 2017, consist of the following:

	<u>2018</u>	<u>2017</u>
Due from Parishes for:		
Priests health insurance	\$ 24,826	\$ 24,492
Other	10,992	-
Pledges receivable - God's Share	438,715	413,602
Property insurance	81,852	-
Due from Catholic Foundation	282,108	30,687
Other receivables	47,764	28,573
Allowance for doubtful accounts	<u>(40,169)</u>	<u>(40,169)</u>
	<u>\$ 846,088</u>	<u>\$ 457,185</u>

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

**NOTE 4 NOTES RECEIVABLE**

Notes receivables at June 30, 2018 and 2017 consist of the following:

<u>Payor</u>	<u>Rate</u>	<u>Maturity Date</u>	<u>2018 Maturity Balance</u>	<u>2017 Maturity Balance</u>	<u>Security</u>
Individual-Lohmann	3.32%	Demand	\$ 7,025	\$ 7,025	Unsecured
Individual-Folorunso	2.99%	March 15, 2021	12,828	18,350	Unsecured
Individual-Schafer	2.99%	June 1, 2022	13,914	17,208	Unsecured
Light of Christ/Catholic Schools	2.50%	March 1, 2023	247,273	-	Unsecured
Church of St. Mary's Bismarck	2.99%	June 1, 2023	65,600	-	Unsecured
Church of St. Mary's - City of Bismarck	Variable	Demand	20,000	-	Unsecured
Church of Christ the King School	2.99%	January 1, 2029	50,400	22,850	Unsecured
Church of Christ the King School Promissory	2.99%	December 1, 2029	<u>150,000</u>	<u>-</u>	Unsecured
Total all funds			<u>\$567,040</u>	<u>\$65,433</u>	

**DIOCESE OF BISMARCK**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2018 AND 2017**

**NOTE 5 INVESTMENTS**

Investments are stated at fair value and are summarized as follows as of June 30, 2018:

	<u>Cost</u>	<u>Fair Value</u>
Money market funds	\$ 1,376,612	\$ 1,376,612
Equities:		
U.S. large cap	4,257,573	8,139,196
U.S. mid cap	2,307,862	2,992,174
U.S. small cap	648,834	1,045,073
International developed/emerging markets	613,443	862,734
Mutual funds:		
U.S. large cap	61,984	61,984
U.S. mid cap	39,052	39,052
U.S. small cap	58,413	58,413
International developed/emerging markets	21,830	21,830
Fixed income	269,454	269,454
Fixed income:		
Investment grade taxable	8,837,981	8,675,486
Investment grade tax exempt	48,237	46,655
International developed	255,671	246,789
	<u>\$ 18,796,946</u>	<u>\$ 23,835,452</u>

**DIOCESE OF BISMARCK**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2018 AND 2017**

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

	<u>Cost</u>	<u>Fair Value</u>
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	204,211	201,822
	<u>\$ 17,201,926</u>	<u>\$ 21,466,815</u>

The Diocese had a realized gain of \$268,703 and an unrealized gain of \$715,906 for the year ended June 30, 2018. The Diocese had a realized gain of \$340,192 and an unrealized gain of \$909,553 for the year ended June 30, 2017.

**DIOCESE OF BISMARCK**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2018 AND 2017**

**NOTE 6 FAIR VALUE MEASUREMENTS**

Financial instruments measured at fair value on a recurring basis as of June 30, 2018 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	\$ 1,376,612	\$ 1,376,612	\$ -	\$ -
Equities:				
U.S. large cap	8,139,196	8,139,196	-	-
U.S. mid cap	2,992,174	2,992,174	-	-
U.S. small cap	1,045,073	1,045,073	-	-
International developed/ emerging markets	862,734	862,734	-	-
Mutual funds:				
U.S. large cap	61,984	61,984	-	-
U.S. mid cap	39,052	39,052	-	-
U.S. small cap	58,413	58,413	-	-
International developed/ emerging markets	21,830	21,830	-	-
Fixed income	269,454	269,454	-	-
Fixed income:				
Investment grade taxable	8,675,486	-	8,675,486	-
Investment grade tax exempt	46,655	-	46,655	-
International developed	246,789	-	246,789	-
Total investments at fair value	<u>\$ 23,835,452</u>	<u>\$ 14,866,522</u>	<u>\$ 8,968,930</u>	<u>\$ -</u>
Annuities payable	<u>\$ 1,079,084</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,079,084</u>

**DIOCESE OF BISMARCK**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2018 AND 2017**

Financial instruments measured at fair value on a recurring basis as of June 30, 2017 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	\$ 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/ 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/ emerging markets	23,828	23,828	-	-
Fixed income	261,627	261,627	-	-
Fixed income:				
Investment grade taxable	7,319,292	-	7,319,292	-
International developed	49,092	-	49,092	-
Global high yield taxable	201,822	-	201,822	-
Public REITs	-	-	-	-
Total investments at fair value	<u>\$ 21,466,815</u>	<u>\$ 13,896,609</u>	<u>\$ 7,570,206</u>	<u>\$ -</u>
Annuitants 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, 2018 AND 2017**

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, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Balance, beginning of year	\$ 1,071,649	\$ 940,691
Total gains (losses) (realized/unrealized) included in increase (decrease) in net assets	-	-
Purchases	109,889	210,990
Sales	<u>(102,454)</u>	<u>(80,032)</u>
Balance, end of year	<u>\$ 1,079,084</u>	<u>\$ 1,071,649</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 Valuation Technique</u>	<u>Unobservable Inputs</u>	<u>Range of Significant Input Values</u>	<u>Weighted Average</u>
2018	Annuity Payable	\$1,079,084	Discounted Cash Flow	Discount Rate	5.0% - 10.0%	7.50%
2017	Annuity Payable	\$1,071,649	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 \$112,039 have been made against CUP II as of June 30, 2018. There was approximately \$117,211 in outstanding claims as of June 30, 2017.

**DIOCESE OF BISMARCK**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2018 AND 2017**

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 \$268,033 and \$290,922 as of June 30, 2018 and 2017, 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 2018 and 2017 was \$29,092 and \$26,816, respectively.

**NOTE 8 LAND, BUILDINGS AND EQUIPMENT**

Land, buildings and equipment consist of the following as of June 30, 2018:

	<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	5,048,396	1,332,398	3,715,998
Technological equipment	426,512	383,800	42,712
Furniture and fixtures	626,598	567,932	58,666
Other equipment	137,209	111,337	25,872
Vehicles	120,204	70,706	49,498
	<u>\$ 7,238,670</u>	<u>\$ 2,466,173</u>	<u>\$ 4,772,497</u>

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

	<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	4,688,397	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>

Depreciation expense for the years ended June 30, 2018 and 2017, was \$174,374 and \$148,092, respectively.

**DIOCESE OF BISMARCK**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2018 AND 2017**

**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, 2018 and 2017 were \$86,113 and \$84,176, respectively.

**NOTE 11 RELATED PARTY**

The Diocese of Bismarck is affiliated with the Parish Expansion Fund of the Diocese of Bismarck (Parish Expansion Fund) through some common members of their Boards of Directors. The Parish Expansion Fund provides a lending and depository function for the parishes and related entities of the Diocese. At June 30, 2018 and 2017, the Diocese has \$100,000 due from the Parish 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, 2018, 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, 2018, there was no outstanding balance on the line of credit.

**DIOCESE OF BISMARCK**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2018 AND 2017**

**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 FUTURE PRONOUNCEMENTS**

**ASU 2014-09, Revenue from Contracts with Customers (Topic 606)**

During 2014, FASB issued a new standard related to revenue recognition. ASU 2014-09, upon its effective date, replaces almost all existing revenue recognition guidance, including industry specific guidance, in current U.S. GAAP. Under the new standard, revenue is recognized when a customer obtains control of promised goods or services in an amount that reflects the consideration the entity expects to receive in exchange for those goods or services. In addition, the standard requires disclosure of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The guidance will be effective for the Diocese for annual periods beginning after December 15, 2018, and interim periods within annual reporting periods beginning after December 15, 2019.

**ASU 2016-02, Leases (Topic 842)**

During 2016, the FASB issued guidance to change the accounting for leases. The main provision of ASU 2016-001 is that lessees will be required to recognize lease assets and lease liabilities for most long-term leases, including those classified as operating leases under GAAP. The ASU is effective for the Diocese for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020.

**ASU 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities**

This ASU simplifies and improves how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance and cash flows. The ASU is effective for annual financial statements issued for fiscal years beginning after December 15, 2017, and for interim periods within fiscal years beginning after December 15, 2018.

With the exception of the new standards discussed above, we have not identified any other new accounting pronouncements that have potential significance to the Diocese' financial statements.

**NOTE 17 SUBSEQUENT EVENTS**

No significant events occurred subsequent to the Diocese's year end. Subsequent events have been evaluated through December 10, 2018, 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, 2018 and 2017, and have issued our report thereon dated December 10, 2018, 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, 2018

**DIOCESE OF BISMARCK**  
**SCHEDULE OF CHANGES IN DESIGNATED UNRESTRICTED NET ASSETS**  
**FOR THE YEAR ENDED JUNE 30, 2018**

	Balance 6/30/2017	Transfers/ Additions	Transfers/ Disbursements	Balance 6/30/2018
(1) Insurance Fund	\$ 407,057	\$ 285,712	\$ 259,241	\$ 433,528
(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	-	147,500	136,000
(7) Reserve for Technology to be Capitalized	74,000	-	20,000	54,000
Kateri Tekawitha	9,600	-	-	9,600
Binations	9,235	12,540	10	21,765
Summer Program/Rev. M. Mullner Search	6,412	4,475	2,565	8,322
Vocations	33,032	59,544	2,992	89,584
Human Development	22,768	-	448	22,320
Deacon Education	8,044	-	200	7,844
Rev. Thomas Kramer Estate Fund for Special Purposes	290,187	-	32,406	257,781
	<u>\$ 8,003,336</u>	<u>\$ 362,271</u>	<u>\$ 465,362</u>	<u>\$ 7,900,245</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, 2018**

	Balance 6/30/2017	Additions	Transfers/ Disbursements	Balance 6/30/2018
Campaign for Human Development	\$ 60	\$ 3,030	\$ 307	\$ 2,783
Indian and Black Missions	1,136	73,760	73,702	1,194
Operation Rice Bowl	56,352	49,519	57,542	48,329
Mass Stipends Fund	13,330	10,720	17,330	6,720
National Religious Retirement Office	3,147	50,361	48,960	4,548
Peter's Pence Collection	7,343	33,281	26,252	14,372
Propagation of Faith	6,677	33,099	34,947	4,829
Holy Land Collections	71,543	57,251	72,774	56,020
Archdiocese Military Service	26,084	1,142	26,084	1,142
Bishop Ryan High School	701	1,297	340	1,658
Disaster Relief Fund	-	78	-	78
L-T Care Fund - Priest	88,144	166,087	202,307	51,924
Retrouvaille Fund - Family Ministry	24,242	10,530	20,282	14,490
Catholic Leadership	1,310	-	-	1,310
Middle East Collection	2,096	-	-	2,096
Nepal Earthquake Collection	10,062	205	-	10,267
Louisiana Flood Relief	335	3	-	338
ND Catholic Charities Collection	(765)	17,532	17,635	(868)
Haiti Relief Collection	34,239	-	-	34,239
USCCB Trinity Dome Collection	5,174	7,441	-	12,615
Hurricane Harvey Collection	-	218,002	232,553	(14,551)
Hurricane Irma	-	43,421	-	43,421
Cust- Amr.Exp-Bowman-M.K.	765	-	-	765
Miscellaneous	418	24,943	760	24,601
	<u>\$ 352,393</u>	<u>\$ 801,702</u>	<u>\$ 831,775</u>	<u>\$ 322,320</u>

**DIOCESE OF BISMARCK**  
**SCHEDULES OF FUNCTIONAL EXPENSES**  
**FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

	<u>2018</u>	<u>2017</u>
Pastoral:		
Bishop's office	\$ 194,715	\$ 261,171
Canonical services	262,074	256,162
Stewardship office	289,996	283,204
Office of liturgy	29,595	27,953
East African Mission	202,897	284,424
Planned giving office	251,901	140,631
Dakota Catholic Action	160,686	157,764
North Dakota Catholic Conference	243,434	145,649
National Catholic Conference of Bishops	18,936	18,745
THIRST Conference	21,902	137,778
Search for Catholic Ministry	48,769	13,550
Catholic Home Missions Appeal	5,000	5,000
Holy Father missions	5,600	5,600
Catholic Communication Campaign	1,000	1,600
	<u>                    </u>	<u>                    </u>
Total pastoral	<u>\$ 1,736,505</u>	<u>\$ 1,739,231</u>
Religious personnel development:		
Seminarian education & formation	\$ 990,958	\$ 960,298
Vocation office	144,422	133,991
Diaconate formation	128,666	120,907
Continuing education of priests	35,213	69,561
Vicar General/Vicar Presbyters	19,848	8,423
	<u>                    </u>	<u>                    </u>
Total religious personnel development	<u>\$ 1,319,107</u>	<u>\$ 1,293,180</u>
Religious personnel services:		
Retired priests' expense	\$ 161,274	\$ 166,768
Other priests' care needs	46,733	75,770
Emmaus Place	99,143	97,573
Presbyteral council	2,695	2,900
Priest personnel board	78	88
	<u>                    </u>	<u>                    </u>
Total religious personnel services	<u>\$ 309,923</u>	<u>\$ 343,099</u>



**DIOCESE OF BISMARCK**  
**SCHEDULES OF FUNCTIONAL EXPENSES - CONTINUED**  
**FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

	<u>2018</u>	<u>2017</u>
Education:		
Catholic education subsidy	\$ 285,200	\$ 272,900
Catholic schools and educational endowment	77,879	83,668
Faith formation	143,028	91,506
Fort Yates Indian Mission	52,986	53,676
Other education	18,864	27,467
Catholic University	1,000	1,000
Holy See	12,500	12,500
Youth ministry	59,477	27,648
Gifts & Donation Expense	5,000	-
Tuition assistance - educators	28,913	27,603
	<u>28,913</u>	<u>27,603</u>
Total education	<u>\$ 684,847</u>	<u>\$ 597,968</u>
Social services:		
Office of Family Life	\$ 84,065	\$ 98,316
Catholic Relief Services	3,000	5,000
Respect life program	28,574	47,302
Church in Latin America	3,000	5,000
	<u>3,000</u>	<u>5,000</u>
Total social services	<u>\$ 118,639</u>	<u>\$ 155,618</u>
Program administration		
Funds released to programs	<u>\$ 206,121</u>	<u>\$ 155,773</u>
General administration:		
Chancery	\$ 200,847	\$ 200,372
Property management	402,488	414,517
Depreciation	174,374	148,092
Fiscal	276,502	249,793
Professional fees	143,411	147,999
Personnel administration	19,125	18,292
Internal Audit	90,192	66,027
Insurance program	259,241	270,695
	<u>259,241</u>	<u>270,695</u>
Total general administration	<u>\$ 1,566,180</u>	<u>\$ 1,515,787</u>