

**DIOCESE OF BISMARCK
BISMARCK, NORTH DAKOTA**

AUDITED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

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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, 2019 and 2018, and the related statements of activities, functional expenses, 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, 2019 and 2018, 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.

Emphasis of Matter

As discussed in Note 1 to the consolidated financial statements, Diocese of Bismarck adopted the provisions of FASB Accounting Standards Update No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, in 2018. This resulted in changes to accounting policies regarding classification of net assets, new disclosures were added regarding liquidity and availability, and disclosures related to the functional allocation of expenses were expanded. Our opinion is not modified with respect to this matter.



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

November 27, 2019

DIOCESE OF BISMARCK
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2019 AND 2018

	2019	2018
ASSETS		
Cash and cash equivalents	\$ 414,470	\$ 406,882
Accounts/pledges receivable, net of allowance for doubtful accounts	662,761	846,088
Interest receivable	46,923	59,575
Due from related parties	102,287	100,000
Prepaid expenses	163,047	134,173
Investments	25,397,877	23,835,452
Mutual investment	262,719	268,033
Notes receivable	483,112	567,040
Land, buildings and equipment, net of accumulated depreciation	4,803,359	4,772,497
Total assets	\$ 32,336,555	\$ 30,989,740
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	\$ 1,128,458	\$ 1,246,224
Pledge payable - Light of Christ	-	593,600
Health care payable	399,235	326,847
Annuities payable	1,236,915	1,079,084
Funds held for others	283,907	322,320
Total liabilities	3,048,515	3,568,075
NET ASSETS		
Without donor restrictions	21,107,722	19,521,420
Without donor restrictions - board designated	8,180,318	7,900,245
Total net assets	29,288,040	27,421,665
Total liabilities and net assets	\$ 32,336,555	\$ 30,989,740

See Notes to the Financial Statements

DIOCESE OF BISMARCK
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
SUPPORT AND REVENUE		
Contributions and bequests - God's Share	\$ 3,512,892	\$ 3,539,231
Contributions and bequests - other	78,673	2,031,451
Distributions from Catholic Foundation	1,344,047	840,580
Grant income	52,837	55,336
Mineral rights lease and royalty revenue	630,377	494,208
Investment income	437,070	377,663
Net realized and unrealized gain on investments	1,466,429	984,609
Insurance	285,057	285,712
Rent and other revenue	198,066	195,583
Admin fee revenue	210,460	205,061
Gain (loss) on sale of fixed assets	(7,409)	-
Total support and revenue	8,208,499	9,009,434
 EXPENSES		
Program services		
Pastoral	1,428,327	1,281,707
Religious personnel development	1,541,582	1,319,107
Religious personnel services	343,713	309,923
Education	635,064	631,861
Social services	162,476	118,639
Program administration	21,594	206,121
Total program services	4,132,756	3,867,358
Supporting services:		
General administration	1,801,555	1,566,180
Fundraising	407,812	507,784
Total supporting services	2,209,367	2,073,964
Total expenses	6,342,123	5,941,322
 INCREASE (DECREASE) IN NET ASSETS WITHOUT DONOR RESTRICTIONS	 1,866,376	 3,068,112
 NET ASSETS WITHOUT DONOR RESTRICTIONS, BEGINNING OF YEAR	 27,421,665	 24,353,553
 NET ASSETS WITHOUT DONOR RESTRICTIONS, END OF YEAR	 \$ 29,288,040	 \$ 27,421,665

See Notes to the Financial Statements

DIOCESE OF BISMARCK
STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2019 AND SUMMARIZED INFORMATION FOR 2018

	Program Services										2019 Total Expenses	2018 Total Expenses
	Pastoral	Religious Personnel Development	Religious Personnel Services	Education	Social Services	Program Administration	Total Program Services	Management and General	Fundraising			
Salaries and benefits	\$ 578,102	\$ 116,751	\$ 8,441	\$ 10,820	\$ 52,970	\$ -	\$ 767,084	\$ 689,849	\$ 159,712	\$ 1,616,645	\$ 1,570,627	
Dues, registration, professional development	110,503	134,974	11,818	126,239	32,213	-	415,747	80,144	212,301	708,192	736,292	
Office expenses	264,051	10,159	11,008	5,861	19,980	-	311,059	157,569	18,118	486,746	415,326	
Postage	87,138	1,931	73	297	719	-	90,158	6,026	4,138	100,322	99,628	
Telephone expenses	1,823	930	250	-	-	-	3,003	17,548	80	20,631	26,260	
Utilities	-	-	14,472	-	-	-	14,472	31,914	-	46,386	47,338	
Building, grounds, maintenance supply	1,222	-	13,416	-	-	-	14,638	35,794	-	50,432	35,603	
Travel	38,728	44,561	2,834	31,647	13,645	-	131,415	6,907	11,570	149,892	107,439	
Priest care	-	-	255,297	-	-	-	255,297	-	-	255,297	208,007	
Food and groceries	27,237	41,554	18,562	11,358	29,821	-	128,532	2,386	1,808	132,726	93,301	
Insurance expense	1,141	-	6,140	-	-	-	7,281	389,058	-	396,339	338,118	
Education	-	1,189,135	-	440,978	-	-	1,630,113	13,244	-	1,643,357	1,419,314	
Depreciation	-	-	-	-	-	-	-	204,262.54	-	204,263	174,374	
Professional fees	250,112	-	-	-	-	-	250,112	166,854	-	416,966	398,482	
Funds released to programs	-	-	-	-	-	21,594	21,594	-	-	21,594	206,121	
Miscellaneous	68,270	1,587	1,402	7,864	13,128	-	92,251	-	85	92,336	65,093	
Total expenses	\$ 1,428,327	\$ 1,541,582	\$ 343,713	\$ 635,064	\$ 162,476	\$ 21,594	\$ 4,132,756	\$ 1,801,555	\$ 407,812	\$ 6,342,123	\$ 5,941,322	

See Notes to the Financial Statements

DIOCESE OF BISMARCK
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,866,376	\$ 3,068,112
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation expense	204,263	174,374
(Gain) loss on sale of fixed assets	7,409	-
Realized and unrealized (gain) loss on investments	(1,296,678)	(999,453)
Change in equity in the undistributed (gain) loss on mutual investment	5,314	22,889
Effects on operating cash flow due to changes in:		
Accounts/pledges receivable	183,327	(388,903)
Interest receivable	12,652	(8,992)
Prepaid expenses	(28,874)	(43,069)
Accounts/pledge payable and accrued expenses	(711,367)	(285,023)
Insurance premium payable	-	(43,037)
Health care payable	72,388	46,935
Funds held for others	(38,413)	(30,073)
	274,110	1,513,760
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(26,480,319)	(6,846,378)
Proceeds from sale of investments	26,372,403	5,484,629
Purchase of property and equipment	(433,197)	(381,965)
Increase (collection) of notes receivable	83,928	(501,607)
	(266,522)	(2,245,321)
NET CHANGE IN CASH AND CASH EQUIVALENTS	7,588	(731,561)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	406,882	1,138,443
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 414,470	\$ 406,882
SUPPLEMENTAL DISCLOSURE		
Schedule of Noncash Transactions		
Increase (decrease) in annuities payable and investments	\$ 157,831	\$ 7,435

See Notes to the Financial Statements

DIOCESE OF BISMARCK
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

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

The financial statements of the Diocese of Bismarck have been prepared in accordance with U.S. generally accepted accounting principles ("US GAAP"), which require the Diocese of Bismarck to report information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of Diocese of Bismarck's management and the board of directors.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Diocese of Bismarck. or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities

DIOCESE OF BISMARCK
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019 AND 2018

The Diocese has only net assets without donor restrictions. Net assets without donor restrictions include net assets that have been designated by the Board of Directors:

	<u>2019</u>	<u>2018</u>
Insurance Fund	\$ 384,684	\$ 433,528
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	250,000	136,000
Reserve for Technology to be Capitalized	34,000	54,000
Kateri Tekawitha	9,600	9,600
Binations	41,318	21,765
Summer Program/Rev. M. Mullner Search	7,122	8,322
Vocations	112,728	89,584
Human Development	23,922	22,320
Deacon Education	8,344	7,844
J Kenney Estate for Emmaus	233,273	-
Fr. Kramer Estate	215,826	257,781
Total	<u>\$ 8,180,318</u>	<u>\$ 7,900,245</u>

Contributions

Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions 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 net assets without donor restrictions 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 net assets with donor restrictions, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Statement of Activities as net assets released from restrictions. Restricted net assets are reclassified to net assets without donor restrictions 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.

DIOCESE OF BISMARCK
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019 AND 2018

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.

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.

DIOCESE OF BISMARCK
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019 AND 2018

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 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.

DIOCESE OF BISMARCK
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019 AND 2018

New Accounting Procurement

On August 18, 2016, Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. A key change required by ASU 2016-14 is the net asset classes used in these financial statements. Amounts previously reported as unrestricted net assets are now reported as net assets without donor restrictions and amounts previously reported as temporarily restricted net assets and permanently restricted net assets are now reported as net assets with donor restrictions. A footnote on liquidity has also been added (Note 9).

Reclassifications

Certain reclassifications have been made to the 2018 financial statements to conform to the 2019 presentation. Such reclassifications had no effect on net assets as previously reported.

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, 2019, the Diocese was not exposed to any custodial credit risk.

NOTE 3 ACCOUNTS/PLEDGES RECEIVABLE

Accounts/pledges receivable at June 30, 2019 and 2018, consist of the following:

	2019	2018
Due from Parishes for:		
Priests health insurance	\$ 15,756	\$ 24,826
Other	10,586	10,992
Pledges receivable - God's Share	428,953	438,715
Property insurance	13,585	81,852
Due from Catholic Foundation	196,480	282,108
Other receivables	37,570	47,764
Allowance for doubtful accounts	(40,169)	(40,169)
	\$ 662,761	\$ 846,088

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

DIOCESE OF BISMARCK
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019 AND 2018

NOTE 4 NOTES RECEIVABLE

Notes receivables at June 30, 2019 and 2018 consist of the following:

Payor	Rate	Maturity Date	2019 Maturity Balance	2018 Maturity Balance	Security
Individual-Lohmann	3.32%	Demand	\$ 7,025	\$ 7,025	Unsecured
Individual-Folorunso	2.99%	March 15, 2021	7,132	12,828	Unsecured
Individual-Schafer	2.99%	June 1, 2022	10,522	13,914	Unsecured
Light of Christ/Catholic Schools	2.50%	March 1, 2023	201,996	247,273	Unsecured
Church of St. Mary's Bismarck	2.99%	June 1, 2023	65,437	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	41,000	50,400	Unsecured
Church of Christ the King School Promissory	2.99%	December 1, 2029	<u>150,000</u>	<u>150,000</u>	Unsecured
Total all funds			<u>\$483,112</u>	<u>\$567,040</u>	

DIOCESE OF BISMARCK
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019 AND 2018

NOTE 5 INVESTMENTS

Investments are stated at fair value and are summarized as follows as of June 30, 2019:

	<u>Cost</u>	<u>Fair Value</u>
Money market funds	\$ 11,885,451	\$ 11,885,866
Equities:		
U.S. large cap	2,043,263	4,696,623
U.S. mid cap	975,782	1,521,962
U.S. small cap	318,539	417,633
International developed/emerging markets	396,940	569,290
Mutual funds:		
U.S. large cap	53,183	53,183
U.S. mid cap	33,409	33,409
U.S. small cap	49,439	49,439
International developed/emerging markets	17,500	17,500
Fixed income	277,515	277,515
Fixed income:		
Investment grade taxable	5,628,343	5,706,527
Investment grade tax exempt	47,234	47,070
International developed	125,651	121,860
	<u>\$ 21,852,249</u>	<u>\$ 25,397,877</u>

DIOCESE OF BISMARCK
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019 AND 2018

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

	Cost	Fair Value
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
	\$ 18,796,946	\$ 23,835,452

The Diocese had a realized gain of \$3,094,777 and an unrealized loss of \$1,628,348 for the year ended June 30, 2019. The Diocese had a realized gain of \$268,703 and an unrealized gain of \$715,906 for the year ended June 30, 2018.

DIOCESE OF BISMARCK
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019 AND 2018

NOTE 6 FAIR VALUE MEASUREMENTS

Financial instruments measured at fair value on a recurring basis as of June 30, 2019 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	\$ 11,885,866	\$ 11,885,866	\$ -	\$ -
Equities:				
U.S. large cap	4,696,623	4,696,623	-	-
U.S. mid cap	1,521,962	1,521,962	-	-
U.S. small cap	417,633	417,633	-	-
International developed/ emerging markets	569,290	569,290	-	-
Mutual funds:				
U.S. large cap	53,183	53,183	-	-
U.S. mid cap	33,409	33,409	-	-
U.S. small cap	49,439	49,439	-	-
International developed/ emerging markets	17,500	17,500	-	-
Fixed income	277,515	277,515	-	-
Fixed income:				
Investment grade taxable	5,706,527	-	5,706,527	-
Investment grade tax exempt	47,070	-	47,070	-
International developed	121,860	-	121,860	-
Total investments at fair value	<u>\$ 25,397,877</u>	<u>\$ 19,522,420</u>	<u>\$ 5,875,457</u>	<u>\$ -</u>
Annuities payable	<u>\$ 1,236,915</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,236,915</u>

DIOCESE OF BISMARCK
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019 AND 2018

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	-
International developed	46,655	-	46,655	-
Global high yield taxable	246,789	-	246,789	-
Public REITs	-	-	-	-
Total investments at fair value	<u>\$23,835,452</u>	<u>\$ 14,866,522</u>	<u>\$8,968,930</u>	<u>\$ -</u>
Annuitants 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, 2019 AND 2018

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, 2019 and 2018:

	2019	2018
Balance, beginning of year	\$ 1,079,084	\$ 1,071,649
Total gains (losses) (realized/unrealized) included in increase (decrease) in net assets	-	-
Purchases	260,614	109,889
Sales	(102,783)	(102,454)
Balance, end of year	\$ 1,236,915	\$ 1,079,084

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
2019	Annuity Payable	\$1,236,913	Discounted Cash Flow	Discount Rate	5.0% - 10.0%	7.50%
2018	Annuity Payable	\$1,079,084	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 \$262,719 have been made against CUP II as of June 30, 2019. There was approximately \$112,039 in outstanding claims as of June 30, 2018.

DIOCESE OF BISMARCK
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019 AND 2018

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 \$262,719 and \$268,033 as of June 30, 2019 and 2018, 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 2019 and 2018 was \$26,803 and \$29,092, respectively.

NOTE 8 LAND, BUILDINGS AND EQUIPMENT

Land, buildings and equipment consist of the following as of June 30, 2019:

	<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	5,196,325	1,427,886	3,768,439
Technological equipment	451,321	404,911	46,410
Furniture and fixtures	650,582	594,186	56,396
Other equipment	137,209	119,658	17,551
Vehicles	120,203	85,391	34,812
	<u>\$ 7,435,391</u>	<u>\$ 2,632,032</u>	<u>\$ 4,803,359</u>

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	1,332,401	3,715,995
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	120,207	70,706	49,501
	<u>\$ 7,238,673</u>	<u>\$ 2,466,176</u>	<u>\$ 4,772,497</u>

Depreciation expense for the years ended June 30, 2019 and 2018, was \$204,263 and \$174,374, respectively.

DIOCESE OF BISMARCK
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019 AND 2018

NOTE 9 LIQUIDITY AND AVAILABILITY

The Fund monitors its liquidity so that is able to meet its operating needs and other commitments. The following table reflects the Fund's financial assets due within one year of the statement of financial position as of June 30, 2019 and 2018 for general expenditures:

	2019	2018
Financial assets at year end:		
Cash and cash equivalents	\$ 414,470	\$ 406,882
Accounts/pledges receivable	662,761	846,088
Interest receivable	46,923	59,575
Investments	25,397,877	23,835,452
Notes receivable collectible within one year	50,832	49,578
Total financial assets	26,572,863	25,197,575
Financial assets available to meet general expenditures over the next twelve months	\$ 26,572,863	\$25,197,575

NOTE 10 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 11 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, 2019 and 2018 were \$95,396 and \$86,673, respectively.

NOTE 12 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, 2019 and 2018, the Diocese has \$100,000 due from the Parish Expansion Fund.

NOTE 13 FUNCTIONAL ALLOCATION OF EXPENSES

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a

DIOCESE OF BISMARCK
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019 AND 2018

reasonable basis that is consistently applied. The expense that are allocated based on the actual direct expenditures and cost allocations based on estimates made by management.

NOTE 14 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, 2019, the Diocese has not been requested to fund any part of the guaranteed amount. Subsequent to year end, the loan requirements were met and the Diocese was released from the guarantee as of the report date of November 27, 2019.

NOTE 15 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, 2019, there was no outstanding balance on the line of credit.

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 FUTURE PRONOUNCEMENTS

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

During 2014, the 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 Organization for annual periods beginning after December 15, 2018, and interim periods within annual reporting periods beginning after December 15, 2019.

ASU 2016-18, Statement of Cash Flows (Topic 230)

Per this ASU, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The ASU is effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. For all other entities, the ASU is effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019.

DIOCESE OF BISMARCK
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019 AND 2018

ASU 2018-08, Contributions Received and Contributions Made (Topic 958)

During 2018, the FASB issued an accounting standard update intended to clarify and improve the scope and the accounting guidance for contributions received and contributions made, primarily for not-for-profit organizations. The amendments of this ASU provide a more robust framework for determining whether a transaction should be accounting for as a contribution or as an exchange transaction. The ASU is effective for the Organization for fiscal years beginning after December 15, 2018, and interim periods within fiscal years 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 2016-01 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, 2020, and interim periods within fiscal years beginning after December 15, 2021.

Management has not yet determined what effect these pronouncements will have on the Foundation's consolidated financial statements.

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 18 SUBSEQUENT EVENTS

No significant events occurred subsequent to the Diocese's year end. Subsequent events have been evaluated through November 27, 2019, which is the date these financial statements were available to be issued.

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, 2019 and 2018, and have issued our report thereon dated November 27, 2019, 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 Net Assets without Donor Restrictions – board designated and Schedule of Changes in Funds Held for Others 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.
BISMARCK, NORTH DAKOTA

November 27, 2019

DIOCESE OF BISMARCK
SCHEDULE OF CHANGES IN NET ASSETS
WITHOUT DONOR RESTRICTIONS – BOARD DESIGNATED
FOR THE YEAR ENDED JUNE 30, 2019

	Balance 6/30/2018	Transfers/ Additions	Transfers/ Disbursements	Balance 6/30/2019
(1) Insurance Fund	\$ 433,528	\$ 285,057	\$ 333,901	\$ 384,684
(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	136,000	114,000	-	250,000
(7) Reserve for Technology to be Capitalized	54,000	-	20,000	34,000
Kateri Tekawitha	9,600	-	-	9,600
Binations	21,765	19,553	0	41,318
Summer Program/Rev. M. Mullner Search	8,322	394	1,594	7,122
Vocations	89,584	23,144	0	112,728
Human Development	22,320	1,602	0	23,922
Deacon Education	7,844	500	-	8,344
J Kenney Estate for Emmaus	-	430,910	197,637	233,273
Rev. Thomas Kramer Estate Fund for Special Purposes	257,781	2,287	44,242	215,826
	<u>\$ 7,900,245</u>	<u>\$ 877,447</u>	<u>\$ 597,374</u>	<u>\$ 8,180,318</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, 2019

	Balance 6/30/2018	Additions	Transfers/ Disbursements	Balance 6/30/2019
Campaign for Human Development	\$ 2,783	\$ 5,604	\$ 8,387	\$ -
Indian and Black Missions	1,194	65,415	37,427	29,182
Operation Rice Bowl	48,329	47,709	52,429	43,609
Mass Stipends Fund	6,720	13,165	12,025	7,860
National Religious Retirement Office	4,548	54,807	55,788	3,567
Peter's Pence Collection	14,372	44,789	45,827	13,334
Propagation of Faith	4,829	35,288	32,978	7,139
Holy Land Collections	56,020	66,044	64,044	58,020
Archdiocese Military Service	1,142	2,966	2,944	1,164
Bishop Ryan High School	1,658	1,826	2,176	1,308
Disaster Relief Fund	73,792	54,128	123,907	4,013
L-T Care Fund - Priest	51,924	186,972	146,733	92,163
Corazon Fund - Family Ministry	14,490	1,530	2,106	13,914
Catholic Leadership	1,310	-	-	1,310
Middle East Collection	2,096	-	2,096	-
ND Catholic Charities Collection	(868)	9,779	9,821	(910)
USCCB Trinity Dome Collection	12,615	-	12,615	-
Cust- Amr.Exp-Bowman-M.K.	765	-	-	765
Cust- Women's Lenten Retreat	0	7,526	7,050	476
Miscellaneous	24,601	25,127	42,735	6,993
	<u>\$ 322,320</u>	<u>\$ 622,675</u>	<u>\$ 661,088</u>	<u>\$ 283,907</u>