

**DIOCESE OF BISMARCK
BISMARCK, NORTH DAKOTA**

AUDITED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

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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, 2014 and 2013, 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

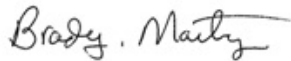
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about 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, 2014 and 2013, 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 cursive script that reads "Brady Martz".

BRADY, MARTZ & ASSOCIATES, P.C.

Bismarck, North Dakota

November 25, 2014

DIOCESE OF BISMARCK
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2014 AND 2013

	2014	2013
ASSETS		
Cash and cash equivalents	\$ -	\$ 111,279
Accounts/pledges receivable, net of allowance for doubtful accounts	773,271	892,033
Interest receivable	48,370	46,655
Due from related parties	100,000	100,000
Prepaid expenses	59,198	77,946
Investments	20,267,044	18,841,974
Mutual investment	269,751	226,585
Land, buildings and equipment, net of accumulated depreciation	4,713,158	4,396,366
Total assets	\$ 26,230,792	\$ 24,692,838
LIABILITIES AND NET ASSETS		
LIABILITIES		
Bank overdraft	\$ 66,282	\$ -
Accounts payable and accrued expenses	1,282,344	1,036,775
Insurance premium payable	189	643,386
Annuities payable	871,422	868,153
Funds held for others	126,863	97,879
Total liabilities	2,347,100	2,646,193
NET ASSETS		
Unrestricted		
Undesignated	15,550,476	13,434,619
Designated	8,333,216	8,612,026
Total unrestricted net assets	23,883,692	22,046,645
Total liabilities and net assets	\$ 26,230,792	\$ 24,692,838

See Notes to the Financial Statements

DIOCESE OF BISMARCK
STATEMENTS OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
SUPPORT AND REVENUE			
Contributions and bequests - God's Share	\$ 3,246,124	\$ -	\$ 3,246,124
Contributions and bequests - other	252,349	-	252,349
Contributions from Provision for the Future	628,244	-	628,244
Grant income	115,896	-	115,896
Mineral rights lease and royalty revenue	355,574	-	355,574
Investment income	291,029	-	291,029
Realized and unrealized gain on investments	1,574,573	-	1,574,573
Rent and other revenue	208,925	-	208,925
Gain on sale of fixed assets	2,000	-	2,000
Total support and revenue	<u>6,674,714</u>	<u>-</u>	<u>6,674,714</u>
EXPENSES			
Program services			
Pastoral	1,618,909	-	1,618,909
Religious personnel development	692,100	-	692,100
Religious personnel services	332,507	-	332,507
Education	749,848	-	749,848
Social services	120,405	-	120,405
Program administration:			
Funds released to programs	132,635	-	132,635
Total program services	<u>3,646,404</u>	<u>-</u>	<u>3,646,404</u>
Supporting services:			
General administration	1,191,263	-	1,191,263
Total expenses	<u>4,837,667</u>	<u>-</u>	<u>4,837,667</u>
INCREASE IN NET ASSETS	1,837,047	-	1,837,047
NET ASSETS, BEGINNING OF YEAR	<u>22,046,645</u>	<u>-</u>	<u>22,046,645</u>
NET ASSETS, END OF YEAR	<u>\$ 23,883,692</u>	<u>\$ -</u>	<u>\$ 23,883,692</u>

See Notes to the Financial Statements

DIOCESE OF BISMARCK
STATEMENTS OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013

	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUE			
Contributions and bequests - God's Share	\$ 3,237,425	\$ -	\$ 3,237,425
Contributions and bequests - other	201,417	-	201,417
Contributions from Provision for the Future	519,714	-	519,714
Grant income	202,496	-	202,496
Mineral rights lease and royalty revenue	2,451,836	-	2,451,836
Investment income	301,602	-	301,602
Realized and unrealized loss on investments	725,429	-	725,429
Rent and other revenue	48,297	-	48,297
Insurance	90,000	-	90,000
Net assets released from restriction:			
Satisfaction of donor restrictions	22,158	(22,158)	-
	<u>7,800,374</u>	<u>(22,158)</u>	<u>7,778,216</u>
Total support and revenue			
	<u>7,800,374</u>	<u>(22,158)</u>	<u>7,778,216</u>
EXPENSES			
Program services			
Pastoral	1,280,065	-	1,280,065
Religious personnel development	688,172	-	688,172
Religious personnel services	492,265	-	492,265
Education	573,493	-	573,493
Social services	129,493	-	129,493
Program administration:			
Funds released to programs	121,221	-	121,221
Total program services	<u>3,284,709</u>	<u>-</u>	<u>3,284,709</u>
Supporting services:			
General administration	<u>935,306</u>	<u>-</u>	<u>935,306</u>
Total expenses	<u>4,220,015</u>	<u>-</u>	<u>4,220,015</u>
INCREASE (DECREASE) IN NET ASSETS	3,580,359	(22,158)	3,558,201
NET ASSETS, BEGINNING OF YEAR	<u>18,466,286</u>	<u>22,158</u>	<u>18,488,444</u>
NET ASSETS, END OF YEAR	<u>\$ 22,046,645</u>	<u>\$ -</u>	<u>\$ 22,046,645</u>

See Notes to the Financial Statements

DIOCESE OF BISMARCK
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,837,047	\$ 3,558,201
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation expense	144,041	81,514
(Gain) loss on sale of fixed assets	(2,000)	-
Realized and unrealized (gain) loss on investments	(1,531,407)	(632,216)
Change in equity in the undistributed (gain) loss on mutual investment	(43,166)	21,411
Effects on operating cash flow due to changes in:		
Accounts/pledges receivable	118,762	322,517
Annuity payable	3,269	-
Interest receivable	(1,715)	18,792
Prepaid expenses	18,748	(41,107)
Accounts payable and accrued expenses	245,569	(70,130)
Insurance premium payable	(643,197)	(7,979)
Funds held for others	28,984	(51,865)
	<u>174,935</u>	<u>3,199,138</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(5,834,365)	(9,616,833)
Proceeds from sale of investments	5,940,702	6,747,264
Proceeds from the sale of assets	2,000	-
Purchase of property and equipment	(460,833)	(350,056)
	<u>(352,496)</u>	<u>(3,219,625)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Net change in cash overdraft	66,282	-
	<u>(111,279)</u>	<u>(20,487)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS		
	<u>111,279</u>	<u>131,766</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR		
	<u>\$ -</u>	<u>\$ 111,279</u>
CASH AND CASH EQUIVALENTS, END OF YEAR		
	<u>\$ -</u>	<u>\$ 111,279</u>
SUPPLEMENTAL DISCLOSURE		
Schedule of Noncash Transactions		
Increase (decrease) in annuities payable and investments	\$ 3,269	\$ 94,560

See Notes to Financial Statements

DIOCESE OF BISMARCK
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

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.

DIOCESE OF BISMARCK
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2014 AND 2013

The Diocese has temporarily restricted and unrestricted net assets. Temporarily restricted net assets consists of those contributions received from donors with specific restrictions as to their use which have not been met as of year-end. For the year ending June 30, 2013, beginning temporarily restricted net assets were contributions received in prior years and restricted for use during the year ending June 30, 2013. Unrestricted net assets include the following net assets that have been designated by the Board of Directors for the following:

	2014	2013
Insurance Fund	\$ 632,015	\$ 802,091
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	294,816
Reserve Fund for Contingency	283,500	283,500
Reserve for Technology to be Capitalized	55,000	35,000
Kateri Tekawitha	9,600	9,600
Binations	10,552	50
Rev. M. Mullner Search	6,368	8,112
Vocations	14,857	18,107
Human Development	35,446	35,567
Deacon Education	2,479	1,784
Catholics Come Home	12,438	12,438
Fr. Kramer Estate	411,460	501,460
Total	\$ 8,333,216	\$ 8,612,026

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.

DIOCESE OF BISMARCK
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2014 AND 2013

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.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with an original maturity of three months or less, excluding assets whose use is limited or restricted.

Receivable and Allowance for Uncollectible Receivables

Accounts receivable are uncollateralized obligations due under normal trade terms requiring payment within 30 days from the invoice date. The receivables are non-interest bearing. Payments on accounts receivable are applied to the earliest unpaid amounts, 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 realized 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.

DIOCESE OF BISMARCK
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2014 AND 2013

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.

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.

DIOCESE OF BISMARCK
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2014 AND 2013

NOTE 2 CONCENTRATIONS OF CREDIT RISK

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

At June 30, 2014, the Diocese had \$325,816 on deposit at one financial institution. This amount is insured for \$250,000 per institution with FDIC. The amount not insured by FDIC is \$75,816 on June 30, 2014.

NOTE 3 ACCOUNTS/PLEDGES RECEIVABLE

Accounts/pledges receivable at June 30, 2014 and 2013, consist of the following:

	<u>2014</u>	<u>2013</u>
Due from Parishes for:		
Property insurance	\$ (33,463)	\$ 453,228
Priests health insurance	13,030	9,398
Other	4,090	4,090
Pledges receivable - God's Share	440,970	440,970
Due from Catholic Foundation	255,425	-
Other receivables	133,388	24,516
Allowance for doubtful accounts	<u>(40,169)</u>	<u>(40,169)</u>
	<u>\$ 773,271</u>	<u>\$ 892,033</u>

As of June 30, 2014 and 2013, there are no accounts receivable in excess of ninety days past due. Additionally, there are no accounts receivable on non-accrual status as of June 30, 2014 and 2013.

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

DIOCESE OF BISMARCK
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2014 AND 2013

NOTE 4 INVESTMENTS

Investments are stated at fair value and are summarized as follows as of June 30, 2014:

	<u>Cost</u>	<u>Fair Value</u>
Money market funds	\$ 3,043,912	\$ 3,043,912
Equities:		
U.S. large cap	3,504,470	5,478,092
U.S. mid cap	2,391,204	3,615,197
U.S. small cap	743,802	900,668
International developed/emerging markets	759,595	1,015,995
Mutual funds:		
U.S. large cap	118,715	118,715
U.S. mid cap	35,395	35,395
U.S. small cap	15,995	15,995
International developed/emerging markets	95,302	95,302
Fixed income	239,405	239,405
Fixed income:		
Investment grade taxable	5,086,958	5,141,285
International developed	241,888	244,420
Fixed income other	31,644	31,722
Public REITs	279,038	290,941
	<u>\$ 16,587,323</u>	<u>\$ 20,267,044</u>

DIOCESE OF BISMARCK
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2014 AND 2013

Investments are stated at fair value and are summarized as follows as of June 30, 2013:

	<u>Cost</u>	<u>Fair Value</u>
Money market funds	\$ 4,890,728	\$ 4,890,877
Equities:		
U.S. large cap	3,315,536	4,560,158
U.S. mid cap	1,698,514	2,509,246
U.S. small cap	637,891	724,294
International developed/emerging markets	647,621	818,619
Mutual funds:		
U.S. large cap	115,568	115,568
U.S. mid cap	34,487	34,487
U.S. small cap	15,628	15,628
International developed/emerging markets	94,452	94,452
Fixed income	231,869	231,869
Fixed income:		
Investment grade taxable	4,290,252	4,322,317
International developed	243,457	243,204
Fixed income other	18,625	18,768
Public REITs	254,572	262,488
	<u>\$ 16,489,199</u>	<u>\$ 18,841,974</u>

The Diocese had a net realized gain of \$369,157 for the year ended June 30, 2014 and a net realized gain of \$147,720 for the year ended June 30, 2013, respectively. For the year ended June 30, 2014, the Diocese had an unrealized gain on investments of \$1,205,416. For the year ended June 30, 2013, the Diocese had an unrealized gain on investments of \$577,709.

DIOCESE OF BISMARCK
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2014 AND 2013

NOTE 5 FAIR VALUE MEASUREMENTS

Financial instruments measured at fair value on a recurring basis as of June 30, 2014 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	\$ 3,043,912	\$ 3,043,912	\$ -	\$ -
Equities:				
U.S. large cap	5,478,092	5,478,092	-	-
U.S. mid cap	3,615,197	3,615,197	-	-
U.S. small cap	900,668	900,668	-	-
International developed/ emerging markets	1,015,995	1,015,995	-	-
Mutual funds:				
U.S. large cap	118,715	118,715	-	-
U.S. mid cap	35,395	35,395	-	-
U.S. small cap	15,995	15,995	-	-
International developed/ emerging markets	95,302	95,302	-	-
Fixed income	239,405	239,405	-	-
Fixed income:				
Investment grade taxable	5,141,285	-	5,141,285	-
International developed	244,420	-	244,420	-
Fixed income other	31,722	-	31,722	-
Public REITs	290,941	290,941	-	-
Total investments at fair value	<u>\$ 20,267,044</u>	<u>\$ 14,849,617</u>	<u>\$ 5,417,427</u>	<u>\$ -</u>
Annuities payable	<u>\$ 871,422</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 871,422</u>

DIOCESE OF BISMARCK
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2014 AND 2013

Assets measured at fair value on a recurring basis as of June 30, 2013 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	\$ 4,890,877	\$ 4,890,877	\$ -	\$ -
Equities:				
U.S. large cap	4,560,158	4,560,158	-	-
U.S. mid cap	2,509,246	2,509,246	-	-
U.S. small cap	724,294	724,294	-	-
International developed/ emerging markets	818,619	818,619	-	-
Mutual funds:				
U.S. large cap	115,568	115,568	-	-
U.S. mid cap	34,487	34,487	-	-
U.S. small cap	15,628	15,628	-	-
International developed/ emerging markets	94,452	94,452	-	-
Fixed income	231,869	231,869	-	-
Fixed income:				
Investment grade taxable	4,322,317	-	4,322,317	-
International developed	243,204	-	243,204	-
Fixed income other	18,768	-	18,768	-
Public REITs	262,488	262,488	-	-
Commodities	-	-	-	-
Total investments at fair value	<u>\$ 18,841,974</u>	<u>\$ 14,257,685</u>	<u>\$ 4,584,289</u>	<u>\$ -</u>
Annuitants payable	<u>\$ 868,153</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 868,153</u>

DIOCESE OF BISMARCK
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2014 AND 2013

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, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Balance, beginning of year	\$ 868,153	\$ 773,593
Total gains (losses) (realized/unrealized) included in increase (decrease) in net assets	-	-
Purchases	356,586	247,091
Sales	(353,317)	(152,531)
Issuances	-	-
Settlements	-	-
Transfers in and/or out of Level 3	-	-
	<u>\$ 871,422</u>	<u>\$ 868,153</u>
Balance, end of year	<u>\$ 871,422</u>	<u>\$ 868,153</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>
Annuity Payable	\$871,422	Discounted Cash Flow	Discount Rate	5.0% - 10.0%	7.50%

NOTE 6 CATHOLIC UMBRELLA POOL II MUTUAL INVESTMENT

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

As of July 1, 1995, CUP II attained its goal and assumed 100% of the individual casualty claims exceeding \$1,500,000 to a limit of \$5,000,000 for the 48 dioceses. Participating dioceses are liable for any losses beyond the Pool's responsibilities to fund such losses. Outstanding claims of approximately \$111,097 have been made against CUP II as of June 30, 2014. There was approximately \$109,568 in outstanding claims as of June 30, 2013.

DIOCESE OF BISMARCK
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2014 AND 2013

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 \$269,751 and \$226,585 as of June 30, 2014 and 2013, 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 2014 and 2013 was \$22,658 and \$24,800, respectively.

NOTE 7 LAND, BUILDINGS AND EQUIPMENT

Land, buildings and equipment consist of the following as of June 30, 2014:

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net</u>
Future parish sites	\$ 1,465,630	\$ -	\$ 1,465,630
Land and improvements	716,038	-	716,038
Building and improvements	3,262,371	963,185	2,299,186
Technological equipment	357,170	260,597	96,573
Furniture and fixtures	528,767	502,070	26,697
Other equipment	105,812	89,404	16,408
Vehicles	124,027	31,401	92,626
	<u>\$ 6,559,815</u>	<u>\$ 1,846,657</u>	<u>\$ 4,713,158</u>

Land, buildings and equipment consist of the following as of June 30, 2013:

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net</u>
Future parish sites	\$ 1,462,363	\$ -	\$ 1,462,363
Land and improvements	656,038	-	656,038
Building and improvements	2,956,235	897,058	2,059,177
Technological equipment	324,234	247,890	76,344
Furniture and fixtures	510,629	466,447	44,182
Other equipment	102,948	76,622	26,326
Vehicles	112,163	40,227	71,936
	<u>\$ 6,124,610</u>	<u>\$ 1,728,244</u>	<u>\$ 4,396,366</u>

Depreciation expense for the years ended June 30, 2014 and 2013, was \$144,041 and \$81,514, respectively.

DIOCESE OF BISMARCK
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2014 AND 2013

NOTE 8 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 9 RETIREMENT PLAN

The Diocese has adopted a deferred compensation 401(k) Retirement Savings Plan and Trust for the exclusive benefit of all eligible employees and their beneficiaries. 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, 2014 and 2013 were \$75,570 and \$57,622, respectively.

NOTE 10 RELATED PARTY

The Diocese of Bismarck is affiliated with the Expansion Fund of the Diocese of Bismarck (Expansion Fund) through some common members of their Boards of Directors. The Expansion Fund provides a lending and depository function for the parishes and related entities of the Diocese. At June 30, 2014 and 2013, the Diocese has \$100,000 due from the Expansion Fund.

NOTE 11 OPERATING LEASES, AS LESSOR

The Diocese of Bismarck leases office space to unaffiliated lessees. Future minimum rents receivable under non-cancelable leases that expire in December of 2014 and May of 2015 are as follows for the year ending June 30:

2015	\$ 40,950
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The property held for lease is included in building and improvements at a cost of \$676,476 and \$457,919 at June 30, 2014 and 2013, respectively. Accumulated depreciation on the property held for lease was \$127,434 and \$123,375 as of June 30, 2014 and 2013, respectively.

NOTE 12 FUNCTIONAL ALLOCATION OF EXPENSES

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

DIOCESE OF BISMARCK
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2014 AND 2013

NOTE 13 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, 2014, there was no outstanding balance on the line of credit. The line matures on December 31, 2014.

NOTE 14 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 15 SUBSEQUENT EVENTS

No significant events occurred subsequent to the Diocese's year end. Subsequent events have been evaluated through November 25, 2014, 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, 2014 and June 30, 2013, and have issued our report thereon dated November 25, 2014, 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.

BRADY, MARTZ & ASSOCIATES, P.C.

Bismarck, North Dakota

November 25, 2014

DIOCESE OF BISMARCK
SCHEDULE OF CHANGES IN DESIGNATED UNRESTRICTED NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2014

	Balance 6/30/2013	Transfers/ Additions	Transfers/ Disbursements	Balance 6/30/2014
(1) Insurance Fund	\$ 802,091	\$ -	\$ 170,076	\$ 632,015
(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	294,816	-	44,816	250,000
(6) Reserve Fund for Contingency	283,500	-	-	283,500
(7) Reserve for Technology to be Capitalized	35,000	20,000	-	55,000
Kateri Tekawitha	9,600	-	-	9,600
Binations	50	10,553	51	10,552
Rev. M. Mullner Search	8,112	5,676	7,420	6,368
Vocations	18,107	29,411	32,661	14,857
Human Development	35,567	2,383	2,504	35,446
Deacon Education	1,784	695	-	2,479
Catholics Come Home	12,438	-	-	12,438
Rev. Thomas Kramer Estate Fund for Special Purposes	501,460	-	90,000	411,460
	<u>\$ 8,612,026</u>	<u>\$ 68,718</u>	<u>\$ 347,528</u>	<u>\$ 8,333,216</u>

The purpose of these designations is as follows:

- (1) This balance includes premium savings generated by increasing the policy deductible to \$1,000. It also includes the Diocesan handling fee charged to parishes. The designation is to reserve funds to cover the deductible on insurance claims.
- (2) This designation is to reserve funds in order to provide the expansion fund an adequate loan pool.
- (3) This designation is to reserve funds for future replacement and acquisition of fixed assets, church sites, and Diocesan administrative facilities. Designation of current earnings is added to the fund at the discretion of the Bishop.
- (4) This designation is to reserve funds for future Diocesan administrative programs and supporting services. Designation of current earnings is added to the fund at the discretion of the Bishop.
- (5) This designation is to reserve funds for continued support and assistance for clergy needs. Designation of current earnings is added to the fund at the discretion of the Bishop.
- (6) This designation is to reserve funds for potential claims filed against the Diocese of Bismarck. Designation of current earnings is added to the fund at the discretion of the Bishop.
- (7) This designation is to reserve funds for future technology expenditures to be capitalized. Additions and disbursements will be determined annually based on the approved budget.

DIOCESE OF BISMARCK
SCHEDULE OF CHANGES IN FUNDS HELD FOR OTHERS
FOR THE YEAR ENDED JUNE 30, 2014

	Balance 6/30/2013	Additions	Transfers/ Disbursements	Balance 6/30/2014
Campaign for Human Development	\$ 2,355	\$ 7,886	\$ 10,021	\$ 220
Indian and Black Missions	1,619	58,028	58,223	1,424
Operation Rice Bowl	54	138,745	138,635	164
Mass Stipends Fund	2,590	23,650	7,500	18,740
National Religious Retirement Office	4,191	31,486	30,399	5,278
Peter's Pence Collection	7,885	21,024	19,738	9,171
Propagation of Faith	6,384	30,486	28,353	8,517
Holy Land Collections	13	42,352	40,447	1,918
Archdiocese Military Service	-	29,052	27,450	1,602
Bishop Ryan High School	-	2,840	2,819	21
Disaster Relief Fund	-	114,163	112,689	1,474
L-T Care Fund - Priest	42,637	78,161	73,723	47,075
Retrouville Fund - Family Ministry	27,816	14,023	12,338	29,501
Catholic Leadership	1,310	-	-	1,310
Miscellaneous	1,025	30,986	31,563	448
	<u>\$ 97,879</u>	<u>\$ 622,882</u>	<u>\$ 593,898</u>	<u>\$ 126,863</u>

DIOCESE OF BISMARCK
SCHEDULES OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
Pastoral:		
Bishop's office	\$ 144,319	\$ 169,639
Bishop's contingency	13,449	42,176
Canonical services	193,793	164,786
Stewardship office	233,189	183,625
Office of liturgy	45,361	16,215
East African Mission	190,476	107,440
Planned giving office	284,415	206,959
Dakota Catholic Action	158,649	154,166
North Dakota Catholic Conference	127,963	83,220
National Catholic Conference of Bishops	16,452	14,092
THIRST Conference	139,194	48,706
Search for Catholic Ministry	46,151	44,194
Catholic Home Missions Appeal	17,000	17,000
Holy Father missions	5,600	5,600
Pastoral Planning	1,298	20,647
Catholic Communication Campaign	<u>1,600</u>	<u>1,600</u>
 Total pastoral	 <u>\$ 1,618,909</u>	 <u>\$ 1,280,065</u>
 Religious personnel development:		
Seminarian education & formation	\$ 381,919	\$ 460,124
Vocation office	120,963	56,802
Diaconate formation	127,830	139,951
Continuing education of priests	60,125	28,876
Vicar General/Vicar Presbyters	<u>1,263</u>	<u>2,419</u>
 Total religious personnel development	 <u>\$ 692,100</u>	 <u>\$ 688,172</u>
 Religious personnel services:		
Retired priests' expense	\$ 175,649	\$ 124,603
Other priests' care needs	76,393	278,429
Emmaus Place	77,577	87,519
Presbyteral council	2,777	1,652
Priest personnel board	<u>111</u>	<u>62</u>
 Total religious personnel services	 <u>\$ 332,507</u>	 <u>\$ 492,265</u>

DIOCESE OF BISMARCK
SCHEDULES OF FUNCTIONAL EXPENSES - CONTINUED
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
Education:		
Aid to schools	\$ 255,898	\$ 255,900
Catholic schools and educational endowment	105,460	92,408
Faith formation	120,219	89,827
Fort Yates Indian Mission	55,035	38,836
Other education	144,384	28,633
Catholic University	1,000	1,000
Holy See	12,500	12,500
Youth Correctional Center	5,474	4,567
Youth ministry	49,878	47,847
Tuition assistance - educators	-	1,975
	<u> </u>	<u> </u>
Total education	<u>\$ 749,848</u>	<u>\$ 573,493</u>
Social services:		
Office of Family Life	\$ 92,834	\$ 97,848
Catholic Relief Services	8,000	7,000
Respect life program	14,571	19,645
Church in Latin America	5,000	5,000
	<u> </u>	<u> </u>
Total social services	<u>\$ 120,405</u>	<u>\$ 129,493</u>
General administration:		
Chancery	\$ 181,222	\$ 171,176
Property management	268,049	232,947
Depreciation	144,041	81,514
Fiscal	205,280	183,688
Professional fees	190,850	124,153
Personnel administration	28,522	22,731
Insurance program	173,285	119,097
Interest	14	-
	<u> </u>	<u> </u>
Total general administration	<u>\$ 1,191,263</u>	<u>\$ 935,306</u>