

## **DIOCESE OF DULUTH**

Financial Results Commentary

*Fiscal Year ending June 30, 2016*

I can confidently state that fiscal 2015-16 will go down in the history of the diocese as the most turbulent on record. After a \$4.8 million legal judgement in November, the diocese was compelled to seek chapter 11 bankruptcy protection on December 7<sup>th</sup>. Since that time, the diocese has operated as a “debtor in possession”, which means that normal day to day operations can continue but all under the supervision of the federal bankruptcy court. This is expected to continue until a settlement is reached with creditors. I am pleased to write that diocesan ministries have not been disrupted by the bankruptcy and that normal operations have continued to operate.

Given the great uncertainty about the diocesan liability in the bankruptcy, an audit of the financial records would have been complex and expensive. As a result, the diocesan audit committee recommended that no audit be done for this fiscal year. I anticipate that audits will be done in the future when the diocese exits the bankruptcy.

The diocese ended the fiscal year with a positive (favorable) operating bottom line of \$62,994, compared to a positive bottom line of \$217,054 in the prior fiscal year. However, there were significant changes affecting diocesan savings/investments, ie non-operating activity. First, the investment portfolio for the diocese had to be liquidated and placed in a low risk savings account in January, a time when the markets had significant volatility. As a result, an investment loss of \$468,712, net of fees was realized. Second, costs associated with the bankruptcy such as legal fees, trustee fees and advertising cost the diocese \$818,389 during the fiscal year. The diocesan savings have and will be utilized to pay these fees. As of 6/30/16, the balance in the savings account was \$3,108,909. I anticipate that the bulk of the savings account will be used for bankruptcy related expenses, including legal fees and post confirmation expenses.

### **REVENUES**

Total operating revenues increased by \$95,574 or 2.7 percent from the prior year. The change is primary related to an increase in grant funding. The United Catholic Appeal contributed 60% of the total funding to the Diocese which is similar to the prior year. People continue to support the appeal, keeping the daily operations of the diocese operating as normal.

### **EXPENSES**

Total operating expenses increased by \$249,634 or 7.6% from the prior year. The Office for Vocations had increased costs related to seminarian tuition and boarding of approximately \$52,000. The Insurance Program had increased costs associated with more self-insured losses and increased background check fees, with an impact of approximately \$44,000. Two additional priests were unable to serve in parishes which resulted in an increase cost of \$87,000 in the Care of Retired/Disabled Priests. No priest was sent outside the diocese for advanced studies which resulted in a reduction \$100,000 as reflected in the Continuing Formation of Priests department. Lastly, the diocese also saw increased expenses related to the 125<sup>th</sup> Anniversary and additional technology improvements at the Pastoral Center. Overall, expenses were managed in a disciplined way by staff which is demonstrated by a favorable variance of \$25,000 to total budgeted expenses.

## **ENDOWMENT FUNDS**

All three endowment funds sponsored by the diocese are separately incorporated organizations with the Bishop as president. The mission of these organizations is to provide grants to people and organizations, enabling them to serve our communities in ways that are in harmony with our Catholic faith. More information about these organizations and their specific missions can be found on the diocesan website under the “Endowments” menu option.

The endowments all experienced poor investment results for the fiscal year, under-performing benchmarks in most asset classes. The investment committee continues to monitor performance and explore options. The Seminarian Endowment Fund was the recipient of a generous bequest of over one million dollars. All three organizations received minimal donor contributions during the fiscal year. People seeking to support these endowment organizations can find out more information on the diocese website or contact the Development Office at the diocese. These organizations provided over \$400,000 in grants to various causes during the fiscal year, having a significant impact in our communities.

## **ASSETS & LIABILITIES**

Liabilities related to both the Lay and Priest defined benefit pension plans remain a concern and focus of oversight. The diocese hired a new actuary during the year with expertise in Catholic diocesan plans. Also, the diocesan finance council approved a recommendation from the priest pension plan trustees to increase parish funding of the plan. The Lay pension plan has been more stable and funding has been kept the same. In 2009, the Lay Pension Plan was closed for new participants and replaced by a defined contribution plan. Overall, liabilities increased by \$646,000 compared to the prior year, mainly related to accrued but not paid legal fees. Accrued legal fees were paid in August, after the fiscal year end.

As of 6/30/16, total assets decreased by approximately \$626,000 compared to the prior year, primarily related to investment losses and the cost of the bankruptcy. A copy of the un-audited balance sheet can be found on the diocesan website.

The Diocese of Duluth has a Finance Council comprised of mostly lay faithful, who review the financial results and assist the bishop in his stewardship of the diocese. Finance Council members bring their skill in business and management to the service of the Church. The names of the Finance Council members can be found on the diocesan website.

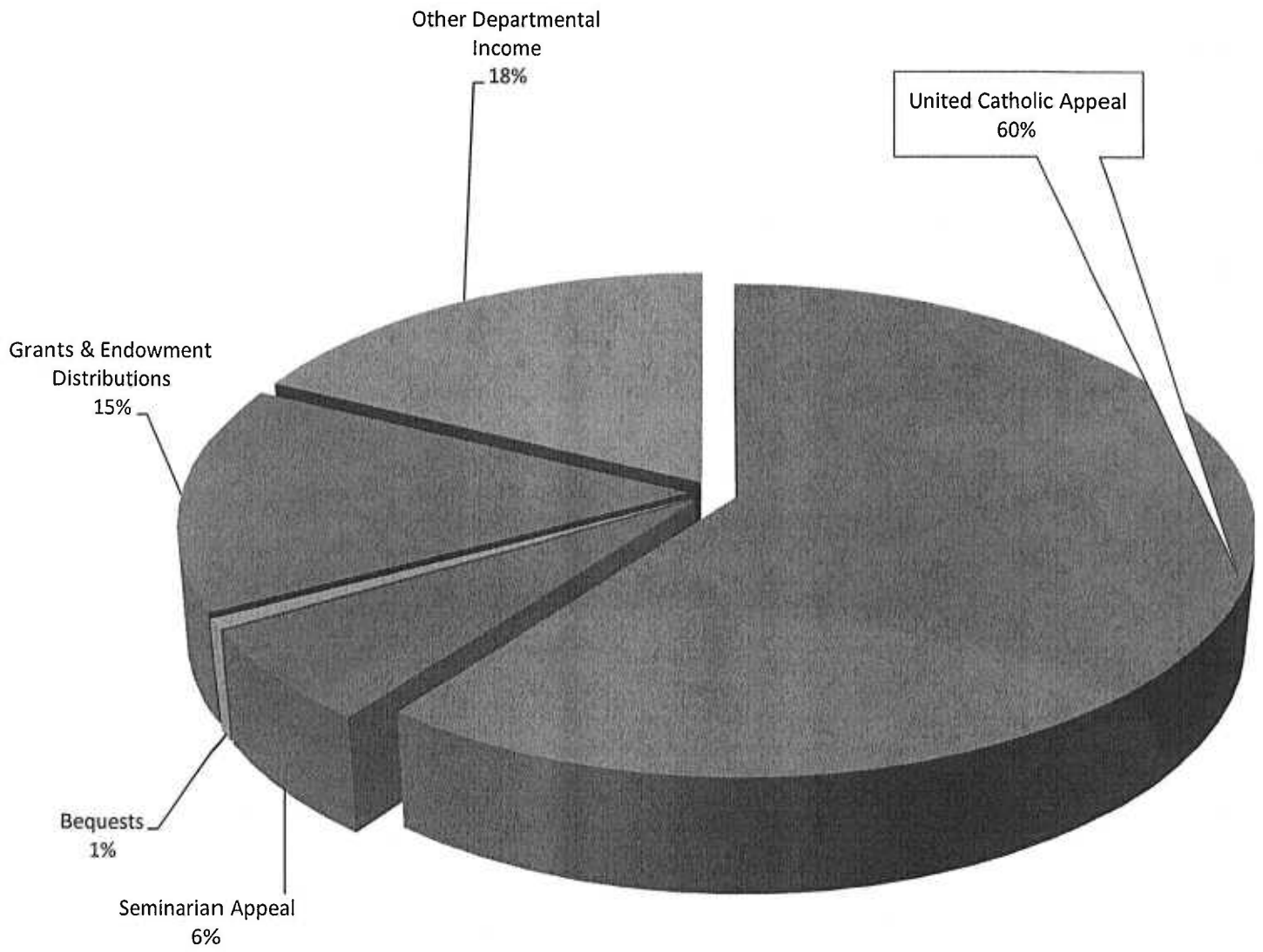
In reflecting on the past fiscal year, I am so thankful for the many people who have been supportive and understanding of our difficult situation. The Lord has been generous in providing strength and wisdom to our leadership team. I am reminded of the words of Benedict XVI who said, “Let us look upon Him at times of trial and tribulation and realize that it is then that we are closest to God.” On behalf of Bishop Paul D. Sirba and the diocese, I thank you for your generous response to the needs of the Church during these difficult times.

Franz Hoeffler  
Finance Officer of the Diocese of Duluth  
In consultation with the Diocesan Finance Council

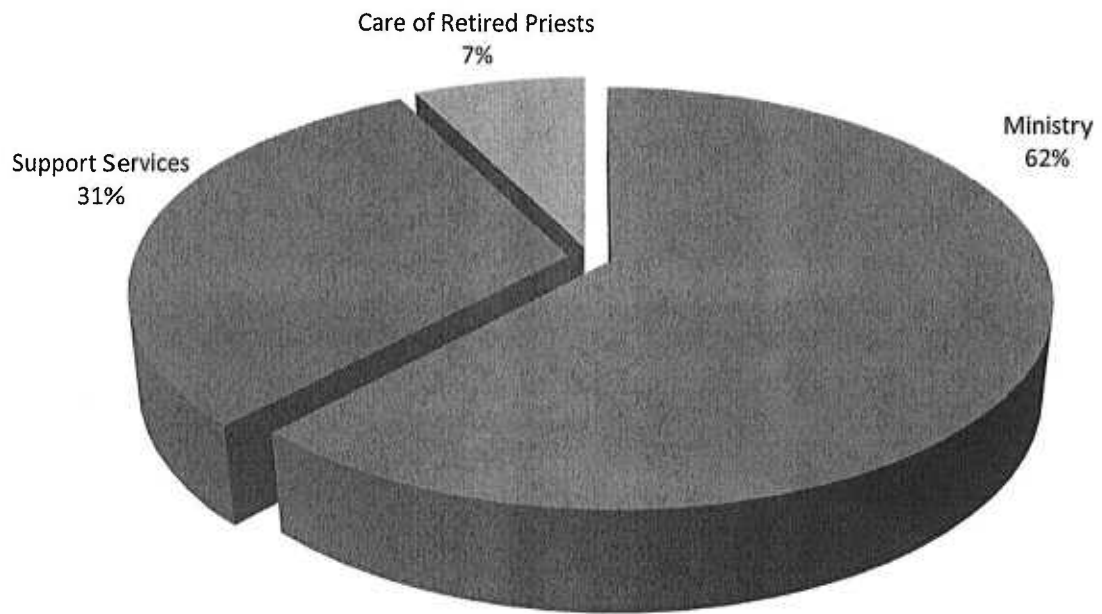
**Diocese of Duluth**  
**Statements of Operations (Un-Audited)**  
**Years Ended June 30, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
<b>Revenues</b>		
United Catholic Appeal	2,179,052	2,174,668
Grants & Gifts Released from Restrictions	239,331	186,940
Insurance program	136,988	132,137
Program Registration Revenue	163,284	186,891
Contributions		
Seminarian Appeal	224,317	245,581
Bequest	24,257	39,466
Other Contributions	35,745	37,385
Other Income	<u>609,400</u>	<u>513,733</u>
Total unrestricted revenues	3,612,374	3,516,800
<b>Expenses</b>		
<b>Ministry</b>		
Office for Vocations (Seminarians)	379,452	315,105
Communications Office (Northern Cross)	278,082	268,176
Youth & Young Adult	<u>252,921</u>	<u>213,608</u>
Office for Continuing Formation of Priests	106,864	209,017
Office for Catholic Schools	<u>141,299</u>	<u>145,379</u>
Hospital Ministry	137,796	172,285
Office for Permanent Diaconate	<u>122,770</u>	118,345
Office of the Bishop	123,888	124,171
Campus Ministry at UMD	114,728	120,829
Office for Catechesis	86,605	83,730
Office for Native American Ministry	79,521	76,510
Marriage Tribunal	61,347	66,124
Office for Marriage and Family Life	105,980	78,026
Office for the Social Apostolate of the Church	70,467	80,740
Office of the Vicar General	29,999	25,508
Office for Liturgy	27,163	<u>27,236</u>
Office for Safe Environment	<u>37,775</u>	44,168
TV Mass	<u>25,000</u>	<u>25,500</u>
Other	<u>13,656</u>	<u>10,971</u>
Total Ministry Expenses	2,195,311	2,205,428
<b>Support Services</b>		
Business Office	<u>262,722</u>	<u>240,879</u>
Pastoral Center, building & grounds	209,708	177,789
Care of Retired/Disabled Priests	268,341	177,306
Development Office	125,524	109,723
Audit & legal	93,548	102,771
Insurance Program	111,199	67,318
Diocesan dues & donations	107,153	111,100
Depreciation	106,479	109,362
Bad debts	(6,000)	(39,190)
Other	<u>75,395</u>	<u>37,260</u>
Total Support Services Expense	1,354,069	1,094,317
Total Ministry and Support Expenses	3,549,380	3,299,746
<b>Income (loss) from operations</b>	<u><b>62,994</b></u>	<u><b>217,054</b></u>
<b>Non-Operating Activities</b>		
Chapter 11 Bankruptcy Expenses	(818,389)	
Investment Activity (net of fees)	<u>(468,712)</u>	<u>(9,940)</u>
Total Non-Operating Income (loss)	<u><b>(1,287,101)</b></u>	<u><b>(9,940)</b></u>

# Diocesan Income for Fiscal 2016



## Diocesan Expenses for Fiscal 2016



**Diocese of Duluth  
Summary of Collections  
Years Ended June 30, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
<u>Annual National Collections</u>		
Missionary Cooperatives	61,555	62,740
Holy Land (Good Friday)	50,447	52,659
Retirement Fund for Religious	45,911	43,846
Holy Father's Collection (Peter's Pence)	41,313	54,428
Propagation of Faith (Mission Sunday)	39,947	46,698
Catholic Relief Services	38,708	47,640
Campaign for Human Development	32,516	35,278
Latin American	30,250	31,534
Black & Indian Missions	27,590	27,130
Rice Bowl	24,061	30,023
Catholic Home Mission	18,752	28,732
<i>Total Annual Collections</i>	411,051	460,708
<u>Special Collections</u>		
Kingstown Appeal	21,209	24,794
2015-16 US Storms (Calamities)	25,731	
Nepal Earthquake Relief		31,200
Middle East Relief		51,470
<i>Total Special Collections</i>	46,940	107,464
<b>Total of All Collections</b>	<b>457,991</b>	<b>568,172</b>

**Endowment Funds of the Diocese of Duluth  
Statement of Activities (Un-Audited)  
Year Ended June 30, 2016**

	<b>Human Life and Development Fund</b>	<b>Seminarian Endowment Fund</b>	<b>Catholic Religious Education Endowment Fund</b>
Beginning Net Assets	1,733,180	5,829,418	6,256,603
<b>Revenue</b>			
Investment Income	(57,654)	(180,678)	(221,841)
Pledges/Contributions	1,100	1,043,676	10,807
Total Revenue	(56,554)	862,998	(211,034)
<b>Expenses</b>			
Grants	(54,413)	(150,000)	(225,702)
Operating Expenses	(8,614)	(7,988)	(8,157)
Total Expenses	(63,027)	(157,988)	(233,859)
Ending Net Assets	1,613,599	6,534,428	5,811,710