

DIOCESE OF DULUTH

Financial Results Commentary

Fiscal Year ending June 30, 2018

The Diocese of Duluth ended the fiscal year with a positive (favorable) operating bottom line of \$9,439, compared to a positive bottom line of \$73,990 in the prior fiscal year. However, there were significant, non-operating changes affecting diocesan savings. Costs associated with the bankruptcy such as legal fees and United States Trustee fees cost the diocese \$1,535,955 during the fiscal year compared to \$1,766,207 in the prior fiscal year. A significant insurance recovery of \$975,000 paid some of the legal fees. The diocesan savings were also utilized to pay these fees. As of June 30, 2018, the balance in the savings account was \$1,510,548. We anticipate that the balance of the savings account will be used for bankruptcy related expenses, including legal fees. Fortunately, the daily ministries of the diocese have not been disrupted by the bankruptcy.

A financial audit was not completed for fiscal years 2018 or 2017, because of the prohibitive cost of completing one during bankruptcy. Audits will begin again after completion of the bankruptcy proceedings.

REVENUES

Total operating revenues decreased by \$223,215 or 6 percent from the prior year. The change is primarily related to a decrease in event registrations and grants. The United Catholic Appeal contributed 64% of the total funding to the diocesan operations compared to 60% in the prior year. Catholics continue to support the Appeal, keeping the daily operations of the diocese operating as normal.

EXPENSES

Total operating expenses decreased by \$158,664 or 4 percent from the prior year. The Office for Vocations expenses decreased by \$153,000, because there were no World Youth Day expenses in the current year and one less seminarian in formation. The Insurance Program had decreased costs associated with fewer self-insured losses, with an impact of approximately \$45,000. Higher costs associated with the Stewardship Office and the Business Office offset some of the decreases. Overall, operating expenses were managed in a disciplined way by staff which is demonstrated by a favorable variance of \$5,387 to total budgeted expenses.

ENDOWMENT FUNDS

All three endowment funds sponsored by the diocese are separately incorporated organizations. The mission of these organizations is to provide grants to people and organizations, enabling them to serve our communities in ways that are consistent with the mission of the Church. 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 good investment results for the fiscal year, slightly outperforming benchmarks in most asset classes. The Investment Committee continues to

monitor long term performance and evaluate an appropriate asset allocation for the investments. 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 diocesan website or contact the Stewardship Office at the diocese. These organizations provided over \$173,000 in grants to various causes during the fiscal year, having a significant impact in our communities. The Seminarian Endowment Fund did not distribute a grant in the current fiscal year because the Annual Seminarian Appeal was able to cover most costs related to seminarian formation.

ASSETS & LIABILITIES

Liabilities related to both the Lay and Priest Defined Benefit Pension Plans remain a focus of concern and oversight. According to the latest actuarial report, a modest improvement in the funding of both plans was realized in the last year, mainly related to mortality rate assumption changes. Overall, diocesan liabilities increased by \$752,000 compared to the prior year, mainly related to unpaid legal fees.

As of June 30, 2018, total assets increased by approximately \$219,000 compared to the prior year, mainly related to the insurance recovery. This increase was more than offset by an increase in unpaid legal fees. 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 the Bishop, Vicar General and lay faithful, who review the financial results and assist the bishop in his stewardship of the diocese. Finance Council members bring their skills 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, the words from an old hymn, O God Beyond All Praising, come to mind, "For we can only wonder at every gift You send, at blessings without number and mercies without end." Our diocese has wonderful supporters who continue to share in the ministries of the diocese. The gifts that are being shared are making an impact on people's lives. Efforts to settle the bankruptcy continue to move forward while diocesan ministries continue to support the mission of the Church in our diocese. On behalf of Bishop Paul D. Sirba and the diocesan staff, I thank you for your continued support during these challenging times.

Franz Hoefflerle
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, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Revenues		
United Catholic Appeal	2,229,376	2,207,031
Grants & Gifts Released from Restrictions	201,894	222,691
Insurance program	143,754	146,691
Program Registration Revenue	266,401	309,536
Contributions		
Seminarian Appeal	272,496	321,423
Bequest	52,000	68,787
Other Contributions	32,267	24,960
Other Income	266,137	386,421
Total revenues	<u>3,464,325</u>	<u>3,687,540</u>
Expenses		
Ministry		
Office for Vocations (10 men in seminary)	282,040	434,964
Office for Communications (Northern Cross)	275,499	201,776
Office for Youth & Young Adults	204,170	292,185
Office for Hospital Ministry	138,855	137,857
Office of the Bishop	125,676	115,264
Office for Catholic Schools	119,578	141,227
Campus Ministry at UMD	117,703	118,770
Office for Permanent Diaconate	101,044	108,088
Office for Marriage and Family Life	100,581	104,277
Office for Catechesis	93,549	93,089
Office for Native American Ministry	79,694	76,364
Marriage Tribunal	67,379	72,309
Office for the Social Apostolate of the Church	66,078	70,293
Office for Continuing Formation of Priests	53,792	54,128
Office for Safe Environment	45,791	33,374
Office of the Vicar General	30,614	31,452
Office for Liturgy	28,135	26,784
TV Mass	25,500	25,250
Other	17,644	17,158
Total Ministry Expenses	<u>1,973,321</u>	<u>2,154,610</u>
Support Services		
Care of Retired/Disabled Priests	358,225	347,539
Business Office	343,952	313,426
Pastoral Center, building & grounds	193,342	197,160
Stewardship Office	130,504	72,066
Insurance Program	125,192	169,889
Depreciation	109,863	110,589
Diocesan dues & donations	106,773	105,826
Audit & legal	55,621	78,741
Bad debts	45,000	35,000
Other	13,093	28,705
Total Support Services Expense	<u>1,481,566</u>	<u>1,458,940</u>
Total Ministry and Support Expenses	<u>3,454,886</u>	<u>3,613,550</u>
Income (loss) from operations	<u>9,439</u>	<u>73,990</u>
Non-Operating Activities		
Chapter 11 Bankruptcy Expenses	(1,535,955)	(1,766,207)
Insurance Recovery	975,000	
Investment Activity (net of fees)	9,286	60,627
Total Non-Operating Income (loss)	<u>(551,669)</u>	<u>(1,705,580)</u>

DIOCESE OF DULUTH
Statement of Financial Position (Un-Audited)
Years Ended June 30, 2018, 2017

	2018	2017
Assets		
Current Assets		
Cash & Equivalents		
General Operating	2,462,910	2,091,336
National Collections	133,056	141,799
Benefits Agency	167,640	157,011
Accounts Receivable	140,215	230,338
Accrued Interest Receivable	-	-
Prepaid Expenses	107,433	67,684
Total Current Assets	3,011,253	2,688,168
Other Assets		
Investments (note 1)	228,655	227,539
Notes & Loans Receivable (Note 2)	10,645	11,770
	239,300	239,309
Property & Equipment	351,940	455,671
Total Assets	<u>3,602,492</u>	<u>3,383,148</u>
Liabilities & Net Assets		
Current Liabilities		
Accounts Payable	1,347,753	600,541
Accrued Payroll & Related Liabilities	74,230	66,025
National Collections	133,056	141,799
Benefits Agency	37,509	27,106
Trust Accounts	83,221	67,735
Other Current Liabilities	107,757	128,102
Total Current Liabilities	1,783,526	1,031,308
Long Term Liabilities		
Other Post Retirement & Pension Benefits (note 3)	11,987,841	11,987,841
Total Liabilities	<u>13,771,367</u>	<u>13,019,149</u>
Net Assets (Deficit)		
Unrestricted	(11,136,729)	(10,594,500)
Temporarily Restricted	867,854	858,498
Permanently Restricted	100,000	100,000
Total Net Assets (Deficit)	<u>(10,168,875)</u>	<u>(9,636,002)</u>

DIOCESE OF DULUTH
Notes to the financial statements

Note 1. Investments

Includes both Money Market and equities/bonds

Note 2. Notes and Loans Receivable

Includes both long term and current maturities

Note 3. Other Post Retirement & Pension Benefits

Includes both current and long term liabilities

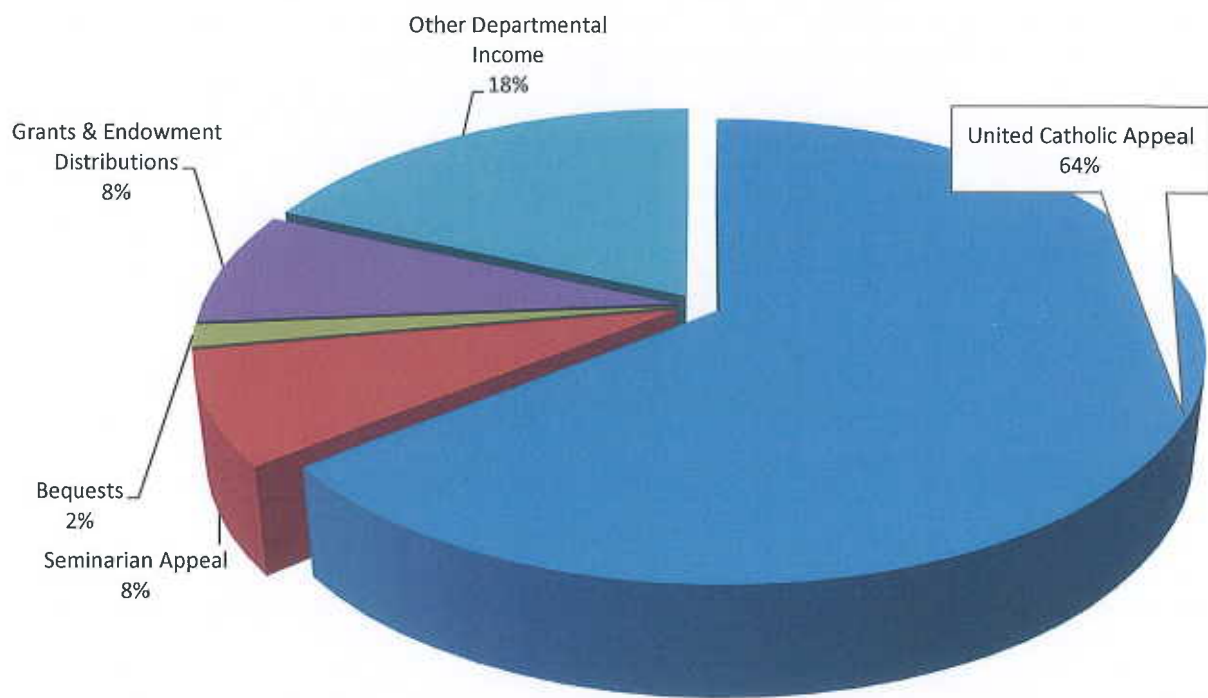
Endowment Funds of the Diocese of Duluth
Statement of Activities (Un-Audited)
Year Ended June 30, 2018

	<u>Human Life and Development Fund</u>	<u>Seminarian Endowment Fund</u>	<u>Catholic Religious Education Endowment Fund</u>
Beginning Net Assets	1,760,542	7,372,343	6,359,607
Revenue			
Investment Income	160,009	621,377	536,043
Pledges/Contributions	4,600	14,611	305
Total Revenue	<u>164,609</u>	<u>635,988</u>	<u>536,347</u>
Expenses			
Grants	(42,172)	-	(131,188)
Operating Expenses	(1,046)	(735)	(1,094)
Total Expenses	<u>(43,218)</u>	<u>(735)</u>	<u>(132,282)</u>
Ending Net Assets	<u><u>1,881,933</u></u>	<u><u>8,007,596</u></u>	<u><u>6,763,673</u></u>

**Diocese of Duluth
Summary of Collections
Years Ended June 30, 2018 and 2017**

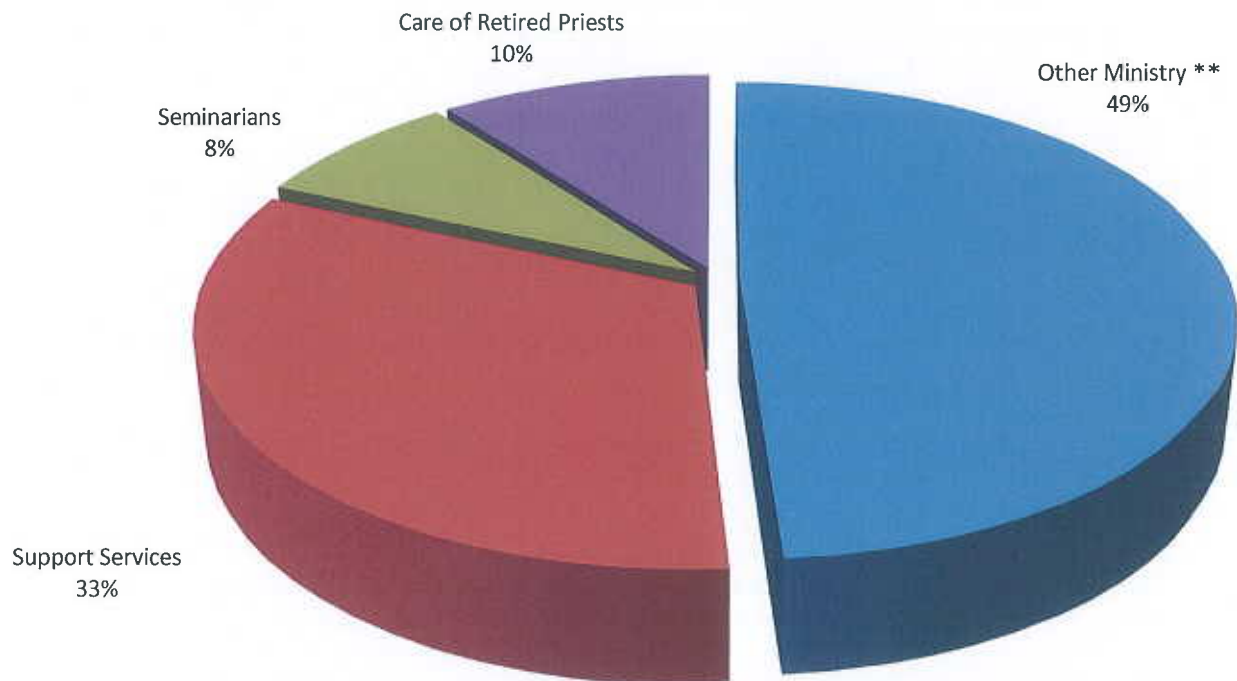
	<u>2018</u>	<u>2017</u>
<u>Annual National Collections</u>		
Holy Land (Good Friday)	51,883	51,809
Missionary Cooperatives	51,493	37,256
Retirement Fund for Religious	46,627	46,260
Catholic Relief Services	40,281	46,870
Propagation of Faith (Mission Sunday)	35,885	41,280
Holy Father's Collection (Peter's Pence)	35,672	29,535
Campaign for Human Development	34,223	26,436
Latin American	29,525	33,202
Black & Indian Missions	28,641	29,220
Rice Bowl	27,012	26,154
Catholic Home Mission	26,303	28,941
<i>Total Annual Collections</i>	407,544	396,963
<u>Special Collections</u>		
Hurricane Harvey	155,043	
Hurricane Irma	88,098	
Hurricane Maria	55,583	
Kingstown Appeal	40,891	32,621
Mexico Earthquake	30,634	
Trinity Dome	15,966	
Louisiana Flood Relief	-	36,937
<i>Total Special Collections</i>	386,214	69,558
Total of All Collections	793,758	466,521

Diocesan Revenue for Fiscal 2018



Diocesan Expenses for Fiscal 2018

Serving approximately 52,000 Catholics in NE Minnesota



** includes: Youth & Young Adults, Northern Cross, Schools, Hospital, Campus & Prison Ministry, etc