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September 11, 2015

Franz Hoefferle, Finance Director
Diocese of Duluth
2830 East 4th Street
Duluth, Minnesota 55812

In accordance with your request, we are transmitting the accompanying PDF file, which contains an electronic final version of the statements of financial position and the related statements of activities and cash flows for the years then ended and the related notes to the financial statements for the years ended June 30, 2015 and 2014, for Diocese of Duluth. We understand that your request for the electronic copy has been made as a matter of convenience. You understand that electronic transmissions are not entirely secure and that it is possible for confidential financial information to be intercepted by others.

These financial statements and our reports on them are not to be modified in any manner. This final version supersedes all prior drafts. Any preliminary draft version of the financial statements previously provided to you in an electronic format should be deleted from your computer, and all printed copies of any superseded preliminary draft versions should likewise be destroyed.

Professional standards and our Firm policies require that we perform certain additional procedures whenever our reports are included, or we are named as accountants, auditors, or “experts” in a document used in a public or private offering of equity or debt securities. Accordingly, as provided for and agreed to in the terms of our arrangement letter, Diocese of Duluth will not include our reports, or otherwise make reference to us, in any public or private securities offering without first obtaining our consent. Any request to consent is also a matter for which separate arrangements will be necessary. After obtaining our consent, Diocese of Duluth also agrees to provide us with printer’s proofs or masters of such offering documents for our review and approval before printing, and with a copy of the final reproduced material for our approval before it is distributed. In the event our auditor/client relationship has been terminated when Diocese of Duluth seeks such consent, we will be under no obligation to grant such consent or approval.

McGladrey LLP

James B. Spreitzer
Partner

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Diocese of Duluth

Financial Report
June 30, 2015

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Assurance ▪ Tax ▪ Consulting

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Independent Auditor's Report

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Report on the Financial Statements
We have audited the accompanying financial statements of the Diocese of Duluth, which comprise the statements of financial position as of June 30, 2015 and 2014, 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 audit 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 Duluth as of June 30, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

McGladrey LLP

Duluth, Minnesota
September 11, 2015

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Diocese of Duluth

Statements of Financial Position
June 30, 2015 and 2014

	2015	2014
Assets		
Current Assets		
Cash and cash equivalents		
General operating	$ 603,215	$ 497,058
Cash held for others (National Collections)	144,216	127,305
Accounts receivable (Note 5)	219,242	270,049
Accrued interest receivable	5,182	5,602
Notes and loan receivable, current maturities (Note 2)	6,602	38,523
Prepaid expenses	82,460	34,388
Total current assets	1,060,917	972,925
Other Assets		
Investments (Note 3)	3,888,599	3,889,959
Notes and loan receivable, less current maturities (Note 2)	13,932	24,034
	3,902,531	3,913,993
Property and Equipment, net (Note 4)	669,991	711,781
Total assets	$ 5,633,439	$ 5,598,699
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	$ 62,284	$ 157,035
Accrued payroll and related liabilities	95,793	81,205
Other postretirement and pension benefits	571,130	567,057
National collections	144,216	127,305
Trust accounts	42,938	63,869
Deferred revenue	95,156	95,300
Other current liabilities	20,625	60,000
Total current liabilities	1,032,142	1,151,771
Long-Term Liabilities, other postretirement and pension benefits (Notes 6 and 7)	11,416,711	11,517,663
Total liabilities	12,448,853	12,669,434
Net Assets (Deficit)		
Unrestricted	(7,738,238)	(7,886,696)
Temporarily restricted (Note 9)	822,824	715,961
Permanently restricted (Note 10)	100,000	100,000
Total net deficit	(6,815,414)	(7,070,735)
Total liabilities and net assets	$ 5,633,439	$ 5,598,699

See Notes to Financial Statements.

Diocese of Duluth

Statements of Activities
Years Ended June 30, 2015 and 2014

	2015	2014
Changes in Unrestricted Net Assets		
Revenues	$ 3,025,666	$ 2,748,739
Net assets released from time restrictions	617,565	765,313
Total unrestricted revenues and net assets released from restrictions	3,643,231	3,514,052
Expenses:		
Program	2,194,471	2,132,172
General	1,100,156	1,288,197
Total operating expenses, excluding unfunded periodic pension and other postretirement health benefit cost	3,294,627	3,420,369
Income from operations prior to unfunded periodic pension and other postretirement health benefit cost	348,604	93,683
Unfunded periodic pension and other postretirement health benefit cost	442,141	447,252
Income (loss) from operations	(93,537)	(353,569)
Other changes in unrestricted net assets:		
Unrealized gain (loss) on investments	(141,341)	433,396
Realized gain (loss) on investments	(149)	38,335
Loss on sale of land	-	(215,341)
Loss on impairment, land	-	(241,964)
(Increase) decrease in additional liabilities:		
Pension benefits (Note 6)	(1,657,132)	509,035
Other post retirement benefits (Note 7)	2,040,617	(761,882)
Increase (decrease) in unrestricted net assets	148,458	(591,990)
Changes in Temporarily Restricted Net Assets		
United Catholic Appeal:		
Contributions restricted for subsequent fiscal year	715,153	603,913
Net assets released from restrictions	(603,913)	(679,106)
Flood contributions	-	780
Other contributions	9,275	11,312
Net assets released from restrictions	(13,652)	(86,207)
Increase (decrease) in temporarily restricted net assets	106,863	(149,308)
Increase (decrease) in net assets	255,321	(741,298)
Net Assets (Deficit)		
Beginning of year	(7,070,735)	(6,329,437)
End of year	$ (6,815,414)	$ (7,070,735)

See Notes to Financial Statements.

Diocese of Duluth

Statements of Cash Flows
Years Ended June 30, 2015 and 2014

	2015	2014
Cash Flows from Operating Activities		
Increase (decrease) in net assets	**$ 255,321**	$ (741,298)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities:		
Depreciation	**109,362**	101,799
Loss on sale of land	**-**	215,341
Loss on impairment, land	**-**	241,964
Unrealized gain on investments	**141,341**	(433,396)
Changes in assets and liabilities:		
Accounts receivable	**50,807**	(58,582)
Accrued interest receivable	**420**	(553)
Prepaid expenses	**(48,072)**	77,112
Accounts payable	**(94,751)**	(54,819)
Accrued payroll and related liabilities	**14,588**	(22,031)
National collections	**16,911**	-
Trust accounts	**(20,931)**	(28,788)
Deferred revenue	**(144)**	(2,022)
Other current liabilities	**(39,375)**	45,000
Other postretirement and pension benefits	**(96,879)**	488,266
Net cash provided by (used in) operating activities	**288,598**	(172,007)
Cash Flows from Investing Activities		
Principal payments received on notes and loan receivable	**42,023**	9,485
Capital expenditures	**(67,572)**	(109,397)
Cash received from sale of property and equipment	**-**	45,132
Purchases of investments	**(180,446)**	(842,850)
Sales and maturities of investments	**40,465**	685,377
Net cash used in investing activities	**(165,530)**	(212,253)
Net increase (decrease) in cash and cash equivalents	**123,068**	(384,260)
Cash and Cash Equivalents		
Beginning	**624,363**	1,008,623
Ending	**$ 747,431**	$ 624,363
Supplemental Disclosures		
Sale of land in exchange for promissory note	**$ -**	$ 31,131

See Notes to Financial Statements.

Note 1. Nature of Organization and Significant Accounting Policies

Nature of organization: The Diocese of Duluth (the Diocese), from its offices in Duluth, Minnesota, collaborates in spreading the Catholic Faith with approximately 95 independent parishes/missions located within its diocesan territory. The Diocese provides guidance and some centralized services/benefits to the parish corporations.

A summary of the Diocese's significant accounting policies follows:

The Diocese prepares its financial statements in accordance with generally accepted accounting principles (GAAP) promulgated in the United States of America for not-for-profit entities. The significant accounting policies used by the Diocese are described below to enhance the usefulness and understandability of the financial statements.

Net assets: The financial statements report net assets and changes in net assets in three classes that are based upon the existence or absence of restrictions on use that are placed by its donors, as follows:

- *Unrestricted net assets.* Unrestricted net assets are resources available to support operations. The only limits on the use of unrestricted net assets are the broad limits resulting for the nature of the Diocese, the environment in which it operates, the purposes specified in its corporate documents and its application for tax-exempt status, and any limits resulting from contractual agreements with creditors and others that are entered into in the course of its operations.
- *Temporarily restricted net assets.* Temporarily restricted net assets are resources that are restricted by a donor for use for a particular purpose or in a particular future period. The Diocese’s unspent contributions are classified in this class if the donor limited their use, as are the unspent appreciation of its donor-restricted endowment funds. When a donor’s restriction is satisfied, either by using the resources in the manner specified by the donor or by the passage of time, the expiration of the restriction is reported in the financial statements by reclassifying the net assets from temporarily restricted to unrestricted net assets. Net assets restricted for acquisition of buildings or equipment (or less commonly, the contribution of those assets directly) are reported as temporarily restricted until the specified asset is placed in service by the Diocese, unless the donor provides more specific directions about the period of its use.
- *Permanently restricted net assets*. Permanently restricted net assets are resources whose use by the Diocese is limited by donor-imposed restrictions that neither expire by being used in accordance with a donor’s restriction nor by the passage of time. The portion of the Diocese’s donor-restricted endowment funds that must be maintained in perpetuity are classified in this net asset class.

Basis of accounting and reporting: The Diocese's policy is to prepare its financial statements on the accrual basis of accounting. If an expenditure results in the acquisition of an asset having an estimated useful life which extends substantially beyond the year of acquisition, the expenditure is capitalized.

Cash and cash equivalents: Substantially all cash and cash equivalents consist of money market funds held by one financial institution. For purposes of reporting the statement of cash flows, the Diocese considers the money market funds to be cash equivalents. The Diocese maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Diocese has not experienced any losses in such accounts. The Diocese believes it is not exposed to any significant credit risk on cash and cash equivalents.

Accounts receivable: The Diocese extends credit to the independent parish corporations and others located within its territory, primarily on an unsecured basis, on terms that are established for each account. The Diocese establishes allowances for doubtful accounts based on the status of the receivables at year-end, historical losses, and existing economic conditions. Uncollectible receivables are written off in the year that amounts are determined to be uncollectible. Accounts are considered past due if payment is not received according to agreed-upon terms.

Certificates of deposit: Certificates of deposit are carried at cost which approximates fair value.

Investments: Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the statement of financial position. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Investment income or loss (including gains and losses on investments, interest, and dividends) is included in the statement of activities as increases or decreases in unrestricted net assets unless the income or loss is restricted by donor or law.

Fair value measurements: The Diocese reports its fair value measures using a three-level hierarchy that prioritizes the inputs used to measure fair value. This hierarchy, established by GAAP, requires that entities maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three levels of inputs used to measure fair value are as follows:

- *Level 1.* Quoted priced for identical assets or liabilities in active markets to which the Diocese has access at the measurement date.
- *Level 2.* Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include:
  - quoted prices for similar assets or liabilities in active markets;
  - quoted prices for identical or similar assets in markets that are not active;
  - observable inputs other than quoted prices for the asset or liability (for example, interest rates and yield curves); and
  - inputs derived principally from, or corroborated by, observable market data by correlation or by other means.
- *Level 3.* Unobservable inputs for the asset or liability should be used to measure the fair value to the extent that observable inputs are not available.

When available, the Diocese measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. However, Level 1 inputs are not available for many of the assets and liabilities that the Diocese is required to measure at fair value (for example, unconditional promises to give and in-kind contributions).

The primary uses of fair value measures in the Diocese’s financial statements are:

- initial measurement of noncash gifts, including gifts of investment assets and unconditional promises to give.
- recurring measurement of investments (Note 3).

Changes in fair value levels: To assess the appropriate classification of investments within the fair value hierarchy, the availability of market data is monitored. Changes in economic conditions or valuation techniques may require the transfer of investments from one fair value level to another. In such instances, the transfer is reported at the end of the reporting period.

The significance of transfers between levels is evaluated based upon the nature of the investment and size of the transfer relative to total net assets available for benefits. For the year ended June 30, 2014, there were no transfers in or out of Levels 1, 2, or 3.

Property and equipment: Property and equipment are stated at cost, or if acquired by donation, the fair market value at date of donation. Depreciation is computed using the straight-line method.

Trust accounts: Trust accounts are used as clearing or agency accounts for the receipt and disbursement of money for various organizations or functions where the Diocese functions solely as an intermediary in handling such funds.

Deferred revenue: The Diocese receives an administrative fee on the insurance program that covers parishes and schools located within its diocesan territory. Deferred revenue represents amounts received on this program that have not yet been earned.

Postretirement benefits: The Diocese provides certain healthcare benefits for its retired priests. The Diocese follows the Financial Accounting Standards Board (FASB) issued guidance Compensation – Retirement Benefits Topic (Defined Benefit Plans – Pension Subtopic), of the FASB Accounting Standards Codification (ASC), to account for the costs of those benefits. Guidance on this topic requires detailed disclosures about employers' plan assets in a defined benefit pension or other postretirement plan, including employers' investment strategies, major categories of plan assets, concentrations of risk within plan assets, and inputs and valuation techniques used to measure the fair value of plan assets. The Topic also requires, for fair value measurements using significant unobservable inputs (Level 3), disclosure of the effect of the measurements on changes in plan assets for the period.

Fundraising expenses: Fundraising expenses for the years ended June 30, 2015 and 2014, were $120,679 and $151,160, respectively, and are included in general expenses.

Current accounting developments: In May 2014, the FASB issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers.* ASU 2014-09 supersedes the revenue recognition requirements in *Revenue Recognition (Topic 605*), and requires entities to recognize revenue in a way that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. ASU 2014-09 is effective for fiscal years beginning on January 1, 2018, including interim periods within that reporting period. Management is currently evaluating the effect that adopting this new accounting guidance will have on the statements of activities, cash flows and financial position. Management does not, at this time, anticipate a material impact to the financial statements once implemented.

Use of estimates in the preparation of financial statements: The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications: Certain account balances as previously reported in 2014, have been reclassified to be consistent with the classifications adopted for 2015.

Subsequent events: Management has evaluated subsequent events through September 11, 2015, which is the date the financial statements were available to be issued.

Note 2. Notes and Loans Receivable

Notes and loans receivable consist of the following at June 30,

	2015	2014
Promissory notes	$ 20,533	$ 62,556
Loans receivable	1	1
	20,534	62,557
Less current maturities	6,602	38,523
	$ 13,932	$ 24,034

The Diocese, at the inception of St. Ann's Home (a HUD financed facility for elderly housing), loaned approximately $260,000 for working capital of which approximately $78,000 has been repaid through June 30, 2015. Although a portion of the $182,000 balance may be repaid, collection is doubtful and the Diocese values the receivable at the nominal amount of $1.

Note 3. Investments

Investments consist of the following at June 30,

	2015	2014
Mutual funds	$ 2,855,973	$ 2,894,765
Corporate bonds and notes	150,947	127,288
U.S. Government obligations	60,165	77,407
Real asset funds	366,241	418,847
Complimentary strategies	455,273	371,652
	$ 3,888,599	$ 3,889,959

The following summarizes the levels in the fair value hierarchy of the Diocese's investments carried at fair value at June 30, 2015 and 2014.

	2015			
	Level 1	Level 2	Level 3	Total
Mutual funds:				
Domestic	$ 1,762,023	$ -	$ -	$ 1,762,023
International	1,093,950	-	-	1,093,950
Corporate bonds and notes	-	150,947	-	150,947
U.S. Government obligations	-	60,165	-	60,165
Real asset funds	366,241	-	-	366,241
Complimentary strategies	455,273	-	-	455,273
	$ 3,677,487	$ 211,112	$ -	$ 3,888,599

	2014			
	Level 1	Level 2	Level 3	Total
Mutual funds:				
Domestic	$ 1,700,435	$ -	$ -	$ 1,700,435
International	1,194,330	-	-	1,194,330
Corporate bonds and notes	-	127,288	-	127,288
U.S. Government obligations	-	77,407	-	77,407
Real asset funds	418,847	-	-	418,847
Complimentary strategies	371,652	-	-	371,652
	$ 3,685,264	$ 204,695	$ -	$ 3,889,959

Note 4. Property and Equipment

A summary of property and equipment is as follows at June 30,

	2015	2014	Lives (Years)
Land	$ 77,469	$ 77,469	
Buildings and improvements	2,592,439	2,591,386	10-40
Furniture and fixtures	190,018	166,193	5
Equipment and vehicles	149,258	243,073	5-10
	3,009,184	3,078,121	
Less accumulated depreciation	2,339,193	2,366,340	
	$ 669,991	$ 711,781	

During 2014 the Diocese had a market value appraisal performed with regard to certain land. Based on the appraisal the Diocese recorded a loss on impairment of $241,964 which is included in other changes in unrestricted net assets in the Statements of Activities.

Note 5. Accounts Receivable

	2015	2014
Accounts receivable	$ 449,242	$ 541,549
Less allowance for doubtful accounts	230,000	271,500
	$ 219,242	$ 270,049

Note 6. Pension Plans

The Diocese has a defined contribution pension plan for any lay employees hired subsequent to the July 1, 2009, freezing of the Diocese lay defined benefit pension plan. The Diocese and parishes will make a base contribution of 3 percent and up to an additional 3 percent match of base compensation for eligible employees who have completed at least one year of service. Pension expense for the plan was $111,306 and $85,486 for the years ended June 30, 2015 and 2014, respectively, which was primarily reimbursed by the parishes and other supported programs.

Eligible lay employees of the Diocese and members of the Diocese clergy are included in separate trustee administered defined benefit pension plans which include employees and clergy of the parishes and other programs supported by the Diocese. The plan covering lay employees was frozen on January 1, 2009, and no new employees hired after that date may participate in the plan. The pension plans are noncontributory for employees. Currently, the Diocese's policy is to fund pension costs and allocate the cost to the parishes and other supported programs based on the participants. Pension cost reimbursed by these entities was $557,192 and $603,201 for the years ended June 30, 2015 and 2014, respectively.

In accordance with the provisions set forth in the Compensation – Retirement Benefits Topic (Defined Benefit Plans – Pension Subtopic) of the FASB ASC, employers are required to recognize the overfunded or underfunded status of defined benefit pension and postretirement plans as an asset or liability in its balance sheet and to recognize changes in that funded status in the year in which the changes occur through the statement of activities. The funded status of a benefit plan is measured as the difference between the fair value of plan assets and the accumulated postretirement benefit obligation. The amounts recognized as other changes in unrestricted net assets in the statements of activities include costs associated with actuarial gains or losses, prior service costs or credits, and transition assets or obligations that resulted during the period but were not recognized as a component of net periodic benefit cost. These amounts, recognized as other changes in unrestricted net assets, are adjusted as they are subsequently recognized as components of net periodic benefit costs.

The following shows the Plans' funded status and amounts recognized in the accompanying balance sheets at June 30, 2015:

	Lay Plan	Clergy Plan
Change in projected benefit obligation:		
Projected benefit obligation, beginning	$ 12,485,072	$ 8,153,137
Service cost	287,283	157,627
Interest cost	518,078	335,246
Actuarial loss	485,401	969,840
Benefits paid	(501,097)	(428,231)
Projected benefit obligation, ending	13,274,737	9,187,619
Change in plan assets:		
Plan assets at fair value, beginning	9,065,278	5,288,369
Actual return on assets	203,061	107,900
Company contributions	467,269	244,246
Benefits paid	(501,097)	(428,231)
Plan assets at fair value, ending	9,234,511	5,212,284
Funded status	$ (4,040,226)	$ (3,975,335)

The components of the Diocese's net periodic benefit cost for the fiscal year ended June 30, 2015, consists of the following:

	Lay Plan	Clergy Plan
Service cost	$ 287,283	$ 157,627
Interest cost	518,078	335,246
Expected return on plan assets	(601,750)	(340,059)
Amortization of unrecognized:		
Prior service cost	-	88,980
Net actuarial loss	205,647	134,330
Net periodic benefit cost	$ 409,258	$ 376,124

Actuarial assumptions: The weighted-average assumptions used to determine benefit obligations at June 30, 2015, are shown below:

	Lay Plan	Clergy Plan
Discount rate	4.55%	4.55%
Rate of compensation increase	3.42%	N/A

The weighted-average assumptions used to determine net periodic benefit cost for the year ended June 30, 2015, follow:

	Lay Plan	Clergy Plan
Discount rate	4.25%	4.25%
Expected long-term rate of return on plan assets	7.00%	7.00%
Rate of compensation increase	3.46%	N/A

Plan assets: The Diocese's asset allocation strategy and process consists of a long-term, risk-controlled approach using diversified investment options with a minimal exposure to volatile investment options like derivatives. The long-term strategy is foremost preserving plan assets from the downside market risk. The investment process uses a diversified allocation of equity, debt, and real estate exposures that are customized to each plan's cash flow benefit needs.

The plan administrator reviews each plan's assets and liabilities with an emphasis on forecasting each plan's cash flow needs. This forecast calculates the allocation percentage of fixed income assets to cover the liabilities needs. The model is quantitatively based and evaluates the plan's current assets plus 5-years of deposit projections and compares it to the current monthly benefit payments with the emerging benefit-liabilities for the next ten years. The data for the deposits and emerging liabilities is provided from the plan's actuarial valuation while the current assets and monthly benefit payments data is provided from the plan administrator's retirement plan accounting system.

	June 30, 2015	
	Lay Plan	Clergy Plan
Equity securities	41%	42%
Debt securities	46%	45%
Balanced/Asset allocation	5%	5%
Real estate	8%	8%
	100%	100%

In accordance with the Defined Benefit Plans – Pension Subtopic, management assessed the investments in the defined benefit pension plan and determined the fair value hierarchy as discussed in Note 3.

The following shows by level, within the fair value hierarchy, the plan's investments at fair value as of June 30, 2015 and 2014:

	Lay Plan Investments at Fair Value as of June 30, 2015			
	Level 1	Level 2	Level 3	Total
Large US equity	$ -	$ 2,294,220	$ -	$ 2,294,220
Small/Mid US equity	-	600,307	-	600,307
International equity	-	944,133	-	944,133
Balanced/Asset allocation	-	455,931	-	455,931
Multi-Strategy - real estate	-	711,103	-	711,103
Fixed income	-	4,228,817	-	4,228,817
	$ -	$ 9,234,511	$ -	$ 9,234,511

	Lay Plan Investments at Fair Value as of June 30, 2014			
Large US equity	$ -	$ 2,262,362	$ -	$ 2,262,362
Small/Mid US equity	-	564,464	-	564,464
International equity	-	921,914	-	921,914
Balanced/Asset allocation	-	465,905	-	465,905
Multi-Strategy - real estate	-	679,585	-	679,585
Fixed income	-	4,171,048	-	4,171,048
	$ -	$ 9,065,278	$ -	$ 9,065,278

	Clergy Plan Investments at Fair Value as of June 30, 2015			
Large US equity	$ -	$ 1,308,243	$ -	$ 1,308,243
Small/Mid US equity	-	342,301	-	342,301
International equity	-	538,486	-	538,486
Balanced/Asset allocation	-	260,073	-	260,073
Multi-Strategy - real estate	-	405,642	-	405,642
Fixed income	-	2,357,539	-	2,357,539
	$ -	$ 5,212,284	$ -	$ 5,212,284

	Clergy Plan Investments at Fair Value as of June 30, 2014			
Large US equity	$ -	$ 1,322,111	$ -	$ 1,322,111
Small/Mid US equity	-	329,880	-	329,880
International equity	-	538,681	-	538,681
Balanced/Asset allocation	-	272,264	-	272,264
Multi-Strategy - real estate	-	397,074	-	397,074
Fixed income	-	2,428,359	-	2,428,359
	$ -	$ 5,288,369	$ -	$ 5,288,369

The Diocese and the independent parish corporations located within its territory expect to contribute $267,337 to the Lay Plan and $183,600 to the Clergy Plan during 2016.

Estimated future benefit payments:

Years Ending June 30,	Lay Plan	Clergy Plan
2016	$ 670,000	$ 560,000
2017	600,000	560,000
2018	620,000	540,000
2019	770,000	520,000
2020	710,000	530,000
2021-2025	4,450,000	2,680,000

The following shows the Plans' funded status and amounts recognized in the accompanying balance sheets at June 30, 2014:

	Lay Plan	Clergy Plan
Change in projected benefit obligation:		
Projected benefit obligation, beginning	$ 11,512,157	$ 7,929,661
Service cost	307,550	133,650
Interest cost	504,772	344,685
Actuarial gain	699,005	142,120
Benefits paid	(538,412)	(396,979)
Projected benefit obligation, ending	12,485,072	8,153,137
Change in plan assets:		
Plan assets at fair value, beginning	7,982,143	4,744,360
Actual return on assets	1,081,503	636,547
Company contributions	540,044	304,441
Benefits paid	(538,412)	(396,979)
Plan assets at fair value, ending	9,065,278	5,288,369
Funded status	$ (3,419,794)	$ (2,864,768)

The components of the Diocese's net periodic benefit cost for the fiscal year ended June 30, 2014, consists of the following:

	Lay Plan	Clergy Plan
Service cost	$ 307,550	$ 133,650
Interest cost	504,772	344,685
Expected return on plan assets	(539,612)	(300,111)
Amortization of unrecognized:		
Prior service cost	-	88,980
Net actuarial loss	224,941	157,912
Net periodic benefit cost	$ 497,651	$ 425,116

Actuarial assumptions: The weighted-average assumptions used to determine benefit obligations at June 30, 2014, are shown below:

	Lay Plan	Clergy Plan
Discount rate	4.25%	4.25%
Rate of compensation increase	3.46%	N/A

The weighted-average assumptions used to determine net periodic benefit cost for the year ended June 30, 2014, follow:

	Lay Plan	Clergy Plan
Discount rate	4.50%	4.50%
Expected long-term rate of return on plan assets	7.00%	7.00%
Rate of compensation increase	3.50%	N/A

Plan assets:

	June 30, 2014	
	Lay Plan	Clergy Plan
Equity securities	41%	41%
Debt securities	46%	46%
Balanced/Asset Allocation	5%	5%
Real estate	8%	8%
	100%	100%

Note 7. Other Postretirement Benefits

The Diocese provides certain healthcare and dental benefits for retired priests. The program is noncontributory. An annual projected rate of increase in healthcare and life insurance costs for pre-65 beneficiaries of 7.5 percent was assumed by management, reduced 0.5 percent per year until 2020 and 4.5 percent thereafter. An annual projected rate of increase for post-65 beneficiaries of 5.5 percent was assumed by management, reduced 0.5 percent per year until 2017 and 4.5 percent thereafter.

The accrued liability for these benefits was $3,972,280 and $5,800,158 at June 30, 2015 and 2014, respectively, of which $120,193 in 2015 and $88,728 in 2014 is reported in current liabilities under other postretirement and pension benefits.

The discount rate used in the calculation of future liabilities increased to 4.55 percent for the year ended June 30, 2015, compared to 4.25 percent for the year ended June 30, 2014. This change resulted in a decrease in the benefit obligation. The mortality and medical cost trend rate assumptions were updated resulting in an increase in the benefit obligation. The assumptions regarding plan provisions were updated to reflect retiree participation in the Medicare program. These assumptions resulted in a net decrease in the benefit obligation of $1,855,000.

The following shows the Plan's funded status and amounts recognized in the accompanying balance sheets at June 30, 2015 and 2014.

	2015	2014
Change in accumulated postretirement benefit obligation:		
Benefit obligation, beginning	$ 5,800,158	$ 4,881,139
Service cost	233,509	167,523
Interest cost	242,469	215,601
Actuarial (gain) loss	(2,157,881)	596,240
Benefits paid	(145,975)	(60,345)
Accumulated postretirement benefit obligation, ending	3,972,280	5,800,158
Change in plan assets:		
Plan assets at fair value, beginning	-	-
Company contributions	145,975	60,345
Benefits paid	(145,975)	(60,345)
Plan assets at fair value, ending	-	-
Funded status	$ (3,972,280)	$ (5,800,158)

The components of the Diocese's net periodic postretirement benefit cost for the fiscal years ended June 30, 2015 and 2014, consist of the following:

	2015	2014
Service cost	$ 233,509	$ 167,523
Interest cost	242,469	215,601
Amortization of unrecognized net actuarial gain	(35,882)	(84,260)
Amortization of prior service cost	(81,382)	(81,382)
Net periodic benefit cost	$ 358,714	$ 217,482

Actuarial assumptions: The weighted-average assumptions used to determine postretirement benefit obligations at June 30, 2015 and 2014, are shown below:

	2015	2014
Discount rate	4.55%	4.25%
Rate of compensation increase	N/A	N/A

The weighted-average assumptions used to determine net periodic postretirement benefit cost for the year ended June 30, 2015 and 2014, follow:

	2015	2014
Discount rate	4.25%	4.50%

As of June 30, 2015, there were 22 eligible retired priests receiving benefits and 49 active priests who are eligible to receive benefits at retirement.

Note 8. Income Taxes

The Diocese is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and similar laws of the State of Minnesota.

Note 9. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at June 30,

	2015	2014
United Catholic Appeal for subsequent periods	$ 715,153	$ 603,913
Other contributions for future program expenses	32,671	37,048
Fr. Joseph Hughes bequest for the benefit of children	75,000	75,000
	$ 822,824	$ 715,961

Note 10. Permanently Restricted Net Assets

Permanently restricted net assets are held in perpetuity, the income from which is expendable for the following purposes at June 30,

	2015	2014
Margueritte Rinn Trust, education and missions	$ 100,000	$ 100,000

The Diocese has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to operations of the Diocese by its endowment while seeking to maintain purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Diocese must hold in perpetuity. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce a reasonable rate of return. Actual returns in any given year may vary. The board annually appropriates for expenditure any investment earnings.

From time to time, the fair value of endowment funds associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Diocese to retain as a fund in perpetual duration, (i.e. underwater endowments). Losses on permanently restricted endowment investments are first used to reduce previous investment income and gains which have not been expended. Any additional losses are shown as a reduction in unrestricted net assets.

Note 11. Risks and Uncertainties

The Diocese invests in various securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investments securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that those changes could materially affect the amounts reported in the financial statements.

The Diocese of Duluth is involved in various lawsuits relating to claims of alleged sexual misconduct by certain deceased priests and is diligently defending these matters and will continue to do so in a manner consistent with the norms established by the U.S. Conference of Catholic Bishops and with all due respect to the victims of childhood sexual abuse. The Diocese has or will tender the defense of these claims to its insurers. At this time, the Diocese has no practical means to determine the likely outcome or the amount of any damages that may be awarded in the various lawsuits and therefore, no provision has been made for potential loss, if any, that may result from resolution of these matters, however, losses from claims could be substantial. No amounts have been accrued for such claims as losses cannot be determined.

Unknown claims can go back many years where insurance may not have been available or coverage limits were minimal. Also certain types of damages, such as punitive damages, may not be covered by insurance. No amounts have been accrued for unknown claims as losses are unknown and cannot be determined.

Note 12. Related Parties

The Diocese is related to the Seminarian Endowment Fund of the Diocese of Duluth (Seminarian Endowment Fund). The Diocese received contributions of $65,000 from the Seminarian Endowment Fund for costs related to the education of future priests for 2015 and no contributions in 2014.

The Diocese is also related to the Catholic Religious Education Endowment Fund of the Diocese of Duluth (CREED Fund). The Diocese received contributions from the CREED Fund for various purposes totaling $102,651 and $95,687 during 2015 and 2014, respectively.

During 2014, the Diocese sold certain land to a Parish within the diocesan territory at fair value through cash and a note receivable resulting in a loss of $215,341.

McGladrey

Independent Auditor's Report on the Supplementary Information

The Board of Directors
Diocese of Duluth
Duluth, Minnesota

We have audited the financial statements of the Diocese of Duluth as of and for the years ended June 30, 2015 and 2014, and have issued our report thereon which contains an unmodified opinion on those financial statements. See page 1. Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information is presented for purposes of additional analysis and is 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 audits 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.

McGladrey LLP

Duluth, Minnesota
September 11, 2015

Member of the RSM International network of independent accounting, tax and consulting firms.

Diocese of Duluth

Schedules of Revenues and Net Assets Released From Time Restrictions
Years Ended June 30, 2015 and 2014

	2015	2014
Revenues		
United Catholic Appeal, contributions received during the current fiscal year	$ 1,570,755	$ 1,437,674
Interest and dividends, net of expenses	133,975	81,308
Grant income	170,862	218,090
Insurance program	127,019	126,954
Program registration revenue	186,890	129,914
Contributions:		
Seminarian Appeal	245,581	221,411
Bequest	39,466	101,249
Other	37,385	23,930
Other income:		
Grants from related parties	167,651	95,687
Hospital Ministry	146,917	131,128
Priest and Deacon retreats and conferences	73,355	68,831
Ministry fees and materials	38,290	44,004
Duluth Area Catholic Schools reimbursements	34,251	29,389
Calvary Cemetery reimbursements	9,280	10,843
Northern Cross rebates	20,672	15,955
Other	23,317	12,372
Total revenues	$ 3,025,666	$ 2,748,739
Net Assets Released From Time Restrictions		
United Catholic Appeal, contributions received in prior fiscal year for the current fiscal year	$ 603,913	$ 679,106
Other	13,652	86,207
Total net assets released from time restrictions	$ 617,565	$ 765,313

Diocese of Duluth

Schedules of Program and General Expenses
Years Ended June 30, 2015 and 2014

	2015	2014
Program Expenses		
Office of the Bishop	$ 124,171	$ 118,628
Office of the Vicar General	25,508	32,901
Marriage Tribunal	66,124	62,670
Office for Catechists	83,730	74,331
Campus Ministry at UMD	120,829	105,467
Hospital Ministry	172,285	134,660
Office for Catholic Schools	145,379	134,688
Youth and Young Adult	213,608	222,486
Office for Continuing Formation of Priests	209,017	212,919
Office for Vocations	315,105	326,877
Office for Permanent Diaconate	118,345	132,055
Office for Liturgy	27,236	27,482
Office for Safe Environment	44,168	26,618
Communications Office	268,176	268,885
Office for Marriage and Family Life	78,026	60,395
Office for Native American Ministry	76,510	71,156
TV Mass	25,500	26,295
Office for the Social Apostolate of the Church	80,740	51,319
Flood relief	-	42,296
Other	14	44
	$ 2,194,471	$ 2,132,172
General Expenses		
Diocesan dues and donations	$ 111,100	$ 109,247
Business Office	240,879	202,908
Pastoral Center, building and grounds	177,789	193,171
Pastoral Care of Priests	177,306	165,635
Audit and legal	102,771	138,702
Development Office	120,679	151,160
Depreciation	109,362	101,799
Bad debts	(39,190)	61,717
Insurance Program	62,200	119,944
Other	37,260	43,914
	$ 1,100,156	$ 1,288,197