

**DIOCESE OF LA CROSSE
ADMINISTRATIVE OFFICES**

**FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITORS'
REPORT**

JUNE 30, 2017 AND 2016

**DIOCESE OF LA CROSSE
ADMINISTRATIVE OFFICES**

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INDEPENDENT AUDITORS' REPORT

To the Most Reverend William Patrick Callahan
and the Diocesan Finance Council
Diocese of La Crosse
La Crosse, Wisconsin

We have audited the accompanying financial statements of the Diocese of La Crosse - Administrative Offices (a nonprofit organization) which comprise the statements of financial position as of June 30, 2017 and 2016, 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.

Auditors' 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 Organization'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 Organization'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 qualified opinion.

Basis for Qualified Opinion

As explained in Note 1 to the financial statements, property and equipment was not capitalized consistently and depreciation was not recorded prior to June 30, 2015. In our opinion, accounting principles generally accepted in the United States of America require that all property and equipment be capitalized consistently and depreciated over the assets' useful life. It was not practicable to determine the effects of this omission on the financial statements.

Qualified Opinion

In our opinion, except for the effects of not recording property, equipment, and depreciation as discussed in the paragraph above, the financial statements referred to above present fairly, in all material respects, the financial position of the Diocese of La Crosse - Administrative Offices as of June 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Diocesan Annual Appeal Special Disbursements and the Diocesan Annual Appeal Special Report Data are presented for 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.

Hawkins Ash CPAs, LLP

La Crosse, Wisconsin
November 8, 2017

**DIOCESE OF LA CROSSE
ADMINISTRATIVE OFFICES**

FINANCIAL STATEMENTS

**DIOCESE OF LA CROSSE
ADMINISTRATIVE OFFICES
STATEMENTS OF FINANCIAL POSITION**

<u>ASSETS</u>	JUNE 30,	
	2017	2016
Cash	\$ 2,270,641	2,386,703
Accounts receivable, net	514,244	689,040
Accrued interest receivable	40,973	43,623
Prepaid expenses	37,720	37,889
Notes receivable	-	520
Property and equipment, net	12,041,627	11,688,326
Cash - restricted	2,688,814	1,527,713
Investments - restricted	17,006,388	17,636,082
TOTAL ASSETS	\$ 34,600,407	\$ 34,009,896
<u>LIABILITIES AND NET ASSETS</u>		
LIABILITIES		
Cash overdraft	\$ 70,264	\$ 62,163
Accounts payable and accrued expenses	359,377	408,545
Revolving loan with St. Ambrose Financial Services, Inc.	3,717,370	4,277,211
Collections for transmittal	1,407,196	1,406,731
Pledges payable	19,703	29,407
TOTAL LIABILITIES	5,573,910	6,184,057
NET ASSETS		
Unrestricted		
Undesignated	1,142,900	1,410,699
Board Designated	11,987,991	11,389,622
TOTAL UNRESTRICTED	13,130,891	12,800,321
Temporarily restricted	6,813,604	6,242,849
Permanently restricted	9,082,002	8,782,669
TOTAL NET ASSETS	29,026,497	27,825,839
TOTAL LIABILITIES AND NET ASSETS	\$ 34,600,407	\$ 34,009,896

The accompanying notes are an integral part of these statements.

**DIOCESE OF LA CROSSE
ADMINISTRATIVE OFFICES
STATEMENTS OF ACTIVITIES**

	YEAR ENDED JUNE 30,							
	2017				2016			
	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
SUPPORT AND REVENUE								
Contributions and bequests	\$ 632,125	\$ 5,667,225	299,333	\$ 6,598,683	\$ 1,596,922	\$ 5,397,279	\$ 35,652	7,029,853
Investment and endowment income, net of investment fees	388,033	-	-	388,033	345,226	-	-	345,226
Services and other income	1,674,077	-	-	1,674,077	1,843,543	-	-	1,843,543
Quotas	1,313,650	-	-	1,313,650	966,544	-	-	966,544
Loss on disposal of capital assets	(27,400)	-	-	(27,400)	-	-	-	-
Net assets released from restrictions	<u>5,526,497</u>	<u>(5,526,497)</u>	<u>-</u>	<u>-</u>	<u>5,349,720</u>	<u>(5,349,720)</u>	<u>-</u>	<u>-</u>
TOTAL SUPPORT AND REVENUE	<u>9,506,982</u>	<u>140,728</u>	<u>299,333</u>	<u>9,947,043</u>	<u>10,101,955</u>	<u>47,559</u>	<u>35,652</u>	<u>10,185,166</u>
EXPENSES								
Program Services								
Pastoral and administration	3,547,761	-	-	3,547,761	3,998,579	-	-	3,998,579
Interest	37,943	-	-	37,943	37,293	-	-	37,293
Religious and personnel development	1,181,770	-	-	1,181,770	1,059,302	-	-	1,059,302
Education	580,661	-	-	580,661	905,818	-	-	905,818
Charity and social justice	1,886,621	-	-	1,886,621	1,833,805	-	-	1,833,805
Depreciation	39,960	-	-	39,960	4,475	-	-	4,475
TOTAL PROGRAM SERVICES	<u>7,274,716</u>	<u>-</u>	<u>-</u>	<u>7,274,716</u>	<u>7,839,272</u>	<u>-</u>	<u>-</u>	<u>7,839,272</u>
Supporting Services								
Administration	1,217,134	-	-	1,217,134	1,341,273	-	-	1,341,273
Fundraising	441,808	-	-	441,808	449,837	-	-	449,837
TOTAL EXPENSES	<u>8,933,658</u>	<u>-</u>	<u>-</u>	<u>8,933,658</u>	<u>9,630,382</u>	<u>-</u>	<u>-</u>	<u>9,630,382</u>
NET SUPPORT IN EXCESS OF EXPENSES	573,324	140,728	299,333	1,013,385	471,573	47,559	35,652	554,784
OTHER (LOSSES) GAINS								
Net realized and unrealized (losses) gains on investments	<u>(185,939)</u>	<u>430,027</u>	<u>-</u>	<u>244,088</u>	<u>163,899</u>	<u>-</u>	<u>-</u>	<u>163,899</u>
CHANGE IN NET ASSETS	387,385	570,755	299,333	1,257,473	635,472	47,559	35,652	718,683
NET ASSETS AT BEGINNING OF YEAR	12,800,321	6,242,849	8,782,669	27,825,839	12,174,823	6,195,290	8,747,017	27,117,130
CHANGE IN VALUE OF SPLIT-INTEREST AGREEMENT	<u>(56,815)</u>	<u>-</u>	<u>-</u>	<u>(56,815)</u>	<u>(9,974)</u>	<u>-</u>	<u>-</u>	<u>(9,974)</u>
NET ASSETS AT END OF YEAR	<u>\$ 13,130,891</u>	<u>\$ 6,813,604</u>	<u>\$ 9,082,002</u>	<u>\$ 29,026,497</u>	<u>\$ 12,800,321</u>	<u>\$ 6,242,849</u>	<u>\$ 8,782,669</u>	<u>\$ 27,825,839</u>

The accompanying notes are an integral part of these statements.

**DIOCESE OF LA CROSSE
ADMINISTRATIVE OFFICES
STATEMENTS OF CASH FLOWS**

	YEAR ENDED JUNE 30,	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,257,473	\$ 718,683
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities		
Change in value of split-interest agreement liability	(56,815)	(9,974)
Net realized and unrealized (gains) on investments	(244,088)	(163,708)
Allowance for doubtful accounts	18,033	(7,026)
Allowance for note receivable losses	520	520
Depreciation	39,960	4,475
Loss on disposal of capital assets	27,400	-
Contributions restricted for investment in endowment	(299,333)	(35,652)
Changes in assets and liabilities		
Decrease (increase) in assets		
Accounts receivable	156,763	21,719
Accrued interest receivable	2,650	(8,557)
Prepaid expenses	169	18,419
Restricted cash	(1,161,101)	15,158
Increase (decrease) in liabilities		
Cash overdraft	8,101	(240,372)
Accounts payable and accrued expenses	(49,168)	95,569
Deferred revenue	-	(120)
Pledges payable	(9,704)	(9,608)
Collections for transmittal	465	(283)
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	(308,675)	399,243
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of capital asset	200	-
Acquisition of property and equipment	(420,861)	(423,445)
Purchases of investment securities	(10,617,795)	(8,751,646)
Proceeds on sales of investment securities	11,491,577	8,765,450
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	453,121	(409,641)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net (repayments) proceeds on revolving loan from St. Ambrose Financial Services, Inc.	(559,841)	87,810
Collection of contributions restricted for investment in endowment	299,333	35,652
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	(260,508)	123,462
NET (DECREASE) INCREASE IN CASH	(116,062)	113,064
CASH AT BEGINNING OF YEAR	2,386,703	2,273,639
CASH AT END OF YEAR	\$ 2,270,641	\$ 2,386,703
<u>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</u>		
Cash paid during the year for interest on the revolving line of credit	\$ 13,038	\$ -

The accompanying notes are an integral part of these statements.

DIOCESE OF LA CROSSE
ADMINISTRATIVE OFFICES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 1 - Nature of Organization and Significant Accounting Policies

Nature of Organization:

The financial statements presented are for the Diocese of La Crosse - Administrative Offices (the "Organization"). The Organization is operated to provide services and support to Diocesan parishes, schools, and organizations. Services provided include administrative services with regard to education, charitable projects, parish administration, and religious personnel activities. The Organization also provides technical and fundraising assistance to these organizations. In return, some organizations are assessed quotas.

Summary of Significant Accounting Policies:

Basis of Accounting - The financial statements of the Diocese of La Crosse - Administrative Offices have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

Basis of Presentation and Net Assets - The accompanying financial statements are presented in accordance with the accounting principles generally accepted in the United States of America (U.S. GAAP) as codified by the Financial Accounting Standards Board.

Under U.S. GAAP, the Organization is required 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. Net assets, revenue, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization are classified and reported as follows:

Unrestricted Net Assets - Net assets that are not subject to donor-imposed stipulations. Board designated net assets are unrestricted net assets that have been designated by the Finance Council as opportunity and permanent reserves for future unexpected expenditures.

Temporarily Restricted Net Assets - Net assets subject to donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Organization pursuant to those stipulations.

Permanently Restricted Net Assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization.

Cash and Cash Equivalents - For financial statement purposes, the Organization considers all highly liquid unrestricted investments with an initial maturity of three months or less when purchased to be cash equivalents.

Restricted Cash - Restricted cash consists of deposits held at St. Ambrose Financial Services, Inc. that are donor designated and custodial funds.

Accounts Receivable and Allowance for Doubtful Accounts - Accounts receivable consists of billings for services rendered by the various Curia offices. Management has determined an allowance for uncollectible balances based upon the analysis of prior collections and experience with individuals, parishes, and schools.

DIOCESE OF LA CROSSE
ADMINISTRATIVE OFFICES
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2017 AND 2016

NOTE 1 - Nature of Organization and Significant Accounting Policies - Continued

Investments - The Organization carries investments in marketable securities with readily determinable fair values and all investments in debt securities at their fair values in the statements of financial position. Unrealized gains and losses are included in the change in net assets in the accompanying statements of activities.

Investments in marketable securities, in general, are exposed to various risks, such as credit, inflation, interest rate, liquidity, reinvestment, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the value of investment securities could occur in the near term and such changes could materially affect the value of investments reported in the statements of financial position.

Donated Assets - Donated marketable securities and other noncash donations are recorded as contributions at their estimated fair values at the date of donation.

Fair Value Measurements - The Organization has determined the fair value of certain assets in accordance with U.S. GAAP.

U.S. GAAP defines fair value as the exchange price that would be received for an asset in the principal or most advantageous market for the asset in an orderly transaction between market participants on the measurement date. U.S. GAAP requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs. U.S. GAAP also establishes a fair value hierarchy, which prioritizes the valuation inputs into three broad levels.

Level 1 inputs consist of quoted prices in active markets for identical assets that the reporting organization has the ability to access at the measurement date. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the related asset. Level 3 inputs are unobservable inputs related to the asset.

Property and Equipment - Use of operating funds for certain property acquisitions is accounted for as unrestricted designated net assets. Property and equipment are carried at cost or, if donated, at the fair value at the date of donation, less accumulated depreciation. The Organization implemented a capitalization policy effective April, 2016. The Finance Office began depreciating assets according to this policy as of July 1, 2015. The Organization considers property and equipment with a cost of or, if donated, fair value of \$5,000 or more and a useful life of at least three years. Prior to April, 2016, the Organization recorded the purchases of land, buildings, and vehicles, however, not all equipment and furniture were consistently capitalized, and this policy was not in accordance with U.S. GAAP. Depreciation is calculated on the straight-line method over the useful life of the asset. No provision was made for depreciation of property and equipment prior to April, 2016.

Donated Property and Equipment - Donations of property and equipment are recorded as contributions at their estimated fair value at the date of donation. Such donations are reported as increases in unrestricted net assets unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time.

DIOCESE OF LA CROSSE
ADMINISTRATIVE OFFICES
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2017 AND 2016

NOTE 1 - Nature of Organization and Significant Accounting Policies - Continued

Impairment of Long-Lived Assets - In accordance with U.S. GAAP, the Organization reviews its non-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recovered. If the fair value is less than the carrying amount of the asset, an impairment loss is recognized for the difference. No impairment loss has been recognized during the years ended June 30, 2017 and 2016.

Collections for Transmittal - The Organization receives certain funds for the benefit of others. These custodial accounts are reflected in the financial statements as collections for transmittal.

Revenue Recognition - Contributions are recognized as revenue when they are received or unconditionally pledged. Revenue and investment income are recognized when it is earned. The Organization's revenue sources consist of service income, quota income, contributions, and investment income.

Restricted and Unrestricted Revenue and Support - Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire (that is, when a stipulated time or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

Contributed Services - Services of the clergy and religious orders have been recognized only to the extent of actual compensation paid. No computation is made for the difference between the compensation paid to these employees and the comparable compensation which would be paid to lay personnel.

Advertising - The Organization expenses advertising costs as they are incurred. Advertising expenses were \$20,283 and \$35,538 for the years ending June 30, 2017 and 2016, respectively.

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

Income Tax Status - The Diocese of La Crosse is organized as a 501(c)(3) corporation and is exempt from federal and state income taxes.

Accounting for Uncertainty in Income Taxes - U.S. GAAP requires management to evaluate tax positions taken by the Organization and recognize a tax liability (or asset) if the Organization has taken an uncertain position that more likely than not would not be sustained upon examination by a taxing authority. Management has analyzed the tax positions taken by the Organization, and has concluded that as of June 30, 2017, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. The Organization is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The Organization will recognize future accrued interest and penalties related to unrecognized tax benefits in income tax expense if incurred.

**DIOCESE OF LA CROSSE
ADMINISTRATIVE OFFICES**
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2017 AND 2016

NOTE 1 - Nature of Organization and Significant Accounting Policies - Continued

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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications - Certain prior year amounts have been reclassified for consistency with the current year presentation. These reclassifications have no effect on the reported results of operations.

Subsequent Events - The Organization has evaluated subsequent events through November 8, 2017, the date which the financial statements were available to be issued.

NOTE 2 - Concentration of Credit Risk Arising From Cash Deposits in Excess of Insured Limits

The Organization maintains its cash balances at two financial institutions with the balances insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. The Organization also maintains cash savings with St. Ambrose Financial Services, Inc., which are not insured by the FDIC. As of June 30, 2017 and 2016, uninsured balances held with St. Ambrose Financial Services, Inc. were \$3,623,459 and \$3,534,275, respectively. While the Organization is exposed to custodial credit risk, the Organization has not experienced any losses in such accounts.

NOTE 3 - Accounts Receivable

The composition of accounts receivable consists of the following:

	JUNE 30,	
	2017	2016
Accounts receivable	\$ 709,751	\$ 866,514
Less allowance for doubtful accounts	(195,507)	(177,474)
ACCOUNTS RECEIVABLE, NET	<u>\$ 514,244</u>	<u>\$ 689,040</u>

NOTE 4 - Restricted Investments

Investments consist of marketable securities and are presented in the financial statements in the aggregate at fair market value.

Restricted investments are composed of the following:

	JUNE 30, 2017		
	FAIR VALUE	COST	UNREALIZED (DEPRECIATION) APPRECIATION
Money market funds	\$ 228,612	\$ 228,612	\$ -
Fixed income	12,601,392	12,654,036	(52,644)
Equities	4,176,384	3,744,320	432,064
TOTAL	<u>\$17,006,388</u>	<u>\$16,626,968</u>	<u>\$ 379,420</u>

**DIOCESE OF LA CROSSE
ADMINISTRATIVE OFFICES**
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2017 AND 2016

NOTE 4 - Restricted Investments - Continued

	JUNE 30, 2016		
	<u>FAIR VALUE</u>	<u>COST</u>	<u>UNREALIZED APPRECIATION</u>
Money market funds	\$ 1,089,939	\$ 1,089,939	\$ -
Fixed income	12,765,639	12,557,868	207,771
Equities	3,780,504	3,423,513	356,991
TOTAL	<u>\$17,636,082</u>	<u>\$17,071,320</u>	<u>\$ 564,762</u>

The following summarizes investment returns:

	YEAR ENDED JUNE 30,	
	<u>2017</u>	<u>2016</u>
Investment income	\$ 397,619	\$ 360,189
Investment fees	(29,975)	(28,637)
Unrealized (losses) gains	(185,342)	118,531
Realized gains	429,430	45,368
TOTAL INVESTMENT RETURN	<u>\$ 611,732</u>	<u>\$ 495,451</u>

The following summarizes investment and endowment income, net of investment fees:

	YEAR ENDED JUNE 30,	
	<u>2017</u>	<u>2016</u>
Investment income	\$ 397,619	\$ 360,189
Investment fees	(29,975)	(28,637)
Operations interest income	20,389	13,674
TOTAL INVESTMENT INCOME	<u>\$ 388,033</u>	<u>\$ 345,226</u>

NOTE 5 - Fair Value of Assets

Assets measured at fair value on a recurring basis are as follows:

	JUNE 30, 2017	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS		
		<u>(LEVEL 1)</u>	<u>SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)</u>	<u>SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)</u>
Restricted investments				
Interest in Master Trust	\$ 9,468,787	\$ -	\$ 9,468,787	\$ -
Money Market	228,612	228,612	-	-
Bonds				
U.S. Government Bonds	6,354,492	6,354,492	-	-
Corporate Bonds	701,896	701,896	-	-
Equity				
Small Cap	32,851	32,851	-	-
Medium Cap	33,335	33,335	-	-
Large Cap	155,642	155,642	-	-
International	30,773	30,773	-	-
TOTALS	<u>\$ 17,006,388</u>	<u>\$ 7,573,601</u>	<u>\$ 9,468,787</u>	<u>\$ -</u>

**DIOCESE OF LA CROSSE
ADMINISTRATIVE OFFICES**
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2017 AND 2016

NOTE 5 - Fair Value of Assets - Continued

	JUNE 30, 2016	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL 1)	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)
Restricted investments				
Interest in Master Trust	\$ 8,734,325	\$ -	\$ 8,734,325	\$ -
Money Market	1,089,939	1,089,939	-	-
Bonds				
U.S. Government Bonds	6,861,810	6,861,810	-	-
Corporate Bonds	705,880	705,880	-	-
Equity				
Small Cap	28,126	28,126	-	-
Medium Cap	51,695	51,695	-	-
Large Cap	137,939	137,939	-	-
International	26,368	26,368	-	-
TOTALS	<u>\$ 17,636,082</u>	<u>\$ 8,901,757</u>	<u>\$ 8,734,325</u>	<u>\$ -</u>

Fair values for investments and endowment funds are pooled investments funds which are inputs that are observed or corroborated primarily from observable market data through correlation or other appropriate methods.

NOTE 6 - Property and Equipment

Property and equipment consist of the following:

	JUNE 30,	
	2017	2016
Land held for expansion	\$ 488,129	\$ 488,129
Land and buildings	11,447,236	10,748,547
Vehicles	93,258	99,670
Equipment	32,500	-
Construction in process	24,939	356,455
TOTAL LAND, BUILDINGS, AND EQUIPMENT	12,086,062	11,692,801
Less accumulated depreciation	(44,435)	(4,475)
NET LAND, BUILDINGS, AND EQUIPMENT	<u>\$12,041,627</u>	<u>\$11,688,326</u>

NOTE 7 - Revolving Loan With St. Ambrose Financial Services, Inc.

On April 8, 2011, the Diocese of La Crosse Administrative Offices entered into a revolving line of credit with St. Ambrose Financial Services, Inc.

The loan is collateralized by a mortgage covering substantially all assets of the Organization, with interest rate of 1.00 percent or until the 90-day Treasury bill rates as published in the Wall Street Journal rises above this rate. The maximum amount available is \$12,000,000. The outstanding balance as of June 30, 2017 and 2016, is \$3,717,370 and \$4,277,211, respectively.

**DIOCESE OF LA CROSSE
ADMINISTRATIVE OFFICES**
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2017 AND 2016

NOTE 8 - Pledges Payable

All unconditional pledges payable at year-end are pledges made by the Diocesan Bishop to others and are payable over a five-year period.

Unconditional pledges payable consist of the following:

	JUNE 30,	
	2017	2016
Payable in less than one year	\$ 10,000	\$ 10,000
Payable in one to five years	10,000	20,000
	20,000	30,000
Less: unamortized discount	(297)	(593)
TOTAL	\$ 19,703	\$ 29,407

Pledges payable due in more than one year are reflected at the present value of estimated future cash flows using a discount rate of 1 percent.

NOTE 9 - Endowments

The Organization's endowments include both donor-restricted endowment funds and funds designated by the Bishop and the Finance Council to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Finance Council to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Bishop and the Finance Council have interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Diocese classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by SPMIFA.

In accordance with SPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the organization and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the organization
- (7) The investment policies of the organization

**DIOCESE OF LA CROSSE
ADMINISTRATIVE OFFICES**
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2017 AND 2016

NOTE 9 - Endowments - Continued

Each of the trusts in the Endowment fund is governed by a trust document which states that the principal of the trust shall be initially valued at the carrying value and generally thereafter at the current value as determined on the last day of each fiscal year. The principal shall not be invaded and shall not be distributed except in the manner that is defined within the trust document.

Endowment Net Assets Composition by Type of Fund

	Year Ended June 30, 2017			Total
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	
Donor-restricted endowment funds	\$ -	\$ 690,284	\$ 9,082,002	\$ 9,772,286
Board-designated endowment funds	2,216,800	-	-	2,216,800
TOTAL FUNDS	<u>\$ 2,216,800</u>	<u>\$ 690,284</u>	<u>\$ 9,082,002</u>	<u>\$11,989,086</u>

	Year Ended June 30, 2016			Total
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	
Donor-restricted endowment funds	\$ -	\$ 260,257	\$ 8,782,669	\$ 9,042,926
Board-designated endowment funds	2,216,800	-	-	2,216,800
TOTAL FUNDS	<u>\$ 2,216,800</u>	<u>\$ 260,257</u>	<u>\$ 8,782,669</u>	<u>\$11,259,726</u>

Changes In Endowment Net Assets

	Year Ended June 30, 2017			Total
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	
ENDOWMENT NET ASSETS, BEGINNING OF YEAR	\$ 2,216,800	\$ 260,257	\$ 8,782,669	\$11,259,726
Investment return:				
Investment income	-	181,639	-	181,639
Net appreciation (realized and unrealized)	-	484,303	-	484,303
Contributions	-	-	299,333	299,333
Appropriation of endowment assets for expenditure	-	(235,915)	-	(235,915)
ENDOWMENT NET ASSETS, END OF YEAR	<u>\$ 2,216,800</u>	<u>\$ 690,284</u>	<u>\$ 9,082,002</u>	<u>\$11,989,086</u>

	Year Ended June 30, 2016			Total
	<u>Unrestricted</u>	<u>Temporarily Restricted Restated</u>	<u>Permanently Restricted Restated</u>	
ENDOWMENT NET ASSETS, BEGINNING OF YEAR	\$ 2,216,800	\$ 361,696	\$ 8,747,017	\$11,325,513
Investment return:				
Investment income	-	179,418	-	179,418
Net appreciation (realized and unrealized)	-	17,781	-	17,781
Contributions	-	-	35,652	35,652
Appropriation of endowment assets for expenditure	-	(298,638)	-	(298,638)
ENDOWMENT NET ASSETS, END OF YEAR	<u>\$ 2,216,800</u>	<u>\$ 260,257</u>	<u>\$ 8,782,669</u>	<u>\$11,259,726</u>

**DIOCESE OF LA CROSSE
ADMINISTRATIVE OFFICES**
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2017 AND 2016

NOTE 9 - Endowments - Continued

Return Objectives and Risk Parameters

The donor-designated endowment funds consist of a portion of the Non-Qualified Plans Master Trust and savings deposits held with St. Ambrose Financial Services, Inc. The funds are invested according to the Diocese of La Crosse Investment Policy Statement and its Statement of Moral, Ethical and Social Principles. Endowment assets include donor-restricted funds that the Organization must hold in perpetuity and consist of the Bishop's Education Endowment Trust (BEET) funds, the Holy Cross Seminary Education Fund Endowment Trust, the Diocese of La Crosse Youth Ministry Endowment Trust and the Bishop John J. Paul Scholarship Endowment Trust, as well as Board designated endowment for seminarians. Under this investment policy, as approved by the Bishop and the Finance Council, the endowment assets are invested in investment portfolio's that are intended to produce maximum return for both long and short-term needs in a manner that is consistent with solid investment practices and relative safety of principal.

The board-designated endowment funds consist of contributions and bequests that were received by the Diocese to provide for priestly formations, the Diocesan Center, and as a memorial to Pope John Paul II. The Bishop and the Finance Council designated these funds as endowments whose balance should remain as savings accounts in St. Ambrose Financial Services, Inc. and their earnings fund the above specified activities. The interest earnings on these funds are based on the 90-day U.S Treasury bill at the beginning of each quarter and are distributed quarterly. Due to the low interest rates of the 90-day Treasury bill, in July 2009, the Offices made the decision, with the approval of the Finance Council, to adjust the interest rate to the greater of .25 percent or the 90-day Treasury bill rate as published in the Wall Street Journal.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Diocese relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a fixed income/equity asset allocation to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Diocesan Endowment Trusts govern the distribution of their income. The trustee is to distribute all income earned at least annually; provided that if such distributions include the realized gains on investments, the total amount distributed shall not exceed the maximum distributable return. The maximum distributable return for this purpose shall not exceed 4 percent of the Trust's market value as of the last day of the prior fiscal year less any investment fees. The trustee distributes the income to savings account held at St. Ambrose Financial Services, Inc. for the charitable purpose that is defined in the trust document quarterly. Per the Trust documents, any income of the Trust for a fiscal year, not otherwise distributed, is to be reinvested in the Trust's principal.

Each trust document establishes the expectation of long-term returns on its endowment. Accordingly, over the long term, the Organization expects the current spending policy to allow its endowment to grow overtime. This is consistent with the Organization's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

**DIOCESE OF LA CROSSE
ADMINISTRATIVE OFFICES**
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2017 AND 2016

NOTE 9 - Endowments - Continued

Funds With Deficiencies

From time to time, the fair value of assets associated with donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Organization to retain as a fund of perpetual duration. In accordance with U.S. GAAP, deficiencies of this nature are reported in unrestricted net assets. The deficiencies result from unfavorable market fluctuations that have occurred. As of June 30, 2017 and 2016, there were no such deficiencies.

NOTE 10 - Retirement Plans

Defined Benefit Plan

The Organization sponsored a retirement plan (the "Plan") covering all full-time, lay employees of the Organization and Diocesan organizations. On June 1, 2006, the Finance Council voted to amend the Plan and freeze the accrual of any and all future benefits as of December 31, 2006. The Organization acts as a third party administrator for organizations affiliated with the Diocese of La Crosse. The noncontributory funded pension plan provides defined benefits to substantially all full-time employees as of December 31, 2006. The amounts charged to pension costs for the Organization and contributed to the Plan for year ended June 30, 2017 and 2016 were \$24,800 and \$27,900. This Plan is not required to conform to ERISA.

The various Diocesan organizations pay the cost of the Retirement Plan, as determined by the Plan's actuary. Assets are held in trust by BMO Financial Group.

Benefits are based on years of service and employee's compensation during the highest average five years' earnings during his or her career prior to retirement or termination. The maximum pension benefit is \$1,200 per month, effective January 1, 1998. Contributions are made annually to fund the plan. Contributions for the plan year ended December 31, 2016 and 2015 were \$870,000 and \$800,000, respectively. The Organization collects and remits these monies from the Diocesan organizations.

Although the plan is not required to comply with ERISA, an actuarial valuation report is prepared annually for the plan. The following information is available as of the plan years ended December 31:

	<u>2016</u>	<u>2015</u>
Actuarial Present Value of Vested Accumulated Plan Benefits	<u>\$39,176,544</u>	<u>\$ 38,974,914</u>
Actuarial Present Value of Nonvested Accumulated Plan Benefits	<u>\$ 68</u>	<u>\$ 114</u>
Plan Net Assets Available for Benefits	<u>\$ 34,424,732</u>	<u>\$ 33,808,473</u>
(Unfunded) Actuarial Present Value of Accumulated Plan Benefits	<u>\$ (4,751,880)</u>	<u>\$ (5,166,555)</u>
Rate of Return Used in Determining Actuarial Benefits	<u>7.0%</u>	<u>7.0%</u>
Benefits Paid	<u>\$ 2,565,642</u>	<u>\$ 2,459,425</u>

**DIOCESE OF LA CROSSE
ADMINISTRATIVE OFFICES**
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2017 AND 2016

NOTE 10 - Retirement Plans - Continued

403(b) Thrift Plan

On June 1, 2006, the Finance Council also approved the adoption of a 403 (b) Thrift Plan to provide retirement benefits for employees of the Diocese of La Crosse which became effective January 1, 2007. The Plan is funded through a group annuity contract between the Diocese of La Crosse and Mutual of America. Employees are immediately vested in the Plan. The Organization contributes 2 percent of the employee's base compensation as an employer match for those employees who are at least 21 years of age, who work more than 20 hours per week and have completed one year of service. As of June 30, 2017 and 2016, the Organization contributed \$34,862 and \$38,422, respectively, to this Plan.

NOTE 11 - Split Interest Agreements

The Charitable Gift Annuity Fund is a Diocesan program that was started in 2003 to receive contributions under charitable gift annuities. The Diocese has segregated these assets as separate and distinct funds, independent from other funds and not to be applied toward payment of any obligations of the Diocese or any other purpose other than annuity benefits specified in the agreements. Effective April 18, 2014, Wisconsin state statutes were changed and no longer required a reserve and is no longer required to file an annual report with the Office of the Commissioner of Insurance (OCI). The Diocese has chosen to keep reserves for these annuity contracts. Diocesan reserves totaled \$137,000 as of June 30, 2017 and 2016. The Diocese agrees to pay a stated return to the beneficiaries as long as they live, at which time the remaining assets will be distributed according to the donor's requests.

At June 30, 2017 and 2016, the total assets held under split-interest agreements as a part of restricted investments were \$958,249 and \$957,900, respectively. Split-interest agreement liabilities are reported at the present value of the estimated future cash flows using discount rate assumptions established upon recognition of the liabilities and are included as part of collections for transmittal.

NOTE 12 - Temporary and Permanent Restrictions

The restricted purposes of the temporarily and permanently restricted net assets are as follows:

	<u>JUNE 30, 2017</u>	
	<u>TEMPORARILY RESTRICTED</u>	<u>PERMANENTLY RESTRICTED</u>
Purpose restricted		
Building renovation	\$ 413,976	\$ -
Education	696,268	9,082,002
Archives	46,109	-
Vocations	369,251	-
Time restricted		
Diocesan Annual Appeal	5,288,000	-
TOTAL, JUNE 30, 2017	<u>\$ 6,813,604</u>	<u>\$ 9,082,002</u>

**DIOCESE OF LA CROSSE
ADMINISTRATIVE OFFICES**
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2017 AND 2016

NOTE 12 - Temporary and Permanent Restrictions - Continued

	JUNE 30, 2016	
	<u>TEMPORARILY RESTRICTED</u>	<u>PERMANENTLY RESTRICTED</u>
Purpose restricted		
Building renovation	\$ 682,533	\$ -
Education	269,956	8,782,669
Archives	46,109	-
Casa Hogar Mission	47,059	-
Marriage & Family	4,861	-
Time restricted		
Diocesan Annual Appeal	5,192,331	-
TOTAL, JUNE 30, 2017	<u>\$ 6,242,849</u>	<u>\$ 8,782,669</u>

The Diocesan Annual Appeal began in fiscal year 1998. Contributions received are recorded in the current fiscal year. These funds are intended to support expenditures of the subsequent fiscal year and as such are shown as temporarily restricted net assets. Each parish entity solicits its members. Each parish is given a target amount to be raised for this Appeal. Individual parishes raising amounts in excess of their target are rebated the excess amounts as they are collected by the Diocese. Total funds collected are reported net of parish rebates. These rebates totaled \$753,988 and \$575,089 as of June 30, 2017 and 2016, respectively.

NOTE 13 - Board Designations

The Board has designated operating funds to fund the following:

	JUNE 30,	
	<u>2017</u>	<u>2016</u>
Education initiative	\$ 139,000	\$ 139,000
Quasi endowment activities	2,216,800	2,216,800
Property and equipment	9,412,020	9,033,822
Building projects	199,597	-
Fr. Joe's kids	20,574	-
	<u>\$11,987,991</u>	<u>\$11,389,622</u>

NOTE 14 - Affiliate Transactions

On March 31, 2011, the Organization entered into a service agreement with St. Ambrose Financial Services, Inc., to perform accounting and administrative services for the Diocese of La Crosse - Administrative Offices. As of July 1, 2016, the Organization entered into a revised service agreement with St. Ambrose Financial Services, Inc., whereas St. Ambrose Financial Services, Inc., will no longer provide accounting services, but will still provide administrative services for priest and lay health, dental, and life insurance, property and casualty insurance, retirement plans, and deposit and loan activities. Total expense for services was \$80,674 and \$226,504 as of June 30, 2017 and 2016, respectively.

NOTE 15 - Subsequent Event

On November 8, 2017, the Finance Council made the motion to look into the possibility of terminating the Lay Retirement Plan.

**DIOCESE OF LA CROSSE
ADMINISTRATIVE OFFICES**

SUPPLEMENTAL INFORMATION

DIOCESE OF LA CROSSE
ADMINISTRATIVE OFFICES
DIOCESAN ANNUAL APPEAL 2016-2017 DISBURSEMENTS

VOCATIONS CLERGY SUPPORT & LAY LEADERSHIP	
SEMINARY EDUCATION & RELIGIOUS FORMATION	\$ 603,082
CONTINUING EDUCATION FOR CLERGY	85,000
ST. JOSEPH'S PRIEST FUND	135,000
DIACONATE FORMATION	55,000
INTERNATIONAL PRIESTS	15,000
CLERGY HEALTHCARE	80,000
VOCATIONS PROMOTION	80,000
VICAR FOR CLERGY	40,000
TOTAL	<u>1,093,082</u>
MISSIONS AND THE WIDER CHURCH	
CATHOLIC CHARITIES	480,000
WORKS OF CHARITY	125,000
SPECIAL COLLECTIONS	500,000
SUPPORT OF THE WIDER CHURCH	180,000
TOTAL	<u>1,285,000</u>
CATHOLIC EDUCATION AND FORMATION	
CATHOLIC SCHOOLS DEVELOPMENT	10,000
TUITION ASSISTANCE	100,000
GRANTS TO PARISHES THAT SUPPORT SCHOOLS	200,000
TELEVISED MASS	55,000
NATURAL FAMILY PLANNING	21,000
HMONG MINISTRY	75,000
LAY FORMATION	35,000
HISPANIC AND MIGRANT MINISTRY	80,000
MARRIAGE PREPARATION AND MARRIAGE ENRICHMENT	30,000
LAY EMPLOYEE RETIREMENT	150,000
SUPPORT OF SCOUT CHAPLAINS	5,000
<i>THE CATHOLIC TIMES</i>	225,000
HIGH SCHOOL FAITH FORMATION	12,000
TOTAL	<u>998,000</u>
DIOCESAN OPERATIONS AND MAINTENANCE	
ST. JOSEPH THE WORKMAN CATHEDRAL OPERATIONS AND MAINTENANCE	50,000
HOLY CROSS DIOCESAN CENTER BUILDING OPERATIONS AND MAINTENANCE	150,000
BUILDINGS AND GROUNDS - CONSULTATIVE SERVICES FOR PARISHES AND SCHOOLS	80,000
TOTAL	<u>280,000</u>
MINISTRIES, SERVICES AND ADMINISTRATION	<u>1,536,249</u>
TOTAL APPEAL GOAL	<u>\$ 5,192,331</u>

**DIOCESE OF LA CROSSE
ADMINISTRATIVE OFFICES
DIOCESAN ANNUAL APPEAL 2016-2017 SPECIAL REPORT DATA**

REVENUE

Gift Receipts	\$ 6,419,219	
Less Parish cash rebates	<u>(753,988)</u>	
	5,665,231	97.57%
Investment (Loss)	(81,285)	(1.40)
Assessments to Parishes Under Target	<u>222,084</u>	<u>3.83</u>
TOTAL	<u>\$ 5,806,030</u>	<u>100.00%</u>

EXPENDITURES

Case Statement Disbursement (2015-2016 pledge year)	\$ 5,192,331	92.20%
Operating Expenses	424,844	7.55
Professional Fees	<u>14,289</u>	<u>.25</u>
TOTAL	<u>\$ 5,631,464</u>	<u>100.00%</u>