

**DIOCESE OF LA CROSSE
ADMINISTRATIVE OFFICES**

**FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITORS'
REPORT**

JUNE 30, 2018 AND 2017

**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, 2018 and 2017, 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 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 La Crosse Administrative Offices as of June 30, 2018 and 2017 and the changes in its net assets, functional expenses and cash flows for the years then ended in accordance 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.

Prior Period Adjustment

As discussed in Note 16 to the financial statements, an error was discovered with recording 2017 receivables and expenses. Accordingly, the 2017 financial statements have been restated to correct that error. Our opinion is not modified with respect to this matter.

Also, as discussed in Note 16 to the financial statements, the Organization adopted generally accepted accounting principles, to depreciate all capitalized assets over their estimated useful lives. Accordingly, the 2016 net assets and accumulated depreciation has been restated to correct this error.

Hawkins Ash CPAs, LLP

La Crosse, Wisconsin
March 20, 2019

**DIOCESE OF LA CROSSE
ADMINISTRATIVE OFFICES**

FINANCIAL STATEMENTS

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

<u>ASSETS</u>	JUNE 30,	
	2018	2017 <u>Restated</u>
Cash	\$ 2,553,593	\$ 2,270,641
Accounts receivable, net	635,235	611,370
Accrued interest receivable	40,408	40,973
Prepaid expenses	50,281	37,720
Property and equipment, net	2,989,309	2,857,492
Cash - restricted	8,859,429	2,688,814
Investments - restricted	17,727,896	17,006,388
TOTAL ASSETS	\$ 32,856,151	\$ 25,513,398
<u>LIABILITIES AND NET ASSETS</u>		
LIABILITIES		
Cash overdraft	\$ -	\$ 70,264
Accounts payable and accrued expenses	586,761	359,377
Accrued interest on loan with St. Ambrose Financial Services, Inc.	172,991	218,578
Revolving loan with St. Ambrose Financial Services, Inc.	3,089,859	3,498,792
Collections for transmittal	1,351,701	1,407,196
Pledges payable	9,901	19,703
TOTAL LIABILITIES	5,211,213	5,573,910
NET ASSETS		
Unrestricted		
Undesignated	1,276,938	1,240,026
Board Designated	2,583,164	2,803,856
TOTAL UNRESTRICTED	3,860,102	4,043,882
Temporarily restricted	7,384,152	6,813,604
Permanently restricted	16,400,684	9,082,002
TOTAL NET ASSETS	27,644,938	19,939,488
TOTAL LIABILITIES AND NET ASSETS	\$ 32,856,151	\$ 25,513,398

The accompanying notes are an integral part of these statements.

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

	YEAR ENDED JUNE 30,							
	2018				2017			
	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL	UNRESTRICTED <small>Restated</small>	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
SUPPORT AND REVENUE								
Contributions and bequests	\$ 606,816	\$ 5,507,718	7,318,682	\$ 13,433,216	\$ 632,125	\$ 5,667,225	299,333	6,598,683
Investment and endowment income, net of investment fees	416,145	8,783	-	424,928	388,033	-	-	388,033
Services and other income	1,623,942	-	-	1,623,942	1,674,077	-	-	1,674,077
Quotas	1,197,851	-	-	1,197,851	1,313,650	-	-	1,313,650
Gain on sale of capital assets	-	-	-	-	200	-	-	200
Net assets released from restrictions	<u>5,326,202</u>	<u>(5,326,202)</u>	-	-	<u>5,526,497</u>	<u>(5,526,497)</u>	-	-
TOTAL SUPPORT AND REVENUE	<u>9,170,956</u>	<u>190,299</u>	<u>7,318,682</u>	<u>16,679,937</u>	<u>9,534,582</u>	<u>140,728</u>	<u>299,333</u>	<u>9,974,643</u>
EXPENSES								
Program Services								
Pastoral and administration	3,548,374	-	-	3,548,374	3,547,761	-	-	3,547,761
Interest	43,454	-	-	43,454	37,943	-	-	37,943
Religious and personnel development	1,068,632	-	-	1,068,632	1,181,770	-	-	1,181,770
Education	671,898	-	-	671,898	580,661	-	-	580,661
Charity and social justice	1,901,337	-	-	1,901,337	1,886,621	-	-	1,886,621
Depreciation	<u>235,095</u>	-	-	<u>235,095</u>	<u>614,600</u>	-	-	<u>614,600</u>
TOTAL PROGRAM SERVICES	<u>7,468,790</u>	-	-	<u>7,468,790</u>	<u>7,849,356</u>	-	-	<u>7,849,356</u>
Supporting Services								
Administration	1,222,310	-	-	1,222,310	1,129,747	-	-	1,129,747
Fundraising	<u>472,043</u>	-	-	<u>472,043</u>	<u>441,808</u>	-	-	<u>441,808</u>
TOTAL EXPENSES	<u>9,163,143</u>	-	-	<u>9,163,143</u>	<u>9,420,911</u>	-	-	<u>9,420,911</u>
NET SUPPORT IN EXCESS OF EXPENSES	7,813	190,299	7,318,682	7,516,794	113,671	140,728	299,333	553,732
OTHER (LOSSES) GAINS								
Net realized and unrealized (losses) gains on investments	<u>(181,795)</u>	<u>380,249</u>	-	<u>198,454</u>	<u>(185,939)</u>	<u>430,027</u>	-	<u>244,088</u>
CHANGE IN NET ASSETS	<u>(173,982)</u>	<u>570,548</u>	<u>7,318,682</u>	<u>7,715,248</u>	<u>(72,268)</u>	<u>570,755</u>	<u>299,333</u>	<u>797,820</u>
NET ASSETS AT BEGINNING OF YEAR, restated	4,043,882	6,813,604	9,082,002	19,939,488	4,172,965	6,242,849	8,782,669	19,198,483
TRANSFER OF NET DEFICIT TO LEGACY GUILD, INC.	13,051	-	-	13,051	-	-	-	-
CHANGE IN VALUE OF SPLIT-INTEREST AGREEMENT	<u>(22,849)</u>	-	-	<u>(22,849)</u>	<u>(56,815)</u>	-	-	<u>(56,815)</u>
NET ASSETS AT END OF YEAR	<u>\$ 3,860,102</u>	<u>\$ 7,384,152</u>	<u>\$ 16,400,684</u>	<u>\$ 27,644,938</u>	<u>\$ 4,043,882</u>	<u>\$ 6,813,604</u>	<u>\$ 9,082,002</u>	<u>\$ 19,939,488</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,	
	2018	2017
		Restated
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 7,715,248	\$ 797,820
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Change in value of split-interest agreement liability	(22,849)	(56,815)
Net realized and unrealized (gains) on investments	(198,454)	(244,088)
Allowance for doubtful accounts	(13,161)	18,033
Allowance for note receivable losses	-	520
Depreciation	235,095	614,600
(Gain) on sale of capital assets	-	(200)
Contributions restricted for investment in endowment	(7,318,682)	(299,333)
Changes in assets and liabilities		
(Increase) decrease in assets		
Accounts receivable	(10,704)	59,637
Accrued interest receivable	565	2,650
Prepaid expenses	(12,561)	169
Restricted cash	(6,170,615)	(1,161,101)
(Decrease) increase in liabilities		
Cash overdraft	(70,264)	8,101
Accounts payable and accrued expenses	130,124	(49,168)
Accrued interest on loan with St. Ambrose Financial Services, Inc.	(45,587)	24,906
Pledges payable	(9,802)	(9,704)
Collections for transmittal	(55,495)	465
NET CASH (USED IN) OPERATING ACTIVITIES	(5,847,142)	(293,508)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of capital asset	-	200
Acquisition of property and equipment	(269,652)	(411,122)
Purchases of investment securities	(10,606,507)	(10,617,795)
Proceeds on sales of investment securities	10,083,453	11,491,577
NET CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES	(792,706)	462,860
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on revolving loan from St. Ambrose Financial Services, Inc.	(408,933)	(584,747)
Transfer of net deficit to Legacy Guild, Inc.	13,051	-
Collection of contributions restricted for investment in endowment	7,318,682	299,333
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	6,922,800	(285,414)
NET INCREASE (DECREASE) IN CASH	282,952	(116,062)
CASH AT BEGINNING OF YEAR	2,270,641	2,386,703
CASH AT END OF YEAR	\$ 2,553,593	\$ 2,270,641
<u>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</u>		
Cash paid during the year for interest on the revolving line of credit	\$ 89,041	\$ 13,038
Assets purchased in accounts payable	\$ 97,260	\$ -

The accompanying notes are an integral part of these statements.

DIOCESE OF LA CROSSE
ADMINISTRATIVE OFFICES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

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, 2018 AND 2017

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 - All acquisitions of property and equipment in excess of \$5,000 with useful lives greater than one year are capitalized. Purchased property and equipment are carried at cost. Donated property and equipment are carried at the approximate fair value at the date of donation. Depreciation is computed on the straight-line method based on the estimated useful lives of the assets ranging from 5 to 20 years.

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 temporarily 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, 2018 AND 2017

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. Management reviews all material assets annually for possible impairment. If such assets are considered impaired, the impairment recognized is measured as the amount by which the carrying amount of the asset exceeds the estimated fair value of the asset. No impairment loss has been recognized during the years ended June 30, 2018 and 2017.

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 \$41,542 and \$20,283 for the years ending June 30, 2018 and 2017, 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, 2018, 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, 2018 AND 2017

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 March 20, 2019, the date which the financial statements were available to be issued.

New Accounting Pronouncement - In August 2016, the Financial Accounting Standards Board issued Accounting Standards Update 2016-14, Not-For-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities, which is expected to impact the information presented in financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows. The guidance is required to be applied by the Organization for the year ended June 30, 2019; however, early application is permitted. The Organization is currently evaluating the impact this guidance will have on its financial statements.

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

The Organization maintains its cash balances at one financial institution with the balances insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. As of June 30, 2018 and 2017, uninsured balances held by financial institutions were \$688,413 and \$1,367,470, respectively. The Organization also maintains cash savings with St. Ambrose Financial Services, Inc., which are not insured by the FDIC. As of June 30, 2018 and 2017, uninsured balances held with St. Ambrose Financial Services, Inc. were \$10,723,558 and \$3,623,459, 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,	
	2018	2017
		Restated
Accounts receivable	\$ 817,581	\$ 806,877
Less allowance for doubtful accounts	(182,346)	(195,507)
ACCOUNTS RECEIVABLE, NET	<u>\$ 635,235</u>	<u>\$ 611,370</u>

**DIOCESE OF LA CROSSE
ADMINISTRATIVE OFFICES**
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2018 AND 2017

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, 2018		
	<u>FAIR VALUE</u>	<u>COST</u>	UNREALIZED (DEPRECIATION) APPRECIATION
Money market funds	\$ 238,280	\$ 238,280	\$ -
Fixed income	11,869,417	12,296,547	(427,130)
Equities	5,598,437	4,795,197	803,239
U.S. Listed Real Estate	21,762	21,357	405
TOTAL	<u>\$ 17,727,896</u>	<u>\$ 17,351,381</u>	<u>\$ 376,514</u>
	JUNE 30, 2017		
	<u>FAIR VALUE</u>	<u>COST</u>	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>

The following summarizes investment returns:

	YEAR ENDED JUNE 30,	
	<u>2018</u>	<u>2017</u>
Investment income	\$ 406,934	\$ 397,619
Investment fees	(31,935)	(29,975)
Unrealized (losses)	(2,906)	(185,342)
Realized gains	201,360	429,430
TOTAL INVESTMENT RETURN	<u>\$ 573,453</u>	<u>\$ 611,732</u>

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

	YEAR ENDED JUNE 30,	
	<u>2018</u>	<u>2017</u>
Investment income	\$ 406,934	\$ 397,619
Investment fees	(31,935)	(29,975)
Operations interest income	49,929	20,389
TOTAL INVESTMENT INCOME	<u>\$ 424,928</u>	<u>\$ 388,033</u>

**DIOCESE OF LA CROSSE
ADMINISTRATIVE OFFICES**
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2018 AND 2017

NOTE 5 - Fair Value of Assets

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

	JUNE 30, 2018	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	\$ 9,767,836	\$ -	\$ 9,767,836	\$ -
Money Market	238,280	238,280	-	-
Bonds				
U.S. Government Bonds	6,346,376	-	6,346,376	-
Corporate Bonds	678,033	-	678,033	-
Equity				
Domestic	499,597	499,597	-	-
International	176,012	176,012	-	-
U.S. Listed Real Estate	21,762	-	21,762	-
TOTALS	<u>\$ 17,727,896</u>	<u>\$ 913,889</u>	<u>\$16,814,007</u>	<u>\$ -</u>

	JUNE 30, 2017	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	\$ 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>\$ 450,440</u>	<u>\$16,555,948</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.

**DIOCESE OF LA CROSSE
ADMINISTRATIVE OFFICES**
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2018 AND 2017

NOTE 6 - Property and Equipment

Property and equipment consist of the following:

	JUNE 30,	
	2018	2017
Land held for expansion	\$ 488,129	\$ 488,129
Land and buildings	11,725,022	11,333,172
Vehicles	93,258	93,258
Equipment	32,500	32,500
Construction in process	-	24,939
TOTAL LAND, BUILDINGS, AND EQUIPMENT	12,338,909	11,971,998
Less accumulated depreciation	(9,349,600)	(9,114,506)
NET LAND, BUILDINGS, AND EQUIPMENT	\$ 2,989,309	\$ 2,857,492

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 rates of 1.75 and 1.00 percent as of June 30, 2018 and 2017, respectively. Beginning in October of 2017, the interest rate was charged at the 90-day Treasury bill rate as published in the Wall Street Journal. The maximum amount available is \$12,000,000. The outstanding balance as of June 30, 2018 and 2017, is \$3,089,859 and \$3,498,792, respectively.

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,	
	2018	2017
Payable in less than one year	\$ 10,000	\$ 10,000
Payable in one to five years	-	10,000
	10,000	20,000
Less: unamortized discount	(99)	(297)
TOTAL	\$ 9,901	\$ 19,703

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.

**DIOCESE OF LA CROSSE
ADMINISTRATIVE OFFICES**
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2018 AND 2017

NOTE 9 - Endowments - Continued

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

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, 2018			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor-restricted endowment funds	\$ -	\$ 1,079,316	\$16,400,684	\$ 17,480,000
Board-designated endowment funds	1,888,119	-	-	1,888,119
TOTAL FUNDS	<u>\$ 1,888,119</u>	<u>\$ 1,079,316</u>	<u>\$16,400,684</u>	<u>\$ 19,368,119</u>
	Year Ended June 30, 2017			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
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>

**DIOCESE OF LA CROSSE
ADMINISTRATIVE OFFICES**
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2018 AND 2017

NOTE 9 - Endowments - Continued

Changes in Endowment Net Assets

	Year Ended June 30, 2018			Total
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	
ENDOWMENT NET ASSETS, BEGINNING OF YEAR	\$ 2,216,800	\$ 690,284	\$ 9,082,002	\$11,989,086
Investment return:				
Investment income	-	204,029	-	204,029
Net appreciation (realized and unrealized)	-	401,717	-	401,717
Contributions	-	-	7,318,682	7,318,682
Appropriation of endowment assets for expenditure	(328,681)	(216,714)	-	(545,395)
ENDOWMENT NET ASSETS, END OF YEAR	<u>\$ 1,888,119</u>	<u>\$ 1,079,316</u>	<u>\$16,400,684</u>	<u>\$19,368,119</u>

	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>

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, the Robert and Eleanor Franke Charitable Parish 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 (floating rate) at the beginning of each quarter and are distributed quarterly. Floating rate of 1.0 - 1.75 percent for year ended June 30, 2018 and 0.25 to 0.75 percent for the year ended June 30, 2017.

DIOCESE OF LA CROSSE
ADMINISTRATIVE OFFICES
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2018 AND 2017

NOTE 9 - Endowments - Continued

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 over time. 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.

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, 2018 and 2017, there were no such deficiencies.

NOTE 10 - Retirement Plans

Defined Benefit Plan

The Diocese of La Crosse (the "Diocese") sponsored a retirement plan (the "Defined Benefit Plan") covering all full-time, lay employees of the Organization and other Diocesan organizations. On June 1, 2006, the Finance Council voted to amend the Defined Benefit Plan and freeze the accrual of any and all future benefits as of December 31, 2006. The noncontributory funded pension plan provides defined benefits to substantially all full-time employees as of December 31, 2006. The amounts charged to pension expense for the Administrative Offices and contributed to the Defined Benefit Plan for year ended June 30, 2018 and 2017 were \$-0- and \$24,800, respectively. This Defined Benefit Plan is not required to conform to ERISA.

**DIOCESE OF LA CROSSE
ADMINISTRATIVE OFFICES**
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2018 AND 2017

NOTE 10 - Retirement Plans - Continued

The various Diocesan organizations contribute to and pay the costs of the Defined Benefit Plan, as determined by the Defined Benefit 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 Defined Benefit Plan. Contributions from all Diocesan organizations for the plan year ended December 31, 2018 and 2017 was \$870,000.

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

	2017	2016
Actuarial Present Value of Vested Accumulated Plan Benefits	<u>\$ 40,659,679</u>	<u>\$ 39,176,544</u>
Actuarial Present Value of Nonvested Accumulated Plan Benefits	<u>\$ 12</u>	<u>\$ 68</u>
Plan Net Assets Available for Benefits	<u>\$ 37,338,378</u>	<u>\$ 34,424,732</u>
(Unfunded) Actuarial Present Value of Accumulated Plan Benefits	<u>\$ (3,321,313)</u>	<u>\$ (4,751,880)</u>
Rate of Return Used in Determining Actuarial Benefits	<u>7.0%</u>	<u>7.0%</u>
Benefits Paid	<u>\$ 2,719,266</u>	<u>\$ 2,565,642</u>

403(b) Thrift Plan

On June 1, 2006, the Finance Council also approved the adoption of a 403 (b) Thrift Plan (the "Plan") to provide retirement benefits for employees of all Diocesan entities, which became effective January 1, 2007. The Plan is funded through a group annuity contract between the Diocese and Mutual of America. Employees are immediately vested in the Plan. The Organization contributes 1 percent automatically for all qualified employees and 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, 2018 and 2017, the Organization contributed \$44,913 and \$34,862, 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, 2018 and 2017. 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.

**DIOCESE OF LA CROSSE
ADMINISTRATIVE OFFICES**
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2018 AND 2017

NOTE 11 - Split Interest Agreements - Continued

At June 30, 2018 and 2017, the total assets held under split-interest agreements as a part of restricted investments were \$918,117 and \$958,249, 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:

	JUNE 30, 2018	
	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED
Purpose restricted		
Building renovation	\$ 427,860	\$ -
Education	1,076,432	9,118,762
Archives	46,109	-
Vocations	536,968	-
St. James the Less and St. Joseph the Workman Cathedral Parish Support	8,783	7,281,922
Time restricted		
Diocesan Annual Appeal	<u>5,288,000</u>	-
TOTAL, JUNE 30, 2018	<u>\$ 7,384,152</u>	<u>\$16,400,684</u>
	JUNE 30, 2017	
	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED
Purpose restricted		
Building renovation	\$ 413,976	\$ -
Education	696,268	9,082,002
Archives	46,109	-
Vocations	369,251	-
Time restricted		
Diocesan Annual Appeal	<u>5,288,000</u>	-
TOTAL, JUNE 30, 2018	<u>\$ 6,813,604</u>	<u>\$ 9,082,002</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 \$705,935 and \$753,988 as of June 30, 2018 and 2017, respectively.

**DIOCESE OF LA CROSSE
ADMINISTRATIVE OFFICES**
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2018 AND 2017

NOTE 13 - Board Designations

The Board has designated operating funds to fund the following:

	JUNE 30,	
	2018	2017
Education initiative	\$ 139,000	\$ 139,000
Quasi endowment activities	1,888,119	2,216,800
Property and equipment	327,334	227,885
Building projects	228,711	199,597
Fr. Joe's kids	-	20,574
	<u>\$ 2,583,164</u>	<u>\$ 2,803,856</u>

NOTE 14 - Affiliate Transactions

On July 1, 2016, the Organization entered into a service agreement with St. Ambrose Financial Services, Inc., whereas St. Ambrose Financial Services, Inc., will 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 \$128,932 and \$80,674 as of June 30, 2018 and 2017, respectively.

NOTE 15 - Transfer of Net Assets to Legacy Guild, Inc.

In order to better coordinate the efforts to advance the cause of Father Joseph Walijewski, and provide continued support for the legacy that he left behind, the Father Joseph Walijewski Legacy Guild Inc. was formed as a separate legal corporation with its own Board of Directors on January 17, 2018. The net deficit of the Legacy Guild fund amounting to \$13,501 was transferred to the Corporation during the year ended June 30, 2018.

NOTE 16 - Prior Period Adjustment

During 2018, an error was discovered, which caused the 2017 quota receivables to be understated and expenses to be overstated by \$97,126, causing the 2017 net assets to be understated by \$97,126. Accordingly, the 2017 financial statements have been restated to correct this error.

Effective July 1, 2017, the Organization chose to begin depreciating all assets according to their capitalization policy in accordance with their estimated useful lives. Accordingly, the 2016 net assets have been decreased by \$8,627,356 and accumulated depreciation has been increased by \$8,627,356 as a result of this change. The 2017 financial statements have also been properly restated to reflect this change in accounting principle.

**DIOCESE OF LA CROSSE
ADMINISTRATIVE OFFICES**

SUPPLEMENTAL INFORMATION

**DIOCESE OF LA CROSSE
ADMINISTRATIVE OFFICES
DIOCESAN ANNUAL APPEAL 2017-2018 DISBURSEMENTS**

VOCATIONS CLERGY SUPPORT & LAY LEADERSHIP	
SEMINARY EDUCATION & RELIGIOUS FORMATION	\$ 700,000
CONTINUING EDUCATION FOR CLERGY	85,000
ST. JOSEPH'S PRIEST FUND	100,000
DIACONATE FORMATION	55,000
VOCATIONS PROMOTION	15,000
INTERNATIONAL PRIESTS	80,000
CLERGY HEALTHCARE	80,000
VICAR FOR CLERGY	40,000
TOTAL	<u>1,155,000</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
CATHOLIC COMMUNICATIONS	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
TOTAL	<u>200,000</u>
 MINISTRIES, SERVICES AND ADMINISTRATION	<u>1,650,000</u>
 TOTAL APPEAL GOAL	<u>\$ 5,288,000</u>

**DIOCESE OF LA CROSSE
ADMINISTRATIVE OFFICES
DIOCESAN ANNUAL APPEAL 2017-2018 SPECIAL REPORT DATA**

REVENUE

Gift Receipts	\$ 6,180,177	
Less Parish cash rebates	<u>(705,935)</u>	
	5,474,242	97.83%
Investment (Loss)	(42,167)	(.75)
Assessments to Parishes Under Target	<u>163,324</u>	<u>2.92</u>
TOTAL	<u>\$ 5,595,399</u>	<u>100.00%</u>

EXPENDITURES

Case Statement Disbursement (2016-2017 pledge year)	\$ 5,288,000	96.07%
Operating Expenses	<u>216,418</u>	<u>3.93</u>
TOTAL	<u>\$ 5,504,418</u>	<u>100.00%</u>