

THE SOCIETY OF THE ROMAN CATHOLIC CHURCH OF
THE DIOCESE OF LAKE CHARLES



FINANCIAL STATEMENTS
& INDEPENDENT AUDITOR'S REPORT

June 30, 2017

The Society of the Roman Catholic Church of the Diocese of Lake Charles

Statement of Financial Position

June 30, 2017, 2016 and 2015

| | 2017 | 2016 | 2015 |
|--|----------------------|----------------------|----------------------|
| <u>Assets:</u> | | | |
| Cash and equivalents | \$ 16,076,476 | \$ 9,695,017 | \$ 8,588,957 |
| Investments | 842,981 | 815,929 | 701,297 |
| Accounts receivable, net | 338,472 | 269,874 | 148,673 |
| Grants receivable | 72,500 | 125,000 | 419,652 |
| Pledges receivable, net | 12,791,798 | 3,169,729 | 52,214 |
| Loans receivable | 68,389 | 68,475 | 81,494 |
| Cash value of life insurance policies | 683,147 | 648,413 | 627,862 |
| Prepaid insurance and other expenses | 305,928 | 388,970 | 381,716 |
| Property, equipment, and improvements, net | 8,461,672 | 8,557,127 | 8,686,669 |
| Investments pledged as collateral | 100,000 | 100,000 | 100,000 |
| Deposit in self-insurance pool | 285,116 | 285,116 | 285,116 |
| Beneficial interests in securities held in trust | 1,934,358 | 1,808,708 | 1,914,434 |
| | \$ 41,960,837 | \$ 25,932,358 | \$ 21,988,084 |
| TOTAL ASSETS | | | |
| <u>Liabilities:</u> | | | |
| Accounts payable | \$ 531,154 | \$ 755,656 | \$ 497,382 |
| National collections and other payables | 270,941 | 204,333 | 267,049 |
| Accrued insurance claims payable | 201,273 | 170,283 | 184,048 |
| Contributions and benefit payables | 159,068 | 107,228 | 78,389 |
| Due to parishes | 1,471,982 | 104,694 | - |
| Deferred revenue | 8,507 | 26,256 | 30,225 |
| Contingent liability | - | - | - |
| | 2,642,925 | 1,368,450 | 1,057,093 |
| Total Liabilities | | | |
| <u>Net Assets:</u> | | | |
| Unrestricted | | | |
| Undesignated | 6,804,848 | 8,886,434 | 8,988,233 |
| Designated for specific purposes | 9,214,350 | 9,207,553 | 8,532,810 |
| Total unrestricted net assets | 16,019,198 | 18,093,987 | 17,521,043 |
| Temporarily restricted | 21,695,953 | 4,988,048 | 1,850,605 |
| Permanently restricted | 1,602,761 | 1,481,873 | 1,559,343 |
| | 39,317,912 | 24,563,908 | 20,930,991 |
| Total Net Assets | | | |
| TOTAL LIABILITIES AND NET ASSETS | \$ 41,960,837 | \$ 25,932,358 | \$ 21,988,084 |

The accompanying notes are an integral part of these financial statements.

The Society of the Roman Catholic Church of the Diocese of Lake Charles

Statement of Activities

Years ended June 30, 2017, 2016, and 2015

| | Unrestricted | Temporarily Restricted | Permanently Restricted | 2017 Totals | 2016 Totals | 2015 Totals |
|--|----------------------|---------------------------|---------------------------|----------------------|----------------------|----------------------|
| Support and Revenue: | | | | | | |
| Parochial tithe | \$ 2,763,580 | \$ - | \$ - | \$ 2,763,580 | \$ 2,653,823 | \$ 2,648,767 |
| Diocesan assessments | 6,594,603 | 273,012 | - | 6,867,615 | 6,631,702 | 6,551,013 |
| Diocesan appeals | - | 126,183 | - | 126,183 | 291,146 | 291,774 |
| Contributions and bequests | 83,825 | 17,241,311 | - | 17,325,136 | 4,778,884 | 1,029,112 |
| Grants | - | 311,217 | - | 311,217 | 450,906 | 917,617 |
| Investment income | 95,379 | 76,706 | 120,888 | 292,973 | 50,368 | 195,964 |
| Loss from disposal of property | (88,968) | - | - | (88,968) | (8,122) | (7,088) |
| Specials program and other revenues | 992,529 | 120,917 | - | 1,113,446 | 877,389 | 1,029,565 |
| Less: Cost of direct benefits to donors | (37,927) | - | - | (37,927) | (51,863) | (59,904) |
| Net assets released from restrictions | 1,441,441 | (1,441,441) | - | - | - | - |
| TOTAL REVENUE | 11,844,462 | 16,707,905 | 120,888 | 28,673,255 | 15,674,233 | 12,596,820 |
| Expenses: | | | | | | |
| Program expenses | | | | | | |
| Clergy life | 1,267,094 | - | - | 1,267,094 | 1,020,300 | 1,018,077 |
| Christian formation | 2,285,504 | - | - | 2,285,504 | 2,097,839 | 2,321,012 |
| Pastoral services | 1,340,604 | - | - | 1,340,604 | 1,735,045 | 1,551,976 |
| Health care and casualty insurance | 5,453,026 | - | - | 5,453,026 | 5,355,877 | 5,139,827 |
| Supporting services | | | | | | |
| General administration | 1,313,223 | - | - | 1,313,223 | 1,049,799 | 1,099,914 |
| Fund raising | 2,259,800 | - | - | 2,259,800 | 782,456 | 117,786 |
| TOTAL EXPENSES | 13,919,251 | - | - | 13,919,251 | 12,041,316 | 11,248,592 |
| Increase (decrease) in net assets | (2,074,789) | 16,707,905 | 120,888 | 14,754,004 | 3,632,917 | 1,348,228 |
| Net assets, beginning of year | 18,093,987 | 4,988,048 | 1,481,873 | 24,563,908 | 20,930,991 | 19,582,763 |
| Net assets, end of year | \$ 16,019,198 | \$ 21,695,953 | \$ 1,602,761 | \$ 39,317,912 | \$ 24,563,908 | \$ 20,930,991 |

The accompanying notes are an integral part of these financials statements.

The Society of the Roman Catholic Church of the Diocese of Lake Charles

Statement of Cash Flows

Years ended June 30, 2017, 2016, and 2015

| | 2017 | 2016 | 2015 |
|--|---------------|--------------|--------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | |
| Increase in net assets | \$ 14,754,004 | \$ 3,632,917 | \$ 1,348,228 |
| Adjustments to reconcile the change in net assets to net cash provided by operating activities | | | |
| Depreciation expense | 248,408 | 252,140 | 240,754 |
| Provision for losses on accounts and pledges receivable | 660,201 | 34,701 | 24,709 |
| Noncash contributions received | - | (61,450) | - |
| Matching grant revenue | - | (50,000) | - |
| (Gains) losses from investment securities | (8,940) | 22,968 | (32,441) |
| (Gains) losses on beneficial interest in securities held in a trust | (158,348) | 105,726 | 85,805 |
| (Gains) losses from disposal of property | 88,968 | 8,122 | 7,088 |
| (Gains) in cash values of life insurance policies excess of premiums | (30,057) | (30,305) | (27,493) |
| (Increase) decrease in operating assets | | | |
| Grants and pledges receivable | (10,170,359) | (2,822,863) | (302,555) |
| Accounts and loans receivable | (127,923) | (142,883) | (21,009) |
| Prepaid expenses | 98,042 | (7,254) | 7,261 |
| Increase (decrease) in operating liabilities | | | |
| Accounts payable | (224,502) | 258,274 | (588,639) |
| National collections and other payables | 66,608 | (62,716) | 116,653 |
| Contributions and benefits payable | 51,840 | 28,839 | (38,701) |
| Due to parishes | 1,367,288 | 104,694 | - |
| Deferred revenue | (17,749) | (3,969) | (3,900) |
| Accrued insurance claims | 30,990 | (13,765) | 25,087 |
| Net cash provided by operating activities | 6,628,471 | 1,253,176 | 840,847 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | |
| Proceeds from sales and maturities of investments | 32,698 | 59,591 | 68,804 |
| Purchases of investments | (18,112) | (131,068) | (50,756) |
| Increase in cash values of life insurance policies | (19,677) | (6,368) | (7,954) |
| Proceeds from the sale of property and equipment | 128,104 | - | - |
| Acquisition and construction of property and equipment | (370,025) | (69,271) | (335,008) |
| Net cash used by investing activities | (247,012) | (147,116) | (324,914) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | - | - | - |
| Net increase in cash and equivalents | 6,381,459 | 1,106,060 | 515,933 |
| Cash and equivalents, beginning of year | 9,695,017 | 8,588,957 | 8,073,024 |
| Cash and equivalents, end year | \$ 16,076,476 | \$ 9,695,017 | \$ 8,588,957 |
| Supplemental disclosures of noncash investing activities: | | | |
| Maturities and renewals of certificates of deposit | \$ 400,000 | \$ 400,000 | \$ 400,000 |
| Investment acquired with matching grant revenue | \$ - | \$ 50,000 | \$ - |

The accompanying notes are an integral part of these financial statements.

The Society of the Roman Catholic Church of
The Diocese of Lake Charles

Notes to the Financial Statements

1. **ORGANIZATION AND BASIS OF PRESENTATION**

The Society of the Roman Catholic Church of the Diocese of Lake Charles Inc., (“The Diocese”) is a not-for-profit entity incorporated in the State of Louisiana in 1980. The Bishop of the Diocese is the president of the corporation and president of thirty-nine Catholic parishes and two Catholic schools, each incorporated in the State of Louisiana and located in one of five civil parishes located in southwest Louisiana and encompassed by the ecclesiastical province of the Diocese of Lake Charles. Numerous financial transactions occur in the ordinary course of business between the Diocese and the thirty-nine Catholic parishes.

These financial statements are derived from the underlying accounting records of the Diocese, which excludes the assets, liabilities, revenue and expenses of all Catholic parishes and schools. A summary of the unaudited financial data of the thirty-nine Catholic parishes as of June 30, 2017 and for the year then ended is presented below.

| | | |
|----------------------------------|----|--------------------|
| Total current assets | \$ | 22,373,838 |
| Total fixed assets | | 115,222,698 |
| Total assets | \$ | <u>137,596,536</u> |
| | | |
| Total liabilities | \$ | 4,961,416 |
| Total net assets | | 132,635,120 |
| Total liabilities and net assets | \$ | <u>137,596,536</u> |
| | | |
| Total revenue | \$ | 21,167,579 |
| Total expenses | \$ | 18,703,743 |

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Basis of Accounting

The financial statements of the Diocese have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other assets and liabilities.

The financial statements include information from prior years summarized for comparison purposes only. The prior year information does not include sufficient detail to constitute a presentation in accordance with U.S. generally accepted accounting principles and, accordingly, should be read in conjunction with the Diocese’s annual financial statements for those years from which such information was derived.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the reporting period. Accordingly, actual results may differ from those estimates.

The Society of the Roman Catholic Church of
The Diocese of Lake Charles

Notes to the Financial Statements

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)**

Cash and Cash Equivalents

Cash and equivalents include cash in bank deposit accounts, money market accounts, U.S. Treasury Bills with 91-day maturities or less and interest-bearing securities held by financial institutions under repurchase agreements. Cash and equivalents are reported in the financial statements at cost, which approximates fair value.

Investments and Securities

In accordance with generally accepted accounting principles, all investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statements of financial position. Unrealized gains and losses are included in the change in net assets. Investment income and gains restricted by a donor are reported as increases in temporarily restricted net assets.

Accounts Receivable

Accounts receivable includes diocesan assessments of parishes for clergy retirement costs and welfare benefits, liability and casualty insurance premiums and other program related costs and assessments of seminarians for part of their undergraduate tuition costs and related expenses. The assessments are expected to be received in less than a year and are reported in the statement of financial position at the net realizable value which management considers a reasonable estimate of fair value. No interest is charged on past due balances. Management periodically reviews accounts receivable balances and records valuation allowances for estimated uncollectible balances.

Pledges Receivable

Pledges receivable are promises to give. During 2015, the Diocese initiated its Return to the Lord Campaign (“Capital Campaign”), raising funds through pledges and contributions over a five-year period. Pledges received as part of this campaign are shared by the Diocese and individual Parishes based on a predetermined formula. Pledges that are expected to be collected in future years are recognized in the year the promise was made, at fair value, which is measured as the present value of their future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates (4.89% for the years ended June 30, 2017), applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. Unconditional pledges are recorded as temporarily restricted revenues and are available for their intended purposes once the pledge is collected. Conditional pledges are not included as support until the conditions are substantially met.

Revenue and Expense Recognition

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specified purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a temporary 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. Donated services must be recorded if either of the following criteria are met: (1) the services create or enhance nonfinancial assets or (2) the services require specialized skills performed by individuals possessing these skills and otherwise would have to be purchased.

The Society of the Roman Catholic Church of
The Diocese of Lake Charles

Notes to the Financial Statements

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)**

Allowance for Doubtful Accounts

The Diocese uses the allowance method to determine uncollectible accounts receivable. The allowance is based on prior years' experience and management's evaluation of potential uncollectible accounts receivable balances at year end. As of June 30, 2017, the balance in allowance for doubtful accounts related to accounts receivable was \$59,411.

Grants and pledges receivable are recorded net of an allowance for doubtful accounts. The Diocese estimates the allowance based on an analysis of pledge balances by Parish and individual donors at year end, taking into consideration the age of past due amounts, an assessment of the donor's ability to pay, and considering the current economic conditions. The allowance for doubtful accounts for grants and contribution receivable was \$1,222,799 as of June 30, 2017.

Property and Equipment

The Diocese's property and equipment are capitalized at cost, if purchased, or at estimated fair market value if donated. Donations of property and equipment are recorded as contributions at their estimated fair value. In the absence of donor stipulations regarding how long the contributed assets must be used, the Diocese has adopted a policy of establishing time restrictions on contributions of such assets that expire over the useful lives of the assets. Maintenance and repairs are expensed as incurred; however, those that significantly increase asset values or extend useful lives are capitalized. Depreciation is computed by the straight-line method at rates based on the following estimated useful lives:

| | <u>Years</u> |
|---------------------------------|--------------|
| Buildings and improvements | 5 – 60 |
| Furniture and fixtures | 3 – 15 |
| Computer equipment and software | 3 – 5 |

Federal and State Income Taxes

The Internal Revenue Service (IRS) has issued to the United States Conference of Catholic Bishops, a group tax exemption ruling with respect to the Catholic organizations listed in The Official Catholic Directory (OCD) ("Group Ruling"). The Group Ruling establishes that organizations included in the OCD are exempt from federal income tax under section 501(c) (3) of the Internal Revenue Code. The Diocese is included in the OCD; however, inclusion in the Group Ruling has no effect on an organization's liability for any federal excise taxes.

Accounting principles generally accepted in the United States of America require Diocese management to evaluate tax positions taken and recognize a tax liability (or asset) if the Diocese has undertaken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service. Management has analyzed the tax positions taken by the Diocese, 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 Society of the Roman Catholic Church of
The Diocese of Lake Charles

Notes to the Financial Statements

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)**

Functional Allocation of Expenses

The costs of providing various programs and supporting services have been summarized on a functional basis in the Statement of Activities. Certain indirect costs have been allocated to the functional areas and are reported as occupancy costs within each functional classification.

Financial Instruments and Credit Risk

The Diocese manages deposit concentration risk by placing cash, money market accounts, and certificates of deposit with financial institutions believed to be creditworthy. At times, amounts on deposit may exceed insured limits or include uninsured investments in money market mutual funds. To date, the Diocese has not experienced losses in any of these accounts. Credit risk associated with pledges receivable is considered to be limited due to high historical collection.

Advertising

Advertising cost are expensed as incurred. For the year ended June 30, 2017, the Diocese expensed \$157,008.

Reclassification

Certain reclassifications have been made to the 2016 and 2015 financial statement presentation to correspond to the current year's format. Total net assets and increase in net assets are unchanged due to these reclassifications.

Recently Issued Accounting Standards

In February 2016, the FASB issued ASU 2016-02, *Leases* ("ASU 2016-02"). The new standard establishes a right-of-use ("ROU") model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. ASU 2016-02 is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Diocese is evaluating the impact that ASU 2016-02 will have on our financial statements and related disclosures.

In August 2016, FASB issued Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, with the stated purpose of improving financial reporting by not-for-profit entities (NFP). Among other provisions, ASU 2016-14 reduces the number of classes of net assets from three to two, requires the presentation of expenses in both natural and functional classifications, and eliminates the requirement to prepare a reconciliation in the statement of cash flows when applying the direct method. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017, with early application permitted. The Diocese is evaluating the impact that ASU 2016-14 will have on our financial statements and related disclosures.

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Notes to the Financial Statements

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)**

Recently Issued Accounting Standards – (Continued)

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments* - a consensus of the Emerging Issues Task Force (“ASU 2016-15”). The new guidance is intended to reduce diversity in practice in how certain transactions are classified in the statement of cash flows. Certain issues addressed in this guidance include - Debt payments or debt extinguishment costs, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, distributions received from equity method investments and beneficial interests in securitization transactions. ASU 2016-15 is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted. The Diocese is evaluating the impact that ASU 2016-15 will have on our financial statements and related disclosures.

3. **PLEDGES RECEIVABLE, NET**

Beginning in 2015, the Diocese initiated a \$16,000,000 capital campaign program known as “Return to the Lord, A Campaign for our Future”, the purpose was to raise money for Priest retirement, Seminarian education, the Cathedral restoration, Camp Karol, Catholic Charities, all Parishes and the Diocese. As of June 30, 2017, the Diocese has collected \$7,417,093 of the \$22,237,730 that was committed. Pledge receivables relating to this campaign consist of the following:

| | |
|--|----------------------|
| Capital campaign pledge receivables: | |
| Receivable within one year | \$ 6,907,701 |
| Receivable in one to five years | 7,911,661 |
| Gross pledge receivable | <u>14,819,362</u> |
| Less: Unamortized discount | <u>(804,765)</u> |
| Pledge receivable, net of unamortized discount | 14,014,597 |
| Less: Allowance for uncollectibles pledges | <u>(1,222,799)</u> |
| Pledge receivable, net | <u>\$ 12,791,798</u> |

Included in Capital Campaign revenues is the amortization of discounts on pledges receivable of \$295,471 for the year ended June 30, 2017.

The Society of the Roman Catholic Church of
The Diocese of Lake Charles

Notes to the Financial Statements

4. INVESTMENTS

The following schedule summarizes investments as of June 30, 2017:

| | Carrying Value |
|--|---------------------------|
| Certificates of deposit | \$ 400,000 |
| Mutual funds | 301,353 |
| Common stocks | 82,359 |
| Mission Diocese Investment Fund | 159,269 |
| | 942,981 |
| Less: Investment pledged as collateral | (100,000) |
| | \$ 842,981 |

The Diocese granted to the Louisiana Office of Workers' Compensation a continuing security interest in a \$100,000 certificate of deposit to partially secure the payment of obligations arising from the Diocese's participation in the Louisiana Catholic Workers' Compensation Pool. The \$100,000 certificate of deposit is included in the total above and reported separately in the statement of financial position.

The following schedule summarizes investment returns and their classification in the statement of activities for the year ended June 30, 2017:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|--|---------------------|-----------------------------------|-----------------------------------|-------------------|
| Interest and dividend income | \$ 34,901 | \$ 39,246 | \$ - | \$ 74,147 |
| Interest income credited to life insurance policies | 30,057 | - | - | 30,057 |
| Gains (losses) from beneficial interests in securities held in trust | - | 37,460 | 120,888 | 158,348 |
| Gains (losses) from investment securities and contracts | 8,940 | - | - | 8,940 |
| Income from self-insurance pools | 21,481 | - | - | 21,481 |
| | \$ 95,379 | \$ 76,706 | \$ 120,888 | \$ 292,973 |

The Society of the Roman Catholic Church of
The Diocese of Lake Charles

Notes to the Financial Statements

5. **FAIR VALUE MEASUREMENTS**

The Diocese reports certain asset and liabilities at fair value in the financial statements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal, or most advantageous, market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Inputs used to determine fair value refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available. A three-tier hierarchy categorizes the inputs as follows:

Level I — Quoted prices are available in active markets for identical investments as of the reporting date. The type of investments included in Level I are publicly traded equity securities.

Level II — Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies.

Level III — Pricing inputs are unobservable and include situations where there is little, if any, market activity for the investment. Fair value for these investments is determined using valuation methodologies that consider a range of factors, including but not limited to the price at which the investment was acquired, the nature of the investment, local market conditions, trading values on public exchanges for comparable securities, current and projected operating performance, and financing transactions subsequent to the acquisition of the investment. The inputs into the determination of fair value require significant measurement judgment. Due to the inherent uncertainty of these estimates, these values may differ materially from the values that would have been used had a ready market for these investments existed.

In some cases, the inputs used to measure the fair value of an asset or a liability might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to entire measurement requires judgment, taking into account factors specific to the asset or liability. The categorization of an asset within the hierarchy is based upon the pricing transparency of the asset and does not necessarily correspond to our assessment of the quality, risk, or liquidity profile of the asset or liability.

The inputs or methodology used for valuing investments are not necessarily an indication of the risk associated with investing in those investments. There have been no changes in methodologies used to value the investments at June 30, 2017.

The Society of the Roman Catholic Church of
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Notes to the Financial Statements

5. **FAIR VALUE MEASUREMENTS – (Continued)**

The following table summarizes the valuation of the Diocese's investments by the above FAS 157 fair value hierarchy levels as of June 30, 2017:

| | Fair Values | Active Market Quotes for Identical Assets (Level 1) | Significant Unobservable Inputs (Level 3) |
|---|---------------------|--|--|
| Certificates of deposit | \$ 400,000 | \$ 400,000 | \$ - |
| Mutual funds | 301,354 | 301,354 | - |
| Common stock | 82,359 | 82,359 | - |
| Loans receivable | 68,389 | - | 68,389 |
| Life insurance contracts | 683,147 | - | 683,147 |
| Beneficial interests in securities held trusts | 1,934,358 | 1,934,358 | - |
| Total | \$ 3,469,607 | \$ 2,718,071 | \$ 751,536 |

The fair values of certificates of deposit, mutual funds, common stocks and beneficial interests in securities held in trust are determined by reference to quoted market prices for identical securities, referred to as level 1 inputs. The fair values of loans receivable and life insurance contracts are estimated by management using unobservable inputs, referred to as level 3 inputs, as a result of limited or no market activity for similar assets.

The carrying values reported in the statement of financial position for the following financial instruments approximates fair value because of the short maturities of these instruments: accounts receivable in less than one year, grants and contributions receivable in less than one year, accounts payable, national collections and other payables, accrued insurance claims payable and contributions payable other than a contribution payable of \$68,389 the carrying value of which equals management's estimate of the fair value of a related loan receivable valued using level 3 inputs and more fully described in note 12.

The following schedule is a reconciliation of the change between beginning and ending balances of assets measured at estimated fair value on a recurring basis using level 3 inputs.

| | Loan Receivable | Life Insurance Contracts |
|---|----------------------------|-------------------------------------|
| Beginning balances | \$ 68,389 | \$ 648,413 |
| Loan repayments | - | - |
| Insurance cost in excess of premiums | - | 4,677 |
| Interest income credited to cash surrender values | - | 30,057 |
| Ending balances | \$ 68,389 | \$ 683,147 |

No unrealized gains or losses in assets valued using level 3 inputs are included in the change in net assets reported in the statement of activities.

The Society of the Roman Catholic Church of
The Diocese of Lake Charles

Notes to the Financial Statements

6. PROPERTY AND EQUIPMENT

The following schedule is a summary of property and equipment as of June 30, 2017:

| | | |
|--|--------|-----------------------------|
| Saint Charles Center | \$ | 6,735,892 |
| Chancery building | | 1,645,715 |
| Seafarers' Center | | 392,309 |
| Perry building | | 315,772 |
| Diocesan residence | | 882,586 |
| Catholic Charities facility | | 1,025,267 |
| Office of Catholic schools | | 32,203 |
| Kirby Street Properties | | 446,346 |
| St. John Vianney House of Discernment and Prayer | | 167,310 |
| Convent | | 522,928 |
| Camp Karol | | 313,082 |
| Other assets | | <u>729,170</u> |
| Total | | 13,208,580 |
| Less accumulated depreciation | | <u>(4,746,908)</u> |
| Net property and equipment | \$ | <u><u>8,461,672</u></u> |

Net property and equipment includes non-depreciable assets, primarily land, totaling \$2,180,672. Eight parcels of land with a carrying value of \$528,966 are not used in current operations. Seven of the parcels were acquired from donor bequests. The Seafarer's Center is located on land owned by the Port of Lake Charles. The St John Vianney House of Discernment and Prayer is a former rectory owned by St. Louis Catholic High School which granted perpetual use to the Diocese. Depreciation expense totaled \$248,408 for the year ended June 30, 2017.

7. NET ASSETS RELEASED FROM RESTRICTIONS

Temporarily restricted assets totaling \$1,441,441 were released from restrictions as a result of program expenses that complied with donor restrictions. The following schedule summarizes the program expenses by functional classification.

| | | |
|---------------------|----|-------------------------|
| Clergy life | \$ | 558,819 |
| Christian formation | | 346,625 |
| Pastoral services | | 405,344 |
| Fund raising | | 130,653 |
| Total | \$ | <u><u>1,441,441</u></u> |

The Society of the Roman Catholic Church of
The Diocese of Lake Charles

Notes to the Financial Statements

8. TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily and permanently restricted net assets as of June 30, 2017 are comprised of the following:

| | Temporarily Restricted | Permanently Restricted |
|---|-----------------------------------|-----------------------------------|
| Grants receivable | \$ 72,500 | \$ - |
| Pledges receivable - capital campaign | 12,791,798 | - |
| Cash - capital campaign goals | 2,151,485 | - |
| Cash - employment of development director | 83,507 | - |
| Cash - christian formation | 1,169,469 | - |
| Cash - financial subsidies for qualifying parishes and people | 65,760 | - |
| Cash - administrative | 1,287,874 | - |
| Transportation equipment to support pastoral services | 11,181 | - |
| Cash - other pastoral services | 381,236 | - |
| Cash - clergy life and support | 3,198,472 | - |
| Cash - maintenance of pipe organs | - | 107,402 |
| Beneficial interest in securities held in trust | 482,671 | 1,495,359 |
| Total | <u>\$ 21,695,953</u> | <u>\$ 1,602,761</u> |

The Diocese holds a beneficial interest in two separate trusts. One trust is subject to a donor stipulation that the trust be maintained for the longest period allowed under the laws of the State of Louisiana. Annual distributions and the beneficial interest in the remaining assets upon termination are to be used to support Saint Charles Center.

The second trust is subject to a donor stipulation requiring the principal be invested in perpetuity and annual distributions used for the benefit of the poor and needy including direct assistance for food, clothing, housing, medical and other basic needs. Alternatively, distributions may be used to provide scholarships for academically deserving financially needy students seeking a baccalaureate degree from a Louisiana accredited college or university. The needy student would not otherwise be able to continue their education. Annual distributions are reported as temporarily restricted net assets.

Louisiana Revised Statute 9:1833 limits the term of a trust to twenty years from the death of the decedent, referred to as settlor, if the settlor is a natural person but none of the income beneficiaries are natural persons. Accordingly, each trust referenced above will terminate upon the expiration of twenty years from the death of the respective settlor.

The Society of the Roman Catholic Church of
The Diocese of Lake Charles

Notes to the Financial Statements

9. DESIGNATIONS OF UNRESTRICTED ASSETS

Management has designated specific unrestricted net assets at June 30, 2017 to provide financial resources for future program funding as follows:

| | | |
|--|----|-----------|
| Operation of Saint Charles Center | \$ | 262,000 |
| Scholarships for Catholic education | | 247,892 |
| Diocesan clergy retirement | | 1,502,433 |
| Clergy long term care program | | 496,515 |
| Self insured health care program | | 2,156,704 |
| Seminarian education funding | | 2,857,430 |
| Property and casualty insurance program | | 1,196,619 |
| Bishop's discretionary funds | | 256,278 |
| Deaf Center, Catholic Charities and Bethany Cemetery | | 75,888 |
| Saint Charles Center maintenance fund | | 162,591 |
| | | 162,591 |
| Total | \$ | 9,214,350 |

10. INSURANCE PROGRAMS AND SIGNIFICANT ESTIMATES

The Diocese maintains a self-insured hospitalization insurance program for employees of the Diocese and each Catholic parish and school. The program is administered by the Louisiana Health Service and Indemnity Company d/b/a/ Blue Cross Blue Shield of Louisiana (Blue Cross) and funded with premiums paid by each participating entity. The Diocese reimburses Blue Cross for the first \$75,000 of claims paid per participant contract in each policy period. The Diocese maintains reinsurance coverage for stop-loss protection under a reinsurance policy which pays claim costs in excess of the Diocese's \$75,000 specific risk retention and \$3,243,247 aggregate risk retention. Management accrued a liability for estimated claim costs incurred but not reported of \$138,529 as of June 30, 2017.

The Diocese maintains property and liability insurance coverage that extends to each Catholic parish and school. The Diocese's self-insured retention is \$25,000 per location for property coverage and \$25,000 per occurrence for liability coverage with an annual aggregate limit of \$225,000. Property coverage for named storms is limited to \$30,000,000 and the deductible is 3% of the insured value of each building. The loss exposure for named storms is not subject to the \$25,000 per location self-insured retention. Flood insurance coverage is limited to \$250,000 per location except those locations in specific flood zones which are subject to a deductible of \$500,000 before the \$250,000 coverage applies. The \$500,000 deductible is insured under the federal flood insurance program. Flood coverage under the diocesan insurance program is limited to \$5,000,000 per occurrence. Primary liability coverage is generally limited to \$500,000 with certain exceptions specified in the policy. Excess liability coverage is \$10,000,000 subject to specific limits based on the nature of the claim. Property and liability coverage is provided for claims incurred and reported during a policy period. Management accrued a liability for estimated property and liability claim costs of \$62,744 for claims incurred through June 30, 2017.

The Diocese is a participant in the Catholic Umbrella Pool II (Cup II), a self-insurance pool that provides excess liability coverage for its membership on claims exceeding \$1,500,000 subject to certain limits. Participating Dioceses are responsible for any losses in excess of the Cup II's obligations.

The Society of the Roman Catholic Church of
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Notes to the Financial Statements

10. INSURANCE PROGRAMS AND SIGNIFICANT ESTIMATES – (Continued)

The Diocese is a participant in the Louisiana Catholic Workers' Compensation Pool (LCWCP), an unincorporated self-insurance pool created to provide workers' compensation insurance coverage to its membership consisting of four Catholic dioceses in Louisiana including related Catholic parishes, schools and other entities.

Investments in insurance pools are reported at cost. The Diocese's investment in the Cup II has a carrying value of \$-0- and the estimated fair value is \$234,057. The Diocese's investment in the LCWCP has a carrying value of \$285,116.

11. RETIREMENT PLANS

The Diocese sponsors a defined contribution retirement plan under Internal Revenue Code Section 403(b) for all lay employees. Tax deferred contributions are made to segregated accounts through voluntary salary reduction agreements. The Diocese also maintains a defined contribution retirement plan under Internal Revenue Code Section 401(a), which allows employees to make after tax contributions that are pooled and invested in a fixed income account. The Diocese matches employee contributions up to 1.5% of annual compensation and contributes a fixed amount of \$904 annually for all diocesan priests not assigned to a parish. Retirement contributions on behalf of all diocesan priests assigned to parishes are paid from the general assets of the parish. Retirement contributions to all defined contribution type plans totaled \$12,781 for the year ended June 30, 2017.

The Diocese has a policy of providing specific retirement benefits to retired diocesan priests, which is similar in substance to a defined benefit plan. Under the policy the Diocese pays from its general assets a monthly retirement benefit in an amount that, when added to the monthly pension annuity available under the defined contribution plan equals the base salary of current diocesan priests. Retirement benefit payments to retired diocesan priests totaled \$365,356 for the year ended June 30, 2017, The Diocese received a \$20,000 grant, \$108,435 from an annual collection, \$19,056 from a special fund-raising event and \$60,939 from a parish assessment to provide funding for its defined benefit pension payments.

12. OTHER POST RETIREMENT BENEFITS

The Diocese has a policy of providing post-retirement health care benefits to all diocesan priests. Under generally accepted accounting principles, post-retirement health care and retirement benefits are deferred compensation arrangements, the cost of which should be recognized over the period of service rendered by those eligible to participate.

The Accounting Standards Codification (ASC) Topic 715 requires the recognition of the funded status of a benefit plan, measured as the difference between plan assets at fair value and the benefit obligation. The benefit obligation is generally an amount representing the present value of the pension and post-retirement health care benefits attributed to employee service rendered prior to the date of the statement of financial position. The net periodic pension and post-retirement health care expense consists of several components including a service cost, which is the present value of benefits attributed to employee service during the reporting period, an interest cost, which is the increase in the benefit obligations as a result of the passage of time, and certain gains and losses related to the value of plan assets and changing assumptions used in estimating the benefit obligation. Additional disclosures are required by ASC Topic 715.

The Society of the Roman Catholic Church of
The Diocese of Lake Charles

Notes to the Financial Statements

12. OTHER POST RETIREMENT BENEFITS – (Continued)

The Diocese has not reported a liability for the deferred retirement and health care benefit obligations in the statement of financial position. Additionally, the financial statements do not include disclosures under ASC Topic 715 relating to the funded status of the plans and periodic pension and post-retirement health care expenses are recognized when paid.

13. RELATED PARTY TRANSACTIONS

Numerous financial transactions occur in the ordinary course of business between the Diocese and related Catholic parishes and schools. Catholic parishes contributed \$2,763,580 to the Diocese as a parochial tithe. Diocesan assessments of Catholic parishes and schools totaled \$6,867,615 and are used primarily to provide funding for the self-insured health care program, property and liability insurance coverage for parish and school employees and facilities, seminarian education costs and retirement and health care benefits for diocesan priests. The Diocese provided direct subsidies and grants to parishes for evangelization, religious education and pastoral services totaling \$599,764 and \$1,388,573 for their portion of the collection of the capital campaign.

The Diocese provided a loan to a parish to renovate its church. Concurrently, the Diocese committed to provide funding to repay the loan as resources become available. The outstanding balance at June 30, 2017 is \$68,389 and is reported in the statement of financial position as a component of loans receivable and the commitment to provide funds to repay the loan receivable is reported as contributions payable.

14. LEASES

The Diocese leases certain facilities and equipment under month-to-month operating leases. Total rent expense under these leases totaled \$110,812 for the year ended June 30, 2017.

15. CONCENTRATIONS OF CREDIT RISK AND ECONOMIC RESOURCES

The Diocese maintains deposit accounts with large, multi-state financial institutions. The balances at each of these financial institutions are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. The Diocese has not experienced any losses in such accounts. As of June 30, 2017, the uninsured balance was \$10,503,635. The Diocese also has money-market holdings in the amounts of \$1,715,297 at June 30, 2017, which are not secured. The Diocese has grants receivable totaling \$72,500 from a national Catholic organizations and life insurance contracts with cash values totaling \$493,124 with a single life insurance company. The Diocese does not require collateral or specific segregation of the securities to mitigate its risk concentrations in financial instruments.

Financial support for the Diocese is derived primarily through the parochial tithe and other assessments of Catholic parishes located in Southwest Louisiana. The Diocese receives grants of approximately \$300,000 annually from three national Catholic organizations. These concentrations make the Diocese vulnerable to the risk of severe impact in the event of adverse economic conditions in the local area and in the fund-raising activities of the national Catholic organizations.

The Society of the Roman Catholic Church of
The Diocese of Lake Charles

Notes to the Financial Statements

16. COMMITMENTS AND CONTINGENCIES

Temporarily restricted assets held by the Diocese at June 30, 2017 and the restrictions to which the Diocese is committed to future expenditures are reported in note 7. Other commitments for which the Diocese has contractual obligations for future expenditures are disclosed in note 10.

17. SUBSEQUENT EVENTS

Management has evaluated subsequent events through May 21, 2018, the date the financial statements were available to be issued. Through that date, no significant transactions have occurred that would have a material impact on the Diocese's statements of financial position, activities or cash flows as of June 30, 2017.

**The Society of the Roman Catholic Church
of the Diocese of Lake Charles**

Supplemental Information June 30, 2017

The Society of the Roman Catholic Church of the Diocese of Lake Charles

Schedule of Functional Expenses

Year ended June 30, 2017

| | Clergy Life | Christian Formation | Pastoral Services | Health Care & Casualty Insurance | General | Fund Raising | 2017 Totals |
|---------------------------------------|---------------------|------------------------|----------------------|---|---------------------|---------------------|----------------------|
| Assessments | \$ - | \$ 24,502 | \$ - | \$ - | \$ 17,341 | \$ - | \$ 41,843 |
| Accounting, auditing & consulting | - | - | - | - | 38,680 | - | 38,680 |
| Auto & residence allowances | - | 1,843 | 6,625 | - | 35,257 | - | 43,725 |
| Book, periodicals & publications | 2,489 | 27,521 | 286 | - | 3,205 | - | 33,501 |
| Charitable donations | 59,243 | - | 320,414 | - | - | - | 379,657 |
| Clergy welfare assistance | 65,746 | 6,120 | - | - | - | - | 71,866 |
| Contracted services | 33,388 | 156,395 | 52,176 | 271,287 | 121,720 | 390,616 | 1,025,582 |
| Dues & memberships | 876 | 2,267 | 2,638 | - | 10,980 | 1,200 | 17,961 |
| Facility & equipment rental | - | 91,949 | 4,372 | - | 2,199 | 12,292 | 110,812 |
| Health care claim costs | 55,378 | - | - | 2,380,010 | - | - | 2,435,388 |
| Health care insurance | - | - | - | 587,732 | - | - | 587,732 |
| Hurricane disaster assistance | - | - | 42,397 | - | 165,602 | - | 207,999 |
| Legal services | - | - | - | - | - | - | - |
| Life insurance | 17,123 | - | - | - | 2,009 | - | 19,132 |
| Newspaper | - | 160,185 | - | - | - | - | 160,185 |
| Occupancy costs | - | 72,170 | 100 | - | 123,356 | 8,479 | 204,105 |
| Office expenses | 2,423 | 73,488 | 14,778 | 138 | 54,622 | 197,331 | 342,780 |
| Other expenses | 1,982 | 195 | - | - | 1,199 | - | 3,376 |
| Payroll & other taxes | 527 | 38,101 | 17,234 | 1,517 | 30,598 | 2,518 | 90,495 |
| Postage & shipping | 508 | 5,211 | 2,064 | 187 | 8,944 | 31,586 | 48,500 |
| Property, casualty & liability claims | - | - | - | 181,004 | - | - | 181,004 |
| Property & casualty insurance | 11,360 | 69,550 | 15,415 | 2,029,937 | 23,228 | 303 | 2,149,793 |
| Provision for bad debts | - | - | - | - | - | - | - |
| Public relations | 4,250 | 21,170 | 4,777 | - | 27,077 | 99,734 | 157,008 |
| Repairs & maintenance | 37,668 | 105,900 | 40,813 | - | 58,272 | 19,617 | 262,270 |
| Residence & retreat center supplies | 12,914 | 240,247 | 12,444 | - | - | - | 265,605 |
| Retirement expense | 365,356 | 8,725 | 1,333 | - | 4,386 | 65 | 379,865 |
| Salaries | 29,655 | 537,009 | 187,737 | - | 416,603 | 32,845 | 1,203,849 |
| Seminars, retreats & conferences | 14,833 | 271,751 | 3,849 | 1,112 | 37,234 | - | 328,779 |
| Subsidies & grants | 4,400 | 26,647 | 511,741 | - | - | 1,462,327 | 2,005,115 |
| Telephone | 9,856 | 18,594 | 31,392 | - | 4,926 | 743 | 65,511 |
| Television & radio | - | 144,348 | - | - | - | - | 144,348 |
| Travel & transportation | 4,675 | 14,657 | 10,782 | 102 | 25,687 | 7 | 55,910 |
| Tuitions & seminarian expense | 514,467 | - | - | - | - | - | 514,467 |
| Utilities | 11,203 | 56,581 | 17,316 | - | 8,763 | 137 | 94,000 |
| | 1,260,320 | 2,175,126 | 1,300,683 | 5,453,026 | 1,221,888 | 2,259,800 | 13,670,843 |
| Depreciation expense | 6,774 | 110,378 | 39,921 | - | 91,335 | - | 248,408 |
| Totals | \$ 1,267,094 | \$ 2,285,504 | \$ 1,340,604 | \$ 5,453,026 | \$ 1,313,223 | \$ 2,259,800 | \$ 13,919,251 |