

**ST. AMBROSE
FINANCIAL SERVICES, INC.**

**FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITORS'
REPORT**

JUNE 30, 2011

ST. AMBROSE FINANCIAL SERVICES, INC.

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Hawkins, Ash, Baptie

& COMPANY, LLP

Certified Public Accountants | Business Advisors

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INDEPENDENT AUDITORS' REPORT

To the Most Reverend Bishop William Patrick Callahan
and the Board of Directors
St. Ambrose Financial Services, Inc.

We have audited the accompanying statement of financial position of St. Ambrose Financial Services, Inc. (the "Organization") as of June 30, 2011, and the related statements of activities and cash flows for the three months then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of St. Ambrose Financial Services, Inc., as of June 30, 2011, and the changes in its net assets and its cash flows for the three months then ended in conformity with accounting principles generally accepted in the United States of America.

Hawkins, Ash, Baptie & Company, LLP

La Crosse, Wisconsin
November 30, 2011

ST. AMBROSE FINANCIAL SERVICES, INC.

FINANCIAL STATEMENTS

ST. AMBROSE FINANCIAL SERVICES, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2011

ASSETS

Cash and cash equivalents	\$ 524,154
Available for sale investments	27,418,857
Notes receivable, net of allowance for note losses	9,555,663
Revolving loan receivable with Diocese of La Crosse	5,151,811
Accounts receivable, less \$193,000 allowance for doubtful accounts	4,815,223
Accounts receivable - We Belong to Christ Campaign, Inc.	16,796
Accrued interest receivable	949,133
CUP II insurance investment	<u>537,777</u>
TOTAL ASSETS	<u>\$ 48,969,414</u>

LIABILITIES AND NET ASSETS

LIABILITIES

Deposits payable	\$ 32,873,260
Accounts payable	564,986
Accrued payroll and related benefits	5,131
Collections for transmittal	626,644
Reserve for self-insurance	<u>500,000</u>
TOTAL LIABILITIES	<u>34,570,021</u>

NET ASSETS

Unrestricted	2,519,653
Board designated - specific purpose	<u>11,879,740</u>
TOTAL UNRESTRICTED NET ASSETS	<u>14,399,393</u>

TOTAL LIABILITIES AND NET ASSETS	<u>\$ 48,969,414</u>
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The accompanying notes are an integral part of these financial statements.

ST. AMBROSE FINANCIAL SERVICES, INC.
STATEMENT OF ACTIVITIES
THREE MONTHS ENDED JUNE 30, 2011

SUPPORT AND REVENUE	
Investment and endowment income, net of investment fees	\$ 298,850
Services and other income	32,489
Insurance and retirement income	<u>1,400,118</u>
TOTAL SUPPORT AND REVENUE	<u>1,731,457</u>
 EXPENSES	
Program Services	
Pastoral and administration	5,465
Interest on deposits	22,088
Insurance and retirement	<u>2,756,054</u>
TOTAL PROGRAM SERVICES	<u>2,783,607</u>
Supporting Services	
Administration	<u>173,343</u>
TOTAL EXPENSES	<u>2,956,950</u>
NET EXPENSES OVER SUPPORT	(1,225,493)
 OTHER GAINS AND LOSSES	
Net realized and unrealized gain on investments	99,825
Transfer from Diocese of La Crosse Administrative Offices	<u>15,525,061</u>
CHANGE IN NET ASSETS	14,399,393
NET ASSETS AT BEGINNING OF YEAR	<u>-</u>
NET ASSETS AT END OF YEAR	<u><u>\$ 14,399,393</u></u>

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

ST. AMBROSE FINANCIAL SERVICES, INC.
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2011

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ 14,399,393
Adjustment to reconcile change in net assets to net cash provided by operating activities	
Net realized and unrealized (gain) on investments	(8,542)
Transfer from Diocese of La Crosse Administrative Offices	(15,525,061)
Changes in assets and liabilities	
(Increase) decrease in assets	
Accounts receivable	2,162,096
Accounts receivable - We Belong to Christ Campaign, Inc.	(16,796)
Accrued interest receivable	(122,282)
Increase (decrease) in liabilities	
Accounts payable	(193,754)
Accrued payroll and related benefits	5,131
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>700,185</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of investment securities	(13,106,523)
Proceeds on sales of investment securities	11,113,441
Notes receivable, net of principal collections	(179,828)
Payments received from Diocese of La Crosse on revolving loan	736,807
Advances to Diocese of La Crosse on revolving loan	(2,361,573)
Increase in CUP II insurance investments	(90,344)
NET CASH (USED IN) INVESTING ACTIVITIES	<u>(3,888,020)</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Net increase in deposits payable	3,085,345
Collections for transmittal	626,644
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>3,711,989</u>
NET INCREASE IN CASH AND CASH EQUIVLENTS	524,154
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>-</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 524,154</u>
<u>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</u>	
Cash payments for interest paid on deposit funds	<u>\$ 22,088</u>

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

ST. AMBROSE FINANCIAL SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 - Nature of Organization and Significant Accounting Policies

Nature of Organization:

St. Ambrose Financial Services, Inc. (the "Organization") is operated to provide deposit and loan activities and administer the cooperative insurance programs to the parishes, schools, and organizations affiliated with the Roman Catholic Church within its boundaries and under the authority of the Bishop of the Diocese of La Crosse. Services provided include, but are not limited to, receiving, managing, investing and distributing funds and other assets in order to aid and promote the strength, vitality and growth of the parishes and other entities of the Catholic Diocese of La Crosse, for the purpose of advancing the interests of the Roman Catholic Church in accord with and in support of the mission of the Catholic Diocese and other Catholic entities within the Diocese, which are under the guidance of the Bishop of the La Crosse Diocese.

Predominantly all assets, liabilities, and revenue are transactions associated with related parties.

Summary of Significant Accounting Policies:

Basis of Accounting - The financial statements of St. Ambrose Financial Services, Inc. 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 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 Board of Directors 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. The Organization had no temporarily restricted net assets as of June 30, 2011.

Permanently Restricted Net Assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. The Organization had no permanently net assets as of June 30, 2011.

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

ST. AMBROSE FINANCIAL SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2011

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

Accounts Receivable and Allowance for Doubtful Accounts - Accounts receivable consist of the balance due to the Organization from insurance billings billed to the various Diocesan organizations. Management has determined an allowance for uncollectible balances based upon the analysis of prior collections and experience with individual parishes and schools.

Investment Securities - The Organization's investments in securities are classified and accounted for as follows:

Available-for-Sale – Government and government agency bonds, notes, certificates, and other mutual funds and stocks are classified available-for-sale when the Organization anticipates that the securities could be sold in response to rate changes, prepayment risk, liquidity, availability of and the yield on alternative investments and other market and economic factors. These securities are reported at fair value.

Held-to-Maturity – Government and government agency bonds, notes, and certificates which the Organization has the positive intent and ability to hold to maturity are reported at cost, adjusted for amortization of premiums and accretion of discounts which are recognized in interest income using the interest method over the period to maturity.

Unrealized gains and losses on securities available-for-sale are recognized as direct increases or decreases in the statement of activities. Purchase premium and discounts are recognized in interest using the straight-line method over the term of the security. Declines in the fair value of held-to-maturity and available-for-sale securities below their costs that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and sufficient to allow for any anticipated recovery in fair value. Cost of securities sold is recognized using the specific identification method.

The Organization does not maintain a trading portfolio.

Notes Receivable and Allowance for Note Losses - The Organization grants demand notes to Parishes and Unified Catholic School Systems and others with approval from the Bishop.

Notes receivable are stated at unpaid principal balances, less an allowance for note losses. Interest on notes is recognized over the term of the notes and is calculated at the set rate of 1.00 percent on principal amounts outstanding. This rate will remain effective until the 90-day Treasury Bill rate rises above .25 percent. At that time, the Organization will use the Treasury Bill rate plus .75 percent rate each quarter. As of June 30, 2011, the interest rate was 1 percent.

The allowance for note losses is established as losses are estimated to have occurred through a provision for note losses charged to earnings. Note losses are charged against the allowance when management believes that uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to allowance.

ST. AMBROSE FINANCIAL SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2011

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

The allowance for note losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the notes in light of historical experience, the nature and volume of the note portfolio, adverse situations that may affect the borrower's ability to repay and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

A note is considered impaired when, based on current information and events, it is probable that the Organization will be unable to collect the payments of principal or interest. Factors considered by management in determining impairment include payment status and the probability of collecting principal and interest payments. Management determines the significance of payment delays on a case-by-case basis, taking into consideration all of the circumstances surrounding the note and the borrower.

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.

Collections for Transmittal - The Organization bills insurance premiums for Parishes, Schools, and others one month in advance. These amounts are reflected in the financial statements as collections for transmittal.

Revenue Recognition - Revenue is recognized when it is earned.

Income Tax Status - St. Ambrose Financial Services, Inc. is organized as a 501(c)(3) corporation and is exempt from federal and state income taxes.

Accounting for Uncertainty in Income Taxes - Under U.S. GAAP, the Organization will follow the provisions relating to accounting for uncertainty in income taxes. As of June 30, 2011, the unrecognized tax benefit accrual was zero.

The Organization will recognize future accrued interest and penalties related to unrecognized tax benefits in income tax expense if incurred.

ST. AMBROSE FINANCIAL SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2011

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.

Subsequent Events - The Organization has evaluated subsequent events through November 30, 2011, the date which the financial statements were available to be issued.

NOTE 2 - Transfer of Assets, Liabilities, and Net Assets from the Diocese of La Crosse

To better coordinate the provision of administrative and financial services support to the other organizations of the Diocese, the St. Ambrose Financial Services, Inc. was formed as a separate legal corporation with its own Board of Directors as part of the restructuring project of the Diocese of La Crosse. This Corporation was formed by law on December 31, 2010. The net assets of the Deposit and Loan Fund amounting to \$14,022,164, and the net assets of the Finance Office of the Current Fund amounting to \$1,502,897 were transferred to the Corporation as of March 31, 2011.

As of March 31, 2011, the notes receivable in the amount of \$9,375,835 from the Deposit and Loan Fund of the Diocese of La Crosse were transferred to St. Ambrose Financial Services, Inc.

As of March 31, 2011, the deposits in the amount of \$29,787,915 from the Deposit and Loan Fund of the Diocese of La Crosse were transferred to St. Ambrose Financial Services, Inc.

The Deposit and Loan Fund investments in the amount of \$25,417,233 were transferred to St. Ambrose Financial Services, Inc. (a separate corporation) as of March 31, 2011. The Catholic Umbrella Pool II (CUP II) investments with a fair market value of \$447,433 were transferred to St. Ambrose Financial Services, Inc., as of March 31, 2011.

There are service agreements drawn up and executed between St. Ambrose Financial Services, Inc. and the Diocesan Administrative Offices, the Parishes, and the Unified Catholic School Systems of the Diocese of La Crosse for St. Ambrose Financial Services, Inc. to perform the financial and insurance administrative services.

A revolving loan was established between St. Ambrose Financial Services, Inc. and the Diocese of La Crosse - Administrative Offices (see Note 4).

NOTE 3 - Notes Receivable

Notes receivable consist of demand notes due primarily from Parishes and Unified Catholic School Systems. The composition of notes receivable as of June 30, 2011, consists of the following:

Parishes	\$ 8,364,946
Unified Catholic School Systems	1,567,280
Others	<u>28,437</u>
TOTAL NOTES RECEIVABLE	9,960,663
Less allowance for uncollectible notes receivable	<u>(405,000)</u>
NET NOTES RECEIVABLE	<u>\$ 9,555,663</u>

ST. AMBROSE FINANCIAL SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2011

NOTE 3 - Notes Receivable - Continued

A summary of the activity in the allowance for note losses is as follows:

BALANCE, BEGINNING OF PERIOD	\$ 405,000
Provision charged to operations	-
Notes charged off	-
Recoveries	-
BALANCE, END OF PERIOD	<u>\$ 405,000</u>

At June 30, 2011, the Organization had no loans that were specifically classified as impaired.

Notes to the five largest borrowers were approximately \$6,697,000, at June 30, 2011, which represents 67.2 percent of the notes receivable balance as of June 30, 2011.

NOTE 4 - Revolving Loan With St. Ambrose Financial Services, Inc.

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

The loan is collateralized by a mortgage covering substantially all assets of the Diocese of La Crosse, with an interest rate of 1.00 percent until the 90-day Treasury bill rate as published in the Wall Street Journal rises above this rate. The maximum amount available is \$12,000,000. The outstanding balance as of June 30, 2011, was \$5,151,811.

NOTE 5 - Investments

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

Investments at June 30, 2011, are composed of the following:

	<u>FAIR VALUE</u>	<u>COST</u>	<u>UNREALIZED APPRECIATION (DEPRECIATION)</u>
Money market funds	\$ 3,634,126	\$ 3,634,126	\$ -
Fixed income	11,625,494	11,271,377	354,117
Equities	12,159,237	10,070,939	2,088,298
CUPII insurance investment	537,777	447,433	90,344
SUBTOTAL	<u>27,956,634</u>	<u>25,423,875</u>	<u>\$ 2,532,759</u>
Less CUPII insurance investment	(537,777)	(447,433)	
TOTAL	<u>\$ 27,418,857</u>	<u>\$ 24,976,442</u>	

The following schedule summarizes investment returns for the three months ended June 30, 2011:

Investment income	\$ 330,661
Investment fees	(31,811)
Net realized and unrealized gain	99,825
TOTAL INVESTMENT RETURN	<u>\$ 398,675</u>

ST. AMBROSE FINANCIAL SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2011

NOTE 5 - Investments - Continued

The following summarizes the investment and endowment income for the three months ended June 30, 2011:

Investment interest income	\$ 330,661
Investment fees	(31,811)
TOTAL INVESTMENT RETURN	<u>\$ 298,850</u>

NOTE 6 - Fair Value of Assets

Assets measured at fair value on a recurring basis at June 30, 2011, are as follows:

	JUNE 30, 2011	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL 1)	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)
Investments	\$27,418,857	\$27,418,857	\$ -	\$ -
CUP II insurance investments	537,777	-	537,777	-
TOTALS	<u>\$27,956,634</u>	<u>\$27,418,857</u>	<u>\$ 537,777</u>	<u>\$ -</u>

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

NOTE 7 - Deposits Payable

Deposits Payable consist of monies received from Diocesan organizations for investment in a cooperative investment program. Generally, interest is determined quarterly based on the 90-day Treasury bill rate (floating rate) as reported below:

Deposits payable (floating rate .25 percent at June 30, 2011) **\$ 32,873,260**

Deposits payable to the five largest depositors totaled \$6,038,275 at June 30, 2011.

Deposits payable to the Diocesan organizations are not insured.

ST. AMBROSE FINANCIAL SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2011

NOTE 8 - Contingent Liabilities

Self-Insurance - As of March 31, 2011, the estimated liability for self-insurance of \$500,000 along with the net assets of the insurance program was transferred from the Diocese of La Crosse. St. Ambrose Financial Services, Inc. is a member of the Catholic Umbrella Pool II, a self-insurance fund which provides excess liability coverage for its membership. Participating Dioceses share in the operating income and expenses of the pool based on their contributions to the fund for each fiscal year. Participants are responsible for claims and claim expenses incurred during years in which they are active in the Pool. In the event total paid and reserved claims exceed the assets of the Pool, participants will be responsible for additional contributions as defined in the participation agreements and pursuant to such policy established by the Executive Committee. Self-insured stop loss provisions include a maximum of \$100,000 and \$50,000 per individual for lay and priest groups, respectively. The Offices has estimated its liability for self-insurance of \$500,000 as of June 30, 2011.

NOTE 9 - Board Designations

The Board has designated operating funds to fund the following as of June 30, 2011:

Insurance programs	\$ 1,527,857
Investment/loan activities	<u>10,351,883</u>
	<u>\$11,879,740</u>

As of March 31, 2011, the insurance programs and investment and loan activities fund balances in the amount of \$14,313,662 from the Deposit and Loan Fund of the Diocese of La Crosse were transferred to St. Ambrose Financial Services, Inc.

NOTE 10 - Affiliate Transactions

On March 31, 2011, the Organization entered into a service agreement with each Parish, the Unified Catholic School Systems, and the Diocese of La Crosse - Administrative Offices to perform insurance, accounting, and administrative services. Payments for these services will begin July 1, 2011.

NOTE 11 - Retirement Plan

Defined Benefit Plan

The Diocese of La Crosse sponsored a retirement plan (the Plan) covering all full-time, lay employees of the Diocese of La Crosse – Administrative Offices and Diocesan organizations. On June 1, 2006, the Finance Council voted to amend the Plan and freeze the accrual of any and all future benefits as of December 31, 2006. The Plan continues to be administered by Marshall and Isley Trust Company. The Finance Office acted as a third party administrator for organizations affiliated with the Diocese of La Crosse until April 8, 2011, when the third party administration duties were transferred to St. Ambrose Financial Services, Inc.

NOTE 12 - Guarantee

The Organization is guarantor on numerous Parish commitments to We Belong to Christ Campaign, Inc. As of June 30, 2011, the amount guaranteed is \$402,498.