FREQUENTLY ASKED QUESTIONS ABOUT THE DIOCESAN ADMINISTRATION OFFICES AUDIT

The following questions and answers regarding the auditors' report have been compiled by the Finance Office of the Diocese of La Crosse to assist the reader and provide additional accountability to Catholics in the Diocese of La Crosse.

Q: Who conducts the annual audit?

A: The finances of the Diocese of La Crosse Administration Offices undergo an annual audit by an independent public accounting firm every year. The La Crosse office of Hawkins, Ash, Baptie & Company, LLP is currently the auditing firm.

Q: What Diocesan institutions are covered in the financial statements?

A: The statements include the financial activities of the Diocesan Administration Offices, including all Diocesan Curia offices. It includes the activity of the Diocesan Annual Appeal, both House of Formation programs for vocations (for high school students), the Deposit and Loan Fund, and the insurance and retirement programs operated for the benefit of all Diocesan entities.

Among the institutions and agencies not included in the Statements are Diocesan parishes and schools, Catholic Charities of the Diocese of La Crosse, Inc., the Society for the Propagation of the Faith, St. Joseph's Priest Fund, Inc., Catholic Residential Services, Newman centers, deaneries, hospitals, universities and other institutions owned by religious orders of men and women.

Q: Why is such a report necessary?

A: Since corporate accountability has been under scrutiny, accountability of all not-for-profit organizations is essential. This report explains the financial condition of the Diocesan Administration Offices. More importantly, it provides parishioners of the Diocese a chance to examine the financial situation of the Church in their Diocese.

Q: Why are the financial statements presented in this manner?

A: The format for these financial statements is standard for not-for-profit organizations.

Q: What are the primary functions of the Diocesan Administration Offices?

A: The Diocesan Administration Offices provide a number of pastoral services on behalf of Catholics in the Diocese. They include the following offices: Vocations, Youth and Young Adult Ministry, Catechesis and Evangelization, Catholic Schools, School Financial Management and Budget Assistance, Chancery and Archives, Communications and Public Relations, Consecrated Life, Holy Cross Diocesan Center (Maintenance and Housekeeping/Food Service), Marriage and Family Life and Natural Family Planning, Finance, Ministries and Social Concerns, Moderator of the Curia, Sacred Worship, Stewardship and Development/Diocesan Annual Appeal, Matrimonial Tribunal, Diocesan Buildings and Grounds and *The Catholic Times*. Further information on the services provided by each department can be obtained at www.dioceseoflacrosse.com. The number of services provided to the 165 parishes of the Diocese of La Crosse is quite extensive. All of the services assist the Diocesan Bishop in carrying out his mission as chief Teacher, Priest and Shepherd of the faithful of the Diocese.

In addition to serving the parishes in financial matters, the Finance Office administers all insurance and retirement programs for the Diocese. Substantial financial activity also includes the operation of the Deposit and Loan Fund (as will be discussed below), and the Administration of Diocesan investments.

Q: What is the financial condition of the Diocesan Administration Offices?

A: The financial condition of the Diocesan Administration Offices remains in a strong position and we do not have any debt with any financial institutions. Since 2001, health care premiums and insurance claims have risen dramatically, and most of the parishes and schools have been unable to absorb these increased costs into their budgets. The Diocesan Administration Offices continued to pay these expenses and recorded a corresponding receivable for the amount that the parishes and schools owed. This has caused a strain on the cash flow requirements of the Diocesan Administration Offices.

As a response to this situation, in 2005 then-Bishop Jerome E. Listecki placed a moratorium on loans granted for building projects in order to stabilize the effects of these increased costs. In 2008, Bishop Listecki amended the building moratorium to require parishes and schools to have 90% cash available, and the Diocese would grant loans for 10% of building projects. The result of this action continues to have a positive effect on the current cash flow of the Diocesan Administration Offices.

During the past four years, the parishes and schools have worked hard to stay up-to-date on the current year's retirement contributions, health, and property insurance premiums, but many of the prior years' receivable balances remain outstanding. The parishes have made a further commitment by designating a portion of their parish case statement from the "We Belong to Christ" Capital Campaign to pay these outstanding receivable balances.

Q: Did the net assets of the Diocese of La Crosse Diocesan Administration Offices increase or decrease this past fiscal year?

A: In the fiscal year ending June 30, 2010 the Diocesan Administration Offices had revenue of $19,265,870, expenses of $18,450,460, and net gains on investments of $1,213,438, resulting in a change in net assets of $2,028,848. The net assets of the Diocesan Administration Offices were increased by that amount.

Q: How is the increase of $2,028,848 in net assets accounted for?

A: The most significant factor to this increase in net assets for the 2009-2010 fiscal year is net realized and unrealized gains on investments of $1,213,438 at June 30, 2010 which is reflective of the overall market recovery during the last fiscal year. There was also a substantial bequest given during the year for the renovation of the Holy Cross Diocesan Center pertaining to the senior priests' residences. Retirement and insurance expenses exceeded retirement and insurance income by $293,100. Retirement and insurance income consists of billings to the schools and parishes for prior and future medical insurance and retirement costs. As noted in the Statements, the Diocese is self-insured.

Q: Where can I see the activity of the Diocesan Administration Offices?

A: The current fund is the operational fund of the Diocesan Administration Offices and is shown as a supplemental schedule to the 2010 audited financial statements on the website.

Q: What is the Interest in Net Assets of We Belong to Christ Campaign, Inc.?

A: The $2,565,053 represents the estimated amount expected to be received as of June 30, 2010 by the Diocesan Administration Offices from We Belong to Christ Campaign, Inc. (WBTC) when payments on the pledges are received. These amounts do not include amounts that are expected to be received from WBTC to be remitted to St. Joseph's Priest Fund, Inc., the lay retirement, or Catholic Charities of the Diocese of La Crosse, Inc. The case statement from each parish dictates the percentage of each dollar that will benefit the Diocesan Administration Offices. Under U.S.

GAAP, Transfers of Assets to a Non-Profit Organization that Raises or Holds Contributions for Others, requires that if a beneficiary (the Diocese Administration Offices) and the recipient organization (WBTC) are interrelated, the beneficiary is required to recognize its interest in the net assets of the recipient organization and adjust that interest for its share of the change in net assets of the recipient.

Q: What are unrestricted net assets?

A: Unrestricted net assets would be the end result of the Diocesan Administration Offices liquidating all of its unrestricted assets and paying all of its liabilities. This is not cash in the bank. Property and equipment make up the bulk of the Diocesan Administration Offices' unrestricted net assets.

Q: What are temporarily restricted net assets?

A: Contributions become restricted when it is the donor's intent that the money donated be used for a specific purpose or within a specific time period. When these restrictions are fulfilled, the contributions are released from their restriction. This year, $5,400,223 was released from temporarily restricted net assets due to distributing the $4,584,000 per the 2008-2009 Diocesan Annual Appeal case statement; $19,200 was used towards building renovations; and $797,023 was distributed from WBTC to the Diocesan Administration Offices per the case statement, which includes $286,776 for the endowment funds. This year, the Diocesan Annual Appeal case statement for the 2009-2010 pledge year is $4,584,000. This money is temporarily restricted until it is distributed per the case statement the following fiscal year. There was also a large bequest given during the current year which is restricted for the renovation of the Holy Cross Diocesan Center pertaining to the senior priests' residences.

Q: What are permanently restricted net assets?

A: Permanently restricted contributions are contributions given by a donor with the intent that the amount given (the principal) will remain forever in perpetuity, unless the trust document states differently. The interest generated by this principal is used to fund the purpose of the endowment. The trust document also governs how much income from the endowment fund can be distributed each year, as well as what happens to any excess income that is not distributed.

Q: If net assets of the Diocesan Administration Offices are more than $37 million, why doesn't the Diocese use more of this money for its ministries?

A: Many of the assets of the Diocesan Administration Offices are in the form of property and restricted investments, which are not available as cash, and are critical to the services which the Diocesan Administration Offices provide. The Diocesan Administration Offices also adhere to the sound fiscal policy of having a fund balance that is invested to generate income to provide for future needs.

Q: What does the Statement of Financial Position tell me?

A: The Statement of Financial Position shows what the Diocesan Administration Offices "own" (assets) and what the Diocesan Administration Offices "owe" (liabilities) at a specific point in time – in this case, as of June 30, 2010.

Q: What does the Statement of Activities tell me?

A: The Statement of Activities outlines revenue and expenses related to the 12-month period from July 1, 2009 to June 30, 2010, that is, where monies come from and how they are utilized for the work of the Church in our Diocese during that period of time. The Statement of Activities shows the combined activities of the Current Fund, Endowment Fund, Deposit & Loan Fund, Plant Fund and Charitable Gift Annuity Fund.

Q: What does the Statement of Cash Flows tell me?

A: The Statement of Cash Flows shows the sources and uses of cash throughout the fiscal year. It is often referred to as the Statement of Changes in Financial Position.

Q: How does the Diocesan Administration Offices receive funding?

A: Revenue is generated mainly from contributions, such as general contributions and contributions to the Diocesan Annual Appeal. Other sources of income include: *The Catholic Times* subscription and advertising income; rental income; Tribunal case fees; workshops; resale materials; investment income; quota income; and interest charged on past due accounts receivable.

Q: How is my gift to the Diocesan Annual Appeal used?

A: Gifts to the Diocesan Annual Appeal are used to fund various ministries and services provided to parishes, schools and individuals throughout the Diocese of La Crosse, as outlined in the case statement. These include services to parishes, social justice outreach, spiritual formational programs, promotion of vocations to the priesthood, education for children and adults, family and couples training, clergy services, and communication. It also funds substantially the works of the Church in the state, nation and world, especially missionary works.

Q: What are parish assessments?

A: Every parish in the Diocese of La Crosse pays a parish assessment of approximately 7 percent of net assessable income. A formula is used to calculate the net assessable income from the data reported on the Annual Report to the Bishop. According to the formula, total regular income, less funds collected for building projects and renovations, education expenses and loan payments, equals net assessable income.

Q: What is the Deposits Payable in the Statement of Financial Position?

A: The Diocese of La Crosse established a Deposit and Loan Fund many years ago, which provides a depository for surplus funds from all parishes and institutions of the Diocese. The purpose of the Deposit and Loan Fund is to provide a pool of funds for loan to other parishes and institutions of the Diocese at an interest rate generally lower than can be obtained in the commercial market. In this manner, all the people of the Diocese share equitably the financial rewards and responsibilities of the Diocese. All surplus funds of all parishes and institutions of the Diocese must be deposited with the Diocese. Interest is paid on deposits at the 90-day U.S. Treasury Bill rate. Upon approval of the Diocesan Bishop, loans will be made to the parishes and institutions of the Diocese at a floating interest rate of ¾ of 1 percent over the 90-day U.S. Treasury Bill rate in effect at the time of the loan. The interest rates are adjusted quarterly. In July of 2009, the Finance Council voted to keep the interest rates at .25 percent for deposits and one percent for loans until the 90-day Treasury Bill rates go above these base rates.

The cumulative amount of monies from Diocesan entities deposited in the Deposit and Loan Fund at the Diocesan Administration Offices is reflected as liabilities in the Statement of Financial Position. Amounts loaned to parishes, schools and other Diocesan entities are reflected in accounts and notes receivable. The balance is included in investments in the Statement of Financial Position.

Q: Where are the Deposit and Loan Fund monies invested?

A: The Deposit and Loan Fund monies are invested with U.S. Bank.

Q: Where are other Diocesan funds invested?

A: Other Diocesan funds are invested with the fixed income portfolio managed by the M&I Investment Management Corporation, with the equities portfolio managed by Denver, Geneva, Great Lakes, Logan Capital, M&I, M&I SRI, Optique, Rushmore, Sterling, UMB, Vanguard and Westcore. The M&I Investment Management Corporation supplies all custodial reporting functions.

Q: Which employees does the retirement plan cover?

A: The lay retirement plan benefit accruals were frozen as of December 31, 2006. The retirement plan covers all lay employees of the Diocese of La Crosse meeting eligibility requirements, and who were hired before January 1, 2005. The lay pension plan is a qualified defined benefit plan and is not reflected in the financial statements other than in the footnotes. A Diocesan 403(b) thrift plan was adopted as of January 1, 2007 to provide retirement benefits to all lay employees.

Q: What is the dollar amount of under-funding of the lay retirement plan as of December 31, 2009?

A: The unfunded actuarial present value of accumulated plan benefits as of December 31, 2009 is estimated to be $7.5 million.

Q: What is included in administration expense on the Statement of Activities?

A: Included in administration expense are the costs of operation of all Diocesan Curia offices.

Q: How are the annual budgets for the Diocesan Curia determined?

A: The Bishop, Vicar General/Moderator of the Curia and the Finance Officer meet with each department head to review his or her proposed budget. The budgets are then presented to the Diocesan Finance Council for their review and recommendation.

Q: What expenses are included in the fundraising section of the Statement of Activities?

A: All expenses associated with the Diocesan Annual Appeal and the Stewardship and Development office, such as salaries, occupancy costs, printing, and postage are included in the fundraising expense category on the Statement of Activities. Parish rebates of $536,447 were netted against Diocesan Annual Appeal revenue. Diocesan Annual Appeal distributions, in accordance with the case statement, are reflected in program service expense in the Statement of Activities.

Q: How can I learn more about the Diocese of La Crosse's Administration Offices finances?

A: The Diocese of La Crosse Finance Office can answer any questions you have about the financial report. You may write to the Finance Office at the Diocese of La Crosse, P.O. Box 4004, La Crosse, WI 54602-4004, or fax your questions to 608-787-8068. Please include your full name and mailing address in all requests.

If you would like a copy of the audited financial statements for fiscal year ended June 30, 2010, visit www.dioceseoflacrosse.com or request a copy by contacting the Finance Office directly.