

## FREQUENTLY ASKED QUESTIONS ABOUT THE DIOCESAN ADMINISTRATIVE OFFICES AUDIT

The following questions and answers regarding the financial statements have been compiled by the Finance Officer 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 Diocese of La Crosse Administrative Offices undergo an annual audit by an independent public accounting firm. Hawkins, Ash, Baptie & Company, LLP of La Crosse 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 Administrative Offices, including all Diocesan Curia offices. It includes the activity of the Diocesan Annual Appeal, and both House of Formation programs for vocations.

Among the institutions and agencies not included in the Statements are Diocesan parishes and Catholic schools, St. Ambrose Financial Services, Inc., 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 or women.

Q: Why is an audit 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 Diocese of La Crosse Administrative Offices. More importantly, it provides parishioners of the Diocese a chance to examine the financial situation of their Diocese.

Q: Why are the financial statements presented this way?

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

Q: What are the primary functions of the Diocese of La Crosse Administrative Offices?

A: The Diocesan Administrative Offices provide a number of pastoral services on behalf of Catholics in the Diocese. They include the following offices: Vocations; the Bishop's Office; Youth and Young Adult Ministry; Catechesis and Evangelization; Catholic Schools; Chancery and Archives; Communications and Public Relations; Consecrated Life; Holy Cross Diocesan Center (Maintenance and Housekeeping/Food Service); Family Life and Natural Family Planning; 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](http://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.

- Q: Did the Diocese of La Crosse Administrative Offices make money or lose money in the past fiscal year?
- A: In the fiscal year ending June 30, 2011, the Diocesan Administrative Offices had revenue of \$17,037,852, expenses of \$16,300,251; and net gains on investments of \$4,027,287, resulting in a change in net assets of \$4,764,888. The net assets of the Diocesan Administrative Offices were increased by that amount.
- Q: How is the increase of \$4,764,888 in net assets accounted for?
- A: The most significant factor to this increase in net assets for the 2010-2011 fiscal year is net realized and unrealized gains on investments of \$4,027,287, which is reflective of the overall market recovery as of June 30, 2011. Another factor is that overall revenue exceeded expenses for the Diocesan Offices by 4.5 percent, which was consistent with the prior year.
- Q: Where can I locate the activity of the Diocesan Administrative Offices?
- A: The Current Fund is the operational fund of the Diocese of La Crosse Administrative Offices and is shown as a supplemental schedule to the 2011 audited financial statements on the website.
- Q: What is the Interest in Net Assets of We Belong to Christ Campaign, Inc.?
- A: The \$1,701,152 represents the estimated amount that is expected to be received as of June 30, 2011 by the Diocesan Administrative 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 plan; 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 Offices. Under U.S. GAAP, Transfers of Assets to a Non-Profit Organization That Raises or Holds Contributions for Others, it is required that if a beneficiary (the Diocesan Administrative 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 are the end result if the Diocesan Administrative Offices were to liquidate all of its unrestricted assets and pay all of its liabilities. This is not cash in the bank. Property and equipment make up the bulk of the Diocesan Administrative Offices' unrestricted net assets.

Q: What are temporarily restricted net assets?

A: Contributions are 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 \$5,239,460 was released from temporarily restricted net assets due to distributing the \$4,584,000 per the 2009-2010 Diocesan Annual Appeal case statement; \$103,348 was used towards building renovations; and \$552,112 was distributed from WBTC to the Diocesan Administrative Offices per the case statement, which includes \$250,516 for the endowment funds. The Diocesan Annual Appeal case statement for the 2010-2011 pledge year is \$4,584,000. This money is temporarily restricted until it is distributed per the case statement the following fiscal year.

Q: What are permanently restricted net assets?

A: Permanently restricted contributions are contributions that are given by the donor with the intent that the amount given (the principal) will remain in perpetuity, unless the trust document states differently. The income generated by this principal is used to fund the purpose of the endowment. The trust document also governs how much of the 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 Administrative Offices are more than \$26.5 million, why doesn't the Diocese use more of this money for its ministries?

A: Many of the assets of the Diocesan Administrative Offices are in the form of property and restricted investments, which are not available for current operations. The Diocesan Administrative 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 Diocese of La Crosse Administrative Offices "own" (assets) and what the Diocese of La Crosse Administrative Offices "owe" (liabilities) at a specific point in time-in this case, as of June 30, 2011.

Q: What does the Statement of Activities tell me?

A: This statement outlines revenue and expenses related to the 12-month period from July 1, 2010, to June 30, 2011-that is, where revenues 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, Plant Fund, and Charitable Gift Annuity Fund.

Q: What is the Deposit and Loan Fund and how is it reflected in the Statement of Financial Position?

A: The Diocese of La Crosse established a Deposit and Loan Fund many years ago to provide 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 a loan to the 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 shared equitably the financial rewards and responsibilities of the Diocese. All surplus funds of all parishes and institutions of the Diocese are required to be on deposit with the Diocese of La Crosse. Interest is paid on deposits at the 90-day U.S. Treasury Bill rate. Upon approval of the Diocesan Bishop, loans are made to the parishes and institutions of the Diocese at a floating interest rate of  $\frac{3}{4}$  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 Diocesan Finance Council voted to keep the interest rates at .25 percent for deposits and 1 percent for loans until the 90-day Treasury Bill rates go above these base rates.

The Deposit and Loan fund also administered the cooperative insurance programs for the Diocese of La Crosse for all parishes and institutions.

The cumulative amount of monies from Diocesan entities deposited in the Deposit and Loan Fund at the Diocesan Administrative Offices was reflected as liabilities in the Statement of Financial Position and was transferred to St. Ambrose Financial Services, Inc. on March 31, 2011. Amounts loaned to parishes, schools and other Diocesan entities were reflected as accounts and notes receivable and were transferred to St. Ambrose Financial Services, Inc. on March 31, 2011. The balance was included in investments in the Statement of Financial Position and was transferred to St. Ambrose Financial Services, Inc. on March 31, 2011.

Q: Why were the assets, liabilities, and net assets of the Deposit and Loan Fund transferred to St. Ambrose Financial Services, Inc.?

A: To better coordinate the provision of administrative and financial services' support to the other organizations of the Diocese, St. Ambrose Financial Services, Inc. was formed as a separate legal corporation with its own Board of Directors as part of the corporate restructuring 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.

Service agreements were drawn up and executed between St. Ambrose Financial Services, Inc. and the 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 also established between St. Ambrose Financial Services, Inc. and the Diocese of La Crosse Administrative Offices.

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

A: This is a statement that 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 Diocese of La Crosse Administrative 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, 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, Catholic schools and individuals throughout the Diocese of La Crosse as outlined in the case statement. This includes 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 substantially funds 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: Which employees does the retirement plan cover?

A: The lay retirement plan defined-benefit accruals were frozen as of December 31, 2006. This retirement plan covers all lay employees of the Diocese of La Crosse meeting eligibility requirements and who were hired before January 1, 2006. 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 are the dollar amounts of under-funding of the lay retirement plan as of December 31, 2010?

A: The unfunded actuarial present value of accumulated plan benefits as of December 31, 2010, is estimated to be \$5.3 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 Vicars 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 its review and recommendations.

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 \$399,322 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 Administrative Offices finances?

A: The Finance Officer of the Diocese of La Crosse can answer any questions you have about the financial report. You may direct your questions to the attention of the Finance Officer 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, 2011, visit [www.dioceseoflacrosse.com](http://www.dioceseoflacrosse.com) or request a copy by writing to the Finance Officer at the address above.