DIOCESE OF SHREVEPORT

Notes to Combined Financial Statements

Fair Value of Financial Instruments — The carrying amount of cash and cash equivalents, contributions and other receivables, accrued interest receivable and other assets, accounts payable, accrued expenses and other liabilities, and deferred revenue and support approximates fair value because of the short maturity of these financial instruments. The carrying value of the mortgage note payable approximates its fair value since the interest rate on the loan is similar to the current rate that could be obtained for a similar borrowing.

Property, Plant, and Equipment — Property, plant, and equipment purchased by the Diocese are stated at cost and donated property, plant, and equipment are recorded at the estimated fair value at the time of donation. Plant and equipment are depreciated using the straight-line method over the estimated useful lives of the respective assets. A summary of depreciable lives follows:

Buildings	20 years
Furniture, fixtures and equipment	5 years
Automobiles and trucks	5 years
Computer equipment	5 years

Temporarily Restricted Net Assets — With respect to temporarily restricted net assets, the Diocese has adopted the following optional accounting policy as permitted by provisions of SFAS No. 116.

Release of Restrictions — The Diocese has adopted retroactively the provisions of SFAS No. 116 which require release from restrictions on temporarily restricted net assets upon incurrence of an expense when both unrestricted and temporarily restricted net assets are available for that purpose. Accordingly, the net asset balances as of June 30, 1995, have been restated, as detailed in footnote 2.

Contributions with Restrictions Met in the Same Year — Contributions received with donor-imposed restrictions that are met in the same year as received are reported as revenues of temporarily restricted net asset class, and a reclassification to unrestricted net assets is made to reflect the expiration of such restrictions.

Release of Restrictions on Net Assets for Acquisition of Land, Building and Equipment — Contributions of land, building and equipment without donor stipulations concerning the use of such long-lived assets are reported as revenues of the unrestricted net asset class. Contributions of cash or other assets to be used to acquire land, building and equipment without such donor stipulations concerning the use of such long-lived assets are reported as revenues of the temporarily restricted net asset class; the restrictions are considered to be released at the time of acquisition of such long-lived assets.

Funds Functioning as Endowment — The Diocese has designated funds for which the income earned on these funds is designated for specific uses. Because there is no donor imposed restriction, these funds are classified as unrestricted net assets, however, the Diocese restricts the use of the funds in the same manner as a donor would by creating an endowment. Similarly, some funds which could be spent on donor designated purposes are being held in endowment funds and are classified as temporarily restricted net assets.

(Continued)

DIOCESE OF SHREVEPORT

Schedule of Federal Awards

Year ended June 30, 1996

Table of Contents

KPMG Peat Marwick LLP

1900 Commercial National Tower
333 Texas Street
Shreveport, LA 71101-3692

RECEIVED
LEGISLATIVE AUDITOR
96 DEC 19 AM 9:08

October 10, 1996

CONFIDENTIAL

The Most Reverend William B. Friend
Bishop of the Diocese of Shreveport:

We have audited the financial statements of the Diocese of Shreveport (the "Diocese") for the year ended June 30, 1996, and have issued our report thereon dated October 10, 1996. In planning and performing our audit of the financial statements of the Diocese, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure. We have not considered the internal control structure since the date of our report.

During our audit, we noted certain matters involving the internal control structure and other operational matters that are presented for your consideration. These comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve the internal control structure or result in other operating efficiencies and are summarized as follows:

CHILD NUTRITION PROGRAM (CNP)

Fixed Assets — The CNP does not maintain a computerized fixed asset system. In addition, depreciation expense for assets purchased prior to fiscal 1996 was an estimated amount. Given the different locations and volume of items, we recommend the CNP consider implementing a computerized fixed asset system to which additions and retirements can be recorded and depreciation calculated.

Review and Approval — To evidence the controls currently in place, we recommend that all CNP cafeteria managers document their approval of invoiced amounts, in comparison to their order forms, by initialing the invoices before sending them to the Diocese for payment.

Dual Signatures — Of three disbursements tested which were in excess of $3,500, one check did not contain dual signatures in accordance with CNP policies. Steps should be taken to ensure all checks in excess of the prescribed amounts are signed by two parties.

* * * * *

This report is intended for the information of the Finance Council, management, the State of Louisiana Department of Education, the U.S. Department of Agriculture, and other federal agencies. However, this report is a matter of public record and its distribution is not limited.

We would like to take this opportunity to acknowledge the courtesy and assistance extended to us by the personnel of the Diocese during the course of our audit. If we can be of further assistance with any of the above matters, please call on us.

Very truly yours,

KPMG Peat Marwick LLP

KPMG

DIOCESE OF SHREVEPORT

Schedule of Federal Awards

June 30, 1996

(With Independent Auditors' Report Thereon)

KPMG Peat Marwick LLP

1900 Commercial National Tower
333 Texas Street
Shreveport, LA 71101-3692

Independent Auditors' Report on Supplementary Information — Schedule of Federal Awards

The Most Reverend William B. Friend
Bishop of the Diocese of Shreveport:

We have audited the financial statements of the Diocese of Shreveport as of and for the year ended June 30, 1996, and have issued our report thereon dated October 10, 1996. These financial statements are the responsibility of the Diocese's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. 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.

Our audit was made for the purpose of forming an opinion on the basic financial statements of the Diocese, taken as a whole. The accompanying schedule of federal awards is presented for purposes of additional analysis and is not a required part of the basic financial statements. The information in this schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

KPMG Peat Marwick LLP

October 10, 1996

5244

KPMG

RECEIVED
LEGISLATIVE AUDITOR

96 DEC 19 AM 9:08

DIOCESE OF SHREVEPORT

Financial Statements

June 30, 1996

(With Independent Auditors' Report Thereon)

DIOCESE OF SHREVEPORT

Table of Contents

June 30, 1996

KPMG Peat Marwick LLP

1900 Commercial National Tower
333 Texas Street
Shreveport, LA 71101-3692

Independent Auditors' Report

The Most Reverend William B. Friend
Bishop of the Diocese of Shreveport:

We have audited the accompanying statement of financial position of the Diocese of Shreveport as of June 30, 1996, and the related statement of activities and cash flows for the year then ended. These financial statements are the responsibility of the Diocese's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States. 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 the Diocese of Shreveport as of June 30, 1996, and the changes in net assets and its cash flows for the year then ended in conformity with generally accepted accounting principles.

As discussed in notes 1, 2, 4, and 8 to the financial statements, the Diocese adopted the provisions of Statements of Financial Accounting Standards Nos. 116, *Accounting for Contributions Received and Contributions Made*; 117, *Financial Statements of Not-for-Profit Organizations;* 106, *Employers' Accounting for Postretirement Benefits Other than Pensions;* and 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations* in 1996.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 10, 1996, on our consideration of the Diocese's internal control structure and a report dated October 10, 1996, on its compliance with laws and regulations.

KPMG Peat Marwick LLP

October 10, 1996

DIOCESE OF SHREVEPORT

Statement of Activities

Year ended June 30, 1996

Support and Revenue		Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Diocesan assessments	$	1,068,642	—	—	1,068,642
Diocesan service appeal		721,654	—	—	721,654
Contributions and donations		117,849	7,870	2,250	127,969
Nonprofit grants		223,000	—	—	223,000
State education subsistence		213,983	—	—	213,983
Federal and state grants		—	408,053	—	408,053
Investment income		280,903	54,054	—	334,957
Paid lunches		434,709	—	—	434,709
Other sources		336,244	16,994	—	353,238
Total support and revenue		3,396,984	486,971	2,250	3,886,205
Reclassifications					
Net assets released from restrictions		513,208	(513,208)	—	—
Total support, revenue, and reclassifications		3,910,192	(26,237)	2,250	3,886,205
Expenses					
Program services:					
Support of clergy and seminarians		270,960	—	—	270,960
Subsidies and grant distributions		465,246	—	—	465,246
Religious education		265,219	—	—	265,219
Catholic secondary and elementary education		320,111	—	—	320,111
Food service		863,377	—	—	863,377
Chancery operations		203,516	—	—	203,516
Family and youth ministry		88,737	—	—	88,737
Tribunal operations		51,566	—	—	51,566
Support services:					
Management and general		414,052	—	—	414,052
Development and communication		237,026	—	—	237,026
Depreciation		305,579	—	—	305,579
Total expenses		3,485,389	—	—	3,485,389
Change in net assets before cumulative effect of change in accounting principle		424,803	(26,237)	2,250	400,816
Cumulative effect at July 1, 1995 of change in accounting for post-retirement benefits other than pensions		(1,016,000)	—	—	(1,016,000)
Change in net assets		(591,197)	(26,237)	2,250	(615,184)
Net assets, beginning of year (as restated)		6,420,351	1,293,976	14,060	7,728,387
Net assets, end of year	$	5,829,154	1,267,739	16,310	7,113,203

See accompanying notes to financial statements.

DIOCESE OF SHREVEPORT

Notes to Combined Financial Statements

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. An allowance for uncollectible contributions receivable is provided based upon management's judgment including such factors as prior collection history, type of contribution and nature of fund-raising activity.

Income and realized and unrealized net gains on investments of endowment and similar funds are reported as follows:

- as increases in permanently restricted net assets if the terms of the gift require that they be added to the principal of a permanent endowment fund;
- as increases in temporarily restricted net assets if the terms of the gift impose restrictions on the use of the income;
- increases in unrestricted net assets in all other cases.

Contributed Services — Support arising from contributed services of certain personnel, which amounted to approximately $150,000 during the fiscal year ended June 30, 1996, has not been recognized in the accompanying financial statements. The computation of the value of the contribution of these services represents the difference between the stipends and other amounts paid to or on behalf of the religious personnel and the comparable compensation which would be paid to lay persons if lay persons were to occupy these positions.

Functional Allocation of Expenses — The costs of providing the various programs and other activities of the Diocese have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Income Taxes — For tax purposes, the Diocese is a tax-exempt organization as described in Section 501(c)(3) of the Internal Revenue Code. If the Diocese earns monies not in accordance with its primary purpose, such earnings, known as unrelated business income, are subject to federal income taxes.

Cash and Cash Equivalents — For purposes of financial presentation, the Diocese considers all certificates of deposit, with original maturities of less than ninety days, to be cash equivalents.

Investments — Investments are carried at fair market value. Real estate investments are stated primarily at current appraised value. The net realized and unrealized gains (losses) on investments are reflected in the statement of activities.

(Continued)

DIOCESE OF SHREVEPORT

Notes to Combined Financial Statements

June 30, 1996

(1) Organization and Summary of Significant Accounting Policies

Organization — The Diocese of Shreveport (the Diocese) is a private not-for-profit institution providing services at the Diocesan level of administration which are fiscally responsible to the Bishop of the Diocese. These financial statements also include activities of the Line Avenue partnership of which the Diocese owns 69.6%. The administrative office of the Diocese is located in Shreveport, Louisiana. The service area of the Diocese covers north Louisiana.

Various religious orders, lay societies, and religious organizations which operate within the Diocese, but which are not fiscally responsible to the Bishop, and parishes and their related institutions, have not been included in the accompanying financial statements.

Basis of Financial Statements — The accompanying financial statements have been prepared on the accrual basis in accordance with generally accepted accounting principles for not-for-profit organizations. In 1996, the Diocese adopted Statement of Financial Accounting Standards No. 116, *Accounting for Contributions Received and Contributions Made*, (SFAS No. 116) and Statement of Financial Accounting Standards No. 117, *Financial Statements for Not-for-Profit Organizations*.

Under these provisions, net assets and revenues, expenses, gains and losses are classified based upon the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Diocese and changes therein are classified and reported as follows:

Unrestricted net assets — Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets — Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Diocese and/or passage of time.

Permanently restricted net assets — Net assets subject to donor-imposed stipulations that they be maintained permanently by the Diocese. Generally, the donors of these assets permit the Diocese to use all of, or part of, the income earned on the related investments for general or specific purposes.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expiration of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) is reported as reclassifications between the applicable classes of net assets. A policy footnote follows on the Diocese's method of reporting temporarily restricted net assets.

(Continued)

DIOCESE OF SHREVEPORT

Schedule of Federal Awards

Year ended June 30, 1996

Grant Title	Federal CFDA Number	Grant Number	Grant Revenues Received Cash Basis	Deferred Revenue At June 30, 1995	Deferred Revenue At June 30, 1996	Grant Revenues Accrual Basis	Miscellaneous Other Revenue	Federal Expenditures
U.S. Department of Agriculture								
Pass-through State Department of Education:								
National School Lunch Program (1)	10.555	7CFR	$ 147,627	—	—	147,627	—	162,993
School Breakfast Program	10.553	7CFR	16,326	—	—	16,326	—	18,024
Pass-through State Department of Agriculture and Forestry - Food Distribution	10.550	N/A	58,648	—	—	58,648	—	63,221
U.S. Federal Emergency Management Agency - Emergency Food and Shelter	N/A	10-3564-00 10-3612-00	20,349	—	—	20,349	—	55,470
			$ 242,950	—	—	242,950	—	299,708

Note (1) - Major federal financial award.

See accompanying notes to schedule of federal awards.

In addition to the changes described above for 1996, the change in net assets was decreased by $41,000 as a result of adopting SFAS 117, primarily resulting from the timing of recognition of deferred support and revenue and increased by $90,000 as a result of adopting SFAS 87.

(3) Contributions and Other Receivables

Contributions and other receivables are summarized as follows at June 30, 1996:

Unconditional contributions expected to be collected in less than one year	$ 201,084
Other	56,328
	$ 257,412

Other receivables represents an assessment of a portion of the receipts of the parishes within the Diocese. The assessments are based on a percentage of taxable income as reported on the parish quarterly financial reports and are payable to the Diocese monthly.

(4) Investments

In 1996, the Diocese adopted Statement of Financial Accounting Standards No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations* (SFAS 124), which requires marketable securities with readily available market values and all debt securities to be carried at fair value. The cumulative effect of the change in method of accounting for investments is reported in the 1996 statement of financial activity. The effect of adopting SFAS 124 on changes in net assets as of June 30, 1995, and investment income for the year ended June 30, 1996 were increases of $155,510 and $36,604, respectively.

The cost and market values of investments by type other than land at June 30, 1996, are as follows:

	Cost	Market Value
U.S. government obligations	$ 314,727	319,445
Common trust funds	303,411	520,486
Corporate stocks	52,388	57,951
Corporate bonds	713,925	700,629
Certificates of deposit with original terms in excess of ninety days	588,634	588,422
Mutual funds	440,719	410,234
Investments with Catholic Foundation of North-Central Louisiana, Inc.	356,399	365,150
Cash and cash equivalents (a)	521,739	521,739
	$ 3,291,942	3,484,056

(a) At June 30, 1996, there is $521,739 of temporarily and permanently restricted cash and cash equivalents classified as long-term investments.

DIOCESE OF SHREVEPORT

Statement of Financial Position

June 30, 1996

Assets	
Cash and cash equivalents	$ 2,347,579
Contributions and other receivables	257,412
Accrued interest receivable and other assets	47,445
Long-term investments	3,484,056
Land held for investment	294,000
Prepaid pension cost	29,611
Plant assets (net)	2,210,091
Total assets	$ 8,670,194
Liabilities and Net Assets	
Liabilities:	
Accounts payable, accrued expenses, and other liabilities	$ 221,219
Funds held for others	36,312
Deferred revenue and support	3,526
Mortgage note payable	203,917
Accrued post retirement benefits	1,061,000
Minority interest in partnership	31,017
Total liabilities	1,556,991
Net assets:	
Unrestricted	5,829,154
Temporarily restricted	1,267,739
Permanently restricted	16,310
Total net assets	7,113,203
Total liabilities and net assets	$ 8,670,194

See accompanying notes to financial statements.

KPMG Peat Marwick LLP

1900 Commercial National Tower
333 Texas Street
Shreveport, LA 71101-3692

Report on Compliance With Specific Requirements Applicable to Major Programs

The Most Reverend William B. Friend
Bishop of the Diocese of Shreveport:

We have audited the financial statements of the Diocese of Shreveport as of and for the year ended June 30, 1996, and have issued our report thereon dated October 10, 1996.

We have also audited the Diocese of Shreveport's compliance with the requirements governing types of services allowed or unallowed, eligibility, and claims for advances and reimbursements that are applicable to its major federal program, which is identified in the accompanying schedule of federal awards, for the year ended June 30, 1996. The management of the Diocese of Shreveport is responsible for the Diocese's compliance with those requirements. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit of compliance with those requirements in accordance with generally accepted auditing standards; *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Circular A-133, *Audits of Institutions of Higher Education and Other Nonprofit Institutions*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the Diocese of Shreveport's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the Diocese of Shreveport complied, in all material respects, with the requirements governing types of services allowed or unallowed, eligibility, and claims for advances and reimbursements that are applicable to its major federal program for the year ended June 30, 1996.

This report is intended for the information of the Finance Council, management, the State of Louisiana Department of Education, the U.S. Department of Agriculture, and other federal agencies. This report is a matter of public record and its distribution is not limited.

KPMG Peat Marwick LLP

October 10, 1996

DIOCESE OF SHREVEPORT

Notes to Combined Financial Statements

The following table, which considers all eligible employees and retirees of the Diocese, presents the plans' funded status at July 1, 1995 and June 30, 1996:

		Medical	Supplemental Pay	Total
Accumulated postretirement benefit obligation at July 1, 1995	$	284,000	732,000	1,016,000
Postretirement benefit cost for 1996		29,000	68,000	97,000
Benefit payments made in 1996		12,000	40,000	52,000
Total accrued post-retirement benefit cost at June 30, 1996	$	301,000	760,000	1,061,000

Net periodic postretirement benefit cost for 1996 includes the following components:

		Medical	Supplemental Pay	Total
Service cost	$	10,000	18,000	28,000
Interest cost		19,000	50,000	69,000
Net periodic postretirement benefit cost	$	29,000	68,000	97,000

The postretirement benefit cost associated with supplemental pay was calculated under an SFAS 87 methodology similar to that of the defined benefit pension plan.

The weighted average discount rate used in determining the accumulated postretirement benefit obligation was 7.0 percent at June 30, 1996.

(9) Net Assets Released

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

Purpose restrictions accomplished:		
Food service	$	394,558
Emergency food and shelter		55,470
Cemetery maintenance		40,317
Clergy support		22,863
Total net assets released	$	513,208

(Continued)

DIOCESE OF SHREVEPORT

Notes to Combined Financial Statements

The following table sets forth the plan's funded status and amounts recognized in the Diocese's financial statements at June 30, 1996:

Actuarial present value of benefit obligations:	
Vested benefit obligation	$ (971,000)
Accumulated benefit obligation	$ (971,000)
Projected benefit obligation for service rendered to date	(971,000)
Plan assets at fair value	923,611
Projected benefit obligation in excess of plan assets	(47,389)
Unrecognized net loss	77,000
Net prepaid pension cost	$ 29,611

Net pension expense for the year ended June 30, 1996, included the following components:

Service cost - benefits earned during the period	$ 24,000
Interest cost on projected benefit obligation	64,000
Actual return on plan assets (gain) loss	9,000
Net amortization and deferral	(77,000)
Net periodic pension expense	$ 20,000

Assumptions used in accounting for the pension plan as of June 30, 1996, were:

Discount rates	7.0%
Rates of increase in compensation levels	not applicable
Expected long-term rate of return on assets	7.0%

(8) Other Postretirement Benefit Plans

In addition to the defined benefit plan, the Diocese also provides certain supplemental retirement benefits, including supplemental retirement pay at $400 per month per retiree and $5,000 at date of retirement and health care costs in excess of Medicare benefits, for retired clergy.

Effective July 1, 1995, the Diocese adopted Statement of Financial Standards No. 106, *Employers' Accounting for Postretirement Benefits Other than Pensions* (SFAS 106), which establishes a new accounting principle for the cost of retiree health care and other postretirement benefits. Prior to 1995, the Diocese recognized these benefits on the pay-as-you-go method (i.e., cash basis). The Diocese's policy is to fund the cost of these benefits in amounts determined at the discretion of management. The cumulative effect of the change in method of accounting for postretirement benefits other than pensions is reported in the 1996 statement of financial activity.

The effect of adopting SFAS 106 on changes in net assets as of June 30, 1995, and the net periodic postretirement benefit cost for the year ended June 30, 1996 was a decrease of $1,016,000 and an increase of $45,000, respectively.

(Continued)

At June 30, 1996, the Diocese held a 69.6% ownership interest in a partnership whose primary asset is the land and building in which the Diocese is officed. Balances and financial activities of the partnership have been consolidated in the accompanying statements. Tribunal offices, the +GRECO Institute, classrooms, and other Diocesan functions are also housed within the building. The Diocese has an operating lease with the partnership related to this building which requires lease payments of $139,260 per year through the year 2000. The building is financed by a note payable to a mortgage company totaling $203,917 at June 30, 1996, which is being repaid at $5,087 per month including interest at 9.125%.

(6) Insurance

The Diocese maintains its own Diocesan-wide insurance program for property and liability insurance whereby insurance coverage on all Diocesan and parish property, liability, and workmen's compensation is purchased through Arthur J. Gallagher & Co. The individual parishes remit to the Diocese premiums based on their proportionate cost of insurance. The Diocese, in turn, purchases insurance from the agency. The agency acts as a service agent responsible for administering all claims falling within the Diocese's self-insured retention.

(7) Employee and Priests' Retirement Plans

The Diocese sponsors an employer Section 403(b) tax deferred annuity plan for all regular full-time lay employees of the Diocese and its agencies, parishes, schools, etc. The plan is administered by Mutual of America. Contributions to the plan are made by employer units and are based on a percentage of the annual compensation paid to the employees. The employee is fully vested upon credit of the employer contribution to the employee's individual account.

The Diocese sponsors a defined benefit retirement plan which provides retirement benefits for qualifying Diocesan priests. Each priest electing coverage under the Plan receives a normal retirement benefit of a life annuity equal to $600 per month upon reaching the normal retirement age of 70. The Diocese's funding policy, as established by the Bishop of the Diocese, is to fund the amounts required based upon sound actuarial valuations. The Priests' Retirement Board of the Diocese of Shreveport, as trustee, has the responsibility of supervising the managing and investing of the funds and the making of retirement payments as set forth in the plan. The Priests' Retirement Board consists of five priests in the Diocese as elected by the priests in the Diocese and two lay persons appointed by the Bishop.

(Continued)

DIOCESE OF SHREVEPORT

Notes to Combined Financial Statements

The Catholic Foundation of North-Central Louisiana, Inc. (the Foundation) is a separate organization with an independent board which makes investments for Catholic entities who choose to deposit funds with the Foundation. The Foundation's investments are comprised primarily of United States government and United States government agency securities.

For the year ended June 30, 1996, investment income in the Statement of Activities includes $36,604 of net unrealized gains on investments.

(5) Plant Assets

The composition of plant assets at June 30, 1996, is as follows:

Holy Angels Residential Facility - land, buildings, and improvements	$ 4,098,360
Blessed Sacrament/Notre Dame - land and buildings	1,189,439
Catholic Center - land and buildings	1,149,405
Christ the King Student Center - land and buildings	579,378
Loyola College Prep School - land and buildings	1,501,000
St. Frederick High School - land and buildings	1,609,000
Little Flower - land and buildings	60,634
E. Don Piatt Center - land and buildings	168,000
Catholic Center - improvements, furniture, and fixtures	595,388
Child Nutrition Program - furniture and equipment	495,155
Vehicles	43,202
Real estate	181,275
	11,670,236
Accumulated depreciation	9,460,145
Net plant assets	$ 2,210,091

Certain land and buildings being utilized by Holy Angels in its operations are owned by the Diocese. Holy Angels leases these assets from the Diocese under an operating lease for which payment totaled approximately $64,000 for fiscal 1996. The lease is renewable annually at the option of the lessee.

Certain land and buildings (formerly Notre Dame High School) being utilized by the congregation of Our Lady of the Blessed Sacrament Church (Blessed Sacrament) are owned by the Diocese. Blessed Sacrament leases these assets from the Diocese under an operating lease. The lease is renewable annually at the option of the lessee for $1.00 per year. The Diocese also owns certain other property and facilities which are made available for use to Loyola College Prep, St. Frederick High School, the E. Don Piatt Student Center at Louisiana Tech University, and the Christ the King Student Center at Northeast Louisiana University. The operation, maintenance, and improvement of the facilities is the responsibility of the respective Diocesan agency. No formal lease or use agreements exist for these facilities, however, no change in the current relationship is anticipated.

(Continued)

DIOCESE OF SHREVEPORT

Notes to Combined Financial Statements

(2) Restatement and Reclassification of Prior Year Amounts

Beginning fund balances were restated for the adoption of SFAS Nos. 116, 117, and 124. Following is a reconciliation of total June 30, 1995, fund balances as previously reported to the restated net asset balances for the same period:

	Net Asset Classification			
Fund Balances	Unrestricted net assets	Temporarily restricted net assets	Permanently restricted net assets	Total
Net investment in plant fund	$ 2,283,599	—	—	2,283,599
Endowment fund (c)	858,656	783,502	14,060	1,656,218
Current unrestricted fund	2,167,680	—	—	2,167,680
Current restricted fund	334,178	—	—	334,178
Subtotal	5,644,113	783,502	14,060	6,441,675
Restatement				
From deferred revenue to net assets	694,032	336,825	—	1,030,857
Recognition of pledges receivable	228,530	—	—	228,530
Unrealized gains on investments	151,184	4,326	—	155,510
To accurately reflect pension asset (a)	(297,508)	—	—	(297,508)
To record St. Joseph Cemetery Fund (b)	—	169,323	—	169,323
Net assets as restated and reclassified	$ 6,420,351	1,293,976	14,060	7,728,387

(a) During 1996, the Diocese obtained an actuarial valuation on the basis of Statement of Financial Accounting Standards No. 87, (SFAS 87), which indicated the Plan was adequately funded at June 30, 1995. The Diocese adopted the provisions of SFAS 87 effective July 1, 1995 and, therefore, a correcting entry of $297,508 was made to reduce beginning net assets at June 30, 1995.

(b) During 1996, the Diocese became aware of net assets totaling $169,323 at June 30, 1995, associated with the St. Joseph Cemetery that were determined to be temporarily restricted net assets of the Diocese. This amount is included in the balance of temporarily restricted net assets at June 30, 1995.

(c) In connection with the implementation of SFAS 117, it was determined that the net assets associated with the Holy Angels Endowment totaling $7,532,947 at June 30, 1995, should not be reported in the financial statements of the Diocese and were therefore excluded.

(Continued)

DIOCESE OF SHREVEPORT

Statement of Cash Flows

Year ended June 30, 1996

Cash flows from operating activities:	
Change in net assets	$ (615,184)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Cumulative effect of changes in accounting principles	1,016,000
Depreciation	305,579
Net unrealized gain on investments	(36,604)
Increase in postretirement benefit cost	45,000
Loss on disposal of asset	14,534
Contribution of partnership interest	(9,453)
Amortization of premium on investment	3,184
Decrease in receivables	101,035
Decrease in accrued interest receivable and other	1,557
Increase in prepaid pension cost	(29,611)
Increase in accounts payable and accrued expenses	93,649
Decrease in deferred revenue	(62,078)
Contributions restricted for long-term investment	(2,250)
Collections and receipts of funds held for others	113,183
Distributions to other Catholic organizations	(101,645)
Minority interest in income of partnership	15,625
Net cash provided by operating activities	852,521
Cash flows from investing activities:	
Purchases of investments	(1,135,639)
Maturities of investments	1,183,532
Net increase in cash and cash equivalents restricted for long-term purposes	(126,689)
Purchase of plant assets	(124,728)
Net cash used by investing activities	(203,524)
Net cash provided by financing activities:	
Proceeds from contributions restricted for investment in endowments	2,250
Payments on mortgage note payable	(40,407)
Distribution to minority interest in partnership	(25,009)
Net cash used by financing activities	(63,166)
Net increase in cash and cash equivalents	585,831
Cash and cash equivalents, beginning of year (as restated)	1,761,748
Cash and cash equivalents, end of year	$ 2,347,579
Supplemental cash flow information - interest paid on mortgage note	$ 20,632

See accompanying notes to financial statements.

Uses of Estimates — Management of the Diocese has made a number of estimates and assumptions relating to the assets and liabilities and the disclosure of contingent asset and liabilities to prepare these financial statements in conformity with generally accepted accounting principles. Actual results could differ from those estimates.

Programs — The Diocese carries out its mission through the following programs:

Support of Clergy and Seminarians — includes salaries, fringe benefits, stipends, seminary tuition and housing, post graduate studies and professional support.

Subsidies and grant distribution — includes all Diocesan subsidies to parishes, missions, schools, and other Catholic organizations including grant designations.

Religious Education — includes Diocesan support of adult religious education programs through the Greco Institute and the Office of Catechetics and Worship.

Catholic Secondary and Elementary Education — includes support of the Catholic Schools Office and programs supporting Catholic schools within the Diocese.

Food Service — includes cost of the Catholic Schools Child Nutrition program.

Chancery Operations — includes the Offices of the Bishop, Vicar General, and Chancery.

Family and Youth Ministry — includes the Diocesan support of programs designed for family life and the youth of the Diocese administered by the Office of Social Ministry and the Office of Youth and Young Adult Ministries.

Tribunal Operations — includes the costs associated with the Office of the Judicial Vicar.

Management and General — includes the Office of Business Affairs, the operation of the Catholic Center, Diocesan vehicles, and St. Joseph Cemetery.

Development and Communication — includes the cost to publish the Catholic Connection, coordinate the annual Stewardship Appeal and other Diocesan development and planned giving projects administered by the Offices of Development and Communication.

(Continued)

KPMG Peat Marwick LLP

1900 Commercial National Tower
333 Texas Street
Shreveport, LA 71101-3692

Report on Compliance With the General Requirements

The Most Reverend William B. Friend
Bishop of the Diocese of Shreveport:

We have audited the financial statements of the Diocese of Shreveport as of and for the year ended June 30, 1996, and have issued our report thereon dated October 10, 1996.

We have applied procedures to test the Diocese of Shreveport's compliance with the following requirements applicable to its federal programs, which are identified in the accompanying schedule of federal awards, for the year ended June 30, 1996: political activity, civil rights, cash management, federal financial reports, allowable costs/cost principles, drug-free workplace, and administrative requirements including property management system and procurement system.

Our procedures were limited to the applicable procedures described in the Office of Management and Budget's *Compliance Supplement for Audits of Institutions of Higher Learning and Other Nonprofit Institutions.* Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the Diocese of Shreveport's compliance with the requirements listed in the preceding paragraph. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the second paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that the Diocese of Shreveport has not complied, in all material respects, with those requirements.

This report is intended for the information of the Finance Council, management, the State of Louisiana Department of Education, the U.S. Department of Agriculture, and other federal agencies. This report is a matter of public record and its distribution is not limited.

KPMG Peat Marwick LLP

October 10, 1996

DIOCESE OF SHREVEPORT

Notes to Schedule of Federal Awards

Year ended June 30, 1996

(1) General

The accompanying Schedule of Federal Awards presents the activity of all federal awards of the Diocese of Shreveport (the Diocese). The reporting entity is defined in note 1 to the Diocese's financial statements. Federal awards received directly from federal agencies, as well as federal awards passed through other government agencies, are included on the schedule.

(2) Basis of Accounting

The accompanying Schedule of Federal Awards is presented using the accrual basis of accounting, which is described in note 1 to the Diocese's financial statements.

(3) Relationship to Financial Statements

Federal awards are reported in the Diocese's financial statements as Federal and state grants in the support and revenue section of the Statement of Financial Activity.

(4) Relationship to Federal Financial Reports

Amounts reported in the accompanying schedule agree with the amounts reported in the related federal financial reports.

(5) Noncash Programs

Commodities received, which are noncash revenues, are valued using prices provided by the U.S. Department of Agriculture.

However, we noted certain matters involving the internal control structure and its operation that we have reported to the management of the Diocese, in a separate letter dated October 10, 1996.

This report is intended for the information of the Finance Council, management, the State of Louisiana Department of Education, the U.S. Department of Agriculture, and other federal agencies. This report is a matter of public record and its distribution is not limited.

KPMG Peat Marwick LLP

October 10, 1996

For the purpose of this report, we have classified the significant internal control structure policies and procedures used in administering federal programs in the following categories:

Cycles of Diocese Activities
- Revenue/receipts
- Purchases/disbursements
- Payroll

General requirements
- Political activity
- Civil rights
- Cash management
- Federal financial reports
- Allowable costs/cost principles
- Drug-free workplace
- Administrative requirements
  - Property management
  - Procurement

Specific requirements
- Types of services
- Eligibility

Claims for advances and reimbursements

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

During the year ended June 30, 1996, the Diocese of Shreveport expended 54.4% of its total federal awards under one major program.

We performed tests of controls, as required by OMB Circular A-133, to evaluate the effectiveness of the design and operation of internal control structure policies and procedures that we considered relevant to preventing or detecting material noncompliance with specific requirements, general requirements, and requirements governing claims for advances and reimbursements that are applicable to the Diocese's major federal program, which is identified in the accompanying schedule of federal awards. Our procedures were less in scope than would be necessary to render an opinion on these internal control structure policies and procedures. Accordingly, we do not express such an opinion.

Our consideration of the internal control structure policies and procedures used in administering federal awards would not necessarily disclose all matters in the internal control structure that might constitute material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that noncompliance with laws and regulations that would be material to a federal awards program may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operations that we consider to be material weaknesses as defined above.

KPMG Peat Marwick LLP

1900 Commercial National Tower
333 Texas Street
Shreveport, LA 71101-3692

Report on Internal Control Structure Used in Administering Federal Awards

The Most Reverend William B. Friend
Bishop of the Diocese of Shreveport:

We have audited the financial statements of the Diocese of Shreveport as of and for the year ended June 30, 1996, and have issued our report thereon dated October 10, 1996. We have also audited the Diocese of Shreveport's compliance with requirements applicable to major federal programs and have issued our report thereon dated October 10, 1996.

We conducted our audits in accordance with generally accepted auditing standards; *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Circular A-133, *Audits of Institutions of Higher Education and Other Nonprofit Institutions.* Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and about whether the Diocese of Shreveport complied with laws and regulations, noncompliance with which would be material to a major federal program.

In planning and performing our audits for the year ended June 30, 1996, we considered the Diocese of Shreveport's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinions on the Diocese of Shreveport's financial statements and on its compliance with requirements applicable to major programs and to report on the internal control structure in accordance with OMB Circular A-133. This report addresses our consideration of internal control structure policies and procedures relevant to compliance with requirements applicable to federal programs. We have addressed internal control structure policies and procedures relevant to our audit of the financial statements in a separate report dated October 10, 1996.

The management of the Diocese of Shreveport is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of the financial statements in accordance with generally accepted accounting principles, and that federal programs are managed in compliance with applicable laws and regulations. Because of inherent limitations in any internal control structure, errors, irregularities, or instances of noncompliance may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

KPMG Peat Marwick LLP

1900 Commercial National Tower
333 Texas Street
Shreveport, LA 71101-3692

Report on Compliance With Laws, Regulations, Contracts, and Grants Based on an Audit of the Financial Statements Performed in Accordance With *Government Auditing Standards*

The Most Reverend William B. Friend
Bishop of the Diocese of Shreveport:

We have audited the financial statements of the Diocese of Shreveport as of and for the year ended June 30, 1996, and have issued our report thereon dated October 10, 1996.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to the Diocese of Shreveport is the responsibility of the Diocese of Shreveport's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Diocese of Shreveport's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards*.

This report is intended for the information of the Finance Council, management, the State of Louisiana Department of Education, the U.S. Department of Agriculture, and other federal agencies. This report is a matter of public record and its distribution is not limited.

KPMG Peat Marwick LLP

October 10, 1996

period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses as defined above.

However, we noted certain matters involving the internal control structure and its operation that we have reported to the management of the Diocese, in a separate letter dated October 10, 1996.

This report is intended for the information of the Finance Council, management, the State of Louisiana Department of Education, the U.S. Department of Agriculture, and other federal agencies. However, this report is a matter of public record and its distribution is not limited.

KPMG Peat Marwick LLP

October 10, 1996

KPMG Peat Marwick LLP

1900 Commercial National Tower
333 Texas Street
Shreveport, LA 71101-3692

Report on the Internal Control Structure Based on an Audit of the Financial Statements Performed in Accordance With *Government Auditing Standards*

The Most Reverend William B. Friend
Bishop of the Diocese of Shreveport:

We have audited the financial statements of the Diocese of Shreveport as of and for the year ended June 30, 1996, and have issued our report thereon dated October 10, 1996.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The management of the Diocese of Shreveport is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of the financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the financial statements of the Diocese of Shreveport for the year ended June 30, 1996, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely

KPMG Peat Marwick LLP

1900 Commercial National Tower
333 Texas Street
Shreveport, LA 71101-3692

Report on Compliance With Specific Requirements Applicable to Nonmajor Program Transactions

The Most Reverend William B. Friend
Bishop of the Diocese of Shreveport:

We have audited the financial statements of the Diocese of Shreveport as of and for the year ended June 30, 1996, and have issued our report thereon dated October 10, 1996.

In connection with our audit of the financial statements of the Diocese of Shreveport, and with our consideration of the Diocese of Shreveport's internal control structure used to administer federal programs, as required by Office of Management and Budget's (OMB) Circular A-133, *Audits of Institutions of Higher Education and Other Nonprofit Institutions*, we selected certain transactions applicable to certain nonmajor federal programs for the year ended June 30, 1996. As required by OMB Circular A-133, we performed auditing procedures to test compliance with the requirements governing eligibility that are applicable to those transactions. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the Diocese of Shreveport's compliance with these requirements. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of our procedures disclosed no material instances of noncompliance with the requirements listed in the preceding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that the Diocese of Shreveport had not complied, in all material respects, with those requirements.

This report is intended for the information of the Finance Council, management, the State of Louisiana Department of Education, the U.S. Department of Agriculture, and other federal agencies. This report is a matter of public record and its distribution is not limited.

KPMG Peat Marwick LLP

October 10, 1996