

**ARCHDIOCESE OF MILWAUKEE**

Milwaukee, Wisconsin

June 30, 2008 and 2007

**FINANCIAL STATEMENTS**

Including Independent Auditors' Report

# ARCHDIOCESE OF MILWAUKEE

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## INDEPENDENT AUDITORS' REPORT

Most Reverend Timothy M. Dolan  
Archbishop of Milwaukee  
Milwaukee, Wisconsin

We have audited the accompanying statements of financial position of the Archdiocese of Milwaukee as of June 30, 2008 and 2007, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Archdiocese of Milwaukee's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide 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 Archdiocese of Milwaukee as of June 30, 2008 and 2007, and the change in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Virchow, Krause & Company, LLP*

Milwaukee, Wisconsin  
October 31, 2008

# ARCHDIOCESE OF MILWAUKEE

## STATEMENTS OF FINANCIAL POSITION June 30, 2008 and 2007

<b>ASSETS</b>		
	2008	2007
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 4,018,420	\$ 1,114,180
Short-term investments	8,776,625	9,044,746
Receivables	7,085,095	5,184,735
Other assets	513,568	598,697
<b>Total Current Assets</b>	<b>20,393,708</b>	<b>15,942,358</b>
Ground burial and mausoleum crypt sites	7,523,930	8,130,966
Property and equipment, net	5,206,964	5,337,334
Assets designated for the future care of cemeteries and mausoleums, primarily cash and investments	-	59,865,084
Beneficial interest in Cemetery Perpetual Care Trust	55,638,333	-
<b>INVESTMENTS AND OTHER ASSETS</b>		
Long-term investments	15,541,429	18,126,983
Mortgages receivable	42,708	51,250
Other assets	300,498	295,966
<b>Total Investments and Other Assets</b>	<b>15,884,635</b>	<b>18,474,199</b>
<b>TOTAL ASSETS</b>	<b>\$ 104,647,570</b>	<b>\$ 107,749,941</b>

### **LIABILITIES AND NET ASSETS**

<b>CURRENT LIABILITIES</b>		
Note payable	\$ 4,650,000	\$ 4,650,000
Current maturities of charitable gift annuities	98,562	102,924
Accounts payable	2,476,600	3,192,372
Contributions payable	3,176,230	2,467,510
Collections to be forwarded to other entities	1,856,479	2,114,358
<b>Total Current Liabilities</b>	<b>12,257,871</b>	<b>12,527,164</b>
Invested funds held for others	3,064,839	2,556,770
Charitable gift annuities	554,246	595,226
Accrued post-retirement and pension benefits	11,265,527	11,123,851
Deferred revenue	2,647,413	2,373,622
Long term portion of contributions payable	1,770,537	2,802,393
<b>Total Liabilities</b>	<b>31,560,433</b>	<b>31,979,026</b>
<b>NET ASSETS</b>		
Unrestricted		
Undesignated operating (deficit)	2,263,382	(95,068)
Designated	64,246,200	68,922,829
<b>Total unrestricted</b>	<b>66,509,582</b>	<b>68,827,761</b>
Temporarily restricted	2,861,189	3,226,788
Permanently restricted	3,716,366	3,716,366
<b>Total Net Assets</b>	<b>73,087,137</b>	<b>75,770,915</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 104,647,570</b>	<b>\$ 107,749,941</b>

See accompanying notes to financial statements.

# ARCHDIOCESE OF MILWAUKEE

## STATEMENTS OF ACTIVITIES Years Ended June 30, 2008 and 2007

	Unrestricted	Temporarily Restricted	Permanently Restricted	2008 Total	Unrestricted	Temporarily Restricted	Permanently Restricted	2007 Total
<b>REVENUE, GAINS, AND OTHER SUPPORT</b>								
Contributions	\$ 8,704,076	\$ 544,405	\$ -	\$ 9,248,481	\$ 10,178,044	\$ 420,605	\$ -	\$ 10,598,649
Parish assessments	5,901,807	-	-	5,901,807	5,690,142	-	-	5,690,142
Tuitions and fees	832,483	-	-	832,483	653,405	-	-	653,405
Various activities and special programs	192,016	-	-	192,016	151,992	-	-	151,992
Cemetery and mausoleum sales	4,489,405	-	-	4,489,405	4,804,363	-	-	4,804,363
Investment income	2,374,736	179,595	-	2,554,331	3,128,017	327,482	-	3,455,499
Net realized and unrealized gains (losses)	(5,418,778)	-	-	(5,418,778)	5,972,116	-	-	5,972,116
Gain on sale of property and equipment	200,004	-	-	200,004	9,801	-	-	9,801
Miscellaneous revenues	1,624,171	-	-	1,624,171	1,979,732	-	-	1,979,732
Change in beneficial interest in trust	1,206,259	-	-	1,206,259	-	-	-	-
Net assets released from restrictions	1,089,599	(1,089,599)	-	-	218,036	(218,036)	-	-
<b>Total Revenue, Gains and Other Support</b>	<b>21,195,778</b>	<b>(365,599)</b>	<b>-</b>	<b>20,830,179</b>	<b>32,785,648</b>	<b>530,051</b>	<b>-</b>	<b>33,315,699</b>
<b>EXPENSES</b>								
Payroll and fringe benefits	12,389,592	-	-	12,389,592	12,063,901	-	-	12,063,901
Repairs, maintenance, insurance, utility costs	1,948,425	-	-	1,948,425	1,886,441	-	-	1,886,441
Travel and education	404,462	-	-	404,462	334,460	-	-	334,460
Data processing	67,574	-	-	67,574	40,504	-	-	40,504
Bad debts	369,959	-	-	369,959	-	-	-	-
Supplies	1,266,580	-	-	1,266,580	1,258,738	-	-	1,258,738
Interest expense	461,352	-	-	461,352	394,337	-	-	394,337
Food service	18,517	-	-	18,517	190,001	-	-	190,001
Assessments	438,550	-	-	438,550	365,388	-	-	365,388
Cost of lot and crypt sales	994,503	-	-	994,503	1,045,885	-	-	1,045,885
Professional services	2,800,686	-	-	2,800,686	5,229,695	-	-	5,229,695
Scholarships and donations	1,516,336	-	-	1,516,336	8,247,753	-	-	8,247,753
Miscellaneous expenses	907,901	-	-	907,901	804,057	-	-	804,057
Impairment of leasehold improvements	-	-	-	-	674,178	-	-	674,178
Depreciation	435,169	-	-	435,169	417,581	-	-	417,581
Pension related changes other than net periodic pension cost	(505,649)	-	-	(505,649)	156,011	-	-	156,011
<b>Total Expenses</b>	<b>23,513,957</b>	<b>-</b>	<b>-</b>	<b>23,513,957</b>	<b>33,108,930</b>	<b>-</b>	<b>-</b>	<b>33,108,930</b>
<b>Change in net assets before cumulative effect</b>	<b>(2,318,179)</b>	<b>(365,599)</b>	<b>-</b>	<b>(2,683,778)</b>	<b>(323,282)</b>	<b>530,051</b>	<b>-</b>	<b>206,769</b>
Cumulative effect of change in accounting principle	-	-	-	-	4,846,897	-	-	4,846,897
<b>CHANGE IN NET ASSETS</b>	<b>(2,318,179)</b>	<b>(365,599)</b>	<b>-</b>	<b>(2,683,778)</b>	<b>4,523,615</b>	<b>530,051</b>	<b>-</b>	<b>5,053,666</b>
NET ASSETS - Beginning of Year	68,827,761	3,226,788	3,716,366	75,770,915	64,304,146	2,696,737	3,716,366	70,717,249
<b>NET ASSETS - END OF YEAR</b>	<b>\$ 66,509,582</b>	<b>\$ 2,861,189</b>	<b>\$ 3,716,366</b>	<b>\$ 73,087,137</b>	<b>\$ 68,827,761</b>	<b>\$ 3,226,788</b>	<b>\$ 3,716,366</b>	<b>\$ 75,770,915</b>

See accompanying notes to financial statements.

# ARCHDIOCESE OF MILWAUKEE

## STATEMENTS OF CASH FLOWS Years Ended June 30, 2008 and 2007

	2008	2007
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in Net Assets	\$ (2,683,778)	\$ 5,053,666
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Cumulative effect of change in accounting principle	-	(4,846,897)
Depreciation and amortization	435,169	417,581
Impairment of leasehold improvements	-	674,178
Amortization of premiums and discounts	59,378	79,466
Net realized/unrealized losses (gains)	5,418,778	(5,972,116)
Gain on sale or disposal of property and equipment	(200,004)	(9,801)
Change in beneficial interest in Cemetery Perpetual Care Trust	(1,206,259)	-
Change in charitable gift annuities	(45,342)	(13,529)
Changes in assets and liabilities		
Receivables and payables	(2,939,268)	3,877,732
Other assets	80,597	(20,219)
Ground burial and mausoleum crypt sites	607,036	631,209
Other accrued liabilities	-	(8,274,978)
Deferred revenue	273,791	240,828
Accrued postretirement and pension benefits	141,676	642,748
Net Cash Flows from Operating Activities	(58,226)	(7,520,132)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property and equipment	(329,342)	(542,026)
Proceeds from the sale of property and equipment	224,547	9,800
Net change in investments	2,808,529	4,090,460
Net change in mortgages receivable	8,542	8,541
Net change in collections to be forwarded on to other entities	(257,879)	25,823
Net change in invested funds held for others	508,069	(61,245)
Net Cash Flows from Investing Activities	2,962,466	3,531,353
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds on note payable	-	4,650,000
<b>Net Change in Cash and Cash Equivalents</b>	2,904,240	661,221
CASH AND CASH EQUIVALENTS - Beginning of Year	1,114,180	452,959
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	\$ 4,018,420	\$ 1,114,180
<b>Supplemental cash flow disclosures</b>		
Cash paid for interest	\$ 461,352	\$ 789,058

See accompanying notes to financial statements.

# ARCHDIOCESE OF MILWAUKEE

## NOTES TO FINANCIAL STATEMENTS June 30, 2008 and 2007

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### **NOTE 1 - Summary of Significant Accounting Policies**

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#### *Nature of Activities*

The Archdiocese of Milwaukee (the "Archdiocese") is a not-for-profit Wisconsin corporation, without capital stock. The Archdiocese has a Board of Directors which oversees all ordinary administration. The Archbishop of Milwaukee serves as the canonical administrator of the Archdiocese. The Archdiocese is exempt from income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code. Accordingly, the financial statements do not include any amounts for capital stock or income taxes.

The following activities are not separately incorporated from the Archdiocese of Milwaukee and, accordingly, are included in the financial statements:

- Chancery and Central Offices ("Chancery")
- Cemeteries and Mausoleums (eight locations)
- Other Endowment and Restricted Funds

Under the laws of the State of Wisconsin, parishes, their related schools and certain other Catholic entities operating within the boundaries of the Archdiocese are not under the fiscal and operating control of the Archdiocese and, accordingly, in accordance with accounting principles generally accepted in the United States of America are not included in the financial statements.

#### *Basis of Accounting*

The financial statements have been prepared on the accrual basis of accounting. All significant balances and transactions between the specific activities have been eliminated in the financial statements.

#### *Cash and Cash Equivalents*

Cash equivalents are defined as securities and other short-term investments with maturities at date of acquisition of approximately three months or less.

#### *Investments*

Certificates of deposit and other short-term investments are stated at cost or amortized cost, which approximates fair value. Under the amortized cost method, all investments purchased for a discount or premium basis are valued by amortizing the difference between the original purchase price and maturity value of the issue over the period to maturity on a straight-line basis. Results from the use of the straight-line method do not vary materially from those that would be obtained by use of the effective interest rate method. Common stocks and bonds are stated at fair value with unrealized gains or losses recorded in the statements of activities. Interest on investments is recorded as earned. Investment transactions are recorded on the trade date.

# ARCHDIOCESE OF MILWAUKEE

## NOTES TO FINANCIAL STATEMENTS June 30, 2008 and 2007

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### **NOTE 1 - Summary of Significant Accounting Policies (continued)**

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#### *Receivables*

The Archdiocese uses the allowance method to account for uncollectible accounts receivable. Notes receivable arising from the sale of mausoleum crypts are typically collectible in monthly installments, including interest, over four years. Receivables are presented net of allowance for doubtful accounts of \$2,330,803 and \$2,474,893 at June 30, 2008 and 2007, respectively. Net receivables as of June 30 consists of:

	<u>2008</u>	<u>2007</u>
Accounts and notes	\$ 4,808,201	\$ 2,809,245
Contributions	489,609	635,411
Parish obligations	1,557,857	1,466,021
Mortgages	8,542	8,542
Interest and dividends	<u>220,886</u>	<u>265,516</u>
Total Accounts Receivable	<u>\$ 7,085,095</u>	<u>\$ 5,184,735</u>

#### *Life Insurance Contributions*

Donors have contributed multiple life insurance policies on their lives to the Archdiocese. The cash surrender value of \$300,498 and \$295,966 at June 30, 2008 and 2007, respectively, is included in long-term other assets on the statements of financial position.

Contribution revenue has been recorded for the cash surrender value of these policies, plus any future premium payments pledged by the donor.

#### *Property and Equipment*

Acquisitions of property and equipment in excess of \$500 and expenditure for improvements and betterments that materially prolong the useful lives of assets are capitalized.

Land, buildings and equipment are primarily carried at cost.

Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

	<u>Years</u>
Buildings	50
Land improvements	20
Furniture and Fixtures	10
Equipment	3-10
Automobiles and trucks	5



# ARCHDIOCESE OF MILWAUKEE

## NOTES TO FINANCIAL STATEMENTS June 30, 2008 and 2007

### **NOTE 1 - Summary of Significant Accounting Policies** (continued)

#### *Property and Equipment (continued)*

In 2006, the Archdiocese adopted Financial Accounting Standards Board ("FASB") Interpretation 47 ("FIN 47"), *Accounting for Conditional Asset Retirement Obligations*. FIN 47 provides additional guidance with respect to certain provisions of SFAS No. 143, *Accounting for Asset Retirement Obligations*. If an institution has sufficient information to reasonably estimate the fair value of an obligation in connection with an asset retirement, it is required to recognize a liability at the time the liability is incurred. Since the Archdiocese is not aware of any material required remediation that would result in an asset retirement obligation, the Archdiocese has not recorded an asset retirement obligation.

#### *Impairment of Long-Lived Assets*

The Archdiocese reviews long-lived assets, including property and equipment and intangible assets, for impairment whenever events or changes in business circumstances indicate that the carrying amount of an asset may not be fully recoverable. An impairment loss would be recognized when the estimated future cash flows from the use of the asset are less than the carrying amount of that asset. In 2008 and 2007, the Archdiocese recognized impairment losses of \$0 and \$674,176, respectively, for leasehold improvements at Meyer Hall.

#### *Beneficial Interest in Cemetery Perpetual Care Trust*

On April 2, 2007, the Archdiocese created the Archdiocese of Milwaukee Catholic Cemetery Perpetual Care Trust (the "Cemetery Trust") to formalize the trust relationship with respect to funds which were held under a fiduciary responsibility to adequately provide for the future care of mausoleum, crypts and gravesites. In March, 2008, all assets relating to the future care of cemeteries and mausoleums were moved to a separate investment account controlled by the Cemetery Trust. A Beneficial Interest in the Cemetery Trust valued at the value of the trust's assets appears on the statements of financial position in accordance with SFAS No. 136. The Trust assets consist primarily of cash and investments. Pursuant to a contract for services, the Cemetery Trust makes payments to the Archdiocese of Milwaukee as reimbursement for costs incurred by the Archdiocese for the purpose of care and maintenance of Cemeteries. The Cemetery Trust is a distinct legal entity whose assets are legally restricted to the purposes of the Cemetery Trust. The Archdiocese of Milwaukee disclaims control of the Cemetery Trust or a right to receive assets for any purpose other than care and maintenance of cemetery properties. As of June 30, 2007, these assets are shown as assets designated for the future care of cemeteries and mausoleums, primarily cash and investments.

#### *Accounts Payable*

Accounts Payable as of June 30 consist of:

	<u>2008</u>	<u>2007</u>
Accounts Payable	\$ 636,608	\$ 754,571
Accrued Liabilities	488,384	431,894
Deferred Revenue	37,232	77,375
Due to Related Parties	224,283	120,554
Mediation and litigation settlements, sexual abuse therapy, and victim assistance payable	<u>1,090,093</u>	<u>1,807,978</u>
Total Accounts Payable	<u>\$ 2,476,600</u>	<u>\$ 3,192,372</u>

# ARCHDIOCESE OF MILWAUKEE

## NOTES TO FINANCIAL STATEMENTS June 30, 2008 and 2007

### **NOTE 1 - Summary of Significant Accounting Policies (continued)**

#### *Contributions Payable*

Contributions payable represent unconditional promises to give to be paid by the Archdiocese in subsequent fiscal years. In 2007, the Archdiocese entered into an agreement to pay a contribution over an extended period of 15 years. The long term portion of this contribution has been discounted at 6% to its net present value. The obligations are as follows for the years ended June 30 net of the discount of \$829,463:

2009	\$ 3,176,230
2010	188,679
2011	177,999
2012	167,924
2013	158,419
Thereafter	<u>1,077,516</u>
Total	<u>\$ 4,946,767</u>

#### *Collections to be Forwarded to Other Entities*

Collections to be forwarded to other entities represent cash collected on behalf of other Catholic organizations and programs, mainly via the annual Combined Collections fund drive.

#### *Invested Funds Held for Others*

The Archdiocese administers the investments for various programs and organizations within the geographical boundaries of the Archdiocese of Milwaukee. These are not Archdiocesan funds and the Archdiocese provides these administrative services without compensation to help support these ministries and programs. The invested funds held for others as of June 30 consist of:

	<u>2008</u>	<u>2007</u>
Priests' Continuing Formation Program	\$ 1,903,715	\$ 1,782,264
St. Mary's Help Of Christians, net proceeds	1,023,729	-
Protected Self Insurance Program	49,643	615,504
Other	<u>87,752</u>	<u>159,002</u>
Total	<u>\$ 3,064,839</u>	<u>\$ 2,556,770</u>

# ARCHDIOCESE OF MILWAUKEE

## NOTES TO FINANCIAL STATEMENTS June 30, 2008 and 2007

### **NOTE 1 - Summary of Significant Accounting Policies (continued)**

*Net Assets*

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Archdiocese 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 either expire by passage of time or can be fulfilled and removed by actions of the Archdiocese pursuant to those stipulations.

**Permanently Restricted Net Assets** - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Archdiocese. The donors of these assets permit the Archdiocese to use all or part of the income earned on related investments for general or specific purposes.

*Board Designated Net Assets*

The Archdiocese may designate a portion of unrestricted net assets for a specific purpose. At June 30, designated unrestricted net assets consist of the following:

Other Specific Purposes

The Board of Directors has designated certain unrestricted net assets for purposes consistent with the purposes set forth in the original instruments as of June 30 as follows:

	2008	2007
St. John's Burse (for deaf and hearing impaired ministry)	\$ 619,003	\$ 623,629
St. Anthony Hospital (for health care needs of the medically indigent)	150,029	343,151
St. Aemilian Trust (for the establishment of facilities for orphans, dependent, neglected, and delinquent children, for rehabilitation, treatment and other welfare services needed for such ends, and the promotion of education, charity and religion)	5,102,038	5,236,953
St. Joseph Parish, West Allis	1,080,136	1,105,089
St. Gerard Parish, Milwaukee	1,201,026	1,199,684
General operations and other	455,635	549,239
Total	8,607,867	9,057,745
Assets designated for future care of cemeteries	-	59,865,084
Beneficial Interest in Cemetery Perpetual Care Trust	55,638,333	-
Total designated net assets	\$ 64,246,200	\$ 68,922,829

# ARCHDIOCESE OF MILWAUKEE

## NOTES TO FINANCIAL STATEMENTS June 30, 2008 and 2007

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### **NOTE 1 - Summary of Significant Accounting Policies (continued)**

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#### *Revenue Recognition*

Contributions, including unconditional promises to give, are recognized in the period received. Conditional promises are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met.

The Archdiocese reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

#### *Cemetery and Mausoleum Sales*

The Archdiocese records revenue on sales of cemetery plots and mausoleum crypts at the date of sale as it has no legal obligation, beyond a short rescission period, to refund any such sale. As such, no reserve for sale returns has been established. As a matter of policy the Archdiocese has refunded sales under certain circumstances at amounts equal to or less than the original sales price, which units are then returned to inventory. This policy is subject to amendment at any time. The Archdiocese also allows customers to purchase cemetery plots and mausoleum crypts through the installment method in which customers are given four years to pay. Revenue from these sales is recognized immediately as there is little uncertainty as to the collectibility of the balance of the purchase price. Pursuant to contract, the Archdiocese is under a fiduciary obligation to hold certain of the funds collected for perpetual care. Starting in March of 2008 the Archdiocese transferred these amounts to the Cemetery Perpetual Care Trust.

#### *Contributed Services*

Volunteers contribute personal time to assist the Archdiocese in performing various services. Volunteer services are not recorded by the Archdiocese, as these services do not require specialized expertise as defined.

#### *Contributed Facilities*

The Archdiocese of Milwaukee occupies premises owned by DeSales Preparatory Seminary, Inc. There is currently no lease agreement and no rent is being charged for the use of the premises.

#### *Fundraising Costs*

Fundraising costs, consisting primarily of payroll and fringe benefits, supplies and professional services, for fiscal years ended June 30, 2008 and 2007 were \$810,966 and \$1,317,932, respectively.

#### *Reclassifications*

For comparability, certain 2007 amounts have been reclassified to conform with classifications adopted in 2008. The reclassifications have no effect on reported amounts of net assets or change in net assets.

# ARCHDIOCESE OF MILWAUKEE

## NOTES TO FINANCIAL STATEMENTS June 30, 2008 and 2007

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### NOTE 1 - Summary of Significant Accounting Policies (continued)

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#### *Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses. Actual results could be different from those estimates.

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### NOTE 2 - Investments

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The fair value of investments by type, excluding assets designated for the future care of cemeteries and mausoleums as of June 30 are:

	<u>2008</u>	<u>2007</u>
Money Market Funds	\$ 5,804,705	\$ 5,886,669
Common Stocks	-	1,913
US Treasury Bills	2,971,920	3,158,077
US Government Bonds	7,493,000	9,200,589
Commercial Bonds	3,247,114	3,895,045
Pooled Mortgages	3,366,711	3,431,074
Other Investments	<u>1,434,604</u>	<u>1,598,362</u>
Total	24,318,054	27,171,729
Less: Short-Term Investments	<u>(8,776,625)</u>	<u>(9,044,746)</u>
Long-Term Investments	<u>\$ 15,541,429</u>	<u>\$ 18,126,983</u>

\$3,064,839 and \$2,556,770 of the investment amount as of June 30, 2008 and 2007, respectively, represent invested funds held for others.

Net realized and unrealized gains (losses) for all Archdiocese investments for the years ended June 30 are:

	<u>2008</u>	<u>2007</u>
Net realized gains (losses) on investments	\$(5,922,139)	\$ 6,216,648
Net unrealized gains (losses) on investments	<u>503,361</u>	<u>(244,532)</u>
Total	<u>\$(5,418,778)</u>	<u>\$ 5,972,116</u>

Investment securities are exposed to various risks such as interest rate, market and credit. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in risks in the near term would materially affect the amounts reported in the financial statements.

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### NOTE 3 - Contributions Receivable

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Gross contributions receivable are reported in the statements of financial position net of allowances for uncollectible amounts and unamortized discounts.

# ARCHDIOCESE OF MILWAUKEE

## NOTES TO FINANCIAL STATEMENTS June 30, 2008 and 2007

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### NOTE 3 - Contributions Receivable (continued)

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Unconditional promises (pledges/contributions) to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows, when significant. The discounts on those amounts are computed using a risk-free interest rate applicable to the year in which the promise is expected to be received. Amortization of the discount is included in contribution revenue.

The contributions receivable balance as of June 30 is expected to be collected according to the following schedule:

	<u>2008</u>	<u>2007</u>
Less Than One Year	\$ 620,209	\$ 651,011
Less: Allowance for doubtful accounts	<u>(130,600)</u>	<u>(15,600)</u>
Net Contributions Receivable	<u>\$ 489,609</u>	<u>\$ 635,411</u>

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### NOTE 4 - Ground Burial and Mausoleum Crypt Sites

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These properties are recorded at original cost and consist of the following as of June 30:

	<u>2008</u>	<u>2007</u>
Mausoleum Crypts	\$ 4,693,518	\$ 5,292,020
Cemetery Land and Facilities Held for Burial Privileges	<u>2,830,412</u>	<u>2,838,946</u>
Total	<u>\$ 7,523,930</u>	<u>\$ 8,130,966</u>

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The Archdiocese does not provide depreciation on these properties. The cost of individual crypts and cemetery plots are allocated based on the total estimated costs of completion and are offset against revenue upon sale.

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### NOTE 5 - Property and Equipment

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Property and equipment are summarized as follows as of June 30:

	<u>2008</u>	<u>2007</u>
Land	\$ 1,607,020	\$ 1,695,835
Land and building improvements	720,612	720,612
Construction in progress	73,240	73,240
Buildings	9,540,893	9,539,340
Furniture and fixtures	1,802,898	1,802,898
Equipment	4,355,447	4,165,609
Vehicles	627,489	546,058
Future parish sites	<u>360,132</u>	<u>364,632</u>
Total	19,087,731	18,908,224
Less: Accumulated depreciation	<u>(13,880,767)</u>	<u>(13,570,890)</u>
Net	<u>\$ 5,206,964</u>	<u>\$ 5,337,334</u>

# ARCHDIOCESE OF MILWAUKEE

## NOTES TO FINANCIAL STATEMENTS June 30, 2008 and 2007

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### NOTE 5 - Property and Equipment (continued)

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Included in property and equipment is certain land, building and equipment (other than leasehold improvements and equipment owned directly by the tenants) being used by St. Joseph High School, Inc., Pius XI High School, Inc. and St. Thomas More High School, Inc. The Archdiocese has entered into lease agreements with Pius XI High School and St. Thomas More High School, Inc., for a term ending in 2043 with a renewal option for 15 years. As of June 30, 2008 the Archdiocese and St. Joseph High School, Inc., were engaged in negotiations for a lease. The property and equipment being used by Pius XI High School, Inc. is subject to a mortgage entered into by Pius XI High School, Inc. for up to \$8,000,000. The land and property being used by Thomas More High School, Inc. is subject to a mortgage entered into by Thomas More High School, Inc. for up to \$1,500,000. Both mortgages are non-recourse as to the Archdiocese.

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### NOTE 6 - Mortgages Receivable

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Mortgages receivable (all secured by real estate) consist of the following as of June 30:

	<u>2008</u>	<u>2007</u>
Noninterest bearing note receivable, receivable in equal annual payments through January 1, 2015.	\$ 51,250	\$ 59,792
Less: Current Portion	<u>(8,542)</u>	<u>(8,542)</u>
Long-Term Portion	<u>\$ 42,708</u>	<u>\$ 51,250</u>

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### NOTE 7 - Business Note

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At June 30, 2008, the Archdiocese has a line of credit financing agreement with Park Bank and \$5,200,000 was available to the organization. The amount available to the organization as of June 30, 2007 was \$6,000,000. Interest is payable monthly at LIBOR plus two percent (6.50% at June 30, 2008). The line of credit matures on December 31, 2008 and is secured by a mortgage against the Archbishop Cousins Catholic Center (owned by DeSales Preparatory Seminary, Inc.). Interest expense was \$311,950 and \$246,922 for the years ended June 30, 2008 and 2007, respectively.

\$4,650,000 was outstanding on the line of credit at June 30, 2008 and 2007.

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### NOTE 8 - Accrued Mediation and Litigation Settlements

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In January 2004, the Archdiocese established an independent mediation system to address reports of diocesan clergy sexual abuse of minors. The Archdiocese has accrued \$1,090,093 and \$1,807,978 as of June 30, 2008 and 2007, respectively to cover mediation and litigation settlements, sexual abuse therapy and victim assistance agreed to under mediation. These expenses will be paid for by sales of properties including the Archbishop Cousins Catholic Center and liquidation of some investments. Mediation and litigation settlements, sexual abuse therapy and victim assistance expense of \$917,486 and \$5,688,169, respectively, are included in 2008 and 2007 professional services on the statements of activities net of insurance proceeds received.

# ARCHDIOCESE OF MILWAUKEE

## NOTES TO FINANCIAL STATEMENTS June 30, 2008 and 2007

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### **NOTE 8 - Accrued Mediation and Litigation Settlements (continued)**

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The Archdiocese currently is a defendant in seven Wisconsin lawsuits alleging personal injuries. Two of the lawsuits were filed subsequent to June 30, 2008. All of the cases are at trial court level in the initial stages of pre-trial procedures. The dismissal by the trial court of an additional case was upheld on the appeal subsequent to June 30, 2008. Management has not accrued any additional expense in connection with these cases as management intends to vigorously defend the claims and the outcome is uncertain.

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### **NOTE 9 - Deferred Revenue**

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The Archdiocese has both short-term and long-term deferred revenue. Deferred revenue primarily includes unearned income on burial fees which are to be recognized as revenue as the services are performed.

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### **NOTE 10 - Charitable Gift Annuities**

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Charitable gift annuities consist of the following as of June 30:

	<u>2008</u>	<u>2007</u>
Charitable Gift Annuities, 7.00%	\$ 652,808	\$ 698,150
Less: Current portion	<u>(98,562)</u>	<u>(102,924)</u>
Long-Term Portion	<u>\$ 554,246</u>	<u>\$ 595,226</u>

Principal requirements on charitable gift annuities for years ending after June 30, 2008 are as follows:

2009	\$ 98,562
2010	92,114
2011	86,088
2012	80,456
2013	75,193
Thereafter	<u>220,395</u>
Total	<u>\$ 652,808</u>

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### **NOTE 11 - Interdiocesan Payable**

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St. Francis de Sales Seminary, Inc. (the "Seminary") is a freestanding, separate legal entity. The Seminary has a Board of Directors overseeing governance and administration. The Archdiocese contributes accounting services and a Catholic Stewardship Appeal grant to the Seminary.

The net Interdiocesan transactions balance was a payable of \$224,283 and \$120,554 as of June 30, 2008 and 2007, respectively. Contribution expense recognized by the Archdiocese was \$1,430,000 and \$1,585,000 for the Seminary for the years ended June 30, 2008 and 2007, respectively.

In fiscal 2008, the assets of a printing operation were donated to St. Francis de Sales Seminary, Inc., which agreed to accept responsibility for operation and maintenance of the printing operation. The net book value of the assets donated was \$1,839.



# ARCHDIOCESE OF MILWAUKEE

## NOTES TO FINANCIAL STATEMENTS June 30, 2008 and 2007

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### **NOTE 11 - Interdiocesan Payable** (continued)

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The Archdiocese guarantees a demand line of credit arrangement for St. Joseph's High School, Inc. in the amount of \$300,000.

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### **NOTE 12 - Employee Benefit Plans**

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**Adoption of Recognition Provision of FASB Statement No. 158** - In September 2006, the Financial Accounting Standards Boards (the "FASB") issued FASB No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" ("FASB No. 158"). FASB No 158 requires organizations to record the additional liability of the unfunded status of any defined benefit plan. The Archdiocese adopted FASB 158 for the year ended June 30, 2007. The incremental effect of applying FASB No. 158 included in the individual line items in the statements of financial position at June 30, 2007:

	Before Application of FASB No. 158		Adjustments	After application of FASB No. 158
Current and long-term portion of accrued pension and post-retirement and pension benefits	\$ 15,328,000	\$ 4,846,897		\$ 10,481,103
Increase in unrestricted net assets	\$ (323,282)	\$ 4,846,897		\$ 4,523,615

The Archdiocese has several pension plans covering substantially all employees. The plans also cover certain individuals employed by Catholic corporations and activities which are located within the boundaries of the Archdiocese but are not included among the entities that are under the fiscal management of the Archdiocese, as listed in Note 1. A summary of each plan follows:

#### *Cemetery and Mausoleum Employees' Union Pension Plan*

Union employees of the cemetery and mausoleum operations are participants in this defined benefit plan. During the 2008 fiscal year a change to the benefits calculation was negotiated, so that in the future a calculation similar to that used in the Lay Employees' Pension Plan will be applicable to most Union employees upon retirement.

# ARCHDIOCESE OF MILWAUKEE

## NOTES TO FINANCIAL STATEMENTS June 30, 2008 and 2007

### NOTE 12 - Employee Benefit Plans (continued)

#### *Cemetery and Mausoleum Employees' Union Pension Plan (continued)*

The following table sets forth the plan's funded status and amounts recognized in the statements of financial position.

	2008	2007
Projected benefit obligation at end of year	\$ 1,714,944	\$ 2,532,491
Fair value of plan assets at end of year	902,062	866,456
Funded status of the plan, recognized in the statements of financial position	\$ (812,882)	\$ (1,666,035)

At June 30, 2008 and 2007, the amount of the accumulated benefit obligation was \$1,442,496 and \$1,713,813 respectively.

Amounts that have yet to be recognized as components of net periodic pension benefit cost for the years ended June 30:

	2008	2007
Unrecognized net loss (gain)	\$ (128,023)	\$ 242,598
Unrecognized prior service cost (credit)	\$ (615,071)	\$ 26,910

The net amortization of the above amounts that are reclassified into a component of net periodic pension cost for the years ended June 30, 2008 and 2007 was \$(2,028) and \$10,083, respectively.

The amounts expected to be recognized into net periodic pension benefit cost in the year ended June 30, 2009 are as follows:

Unrecognized net loss	\$	-
Unrecognized prior service cost (credit)	\$	(31,907)

The amount of employer contributions to the plan and the benefits paid by the plan for the years ended June 30 are as follows:

	2008	2007
Employer contributions	\$ 43,846	\$ 65,542
Benefits paid	\$ 42,961	\$ 82,874

The Archdiocese expects to contribute approximately \$50,000 to the plan during the year ended June 30, 2009.

Assumptions used in calculating pension expense were:

	2008	2007
Discount rate	6.8 %	6.3 %
Rate of increase in compensation levels	4.0	4.0
Expected long-term rate of return on assets	7.0	7.0

# ARCHDIOCESE OF MILWAUKEE

## NOTES TO FINANCIAL STATEMENTS June 30, 2008 and 2007

### **NOTE 12 - Employee Benefit Plans** (continued)

#### *Cemetery and Mausoleum Employees' Union Pension Plan (continued)*

The assets related to the plan are invested in fixed income securities.

The following benefit payments are expected to be paid from the plan:

2008		\$	58,782
2009			57,335
2010			71,802
2011			70,262
2012			68,767
2013-2017			500,984
			<u>\$ 827,932</u>

#### *Post-Retirement Benefits Other Than Pensions*

The Archdiocese provides defined benefit post-retirement health, dental, and vision insurance benefits to its diocesan priests. The vision benefits were added to the plan during the year ended June 30, 2008. Covered members become eligible for these benefits at retirement after meeting minimum age and service requirements. The costs of future benefits are accrued during the employee's active working career. The Archdiocese funds benefits on a pay as you go basis, with some retirees paying a portion of the costs.

At June 30, 2008 and 2007, the post-retirement health insurance benefit plan did not have any assets.

The following table sets forth the plan's funded status and amounts recognized in the statements of financial position.

	2008	2007
Accumulated post-retirement benefit obligation	\$ 10,452,645	\$ 9,457,816
Fair value of plan assets	-	-
Funded status of plan, recognized in the statements of financial position	<u>\$ (10,452,645)</u>	<u>\$ (9,457,816)</u>

Amounts that have yet to be recognized as components of net periodic pension benefit cost for the year ended June 30:

	2008	2007
Unrecognized net loss (gain)	\$ (449,739)	\$ (1,033,473)
Unrecognized prior service cost (credit)	\$ (3,154,973)	\$ (3,670,204)

The net amortization of the above amounts that are reclassified into a component of net periodic pension cost for the years ended June 30, 2008 and 2007 was \$(344,539) and \$(368,235), respectively.

# ARCHDIOCESE OF MILWAUKEE

## NOTES TO FINANCIAL STATEMENTS June 30, 2008 and 2007

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### NOTE 12 - Employee Benefit Plans (continued)

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#### *Post-Retirement Benefits Other Than Pensions (continued)*

The amounts expected to be recognized into net periodic pension benefit cost in the year ended June 30, 2009 are as follows:

Unrecognized net loss	\$	-
Unrecognized prior service cost (credit)	\$	(320,780)

The amount of employer contributions to the plan and the benefits paid by the plan for the years ended June 30 are as follows:

	<u>2008</u>	<u>2007</u>
Employer contributions	\$ 548,166	\$ 511,412
Benefits paid	\$ 548,166	\$ 511,412

The Archdiocese expects to contribute approximately \$630,578 to the plan during the year ended June 30, 2009.

The weighted average discount rate used to develop the net post-retirement benefit expense and the present value of benefit obligations was 7% at June 30, 2008 and 2007.

The medical cost trend rate used to value the accumulated post-retirement benefit obligation is 7.5% for 2009, and is assumed to decrease gradually to an ultimate rate of 5% in 2015, while the dental and vision cost trend rates used for 2009 are 4% and are assumed to remain at that rate.

#### *Lay Employees' Pension Plan*

This is a noncontributory multi-employer defined benefit plan. All full-time lay employees of participating Catholic organizations located within the boundaries of the Archdiocese (except for the union employees of the cemetery and mausoleum operations) who have been employed for one year are covered by the plan. As this is a multi-employer plan, valuation information is not available by employer.

Pension expense for the years ended June 30, 2008 and 2007, respectively was approximately \$298,816 and \$291,722, which includes amortization of past service costs over 30 years. Annual contributions to the plan equal amounts accrued for pension expense.

#### *Archdiocese of Milwaukee Priests' Pension Plan*

This is a contributory multi-employer defined benefit plan covering all archdiocesan priests. As such, valuation information is not available by employer.

Pension expense for the years ended June 30, 2008 and 2007 was approximately \$55,649 and \$100,740, respectively which includes amortization of past service costs over 30 years. Annual contributions to the plan equal amounts accrued for pension expense.

# ARCHDIOCESE OF MILWAUKEE

## NOTES TO FINANCIAL STATEMENTS June 30, 2008 and 2007

### **NOTE 13 - Temporarily Restricted Net Assets**

Temporarily restricted net assets consist of amounts restricted by donors for (a) other particular operating activities, (b) use in a specified future period, (c) investment for a specified term, or (d) combinations of the above.

Temporarily restricted net assets are restricted as follows as of June 30:

	2008	2007
Capital Campaign (for various capital and program needs)	\$ -	\$ 218,807
Rapp Trust (for capital needs of St. Michael's Church in Mitchell, Wisconsin)	288,492	380,655
General Operations and Other	2,572,697	2,627,326
Total Temporarily Restricted Net Assets	\$ 2,861,189	\$ 3,226,788

### **NOTE 14 - Permanently Restricted Net Assets**

Permanently restricted net assets consist of amounts contributed by donors with the express intent that the principal be maintained in perpetuity. Donors have specified that the investment income be used for (a) scholarships, (b) other particular operating activities, or (c) other general expenses.

	2008	2007
Education Endowment Fund (for needy children for tuition in any schools of the Catholic Archdiocese of Milwaukee)	\$ 1,000,000	\$ 1,000,000
Msgr. Eugene J. Kapalczynski Development Fund	2,624,360	2,624,360
General Operations and Other	92,006	92,006
Total Permanently Restricted Net Assets	\$ 3,716,366	\$ 3,716,366

### **NOTE 15 - Operating Leases**

The Archdiocese leases automobiles, equipment, and office space. All leases are accounted for as operating leases.

Future minimum lease payments as of June 30, 2008 are as follows:

2009	\$ 167,799
2010	162,744
	\$ 330,543

Expense on the operating leases was \$192,816 and \$70,353 for the years ended June 30, 2008 and 2007, respectively.

# ARCHDIOCESE OF MILWAUKEE

## NOTES TO FINANCIAL STATEMENTS June 30, 2008 and 2007

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### **NOTE 16 - Protected Self-Insurance Program**

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The Archdiocese, both for itself and as the agent for all parishes and various other Catholic entities operating within the boundaries of the Archdiocese, entered into a Protected Self-Insurance Program. Premiums and loss reserves are determined and claims are processed by a service agency on a contractual basis.

Losses are paid from the Loss Fund of the Protected Self-Insurance Program to which premiums are paid by the participants. No single claim from the Loss Fund may exceed a specified maximum. Claims in excess of this maximum are fully covered by insurance. The Loss Fund is not reflected in the accompanying combined financial statements as the Fund was established to be separate and distinct from the Archdiocese. Any portion of the Loss Fund, which might revert back to the Archdiocese, is not measurable.

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### **NOTE 17 - Services for Faith in Our Future Trust**

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The Archdiocese of Milwaukee signed a services contract with the Faith in Our Future Trust, a separate legal entity, to provide administrative services for the Trust. As part of the contractual agreement the Archdiocese advances payments for professional services. These services include a contract through August 2009 with a fundraising company. The contract has been assumed by Faith in Our Future Trust and includes future minimum payments of approximately \$2,764,266. As of June 30, 2008, the Archdiocese had a receivable of \$2,279,855 for reimbursement of costs and expense incurred on behalf of the Trust. Contributions to the Faith in Our Future Trust are donor restricted and grants from the Trust can be made only for purposes of Catholic Education and Faith Formation, as disclosed in materials provided to donors. The Archdiocese of Milwaukee does not have control or a beneficial interest in the net assets of the Faith in Our Future Trust, and therefore, none of the activities of the Trust are included in the Archdiocese financial statements.

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### **NOTE 18 - Financial Instruments**

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The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practical to estimate that value as of 2008 and 2007:

#### *Cash, Cash Equivalents and Investments*

The carrying value approximates fair value as determined by published market data for all instruments, including investments designated for the future care of cemeteries and mausoleums as of June 30, 2007.

#### *Notes and Mortgage Notes Receivable*

The carrying amount approximates fair value because of the variable nature of the associated interest rate or the short maturity of those instruments.

#### *Charitable Gift Annuities*

The carrying amount approximates fair value because of the variable nature of the associated interest rate or the short maturity of those instruments.

# ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS  
June 30, 2008 and 2007

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## **NOTE 19 - Concentrations**

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The Archdiocese maintains cash balances in four institutions which exceeds the federally insured limit of \$100,000. The Archdiocese has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash.