

ARCHDIOCESE OF MILWAUKEE
Milwaukee, Wisconsin

COMBINED FINANCIAL STATEMENTS

Including Independent Auditors' Report

June 30, 2002

ARCHDIOCESE OF MILWAUKEE

TABLE OF CONTENTS

Independent Auditors' Report	1
Financial Statements	
Combined Statement of Financial Position	2
Combined Statement of Activities	3
Combined Statement of Cash Flows	4
Notes to Combined Financial Statement	5 – 21
Supplemental Information	
Combining Statement of Financial Position	22
Combining Statement of Activities - Unrestricted	23
Combining Statement of Activities – Restricted	24



Virchow Krause & company

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying combined statement of financial position of the Archdiocese of Milwaukee as of June 30, 2002, and the related combined statements of activities and cash flows for the year then ended. These combined financial statements are the responsibility of the Archdiocese of Milwaukee's management. Our responsibility is to express an opinion on these combined financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly in all material respects the financial position of the Archdiocese of Milwaukee as of June 30, 2002, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was made for the purpose of forming an opinion on the combined financial statements taken as a whole. The supplemental information identified in the table of contents is presented for purposes of additional analysis of the combined financial statements rather than to present the financial position, changes in net assets, and cash flows of the individual entities. Such information has been subjected to the auditing procedures applied in the audit of the combined financial statements and, in our opinion, is fairly stated in all material respects in relation to the combined financial statements taken as a whole.

Virchow, Krause & Company, LLP

Milwaukee Wisconsin
November 7, 2002

ARCHDIOCESE OF MILWAUKEE

COMBINED STATEMENT OF FINANCIAL POSITION

June 30, 2002

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 6,647,954
Short-term investments	92,441
Receivables	
Accounts and notes net of allowance for doubtful accounts of \$546,586	2,873,172
Contributions net of allowance of \$78,918	2,880,674
Parish obligations net of allowance for doubtful accounts of \$1,142,253	3,024,784
Interest and dividends	<u>1,079,810</u>
Total receivables	9,858,440
Prepaid expenses and inventories	1,849,666
Properties held for sale	<u>321,851</u>
Total current assets	18,770,352
Ground burial and mausoleum crypt sites	10,863,570
Property and Equipment, net	32,830,477
Parish Deposit Fund, primarily cash and investments	72,983,750
Assets Designated for the future care of cemeteries and mausoleums, primarily cash and investments	46,474,674
INVESTMENTS AND OTHER ASSETS	
Long-term investments	13,646,084
Contributions receivable net of allowance for doubtful accounts of \$37,682	738,374
Mortgages receivable	<u>1,821,531</u>
Total investments and other assets	16,205,989
TOTAL ASSETS	<u><u>\$ 198,128,812</u></u>

See accompanying notes to combined financial statements

LIABILITIES & NET ASSETS

CURRENT LIABILITIES

Current maturities of long-term debt	\$ 838,066
Accounts payable	3,815,472
Contributions payable	1,479,409
Accrued liabilities	2,549,172
Deferred revenue	7,606,884
Collections to be forwarded on to other entities	<u>1,382,161</u>
Total current liabilities	17,671,164
 Parish Deposit Fund	 44,524,118
 Long-term debt	 2,405,498
 Accrued postretirement and pension benefits	 9,592,982
 Deferred revenue	 <u>1,200,934</u>
Total liabilities	<u>75,394,696</u>

NET ASSETS

Unrestricted	
Undesignated operating	50,164,115
Designated	<u>55,395,175</u>
Total unrestricted	105,559,290
 Temporarily restricted	 9,349,404
 Permanently restricted	 <u>7,825,422</u>
 Total net assets	 122,734,116

TOTAL LIABILITIES AND NET ASSETS \$ 198,128,812

ARCHDIOCESE OF MILWAUKEE

COMBINED STATEMENT OF ACTIVITIES For the Year Ended June 30 , 2002

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE, GAINS AND OTHER SUPPORT				
Contributions	\$ 13,034,383	\$ 6,009,131	\$ 2,235,003	\$ 21,278,517
Value of contributed services	87,996	-	-	87,996
Parish assessments	5,731,242	-	-	5,731,242
Tuitions and fees	20,004,476	-	-	20,004,476
Various activities and special programs	5,779,551	-	-	5,779,551
Cemetery and mausoleum sales	5,574,923	-	-	5,574,923
Investment income	5,757,381	177,244	-	5,934,625
Net realized and unrealized losses	(3,511,683)	-	-	(3,511,683)
Miscellaneous revenues	1,783,434	-	-	1,783,434
Net assets released from restrictions	14,871,350	(14,641,765)	(229,585)	-
Total revenue, gains and other support	69,113,053	(8,455,390)	2,005,418	62,663,081
EXPENSES				
Payroll and fringe benefits	35,123,526	-	-	35,123,526
Repairs, maintenance, insurance, utility costs	3,880,718	-	-	3,880,718
Travel and education	770,152	-	-	770,152
Data processing	69,465	-	-	69,465
Allowance for doubtful accounts	445,870	-	-	445,870
Supplies	4,181,901	-	-	4,181,901
Interest expense	2,555,260	-	-	2,555,260
Food service	1,048,565	-	-	1,048,565
Assessments	528,176	-	-	528,176
Cost of lot and crypt sales	1,527,512	-	-	1,527,512
Activities exclusive of salaries and supplies	2,490,857	-	-	2,490,857
Professional services	3,002,046	-	-	3,002,046
Scholarships and donations	12,790,074	-	-	12,790,074
Donations to the Cathedral project	7,996,239	-	-	7,996,239
Miscellaneous expenses	1,417,987	-	-	1,417,987
Depreciation	1,836,408	-	-	1,836,408
Total expenses	79,664,756	-	-	79,664,756
CHANGE IN NET ASSETS	(10,551,703)	(8,455,390)	2,005,418	(17,001,675)
Net assets, beginning of year as previously reported	116,391,148	13,650,323	5,820,004	135,861,475
Prior period adjustment	(280,155)	4,154,471	-	3,874,316
Net assets, end of year	\$ 105,559,290	\$ 9,349,404	\$ 7,825,422	\$122,734,116

See accompanying notes to combined financial statements.

ARCHDIOCESE OF MILWAUKEE
COMBINED STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2002

CASH FLOWS FROM OPERATING ACTIVITIES		\$ (17,001,675)
Change in Net Assets		(17,001,675)
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation		1,836,408
Bad debt provision		445,870
Net realized/unrealized losses		3,511,683
Proceeds from contributions restricted for investment in endowment		(2,235,003)
Changes in assets and liabilities		
Receivables and payables		2,527,619
Prepaid expenses and inventories		(216,477)
Ground burial and mausoleum crypt sites		(992,360)
Accrued liabilities		196,597
Deferred revenue		498,165
Other		1,677,362
Net Cash Flows from Operating Activities		<u>(9,751,811)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Net purchases of land, building and equipment		(3,120,413)
Net change in investments		11,851,708
Net change in mortgages receivable		(366,027)
Net change in collections to be forwarded to other entities		228,131
Net change in parish deposit fund liability		(1,364,501)
Net Cash Flows from Investing Activities		<u>7,228,898</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from contributions restricted for endowment		2,235,003
Proceeds from issuance of long-term debt		2,311,507
Payments on long-term debt		(362,372)
Net Cash Flows from Financing Activities		<u>4,184,138</u>
Net Change in Cash and Cash Equivalents		1,661,225
CASH AND CASH EQUIVALENTS - Beginning of Year		4,986,729
CASH AND CASH EQUIVALENTS - END OF YEAR		<u><u>\$ 6,647,954</u></u>
Supplemental cash flow disclosures		
Cash paid for interest		<u><u>\$ 3,026,966</u></u>

See accompanying notes to combined financial statements.

ARCHDIOCESE OF MILWAUKEE

NOTES TO COMBINED FINANCIAL STATEMENTS June 30, 2002

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

The Archdiocese of Milwaukee (the "Archdiocese") is a not-for-profit Wisconsin corporation, without capital stock, operating primarily out of the Office of the Chancery under the management of the Archbishop of Milwaukee.

The following not-for-profit Wisconsin corporations and specific activities are operated under the direct fiscal management of the Archbishop for religious and charitable purposes and, accordingly, are included in the combined financial statements:

- Chancery and Central Offices ("Chancery")
- Parish Deposit Fund
- Income Care Fund
- Cemeteries and Mausoleums (eight locations)
- Pius XI High School, Inc. ("Pius")
- Catholic Memorial High School, Inc. ("Catholic Memorial")
- Thomas More High School, Inc. ("Thomas More")
- St. Mary's Springs High School, Inc. ("Springs")
- St. Joseph High School, Inc. ("St. Joseph")
- St. Francis Seminary, Inc. ("Seminary")
- St. Frances DeSales College, Inc.
- DeSales Preparatory Seminary, Inc.
- Other Endowment and Restricted Funds

These not-for-profit corporations and specific activities were organized without capital stock and are exempt from income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code. Accordingly, the combined financial statements do not include any amounts for capital stock or income taxes.

In June 1985, the Archdiocese, Springs, and the Congregation of Sisters of St. Agnes of Fond du Lac, Wisconsin, Inc. (the "Congregation") entered into a reversion agreement. In the event that the Archdiocese discontinues the operation of Springs as a Catholic high school or other institution of higher education, all real property, including improvements thereon, may revert to the Congregation in accordance with the terms of the agreement. Accordingly, the carrying value of the real property of Springs has been fully reserved for, and subsequent additions to the real property have been expensed. Purchases of personal property are capitalized and depreciated over their estimated useful life.

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 direct fiscal and operating control of the Archbishop and, accordingly, in accordance with accounting principles generally accepted in the United States are not included in the combined financial statements.

ARCHDIOCESE OF MILWAUKEE

NOTES TO COMBINED FINANCIAL STATEMENTS June 30, 2002

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting

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

Cash and Cash Equivalents

Cash equivalents are defined as securities and other short-term investments with maturities at 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 on 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 statement of activities. Interest on investments is recorded as earned. Investment transactions are recorded on the trade date.

Notes Receivable

Notes receivable arising from the sale of mausoleum crypts are typically collectible in monthly installments, including interest, over four years.

Life Insurance Contributions

Donors have contributed multiple life insurance policies on their lives to the Archdiocese. As of June 30, 2002, these policies have a combined face value of approximately \$1,350,798. The cash surrender value of approximately \$396,078 at June 30, 2002, is included in prepaid expenses and inventories in the combined 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.

Properties Held for Sale

Properties held for sale represents the net realizable value of various properties of the Archdiocese.

ARCHDIOCESE OF MILWAUKEE

NOTES TO COMBINED FINANCIAL STATEMENTS June 30, 2002

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Land, Buildings and Equipment

Land, buildings and equipment are primarily carried at cost, except for certain St. Francis Seminary assets for which original cost was not readily determinable and which are carried at a 1972 appraisal value of \$8,458,000, plus subsequent additions at cost less the estimated cost of subsequent retirements. Remaining net book value of the St. Francis Seminary assets at June 30, 2002, is approximately \$5,125,950.

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
Equipment	10
Automobiles and trucks	5

Contributions Payable

Contributions payable represent unconditional promises to give to be paid by the Archdiocese in the subsequent fiscal year.

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.

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.

ARCHDIOCESE OF MILWAUKEE

NOTES TO COMBINED FINANCIAL STATEMENTS June 30, 2002

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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:

Future Care of Cemeteries and Mausoleums

Since the Archdiocese has the responsibility to adequately provide for the future care of mausoleum crypts and cemetery gravesites, the Board of Directors has designated certain unrestricted net assets for the purpose of funding this future care.

The Board of Directors has also designated certain assets for this purpose, which is shown as a noncurrent asset in the combined statements of financial position. The fair values of the specific assets designated for future care as of June 30 are:

Common Stocks	\$ 24,809,725
U.S. Government Bonds	5,540,676
Short-Term Investments	6,333,914
Commercial Bonds	9,641,100
Other	149,259
	<u>46,474,674</u>

Other Specific Purposes

The Board of Directors has designated certain unrestricted net assets for other specific purposes as of June 30 as follows:

Chancery	
St. John's Burse (for deaf and hearing impaired ministry)	\$ 860,988
St. Anthony Hospital (for health care needs of the medically indigent)	522,144
St. Aemilian Trust (for rehabilitation, treatment and other welfare services, and promoting education, charity and religion for emotionally disturbed dependent or delinquent children or for any other purpose as determined by the Archbishop)	6,419,426
General operations and other	387,359
	<u>8,189,917</u>
Seminary	
General operations and other	730,584
	<u>8,920,501</u>
Total designated net-assets	<u>\$ 55,395,175</u>

ARCHDIOCESE OF MILWAUKEE

NOTES TO COMBINED FINANCIAL STATEMENTS June 30, 2002

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 statement of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support.

Tuition and Fees

Tuition revenue is reported net of any tuition discounts. Tuition discounts are defined as the difference between the stated charge for a service provided by the high school and the amount which is expected to be collected. Tuition discounts include donor restricted scholarships administered by the high schools, financial aid offered by the high schools, student work credits, sibling discounts and foreign exchange student credits. The tuition discounts for fiscal year 2002 was approximately \$1,091,852.

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.

Contributed Services

Support arising from contributed services of certain religious personnel has been recognized in the combined financial statements. The value of the contribution of those services represents the difference between the amount paid to or on behalf of the religious personnel and the comparable compensation that would be paid to lay persons if they were to occupy those positions. The amount of contributed services was \$87,996 for fiscal year 2002. The amount is included as both revenue and expense in the combined statement of activities and has no effect on the net assets of the Archdiocese.

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.

ARCHDIOCESE OF MILWAUKEE

NOTES TO COMBINED FINANCIAL STATEMENTS June 30, 2002

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fundraising Costs

Fundraising costs, consisting primarily of payroll and fringe benefits, supplies and professional services, for fiscal year 2002 were approximately \$1,649,000.

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.

NOTE 2 - INVESTMENTS

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

U.S. Government Bonds	\$ 4,091,498
Common Stocks	2,835,177
Commercial Bonds	3,688,519
Certificates of Deposit	210,365
Other Investments	<u>2,912,966</u>
Totals	13,738,525
Less-Short-Term Investments	<u>(92,441)</u>
Long-Term Investments	<u>\$ 13,646,084</u>

Net realized and unrealized losses for all Archdiocese investments for the year ended June 30 is:

Net Realized Gains on Investments	\$ 1,111,166
Net Unrealized Losses on Investments	<u>(4,622,849)</u>
	<u>\$ (3,511,683)</u>

ARCHDIOCESE OF MILWAUKEE

NOTES TO COMBINED FINANCIAL STATEMENTS June 30, 2002

NOTE 3 – CONTRIBUTIONS RECEIVABLE

Gross Contributions receivable are reported in the combined statement of financial position net of allowances for uncollectible amounts and unamortized discounts.

Unconditional promises (pledges) 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 Archdiocese is aware of foundations, booster clubs and other organizations formed independently of the Archdiocese, which donate substantially all of their net assets to, primarily, the high schools. The net assets of those organizations are not material and, therefore, have not been included in the combined financial statements.

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

Less Than One Year	\$ 2,959,592
One to Five Years	748,556
More than Five Years	<u>27,500</u>
Gross Contributions Receivable	3,735,648
Less allowance for doubtful accounts	<u>(116,600)</u>
Net Contributions Receivable	3,619,048
Less-Current Portion	<u>(2,880,674)</u>
Long Term Portion	<u><u>\$ 738,374</u></u>

NOTE 4 – GROUND BURIAL AND MAUSOLEUM CRYPT SITES

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

Mausoleum Crypts	\$ 8,132,960
Cemetery Land and Facilities Held for Burial Privileges	<u>2,730,610</u>
	<u><u>\$ 10,863,570</u></u>

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.

ARCHDIOCESE OF MILWAUKEE

NOTES TO COMBINED FINANCIAL STATEMENTS June 30, 2002

NOTE 5 – LAND, BUILDINGS AND EQUIPMENT

Land, buildings and equipment are summarized as follows as of June 30:

St Francis Seminary Complex and Archbishop Cousins	
Catholic Center	\$ 32,307,021
Archdiocesan High Schools	29,143,264
Future Parish Sites	2,249,530
Cemeteries and Mausoleums	6,923,503
Other Facilities Currently in use	<u>1,540,297</u>
	72,163,615
Less-Accumulated Depreciation	<u>(39,333,138)</u>
	<u>\$ 32,830,477</u>

The amounts for future parish sites are at the properties' net realizable value and include the annual carrying costs of those sites, such as maintenance and property taxes.

NOTE 6 - PARISH DEPOSIT FUND

The Archdiocese operates the Parish Deposit Fund (the "Fund") to enable entities within the Combined Archdiocese, as well as outside parishes and other Catholic organizations, to invest their excess funds. The Fund pays interest quarterly to its depositors at a rate of 4.5% as of June 30, 2002 determined by the Archdiocese based on current market conditions and the return on existing investments, and requires a five-day written notice for withdrawals. The Fund is administered by the Chancery without specific charges for services rendered.

The Fund is shown as a noncurrent asset in the combined statement of financial position. The fair values of investments by type as of June 30 are:

U.S. Government Bonds and Notes	\$ 55,190,502
Commercial Bonds	15,575,611
Short-Term Investments	<u>2,217,637</u>
	<u>\$ 72,983,750</u>

As of June 30, 2002 \$44,524,118 of the Fund's assets are payable to outside parishes and other Catholic organizations. This amount is shown as a noncurrent liability in the combined statement of financial position.

ARCHDIOCESE OF MILWAUKEE

NOTES TO COMBINED FINANCIAL STATEMENTS June 30, 2002

NOTE 7 – MORTGAGES RECEIVABLE

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

6% note receivable, due August 1, 2014, interest and principal payments payable monthly.	\$ 1,133,021
6% note receivable, principal due August 1, 2014 interest payable monthly.	150,000
Noninterest bearing note receivable, due in equal annual payments through January 1, 2014.	102,500
8% note, due December 1, 2003	<u>436,010</u>
	<u>\$ 1,821,531</u>

NOTE 8 – DEFERRED REVENUE

The Archdiocese has both short-term and long-term deferred revenue. Short-term deferred revenue primarily includes the initial billings for school tuition by the Archdiocesan high schools for the next school year which will be recognized as revenue throughout such school year (\$7,606,884 at June 30, 2002). Long-term deferred revenue includes unearned income on burial fees which are to be recognized as revenue as the services are performed (\$1,200,934 at June 30, 2002).

ARCHDIOCESE OF MILWAUKEE

NOTES TO COMBINED FINANCIAL STATEMENTS

June 30, 2002

NOTE 9 – LONG-TERM DEBT AND LINES OF CREDIT

Long-term debt consists of the following as of June 30:

Note payable to financial institution, prime rate (4.75% at June 30, 2002) due on demand	\$ 125,000
Note payable to financial institution, 5.00% payable monthly, due on demand	80,000
Note payable to financial institution, 3.75% payable monthly installments due on demand	382,511
Note payable to insurance society, 7.25% interest and principle payable in monthly installments, final payment due July 2006	1,153,068
Note payable to financial institution, 7.50% interest and principle payable in monthly installments, final payment due Feb. 2014	641,380
Charitable Gift Annuities, 7.00%	690,666
Other notes payable	<u>170,939</u>
	3,243,564
Less-Current Portion	<u>(838,066)</u>
	<u>\$ 2,405,498</u>

Repayment of long-term debt as of June 30 is as follows:

2003	838,066
2004	241,301
2005	246,430
2006	252,792
2007	870,004
Thereafter	<u>794,971</u>
	<u>\$ 3,243,564</u>

The Archdiocese maintains \$4,500,000 of unsecured lines of credit. No borrowings were outstanding under these agreements at June 30, 2002.

ARCHDIOCESE OF MILWAUKEE

NOTES TO COMBINED FINANCIAL STATEMENTS

June 30, 2002

NOTE 10 – EMPLOYEE BENEFIT PLANS

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 direct fiscal management of the Archbishop, as listed in Note 1. A summary of each plan follows:

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.

The plan is under funded in that the accumulated benefit obligation exceeds the plan's assets as of July 1, 2002, the date of the latest available actuarial valuation.

Pension expense for fiscal year 2002 was approximately \$989,000, 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.

The plan is under funded in that the accumulated benefit obligation exceeds the plan's assets as of July 1, 2002, the date of the latest available actuarial valuation.

Pension expense for fiscal year 2002 was approximately \$40,000 which includes amortization of past service costs over 30 years. Annual contributions to the plan equal amounts accrued for pension expense.

Cemetery and Mausoleum Employees' Union Pension Plan

Union employees of the cemetery and mausoleum operations are participants in this defined benefit plan. The plan is contributory and provides pension benefits based on a specified percentage of final average compensation per year of service.

ARCHDIOCESE OF MILWAUKEE

NOTES TO COMBINED FINANCIAL STATEMENTS

June 30, 2002

NOTE 10 – EMPLOYEE BENEFIT PLANS (CONTINUED)

Cemetery and Mausoleum Employees' Union Pension Plan (CONTINUED)

Net periodic pension cost for the plan for the year ended June 30 includes the following components:

Service Cost	\$ 59,998
Interest Cost on Projected Benefit Obligation	115,288
Actual Return on Assets	(65,441)
Net Amortization and Deferral	<u>25,986</u>
 Net Periodic Pension Cost	 <u>\$ 135,831</u>

Assumptions used in calculating pension expense were:

	As of July 1,
	<u>2002</u>
Discount Rate	6.5%
Rate of Increase in Compensation Levels	4.0%
Expected Long-term Rate of Return on Assets	8.0%

The following table sets forth the plan's funded status and amounts recognized in the combined statements of financial position as of June 30:

Actuarial Present Value of Benefit Obligation	
Vested Benefit Obligation	<u>\$ (1,470,320)</u>
 Accumulated Benefit Obligation	 <u>\$ (1,506,994)</u>
 Projected Benefit Obligation	 \$ (1,941,285)
Plan Assets at Fair Value, Comprised of a Deposit with an Insurance Company	<u>845,661</u>
Projected Benefit Obligation in Excess of Plan Assets	(1,095,624)
Unrecognized Net Loss	267,524
Unrecognized Prior Service Cost	<u>130,786</u>
 Accrued Pension Liability	 <u>\$ (697,314)</u>

ARCHDIOCESE OF MILWAUKEE

NOTES TO COMBINED FINANCIAL STATEMENTS June 30, 2002

NOTE 10 – EMPLOYEE BENEFIT PLANS (CONTINUED)

Postretirement Benefits Other Than Pensions

The Archdiocese provides defined benefit postretirement health insurance benefits to its diocesan priests. Covered members become eligible for these benefits at retirement after meeting minimum age and service requirements. The costs of future benefits are accrued during 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.

The accumulated postretirement benefit obligation as of June 30, consisted of unfunded obligations related to the following:

Retirees	\$ 4,037,558
Fully Eligible Active Plan Participants	835,721
Other Active Plan Participants	<u>4,022,389</u>
Accrued Postretirement Liability	<u>\$ 8,895,668</u>

Net Postretirement benefit cost for the year ended June 30 included the following components:

Service Cost	\$ 371,459
Interest Cost on Accumulated Postretirement Benefit Obligation	<u>1,348,484</u>
Net Postretirement Benefit Cost	<u>\$ 1,719,943</u>

The assumptions used to develop the net postretirement benefit expense and the present value of benefit obligations are as follows:

Discount Rate	7.0%
Medical Cost Trend Rate for the Next Year	10.0%
Dental Cost Trend Rate for Next Year	4.0%

The medical cost trend rate used to value the accumulated postretirement benefit obligation is assumed to decrease gradually to an ultimate rate of 5% in 2009, while the dental cost trend rate used is assumed to remain at 4.0%. A 1.0% increase in these annual trend rates would increase the accumulated postretirement benefit obligation as of June 30, 2002 by approximately \$2,785,288 and the combined service and interest components of the annual net postretirement health care cost for fiscal year 2002 by approximately \$283,292.

ARCHDIOCESE OF MILWAUKEE

NOTES TO COMBINED FINANCIAL STATEMENTS June 30, 2002

NOTE 11 – TEMPORARILY RESTRICTED NET ASSETS

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

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

Chancery	
St. John's Burse (for deaf and hearing impaired ministry)	\$ 194,210
St. Anthony's Hospital (for health care needs of the medically indigent)	94,419
Capital Campaign (for various capital and program needs)	218,807
Rapp Trust (for capital needs of St. Michael's Church in Mitchell, Wisconsin)	644,700
General Operations and Other	<u>1,920,943</u>
	<u>3,073,079</u>
Seminary	
General Operations and Other	<u>4,662,124</u>
High Schools	
Pius	
Scholarships	93,645
Clubs and Associations	89,445
Capital Improvements	<u>314,167</u>
	<u>497,257</u>
Catholic Memorial	
Scholarships	118,861
Other	<u>376,011</u>
	<u>494,872</u>
Thomas More	
Scholarships	131,483
Other	<u>53,902</u>
	<u>185,385</u>
Springs	
Capital Improvements	33,290
Other	<u>299,395</u>
	<u>332,685</u>
St. Joseph	
Clubs and Associations	1,573
Capital Improvements	28,000
Other	<u>74,429</u>
	<u>104,002</u>
Total High Schools	<u>1,614,201</u>
Total Temporarily Restricted Net Assets	<u>\$ 9,349,404</u>

ARCHDIOCESE OF MILWAUKEE

NOTES TO COMBINED FINANCIAL STATEMENTS

June 30, 2002

NOTE 12 – 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.

Chancery:

Education Endowment Fund (for needy children for tuition in any schools of the Catholic Archdiocese of Milwaukee)	\$ 1,000,000
Msgr. Eugene J. Kapalczynski Development Fund	2,000,000
General Operations and Other	91,006
	<u>3,091,006</u>

High Schools:

Pius	
Scholarships	404,000
Other	64,853
	<u>468,853</u>

Catholic Memorial

Scholarships	1,426,473
Other	332,285
	<u>1,758,758</u>

Thomas More

Scholarships	152,310
Other	84,435
	<u>236,745</u>

Springs

Scholarships	1,611,304
Other	176,714
	<u>1,788,018</u>

St. Josephs

Scholarships	418,876
Clubs and Associations	2,500
Other	60,666
	<u>482,042</u>

Total High Schools 4,734,416

Total Permanently Restricted Net Assets \$ 7,825,422

ARCHDIOCESE OF MILWAUKEE

NOTES TO COMBINED FINANCIAL STATEMENTS

June 30, 2002

NOTE 13 – PROTECTED SELF-INSURANCE PROGRAM

The Archdiocese along with all parishes and various other Catholic entities operating within the boundaries of the Archdiocese under the direct fiscal operating control of the Archbishop, 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 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.

NOTE 14 – CONTINGENCIES

The Archdiocese is currently involved as a defendant in various lawsuits. While the ultimate outcome of such actions cannot be determined at this time, in view of available defenses, insurance coverages, the opinion of management and legal counsel, and other factors, such outcome is not expected to have a material effect on the financial condition of the Archdiocese.

NOTE 15 – FINANCIAL INSTRUMENTS

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 June 30, 2002.

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 and investments in the Parish Deposit Fund.

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.

Long-Term Debt

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

Parish Deposit Fund Liability

The carrying amount approximates fair value because of the variable nature of the associated interest rate.

ARCHDIOCESE OF MILWAUKEE

NOTES TO COMBINED FINANCIAL STATEMENTS June 30, 2002

NOTE 16 - CONCENTRATIONS

Prior to June 30, 2001, a new foundation, the Archdiocese of Milwaukee Catholic Community Foundation, Inc. (the "Foundation"), was formed. The foundation's purpose is to allow donors to contribute money to support the mission of the Catholic Church. The Archdiocese contributed approximately \$6,904,000 to the Foundation in fiscal year ended June 30, 2002, included in this contribution was a transfer of \$229,585 of permanently restricted net assets.

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

NOTE 17 – PRIOR PERIOD ADJUSTMENT

Net assets at July 1, 2001 have been adjusted to correct the omission of the recording of pledges received and construction costs paid on behalf of St. Johns Cathedral made in the year ended June 30, 2000. Had the omission not been made, the change in net assets for the year ended June 30, 2001 would have been increased by \$3,633,405.

SUPPLEMENTAL INFORMATION

ARCHDIOCESE OF MILWAUKEE

COMBINING STATEMENT OF FINANCIAL POSITION June 30, 2002

ASSETS	Chancery	High Schools	Seminary	Cemeteries & Mausoleum	Eliminations	Total
CURRENT ASSETS						
Cash and cash equivalents	\$ 2,796,053	\$ 3,850,501	\$ 500	\$ 900	\$ -	\$ 6,647,954
Short-term investments	92,441	-	-	-	-	92,441
Receivables-						
Accounts and notes, net	900,978	225,366	85,845	1,720,983	(60,000)	2,873,172
Contributions, net	2,301,846	672,503	65,669	-	(159,344)	2,880,674
Parish obligations, net	3,024,785	8,627,784	-	-	(8,627,785)	3,024,784
Interest and dividends	1,031,986	-	123,189	-	(75,365)	1,079,810
Total receivables	7,259,595	9,525,653	274,703	1,720,983	(8,922,494)	9,858,440
Prepaid expenses and inventories	444,706	751,884	223,378	429,698	-	1,849,666
Properties held for sale	305,951	15,900	-	-	-	321,851
Total current assets	10,898,746	14,143,938	498,581	2,151,581	(8,922,494)	18,770,352
Ground burial and mausoleum crypt sites	-	-	-	10,863,570	-	10,863,570
Property and equipment	9,633,155	15,789,294	5,125,949	2,282,079	-	32,830,477
Parish Deposit Fund	72,983,750	-	-	-	-	72,983,750
Assets Designated for the future care of cemeteries and mausoleums, primarily cash and investments	-	-	-	47,774,674	(1,300,000)	46,474,674
INVESTMENTS AND OTHER ASSETS						
Long-term investments	4,943,377	2,033,790	7,445,602	1,158,818	(1,935,503)	13,646,084
Contributions receivable, net	-	738,374	-	-	-	738,374
Mortgages receivable	1,821,531	-	-	-	-	1,821,531
Total investments and other assets	6,764,908	2,772,164	7,445,602	1,158,818	(1,935,503)	16,205,989
Interdiocesan	(574,949)	(9,172,341)	(198,753)	9,946,043	-	-
TOTAL ASSETS	\$ 99,705,610	\$ 23,533,055	\$ 12,871,379	\$ 74,176,765	\$ (12,157,997)	\$ 198,128,812

	Chancery	High Schools	Seminary	Cemeteries & Mausoleum	Eliminations	Total
LIABILITIES & NET ASSETS						
CURRENT LIABILITIES						
Current maturities of long-term debt	\$ 1,398,346	\$ 739,720	\$ -	\$ -	\$ (1,300,000)	\$ 838,066
Accounts payable	2,883,383	942,469	36,647	112,317	(159,344)	3,815,472
Contributions payable	1,479,409	-	-	-	-	1,479,409
Accrued liabilities	464,536	1,981,542	57,423	121,036	(75,365)	2,549,172
Deferred revenue	88,992	7,517,892	-	-	-	7,606,884
Collections to be forwarded on to other entities	1,382,161	-	-	-	-	1,382,161
Total current liabilities	7,696,827	11,181,623	94,070	233,353	(1,534,709)	17,671,164
Parish Deposit Fund	55,087,406	60,000	-	-	(10,623,288)	44,524,118
Long-term debt	592,320	1,813,178	-	-	-	2,405,498
Accrued postretirement benefits	9,592,982	-	-	-	-	9,592,982
Deferred revenue	-	-	-	1,200,934	-	1,200,934
Total liabilities	72,969,535	13,054,801	94,070	1,434,287	(12,157,997)	75,394,696
NET ASSETS						
Unrestricted						
Undesignated operating	11,931,825	4,129,637	7,384,601	24,967,804	1,750,248	50,164,115
Designated	8,189,917	-	730,584	47,774,674	(1,300,000)	55,395,175
Total unrestricted	20,121,742	4,129,637	8,115,185	72,742,478	450,248	105,559,290
Temporarily restricted	3,523,327	1,614,201	4,662,124	-	(450,248)	9,349,404
Permanently restricted	3,091,006	4,734,416	-	-	-	7,825,422
Total net assets	26,736,075	10,478,254	12,777,309	72,742,478	-	122,734,116
TOTAL LIABILITIES AND NET ASSETS	\$ 99,705,610	\$ 23,533,055	\$ 12,871,379	\$ 74,176,765	\$ (12,157,997)	\$ 198,128,812

ARCHDIOCESE OF MILWAUKEE

COMBINING STATEMENT OF ACTIVITIES For the year ended June 30, 2002

	Chancery	High Schools	Seminary	Cemeteries and Mausoleums	Eliminations	Total
UNRESTRICTED NET ASSETS						
REVENUE, GAINS AND OTHER SUPPORT						
Contributions	\$ 9,680,667	\$ 708,690	\$ 2,645,026	\$ -	\$ -	\$ 13,034,383
Value of contributed services	-	40,476	174,489	-	(126,969)	87,996
Parish assessments	5,149,091	582,151	-	-	-	5,731,242
Tuitions and fees	540,835	19,058,806	404,835	-	-	20,004,476
Various activities and special programs	1,154,669	4,522,926	101,956	-	-	5,779,551
Cemetery and mausoleum sales	-	-	-	5,574,923	-	5,574,923
Investment income	4,256,519	517,848	366,006	1,109,217	(492,209)	5,757,381
Net realized and unrealized losses	71,656	(22,816)	(75,585)	(3,484,938)	-	(3,511,683)
Miscellaneous revenues	1,262,236	328,639	192,559	-	-	1,783,434
Net assets released from restrictions	12,058,053	2,595,588	262,461	-	(44,752)	14,871,350
Total revenue, gains and other support	34,173,726	28,332,308	4,071,747	3,199,202	(663,930)	69,113,053
EXPENSES						
Payroll and fringe benefits	11,030,358	18,706,977	2,451,758	3,061,402	(126,969)	35,123,526
Repairs, maintenance, insurance, utility costs	697,182	2,035,903	240,460	907,173	-	3,880,718
Travel and education	339,906	301,685	79,326	49,235	-	770,152
Data processing	33,679	8,564	27,222	-	-	69,465
Allowance for doubtful accounts	273,959	141,731	30,180	-	-	445,870
Supplies	1,575,135	2,267,930	221,849	116,987	-	4,181,901
Interest expense	3,039,555	4,200	-	3,714	(492,209)	2,555,260
Food service	658,888	265,317	124,360	-	-	1,048,565
Assessments	487,777	40,399	-	-	-	528,176
Cost of lot and crypt sales	-	-	-	1,527,512	-	1,527,512
Activities exclusive of salaries and supplies	-	2,490,857	-	-	-	2,490,857
Professional services	2,168,906	55,903	335,116	442,121	-	3,002,046
Scholarships and donations	13,000,477	5,500	279,097	-	(495,000)	12,790,074
Donations to the Cathedral project	7,996,239	-	-	-	-	7,996,239
Miscellaneous expenses	390,011	671,604	301,001	55,371	-	1,417,987
Depreciation	527,491	892,570	199,804	216,543	-	1,836,408
Total expenses	42,219,563	27,889,140	4,290,173	6,380,058	(1,114,178)	79,664,756
CHANGE IN NET ASSETS	(8,045,837)	443,168	(218,426)	(3,180,856)	450,248	(10,551,703)
Net assets, beginning of year as previously reported	28,447,734	3,686,469	8,333,611	75,923,334	-	116,391,148
Prior period adjustment	(280,155)	-	-	-	-	(280,155)
Net assets, end of year	\$ 20,121,742	\$ 4,129,637	\$ 8,115,185	\$ 72,742,478	\$ 450,248	\$ 105,559,290

ARCHDIOCESE OF MILWAUKEE

COMBINING STATEMENT OF ACTIVITIES For the year ended June 30, 2002

	Chancery	High Schools	Seminary	Ceme- teries and Mausoleum	Eliminations	Total
TEMPORARILY RESTRICTED NET ASSETS						
REVENUE, GAINS AND OTHER SUPPORT						
Contributions	\$ 4,518,426	\$ 1,826,484	\$ 159,221	\$ -	\$ (495,000)	\$ 6,009,131
Investment income	139,413	37,831	-	-	-	177,244
Net assets released from restrictions	<u>(11,828,468)</u>	<u>(2,595,588)</u>	<u>(262,461)</u>	<u>-</u>	<u>44,752</u>	<u>(14,641,765)</u>
Total revenue, gains and other support	<u>(7,170,629)</u>	<u>(731,273)</u>	<u>(103,240)</u>	<u>-</u>	<u>(450,248)</u>	<u>(8,455,390)</u>
CHANGE IN NET ASSETS	(7,170,629)	(731,273)	(103,240)	-	(450,248)	(8,455,390)
Net assets, beginning of year as previously reported	6,539,485	2,345,474	4,765,364	-	-	13,650,323
Prior period adjustment	<u>4,154,471</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,154,471</u>
Net assets, end of year	<u>\$ 3,523,327</u>	<u>\$ 1,614,201</u>	<u>\$ 4,662,124</u>	<u>\$ -</u>	<u>\$ (450,248)</u>	<u>\$ 9,349,404</u>
PERMANENTLY RESTRICTED NET ASSETS						
REVENUE, GAINS AND OTHER SUPPORT						
Contributions	\$ 2,000,000	\$ 235,003	\$ -	\$ -	\$ -	\$ 2,235,003
Net assets released from restrictions	<u>(229,585)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(229,585)</u>
Total revenue, gains and other support	<u>1,770,415</u>	<u>235,003</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,005,418</u>
CHANGE IN NET ASSETS	1,770,415	235,003	-	-	-	2,005,418
Net assets, beginning of year as previously reported	<u>1,320,591</u>	<u>4,499,413</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,820,004</u>
Net assets, end of year	<u>\$ 3,091,006</u>	<u>\$ 4,734,416</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,825,422</u>