

ARCHDIOCESE OF MILWAUKEE

Milwaukee, Wisconsin

FINANCIAL STATEMENTS

Including Independent Auditors' Report

As of and for the Years Ended June 30, 2019 and 2018

ARCHDIOCESE OF MILWAUKEE

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INDEPENDENT AUDITORS' REPORT

The Most Reverend Jerome E. ListECKI, Archbishop of Milwaukee
Archdiocese of Milwaukee
Milwaukee, Wisconsin

We have audited the accompanying financial statements of Archdiocese of Milwaukee (the "Archdiocese"), which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Archdiocese as of June 30, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the Archdiocese adopted Accounting Standards Update No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to that matter.

As discussed in Note 1 to the financial statements, the Archdiocese changed the presentation of the statements of financial position from classified used in 2018 to unclassified in 2019. The change was applied retrospectively to the 2018 presentation. Our opinion is not modified with respect to that matter.

Baker Tilly Virchow Krause, LLP

Milwaukee, Wisconsin
November 6, 2019

ARCHDIOCESE OF MILWAUKEE

STATEMENTS OF FINANCIAL POSITION As of June 30, 2019 and 2018

ASSETS		
	2019	2018
ASSETS		
Cash and cash equivalents	\$ 19,253,014	\$ 11,654,346
Receivables, net	5,297,207	5,345,560
Notes receivable, net	259,932	2,524,278
Investments	19,217,429	24,346,892
Cemetery - ground burial and crypt sites	4,433,827	4,438,389
Land, buildings and equipment, net	4,571,095	4,916,562
Beneficial interest in Cemetery Trust	58,060,711	56,122,605
Other assets	952,655	1,304,273
TOTAL ASSETS	\$ 112,045,870	\$ 110,652,905
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	\$ 1,512,903	\$ 1,631,177
Pledges payable	2,552,383	2,549,311
Deferred revenue	9,421,357	6,809,667
Accrued Priests' post-retirement benefits	19,015,903	18,636,946
Collections held for others	1,228,554	1,155,116
Custodial funds held for others	485,503	1,605,982
Notes payable	5,454,198	5,620,382
Asset retirement obligation	1,085,070	1,074,326
Total Liabilities	40,755,871	39,082,907
NET ASSETS		
Without Donor Restrictions		
Undesignated operating (deficit)	(7,162,406)	(4,767,285)
Board designated	2,770,697	2,518,874
Beneficial interest in Cemetery Trust	58,060,711	56,122,605
Total Net Assets Without Donor Restrictions	53,669,002	53,874,194
With Donor Restrictions		
Purpose and time restricted	13,904,631	13,979,438
Endowment Fund	3,716,366	3,716,366
Total Net Assets With Donor Restrictions	17,620,997	17,695,804
Total Net Assets	71,289,999	71,569,998
TOTAL LIABILITIES AND NET ASSETS	\$ 112,045,870	\$ 110,652,905

See accompanying notes to financial statements.

ARCHDIOCESE OF MILWAUKEE

STATEMENTS OF ACTIVITIES
For the Years Ended June 30, 2019 and 2018

	2019		2018	
	Without Donor Restrictions	With Donor Restrictions	Without Donor Restrictions	With Donor Restrictions
REVENUES AND OTHER SUPPORT				
Annual Appeal	-	8,050,953	-	8,345,735
Assessments	8,510,632	-	7,531,030	-
Contributions	557,951	2,257,694	646,267	2,402,435
Grants	380	830,450	-	997,177
Program revenues	372,147	-	642,919	-
Cemetery sales and services	6,295,307	-	6,168,572	-
Distributions from Cemetery Trust	1,950,000	-	1,950,000	-
Other revenue	517,787	-	770,418	-
Gain on sale of property and equipment	6,500	-	174,010	-
Net assets released from restrictions	11,312,118	(11,312,118)	10,292,508	(10,292,508)
Total Revenues and Other Support	29,522,822	(173,021)	28,175,724	1,452,839
				29,628,563
OPERATING EXPENSES				
Salaries and benefits	14,254,273	-	13,063,865	-
Occupancy	2,862,718	-	2,031,254	-
Office and program supplies	3,742,154	-	3,617,992	-
Travel and professional development	552,278	-	454,595	-
Cost of sales	1,178,562	-	875,637	-
Grants and other assistance	6,361,370	-	3,883,176	-
Professional services	889,627	-	876,457	-
Interest	252,984	-	260,760	-
Depreciation	448,993	-	379,572	-
Priests' medical periodic pension cost	1,133,880	-	1,440,809	-
Other	1,267,188	-	966,434	-
Total Operating Expenses	32,944,027	-	27,850,551	-
				27,850,551
CHANGE IN NET ASSETS FROM OPERATIONS	(3,421,205)	(173,021)	325,173	1,452,839
NON-OPERATING ACTIVITIES				
Investment return, net	522,984	98,214	(32,791)	476,477
Priest Medical related changes other than net periodic pension cost	754,923	-	5,493,054	-
Change in beneficial interest in Cemetery Trust	1,938,106	-	2,112,542	-
Total Non-Operating Activities	3,216,013	98,214	7,572,805	476,477
				8,049,282
CHANGE IN NET ASSETS	(205,192)	(74,807)	7,897,978	1,929,316
NET ASSETS - Beginning of Year	53,874,194	17,695,804	45,976,216	15,766,488
NET ASSETS - END OF YEAR	\$ 53,669,002	\$ 17,620,997	\$ 53,874,194	\$ 17,695,804

See accompanying notes to financial statements.

ARCHDIOCESE OF MILWAUKEE

STATEMENTS OF CASH FLOWS For the Years Ended June 30, 2019 and 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (279,999)	\$ 9,827,294
Adjustments to reconcile total non-operating activities to net cash flows from operating activities:		
Bad debt expense (recovery)	864,809	(55,426)
Depreciation and amortization	448,993	379,572
Asset retirement expense	10,744	23,126
Forgiveness of note receivable	2,453,697	-
Investment return, net	269,887	(156,677)
Gain (loss) on sale of property and equipment	(6,500)	(174,010)
Change in beneficial interest in Cemetery Trust	(1,938,106)	(2,125,901)
Changes in assets and liabilities:		
Receivables, payables, accrued expenses and pledges payable	(931,658)	(1,385,736)
Other assets	351,618	(18,008)
Ground burial and mausoleum crypt sites	4,562	268,848
Deferred revenue	2,611,690	2,258,767
Accrued postretirement and pension benefits	378,957	(4,713,792)
Net Cash Flows from Operating Activities	4,238,694	4,128,057
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments received on notes receivable	310,649	54,242
Purchase of property and equipment	(103,526)	(1,253,695)
Proceeds from the sale of property and equipment	6,500	437,829
Proceeds from sale of investments	5,580,929	1,156,157
Purchase of investments	(721,353)	(1,519,515)
Notes receivable granted	(500,000)	(2,000,000)
Net change in collections held for others	73,438	104,433
Net change in custodial funds held for others	(1,120,479)	(154,840)
Net Cash Flows from Investing Activities	3,526,158	(3,175,389)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on note payable	(166,184)	(160,409)
Payments made of line of credit	-	(220,000)
Payments made on asset retirement obligation	-	(5,375)
Net Cash Flows from Financing Activities	(166,184)	(385,784)
Net Change in Cash and Cash Equivalents	7,598,668	566,884
CASH AND CASH EQUIVALENTS - Beginning of Year	11,654,346	11,087,462
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 19,253,014	\$ 11,654,346
Supplemental cash flow disclosures		
Cash paid for interest	\$ 252,984	\$ 260,760

See accompanying notes to financial statements.

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2019 and 2018

NOTE 1 - Summary of Significant Accounting Policies

Nature of Activities

The Archdiocese of Milwaukee (the "Archdiocese") provides ministerial support and services to parishes and other Catholic entities within a ten county region of Southeastern Wisconsin. Our mission is to proclaim Christ and make disciples through the sacramental life of the Church.

The Archdiocese is a not-for-profit Wisconsin corporation, without capital stock. Accordingly, the financial statements do not include any amounts for 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. However, any unrelated business income may be subject to taxation.

The financial statements include corporate assets, liabilities, and operations of the Archdiocese of Milwaukee, primarily based in the Central Services Offices and the Cemeteries and Mausoleums.

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. Therefore, in accordance with accounting principles generally accepted in the United States of America, they 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

Investments are generally recorded at fair value based on quoted market prices, when available, or estimates of fair value. Donated assets are recorded at fair value at the date of donation or, if sold immediately after receipt, at the amount of sales proceeds received (which are considered a fair measure of the value at the date of donation). Those investments for which fair value is not readily determinable are carried at cost or, if donated, at fair value at the date of donation, or if no value can be estimated, at a nominal value. The Archdiocese records the change of ownership of bonds and stocks on the day a trade is made. Investment income or loss, and unrealized gains or losses, net of investment fees are included in the statements of activities as increases or decreases in net assets without donor restrictions unless the income or loss is restricted by donor or law.

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2019 and 2018

NOTE 1 - Summary of Significant Accounting Policies (cont.)

Receivables

The Archdiocese uses the allowance method to account for uncollectible accounts receivable. Bad debts are charged against the allowance when deemed uncollectible. The allowance is based on historic collection experience and a review of the current status of receivables.

Receivables are presented net of allowance for uncollectible accounts of \$4,848,436 and \$3,988,807 at June 30, 2019 and 2018, respectively.

Net receivables as of June 30 consist of:

	<u>2019</u>	<u>2018</u>
Accounts receivable	\$ 2,480,620	\$ 2,570,266
Contributions	1,424,762	1,656,019
Charitable remainder trusts	734,240	662,134
Parish and school obligations	614,838	409,878
Interest and dividends	<u>42,747</u>	<u>47,263</u>
Total Accounts receivable, net	<u>\$ 5,297,207</u>	<u>\$ 5,345,560</u>

Notes Receivable

The Archdiocese has outstanding notes to certain parishes and schools for capital improvements and other needs. Notes receivable represent unsecured notes to parishes and schools. These notes are either a term loan or a demand note and carry an interest rate ranging from 0% to 1.8%. The current portion of the notes receivable were \$12,235 and \$88,096 at June 30, 2019 and 2018, respectively. The notes receivable are presented net of allowances for uncollectible accounts of \$330,455 and \$341,705 at June 30, 2019 and 2018, respectively.

Life Insurance Contributions

Donors have contributed multiple life insurance policies on their lives to the Archdiocese. The cash surrender value of \$244,462 and \$239,717 at June 30, 2019 and 2018, respectively, is included in other assets on the statements of financial position.

Contribution revenue has been recorded for the change in cash surrender value of these policies and is recorded if and when the policy is cashed in.

Land, Buildings and Equipment

Acquisitions of land, buildings and equipment in excess of \$5,000 and expenditures for improvements and betterments that materially prolong the useful lives of assets are capitalized.

Land, buildings, and equipment are primarily carried at cost.

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended June 30, 2019 and 2018

NOTE 1 - Summary of Significant Accounting Policies (cont.)

Land, Buildings and Equipment (cont.)

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

	<u>Years</u>
Buildings	50
Building Improvements	5 - 40
Leasehold Improvements	20
Land Improvements	20
Furniture and Fixtures	10
Equipment	3 - 10
Vehicles	5

The Archdiocese follows current authoritative guidance for accounting for conditional asset retirement obligations. The guidance refers to a legal obligation to perform an asset retirement activity even if the timing and/or settlement is conditional on a future event that may or may not be within the control of an organization. Accordingly, if the Archdiocese 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. The Archdiocese recognized a liability for the abatement of asbestos at the Mary Mother of the Church Pastoral Center ("Center"). As the lessee of the Center, the Archdiocese is responsible for payment of such costs. Liabilities of \$1,085,070 and \$1,074,326 as of June 30, 2019 and 2018, respectively, are found in the statements of financial position as 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. There have been no such losses during the years ended June 30, 2019 and 2018.

Beneficial Interest in Cemetery Trust

The Archdiocese operates cemeteries which assist in caring for the faithful departed by performing an ancient corporal work of mercy – providing and maintaining appropriate facilities for burial of the dead. On April 2, 2007, the Archdiocese of Milwaukee Catholic Cemetery Perpetual Care Trust ("the Cemetery Trust") was created to formalize the trust relationship with respect to funds (the "Perpetual Care Funds") which were held under a fiduciary responsibility to adequately provide for the future care of mausoleums, crypts, and gravesites. The Cemetery Trust is a distinct legal entity whose assets are legally restricted to the purposes of the Cemetery Trust. The Archdiocese disclaims control of the Cemetery Trust or a right to receive assets for any purpose other than for the care and maintenance of cemetery properties.

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2019 and 2018

NOTE 1 - Summary of Significant Accounting Policies (cont.)

Beneficial Interest in Cemetery Trust (cont.)

In March 2008, all assets accumulated over time for the future care of cemeteries and mausoleums were moved to a separate investment account controlled by the Cemetery Trust.

In accordance with accounting protocols, a beneficial interest in the Cemetery Trust at the value of the Trust's assets appears on the statements of financial position. The Trust's assets consist primarily of cash and investments.

The Archdiocese is entitled to receive distributions from the Cemetery Trust in an amount not less than \$487,500 per quarter, to be used solely for the care and maintenance of the cemeteries and mausoleums operated or maintained by the Archdiocese. Pursuant to the Cemetery Trust Settlement Agreement, the Archdiocese is entitled to receive these distributions for so long as the Archdiocese remains obligated to the Cemetery Trust pursuant to the Cemetery Trust Loan (this loan is disclosed in Note 8). The distributions totaled \$1,950,000 each for the years ended June 30, 2019 and 2018.

Pledges Payable

Total contributions payable consist of contributions payable of \$2,552,383 and \$2,549,311, as of June 30, 2019 and 2018, respectively. These amounts are primarily Catholic Stewardship Appeal grants for the upcoming year.

Collections Held for Others

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.

Custodial 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. The Archdiocese may provide administrative services to help support these ministries and programs. The custodial funds held for others as of June 30 consist of:

	<u>2019</u>	<u>2018</u>
Priests' Continuing Formation Program	\$ -	\$ 1,132,118
Charitable gift annuities	163,695	167,294
Other	<u>321,808</u>	<u>306,570</u>
Total	<u>\$ 485,503</u>	<u>\$ 1,605,982</u>

During the year ended June 30, 2019, all the assets held for the Priests' Continuing Formation Program were moved to a separate investment account controlled by the Clergy Continuing Formation Irrevocable Trust. These funds were not owned by the Archdiocese and the Archdiocese does not retain any beneficial interest in this trust.

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended June 30, 2019 and 2018

NOTE 1 - Summary of Significant Accounting Policies (cont.)

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:

Net Assets Without Donor Restrictions - Net assets that are not subject to donor-imposed stipulations.

Net Assets With Donor Restrictions - Net assets subject to donor-imposed stipulations that will be met either by actions of the Archdiocese and/or the passage of time or are required to be maintained permanently. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Board Designated Net Assets

The Archdiocese may designate a portion of net assets without donor restrictions for a specific purpose. These designations can be modified or removed by the Archdiocese at anytime.

At June 30, designated net assets without donor restrictions consist of the following:

Specific Purposes

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

	<u>2019</u>	<u>2018</u>
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)	\$ 1,516,227	\$ 1,516,227
St. John's Burse (for deaf and hearing impaired ministry)	512,100	512,100
Mary Mother of the Church Endowment Fund	270,619	240,140
Beihoff Fund (scholarships)	151,878	142,316
General operations and other	<u>319,873</u>	<u>108,091</u>
Total Designated Net Assets	<u>\$ 2,770,697</u>	<u>\$ 2,518,874</u>

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended June 30, 2019 and 2018

NOTE 1 - Summary of Significant Accounting Policies (cont.)

Board Designated Net Assets (cont.)

The Archdiocese has an economic interest, as defined by accounting standards, in the Cemetery Trust. Trust funding occurs as part of the sale of burial rights, and trust funds are subject to a fiduciary obligation to be used for the purpose of perpetual care of Archdiocesan Cemeteries.

	<u>2019</u>	<u>2018</u>
Limited to perpetual care of cemeteries	<u>\$ 58,060,711</u>	<u>\$ 56,122,605</u>

Measure of Operations

The Archdiocese's transactions that are part of the programs that support the pastoral ministries, cemetery operations, central service office, and fundraising activities of the Archdiocese are reported as operating revenue and expense. All other transactions are reported as non-operating revenue or expense, such as investment return net of fees, post-retirement benefits other than pension costs, and the change in the beneficial interest of the Cemetery Trust.

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, net assets with donor restrictions are reclassified to net assets without donor restrictions 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 and niches 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, with the units 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 and niches through the installment method in which customers are given up to four years to pay. Revenue from these sales is recognized immediately. Cash or receivables related to pre-planned burial needs are recorded as deferred revenue. Once the services are provided, revenue and corresponding expense is recognized.

There is a fiduciary obligation which exists to hold certain of the funds collected for perpetual care. After March, 2008, the funds which must be held for the perpetual care of the cemeteries were deposited into the Cemetery Trust.

Investments on the statements of financial position include cash of \$6,126,560 and \$5,588,630 as of June 30, 2019 and 2018, respectively for the Cemeteries Pre-Need Trust Fund, which is restricted for future services to be provided.

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2019 and 2018

NOTE 1 - Summary of Significant Accounting Policies (cont.)

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 by generally accepted accounting principles.

Leased Facilities

The Archdiocese of Milwaukee occupies premises owned by DeSales Preparatory Seminary, Inc. As the lessee, the Archdiocese is responsible for payment of operating and maintenance costs of the facilities.

Reclassifications

For comparability, certain 2018 amounts have been reclassified to conform with classifications adopted in 2019. The reclassifications have no effect on reported amounts of net assets or change in net assets.

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.

Adopted Accounting Pronouncement

In August 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The Archdiocese adopted ASU No. 2016-14 in 2019 and has applied the changes retrospectively to all periods presented, except for the disclosure around the availability of financial assets. This disclosure has been presented for 2019 only, as allowed by ASU No. 2016-14. The new standard changed the following aspects of the financial statements:

- The unrestricted net asset class has been renamed net assets without donor restrictions.
- The temporarily and permanently restricted net asset classes have been combined into a single net asset class called net assets with donor restrictions.
- Investment expenses are included in investment income, net on the statements of activities.
- The financial statements include a disclosure of functional expenses, which reports all expenses by nature and function. In addition, there is an added disclosure surrounding the allocation of expenses (Note 14).
- The financial statements include a disclosure about the availability of financial assets (Note 13).

The adoption of ASU No. 2016-14 did not cause a reclassification or restatement of net asset balances or change in net assets.

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2019 and 2018

NOTE 1 - Summary of Significant Accounting Policies (cont.)

Change in Presentation

During 2019, the Archdiocese also changed the presentation of the statements of financial position from classified in 2018 to unclassified in 2019. This change was applied retrospectively to the 2018 presentation. This caused the current and long-term portions of various assets and liabilities to be combined. The most significant change was to combine the short-term investments, long-term investments, custodial investments held for others, cemeteries pre-need trust fund account and charitable gift annuities investments into one line called investments. Other reclassifications were made from other assets to notes and accounts receivable, charitable gift annuities to custodial funds held for others and line of credit to notes payable. These classifications also affected various lines on the cash flow statement. This change did not have any effect on net assets or the change in net assets.

New Accounting Pronouncements

In May 2014, FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU No. 2014-09 establishes principles for recognizing revenue upon the transfer of promised goods or services to customers in an amount that reflects the expected consideration received in exchange for those goods or services. Additional updates defer the effective date of ASU No. 2014-09, clarify the implementation guidance on principal versus agent considerations, clarify the identification of performance obligations and the licensing implementation guidance. Topic 606 (as amended) is effective for annual periods beginning after December 15, 2018 (2020). The changes may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of initial application. Management is currently assessing the effect that Topic 606 (as amended) will have on its financial statements.

In June 2018, FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The new guidance is intended to clarify and improve accounting guidance for contributions received and contributions made. The amendments in ASU No. 2018-08 should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. ASU No. 2018-08 is effective for contributions received during annual periods beginning after December 15, 2018 (2020) and contributions made during annual periods beginning after December 15, 2019 (2021). Management is currently assessing the effect that ASU No. 2018-08 will have on its financial statements.

In November 2016, FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. This standard will require cash flow statements to explain the change during a reporting period of the totals for cash, cash equivalents, restricted cash, and restricted cash equivalents. Amounts reported as restricted cash should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The update also includes a requirement that the footnotes to the financial statements explain the nature of the restrictions. The Archdiocese will be required to apply the standard for annual periods beginning after December 15, 2018 (2020). Early adoption will be permitted and the standard should be applied retrospectively upon adoption. Management is currently assessing the effect that ASU No. 2016-18 will have on its financial statements.

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2019 and 2018

NOTE 1 - Summary of Significant Accounting Policies (cont.)

New Accounting Pronouncements (cont.)

In February 2016, FASB issued ASU No. 2016-02, *Leases (Topic 842)* that amends the treatment for leases. The new accounting model for leases capitalizes all leases greater than twelve months, both capital and operating, as assets and liabilities on the statement of financial position. For not-for-profit entities that have issued, or are a conduit bond obligor for, securities that are traded, listed or quoted on an exchange or an over-the counter market, ASU No. 2016-02 (as amended) is effective for annual periods beginning after December 15, 2018 (2020). All other entities will be required to apply the standard for annual periods beginning after December 15, 2019 (2021). Early adoption is permitted. Management is currently assessing the effect that ASU No. 2016-02 will have on its financial statements.

In March 2017, FASB issued ASU No. 2017-07, *Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. The standard requires that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered during the period. Other components of the net benefit cost, as defined, are required to be presented in the statement of activities separately from the service cost component and outside a subtotal of income from operations, if one is presented. It must be clear where the other components are reported. The Archdiocese will be required to apply the standard for annual periods beginning after December 15, 2018 (2020). The standard should be applied retrospectively. Management is currently assessing the effect that ASU No. 2017-07 will have on its financial statements.

In August 2018, FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement*. ASU No. 2018-13 modifies the disclosure requirements for fair value measurements in Topic 820, *Fair Value Measurement*. ASU No. 2018-13 is effective for annual periods and interim periods within those annual periods beginning after December 15, 2019 (2021). Early adoption is permitted. Management is currently assessing the effect that ASU No. 2018-13 will have on its financial statements.

NOTE 2 - Fair Value of Financial Instruments

As defined by suggested accounting protocols, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Archdiocese uses various valuation methods including the market, income, and cost approaches. The assumptions used in the application of these valuation methods are developed from the perspective of market participants pricing the asset or liability. Inputs used in the valuation methods can be either readily observable, market corroborated, or generally unobservable inputs. Whenever possible the Archdiocese attempts to utilize valuation methods that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observation of the inputs used in the valuation methods, the Archdiocese is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Assets and liabilities measured, reported, and/or disclosed at fair value will be classified and disclosed in one of the following three categories:

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2019 and 2018

NOTE 2 - Fair Value of Financial Instruments (cont.)

Level 1 - Quoted market prices in active markets for identical assets or liabilities.

Level 2 - Observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3 - Unobservable inputs that are not corroborated by market data.

The table below presents the balances of assets measured at fair value on a recurring basis by level within the hierarchy.

		June 30, 2019			
		Level 1	Level 2	Level 3	Total
Assets					
Cash and money market funds	\$	-	\$ 7,305,094	\$ -	\$ 7,305,094
Commercial bonds	-	-	875,383	-	875,383
US Government bonds	-	-	3,587,478	-	3,587,478
US Government agency securities	-	-	1,135,510	-	1,135,510
Other investments	-	-	66,145	6,247,819	6,313,964
Beneficial interest in Cemetery Trust	-	-	12,969,610	6,247,819	19,217,429
Total Assets	\$	-	\$ 12,969,610	\$ 64,308,530	\$ 77,278,140
June 30, 2018					
		Level 1	Level 2	Level 3	Total
Assets					
Cash and money market funds	\$	-	\$ 12,164,671	\$ -	\$ 12,164,671
Commercial bonds	-	-	3,531,962	-	3,531,962
US Government bonds	-	-	1,031,539	-	1,031,539
US Government agency securities	-	-	1,360,235	-	1,360,235
Other investments	-	-	64,421	6,194,064	6,258,485
Beneficial interest in Cemetery Trust	-	-	18,152,828	6,194,064	24,346,892
Total Assets	\$	-	\$ 18,152,828	\$ 62,316,669	\$ 80,469,497

Investments on the statement of financial position include cash of \$6,126,560 and \$5,588,630 as of June 30, 2019 and 2018, respectively for the Cemeteries Pre-Need Trust Fund, which is restricted for future services to be provided.

Cash and money market funds are classified as Level 2 as they are not traded in an active market.

The Archdiocese classifies investments in bonds and US Government agency securities as Level 2 items as they are not publicly traded in active markets. The bonds are invested in US Government, corporate, and foreign issues.

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2019 and 2018

NOTE 2 - Fair Value of Financial Instruments (cont.)

The Archdiocese classifies other investments which are held at the Archdiocese of Milwaukee Catholic Community Foundation, Inc. ("CCF") as Level 3. It is not possible to determine a daily value of the Archdiocese's portion of the commingled investment portfolio. The portfolio is divided among a group of investment managers to achieve diversification. CCF's policy requires a written distribution request to be submitted at least 60 days prior to the required distribution date. If a request is for more than 50% of the account balance at the time of the request, CCF reserves the right to defer payment of the amount for up to six months after receipt of the written distribution request.

The Archdiocese classifies the beneficial interest in the Cemetery Trust as Level 3. It is valued based on the value of the underlying assets held by the Trust.

The changes in Level 3 assets measured at fair value on a recurring basis are summarized as follows:

	Other Investments	Beneficial Interest in Cemetery Trust	Total
Balance, June 30, 2018	\$ 6,194,064	\$ 56,122,605	\$ 62,316,669
Deposits	24,418	693,895	718,313
Withdrawals	(95,576)	(1,950,000)	(2,045,576)
Investment Income	124,913	3,194,211	3,319,124
 Balance, June 30, 2019	 \$ 6,247,819	 \$ 58,060,711	 \$ 64,308,530
	Other Investments	Beneficial Interest in Cemetery Trust	Total
Balance, June 30, 2017	\$ 5,727,977	\$ 53,996,704	\$ 59,724,681
Deposits	170,000	608,913	778,913
Withdrawals	(119,450)	(1,950,000)	(2,069,450)
Investment Income (loss)	415,537	3,466,988	3,882,525
 Balance, June 30, 2018	 \$ 6,194,064	 \$ 56,122,605	 \$ 62,316,669

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.

NOTE 3 - Contributions Receivable

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

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.

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2019 and 2018

NOTE 3 - Contributions Receivable (cont.)

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

	<u>2019</u>	<u>2018</u>
Less than one year	\$ 1,472,762	\$ 1,696,019
Less: Allowance for doubtful accounts	<u>(48,000)</u>	<u>(40,000)</u>
Net Contributions Receivable	<u>\$ 1,424,762</u>	<u>\$ 1,656,019</u>

Amounts are included in Receivables, net on the statements of financial position.

NOTE 4 - Cemetery - Ground Burial and Crypt Sites

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

	<u>2019</u>	<u>2018</u>
Mausoleum crypts and niches	\$ 1,685,281	\$ 1,701,473
Cemetery land and facilities held for burial privileges	<u>2,748,546</u>	<u>2,736,916</u>
Total	<u>\$ 4,433,827</u>	<u>\$ 4,438,389</u>

The Archdiocese does not record depreciation on these assets. The cost of individual crypts, niches and cemetery plots are allocated based on the costs of completion and are recorded as expense upon sale.

NOTE 5 - Land, Buildings and Equipment

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

	<u>2019</u>	<u>2018</u>
Land	\$ 860,510	\$ 860,510
Land and building improvements	1,709,434	1,777,567
Construction in progress	14,000	250,231
Buildings	9,841,168	10,039,775
Leasehold improvements	1,287,221	1,293,227
Furniture and fixtures, equipment	503,768	680,251
Vehicles	572,616	557,130
Vacant land	<u>94,810</u>	<u>94,810</u>
Total	14,883,527	15,553,501
Less: Accumulated depreciation	<u>(10,312,432)</u>	<u>(10,636,939)</u>
Net land, buildings and equipment	<u>\$ 4,571,095</u>	<u>\$ 4,916,562</u>

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2019 and 2018

NOTE 5 - Property and Equipment (cont.)

Land, building and equipment includes certain land, buildings, and equipment (other than leasehold improvements and equipment owned directly by the tenants) being used by Pius XI High School, Inc.; St. Thomas More High School, Inc.; St. Joseph High School Inc.; and St. Charles Youth and Family Services, Inc. ("St. Charles"). The Archdiocese and the three high schools have entered into lease agreements for a term ending in 2043 with a renewal option for 15 years. The Archdiocese and St. Charles entered into a lease ending on December 31, 2016, with two five year renewal options for part of the property utilized by St. Charles in its ministry. On February 22, 2016, St. Charles exercised its option to renew the lease for an additional five year term commencing January 1, 2017.

Outlined below are encumbrances on the property and equipment being used by the high schools.

Pius XI High School, Inc.	Subject to a mortgage and two lines of credit. The balances at June 30, 2019 were \$4,791,700 and \$795,000, respectively.
St. Thomas More High School, Inc.	Subject to a mortgage for up to \$1,100,000, a construction loan up to \$550,000 and a line of credit up to \$1,000,000. The balances at June 30, 2019 were \$860,681, \$211,956 and zero, respectively.
St. Joseph High School, Inc.	Subject to a mortgage up to \$350,000 of which \$100,000 is secured by the building and a \$250,000 line of credit also secured by the building. As of June 30, 2019, the mortgage balance was \$312,177 and the line of credit balance was zero.

The mortgages, loan and lines of credit are non-recourse as to the Archdiocese.

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2019 and 2018

NOTE 6 - Business Note

On October 12, 2016, the Archdiocese entered in a note with Catholic Financial Life. The amount financed through Catholic Financial Life was \$4,115,797 with a fixed interest rate of 4.60%. The business note is secured by first mortgage liens on real estate known as St. Charles Youth and Family Services Facility and the Mary Mother of the Church Pastoral Center.

Principal and interest payments of \$26,261 are due on the first day of each month. Additional principal payments of \$24,418 and \$56,000 were made during the fiscal year ended June 30, 2019 and 2018, respectively. Interest expense for fiscal years ended June 30, 2019 and 2018 were \$173,369 and \$180,726, respectively. The current portion of the note payable was \$149,242 and \$141,435 as of June 30, 2019 and 2018, respectively. The outstanding balance on the note at June 30, 2019 was \$3,674,198 and \$3,840,382 June 30, 2019 and 2018, respectively.

The term of the note is 15 years amortized over 20 years. A balloon payment of approximately \$1.3 million will be due at the end of the 15 year term assuming no additional principal payments are made.

Future maturities for the Catholic Financial Life note are as follows:

2020	\$	149,242
2021		156,254
2022		163,595
2023		171,282
2024		179,329
Thereafter		<u>2,854,496</u>
		<u>\$ 3,674,198</u>

Credit Lines

The Archdiocese is authorized to draw on a line of credit made available by the Cemetery Trust up to the amount of \$2,780,000. The line of credit bears interest in an amount equal to the lesser of (i) One Year LIBOR (as determined and adjusted annually) plus 200 basis points, or (ii) five (5) percent, and shall be set annually in December. The current rate of interest is 4.178%.

Interest only payments are made on the first day of each quarter and began on January 1, 2016. Commencing on the first day of January, 2025, and on the first day of each calendar quarter, the Archdiocese will make principal payments in the amount of \$50,000 until this line of credit is fully paid. The outstanding principal balance on this credit line is due and payable in full on December 31, 2035. The line of credit is secured by first mortgage liens on the properties discussed in Note 5 and second mortgage liens on real estate known as St. Charles Youth and Family Services property and the Mary Mother of the Church Pastoral Center.

The Cemetery Trust credit line balance outstanding as of June 30, 2019 and 2018 was \$1,780,000. At June 30, 2019 and 2018, the amount of interest paid was \$74,450 and \$80,034, respectively.

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended June 30, 2019 and 2018

NOTE 6 - Business Note (cont.)

Credit Lines (cont.)

The Archdiocese listed these properties for sale in October of 2017.

<u>Property</u>	<u>Location</u>
Prospect Hill Property	New Berlin
Plunkett Property	Germantown
Nicholson Road Property	Caledonia
Scarlatto Property	Mount Pleasant
All Souls Property	Franklin

The proceeds from the sale of the properties shall be used to repay the amount borrowed under the Cemetery Trust line of credit. The Archbishop, as sole member of the Cemetery Trust, has the authority to determine what percentage of sale proceeds will be used to repay the line of credit. During the 2017-2018 fiscal year, two of the "First Lien" properties were sold:

<u>Property</u>	<u>Date of Sale</u>	<u>Approximate Net Proceeds</u>	<u>Net Proceeds Applied to Line of Credit</u>
Nicholson Road Property	May 2018	\$ 140,000	\$ 70,000
Scarlatto Property	May 2018	300,000	150,000
		<u>\$ 440,000</u>	<u>\$ 220,000</u>

The Archdiocese is authorized to draw on a line of credit made available by Town Bank up to the amount of \$2,000,000. The line of credit expires May 7, 2020, is secured by all business assets and accrues interest at LIBOR plus 1.75%. The balance drawn as of June 30, 2019 and 2018 was zero.

NOTE 7 - Deferred Revenue

The Archdiocese has deferred revenue which primarily includes unearned income relating to pre-need contracts with the cemeteries which are to be recognized as revenue as the contracted services are performed and goods are delivered. These pre-need contracts are paid in full or paid under a payment plan. These pre-need payments are treated as trust funds and handled in compliance with Wisconsin Statutes Chapter 157 which states that pre-need trust funds may not be withdrawn until the obligations under the pre-need sales contract have been fulfilled.

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2019 and 2018

NOTE 8 - Charitable Gift Annuities

Charitable gift annuities are included in custodial funds held for others and consist of the following as of June 30:

	2019	2018
Charitable gift annuities, 7.00%.	\$ 163,695	\$ 167,294
Less: Current portion	(21,175)	(21,175)
Long-Term Portion	\$ 142,520	\$ 146,119

Principal requirements on charitable gift annuities for years ending after June 30, 2019 are as follows:

2020	\$ 21,175
2021	19,790
2022	18,495
2023	17,285
2024	16,154
Thereafter	70,796
Total	\$ 163,695

NOTE 9 - Intradiocesan

Grants

St. Francis de Sales Seminary, Inc. (the "Seminary") is a freestanding, separate legal entity. The Seminary has a Board of Trustees overseeing governance and administration. The Archdiocese contributes a Catholic Stewardship Appeal grant to the Seminary to fulfill one of the appeal solicitation purposes, and is paid by the Seminary for certain administrative services under a contract. The grant was \$1,250,000 for the years ending June 30, 2019 and 2018. The contribution payable was \$1,250,000 at June 30, 2019 and 2018.

Catholic Charities of the Archdiocese of Milwaukee, Inc. ("Catholic Charities") is a freestanding, separate legal entity. Catholic Charities has a Board of Trustees overseeing governance and administration. The Archdiocese contributes a Catholic Stewardship Appeal grant to Catholic Charities to fulfill one of the appeal solicitation purposes. The grant was \$1,153,000 for the years ending June 30, 2019 and 2018. The contribution payable was \$1,153,000 at June 30, 2019 and 2018. Catholic Charities also compensates the Archdiocese for certain business services under a contract.

Other grants were provided to the following freestanding, separate legal entities for the year ended June 30 and are included in grants and other assistance:

	2019	2018
Seton Catholic Schools, Inc.*	\$2,600,000	\$75,000
Wisconsin Catholic Media Apostolate, Inc.	\$65,000	\$40,000
Siena Catholic Schools of Racine, Inc.	\$50,000	\$25,000

*2019 includes \$2,500,000 of debt relief.

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2019 and 2018

NOTE 9 - Intradiocesan (cont.)

Contributions

The Faith In Our Future Trust ("Faith In Our Future"), is a freestanding, separate legal entity. Faith In Our Future has a Board of Trustees overseeing governance and administration. Faith In Our Future contributed education and faith formation grants to the Archdiocese. Payments in the amount of \$423,428 and \$902,500 were received for the years ending June 30, 2019 and 2018, respectively. Grants receivable were \$256,372 and \$647,300 at June 30, 2019 and 2018, respectively.

Note Receivable

In 2010, the Archdiocese of Milwaukee converted an intra-diocesan receivable from the Seminary to an intra-diocesan note receivable. The long-term portion of this note receivable had been discounted at 3.75% to its net present value and is included in notes receivable, net on the statements of financial position for the year ended June 30, 2018. As of June 30, 2019 the note receivable was paid in full.

Line of Credit Guarantee

Seton Catholic Schools, Inc., participates in the Wisconsin and Milwaukee Parental Choice Programs. Seton has established a line of credit that provides a bridge between the timing of expenditures and the receipt of Choice Program payments. The Archdiocese guarantees this line of credit. Outlined below is the history and status of the credit line.

The Archdiocese guaranteed a line of credit arrangement for Seton Catholic Schools, Inc. in the amount of \$1,500,000. In September of 2017, Seton Catholic Schools secured an increase in their credit line up to \$3,500,000 until December 31, 2017. The credit line then decreased to \$2,250,000 through the maturity date of January 31, 2020.

The Archdiocese will guarantee any line of credit established up to \$4,000,000.

No liability was included in the accompanying statements of financial position related to the Archdiocese's obligations under this guarantee as management estimated Seton Catholic Schools has the ability to pay its debt.

Demand Note

In June of 2018, the Archdiocesan Finance Council and College of Consultors provided consent for financial assistance to Seton Catholic Schools, Inc. The total amount of assistance approved by both groups is to be no greater than \$3,000,000.

On June 25, 2018 and September 25, 2018, Seton Catholic Schools, Inc., executed demand notes with the Archdiocese of Milwaukee in the amount of \$2,000,000 and \$500,000, respectively. In May 2019, the Archdiocesan Finance Council and College of Consultors provided consent to forgive the debt owed to the Archdiocese of \$2,500,000, plus accrued interest and provide it as a grant to Seton Catholic Schools, Inc. The remaining \$500,000 of approved financial assistance was frozen and no advances can be provided to Seton Catholic Schools, Inc. without the approval of the Archdiocesan Finance Council and College of Consultors.

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2019 and 2018

NOTE 9 - Inradiocesan (cont.)

Demand Note (cont.)

The balance of the demand note as of June 30, 2019 and 2018 were \$0 and \$2,000,000, respectively. The accrued and unpaid interest as of June 30, 2019 and 2018 were \$0 and \$587, respectively. Interest accrued and was calculated based upon actual days elapsed in a year of 360 days. Interest accrued on the principal balance outstanding at the applicable federal rate ("AFR") for short term obligations, as determined under Section 1274(d) of the Internal Revenue Code. The rate used is a monthly floating rate tied to the AFR for short term obligations and was 1.82% for May of 2019 and 1.76% for June 30, 2018.

NOTE 10 - Employee Benefit Plans

The Archdiocese has two 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 were participants in this defined benefit plan. The labor agreement with the Cemetery Employees' Local 113, by the Laborers International Union of America, AFL-CIO (the "Union") expired on March 31, 2017. A new five-year agreement was reached with the Union that will expire on March 31, 2022. This agreement was signed on July 11, 2017.

Under this new agreement, effective April 1, 2017, the Union Pension Plan was frozen and then merged into the Archdiocese of Milwaukee Lay Employees' Pension Plan. The process of merger was completed during the 2017-2018 fiscal year and the Union Pension Plan and trust cease to exist.

The Archdiocese has recognized the following liabilities related to the Cemetery Union Pension Plan. In 2018 the net liability due to the Lay Pension Plan resulting from the freeze and merger of the plan on March 31, 2017 was \$62,550 and was included in accounts payable and accrued expenses. All of the liability has been paid as of June 30, 2019.

Lay Employees' Pension Plan

This is a noncontributory multi-employer defined benefit plan administered by the Archdiocese of Milwaukee. As this is a multi-employer plan, valuation information is not available by employer. The Plan name is the Archdiocese of Milwaukee Lay Employees' Pension Plan (the "Plan"), and the identifying number is 39-6268506. The Plan is exempt from filing IRS Form 5500.

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2019 and 2018

NOTE 10 - Employee Benefit Plans (cont.)

Lay Employees' Pension Plan (cont.)

The Plan's most recent available information is as of June 30, 2018. At that time, all full time lay employees of participating Catholic organizations located within the boundaries of the Archdiocese who have been employed for one year are covered by the plan. The benefits for employees in the Plan are based on the years of service and the applicable percentage of average monthly compensation of the employee. Following is a summary of the July 1, 2018 and July 1, 2017 valuation funding liability and funded ratio:

	<u>July 1, 2018</u>	<u>July 1 2017</u>
Actuarial Accrued Liability	\$ 309,000,000	\$ 308,400,000
Market Value of Assets	268,400,000	255,800,000
Unfunded Accrued Liability	\$ 40,600,000	\$ 52,600,000
Funding Ratio	86.9 %	82.9 %
Total Contributions to the Plan	\$ 8,900,000	\$ 8,200,000

The Archdiocese of Milwaukee's participation in the Plan is approximately 5% of the total contributions to the Plan. The Archdiocese pension expense for the years ended June 30, 2019 and 2018, respectively, was \$467,765 and \$478,083, 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. The Plan name is the Archdiocese of Milwaukee Priests' Pension Plan (the "Priests' Plan"), and the identifying number is 39-6234907. The Priests' Plan is exempt from filing IRS Form 5500.

The benefit for priests in the Priests' Plan is normally a fixed monthly benefit, subject to adjustment if years of service are less than years of incardination. As this is a multi-employer plan, valuation information is not available by employer. The Priests' Plan's most recent available information is as of June 30, 2018. Following is a summary of the July 1, 2018 and July 1, 2017 valuation funding liability and funded ratio:

	<u>July 1, 2018</u>	<u>July 1 2017</u>
Actuarial Accrued Liability	\$ 36,100,000	\$ 38,100,000
Market Value of Assets	34,700,000	34,200,000
Unfunded Accrued Liability	\$ 1,400,000	\$ 3,900,000
Funding Ratio	96.2 %	89.7 %
Total Contributions to the Plan	\$ 800,000	\$ 710,000

Pension expense for the years ended June 30, 2019 and 2018 was \$70,991 and \$82,693, 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 As of and for the Years Ended June 30, 2019 and 2018

NOTE 10 - Employee Benefit Plans (cont.)

Post-Retirement Benefits Other Than Pensions

The Archdiocese provides defined benefit post-retirement health, dental, and vision 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 the priest'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, 2019 and 2018, 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.

	2019	2018
Accumulated postretirement benefit obligation	\$ 19,015,903	\$ 18,636,946
Fair value of plan assets	-	-
Funded Status of Plan, Recognized in the statements of financial position	<u>\$ (19,015,903)</u>	<u>\$ (18,636,946)</u>

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

	2019	2018
Unrecognized net loss	\$ 1,318,357	\$ 1,369,443
Unrecognized prior service credit (cost)	\$ -	\$ (15,756)

The net amortization of the above amounts that are reclassified into a component of net periodic benefit cost for the years ended June 30, 2019 and 2018 was \$15,756 and \$9,523, respectively.

The amounts expected to be recognized into net periodic benefit cost in the year ended June 30, 2020 are as follows:

Unrecognized net (gain) / loss	\$ -
Unrecognized prior service credit / (cost)	\$ -

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

	2019	2018
Employer contributions	\$ 688,081	\$ 672,337
Benefits paid	\$ 688,081	\$ 672,337

The Archdiocese expects to contribute approximately \$807,969 to the plan during the year ended June 30, 2020.

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2019 and 2018

NOTE 10 - Employee Benefit Plans (cont.)

Post-Retirement Benefits Other Than Pensions (cont.)

Expected benefit payments for the years ended June 30:

2019	\$	807,969
2020		859,482
2021		897,880
2022		929,343
2023		933,591
Next five years		<u>4,778,139</u>
	\$	<u>9,206,404</u>

At June 30, 2019 and 2018, the amount recognized as net periodic pension cost included in wages was \$1,133,800 and \$1,440,809, respectively.

The weighted average discount rate used to develop the present value of benefit obligations was 3.25% and 4.00% at June 30, 2019 and 2018, respectively. The weighted average discount rate used to develop the net post retirement expense was 4.00% and 3.75% at June 30, 2019 and 2018, respectively.

The medical cost trend rate used to value the accumulated post-retirement benefit obligation is 8.0% for 2019, and is assumed to decrease gradually to an ultimate rate of 4.5% in 2026. The dental and vision cost trend rates used for 2020 and thereafter are 4.5%.

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2019 and 2018

NOTE 11 - Net Assets with Donor Restrictions

Net assets with donor restrictions consist of the following as of June 30:

	<u>2019</u>	<u>2018</u>
Funds with purpose and/or temporary restrictions:		
Catholic Stewardship Appeal	\$ 5,833,878	\$ 5,850,947
Education	1,154,288	1,371,969
Ministry	2,216,747	1,312,133
Campus & Young Adult Ministry	422,310	1,274,831
Kapalcznski Development Fund	755,685	747,734
Mary B. Finnigan Trust	759,937	738,044
Clergy	562,765	558,304
Rapp Trust	323,425	363,569
Beihoff Trust	334,887	334,887
Life Insurance	244,462	239,717
Radecki Bequest	154,966	154,966
Therapy Fund	-	132,750
Other Funds with Purpose and/or Temporal Restrictions	<u>1,141,281</u>	<u>899,587</u>
Total net assets held with purpose and/or temporary restrictions	<u>13,904,631</u>	<u>13,979,438</u>
Funds to be held in perpetuity:		
Education Endowment Fund (for the support and furtherance of Roman Catholic education in 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	<u>92,006</u>	<u>92,006</u>
Total net assets held in perpetuity	<u>3,716,366</u>	<u>3,716,366</u>
Total net assets with donor restrictions	<u>\$ 17,620,997</u>	<u>\$ 17,695,804</u>

NOTE 12 - Endowment

The Archdiocese follows the provisions of current authoritative guidance relating to endowments of not for profit organizations, which provides guidance on classifying net assets associated with donor-restricted and board designated endowment funds held by an organization. A key component of the guidance is a requirement to classify the portion of a donor-restricted endowment fund that is not classified as principal as net assets with donor restrictions until appropriated for expenditure.

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2019 and 2018

NOTE 12 - Endowment (cont.)

Interpretation of Relevant Law – The Archdiocese has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor restricted endowment funds absent explicit donor stipulations to the contrary. The Archdiocese classifies as net assets with donor restrictions (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund is also classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the Archdiocese in a manner consistent with the standard of prudence prescribed by UPMIFA as adopted by the state of Wisconsin. If the market value of the principal at year end is below the original fair value, the deficit is recorded as net assets with donor restrictions.

Fund Objectives and Policies – The endowment funds assist the Archdiocese in its mission by providing support for Catholic education and for the support of operations and activities of the Archdiocese’s programs and services. The endowment funds consist of donor restricted gifts. The endowment funds are invested in conservative fixed income investments to provide funding for the purposes supported by the endowments with a primary objective of maintaining the principal of the endowment assets. The Archdiocesan spending policy is that the income generated by the investments can be used for purposes which are consistent with the donor restrictions.

Underwater Endowment

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the Archdiocese to retain as a fund of perpetual duration. In accordance with generally accepted accounting principles ("GAAP"), deficiencies of this nature that are reported in net assets with donor restrictions were \$0 as of June 30, 2019 and 2018.

Endowment net asset composition by type of fund consists of the following as of June 30:

	2019			
	Without Donor Restrictions	With Donor Restrictions		Total
	Purpose Restrictions	Perpetual in Nature		
Donor restricted endowment funds	\$ -	\$ 1,523,636	\$ 3,716,366	\$ 5,240,002
Board designated endowment funds	270,619	-	-	270,619
Total	\$ 270,619	\$ 1,523,636	\$ 3,716,366	\$ 5,510,621

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2019 and 2018

NOTE 12 - Endowment (cont.)

	2018			
	Without Donor Restrictions	With Donor Restrictions		Total
		Purpose Restrictions	Perpetual in Nature	
Donor restricted endowment funds	\$ -	\$ 1,493,792	\$ 3,716,366	\$ 5,210,158
Board designated endowment funds	<u>240,140</u>	<u>-</u>	<u>-</u>	<u>240,140</u>
Total	<u>\$ 240,140</u>	<u>\$ 1,493,792</u>	<u>\$ 3,716,366</u>	<u>\$ 5,450,298</u>

Changes in endowment net assets for the year ended June 30 are as follows:

	2019			
	Without Donor Restrictions	With Donor Restrictions		Total
		Purpose Restrictions	Perpetual in Nature	
Endowment net assets: June 30, 2018	<u>\$ 240,140</u>	<u>\$ 1,493,792</u>	<u>\$ 3,716,366</u>	<u>\$ 5,450,298</u>
Contributions	24,418	-	-	24,418
Investment return, net	6,061	102,182	-	108,243
Appropriation for expenditure	<u>-</u>	<u>(72,338)</u>	<u>-</u>	<u>(72,338)</u>
Endowment Net Assets: June 30, 2019	<u>\$ 270,619</u>	<u>\$ 1,523,636</u>	<u>\$ 3,716,366</u>	<u>\$ 5,510,621</u>

	2018			
	Without Donor Restrictions	With Donor Restrictions		Total
		Purpose Restrictions	Perpetual in Nature	
Endowment net assets: June 30, 2017	<u>\$ 61,292</u>	<u>\$ 1,260,410</u>	<u>\$ 3,716,366</u>	<u>\$ 5,038,068</u>
Contributions	170,000	-	-	170,000
Investment return, net	8,848	352,832	-	361,680
Appropriation for expenditure	<u>-</u>	<u>(119,450)</u>	<u>-</u>	<u>(119,450)</u>
Endowment Net Assets: June 30, 2018	<u>\$ 240,140</u>	<u>\$ 1,493,792</u>	<u>\$ 3,716,366</u>	<u>\$ 5,450,298</u>

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2019 and 2018

NOTE 13 - Availability of Financial Assets

As part of the Archdiocese's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

The following schedule reflects the Archdiocese financial assets as of June 30 reduced by amounts not available for general use within one year of the statement of financial position date because of contractual or donor imposed restrictions, or internal designation of funds. Financial assets are considered unavailable when illiquid or not convertible to cash within one year, trust assets, assets held for others, perpetual endowments, or board designated funds set aside for specific reserves, projects or a long-term investment as board designated endowments. The board designations could be drawn upon if the board approves that action. Additionally, the Archdiocese maintains a \$2,000,000 line of credit as discussed in Note 6. As of June 30, 2019, \$2,000,000 remained available on this line of credit.

	<u>2019</u>
Financial Assets	
Cash and cash equivalents	\$ 19,253,014
Receivables, net	5,297,207
Notes receivable, net	259,932
Investments	19,217,429
Beneficial interest in Cemetery Trust	<u>58,060,711</u>
Total financial assets	102,088,293
Less: Financial assets unavailable for general expenditures within one year due to contractual or donor imposed restrictions	
Beneficial interest in Cemetery Trust	(58,060,711)
Cemetery pre-need trust	(6,126,560)
Custodial investments held for others	(485,503)
Accounts receivable - long term	(1,218,491)
Notes receivable - long term	(247,697)
Collections held for others	(1,228,554)
Board designated net assets	(2,770,697)
Net assets with donor restrictions less Catholic Stewardship appeal	<u>(11,787,119)</u>
Financial assets available to meet cash needs for general use within one year	<u>\$ 20,162,961</u>

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended June 30, 2019 and 2018

NOTE 14 - Functional Expenses

The financial statements contain certain categories of expenses that are attributable to more than one program or supporting function. Directly identifiable expense are charged to pastoral ministries, cemeteries, central service office, and fundraising. Expense attributable to multiple functions are allocated. Salaries and benefit costs are allocated based on employee's time and effort. Other expenses relating to more than one function are charged to pastoral ministries, cemeteries, central service office, and fundraising based on the allocation percentages used for salary and benefits, or square footage.

	Program Activities		Supporting Activities		2019 Total
	Pastoral Ministries	Cemeteries	Central Service Office	Fundraising	
Salaries and benefits	\$ 7,906,384	\$ 3,775,396	\$ 1,584,249	\$ 988,244	\$ 14,254,273
Occupancy	351,764	1,626,919	835,344	48,691	2,862,718
Office and program supplies	2,612,448	270,396	293,987	565,323	3,742,154
Travel and professional development	468,967	64,800	6,335	12,176	552,278
Cost of sales	3,649	1,174,913	-	-	1,178,562
Grants and other assistance	6,331,272	-	30,098	-	6,361,370
Professional services	47,214	669,516	170,197	2,700	889,627
Interest	-	5,164	247,820	-	252,984
Depreciation	40,260	152,089	253,215	3,429	448,993
Priests' medical periodic pension cost	1,133,880	-	-	-	1,133,880
Other	212,072	485,539	501,347	68,230	1,267,188
Total Expenses	<u>\$ 19,107,910</u>	<u>\$ 8,224,732</u>	<u>\$ 3,922,592</u>	<u>\$ 1,688,793</u>	<u>\$ 32,944,027</u>

NOTE 15 - Participants' Indemnity Program Irrevocable Trust

The Archdiocese, both for itself and as the agent for all parishes and various other Catholic entities operating within the boundaries of the Archdiocese, provides administrative services for a protected self-insurance program. This program provides uniform property and liability coverage under a comprehensive plan. During the 2017-2018 fiscal year, the Archdiocese strengthened this program by establishing a new trust. The trust name is the Participants' Indemnity Program Irrevocable Trust (PIPIT) and the identifying number is 836214122. Premiums and loss reserves are determined and claims are processed by a service agency on a contractual basis.

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended June 30, 2019 and 2018

NOTE 15 - Participants' Indemnity Program Irrevocable Trust (cont.)

Losses are paid from the loss fund of the trust 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. Any portion of the loss fund, which might revert back to the Archdiocese, is not measurable.

NOTE 16 - Administrative Services for Unrelated Organizations

The Archdiocese of Milwaukee provides administrative services to several unrelated organizations, including the Faith in Our Future Trust ("Trust") and Seton Catholic Schools, Inc. Under the agreements the Archdiocese may advance payments for expenses, which are then reimbursed to the Archdiocese. 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 specified and 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 or other unrelated organizations for which the Archdiocese of Milwaukee provides administrative services and, therefore, none of the activities of the Trust or the other unrelated entities are included in the Archdiocese financial statements.

NOTE 17 - Concentrations

The Archdiocese maintains cash balances in four institutions which exceed the federally insured limit of \$250,000 for interest earning accounts. The Archdiocese has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash.

NOTE 18 - Commitments

The Archdiocese currently owns and operates eight cemeteries and seven mausoleums in southeastern Wisconsin. In July of 2016, the Archdiocese signed a management services contract with Catholic Management Services (CMS), a nonprofit organization specializing in strategic business planning and professional services to cemetery operations. CMS, which is operated under the Diocese of Oakland and headquartered in Pleasanton, CA, currently serves multiple dioceses in the Midwest and across the country. The term of the agreement automatically renews for successive one-year terms, unless one party provides written notice to the other party at least ninety (90) days in advance of the end of the then-existing term, that it does not wish to renew for an additional term. Either party may terminate with advance written notice of not less than ninety (90) days.

NOTE 19 - Subsequent Event

The Archdiocese has evaluated subsequent events through November 6, 2019 which is the date that the financial statements were approved and available to be issued.