

ARCHDIOCESE OF MILWAUKEE

Milwaukee, Wisconsin

FINANCIAL STATEMENTS

Including Independent Auditors' Report

As of and for the Years Ended June 30, 2016 and 2015

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 the Archdiocese of Milwaukee, which comprise the statements of financial position as of June 30, 2016 and 2015, 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 audits 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 of Milwaukee as of June 30, 2016 and 2015, 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.

Bankruptcy and Litigation

As discussed in Note 1 to the financial statements, the Archdiocese of Milwaukee filed a petition for relief under Chapter 11 of the bankruptcy law. The Amended Plan for Reorganization was effective November 30, 2015. See Note 2 for details of the Amended Plan of Reorganization. The Amended Plan of Reorganization finalized the litigation relating to the treatment of the Archdiocese of Milwaukee Catholic Cemetery Perpetual Care Trust assets discussed in Note 3 and all lawsuits and abuse claims. The financial statements include certain transactions and adjustments that resulted from the implementation of the Amended Plan of Reorganization. Our opinion is not modified with respect to these matters.

Baker Tilly Vinchow Krause, LLP

Milwaukee, Wisconsin
November 3, 2016

Statements of Financial Position follow

ARCHDIOCESE OF MILWAUKEE

STATEMENTS OF FINANCIAL POSITION As of June 30, 2016 and 2015

	ASSETS	
	<u>2016</u>	<u>2015</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 12,892,462	\$ 12,629,156
Short-term investments	3,262,805	365,459
Receivables - net	3,500,121	3,998,864
Other assets	<u>675,974</u>	<u>717,168</u>
Total Current Assets	20,331,362	17,710,647
Ground burial and mausoleum crypt sites	5,208,649	5,185,525
Property and equipment, net	4,298,882	4,627,342
Beneficial interest in Cemetery Trust	50,469,952	64,328,004
 INVESTMENTS AND OTHER ASSETS		
Long-term investments	8,227,210	10,370,305
Custodial investments held for others	1,698,192	2,479,794
Cemeteries pre-need trust fund account	4,100,670	3,944,709
Charitable gift annuities investments	394,541	411,690
Other assets	<u>968,481</u>	<u>865,654</u>
Total Investments and Other Assets	<u>15,389,094</u>	<u>18,072,152</u>
 TOTAL ASSETS	<u>\$ 95,697,939</u>	<u>\$ 109,923,670</u>

See accompanying notes to financial statements.

LIABILITIES AND NET ASSETS

	<u>2016</u>	<u>2015</u>
CURRENT LIABILITIES		
Current maturities of note payable	\$ 187,871	\$ -
Current maturities of charitable gift annuities	30,900	31,675
Accounts payable	1,040,254	1,329,941
Accrued professional fees	-	6,141,035
Contributions payable	2,609,174	2,560,040
Collections to be forwarded to other entities	1,298,802	1,127,201
Current portion accrued post-retirement and pension benefits	<u>989,108</u>	<u>-</u>
Total Current Liabilities	6,156,109	11,189,892
Equity of others held as custodial investments	1,698,192	2,479,794
Charitable gift annuities net of current portion	201,517	211,703
Deferred revenue	4,100,670	3,944,709
Long-term asset retirement obligation	1,050,000	-
Line of credit	2,000,000	-
Note payable net of current portion	4,004,553	-
Accrued post-retirement and pension benefits net of current portion	26,103,822	-
PRE-PETITION LIABILITIES		
Note payable	-	4,389,513
Pre-Chapter 11 payables	-	475,639
Contractual contributions payable	-	3,378,537
Accrued post-retirement and pension benefits	<u>-</u>	<u>23,791,802</u>
Total Pre-Petition Liabilities	<u>-</u>	<u>32,035,491</u>
Total Liabilities	<u>45,314,863</u>	<u>49,861,589</u>
NET ASSETS		
Unrestricted		
Undesignated operating (deficit)	(15,617,365)	(21,141,678)
Designated	2,108,352	3,631,095
Limited to perpetual care of cemeteries	<u>50,469,952</u>	<u>64,328,004</u>
Total Unrestricted Net Assets	36,960,939	46,817,421
Temporarily restricted	9,705,771	9,528,294
Permanently restricted	<u>3,716,366</u>	<u>3,716,366</u>
Total Net Assets	<u>50,383,076</u>	<u>60,062,081</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 95,697,939</u>	<u>\$109,923,670</u>

See accompanying notes to financial statements.

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Statements of Activities follow

ARCHDIOCESE OF MILWAUKEE

STATEMENTS OF ACTIVITIES For the Years Ended June 30, 2016 and 2015

	2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
OPERATING REVENUE, GAINS, AND OTHER SUPPORT				
Contributions for charitable activities	\$ 1,951,774	\$ 9,922,050	\$ -	\$ 11,873,824
Assessments	7,273,535	-	-	7,273,535
Tuition and fees for ministry programs	715,961	-	-	715,961
Cemetery revenues	4,732,418	-	-	4,732,418
Distributions from Cemetery Trust	1,950,000	-	-	1,950,000
Investment income	234,076	29,868	-	263,944
Other revenues	1,003,550	-	-	1,003,550
Net assets released from restrictions	9,692,437	(9,692,437)	-	-
Total Revenue, Gains, and Other Support	<u>27,553,751</u>	<u>259,481</u>	<u>-</u>	<u>27,813,232</u>
OPERATING EXPENSES				
Wages and benefits	12,981,945	-	-	12,981,945
Facility and operating costs	2,230,991	-	-	2,230,991
Training, certifications, and ministries travel	387,473	-	-	387,473
Bad debts	814,461	-	-	814,461
Ministries program expenses and supplies	983,468	-	-	983,468
Assessments	329,939	-	-	329,939
Cost of sales - cemeteries	962,914	-	-	962,914
Purchased services - ministries and other	1,943,547	-	-	1,943,547
Professional services	180,982	-	-	180,982
Charity and contractual grants and donations	3,775,714	-	-	3,775,714
Other expenses	1,275,185	-	-	1,275,185
Depreciation	434,591	-	-	434,591
Asset retirement expense	1,050,000	-	-	1,050,000
Total Operating Expenses	<u>27,351,210</u>	<u>-</u>	<u>-</u>	<u>27,351,210</u>
Operating Income (Loss)	<u>202,541</u>	<u>259,481</u>	<u>-</u>	<u>462,022</u>
NON-OPERATING ACTIVITIES				
Net realized and unrealized gains (losses)	146,251	(82,004)	-	64,247
Gain on sale of property and equipment	25,581	-	-	25,581
Pension related changes other than net periodic pension cost	(1,729,154)	-	-	(1,729,154)
Change in beneficial interest in Cemetery Trust	(858,052)	-	-	(858,052)
Total Non-Operating Activities	<u>(2,415,374)</u>	<u>(82,004)</u>	<u>-</u>	<u>(2,497,378)</u>
CHANGE IN NET ASSETS BEFORE REORGANIZATION ACTIVITIES				
	(2,212,833)	177,477	-	(2,035,356)
REORGANIZATION ACTIVITIES				
Reorganization expenses	(7,643,649)	-	-	(7,643,649)
CHANGE IN NET ASSETS				
	(9,856,482)	177,477	-	(9,679,005)
NET ASSETS - Beginning of Year	<u>46,817,421</u>	<u>9,528,294</u>	<u>3,716,366</u>	<u>60,062,081</u>
NET ASSETS - END OF YEAR	<u>\$ 36,960,939</u>	<u>\$ 9,705,771</u>	<u>\$ 3,716,366</u>	<u>\$ 50,383,076</u>

See accompanying notes to financial statements.

2015			
<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
\$ 1,519,501	\$ 9,040,091	\$ -	\$ 10,559,592
7,116,179	-	-	7,116,179
646,880	-	-	646,880
4,595,283	-	-	4,595,283
1,950,000	-	-	1,950,000
280,139	26,257	-	306,396
899,704	-	-	899,704
<u>8,847,520</u>	<u>(8,847,520)</u>	<u>-</u>	<u>-</u>
<u>25,855,206</u>	<u>218,828</u>	<u>-</u>	<u>26,074,034</u>
12,349,798	-	-	12,349,798
3,239,682	-	-	3,239,682
318,759	-	-	318,759
136,889	-	-	136,889
1,123,607	-	-	1,123,607
360,979	-	-	360,979
894,130	-	-	894,130
2,306,972	-	-	2,306,972
247,682	-	-	247,682
3,463,458	-	-	3,463,458
1,371,537	-	-	1,371,537
421,286	-	-	421,286
-	-	-	-
<u>26,234,779</u>	<u>-</u>	<u>-</u>	<u>26,234,779</u>
(379,573)	218,828	-	(160,745)
(21,921)	(29,192)	-	(51,113)
400	-	-	400
(1,124,197)	-	-	(1,124,197)
225,609	-	-	225,609
<u>(920,109)</u>	<u>(29,192)</u>	<u>-</u>	<u>(949,301)</u>
(1,299,682)	189,636	-	(1,110,046)
<u>(3,064,668)</u>	<u>-</u>	<u>-</u>	<u>(3,064,668)</u>
(4,364,350)	189,636	-	(4,174,714)
<u>51,181,771</u>	<u>9,338,658</u>	<u>3,716,366</u>	<u>64,236,795</u>
<u>\$ 46,817,421</u>	<u>\$ 9,528,294</u>	<u>\$ 3,716,366</u>	<u>\$ 60,062,081</u>

See accompanying notes to financial statements.

ARCHDIOCESE OF MILWAUKEE

STATEMENTS OF CASH FLOWS For the Years Ended June 30, 2016 and 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (9,679,005)	\$ (4,174,714)
Adjustments to reconcile total non-operating activities to net cash flows from operating activities:		
Bad debts	814,461	136,889
Depreciation and amortization	434,591	421,286
Asset retirement expense	1,050,000	-
Reduction in contractual obligations	(3,623,100)	-
Net realized/unrealized (gains) losses	(64,247)	51,113
Gain on sale of property and equipment	(25,581)	(400)
Change in beneficial interest in Cemetery Trust	858,052	(225,609)
Change in charitable gift annuities	(10,961)	(190,016)
Changes in assets and liabilities:		
Receivables and payables	(6,764,711)	(181,469)
Other assets	38,772	510,518
Ground burial and mausoleum crypt sites	480,464	483,631
Deferred revenue	155,961	138,313
Accrued postretirement and pension benefits	3,301,128	2,340,922
Net Cash Flows from Operating Activities	(13,034,176)	(689,536)
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments received on notes receivable	35,685	34,395
Purchase of property and equipment	(273,321)	(287,605)
Proceeds from the sale of property and equipment	29,100	400
Proceeds from sale of investments	3,878,629	2,434,809
Purchase of investments	(3,925,843)	(1,470,321)
Notes receivable granted	(136,090)	-
Net change in collections to be forwarded to other entities	171,601	44,823
Net change in equity of others held as custodial investments	(781,602)	(48,176)
Proceeds from beneficial interest in Cemetery Trust	15,000,000	-
Capital expenditures cemetery crypts	(503,588)	-
Net Cash Flows from Investing Activities	13,494,571	708,325
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on note payable	(197,089)	-
Net Change in Cash and Cash Equivalents	263,306	18,789
CASH AND CASH EQUIVALENTS - Beginning of Year	12,629,156	12,610,367
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 12,892,462	\$ 12,629,156
Supplemental cash flow disclosures		
Cash paid for interest	\$ 231,696	\$ 233,650
Cash paid for reorganization activities	17,407,784	3,517,365
Noncash investing and financing activities		
Purchase of cemetery property included in accounts payable	-	163,671

See accompanying notes to financial statements.

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2016 and 2015

NOTE 1 - Petition for Relief Under Chapter 11

On January 4, 2011, the Archdiocese of Milwaukee (the "Archdiocese") filed a petition for relief under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the Eastern District of Wisconsin.

On February 12, 2014, the Archdiocese filed its Plan of Reorganization ("Plan") and Disclosure Statement. On May 28, 2014, the Bankruptcy Court entered an order approving the Disclosure Statement.

On August 24, 2015, the Archdiocese filed its Amended Plan of Reorganization and Third Amended Disclosure Statement. On September 25, 2015, the Archdiocese filed its Second Amended Plan of Reorganization (the "Amended Plan") and the Fourth Amended Disclosure Statement. On October 5, 2015, the Bankruptcy Court entered an order approving the Fourth Amended Disclosure Statement. On November 13, 2015, the Bankruptcy Court issued an Order Confirming Second Amended Chapter 11 Plan of Reorganization Dated September 25, 2015, Proposed by the Archdiocese of Milwaukee (the "Confirmation Order"), and on November 30, 2015 (the "Effective Date"), the Amended Plan became effective. On December 1, 2015, the Archdiocese served and filed its Notice of (A) Entry of Confirmation Order; (B) Occurrence of the Effective Date; and (C) Related Deadlines. Pursuant to the Confirmation Order, the Archdiocese implemented the Amended Plan. The Archdiocese, as the Reorganized Debtor, continues to exist after the Effective Date as a separate entity in accordance with the laws of the State of Wisconsin, and, as of the Effective Date, the Reorganization Assets (as defined in the Amended Plan) were vested in the Archdiocese free and clear of all liens, claims and interests of creditors, including any successor liability claims.

On June 30, 2016, the Bankruptcy Court entered the Final Decree Closing the Case, and the case was closed on the Bankruptcy Court's docket, subject only to the Bankruptcy Court's continued jurisdiction with respect to such matters as may be prescribed by the Amended Plan including, but not limited to, the enforcement of the Amended Plan (including all related documents contemplated by the Amended Plan) and the Confirmation Order and the entry of orders in aid of confirmation and consummation of the Amended Plan.

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2016 and 2015

NOTE 2 - Amended Plan of Reorganization

In accordance with the Amended Plan and the Confirmation Order, the Archdiocese of Milwaukee Abuse Survivor Trust (the "Plan Trust") was established on November 30, 2015, for the benefit of the Class 8 Claims, Class 9 Claims, and the holders of FCR ("Future Claims Representative") Claims (the "Beneficiaries"). The Archdiocese has no rights or interests in the Plan Trust or its assets, which was established for the benefit of the Beneficiaries. Pursuant to the Amended Plan and the Confirmation Order, Eric Schwarz (Omni Management Acquisition Corp.) was appointed as the Plan Trustee. The Plan Trust is solely responsible for making payments to the Beneficiaries, and apart from the Beneficiaries, no other creditors have any right, title or interest in the Plan Trust Assets. The Archdiocese and the Cemetery Trust made all of their required payments to the Plan Trust on or before January 14, 2016 (the "Plan Funding Date"). The Plan Trust received the Plan Trust Assets, consisting of \$21,250,000 in cash, one half of any recovery received by the Archdiocese from the Archdiocese's claim filed with the United Kingdom's Financial Services Compensation Scheme (but only to the extent of 50% of any recoveries actually received), and the right to pursue recoveries against the NonSettling Insurers (Lumbermans Mutual Group, Kemper Insurance Company and American Motorists Insurance Company). Pursuant to the Confirmation Order, upon the occurrence of the Plan Funding Date, the injunctions, releases, discharges and dismissals to which the Archdiocese, the Archdiocese of Milwaukee Catholic Cemetery Perpetual Care Trust (the "Cemetery Trust") and the Related Entities were entitled to pursuant to the Amended Plan and/or the Bankruptcy Code became effective retroactive to the Effective Date.

In exchange for the releases and injunctions provided in the Amended Plan, the Amended Plan was funded by the Cemetery Trust Contribution (an \$8,000,000 contribution by the Cemetery Trust to the Plan Trust), the Cemetery Trust Reimbursement (a \$5,000,000 payment by the Cemetery Trust to the Archdiocese to partially offset the Archdiocese's costs for providing perpetual care of the cemeteries incurred from January 4, 2011, the Petition Date, through November 13, 2015, the confirmation date), the Insurance Settlement Amount (the net sum of \$10,705,798 paid by the Settling Insurers), a distribution from the St. Aemilian Trust (\$1,400,000), a voluntary contribution from the Priests' Continuing Formation Program (\$1,000,000), and a contribution from the Archdiocese. In addition, as of the Effective Date, the Archdiocese was authorized to draw on a line of credit (the "Cemetery Trust Loan") made available by the Cemetery Trust up to the amount of \$3,000,000 to make the payments required by the Amended Plan. The balance drawn as of June 30, 2016 is \$2,000,000. 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. Interest only payments are to be 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 (i) a first mortgage lien on the real estate known as Prospect Hill (New Berlin), Plunkett Property (Germantown), Nicholson Road (Caledonia) and Scarlatto Property (Mount Pleasant), and All Souls (Franklin) (collectively, the "First Lien Properties"); and (ii) a second mortgage lien on the real estate known as the St. Charles Youth and Family Services Facility (Milwaukee) and the Archbishop Cousins Catholic Center (St. Francis) (collectively, the "Second Lien Properties"), with such lien on the Second Lien Properties subordinate to the current mortgage liens of Park Bank on such properties. Pursuant to the Amended Plan, the Archdiocese is obligated to attempt to sell all of the First Lien Properties to repay the amounts borrowed under the Line of Credit facility, and the Archdiocese is in the process of marketing the First Lien Properties.

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2016 and 2015

NOTE 2 - Amended Plan of Reorganization (cont.)

In keeping with the Archdiocese's religious and charitable mission, the Amended Plan created a Therapy Fund for the benefit of the Class 8, 9, 10 and FCR Claims. The Therapy Fund was funded by a contribution of approximately \$500,000 from the Parishes.

On December 14, 2015, the Archdiocese made the payments to the Class 12 Claimants ("General Unsecured Creditor Claims") in accordance with terms of the Amended Plan. As a consequence, all pre-chapter 11 payables and contractual contributions payable carried as prepetition liabilities at the time of the Chapter 11 filing on January 4, 2011, were discharged.

The net effect of implementing the Plan provisions and funding Chapter 11 expenses is included on the statements of activities for the year ended June 30, 2016 and consists of:

Total funding of Plan Trust	\$	21,250,000
Less insurance proceeds		(10,705,798)
Less portion paid by Continuing Formation for Clergy		<u>(1,000,000)</u>
Liability and reorganization expenses		9,544,202
Reduction in Contractual Obligations		<u>(3,623,100)</u>
Total before legal and other fees		5,921,102
Legal and other fees related to bankruptcy		<u>1,722,547</u>
Net Effect of Reorganization	\$	<u>7,643,649</u>

For further information, see the Second Amended Plan of Reorganization, dated September 25, 2015, and the Fourth Amended Disclosure Statement for the Second Amended Plan of Reorganization, dated September 25, 2015. All filings are available on the Public Docket for Case Number 1120059svk.

NOTE 3 - Summary of Significant Accounting Policies

Nature of Activities

The Archdiocese is a not-for-profit Wisconsin corporation, without capital stock. The Archdiocese provides ministerial support and services to parishes and other Catholic entities within a ten-county region of Southeast Wisconsin. 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. Accordingly, the financial statements do not include any amounts for capital stock.

The financial statements include corporate assets, liabilities, and operations of the Archdiocese of Milwaukee, primarily based in the Chancery/Central offices and 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 and, therefore, in accordance with accounting principles generally accepted in the United States of America are not included in the financial statements.

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2016 and 2015

NOTE 3 - Summary of Significant Accounting Policies (cont.)

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 are included in the statements of activities as increases or decreases in unrestricted net assets unless the income or loss is restricted by donor or law.

Receivables

The Archdiocese uses the allowance method to account for uncollectible accounts receivable. The allowance is based on historic collection experience and a review of the current status of receivables. After performing an analysis of accounts receivable and actual collection experience, the allowance for accounts deemed uncollectible was increased by approximately \$800,000 in the fiscal year ended June 30, 2016.

Bad debts are charged against the allowance when deemed uncollectible. Notes receivable arising from the sale of mausoleum crypts and niches are typically collectible in monthly installments, including interest, over four years. Receivables are presented net of allowance for doubtful accounts of \$4,418,298 and \$3,608,718 at June 30, 2016 and 2015, respectively. Net receivables as of June 30 consist of:

	<u>2016</u>	<u>2015</u>
Accounts and notes	\$ 1,524,009	\$ 2,476,394
Fixed income settlements	-	20,155
Current portion of note receivable	35,696	34,395
Contributions	1,308,836	753,582
Parish obligations	589,707	671,401
Interest and dividends	<u>41,873</u>	<u>42,937</u>
Total Accounts Receivable - net	<u>\$ 3,500,121</u>	<u>\$ 3,998,864</u>

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2016 and 2015

NOTE 3 - Summary of Significant Accounting Policies (cont.)

Life Insurance Contributions

Donors have contributed multiple life insurance policies on their lives to the Archdiocese. The cash surrender value of \$195,363 and \$191,640 at June 30, 2016 and 2015, respectively, is included in long-term other assets on the statements of financial position.

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

Property and Equipment

Acquisitions of property 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.

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
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. For the year ended June 30, 2016, the Archdiocese has recognized a liability for the abatement of asbestos at the Archbishop Cousins Catholic Center. As the lessee of the Center, the Archdiocese is responsible for payment of such costs. The amount of the liability recorded was \$1,050,000 and is displayed in the Statements of Financial Position as a long-term 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, 2016 and 2015.

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2016 and 2015

NOTE 3 - Summary of Significant Accounting Policies (cont.)

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 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. 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. A beneficial interest in the Cemetery Trust valued at the value of the Trust's assets appears on the statements of financial position in accordance with accounting protocols. The Cemetery Trust's assets consist primarily of cash and investments. The Cemetery Trust can and historically has made distributions to the Archdiocese as reimbursement to help defray the costs incurred by the Archdiocese for providing services for the purpose of care and maintenance of cemeteries. The distributions totaled \$1,950,000, each for the years ended June 30, 2016 and 2015. 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.

Pursuant to the Confirmation Order, on November 30, 2015 (the Effective Date), the Bankruptcy Court determined that the Cemetery Trust is not property of the Archdiocese's bankruptcy estate.

Pursuant to the settlement between the Cemetery Trust and the Archdiocese (the "Cemetery Trust Settlement Agreement"), 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.

Accounts Payable

Accounts payable as of June 30 consist of:

	<u>2016</u>	<u>2015</u>
Accounts payable	\$ 534,060	\$ 602,205
Accrued liabilities	460,826	579,271
Deferred revenue	45,368	124,629
Fixed income settlements	<u>-</u>	<u>23,836</u>
Total Accounts Payable	<u>\$ 1,040,254</u>	<u>\$ 1,329,941</u>

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2016 and 2015

NOTE 3 - Summary of Significant Accounting Policies (cont.)

Professional Fees

The Amended Plan required all Professionals requesting compensation or reimbursement of expenses from the Archdiocese to file an application for final allowance of compensation and expenses by February 1, 2016. The Amended Plan required that any objections to such applications be filed no later than March 17, 2016. Prior to the deadline for objecting to fee applications, the Archdiocese engaged in substantial negotiations with the attorneys for the Official Committee of Unsecured Creditors (the "Committee"). As a result, the Committee's attorneys agreed to reduce their fee application by \$350,000. On March 17, 2016, the Archdiocese filed a Stipulation Regarding Final Fee Applications (the "Stipulation") to confirm the parties' agreement.

On March 17, 2016, the United States Trustee filed Objections to the fee applications filed by the Committee's attorneys.

On March 22, 2016, the Bankruptcy Court entered an Order Approving Certain Final Fee Applications, and ordered payment of \$2,604,733 to certain Professionals, including the attorneys and accountants for the Archdiocese. On April 19, 2016, the Bankruptcy Court conducted a hearing on the United States Trustee's Objections, where the Committee's attorneys agreed to an additional \$75,000 reduction to their final fee application. On April 22, 2016, the Bankruptcy Court entered an Order Approving Certain Final Fee Applications, pursuant to which the Bankruptcy Court approved the Stipulation, with the additional reductions set forth in the hearing on April 19, 2016, and which ordered payment of \$1,138,308 to the Committee's attorneys.

On June 15, 2016, the Archdiocese filed its Verified Final Report confirming that, in connection with the substantial consummation of the Amended Plan, and pursuant to the Bankruptcy Court's Orders, all required fees and expenses were paid. The Archdiocese has no remaining obligations to any Professional for compensation or reimbursement of expenses related to the Chapter 11 proceeding.

Contributions Payable

Contributions payable represent unconditional promises to give to be paid by the Archdiocese in subsequent fiscal years. In 2007, the Archdiocese entered into an agreement to pay a contribution over an extended period of 15 years. The long-term portion of this contribution was previously discounted at 6% to its net present value, following accounting protocols. The full (undiscounted) amount of the unpaid contribution has been entered as a creditor claim for \$3,378,537 and the discount of \$527,983, which was previously associated with future payments was reversed in prior years. This payable in excess of \$5,000 was discharged as part of the amended plan of reorganization.

Total contributions payable consists of contributions payable (current liabilities) of \$2,609,174 and \$2,560,040 as of June 30, 2016 and 2015, respectively and contractual contributions payable (pre-petition liabilities) of \$0 and \$3,378,537 as reported on the statements of financial position as of June 30, 2016 and 2015.

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.

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2016 and 2015

NOTE 3 - Summary of Significant Accounting Policies (cont.)

Custodial Investments 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 investments held for others as of June 30 consist of:

	<u>2016</u>	<u>2015</u>
Priests' Continuing Formation Program	\$ 1,281,957	\$ 2,102,163
Other	<u>416,235</u>	<u>377,631</u>
Total	<u>\$ 1,698,192</u>	<u>\$ 2,479,794</u>

Net Assets

Net assets, revenues, gains and losses are classified based on external donor imposed restrictions. Accordingly, net assets of the Archdiocese are classified and reported as follows:

Unrestricted Net Assets - Resources of the Archdiocese which have not been restricted by donor-imposed stipulations.

Temporarily Restricted Net Assets - Cash and other assets received with donor-imposed stipulations which limit the use of the donated assets. The stipulations 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 - Cash and other assets received from donors subject to stipulations that they be maintained in perpetuity by the Archdiocese. Such restrictions can neither expire with the passage of time nor be removed by fulfillment of a stipulated purpose. If the donor does not restrict the allowed use of the income, the Archdiocese may determine the earned income's availability for general or specific purposes.

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2016 and 2015

NOTE 3 - Summary of Significant Accounting Policies (cont.)

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:

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:

	2016	2015
St. John's Burse (for deaf and hearing impaired ministry)	\$ 497,011	\$ 497,814
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)	1,449,615	2,838,152
General operations and other	161,726	295,129
Total Designated Net Assets	\$ 2,108,352	\$ 3,631,095

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.

	2016	2015
Limited to perpetual care of cemeteries	\$ 50,469,952	\$ 64,328,004

Revenue Recognition

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

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

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2016 and 2015

NOTE 3 - Summary of Significant Accounting Policies (cont.)

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 four years to pay. Revenue from these sales is recognized immediately. 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.

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.

Fundraising Costs

Fundraising costs consisting primarily of payroll, fringe benefits, supplies, and professional services for fiscal years ended June 30, 2016 and 2015 were \$1,128,401 and \$1,235,803, respectively.

Reclassifications

For comparability, certain 2015 amounts have been reclassified to conform with classifications adopted in 2016. 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.

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2016 and 2015

NOTE 4 - 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 minimizes 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:

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, 2016			
	Level 1	Level 2	Level 3	Total
Assets				
Money market funds	\$ -	\$ 3,262,805	\$ -	\$ 3,262,805
Commercial bonds	-	1,241,246	-	1,241,246
US Government bonds	-	1,714,975	-	1,714,975
US Government agency securities	-	2,111,776	-	2,111,776
Other investments	-	175,109	5,078,833	5,253,942
Beneficial interest in Cemetery Trust	-	-	50,469,952	50,469,952
Total Assets	\$ -	\$ 8,505,911	\$ 55,548,785	\$ 64,054,696

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2016 and 2015

NOTE 4 - Fair Value of Financial Instruments (cont.)

	June 30, 2015			
	Level 1	Level 2	Level 3	Total
Assets				
Money market funds	\$ -	\$ 287,725	\$ -	\$ 287,725
Commercial bonds	-	1,769,594	-	1,769,594
US Government bonds	-	4,533,131	-	4,533,131
US Government agency securities	-	1,822,158	-	1,822,158
Other investments	-	-	5,224,128	5,224,128
Beneficial interest in Cemetery Trust	-	-	<u>64,328,004</u>	<u>64,328,004</u>
Total Assets	<u>\$ -</u>	<u>\$ 8,412,608</u>	<u>\$ 69,552,132</u>	<u>\$ 77,964,740</u>

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.

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, 2015	\$ 5,224,128	\$ 64,328,004	\$ 69,552,132
Deposits	-	398,371	398,371
Withdrawals	(101,824)	(14,950,000)	(15,051,824)
Investment Income (loss)	<u>(43,471)</u>	<u>693,577</u>	<u>650,106</u>
Balance, June 30, 2016	<u>\$ 5,078,833</u>	<u>\$ 50,469,952</u>	<u>\$ 55,548,785</u>

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2016 and 2015

NOTE 4 - Fair Value of Financial Instruments (cont.)

	Other Investments	Beneficial Interest in Cemetery Trust	Total
Balance, June 30, 2014	\$ 1,926,483	\$ 64,102,395	\$ 66,028,878
Deposits	3,400,832	382,976	3,783,808
Withdrawals	(338,934)	(1,950,000)	(2,288,934)
Investment Income	235,747	1,792,633	2,028,380
Balance, June 30, 2015	\$ 5,224,128	\$ 64,328,004	\$ 69,552,132

NOTE 5 - Investments

Investments by type, as of June 30 are:

	2016	2015
Cash	\$ 4,098,854	\$ 3,935,221
Money market funds	3,262,805	287,725
US Government bonds	1,714,795	4,533,131
Commercial bonds	1,241,246	1,769,594
US Government agency securities	2,111,776	1,822,158
Other investments	5,253,942	5,224,128
Total	\$ 17,683,418	\$ 17,571,957

The classification of investments, as reflected on the statements of financial position, as of June 30 are:

	2016	2015
Short-term investments	\$ 3,262,805	\$ 365,459
Long-term investments	8,227,210	10,370,305
Invested funds held for others	1,698,192	2,479,794
Prepaid burials and deposits	4,100,670	3,944,709
Charitable gift annuities investments	394,541	411,690
Total	\$ 17,683,418	\$ 17,571,957

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

	2016	2015
Net realized gains on investments	\$ 166,107	\$ 262,716
Net unrealized losses on investments	(101,860)	(313,829)
Total	\$ 64,247	\$ (51,113)

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2016 and 2015

NOTE 5 - Investments (cont.)

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 6 - 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.

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

	<u>2016</u>	<u>2015</u>
Less than one year	\$ 1,344,836	\$ 823,582
Less: Allowance for doubtful accounts	<u>(36,000)</u>	<u>(70,000)</u>
Net Contributions Receivable	<u>\$ 1,308,836</u>	<u>\$ 753,582</u>

NOTE 7 - Ground Burial and Mausoleum Crypt Sites

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

	<u>2016</u>	<u>2015</u>
Mausoleum crypts	\$ 2,468,289	\$ 2,420,352
Cemetery land and facilities held for burial privileges	<u>2,740,360</u>	<u>2,765,173</u>
Total	<u>\$ 5,208,649</u>	<u>\$ 5,185,525</u>

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

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2016 and 2015

NOTE 8 - Property and Equipment

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

	<u>2016</u>	<u>2015</u>
Land	\$ 1,217,243	\$ 1,217,243
Land improvements	2,139,320	2,035,434
Construction in progress	-	163,672
Buildings	9,323,189	9,323,189
Furniture and fixtures	67,534	68,768
Equipment	951,024	1,024,714
Vehicles	656,708	681,121
Future parish sites	<u>358,629</u>	<u>358,629</u>
Total	14,713,647	14,872,770
Less: Accumulated depreciation	<u>(10,414,765)</u>	<u>(10,245,428)</u>
Net Property and Equipment	<u>\$ 4,298,882</u>	<u>\$ 4,627,342</u>

Property and equipment includes certain land, buildings, and equipment (other than leasehold improvements and equipment owned directly by the tenants) being used by St. Joseph High School, Inc.; Pius XI High School, Inc.; St. Thomas More High School, Inc; and St. Charles Youth and Family Services, Inc. ("St. Charles"). The Archdiocese and the high schools have entered into lease agreements for a term ending in 2043 with a renewal option for 15 years. The property and equipment being used by Pius XI High School, Inc. is subject to a mortgage entered into by Pius XI High School, Inc. for up to \$6,800,000. The land and property being used by St. Thomas More High School, Inc. is subject to a mortgage entered into by St. Thomas More High School, Inc. for up to \$1,100,000 and a line of credit up to \$1,000,000. The mortgages and line of credit are non-recourse as to the Archdiocese. 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.

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2016 and 2015

NOTE 9 - Business Note

At June 30, 2016 and 2015, the Archdiocese was indebted to Park Bank for \$4,192,424 and \$4,389,513, respectively. Interest is payable monthly at 5.25%. The note matures on the earlier of June 30, 2016 or the effective date of the plan of reorganization, and is secured pursuant to a Business Note dated June 30, 2010, as amended, by a mortgage on the Archbishop Cousins Catholic Center (pursuant to a guaranty by DeSales Preparatory Seminary, Inc., which is the owner of the property) and the St. Charles Youth & Family Services, Inc. property. Interest expense was \$231,696 and \$233,650 for the years ended June 30, 2016 and 2015, respectively. Upon the effective date of the Plan of Reorganization, the Business Note was refinanced effective November 30, 2015. Under the terms of the new note, the amortization period is three years with monthly payments for principal and interest, with a fixed interest rate of 5.25%. A balloon payment of \$3,340,587 is due November 30, 2018.

On October 12, 2016, Catholic Financial Life purchased and assumed all rights and obligations of the business note from Park Bank. The amount financed through Catholic Financial Life was \$4,115,797. Principal and interest are due monthly with a fixed interest rate of 4.60%. The term of the note is 15 years amortized over 20 years. A balloon payment of approximately \$1.4 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:

2017	\$	187,871
2018		132,489
2019		138,714
2020		145,231
2021		152,054
Thereafter		<u>3,436,065</u>
		<u>\$ 4,192,424</u>

The June 30, 2016 Statement of Financial Position has been revised to reflect the current and long term portions of the note with Catholic Financial Life.

At June 30, 2016, the Archdiocese was indebted to the Cemetery Trust for \$2,000,000.

NOTE 10 - Deferred Revenue

The Archdiocese has both short term and long term deferred revenue. Deferred revenue primarily includes unearned income relating to prepaid burial fees which are to be recognized as revenue as the services are performed. 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, 2016 and 2015

NOTE 11 - Charitable Gift Annuities

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

	<u>2016</u>	<u>2015</u>
Charitable gift annuities, 7.00%.	\$ 232,417	\$ 243,378
Less: Current portion	<u>(30,900)</u>	<u>(31,675)</u>
Long-Term Portion	<u>\$ 201,517</u>	<u>\$ 211,703</u>

Principal requirements on charitable gift annuities for years ending after June 30, 2016 are as follows:

2017	\$ 30,900
2018	28,879
2019	26,989
2020	25,224
2021	23,573
Thereafter	<u>96,852</u>
Total	<u>\$ 232,417</u>

NOTE 12 - Intra-diocesan

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 \$1,375,000 and \$1,350,000 for the years ending June 30, 2016 and 2015, respectively. The contribution payable was \$1,375,000 and \$1,350,000 at June 30, 2016 and 2015, respectively.

In 2010, the Archdiocese of Milwaukee converted an intra-diocesan receivable to an intra-diocesan note receivable. The long-term portion of this note receivable has been discounted at 3.75% to its net present value and is included in other long-term assets on the statements of financial position. The amount receivable is as follows for the years ended June 30 net of the discount of \$174,419 at June 30, 2016:

2017	\$ 35,696
2018	36,621
2019	38,018
2020	39,469
2021	40,975
Thereafter	<u>481,945</u>
Total	<u>\$ 672,724</u>

The Archdiocese guarantees a demand line of credit arrangement for St. Joseph's High School, Inc. in the amount of \$300,000 and for Seton Catholic Schools, Inc. in the amount of \$1,500,000.

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2016 and 2015

NOTE 13 - 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 fiscal management of the Archdiocese, as listed in Note 2. A summary of each plan follows:

Cemetery and Mausoleum Employees' Union Pension Plan

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

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

	<u>2016</u>	<u>2015</u>
Projected benefit obligation at end of year	\$ 4,503,005	\$ 3,575,893
Fair value of plan assets at end of year	<u>1,874,341</u>	<u>1,870,219</u>
Funded Status of the Plan, Recognized in the Statements of Financial Position	<u>\$ (2,628,664)</u>	<u>\$ (1,705,674)</u>

At June 30 2016 and 2015, the amount of the accumulated benefit obligation was \$2,644,323 and \$2,312,891, respectively.

The assets related to the plan are primarily invested in a balanced investment fund. These Level 2 inputs had a fair market value of \$1,874,341 and \$1,870,219 at June 30, 2016 and 2015, respectively. The fund is valued by the investment manager.

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

	<u>2016</u>	<u>2015</u>
Unrecognized net loss	\$ 1,552,383	\$ 629,169
Unrecognized prior service credit	\$ 340,826	\$ 376,816

The net amortization of the above amounts that are reclassified into a component of net periodic pension cost for the years ended June 30, 2016 and 2015 was \$(35,990).

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2016 and 2015

NOTE 13 - Employee Benefit Plans (cont.)

Cemetery and Mausoleum Employees' Union Pension Plan (cont.)

The amounts expected to be recognized into net periodic pension benefit cost in the year ended June 30, 2017 are as follows:

Unrecognized net loss	\$ 114,110
Unrecognized prior service credit	\$ (35,990)

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

	2016	2015
Contributions	\$ 131,033	\$ 93,411
Benefits paid	\$ 120,622	\$ 120,622

The Archdiocese expects to contribute approximately \$95,000 to the plan during the year ended June 30, 2017.

Assumptions used in calculating pension expense were:

	2016	2015
Discount rate	3.55%	4.25%
Rate of increase in compensation levels next 2 years	1.5	1.5
Rate of increase in compensation levels	3.0	3.0
Expected long-term rate of return on assets	7.0	7.0

Management determined the expected long-term rate of return on assets based on historical performance and investment portfolio allocations.

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

2017	\$ 117,601
2018	115,360
2019	146,765
2020	144,433
2021	152,938
2022-2026	1,161,131
	\$ 1,838,228

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2016 and 2015

NOTE 13 - 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. The vision benefits were added to the plan during the year ended June 30, 2008. Covered members become eligible for these benefits at retirement after meeting minimum age and service requirements. The costs of future benefits are accrued during the 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, 2016 and 2015, 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.

	2016	2015
Accumulated post-retirement benefit obligation	\$ 24,464,266	\$ 22,086,128
Fair value of plan assets	-	-
Funded Status of Plan, Recognized in the Statements of Financial Position	<u>\$ (24,464,266)</u>	<u>\$ (22,086,128)</u>

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

	2016	2015
Unrecognized net loss	\$ 9,304,438	\$ 7,884,727
Unrecognized prior service credit	\$ 588,733	\$ 909,153

The net amortization of the above amounts that are reclassified into a component of net periodic benefit cost for the years ended June 30, 2016 and 2015 was \$86,694 and \$(3,997), respectively.

The amounts expected to be recognized into net periodic benefit cost in the year ended June 30, 2017 are as follows:

Unrecognized net loss	\$ 472,966
Unrecognized prior service credit	\$ 320,780

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2016 and 2015

NOTE 13 - Employee Benefit Plans (cont.)

Post-Retirement Benefits Other Than Pensions (cont.)

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

	<u>2016</u>	<u>2015</u>
Employer contributions	\$ 709,089	\$ 701,905
Benefits paid	\$ 709,089	\$ 701,905

The Archdiocese expects to contribute approximately \$894,108 to the plan during the year ended June 30, 2017.

Expected benefit payments for the years ended June 30:

2017	\$ 894,108
2018	957,709
2019	1,017,523
2020	1,078,988
2021	1,133,809
2022-2026	<u>6,048,661</u>
	<u>\$ 11,130,798</u>

The weighted average discount rate used to develop the present value of benefit obligations was 3.25% and 4.00% June 30, 2016 and 2015, respectively. The weighted average discount rate used to develop the net post retirement expense was 4.00% at June 30, 2016 and 2015.

The medical cost trend rate used to value the accumulated post-retirement benefit obligation is 8.0% for 2017, and is assumed to decrease gradually to an ultimate rate of 4.5% in 2023. The dental and vision cost trend rates used for 2017 and thereafter are 4.5%.

Lay Employees' Pension Plan

This is a noncontributory multi-employer defined benefit plan administered by the Archdiocese of Milwaukee. 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. 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. 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. As this is a multi-employer plan, valuation information is not available by employer. The Plan's most recent available information is as of June 30, 2015. The funded percentage of the Plan was in excess of 82%. The Plan had assets in excess of \$236 and \$234 million at June 30, 2015 and 2014, respectively, and total contributions to the Plan were in excess of \$7 million during 2015 and 2014. The Plan's actuarial liability was approximately \$288 million and \$259 million at June 30, 2015, and 2014 respectively.

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2016 and 2015

NOTE 13 - Employee Benefit Plans (cont.)

Lay Employees' Pension Plan (cont.)

The Archdiocese of Milwaukee's participation in the Plan is approximately 5% of the total contributions to the Plan. Pension expense for the years ended June 30, 2016 and 2015, respectively, was \$373,944 and \$377,314, 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, 2015. The funded percentage of the Priests' Plan was nearly 98%. The Priests' Plan had assets in excess of \$33 and \$32 million at June 30, 2015 and 2014, and total contributions to the Priests' Plan were in excess of \$0.8 million during 2015 and 2014. The Priests' Plan's actuarial accrued liability was approximately \$34 and \$31 million at June 30, 2015 and 2014.

Pension expense for the years ended June 30, 2016 and 2015 was \$46,161 and \$44,634, respectively, which includes amortization of past service costs over 30 years. Annual contributions to the plan equal amounts accrued for pension expense.

NOTE 14 - Temporarily Restricted Net Assets

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

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

	<u>2016</u>	<u>2015</u>
Rapp Trust (for capital needs of St. Michael's Church in Mitchell, Wisconsin)	\$ 316,271	\$ 333,206
Other Funds with Purpose and/or Temporal Restrictions	<u>9,389,500</u>	<u>9,195,088</u>
Total Temporarily Restricted Net Assets	<u>\$ 9,705,771</u>	<u>\$ 9,528,294</u>

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2016 and 2015

NOTE 15 - 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.

	<u>2016</u>	<u>2015</u>
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 Permanently Restricted Net Assets	<u>\$ 3,716,366</u>	<u>\$ 3,716,366</u>

NOTE 16 - 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 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 permanently restricted net assets as temporarily restricted net assets until appropriated for expenditure.

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 permanently restricted net assets (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 that is not classified as permanently restricted net assets is classified as temporarily restricted net assets 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 fair value of the permanently restricted net asset at year end is below the original fair value, the deficit is recorded as an unrestricted unrealized loss.

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.

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2016 and 2015

NOTE 16 - Endowment (cont.)

Funds with Deficiencies

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 unrestricted net assets were \$0 as of June 30, 2016 and 2015.

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

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted	\$ -	\$ 747,429	\$ 3,716,366	\$ 4,463,795
	2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted	\$ -	\$ 870,520	\$ 3,716,366	\$ 4,586,886

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

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets: June 30, 2015	\$ -	\$ 870,520	\$ 3,716,366	\$ 4,586,886
Investment return				
Investment income	-	29,868	-	29,868
Net depreciation realized and unrealized	-	(70,863)	-	(70,863)
Total Investment Return	-	(40,995)	-	(40,995)
Appropriation for expenditure	-	(82,096)	-	(82,096)
Endowment Net Assets: June 30, 2016	\$ -	\$ 747,429	\$ 3,716,366	\$ 4,463,795

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2016 and 2015

NOTE 16 - Endowment (cont.)

	2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets: June 30, 2014	\$ -	\$ 946,606	\$ 3,716,366	\$ 4,662,972
Investment return				
Investment income	-	26,257	-	26,257
Net depreciation realized and unrealized	-	(29,192)	-	(29,192)
Total Investment Return	-	(2,935)	-	(2,935)
Appropriation for expenditure	-	(73,151)	-	(73,151)
Endowment Net Assets: June 30, 2015	<u>\$ -</u>	<u>\$ 870,520</u>	<u>\$ 3,716,366</u>	<u>\$ 4,586,886</u>

NOTE 17 - Operating Leases

The Archdiocese leases equipment. All leases are accounted for as operating leases.

Future minimum lease payments as of June 30, 2016 are as follows:

2017	\$ 18,564
2018	18,564
2019	18,564
2020	13,082
2021	11,520
Thereafter	<u>2,880</u>
	<u>\$ 83,174</u>

Expense on the operating leases was \$21,152 and \$21,384 for the years ended June 30, 2016 and 2015, respectively

NOTE 18 - Protected Self-Insurance Program

The Archdiocese, both for itself and as the agent for all parishes and various other Catholic entities operating within the boundaries of the Archdiocese, entered into a protected self-insurance program to provide uniform property and liability coverage under a comprehensive plan. Premiums and loss reserves are determined and claims are processed by a service agency on a contractual basis.

Losses are paid from the loss fund of the protected self-insurance program to which premiums are paid by the participants. No single claim from the loss fund may exceed a specified maximum. Claims in excess of this maximum are fully covered by insurance. Any portion of the loss fund, which might revert back to the Archdiocese, is not measurable.

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2016 and 2015

NOTE 19 - Administrative Services for Unrelated Organizations

The Archdiocese of Milwaukee provides administrative services to several unrelated organizations, including the Faith in Our Future 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 20 - 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 2016 and 2015:

Cash and Cash Equivalents

The carrying value approximates fair value due to the short-term nature of the instruments.

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.

Note Payable

The carrying amount of the note payable approximates fair value due to the short term maturity of the instrument.

Charitable Gift Annuities

The carrying amount approximates fair value due to the short maturity of those instruments.

Contributions Payable

The carrying amount of the contributions payable approximates fair value due to the short term nature of the instruments.

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2016 and 2015

NOTE 21 - 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.

The employees of the cemetery and mausoleum operations are covered by a union contract that expires March 31, 2017. The contract covers approximately 10% - 25% of Archdiocese employees, varying based on seasonal employment levels.

NOTE 22 - 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 non-profit 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.

NOTE 23 - Subsequent Event

The Archdiocese has evaluated subsequent events through November 3, 2016 which is the date that the financial statements were approved and available to be issued.