

ARCHDIOCESE OF MILWAUKEE

Milwaukee, Wisconsin

FINANCIAL STATEMENTS

Including Independent Auditors' Report

June 30, 2006 and 2005

ARCHDIOCESE OF MILWAUKEE

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of financial position of the Archdiocese of Milwaukee as of June 30, 2006 and 2005, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Archdiocese of Milwaukee's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Archdiocese of Milwaukee as of June 30, 2006 and 2005, and the change in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Virchow, Krause & Company, LLP

Milwaukee, Wisconsin
September 21, 2006

ARCHDIOCESE OF MILWAUKEE

STATEMENTS OF FINANCIAL POSITION June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 452,959	\$ 9,025
Short-term investments	4,707,929	3,384,258
Receivables:		
Accounts and notes	3,758,381	3,150,927
Contributions	744,549	822,334
Parish obligations	1,531,306	1,445,239
Mortgages receivable	8,542	114,475
Interest and dividends	<u>427,038</u>	<u>613,339</u>
Total receivables	6,469,816	6,146,314
Other assets	<u>598,826</u>	<u>591,107</u>
Total Current Assets	12,229,530	10,130,704
Ground burial and mausoleum crypt sites	8,762,175	9,531,774
Property and equipment, net	5,887,066	10,002,176
Assets designated for the future care of cemeteries and mausoleums, primarily cash and investments	53,668,399	52,437,820
INVESTMENTS AND OTHER ASSETS		
Long-term investments	26,858,295	29,963,408
Mortgages receivable	59,791	435,497
Other assets	<u>275,618</u>	<u>257,689</u>
Total Investments and Other Assets	<u>27,193,704</u>	<u>30,656,594</u>
TOTAL ASSETS	<u>\$ 107,740,874</u>	<u>\$ 112,759,068</u>

See accompanying notes to financial statements.

ARCHDIOCESE OF MILWAUKEE

STATEMENTS OF FINANCIAL POSITION June 30, 2006 and 2005

LIABILITIES AND NET ASSETS

	<u>2006</u>	<u>2005</u>
CURRENT LIABILITIES		
Checks issued in excess of bank balance	\$ -	\$ 1,013,412
Current maturities of charitable gift annuities	105,159	119,163
Accounts payable	1,260,210	1,192,724
Mediation and litigation settlements, sexual abuse therapy, and victim assistance payable	10,103,570	803,458
Contributions payable	1,425,516	1,270,750
Accrued liabilities	411,280	413,508
Deferred revenue	123,333	151,852
Interdiocesan payable	868,286	163,474
Collections to be forwarded to other entities	<u>2,086,900</u>	<u>1,611,949</u>
Total Current Liabilities	16,384,254	6,740,290
Invested funds held for others	2,618,015	3,050,022
Charitable gift annuities	606,520	683,122
Accrued post-retirement and pension benefits	15,328,000	14,800,683
Deferred revenue	<u>2,086,836</u>	<u>1,805,272</u>
Total Liabilities	<u>37,023,625</u>	<u>27,079,389</u>
NET ASSETS		
Unrestricted		
Undesignated operating	1,299,050	17,142,740
Designated	<u>63,005,096</u>	<u>62,520,165</u>
Total unrestricted	64,304,146	79,662,905
Temporarily restricted	2,696,737	2,300,408
Permanently restricted	<u>3,716,366</u>	<u>3,716,366</u>
Total Net Assets	<u>70,717,249</u>	<u>85,679,679</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 107,740,874</u>	<u>\$ 112,759,068</u>

See accompanying notes to financial statements.

ARCHDIOCESE OF MILWAUKEE

STATEMENTS OF ACTIVITIES Years Ended June 30, 2006 and 2005

	Unrestricted	Temporarily Restricted	Permanently Restricted	2006 Total	Unrestricted	Temporarily Restricted	Permanently Restricted	2005 Total
REVENUE, GAINS, AND OTHER SUPPORT								
Contributions	\$ 9,191,669	\$ 672,300	\$ -	\$ 9,863,969	\$ 8,982,708	\$ 204,712	\$ -	\$ 9,187,420
Parish assessments	5,425,618	-	-	5,425,618	5,548,637	-	-	5,548,637
Tuitions and fees	734,751	-	-	734,751	719,621	-	-	719,621
Various activities and special programs	205,293	-	-	205,293	386,926	-	-	386,926
Cemetery and mausoleum sales	4,953,851	-	-	4,953,851	5,125,047	-	-	5,125,047
Investment income	2,325,116	173,422	-	2,498,538	2,931,240	93,504	-	3,024,744
Gain on sale of property and equipment	1,334,566	-	-	1,334,566	2,632,552	-	-	2,632,552
Miscellaneous revenues	253,436	-	-	253,436	1,006,020	-	-	1,006,020
Net assets released from restrictions	449,393	(449,393)	-	-	659,637	(659,637)	-	1,949,996
Total Revenue, Gains and Other Support	<u>26,984,021</u>	<u>396,329</u>	<u>-</u>	<u>27,380,350</u>	<u>29,942,384</u>	<u>(361,421)</u>	<u>-</u>	<u>29,580,963</u>
EXPENSES								
Payroll and fringe benefits	11,792,245	-	-	11,792,245	13,430,728	-	-	13,430,728
Repairs, maintenance, insurance, utility costs	2,061,063	-	-	2,061,063	1,786,449	-	-	1,786,449
Travel and education	381,975	-	-	381,975	314,801	-	-	314,801
Data processing	53,136	-	-	53,136	49,191	-	-	49,191
Bad debts	-	-	-	-	742,311	-	-	742,311
Supplies	1,242,061	-	-	1,242,061	1,087,242	-	-	1,087,242
Interest expense	426,823	-	-	426,823	1,313,564	-	-	1,313,564
Food service	412,224	-	-	412,224	646,225	-	-	646,225
Assessments	468,435	-	-	468,435	465,685	-	-	465,685
Cost of lot and crypt sales	1,201,044	-	-	1,201,044	1,054,430	-	-	1,054,430
Professional services	15,037,966	-	-	15,037,966	3,860,244	-	-	3,860,244
Scholarships and donations	5,089,029	-	-	5,089,029	2,654,012	-	-	2,654,012
Miscellaneous expenses	1,514,920	-	-	1,514,920	1,155,376	-	-	1,155,376
Impairment of leasehold improvements	2,110,690	-	-	2,110,690	-	-	-	-
Depreciation	551,169	-	-	551,169	530,863	-	-	530,863
Total Expenses	<u>42,342,780</u>	<u>-</u>	<u>-</u>	<u>42,342,780</u>	<u>29,091,121</u>	<u>-</u>	<u>-</u>	<u>29,091,121</u>
CHANGE IN NET ASSETS	<u>(15,358,759)</u>	<u>396,329</u>	<u>-</u>	<u>(14,962,430)</u>	<u>851,263</u>	<u>(361,421)</u>	<u>-</u>	<u>489,842</u>
NET ASSETS - Beginning of Year	<u>79,662,905</u>	<u>2,300,408</u>	<u>3,716,366</u>	<u>85,679,679</u>	<u>78,811,642</u>	<u>2,661,829</u>	<u>3,716,366</u>	<u>85,189,837</u>
NET ASSETS - END OF YEAR	<u>\$ 64,304,146</u>	<u>\$ 2,696,737</u>	<u>\$ 3,716,366</u>	<u>\$ 70,717,249</u>	<u>\$ 79,662,905</u>	<u>\$ 2,300,408</u>	<u>\$ 3,716,366</u>	<u>\$ 85,679,679</u>

See accompanying notes to financial statements.

ARCHDIOCESE OF MILWAUKEE

STATEMENTS OF CASH FLOWS Years Ended June 30, 2006 and 2005

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ (14,962,430)	\$ 489,842
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Donation of land to parishes	1,396,623	-
Depreciation and amortization	551,169	530,863
Impairment of leasehold improvements	2,110,690	-
Amortization of premiums and discounts	49,636	1,299,944
Bad debt provision	-	742,311
Net realized/unrealized gains	(1,334,566)	(2,632,552)
Gain on sale or disposal of fixed assets	(253,436)	(1,006,020)
Change in charitable gift annuities	(90,606)	148,138
Changes in assets and liabilities		
Receivables and payables	497,629	(1,298,546)
Other assets	(25,648)	(72,549)
Ground burial and mausoleum crypt sites	769,599	607,212
Other accrued liabilities	9,297,884	(4,023,646)
Deferred revenue	253,045	219,445
Accrued postretirement and pension benefits	527,317	1,843,336
Net Cash Flows from Operating Activities	(1,213,094)	(3,152,222)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(378,736)	(265,383)
Proceeds from the sale of property and equipment	688,800	1,126,293
Net change in investments	1,835,793	33,052,388
Net change in mortgages receivable	481,639	683,981
Net change in collections to be forwarded on to other entities	474,951	143,287
Net change in invested funds held for others	(432,007)	(37,621,844)
Net Cash Flows from Investing Activities	2,670,440	(2,881,278)
CASH FLOWS FROM FINANCING ACTIVITIES		
Checks issued in excess of bank balance	(1,013,412)	1,013,412
Net Change in Cash and Cash Equivalents	443,934	(5,020,088)
CASH AND CASH EQUIVALENTS - Beginning of Year	9,025	5,029,113
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 452,959	\$ 9,025
Supplemental cash flow disclosures		
Cash paid for interest	\$ 519,906	\$ 1,516,233
Noncash investing and financing activities		
Transfer of investments to repay invested funds held for others	-	13,635,863

See accompanying notes to financial statements.

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS

June 30, 2006 and 2005

NOTE 1 - Summary of Significant Accounting Policies

Nature of Activities

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

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

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

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

Basis of Accounting

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

Cash and Cash Equivalents

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

Investments

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

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS June 30, 2006 and 2005

NOTE 1 - Summary of Significant Accounting Policies (continued)

Accounts Receivable

The Archdiocese uses the allowance method to account for uncollectible accounts receivable. Accounts and notes receivable are presented net of allowance for doubtful accounts of \$656,411 and \$626,860 at June 30, 2006 and 2005, respectively. Parish obligations are presented net of allowance for doubtful accounts of \$1,898,806 and \$1,931,400 at June 30, 2006 and 2005, respectively.

Notes Receivable

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

Life Insurance Contributions

Donors have contributed multiple life insurance policies on their lives to the Archdiocese. The cash surrender value of \$275,618 and \$257,689 at June 30, 2006 and 2005, respectively, is included in long-term other assets on the statement of financial position.

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

Property and Equipment

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

Land, buildings and equipment are primarily carried at cost.

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

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

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

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS

June 30, 2006 and 2005

NOTE 1 - Summary of Significant Accounting Policies (continued)

Impairment of Long-Lived Assets

The Archdiocese reviews long-lived assets, including property and equipment and intangible assets, for impairment whenever events or changes in business circumstances indicate that the carrying amount of an asset may not be fully recoverable. An impairment loss would be recognized when the estimated future cash flows from the use of the asset are less than the carrying amount of that asset. In 2006, the Archdiocese recognized an impairment loss of \$2,110,690 for leasehold improvements at the Archbishop Cousins Catholic Center due to expected relocation.

Contributions Payable

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

Collections to be Forwarded to Other Entities

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

Invested Funds Held for Others

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

	<u>2006</u>	<u>2005</u>
Catholic Urban Academies	\$ 116,931	\$ 406,888
Priests' Continuing Formation Program	1,636,295	1,458,618
St. Michael's Priests Fund	46,777	14,047
Protected Self Insurance Program	<u>818,012</u>	<u>1,170,469</u>
Total	<u>\$ 2,618,015</u>	<u>\$ 3,050,022</u>

Net Assets

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

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

Temporarily Restricted Net Assets - Net assets subject to donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Archdiocese pursuant to those stipulations.

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

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS June 30, 2006 and 2005

NOTE 1 - Summary of Significant Accounting Policies (continued)

Board Designated Net Assets

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

Future Care of Cemeteries and Mausoleums

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

The Board of Directors has also designated certain assets for this purpose, which is shown as a noncurrent asset in the statement of financial position. The fair values of the specific assets designated for future care as of June 30, 2006 and 2005 are:

	2006	2005
Common Stocks	\$ 39,444,826	\$ 36,391,229
U.S. Government Bonds	6,949,462	7,658,898
Short-Term Investments	1,146,966	2,017,960
Commercial Bonds	5,875,187	6,067,943
Other	251,958	301,790
Total	53,668,399	52,437,820

Other Specific Purposes

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

Chancery		
St. John's Burse (for deaf and hearing impaired ministry)	\$ 825,559	\$ 799,856
St. Anthony Hospital (for health care needs of the medically indigent)	329,017	318,820
St. Aemilian Trust (for the establishment of facilities for orphans, dependent, neglected, and delinquent children, for rehabilitation, treatment and other welfare services needed for such ends, and the promotion of education, charity and religion)	5,451,540	5,802,818
St. Joseph Parish, West Allis	1,093,460	1,111,261
St. Gerard Parish, Milwaukee	1,196,239	1,204,563
St. John's Cathedral renovation	-	422,397
General operations and other	440,882	422,630
Total	9,336,697	10,082,345
Total designated net assets	\$ 63,005,096	\$ 62,520,165

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS June 30, 2006 and 2005

NOTE 1 - Summary of Significant Accounting Policies (continued)

Revenue Recognition

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

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

Cemetery and Mausoleum Sales

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

Contributed Services

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

Contributed Facilities

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

Fundraising Costs

Fundraising costs, consisting primarily of payroll and fringe benefits, supplies and professional services, for fiscal year ended June 30, 2006 and 2005 was \$1,010,488 and \$1,000,536, respectively.

Reclassifications

For comparability, certain 2005 amounts have been reclassified to conform with classifications adopted in 2006. The reclassifications have no effect on reported amounts of net assets or change in net assets.

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS

June 30, 2006 and 2005

NOTE 1 - Summary of Significant Accounting Policies (continued)

Use of Estimates

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

NOTE 2 - Investments

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

	<u>2006</u>	<u>2005</u>
Cash	\$ 5,023,643	\$ 3,346,937
Common Stocks	3,153,003	3,017,065
US Government Bonds	19,255,520	20,171,720
Commercial Bonds	3,088,207	3,962,408
Other Investments	<u>1,045,851</u>	<u>2,849,536</u>
Total	31,566,224	33,347,666
Less: Short-Term Investments	<u>(4,707,929)</u>	<u>(3,384,258)</u>
Long-Term Investments	<u>\$ 26,858,295</u>	<u>\$ 29,963,408</u>

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

	<u>2006</u>	<u>2005</u>
Net realized gains on investments	\$ 1,846,477	\$ 2,398,458
Net unrealized gains (losses) on investments	<u>(511,911)</u>	<u>234,094</u>
Total	<u>\$ 1,334,566</u>	<u>\$ 2,632,552</u>

NOTE 3 - Contributions Receivable

Gross contributions receivable are reported in the statement 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>2006</u>	<u>2005</u>
Less Than One Year	\$ 760,149	\$ 837,934
Less: Allowance for doubtful accounts	<u>(15,600)</u>	<u>(15,600)</u>
Net Contributions Receivable	<u>\$ 744,549</u>	<u>\$ 822,334</u>

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS

June 30, 2006 and 2005

NOTE 4 - Ground Burial and Mausoleum Crypt Sites

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

	<u>2006</u>	<u>2005</u>
Mausoleum Crypts	\$ 5,915,419	\$ 6,716,420
Cemetery Land and Facilities Held for Burial Privileges	<u>2,846,756</u>	<u>2,815,354</u>
Total	<u>\$ 8,762,175</u>	<u>\$ 9,531,774</u>

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

NOTE 5 - Property and Equipment

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

	<u>2006</u>	<u>2005</u>
Land	\$ 1,695,835	\$ 2,048,083
Land and building improvements	720,612	4,488,063
Buildings	10,535,444	10,505,591
Furniture and fixtures	1,862,214	1,882,187
Equipment	4,011,630	5,122,354
Vehicles	472,706	436,372
Future parish sites	<u>364,632</u>	<u>1,945,495</u>
Total Property and Equipment	19,663,073	26,428,145
Less: Accumulated depreciation	<u>(13,776,007)</u>	<u>(16,425,969)</u>
Net Property and Equipment	<u>\$ 5,887,066</u>	<u>\$ 10,002,176</u>

The amounts for future parish sites are carried at the properties' cost plus the annual carrying costs of those sites, such as maintenance and property taxes.

Included in property and equipment is certain land, building and equipment (other than leasehold improvements and equipment owned directly by the tenants) being used by St. Joseph High School, Inc., Pius XI High School, Inc. and Thomas More High School, Inc. There is currently no written lease agreement and no rent is being charged. The property and equipment being used by Pius XI High School, Inc. is subject to a mortgage entered into by Pius XI High School, Inc. for up to \$8,000,000. The land and property being used by Thomas More High School, Inc. is subject to a mortgage entered into by Thomas More High School, Inc. for up to \$400,000. Both mortgages are non-recourse as to the Archdiocese.

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS

June 30, 2006 and 2005

NOTE 6 - Mortgages Receivable

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

	<u>2006</u>	<u>2005</u>
6% note receivable, due August 1, 2014, interest and principal payments receivable monthly.	\$ -	\$ 473,097
Noninterest bearing note receivable, receivable in equal annual payments through January 1, 2015.	<u>68,333</u>	<u>76,875</u>
Total	68,333	549,972
Less: Current Portion	<u>(8,542)</u>	<u>(114,475)</u>
Long-Term Portion	<u>\$ 59,791</u>	<u>\$ 435,497</u>

NOTE 7 - Accrued Mediation and Litigation Settlements

In January 2004, the Archdiocese established an independent mediation system to address reports of diocesan clergy sexual abuse of minors. The Archdiocese has accrued \$10,103,570 and \$803,458 as of June 30, 2006 and 2005, respectively to cover mediation and litigation settlements, sexual abuse therapy and victim assistance agreed to under mediation. These expenses will be paid for by funds in the properties and building fund, the sale of Cousins Catholic Center and liquidation of some short-term and long-term investments. Mediation and litigation settlements, sexual abuse therapy and victim assistance expense of \$12,306,244 and \$518,575, respectively, are included in 2006 and 2005 professional services on the statement of activities.

As of June 30, 2006, the Archdiocese was a defendant in various lawsuits alleging liability for personal injuries. The lawsuits of ten of these plaintiffs were pending in California. On August 29, 2006, in connection with a court-ordered mediation, all ten California cases were settled. Insurance paid slightly over half of the settlement amount with the Archdiocese paying the smaller balance. Insurance agreed to pay \$8,403,600 and the Archdiocese has agreed to pay \$8,250,000. The \$8,250,000 is included in accrued expenses as of June 30, 2006.

In addition to the settled California cases, the Archdiocese was also a defendant in 5 Wisconsin lawsuits alleging personal injuries. All 5 cases were dismissed in favor of the Archdiocese by the trial courts. Further three of those dismissed cases were confirmed on appeal. The plaintiffs in those three Wisconsin appeals have recently asked the Wisconsin Supreme Court for further review. It is unknown whether the Supreme Court will grant that review, or if granted, whether it will change the outcome. If the outcome is changed, the cases would be sent back for trial. Under such circumstances, the Archdiocese would pursue coverage from its insurers. As for the remaining two Wisconsin cases dismissed by the trial courts, those two cases are still on appeal although on appeal they present most of the same questions already addressed in the earlier three appeals. The Archdiocese will have to await the outcome of those two appeals before it can determine what or if anything needs to be done. Management has not accrued any additional expenses in connection with these five (5) cases.

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS June 30, 2006 and 2005

NOTE 8 - Deferred Revenue

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

NOTE 9 - Charitable Gift Annuities

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

	2006	2005
Charitable Gift Annuities, 7.00%	\$ 711,679	\$ 802,285
Less: Current portion	(105,159)	(119,163)
Long-Term Portion	\$ 606,520	\$ 683,122

Principal requirements on charitable gift annuities for years ending after June 30, 2006 are as follows:

2007	\$ 105,159
2008	98,279
2009	91,850
2010	85,841
2011	80,225
Thereafter	250,325
Total	\$ 711,679

NOTE 10 - Interdiocesan Payable

St. Francis Seminary, Inc. (the "Seminary") and the Archdiocese of Milwaukee High Schools (the "Schools") are freestanding entities. Both the Seminary and the Schools have Boards of Directors overseeing all ordinary administration. The Archdiocese contributes accounting services and a Catholic Stewardship Appeal grant to the Seminary and also loans money to the Schools.

The obligations of the Schools and amounts due to the Seminary at June 30 are:

	Receivable		Payable	
	2006	2005	2006	2005
St. Francis Seminary	\$ -	\$ -	\$ 868,286	\$ 163,474
Archdiocese of Milwaukee High Schools	92,824	88,624	-	-
Total	\$ 92,824	\$ 88,624	\$ 868,286	\$ 163,474

Interest income from the note receivable recognized by the Archdiocese from the Schools was \$4,200 and \$11,939 for the years ended June 30, 2006 and 2005, respectively. Interest (\$0 and \$9,787) and contribution expenses (\$2,630,000 and \$1,655,000) recognized by the Archdiocese was \$2,630,000 and \$1,664,787 for the Seminary for 2006 and 2005, respectively. Interest expense of \$0 and \$99,491 was paid to the Schools for the years ended June 30, 2006 and 2005, respectively.

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS

June 30, 2006 and 2005

NOTE 11 - 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 1. A summary of each plan follows:

Lay Employees' Pension Plan

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

Pension expense for the years ended June 30, 2006 and 2005, respectively was approximately \$309,388 and \$271,290, which includes amortization of past service costs over 30 years. Annual contributions to the plan equal amounts accrued for pension expense.

Archdiocese of Milwaukee Priests' Pension Plan

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

Pension expense for the years ended June 30, 2006 and 2005 was approximately \$43,000 and \$45,700, respectively which includes amortization of past service costs over 30 years. Annual contributions to the plan equal amounts accrued for pension expense.

Cemetery and Mausoleum Employees' Union Pension Plan

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

The actuarial reports for the current fiscal year are provided to the Archdiocese during the next fiscal year. As a result the Archdiocese records the July 1, 2005 liability at June 30, 2006 and the July 1, 2004 liability at June 30, 2005.

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

	<u>2006</u>	<u>2005</u>
Change in benefit obligation		
Projected benefit obligation at beginning of year	\$ 2,047,485	\$ 1,978,332
Service cost	80,969	62,969
Interest cost	122,849	119,257
Benefits paid	(74,157)	(109,780)
Interest on benefits paid	(2,225)	(3,293)
Change in discount rate	<u>207,011</u>	<u>-</u>
Projected benefit obligation at end of year	<u>\$ 2,381,932</u>	<u>\$ 2,047,485</u>

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS

June 30, 2006 and 2005

NOTE 11 - Employee Benefit Plans (continued)

Cemetery and Mausoleum Employees' Union Pension Plan (continued)

	2006	2005
Change in plan assets		
Fair value of plan assets at beginning of year	\$ 820,475	\$ 851,902
Actual return on assets	41,249	46,576
Employer contribution	31,466	31,777
Benefits paid	(74,157)	(109,780)
Fair value of plan assets at end of year	\$ 819,033	\$ 820,475
Funded status of plan	\$ (1,562,899)	\$ (1,227,010)
Unrecognized net loss	464,672	237,389
Unrecognized prior service cost	54,280	79,782
Accrued pension liability	\$ (1,043,947)	\$ (909,839)

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

	2006	2005
Service cost	\$ 80,969	\$ 62,969
Interest cost on projected benefit obligation	120,471	116,668
Expected return on assets	(63,097)	(66,607)
Net amortization and deferral	27,231	27,041
Net Periodic Pension Cost	\$ 165,574	\$ 140,071

Assumptions used in calculating pension expense were:

	As of July 1, 2005	As of July 1, 2004
Discount rate	5.5 %	6.0 %
Rate of increase in compensation levels	4.0	4.0
Expected long-term rate of return on assets	8.0	8.0

Post-Retirement Benefits Other Than Pensions

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

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS June 30, 2006 and 2005

NOTE 11 - Employee Benefit Plans (continued)

Post-Retirement Benefits Other Than Pensions (continued)

The accumulated post-retirement benefit obligation consisted of unfunded obligations related to the following as of June 30:

	2006	2005
Change in benefit obligation		
Accumulated postretirement benefit obligation at beginning of year	\$ 13,329,644	\$ 11,594,603
Service cost	203,357	231,259
Interest cost	907,942	1,526,239
Benefits paid	(718,090)	(684,757)
Actuarial gain	(710,409)	-
Amortization of (gain)/loss	-	662,300
Change in plan design	(4,007,229)	-
Accumulated postretirement benefit obligation at end of year	\$ 9,005,215	\$ 13,329,644

At June 30, 2006 and 2005, the post-retirement health insurance benefit plan did not have any assets.

	2006	2005
Funded status of plan		
Accumulated post-retirement benefit obligation	\$ (9,005,215)	\$ (13,329,644)
Plan assets	-	-
Funded status of plan	(9,005,215)	(13,329,644)
Unrecognized net loss (gain)	(1,271,609)	(561,200)
Unrecognized prior service cost	(4,007,229)	-
Accrued pension liability	\$ (14,284,053)	\$ (13,890,844)

Net post-retirement benefit cost included the following components for the years ended June 30:

	2006	2005
Amortization of loss	\$ -	\$ 662,300
Service cost	203,357	231,259
Interest cost on accumulated postretirement benefit obligations	907,942	1,526,239
Net postretirement benefit cost	\$ 1,111,299	\$ 2,419,798

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

	2006	2005
Discount Rate	7.0 %	7.0 %
Medical Cost Trend Rate for the Next Year	6.5	7.0
Dental Cost Trend Rate for Next Year	4.0	4.0

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS June 30, 2006 and 2005

NOTE 11 - Employee Benefit Plans (continued)

Post-Retirement Benefits Other Than Pensions (continued)

The medical cost trend rate used to value the accumulated post-retirement benefit obligation is assumed to decrease gradually to an ultimate rate of 5% in 2009, while the dental cost trend rate used is assumed to remain at 4.0%. A 1.0% increase in these annual trend rates would increase the accumulated post-retirement benefit obligation as of June 30, 2006 and 2005 by \$1,643,117 and \$1,739,344, respectively and the combined service and interest components of the annual net post-retirement health care cost for the year ended June 30, 2006 and 2005 by \$179,590 and \$203,803, respectively.

NOTE 12 - 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>2006</u>	<u>2005</u>
Chancery		
Capital Campaign (for various capital and program needs)	\$ 218,807	\$ 218,807
Rapp Trust (for capital needs of St. Michael's Church in Mitchell, Wisconsin)	371,958	366,121
General Operations and Other	<u>2,105,972</u>	<u>1,715,480</u>
Total Temporarily Restricted Net Assets	<u>\$ 2,696,737</u>	<u>2,300,408</u>

NOTE 13 - 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>2006</u>	<u>2005</u>
Chancery		
Education Endowment Fund (for needy children for tuition in any schools of the Catholic Archdiocese of Milwaukee)	\$ 1,000,000	\$ 1,000,000
Msgr. Eugene J. Kapalczynski Development Fund	2,624,360	2,624,360
General Operations and Other	<u>92,006</u>	<u>92,006</u>
Total Permanently Restricted Net Assets	<u>\$ 3,716,366</u>	<u>3,716,366</u>

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS June 30, 2006 and 2005

NOTE 14 - 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. Premiums and loss reserves are determined and claims are processed by a service agency on a contractual basis.

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

NOTE 15 - Contingencies

The Archdiocese is currently involved as a defendant in various lawsuits. The ultimate outcome of these actions cannot be determined at this time. Among other things, the range of financial circumstances that might flow from these cases is further uncertain because of the unresolved status of insurance coverage for the same. The Archdiocese is defending each of the cases and is pursuing insurance coverage.

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

NOTE 16 - Financial Instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practical to estimate that value as of June 30, 2006 and 2005:

Cash, Cash Equivalents and Investments

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

Notes and Mortgage Notes Receivable

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

Charitable Gift Annuities

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

NOTE 17 - Concentrations

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