

ARCHDIOCESE OF MILWAUKEE

Milwaukee, Wisconsin

June 30, 2007 and 2006

FINANCIAL STATEMENTS

Including Independent Auditors' Report

ARCHDIOCESE OF MILWAUKEE

TABLE OF CONTENTS

Independent Auditors' Report	1
Financial Statements	
Statements of Financial Position	2 - 3
Statements of Activities	4
Statements of Cash Flows	5
Notes to Financial Statements	6 - 23



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, 2007 and 2006, 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, 2007 and 2006, 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
November 2, 2007

ARCHDIOCESE OF MILWAUKEE

STATEMENTS OF FINANCIAL POSITION

June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,114,180	\$ 452,959
Short-term investments	9,044,746	4,707,929
Receivables:		
Accounts and notes	2,809,245	3,758,381
Contributions	635,411	744,549
Parish obligations	1,466,021	1,531,306
Mortgages receivable	8,542	8,542
Interest and dividends	<u>265,516</u>	<u>427,038</u>
Total receivables	5,184,735	6,469,816
Other assets	<u>598,697</u>	<u>598,826</u>
Total Current Assets	15,942,358	12,229,530
Ground burial and mausoleum crypt sites	8,130,966	8,762,175
Property and equipment, net	5,337,334	5,887,066
Assets designated for the future care of cemeteries and mausoleums, primarily cash and investments	59,865,084	53,668,399
INVESTMENTS AND OTHER ASSETS		
Long-term investments	18,126,983	26,858,295
Mortgages receivable	51,250	59,791
Other assets	<u>295,966</u>	<u>275,618</u>
Total Investments and Other Assets	<u>18,474,199</u>	<u>27,193,704</u>
TOTAL ASSETS	<u>\$ 107,749,941</u>	<u>\$ 107,740,874</u>

See accompanying notes to financial statements.

ARCHDIOCESE OF MILWAUKEE

STATEMENTS OF FINANCIAL POSITION

June 30, 2007 and 2006

LIABILITIES AND NET ASSETS

	<u>2007</u>	<u>2006</u>
CURRENT LIABILITIES		
Note payable	\$ 4,650,000	\$ -
Current maturities of charitable gift annuities	102,924	105,159
Accounts payable	754,571	1,260,210
Mediation and litigation settlements, sexual abuse therapy, and victim assistance payable	1,807,978	10,103,570
Contributions payable	2,467,510	1,425,516
Accrued liabilities	431,894	411,280
Deferred revenue	77,375	123,333
Interdiocesan payable	120,554	868,286
Collections to be forwarded to other entities	<u>2,114,358</u>	<u>2,086,900</u>
Total Current Liabilities	12,527,164	16,384,254
Invested funds held for others	2,556,770	2,618,015
Charitable gift annuities	595,226	606,520
Accrued post-retirement and pension benefits	11,123,851	15,328,000
Deferred revenue	2,373,622	2,086,836
Long term portion of contributions payable	<u>2,802,393</u>	-
Total Liabilities	<u>31,979,026</u>	<u>37,023,625</u>
NET ASSETS		
Unrestricted		
Undesignated operating (deficit)	(95,068)	1,299,050
Designated	<u>68,922,829</u>	<u>63,005,096</u>
Total unrestricted	68,827,761	64,304,146
Temporarily restricted	3,226,788	2,696,737
Permanently restricted	<u>3,716,366</u>	<u>3,716,366</u>
Total Net Assets	<u>75,770,915</u>	<u>70,717,249</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 107,749,941</u>	<u>\$ 107,740,874</u>

See accompanying notes to financial statements.

ARCHDIOCESE OF MILWAUKEE

STATEMENTS OF ACTIVITIES Years Ended June 30, 2007 and 2006

	2007		2006		2006 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
REVENUE, GAINS, AND OTHER SUPPORT					
Contributions	\$ 10,178,044	\$ 420,605	\$ -	\$ 10,598,649	\$ 11,273,001
Parish assessments	5,690,142	-	-	5,690,142	5,425,618
Tuitions and fees	653,405	-	-	653,405	734,751
Various activities and special programs	151,992	-	-	151,992	205,293
Cemetery and mausoleum sales	4,804,363	-	-	4,804,363	4,953,851
Investment income	3,522,738	327,482	-	3,850,220	2,498,538
Net realized and unrealized gains	5,972,116	-	-	5,972,116	1,334,566
Gain (loss) on sale of property and equipment	9,801	-	-	9,801	253,436
Miscellaneous revenues	1,979,732	-	-	1,979,732	2,110,328
Net assets released from restrictions	218,036	(218,036)	-	-	(449,393)
Total Revenue, Gains and Other Support	33,180,369	530,051	-	33,710,420	28,393,053
EXPENSES					
Payroll and fringe benefits	12,219,912	-	-	12,219,912	11,792,245
Repairs, maintenance, insurance, utility costs	1,886,441	-	-	1,886,441	2,061,063
Travel and education	334,460	-	-	334,460	381,975
Data processing	40,504	-	-	40,504	53,136
Supplies	1,258,738	-	-	1,258,738	1,242,061
Interest expense	789,058	-	-	789,058	426,823
Food service	190,001	-	-	190,001	412,224
Assessments	365,388	-	-	365,388	468,435
Cost of lot and crypt sales	1,045,885	-	-	1,045,885	1,201,044
Professional services	5,229,695	-	-	5,229,695	15,037,966
Scholarships and donations	8,247,753	-	-	8,247,753	6,498,061
Miscellaneous expenses	804,057	-	-	804,057	1,514,920
Impairment of leasehold improvements	674,178	-	-	674,178	2,110,690
Depreciation	417,581	-	-	417,581	551,169
Total Expenses	33,503,651	-	-	33,503,651	43,751,812
Change in net assets before cumulative effect	(323,282)	530,051	-	206,769	(14,962,430)
Cumulative effect of change in accounting principle	4,846,897	-	-	4,846,897	-
CHANGE IN NET ASSETS	4,523,615	530,051	-	5,053,666	(14,962,430)
NET ASSETS - Beginning of Year	64,304,146	2,696,737	3,716,366	70,717,249	85,679,679
NET ASSETS - END OF YEAR	\$ 68,827,761	\$ 3,226,788	\$ 3,716,366	\$ 75,770,915	\$ 70,717,249

See accompanying notes to financial statements.

ARCHDIOCESE OF MILWAUKEE

STATEMENTS OF CASH FLOWS Years Ended June 30, 2007 and 2006

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 5,053,666	\$ (14,962,430)
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Cumulative effect of change in accounting principle	(4,846,897)	-
Depreciation and amortization	417,581	551,169
Impairment of leasehold improvements	674,178	2,110,690
Amortization of premiums and discounts	79,466	49,636
Donation of land to parishes	-	1,396,623
Net realized/unrealized gains	(5,972,116)	(1,334,566)
Gain on sale or disposal of fixed assets	(9,801)	(253,436)
Change in charitable gift annuities	(13,529)	(90,606)
Changes in assets and liabilities		
Receivables and payables	3,877,732	497,629
Other assets	(20,219)	(25,648)
Ground burial and mausoleum crypt sites	631,209	769,599
Other accrued liabilities	(8,274,978)	9,297,884
Deferred revenue	240,828	253,045
Accrued postretirement and pension benefits	642,748	527,317
Net Cash Flows from Operating Activities	(7,520,132)	(1,213,094)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(542,026)	(378,736)
Proceeds from the sale of property and equipment	9,800	688,800
Net change in investments	4,090,460	1,835,793
Net change in mortgages receivable	8,541	481,639
Net change in collections to be forwarded on to other entities	25,823	474,951
Net change in invested funds held for others	(61,245)	(432,007)
Net Cash Flows from Investing Activities	3,531,353	2,670,440
CASH FLOWS FROM FINANCING ACTIVITIES		
Checks issued in excess of bank balance	-	(1,013,412)
Proceeds on note payable	4,650,000	-
Net Cash Flows from Financing Activities	4,650,000	(1,013,412)
Net Change in Cash and Cash Equivalents	661,221	443,934
CASH AND CASH EQUIVALENTS - Beginning of Year	452,959	9,025
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 1,114,180	\$ 452,959
Supplemental cash flow disclosures		
Cash paid for interest	\$ 789,058	\$ 426,823

See accompanying notes to financial statements.

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS June 30, 2007 and 2006

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, 2007 and 2006

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 \$725,554 and \$656,411 at June 30, 2007 and 2006, respectively. Parish obligations are presented net of allowance for doubtful accounts of \$1,717,778 and \$1,898,806 at June 30, 2007 and 2006, 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 \$295,966 and \$275,618 at June 30, 2007 and 2006, 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, 2007 and 2006

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 2007 and 2006, the Archdiocese recognized impairment losses of \$674,178 and \$2,110,690, respectively, for leasehold improvements at Meyer Hall and 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 subsequent fiscal years. In 2007, the Archdiocese entered into an agreement to pay a contribution over an extended period of 15 years. The long term portion of this contribution has been discounted at 6% to its net present value. The obligations are as follows for the year ended June 30 net of the discount of \$997,607:

2008	\$ 2,467,510
2009	1,132,075
2010	177,999
2011	167,924
2012	158,419
Thereafter	<u>1,165,976</u>
Total	<u>\$ 5,269,903</u>

Collections to be Forwarded to Other Entities

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

Invested Funds Held for Others

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

	<u>2007</u>	<u>2006</u>
Priests' Continuing Formation Program	\$ 1,782,264	\$ 1,636,295
St. Michael's Priests Fund	-	46,777
Protected Self Insurance Program	615,504	818,012
Other	<u>159,002</u>	<u>116,931</u>
Total	<u>\$ 2,556,770</u>	<u>\$ 2,618,015</u>

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS June 30, 2007 and 2006

NOTE 1 - Summary of Significant Accounting Policies (continued)

Net Assets

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

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

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

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

Board Designated Net Assets

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

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.

On April 2, 2007, the Archdiocese created the Archdiocese of Milwaukee Catholic Cemetery Perpetual Care Trust (the "Cemetery Trust") to formalize the trust relationship with respect to such funds. The funds held by the Archdiocese for the perpetual care of mausoleum crypts and grave sites are in the process of being transferred to the Cemetery Trust.

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, 2007 and 2006 are:

	<u>2007</u>	<u>2006</u>
Common Stocks	\$ 42,589,533	\$ 39,444,826
U.S. Government Bonds	8,537,578	6,949,462
Short-Term Investments	4,236,297	1,146,966
Commercial Bonds	4,394,608	5,875,187
Other	<u>107,068</u>	<u>251,958</u>
Total	<u>59,865,084</u>	<u>53,668,399</u>

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS June 30, 2007 and 2006

NOTE 1 - Summary of Significant Accounting Policies (continued)

Board Designated Net Assets (continued)

Other Specific Purposes

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

St. John's Burse (for deaf and hearing impaired ministry)	\$ 623,629	\$ 825,559
St. Anthony Hospital (for health care needs of the medically indigent)	343,151	329,017
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)	5,236,953	5,451,540
St. Joseph Parish, West Allis	1,105,089	1,093,460
St. Gerard Parish, Milwaukee	1,199,684	1,196,239
General operations and other	<u>549,239</u>	<u>440,882</u>
Total	<u>9,057,745</u>	<u>9,336,697</u>
Total designated net assets	<u>\$ 68,922,829</u>	<u>\$ 63,005,096</u>

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.

Cemetery and Mausoleum Sales

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

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS

June 30, 2007 and 2006

NOTE 1 - Summary of Significant Accounting Policies (continued)

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, 2007 and 2006 was \$1,317,932 and \$1,010,488, respectively.

Reclassifications

For comparability, certain 2006 amounts have been reclassified to conform with classifications adopted in 2007. 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 June 30, 2007 and 2006

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>2007</u>	<u>2006</u>
Cash	\$ 5,886,669	\$ 5,023,643
Common Stocks	1,913	3,153,003
US Treasury Bills	3,158,077	-
US Government Bonds	9,200,589	19,255,520
Commercial Bonds	7,326,119	3,088,207
Other Investments	<u>1,598,362</u>	<u>1,045,851</u>
Total	27,171,729	31,566,224
Less: Short-Term Investments	<u>(9,044,746)</u>	<u>(4,707,929)</u>
Long-Term Investments	<u>\$ 18,126,983</u>	<u>\$ 26,858,295</u>

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

	<u>2007</u>	<u>2006</u>
Net realized gains on investments	\$ 6,216,648	\$ 1,846,477
Net unrealized gains (losses) on investments	<u>(244,532)</u>	<u>(511,911)</u>
Total	<u>\$ 5,972,116</u>	<u>\$ 1,334,566</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>2007</u>	<u>2006</u>
Less Than One Year	\$ 651,011	\$ 760,149
Less: Allowance for doubtful accounts	<u>(15,600)</u>	<u>(15,600)</u>
Net Contributions Receivable	<u>\$ 635,411</u>	<u>\$ 744,549</u>

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS June 30, 2007 and 2006

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>2007</u>	<u>2006</u>
Mausoleum Crypts	\$ 5,292,020	\$ 5,915,419
Cemetery Land and Facilities Held for Burial Privileges	<u>2,838,946</u>	<u>2,846,756</u>
Total	<u>\$ 8,130,966</u>	<u>\$ 8,762,175</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>2007</u>	<u>2006</u>
Land	\$ 1,695,835	\$ 1,695,835
Land and building improvements	720,612	720,612
Construction in Progress	73,240	-
Buildings	9,539,340	10,535,444
Furniture and Fixtures	1,802,898	1,862,214
Equipment	4,165,609	4,011,630
Vehicles	546,058	472,706
Future parish sites	<u>364,632</u>	<u>364,632</u>
Total Property and Equipment	18,908,224	19,663,073
Less: Accumulated depreciation	<u>(13,570,890)</u>	<u>(13,776,007)</u>
Net Property and Equipment	<u>\$ 5,337,334</u>	<u>\$ 5,887,066</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. As of June 30, 2007 the Archdiocese and the High Schools were engaged in negotiations to enter into ground leases for each high school. The property and equipment being used by Pius XI High School, Inc. is subject to a mortgage entered into by Pius XI High School, Inc. for up to \$8,000,000. The land and property being used by Thomas More High School, Inc. is subject to a mortgage entered into by Thomas More High School, Inc. for up to \$1,500,000. Both mortgages are non-recourse as to the Archdiocese.

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS June 30, 2007 and 2006

NOTE 6 - Mortgages Receivable

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

	<u>2007</u>	<u>2006</u>
Noninterest bearing note receivable, receivable in equal annual payments through January 1, 2015.	\$ 59,792	\$ 68,333
Less: Current Portion	<u>(8,542)</u>	<u>(8,542)</u>
Long-Term Portion	<u>\$ 51,250</u>	<u>\$ 59,791</u>

NOTE 7 - Business Note

During the year ended June 30, 2007, the Archdiocese entered into a new line of credit financing agreement with Park Bank and \$6,000,000 is available to the organization. Interest is payable monthly at LIBOR plus two percent (7.7% at June 30, 2007). The line of credit matures on December 31, 2007 and is secured by mortgages against the Archbishop Cousins Catholic Center (owned by DeSales Preparatory Seminary, Inc.) and the St. Charles Family Services property. Interest expense was \$246,922 for the year ended June 30, 2007.

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

NOTE 8 - 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 \$1,807,978 and \$10,103,570 as of June 30, 2007 and 2006, 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 Archbishop 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 \$5,688,169 and \$12,306,244, respectively, are included in 2007 and 2006 professional services on the statement of activities net of insurance proceeds received.

On August 29, 2006, the Archdiocese settled lawsuits alleging liability for personal injuries from ten defendants in California in connection with a court-ordered mediation. In the fiscal year ended June 30, 2006, the Archdiocese accrued \$8,250,000 for settlement expenses of these lawsuits. This constituted approximately half of the settlement expenses, with the balance paid by insurers.

The Archdiocese currently is a defendant in five Wisconsin lawsuits alleging personal injuries. Three cases were returned to the trial court after appeal to the Wisconsin Supreme Court. Two new cases were filed subsequent to June 30, 2007, using the same legal theories as the cases which were appealed.

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS June 30, 2007 and 2006

NOTE 8 - Accrued Mediation and Litigation Settlements (continued)

All five cases are now at the trial court level and are in the initial stages of pre-trial procedures. There is one additional case which was dismissed by the trial court and is on appeal. Management has not accrued any additional expense in connection with these six cases as the outcome is uncertain and management intends to vigorously defend the claims.

NOTE 9 - 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 10 - Charitable Gift Annuities

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

	<u>2007</u>	<u>2006</u>
Charitable Gift Annuities, 7.00%	\$ 698,150	\$ 711,679
Less: Current portion	<u>(102,924)</u>	<u>(105,159)</u>
Long-Term Portion	<u>\$ 595,226</u>	<u>\$ 606,520</u>

Principal requirements on charitable gift annuities for years ending after June 30, 2007 are as follows:

2008	\$ 102,924
2009	96,191
2010	89,898
2011	84,016
2012	78,520
Thereafter	<u>246,601</u>
Total	<u>\$ 698,150</u>

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS June 30, 2007 and 2006

NOTE 11 - 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	
	2007	2006	2007	2006
St. Francis Seminary	\$ -	\$ -	\$ 120,554	\$ 868,286
Archdiocese of Milwaukee High Schools	64,920	92,824	-	-
Total	\$ 64,920	\$ 92,824	\$ 120,554	\$ 868,286

Interest income from the note receivable recognized by the Archdiocese from the Schools was \$4,920 and \$4,200 for the years ended June 30, 2007 and 2006, respectively. Contribution expense recognized by the Archdiocese was \$1,585,000 and \$2,630,000 for the Seminary for the years ended June 30, 2007 and 2006, respectively.

NOTE 12 - Employee Benefit Plans

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

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

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

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS June 30, 2007 and 2006

NOTE 12 - Employee Benefit Plans (continued)

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.

For the year ended June 30, 2006 the actuarial reports for the fiscal year were provided to the Archdiocese during the next fiscal year. As a result the Archdiocese recorded the July 1, 2005 liability at June 30, 2006.

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

	2007	2006
Change in benefit obligation		
Projected benefit obligation at beginning of year	\$ 2,381,932	\$ 2,047,485
Service cost	215,985	80,969
Interest cost	277,068	122,849
Benefits paid	(82,874)	(74,157)
Interest on benefits paid	(2,448)	(2,225)
Change in discount rate	(257,172)	207,011
Projected benefit obligation at end of year	\$ 2,532,491	\$ 2,381,932
Change in plan assets		
Fair value of plan assets at beginning of year	\$ 819,033	\$ 820,475
Actual return on assets	64,755	41,249
Employer contribution	65,542	31,466
Benefits paid	(82,874)	(74,157)
Fair value of plan assets at end of year	\$ 866,456	\$ 819,033
Funded status of plan	\$ (1,666,035)	\$ (1,562,899)
Unrecognized net loss	-	464,672
Unrecognized prior service cost	-	54,280
Accrued pension liability	\$ (1,666,035)	\$ (1,043,947)

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

	2007	2006
Service cost	\$ 215,985	\$ 80,969
Interest cost on projected benefit obligation	276,033	120,471
Expected return on assets	(124,619)	(63,097)
Net amortization and deferral	42,508	27,231
Net Periodic Pension Cost	\$ 409,907	\$ 165,574

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS June 30, 2007 and 2006

NOTE 12 - Employee Benefit Plans (continued)

Cemetery and Mausoleum Employees' Union Pension Plan (continued)

Assumptions used in calculating pension expense were:

	As of July 1, 2007	As of July 1, 2005
Discount rate	6.3 %	5.5 %
Rate of increase in compensation levels	4.0	4.0
Expected long-term rate of return on assets	7.0	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.

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

	2007	2006
Change in benefit obligation		
Accumulated postretirement benefit obligation at beginning of year	\$ 9,005,215	\$ 13,329,644
Service cost	144,621	203,357
Interest cost	612,466	907,942
Benefits paid	(511,412)	(718,090)
Actuarial (gain)/loss	206,926	(710,409)
Change in plan design	-	(4,007,229)
Accumulated postretirement benefit obligation at end of year	\$ 9,457,816	\$ 9,005,215

At June 30, 2007 and 2006, the post-retirement health insurance benefit plan did not have any assets.

	2007	2006
Funded status of plan		
Accumulated post-retirement benefit obligation	\$ (9,457,816)	\$ (9,005,215)
Plan assets	-	-
Funded status of plan	(9,457,816)	(9,005,215)
Unrecognized net loss (gain)	-	(1,271,609)
Unrecognized prior service cost	-	(4,007,229)
Accrued pension liability	\$ (9,457,816)	\$ (14,284,053)

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS June 30, 2007 and 2006

NOTE 12 - Employee Benefit Plans (continued)

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

	2007	2006
Service cost	\$ 144,621	\$ 203,357
Interest cost on accumulated postretirement benefit obligations	612,466	907,942
Net postretirement benefit cost	\$ 757,087	\$ 1,111,299

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

	2007	2006
Discount Rate	7.0 %	7.0 %
Medical Cost Trend Rate for the Next Year	8.0	6.5
Dental Cost Trend Rate for Next Year	4.0	4.0

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 2011, 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, 2007 and 2006 by \$831,241 and \$1,643,117, respectively and the combined service and interest components of the annual net post-retirement health care cost for the year ended June 30, 2007 and 2006 by \$95,747 and \$179,590, respectively.

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, 2007 and 2006, respectively was approximately \$291,722 and \$309,388, 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, 2007 and 2006 was approximately \$100,740 and \$43,000, respectively which includes amortization of past service costs over 30 years. Annual contributions to the plan equal amounts accrued for pension expense.

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS June 30, 2007 and 2006

NOTE 13 - Temporarily Restricted Net Assets

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

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

	<u>2007</u>	<u>2006</u>
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)	380,655	371,958
General Operations and Other	<u>2,627,326</u>	<u>2,105,972</u>
Total Temporarily Restricted Net Assets	<u>\$ 3,226,788</u>	<u>2,696,737</u>

NOTE 14 - Permanently Restricted Net Assets

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

	<u>2007</u>	<u>2006</u>
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, 2007 and 2006

NOTE 15 - Operating Leases

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

Future minimum lease payments as of June 30, 2007 are as follows:

2008	\$ 187,451
2009	167,799
2010	<u>162,744</u>
	<u>\$ 517,994</u>

Expense on the operating leases was \$70,353 and \$17,289 for the years ended June 30, 2007 and 2006, respectively.

NOTE 16 - 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.

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS June 30, 2007 and 2006

NOTE 17 - Commitments and Contingencies

Legal

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

Contracts

The Archdiocese of Milwaukee entered into an agreement with a fundraising company through August 2009 to organize and manage a Capital Stewardship Campaign with four phases. Currently the Archdiocese is in the Preparation Phase and Planning Study.

Future minimum payments for the years ended June 30 are as follows:

2008	\$ 1,590,298
2009	2,374,347
2010	<u>389,919</u>
	<u>\$ 4,354,564</u>

NOTE 18 - 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 2007 and 2006:

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.

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS June 30, 2007 and 2006

NOTE 19 - Concentrations

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