

**ARCHDIOCESE OF MILWAUKEE  
(DEBTOR IN POSSESSION)**

Milwaukee, Wisconsin

FINANCIAL STATEMENTS

Including Independent Auditors' Report

As of and for the Years Ended June 30, 2015 and 2014

# ARCHDIOCESE OF MILWAUKEE (DEBTOR IN POSSESSION)

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**INDEPENDENT AUDITORS' REPORT**

The Most Reverend Jerome E. ListECKi, Archbishop of Milwaukee  
Archdiocese of Milwaukee (Debtor in Possession)  
Milwaukee, Wisconsin

We have audited the accompanying financial statements of the Archdiocese of Milwaukee (Debtor in Possession), which comprise the statements of financial position as of June 30, 2015 and 2014, 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 (Debtor in Possession) as of June 30, 2015 and 2014, 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.

***Subsequent Event Relating to Bankruptcy and Litigation***

As discussed in Note 1 to the financial statements, the Archdiocese of Milwaukee (Debtor in Possession) filed a petition for relief under Chapter 11 of the bankruptcy law. The Archdiocese of Milwaukee (Debtor in Possession) continues operations as a debtor in possession. On November 30, 2015, the Amended Plan of Reorganization became effective. 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 the lawsuits and abuse claims discussed in Note 11. The financial statements do not include any adjustments that will result from the Amended Plan of Reorganization. Our opinion is not modified with respect to these matters.

*Baker Tilly Viechow Krause, LLP*

Milwaukee, Wisconsin  
January 14, 2016

**Statements of Financial Position follow**

# ARCHDIOCESE OF MILWAUKEE (DEBTOR IN POSSESSION)

## STATEMENTS OF FINANCIAL POSITION As of June 30, 2015 and 2014

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	<i>ASSETS</i>	
	<u>2015</u>	<u>2014</u>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 12,629,156	\$ 12,610,367
Short-term investments	365,459	4,031,477
Receivables	3,998,864	4,370,804
Other assets	<u>717,168</u>	<u>1,232,538</u>
Total Current Assets	17,710,647	22,245,186
Ground burial and mausoleum crypt sites	5,185,525	5,669,156
Property and equipment, net	4,627,342	4,597,352
Beneficial interest in Cemetery Perpetual Care Trust	64,328,004	64,102,395
<b>INVESTMENTS AND OTHER ASSETS</b>		
Long-term investments	10,370,305	7,682,674
Custodial investments held for others	2,479,794	2,527,970
Cemeteries pre-need trust fund account	3,944,709	3,806,396
Charitable gift annuities investments	411,690	539,041
Other assets	<u>865,654</u>	<u>895,197</u>
Total Investments and Other Assets	<u>18,072,152</u>	<u>15,451,278</u>
<b>TOTAL ASSETS</b>	<u>\$ 109,923,670</u>	<u>\$ 112,065,367</u>

See accompanying notes to financial statements.

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**LIABILITIES AND NET ASSETS**

	<u>2015</u>	<u>2014</u>
<b>CURRENT LIABILITIES</b>		
Current maturities of charitable gift annuities	\$ 31,675	\$ 70,755
Accounts payable	1,329,941	1,423,286
Accrued professional fees	6,141,035	6,369,943
Contributions payable	2,560,040	2,460,636
Collections to be forwarded to other entities	<u>1,127,201</u>	<u>1,082,378</u>
Total Current Liabilities	11,189,892	11,406,998
Equity of others held as custodial investments	2,479,794	2,527,970
Charitable gift annuities	211,703	362,639
Deferred revenue	3,944,709	3,806,396
<b>PRE-PETITION LIABILITIES</b>		
Note payable	4,389,513	4,389,513
Pre-Chapter 11 payables	475,639	505,639
Contractual contributions payable	3,378,537	3,378,537
Accrued post-retirement and pension benefits	<u>23,791,802</u>	<u>21,450,880</u>
Total Pre-Petition Liabilities	<u>32,035,491</u>	<u>29,724,569</u>
Total Liabilities	<u>49,861,589</u>	<u>47,828,572</u>
<b>NET ASSETS</b>		
Unrestricted		
Undesignated operating (deficit)	(21,141,678)	(17,082,573)
Designated	3,631,095	4,161,949
Limited to perpetual care of cemeteries	<u>64,328,004</u>	<u>64,102,395</u>
Total Unrestricted Net Assets	46,817,421	51,181,771
Temporarily restricted	9,528,294	9,338,658
Permanently restricted	<u>3,716,366</u>	<u>3,716,366</u>
Total Net Assets	<u>60,062,081</u>	<u>64,236,795</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 109,923,670</u>	<u>\$ 112,065,367</u>

See accompanying notes to financial statements.

**Statements of Activities** follow



# ARCHDIOCESE OF MILWAUKEE (DEBTOR IN POSSESSION)

## STATEMENTS OF ACTIVITIES For the Years Ended June 30, 2015 and 2014

	2015			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<b>OPERATING REVENUE, GAINS, AND OTHER SUPPORT</b>				
Contributions for charitable activities	\$ 1,519,501	\$ 9,040,091	\$ -	\$ 10,559,592
Assessments	7,116,179	-	-	7,116,179
Tuition and fees for ministry programs	646,880	-	-	646,880
Cemetery revenues	4,595,283	-	-	4,595,283
Distributions from Perpetual Care Trust	1,950,000	-	-	1,950,000
Investment income	280,139	26,257	-	306,396
Other revenues	899,704	-	-	899,704
Net assets released from restrictions	<u>8,847,520</u>	<u>(8,847,520)</u>	<u>-</u>	<u>-</u>
<b>Total Revenue, Gains, and Other Support</b>	<u><b>25,855,206</b></u>	<u><b>218,828</b></u>	<u><b>-</b></u>	<u><b>26,074,034</b></u>
<b>OPERATING EXPENSES</b>				
Wages and benefits	12,349,798	-	-	12,349,798
Facility and operating costs	3,239,682	-	-	3,239,682
Training, certifications, and ministries travel	318,759	-	-	318,759
Bad debts	136,889	-	-	136,889
Ministries program expenses and supplies	1,123,607	-	-	1,123,607
Assessments	360,979	-	-	360,979
Cost of sales - cemeteries	894,130	-	-	894,130
Purchased services - ministries and other	2,306,972	-	-	2,306,972
Professional services	247,682	-	-	247,682
Charity and contractual grants and donations	3,463,458	-	-	3,463,458
Other expenses	1,371,537	-	-	1,371,537
Depreciation	<u>421,286</u>	<u>-</u>	<u>-</u>	<u>421,286</u>
<b>Total Operating Expenses</b>	<u><b>26,234,779</b></u>	<u><b>-</b></u>	<u><b>-</b></u>	<u><b>26,234,779</b></u>
<b>Operating Income (Loss)</b>	<u><b>(379,573)</b></u>	<u><b>218,828</b></u>	<u><b>-</b></u>	<u><b>(160,745)</b></u>
<b>NON-OPERATING ACTIVITIES</b>				
Net realized and unrealized gains (losses)	(21,921)	(29,192)	-	(51,113)
Gain on sale of property and equipment	400	-	-	400
Pension related changes other than net periodic pension cost	(1,124,197)	-	-	(1,124,197)
Change in beneficial interest in trust	<u>225,609</u>	<u>-</u>	<u>-</u>	<u>225,609</u>
<b>Total Non-Operating Activities</b>	<u><b>(920,109)</b></u>	<u><b>(29,192)</b></u>	<u><b>-</b></u>	<u><b>(949,301)</b></u>
<b>CHANGE IN NET ASSETS BEFORE REORGANIZATION ACTIVITIES</b>	<u><b>(1,299,682)</b></u>	<u><b>189,636</b></u>	<u><b>-</b></u>	<u><b>(1,110,046)</b></u>
<b>REORGANIZATION ACTIVITIES</b>				
Reorganization expenses	<u>(3,064,668)</u>	<u>-</u>	<u>-</u>	<u>(3,064,668)</u>
<b>CHANGE IN NET ASSETS</b>	<u><b>(4,364,350)</b></u>	<u><b>189,636</b></u>	<u><b>-</b></u>	<u><b>(4,174,714)</b></u>
<b>NET ASSETS - Beginning of Year</b>	<u><b>51,181,771</b></u>	<u><b>9,338,658</b></u>	<u><b>3,716,366</b></u>	<u><b>64,236,795</b></u>
<b>NET ASSETS - END OF YEAR</b>	<u><b>\$ 46,817,421</b></u>	<u><b>\$ 9,528,294</b></u>	<u><b>\$ 3,716,366</b></u>	<u><b>\$ 60,062,081</b></u>

See accompanying notes to financial statements.

2014

<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
\$ 1,888,715	\$ 9,133,658	\$ -	\$ 11,022,373
7,023,863	-	-	7,023,863
686,702	-	-	686,702
4,544,125	-	-	4,544,125
1,950,000	-	-	1,950,000
373,187	56,062	-	429,249
583,984	-	-	583,984
<u>9,272,569</u>	<u>(9,272,569)</u>	<u>-</u>	<u>-</u>
<u>26,323,145</u>	<u>(82,849)</u>	<u>-</u>	<u>26,240,296</u>
11,618,378	-	-	11,618,378
2,642,651	-	-	2,642,651
416,613	-	-	416,613
284,352	-	-	284,352
1,241,661	-	-	1,241,661
358,187	-	-	358,187
794,503	-	-	794,503
2,452,835	-	-	2,452,835
298,967	-	-	298,967
4,136,505	-	-	4,136,505
1,311,544	-	-	1,311,544
420,467	-	-	420,467
<u>25,976,663</u>	<u>-</u>	<u>-</u>	<u>25,976,663</u>
<u>346,482</u>	<u>(82,849)</u>	<u>-</u>	<u>263,633</u>
(120,389)	415,739	-	295,350
315,310	-	-	315,310
(3,707,755)	-	-	(3,707,755)
4,812,475	-	-	4,812,475
<u>1,299,641</u>	<u>415,739</u>	<u>-</u>	<u>1,715,380</u>
1,646,123	332,890	-	1,979,013
<u>(3,737,980)</u>	<u>-</u>	<u>-</u>	<u>(3,737,980)</u>
(2,091,857)	332,890	-	(1,758,967)
<u>53,273,628</u>	<u>9,005,768</u>	<u>3,716,366</u>	<u>65,995,762</u>
<u>\$ 51,181,771</u>	<u>\$ 9,338,658</u>	<u>\$ 3,716,366</u>	<u>\$ 64,236,795</u>

See accompanying notes to financial statements.

## ARCHDIOCESE OF MILWAUKEE (DEBTOR IN POSSESSION)

### STATEMENTS OF CASH FLOWS For the Years Ended June 30, 2015 and 2014

	2015	2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ (4,174,714)	\$ (1,758,967)
Adjustments to reconcile total non-operating activities to net cash flows from operating activities:		
Depreciation and amortization	421,286	420,467
Net realized/unrealized (gains) losses	51,113	(295,350)
Gain on sale of property and equipment	(400)	(315,310)
Change in beneficial interest in Cemetery Perpetual Care Trust	(225,609)	(4,812,475)
Change in charitable gift annuities	(190,016)	(31,016)
Changes in assets and liabilities:		
Receivables and payables	(44,580)	3,469,043
Other assets	510,518	89,343
Ground burial and mausoleum crypt sites	483,631	387,938
Deferred revenue	138,313	183,248
Accrued postretirement and pension benefits	<u>2,340,922</u>	<u>4,510,337</u>
Net Cash Flows from Operating Activities	<u>(689,536)</u>	<u>1,847,258</u>
 <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Payments received on notes receivable	34,395	33,152
Purchase of property and equipment	(287,605)	(396,128)
Proceeds from the sale of property and equipment	400	54,910
Proceeds from sale of investments	2,434,809	7,476,773
Purchase of investments	(1,470,321)	(6,960,243)
Payments received on mortgages receivable	-	8,542
Net change in collections to be forwarded to other entities	44,823	86,354
Net change in equity of others held as custodial investments	<u>(48,176)</u>	<u>(96,979)</u>
Net Cash Flows from Investing Activities	<u>708,325</u>	<u>206,381</u>
 <b>Net Change in Cash and Cash Equivalents</b>	 18,789	 2,053,639
 CASH AND CASH EQUIVALENTS - Beginning of Year	 <u>12,610,367</u>	 <u>10,556,728</u>
 <b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	 <u>\$ 12,629,156</u>	 <u>\$ 12,610,367</u>
 <b>Supplemental cash flow disclosures</b>		
Cash paid for interest	\$ 233,650	\$ 237,740
Cash paid for reorganization activities	3,517,365	170,896
 <b>Noncash investing and financing activities</b>		
Purchase of property included in accounts payable	163,671	262,000
Proceeds from sale of property paid on note payable	-	260,400

See accompanying notes to financial statements.

## ARCHDIOCESE OF MILWAUKEE (DEBTOR IN POSSESSION)

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended June 30, 2015 and 2014

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### NOTE 1 - Petition for Relief Under Chapter 11

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On January 4, 2011, the Archdiocese of Milwaukee (Debtor-in-Possession) (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. Under Chapter 11, certain claims against the Archdiocese in existence prior to the filing are stayed while the Archdiocese continues business operations as a Debtor in Possession. These claims are reflected in the statements of financial position as "Pre-Petition Liabilities" within the liabilities section of the statements. Claims could change subsequent to the filing date resulting from rejection of executory contracts and a determination by the Court of allowed claims. A bar date for the filing of general creditor claims was set at October 17, 2011. A bar date for the filing of claims of abuse survivors was set at February 1, 2012. All expenses related to the reorganization are shown separately in the statements of activities.

The Archdiocese received permission from the Bankruptcy Court to pay or otherwise honor certain of its pre-petition obligations, including the costs of employee wages, benefits, and expense reimbursements; construction in progress; certain psychological counseling and therapy costs for abuse survivors; certain contractual settlement amounts to abuse survivors; and costs related to voluntary mediations with two abuse survivors.

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. The hearing on the confirmation of the Plan was scheduled on October 14-17, 2014. On June 20, 2014, the Bankruptcy Court entered an order canceling the confirmation hearing. The Bankruptcy Court held that it did not have jurisdiction to conduct the plan confirmation hearing because of the appeal pending in the United States Court of Appeals for the Seventh Circuit regarding the Cemetery Trust litigation. On July 3, 2014, the Archdiocese appealed the Bankruptcy Court's decision.

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 is implementing the Amended Plan. The Archdiocese will, as the Reorganized Debtor, continue 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.

## ARCHDIOCESE OF MILWAUKEE (DEBTOR IN POSSESSION)

### NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2015 and 2014

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#### NOTE 2 - Amended Plan of Reorganization

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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. Under the terms of the Amended Plan, on or before January 14, 2016 (the "Plan Funding Date"), the Plan Trust will receive the Plan Trust Assets, consisting of \$21,250,000 in cash, one-half of the estimated \$569,000 the Archdiocese expects to receive by filing a claim 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 Non-Settling Insurers (Lumbermans Mutual Group, Kemper Insurance Company and American Motorists Insurance Company).

In exchange for the releases and injunctions provided in the Amended Plan, the Amended Plan will be 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 is authorized to draw on a line of credit made available by the Cemetery Trust up to the amount of \$3,000,000 to make the payments required by the Amended Plan. 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. 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.

In addition, the Faith In Our Future Trust ("FIOF") has committed to provide \$200,000 to fund a program of the Archdiocese's choosing, provided that the program is consistent with the charitable purposes of the FIOF Trust.

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

## ARCHDIOCESE OF MILWAUKEE (DEBTOR IN POSSESSION)

### NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2015 and 2014

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#### **NOTE 2 - Amended Plan of Reorganization (cont.)**

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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 pre-petition liabilities at the time of the Chapter 11 filing on January 4, 2011 were discharged.

The Archdiocese estimates that the net effect of implementing the Plan provisions and funding Chapter 11 expenses will result in a net charge of approximately \$6.5 to \$7.5 million in the fiscal year ended June 30, 2016.

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 11-20059-svk.

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#### **NOTE 3 - Summary of Significant Accounting Policies**

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##### *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.

##### *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.

## ARCHDIOCESE OF MILWAUKEE (DEBTOR IN POSSESSION)

### NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2015 and 2014

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

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##### *Investments*

Investments are generally recorded at fair value based upon 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. Bad debts are charged against the allowance when deemed uncollectible. Notes receivable arising from the sale of mausoleum crypts are typically collectible in monthly installments, including interest, over four years. Receivables are presented net of allowance for doubtful accounts of \$3,608,718 and \$3,483,247 at June 30, 2015 and 2014, respectively. Net receivables as of June 30 consist of:

	<u>2015</u>	<u>2014</u>
Accounts and notes	\$ 2,776,394	\$ 2,939,014
Fixed income settlements	20,155	30,049
Current portion of note receivable	34,395	33,152
Contributions	453,582	483,829
Parish obligations	671,401	826,242
Interest and dividends	<u>42,937</u>	<u>58,518</u>
Total Accounts Receivable	<u>\$ 3,998,864</u>	<u>\$ 4,370,804</u>

##### *Life Insurance Contributions*

Donors have contributed multiple life insurance policies on their lives to the Archdiocese. The cash surrender value of \$191,640 and \$185,545 at June 30, 2015 and 2014, 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.

## ARCHDIOCESE OF MILWAUKEE (DEBTOR IN POSSESSION)

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended June 30, 2015 and 2014

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

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#### *Property and Equipment*

Acquisitions of property and equipment in excess of \$1,000 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 and Land 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. 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.

#### *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, 2015 and 2014.



## ARCHDIOCESE OF MILWAUKEE (DEBTOR IN POSSESSION)

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended June 30, 2015 and 2014

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

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#### *Beneficial Interest in Cemetery Perpetual Care Trust*

The Archdiocese operates cemeteries which assist in caring for the faithful departed by performing an ancient corporal work of mercy – providing and maintaining appropriate facilities for burial of the dead. On April 2, 2007, the Archdiocese of Milwaukee Catholic Cemetery Perpetual Care Trust (the "Cemetery Trust") was created to formalize the trust relationship with respect to funds (the "Perpetual Care Funds") which were held under a fiduciary responsibility to adequately provide for the future care of mausoleums, crypts, and gravesites. 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 Perpetual Care Trust valued at the value of the Trust's assets appears on the statements of financial position in accordance with accounting protocols. The Trust's assets consist primarily of cash and investments. The Cemetery Trust can and historically has made distributions to the Archdiocese of Milwaukee (Debtor-in-Possession) 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 for the years ended June 30, 2015 and 2014. The Cemetery Trust is a distinct legal entity whose assets are legally restricted to the purposes of the Cemetery Trust. The Archdiocese of Milwaukee (Debtor-in-Possession) 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.

On June 28, 2011, the Cemetery Trust commenced an adversary proceeding against the Official Committee of Unsecured Creditors in the Archdiocese's pending Chapter 11 bankruptcy proceeding seeking an order declaring that the Cemetery Trust is not property of the Archdiocese's estate, and declaring that the Perpetual Care Funds are not property of the Archdiocese's estate. On September 13, 2011, the Official Committee of Unsecured Creditors (the "Committee") filed a counterclaim in the adversary proceeding commenced by the Cemetery Trust. The Committee sought an order declaring that the Cemetery Trust is not a valid trust, and a determination that the transfer of Perpetual Care Funds to the Cemetery Trust is an avoidable transfer under federal bankruptcy law and Wisconsin law. On January 13, 2012, the Cemetery Trust amended its complaint and added allegations that the Committee cannot use the Bankruptcy Code to make the Cemetery Trust property of the Archdiocese's estate because doing so would violate the Religious Freedom Restoration Act of 1993 ("RFRA"), and the First Amendment to the United States Constitution. On January 17, 2013, the Bankruptcy Court granted the Committee's motion for partial summary judgment, ruling that neither RFRA nor the First Amendment applied to prevent inclusion of the Cemetery Trust assets into the Archdiocese's estate. The Cemetery Trust appealed the Bankruptcy Court's decision and, on July 29, 2013, the District Court reversed the Bankruptcy Court ruling, and granted the Cemetery Trust's request for an order declaring that the Perpetual Care Funds are not property of the Archdiocese's estate. The District Court ruled that the Committee cannot use the Bankruptcy Code to make the Cemetery Trust property of the Archdiocese's estate because doing so would violate RFRA and the First Amendment. On August 26, 2013, the Committee appealed the District Court's ruling to the United States Court of Appeals for the Seventh Circuit. On March 9, 2015, the Seventh Circuit reversed the District Court, and remanded the matter to the District Court. On May 14, 2015, the District Court remanded and re-referred the matter to the Bankruptcy Court. On July 7, 2015, the Cemetery Trust filed a Petition for a Writ of Certiorari to the U.S. Supreme Court. On November 30, 2015, the Cemetery Trust Adversary proceeding was dismissed, with prejudice, and the Bankruptcy Court determined that the Cemetery Trust is not property of the Debtor's estate. On December 3, 2015, the Bankruptcy Court entered an Order dismissing the adversary proceeding with prejudice and the Clerk of the U.S. Supreme Court dismissed the Petition for Writ of Certiorari.

## ARCHDIOCESE OF MILWAUKEE (DEBTOR IN POSSESSION)

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended June 30, 2015 and 2014

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

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#### *Accounts Payable*

Accounts payable as of June 30 consist of:

	<u>2015</u>	<u>2014</u>
Accounts payable	\$ 602,205	\$ 863,960
Accrued liabilities	579,271	491,752
Deferred revenue	124,629	22,484
Fixed income settlements	23,836	35,090
Mediation and litigation settlements, sexual abuse therapy, and victim assistance payable - bankruptcy court approved	<u>-</u>	<u>10,000</u>
Total Accounts Payable	<u>\$ 1,329,941</u>	<u>\$ 1,423,286</u>

#### *Accrued Professional Fees*

On March 26, 2013, the Bankruptcy Court entered an Order granting Modification of the Debtor's Motion to Establish Procedures for Interim Compensation and Reimbursement of Expenses of Professionals. The Bankruptcy Court ordered that the Archdiocese may suspend payments of interim compensation and reimbursement of expenses to Professionals, including the attorneys and accountants for both the Archdiocese and the Committee. Notwithstanding the Order, the Archdiocese continues to record the fees and expenses sought by professionals as an expense and accrues the unpaid professional fees and expenses in accounts payable as they are submitted, pending further order of the Bankruptcy Court. On August 5, 2014, the Bankruptcy court ordered payment of \$1,350,000 pro rata to all professionals by September 2, 2014. On May 13, 2015, the Bankruptcy Court ordered payment of \$2,000,000 pro rata to all professionals by May 22, 2015.

#### *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.

Total contributions payable consists of contributions payable (current liabilities) of \$2,560,040 and \$2,460,636 as of June 30, 2015 and 2014, respectively and contractual contributions payable (pre-petition liabilities) of \$3,378,537 as reported on the statements of financial position as of June 30, 2015 and 2014.

#### *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 (DEBTOR IN POSSESSION)

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended June 30, 2015 and 2014

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

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#### *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>2015</u>	<u>2014</u>
Priests' Continuing Formation Program	\$ 2,102,163	\$ 2,148,199
Other	<u>377,631</u>	<u>379,771</u>
Total	<u>\$ 2,479,794</u>	<u>\$ 2,527,970</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 (DEBTOR IN POSSESSION)

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended June 30, 2015 and 2014

### 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:

	2015	2014
St. John's Burse (for deaf and hearing impaired ministry)	\$ 497,814	\$ 509,364
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)	2,838,152	3,218,026
Set aside for future construction costs at cemeteries	-	64,025
General operations and other	295,129	370,534
Total Designated Net Assets	\$ 3,631,095	\$ 4,161,949

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.

	2015	2014
Limited to perpetual care of cemeteries	\$ 64,328,004	\$ 64,102,395

#### *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 (DEBTOR IN POSSESSION)

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended June 30, 2015 and 2014

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

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#### *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, 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 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. There is a fiduciary obligation which exists to hold certain of the funds collected for perpetual care. As of 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 (Debtor-in-Possession) 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, 2015 and 2014 were \$1,235,803 and \$1,244,746, respectively.

#### *Reclassifications*

For comparability, certain 2014 amounts have been reclassified to conform with classifications adopted in 2015. 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 (DEBTOR IN POSSESSION)

### NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2015 and 2014

#### **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, 2015			
	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
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 Perpetual Care Trust	-	-	64,328,004	64,328,004
<b>Total Assets</b>	<b>\$ -</b>	<b>\$ 8,412,608</b>	<b>\$ 69,552,132</b>	<b>\$ 77,964,740</b>
	June 30, 2014			
	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Money market funds	\$ -	\$ 3,882,458	\$ -	\$ 3,882,458
Commercial bonds	-	2,047,985	-	2,047,985
US Government bonds	-	4,721,549	-	4,721,549
US Government agency securities	-	2,216,025	-	2,216,025
Other investments	-	-	1,926,483	1,926,483
Beneficial interest in Cemetery Perpetual Care Trust	-	-	64,102,395	64,102,395
<b>Total Assets</b>	<b>\$ -</b>	<b>\$ 12,868,017</b>	<b>\$ 66,028,878</b>	<b>\$ 78,896,895</b>

## ARCHDIOCESE OF MILWAUKEE (DEBTOR IN POSSESSION)

### NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2015 and 2014

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

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 Perpetual Care 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:

	<u>Other Investments</u>	<u>Beneficial Interest in Cemetery Perpetual Care Trust</u>	<u>Total</u>
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	<u>235,747</u>	<u>1,792,633</u>	<u>2,028,380</u>
Balance, June 30, 2015	<u>\$ 5,224,128</u>	<u>\$ 64,328,004</u>	<u>\$ 69,552,132</u>

	<u>Other Investments</u>	<u>Beneficial Interest in Cemetery Perpetual Care Trust</u>	<u>Total</u>
Balance, June 30, 2013	\$ 1,664,833	\$ 59,310,960	\$ 60,975,793
Deposits	-	308,218	308,218
Withdrawals	(12,764)	(1,950,000)	(1,962,764)
Investment Income	<u>274,414</u>	<u>6,433,217</u>	<u>6,707,631</u>
Balance, June 30, 2014	<u>\$ 1,926,483</u>	<u>\$ 64,102,395</u>	<u>\$ 66,028,878</u>

## ARCHDIOCESE OF MILWAUKEE (DEBTOR IN POSSESSION)

### NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2015 and 2014

#### **NOTE 5 - Investments**

Investments by type, as of June 30 are:

	2015	2014
Cash	\$ 3,935,221	\$ 3,793,058
Money market funds	287,725	3,882,458
US Government bonds	4,533,131	4,721,549
Commercial bonds	1,769,594	2,047,985
US Government agency securities	1,822,158	2,216,025
Other investments	5,224,128	1,926,483
Total	\$ 17,571,957	\$ 18,587,558

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

	2015	2014
Short-term investments	\$ 365,459	\$ 4,031,477
Long-term investments	10,370,305	7,682,674
Invested funds held for others	2,479,794	2,527,970
Prepaid burials and deposits	3,944,709	3,806,396
Charitable gift annuities investments	411,690	539,041
Total	\$ 17,571,957	\$ 18,587,558

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

	2015	2014
Net realized gains on investments	\$ 262,716	\$ 322,905
Net unrealized gains (losses) on investments	(313,829)	(27,555)
Total	\$ (51,113)	\$ 295,350

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.



## ARCHDIOCESE OF MILWAUKEE (DEBTOR IN POSSESSION)

### NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2015 and 2014

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#### NOTE 6 - Contributions Receivable

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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>2015</u>	<u>2014</u>
Less than one year	\$ 523,582	\$ 581,829
Less: Allowance for doubtful accounts	<u>(70,000)</u>	<u>(98,000)</u>
Net Contributions Receivable	<u>\$ 453,582</u>	<u>\$ 483,829</u>

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#### NOTE 7 - Ground Burial and Mausoleum Crypt Sites

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

	<u>2015</u>	<u>2014</u>
Mausoleum crypts	\$ 2,420,352	\$ 2,880,976
Cemetery land and facilities held for burial privileges	<u>2,765,173</u>	<u>2,788,180</u>
Total	<u>\$ 5,185,525</u>	<u>\$ 5,669,156</u>

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

## ARCHDIOCESE OF MILWAUKEE (DEBTOR IN POSSESSION)

### NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2015 and 2014

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#### NOTE 8 - Property and Equipment

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

	<u>2015</u>	<u>2014</u>
Land	\$ 1,217,243	\$ 1,217,243
Land improvements	2,035,434	1,585,896
Construction in progress	163,671	262,000
Buildings	9,323,190	9,323,189
Furniture and fixtures	68,768	68,768
Equipment	1,024,714	1,091,737
Vehicles	681,121	726,609
Future parish sites	<u>358,629</u>	<u>358,629</u>
Total	14,872,770	14,634,071
Less: Accumulated depreciation	<u>(10,245,428)</u>	<u>(10,036,719)</u>
Net Property and Equipment	<u>\$ 4,627,342</u>	<u>\$ 4,597,352</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. 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 Youth and Family Services Inc. have entered into a lease ending in 2017 with renewal options for 10 years for part of the property utilized by St. Charles in its ministry.

In 2014, a portion of the St. Charles property was sold to accommodate a highway renovation project. The proceeds were used to pay down the loan from Park Bank.

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#### NOTE 9 - Business Note

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At June 30, 2015 and 2014, the Archdiocese was indebted to Park Bank for \$4,389,513. 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 and Family Services, Inc. property. Interest expense was \$233,650 and \$237,740 for the years ended June 30, 2015 and 2014, respectively. Subsequent to the end of the fiscal year, and 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.

## ARCHDIOCESE OF MILWAUKEE (DEBTOR IN POSSESSION)

### NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2015 and 2014

#### **NOTE 10 - Accrued Mediation**

In January 2004, the Archdiocese established an independent mediation system to address reports of diocesan clergy sexual abuse of minors. The Archdiocese accrued \$40,000 as of June 30, 2014, to cover mediation and litigation settlements, sexual abuse therapy, and victim assistance agreed to under mediation. The accrual is included in accounts payable and Pre-Petition liabilities on the statements of financial position. No additional accrual was made as of June 30, 2015. Payments of \$109,601 and \$210,026 for mediation and litigation settlements, sexual abuse therapy, and victim assistance were made during the years ended June 30, 2015 and 2014, respectively.

#### **NOTE 11 - Litigation**

At the time of the filing of Chapter 11 proceedings, the Archdiocese was a defendant in twelve lawsuits alleging personal injuries. The plaintiffs filed claims in the Chapter 11, and the claims were discharged in the Order Confirming the Plan of Reorganization. See Footnote 2.

#### **NOTE 12 - 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.

#### **NOTE 13 - Charitable Gift Annuities**

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

	<u>2015</u>	<u>2014</u>
Charitable gift annuities, 7.00%.	\$ 243,378	\$ 433,394
Less: Current portion	<u>(31,675)</u>	<u>(70,755)</u>
Long-Term Portion	<u>\$ 211,703</u>	<u>\$ 362,639</u>

Principal requirements on charitable gift annuities for years ending after June 30, 2015 are as follows:

2016	\$ 31,675
2017	29,603
2018	27,666
2019	25,856
2020	24,165
Thereafter	<u>104,413</u>
Total	<u>\$ 243,378</u>

## ARCHDIOCESE OF MILWAUKEE (DEBTOR IN POSSESSION)

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended June 30, 2015 and 2014

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### NOTE 14 - Inradiocesan

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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 \$1,350,000 and \$1,562,500 for the years ending June 30, 2015 and 2014, respectively. The contribution payable was \$1,350,000 at June 30, 2015 and 2014, respectively.

In 2010, the Archdiocese of Milwaukee (Debtor-in-Possession) converted an intradiocesan receivable to an intradiocesan 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 \$198,594 at June 30, 2015:

2016	\$ 34,395
2017	35,836
2018	36,872
2019	38,574
2020	40,020
Thereafter	<u>522,712</u>
Total	<u>\$ 708,409</u>

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

## ARCHDIOCESE OF MILWAUKEE (DEBTOR IN POSSESSION)

### NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2015 and 2014

#### **NOTE 15 - 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.

	2015	2014
Projected benefit obligation at end of year	\$ 3,575,893	\$ 3,437,816
Fair value of plan assets at end of year	1,870,219	1,842,831
Funded Status of the Plan, Recognized in the Statements of Financial Position	\$ (1,705,674)	\$ (1,594,985)

At June 30 2015 and 2014, the amount of the accumulated benefit obligation was \$2,312,891 and \$2,185,319, 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 \$1,870,219 and \$1,842,831 at June 30, 2015 and 2014, 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:

	2015	2014
Unrecognized net loss	\$ 629,169	\$ 555,921
Unrecognized prior service credit	\$ 376,816	\$ 412,806

The net amortization of the above amounts that are reclassified into a component of net periodic pension cost for the years ended June 30, 2015 and 2014 was \$(35,990).

## ARCHDIOCESE OF MILWAUKEE (DEBTOR IN POSSESSION)

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended June 30, 2015 and 2014

### **NOTE 15 - 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, 2016 are as follows:

Unrecognized net loss	\$ 21,509
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:

	2015	2014
Contributions	\$ 93,411	\$ 84,307
Benefits paid	\$ 120,622	\$ 103,673

The Archdiocese expects to contribute approximately \$95,000 to the plan during the year ended June 30, 2016.

Assumptions used in calculating pension expense were:

	2015	2014
Discount rate	4.25%	4.15%
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:

2016	\$ 116,903
2017	114,397
2018	111,769
2019	143,836
2020	141,195
2021 - 2024	998,296
	\$ 1,626,396

## ARCHDIOCESE OF MILWAUKEE (DEBTOR IN POSSESSION)

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended June 30, 2015 and 2014

### NOTE 15 - 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, 2015 and 2014, 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.

	2015	2014
Accumulated post-retirement benefit obligation	\$ 22,086,128	\$ 19,855,895
Fair value of plan assets	-	-
Funded Status of Plan, Recognized in the Statements of Financial Position	<u>\$ (22,086,128)</u>	<u>\$ (19,855,895)</u>

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

	2015	2014
Unrecognized net loss	\$ 7,884,727	\$ 6,395,215
Unrecognized prior service credit	\$ 909,513	\$ 1,230,293

The net amortization of the above amounts that are reclassified into a component of net periodic benefit cost for the years ended June 30, 2015 and 2014 was \$(3,997) and \$(255,991), respectively.

The amounts expected to be recognized into net periodic benefit cost in the year ended June 30, 2016 are as follows:

Unrecognized net loss	\$ 407,474
Unrecognized prior service credit	\$ (320,780)

## ARCHDIOCESE OF MILWAUKEE (DEBTOR IN POSSESSION)

### NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2015 and 2014

#### **NOTE 15 - 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:

	2015	2014
Employer contributions	\$ 701,905	\$ 676,128
Benefits paid	\$ 701,905	\$ 676,128

The Archdiocese expects to contribute approximately \$935,191 to the plan during the year ended June 30, 2016.

Expected benefit payments for the years ended June 30:

2016	\$ 935,191
2017	992,402
2018	1,057,319
2019	1,127,595
2020	1,193,341
2021-2025	6,504,699
	\$ 11,810,547

The weighted average discount rate used to develop the present value of benefit obligations was 4.0% June 30, 2015 and 2014. The weighted average discount rate used to develop the net post retirement expense was 4% at June 30, 2015 and 2014.

The medical cost trend rate used to value the accumulated post-retirement benefit obligation is 8.5% for 2016, and is assumed to decrease gradually to an ultimate rate of 4.5% in 2023. The dental and vision cost trend rates used for 2016 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, 2014. The funded percentage of the Plan was in excess of 90%. The Plan had assets in excess of \$234 and \$207 million at June 30, 2014 and 2013, respectively, and total contributions to the Plan were in excess of \$7 million during 2014 and 2013. The Plan's actuarial present value of the accumulated plan benefits was approximately \$259 million and \$255 million at June 30, 2014, and 2013 respectively.



# ARCHDIOCESE OF MILWAUKEE (DEBTOR IN POSSESSION)

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2015 and 2014

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### NOTE 15 - Employee Benefit Plans (cont.)

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#### *Lay Employees' Pension Plan (cont.)*

The Archdiocese of Milwaukee's participation in the Plan is less than 5% of the total contributions to the Plan. Pension expense for the years ended June 30, 2015 and 2014, respectively, was \$377,314 and \$346,144, 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, 2014. The funded percentage of the Priests' Plan was in excess of 100%. The Priests' Plan had assets in excess of \$32 and \$30 million at June 30, 2014 and 2013, and total contributions to the Priests' Plan were in excess of \$1.1 million during 2014 and 2013. The Priests' Plan's actuarial present value of the accumulated plan benefits was approximately \$31 and \$32 million at June 30, 2014 and 2013.

Pension expense for the years ended June 30, 2015 and 2014 was \$44,634 and \$48,699, respectively, which includes amortization of past service costs over 30 years. Annual contributions to the plan equal amounts accrued for pension expense.

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### NOTE 16 - Temporarily Restricted Net Assets

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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>2015</u>	<u>2014</u>
Rapp Trust (for capital needs of St. Michael's Church in Mitchell, Wisconsin)	\$ 333,206	\$ 359,272
Other Funds with Purpose and/or Temporal Restrictions	<u>9,195,088</u>	<u>8,979,386</u>
Total Temporarily Restricted Net Assets	<u>\$ 9,528,294</u>	<u>\$ 9,338,658</u>

## ARCHDIOCESE OF MILWAUKEE (DEBTOR IN POSSESSION)

### NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2015 and 2014

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#### NOTE 17 - Permanently Restricted Net Assets

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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>2015</u>	<u>2014</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>

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#### NOTE 18 - Endowment

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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 (DEBTOR IN POSSESSION)

### NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2015 and 2014

#### NOTE 18 - 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, 2015 and 2014.

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

	2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted	\$ -	\$ 870,520	\$ 3,716,366	\$ 4,586,886
	2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted	\$ -	\$ 946,606	\$ 3,716,366	\$ 4,662,972

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

	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>

## ARCHDIOCESE OF MILWAUKEE (DEBTOR IN POSSESSION)

### NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2015 and 2014

#### **NOTE 18 - Endowment (cont.)**

	2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets: June 30, 2013	\$ -	\$ 651,603	\$ 3,716,366	\$ 4,367,969
Investment return				
Investment income	-	56,062	-	56,062
Net appreciation realized and unrealized	-	415,739	-	415,739
Total Investment Return	-	471,801	-	471,801
Appropriation for expenditure	-	(176,798)	-	(176,798)
Endowment Net Assets: June 30, 2014	\$ -	\$ 946,606	\$ 3,716,366	\$ 4,662,972

#### **NOTE 19 - Operating Leases**

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

Future minimum lease payments as of June 30, 2015 are as follows:

2016	\$ 21,152
2017	7,044
2018	7,044
2019	7,044
2020	1,562
	\$ 43,846

Expense on the operating leases was \$21,384 and \$25,751 for the years ended June 30, 2015 and 2014, respectively

#### **NOTE 20 - 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 (DEBTOR IN POSSESSION)

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended June 30, 2015 and 2014

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### **NOTE 21 - Administrative Services for Unrelated Organizations**

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The Archdiocese of Milwaukee (Debtor-in-Possession) provides administrative services to several unrelated organizations, including the Faith in Our Future Trust. 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 (Debtor-in-Possession) 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 (Debtor-in-Possession) provides administrative services and, therefore, none of the activities of the Trust or the other unrelated entities are included in the Archdiocese financial statements.

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### **NOTE 22 - Financial Instruments**

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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 2015 and 2014:

#### *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 (DEBTOR IN POSSESSION)

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended June 30, 2015 and 2014

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### **NOTE 23 - Concentrations**

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The Archdiocese maintains cash balances in three 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.

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### **NOTE 24 - Subsequent Event**

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The Archdiocese has evaluated subsequent events through January 14, 2016 which is the date that the financial statements were approved and available to be issued.