

ARCHDIOCESE OF MILWAUKEE

Milwaukee, Wisconsin

FINANCIAL STATEMENTS

Including Independent Auditors' Report

As of and for the Years Ended June 30, 2018 and 2017

ARCHDIOCESE OF MILWAUKEE

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Archdiocese of Milwaukee, which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Archdiocese of Milwaukee as of June 30, 2018 and 2017, 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.

Baker Tilly Virchow Krause, LLP

Milwaukee, Wisconsin
October 25, 2018

Statements of Financial Position follow

ARCHDIOCESE OF MILWAUKEE

STATEMENTS OF FINANCIAL POSITION As of June 30, 2018 and 2017

	ASSETS	
	<u>2018</u>	<u>2017</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 11,654,346	\$ 11,087,462
Short-term investments	6,739,117	8,997,342
Receivables - net	4,885,424	3,172,355
Other assets	<u>1,148,231</u>	<u>1,057,436</u>
Total Current Assets	24,427,118	24,314,595
Ground burial and mausoleum crypt sites	4,438,389	4,707,237
Property and equipment, net	4,916,562	4,306,258
Beneficial interest in Cemetery Trust	56,122,605	53,996,704
INVESTMENTS AND OTHER ASSETS		
Long-term investments	10,235,009	8,429,300
Custodial investments held for others	1,438,688	1,561,561
Cemeteries pre-need trust fund account	5,588,629	4,477,086
Charitable gift annuities investments	345,449	361,568
Other assets	<u>3,140,456</u>	<u>1,314,091</u>
Total Investments and Other Assets	<u>20,748,231</u>	<u>16,143,606</u>
TOTAL ASSETS	<u>\$ 110,652,905</u>	<u>\$103,468,400</u>

See accompanying notes to financial statements.

LIABILITIES AND NET ASSETS

	<u>2018</u>	<u>2017</u>
CURRENT LIABILITIES		
Current maturities of note payable	\$ 141,435	\$ 133,898
Current maturities of charitable gift annuities	21,175	26,390
Accounts payable	1,660,570	1,469,467
Contributions payable	2,549,311	2,559,534
Collections to be forwarded to other entities	1,155,116	1,050,683
Current portion accrued cemetery pension benefits	-	661,547
Current portion accrued priests' retiree medical benefits	<u>845,751</u>	<u>928,173</u>
Total Current Liabilities	6,373,358	6,829,692
Equity of others held as custodial investments	1,438,688	1,561,561
Charitable gift annuities net of current portion	146,119	172,871
Deferred revenue	6,780,274	4,477,086
Long-term asset retirement obligation	1,074,326	1,056,575
Line of credit	1,780,000	2,000,000
Note payable net of current portion	3,698,947	3,866,893
Accrued priests' retiree medical benefits net of current portion	<u>17,791,195</u>	<u>21,761,018</u>
Total Liabilities	<u>39,082,907</u>	<u>41,725,696</u>
NET ASSETS		
Unrestricted		
Undesignated operating (deficit)	(4,767,285)	(10,241,340)
Designated	2,518,874	2,220,852
Limited to perpetual care of cemeteries	<u>56,122,605</u>	<u>53,996,704</u>
Total Unrestricted Net Assets	53,874,194	45,976,216
Temporarily restricted	13,979,438	12,050,122
Permanently restricted	<u>3,716,366</u>	<u>3,716,366</u>
Total Net Assets	<u>71,569,998</u>	<u>61,742,704</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 110,652,905</u>	<u>\$103,468,400</u>

See accompanying notes to financial statements.

Statements of Activities follow

ARCHDIOCESE OF MILWAUKEE

STATEMENTS OF ACTIVITIES For the Years Ended June 30, 2018 and 2017

	2018			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
OPERATING REVENUE, GAINS, AND OTHER SUPPORT				
Contributions for charitable activities	\$ 646,266	\$ 11,745,348	\$ -	\$ 12,391,614
Assessments	7,531,030	-	-	7,531,030
Tuition and fees for ministry programs	642,919	-	-	642,919
Cemetery revenues	6,168,572	-	-	6,168,572
Distributions from Cemetery Trust	1,950,000	-	-	1,950,000
Investment income	284,516	105,199	-	389,715
Other revenues	816,607	-	-	816,607
Net assets released from restrictions	<u>10,292,508</u>	<u>(10,292,508)</u>	-	-
Total Revenue, Gains, and Other Support	<u>28,332,418</u>	<u>1,558,039</u>	-	<u>29,890,457</u>
OPERATING EXPENSES				
Wages and benefits	14,504,674	-	-	14,504,674
Facility and operating costs	2,008,128	-	-	2,008,128
Training, certifications, and ministries travel	454,595	-	-	454,595
Ministries program expenses and supplies	1,040,405	-	-	1,040,405
Assessments	351,461	-	-	351,461
Cost of sales - cemeteries	875,637	-	-	875,637
Purchased services - ministries and other	3,358,623	-	-	3,358,623
Professional services	198,127	-	-	198,127
Charity and contractual grants and donations	3,531,715	-	-	3,531,715
Other expenses	1,273,383	-	-	1,273,383
Depreciation	379,572	-	-	379,572
Asset retirement expense	23,126	-	-	23,126
Total Operating Expenses	<u>27,999,446</u>	<u>-</u>	<u>-</u>	<u>27,999,446</u>
Operating Income	<u>332,972</u>	<u>1,558,039</u>	-	<u>1,891,011</u>
NON-OPERATING ACTIVITIES				
Net realized and unrealized gains (losses)	(214,600)	371,277	-	156,677
Gain on sale of property and equipment	174,010	-	-	174,010
Priest Medical related changes other than net periodic pension cost	5,493,054	-	-	5,493,054
Cemetery pension related changes other than net periodic pension cost	-	-	-	-
Change in beneficial interest in Cemetery Trust	2,112,542	-	-	2,112,542
Total Non-Operating Activities	<u>7,565,006</u>	<u>371,277</u>	<u>-</u>	<u>7,936,283</u>
CHANGE IN NET ASSETS	7,897,978	1,929,316	-	9,827,294
NET ASSETS - Beginning of Year	<u>45,976,216</u>	<u>12,050,122</u>	<u>3,716,366</u>	<u>61,742,704</u>
NET ASSETS - END OF YEAR	<u>\$ 53,874,194</u>	<u>\$ 13,979,438</u>	<u>\$ 3,716,366</u>	<u>\$ 71,569,998</u>

See accompanying notes to financial statements.

2017			
Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 1,545,191	\$ 10,584,703	\$ -	\$ 12,129,894
7,373,544	-	-	7,373,544
703,839	-	-	703,839
5,343,267	-	-	5,343,267
1,950,000	-	-	1,950,000
242,945	85,010	-	327,955
1,028,994	-	-	1,028,994
<u>8,937,974</u>	<u>(8,937,974)</u>	<u>-</u>	<u>-</u>
<u>27,125,754</u>	<u>1,731,739</u>	<u>-</u>	<u>28,857,493</u>
13,604,618	-	-	13,604,618
2,231,011	-	-	2,231,011
304,833	-	-	304,833
1,056,528	-	-	1,056,528
388,294	-	-	388,294
912,531	-	-	912,531
3,038,134	-	-	3,038,134
268,131	-	-	268,131
3,312,617	-	-	3,312,617
1,288,208	-	-	1,288,208
407,584	-	-	407,584
19,550	-	-	19,550
<u>26,832,039</u>	<u>-</u>	<u>-</u>	<u>26,832,039</u>
<u>293,715</u>	<u>1,731,739</u>	<u>-</u>	<u>2,025,454</u>
(212,482)	612,612	-	400,130
1,000	-	-	1,000
3,251,659	-	-	3,251,659
2,136,068	-	-	2,136,068
<u>3,545,317</u>	<u>-</u>	<u>-</u>	<u>3,545,317</u>
<u>8,721,562</u>	<u>612,612</u>	<u>-</u>	<u>9,334,174</u>
9,015,277	2,344,351	-	11,359,628
<u>36,960,939</u>	<u>9,705,771</u>	<u>3,716,366</u>	<u>50,383,076</u>
<u>\$ 45,976,216</u>	<u>\$ 12,050,122</u>	<u>\$ 3,716,366</u>	<u>\$ 61,742,704</u>

See accompanying notes to financial statements.

ARCHDIOCESE OF MILWAUKEE

STATEMENTS OF CASH FLOWS For the Years Ended June 30, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 9,827,294	\$ 11,359,628
Adjustments to reconcile total non-operating activities to net cash flows from operating activities:		
Bad debt expense (recovery)	(55,426)	(50,876)
Depreciation and amortization	379,572	407,584
Asset retirement expense	23,126	19,550
Net realized/unrealized gains	(156,677)	(400,130)
Gain on sale of property and equipment	(174,010)	(1,000)
Change in beneficial interest in Cemetery Trust	(2,112,542)	(3,545,317)
Change in charitable gift annuities	(31,967)	(33,156)
Changes in assets and liabilities:		
Receivables and payables	(1,476,763)	758,215
Other assets	(73,410)	(971,105)
Ground burial and mausoleum crypt sites	268,848	507,762
Deferred revenue	2,303,188	376,416
Accrued postretirement and pension benefits	(4,713,792)	(3,742,192)
Net Cash Flows from Operating Activities	4,007,441	4,685,379
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments received on notes receivable	156,250	244,033
Purchase of property and equipment	(1,253,695)	(414,960)
Proceeds from the sale of property and equipment	437,829	1,000
Proceeds from sale of investments	1,142,798	407,686
Purchase of investments	(1,519,515)	(6,132,430)
Notes receivable granted	(2,000,000)	-
Net change in collections to be forwarded to other entities	104,433	(248,119)
Net change in equity of others held as custodial investments	(122,873)	(136,631)
Capital expenditures cemetery crypts	-	(6,350)
Net Cash Flows from Investing Activities	(3,054,773)	(6,285,771)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on note payable	(160,409)	(191,633)
Payments made of line of credit	(220,000)	-
Payments made on asset retirement obligation	(5,375)	(12,975)
Net Cash Flows from Financing Activities	(385,784)	(204,608)
Net Change in Cash and Cash Equivalents	566,884	(1,805,000)
CASH AND CASH EQUIVALENTS - Beginning of Year	11,087,462	12,892,462
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 11,654,346	\$ 11,087,462
Supplemental cash flow disclosures		
Cash paid for interest	\$ 260,760	\$ 254,090

See accompanying notes to financial statements.

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended June 30, 2018 and 2017

NOTE 1 - Summary of Significant Accounting Policies

Nature of Activities

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

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

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

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

Basis of Accounting

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

Cash and Cash Equivalents

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

Investments

Investments are generally recorded at fair value based on quoted market prices, when available, or estimates of fair value. Donated assets are recorded at fair value at the date of donation or, if sold immediately after receipt, at the amount of sales proceeds received (which are considered a fair measure of the value at the date of donation). Those investments for which fair value is not readily determinable are carried at cost or, if donated, at fair value at the date of donation, or if no value can be estimated, at a nominal value. The Archdiocese records the change of ownership of bonds and stocks on the day a trade is made. Investment income or loss and unrealized gains or losses 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.

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2018 and 2017

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

Receivables

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

Receivables are presented net of allowance for uncollectible accounts of \$4,330,512 and \$4,363,939 at June 30, 2018 and 2017, respectively.

Net receivables as of June 30 consist of:

	<u>2018</u>	<u>2017</u>
Accounts and notes	\$ 2,570,266	\$ 1,518,544
Current portion of notes receivable	88,096	46,174
Contributions	1,656,019	1,049,700
Parish obligations	523,780	517,699
Interest and dividends	<u>47,263</u>	<u>40,238</u>
Total Accounts Receivable - net	<u>\$ 4,885,424</u>	<u>\$ 3,172,355</u>

Life Insurance Contributions

Donors have contributed multiple life insurance policies on their lives to the Archdiocese. The cash surrender value of \$239,717 and \$228,829 at June 30, 2018 and 2017, 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 if and when the policy is cashed in.

Property and Equipment

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

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

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2018 and 2017

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

Property and Equipment (cont.)

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

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

The Archdiocese follows current authoritative guidance for accounting for conditional asset retirement obligations. The guidance refers to a legal obligation to perform an asset retirement activity even if the timing and/or settlement is conditional on a future event that may or may not be within the control of an organization. Accordingly, if the Archdiocese has sufficient information to reasonably estimate the fair value of an obligation in connection with an asset retirement, it is required to recognize a liability at the time the liability is incurred. For the year ended June 30, 2016, the Archdiocese recognized a liability for the abatement of asbestos at the Archbishop Cousins Catholic Center ("Center"). As the lessee of the Center, the Archdiocese is responsible for payment of such costs. Liabilities of \$1,074,326 and \$1,056,575 as of June 30, 2018 and 2017, respectively, are found in the statements of financial position as a long-term asset retirement obligation.

Impairment of Long-Lived Assets

The Archdiocese reviews long-lived assets, including property and equipment and intangible assets, for impairment whenever events or changes in business circumstances indicate that the carrying amount of an asset may not be fully recoverable. An impairment loss would be recognized when the estimated future cash flows from the use of the asset are less than the carrying amount of that asset. There have been no such losses during the years ended June 30, 2018 and 2017.

Beneficial Interest in Cemetery Trust

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

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2018 and 2017

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

Beneficial Interest in Cemetery Trust (cont.)

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

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

Pursuant to the bankruptcy settlement between the Cemetery Trust and the Archdiocese (the "Cemetery Trust Settlement Agreement"), the Archdiocese is entitled to receive distributions from the Cemetery Trust in an amount not less than \$487,500 per quarter, to be used solely for the care and maintenance of the cemeteries and mausoleums operated or maintained by the Archdiocese. Pursuant to the Cemetery Trust Settlement Agreement, the Archdiocese is entitled to receive these distributions for so long as the Archdiocese remains obligated to the Cemetery Trust pursuant to the Cemetery Trust Loan (this loan is disclosed in Note 8). The distributions totaled \$1,950,000 each for the years ended June 30, 2018 and 2017.

Accounts Payable

Accounts payable as of June 30 consist of:

	<u>2018</u>	<u>2017</u>
Accounts payable	\$ 852,394	\$ 761,998
Accrued liabilities	769,692	621,414
Deferred revenue	<u>38,484</u>	<u>86,055</u>
Total Accounts Payable	<u>\$ 1,660,570</u>	<u>\$ 1,469,467</u>

Contributions Payable

Total contributions payable consist of contributions payable (current liabilities) of \$2,549,311 and \$2,559,534, as of June 30, 2018 and 2017, respectively. These amounts are primarily Catholic Stewardship Appeal grants for the upcoming year.

Collections to be Forwarded to Other Entities

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

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended June 30, 2018 and 2017

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

Custodial Investments Held for Others

The Archdiocese administers the investments for various programs and organizations within the geographical boundaries of the Archdiocese of Milwaukee. These are not Archdiocesan funds. The Archdiocese may provide administrative services to help support these ministries and programs. The custodial investments held for others as of June 30 consist of:

	<u>2018</u>	<u>2017</u>
Priests' Continuing Formation Program	\$ 1,132,118	\$ 1,190,497
Other	<u>306,570</u>	<u>371,064</u>
Total	<u>\$ 1,438,688</u>	<u>\$ 1,561,561</u>

Net Assets

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

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

Temporarily Restricted Net Assets - Cash and other assets received with donor-imposed stipulations which limit the use of the donated assets. The stipulations either expire by passage of time or can be fulfilled and removed by actions of the Archdiocese pursuant to those stipulations.

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

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2018 and 2017

NOTE 1 - 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:

	2018	2017
St. Aemilian Trust (for the establishment of facilities for orphans, dependent, neglected, and delinquent children, for rehabilitation, treatment and other welfare services needed for such ends, and the promotion of education, charity and religion)	\$ 1,516,227	\$ 1,482,524
St. John's Burse (for deaf and hearing impaired ministry)	512,100	500,080
Mary Mother of the Church Endowment Fund	240,140	61,292
Beihoff Fund (scholarships)	142,316	138,393
General operations and other	108,091	38,563
Total Designated Net Assets	\$ 2,518,874	\$ 2,220,852

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.

	2018	2017
Limited to perpetual care of cemeteries	\$ 56,122,605	\$ 53,996,704

Revenue Recognition

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

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

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended June 30, 2018 and 2017

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

Cemetery and Mausoleum Sales

The Archdiocese records revenue on sales of cemetery plots and mausoleum crypts and niches at the date of sale as it has no legal obligation, beyond a short rescission period, to refund any such sale. As such, no reserve for sale returns has been established. As a matter of policy, the Archdiocese has refunded sales under certain circumstances at amounts equal to or less than the original sales price, with the units then returned to inventory. This policy is subject to amendment at any time. The Archdiocese also allows customers to purchase cemetery plots and mausoleum crypts and niches through the installment method in which customers are given four years to pay. Revenue from these sales is recognized immediately. Cash or receivables related to pre-planned burial needs are recorded as deferred revenue. Once the services are provided, revenue and corresponding expense is recognized.

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

Contributed Services

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

Leased Facilities

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

Fundraising Costs

Fundraising costs consisting primarily of payroll, fringe benefits, supplies, and professional services for fiscal years ended June 30, 2018 and 2017 were \$1,204,659 and \$1,161,327, respectively.

Reclassifications

For comparability, certain 2017 amounts have been reclassified to conform with classifications adopted in 2018. The reclassifications have no effect on reported amounts of net assets or change in net assets.

Use of Estimates

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

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2018 and 2017

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

New Accounting Pronouncements

The Financial Accounting Standards Board ("FASB") has issued Accounting Standards Update ("ASU") 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities* ("ASU 2016-14"). ASU 2016-14 is intended to simplify and improve current net asset classification requirements and the information presented in financial statements and notes about a not-for-profit entity's liquidity, financial performance, expense classifications and cash flows. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017 (2019). Management is currently evaluating the impact of ASU 2016-14 on the Archdiocese financial statements.

FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)* ("ASU 2014-09"). ASU 2014-09 establishes principles for recognizing revenue upon the transfer of promised goods or services to customers, in an amount that reflects the expected consideration received in exchange for those goods or services. Amendments defer the effective date of ASU 2014-09, clarify the implementation guidance on principal versus agent considerations, and clarify the identification of performance obligations and the licensing implementation guidance. Topic 606 (as amended) is effective for fiscal years ending after December 15, 2018 (2020). The amendments may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of initial application. The Archdiocese is currently assessing the effect that Topic 606 (as amended) will have on its results of operations, financial position and cash flows.

During June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The new guidance is intended to clarify and improve accounting guidance for contributions received and contributions made. The amendments in this ASU should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. The Archdiocese should apply the amendments for fiscal years beginning after December 15, 2018 (2020) for contributions received and fiscal year beginning after December 15, 2019 (2021) for contributions made. The Archdiocese is currently assessing the impact that ASU 2018-08 will have on its results of operations, financial position and cash flows.

In February 2016, FASB issued ASU 2016-02, *Leases (Topic 842)* ("ASU 2016-02") that amends the treatment for leases. The new accounting model for leases capitalizes all leases greater than twelve months, both capital and operating, as assets and liabilities on the statement of financial position. The Archdiocese will be required to apply the standard for fiscal years and reporting periods beginning after December 15, 2019 (2021). Early adoption is permitted. Management is currently evaluating the impact of ASU 2016-02 on the Archdiocese financial statements.

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended June 30, 2018 and 2017

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

New Accounting Pronouncements (cont.)

FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash* ("ASU 2016-18"). This standard will require cash flow statements to explain the change during a reporting period of the totals for cash, cash equivalents, restricted cash, and restricted cash equivalents. Amounts reported as restricted cash should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The update also includes a requirement that the footnotes to the financial statements explain the nature of the restrictions. The Archdiocese will be required to apply the standard for fiscal years beginning after December 15, 2018 (2020). Early adoption will be permitted and the standard should be applied retrospectively upon adoption. Management is currently evaluating the impact of the ASU 2016-18 on the Archdiocese financial statements.

NOTE 2 - Final Decree Closing Bankruptcy Case

On January 4, 2011, 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. Following five and one-half years of proceedings, on June 30, 2016, the Bankruptcy Court entered the Final Decree closing the case, and the case was closed on the Bankruptcy Court docket, subject only to the Bankruptcy Court's continued jurisdiction with respect to such matters as may be prescribed by the Amended Plan. This jurisdiction includes, but is not limited to, the enforcement of the Amended Plan (including all related documents contemplated by the Amended Plan) and the Confirmation Order and the entry of orders in aid of confirmation and consummation of the Amended Plan.

Throughout the following footnotes, several references will be made to items included in the Amended Plan. Previously published financial statements and accompanying notes can be referenced for more specific details regarding the Amended Plan of Reorganization and its impact on the Archdiocese.

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

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2018 and 2017

NOTE 3 - Fair Value of Financial Instruments

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

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, 2018			
	Level 1	Level 2	Level 3	Total
Assets				
Money market funds	\$ -	\$ 6,576,041	\$ -	\$ 6,576,041
Commercial bonds	-	3,531,962	-	3,531,962
US Government bonds	-	1,031,539	-	1,031,539
US Government agency securities	-	1,360,235	-	1,360,235
Other investments	-	64,421	6,194,064	6,258,485
Beneficial interest in Cemetery Trust	-	-	56,122,606	56,122,606
Total Assets	\$ -	\$ 12,564,198	\$ 62,316,670	\$ 74,880,868
	June 30, 2017			
	Level 1	Level 2	Level 3	Total
Assets				
Money market funds	\$ -	\$ 8,932,697	\$ -	\$ 8,932,697
Commercial bonds	-	1,186,748	-	1,186,748
US Government bonds	-	1,590,486	-	1,590,486
US Government agency securities	-	1,763,504	-	1,763,504
Other investments	-	141,959	5,727,977	5,869,936
Beneficial interest in Cemetery Trust	-	-	53,996,704	53,996,704
Total Assets	\$ -	\$ 13,615,394	\$ 59,724,681	\$ 73,340,075

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2018 and 2017

NOTE 3 - 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 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 Trust</u>	<u>Total</u>
Balance, June 30, 2017	\$ 5,727,977	\$ 53,996,704	\$ 59,724,681
Deposits	170,000	608,913	778,913
Withdrawals	(119,450)	(1,950,000)	(2,069,450)
Investment Income	<u>415,537</u>	<u>3,466,989</u>	<u>3,882,526</u>
Balance, June 30, 2018	<u>\$ 6,194,064</u>	<u>\$ 56,122,606</u>	<u>\$ 62,316,670</u>
	<u>Other Investments</u>	<u>Beneficial Interest in Cemetery Trust</u>	<u>Total</u>
Balance, June 30, 2016	\$ 5,078,833	\$ 50,469,952	\$ 55,548,785
Deposits	60,000	461,139	521,139
Withdrawals	(66,193)	(1,950,000)	(2,016,193)
Investment Income (loss)	<u>655,337</u>	<u>5,015,613</u>	<u>5,670,950</u>
Balance, June 30, 2017	<u>\$ 5,727,977</u>	<u>\$ 53,996,704</u>	<u>\$ 59,724,681</u>

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2018 and 2017

NOTE 4 - Investments

Investments by type, as of June 30 are:

	<u>2018</u>	<u>2017</u>
Cash	\$ 5,588,630	\$ 4,483,486
Money market funds	6,576,041	8,932,697
US Government bonds	1,031,539	1,590,486
Commercial bonds	3,531,962	1,186,748
US Government agency securities	1,360,235	1,763,504
Other investments	<u>6,258,485</u>	<u>5,869,936</u>
Total	<u>\$ 24,346,892</u>	<u>\$ 23,826,857</u>

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

	<u>2018</u>	<u>2017</u>
Short-term investments	\$ 6,739,117	\$ 8,997,342
Long-term investments	10,235,009	8,429,300
Custodial investments held for others	1,438,688	1,561,561
Cemeteries pre-need trust fund account	5,588,629	4,477,086
Charitable gift annuities investments	<u>345,449</u>	<u>361,568</u>
Total	<u>\$ 24,346,892</u>	<u>\$ 23,826,857</u>

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

	<u>2018</u>	<u>2017</u>
Net realized gains on investments	\$ 907,869	\$ 164,796
Net unrealized gains (losses) on investments	<u>(751,192)</u>	<u>235,334</u>
Total	<u>\$ 156,677</u>	<u>\$ 400,130</u>

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

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2018 and 2017

NOTE 5 - Contributions Receivable

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

Unconditional promises (pledges/contributions) to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows, when significant. The discounts on those amounts are computed using a risk-free interest rate applicable to the year in which the promise is expected to be received. Amortization of the discount is included in contribution revenue.

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

	<u>2018</u>	<u>2017</u>
Less than one year	\$ 1,696,019	\$ 1,101,700
Less: Allowance for doubtful accounts	<u>(40,000)</u>	<u>(52,000)</u>
Net Contributions Receivable	<u>\$ 1,656,019</u>	<u>\$ 1,049,700</u>

Amounts are included in receivables-net on the statements of financial position.

NOTE 6 - Ground Burial and Mausoleum Crypt Sites

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

	<u>2018</u>	<u>2017</u>
Mausoleum Crypts & Niches	\$ 1,701,473	\$ 1,980,930
Cemetery land and facilities held for burial privileges	<u>2,736,916</u>	<u>2,726,307</u>
Total	<u>\$ 4,438,389</u>	<u>\$ 4,707,237</u>

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

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2018 and 2017

NOTE 7 - Property and Equipment

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

	2018	2017
Land	\$ 1,447,488	\$ 1,217,243
Land improvements	2,594,789	2,166,317
Construction in progress	250,232	170,662
Buildings	9,928,803	9,461,903
Furniture and fixtures	140,570	136,120
Equipment	539,679	782,497
Vehicles	557,130	656,708
Vacant land	94,810	358,629
Total	15,553,501	14,950,079
Less: Accumulated depreciation	(10,636,939)	(10,643,821)
Net Property and Equipment	\$ 4,916,562	\$ 4,306,258

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

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

Pius XI High School, Inc.	Subject to a mortgage and two lines of credit. The balances at June 30, 2018 were \$5,016,141 and \$1,375,000, respectively.
St. Thomas More High School, Inc.	Subject to a mortgage for up to \$1,100,000, a construction loan up to \$550,000 and a line of credit up to \$1,000,000. The balances at June 30, 2018 were \$895,702, \$436,424 and zero, respectively.
St. Joseph High School, Inc.	Subject to a mortgage up to \$350,000 of which \$100,000 is secured by the building and a \$250,000 line of credit also secured by the building. As of June 30, 2018, the mortgage balance was \$341,850 and the line of credit balance was zero.

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

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2018 and 2017

NOTE 8 - Business Note

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

On October 12, 2016, Catholic Financial Life purchased and assumed all rights and obligations of the business note from Park Bank. The amount financed through Catholic Financial Life was \$4,115,797 with a fixed interest rate of 4.60%. The business note is secured by first mortgage liens on real estate known as St. Charles Youth and Family Services Facility and the Archbishop Cousins Catholic Center.

Principal and interest payments of \$26,261 are due on the first day of each month. Additional principal payments of \$56,000 were made during the fiscal year ended June 30, 2018. No additional principal payments were made during the previous fiscal year. Interest expense for fiscal years ended June 30, 2018 and 2017 were \$180,726 and \$184,844, respectively. The outstanding balance on the note at June 30, 2018 was \$3,840,382.

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

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

2019	\$	141,435
2020		148,080
2021		155,037
2022		162,321
2023		169,947
Thereafter		<u>3,063,562</u>
	\$	<u>3,840,382</u>

Credit Lines

The Archdiocese is authorized to draw on a line of credit made available by the Cemetery Trust up to the amount of \$2,780,000. The line of credit bears interest in an amount equal to the lesser of (i) One Year LIBOR (as determined and adjusted annually) plus 200 basis points, or (ii) five (5) percent, and shall be set annually in December. The current rate of interest is 4.091%.

Interest only payments are made on the first day of each quarter and began on January 1, 2016. Commencing on the first day of January, 2025, and on the first day of each calendar quarter, the Archdiocese will make principal payments in the amount of \$50,000 until this line of credit is fully paid. The outstanding principal balance on this credit line is due and payable in full on December 31, 2035. The line of credit is secured by first mortgage liens on the properties discussed in Note 7 and second mortgage liens on real estate known as St. Charles Youth and Family Services property and the Archbishop Cousins Catholic Center.

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2018 and 2017

NOTE 8 - Business Note (cont.)

Credit Lines (cont.)

The Cemetery Trust credit line balances outstanding as of June 30, 2018 and 2017 were \$1,780,000 and \$2,000,000, respectively. At June 30, 2018 and 2017, the amount of interest paid was \$80,034 and \$69,246, respectively.

Included in the Amended Plan (see Note 2) was the obligation of the Archdiocese to attempt to sell all of the "First Lien" properties listed below. The Archdiocese listed these properties for sale in October of 2017.

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

The Amended Plan states that proceeds from the sale of the properties shall be used to repay the amount borrowed under the Cemetery Trust line of credit. The Archbishop, as sole member of the Cemetery Trust, has the authority to determine what percentage of sale proceeds will be used to repay the line of credit. As of June 30, 2017, the amount outstanding on the Cemetery Trust line of credit was \$2,000,000.

During the 2017-2018 fiscal year, two of the "First Lien" properties were sold:

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

The Archdiocese is authorized to draw on a line of credit made available by Town Bank up to the amount of \$2,000,000. The balance drawn as of June 30, 2018 and 2017 was zero.

NOTE 9 - Deferred Revenue

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

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2018 and 2017

NOTE 10 - Charitable Gift Annuities

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

	<u>2018</u>	<u>2017</u>
Charitable gift annuities, 7.00%.	\$ 167,294	\$ 199,261
Less: Current portion	<u>(21,175)</u>	<u>(26,390)</u>
Long-Term Portion	<u>\$ 146,119</u>	<u>\$ 172,871</u>

Principal requirements on charitable gift annuities for years ending after June 30, 2018 are as follows:

2019	\$ 21,175
2020	19,790
2021	18,495
2022	17,285
2023	16,154
Thereafter	<u>74,395</u>
Total	<u>\$ 167,294</u>

NOTE 11 - Inradiocesan

Grants

St. Francis de Sales Seminary, Inc. (the "Seminary") is a freestanding, separate legal entity. The Seminary has a Board of Trustees overseeing governance and administration. The Archdiocese contributes a Catholic Stewardship Appeal grant to the Seminary to fulfill one of the appeal solicitation purposes, and is paid by the Seminary for certain administrative services under a contract. The grant was \$1,250,000 and \$1,350,000 for the years ending June 30, 2018 and 2017, respectively. The contribution payable was \$1,250,000 and \$1,350,000 at June 30, 2018 and 2017, respectively.

Catholic Charities of the Archdiocese of Milwaukee, Inc. ("Catholic Charities") is a freestanding, separate legal entity. Catholic Charities has a Board of Trustees overseeing governance and administration. The Archdiocese contributes a Catholic Stewardship Appeal grant to Catholic Charities to fulfill one of the appeal solicitation purposes. The grant was \$1,153,000 and \$1,057,012 for the years ending June 30, 2018 and 2017, respectively. The contribution payable was \$1,153,000 and \$1,057,012 at June 30, 2018 and 2017, respectively. Catholic Charities also compensates the Archdiocese for certain business services under a contract.

Other grants were provided to the following freestanding, separate legal entities during the 2017-2018 fiscal year:

Seton Catholic Schools, Inc.	\$75,000
Wisconsin Catholic Media Apostolate, Inc.	\$40,000
Siena Catholic Schools of Racine, Inc.	\$25,000

Siena Catholic Schools of Racine, Inc. received a \$10,000 grant during the 2016-2017 fiscal year.

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2018 and 2017

NOTE 11 - Intradiocesan (cont.)

Contributions

The Faith In Our Future Trust ("Faith In Our Future"), is a freestanding, separate legal entity. Faith In Our Future has a Board of Trustees overseeing governance and administration. Faith In Our Future contributed education and faith formation grants to the Archdiocese. Payments in the amount of \$902,500 and \$197,299 were received for the years ending June 30, 2018 and 2017, respectively. Grants receivable were \$647,300 and \$346,000 at June 30, 2018 and 2017, respectively.

Note Receivable

In 2010, the Archdiocese of Milwaukee converted an intra-diocesan receivable from the Seminary to an intra-diocesan note receivable. The long-term portion of this note receivable 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. On June 28, 2018, the Seminary made an additional principal payment of \$93,750.

The amount receivable is as follows for the years ended June 30 net of the discount of \$26,508 at June 30, 2018:

2020	\$ 50,747
2021	52,650
2022	54,624
2023	56,673
2024	58,798
Thereafter	<u>33,253</u>
Total	<u>\$ 306,745</u>

Line of Credit Guarantee

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

The Archdiocese guaranteed a line of credit arrangement for Seton Catholic Schools, Inc. in the amount of \$1,500,000. In September of 2017, Seton Catholic Schools secured an increase in their credit line up to \$3,500,000 until December 31, 2017. The credit line then decreased to \$2,250,000 through the maturity date of October 30, 2018. Seton recently has requested an increase to this line of credit due to enrollment increases in the Seton network. The amount requested for the line of credit is \$4,000,000.

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

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

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2018 and 2017

NOTE 11 - Intradiocesan (cont.)

Demand Note

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

On June 25, 2018, Seton Catholic Schools, Inc., executed a demand note with the Archdiocese of Milwaukee. The demand note is included in long-term other assets on the statements of financial position.

The demand note is a promise to pay the Archdiocese the principal sum of \$2,000,000, together with all accrued and unpaid interest thereon. The accrued and unpaid interest as of June 30, 2018 was \$587. Interest will accrue and be calculated based upon actual days elapsed in a year of 360 days. Interest will accrue on the principal balance outstanding at the applicable federal rate ("AFR") for short term obligations, as determined under Section 1274(d) of the Internal Revenue Code. The rate used is a monthly floating rate tied to the AFR for short term obligations and was 1.76% for June of 2018.

The outstanding principal balance of this demand note, together with accrued and unpaid interest, shall be due on demand or on the fifth (5th) anniversary of the date of the demand note, whichever occurs first. The Archdiocese's intent is not to call the loan, therefore it is included in other long-term assets.

NOTE 12 - Employee Benefit Plans

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

Cemetery and Mausoleum Employees' Union Pension Plan

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

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

The following table sets forth the Union plan's funded status as of June 30, 2017. The 2017 accumulated benefit obligation reflects the valuation performed on March 31, the date the plan was frozen. The fair value of the plan assets for 2017 are also as of March 31. There is no status reporting for June 30, 2018.

	2018	2017
Accumulated total benefit obligation at date of freeze	\$ -	\$ 2,755,894
Fair value of plan assets at date of freeze	-	2,094,347
Funded Status of the Plan, Recognized in the statements of financial position	<u>\$ -</u>	<u>\$ (661,547)</u>

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2018 and 2017

NOTE 12 - Employee Benefit Plans (cont.)

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

The assets related to the plan continued to be invested in a balanced investment fund following the plan freeze. These Level 2 inputs had a fair market value of \$2,094,347 at March 31, 2017. The fund is valued by the investment manager.

The Archdiocese has recognized the following liabilities related to the Cemetery Union Pension Plan. The amounts for 2017 represents the net liability due to the Lay Pension Plan resulting from the freeze and merger of the plan on March 31. All but \$62,550 of the liability has been paid and this amount is included in Accounts Payable as of June 30, 2018.

	2018	2017
Funded Status of the Plan	\$ -	\$ (661,547)
Included in Accounts payable	(62,550)	(39,839)
Funded Status of the Plan, Recognized in the statements of financial position	\$ (62,550)	\$ (701,386)

At March 31, 2017, the amount of the accumulated vested benefit obligation was \$2,737,641.

At March 31, 2017, the amount recognized as net periodic pension cost included in wages was \$168,951.

The amount of employee and employer contributions to the plan and the benefits paid by the plan through March 31, 2017, are listed below:

	2018	2017
Contributions	\$ -	\$ 86,518
Benefits paid	\$ -	\$ 88,878

Assumptions used in calculating pension expense were:

	2018	2017
Discount rate	N/A	3.55 %
Rate of increase in compensation levels next 2 years	N/A	1.5 %
Rate of increase in compensation levels beyond 2 years	N/A	3.0 %
Expected long-term rate of return on assets	N/A	7.0 %

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

Lay Employees' Pension Plan

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

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2018 and 2017

NOTE 12 - Employee Benefit Plans (cont.)

Lay Employees' Pension Plan (cont.)

During the 2016-17 fiscal year, there were two events that impacted the Lay Pension Plan:

Plan Design Change – In January of 2017, the plan administrator implemented an approved formula change to the plan. This change was the result of a study that determined a change would be necessary to ensure the long-term health of the plan. Participating employers and employees were provided educational materials related to this change and the Plan document was amended.

Cemetery Union Pension Plan – Effective April 1, 2017, the Union Pension Plan was frozen. The trust established under the Union Pension Plan was merged with and into the Lay Pension Plan during the 2017-2018 fiscal year.

The Plan's most recent available information is as of June 30, 2017. At that time, all full time lay employees of participating Catholic organizations located within the boundaries of the Archdiocese who have been employed for one year are covered by the plan. The benefits for employees in the Plan are based on the years of service and the applicable percentage of average monthly compensation of the employee. Following is a summary of the July 1, 2017 and July 1, 2016 valuation funding liability and funded ratio:

	<u>July 1, 2017</u>	<u>July 1 2016</u>
Actuarial Accrued Liability	\$ 308,400,000	\$ 295,700,000
Market Value of Assets	<u>255,800,000</u>	<u>239,500,000</u>
Unfunded Accrued Liability	<u>\$ 52,600,000</u>	<u>\$ 56,200,000</u>
Funding Ratio	82.9 %	81.0 %
Total Contributions to the Plan	<u>\$ 7,100,000</u>	<u>\$ 8,500,000</u>

The Archdiocese of Milwaukee's participation in the Plan is approximately 5% of the total contributions to the Plan. The Archdiocese pension expense for the years ended June 30, 2018 and 2017, respectively, was \$478,083 and \$380,669, 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, 2017. Following is a summary of the July 1, 2017 and July 1, 2016 valuation funding liability and funded ratio:

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2018 and 2017

NOTE 12 - Employee Benefit Plans (cont.)

Archdiocese of Milwaukee Priests' Pension Plan (cont.)

	<u>July 1, 2017</u>	<u>July 1 2016</u>
Actuarial Accrued Liability	\$ 38,100,000	\$ 38,100,000
Market Value of Assets	34,200,000	32,600,000
Unfunded Accrued Liability	\$ 3,900,000	\$ 5,500,000
Funding Ratio	89.7 %	85.7 %
Total Contributions to the Plan	\$ 710,000	\$ 1,200,000

Pension expense for the years ended June 30, 2018 and 2017 was \$82,693 and \$62,991, respectively, which includes amortization of past service costs over 30 years. Annual contributions to the plan equal amounts accrued for pension expense.

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.

The Archdiocese provides defined benefit postretirement 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, 2018 and 2017, 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.

	<u>2018</u>	<u>2017</u>
Accumulated postretirement benefit obligation	\$ 18,636,946	\$ 22,689,191
Fair value of plan assets	-	-
Funded Status of Plan, Recognized in the statements of financial position	\$ (18,636,946)	\$ (22,689,191)

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

	<u>2018</u>	<u>2017</u>
Unrecognized net loss	\$ 1,369,443	\$ 6,473,869
Unrecognized prior service credit (cost)	\$ (15,756)	\$ 267,953

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2018 and 2017

NOTE 12 - Employee Benefit Plans (cont.)

Post-Retirement Benefits Other Than Pensions (cont.)

The net amortization of the above amounts that are reclassified into a component of net periodic benefit cost for the years ended June 30, 2018 and 2017 was \$9,523 and \$152,186, respectively.

The amounts expected to be recognized into net periodic benefit cost in the year ended June 30, 2019 are as follows:

Unrecognized net (gain) / loss	\$	-
Unrecognized prior service credit / (cost)	\$	(15,756)

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

		2018		2017
Employer contributions	\$	672,337	\$	741,840
Benefits paid	\$	672,337	\$	741,840

The Archdiocese expects to contribute approximately \$845,751 to the plan during the year ended June 30, 2019.

Expected benefit payments for the years ended June 30:

2019		\$	845,751
2020			902,472
2021			945,932
2022			988,427
2023			1,023,029
Next five years			5,213,672
		\$	9,919,283

At June 30, 2018 and 2017, the amount recognized as net periodic pension cost included in wages was \$1,440,809 and \$1,476,584, respectively.

The weighted average discount rate used to develop the present value of benefit obligations was 4.00% and 3.75% at June 30, 2018 and 2017, respectively. The weighted average discount rate used to develop the net post retirement expense was 3.75% and 3.25% at June 30, 2018 and 2017, respectively.

The medical cost trend rate used to value the accumulated post-retirement benefit obligation is 8.0% for 2018, and is assumed to decrease gradually to an ultimate rate of 4.5% in 2024. The dental and vision cost trend rates used for 2019 and thereafter are 4.5%.

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2018 and 2017

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:

	2018	2017
Catholic Stewardship Appeal	\$ 5,850,947	\$ 5,549,375
Education	1,371,969	1,193,236
Ministry	1,312,133	1,085,985
Campus & Young Adult Ministry	1,274,831	298,169
Kapalczynski Development Fund	747,734	568,369
Mary B. Finnigan Trust	738,044	686,250
Clergy	558,304	359,262
Rapp Trust	363,569	342,219
Beihoff Trust	334,887	307,095
Life Insurance	239,717	228,829
Radecki Bequest	154,966	164,513
Therapy Fund	132,750	328,607
Other Funds with Purpose and/or Temporal Restrictions	899,587	938,213
Total Temporarily Restricted Net Assets	\$ 13,979,438	\$ 12,050,122

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.

	2018	2017
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	92,006	92,006
Total Permanently Restricted Net Assets	\$ 3,716,366	\$ 3,716,366

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2018 and 2017

NOTE 15 - Endowment

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

Interpretation of Relevant Law – The Archdiocese has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor restricted endowment funds absent explicit donor stipulations to the contrary. The Archdiocese classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Archdiocese in a manner consistent with the standard of prudence prescribed by UPMIFA as adopted by the state of Wisconsin. If the fair value of the permanently restricted net asset at year end is below the original fair value, the deficit is recorded as an unrestricted unrealized loss.

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

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, 2018 and 2017.

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

	2018			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted	\$ 240,140	\$ 1,493,792	\$ 3,716,366	\$ 5,450,298
	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted	\$ 61,292	\$ 1,260,410	\$ 3,716,366	\$ 5,038,068

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2018 and 2017

NOTE 15 - Endowment (cont.)

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

	2018			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets: June 30, 2017	\$ 61,292	\$ 1,260,410	\$ 3,716,366	\$ 5,038,068
Contributions	170,000	-	-	170,000
Investment return				
Investment income	8,848	105,199	-	114,047
Net appreciation realized and unrealized	-	247,633	-	247,633
Total Investment Return	8,848	352,832	-	361,680
Appropriation for expenditure	-	(119,450)	-	(119,450)
Endowment Net Assets: June 30, 2018	<u>\$ 240,140</u>	<u>\$ 1,493,792</u>	<u>\$ 3,716,366</u>	<u>\$ 5,450,298</u>
	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets: June 30, 2016	\$ -	\$ 747,429	\$ 3,716,366	\$ 4,463,795
Contributions	60,000	-	-	60,000
Investment return				
Investment income	1,292	85,010	-	86,302
Net depreciation realized and unrealized	-	479,651	-	479,651
Total Investment Return	1,292	564,661	-	565,953
Appropriation for expenditure	-	(51,680)	-	(51,680)
Endowment Net Assets: June 30, 2017	<u>\$ 61,292</u>	<u>\$ 1,260,410</u>	<u>\$ 3,716,366</u>	<u>\$ 5,038,068</u>

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2018 and 2017

NOTE 16 - Participants' Indemnity Program Irrevocable Trust

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

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

NOTE 17 - Administrative Services for Unrelated Organizations

The Archdiocese of Milwaukee provides administrative services to several unrelated organizations, including the Faith in Our Future Trust and Seton Catholic Schools, Inc. Under the agreements the Archdiocese may advance payments for expenses, which are then reimbursed to the Archdiocese. Contributions to the Faith in Our Future Trust are donor restricted, and grants from the Trust can be made only for purposes of Catholic Education and Faith Formation, as specified and disclosed in materials provided to donors. The Archdiocese of Milwaukee does not have control or a beneficial interest in the net assets of the Faith in Our Future Trust or other unrelated organizations for which the Archdiocese of Milwaukee provides administrative services and, therefore, none of the activities of the Trust or the other unrelated entities are included in the Archdiocese financial statements.

NOTE 18 - Concentrations

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

NOTE 19 - Commitments

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

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended June 30, 2018 and 2017

NOTE 20 - Subsequent Event

The following event occurred after the June 30, 2018 reporting period, but prior to the financial statements release on October 25, 2018:

Demand Note

In September of 2018, Seton Catholic Schools, Inc., executed a second demand note with the Archdiocese of Milwaukee. The amount of the note was \$500,000. Terms of the second note are the same as the first note executed during June of 2018. Please see Note 11 for specifics on the terms.