

ARCHDIOCESE OF MILWAUKEE

Milwaukee, Wisconsin

FINANCIAL STATEMENTS

Including Independent Auditors' Report

June 30, 2005

ARCHDIOCESE OF MILWAUKEE

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INDEPENDENT AUDITORS' REPORT

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

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

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

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

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information provided, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Virchow, Krause & Company, LLP

Milwaukee, Wisconsin
September 30, 2005

ARCHDIOCESE OF MILWAUKEE

STATEMENT OF FINANCIAL POSITION June 30, 2005

ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	\$ 9,025
Short-term investments	3,384,258
Receivables:	
Accounts and notes	3,150,927
Contributions	822,334
Parish obligations	1,445,239
Mortgages receivable	114,475
Interest and dividends	<u>613,339</u>
Total receivables	6,146,314
Other assets	<u>591,107</u>
Total current assets	10,130,704
Ground burial and mausoleum crypt sites	9,531,774
Property and equipment, net	10,002,176
Assets designated for the future care of cemeteries and mausoleums, primarily cash and investments	52,437,820
INVESTMENTS AND OTHER ASSETS	
Long-term investments	29,963,408
Mortgages receivable	435,497
Other assets	<u>257,689</u>
Total investments and other assets	<u>30,656,594</u>
TOTAL ASSETS	<u>\$ 112,759,068</u>

See accompanying notes to financial statements.

ARCHDIOCESE OF MILWAUKEE

STATEMENT OF FINANCIAL POSITION June 30, 2005

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Checks issued in excess of bank balance	\$ 1,013,412
Current maturities of charitable gift annuities	119,163
Accounts payable	1,192,724
Mediation settlements, sexual abuse therapy, and victim assistance payable	803,458
Contributions payable	1,270,750
Accrued liabilities	413,508
Deferred revenue	118,971
Affiliate payable	163,474
Collections to be forwarded to other entities	<u>1,611,949</u>
Total Current Liabilities	6,707,409

Invested funds held for others	3,050,022
Charitable gift annuities	683,122
Accrued post-retirement and pension benefits	14,800,683
Deferred revenue	<u>1,838,153</u>
Total Liabilities	<u>27,079,389</u>

NET ASSETS

Unrestricted	
Undesignated operating	17,142,740
Designated	<u>62,520,165</u>
Total unrestricted	79,662,905
Temporarily restricted	2,300,408
Permanently restricted	<u>3,716,366</u>
Total Net Assets	<u>85,679,679</u>

TOTAL LIABILITIES AND NET ASSETS \$ 112,759,068

See accompanying notes to financial statements.

ARCHDIOCESE OF MILWAUKEE

STATEMENT OF ACTIVITIES Year Ended June 30, 2005

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE, GAINS, AND OTHER SUPPORT				
Contributions	\$ 8,982,708	\$ 204,712	\$ -	\$ 9,187,420
Parish assessments	5,548,637	-	-	5,548,637
Tuitions and fees	719,621	-	-	719,621
Various activities and special programs	386,926	-	-	386,926
Cemetery and mausoleum sales	5,125,047	-	-	5,125,047
Investment income	2,931,240	93,504	-	3,024,744
Net realized and unrealized gains	2,632,552	-	-	2,632,552
Gain on sale of property and equipment	1,006,020	-	-	1,006,020
Miscellaneous revenues	1,949,996	-	-	1,949,996
Net assets released from restrictions	659,637	(659,637)	-	-
Total Revenue, Gains and Other Support	<u>29,942,384</u>	<u>(361,421)</u>	<u>-</u>	<u>29,580,963</u>
EXPENSES				
Payroll and fringe benefits	13,430,728	-	-	13,430,728
Repairs, maintenance, insurance, utility costs	1,786,449	-	-	1,786,449
Travel and education	314,801	-	-	314,801
Data processing	49,191	-	-	49,191
Bad debts	742,311	-	-	742,311
Supplies	1,087,242	-	-	1,087,242
Interest expense	1,313,564	-	-	1,313,564
Food service	646,225	-	-	646,225
Assessments	465,685	-	-	465,685
Cost of lot and crypt sales	1,054,430	-	-	1,054,430
Professional services	3,860,244	-	-	3,860,244
Scholarships and donations	2,654,012	-	-	2,654,012
Miscellaneous expenses	1,155,376	-	-	1,155,376
Depreciation	530,863	-	-	530,863
Total Expenses	<u>29,091,121</u>	<u>-</u>	<u>-</u>	<u>29,091,121</u>
CHANGE IN NET ASSETS	851,263	(361,421)	-	489,842
NET ASSETS - Beginning of Year (Restated)	<u>78,811,642</u>	<u>2,661,829</u>	<u>3,716,366</u>	<u>85,189,837</u>
NET ASSETS - END OF YEAR	<u>\$ 79,662,905</u>	<u>\$ 2,300,408</u>	<u>\$ 3,716,366</u>	<u>\$ 85,679,679</u>

ARCHDIOCESE OF MILWAUKEE

STATEMENT OF CASH FLOWS Year Ended June 30, 2005

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in Net Assets	\$ 489,842
Adjustments to reconcile change in net assets to net cash flows from operating activities	
Depreciation and amortization	530,863
Amortization of premiums and discounts	1,299,944
Bad debt provision	742,311
Net realized/unrealized gains	(2,632,552)
Gain on disposal of property and equipment	(1,006,020)
Change in charitable gift annuities	148,138
Changes in assets and liabilities	
Receivables and payables	(1,298,546)
Other assets	(72,549)
Ground burial and mausoleum crypt sites	607,212
Accrued liabilities	(4,023,646)
Deferred revenue	219,445
Accrued post-retirement and pension benefits	1,843,336
Net Cash Flows from Operating Activities	<u>(3,152,222)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Net purchases of property and equipment	(265,383)
Proceeds from the sale of property and equipment	1,126,293
Net change in investments	33,052,388
Net change in mortgages receivable	683,981
Net change in collections to be forwarded on to other entities	143,287
Net change in invested funds held for others	<u>(37,621,844)</u>
Net Cash Flows from Investing Activities	<u>(2,881,278)</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Checks issued in excess of bank balance	<u>1,013,412</u>
Net Change in Cash and Cash Equivalents	(5,020,088)
CASH AND CASH EQUIVALENTS - Beginning of Year	<u>5,029,113</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ <u>9,025</u>
Supplemental cash flow disclosures	
Cash paid for interest	\$ 1,516,233
Noncash investing and financing activities	
Transfer of investments to repay invested funds held for others	13,635,863

See accompanying notes to financial statements.

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS
June 30, 2005

NOTE 1 - Summary of Significant Accounting Policies

Nature of Activities

The Archdiocese of Milwaukee (the "Archdiocese") is a not-for-profit Wisconsin corporation, without capital stock, operating primarily out of the Office of the Chancery under the management of the Archbishop of Milwaukee. The Archdiocese is exempt from income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code. Accordingly, the financial statements do not include any amounts for capital stock or income taxes.

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

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

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

Basis of Accounting

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

Cash and Cash Equivalents

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

Investments

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

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS June 30, 2005

NOTE 1 - Summary of Significant Accounting Policies (continued)

Accounts Receivable

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

Notes Receivable

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

Life Insurance Contributions

Donors have contributed multiple life insurance policies on their lives to the Archdiocese. As of June 30, 2005, these policies have a combined face value of \$822,070. The cash surrender value of \$257,689 at June 30, 2005, is included in long-term other assets on the statement of financial position.

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

Property and Equipment

Land, buildings and equipment are primarily carried at cost.

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

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

Contributions Payable

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

Collections to be Forwarded to Other Entities

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

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS June 30, 2005

NOTE 1 - Summary of Significant Accounting Policies (continued)

Invested Funds Held for Others

The Archdiocese of Milwaukee has agreed to administer the investments for various programs and organizations within the geographical boundaries of the Archdiocese of Milwaukee. The liability as of June 30, 2005 consists of:

Catholic Urban Academies	\$ 406,888
Priests' Continuing Formation Program	1,458,618
St. Michael's Priests Fund	14,047
Protected Self Insurance Program	<u>1,170,469</u>
Total	<u>\$ 3,050,022</u>

The Archdiocese served as a fiduciary to a fund known as the Parish Deposit Fund. Participation in the fund was elective and its purpose was to provide Catholic entities within the geography of the Archdiocese with economies of scale and administrative ease in the handling of their respective investments and excess funds. The underlying fund paid interest quarterly to its owners/depositors at a rate of 2.25%-2.0% during the year determined by the fiduciary based on current market conditions and the return on existing investments. No fees were charged by the Archdiocese for its fiduciary services. The fund had been shown as a noncurrent asset in the statement of financial position with an offsetting noncurrent liability to the other Catholic organizations. The fund was closed in June 2005.

Net Assets

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

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

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

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

Board Designated Net Assets

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

Future Care of Cemeteries and Mausoleums

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

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS June 30, 2005

NOTE 1 - Summary of Significant Accounting Policies (continued)

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

Common Stocks	\$ 36,391,229
U.S. Government Bonds	7,658,898
Short-Term Investments	2,017,960
Commercial Bonds	6,067,943
Other	<u>301,790</u>
Total	<u>\$ 52,437,820</u>

Board-Designated Net Assets (continued)

Other Specific Purposes

The Board of Directors has designated certain unrestricted net assets for other specific purposes as of June 30 as follows:

Chancery	
St. John's Burse (for deaf and hearing impaired ministry)	\$ 799,856
St. Anthony Hospital (for health care needs of the medically indigent)	318,820
St. Aemilian Trust (for the establishment of facilities for orphans, dependent, neglected, and delinquent children, for rehabilitation, treatment and other welfare services needed for such ends, and the promotion of education, charity and religion)	5,802,818
St. Joseph Parish, West Allis	1,111,261
St. Gerard Parish, Milwaukee	1,204,563
St. John's Cathedral renovation	422,397
General operations and other	<u>422,630</u>
Total	<u>10,082,345</u>
Total designated net assets	<u>\$ 62,520,165</u>

Revenue Recognition

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

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

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS June 30, 2005

NOTE 1 - Summary of Significant Accounting Policies (continued)

Cemetery and Mausoleum Sales

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

Contributed Services

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

Contributed Facilities

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

Fundraising Costs

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

Use of Estimates

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

NOTE 2 - Prior Period Adjustment

In prior years monies received after the closure of St. Joseph Parish in West Allis and St. Gerard Parish in Milwaukee and funds relating to the renovation of St. John Cathedral, were included in a liability on previous Archdiocese of Milwaukee financial statements. The current year properly recognizes them as unrestricted designated net assets. The effect of the change was to increase the change in net assets for the year ended June 30, 2005 by \$408,439.

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS June 30, 2005

NOTE 2 - Prior Period Adjustment (continued)

The effect of these adjustments is shown in the table below:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Net Assets</u>
Net assets June 30, 2004 as previously reported	\$ 76,481,862	\$ 2,661,829	\$ 3,716,366	\$ 82,860,057
Prior period adjustments:				
St. John Cathedral Renovation Fund	111,319	-	-	111,319
St. Joseph Parish, West Allis	990,649	-	-	990,649
St. Gerard Parish, Milwaukee	<u>1,227,812</u>	<u>-</u>	<u>-</u>	<u>1,227,812</u>
Net Assets June 30, 2004 (Restated)	<u>\$ 78,811,642</u>	<u>\$ 2,661,829</u>	<u>\$ 3,716,366</u>	<u>\$ 85,189,837</u>

NOTE 3 - Investments

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

Cash	\$ 3,346,937
Common Stocks	3,017,065
US Government Bonds	20,171,720
Commercial Bonds	3,962,408
Other Investments	<u>2,849,536</u>
Total	33,347,666
Less: Short-Term Investments	<u>(3,384,258)</u>
Long-Term Investments	<u>\$ 29,963,408</u>

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

Net realized gains on investments	\$ 2,398,458
Net unrealized gains on investments	<u>234,094</u>
Total	<u>\$ 2,632,552</u>

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS June 30, 2005

NOTE 4 - Contributions Receivable

Gross contributions receivable are reported in the statement of financial position net of allowances for uncollectible amounts and unamortized discounts.

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

The contributions receivable balance as of June 30, 2005 is expected to be collected according to the following schedule:

Less Than One Year	\$ 837,934
Less: Allowance for doubtful accounts	<u>(15,600)</u>
Net Contributions Receivable	<u>\$ 822,334</u>

NOTE 5 - Ground Burial and Mausoleum Crypt Sites

These properties are recorded at original cost and consist of the following as of June 30, 2005:

Mausoleum Crypts	\$ 6,716,420
Cemetery Land and Facilities Held for Burial Privileges	<u>2,815,354</u>
Total	<u>\$ 9,531,774</u>

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

NOTE 6 - Property and Equipment

Property and equipment are summarized as follows as of June 30, 2005:

Land	\$ 2,048,083
Land and building improvements	4,488,063
Buildings	10,505,591
Furniture and fixtures	1,882,187
Equipment	5,122,354
Vehicles	436,372
Future parish sites	<u>1,945,495</u>
Total Property and Equipment	26,428,145
Less: Accumulated depreciation	<u>(16,425,969)</u>
Net Property and Equipment	<u>\$ 10,002,176</u>

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS June 30, 2005

NOTE 6 - Property and Equipment (continued)

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

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

NOTE 7 - Mortgages Receivable

Mortgages receivable (all secured by real estate) consist of the following as of June 30, 2005:

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

NOTE 8 - Accrued Mediation

In January 2004, the Archdiocese established an independent mediation system to address reports of diocesan clergy sexual abuse of minors. The Archdiocese has accrued \$803,458 as of June 30, 2005 to cover mediation settlements, sexual abuse therapy and victim assistance agreed to under mediation. These expenses will be paid for by funds in the properties and building fund. Mediation settlements, sexual abuse therapy and victim assistance expense of \$518,575 is included in professional services on the statement of activities.

NOTE 9 - Deferred Revenue

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

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS June 30, 2005

NOTE 10 - Charitable Gift Annuities

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

Charitable Gift Annuities, 7.00%	\$	802,285
Less: Current portion		<u>(119,163)</u>
Long-Term Portion		<u>\$ 683,122</u>

Principal requirements on charitable gift annuities for years ending after June 30, 2005 are as follows:

2006	\$	119,163
2007		111,367
2008		104,081
2009		97,272
2010		90,909
Thereafter		<u>279,493</u>
Total		<u>\$ 802,285</u>

NOTE 11 - Affiliate

The Archdiocese is affiliated with the St. Francis Seminary, Inc. (the "Seminary") and the Archdiocese of Milwaukee High Schools (the "Schools") as they all operate under the direct fiscal management of the Archbishop of Milwaukee. The Archdiocese contributes accounting services and a Catholic Stewardship Appeal grant to the Seminary and also loans money to the Schools. The inter-affiliate balances of the Schools and Seminary at June 30, 2005 are:

	<u>Receivable</u>		<u>Interdiocesan Payable</u>
St. Francis Seminary	\$ -	\$	163,474
Archdiocese of Milwaukee High Schools	<u>88,624</u>		<u>-</u>
	<u>\$ 88,624</u>	\$	<u>163,474</u>

Affiliate interest income from the note receivable recognized by the Archdiocese from the Schools was \$11,939 for the year ended June 30, 2005. Affiliate interest (\$9,787) and contribution expenses (\$1,655,000) recognized by the Archdiocese was \$1,664,787 for the Seminary. Affiliate interest expense of \$99,491 was paid to the Schools for the year ended June 30, 2005.

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS June 30, 2005

NOTE 12 - 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 direct fiscal management of the Archbishop, as listed in Note 1. A summary of each plan follows:

Lay Employees' Pension Plan

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

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

Archdiocese of Milwaukee Priests' Pension Plan

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

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

Cemetery and Mausoleum Employees' Union Pension Plan

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

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

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

Service Cost	\$	62,969
Interest Cost on Projected Benefit Obligation		116,668
Actual Return on Assets		(66,607)
Net Amortization and Deferral		<u>27,041</u>
Net Periodic Pension Cost	\$	<u>140,071</u>

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS June 30, 2005

NOTE 12 - Employee Benefit Plans (continued)

Cemetery and Mausoleum Employees' Union Pension Plan (continued)

Assumptions used in calculating pension expense were:

	<u>As of July 1, 2004</u>
Discount Rate	6.0 %
Rate of Increase in Compensation Levels	4.0
Expected Long-term Rate of Return on Assets	8.0

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

Actuarial Present Value of Benefit Obligation	
Vested Benefit Obligation	<u>\$ (1,656,769)</u>
Accumulated Benefit Obligation	<u>\$ (1,667,140)</u>
Projected Benefit Obligation	\$ (2,056,772)
Plan Assets at Fair Value, Comprised of a Deposit with an Insurance Company	<u>820,475</u>
Projected Benefit Obligation in Excess of Plan Assets	(1,236,297)
Unrecognized Net Loss	246,676
Unrecognized Prior Service Cost	<u>79,782</u>
Accrued Pension Liability	<u>\$ (909,839)</u>

Post-Retirement Benefits Other Than Pensions

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

The accumulated post-retirement benefit obligation as of June 30, 2005, consisted of unfunded obligations related to the following:

Retirees	\$ 5,569,639
Fully Eligible Active Plan Participants	2,259,506
Other Active Plan Participants	<u>6,061,699</u>
Accrued Post-Retirement Liability	<u>\$ 13,890,844</u>

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS June 30, 2005

NOTE 12 - Employee Benefit Plans (continued)

Post-Retirement Benefits Other Than Pensions (continued)

Net post-retirement benefit cost for the year ended June 30, 2005 included the following components:

Amortization of Loss	\$	662,300
Service Cost		231,259
Interest Cost on Projected Benefit Obligations		<u>1,526,239</u>
Net Post-Retirement Benefit Cost	\$	<u>2,419,798</u>

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

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

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

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 of June 30, 2005, as follows:

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

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS June 30, 2005

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.

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

NOTE 15 - Protected Self-Insurance Program

The Archdiocese along with all parishes and various other Catholic entities operating within the boundaries of the Archdiocese under the direct fiscal operating control of the Archbishop, entered into a Protected Self-Insurance Program. Premiums and loss reserves are determined and claims are processed by a service agency on a contractual basis.

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

NOTE 16 - Contingencies

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

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

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS June 30, 2005

NOTE 17 - Financial Instruments

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

Cash, Cash Equivalents and Investments

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

Notes and Mortgage Notes Receivable

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

Charitable Gift Annuities

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

NOTE 18 - Concentrations

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

SUPPLEMENTAL INFORMATION

ARCHDIOCESE OF MILWAUKEE

COMBINING STATEMENT OF FINANCIAL POSITION June 30, 2005

ASSETS				
	Chancery	Cemeteries and Mausoleums	Eliminations	Total
CURRENT ASSETS				
Cash and cash equivalents	\$ -	\$ 9,025	\$ -	\$ 9,025
Short-term investments	3,384,258	-	-	3,384,258
Receivables:				
Accounts and notes	2,124,585	1,120,842	(94,500)	3,150,927
Contributions	822,334	-	-	822,334
Parish obligations	1,445,239	-	-	1,445,239
Mortgages receivable	114,475	-	-	114,475
Interest and dividends	669,892	-	(56,553)	613,339
Total receivables	5,176,525	1,120,842	(151,053)	6,146,314
Other assets	217,978	373,129	-	591,107
Total Current Assets	8,778,761	1,502,996	(151,053)	10,130,704
Ground burial and mausoleum crypt sites	-	9,531,774	-	9,531,774
Property and equipment, net	8,008,460	1,993,716	-	10,002,176
Assets designated for the future care of cemeteries and mausoleums, primarily cash and investments	-	54,280,850	(1,843,030)	52,437,820
INVESTMENTS AND OTHER ASSETS				
Long-term investments	12,728,559	17,234,849	-	29,963,408
Mortgages receivable	435,497	-	-	435,497
Other assets	257,689	-	-	257,689
Total Investments and Other Assets	13,421,745	17,234,849	-	30,656,594
TOTAL ASSETS	\$ 30,208,966	\$ 84,544,185	\$ (1,994,083)	\$ 112,759,068

ARCHDIOCESE OF MILWAUKEE

COMBINING STATEMENT OF FINANCIAL POSITION June 30, 2005

LIABILITIES AND NET ASSETS

	Chancery	Cemeteries and Mausoleums	Eliminations	Total
CURRENT LIABILITIES				
Checks issued in excess of bank balance	\$ 1,013,412	\$ -	\$ -	\$ 1,013,412
Current maturities of charitable gift annuities	119,163	-	-	119,163
Accounts payable	1,082,107	110,617	-	1,192,724
Mediation settlements, sexual abuse therapy, and victim assistance payable	803,458	-	-	803,458
Contributions payable	1,270,750	-	-	1,270,750
Accrued liabilities	383,301	123,290	(93,083)	413,508
Deferred revenue	118,971	-	-	118,971
Affiliate payable	163,474	-	-	163,474
Collections to be forwarded to other entities	1,611,949	-	-	1,611,949
Total Current Liabilities	6,566,585	233,907	(93,083)	6,707,409
Invested funds held for others	3,050,022	-	-	3,050,022
Interdiocesan loans	1,901,000	-	(1,901,000)	-
Charitable gift annuities	683,122	-	-	683,122
Accrued post-retirement and pension benefits	14,800,683	-	-	14,800,683
Deferred revenue	-	1,838,153	-	1,838,153
Total Liabilities	27,001,412	2,072,060	(1,994,083)	27,079,389
NET ASSETS (DEFICIT)				
Unrestricted				
Undesignated operating	(12,891,565)	30,034,305	-	17,142,740
Designated	10,082,345	52,437,820	-	62,520,165
Total unrestricted (deficit)	(2,809,220)	82,472,125	-	79,662,905
Temporarily restricted	2,300,408	-	-	2,300,408
Permanently restricted	3,716,366	-	-	3,716,366
Total Net Assets	3,207,554	82,472,125	-	85,679,679
 TOTAL LIABILITIES AND NET ASSETS	 \$ 30,208,966	 \$ 84,544,185	 \$ (1,994,083)	 \$ 112,759,068

ARCHDIOCESE OF MILWAUKEE

COMBINING STATEMENT OF ACTIVITIES Year ended June 30, 2005

	Chancery	Cemeteries and Mausoleums	Eliminations	Total
UNRESTRICTED NET ASSETS				
REVENUE, GAINS, AND OTHER SUPPORT				
Contributions	\$ 8,982,708	\$ -	\$ -	\$ 8,982,708
Parish assessments	5,548,637	-	-	5,548,637
Tuitions and fees	719,621	-	-	719,621
Various activities and special programs	667,183	-	(280,257)	386,926
Cemetery and mausoleum sales	-	5,125,047	-	5,125,047
Investment income	2,253,303	722,016	(44,079)	2,931,240
Net realized and unrealized gains/(losses)	(287,406)	2,919,958	-	2,632,552
Gain on sale of property and equipment	1,006,020	-	-	1,006,020
Miscellaneous revenues	1,917,683	32,313	-	1,949,996
Net assets released from restrictions	659,637	-	-	659,637
Total Revenue, Gains and Other Support	<u>21,467,386</u>	<u>8,799,334</u>	<u>(324,336)</u>	<u>29,942,384</u>
EXPENSES				
Payroll and fringe benefits	10,492,105	2,938,623	-	13,430,728
Repairs, maintenance, insurance, utility costs	781,812	1,004,637	-	1,786,449
Travel and education	245,043	69,758	-	314,801
Data processing	49,191	-	-	49,191
Bad debts	742,311	-	-	742,311
Supplies	1,252,004	115,495	(280,257)	1,087,242
Interest expense	1,357,643	-	(44,079)	1,313,564
Food service	646,225	-	-	646,225
Assessments	465,685	-	-	465,685
Cost of lot and crypt sales	-	1,054,430	-	1,054,430
Professional services	3,639,709	220,535	-	3,860,244
Scholarships and donations	2,654,012	-	-	2,654,012
Miscellaneous expenses	1,109,683	45,693	-	1,155,376
Depreciation	305,615	225,248	-	530,863
Total Expenses	<u>23,741,038</u>	<u>5,674,419</u>	<u>(324,336)</u>	<u>29,091,121</u>
CHANGE IN NET ASSETS	(2,273,652)	3,124,915	-	851,263
NET ASSETS - Beginning of Year (Restated)	<u>(535,568)</u>	<u>79,347,210</u>	<u>-</u>	<u>78,811,642</u>
NET ASSETS (DEFICIT) - END OF YEAR	<u>\$ (2,809,220)</u>	<u>\$ 82,472,125</u>	<u>\$ -</u>	<u>\$ 79,662,905</u>

ARCHDIOCESE OF MILWAUKEE

COMBINING STATEMENT OF ACTIVITIES
Year ended June 30, 2005

	Chancery	Cemeteries and Mausoleums	Eliminations	Total
TEMPORARILY RESTRICTED NET ASSETS				
REVENUE, GAINS, AND OTHER SUPPORT				
Contributions	\$ 204,712	\$ -	\$ -	\$ 204,712
Investment Income	93,504	-	-	93,504
Net assets released from restrictions	<u>(659,637)</u>	-	-	<u>(659,637)</u>
Total Revenue, Gains and Other Support	<u>(361,421)</u>	-	-	<u>(361,421)</u>
CHANGE IN NET ASSETS	(361,421)	-	-	(361,421)
NET ASSETS - Beginning of Year	<u>2,661,829</u>	-	-	<u>2,661,829</u>
NET ASSETS - END OF YEAR	<u>\$ 2,300,408</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,300,408</u>
 PERMANENTLY RESTRICTED NET ASSETS				
CHANGE IN NET ASSETS	\$ -	\$ -	\$ -	\$ -
NET ASSETS - Beginning of Year	<u>3,716,366</u>	-	-	<u>3,716,366</u>
NET ASSETS - END OF YEAR	<u>\$ 3,716,366</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,716,366</u>