

ARCHDIOCESE OF MILWAUKEE

Milwaukee, Wisconsin

FINANCIAL STATEMENTS

Including Independent Auditors' Report

June 30, 2004

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, 2004, 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, 2004, 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.

Virchow, Krause & Company, LLP

Milwaukee, Wisconsin
March 31, 2005

ARCHDIOCESE OF MILWAUKEE

STATEMENT OF FINANCIAL POSITION June 30, 2004

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 5,029,113
Short-term investments	259,186
Receivables:	
Accounts and notes	3,362,555
Contributions	1,098,393
Parish obligations	1,328,368
Mortgages receivable	82,067
Interest and dividends	<u>947,838</u>
Total receivables	6,819,221
Other assets	<u>776,247</u>
Total current assets	12,883,767
Ground burial and mausoleum crypt sites	10,138,986
Property and equipment, net	10,387,929
Parish Deposit Fund, investments	74,480,184
Assets designated for the future care of cemeteries and mausoleums, primarily cash and investments	50,308,276
INVESTMENTS AND OTHER ASSETS	
Long-term investments	6,093,483
Mortgages receivable	<u>1,151,886</u>
Total investments and other assets	<u>7,245,369</u>
TOTAL ASSETS	<u>\$ 165,444,511</u>

See accompanying notes to financial statements.

ARCHDIOCESE OF MILWAUKEE

STATEMENT OF FINANCIAL POSITION June 30, 2004

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Current maturities of long-term debt	\$ 98,678
Accounts payable	2,474,902
Mediation settlements, sexual abuse therapy, and victim assistance payable	4,600,000
Contributions payable	1,247,481
Accrued liabilities	640,612
Deferred revenue	106,449
Affiliate payable	166,115
Collections to be forwarded on to other entities	<u>1,468,662</u>
Total Current Liabilities	10,802,899
Parish Deposit Fund	56,637,509
Long-term debt	555,469
Accrued postretirement and pension benefits	12,957,347
Deferred revenue	<u>1,631,230</u>
Total Liabilities	<u>82,584,454</u>

NET ASSETS

Unrestricted	
Undesignated operating	18,300,833
Designated	<u>58,181,029</u>
Total unrestricted	76,481,862
Temporarily restricted	2,661,829
Permanently restricted	<u>3,716,366</u>
Total Net Assets	<u>82,860,057</u>

TOTAL LIABILITIES AND NET ASSETS \$ 165,444,511

See accompanying notes to financial statements.

ARCHDIOCESE OF MILWAUKEE

STATEMENT OF ACTIVITIES Year Ended June 30, 2004

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2004 Total</u>
REVENUE, GAINS, AND OTHER SUPPORT				
Contributions	\$ 10,273,683	\$ 72,433	\$ 1,000	\$ 10,347,116
Parish assessments	5,529,033	-	-	5,529,033
Tuitions and fees	542,162	-	-	542,162
Various activities and special programs	317,196	-	-	317,196
Cemetery and mausoleum sales	5,297,612	-	-	5,297,612
Investment income	3,046,007	118,954	-	3,164,961
Net realized and unrealized gains	6,151,047	-	-	6,151,047
Miscellaneous revenues	1,897,187	-	-	1,897,187
Net assets released from restrictions	<u>345,987</u>	<u>(345,987)</u>	<u>-</u>	<u>-</u>
Total Revenue, Gains and Other Support	<u>33,399,914</u>	<u>(154,600)</u>	<u>1,000</u>	<u>33,246,314</u>
EXPENSES				
Payroll and fringe benefits	14,101,524	-	-	14,101,524
Repairs, maintenance, insurance, utility costs	1,773,270	-	-	1,773,270
Travel and education	410,821	-	-	410,821
Data processing	39,422	-	-	39,422
Bad debts	126,869	-	-	126,869
Supplies	932,061	-	-	932,061
Interest expense	1,726,668	-	-	1,726,668
Food service	614,313	-	-	614,313
Assessments	455,850	-	-	455,850
Cost of lot and crypt sales	1,288,942	-	-	1,288,942
Professional services	7,456,904	-	-	7,456,904
Scholarships and donations	5,278,434	-	-	5,278,434
Miscellaneous expenses	1,046,057	-	-	1,046,057
Depreciation	<u>560,025</u>	<u>-</u>	<u>-</u>	<u>560,025</u>
Total Expenses	<u>35,811,160</u>	<u>-</u>	<u>-</u>	<u>35,811,160</u>
CHANGE IN NET ASSETS	(2,411,246)	(154,600)	1,000	(2,564,846)
NET ASSETS - Beginning of Year (Restated)	<u>78,893,108</u>	<u>2,816,429</u>	<u>3,715,366</u>	<u>85,424,903</u>
NET ASSETS - END OF YEAR	<u>\$ 76,481,862</u>	<u>\$ 2,661,829</u>	<u>\$ 3,716,366</u>	<u>\$ 82,860,057</u>

See accompanying notes to combined financial statements.

ARCHDIOCESE OF MILWAUKEE

STATEMENT OF CASH FLOWS Year Ended June 30, 2004

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in Net Assets	\$ (2,564,846)
Adjustments to reconcile change in net assets to net cash flows from operating activities	
Depreciation and amortization	560,025
Amortization of premiums and discounts	1,637,840
Bad debt provision	126,869
Net realized/unrealized gains	(6,151,047)
Proceeds from contributions restricted for investment in endowment	(1,000)
Gain on disposal of property and equipment	(1,965,852)
Changes in assets and liabilities	
Receivables and payables	4,866,978
Other assets	84,627
Ground burial and mausoleum crypt sites	449,085
Accrued liabilities	68,036
Deferred revenue	182,447
Accrued postretirement and pension benefits	<u>1,557,154</u>
Net Cash Flows from Operating Activities	<u>(1,149,684)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Net purchases of property and equipment	(102,010)
Proceeds from the sale of property and equipment	2,250,039
Net change in investments	3,190,024
Net change in mortgages receivable	77,795
Net change in collections to be forwarded on to other entities	104,721
Net change in parish deposit fund liability	<u>(2,092,424)</u>
Net Cash Flows from Investing Activities	<u>3,428,145</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Proceeds from contributions restricted for endowment	1,000
Payments on long-term debt	<u>(104,829)</u>
Net Cash Flows from Financing Activities	<u>(103,829)</u>
Net Change in Cash and Cash Equivalents	2,174,632
CASH AND CASH EQUIVALENTS - Beginning of Year	<u>2,854,481</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 5,029,113</u>
Supplemental cash flow disclosures	
Cash paid for interest	\$ 1,812,706

See accompanying notes to financial statements.

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS
June 30, 2004

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")
- Parish Deposit Fund
- 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 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, 2004

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 \$469,459 at June 30, 2004. Parish obligations are presented net of allowance for doubtful accounts of \$1,443,448 at June 30, 2004.

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, 2004, these policies have a combined face value of \$804,770. The cash surrender value of \$231,485 at June 30, 2004, is included in 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, 2004

NOTE 1 - Summary of Significant Accounting Policies (continued)

Net Assets

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

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

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

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

Board Designated Net Assets

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

Future Care of Cemeteries and Mausoleums

Since the Archdiocese has 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.

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, 2004 are:

Common Stocks	\$ 34,456,743
U.S. Government Bonds	7,208,110
Short-Term Investments	3,131,883
Commercial Bonds	5,446,208
Other	<u>65,332</u>
Total	<u>\$ 50,308,276</u>

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS June 30, 2004

NOTE 1 - Summary of Significant Accounting Policies (continued)

Board-Designated Net Assets (continued)

Other Specific Purposes

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

Chancery	
St. John's Burse (for deaf and hearing impaired ministry)	\$ 914,139
St. Anthony Hospital (for health care needs of the medically indigent)	563,437
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)	5,986,359
General operations and other	<u>408,818</u>
Total	<u>7,872,753</u>
 Total designated net assets	 <u>\$ 58,181,029</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.

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.

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS June 30, 2004

NOTE 1 - Summary of Significant Accounting Policies (continued)

Contributed Services

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

Contributed Facilities

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, 2004 was \$938,910.

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, the Archdiocese of Milwaukee financial statements included the Archdiocese of Milwaukee High Schools (Pius XI High School, Inc., Catholic Memorial High School, Inc., Thomas More High School, Inc., St. Mary's Springs High School, Inc., and St. Joseph High School, Inc.), St. Francis Seminary, Inc., St. Frances DeSales College, Inc. and DeSales Preparatory Seminary, Inc. These entities were removed from the financial statements to better reflect the activities of the Archdiocese of Milwaukee. Therefore, the net assets of these entities were removed from the net assets of the Archdiocese of Milwaukee. The effect of the change in combination policy was to decrease the change in net assets for the year ended June 30, 2004 by \$1,557,340.

Land, building, and equipment used by three of the high schools (St. Joseph High School, Inc., Pius XI High School, Inc., and Thomas More High School, Inc.) had been shown in the net assets of the Archdiocese of Milwaukee High Schools, but are titled in the name of the Archdiocese of Milwaukee. Therefore, the Archdiocese of Milwaukee's net assets have been increased to reflect the net book value of these assets. The effect of this change was to decrease the change in net assets for the year ended June 30, 2004 by \$30,600.

Expenses incurred or amounts paid by the Archdiocese of Milwaukee on behalf of the high schools in prior years had been shown as an inter-diocesan receivable from the high schools. The receivable and the corresponding payable on the high schools were eliminated as part of the combination process in previously issued combined financial statements. The likelihood of the high schools having the ability to repay these funds is remote, therefore, the receivables have been written off as if they were contributions to the high schools in prior years. The effect of this change was to decrease the change in net assets for the year ended June 30, 2004 by \$15,936.

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS June 30, 2004

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, 2003 as previously reported	\$ 99,868,317	\$ 11,005,519	\$ 8,983,298	\$ 119,857,134
Prior period adjustments:				
Archdiocese of Milwaukee High Schools - net assets	(3,218,689)	(3,386,244)	(5,267,932)	(11,872,865)
St. Francis Seminary, Inc. - net assets	(7,984,571)	(4,802,846)	-	(12,787,417)
DeSales Preparatory Seminary, Inc. - net assets	(2,211,943)	-	-	(2,211,943)
Archdiocese of Milwaukee High Schools- property and equipment	1,624,460	-	-	1,624,460
Archdiocese of Milwaukee High Schools- receivables	<u>(9,184,466)</u>	<u>-</u>	<u>-</u>	<u>(9,184,466)</u>
Net Assets June 30, 2003 (Restated)	<u>\$ 78,893,108</u>	<u>\$ 2,816,429</u>	<u>\$ 3,715,366</u>	<u>\$ 85,424,903</u>

NOTE 3 - Investments

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

U.S. Government Bonds	\$ 836,698
Common Stocks	2,808,859
Commercial Bonds	849,577
Certificates of Deposit	227,358
Other Investments	<u>1,630,177</u>
Total	6,352,669
Less: Short-Term Investments	<u>(259,186)</u>
 Long-Term Investments	 <u>\$ 6,093,483</u>

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

Net Realized Gains on Investments	\$ 6,703,807
Net Unrealized Losses on Investments	<u>(552,760)</u>
Total	<u>\$ 6,151,047</u>

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS June 30, 2004

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, 2004 is expected to be collected according to the following schedule:

Less Than One Year	\$ 1,113,993
Less: Allowance for doubtful accounts	<u>(15,600)</u>
Net Contributions Receivable	<u>\$ 1,098,393</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, 2004:

Mausoleum Crypts	\$ 7,354,706
Cemetery Land and Facilities Held for Burial Privileges	<u>2,784,280</u>
Total	<u>\$10,138,986</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.

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS June 30, 2004

NOTE 6 - Property and Equipment

Property and equipment are summarized as follows as of June 30, 2004:

Land	\$ 2,047,083
Land and building improvements	4,481,562
Buildings	10,433,520
Furniture and fixtures	1,592,369
Equipment	5,277,566
Vehicles	438,933
Future parish sites	<u>2,043,827</u>
Total Property and Equipment	26,314,860
Less: Accumulated depreciation	<u>(15,926,931)</u>
Net Property and Equipment	<u>\$ 10,387,929</u>

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

Included in property and equipment is 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 mortgage is non-recourse as to the Archdiocese.

NOTE 7 - Parish Deposit Fund

The Archdiocese serves as a fiduciary to a fund known as the Parish Deposit Fund (the "Fund"). Participation in the fund is elective and its purpose is 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 pays interest quarterly to its owners/depositors at a rate of 2.25% as of June 30, 2004 determined by the fiduciary based on current market conditions and the return on existing investments. The rules of the Fund require five-day written notice for withdrawals. No fees are charged by the Archdiocese for its fiduciary services. Monies owned by the Archdiocese in the amount of \$17,842,675 which it chooses to keep in the Fund are separately accounted for and documented.

The Fund is shown as a noncurrent asset in the statement of financial position. The fair values of investments by type as of June 30 are:

U.S. Government Bonds and Notes	\$ 59,239,949
Commercial Bonds	12,687,945
Short-Term Investments	<u>2,552,290</u>
Total	<u>\$ 74,480,184</u>

\$56,637,509 of the Fund's assets are payable to parishes and other Catholic organizations as of June 30, 2004. This amount is shown as a noncurrent liability in the statement of financial position.

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS June 30, 2004

NOTE 8 - Mortgages Receivable

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

6% note receivable, due August 1, 2014, interest and principal payments receivable monthly.	\$ 998,536
6% note receivable, principal due August 1, 2014 interest receivable monthly.	150,000
Noninterest bearing note receivable, receivable in equal annual payments through January 1, 2015.	<u>85,417</u>
Total	1,233,953
Less: Current Portion	<u>(82,067)</u>
Long-Term Portion	<u>\$ 1,151,886</u>

NOTE 9 - 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 \$4,600,000 as of June 30, 2004 to cover mediation settlements, sexual abuse therapy and victim assistance agreed under mediation. These expenses will be paid for by funds accumulated in the Properties and Building Fund. Mediation settlements, sexual abuse therapy and victim assistance expense of \$4,993,973 is included in professional services on the statement of activities.

NOTE 10 - Deferred Revenue

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

NOTE 11 - Long-Term Debt and Lines of Credit

Long-term debt consists of the following as of June 30:

Charitable Gift Annuities, 7.00%	\$ 654,147
Less: Current portion	<u>(98,678)</u>
Long-Term Portion	<u>\$ 555,469</u>

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS June 30, 2004

NOTE 11 - Long-Term Debt and Lines of Credit (continued)

Principal requirements on long-term debt for years ending after June 30, 2004 are as follows:

2005	\$	98,678
2006		92,222
2007		86,189
2008		80,550
2009		75,281
Thereafter		<u>221,227</u>
Total	\$	<u>654,147</u>

The Archdiocese maintained \$7,000,000 as of June 30, 2004 of unsecured lines of credit. Interest is payable monthly at prime or prime less .25%. Principal is due on demand. No borrowings were outstanding under these agreements at June 30, 2004.

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

NOTE 12 - 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 Seminary and the Schools have investments in the Parish Deposit Fund of the Archdiocese. 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, 2004 are:

	<u>Receivable</u>	<u>Parish Deposit Fund Payable</u>	<u>Interdiocesan Payable</u>
St. Francis Seminary	\$ -	\$ 467,136	\$ 166,115
Archdiocese of Milwaukee High Schools	<u>90,035</u>	<u>3,643,846</u>	<u>-</u>
	<u>\$ 90,035</u>	<u>\$ 4,110,982</u>	<u>\$ 166,115</u>

Affiliate interest income from the note receivable recognized by the Archdiocese from the Schools was \$9,616 for the year ended June 30, 2004. Affiliate interest (\$26,321) and contribution expenses (\$2,515,405) recognized by the Archdiocese was \$2,541,726 for the Seminary. Affiliate interest expense of \$129,472 was paid to the Schools for the year ended June 30, 2004.

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS
June 30, 2004

NOTE 13 - 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, 2004 was approximately \$560,000, 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, 2004 was approximately \$47,500 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.

During 2004 the actuarial reports were not available. As a result the Archdiocese was unable to report the information as of June 30, 2004. Management will record the liability when the information becomes available.

The information necessary to report net periodic pension cost for the plan for the year ended June 30, 2004 was not available.

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS June 30, 2004

NOTE 13 - Employee Benefit Plans (continued)

Cemetery and Mausoleum Employees' Union Pension Plan (continued)

Assumptions used in calculating pension expense were:

	<u>As of July 1, 2003</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	\$ (1,679,930)
Accumulated Benefit Obligation	\$ (1,692,689)
Projected Benefit Obligation	\$ (2,082,907)
Plan Assets at Fair Value, Comprised of a Deposit with an Insurance Company	851,902
Projected Benefit Obligation in Excess of Plan Assets	(1,231,005)
Unrecognized Net Loss	324,176
Unrecognized Prior Service Cost	105,284
Accrued Pension Liability	\$ (801,545)

Postretirement Benefits Other Than Pensions

The Archdiocese provides defined benefit postretirement 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 postretirement benefit obligation as of June 30, 2004, consisted of unfunded obligations related to the following:

Retirees	\$ 5,351,963
Fully Eligible Active Plan Participants	1,789,452
Other Active Plan Participants	5,014,387
Accrued Postretirement Liability	\$ 12,155,802

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS June 30, 2004

NOTE 13 - Employee Benefit Plans (continued)

Postretirement Benefits Other Than Pensions (continued)

Net postretirement benefit cost for the year ended June 30, 2004 included the following components:

Service Cost	\$	362,788
Interest Cost on Projected Benefit Obligations		<u>1,483,265</u>
Net Postretirement Benefit Cost	\$	<u>1,846,053</u>

The assumptions used to develop the net postretirement 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 postretirement 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 postretirement benefit obligation as of June 30, 2004 by \$3,588,688 and the combined service and interest components of the annual net postretirement health care cost for the year ended June 30, 2004 by \$338,935.

NOTE 14 - 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, 2004, as follows:

Chancery		
St. Anthony's Hospital (for health care needs of the medically indigent)	\$	94,419
Capital Campaign (for various capital and program needs)		218,807
Rapp Trust (for capital needs of St. Michael's Church in Mitchell, Wisconsin)		618,352
General Operations and Other		<u>1,730,251</u>
Total Temporarily Restricted Net Assets	\$	<u>2,661,829</u>

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS June 30, 2004

NOTE 15 - 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 16 - 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 17 - 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.

NOTE 18 - Financial Instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practical to estimate that value as of June 30, 2004:

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 and investments in the Parish Deposit Fund.

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS
June 30, 2004

NOTE 18 - Financial Instruments (continued)

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.

Long-Term Debt

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

Parish Deposit Fund Liability

The carrying amount approximates fair value because of the variable nature of the associated interest rate.

NOTE 19 - 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.