

**ARCHDIOCESE OF MILWAUKEE  
(DEBTOR IN POSSESSION)**  
Milwaukee, Wisconsin

**FINANCIAL STATEMENTS**

Including Independent Auditors' Report

As of and for the Years Ended June 30, 2012 and 2011

# ARCHDIOCESE OF MILWAUKEE (DEBTOR IN POSSESSION)

## TABLE OF CONTENTS As of and for the Years Ended June 30, 2012 and 2011

---

<b>Independent Auditors' Report</b>	1
<b>Financial Statements</b>	
Statements of Financial Position	2 - 3
Statements of Activities	4 - 5
Statements of Cash Flows	6
Notes to Financial Statements	7 - 29

## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of financial position of the Archdiocese of Milwaukee (Debtor in Possession) as of June 30, 2012 and 2011, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Archdiocese of Milwaukee (Debtor in Possession)'s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Archdiocese of Milwaukee (Debtor in Possession)'s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Archdiocese of Milwaukee (Debtor in Possession) as of June 30, 2012 and 2011, and the change in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Notes 1 and 2 to the financial statements, the Archdiocese of Milwaukee (Debtor in Possession) filed a petition for relief under Chapter 11 of the bankruptcy law. The Archdiocese of Milwaukee (Debtor in Possession) continues operations as a debtor in possession. Related to the petition, there are two cases pending between the Creditors Committee and Cemetery Trust regarding the treatment of the Cemetery Trust assets as part of the Archdiocese of Milwaukee (Debtor in Possession)'s estate. As discussed in Note 10 to the financial statements the Archdiocese of Milwaukee (Debtor in Possession) is a defendant in numerous lawsuits and abuse claims. At this stage of the Chapter 11 proceedings, it is not possible to predict the likely outcome or disposition of the above matters, or whether the magnitude may be material. The financial statements do not include any adjustments that might result from these uncertainties.

*Baker Tilly Virchow Krause, LLP*

Milwaukee, Wisconsin  
December 18, 2012

**Statements of Financial Position follow**

# ARCHDIOCESE OF MILWAUKEE (DEBTOR IN POSSESSION)

## STATEMENTS OF FINANCIAL POSITION As of June 30, 2012 and 2011

---

	<b>ASSETS</b>	<u>2012</u>	<u>2011</u>
<b>CURRENT ASSETS</b>			
Cash and cash equivalents		\$ 10,545,554	\$ 9,854,137
Short-term investments		1,400,624	4,522,555
Receivables		3,661,354	4,154,893
Other assets		<u>1,395,507</u>	<u>1,299,451</u>
Total Current Assets		17,003,039	19,831,036
Ground burial and mausoleum crypt sites		5,468,683	5,980,412
Property and equipment, net		5,112,461	4,978,194
Beneficial interest in Cemetery Perpetual Care Trust		56,127,527	57,715,013
 <b>INVESTMENTS AND OTHER ASSETS</b>			
Long-term investments		12,454,476	10,838,263
Invested funds held for others		2,614,306	2,542,814
Cemeteries pre-need trust fund account		3,811,031	3,553,324
Charitable gift annuities investments		647,255	703,016
Other assets		<u>1,076,717</u>	<u>1,118,457</u>
Total Investments and Other Assets		<u>20,603,785</u>	<u>18,755,874</u>
 <b>TOTAL ASSETS</b>		<u>\$ 104,315,495</u>	<u>\$107,260,529</u>

---

**LIABILITIES AND NET ASSETS**

	<u>2012</u>	<u>2011</u>
<b>CURRENT LIABILITIES</b>		
Current maturities of charitable gift annuities	\$ 77,450	\$ 84,328
Accounts payable	2,700,542	2,269,381
Contributions payable	2,557,224	2,557,224
Collections to be forwarded to other entities	<u>1,020,161</u>	<u>1,042,143</u>
Total Current Liabilities	6,355,377	5,953,076
Invested funds held for others	2,614,306	2,542,814
Charitable gift annuities	413,295	457,089
Deferred revenue	3,811,031	3,553,324
<b>PRE-PETITION LIABILITIES</b>		
Note payable	4,649,913	4,649,913
Pre-Chapter 11 payables	701,699	1,208,748
Contractual contributions payable	3,378,537	2,850,554
Accrued post-retirement and pension benefits	<u>18,938,606</u>	<u>15,124,294</u>
Total Pre-Petition Liabilities	<u>27,668,755</u>	<u>23,833,509</u>
Total Liabilities	<u>40,862,764</u>	<u>36,339,812</u>
<b>NET ASSETS</b>		
Unrestricted		
Undesignated operating (deficit)	(10,424,785)	(4,392,342)
Designated	5,097,567	5,961,166
Limited to perpetual care of cemeteries	<u>56,127,527</u>	<u>57,715,013</u>
Total Unrestricted Net Assets	50,800,309	59,283,837
Temporarily restricted	8,936,056	7,920,514
Permanently restricted	<u>3,716,366</u>	<u>3,716,366</u>
Total Net Assets	<u>63,452,731</u>	<u>70,920,717</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 104,315,495</u>	<u>\$107,260,529</u>

See accompanying notes to financial statements.

**Statements of Activities follow**

# ARCHDIOCESE OF MILWAUKEE (DEBTOR IN POSSESSION)

## STATEMENTS OF ACTIVITIES For the Years Ended June 30, 2012 and 2011

	2012			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<b>OPERATING REVENUE, GAINS, AND OTHER SUPPORT</b>				
Contributions	\$ 1,155,249	\$ 8,821,729	\$ -	\$ 9,976,978
Parish assessments	6,700,963	-	-	6,700,963
Tuition and program fees	725,598	-	-	725,598
Cemetery and mausoleum sales	4,446,110	-	-	4,446,110
Investment income	2,476,225	70,740	-	2,546,965
Miscellaneous revenues	803,159	-	-	803,159
Net assets released from restrictions	<u>7,876,927</u>	<u>(7,876,927)</u>	-	-
Total Revenue, Gains, and Other Support	<u>24,184,231</u>	<u>1,015,542</u>	-	<u>25,199,773</u>
<b>OPERATING EXPENSES</b>				
Payroll and benefits	10,838,231	-	-	10,838,231
Facility and operating costs	2,231,016	-	-	2,231,016
Travel and education	390,327	-	-	390,327
Bad debts	206,662	-	-	206,662
Supplies	928,414	-	-	928,414
Assessments	275,606	-	-	275,606
Cost of lot and crypt sales	941,902	-	-	941,902
Professional services	1,840,090	-	-	1,840,090
Grants and donations	3,203,303	-	-	3,203,303
Other expenses	1,325,621	-	-	1,325,621
Depreciation	<u>489,861</u>	-	-	<u>489,861</u>
Total Operating Expenses	<u>22,671,033</u>	-	-	<u>22,671,033</u>
Operating Income (Loss)	<u>1,513,198</u>	<u>1,015,542</u>	-	<u>2,528,740</u>
<b>NON-OPERATING ACTIVITIES</b>				
Net realized and unrealized gains	464,135	-	-	464,135
Gain on sale of property and equipment	-	-	-	-
Pension related changes other than net periodic pension cost	(2,958,502)	-	-	(2,958,502)
Change in beneficial interest in trust	<u>(1,577,086)</u>	-	-	<u>(1,577,086)</u>
Total Non-Operating Activities	<u>(4,071,453)</u>	-	-	<u>(4,071,453)</u>
<b>REORGANIZATION ACTIVITIES</b>				
Reorganization support	-	-	-	-
Net assets released from reorganization restriction	-	-	-	-
Reorganization expenses	<u>(5,925,273)</u>	-	-	<u>(5,925,273)</u>
Net Reorganization Activities	<u>(5,925,273)</u>	-	-	<u>(5,925,273)</u>
<b>CHANGE IN NET ASSETS</b>	<b>(8,483,528)</b>	<b>1,015,542</b>	<b>-</b>	<b>(7,467,986)</b>
NET ASSETS - Beginning of Year	<u>59,283,837</u>	<u>7,920,514</u>	<u>3,716,366</u>	<u>70,920,717</u>
<b>NET ASSETS - END OF YEAR</b>	<b><u>\$ 50,800,309</u></b>	<b><u>\$ 8,936,056</u></b>	<b><u>\$ 3,716,366</u></b>	<b><u>\$ 63,452,731</u></b>



2011			
<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
\$ 2,770,550	\$ 5,806,395	\$ -	\$ 8,576,945
6,435,693	-	-	6,435,693
573,260	-	-	573,260
4,259,382	-	-	4,259,382
2,480,166	86,107	-	2,566,273
997,476	-	-	997,476
586,316	(586,316)	-	-
<u>18,102,843</u>	<u>5,306,186</u>	<u>-</u>	<u>23,409,029</u>
10,811,347	-	-	10,811,347
2,276,473	-	-	2,276,473
326,489	-	-	326,489
77,586	-	-	77,586
954,800	-	-	954,800
325,332	-	-	325,332
926,629	-	-	926,629
2,426,769	-	-	2,426,769
3,470,376	-	-	3,470,376
1,446,398	-	-	1,446,398
527,847	-	-	527,847
<u>23,570,046</u>	<u>-</u>	<u>-</u>	<u>23,570,046</u>
<u>(5,467,203)</u>	<u>5,306,186</u>	<u>-</u>	<u>(161,017)</u>
225,533	-	-	225,533
7,000	-	-	7,000
529,379	-	-	529,379
8,960,805	-	-	8,960,805
<u>9,722,717</u>	<u>-</u>	<u>-</u>	<u>9,722,717</u>
-	2,000	-	2,000
2,000	(2,000)	-	-
<u>(1,761,653)</u>	<u>-</u>	<u>-</u>	<u>(1,761,653)</u>
<u>(1,759,653)</u>	<u>-</u>	<u>-</u>	<u>(1,759,653)</u>
2,495,861	5,306,186	-	7,802,047
<u>56,787,976</u>	<u>2,614,328</u>	<u>3,716,366</u>	<u>63,118,670</u>
<u>\$ 59,283,837</u>	<u>\$ 7,920,514</u>	<u>\$ 3,716,366</u>	<u>\$ 70,920,717</u>

See accompanying notes to financial statements.

# ARCHDIOCESE OF MILWAUKEE (DEBTOR IN POSSESSION)

## STATEMENTS OF CASH FLOWS As of and for the Years Ended June 30, 2012 and 2011

	2012	2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ (7,467,986)	\$ 7,802,047
Adjustments to reconcile total non-operating activities to net cash flows from operating activities:		
Depreciation and amortization	489,861	527,847
Reversal of discount on contributions payable	527,983	-
Change in mediation payable estimate	(300,000)	-
Net realized/unrealized gains	(464,135)	(225,533)
Gain on sale or disposal of property and equipment	-	(7,000)
Change in beneficial interest in Cemetery Perpetual Care Trust	1,577,086	(8,960,805)
Change in charitable gift annuities	(50,672)	(39,351)
Changes in assets and liabilities:		
Receivables and payables	673,008	875,562
Prepaid expenses	-	(639,726)
Other assets	(95,604)	492,012
Ground burial and mausoleum crypt sites	511,729	-
Deferred revenue	257,707	256,782
Accrued postretirement and pension benefits	3,814,312	261,339
Net Cash Flows from Operating Activities	(526,711)	343,174
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Payments received on note receivable	30,798	29,685
Purchases of property and equipment	(567,137)	(376,730)
Proceeds from the sale of property and equipment	-	7,000
Proceeds from sale of investments	6,565,591	8,772,580
Purchase of investments	(4,869,176)	(4,863,286)
Payments received on mortgages receivable	8,542	8,542
Net change in collections to be forwarded on to other entities	(21,982)	(60,890)
Net change in invested funds held for others	71,492	(438,787)
Net Cash Flows from Investing Activities	1,218,128	3,078,114
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments on note payable	-	(87)
<b>Net Change in Cash and Cash Equivalents</b>	691,417	3,421,201
CASH AND CASH EQUIVALENTS - Beginning of Year	9,854,137	6,432,936
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	\$ 10,545,554	\$ 9,854,137
<b>Supplemental cash flow disclosures</b>		
Cash paid for interest	\$ 248,189	\$ 247,761
Cash paid for reorganization activities	4,380,852	1,694,404
<b>Noncash investing and financing activities</b>		
Purchase of property included in accounts payable	56,991	83,601

See accompanying notes to financial statements.

# ARCHDIOCESE OF MILWAUKEE (DEBTOR IN POSSESSION)

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2012 and 2011

---

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

---

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

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

---

### **NOTE 2 - Summary of Significant Accounting Policies**

---

#### *Nature of Activities*

The Archdiocese is a not-for-profit Wisconsin corporation, without capital stock. The Archdiocese provides ministerial support and services to parishes and other Catholic entities within a ten-county region of Southeast Wisconsin. The Archdiocese has a Board of Directors which oversees all ordinary administration. The Archbishop of Milwaukee serves as the canonical administrator of the Archdiocese. The Archdiocese is exempt from income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code. 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 and, accordingly, are included in the financial statements:

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

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

#### *Basis of Accounting*

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

# ARCHDIOCESE OF MILWAUKEE (DEBTOR IN POSSESSION)

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2012 and 2011

---

### NOTE 2 - Summary of Significant Accounting Policies (cont.)

---

#### *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 upon quoted market prices, when available, or estimates of fair value. Donated assets are recorded at fair value at the date of donation or, if sold immediately after receipt, at the amount of sales proceeds received (which are considered a fair measure of the value at the date of donation). Those investments for which fair value is not readily determinable are carried at cost or, if donated, at fair value at the date of donation, or if no value can be estimated, at a nominal value. The Archdiocese records the change of ownership of bonds and stocks on the day a trade is made. Investment income or loss and unrealized gains or losses are included in the statements of activities as increases or decreases in unrestricted net assets unless the income or loss is restricted by donor or law.

#### *Receivables*

The Archdiocese uses the allowance method to account for uncollectible accounts receivable. The allowance is based on historic collection experience and a review of the current status of receivables. Bad debts are credited against the allowance when deemed uncollectible. Notes receivable arising from the sale of mausoleum crypts are typically collectible in monthly installments, including interest, over four years. Receivables are presented net of allowance for doubtful accounts of \$3,022,855 and \$2,816,193 at June 30, 2012 and 2011, respectively. Net receivables as of June 30 consist of:

	<u>2012</u>	<u>2011</u>
Accounts and notes	\$ 2,180,768	\$ 2,031,302
Fixed income settlements	88,246	503,603
Current portion of note receivable	32,746	30,798
Contributions	339,202	441,284
Parish obligations	897,763	1,023,133
Mortgages	8,542	8,542
Interest and dividends	<u>114,087</u>	<u>116,231</u>
Total Accounts Receivable	<u>\$ 3,661,354</u>	<u>\$ 4,154,893</u>

#### *Life Insurance Contributions*

Donors have contributed multiple life insurance policies on their lives to the Archdiocese. The cash surrender value of \$293,013 and \$293,465 at June 30, 2012 and 2011, respectively, is included in long-term other assets on the statements of financial position.

Miscellaneous revenue has been recorded for the cash surrender value of these policies.

# ARCHDIOCESE OF MILWAUKEE (DEBTOR IN POSSESSION)

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2012 and 2011

---

### **NOTE 2 - Summary of Significant Accounting Policies (cont.)**

---

#### *Property and Equipment*

Acquisitions of property and equipment in excess of \$1,000 and expenditure for improvements and betterments that materially prolong the useful lives of assets are capitalized.

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

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

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

The Archdiocese follows current authoritative guidance for accounting for conditional asset retirement obligations. The guidance refers to a legal obligation to perform an asset retirement activity even if the timing and/or settlement is conditional on a future event that may or may not be within the control of an organization. Accordingly, if the Archdiocese has sufficient information to reasonably estimate the fair value of an obligation in connection with an asset retirement, it is required to recognize a liability at the time the liability is incurred. Since the Archdiocese is not aware of any material required remediation that would result in an asset retirement obligation, the Archdiocese has not recorded an asset retirement obligation.

#### *Impairment of Long-Lived Assets*

The Archdiocese reviews long-lived assets, including property and equipment and intangible assets, for impairment whenever events or changes in business circumstances indicate that the carrying amount of an asset may not be fully recoverable. An impairment loss would be recognized when the estimated future cash flows from the use of the asset are less than the carrying amount of that asset. There have been no such losses during the years ended June 30, 2012 and 2011.

## ARCHDIOCESE OF MILWAUKEE (DEBTOR IN POSSESSION)

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended June 30, 2012 and 2011

### **NOTE 2 - Summary of Significant Accounting Policies (cont.)**

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

The Archdiocese operates cemeteries which assist in caring for the faithful departed by performing an ancient corporal work of mercy – providing and maintaining appropriate facilities for burial of the dead. On April 2, 2007, the Archdiocese of Milwaukee Catholic Cemetery Perpetual Care Trust (the "Cemetery Trust") was created to formalize the trust relationship with respect to funds (the "Perpetual Care Funds") which were held under a fiduciary responsibility to adequately provide for the future care of mausoleums, crypts, and gravesites. In March 2008, all assets relating to the future care of cemeteries and mausoleums were moved to a separate investment account controlled by the Cemetery Trust. A beneficial interest in the Cemetery Perpetual Care Trust valued at the value of the trust's assets appears on the statements of financial position in accordance with suggested accounting protocols. The trust's assets consist primarily of cash and investments. The Cemetery Trust can and historically has made distributions to the Archdiocese of Milwaukee (Debtor-in-Possession) as reimbursement for costs incurred by the Archdiocese for providing services for the purpose of care and maintenance of cemeteries. The Cemetery Trust is a distinct legal entity whose assets are legally restricted to the purposes of the Cemetery Trust. The Archdiocese of Milwaukee (Debtor-in-Possession) disclaims control of the Cemetery Trust or a right to receive assets for any purpose other than for the care and maintenance of cemetery properties.

On June 28, 2011, the Cemetery Trust commenced an adversary proceeding against the Official Committee of Unsecured Creditors in the Archdiocese's pending Chapter 11 bankruptcy proceeding seeking an order declaring that the Cemetery Trust is not property of the Archdiocese's estate, and declaring that the Perpetual Care Funds are not property of the Archdiocese's estate. On September 13, 2011, the Official Committee of Unsecured Creditors (the "Committee") filed a counterclaim in the adversary proceeding commenced by the Cemetery Trust. The Committee seeks an order declaring that the Cemetery Trust is not a valid trust, and a determination that the transfer of Perpetual Care Funds to the Cemetery Trust is an avoidable transfer under federal bankruptcy law and Wisconsin law. The Cemetery Trust intends to vigorously defend against the Committee's counterclaims.

#### *Accounts Payable*

Accounts payable as of June 30 consist of:

	2012	2011
Accounts payable	\$ 2,161,914	\$ 1,096,289
Accrued liabilities	383,873	534,780
Deferred revenue	6,008	5,709
Fixed income settlements	93,747	503,603
Mediation and litigation settlements, sexual abuse therapy, and victim assistance payable - bankruptcy court approved	55,000	129,000
Total Accounts Payable	\$ 2,700,542	\$ 2,269,381

# ARCHDIOCESE OF MILWAUKEE (DEBTOR IN POSSESSION)

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2012 and 2011

---

### **NOTE 2 - Summary of Significant Accounting Policies (cont.)**

---

#### *Contributions Payable*

Contributions payable represent unconditional promises to give to be paid by the Archdiocese in subsequent fiscal years. In 2007, the Archdiocese entered into an agreement to pay a contribution over an extended period of 15 years. The long-term portion of this contribution was previously discounted at 6% to its net present value, following accounting protocols. The full (undiscounted) amount of the unpaid contribution has been entered as a creditor claim for \$3,378,537 and the discount of \$527,983, which was previously associated with future payments has been reversed resulting in a change which is included in Reorganization expenses on the statements of activities.

Total contributions payable consists of contributions payable (current liabilities) of \$2,557,224 as of June 30, 2012 and 2011 and contractual contributions payable (pre-petition liabilities) of \$3,378,537 and \$2,850,554 as reported on the statements of financial position as of June 30, 2012 and 2011, respectively.

#### *Collections to be Forwarded to Other Entities*

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

#### *Invested Funds Held for Others*

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

	<u>2012</u>	<u>2011</u>
Priests' Continuing Formation Program	\$ 2,143,576	\$ 2,083,037
Other	<u>470,730</u>	<u>459,777</u>
Total	<u>\$ 2,614,306</u>	<u>\$ 2,542,814</u>

## ARCHDIOCESE OF MILWAUKEE (DEBTOR IN POSSESSION)

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended June 30, 2012 and 2011

### **NOTE 2 - Summary of Significant Accounting Policies (cont.)**

*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** - 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. Such restrictions can neither expire with the passage of time nor be removed by fulfillment of a stipulated purpose. 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:

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:

	2012	2011
St. John's Burse (for deaf and hearing impaired ministry)	\$ 508,038	\$ 522,773
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)	3,972,137	4,351,427
Set aside for future Mt. Olivet mausoleum construction costs	227,075	675,611
General operations and other	390,317	411,355
 Total Designated Net Assets	 \$ 5,097,567	 \$ 5,961,166



# ARCHDIOCESE OF MILWAUKEE (DEBTOR IN POSSESSION)

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended June 30, 2012 and 2011

---

## NOTE 2 - Summary of Significant Accounting Policies (cont.)

---

### *Board Designated Net Assets (cont.)*

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.

	<u>2012</u>	<u>2011</u>
Limited to perpetual care of cemeteries	<u>\$ 56,127,527</u>	<u>\$ 57,715,013</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 statements of activities as net assets released from restrictions.

### *Cemetery and Mausoleum Sales*

The Archdiocese records revenue on sales of cemetery plots and mausoleum crypts at the date of sale as it has no legal obligation, beyond a short rescission period, to refund any such sale. As such, no reserve for sale returns has been established. As a matter of policy, the Archdiocese has refunded sales under certain circumstances at amounts equal to or less than the original sales price, which units are then returned to inventory. This policy is subject to amendment at any time. The Archdiocese also allows customers to purchase cemetery plots and mausoleum crypts through the installment method in which customers are given four years to pay. Revenue from these sales is recognized immediately as there is little uncertainty as to the collectibility of the balance of the purchase price. There is a fiduciary obligation which exists to hold certain of the funds collected for perpetual care. As of March 2008, the funds which must be held for the perpetual care of the cemeteries were deposited into the Cemetery Trust.

### *Contributed Services*

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

### *Leased Facilities*

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

## ARCHDIOCESE OF MILWAUKEE (DEBTOR IN POSSESSION)

### NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2012 and 2011

---

#### **NOTE 2 - Summary of Significant Accounting Policies (cont.)**

---

##### *Fundraising Costs*

Fundraising costs consisting primarily of payroll, fringe benefits, supplies, and professional services for fiscal years ended June 30, 2012 and 2011 were \$1,079,812 and \$1,075,436, respectively.

##### *Reclassifications*

For comparability, certain 2011 amounts have been reclassified to conform with classifications adopted in 2012. 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.

---

#### **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 minimizes the use of unobservable inputs. Based on the observation of the inputs used in the valuation methods, the Archdiocese is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Assets and liabilities measured, reported, and/or disclosed at fair value will be classified and disclosed in one of the following three categories:

Level 1 - Quoted market prices in active markets for identical assets or liabilities.

Level 2 - Observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3 - Unobservable inputs that are not corroborated by market data.

## ARCHDIOCESE OF MILWAUKEE (DEBTOR IN POSSESSION)

### NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2012 and 2011

#### **NOTE 3 - Fair Value of Financial Instruments (cont.)**

The table below presents the balances of assets measured at fair value on a recurring basis by level within the hierarchy.

	June 30, 2012			
	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Money market funds	\$ -	\$ 1,073,353	\$ -	\$ 1,073,353
US Government bonds	-	7,876,788	-	7,876,788
Commercial bonds	-	3,648,112	-	3,648,112
US Government agency securities	-	3,336,139	-	3,336,139
Other investments	-	-	1,542,202	1,542,202
Beneficial interest in Cemetery Perpetual Care Trust	-	-	56,127,527	56,127,527
<b>Total Assets</b>	<b>\$ -</b>	<b>\$ 15,934,392</b>	<b>\$ 57,669,729</b>	<b>\$ 73,604,121</b>
	June 30, 2011			
	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Money market funds	\$ -	\$ 813,755	\$ -	\$ 813,755
US Government bonds	-	8,002,846	-	8,002,846
Commercial bonds	-	3,316,078	-	3,316,078
US Government agency securities	-	3,197,458	-	3,197,458
Other investments	-	-	1,554,499	1,554,499
Beneficial interest in Cemetery in Perpetual Care Trust	-	-	57,715,013	57,715,013
<b>Total Assets</b>	<b>\$ -</b>	<b>\$ 15,330,137</b>	<b>\$ 59,269,512</b>	<b>\$ 74,599,649</b>

Money market funds are classified as Level 2 as they are not traded in an active market.

The Archdiocese classifies investments in bonds and US Government agency securities as Level 2 items as they are not publicly traded in active markets. The bonds are invested in US Government, corporate, and foreign issues.

The Archdiocese classifies other investments which are held at the Archdiocese of Milwaukee Catholic Community Foundation, Inc. ("CCF") as Level 3. It is not possible to determine a daily value of the Archdiocese's portion of the commingled investment portfolio. The portfolio is divided among a group of investment managers to achieve diversification. CCF's policy requires a written distribution request to be submitted at least 60 days prior to the required distribution date. If a request is for more than 50% of the account balance at the time of the request, CCF reserves the right to defer payment of the amount for up to six months after receipt of the written distribution request.

The Archdiocese classifies the beneficial interest in the Cemetery Perpetual Care Trust as Level 3. It is valued based on the value of the underlying assets held by the trust.

## ARCHDIOCESE OF MILWAUKEE (DEBTOR IN POSSESSION)

### NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2012 and 2011

#### **NOTE 3 - Fair Value of Financial Instruments (cont.)**

The changes in Level 3 assets measured at fair value on a recurring basis are summarized as follows:

	Other Investments	Beneficial Interest in Cemetery Perpetual Care Trust	Total
Balance, June 30, 2011	\$ 1,554,499	\$ 57,715,013	\$ 59,269,512
Deposits	-	291,685	291,685
Withdrawals	(12,780)	(1,950,000)	(1,962,780)
Investment Income	483	70,829	71,312
Balance, June 30, 2012	\$ 1,542,202	\$ 56,127,527	\$ 57,669,729

	Other Investments	Beneficial Interest in Cemetery Perpetual Care Trust	Total
Balance, June 30, 2010	\$ 1,324,806	\$ 48,740,865	\$ 50,065,671
Deposits	-	268,474	268,474
Withdrawals	(61,596)	(1,950,000)	(2,011,596)
Investment Income	291,289	10,655,674	10,946,963
Balance, June 30, 2011	\$ 1,554,499	\$ 57,715,013	\$ 59,269,512

#### **NOTE 4 - Investments**

Investments by type, as of June 30 are:

	2012	2011
Cash	\$ 3,451,098	\$ 5,275,336
Money market funds	1,073,353	813,755
US Government bonds	7,876,788	8,002,846
Commercial bonds	3,648,112	3,316,078
US Government agency securities	3,336,139	3,197,458
Other investments	1,542,202	1,554,499
Total	\$ 20,927,692	\$ 22,159,972

# ARCHDIOCESE OF MILWAUKEE (DEBTOR IN POSSESSION)

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2012 and 2011

---

### NOTE 4 - Investments (cont.)

---

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

	<u>2012</u>	<u>2011</u>
Short-term investments	\$ 1,400,624	\$ 4,522,555
Long-term investments	12,454,476	10,838,263
Invested funds held for others	2,614,306	2,542,814
Prepaid burials and deposits	3,811,031	3,553,324
Charitable gift annuities investments	<u>647,255</u>	<u>703,016</u>
Total	<u>\$ 20,927,692</u>	<u>\$ 22,159,972</u>

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

	<u>2012</u>	<u>2011</u>
Net realized gains on investments	\$ 291,081	\$ 134,647
Net unrealized gains on investments	<u>173,054</u>	<u>90,886</u>
Total	<u>\$ 464,135</u>	<u>\$ 225,533</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.

---

### 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>2012</u>	<u>2011</u>
Less than one year	\$ 429,202	\$ 499,284
Less: Allowance for doubtful accounts	<u>(90,000)</u>	<u>(58,000)</u>
Net Contributions Receivable	<u>\$ 339,202</u>	<u>\$ 441,284</u>

## ARCHDIOCESE OF MILWAUKEE (DEBTOR IN POSSESSION)

### NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2012 and 2011

#### **NOTE 6 - Ground Burial and Mausoleum Crypt Sites**

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

	2012	2011
Mausoleum crypts	\$ 2,667,624	\$ 3,172,793
Cemetery land and facilities held for burial privileges	2,801,059	2,807,619
Total	\$ 5,468,683	\$ 5,980,412

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 recorded as expense upon sale.

#### **NOTE 7 - Property and Equipment**

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

	2012	2011
Land	\$ 1,247,626	\$ 1,247,626
Land improvements	1,473,013	1,473,808
Construction in progress	736,864	219,232
Buildings	9,173,678	9,200,357
Furniture and fixtures	54,313	123,535
Equipment	1,272,015	1,387,175
Vehicles	774,574	774,503
Future parish sites	358,629	358,629
Total	15,090,712	14,784,865
Less: Accumulated depreciation	(9,978,251)	(9,806,671)
Net Property and Equipment	\$ 5,112,461	\$ 4,978,194

Property and equipment includes certain land, buildings, and equipment (other than leasehold improvements and equipment owned directly by the tenants) being used by St. Joseph High School, Inc.; Pius XI High School, Inc.; and St. Thomas More High School, Inc. The Archdiocese and the high schools have entered into lease agreements for a term ending in 2043 with a renewal option for 15 years. The property and equipment being used by Pius XI High School, Inc. is subject to a mortgage entered into by Pius XI High School, Inc. for up to \$6,800,000. The land and property being used by St. Thomas More High School, Inc. is subject to a mortgage entered into by St. Thomas More High School, Inc. for up to \$1,100,000 and a line of credit up to \$1,000,000. The mortgages and line of credit are non-recourse as to the Archdiocese. The Archdiocese and St. Charles Youth and Family Services Inc. have entered into a lease ending in 2017 with renewal options for 10 years for part of the property utilized by St. Charles in its ministry.

## ARCHDIOCESE OF MILWAUKEE (DEBTOR IN POSSESSION)

### NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2012 and 2011

---

#### **NOTE 8 - Business Note**

---

At June 30, 2012, the Archdiocese was indebted to Park Bank for \$4,649,913. Interest is payable monthly at 5.25%. The note matures on December 31, 2012, and is secured pursuant to a Business Note dated June 30, 2010, as amended, by a mortgage on the Archbishop Cousins Catholic Center (pursuant to a guaranty by DeSales Preparatory Seminary, Inc., which is the owner of the property) and the St. Charles Youth and Family Services, Inc. property. Interest expense was \$248,189 and \$247,761 for the years ended June 30, 2012 and 2011, respectively. \$4,649,913 was outstanding on the note at June 30, 2012 and 2011, respectively.

---

#### **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 accrued \$279,000 and \$820,000 as of June 30, 2012 and 2011, respectively, to cover mediation and litigation settlements, sexual abuse therapy, and victim assistance agreed to under mediation. The accrual is included in accounts payable and Pre-Petition liabilities on the statements of financial position. Payments of \$343,417 and \$545,374 for mediation and litigation settlements, sexual abuse therapy, and victim assistance were made during the years ended June 30, 2012 and 2011, respectively.

---

#### **NOTE 10 - Pending Litigation**

---

The Archdiocese currently is a defendant in twelve lawsuits alleging personal injuries. At the time of the filing of Chapter 11 proceedings, all of the cases were on appeal for a determination of whether the Archdiocese has insurance coverage for the claims asserted in the lawsuits. These cases are now stayed because of the Chapter 11 filing of the Archdiocese. In addition, abuse claims have been filed against the Archdiocese pursuant to the Order Approving Debtor's Motion for Order Establishing Deadlines for Filing Proofs of Claim and Approving Form and Manner of Notice Thereof (the "Bar Date Order"), which required that any abuse survivor who desired to file a claim do so by February 1, 2012. As of June 30, 2012, approximately 575 abuse claims had been filed against the Archdiocese. At this stage of the Chapter 11 proceedings, it is not possible to predict the likely outcome or disposition of the claims, or whether the magnitude may be material, as the outcome or disposition is subject to a claims allowance or disallowance process under the Federal Rules of Bankruptcy Procedure. Management has not accrued any additional expense for the claims which may be allowed, all of which will be subject to discharge or adjustment under a Plan of Reorganization in the Chapter 11 proceeding.

---

#### **NOTE 11 - Deferred Revenue**

---

The Archdiocese has both short term and long term deferred revenue. Deferred revenue primarily includes unearned income relating to burial fees which are to be recognized as revenue as the services are performed. Pre need payments are treated as trust funds and handled in compliance with Wisconsin Statutes Chapter 157 which states that pre need trust funds may not be withdrawn until the obligations under the pre need sales contract have been fulfilled.

## ARCHDIOCESE OF MILWAUKEE (DEBTOR IN POSSESSION)

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended June 30, 2012 and 2011

### NOTE 12 - Charitable Gift Annuities

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

	<u>2012</u>	<u>2011</u>
Charitable gift annuities, 7.00%.	\$ 490,745	\$ 541,417
Less: Current portion	<u>(77,450)</u>	<u>(84,328)</u>
Long-Term Portion	<u>\$ 413,295</u>	<u>\$ 457,089</u>

Principal requirements on charitable gift annuities for years ending after June 30, 2012 are as follows:

2013	\$ 77,450
2014	72,383
2015	67,648
2016	63,222
2017	59,086
Thereafter	<u>150,956</u>
Total	<u>\$ 490,745</u>

### NOTE 13 - Intradiocesan

St. Francis de Sales Seminary, Inc. (the "Seminary") is a freestanding, separate legal entity. The Seminary has a Board of Trustees overseeing governance and administration. The Archdiocese contributes a Catholic Stewardship Appeal grant to the Seminary to fulfill one of the appeal solicitation purposes, and is paid by the Seminary for certain administrative services under a contract. The grant was \$1,350,000 for each of the years ending June 30, 2012 and 2011. The contribution payable was \$1,350,000 at June 30, 2012 and 2011.

In 2010, the Archdiocese of Milwaukee (Debtor-in-Possession) converted an intradiocesan receivable to a intradiocesan note receivable. The long-term portion of this note receivable has been discounted at 3.75% to its net present value and is included in other long-term assets on the statements of financial position. The amount receivable is as follows for the years ended June 30 net of the discount of \$279,094:

2013	\$ 32,746
2014	31,469
2015	32,669
2016	33,916
2017	35,209
Thereafter	<u>641,900</u>
Total	<u>\$ 807,909</u>

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



# ARCHDIOCESE OF MILWAUKEE (DEBTOR IN POSSESSION)

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2012 and 2011

### **NOTE 14 - Employee Benefit Plans**

The Archdiocese has several pension plans covering substantially all employees. The plans also cover certain individuals employed by Catholic corporations and activities which are located within the boundaries of the Archdiocese, but are not included among the entities that are under the fiscal management of the Archdiocese, as listed in Note 2. A summary of each plan follows:

#### *Cemetery and Mausoleum Employees' Union Pension Plan*

Union employees of the cemetery and mausoleum operations are participants in this defined benefit plan. During the 2008 fiscal year, a change to the benefits calculation was negotiated so that in the future a calculation similar to that used in the Lay Employees' Pension Plan will be applicable to most union employees upon retirement.

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

	2012	2011
Projected benefit obligation at end of year	\$ 3,156,440	\$ 2,361,291
Fair value of plan assets at end of year	1,382,022	1,304,933
 Funded Status of the Plan, Recognized in the Statements of Financial Position	 \$ (1,774,418)	 \$ (1,056,358)

At June 30 2012 and 2011, the amount of the accumulated benefit obligation was \$1,909,289 and \$1,776,188, respectively.

The assets related to the plan are primarily invested in a balanced investment fund. These Level 2 inputs had a fair market value of \$1,382,022 and \$1,304,933 at June 30, 2012 and 2011, respectively. The fund is valued by the plan administrator.

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

	2012	2011
Unrecognized net loss	\$ 867,763	\$ 169,284
Unrecognized prior service credit	\$ (484,786)	\$ (519,350)

The net amortization of the above amounts that are reclassified into a component of net periodic pension cost for the years ended June 30, 2012 and 2011 was \$(34,564) and \$(31,907), respectively.

The amounts expected to be recognized into net periodic pension benefit cost in the year ended June 30, 2013 are as follows:

Unrecognized net loss	\$ 43,613
Unrecognized prior service credit	\$ (35,990)

## ARCHDIOCESE OF MILWAUKEE (DEBTOR IN POSSESSION)

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended June 30, 2012 and 2011

### NOTE 14 - Employee Benefit Plans (cont.)

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

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

	2012	2011
Contributions	\$ 93,901	\$ 85,136
Benefits paid	\$ 68,917	\$ 56,780

The Archdiocese expects to contribute approximately \$95,000 to the plan during the year ended June 30, 2013.

Assumptions used in calculating pension expense were:

	2012	2011
Discount rate	4.0%	5.5%
Rate of increase in compensation levels next 2 years	1.5	1.5
Rate of increase in compensation levels	3.0	3.0
Expected long-term rate of return on assets	7.0	7.0

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

The following benefit payments are expected to be paid from the plan:

2013	\$ 61,808
2014	60,156
2015	74,118
2016	96,886
2017	109,393
2018 - 2021	703,713
	<b><u>\$ 1,106,074</u></b>

#### *Post-Retirement Benefits Other Than Pensions*

The Archdiocese provides defined benefit post-retirement health, dental, and vision insurance benefits to its diocesan priests. The vision benefits were added to the plan during the year ended June 30, 2008. Covered members become eligible for these benefits at retirement after meeting minimum age and service requirements. The costs of future benefits are accrued during the priest's active working career. The Archdiocese funds benefits on a pay as you go basis, with some retirees paying a portion of the costs.

At June 30, 2012 and 2011, the post-retirement health insurance benefit plan did not have any assets.

## ARCHDIOCESE OF MILWAUKEE (DEBTOR IN POSSESSION)

### NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2012 and 2011

#### **NOTE 14 - Employee Benefit Plans (cont.)**

##### *Post-Retirement Benefits Other Than Pensions (cont.)*

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

	2012	2011
Accumulated post-retirement benefit obligation	\$ 17,164,188	\$ 14,067,936
Fair value of plan assets	-	-
Funded Status of Plan, Recognized in the Statements of Financial Position	\$ (17,164,188)	\$ (14,067,936)

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

	2012	2011
Unrecognized net loss	\$ 4,616,006	\$ 1,995,802
Unrecognized prior service credit	\$ (1,871,853)	\$ (2,192,633)

The net amortization of the above amounts that are reclassified into a component of net periodic benefit cost for the years ended June 30, 2012 and 2011 was \$(320,780).

The amounts expected to be recognized into net periodic benefit cost in the year ended June 30, 2013 are as follows:

Unrecognized net loss	\$ 226,885
Unrecognized prior service credit	\$ (320,780)

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

	2012	2011
Employer contributions	\$ 560,176	\$ 554,541
Benefits paid	\$ 560,176	\$ 554,541

The Archdiocese expects to contribute approximately \$745,519 to the plan during the year ended June 30, 2013.

## ARCHDIOCESE OF MILWAUKEE (DEBTOR IN POSSESSION)

### NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2012 and 2011

---

#### **NOTE 14 - Employee Benefit Plans (cont.)**

---

Expected benefit payments for the years ended June 30:

2013	\$ 745,519
2014	789,453
2015	803,588
2016	868,032
2017	907,870
2018-2022	<u>5,024,954</u>
	<u>\$ 9,139,416</u>

The weighted average discount rate used to develop the present value of benefit obligations was 4.0% and 5.5% at June 30, 2012 and 2011, respectively. The weighted average discount rate used to develop the net post retirement expense was 5.5% at June 30, 2012 and 2011.

The medical cost trend rate used to value the accumulated post-retirement benefit obligation is 7.7% for 2013, and is assumed to decrease gradually to an ultimate rate of 4.5% in 2030. The dental and vision cost trend rates used for 2013 are 5.0% and are assumed to decrease to a rate of 4.5% in 2014 and thereafter.

#### *Lay Employees' Pension Plan*

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

Pension expense for the years ended June 30, 2012 and 2011, respectively, was approximately \$274,078 and \$269,965, 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 defined benefit plan covering all archdiocesan priests. As such, valuation information is not available by employer or employing unit.

Pension expense for the years ended June 30, 2012 and 2011 was approximately \$32,364 and \$38,948, respectively, which includes amortization of past service costs over 30 years. Annual contributions to the plan equal amounts accrued for pension expense.

# ARCHDIOCESE OF MILWAUKEE (DEBTOR IN POSSESSION)

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2012 and 2011

---

### **NOTE 15 - Temporarily Restricted Net Assets**

---

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

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

	<u>2012</u>	<u>2011</u>
Rapp Trust (for capital needs of St. Michael's Church in Mitchell, Wisconsin)	\$ 304,085	\$ 316,886
Other Funds with Purpose and/or Temporal Restrictions	<u>8,631,971</u>	<u>7,603,628</u>
Total Temporarily Restricted Net Assets	<u>\$ 8,936,056</u>	<u>\$ 7,920,514</u>

---

### **NOTE 16 - Permanently Restricted Net Assets**

---

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

	<u>2012</u>	<u>2011</u>
Education Endowment Fund (for the support and furtherance of Roman Catholic education in the Catholic Archdiocese of Milwaukee)	\$ 1,000,000	\$ 1,000,000
Msgr. Eugene J. Kapalczynski Development Fund	2,624,360	2,624,360
General operations and other	<u>92,006</u>	<u>92,006</u>
Total Permanently Restricted Net Assets	<u>\$ 3,716,366</u>	<u>\$ 3,716,366</u>

# ARCHDIOCESE OF MILWAUKEE (DEBTOR IN POSSESSION)

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2012 and 2011

### **NOTE 17 - 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 market 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, 2012 and 2011.

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

	2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted	\$ -	\$ 577,989	\$ 3,716,366	\$ 4,294,355
	2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted	\$ -	\$ 575,317	\$ 3,716,366	\$ 4,291,683

## ARCHDIOCESE OF MILWAUKEE (DEBTOR IN POSSESSION)

### NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2012 and 2011

#### **NOTE 17 - Endowment (cont.)**

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

	2012			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets: June 30, 2011	\$ -	\$ 575,317	\$ 3,716,366	\$ 4,291,683
Investment return				
Investment income	-	70,740	-	70,740
Net depreciation realized and unrealized	-	(10,052)	-	(10,052)
Total Investment Return	-	60,688	-	60,688
Appropriation for expenditure	-	(58,016)	-	(58,016)
Endowment Net Assets: June 30, 2012	<u>\$ -</u>	<u>\$ 577,989</u>	<u>\$ 3,716,366</u>	<u>\$ 4,294,355</u>
	2011			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets: June 30, 2010	\$ -	\$ 424,720	\$ 3,716,366	\$ 4,141,086
Investment return				
Investment income	-	78,042	-	78,042
Net appreciation realized and unrealized	-	214,308	-	214,308
Total Investment Return	-	292,350	-	292,350
Appropriation for expenditure	-	(141,753)	-	(141,753)
Endowment Net Assets: June 30, 2011	<u>\$ -</u>	<u>\$ 575,317</u>	<u>\$ 3,716,366</u>	<u>\$ 4,291,683</u>

## ARCHDIOCESE OF MILWAUKEE (DEBTOR IN POSSESSION)

### NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2012 and 2011

---

#### **NOTE 18 - Operating Leases**

---

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

Future minimum lease payments as of June 30, 2012 are as follows:

2013	\$ 34,014
2014	25,539
2015	21,302
2016	<u>21,302</u>
	<u>\$ 102,157</u>

Expense on the operating leases was \$87,924 and \$238,333 for the years ended June 30, 2012 and 2011, respectively

---

#### **NOTE 19 - Protected Self-Insurance Program**

---

The Archdiocese, both for itself and as the agent for all parishes and various other Catholic entities operating within the boundaries of the Archdiocese, entered into a protected self-insurance program. Premiums and loss reserves are determined and claims are processed by a service agency on a contractual basis.

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

---

#### **NOTE 20 - Services for Faith in Our Future Trust**

---

The Archdiocese of Milwaukee (Debtor-in-Possession) signed a services contract with the Faith in Our Future Trust ("Trust"), a separate legal entity, to provide administrative services for the Trust. As part of the contractual agreement the Archdiocese advances payments for professional services. As of June 30, 2012 and 2011, respectively, the Archdiocese had a receivable of \$17,258 and \$12,389 for reimbursement of costs and expense incurred on behalf of the Trust. Contributions to the Faith in Our Future Trust are donor restricted, and grants from the Trust can be made only for purposes of Catholic Education and Faith Formation, as specified and disclosed in materials provided to donors. The Archdiocese of Milwaukee (Debtor-in-Possession) does not have control or a beneficial interest in the net assets of the Faith in Our Future Trust and, therefore, none of the activities of the Trust are included in the Archdiocese financial statements.



## ARCHDIOCESE OF MILWAUKEE (DEBTOR IN POSSESSION)

### NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2012 and 2011

---

#### **NOTE 21 - 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 2012 and 2011:

##### *Cash and Cash Equivalents*

The carrying value approximates fair value due to the short-term nature of the instruments.

##### *Notes and Mortgage Notes Receivable*

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

##### *Note Payable*

The carrying amount of the note payable approximates fair value due to the variable nature of the interest rate or the short term maturity of those instruments.

##### *Charitable Gift Annuities*

The carrying amount approximates fair value due to the short maturity of those instruments.

##### *Contributions Payable*

The carrying amount of the contributions payable approximates fair value due to the discount rate utilized.

---

#### **NOTE 22 - 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 23 - Subsequent Event**

---

The Archdiocese has evaluated subsequent events through December 18, 2012 which is the date that the financial statements were approved and available to be issued.