

# **Archdiocese of Milwaukee**

Financial Statements

June 30, 2020 and 2019

# Archdiocese of Milwaukee

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## INDEPENDENT AUDITORS' REPORT

To the Most Reverend Jerome E. ListECKI, Archbishop of Milwaukee  
Archdiocese of Milwaukee

We have audited the accompanying financial statements of the Archdiocese of Milwaukee (the Archdiocese), which comprise the statements of financial position as of June 30, 2020 and 2019, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditors' Responsibility***

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

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

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

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Archdiocese as of June 30, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Emphasis of Matter**

As discussed in Note 1 to the financial statements, the Archdiocese adopted Accounting Standards Update (ASU) No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*, and ASU No. 2017-07, *Compensation Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. Our opinion is not modified with respect to these matters.

*Baker Tilly US, LLP*

Baker Tilly US, LLP (formerly known as Baker Tilly Virchow Krause, LLP)  
Milwaukee, Wisconsin  
December 3, 2020



# Archdiocese of Milwaukee

## Statements of Activities

Years Ended June 30, 2020 and 2019

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
<b>Revenues and Other Support</b>						
Annual Appeal	\$ -	\$ 9,378,787	\$ 9,378,787	\$ -	\$ 8,050,953	\$ 8,050,953
Assessments	9,796,821	-	9,796,821	8,510,632	-	8,510,632
Contributions	1,318,929	820,793	2,139,722	557,951	2,257,694	2,815,645
Grants	-	538,821	538,821	380	830,450	830,830
Program revenues	421,755	-	421,755	372,147	-	372,147
Cemetery sales and services	8,564,700	-	8,564,700	6,219,213	-	6,219,213
Distributions from Cemetery Trust	1,950,000	-	1,950,000	1,950,000	-	1,950,000
Other revenue	446,048	-	446,048	593,881	-	593,881
Gain on sale of property and equipment	-	-	-	6,500	-	6,500
Net assets released from restrictions	9,339,100	(9,339,100)	-	11,312,118	(11,312,118)	-
<b>Total revenues and other support</b>	<b>31,837,353</b>	<b>1,399,301</b>	<b>33,236,654</b>	<b>29,522,822</b>	<b>(173,021)</b>	<b>29,349,801</b>
<b>Operating Expenses</b>						
Salaries and benefits	15,700,832	-	15,700,832	14,643,834	-	14,643,834
Occupancy	4,990,343	-	4,990,343	2,862,718	-	2,862,718
Office and program supplies	2,813,610	-	2,813,610	3,742,154	-	3,742,154
Travel and professional development	600,073	-	600,073	552,278	-	552,278
Cost of sales	1,259,255	-	1,259,255	1,178,562	-	1,178,562
Grants and other assistance	1,520,036	-	1,520,036	6,361,370	-	6,361,370
Professional services	1,372,411	-	1,372,411	889,627	-	889,627
Interest	243,086	-	243,086	252,984	-	252,984
Depreciation	360,942	-	360,942	448,993	-	448,993
Other	1,032,954	-	1,032,954	1,267,188	-	1,267,188
<b>Total operating expenses</b>	<b>29,893,542</b>	<b>-</b>	<b>29,893,542</b>	<b>32,199,708</b>	<b>-</b>	<b>32,199,708</b>
<b>Change in net assets from operations</b>	<b>1,943,811</b>	<b>1,399,301</b>	<b>3,343,112</b>	<b>(2,676,886)</b>	<b>(173,021)</b>	<b>(2,849,907)</b>

See notes to financial statements

# Archdiocese of Milwaukee

## Statements of Activities

Years Ended June 30, 2020 and 2019

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
<b>Non-operating Activities</b>						
Investment return, net	\$ 618,289	\$ (279,605)	\$ 338,684	\$ 522,984	\$ 98,214	\$ 621,198
Priest medical related changes other than service cost	(3,711,796)	-	(3,711,796)	10,604	-	10,604
Change in beneficial interest in Cemetery Trust	1,603,040	-	1,603,040	1,938,106	-	1,938,106
Total nonoperating activities	<u>(1,490,467)</u>	<u>(279,605)</u>	<u>(1,770,072)</u>	<u>2,471,694</u>	<u>98,214</u>	<u>2,569,908</u>
Change in net assets	453,344	1,119,696	1,573,040	(205,192)	(74,807)	(279,999)
<b>Net Assets, Beginning</b>	<u>53,669,002</u>	<u>17,620,997</u>	<u>71,289,999</u>	<u>53,874,194</u>	<u>17,695,804</u>	<u>71,569,998</u>
<b>Net Assets, Ending</b>	<u>\$ 54,122,346</u>	<u>\$ 18,740,693</u>	<u>\$ 72,863,039</u>	<u>\$ 53,669,002</u>	<u>\$ 17,620,997</u>	<u>\$ 71,289,999</u>

See notes to financial statements

# Archdiocese of Milwaukee

Statements of Cash Flows  
Years Ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
<b>Cash Flows From Operating Activities</b>		
Change in net assets	\$ 1,573,040	\$ (279,999)
Adjustments to reconcile to net cash flows from operating activities:		
Bad debt expense (recovery)	834,118	864,809
Depreciation and amortization	360,942	448,993
Asset retirement expense	1,664,930	10,744
Forgiveness of note receivable	-	2,453,697
Donated investment	(857,045)	-
Investment return, net	(271,595)	(50,468)
Gain (loss) on sale of property and equipment	-	(6,500)
Change in beneficial interest in Cemetery Trust	(1,603,040)	(1,938,106)
Changes in assets and liabilities:		
Receivables, payables, accrued expenses and pledges payable	(5,080,222)	(931,658)
Other assets	189,847	351,618
Ground burial and mausoleum crypt sites	363,458	4,562
Deferred revenue	2,317,152	2,611,690
Accrued postretirement and pension benefits	4,176,122	378,957
	<u>3,667,707</u>	<u>3,918,339</u>
<b>Cash Flows From Investing Activities</b>		
Payments received on notes receivable	32,817	310,649
Purchase of property and equipment	(148,896)	(103,526)
Proceeds from the sale of property and equipment	-	6,500
Proceeds from sale of investments	4,622,250	320,354
Purchase of investments	(4,829,336)	-
Notes receivable granted	-	(500,000)
Net change in collections held for others	(341,494)	73,438
Net change in custodial funds held for others	(146,074)	(1,120,479)
	<u>(810,733)</u>	<u>(1,013,064)</u>
<b>Cash Flows From Financing Activities</b>		
Principal payments on note payable	(155,266)	(166,184)
Proceeds from issuance of notes payable	2,137,255	-
	<u>1,981,989</u>	<u>(166,184)</u>
Net change in cash, restricted cash and cash equivalents	4,838,963	2,739,091
Cash, Restricted Cash and Cash Equivalents, Beginning	<u>26,558,108</u>	<u>23,819,017</u>
<b>Cash, Restricted Cash and Cash Equivalents, Ending</b>	<u>\$ 31,397,071</u>	<u>\$ 26,558,108</u>
<b>Reconciliation of Total Cash, Restricted Cash and Cash Equivalents</b>		
Cash and cash equivalents	\$ 22,822,578	\$ 19,253,014
Cemetery pre-need cash included in investments	6,190,035	6,126,560
Cash and money markets included in investments	<u>2,384,458</u>	<u>1,178,534</u>
Total cash, restricted cash and cash equivalents	<u>\$ 31,397,071</u>	<u>\$ 26,558,108</u>
<b>Supplemental Cash Flow Disclosures</b>		
Cash paid for interest	<u>\$ 220,773</u>	<u>\$ 252,984</u>

See notes to financial statements



# Archdiocese of Milwaukee

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Notes to Financial Statements  
June 30, 2020 and 2019

## 1. Summary of Significant Accounting Policies

### Nature of Activities

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

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

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

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

### Basis of Accounting

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

### Cash and Cash Equivalents

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

### Investments

Investments are generally recorded at fair value based on quoted market prices, when available, or estimates of fair value. Donated assets are recorded at fair value at the date of donation or, if sold immediately after receipt, at the amount of sales proceeds received (which are considered a fair measure of the value at the date of donation). Those investments for which fair value is not readily determinable are carried at cost or, if donated, at fair value at the date of donation, or if no value can be estimated, at a nominal value. The Archdiocese records the change of ownership of bonds and stocks on the day a trade is made. Investment income or loss and unrealized gains or losses, net of investment fees are included in the statements of activities as increases or decreases in net assets without donor restrictions unless the income or loss is restricted by donor or law.

### Receivables

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

Receivables are presented net of allowance for uncollectible accounts of \$5,660,585 and \$4,848,436 at June 30, 2020 and 2019, respectively.

# Archdiocese of Milwaukee

Notes to Financial Statements  
June 30, 2020 and 2019

Net receivables as of June 30 consist of:

	<u>2020</u>	<u>2019</u>
Accounts receivable	\$ 3,708,872	\$ 2,441,334
Contributions	1,103,058	1,424,762
Charitable remainder trusts	853,129	734,240
Parish and school obligations	1,513,774	654,124
Interest and dividends	57,948	42,747
	<u>\$ 7,236,781</u>	<u>\$ 5,297,207</u>

## Notes Receivable

The Archdiocese has outstanding notes to certain parishes and schools for capital improvements and other needs. Notes receivable represent unsecured notes to parishes and schools. These notes are either a term loan or a demand note and carry an interest rate ranging from 0% to 1.8%. The current portions of the notes receivable were \$12,238 and \$12,235 at June 30, 2020 and 2019. The notes receivable are presented net of allowances for uncollectible accounts of \$361,443 and \$340,626 at June 30, 2020 and 2019, respectively.

## Life Insurance Contributions

Donors have contributed multiple life insurance policies on their lives to the Archdiocese. The cash surrender value of \$248,965 and \$244,462 at June 30, 2020 and 2019, respectively, is included in other assets on the statements of financial position.

Contribution revenue has been recorded for the change in cash surrender value of these policies and will be recorded if and when the policy is cashed in.

## Land, Buildings and Equipment

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

Land, buildings and equipment are primarily carried at cost.

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

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

# Archdiocese of Milwaukee

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Notes to Financial Statements  
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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. The Archdiocese recognized a liability for the abatement of asbestos at the Mary Mother of the Church Pastoral Center (Center). Liabilities of \$2,750,000 and \$1,085,070 as of June 30, 2020 and 2019, are included in the statements of financial position as 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, 2020 and 2019.

## **Beneficial Interest in Cemetery Trust**

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

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

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

The Archdiocese is entitled to receive distributions from the Cemetery Trust in an amount not less than \$487,500 per quarter, to be used solely for the care and maintenance of the cemeteries and mausoleums operated or maintained by the Archdiocese. Pursuant to the Cemetery Trust Settlement Agreement, the Archdiocese is entitled to receive these distributions for so long as the Archdiocese remains obligated to the Cemetery Trust pursuant to the Cemetery Trust Loan (this loan is disclosed in Note 6). The distributions totaled \$1,950,000 each for the years ended June 30, 2020 and 2019.

## **Pledges Payable**

Total pledges payable consist of \$83,902 and \$2,552,383, as of June 30, 2020 and 2019, respectively. These amounts are primarily Catholic Stewardship Appeal grants for the upcoming year. As of June 30, 2020 and 2019, there were conditional pledges payable of \$2,457,000 and \$0, respectively. See Note 9 for further information on pledges payable.

## **Collections Held for Others**

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, 2020 and 2019

## Custodial 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 Archdiocese funds. The Archdiocese may provide administrative services to help support these ministries and programs. The custodial funds held for others as of June 30 consist of:

	<u>2020</u>	<u>2019</u>
Charitable gift annuities	\$ 131,626	\$ 163,695
Other	207,803	321,808
Total	<u>\$ 339,429</u>	<u>\$ 485,503</u>

## 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:

**Net Assets Without Donor Restrictions** - Net assets that are not subject to donor-imposed stipulations.

**Net Assets With Donor Restrictions** - Net assets subject to donor-imposed stipulations that will be met either by actions of the Archdiocese and/or the passage of time or are required to be maintained permanently. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

## Board Designated Net Assets

The Archdiocese may designate a portion of net assets without donor restrictions for a specific purpose. These designations can be modified or removed by the Archdiocese at any time.

At June 30, designated net assets without donor restrictions consist of the following:

### *Specific Purposes*

The Board of Directors has designated certain net assets without donor restrictions consistent with the purposes set forth in the original instruments as of June 30 as follows:

	<u>2020</u>	<u>2019</u>
St. Aemilian Trust (for the establishment of facilities for orphans, dependent, neglected and delinquent children, for rehabilitation, treatment and other welfare services needed for such ends and the promotion of education, charity and religion)	\$ 1,516,227	\$ 1,516,227
St. John's Burse (for deaf and hearing impaired ministry)	507,388	512,100
Mary Mother of the Church Endowment Fund	256,905	270,619
Beihoff Fund (scholarships)	126,959	151,878
General operations and other	468,997	319,873
Total designated net assets	<u>\$ 2,876,476</u>	<u>\$ 2,770,697</u>

# Archdiocese of Milwaukee

## Notes to Financial Statements

June 30, 2020 and 2019

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>2020</u>	<u>2019</u>
Limited to perpetual care of cemeteries	<u>\$ 59,663,751</u>	<u>\$ 58,060,711</u>

### Measure of Operations

The Archdiocese's transactions that are part of the programs that support the pastoral ministries, cemetery operations, central service office and fundraising activities of the Archdiocese are reported as operating revenue and expense. All other transactions are reported as nonoperating revenue or expense, such as investment return net of fees, changes in post-retirement benefits, and the change in the beneficial interest in the Cemetery Trust.

### Revenue Recognition

Revenues from contributions and promises to give that are received without donor stipulations are reported as revenue and net assets without donor restrictions at the point they are received. Gifts received with a donor stipulation that limits use are reported as revenue and net assets with donor restrictions at the point in time they are received. When a donor stipulated time restriction ends, or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. Conditional promises to give are contributions with measurable performance barriers and a right of return and are not recognized until the conditions on which they depend have been met. There are no conditional promises to give as of June 30, 2020.

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

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

Investments on the statements of financial position include cash of \$6,190,035 and \$6,126,560 as of June 30, 2020 and 2019, respectively for the Cemeteries Pre-Need Trust Fund, which is restricted for future services or sales to be provided.

### 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.

# Archdiocese of Milwaukee

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Notes to Financial Statements  
June 30, 2020 and 2019

## Leased Facilities

The Archdiocese of Milwaukee occupied premises owned by de Sales Preparatory Seminary, Inc. (de Sales Prep). As the lessee, the Archdiocese was responsible for payment of operating and maintenance costs of the facilities. As discussed in Note 19, de Sales Prep merged with the Archdiocese in December 2019, at which time the lease was terminated. The Archdiocese continues to be responsible for the operating and maintenance costs of the facilities. The Archdiocese also utilizes a residence owned by St. Francis de Sales Seminary, Inc.

## Reclassifications

For comparability, certain 2019 amounts have been reclassified to conform with classifications adopted in 2020. 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.

## Adopted Accounting Pronouncements

In 2020, the Archdiocese adopted Financial Accounting Standards Board's (FASB) Accounting Standards Update (ASU) No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (ASU No. 2018-08) using the modified prospective transition method. The new guidance is intended to clarify and improve accounting guidance for contributions received and contributions made. The amendments in this ASU assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. As discussed in Note 9, adopting ASU No. 2018-08 resulted in the Archdiocese having conditional contributions payable as of June 30, 2020. The Archdiocese issues grants from the restricted funds raised from the Catholic Stewardship Appeal (CSA) to organizations within the Archdiocese. The grants issued are contingent on the Archdiocese achieving the CSA campaign goal.

In 2020, the Archdiocese adopted ASU No. 2017-07, *Compensation Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost* (ASU No. 2017-07). The standard requires that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered during the period. Other components of the net benefit cost, as defined, are required to be presented in the statements of activities separately from the service cost component and outside a subtotal of income from operations, if one is presented. The Archdiocese used the practical expedient and presented these items in Priest medical related changes other than service cost on the statements of activities. The guidance has been applied retrospectively.

## Archdiocese of Milwaukee

Notes to Financial Statements  
June 30, 2020 and 2019

As a result of the adoption of ASU No. 2017-07, the statement of activities of the Archdiocese for the year ended June 30, 2019 was adjusted as follows:

	<b>After Adoption of ASU No. 2017-07</b>	<b>As Originally Presented</b>	<b>Effect of Change</b>
Salaries and benefits	\$ 14,643,834	\$ 14,254,273	\$ 389,561
Priests' medical periodic pension cost	N/A	1,133,880	(1,133,880)
Total operating expenses	32,199,708	32,944,027	(744,319)
Change in net assets from operations	(2,849,907)	(3,594,226)	744,319
Priest medical related changes other than net period pension cost	N/A	754,923	(754,923)
Priest medical related changes other than service cost	10,604	N/A	10,604
Total non-operating activities	2,569,908	3,314,227	(744,319)

The Archdiocese adopted ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash* (ASU No. 2016-18) in 2020. The amendments in this update require that a statement of cash flows explains the change during the period in the total of cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents. Amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The Archdiocese has adjusted the presentation of these financial statements accordingly. ASU No. 2016-18 has been applied retrospectively to all periods presented.

As a result of the adoption of ASU No. 2016-18, the statement of cash flows of the Archdiocese for the year ended June 30, 2019 was adjusted as follows:

	<b>After Adoption of ASU No. 2016-18</b>	<b>As Originally Presented</b>	<b>Effect of Change</b>
Investment return, net	\$ (50,468)	\$ 269,887	\$ (320,355)
Net cash flows from operating activities	3,918,339	4,238,694	(320,355)
Proceeds from sale of investments	320,354	5,580,929	(5,260,575)
Purchase of investments	-	(721,353)	721,353
Net cash flows from investing activities	(1,013,064)	3,526,158	(4,539,222)
Net Change in Cash and Cash Equivalents	N/A	7,598,668	(7,598,668)
Net Change in Cash, Restricted Cash and Cash Equivalents	2,739,091	N/A	2,739,091
CASH AND CASH EQUIVALENTS - Beginning of Year	N/A	11,654,346	(11,654,346)
Cash, Restricted Cash and Cash Equivalents, Beginning	23,819,017	N/A	23,819,017
CASH AND CASH EQUIVALENTS - END OF YEAR	N/A	19,253,014	(19,253,014)
Cash, Restricted Cash and Cash Equivalents, Ending	26,558,108	N/A	26,558,108

## New Accounting Pronouncements

In May 2014, FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* (ASU No. 2014-09). ASU No. 2014-09 establishes principles for recognizing revenue upon the transfer of promised goods or services to customers in an amount that reflects the expected consideration received in exchange for those goods or services. Updates defer the effective date of ASU No. 2014-09, clarify the implementation guidance on principal versus agent considerations, clarify the identification of performance obligations and the licensing implementation guidance. Topic 606 (as amended) is effective for annual periods beginning after December 15, 2019 (2021). The changes may be applied retrospectively to each prior period presented or using a modified retrospective approach with the cumulative effect recognized as of the date of initial application. Management is currently assessing the effect that Topic 606 (as amended) will have on its financial statements.

In August 2018, FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement* (ASU No. 2018-13). ASU No. 2018-13 modifies the disclosure requirements for fair value measurements in Topic 820, *Fair Value Measurement*. ASU No. 2018-13 is effective for annual periods and interim periods within those annual periods beginning after December 15, 2019 (2021). Early adoption is permitted. Management is currently assessing the effect that ASU No. 2018-13 will have on its financial statements.

In September 2020, FASB issued ASU No. 2020-07, *Not-for-Profit Entities (Topic 958) Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets* (ASU No. 2020-07). ASU No. 2020-07 improves financial reporting by providing new presentation and disclosure requirements about contributed nonfinancial assets, including additional disclosure requirements for recognized contributed services. The standard will be required to be applied retrospectively for annual periods beginning after June 15, 2021 (2022). Early adoption is permitted. Management is currently assessing the effect that ASU No. 2020-07 will have on its financial statements.

In February 2016, FASB issued ASU No. 2016-02, *Leases (Topic 842)* (ASU No. 2016-02) that amends the treatment for leases. The new accounting model for leases capitalizes all leases greater than twelve months, both capital and operating, as assets and liabilities on the statement of financial position. Organizations that have not yet adopted will be required to apply the standard for annual periods beginning after December 15, 2021 (2023). Early adoption is permitted. Management is currently assessing the effect that ASU No. 2016-02 will have on its financial statements.



# Archdiocese of Milwaukee

Notes to Financial Statements  
June 30, 2020 and 2019

## 2. Fair Value of Financial Instruments

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

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

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

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

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

	June 30, 2020			
	Level 1	Level 2	Level 3	Total
Assets				
Commercial bonds	\$ -	\$ 4,093,401	\$ -	\$ 4,093,401
Corporate stocks	33,318	-	-	33,318
US Government bonds and securities	-	3,264,656	-	3,264,656
Other investments	-	-	5,856,686	5,856,686
Total investments, at fair value	<u>\$ 33,318</u>	<u>\$ 7,358,057</u>	<u>\$ 5,856,686</u>	13,248,061
Cash and money markets, at cost				2,384,458
Cash held in cemeteries pre-need cash account, at cost				<u>6,190,035</u>
Total investments				21,822,554
Beneficial interest in Cemetery Trust, at fair value	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 59,663,751</u>	<u>59,663,751</u>
Total assets				<u>\$ 81,486,305</u>

## Archdiocese of Milwaukee

Notes to Financial Statements  
June 30, 2020 and 2019

	June 30, 2019			
	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Commercial bonds	\$ -	\$ 875,383	\$ -	\$ 875,383
US Government bonds and securities	-	4,722,988	-	4,722,988
Other investments	-	66,145	6,247,819	6,313,964
<b>Total investments, at fair value</b>	<b>\$ -</b>	<b>\$ 5,664,516</b>	<b>\$ 6,247,819</b>	<b>11,912,335</b>
Cash and money markets, at cost				1,178,534
Cash held in cemeteries pre-need cash account, at cost				6,126,560
<b>Total investments</b>				<b>19,217,429</b>
Beneficial interest in Cemetery Trust, at fair value	\$ -	\$ -	\$ 58,060,711	58,060,711
<b>Total assets</b>				<b>\$ 77,278,140</b>

The Archdiocese classifies investments in corporate stocks as Level 1 items as they are publicly traded in active markets. Bonds and US Government securities are classified as Level 2 items as they are not publicly traded in active markets. The bonds are invested in US Government, corporate and foreign issues.

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

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

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

	Other Investments	Beneficial Interest in Cemetery Trust	Total
Balance, June 30, 2019	\$ 6,247,819	\$ 58,060,711	\$ 64,308,530
Deposits	6,000	199	6,199
Withdrawals	(78,894)	(1,950,000)	(2,028,894)
Investment Income	(318,239)	3,552,841	3,234,602
<b>Balance, June 30, 2020</b>	<b>\$ 5,856,686</b>	<b>\$ 59,663,751</b>	<b>\$ 65,520,437</b>

# Archdiocese of Milwaukee

Notes to Financial Statements  
June 30, 2020 and 2019

	<u>Other Investments</u>	<u>Beneficial Interest in Cemetery Trust</u>	<u>Total</u>
Balance, June 30, 2018	\$ 6,194,064	\$ 56,122,605	\$ 62,316,669
Deposits	24,418	693,895	718,313
Withdrawals	(95,576)	(1,950,000)	(2,045,576)
Investment Income	124,913	3,194,211	3,319,124
	<u>6,247,819</u>	<u>58,060,711</u>	<u>64,308,530</u>
Balance, June 30, 2019	<u>\$ 6,247,819</u>	<u>\$ 58,060,711</u>	<u>\$ 64,308,530</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.

### 3. Contributions Receivable

Contributions receivable are included in receivables, net reported in the statements of financial position, and are 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>2020</u>	<u>2019</u>
Less than one year	\$ 1,176,058	\$ 1,472,762
Less allowance for doubtful accounts	(73,000)	(48,000)
Net contributions receivable	<u>\$ 1,103,058</u>	<u>\$ 1,424,762</u>

### 4. Cemetery, Ground Burial and Crypt Sites

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

	<u>2020</u>	<u>2019</u>
Mausoleum, crypts & niches	\$ 1,334,418	\$ 1,685,281
Cemetery land and facilities held for burial privileges	2,735,951	2,748,546
Total	<u>\$ 4,070,369</u>	<u>\$ 4,433,827</u>

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

# Archdiocese of Milwaukee

Notes to Financial Statements  
June 30, 2020 and 2019

## 5. Land, Buildings and Equipment

Land, buildings and equipment are summarized as follows as of June 30:

	<u>2020</u>	<u>2019</u>
Land	\$ 860,510	\$ 860,510
Land and building improvements	2,280,135	1,709,434
Construction in progress	14,000	14,000
Buildings	9,841,168	9,841,168
Leasehold improvements	735,283	1,287,221
Furniture and fixtures, equipment, art	480,523	503,768
Vehicles	572,616	572,616
Vacant land	94,810	94,810
Total	14,879,045	14,883,527
Less accumulated depreciation	<u>(10,519,996)</u>	<u>(10,312,432)</u>
Net land, buildings and equipment	<u>\$ 4,359,049</u>	<u>\$ 4,571,095</u>

Land, building and equipment includes certain land, buildings and equipment (other than leasehold improvements and equipment owned directly by the tenants) being used by Pius XI High School, Inc.; St. Thomas More High School, Inc.; St. Joseph High School Inc.; and St. Charles Youth and Family Services, Inc. (St. Charles). The Archdiocese and the three high schools have entered into lease agreements for a term ending in 2043 with a renewal option for 15 years. The Archdiocese and St. Charles entered into a lease ending on December 31, 2016, with two five year renewal options for part of the property utilized by St. Charles in its ministry. On February 22, 2016, St. Charles exercised its option to renew the lease for an additional five year term commencing January 1, 2017. Subsequent to June 30, 2020, the land, building and equipment which was leased to St. Charles was purchased by St. Charles, as further discussed in Note 20.

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

Pius XI High School, Inc.	Subject to a mortgage and a line of credit. The balances at June 30, 2020 were \$4,559,905 and \$0, respectively.
St. Thomas More High School, Inc.	Subject to a mortgage for up to \$1,100,000. The balance at June 30, 2020 was \$824,310.
St. Joseph High School, Inc.	Subject to a mortgage up to \$350,000 of which \$100,000 is secured by the building and a \$250,000 line of credit also secured by the building. As of June 30, 2020, the balances were \$281,357 and \$0, respectively.

The mortgages, loan and lines of credit are nonrecourse as to the Archdiocese.

## 6. Notes Payable

### Catholic Financial Life

On October 12, 2016, the Archdiocese entered in a note with Catholic Financial Life. The amount financed through Catholic Financial Life was \$4,115,797 with a fixed interest rate of 4.60%. The business note is secured by first mortgage liens on real estate known as St. Charles Youth and Family Services Facility and the Mary Mother of the Church Pastoral Center.

# Archdiocese of Milwaukee

Notes to Financial Statements  
June 30, 2020 and 2019

Principal and interest payments of \$26,261 are due on the first day of each month. Additional principal payments of \$6,000 and \$24,418 were made during the fiscal year ended June 30, 2020 and 2019, respectively. Interest expense for fiscal years ended June 30, 2020 and 2019 was \$165,870 and \$173,369, respectively. As of June 30, 2020 and 2019 the balance of the note payable was \$3,518,932 and \$3,674,198, respectively. Subsequent to June 30, 2020, the Archdiocese paid the outstanding balance on the note with Catholic Financial Life, as discussed in Note 20.

## Paycheck Protection Program Loan

The Archdiocese participated in and received funds on April 14, 2020 under the Paycheck Protection Program (PPP) through the Coronavirus Aid, Relief, and Economic Security (CARES) Act of 2020 in the amount of \$2,137,255. Loans under the PPP are guaranteed by the Small Business Administration (SBA) and are designed to provide a direct financial incentive for qualifying non-profit organizations to keep their workforce employed during the Coronavirus crisis. The current terms with Town Bank call for the PPP loan to be repaid in seventeen monthly installments with the first payment due February 2021. There is no prepayment penalty. PPP loans can be forgiven to the extent that employee levels are maintained and the loan principal is used for eligible expenses. Any portion of the loan balance that is not forgiven will carry interest at 1% and will have a maturity of two years. The Archdiocese may request the balance to be paid over five years.

The Archdiocese assessed its application and PPP guidance and recorded the PPP loan as a financial liability under Accounting Standards Codification 470. As of June 30, 2020, the Archdiocese recorded the \$2,137,255 of PPP proceeds as note payable and recorded \$4,515 of accrued interest. The Archdiocese will record any forgiveness of the PPP loan when the Archdiocese is legally released of liability.

## Credit Lines

The Archdiocese is authorized to draw on a line of credit made available by the Cemetery Trust up to the amount of \$2,780,000. The line of credit bears interest in an amount equal to the lesser of (i) One Year LIBOR (as determined and adjusted annually) plus 200 basis points or (ii) five (5)% and shall be set annually in December. The current rate of interest is 4.00%. Subsequent to June 30, 2020, the Archdiocese paid the outstanding balance on the line of credit with the Cemetery Trust, as discussed in Note 20.

Since January 1, 2016 and through the retirement of the line of credit subsequent to June 30, 2020, interest-only payments have been made quarterly. The line of credit is secured by first mortgage liens on the properties discussed in Note 5 and second mortgage liens on real estate known as St. Charles Youth and Family Services property and the Mary Mother of the Church Pastoral Center.

The Cemetery Trust credit line balance outstanding as of June 30, 2020 and 2019 was \$1,780,000. At June 30, 2020 and 2019, the amount of interest paid was \$72,701 and \$74,450, respectively.

The Archdiocese listed these properties for sale in October of 2017, which remained for sale as of June 30, 2020.

<b>Property</b>	<b>Location</b>
Prospect Hill Property	New Berlin
Plunkett Property	Germantown
All Souls Property	Franklin

# Archdiocese of Milwaukee

Notes to Financial Statements  
June 30, 2020 and 2019

Subsequent to June 30, 2020, the All Souls Property, located in Franklin, Wisconsin, was sold, as discussed in Note 20.

The Archdiocese is authorized to draw on a line of credit made available by Town Bank up to the amount of \$2,000,000. The line of credit expires May 7, 2021, is secured by all business assets and accrues interest at LIBOR plus 1.75%. The balance drawn as of June 30, 2020 and 2019 was zero.

Future maturities of notes payable are as follows:

2021	\$ 5,912,981
2022	1,523,206
	<u>\$ 7,436,187</u>

## 7. Deferred Revenue

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

## 8. Charitable Gift Annuities

Charitable gift annuities are included in custodial funds held for others and consist of the following as of June 30:

	<u>2020</u>	<u>2019</u>
Charitable gift annuities, 7.00%	\$ 131,626	\$ 163,695
Less current portion	<u>(18,005)</u>	<u>(21,175)</u>
Long-term portion	<u>\$ 113,621</u>	<u>\$ 142,520</u>

## 9. Intradiocesan

### Pledges

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 paid was \$1,250,000 for the years ending June 30, 2020 and 2019. The pledge payable was \$0 and \$1,250,000 at June 30, 2020 and 2019, respectively. As a result of the adoption of ASU No. 2018-08, no grant expense or pledge payable were recorded as this was considered a conditional pledge payable at June 30, 2020 of \$1,250,000. See Note 1 for further information surrounding the adoption of ASU No. 2018-08.

# Archdiocese of Milwaukee

Notes to Financial Statements  
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Catholic Charities of the Archdiocese of Milwaukee, Inc. (Catholic Charities) is a freestanding, separate legal entity. Catholic Charities has a Board of Directors overseeing governance and administration. The Archdiocese contributes a Catholic Stewardship Appeal grant to Catholic Charities to fulfill one of the appeal solicitation purposes. The grant was \$1,153,000 for the years ending June 30, 2020 and 2019. The contribution payable was \$0 and \$1,153,000 at June 30, 2020 and 2019, respectively. Catholic Charities also compensates the Archdiocese for certain business services under a contract. As a result of the adoption of ASU No. 2018-08, no grant expense or pledge payable were recorded as this was considered a conditional pledge payable at June 30, 2020 of \$1,153,000. See Note 1 for further information surrounding the adoption of ASU No. 2018-08.

Other grants were provided to the following freestanding, separate legal entities for the year ended June 30 and are included in grants and other assistance:

	<u>2020</u>	<u>2019</u>
Seton Catholic Schools, Inc.*	\$ 25,000	\$ 2,600,000
Wisconsin Catholic Media Apostolate, Inc.	29,935	65,000
Siena Catholic Schools of Racine, Inc.	8,250	50,000

\*2019 includes \$2,500,000 of debt relief.

## Contributions

The Faith In Our Future Trust (Faith In Our Future), is a freestanding, separate legal entity. Faith In Our Future has a Board of Trustees overseeing governance and administration. Faith In Our Future contributed education and faith formation grants to the Archdiocese. New grants in the amount of \$50,700 and \$423,428 were received for the years ending June 30, 2020 and 2019, respectively. Grants receivable were \$85,788 and \$256,372 at June 30, 2020 and 2019, respectively.

## Line of Credit Guarantee

Seton Catholic Schools, Inc., participates in the Wisconsin and Milwaukee Parental Choice Programs. Seton has established a line of credit that provides a bridge between the timing of expenditures and the receipt of Choice Program payments. The Archdiocese will guarantee any line of credit up to \$4,000,000. The available line of credit as of June 30, 2020 is \$2,250,000 through a maturity date of January 31, 2021. The outstanding balance on the line of credit was \$0 and \$500,000 at June 30, 2020 and 2019, respectively.

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

## Demand Note

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

On June 25, 2018 and September 25, 2018, Seton Catholic Schools, Inc., executed demand notes with the Archdiocese of Milwaukee in the amount of \$2,000,000 and \$500,000, respectively. In May 2019, the Archdiocesan Finance Council and College of Consultors provided consent to forgive the debt owed to the Archdiocese of \$2,500,000, plus accrued interest and provide it as a grant to Seton Catholic Schools, Inc. The remaining \$500,000 of approved financial assistance was frozen and no advances can be provided to Seton Catholic Schools, Inc. without the approval of the Archdiocesan Finance Council and College of Consultors.

## Archdiocese of Milwaukee

Notes to Financial Statements  
June 30, 2020 and 2019

There was no balance on the demand note as of June 30, 2020 and 2019. And there was no accrued and unpaid interest as of June 30, 2020 and 2019.

### 10. Employee Benefit Plans

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

#### Lay Employees' Pension Plan

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

The Plan's most recent available information is as of June 30, 2019. At that time, all full time lay employees of participating Catholic organizations located within the boundaries of the Archdiocese who have been employed for one year are covered by the Plan. The benefits for employees in the Plan are based on the years of service and the applicable percentage of average monthly compensation of the employee. Following is a summary of the July 1, 2019 and July 1, 2018 valuation funding liability and funded ratio:

	<u>July 1, 2019</u>	<u>July 1, 2018</u>
Actuarial accrued liability	\$ 316,586,299	\$ 308,962,460
Market value of assets	<u>277,422,032</u>	<u>268,413,502</u>
Unfunded accrued liability	<u>\$ 39,164,267</u>	<u>\$ 40,548,958</u>
Funding ratio	87.6 %	86.9 %
Total contributions to the Plan	<u>\$ 7,514,000</u>	<u>\$ 8,137,955</u>

The Archdiocese of Milwaukee's participation in the Plan is approximately 5% of the total contributions to the Plan. The Archdiocese pension expense for the years ended June 30, 2020 and 2019, respectively, was \$447,407 and \$467,765, which includes amortization of past service costs over 30 years.

#### Archdiocese of Milwaukee Priests' Pension Plan

This is a contributory multi-employer defined benefit plan covering all Archdiocesan priests. The Plan name is the Archdiocese of Milwaukee Priests' Pension Plan (the Priests' Plan) and the identifying number is 39-6234907. The Priests' Plan is exempt from filing IRS Form 5500.

The benefit for priests in the Priests' Plan is normally a fixed monthly benefit, subject to adjustment if years of service are less than years of incardination. As this is a multi-employer plan, valuation information is not available by employer. The Priests' Plan's most recent available information is as of June 30, 2019. Following is a summary of the July 1, 2019 and July 1, 2018 valuation funding liability and funded ratio:



## Archdiocese of Milwaukee

Notes to Financial Statements  
June 30, 2020 and 2019

	<u>July 1, 2019</u>	<u>July 1, 2018</u>
Actuarial accrued liability	\$ 35,823,359	\$ 36,103,168
Market value of assets	<u>34,862,695</u>	<u>34,743,861</u>
Unfunded accrued liability	<u>\$ 960,664</u>	<u>\$ 1,359,307</u>
Funding ratio	97.3 %	96.2 %
Total contributions to the Plan	<u>\$ 678,000</u>	<u>\$ 807,609</u>

Pension expense for the years ended June 30, 2020 and 2019 was \$61,431 and \$70,991, respectively, which includes amortization of past service costs over 30 years.

### Post-Retirement Benefits Other Than Pensions

The Archdiocese provides defined benefit post-retirement health, dental and vision 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 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.

In 2020, the Archdiocese adopted ASU No. 2017-07, *Compensation Retirement Benefits (Topic 715) Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. The standard requires that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered during the period. Service cost was \$464,326 and \$389,561 for the years ended June 30, 2020 and 2019, respectively. Service cost is included in salaries and benefits on the statements of activities. The other components of the net periodic benefit cost excluding service cost are income (loss) of \$(3,711,796) and \$10,604 in 2020 and 2019, respectively. These components are presented as priest medical related changes other than service cost on the statements of activities.

At June 30, 2020 and 2019, the post-retirement health insurance benefit plan did not have any assets.

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

	<u>2020</u>	<u>2019</u>
Accumulated postretirement benefit obligation	\$ 23,192,025	\$ 19,015,903
Fair value of plan assets	<u>-</u>	<u>-</u>
Funded status of Plan, recognized in the statements of financial position	<u>\$ (23,192,025)</u>	<u>\$ (19,015,903)</u>

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

	<u>2020</u>	<u>2019</u>
Unrecognized net loss	\$ 5,096,527	\$ 1,318,357
Unrecognized prior service credit (cost)	\$ -	\$ -

## Archdiocese of Milwaukee

Notes to Financial Statements  
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The net amortization of the above amounts that are reclassified into a component of net periodic benefit cost for the years ended June 30, 2020 and 2019 was \$0 and \$15,756, respectively.

The amounts expected to be recognized into net periodic benefit cost in the year ended June 30, 2021 are as follows:

Unrecognized net (gain) / loss	\$	167,916
Unrecognized prior service credit / (cost)	\$	-

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

	<u>2020</u>	<u>2019</u>
Employer contributions	\$ 671,261	\$ 688,081
Benefits paid	\$ 671,261	\$ 688,081

The Archdiocese expects to contribute \$830,931 to the plan during the year ended June 30, 2021.

Expected benefit payments for the years ended June 30:

Years ending June 30:	
2021	\$ 830,931
2022	903,466
2023	948,734
2024	962,847
2025	980,141
Next five years	<u>5,118,973</u>
	<u>\$ 9,745,092</u>

At June 30, 2020 and 2019, the net periodic benefit cost recognized was \$1,069,213 and \$1,133,880, respectively.

The weighted average discount rate used to develop the present value of benefit obligations was 2.5% and 3.25% at June 30, 2020 and 2019, respectively. The weighted average discount rate used to develop the net post retirement expense was 3.25% and 4.00% at June 30, 2020 and 2019, respectively.

The medical cost trend rate used to value the accumulated post-retirement benefit obligation is 8.0% for 2020 and is assumed to decrease gradually to an ultimate rate of 4.5% in 2027. The dental and vision cost trend rates used for 2020 and thereafter are 4.5%.

## Archdiocese of Milwaukee

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### 11. Net Assets with Donor Restrictions

Net assets with donor restrictions consist of the following as of June 30:

	<u>2020</u>	<u>2019</u>
Funds with purpose and/or temporary restrictions:		
Catholic Stewardship Appeal	\$ 6,415,431	\$ 5,643,877
Education	1,603,422	1,154,288
Ministry	2,158,450	2,216,747
Campus & Young Adult Ministry	576,520	437,310
Kapalcznski Development Fund	527,150	755,685
Mary B. Finnigan Trust	669,175	759,937
Clergy	669,589	707,765
Rapp Trust	284,223	323,425
Beihoff Trust	334,887	334,887
Life Insurance	248,965	244,462
Radecki Bequest	154,966	154,966
Other Funds with Purpose and/or Temporary Restrictions	<u>1,381,549</u>	<u>1,171,282</u>
Total net assets held with purpose and/or temporary restrictions	<u>15,024,327</u>	<u>13,904,631</u>
Funds to be held in perpetuity:		
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 net assets held in perpetuity	<u>3,716,366</u>	<u>3,716,366</u>
Total net assets with donor restrictions	<u>\$ 18,740,693</u>	<u>\$ 17,620,997</u>

### 12. 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 and board designated 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 principal as net assets with donor restrictions 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 net assets with donor restrictions (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 is also classified as net assets with donor restrictions 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 principal at year end is below the original fair value, the deficit is recorded as net assets with donor restrictions.

# Archdiocese of Milwaukee

Notes to Financial Statements  
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*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.

## Underwater Endowment

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), there were no deficiencies of this nature that are reported in net assets with donor restrictions as of June 30, 2020 and 2019.

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

	<b>2020</b>			
	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>		<b>Total</b>
		<b>Purpose Restrictions</b>	<b>Perpetual in Nature</b>	
Donor restricted endowment funds	\$ -	\$ 1,213,179	\$ 3,716,366	\$ 4,929,545
Board designated endowment funds	256,905	-	-	256,905
Total	<u>\$ 256,905</u>	<u>\$ 1,213,179</u>	<u>\$ 3,716,366</u>	<u>\$ 5,186,450</u>
	<b>2019</b>			
	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>		<b>Total</b>
		<b>Purpose Restrictions</b>	<b>Perpetual in Nature</b>	
Donor restricted endowment funds	\$ -	\$ 1,523,636	\$ 3,716,366	\$ 5,240,002
Board designated endowment funds	270,619	-	-	270,619
Total	<u>\$ 270,619</u>	<u>\$ 1,523,636</u>	<u>\$ 3,716,366</u>	<u>\$ 5,510,621</u>

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

	<b>2020</b>			
	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>		<b>Total</b>
		<b>Purpose Restrictions</b>	<b>Perpetual in Nature</b>	
Endowment net assets: June 30, 2019	\$ 270,619	\$ 1,523,636	\$ 3,716,366	\$ 5,510,621
Investment return, net	(13,714)	(251,557)	-	(265,271)
Appropriation for expenditure	-	(58,900)	-	(58,900)
Endowment net assets: June 30, 2020	<u>\$ 256,905</u>	<u>\$ 1,213,179</u>	<u>\$ 3,716,366</u>	<u>\$ 5,186,450</u>

## Archdiocese of Milwaukee

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	2019			Total
	Without Donor Restrictions	With Donor Restrictions Purpose Restrictions	Perpetual in Nature	
Endowment net assets: June 30, 2018	\$ 240,140	\$ 1,493,792	\$ 3,716,366	\$ 5,450,298
Contributions	24,418	-	-	24,418
Investment return, net	6,061	102,182	-	108,243
Appropriation for expenditure	-	(72,338)	-	(72,338)
Endowment net assets: June 30, 2019	<u>\$ 270,619</u>	<u>\$ 1,523,636</u>	<u>\$ 3,716,366</u>	<u>\$ 5,510,621</u>

## Archdiocese of Milwaukee

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### 13. Availability of Financial Assets

As part of the Archdiocese's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due.

The following schedule reflects the Archdiocese financial assets as of June 30 reduced by amounts not available for general use within one year of the statement of financial position date because of contractual or donor imposed restrictions or internal designation of funds. Financial assets are considered unavailable when illiquid or not convertible to cash within one year, trust assets, assets held for others, perpetual endowments or board designated funds set aside for specific reserves, projects or a long-term investment as board designated endowments. The board designations could be drawn upon if the board approves that action. Additionally, the Archdiocese maintains a \$2,000,000 line of credit as discussed in Note 6. As of June 30, 2020 and 2019, \$2,000,000 remained available on this line of credit.

	<u>2020</u>	<u>2019</u>
Financial Assets		
Cash and cash equivalents	\$ 22,822,578	\$ 19,253,014
Receivables, net	7,236,781	5,297,207
Notes receivable, net	227,115	259,932
Investments	21,822,554	19,217,429
Beneficial interest in Cemetery Trust	<u>59,663,751</u>	<u>58,060,711</u>
Total financial assets	111,772,779	102,088,293
Less: financial assets unavailable for general expenditures within one year due to contractual or donor imposed restrictions		
Beneficial interest in Cemetery Trust	(59,663,751)	(58,060,711)
Cemetery pre-need trust	(6,190,035)	(6,126,560)
Cemetery pre-need and perpetual care trust funding	(5,104,013)	-
Custodial investments held for others	(339,429)	(485,503)
Accounts receivable - long term	(3,123,161)	(2,211,280)
Notes receivable - long term	(214,877)	(247,697)
Collections held for others	(887,060)	(1,228,554)
Board designated net assets	(2,876,476)	(2,770,697)
Net assets with donor restrictions less Catholic Stewardship Appeal	<u>(12,325,262)</u>	<u>(11,977,120)</u>
Financial assets available to meet cash needs for general use within one year	<u>\$ 21,048,715</u>	<u>\$ 18,980,171</u>

# Archdiocese of Milwaukee

Notes to Financial Statements  
June 30, 2020 and 2019

## 14. Functional Expenses

The financial statements contain certain categories of expenses that are attributable to more than one program or supporting function. Directly identifiable expenses are charged to pastoral ministries, cemeteries, central service office and fundraising. Expenses attributable to multiple functions are allocated. Salaries and benefit costs are allocated based on employee's time and effort. Other expenses relating to more than one function are charged to pastoral ministries, cemeteries, central service office and fundraising based on the allocation percentages used for salary and benefits or square footage.

The following tables detail expenses by nature and function for the years ended June 30, 2020 and 2019:

	<b>2020</b>				
	<b>Program Activities</b>		<b>Supporting Activities</b>		
	<b>Pastoral Ministries</b>	<b>Cemeteries</b>	<b>Central Service Office</b>	<b>Fundraising</b>	<b>Total</b>
Salaries and benefits	\$ 9,139,758	\$ 3,635,978	\$ 1,934,237	\$ 990,859	\$ 15,700,832
Occupancy	345,159	2,295,938	2,303,886	45,360	4,990,343
Office and program supplies	1,660,475	165,166	438,680	549,289	2,813,610
Travel and professional development	544,705	18,382	15,107	21,879	600,073
Cost of sales	4,539	1,254,716	-	-	1,259,255
Grants and other assistance	1,458,294	-	61,742	-	1,520,036
Professional services	11,820	841,048	519,543	-	1,372,411
Interest	-	-	243,086	-	243,086
Depreciation	29,625	142,733	185,689	2,895	360,942
Other	29,698	89,023	806,589	107,644	1,032,954
<b>Total Expenses</b>	<b>\$ 13,224,073</b>	<b>\$ 8,442,984</b>	<b>\$ 6,508,559</b>	<b>\$ 1,717,926</b>	<b>\$ 29,893,542</b>

	<b>2019</b>				
	<b>Program Activities</b>		<b>Supporting Activities</b>		
	<b>Pastoral Ministries</b>	<b>Cemeteries</b>	<b>Central Service Office</b>	<b>Fundraising</b>	<b>Total</b>
Salaries and benefits	\$ 8,295,945	\$ 3,775,396	\$ 1,584,249	\$ 988,244	\$ 14,643,834
Occupancy	351,764	1,626,919	835,344	48,691	2,862,718
Office and program supplies	2,612,448	270,396	293,987	565,323	3,742,154
Travel and professional development	468,967	64,800	6,335	12,176	552,278
Cost of sales	3,649	1,174,913	-	-	1,178,562
Grants and other assistance	6,331,272	-	30,098	-	6,361,370
Professional services	47,214	669,516	170,197	2,700	889,627
Interest	-	5,164	247,820	-	252,984
Depreciation	40,260	152,089	253,215	3,429	448,993
Other	212,072	485,539	501,347	68,230	1,267,188
<b>Total Expenses</b>	<b>\$ 18,363,591</b>	<b>\$ 8,224,732</b>	<b>\$ 3,922,592</b>	<b>\$ 1,688,793</b>	<b>\$ 32,199,708</b>

## **Archdiocese of Milwaukee**

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Notes to Financial Statements  
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### **15. Participants' Indemnity Program Irrevocable Trust**

The Archdiocese, both for itself and as the agent for all parishes and various other Catholic entities operating within the boundaries of the Archdiocese, provides administrative services for a protected self-insurance program. This program provides uniform property and liability coverage under a comprehensive plan. During the 2017-2018 fiscal year, the Archdiocese strengthened this program by establishing a new trust. The trust name is the Participants' Indemnity Program Irrevocable Trust (PIPIT) and the identifying number is 83-6214122. Premiums and loss reserves are determined and claims are processed by a service agency on a contractual basis.

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

### **16. Administrative Services for Unrelated Organizations**

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

### **17. Concentrations**

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

### **18. Commitments**

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



## Archdiocese of Milwaukee

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Notes to Financial Statements  
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### 19. Business Combination - Merger

On December 20, 2019, de Sales Preparatory Seminary Inc. (de Sales Prep) merged into the Archdiocese. de Sales Prep was incorporated in 1961 and operated as a minor seminary in the Archdiocese, with the mission to prepare men for the priesthood. de Sales Prep closed in 1979 due to declining numbers of men entering the priesthood.

Since the closure of de Sales Prep, the corporation has been dormant. de Sales Prep has one asset, the property known as Mary Mother of the Church Pastoral Center, located in St. Francis, Wisconsin. Since the 1980s, the Archdiocese has leased and maintained the property.

The historical cost basis for the land was de minimis and the building is beyond its accounting useful life, therefore no cost basis has been recorded on the books of the Archdiocese as a result of the merger. There are no known liabilities associated to de Sales Prep, other than the Asset Retirement Obligation which has been recorded on the books of the Archdiocese as a liability (see Note 1).

### 20. Subsequent Events

The Archdiocese has evaluated subsequent events through December 3, 2020 which is the date that the financial statements were approved and available to be issued.

In the spring of 2020, the COVID-19 pandemic struck the United States. The operations of the Archdiocese and the parishes in the Archdiocese were impacted by the federal and state regulations and public health guidance promulgated to reduce the spread of the virus. The Wisconsin Safer at Home Order, issued by the Governor, resulted in the closure of the churches and schools within the Archdiocese.

The economic contraction that has occurred during 2020 has negatively impacted the program revenue and contributions for the Archdiocese through and subsequent to June 30, 2020. The parishes within the Archdiocese have also been negatively impacted by the economic downturn, which has resulted in lower contributions, fundraising revenues, program revenues, and school tuition. The Archdiocese receives a significant portion of its revenue from an assessment on parish revenues. The full economic impact of the parish assessment is currently unknown and may negatively impact the operations of the Archdiocese for the next fiscal year.

On August 5, 2020, the Archdiocese sold the All Souls Property, located in Franklin, Wisconsin. The All Souls Property was a first lien property for the Cemetery Trust line of credit, as disclosed in Note 6. The Cemetery Trust line of credit was paid off in full, principal and accrued interest, from the proceeds of the sale.

On August 7, 2020, the Archdiocese sold the property known as St. Charles Youth and Family Services, Inc., located in Milwaukee, Wisconsin. The St. Charles Youth and Family Services, Inc. property was a first lien property for the note payable with Catholic Financial Life, and second mortgage lien on the Cemetery Trust line of credit, as disclosed in Note 6. The note payable to Catholic Financial Life was paid off in full, principal and accrued interest, from the proceeds of the property sale.

On September 28, 2020, the Archdiocese entered into three contracts with Carrier Mausoleums Construction U.S.A., Inc. to construct additions to three mausoleums. The following details the amount and cemetery location for each contacted entered into: \$515,077 for Resurrection Cemetery located in Mequon, Wisconsin, \$857,025 for St. Adalbert Cemetery located in Milwaukee, Wisconsin, and \$500,253 for Holy Cross Cemetery located in Milwaukee, Wisconsin.