

Archdiocese of Milwaukee

Financial Statements

June 30, 2021 and 2020

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, 2021 and 2020, 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, 2021 and 2020, 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. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. Our opinion is not modified with respect to this matter.

Baker Tilly US, LLP

Milwaukee, Wisconsin
November 9, 2021

Archdiocese of Milwaukee

Statements of Financial Position
June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Assets		
Assets		
Cash and cash equivalents	\$ 21,185,504	\$ 22,822,578
Receivables, net	7,199,883	7,236,781
Notes receivable, net	104,152	227,115
Investments	37,313,721	21,822,554
Cemetery, ground burial and crypt sites	3,715,412	4,070,369
Land, buildings and equipment, net	4,491,048	4,359,049
Beneficial interest in Cemetery Trust	73,566,173	59,663,751
Other assets	1,419,692	762,808
	<u>\$ 148,995,585</u>	<u>\$ 120,965,005</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 2,237,713	\$ 1,758,756
Deferred revenue	14,868,710	11,738,509
Accrued Priests' post-retirement benefits	18,441,370	23,192,025
Collections held for others	971,737	887,060
Custodial funds held for others	128,002	339,429
Notes payable	-	7,436,187
Asset retirement obligation	2,835,250	2,750,000
	<u>39,482,782</u>	<u>48,101,966</u>
Net Assets		
Without donor restrictions:		
Undesignated operating (deficit)	7,294,018	(8,417,881)
Board designated	7,126,962	2,876,476
Beneficial interest in Cemetery Trust	73,566,173	59,663,751
	<u>87,987,153</u>	<u>54,122,346</u>
With donor restrictions:		
Purpose and time restricted	17,809,284	15,024,327
Endowment Fund	3,716,366	3,716,366
	<u>21,525,650</u>	<u>18,740,693</u>
Total net assets with donor restrictions	<u>21,525,650</u>	<u>18,740,693</u>
Total net assets	<u>109,512,803</u>	<u>72,863,039</u>
Total liabilities and net assets	<u>\$ 148,995,585</u>	<u>\$ 120,965,005</u>

See notes to financial statements

Archdiocese of Milwaukee

Statements of Activities

Years Ended June 30, 2021 and 2020

	2021			2020		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and Other Support						
Annual appeal	\$ -	\$ 9,244,208	\$ 9,244,208	\$ -	\$ 9,378,787	\$ 9,378,787
Assessments	8,988,206	-	8,988,206	9,796,821	-	9,796,821
Contributions	706,767	2,005,093	2,711,860	1,318,929	820,793	2,139,722
Grants	-	238,114	238,114	-	538,821	538,821
Program revenues	298,673	-	298,673	421,755	-	421,755
Cemetery sales and services	9,364,097	-	9,364,097	8,564,700	-	8,564,700
Distributions from Cemetery Trust	1,950,000	-	1,950,000	1,950,000	-	1,950,000
Other revenue	488,816	-	488,816	446,048	-	446,048
Net assets released from restrictions	10,329,251	(10,329,251)	-	9,339,100	(9,339,100)	-
Total revenues and other support	32,125,810	1,158,164	33,283,974	31,837,353	1,399,301	33,236,654
Operating Expenses						
Salaries and benefits	16,152,843	-	16,152,843	15,700,832	-	15,700,832
Occupancy	3,293,045	-	3,293,045	4,990,343	-	4,990,343
Office and program supplies	1,791,870	-	1,791,870	2,813,610	-	2,813,610
Travel and professional development	235,651	-	235,651	600,073	-	600,073
Cost of sales	1,202,003	-	1,202,003	1,259,255	-	1,259,255
Grants and other assistance	4,098,541	-	4,098,541	1,520,036	-	1,520,036
Professional services	1,338,254	-	1,338,254	1,372,411	-	1,372,411
Interest	47,468	-	47,468	243,086	-	243,086
Depreciation	271,588	-	271,588	360,942	-	360,942
Other	46,409	-	46,409	1,032,954	-	1,032,954
Total operating expenses	28,477,672	-	28,477,672	29,893,542	-	29,893,542
Change in net assets from operations	3,648,138	1,158,164	4,806,302	1,943,811	1,399,301	3,343,112

See notes to financial statements

Archdiocese of Milwaukee

Statements of Activities

Years Ended June 30, 2021 and 2020

	2021			2020		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Nonoperating Activities						
Investment return, net	\$ 621,613	\$ 1,626,793	\$ 2,248,406	\$ 618,289	\$ (279,605)	\$ 338,684
Forgiveness of note payable	2,162,308	-	2,162,308	-	-	-
Gain on sale of property	9,260,466	-	9,260,466	-	-	-
Priest medical related changes other than service cost	5,410,310	-	5,410,310	(3,711,796)	-	(3,711,796)
Change in beneficial interest in Cemetery Trust	12,761,972	-	12,761,972	1,603,040	-	1,603,040
Total nonoperating activities	<u>30,216,669</u>	<u>1,626,793</u>	<u>31,843,462</u>	<u>(1,490,467)</u>	<u>(279,605)</u>	<u>(1,770,072)</u>
Change in net assets	33,864,807	2,784,957	36,649,764	453,344	1,119,696	1,573,040
Net Assets, Beginning	<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>
Net Assets, Ending	<u>\$ 87,987,153</u>	<u>\$ 21,525,650</u>	<u>\$ 109,512,803</u>	<u>\$ 54,122,346</u>	<u>\$ 18,740,693</u>	<u>\$ 72,863,039</u>

See notes to financial statements

Archdiocese of Milwaukee

Statements of Cash Flows Years Ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash Flows From Operating Activities		
Change in net assets	\$ 36,649,764	\$ 1,573,040
Adjustments to reconcile to net cash flows from operating activities:		
Bad debt expense (recovery)	(290,219)	834,118
Depreciation and amortization	271,588	360,942
Asset retirement expense	85,250	1,664,930
Forgiveness of note payable	(2,162,308)	-
Donated investment	-	(857,045)
Investment return, net	(1,762,016)	(271,595)
(Gain) loss on sale of property and equipment	(9,260,466)	-
Change in beneficial interest in Cemetery Trust	(12,761,972)	(1,603,040)
Changes in assets and liabilities:		
Receivables, payables and accrued expenses	1,346,277	(5,080,222)
Other assets	(656,884)	189,847
Cemetery, ground burial and crypt sites	354,957	363,458
Deferred revenue	3,130,201	2,317,152
Accrued postretirement and pension benefits	(4,750,655)	4,176,122
Net cash flows from operating activities	<u>10,193,517</u>	<u>3,667,707</u>
Cash Flows From Investing Activities		
Payments received on notes receivable	12,000	32,817
Purchase of property and equipment	(451,412)	(148,896)
Proceeds from the sale of property and equipment	3,630,765	-
Proceeds from sale of investments	1,636,684	4,622,250
Purchase of investments	(4,613,877)	(4,829,336)
Net change in collections held for others	84,677	(341,494)
Net change in custodial funds held for others	(211,427)	(146,074)
Deposits to beneficial interest in Cemetery Trust	(1,140,450)	-
Net cash flows from investing activities	<u>(1,053,040)</u>	<u>(810,733)</u>
Cash Flows From Financing Activities		
Principal payments on notes payable	(25,593)	(155,266)
Proceeds from issuance of notes payable	-	2,137,255
Net cash flows from financing activities	<u>(25,593)</u>	<u>1,981,989</u>
Net change in cash, restricted cash and cash equivalents	9,114,884	4,838,963
Cash, Restricted Cash and Cash Equivalents, Beginning	<u>31,397,071</u>	<u>26,558,108</u>
Cash, Restricted Cash and Cash Equivalents, Ending	<u>\$ 40,511,955</u>	<u>\$ 31,397,071</u>
Reconciliation of Total Cash, Restricted Cash and Cash Equivalents		
Cash and cash equivalents	\$ 21,185,504	\$ 22,822,578
Cemetery pre-need cash included in investments	12,544,304	6,190,035
Cash and money markets included in investments	6,782,147	2,384,458
Total cash, restricted cash and cash equivalents	<u>\$ 40,511,955</u>	<u>\$ 31,397,071</u>
Supplemental Cash Flow Disclosures		
Cash paid for interest	<u>\$ 26,930</u>	<u>\$ 220,773</u>
Noncash Investing and Financing Activities		
Principal payments on notes payable from proceeds from the sale of property and equipment	<u>\$ 5,273,340</u>	<u>\$ -</u>

See notes to financial statements

Archdiocese of Milwaukee

Notes to Financial Statements
June 30, 2021 and 2020

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

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Contributions, parish assessments and school assessments use the allowance method to account for uncollectible accounts receivable, based on historic collection experience and a review of the current status of receivables. The allowance is recorded through a provision for bad debt expense and an adjustment to a valuation allowance.

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Due to the adoption of Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, management recorded revenue and net receivables for cemetery services and merchandise during the year ended June 30, 2021 based on historical collection rates. For the year ended June 30, 2020, cemetery receivables were recorded using the allowance method to account for uncollectible accounts receivable based on historic collection experience.

Net receivables as of June 30 consist of:

	<u>2021</u>	<u>2020</u>
Accounts receivable	\$ 4,550,484	\$ 3,708,872
Contributions	521,642	1,103,058
Charitable remainder trusts	1,684,584	853,129
Parish and school obligations	383,775	1,513,774
Interest and dividends	59,398	57,948
	<u>\$ 7,199,883</u>	<u>\$ 7,236,781</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 percent to 1.8 percent. The current portions of the notes receivable were \$12,242 and \$12,238 at June 30, 2021 and 2020. The notes receivable are presented net of allowances for uncollectible accounts of \$472,406 and \$361,443 at June 30, 2021 and 2020, respectively.

Life Insurance Contributions

Donors have contributed multiple life insurance policies on their lives to the Archdiocese. The cash surrender value of \$253,733 and \$248,965 at June 30, 2021 and 2020, 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 policies are 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 to 40
Leasehold Improvements	20
Land Improvements	20
Furniture and Fixtures	10
Equipment	3 to 10
Vehicles	5

Archdiocese of Milwaukee

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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 \$2,835,250 and \$2,750,000 as of June 30, 2021 and 2020, 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, 2021 and 2020.

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 receives 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. The distributions totaled \$1,950,000 each for the years ended June 30, 2021 and 2020.

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
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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>2021</u>	<u>2020</u>
Charitable gift annuities	\$ 128,002	\$ 131,626
Other	-	207,803
Total	<u>\$ 128,002</u>	<u>\$ 339,429</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 in perpetuity. 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.

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Notes to Financial Statements
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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>2021</u>	<u>2020</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)	506,473	507,388
Mary Mother of the Church Endowment Fund	3,217,817	256,905
Beihoff Fund (scholarships)	-	126,959
General operations and other	<u>1,886,445</u>	<u>468,997</u>
Total designated net assets	<u>\$ 7,126,962</u>	<u>\$ 2,876,476</u>

The Archdiocese has an economic interest, as defined by accounting standards, in the Cemetery Trust. Trust funding occurs at the discretion of the Archbishop and trust funds are subject to a fiduciary obligation to be used for the purpose of perpetual care of Archdiocesan Cemeteries.

	<u>2021</u>	<u>2020</u>
Limited to perpetual care of cemeteries	<u>\$ 73,566,173</u>	<u>\$ 59,663,751</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 non-operating revenue or expense, such as investment return net of fees, forgiveness of note payable, gain on sale of property, changes in post-retirement benefits, the change in the beneficial interest in the Cemetery Trust and gains and losses on the sales of property.

Revenue Recognition

Revenues from assessments (cathedraticum), 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, 2021 and 2020.

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Notes to Financial Statements
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During the year ended June 30, 2021, the Archdiocese adopted the provisions of ASU No. 2014-09. The pronouncement 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.

The Archdiocese enters into contracts with Catholic Cemetery customers providing property and interment services, cemetery services and related merchandise on an at-need and pre-need basis. Each of these items is considered a separate performance obligation. Sales of cemetery services and merchandise are recorded at net realizable value. Cemetery services and merchandise sold at the time of need are recognized in the period the service is performed or the merchandise is delivered.

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 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 allows customers to purchase cemetery plots and mausoleum crypts and niches through an installment method in which customers are allowed up to two years to pay. The burial right is transferred to the customer when the contract is paid in full.

The Archdiocese sells pre-need cemetery services and merchandise under contracts that provide for the delivery of the services and merchandise at the time of need. Pre-need cemetery services and merchandise sales are recognized as cemetery revenue in the period the service is performed or the merchandise is delivered. Prior to that time, such sales are deferred. Purchase of these services can be included in the two year installment sale with the purchase of property. As of June 30, 2021 and 2020, there were receivables from cemetery sales of \$3,422,180 and \$3,026,710, respectively.

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. Amounts collected from pre-need service and merchandise sales are deposited into a pre-need trust fund and are recorded as deferred revenue in the financial statements. When pre-need services and merchandise are delivered, amounts equal to the original deposits are withdrawn from the pre-need trust fund and transferred to the operating fund. Revenue is recognized when the services and merchandise are delivered. Deferred revenue related to pre-need contracts was \$14,533,048 and \$11,705,259, as of June 30, 2021 and 2020, respectively.

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. Investments on the statements of financial position include cash of \$12,544,304 and \$6,190,035 as of June 30, 2021 and 2020, respectively, for the Cemeteries Pre-Need Trust Fund.

The Archdiocese recognizes its canonical obligation to care for the dead and maintains a perpetual care trust fund to ensure the continuous maintenance and operation of the cemetery grounds.

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.

Reclassifications

For comparability, certain 2020 amounts have been reclassified to conform with classifications adopted in 2021. The reclassifications have no effect on reported amounts of net assets or change in net assets.

Archdiocese of Milwaukee

Notes to Financial Statements
June 30, 2021 and 2020

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 2021, the Archdiocese adopted ASU No. 2014-09, using the modified retrospective approach. 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. The amendments in this ASU clarify the implementation guidance on principal versus agent considerations, and clarify the identification of performance obligations and the licensing implementation guidance. Adopting ASU No. 2014-09 on the modified retrospective basis did not have a significant impact on the financial statements of the Archdiocese but disclosures related to revenue recognition were enhanced.

In 2021, the Archdiocese adopted FASB ASU No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement*. ASU No. 2018-13 modifies the disclosure requirements for fair value measurements in Topic 820, *Fair Value Measurement*. Adopting ASU No. 2018-13 did not have a significant impact on the financial statements of the Archdiocese.

New Accounting Pronouncements

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 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.

During February 2016, FASB issued ASU No. 2016-02, *Leases (Topic 842)* that amends the treatment for leases. The new accounting model for leases capitalizes all leases greater than twelve months, both capital and operating, as assets and liabilities on the statement of financial position. The Archdiocese will be required to apply the standard for fiscal years and reporting periods beginning after December 15, 2021 (2023). Early adoption is permitted. Management is currently evaluating the impact of ASU No. 2016-02 on the Archdiocese's financial statements.

Archdiocese of Milwaukee

Notes to Financial Statements
June 30, 2021 and 2020

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, 2021			
	Level 1	Level 2	Level 3	Total
Assets				
Commercial bonds	\$ -	\$ 4,571,370	\$ -	\$ 4,571,370
US Government bonds and securities	-	2,905,029	-	2,905,029
Other investments	-	-	10,510,871	10,510,871
Total investments, at fair value	<u>\$ -</u>	<u>\$ 7,476,399</u>	<u>\$ 10,510,871</u>	17,987,270
Cash and money markets, at cost				6,782,147
Cash held in cemeteries pre-need cash account, at cost				<u>12,544,304</u>
Total investments				37,313,721
Beneficial interest in Cemetery Trust, at fair value	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 73,566,173</u>	<u>73,566,173</u>
Total assets				<u>\$ 110,879,894</u>

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	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>

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 percent 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 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:

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	<u>Other Investments</u>	<u>Beneficial Interest in Cemetery Trust</u>	<u>Total</u>
Balance, June 30, 2020	\$ 5,856,686	\$ 59,663,751	\$ 65,520,437
Deposits	2,529,778	1,090,361	3,620,139
Withdrawals	(73,254)	(1,950,000)	(2,023,254)
Investment Income	2,197,661	14,762,061	16,959,722
Balance, June 30, 2021	<u>\$ 10,510,871</u>	<u>\$ 73,566,173</u>	<u>\$ 84,077,044</u>

	<u>Other Investments</u>	<u>Beneficial Interest in Cemetery Trust</u>	<u>Total</u>
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
Balance, June 30, 2020	<u>\$ 5,856,686</u>	<u>\$ 59,663,751</u>	<u>\$ 65,520,437</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>2021</u>	<u>2020</u>
Less than one year	\$ 594,642	\$ 1,176,058
Less allowance for doubtful accounts	(73,000)	(73,000)
Net contributions receivable	<u>\$ 521,642</u>	<u>\$ 1,103,058</u>

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4. Cemetery, Ground Burial and Crypt Sites

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

	<u>2021</u>	<u>2020</u>
Mausoleum, crypts & niches	\$ 987,883	\$ 1,334,418
Cemetery land and facilities held for burial privileges	<u>2,727,529</u>	<u>2,735,951</u>
Total	<u>\$ 3,715,412</u>	<u>\$ 4,070,369</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.

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 contract for Resurrection Cemetery located in Mequon, Wisconsin, was for \$537,237 and that project was completed during fiscal 2021 and was added to inventory available for sale in August 2021. The two remaining contracts are for St. Adalbert Cemetery located in Milwaukee, Wisconsin, for \$875,605, and Holy Cross Cemetery located in Milwaukee, Wisconsin, for \$521,186. These latter two projects are still under construction, with an anticipated completion date of spring 2022. At June 30, 2021, the amount paid under these contracts was \$644,217, reflected in other assets on the statement of financial position.

5. Land, Buildings and Equipment

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

	<u>2021</u>	<u>2020</u>
Land	\$ 860,510	\$ 860,510
Land and building improvements	1,804,130	2,280,135
Construction in progress	53,627	14,000
Buildings	9,822,262	9,841,168
Leasehold improvements	735,283	735,283
Furniture and fixtures, equipment, art	681,526	480,523
Vehicles	521,608	572,616
Vacant land	<u>46,985</u>	<u>94,810</u>
Total	14,525,931	14,879,045
Less accumulated depreciation	<u>(10,034,883)</u>	<u>(10,519,996)</u>
Net land, buildings and equipment	<u>\$ 4,491,048</u>	<u>\$ 4,359,049</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.; and St. Joseph Catholic Academy, Inc. 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.

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

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Pius XI High School, Inc.	Subject to a mortgage and a line of credit. The balances at June 30, 2021 were \$4,317,587 and \$2,250,000 respectively. The balances at June 30, 2020 were \$4,559,905 and \$0 respectively.
St. Thomas More High School, Inc.	Subject to a mortgage with balances at June 30, 2021 and 2020 of \$785,486 and \$824,310, respectively.
St. Joseph Catholic Academy, Inc.	Subject to a mortgage and a line of credit both secured by the building. The balances at June 30, 2021 and 2020 were \$0 and \$281,357, respectively.

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

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, located in Milwaukee, Wisconsin, for \$5,000,000. The St. Charles Youth and Family Services 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 sale.

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 percent. The business note was 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.

On August 7, 2020, the Archdiocese sold the property known as St. Charles Youth and Family Services, Inc. and used the proceeds to pay the remaining balance on the note payable with Catholic Financial Life. Interest expense for fiscal years ended June 30, 2021 and 2020 was \$26,930 and \$165,870, respectively. As of June 30, 2021 and 2020 the balance of the note payable was \$0 and \$3,518,932, respectively.

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 nonprofit organizations to keep their workforce employed during the Coronavirus crisis. 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 percent and will have a maturity of two years.

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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 a note payable and recorded \$4,515 of accrued interest. The Archdiocese met the PPP's loan forgiveness requirements, and therefore, applied for forgiveness during December of 2020. Legal release was received during June of 2021, therefore, the Archdiocese recorded forgiveness income of \$2,162,308, including \$25,053 of accrued interest, within its statement of activities for the year ended June 30, 2021.

The SBA reserves the right to audit any PPP loan, regardless of size. These audits may occur after forgiveness has been granted. In accordance with the CARES Act, all borrowers are required to maintain their PPP loan documentation for six years after the PPP loan was forgiven or repaid in full and to provide that documentation to the SBA upon request.

Credit Lines

The Archdiocese was 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 bore interest in an amount equal to the lesser of (i) One Year LIBOR (as determined and adjusted annually) plus 200 basis points or (ii) five (5) percent and was set annually in December. The rate of interest was 4.00 percent. In August of 2020, the Archdiocese paid the outstanding balance on the line of credit with the Cemetery Trust.

Since January 1, 2016 and through the retirement of the line of credit in August of 2020, interest-only payments had been made quarterly. The line of credit was secured by mortgage liens on the properties discussed in Note 5 and second mortgage liens on the Mary Mother of the Church Pastoral Center.

The Cemetery Trust credit line balance outstanding as of June 30, 2021 and 2020 was \$0 and \$1,780,000, respectively. At June 30, 2021 and 2020, the amount of interest expense was \$0 and \$72,701, respectively.

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, 2022, is secured by all business assets and accrues interest at prime rate less 1.25 percent. The balance drawn as of June 30, 2021 and 2020 was zero.

7. Charitable Gift Annuities

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

	<u>2021</u>	<u>2020</u>
Charitable gift annuities, 7.00%	\$ 128,002	\$ 131,626
Less current portion	<u>(18,005)</u>	<u>(18,005)</u>
Long-term portion	<u>\$ 109,997</u>	<u>\$ 113,621</u>

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8. Intradiocesan

Grants

St. Francis de Sales Seminary, Inc. (the Seminary) is a freestanding, separate legal entity. The Seminary has a Board of Trustees overseeing governance and administration. The Archdiocese contributes a Catholic Stewardship Appeal grant to the Seminary to fulfill one of the appeal solicitation purposes and is paid by the Seminary for certain administrative services under a contract. The grant paid was \$1,250,000 for the years ending June 30, 2021 and 2020. As of June 30, 2021 there were conditional pledges payable of \$1,250,000.

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 paid was \$1,153,000 for the years ending June 30, 2021 and 2020. As of June 30, 2021 there were conditional pledges payable of \$1,200,000. Catholic Charities also compensates the Archdiocese for certain business services under a contract.

The Archdiocese contributed \$1,145,253 and \$1,157,833 for the years ending June 30, 2021 and 2020, respectively, to various parishes, schools and other Catholic organizations within the Archdiocese of Milwaukee. These funds were received through the Catholic Stewardship Appeal and the COVID Emergency Relief Fund and provided support for parish and school operations during the pandemic, as well as support to various urban and ethnic ministries. As of June 30, 2021 there were conditional pledges payable of \$60,000.

Contributions

The Faith In Our Future Trust (FIOF Trust), is a freestanding, separate legal entity. FIOF Trust has a Board of Trustees overseeing governance and administration. FIOF Trust contributed education and faith formation grants to the Archdiocese. Grants in the amount of \$48,488 and \$50,700 were received for the years ending June 30, 2021 and 2020, respectively. Grants receivable were \$37,000 and \$85,788 at June 30, 2021 and 2020, respectively.

Line of Credit Guarantee

Seton Catholic Schools, Inc. (Seton), participates in the Wisconsin and Milwaukee Parental Choice Programs (Choice Program). 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, 2021 is \$4,000,000 through a maturity date of May 7, 2022. The outstanding balance on the line of credit was \$0 at June 30, 2021 and 2020.

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

9. 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:

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Lay Employees' Pension Plan

This is a noncontributory multi-employer defined benefit plan administered by the Archdiocese. 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, 2020. 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, 2020 and 2019 valuation funding liability and funded ratio:

	<u>July 1, 2020</u>	<u>July 1, 2019</u>
Actuarial accrued liability	\$ 321,020,462	\$ 316,586,299
Market value of assets	<u>285,118,725</u>	<u>277,422,032</u>
Unfunded accrued liability	<u>\$ 35,901,737</u>	<u>\$ 39,164,267</u>
Funding ratio	88.8 %	87.6 %
Total contributions to the Plan	<u>\$ 7,869,000</u>	<u>\$ 7,514,000</u>

The Archdiocese's participation in the Plan is approximately 5 percent of the total contributions to the Plan. The Archdiocese pension expense for the years ended June 30, 2021 and 2020, respectively, was \$542,198 and \$447,407, which includes amortization of past service costs over 30 years.

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, 2020. Following is a summary of the July 1, 2020 and 2019 valuation funding liability and funded ratio:

	<u>July 1, 2020</u>	<u>July 1, 2019</u>
Actuarial accrued liability	\$ 35,371,018	\$ 35,823,359
Market value of assets	<u>34,720,702</u>	<u>34,862,695</u>
Unfunded accrued liability	<u>\$ 650,316</u>	<u>\$ 960,664</u>
Funding ratio	98.2 %	97.3 %
Total contributions to the Plan	<u>\$ 686,000</u>	<u>\$ 678,000</u>

Pension expense for the years ended June 30, 2021 and 2020 was \$89,033 and \$61,431, respectively, which includes amortization of past service costs over 30 years.

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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.

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 \$5,410,310 and \$(3,711,796) in 2021 and 2020, respectively. These components are presented as priest medical related changes other than service cost on the statements of activities.

At June 30, 2021 and 2020, 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>2021</u>	<u>2020</u>
Accumulated postretirement benefit obligation	\$ 18,441,370	\$ 23,192,025
Fair value of plan assets	<u>-</u>	<u>-</u>
Funded status of Plan, recognized in the statements of financial position	<u>\$ (18,441,370)</u>	<u>\$ (23,192,025)</u>

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

	<u>2021</u>	<u>2020</u>
Unrecognized net gain (loss)	\$ 348,474	\$ (5,096,527)
Unrecognized prior service credit (cost)	\$ -	\$ -

The net amortization of the above amounts that are reclassified into a component of net periodic benefit cost for the years ended June 30, 2021 and 2020 was \$167,916 and \$0, respectively.

The amounts expected to be recognized into net periodic benefit cost in the year ended June 30, 2022 are as follows:

Unrecognized net (gain) / loss	\$ -
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>2021</u>	<u>2020</u>
Employer contributions	\$ 702,639	\$ 671,261
Benefits paid	\$ 702,639	\$ 671,261

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The Archdiocese expects to contribute \$825,436 to the plan during the year ended June 30, 2022.

Expected benefit payments for the years ended June 30:

Years ending June 30:	
2022	\$ 825,436
2023	878,139
2024	874,684
2025	881,093
2026	889,100
Next five years	<u>4,566,144</u>
	<u>\$ 8,914,596</u>

At June 30, 2021 and 2020, the net periodic benefit cost recognized was \$1,396,985 and \$1,069,213, respectively.

The weighted average discount rate used to develop the present value of benefit obligations was 2.75 percent and 2.50 percent at June 30, 2021 and 2020, respectively. The weighted average discount rate used to develop the net post retirement expense was 2.50 percent and 3.25 percent at June 30, 2021 and 2020, respectively.

The medical cost trend rate used to value the accumulated post-retirement benefit obligation is 7.50 percent for 2021 and is assumed to decrease gradually to an ultimate rate of 3.50 percent in 2032. The dental and vision cost trend rates used for 2021 and thereafter are 3.50 percent.

10. Net Assets with Donor Restrictions

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

	<u>2021</u>	<u>2020</u>
Funds with purpose and/or temporary restrictions:		
Catholic Stewardship Appeal	\$ 7,241,639	\$ 6,415,431
Education	1,476,689	1,603,422
Ministry	1,731,495	2,158,450
Campus & Young Adult Ministry	605,548	576,520
Kapalcznski Development Fund	1,466,429	527,150
Mary B. Finnigan Trust	1,216,305	669,175
Clergy	680,471	669,589
Rapp Trust	377,464	284,223
Beihoff Trust	608,496	334,887
Life Insurance	253,733	248,965
Radecki Bequest	154,966	154,966
Other Funds with Purpose and/or Temporary Restrictions	<u>1,996,049</u>	<u>1,381,549</u>
Total net assets held with purpose and/or temporary restrictions	<u>17,809,284</u>	<u>15,024,327</u>

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Funds to be held in perpetuity:		
Education Endowment Fund (for the support and furtherance of Roman Catholic education in the Archdiocese of Milwaukee)	1,000,000	1,000,000
Msgr. Eugene J. Kapalczynski Development Fund	2,624,360	2,624,360
General operations and other	92,006	92,006
	<u>3,716,366</u>	<u>3,716,366</u>
Total net assets held in perpetuity		
	<u>3,716,366</u>	<u>3,716,366</u>
Total net assets with donor restrictions	<u>\$ 21,525,650</u>	<u>\$ 18,740,693</u>

11. 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.

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.

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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, 2021 and 2020.

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

	2021			
	Without Donor Restrictions	With Donor Restrictions		Total
		Purpose Restrictions	Perpetual in Nature	
Donor restricted endowment funds	\$ -	\$ 2,699,588	\$ 3,716,366	\$ 6,415,954
Board designated endowment funds	3,217,817	-	-	3,217,817
Total	<u>\$ 3,217,817</u>	<u>\$ 2,699,588</u>	<u>\$ 3,716,366</u>	<u>\$ 9,633,771</u>

	2020			
	Without Donor Restrictions	With Donor Restrictions		Total
		Purpose Restrictions	Perpetual in Nature	
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>

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

	2021			
	Without Donor Restrictions	With Donor Restrictions		Total
		Purpose Restrictions	Perpetual in Nature	
Endowment net assets:				
June 30, 2020	\$ 256,905	\$ 1,213,179	\$ 3,716,366	\$ 5,186,450
Contributions	6,000	-	-	6,000
Investment return, net	425,134	1,531,476	-	1,956,610
Appropriation for expenditure	-	(45,067)	-	(45,067)
Transfer to Board designated funds	2,529,778	-	-	2,529,778
Endowment net assets: June 30, 2021	<u>\$ 3,217,817</u>	<u>\$ 2,699,588</u>	<u>\$ 3,716,366</u>	<u>\$ 9,633,771</u>

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	2020			Total
	Without Donor Restrictions	With Donor Restrictions Purpose Restrictions	Perpetual in Nature	
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>

12. 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, 2021 and 2020, \$2,000,000 remained available on this line of credit.

Archdiocese of Milwaukee

Notes to Financial Statements

June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Financial Assets:		
Cash and cash equivalents	\$ 21,185,504	\$ 22,822,578
Receivables, net	7,199,883	7,236,781
Notes receivable, net	104,152	227,115
Investments	37,313,721	21,822,554
Beneficial interest in Cemetery Trust	73,566,173	59,663,751
Total financial assets	<u>139,369,433</u>	<u>111,772,779</u>
Less financial assets unavailable for general expenditures within one year due to contractual or donor imposed restrictions:		
Beneficial interest in Cemetery Trust	(73,566,173)	(59,663,751)
Cemetery pre-need trust	(12,544,304)	(6,190,035)
Cemetery pre-need and perpetual care trust funding	-	(5,104,013)
Custodial investments held for others	(128,002)	(339,429)
Accounts receivable, long term	(4,251,219)	(3,123,161)
Notes receivable, long term	(91,910)	(214,877)
Collections held for others	(971,737)	(887,060)
Board designated net assets	(7,126,962)	(2,876,476)
Net assets with donor restrictions less Catholic Stewardship Appeal	<u>(14,284,010)</u>	<u>(12,325,262)</u>
Financial assets available to meet cash needs for general use within one year	<u>\$ 26,405,116</u>	<u>\$ 21,048,715</u>

13. 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.

Archdiocese of Milwaukee

Notes to Financial Statements
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The following tables detail expenses by nature and function for the years ended June 30, 2021 and 2020:

	2021				
	Program Activities		Supporting Activities		
	Pastoral Ministries	Cemeteries	Central Service Office	Fundraising	Total
Salaries and benefits	\$ 8,834,076	\$ 3,938,133	\$ 2,485,803	\$ 894,831	\$ 16,152,843
Occupancy	236,624	2,195,037	821,419	39,965	3,293,045
Office and program supplies	1,077,169	152,527	290,240	271,934	1,791,870
Travel and professional development	210,625	7,265	13,272	4,489	235,651
Cost of sales	-	1,202,003	-	-	1,202,003
Grants and other assistance	4,053,844	-	44,697	-	4,098,541
Professional services	21,567	893,868	422,819	-	1,338,254
Interest	-	-	47,468	-	47,468
Depreciation	19,319	129,204	120,901	2,164	271,588
Other	30,120	114,356	(229,383)	131,316	46,409
Total expenses	<u>\$ 14,483,344</u>	<u>\$ 8,632,393</u>	<u>\$ 4,017,236</u>	<u>\$ 1,344,699</u>	<u>\$ 28,477,672</u>

	2020				
	Program Activities		Supporting Activities		
	Pastoral Ministries	Cemeteries	Central Service Office	Fundraising	Total
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
Total expenses	<u>\$ 13,224,073</u>	<u>\$ 8,442,984</u>	<u>\$ 6,508,559</u>	<u>\$ 1,717,926</u>	<u>\$ 29,893,542</u>

Archdiocese of Milwaukee

Notes to Financial Statements
June 30, 2021 and 2020

14. 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 potential losses or portion of the loss fund, which might revert back to the Archdiocese, is not measurable.

15. Administrative Services for Unrelated Organizations

The Archdiocese provides administrative services to several unrelated organizations, including the FIOF Trust, the Love One Another Trust (LOA Trust) and Seton. 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 of Milwaukee, as specified and disclosed in the materials provided to donors. The Archdiocese 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 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's financial statements.

16. 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.

The employees of the cemetery and mausoleum operations are covered by a union contract that expires March 2022. The contract covers approximately 10 percent of Archdiocesan employees, varying based on seasonal employment levels.

Archdiocese of Milwaukee

Notes to Financial Statements
June 30, 2021 and 2020

17. 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.

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 contract for Resurrection Cemetery located in Mequon, Wisconsin, was for \$537,237 and that project was completed during fiscal 2021 and was added to inventory available for sale in August 2021. The two remaining contracts are for St. Adalbert Cemetery located in Milwaukee, Wisconsin, for \$875,605, and Holy Cross Cemetery located in Milwaukee, Wisconsin, for \$521,186. These latter two projects are still under construction, with an anticipated completion date of spring 2022.

18. Subsequent Events

The Archdiocese has evaluated subsequent events through November 9, 2021, which is the date that the financial statements were approved and available to be issued.

The COVID-19 pandemic will continue to impact the Archdiocese in the next year. The pandemic struck the United States in the spring of 2020 and affected the operations of the Archdiocese and the parishes in the Archdiocese through 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 and reduced occupancy capacity of the churches and schools within the Archdiocese through March 2021.

The economic contraction that occurred during 2020 and into early 2021 has negatively impacted the program revenue and appeal contributions for the Archdiocese through and subsequent to June 30, 2021. 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 which is based on the parishes' prior year receipts. The full economic impact on the parish assessment is currently unknown and may negatively impact the operations of the Archdiocese for the next fiscal year.