

THE CATHOLIC DIOCESE OF MADISON FOUNDATION, INC.

FINANCIAL STATEMENTS

June 30, 2016 and 2015

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
The Catholic Diocese of Madison Foundation, Inc.
Madison, Wisconsin

We have audited the accompanying financial statements of The Catholic Diocese of Madison Foundation, Inc., which comprise the statements of financial position as of June 30, 2016 and 2015, 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.

Auditor's 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 auditor's 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 Catholic Diocese of Madison Foundation, Inc. as of June 30, 2016 and 2015, 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.

Wegner CPAs LLP

Wegner CPAs, LLP
Madison, Wisconsin
October 26, 2016

Janesville Office:
101 E. Milwaukee Street
Suite 425
Janesville, WI 53545
P: (608) 756-4020

Baraboo Office:
123 Second Street
P.O. Box 150
Baraboo, WI 53913
P: (608) 356-3966
F: (608) 356-2966

Milwaukee Office:
W229 N1433 Westwood Drive
Suite 105
Waukesha, WI 53186
P: (262) 522-7555
F: (262) 522-7550

Madison Office:
2110 Luann Lane
Madison, WI 53713
P: (608) 274-4020
F: (608) 274-0775

www.wegnercpas.com
info@wegnercpas.com
(888) 204-7665

THE CATHOLIC DIOCESE OF MADISON FOUNDATION, INC.
STATEMENTS OF FINANCIAL POSITION
June 30, 2016 and 2015

	2016	2015
ASSETS		
Cash	\$ 540,231	\$ 2,576,497
Accounts receivable	69,133	44,594
Pledges receivable - net	22,590,351	25,517,760
Investments	27,663,525	17,924,318
Total assets	\$ 50,863,240	46,063,169
LIABILITIES		
Accounts payable	\$ -	\$ 25,639
Accrued payroll	1,340	2,441
Accrued vacation	11,338	11,857
Beneficial interests held for others	50,730,855	45,968,915
Total liabilities	50,743,533	46,008,852
NET ASSETS		
Unrestricted	119,707	54,317
Total liabilities and net assets	\$ 50,863,240	\$ 46,063,169

See accompanying notes.

THE CATHOLIC DIOCESE OF MADISON FOUNDATION, INC.
STATEMENTS OF ACTIVITIES
Years ended June 30, 2016 and 2015

	2016	2015
UNRESTRICTED NET ASSETS		
SUPPORT AND REVENUE		
Total contributions	\$ 14,692,314	\$ 33,961,270
Less amounts for beneficial interests held for others	<u>(14,692,314)</u>	<u>(33,961,270)</u>
Contributions	-	-
Total investment return	(440,361)	63,116
Less amounts for beneficial interests held for others	<u>440,361</u>	<u>(63,116)</u>
Investment return	-	-
Management fees	245,314	143,342
Interest	334	426
Miscellaneous	<u>2</u>	<u>81</u>
Total unrestricted support and revenue	245,650	143,849
EXPENSES		
Grants and distributions	508,179	1,179,592
Less amounts from beneficial interests held for others	<u>(508,179)</u>	<u>(1,179,592)</u>
Grants	-	-
Personnel	125,519	125,138
Professional fees	37,941	62,500
Rent	5,940	3,648
Office expenses	795	1,819
Travel and meals	2,917	1,870
Conferences and meetings	2,131	64
Sponsorships and donations	1,000	1,800
Postage and printing	2,532	4,640
Other	<u>1,485</u>	<u>1,932</u>
Total expenses	<u>180,260</u>	<u>203,411</u>
Change in net assets	65,390	(59,562)
Net assets - beginning of year	<u>54,317</u>	<u>113,879</u>
Net assets - end of year	<u>\$ 119,707</u>	<u>\$ 54,317</u>

See accompanying notes.

THE CATHOLIC DIOCESE OF MADISON FOUNDATION, INC.
STATEMENTS OF CASH FLOWS
Years ended June 30, 2016 and 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 65,390	\$ (59,562)
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Amortization of discount on pledges receivable	(246,826)	758,026
(Increase) decrease in assets		
Accounts receivable	(24,539)	(13,916)
Pledges receivable	3,174,235	(26,074,814)
Increase (decrease) in liabilities		
Accounts payable	(25,639)	24,858
Accrued payroll	(1,101)	2,441
Accrued vacation	(519)	11,857
Beneficial interests held for others	5,202,301	33,289,749
Net cash flows from operating activities	8,143,302	7,938,639
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(21,508,161)	(12,728,668)
Proceeds from sales of investments	11,328,593	7,265,659
Net cash flows from investing activities	(10,179,568)	(5,463,009)
Change in cash	(2,036,266)	2,475,630
Cash - beginning of year	2,576,497	100,867
Cash - end of year	<u>\$ 540,231</u>	<u>\$ 2,576,497</u>

See accompanying notes.

THE CATHOLIC DIOCESE OF MADISON FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

The Catholic Diocese of Madison Foundation, Inc. (the "Foundation"), is a not-for-profit Wisconsin corporation that serves as a resource to Catholic ministries of the Diocese by offering long term funding resources and is organized to operate exclusively for religious, charitable and educational purposes. Funds are invested to uphold Catholic values and provide competitive long term return. The Foundation is governed by a Board of Directors who is responsible for the management and control of the Foundation's operations, affairs, property and funds.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The Foundation reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Accounts Receivable

The Foundation considers all accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts has been developed. If amounts become uncollectible, they will be charged to operations when that determination is made.

Pledges Receivable

Pledges receivable are recorded at fair value. As such, pledges receivable that will be satisfied in more than one year have been discounted to present value.

Expense Allocation

Expenses are allocated to program and supporting services based on the nature of the expenses.

Income Tax Status

The Foundation is exempt from income taxes under Internal Revenue Code Section 501(c)(3) and, accordingly, there is no provision for federal or state income taxes.

Accounting for Uncertainty in Income Taxes

Management has analyzed the tax positions taken by the Foundation and has concluded that as of June 30, 2016, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. The Foundation is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenue and expenses. Actual results could differ from those estimates.

THE CATHOLIC DIOCESE OF MADISON FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Date of Management’s Review

Management has evaluated subsequent events through October 26, 2016, the date which the financial statements were available to be issued.

NOTE 2 – INVESTMENTS

Investments at June 30, 2016 and 2015 consisted of the following:

	<u>2016</u>	<u>2015</u>
Common stocks	\$ 15,824,576	\$ 3,009,253
Bonds	10,202,364	6,173,658
Mutual funds	590,084	7,877,908
Money market	<u>1,046,501</u>	<u>863,499</u>
Investments	<u>\$ 27,663,525</u>	<u>\$ 17,924,318</u>

Investment securities, in general, are exposed to various risks such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the value of investment securities will occur in the near term and such changes could materially affect the amounts reported in the statements of financial position.

Investment return for the beneficial interests held for others for the years ended June 30, 2016 and 2015 consisted of the following:

	<u>2016</u>	<u>2015</u>
Interest and dividends	\$ 518,998	\$ 248,023
Realized and unrealized gains/(losses)	(561,001)	46,693
Fees	<u>(398,358)</u>	<u>(231,600)</u>
Investment return	<u>\$ (440,361)</u>	<u>\$ 63,116</u>

NOTE 3 – FAIR VALUE MEASUREMENTS

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 CATHOLIC DIOCESE OF MADISON FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 3 – FAIR VALUE MEASUREMENTS (continued)

Fair values of assets measured on a recurring basis are as follows for the years ended June 30, 2016 and 2015:

	Fair Value	Quoted Prices in Active Market for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
2016				
Common stocks	\$ 15,824,576	\$ 15,824,576	\$ -	\$ -
Bonds	10,202,364	158,998	10,043,366	-
Mutual funds	590,084	160,225	429,859	-
Money market	1,046,501	-	1,046,501	-
	<u>\$ 27,663,525</u>	<u>\$ 16,143,799</u>	<u>\$ 11,519,726</u>	<u>\$ -</u>
2015				
Common stocks	\$ 3,009,253	\$ 3,009,253	\$ -	\$ -
Bonds	6,173,658	166,914	6,006,744	-
Mutual funds	7,877,908	-	7,877,908	-
Money market	863,499	-	863,499	-
	<u>\$ 17,924,318</u>	<u>\$ 3,176,167</u>	<u>\$ 14,748,151</u>	<u>\$ -</u>

Fair values for the money market fund and stocks are determined by reference to quoted market prices and other relevant information generated by market transactions. Fair value of the mutual funds is based on quoted market prices as these securities are actively traded. Fair value of the bonds is determined based on the quoted yield on a security that is most similar to the security being valued, adjusted for variances in the maturity, coupon and other features. Level 1 and Level 2 investments can be sold in the open market without delay.

NOTE 4 – BENEFICIAL INTERESTS HELD FOR OTHERS

As part of its mission, the Foundation receives reciprocal transfers and donations from various donors and other entities, solely to support Catholic organizations in the Diocese of Madison. U.S. GAAP establishes standards for transactions in which a recipient entity accepts a contribution from a donor and agrees to transfer those assets, the return on investment of those assets, or both, to an entity that is specified by the donor. The Foundation refers to such funds as beneficial interests held for others. The Foundation maintains legal ownership of beneficial interests, and, therefore, reports the funds as assets of the Foundation. However, in accordance with U.S. GAAP, because the Foundation received these funds absent variance power, these transfers and donations are not recorded as revenue, and a liability has been established equal to the fair value of the assets held for the various Catholic organizations.

THE CATHOLIC DIOCESE OF MADISON FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 4 – BENEFICIAL INTERESTS HELD FOR OTHERS

As of June 30, 2016 and 2015, the Foundation was the owner of 14 beneficial interests held for others with a combined fair value of \$50,730,855 and \$45,968,915, respectively. All financial activity related to these funds is segregated in the statements of activities and has been classified as a liability in the statements of financial position. As of June 30, 2016 and 2015, the Foundation's beneficial interests held for others consisted of the following:

	<u>2016</u>	<u>2015</u>
Cash	\$ 476,979	\$ 2,526,837
Pledges receivable	22,590,351	25,517,760
Investments	<u>27,663,525</u>	<u>17,924,318</u>
Total beneficial interests held for others	<u>\$ 50,730,855</u>	<u>\$ 45,968,915</u>

NOTE 5 – PLEDGES RECEIVABLE

Pledges receivable at June 30, 2016 and 2015 are summarized as follows:

	<u>2016</u>	<u>2015</u>
Amounts due in less than one year	\$ 5,434,639	\$ 5,291,332
Amounts due in one to five years	<u>17,672,940</u>	<u>20,990,482</u>
Pledges receivable	23,107,579	26,281,814
Less unamortized discount on pledges	<u>(517,228)</u>	<u>(764,054)</u>
Pledges receivable - net	<u>\$ 22,590,351</u>	<u>\$ 25,517,760</u>

Pledges receivable due in one to five years are reflected at present value of estimated future cash flows using a discount rate of 1.5%.

All of the pledges are attributable to the Priests for Our Future – The Church is Alive capital campaign which is raising funds to provide educational support for the seminarians of the Diocese of Madison and to support the work of the Diocesan Office of Vocations in promoting vocations to the priesthood. All of the pledges are included in the beneficial interests held for others liability as noted in Note 4 and, therefore, do not have an effect on the Foundation's statements of activities. Accordingly, the Foundation has elected not to record an allowance for uncollectible pledges and will reduce the pledges receivable balance, along with the corresponding beneficial interests held for others, when any pledges are determined to be uncollectible.

Each parish in the Diocese of Madison has a goal to raise contributions for the campaign. If a parish exceeds its goal, a "waterfall" would be created where the parish will have the rights to a portion of the excess amounts given to the Foundation for the campaign. For contributions of 100% to 125% of the goal, 50% of these amounts will be a waterfall to the parish. For contributions above 125% of the goal, 80% of these amounts will be a waterfall to the parish.

THE CATHOLIC DIOCESE OF MADISON FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 5 – PLEDGES RECEIVABLE (continued)

Based on the pledges receivable by parish as of June 30, 2016 and 2015, the amounts held for others are estimated to be split as follows:

	<u>2016</u>	<u>2015</u>
Diocese of Madison - Holy Name Seminary	\$ 15,834,032	\$ 20,160,343
Various parishes of the Diocese	<u>6,756,319</u>	<u>5,357,417</u>
Pledges receivable - net	<u>\$ 22,590,351</u>	<u>\$ 25,517,760</u>

NOTE 6 – FUNCTIONAL ALLOCATION OF EXPENSES

Expenses by function for the years ended June 30, 2016 and 2015 were as follows:

	<u>2016</u>	<u>2015</u>
Program services	\$ 99,624	\$ 91,592
Management and general	<u>80,636</u>	<u>111,819</u>
Total expenses	<u>\$ 180,260</u>	<u>\$ 203,411</u>

NOTE 7 – CONCENTRATIONS OF CREDIT RISK

The Foundation maintains cash balances at a financial institution located in Madison, Wisconsin. The Federal Deposit Insurance Corporation insures accounts at each institution up to \$250,000. As of June 30, 2016 and 2015, the Foundation had uninsured cash balances totaling \$292,950 and \$2,328,481.

NOTE 8 – RELATED PARTY TRANSACTIONS

Diocese of Madison staff provide administrative services to the Foundation under an agreement that ended June 30, 2016. The amount paid for these services by the Foundation was \$25,000 annually for the years ended June 30, 2016 and 2015. These services have continued under the terms of the old agreement and a new agreement is currently being negotiated. Also, the Foundation leases office space from the Diocese of Madison under a month-to-month lease agreement that requires monthly payments of \$686. Rent expense totaled \$5,940 and \$3,648 for the years ended June 30, 2016 and 2015.