

THE CATHOLIC DIOCESE OF MADISON FOUNDATION, INC.

FINANCIAL STATEMENTS

June 30, 2017 and 2016

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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, 2017 and 2016, 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, 2017 and 2016, 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.

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September 22, 2017

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THE CATHOLIC DIOCESE OF MADISON FOUNDATION, INC.
STATEMENTS OF FINANCIAL POSITION
June 30, 2017 and 2016

	2017	2016
ASSETS		
Cash	\$ 841,314	\$ 540,231
Accounts receivable	95,881	69,133
Pledges receivable - net	15,917,481	22,590,351
Investments	<u>38,352,636</u>	<u>27,663,525</u>
Total assets	<u><u>\$ 55,207,312</u></u>	<u><u>50,863,240</u></u>
LIABILITIES		
Accounts payable	\$ 340	\$ -
Accrued payroll	3,705	1,340
Accrued vacation	14,594	11,338
Beneficial interests held for others	<u>54,999,088</u>	<u>50,730,855</u>
Total liabilities	55,017,727	50,743,533
NET ASSETS		
Unrestricted	<u>189,585</u>	<u>119,707</u>
Total liabilities and net assets	<u><u>\$ 55,207,312</u></u>	<u><u>\$ 50,863,240</u></u>

See accompanying notes.

THE CATHOLIC DIOCESE OF MADISON FOUNDATION, INC.
STATEMENTS OF ACTIVITIES
Years ended June 30, 2017 and 2016

	2017	2016
UNRESTRICTED NET ASSETS		
SUPPORT AND REVENUE		
Total contributions	\$ 1,444,209	\$ 5,499,813
Less amounts for beneficial interests held for others	<u>(1,444,209)</u>	<u>(5,499,813)</u>
Contributions	-	-
Total investment return	3,806,525	(195,047)
Less amounts for beneficial interests held for others	<u>(3,806,525)</u>	<u>195,047</u>
Investment return	-	-
Management fees	339,158	245,314
Interest	605	334
Miscellaneous	<u>-</u>	<u>2</u>
Total unrestricted support and revenue	339,763	245,650
EXPENSES		
Grants and distributions	923,381	544,338
Less amounts from beneficial interests held for others	<u>(923,381)</u>	<u>(544,338)</u>
Grants	-	-
Personnel	180,426	125,519
Professional fees	45,818	37,941
Rent	8,232	5,940
Office expenses	6,506	795
Travel and meals	6,091	2,917
Conferences and meetings	1,801	2,131
Sponsorships and donations	1,920	1,000
Postage and printing	14,533	2,532
Other	<u>4,558</u>	<u>1,485</u>
Total expenses	<u>269,885</u>	<u>180,260</u>
Change in net assets	69,878	65,390
Net assets - beginning of year	<u>119,707</u>	<u>54,317</u>
Net assets - end of year	<u>\$ 189,585</u>	<u>\$ 119,707</u>

See accompanying notes.

THE CATHOLIC DIOCESE OF MADISON FOUNDATION, INC.
STATEMENTS OF CASH FLOWS
Years ended June 30, 2017 and 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 69,878	\$ 65,390
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Amortization of discount on pledges receivable	(280,038)	(246,826)
(Increase) decrease in assets		
Accounts receivable	(26,748)	(24,539)
Pledges receivable	6,952,908	3,174,235
Increase (decrease) in liabilities		
Accounts payable	340	(25,639)
Accrued payroll	2,365	(1,101)
Accrued vacation	3,256	(519)
Beneficial interests held for others	800,866	5,202,301
Net cash flows from operating activities	7,522,827	8,143,302
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(13,817,189)	(21,508,161)
Proceeds from sales of investments	6,595,445	11,328,593
Net cash flows from investing activities	(7,221,744)	(10,179,568)
Change in cash	301,083	(2,036,266)
Cash - beginning of year	540,231	2,576,497
Cash - end of year	<u>\$ 841,314</u>	<u>\$ 540,231</u>

See accompanying notes.

THE CATHOLIC DIOCESE OF MADISON FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016

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.

Management Fees

The Foundation generally charges the beneficial interest held for others funds a quarterly fee of 0.25% of the balance in each fund as of the end of the quarter. A fund is not charged a pro-rated management fee in the quarter in which the fund is established.

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.

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, 2017 and 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Date of Management’s Review

Management has evaluated subsequent events through September 22, 2017, the date which the financial statements were available to be issued.

NOTE 2 – INVESTMENTS

Investments at June 30, 2017 and 2016 consisted of the following:

	<u>2017</u>	<u>2016</u>
Common stocks	\$ 24,045,936	\$ 15,824,576
Bonds	11,728,592	10,202,364
Mutual funds	609,644	590,084
Money market	<u>1,968,464</u>	<u>1,046,501</u>
Investments	<u>\$ 38,352,636</u>	<u>\$ 27,663,525</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, 2017 and 2016 consisted of the following:

	<u>2017</u>	<u>2016</u>
Interest and dividends	\$ 654,071	\$ 518,998
Realized and unrealized gains/(losses)	3,390,149	(561,001)
Investment fees	<u>(237,695)</u>	<u>(153,044)</u>
Investment return	<u>\$ 3,806,525</u>	<u>\$ (195,047)</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, 2017 and 2016

NOTE 3 – FAIR VALUE MEASUREMENTS (continued)

Fair values of assets measured on a recurring basis are as follows for the years ended June 30, 2017 and 2016:

	Fair Value	Quoted Prices in Active Market for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>2017</u>				
Common stocks	\$ 24,045,936	\$ 24,045,936	\$ -	\$ -
Bonds	11,728,592	153,030	11,575,562	-
Mutual funds	609,644	221,112	388,532	-
Money market	1,968,464	-	1,968,464	-
	<u>\$ 38,352,636</u>	<u>\$ 24,420,078</u>	<u>\$ 13,932,558</u>	<u>\$ -</u>
<u>2016</u>				
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>

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, 2017 and 2016

NOTE 4 – BENEFICIAL INTERESTS HELD FOR OTHERS (continued)

As of June 30, 2017 and 2016, the Foundation was the owner of 19 and 14 beneficial interests held for others with a combined fair value of \$54,999,088 and \$50,730,855. 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, 2017 and 2016, the Foundation’s beneficial interests held for others consisted of the following:

	2017	2016
Cash	\$ 728,971	\$ 476,979
Pledges receivable	15,917,481	22,590,351
Investments	38,352,636	27,663,525
Total beneficial interests held for others	\$ 54,999,088	\$ 50,730,855

NOTE 5 – PLEDGES RECEIVABLE

Pledges receivable at June 30, 2017 and 2016 are summarized as follows:

	2017	2016
Amounts due in less than one year	\$ 5,397,777	\$ 5,434,639
Amounts due in one to five years	10,756,894	17,672,940
Pledges receivable	16,154,671	23,107,579
Less unamortized discount on pledges	(237,190)	(517,228)
Pledges receivable - net	\$ 15,917,481	\$ 22,590,351

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. For the years ended June 30, 2017 and 2016, the Foundation made waterfall payments to the parishes totaling \$307,886 and \$36,159.

THE CATHOLIC DIOCESE OF MADISON FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016

NOTE 5 – PLEDGES RECEIVABLE (continued)

Based on the pledges receivable by parish as of June 30, 2017 and 2016, the amounts held for others are estimated to be split as follows:

	<u>2017</u>	<u>2016</u>
Diocese of Madison - Holy Name Seminary	\$ 9,826,029	\$ 15,834,032
Various parishes of the Diocese	<u>6,091,452</u>	<u>6,756,319</u>
Pledges receivable - net	<u>\$ 15,917,481</u>	<u>\$ 22,590,351</u>

NOTE 6 – FUNCTIONAL ALLOCATION OF EXPENSES

Expenses by function for the years ended June 30, 2017 and 2016 were as follows:

	<u>2017</u>	<u>2016</u>
Program services	\$ 179,253	\$ 99,624
Management and general	<u>90,632</u>	<u>80,636</u>
Total expenses	<u>\$ 269,885</u>	<u>\$ 180,260</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, 2017 and 2016, the Foundation had uninsured cash balances totaling \$592,248 and \$292,950.

NOTE 8 – RELATED PARTY TRANSACTIONS

Diocese of Madison staff provide administrative services to the Foundation under an agreement ending June 30, 2018. The amount paid for these services by the Foundation for the years ended June 30, 2017 and 2016 was \$35,000 and \$25,000. 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 for the years ended June 30, 2017 and 2016 totaled \$8,232 and \$5,940.