

THE CATHOLIC DIOCESE OF MADISON FOUNDATION, INC.

FINANCIAL STATEMENTS

June 30, 2014

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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 statement of financial position as of June 30, 2014, and the related statements of activities and cash flows for the year 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 audit. We conducted our audit 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, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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September 22, 2015

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THE CATHOLIC DIOCESE OF MADISON FOUNDATION, INC.
STATEMENT OF FINANCIAL POSITION
June 30, 2014

ASSETS

Cash	\$ 100,867
Accounts receivable	30,678
Pledges receivable	200,972
Investments	<u>12,398,193</u>

Total assets

\$ 12,730,710

LIABILITIES

Accounts payable	\$ 781
Beneficial interests held for others	<u>12,616,050</u>

Total liabilities

12,616,831

NET ASSETS

Unrestricted	<u>113,879</u>
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Total liabilities and net assets

\$ 12,730,710

See accompanying notes.

THE CATHOLIC DIOCESE OF MADISON FOUNDATION, INC.
STATEMENT OF ACTIVITIES
Year ended June 30, 2014

UNRESTRICTED NET ASSETS

SUPPORT AND REVENUE

Total contributions	\$ 210,972
Less amounts for beneficial interests held for others	<u>(210,972)</u>
Contributions	-
Total investment return	1,509,259
Less amounts for beneficial interests held for others	<u>(1,509,259)</u>
Investment return	-
Management fees	110,853
Interest	<u>204</u>
Total unrestricted support and revenue	111,057

EXPENSES

Grants	35,022
Less grants made from beneficial interests held for others	<u>(35,022)</u>
Grants	-
Meetings	1,862
Sponsorships	1,000
Legal	893
Postage and printing	641
Other	<u>5,095</u>
Total expenses	<u>9,491</u>

Change in net assets

	101,566
Net assets - beginning of year	<u>12,313</u>
Net assets - end of year	<u><u>\$ 113,879</u></u>

See accompanying notes.

THE CATHOLIC DIOCESE OF MADISON FOUNDATION, INC.
STATEMENT OF CASH FLOWS
Year ended June 30, 2014

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ 101,566
Adjustments to reconcile change in net assets to net cash flows from operating activities	
(Increase) decrease in assets	
Accounts receivable	(30,678)
Pledges receivable	(200,972)
Increase (decrease) in liabilities	
Accounts payable	781
Beneficial interests held for others	<u>1,662,878</u>
Net cash flows from operating activities	1,533,575

CASH FLOWS FROM INVESTING ACTIVITIES

Purchases of investments	(1,480,043)
Proceeds from sales of investments	<u>35,022</u>
Net cash flows from investing activities	<u>(1,445,021)</u>

Change in cash	88,554
Cash - beginning of year	<u>12,313</u>
Cash - end of year	<u><u>\$ 100,867</u></u>

See accompanying notes.

THE CATHOLIC DIOCESE OF MADISON FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

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 which requires management to reduce the pledge balance for amounts that are considered uncollectible at the time the pledge is recorded. In addition, if the pledges receivable will be satisfied in more than one year, the pledges have been discounted to present value.

Expense Allocation

Expenses are allocated to program and supporting services based on the nature of the expenses. The Foundation incurred immaterial amounts of management and general and fundraising expenses during the year. All other expenses for the year were for program services.

Income Taxes

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, 2014, 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. The Foundation is no longer subject to Federal tax examination by tax authorities for years before 2011 and state examination for years before 2010.

THE CATHOLIC DIOCESE OF MADISON FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
 June 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Date of Management’s Review

Management has evaluated subsequent events through September 22, 2015, the date which the financial statements were available to be issued.

NOTE 2 – INVESTMENTS

Investments at June 30, 2014 consisted of the following:

Common stocks	\$ 2,959,199
Bonds	1,741,589
Mutual fund	7,483,131
Money market	<u>214,274</u>
Investments	<u><u>\$ 12,398,193</u></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 funds held for others for the year ended June 30, 2014 consisted of the following:

Interest and dividends	\$ 170,583
Realized and unrealized gains	1,497,347
Fees	<u>(158,671)</u>
Investment return	<u><u>\$ 1,509,259</u></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.

THE CATHOLIC DIOCESE OF MADISON FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 3 – FAIR VALUE MEASUREMENTS (continued)

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.

Fair values of assets measured on a recurring basis are as follows:

	Fair Value	Quoted Prices in Active Market for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Common stocks	\$ 2,959,199	\$ 2,959,199	\$ -	\$ -
Bonds	1,741,589	185,372	1,556,217	-
Mutual funds	7,483,131	-	7,483,131	-
Money market	214,274	-	214,274	-
	<u>\$ 12,398,193</u>	<u>\$ 3,144,571</u>	<u>\$ 9,253,622</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.

As of June 30, 2014, the Foundation was the owner of 13 beneficial interests with a combined fair value of \$12,616,050. All financial activity related to these funds is segregated in the statement of activities and has been classified as a liability in the statement of financial position.

THE CATHOLIC DIOCESE OF MADISON FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 5 – PLEDGES RECEIVABLE

Pledges receivable at June 30, 2014 are summarized as follows:

Amounts due in less than one year	\$ 41,400
Amounts due in one to five years	<u>165,600</u>
Total	207,000
Less unamortized discount on pledges	<u>6,028</u>
Net pledges receivable	<u><u>\$ 200,972</u></u>

Management has analyzed the character of the pledges, current economic conditions and other such factors that deserve recognition in estimating losses. Of the \$217,000 pledged, \$87,500 (or 40%) has been collected as of the date of this report and all donors have made at least a partial payment. In addition, 46% of the pledges is from one donor. Accordingly, the Foundation has elected not to record an allowance for uncollectible pledges.

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.

NOTE 6 – SUBSEQUENT EVENT

On December 26, 2014, a new endowment fund was established for the purpose of defraying the cost of recruiting, educating, training, and forming seminarians who are preparing to be priests of the Diocese called “Priests for Our Future”. As of June 30, 2015, approximately \$8,600,000 was received by the Foundation for this fund.