

**THE CATHOLIC DIOCESE OF MADISON FOUNDATION, INC.**

**FINANCIAL STATEMENTS**

June 30, 2020 and 2019

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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, 2020 and 2019, and the related statements of activities, functional expenses, 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, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Adoption of New Accounting Guidance**

As discussed in Note 1 to the financial statements, The Catholic Diocese of Madison Foundation, Inc. adopted the Financial Accounting Standards Board's Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, and all subsequently issued ASUs, and ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, as of July 1, 2019. Our opinion is not modified with respect to this matter.

*Wegner CPAs LLP*

Wegner CPAs, LLP  
Madison, Wisconsin  
September 18, 2020

**THE CATHOLIC DIOCESE OF MADISON FOUNDATION, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
<b>ASSETS</b>		
Cash	\$ 873,426	\$ 783,239
Accounts receivable	117,401	110,689
Unconditional promises to give, net	607,853	1,844,598
Investments (see Note 2)	<u>53,913,526</u>	<u>50,972,947</u>
<b>Total assets</b>	<u>\$ 55,512,206</u>	<u>\$ 53,711,473</u>
<b>LIABILITIES</b>		
Accounts payable	\$ 1,539	\$ 1,760
Accrued expenses	10,228	14,973
Beneficial interests held for others (see Note 4)	<u>54,259,620</u>	<u>52,665,399</u>
Total liabilities	54,271,387	52,682,132
<b>NET ASSETS</b>		
Without donor restrictions	629,618	453,524
With donor restrictions	<u>611,201</u>	<u>575,817</u>
Total net assets	<u>1,240,819</u>	<u>1,029,341</u>
<b>Total liabilities and net assets</b>	<u>\$ 55,512,206</u>	<u>\$ 53,711,473</u>

See accompanying notes.

**THE CATHOLIC DIOCESE OF MADISON FOUNDATION, INC.**  
**STATEMENTS OF ACTIVITIES**  
Years Ended June 30, 2020 and 2019

	2020	2019
<b>CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS</b>		
<b>SUPPORT AND REVENUE</b>		
Contributions	\$ 2,594,812	\$ 2,088,129
Less amounts for beneficial interests held for others	<u>(2,569,812)</u>	<u>(2,063,129)</u>
Contributions	25,000	25,000
Investment return, net	2,465,005	1,321,716
Less amounts for beneficial interests held for others	<u>(2,464,194)</u>	<u>(1,320,505)</u>
Investment return, net	811	1,211
Management fees	453,165	415,071
Paycheck Protection Program grant	40,200	-
Interest	760	1,686
Donations	<u>670</u>	<u>840</u>
Total support and revenue	520,606	443,808
<b>EXPENSES</b>		
Grants and distributions	2,992,680	3,589,265
Less amounts from beneficial interests held for others	<u>(2,992,680)</u>	<u>(3,589,265)</u>
Grants	-	-
Raising funds for Catholic organizations	123,528	164,727
Grant services	59,864	-
Management and general	<u>190,101</u>	<u>108,805</u>
Total expenses	<u>373,493</u>	<u>273,532</u>
<b>NET ASSETS RELEASED FROM RESTRICTIONS</b>		
Satisfaction of program restrictions	<u>28,981</u>	<u>-</u>
Change in net assets without donor restrictions	176,094	170,276
<b>CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS</b>		
Contributions	41,467	483,443
Investment return, net	22,898	66,927
Net assets released from restriction	<u>(28,981)</u>	<u>-</u>
Change in net assets with donor restrictions	<u>35,384</u>	<u>550,370</u>
<b>Change in net assets</b>	211,478	720,646
Net assets at beginning of year	<u>1,029,341</u>	<u>308,695</u>
<b>Net assets at end of year</b>	<u><u>\$ 1,240,819</u></u>	<u><u>\$ 1,029,341</u></u>

See accompanying notes.

**THE CATHOLIC DIOCESE OF MADISON FOUNDATION, INC.**  
**STATEMENTS OF FUNCTIONAL EXPENSES**  
Years Ended June 30, 2020 and 2019

	2020			
	Raising Funds for Catholic Organizations	Grant Services	Management and General	Total
Personnel	\$ 99,159	\$ 24,790	\$ 123,949	\$ 247,898
Grants	-	28,981	-	28,981
Professional fees	-	-	54,314	54,314
Office and occupancy	5,547	1,387	6,934	13,868
Donor relations and communications	14,899	3,725	-	18,624
Other administrative	3,923	981	4,904	9,808
	<u>\$ 123,528</u>	<u>\$ 59,864</u>	<u>\$ 190,101</u>	<u>\$ 373,493</u>
Total expenses	<u>\$ 123,528</u>	<u>\$ 59,864</u>	<u>\$ 190,101</u>	<u>\$ 373,493</u>
	2019			
	Raising Funds for Catholic Organizations	Grant Services	Management and General	Total
Personnel	\$ 127,892	\$ -	\$ 54,811	\$ 182,703
Professional fees	-	-	48,642	48,642
Office and occupancy	9,473	-	4,060	13,533
Donor relations and communications	24,345	-	-	24,345
Other administrative	3,017	-	1,292	4,309
	<u>\$ 164,727</u>	<u>\$ -</u>	<u>\$ 108,805</u>	<u>\$ 273,532</u>
Total expenses	<u>\$ 164,727</u>	<u>\$ -</u>	<u>\$ 108,805</u>	<u>\$ 273,532</u>

See accompanying notes.

**THE CATHOLIC DIOCESE OF MADISON FOUNDATION, INC.**  
**STATEMENTS OF CASH FLOWS**  
Years Ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 211,478	\$ 720,646
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Amortization of discount on pledges receivable	-	(75,718)
(Increase) decrease in assets		
Accounts receivable	(6,712)	(9,724)
Unconditional promises to give, net	1,236,745	8,388,414
Increase (decrease) in liabilities		
Accounts payable	(221)	1,735
Accrued expenses	(4,745)	6,826
Beneficial interests held for others	(447,229)	(7,214,413)
Net cash flows from operating activities	<u>989,316</u>	<u>1,817,766</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of investments	(4,610,550)	(7,118,023)
Proceeds from sales of investments	<u>3,711,421</u>	<u>5,235,919</u>
Net cash flows from investing activities	<u>(899,129)</u>	<u>(1,882,104)</u>
<b>Change in cash</b>	90,187	(64,338)
Cash at beginning of year	<u>783,239</u>	<u>847,577</u>
<b>Cash at end of year</b>	<u><u>\$ 873,426</u></u>	<u><u>\$ 783,239</u></u>

See accompanying notes.

**THE CATHOLIC DIOCESE OF MADISON FOUNDATION, INC.**  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2020 and 2019

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NOTE 1 – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Nature of Activities**

The Catholic Diocese of Madison Foundation, Inc. (the “Foundation”), works to foster giving as a way of life by raising funds for long term support of Catholic organizations throughout the diocese, primarily through endowments. The program benefits the mission of the Church through support to parishes, Catholic education, vocations and Catholic ministries diocesan-wide.

**Accounts Receivable**

The Foundation considers all accounts receivable from management fees 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.

**Promises to Give**

Unconditional promises to give are recognized as revenues in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

**Management Fees**

The Foundation charges each fund a quarterly fee ranging from 0.125% - 0.25% of the balance in each fund as of the end of the quarter. A fund is not charged a management fee in the quarter in which the fund is established.

**Expense Allocation**

The financial statements report certain categories of expenses that are attributable to more than one program service or supporting activity. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include personnel, office and occupancy, and other administrative, which are allocated on the basis of estimates of time and effort.

**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, 2020 and 2019

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NOTE 1 – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(continued)

**Adoption of New Accounting Guidance**

On May 28, 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The ASU and all subsequently issued clarifying ASUs supersedes the revenue recognition requirements and most industry-specific guidance in U.S. generally accepted accounting principles. The core principle of the new guidance is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The new guidance also includes a cohesive set of disclosure requirements that will provide users of the financial statements with comprehensive information about the nature, amount, timing, and uncertainty of revenue and cash flows arising from the entity's contracts with customers.

The Foundation adopted the requirements of the new guidance as of July 1, 2019, using the modified retrospective method of transition. In applying the new guidance, The Foundation elected to use the practical expedient that allows the guidance to be applied only to contracts that were not complete as of July 1, 2019.

The adoption of the new guidance did not have a significant impact on the Foundation's financial statements. The majority of the Foundation's contracts do not contain variable consideration and contract modifications are generally minimal. Based on the Foundation's evaluation process and review of its contracts with customers, the timing and amount of revenue recognized previously is consistent with how revenue is recognized under the new guidance.

Also, on June 21, 2018, the FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The ASU provides a more robust framework for evaluating whether transactions such as grants and similar contracts with government agencies and others should be accounted for as exchange transactions (that is, revenue from contracts with customers) or contributions. The ASU also assists entities in determining whether a contribution is conditional. The Foundation adopted the requirements of the ASU as of July 1, 2019. The changes in the ASU have been applied on a modified prospective basis, that is, the changes have been applied to agreements that are either not completed as of July 1, 2019 or entered into after that date.

**Paycheck Protection Program Loan**

The Foundation received a loan under the Paycheck Protection Program (PPP) established by the Coronavirus Aid, Relief, and Economic Security Act and administered by the U.S. Small Business Administration. The loan will be fully forgiven if the funds are used for payroll costs, interest on mortgages, rent, and utilities. The Foundation expects to meet the PPP's eligibility criteria and believes the loan is, in substance, a grant that is expected to be forgiven. The Foundation recognizes amounts expected to be forgiven as revenue when it incurs qualifying expenses.

**THE CATHOLIC DIOCESE OF MADISON FOUNDATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2020 and 2019

NOTE 1 – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(continued)

**Date of Management's Review**

Management has evaluated subsequent events through September 18, 2020, the date which the financial statements were available to be issued.

NOTE 2 – INVESTMENTS

Investments at June 30, 2020 and 2019 consisted of the following:

	<u>2020</u>	<u>2019</u>
Common stocks	\$ 33,909,940	\$ 34,705,647
Bonds	18,182,244	13,763,121
Mutual funds	235,910	247,414
Money market funds	<u>1,585,432</u>	<u>2,256,765</u>
Investments	<u>\$ 53,913,526</u>	<u>\$ 50,972,947</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 years ended June 30, 2020 and 2019 consisted of the following:

	<u>2020</u>	<u>2019</u>
Interest and dividends	\$ 1,077,961	\$ 1,175,004
Realized and unrealized gains	1,709,075	497,480
Investment fees	<u>(299,133)</u>	<u>(283,841)</u>
Investment return, net	<u>\$ 2,487,903</u>	<u>\$ 1,388,643</u>

Investment return for the years ended June 30, 2020 and 2019 included amounts with donor restrictions and without donor restrictions as follows:

	<u>2020</u>	<u>2019</u>
Investment return without donor restrictions	\$ 2,465,005	\$ 1,321,716
Investment return with donor restrictions	<u>22,898</u>	<u>66,927</u>
Investment return, net	<u>\$ 2,487,903</u>	<u>\$ 1,388,643</u>

**THE CATHOLIC DIOCESE OF MADISON FOUNDATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2020 and 2019

**NOTE 3 – FAIR VALUE MEASUREMENTS**

Fair values of assets measured on a recurring basis are as follows for the years ended June 30, 2020 and 2019:

Assets at Fair Value as of June 30, 2020			
	Fair Value	Quoted Prices in Active Market for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Common stocks	\$ 33,909,940	\$ 33,909,940	\$ -
Bonds	18,182,244	815,828	17,366,416
Mutual funds	235,910	235,910	-
Money market funds	1,585,432	-	1,585,432
	<b>\$ 53,913,526</b>	<b>\$ 34,961,678</b>	<b>\$ 18,951,848</b>
Assets at Fair Value as of June 30, 2019			
	Fair Value	Quoted Prices in Active Market for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Common stocks	\$ 34,705,647	\$ 34,705,647	\$ -
Bonds	13,763,121	402,874	13,360,247
Mutual funds	247,414	247,414	-
Money market funds	2,256,765	-	2,256,765
	<b>\$ 50,972,947</b>	<b>\$ 35,355,935</b>	<b>\$ 15,617,012</b>

Fair values for the money market funds and common 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 quoted market prices or 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.

**THE CATHOLIC DIOCESE OF MADISON FOUNDATION, INC.**  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2020 and 2019

**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, 2020 and 2019, the Foundation was the owner of 33 and 29 beneficial interests held for others with a combined fair value of \$54,259,620 and \$52,665,399. 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, 2020 and 2019, the Foundation’s beneficial interests held for others consisted of the following:

	2020	2019
Cash	\$ 402,422	\$ 449,883
Unconditional promises to give	607,853	1,844,598
Investments	53,249,345	50,370,918
Total beneficial interests held for others	\$ 54,259,620	\$ 52,665,399

**NOTE 5 – UNCONDITIONAL PROMISES TO GIVE**

All of the promises to give are attributable to the *Priests for Our Future – The Church is Alive* capital campaign, which raised 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 promises to give 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. While in previous years, the Foundation properly elected not to record an allowance for uncollectible promises to give, in fact, for the periods ending June 30, 2020 and 2019, the unconditional promises to give balance has been reduced by the cumulative sum of \$1,893,436 and \$1,372,187, along with the corresponding beneficial interests held for others, as the promises to give are determined to be uncollectible.

Each parish in the Diocese of Madison had a goal to raise contributions for the campaign. A “waterfall” formula was adopted whereby a parish is entitled 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, 2020 and 2019, the Foundation made waterfall payments to the parishes totaling \$915,120 and \$1,384,065.

**THE CATHOLIC DIOCESE OF MADISON FOUNDATION, INC.**  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2020 and 2019

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NOTE 5 – UNCONDITIONAL PROMISES TO GIVE (continued)

Based on the unconditional promises to give by donors as of June 30, 2020 and 2019, the amounts held for others are estimated to be split as follows:

	2020	2019
Diocese of Madison - Holy Name Seminary	\$ 127,853	\$ 1,150,021
Various parishes of the Diocese	480,000	694,577
Unconditional promises to give, net	\$ 607,853	\$ 1,844,598

NOTE 6 – PAYCHECK PROTECTION PROGRAM LOAN

On April 10, 2020, the Foundation received a \$40,200 loan under the Paycheck Protection Program. The Foundation accounts for the loan as a grant that is expected to be forgiven, conditioned upon the Foundation incurring qualifying expenses under the PPP. At June 30, 2020, the Foundation incurred qualifying expenses exceeding the loan and recognized the \$40,200 as revenue.

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, 2020 and 2019, the Foundation had uninsured cash balances totaling \$625,935 and \$552,878.

NOTE 8 – RELATED PARTY TRANSACTIONS

Diocese of Madison staff provide administrative services to the Foundation under an agreement ending June 30, 2020. The amount paid for these services by the Foundation for each of the years ended June 30, 2020 and 2019 was \$35,000. 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 each of the years ended June 30, 2020 and 2019 totaled \$8,232. The Foundation also participates in a defined contribution plan that is administered by the Diocese of Madison as described in note 11.

NOTE 9 – LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, such as without donor or other restrictions limiting their use, within one year of the statement of financial position date include cash of \$471,962 and accounts receivable of \$117,401 totaling \$589,363, as of June 30, 2020. For the year ended June 30, 2019 the statement of financial position included cash of \$333,357 and accounts receivable of \$110,689 totaling \$444,046.

**THE CATHOLIC DIOCESE OF MADISON FOUNDATION, INC.**  
NOTES TO FINANCIAL STATEMENTS  
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NOTE 9 – LIQUIDITY AND AVAILABILITY (continued)

The Foundation manages its liquidity by developing and adopting annual operating budgets that provide sufficient funds for general expenditures. Adjustments are made to plan as needed to ensure adequate liquidity. The Foundation's liquidity exceeds projected annual operating expenses by a ratio of 1.50 to 1.00, and as such, the Foundation has concluded that it is not necessary to secure a line of credit in support of liquidity requirements.

NOTE 10 – ENDOWMENT FUNDS

The Foundation's endowment assets consist of three donor-restricted funds. These funds were established to provide resources for corporal works of mercy, tuition assistance for Catholic grade schools and in support of rural Catholic life. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

**Application of UPMIFA** - The Foundation is subject to Wisconsin's Uniform Prudent Management of Institutional Funds Act (UPMIFA), and thus classifies amounts in its donor-restricted endowment funds as net assets with donor restrictions because those net assets are time restricted until the Board of Directors appropriates such amounts for expenditure. Those net assets also are subject to purpose restrictions that must be met before reclassifying those net assets to net assets without donor restrictions. The Board of Directors of the Foundation has interpreted UPMIFA as not requiring the maintenance of purchasing power of the original gift amount contributed to an endowment fund, unless a donor stipulates the contrary. As a result of this interpretation, when reviewing its donor restricted endowment funds, the Foundation considers a fund to be underwater when the fair value of the fund is less than the sum of (a) the original value of gifts donated to the fund, (b) the original value of subsequent gifts donated to the fund, (c) any accumulations to the fund that are required to be maintained in accordance with the direction of the applicable donor gift instrument.

The Foundation has interpreted UPMIFA to permit spending from underwater funds in accordance with the prudent measures required under the law. Additionally, in accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor restricted endowment funds: (1) the duration and preservation of the fund, (2) the purposes of the Foundation and the donor-restricted endowment fund, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Foundation, and (7) the investment policies of the Foundation.

**Investment Policy** - The funds are invested by and under the direction of the Foundation's investment committee with care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in like capacity and familiar with such matters would use in the investment of a fund. Investments are diversified as to minimize the risk of large losses unless under the circumstances it is clearly prudent not to do so. Risk is present in all types of securities and investment styles and the Foundation's investment committee recognize some risk is necessary to produce long-term investment results. However, reasonable effort is made to control risk.

**THE CATHOLIC DIOCESE OF MADISON FOUNDATION, INC.**  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2020 and 2019

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NOTE 10 – ENDOWMENT FUNDS (continued)

The Foundation has adopted investment and fund distribution policies for endowment assets that attempt to provide additional income to fund programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity or for a donor-specified period(s). As of June 30, 2020 and 2019, there are no amounts subject to time restrictions.

The Foundation's investment objective is for the value of investment assets, exclusive of contributions and withdrawals, to grow through returns generated by capital appreciation and investment income. The rate of return earned by the portfolio's asset classes is targeted to be at or above-weighted commonly accepted performance benchmarks. To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets investments to achieve its long-term return objectives within prudent acceptance of risk as described above.

**Fund Distribution Policy** - The Foundation makes distributions in accordance with its fund distribution policy, which currently calls for an annual distribution of 5% of an endowment's value, based on a 12-quarter rolling average. The endowment agreements also empower the Foundation, in its sole discretion, to make additional distributions under certain circumstances.

**Funds With Deficiencies** - From time to time, the fair value of assets associated with donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. The deficiencies result from unfavorable market fluctuations that have occurred. As of June 30, 2019 and 2018, the Foundation did not have any funds with deficiencies.

Endowment net asset composition by type of fund is as follows:

	2020	2019
Donor-restricted endowment funds:		
Donor-restricted gift amounts	\$ 550,000	\$ 508,533
Accumulated investment return, net	61,201	67,284
	<u>611,201</u>	<u>575,817</u>
Total funds	<u>\$ 611,201</u>	<u>\$ 575,817</u>

**THE CATHOLIC DIOCESE OF MADISON FOUNDATION, INC.**  
NOTES TO FINANCIAL STATEMENTS  
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NOTE 10 – ENDOWMENT FUNDS (continued)

Changes in endowment net assets are as follows:

	2020	2019
Endowment net assets at beginning of year	\$ 575,817	\$ 25,447
Contributions	41,467	483,443
Distributions	(28,981)	-
Investment return, net	22,898	66,927
Endowment net assets at end of year	\$ 611,201	\$ 575,817

NOTE 11 – RETIREMENT PLAN

As a related employer, the Foundation participates in a defined contribution plan, instituted and administered by the Diocese of Madison. The plan covers lay employees who have completed 1,000 hours of service during a plan year and who are at least twenty-one (21) years of age. Employees are permitted to make voluntary contributions to the plan. In accordance with the plan document, the Foundation contributes four percent (4.0%) of each eligible employee's compensation plus a matching contribution up to two percent (2.0%) of each eligible employee's voluntary salary deferral. Contributions to the plan totaled \$9,879 and \$7,308 for years ended June 30, 2020 and 2019, respectively.

NOTE 12 – NET ASSETS

Net assets without donor restrictions include donor advised funds of \$52,021 and \$26,210 for years ended June 30, 2020 and 2019.

Net assets with donor restrictions are as follows:

	2020	2019
Donor-restricted gift amounts	\$ 550,000	\$ 508,533
Endowment earnings subject to expenditure for specified purpose:		
Tuition assistance	\$ 58,066	\$ 64,750
Corporal works of mercy	2,519	2,534
Rural Catholic life	616	-
Total net assets with donor restrictions	\$ 611,201	\$ 575,817