

**ROMAN CATHOLIC DIOCESE OF
MADISON, INC. AND AFFILIATES**

**CONSOLIDATED FINANCIAL
STATEMENTS
WITH INDEPENDENT AUDITORS'
REPORT**

JUNE 30, 2018 AND 2017

ROMAN CATHOLIC DIOCESE OF MADISON, INC. AND AFFILIATES

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INDEPENDENT AUDITORS' REPORT

The Most Reverend Robert C. Morlino
Bishop of Madison
Roman Catholic Diocese of Madison, Inc.
Madison, Wisconsin

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the Roman Catholic Diocese of Madison, Inc. and Affiliates (the Diocese and Affiliates), which comprise the consolidated statements of financial position as of June 30, 2018 and 2017, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization's preparation and fair presentation of the consolidated 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 organization'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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Roman Catholic Diocese of Madison, Inc. and Affiliates as of June 30, 2018 and 2017, 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.

Other Matter

As discussed in Note 21 to the financial statements, an error in the recording of the Priests for Our Future endowment earnings was discovered during the year. Accordingly, the 2017 financial statements have been restated to correct this error.

Hawkins Ash CPAs, LLP

La Crosse, Wisconsin
October 23, 2018

**ROMAN CATHOLIC DIOCESE OF MADISON, INC.
Madison, Wisconsin**

FINANCIAL STATEMENTS

ROMAN CATHOLIC DIOCESE OF MADISON, INC. AND AFFILIATES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(dollars in thousands)

<u>ASSETS</u>	JUNE 30,	
	2018	2017
		Restated
Cash	\$ 3,840	\$ 4,846
Accounts receivable, net	2,563	1,357
Pledges receivable, net	6,060	10,141
Broker sales in process	39	236
Inventory	273	280
Prepaid expenses	377	383
Investments and interest in master trust	23,055	20,702
Investments in Catholic Diocese of Madison Foundation	38,330	33,222
Property and equipment, net	10,682	8,073
Direct financing lease receivable	5,405	5,405
Tax credit loan receivable	3,568	3,424
Pension plan asset	3,127	1,276
Beneficial interest in perpetual trust	544	565
	\$ 97,863	\$ 89,910
<u>LIABILITIES AND NET ASSETS</u>		
LIABILITIES		
Accounts payable	\$ 528	\$ 653
Pledges payable	90	140
Accrued expenses	772	677
Collections held for others	358	164
Notes payable	2,500	1,130
Brokerage pending purchases	60	248
Accrued post retirement benefits	7,610	8,706
Annuities payable	831	843
Deferred revenue	2,327	2,263
TOTAL LIABILITIES	15,076	14,824
NET ASSETS		
Unrestricted	30,041	24,824
Temporarily restricted	24,036	26,012
Permanently restricted	28,710	24,250
TOTAL NET ASSETS	82,787	75,086
TOTAL LIABILITIES AND NET ASSETS	\$ 97,863	\$ 89,910

The accompanying notes are an integral part of these statements.

ROMAN CATHOLIC DIOCESE OF MADISON, INC. AND AFFILIATES
CONSOLIDATED STATEMENTS OF ACTIVITIES
(dollars in thousands)

	YEAR ENDED JUNE 30, 2018			TOTAL
	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	
REVENUE, GAINS, AND SUPPORT				
Contributions	\$ 982	\$ 3,307	\$ 39	\$ 4,328
Parish assessments	5,098	-	-	5,098
Program fees and tuition	1,643	-	-	1,643
Cemetery sales	921	-	-	921
Rent revenue (facilities)	313	-	-	313
Interest and dividend income on investments	1,568	-	-	1,568
Annual Catholic Appeal	88	3,308	-	3,396
Net realized and unrealized gain on investments	1,335	2,815	-	4,150
Change in value of beneficial interest in trusts	-	(30)	(21)	(51)
(Loss) on disposal of fixed assets	(8)	-	-	(8)
Miscellaneous income	202	-	-	202
Net assets released from restrictions	6,934	(11,376)	4,442	-
TOTAL REVENUE, GAINS, AND SUPPORT	<u>19,076</u>	<u>(1,976)</u>	<u>4,460</u>	<u>21,560</u>
EXPENSES				
Payroll and benefits	6,336	-	-	6,336
Net periodic benefit gain on retirement plan	(1,328)	-	-	(1,328)
Net periodic benefit gain on OPEB	(450)	-	-	(450)
Professional services	441	-	-	441
Facilities and operating costs	1,374	-	-	1,374
Cost of cemetery and crypt sales	200	-	-	200
Office	347	-	-	347
Education	1,106	-	-	1,106
Program	1,092	-	-	1,092
Fundraising expenses	256	-	-	256
Commercial insurance premium	1,706	-	-	1,706
Grants, donations, and religious dues	1,578	-	-	1,578
Depreciation	499	-	-	499
Provision for uncollectible pledges	97	-	-	97
Other	605	-	-	605
TOTAL EXPENSES	<u>13,859</u>	<u>-</u>	<u>-</u>	<u>13,859</u>
CHANGE IN NET ASSETS	5,217	(1,976)	4,460	7,701
NET ASSETS, BEGINNING OF YEAR - RESTATED	<u>24,824</u>	<u>26,012</u>	<u>24,250</u>	<u>75,086</u>
NET ASSETS, END OF YEAR	<u>\$ 30,041</u>	<u>\$ 24,036</u>	<u>\$ 28,710</u>	<u>\$ 82,787</u>

The accompanying notes are an integral part of these statements.

ROMAN CATHOLIC DIOCESE OF MADISON, INC. AND AFFILIATES
CONSOLIDATED STATEMENTS OF ACTIVITIES
(dollars in thousands)

	YEAR ENDED JUNE 30, 2017			TOTAL
	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	
	RESTATED	RESTATED		
REVENUE, GAINS, AND SUPPORT				
Contributions	\$ 2,649	\$ 3,469	\$ 60	\$ 6,178
Parish assessments	5,493	-	-	5,493
Program fees and tuition	1,485	-	-	1,485
Cemetery sales	928	-	-	928
Rent revenue (facilities)	338	-	-	338
Interest and dividend income on investments	1,160	13	-	1,173
Annual Catholic Appeal	106	3,315	-	3,421
Net realized and unrealized gain on investments	1,970	2,096	-	4,066
Change in value of beneficial interest in trusts	-	-	44	44
(Loss) on disposal of fixed assets	29	-	-	29
Miscellaneous income	3,424	-	-	3,424
Net assets released from restrictions	272	-	-	272
TOTAL REVENUE, GAINS, AND SUPPORT	<u>5,952</u>	<u>(12,202)</u>	<u>6,250</u>	<u>-</u>
	<u>23,806</u>	<u>(3,309)</u>	<u>6,354</u>	<u>26,851</u>
EXPENSES				
Payroll and benefits				
Net periodic benefit gain on retirement plan	5,921	-	-	5,921
Net periodic benefit gain on OPEB	(1,093)	-	-	(1,093)
Professional services	(85)	-	-	(85)
Facilities and operating costs	414	-	-	414
Cost of cemetery and crypt sales	1,362	-	-	1,362
Office	155	-	-	155
Education	345	-	-	345
Program	1,110	-	-	1,110
Fundraising expenses	989	-	-	989
Commercial insurance premium	311	-	-	311
Grants, donations, and religious dues	1,547	-	-	1,547
Depreciation	1,596	-	-	1,596
Provision for uncollectible pledges	386	-	-	386
Other	(359)	-	-	(359)
TOTAL EXPENSES	<u>555</u>	<u>-</u>	<u>-</u>	<u>555</u>
	<u>13,154</u>	<u>-</u>	<u>-</u>	<u>13,154</u>
CHANGE IN NET ASSETS				
	10,652	(3,309)	6,354	13,697
NET ASSETS, BEGINNING OF YEAR - RESTATED				
	<u>14,172</u>	<u>29,321</u>	<u>17,896</u>	<u>61,389</u>
NET ASSETS, END OF YEAR				
NET ASSETS, END OF YEAR	<u>\$ 24,824</u>	<u>\$ 26,012</u>	<u>\$ 24,250</u>	<u>\$ 75,086</u>

The accompanying notes are an integral part of these statements.

ROMAN CATHOLIC DIOCESE OF MADISON, INC. AND AFFILIATES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(dollars in thousands)

	YEAR ENDED JUNE 30,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 7,701	\$ 13,697
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	499	386
Loss (gain) on disposal of property and equipment	8	(29)
Permanently restricted contributions	(39)	(60)
Net realized and unrealized (gain) on investments	(4,150)	(4,066)
Allowance for uncollectible accounts receivable	(31)	-
Change in beneficial interest in trust	21	(44)
Change in value of annuity	(13)	196
Discount on pledges receivable	(115)	(216)
Allowance for uncollectible pledges receivable	(329)	(646)
Changes in assets and liabilities		
Decrease (increase) in assets		
Accounts receivable	(1,175)	216
Pledges receivable	4,526	5,057
Prepaid expenses	7	9
Inventory	7	(8)
Tax credit loan receivable	(144)	(3,424)
Pension plan asset	(1,851)	(1,276)
Increase (decrease) in liabilities		
Accounts payable, accrued expenses, and collections held for others	(92)	347
Pledges payable	(50)	30
Accrued post retirement benefits	(1,096)	(2,037)
Deferred revenue	64	2
NET CASH PROVIDED BY OPERATING ACTIVITIES	3,748	8,134
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(23,543)	(12,016)
Sales of investments	20,231	7,360
Change in due to/from brokerage	9	(352)
Purchase of property and equipment	(2,860)	(3,672)
Insurance proceeds	-	18
NET CASH (USED IN) INVESTING ACTIVITIES	(6,163)	(8,662)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term debt	1,370	1,179
Payments on long-term debt	-	(50)
Proceeds from permanently restricted contributions	39	60
NET CASH PROVIDED BY FINANCING ACTIVITIES	1,409	1,189
NET (DECREASE) INCREASE IN CASH	(1,006)	661
CASH AT BEGINNING OF YEAR	4,846	4,185
CASH AT END OF YEAR	\$ 3,840	\$ 4,846
<u>SUPPLEMENTAL DISCLOSURE OF NONCASH FLOW INFORMATION</u>		
Trade-in value on fixed assets	\$ 38	\$ 17
Fixed assets in accounts payable	\$ 256	\$ 146
<u>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</u>		
Interest paid	\$ 27	\$ 4

The accompanying notes are an integral part of these statements.

ROMAN CATHOLIC DIOCESE OF MADISON, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 1 - Nature of Activities and Significant Accounting Policies

Nature of Activities: The Diocese of Madison (the Diocese) is a not-for-profit Wisconsin corporation, without capital stock. The Bishop of Madison is the canonical administrator of the Diocese. In accordance with the Code of Canon Law (the Code), the Diocese has a Finance Council. In addition to the functions entrusted to it in Book V of the Code, the Temporal Goods of the Church, the Finance Council annually prepares a budget of projected revenue and expenditures for the operations of the Diocese. The Diocese is exempt from income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code. Accordingly, the financial statements do not include any amounts for capital stock or income taxes. The legal name of the corporation is the Roman Catholic Diocese of Madison, Inc. doing business as the Diocese of Madison.

The following activities are separately accounted for but are not separately incorporated from the Diocese and accordingly, are included in the consolidated financial statements:

- Administrative Offices (or Chancery)
- Gift Annuity Program
- Department of Cemeteries
- St. Raphael Society Clergy Retirement Fund (the priest pension plan)
- Self-Insurance Program

The following affiliates are both separately accounted for and separately incorporated:

- Holy Name Catholic Center, Inc. (Center), organized for the purpose of operating Holy Name Heights, the former Holy Name Seminary building and campus, once known as the Bishop O'Connor Catholic Pastoral Center, located in Madison, Wisconsin.
- Holy Name Seminary, Inc. (Seminary), organized to fund and provide for the education of men as priests of the Diocese of Madison, doing business as the "St. Joseph Fund."
- Roman Catholic Diocese of Madison Cemeteries, Inc. (Cemeteries), reorganized in 2015 for the primary purpose of holding title to the perpetual care funds – those financial assets or investments maintained and used exclusively for the perpetual care of the four separate diocesan-owned cemeteries located in Madison (1), Janesville (1) and Beloit (2), Wisconsin.
- The Apostolate to the Handicapped, Inc. (Apostolate), doing business as the Apostolate for Persons with Disabilities - Diocese of Madison, organized to serve disabled persons.
- Camp Gray, Inc. (Camp Gray), organized to own and operate a co-ed, overnight summer camp and year-round retreat center, located in Reedsburg, Wisconsin.

Further, the five affiliated corporations referenced above are organized and at all times operated exclusively for the benefit of, to perform the functions of, or to carry out the purposes of the Roman Catholic Diocese of Madison, Inc.

The Diocese and its affiliates referred to above maintain their respective accounts using fund accounting, by which the resources of each are classified for internal purposes into separate and segregated accounting funds, each with its own specific activities and objectives. Each fund is an entirely separate accounting entity with its own self-balancing set of accounts for recording that entity's assets, liabilities, net assets, and changes in net assets. The activities of each accounting entity are restricted for their stated purpose, and cannot be used for any other purpose, whether by the same entity or another.

ROMAN CATHOLIC DIOCESE OF MADISON, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 1 - Nature of Activities and Significant Accounting Policies - Continued

A summary of the significant accounting policies follows:

Basis of Accounting: The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles promulgated in the United States of America for not-for-profit entities (U.S. GAAP) and, accordingly, reflect all significant receivables, payables, and other liabilities.

Principles of Consolidation: The accompanying financial statements include the balances and activities of the Diocese, and the organizations it has both control (direction) of and economic interest in (the Affiliates), including the Center, the Seminary, the Cemeteries, the Apostolate, and Camp Gray. Camp Gray operates on a calendar year reporting period. All material intercompany transactions have been eliminated.

Affiliates (or related entities) reflect a relationship characterized by control through a majority voting interest in the board of the other entity, and economic interest, the latter achieved primarily through a dissolution provision in the unlikely event that the affiliated entity were to cease operation (e.g. a dissolution or pour over provision).

Under canon law and the laws of the State of Wisconsin, parishes, their related school and institutions, and certain other Catholic entities including those owned and operated by religious orders of men and women, operating within the boundaries of the Diocese are completely distinct entities from the Diocese and are not under the fiscal or operating control of the Diocese and, therefore, in accordance with accounting principles generally accepted in the United States of America are not included in the financial statements. These organizations may or may not be separate corporations under civil law, yet they carry out their own services and programs, and report to their respective constituencies.

The Diocese and its affiliates are collectively referred to as “the Diocese and Affiliates.”

Basis of Presentation: The Diocese and Affiliates presents its assets and liabilities on the statements of financial position in an unclassified manner, but in order of liquidity.

Not-For-Profit Entity: A Church not-for-profit entity is defined as an organization that receives contributions of a significant amount from providers who do not expect commensurate or proportionate monetary or economic return, which operate to provide charitable religious services at no profit, and is absent of ownership interest. The Diocese and Affiliates are all not-for-profit entities.

Use of Estimates: The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of revenue and expenses during the reporting period and the reported amounts of assets and liabilities at the date of the financial statements. On an ongoing basis, the Diocese’s management evaluates the estimates and assumptions based upon historical experience and various other factors and circumstances. Management believes that the estimates and assumptions are reasonable in the circumstances; however, the actual results could differ from those estimates.

Cash and Cash Equivalents: The Diocese and Affiliates considers all cash accounts and money market funds which are not subject to withdrawal restrictions or penalties to be cash and cash equivalents. The Diocese and Affiliates maintains its cash in bank accounts that, at times, may exceed federally insured limits. While the Diocese and Affiliates is exposed to custodial credit risk, the Diocese and Affiliates has not experienced any losses in such accounts.

ROMAN CATHOLIC DIOCESE OF MADISON, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 1 - Nature of Activities and Significant Accounting Policies - Continued

Accounts Receivables: The Diocese and Affiliates use the allowance method to account for uncollectible accounts receivables. The allowance is based on historical experience and a review of the current status of receivables. Receivables arising from the sale of mausoleum crypts or cemetery graves are typically collectible in monthly installments over two years. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. Changes in the valuation allowance have not been material to the financial statements. If accounts previously written off are collected, the payments are recorded as reductions in bad debt expense.

Pledges Receivable: Pledges receivable that are expected to be collected within one year are recorded at net realizable value. Pledges receivable that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using a nominal borrowing rate applicable to the years in which the promises are received. Amortization of the discounts are included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met. Management provides for probable uncollectible amounts through a provision for uncollectible pledge expense from outstanding balances and an adjustment to a valuation allowance based on its assessment of the current status of individual pledges. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to pledges receivable.

Investments and Interest in Master Trust: Investments are generally recorded at fair value based upon quoted market prices, when available, or estimates of fair value. Those investments for which fair value is not readily determinable are carried at cost. The Diocese and Affiliates records monthly the change of ownership of stocks or bonds determined on the day a trade was made. Investment income and realized and unrealized gains and losses are reflected in the statements of activities as increases or decreases in unrestricted net assets unless the income or loss is restricted by donor or law. Interest and dividend income is recorded on the accrual basis.

Investments in marketable securities, in general, are exposed to various risks, such as credit, inflation, interest rate, liquidity, reinvestment, 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 could occur in the near term and such changes could materially affect the value of investments reported in the statements of financial position.

The Diocese, the Self-Insurance Program, the Cemeteries and the Apostolate are each parties to their own individual custodial agreements with a federally chartered bank which provides custodial services for a Unitized Master Trust. Similar to a common investment pool or private mutual fund, the Unitized Master Trust affords each of these four participants the opportunity to invest in a portfolio of stocks, bonds, institutional exchange traded funds or mutual funds, or other assets including cash.

Each participant in the fund individually owns "units" or "shares," which represent a part of these investment holdings. The participants include the Diocese and the Self-Insurance Program, the latter which is separately accounted for from the Diocese though not individually incorporated, the Cemeteries and the Apostolate. The assets of each participant are totally restricted to that participant's stated purpose.

Prior to the close of the fiscal year, the St. Raphael Society Clergy Retirement Fund, the Center and the Seminary were spun out of the Unitized Master Trust into separate investment accounts.

In accordance with U.S. GAAP, each participant has the ability to redeem its investment in the pool at net asset value per unit or share at the reporting date, and as such, the fair value of measurement of the investment is categorized within Level 2 of the fair value hierarchy.

Please refer to Note 4 for information regarding fair value measurement.

ROMAN CATHOLIC DIOCESE OF MADISON, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 1 - Nature of Activities and Significant Accounting Policies - Continued

Property and Equipment: Property and equipment are carried at cost, less accumulated depreciation. Acquisitions of property and equipment in excess of \$1,000 and expenditures for improvements that materially prolong the useful lives of assets are capitalized. Repairs and maintenance that do not significantly increase the useful life of the asset are expensed as incurred. Depreciation is recorded on a straight-line basis over the estimated useful lives of the respective assets ranging from 3-40 years.

Formation of Development Entity and Disposition of Long-Lived Assets: In collaboration with a third-party investor holding a ninety-nine percent (99.0%) interest, in December 2014, the Diocese and Affiliates organized Holy Name Heights, LLC (“Tenant”) and in exchange of a capital contribution of \$29,197, received a one percent (1.0%) interest in this newly created development entity. In addition, Holy Name Catholic Center, Inc. (an Affiliate of the Diocese and “Landlord”), owns certain real estate located at 702 South High Point Road, Madison, Wisconsin (Lot 3), consisting of approximately ten (10) acres improved with the newly redeveloped former seminary building. On March 16, 2015, Landlord and Tenant entered into an agreement to lease the Center to Tenant under a long-term capital lease for a term of sixty (60) years. The leased premises includes an approximately 256,000 square foot building, all parking, and landscaped areas relating to the building.

Separately, the Diocese and Affiliates entered into a commercial lease with Holy Name Heights, LLC, for a term of approximately ten (10) years, commencing on April 1, 2015, to lease approximately 54,185 square feet of rentable space located in the Center. In this particular transaction, the Roman Catholic Diocese of Madison, Inc. is the tenant and Holy Name Heights, LLC, is the landlord.

Please refer to Note 18 for further discussion of the Redevelopment of the former Bishop O’Connor Catholic Pastoral Center.

Valuation of Long-Lived Assets: U.S. GAAP requires that long-lived assets and certain identifiable intangible assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Management reviews all material assets annually for possible impairment. If such assets are considered to be impaired, the impairment recognized is measured as the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. No assets were deemed impaired as of June 30, 2018 and 2017.

Collections Held for Others: Collections held for others represent cash donations collected primarily by parishes from parishioners on behalf of other non-diocesan and non-parochial Catholic organizations and programs, and are forwarded to the Diocese for remittance to the designated national agency based on a timetable generally prescribed by the Holy See and the United States Conference of Catholic Bishops. With the exception of funds prescribed and allocated for local use, the collections do not belong to the Diocese, and therefore, are not recognized as revenue in the consolidated statements of activities.

Deferred Revenue: The Diocese and Affiliates has short-term and long-term deferred revenue. Deferred revenue primarily includes unearned self-insurance program premium revenue and unearned income on burial fees which are to be recognized as revenue as services are performed.

Beneficial Interest in Perpetual Trust: The Diocese and Affiliates is a twenty-five percent (25%) irrevocable beneficiary of a perpetual charitable trust held by a bank trustee provided the Diocese and Affiliates maintains a ministry in support of disabled persons. The beneficial interest in the trust is reported at its fair value, which is estimated as the fair value of the underlying trust assets. Distributions of income from trust assets are restricted for use in the Apostolate disabled persons program and are reported as increases in temporarily restricted net assets. The value of the beneficial interest in the trust is adjusted annually for the change in its estimated fair value. Those changes in value are reported as increases in permanently restricted net assets because the trust assets will never be distributed to the Diocese and Affiliates. Please refer to Note 7.

ROMAN CATHOLIC DIOCESE OF MADISON, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 1 - Nature of Activities and Significant Accounting Policies - Continued

Investments in The Catholic Diocese of Madison Foundation, Inc. (Foundation): Please refer to Note 8.

Net Assets: The financial statements report net assets and changes in net assets in four classes that are based upon the existence or absence of restrictions on use that are placed by its donors, as follows:

Unrestricted Net Assets - Unrestricted net assets are resources available to support operations that are not subject to donor-imposed stipulations.

Board Designated Net Assets - Unrestricted net assets that have a defined use or purpose, as determined by an organization's board of directors. Please refer to Note 13 for detail on the organization's board designated net assets.

Temporarily Restricted Net Assets - Temporarily restricted net assets are resources that are restricted by a donor for use for a particular purpose or in a particular future period. In essence, these are resources that are restricted by a donor for use for a specific charitable activity. When a donor's restriction is satisfied either by using the resources in the manner specified by the donor or by the passage of time, the expiration of the restriction is reported in the financial statements by reclassifying the net assets from temporarily restricted to "net assets released from restriction." Donor-restricted contributions whose restrictions are met within the same year as received are reflected as unrestricted contributions in the accompanying financial statements. Please refer to Note 13.

Permanently Restricted Net Assets - Permanently restricted net assets are resources whose use by the Diocese and Affiliates is limited by donor-imposed restrictions that neither expires by being used in accordance with a donor's restriction nor by the passage of time. In essence, the net assets must be maintained permanently by the Diocese and Affiliates or a trustee if the organization has a beneficial interest in a perpetual charitable trust held by a trustee. The donor of these assets permits the Diocese and Affiliates to use all or a part of the income earned on related investments for specific purposes. Please refer to Note 13.

Accounting for Contributions: Contributions, including pledges receivable, are recognized as revenue when received or the promise to give is made. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Contributions are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statements of activities as net assets released from restriction. Conditional promises to give are not recognized until they become unconditional, that is, until all conditions in which they depend are substantially met.

Insurance Program: The Self-Insurance Program of the Diocese of Madison (the Program) was established to provide uniform liability, property and casualty, automobile, and worker's compensation insurance coverage for member parishes and other participating agencies of the Diocese and Affiliates (the "Members"). The Members pay an annual premium based on various criteria to cover their portion of the cost of this program. The Diocese and Affiliates contract with four individual insurance providers to purchase insurance coverage on behalf of itself and the Members and has retained the Catholic Mutual Group (its primary provider) to act as risk/claims manager for all lines of coverage.

ROMAN CATHOLIC DIOCESE OF MADISON, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 1 - Nature of Activities and Significant Accounting Policies - Continued

The Diocese and Affiliates administers the insurance program by collecting the premiums from its Members and paying claims as they are incurred. With regard to liability and property coverage, the Diocese and Affiliates is self-insured for the first \$150,000 per claim with an annual aggregate stop loss of \$300,000 for the years ended June 30, 2018 and 2017. With regard to automobile and worker's compensation insurance, the coverage is "first-dollar" which means the provider pays the entire loss.

Liability coverage consists of three primary components and the Diocese and Affiliates arranged for reinsurance through a captive insurance group whereby The National Catholic Risk Retention Group provides \$750,000 excess \$250,000, for general liability, sexual misconduct, employment practices, and directors and officer's coverage.

The Diocese and Affiliates are one of thirty-nine equity owners of the Catholic Umbrella Pool (CUP), which provides \$3.5 million excess \$1.5 million for general liability, sexual misconduct, employment practices, and directors and officer's coverage. Reinsurance contracts do not relieve the Diocese and Affiliates from its primary obligation to Members and failure of reinsurers to discharge their obligations could result in losses to the Diocese and Affiliates. Management regularly evaluates the financial condition of reinsurers, and is not aware of any circumstances which would indicate that reinsurers will not be able to honor their obligations under the terms of the agreements.

Amounts are accrued for unpaid claims and an estimated amount of incurred but not reported claims. Such liabilities are management's estimate and the ultimate liability may differ from the amounts recorded. Assessments from Members are recognized as revenue on a prorata basis over the policy term.

Included in accrued expenses are a reserve for an estimated claims expense for reported open claims of approximately \$220,000 and \$120,000 for the years ended June 30, 2018 and 2017, respectively, and a general reserve for the amount of incurred but not reported claims of \$40,000 for the years ended June 30, 2018 and 2017.

Cemeteries: The Diocese and Affiliates has four cemeteries in southern Wisconsin (the Department of Cemeteries). Revenue associated with pre-need interment and entombment services is deferred until such time as the service is performed. Direct sale of interment and entombment services are recognized as revenue at the date of sale. Inventories consist of unsold mausoleum crypts, shared memorials, and crypt letters with cost determined using the first-in, first-out (FIFO) method for valuing inventory.

Separately, with regard to the Roman Catholic Diocese of Madison Cemeteries, Inc., there is a fiduciary obligation to hold certain funds collected for the perpetual care of the cemeteries. The separate restricted perpetual care fund totaled \$4,511,755 and \$4,082,309 for the years ended June 30, 2018 and 2017, respectively.

Income Taxes: The Diocese and Affiliates are 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 Diocese and Affiliates, and has concluded that as of June 30, 2018, 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 Diocese and Affiliates is subject to routine audits by taxing jurisdictions: however, there are currently no audits for any tax periods in progress.

ROMAN CATHOLIC DIOCESE OF MADISON, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 2 - Accounts Receivable

Net receivables consist of the following (dollars in thousands):

	JUNE 30	
	2018	2017
Accounts receivable	\$ 2,128	\$ 944
Assessment receivable	68	71
Receivable for construction expenditure	172	172
Education loans receivable	124	113
Investment interest receivable	76	92
SUBTOTAL	2,568	1,392
Less: Allowance for uncollectible receivables	(5)	(35)
TOTAL	<u>\$ 2,563</u>	<u>\$ 1,357</u>

NOTE 3 - Pledges Receivable

Pledges receivable, net of allowance for doubtful promises, represent amounts pledged to the Diocese and Affiliates from individuals for the Diocesan Annual Catholic Appeal (ACA), for the Camp Gray capital campaign, and for the Priests for Our Future - The Church is Alive capital campaign and consist of the following (dollars in thousands):

	JUNE 30	
	2018	2017
Pledges Receivable - Priests for Our Future	\$ 4,803	\$ 8,930
Pledges Receivable - Camp Gray capital campaign	838	781
Pledges Receivable - Diocesan Annual Appeal	419	430
NET PLEDGES RECEIVABLE	<u>\$ 6,060</u>	<u>\$ 10,141</u>

The Priests for Our Future capital campaign was launched in the summer of 2014. The Diocese and Affiliates undertook a capital campaign to raise funds to endow seminarian education and to support the Diocesan Office of Vocations. At the direction of the Diocese and Affiliates, the beneficiary of the seminarian endowment fund, the actual campaign receipts are deposited into accounts maintained by The Catholic Diocese of Madison Foundation, Inc. (Foundation). These receivables include payments which are due within more than one year, are unconditional, and are recorded at net realizable value.

Pledges receivable for the Priests for Our Future - The Church is Alive campaign consist of the following (dollars in thousands):

	JUNE 30	
	2018	2017
Pledges receivable	\$ 38,167	\$ 37,116
Less:		
Unamortized discount	(32)	(146)
Allowance for doubtful promises	(939)	(1,240)
SUBTOTAL	37,196	35,730
Total payments received	(32,393)	(26,800)
NET PLEDGES RECEIVABLE	<u>\$ 4,803</u>	<u>\$ 8,930</u>

ROMAN CATHOLIC DIOCESE OF MADISON, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 3 - Pledges Receivable - Continued

At June 30, the aggregate collection of pledges receivable is as follows:

	JUNE 30	
	2018	2017
Pledges receivable in less than one year	\$ 2,888	\$ 5,398
Pledges receivable in one to five years	2,886	4,918
TOTAL PLEDGES RECEIVABLE	5,774	10,316
Less:		
Unamortized discount	(32)	(146)
Allowance for doubtful promises	(939)	(1,240)
NET PLEDGES RECEIVABLE	\$ 4,803	\$ 8,930

Pledges receivable expected to be received in more than one year are discounted at 1.5 percent for the years ended June 30, 2018 and 2017. The estimated bad debt expense relating to the pledges receivable for the years ended June 30, 2018 and 2017 were \$939,172 and \$1,240,264, respectively. Fundraising expenses for the Priests for Our Future - The Church is Alive were \$15,963 and \$18,506 for the years ending June 30, 2018 and 2017, respectively.

During 2016, a capital campaign was launched by Camp Gray for capital improvements. These receivables include payments which range from less than one year to five years, are unconditional, and are recorded at net realizable value.

Pledges receivable for the Camp Gray capital campaign consist of the following (dollars in thousands):

	JUNE 30	
	2018	2017
Pledges receivable	\$ 4,833	\$ 2,579
Less: Allowance for doubtful promises	-	-
SUBTOTAL	4,833	2,579
Total payments received	(3,995)	(1,798)
NET PLEDGES RECEIVABLE	\$ 838	\$ 781

At June 30, the aggregate collection of pledges receivable is as follows:

	JUNE 30	
	2018	2017
Pledges receivable in less than one year	\$ 272	\$ 209
Pledges receivable in one to five years	566	572
TOTAL PLEDGES RECEIVABLE	838	781
Less:		
Unamortized discount	-	-
Allowance for doubtful promises	-	-
NET PLEDGES RECEIVABLE	\$ 838	\$ 781

Fundraising expenses for the Camp Gray capital campaign were \$40,498 and \$125,625 for the years ended June 30, 2018 and 2017, respectively.

ROMAN CATHOLIC DIOCESE OF MADISON, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 3 - Pledges Receivable - Continued

The Diocesan Annual Catholic Appeal is an annual appeal to generate funding for ministries and services benefiting every Catholic in the Diocese of Madison. These receivables are due within less than one year, are unconditional, and are recorded at net realizable value.

Pledges receivable for the Diocesan Annual Catholic Appeal consist of the following (dollars in thousands):

	JUNE 30	
	2018	2017
Pledges receivable	\$ 3,523	\$ 3,499
Less: Allowance for doubtful promises	(215)	(244)
SUBTOTAL	3,308	3,255
Total payments received	(2,889)	(2,825)
NET PLEDGES RECEIVABLE	\$ 419	\$ 430

Fundraising expenses for the Annual Diocesan Appeal were \$199,194 and \$167,221 for the years ended June 30, 2018 and 2017, respectively.

NOTE 4 - Fair Value Measurements

Assets and liabilities carried at fair value are classified and disclosed in one of the following three categories:

Level 1: Fair value is determined using quoted market prices in active markets for identical assets and liabilities.

Level 2: Fair value is determined using observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3: Fair value is determined using unobservable inputs that are not corroborated by market data.

In determining the appropriate levels, the Diocese and Affiliates performs a detailed analysis of the assets and liabilities that are carried at fair value in the financial statements.

Interest in Master Trust: The Diocese, the Self-Insurance Program, the Cemeteries and the Apostolate hold investments in a private Unitized Master Trust (the Master Trust) managed by a bank. Each participating corporation or accounting entity has a separate and individual interest in the Master Trust and each elects investment strategies based on a defined investment policy. The assets of each participant are totally restricted to the participant's stated purpose. The fair value of the Diocese and Affiliates' combined interest in the Master Trust is based on the fair value of the individual underlying securities in the Master Trust. The Master Trust invests primarily in common stocks, bonds, institutional exchange traded funds or mutual funds, or other assets including cash, which individually are primarily considered Level 2 investments.

Investments: The Gift Annuity Program, the Center and the Seminary each have separate investment accounts that invest primarily in common stocks, bonds, institutional exchange traded funds or mutual funds, or other assets including cash, which individually are primarily considered Level 2 investments.

Mutual Funds and Common Stocks: The fair value of the Diocese and Affiliates' investments in mutual funds and common stock are based on quoted market prices as these securities are actively traded on the New York Stock Exchange and NASDAQ.

ROMAN CATHOLIC DIOCESE OF MADISON, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 4 - Fair Value Measurements - Continued

U.S. Government Bonds and Municipal, Corporate and Foreign Obligations: The fair value of the Diocese and Affiliates' investments in 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.

Other Investments: Investments in other investment funds (primarily pooled equity funds) are valued at fair value based on the applicable percentage ownership of the fund's net assets.

Beneficial Interest in Perpetual Trust: Fair value of the Diocese and Affiliates' beneficial interest in perpetual trust is estimated as the fair value of the underlying trust assets.

Investments in Foundation: Investments in Foundation are valued at the fair value of the Diocese and Affiliates' beneficial interests in the funds held for others in the Foundation.

For the years ended June 30, 2018 and 2017, valuation techniques for investment securities have been consistent with the previous years.

The table below presents the balances of assets held for the Diocese and Affiliates measured at fair value on a recurring basis by level within the fair value hierarchy as of June 30, 2018 (dollars in thousands):

	FAIR VALUE	FAIR VALUE MEASUREMENTS AT REPORTING DATE USING		
		(LEVEL 1)	(LEVEL 2)	(LEVEL 3)
Interest in Master Trust	\$ 19,892	\$ -	\$ 19,892	\$ -
Money Market	839	-	839	-
Mutual Funds				
Real Estate	24	-	24	-
Fixed Income	651	-	651	-
Common Stock				
Large Cap	781	422	359	-
Mid Cap	253	168	85	-
Small Cap	150	95	55	-
International	293	275	18	-
Other	172	-	-	172
TOTAL INVESTMENTS	23,055	960	21,923	172
Beneficial interest in perpetual trust	544	-	-	544
Investments in Foundation	38,330	-	-	38,330
TOTAL	\$ 61,929	\$ 960	\$ 21,923	\$ 39,046

The changes in Level 3 assets measured at fair value on a recurring basis are summarized as follows (dollars in thousands):

	OTHER	BENEFICIAL INTEREST IN PERPETUAL TRUST	INVESTMENT IN FOUNDATION
Balance, beginning	\$ 194	\$ 565	\$ 33,221
(Decrease) increase in value of assets	(22)	30	2,969
Distributions	-	(51)	(2,341)
Contributions	-	-	4,481
BALANCE, ENDING	\$ 172	\$ 544	\$ 38,330

ROMAN CATHOLIC DIOCESE OF MADISON, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 4 - Fair Value Measurements - Continued

The table below presents the balances of assets held for the Diocese and Affiliates measured at fair value on a recurring basis by level within the fair value hierarchy as of June 30, 2017 (dollars in thousands):

	FAIR VALUE	FAIR VALUE MEASUREMENTS AT REPORTING DATE USING		
		(LEVEL 1)	(LEVEL 2)	(LEVEL 3)
Interest in Master Trust	\$ 17,264	\$ -	\$ 17,264	\$ -
Money Market	118	-	118	-
Mutual Funds				
Real Estate	71	6	65	-
Fixed Income	928	111	817	-
Large Cap	280	280	-	-
Mid Cap	43	43	-	-
Small Cap	10	-	10	-
International	55	55	-	-
Common Stock				
Large Cap	996	-	996	-
Mid Cap	304	-	304	-
Small Cap	169	-	169	-
International	270	253	17	-
Other	194	-	-	194
TOTAL INVESTMENTS	20,702	748	19,760	194
Beneficial interest in perpetual trust	565	-	-	565
Investments in Foundation	33,222	-	-	33,222
TOTAL	\$ 54,489	\$ 748	\$ 19,760	\$ 33,981

The changes in Level 3 assets measured at fair value on a recurring basis are summarized as follows (dollars in thousands):

	OTHER	BENEFICIAL INTEREST IN PERPETUAL TRUST	INVESTMENT IN FOUNDATION
Balance, beginning	\$ 176	\$ 521	\$ 23,953
Increase in value of assets	18	44	2,920
Distributions	-	-	(461)
Contributions	-	-	6,810
BALANCE, ENDING	\$ 194	\$ 565	\$ 33,222

NOTE 5 - Property and Equipment

Property and equipment consist of the following (dollars in thousands):

	JUNE 30	
	2018	2017
Land	\$ 262	\$ 105
Leasehold improvements	553	-
Land improvements	845	817
Buildings	6,522	6,453
Building improvements	3,930	3,930
Fixtures and equipment	3,312	3,310
Office equipment	1,129	1,110
Vehicles	356	369
Construction in progress	2,475	233
TOTAL PROPERTY AND EQUIPMENT	19,385	16,327
Less accumulated depreciation	(8,702)	(8,254)
NET PROPERTY AND EQUIPMENT	\$ 10,682	\$ 8,073

ROMAN CATHOLIC DIOCESE OF MADISON, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 6 - Gift Annuity Program

The Diocese and Affiliates has established a gift annuity program whereby donors make a charitable gift to the Diocese and Affiliates and in return receive an annual annuity in equal quarterly installments for their lifetime. Donors may elect to designate a portion of the charitable gift for a parish, school, or other approved charitable organization. Assets received under the charitable gift annuity agreements are recorded at fair value and in the appropriate net asset category based on donor stipulation when received. The present value of future payments is recognized as a liability, and the difference between the liability and the face value of the annuity is recognized as contributions. The Diocese and Affiliates maintains a segregated investment account for the gift annuity program.

NOTE 7 - Beneficial Interest in Perpetual Trust

The Diocese and Affiliates is the beneficiary of an irrevocable perpetual trust held by a bank trustee. These resources are neither in the possession of, nor under the control of the Diocese and Affiliates. The terms of the trust provide that the Apostolate is to receive a distribution of income from the trust, the amount and timing of which is at the discretion of the trustee. The beneficial interest in the trust is reported at fair value, which is estimated as the fair value of the underlying trust assets. As discussed in Note 4, because there are no observable market transactions for assets similar to the beneficial interest in the trust and because the trust cannot be redeemed, the valuation technique used by the Diocese and Affiliates is a Level 3 fair value measure (dollars in thousands). These amounts are shown as permanently restricted net assets on the June 30 statement of financial position.

	2018	2017
FMV of trust, beginning of year	\$ 2,259	\$ 2,084
Investment return:		
Investment income	45	52
Net realized and unrealized gains	108	154
Investment fees and expenses	(32)	(31)
TOTAL INVESTMENT RETURN	121	(175)
Appropriation for expenditure - spending rate	(206)	-
FMV of trust, end of year	2,174	2,259
Beneficial interest in trust	25%	25%
TOTAL VALUE	\$ 544	\$ 565

Annual distributions from the trust to Roman Catholic Diocese of Madison, Inc. and Affiliates totaled \$51,389 and \$-0- for the years ended June 30, 2018 and 2017, respectively.

NOTE 8 - Investments in Foundation

The Diocese of Madison and Affiliates has executed three contribution agreements and established three separate endowment funds within the Foundation, specifying itself as beneficiary. Under U.S. GAAP, a specified beneficiary should recognize its rights to the assets held by a recipient entity as an asset, regardless of whether or not the resource provider granted the recipient entity (the Foundation) variance power.

ROMAN CATHOLIC DIOCESE OF MADISON, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 8 - Investments in Foundation - Continued

In 2014, the Diocese and Affiliates began a capital campaign as detailed below and in Note 9. Campaign materials state that the funds will be held in an endowment fund within the Foundation, but without variance power. As the Diocese and Affiliates has specified itself as beneficiary, under U.S. GAAP, these transfers are reciprocal, and thus, are recorded as contribution revenue by the Diocese and Affiliates and as an asset and a liability by the Foundation.

The combined value of the trusts created through reciprocal transfer and the endowment fund, totaled \$38,330,396 and \$33,221,916 for the years ended June 30, 2018 and 2017, respectively.

Apostolate to the Handicapped Fund

In 2013, the Diocese and Affiliates through the Apostolate to the Handicapped, in consultation with and consent granted by the Diocesan Finance Council and College of Consultors, and considering it the best way to fulfill the intentions of the donor(s), entered into a contribution agreement with and transferred \$7 million to the Foundation to establish a term-endowment fund. At the time of the transfer, the Apostolate specified itself as beneficiary absent variance power.

While this reciprocal transfer of funds is “board directed”, the donor-imposed restrictions ensure that the funds will only be used for persons with disabilities. The Foundation’s policy is to make annual distributions consistent with the then currently adopted spending policy. The current appropriation is five percent (5%). Annual distributions from the Foundation totaled \$360,445 and \$461,132 for the years ended June 30, 2018 and 2017, respectively.

Investments in Foundation at June 30, are comprised of the following (dollars in thousands):

	2018	2017
Interest in Foundation, beginning of year	\$ <u>7,173</u>	\$ <u>6,904</u>
Investment return:		
Investment income	150	136
Net realized and unrealized gains	618	720
Investment fees and expenses	<u>(120)</u>	<u>(126)</u>
TOTAL INVESTMENT RETURN	<u>648</u>	<u>730</u>
Appropriation for expenditure - spending rate	<u>(360)</u>	<u>(461)</u>
INTEREST IN FOUNDATION, END OF YEAR	<u>\$ 7,461</u>	<u>\$ 7,173</u>

Priests for Our Future - The Church is Alive Fund

In 2014, the Diocese and Affiliates undertook a capital campaign to raise funds to defray the cost of recruiting, educating, training, and forming seminarians preparing to be priests of the Diocese of Madison. Accordingly, a permanent endowment fund was established and the Diocese and Affiliates directed that all donations be deposited to the Foundation for the benefit of the Diocese as beneficiary absent variance power. Neither the Foundation’s officers nor any other person shall have authority to use the seminarian endowment fund’s net contributions, net returns, or corpus for any other purpose.

ROMAN CATHOLIC DIOCESE OF MADISON, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 8 - Investments in Foundation - Continued

The Foundation's policy is to make annual distributions consistent with the then currently adopted spending policy, which is five percent (5%). Annual distributions from the Foundation totaled \$1,951,183 and \$-0- for the years ended June 30, 2018 and 2017, respectively.

The endowment fund at the Foundation at June 30, is comprised of the following (dollars in thousands):

	2018	2017
Interest in Foundation, beginning of year	\$ 25,445	\$ 17,049
Investment return:		
Investment income	555	414
Net realized and unrealized gains	2,180	2,132
Investment fees and expenses	(468)	(400)
TOTAL INVESTMENT RETURN	2,267	2,146
Contributions	4,442	6,250
Appropriation for expenditure - spending rate	(1,951)	-
INTEREST IN FOUNDATION, END OF YEAR	\$ 30,203	\$ 25,445

St. Mother Teresa Mercy Fund

In November 2016, the Diocese and Affiliates entered into a contribution agreement with and transferred \$500,000 to the Foundation to establish a term-endowment fund. At the time of the transfer, the Diocese specified itself as beneficiary absent variance power.

While this reciprocal transfer of funds is "board directed", the fund is to provide assistance to ministries and programs as directed by the Bishop of Madison, so as to address the Corporal and Spiritual Works of Mercy in the Diocese of Madison. These net assets are classified as "board restricted". Further, other individuals or entities are invited to make contributions to the fund, and those receipts are recorded as contribution revenue by the Diocese and Affiliates and the net assets are classified as "permanently restricted."

The Foundation's policy is to make annual distributions consistent with the then currently adopted spending policy, the current appropriation is five percent (5%). Annual distributions from the Foundation totaled \$30,360 and \$-0- for the years ended June 30, 2018 and 2017, respectively.

The endowment fund at the Foundation at June 30, is comprised of the following (dollars in thousands):

	2018	2017
Interest in Foundation, beginning of year	\$ 603	\$ -
Investment return:		
Investment income	13	8
Net realized and unrealized gains	50	48
Investment fees and expenses	(9)	(13)
TOTAL INVESTMENT RETURN	54	43
Contributions	39	560
Appropriation for expenditure - spending rate	(30)	-
INTEREST IN FOUNDATION, END OF YEAR	\$ 666	\$ 603

ROMAN CATHOLIC DIOCESE OF MADISON, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 9 - Endowment Funds

As described in Note 8, the Diocese of Madison and Affiliates endowment funds were established and consists of donor restricted funds designated by the campaign solicitation materials as well as board designated funds to function as an endowments.

Interpretation of the Law - The Diocese of Madison and Affiliates has interpreted the Wisconsin 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 any explicit donor stipulations to the contrary. As a result of this interpretation, the Diocese of Madison and Affiliates classifies as permanently restricted net assets (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 that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Diocese of Madison and Affiliates in a manner consistent with the standard of prudence prescribed by UPMIFA and the Foundation's distribution policy.

In accordance with UPMIFA, the Diocese of Madison and Affiliates 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 purpose of the Diocese 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 Organization, and (7) the investment policies of the Diocese of Madison and Affiliates.

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 Diocese and the Foundation's respective investment committees recognize some risk is necessary to produce long-term investment results. However, reasonable effort is made to control risk.

Spending Policy - The Foundation's policy is to make annual distributions consistent with the then currently adopted spending policy, the current appropriation is five percent (5%). Nonetheless, the assets described herein were received by the Foundation with the stipulation that initially investment earnings will accrue and be distributed when the need arises. Accordingly, over the long term, the Diocese of Madison and Affiliates expects the current spending policy to allow its endowments to grow overtime. This is consistent with the Diocese's objective to maintain the endowment assets held in perpetuity as well as to provide additional real growth through new gifts and investment return.

Nature of Restricted Net Assets - The amount listed as permanently restricted net assets is required to be retained permanently either by explicit donor stipulation or by UPMIFA. The temporarily restricted amounts are the portion of the endowment fund subject to a time restriction. Board designated net assets are reflected in the unrestricted column. The amounts will be released from restriction when appropriation is made by the duly appointed officers of the Diocese of Madison and Affiliates.

ROMAN CATHOLIC DIOCESE OF MADISON, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 9 - Endowment Funds - Continued

Endowment Net Asset Composition by Type of Fund as of June 30, 2018 (dollars in thousands):

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>PERMANENTLY RESTRICTED</u>	<u>TOTAL</u>
Board directed endowment	\$ 568	\$ -	\$ -	\$ 568
Donor-restricted endowment	-	2,136	28,166	30,302
TOTAL	<u>\$ 568</u>	<u>\$ 2,136</u>	<u>\$ 28,166</u>	<u>\$ 30,870</u>

Changes in Endowment Net Asset for the Year Ended June 30, 2018 (dollars in thousands):

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>PERMANENTLY RESTRICTED</u>	<u>TOTAL</u>
Endowment net assets, beginning of year	\$ 539	\$ 1,824	\$ 23,685	\$ 26,048
Investment return:				
Investment income, net	4	88	-	92
Net appreciation (realized and unrealized)	42	2,188	-	2,230
Total investment return	46	2,276	-	2,322
Contributions	-	-	4,481	4,481
Appropriation for expenditure	(17)	(1,964)	-	1,981
Endowment net assets, end of year	<u>\$ 568</u>	<u>\$ 2,136</u>	<u>\$ 28,166</u>	<u>\$ 30,870</u>

Endowment Net Asset Composition by Type of Fund as of June 30, 2017 (dollars in thousands):

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>PERMANENTLY RESTRICTED</u>	<u>TOTAL</u>
Board directed endowment	\$ 539	\$ -	\$ -	\$ 539
Donor-restricted endowment	-	1,824	23,685	25,509
TOTAL	<u>\$ 539</u>	<u>\$ 1,824</u>	<u>\$ 23,685</u>	<u>\$ 26,048</u>

Changes in Endowment Net Asset for the Year Ended June 30, 2017 (dollars in thousands):

	<u>UNRESTRICTED RESTATE</u>	<u>TEMPORARILY RESTRICTED RESTATE</u>	<u>PERMANENTLY RESTRICTED</u>	<u>TOTAL</u>
Endowment net assets, beginning of year	\$ (326)	\$ -	\$ 17,375	\$ 17,049
Investment return:				
Investment income, net	-	13	-	13
Net appreciation (realized and unrealized)	365	1,811	-	2,176
Total investment return	365	1,824	-	2,189
Contributions	500	-	6,310	6,810
Endowment net assets, end of year	<u>\$ 539</u>	<u>\$ 1,824</u>	<u>\$ 23,685</u>	<u>\$ 26,048</u>

ROMAN CATHOLIC DIOCESE OF MADISON, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 9 - Endowment Funds - Continued

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 Organization to retain as a fund of perpetual duration. In accordance with U.S. GAAP, deficiencies of this nature are reported in unrestricted net assets. The deficiencies result from unfavorable market fluctuations that have occurred. As of June 30, 2018 and 2017, the Organization did not have any funds with deficiencies.

NOTE 10 - Deferred Revenue

Deferred revenue as of June 30, consist of the following (dollars in thousands):

	2018	2017
Unearned Assessments - Program	\$ 829	\$ 814
Unearned Revenue - Cemeteries	1,191	1,123
Unearned Revenue - Center	305	317
Other Unearned Deferred Revenue	2	9
TOTAL	\$ 2,327	\$ 2,263

NOTE 11 - Notes Payable

The Diocese and Affiliates has a construction note payable to bank with a remaining balance of \$2,500,000 and \$1,130,098 for the years ended June 30, 2018 and 2017, respectively. Annual principal and interest payments of \$160,843 begin on October 28, 2018. The note is due on October 28, 2026 with interest being calculated at a fixed rate of 3.99%. The note is collateralized by all inventory, equipment and fixtures at Camp Gray. No principal payments were made during the years ending June 30, 2018 and 2017. The Organization is in compliance with all debt covenants at June 30, 2018.

Principal requirements on long-term debt for year ending June 30, 2018, are as follows:

2019	\$ 59,639
2020	61,487
2021	63,986
2022	66,586
2023	69,442
Thereafter	2,178,860
TOTAL	\$ 2,500,000

NOTE 12 - Accrued Pension Plan and Other Post-Retirement Benefits (the OPEB)

The Diocese of Madison is the sponsor of the St. Raphael Society Clergy Retirement Fund of the Diocese of Madison (Retirement Fund), a single employer defined benefit plan (the Plan), as administered by the Trustees of the Plan. The Plan covers all priests ordained or incardinated into the Diocese of Madison and is funded through specific parish assessments and contributions from donors. The Plan is subject to the provisions of the Internal Revenue Code.

Effective July 1, 2013, the Plan document was amended and restated, as a tax-qualified Church plan in the form of an irrevocable trust. Pursuant to the Plan document, all assets available for payment of pension benefits under the Plan, including income on those assets, will be held by the Trustee in one or more deposit or investment accounts which shall, in the aggregate, constitute a single common fund for purposes of the Plan. Plan benefits will be paid only from assets in the trust fund. The Bishop and the Diocese of Madison have no liability or responsibility for payment of the Plan benefits.

ROMAN CATHOLIC DIOCESE OF MADISON, INC. AND AFFILIATES
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NOTE 12 - Accrued Pension Plan and Other Post-Retirement Benefits (the OPEB) - Continued

The Retirement Fund accounts for noncontributory defined pension benefits that cover the ordained and incardinated priests in the Diocese of Madison, who are members of the Plan. The Bishop of Madison reserves to himself the right to alter, amend, modify, revoke, or terminate the Plan. However, no amendment of the Plan may reduce the lifetime benefit to which a member has a vested right. No Plan amendment may cause or permit the Retirement Fund to be diverted to any purpose other than to provide retirement benefits to members and pay related expenses as provided by the Plan. If the Plan is terminated, then (a) the rights of all members affected by the termination with respect to their benefits accrued through the date of termination will be 100% vested and (b) the Board will have the Plan pay (or make arrangements for the Plan to pay) all then-outstanding liabilities to members (such as through the purchase of annuities from insurance companies).

Priests with 25 years of service and that have attained age 70 (normal retirement age) are entitled to monthly pension benefits. Benefits are based on a fixed benefit schedule established and updated by the Trustees of the Plan. There is a pro rata reduction of the retirement benefit for members with more than 10 but less than 25 years of service.

The actuarial present value of accumulated plan benefits is determined by an independent actuary and it is that amount which results from applying actuarial assumptions to adjust the accumulated Plan benefits to reflect the time value of money (through discounts for interest) and the probability of payment (by means of decrements such as for death or retirement) between the valuation date and the expected date of payment. U.S. GAAP requires that the cost of member or participant pensions to be recognized over the members respective service period and a liability to be recognized when the accumulated benefit obligations exceeds the fair value of plan assets. Because of the application of various assumptions and estimates, actual results may differ from those estimates.

In summary, pension benefits are the obligation of and are paid by the Plan through the Retirement Fund, while other post-employment benefits or OPEB are the obligation of and are paid by the Diocese of Madison. The other post-employment benefits provide for supplemental Medicare, dental, vision, and long-term care insurance. Further, the Diocese of Madison also pays the annual premium for long-term care insurance for certain ordained or incardinated active diocesan priests, as applicable. Through the fiscal year ended June 30, 2018, OPEB costs were funded on a pay-as-you-go basis. Please refer to Note 20 for discussion on the formation of a voluntary employees' beneficiary association (VEBA), effective July 1, 2018.

In summary, pension benefits are the obligation of and are paid by the Plan through the Retirement Fund, while other post-employment benefits or OPEB are paid by the Diocese of Madison. Finally, the Diocese of Madison also pays the annual premium for long-term care insurance for active diocesan priests, as applicable.

Information relative to the Plan is as follows for June 30 (dollars in thousands):

	2018		
	PENSION BENEFITS	OTHER BENEFITS	ALL PLANS
Fair value of plan assets	\$ 23,191	\$ 390	\$ 23,581
Projected benefit obligation	20,064	8,000	28,064
OVERFUNDED (UNFUNDED) STATUS			
AT END OF YEAR	\$ 3,127	\$ (7,610)	\$ (4,483)

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NOTE 12 - Accrued Pension Plan and Other Post-Retirement Benefits (the OPEB) - Continued

	2017		
	<u>PENSION BENEFITS</u>	<u>OTHER BENEFITS</u>	<u>ALL PLANS</u>
Fair value of plan assets	\$ 21,435	\$ -	\$ 21,435
Projected benefit obligation	<u>20,159</u>	<u>8,706</u>	<u>28,865</u>
OVERFUNDED (UNFUNDED) STATUS			
AT END OF YEAR	<u>\$ 1,276</u>	<u>\$ (8,706)</u>	<u>\$ (7,430)</u>

Amounts recognized in the consolidated statement of financial position consist of the following at June 30 (dollars in thousands):

	<u>2018</u>	<u>2017</u>
Pension benefits - noncurrent	\$ 3,127	\$ 1,276
Other benefits - current	-	(294)
Other benefits - noncurrent	(7,610)	(8,412)
TOTAL	<u>\$ (4,483)</u>	<u>\$ (7,430)</u>

The accumulated benefit obligation for the defined benefit pension plan was \$14,060,511 and \$14,015,515 as of June 30, 2018 and 2017, respectively.

The net periodic benefit (gain) or cost on the clergy pension plan as reported in the statements of activities for the years ending June 30, 2018 and 2017 totaled (\$1,328,379) and (\$1,092,449) respectively, and consists of priest pension benefits paid, return on investments, administrative expenses, and the change in actuarially computed retirement liability.

The net periodic benefit (gain) or cost on the clergy OPEB as reported in the statement of activities for the years ending June 30, 2018 and 2017 totaled (\$450,097) and (\$85,190), respectively, and consists of priest other post-retirement benefits paid, return on investments, administrative expenses, and the change in actuarially computed retirement liability.

The components of net periodic benefit cost and other changes in plan assets and benefit obligations recognized in net assets were as follows for the year ended June 30 (dollars in thousands):

	2018		
	<u>PENSION BENEFITS</u>	<u>OTHER BENEFITS</u>	<u>ALL PLANS</u>
Net periodic cost	\$ (1,328)	\$ (450)	\$ (1,778)
Other changes in net assets:			
Net losses arising during the period	(1,280)	(1,078)	(2,358)
Amortization of net gains	1,280	1,078	2,358
	<u>\$ (1,328)</u>	<u>\$ (450)</u>	<u>\$ (1,778)</u>
	2017		
	<u>PENSION BENEFITS</u>	<u>OTHER BENEFITS</u>	<u>ALL PLANS</u>
Net periodic cost	\$ (1,093)	\$ (85)	\$ (1,178)
Other changes in net assets:			
Net losses arising during the period	(1,054)	(717)	(1,771)
Amortization of net gains	1,054	717	1,771
	<u>\$ (1,093)</u>	<u>\$ (85)</u>	<u>\$ (1,178)</u>

ROMAN CATHOLIC DIOCESE OF MADISON, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 12 - Accrued Pension Plan and Other Post-Retirement Benefits (the OPEB) - Continued

The weighted average assumptions used to determine the benefit obligations and net periodic benefit cost at June 30 were as follows:

	2018	
	<u>PENSION</u> <u>BENEFITS</u>	<u>OTHER</u> <u>BENEFITS</u>
Benefit obligation:		
Discount rate	4.3%	4.3%
Rate of compensation increase	N/A	N/A
Net periodic benefit:		
Discount rate	4.0%	4.0%
Rate of compensation	N/A	N/A
Long-term rate of return on assets	6.25%	N/A
	2017	
	<u>PENSION</u> <u>BENEFITS</u>	<u>OTHER</u> <u>BENEFITS</u>
Benefit obligation:		
Discount rate	4.0%	4.0%
Rate of compensation increase	N/A	N/A
Net periodic benefit:		
Discount rate	3.8%	3.8%
Rate of compensation	N/A	N/A
Long-term rate of return on assets	6.9%	N/A

The discount rate is based on the actuary's proprietary yield curve, under which the pension plan's cash flows are matched against a series of spot rates derived from a market basket of high quality fixed income securities.

The long-term rate of return on assets was determined based on the average rate of earnings expected on the funds invested or to be invested to provide for the benefits included in the projected benefit obligation.

The Diocese and Affiliates' pension plan provide benefits that are based on length of service without regard to the level of pay and, as a result, do not recognize the inflation effects on the level of pay. In order to provide benefits that are more in keeping with those effects, the Diocese and Affiliates has, from time-to-time, increased the amount of retirement benefits that are planned to be paid out to each priest and expects to continue this practice. Accordingly, in computing the benefit obligations and components of pension expense, the Diocese and Affiliates has assumed future rate increases in the benefit formula. That rate is included in the disclosed assumptions as the assumption for the rate of compensation increase.

Assumed benefit cost trend rates have a significant effect on the amounts reported for healthcare (medical) and long-term care. Valuation of the other post-employment benefit obligations assumes healthcare and long-term care cost trend rates based on a graded scale, from 6.5 percent in 2018 down to 4.5 percent in 2037, and from 6.7 percent in 2017 down to 4.5 percent in 2037 and thereafter for participants pre-65 in age, and from 7.7 percent in 2018 to 4.5 percent in 2037 and thereafter, and from 8.1 percent in 2017 down to 4.5 percent in 2037 and thereafter for participants post-65 in age. For 2018 and 2017, the Fund assumed dental and vision cost trend rates on a graded scale at 4.5 percent, and thereafter.

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NOTE 12 - Accrued Pension Plan and Other Post-Retirement Benefits (the OPEB) - Continued

If the assumed trend rates for healthcare, vision and dental increased by one percentage point in each year, post-retirement benefits would increase by approximately \$1,323,300 and \$1,464,000 as of June 30, 2018 and 2017, respectively. Conversely, if rates decreased by one percentage point in each year, post-retirement benefits would decrease by approximately \$1,049,500 and \$1,160,500 as of June 30, 2018 and 2017, respectively.

Plan Assets

The Plan's investments are held primarily in a separate investment account outside of the Unitized Master Trust (Note 4). The investment funds underlying securities consist of stocks, bonds, institutional exchange traded funds or mutual funds, or other assets including cash. The investment pool dedicated to fund pension obligations is considered a Level 2 security as defined by the fair value categories defined in Note 4, as the fair value is generally determined using observable market based inputs or unobservable inputs that are corroborated by market data.

The fair values of the Diocese and Affiliates' pension plan assets at June 30, 2018, by asset class are as follows (dollars in thousands):

	<u>TOTAL</u>	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>
Investments	\$ 22,797	<u>\$ -</u>	<u>\$ 22,797</u>	<u>\$ -</u>
Other Plan assets:				
Cash	270			
Other	124			
	<u>\$ 23,191</u>			

The fair values of the Diocese and Affiliates' pension plan assets at June 30, 2017, by asset class are as follows (dollars in thousands):

	<u>TOTAL</u>	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>
Interest in Master Trust	\$ 20,666	<u>\$ -</u>	<u>\$ 20,666</u>	<u>\$ -</u>
Other Plan assets:				
Cash	598			
Other	171			
	<u>\$ 21,435</u>			

The description of each level above is disclosed in Note 4.

Cash Flows

Contributions for pension benefits and other post-retirement benefits of \$522,874 and \$645,926, respectively, were made for the year ended June 30, 2018, and \$1,862,523 and \$273,115, respectively, were made for the year ended June 30, 2017. Contributions for pension benefits and other post-retirement benefits are expected to be \$288,000 and \$692,000, respectively, in 2018.

Benefit payments for pension benefits and for other post-retirement benefits were \$878,152 and \$273,736, respectively, were made for the year ended June 30, 2018, and \$827,904 and \$273,115, respectively, were made for the year ended June 30, 2017.

ROMAN CATHOLIC DIOCESE OF MADISON, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 12 - Accrued Pension Plan and Other Post-Retirement Benefits (the OPEB) - Continued

The following benefit payments, which reflect future services, as appropriate, are expected to be paid:

<u>YEARS ENDING JUNE 30,</u>	<u>PENSION BENEFITS</u>	<u>OTHER BENEFITS</u>
2019	\$ 1,011,221	\$ 281,868
2020	1,049,765	310,655
2021	1,083,117	338,074
2022	1,133,011	368,895
2023	1,141,367	388,735
2023-2027	5,920,780	2,210,238

Tax Status

The Internal Revenue Service (IRS) has determined and informed the Plan Sponsor by a letter dated March 13, 2015, that the Plan was designed in accordance with the applicable regulations of the Internal Revenue Code (IRC), and that no further amendments were required. Accordingly, the Trustees of the Plan affirm that the Plan is currently designed and operated in compliance with the applicable requirements of the IRC, and the Plan continues to be tax-exempt.

NOTE 13 - Net Assets

Unrestricted net assets at June 30, are restricted as follows (dollars in thousands):

	<u>2018</u>	<u>2017</u> <u>RESTATED</u>
Board Designated Net Assets		
St. Mother Teresa Mercy endowment fund	\$ 568	\$ 539
Unrestricted Net Assets	29,473	24,285
TOTAL UNRESTRICTED NET ASSETS	<u>\$ 30,041</u>	<u>\$ 24,824</u>

Temporarily restricted net assets at June 30, are restricted as follows (dollars in thousands):

	<u>2018</u>	<u>2017</u> <u>RESTATED</u>
Rice Bowl Collection	\$ 39	\$ 39
Priest for Our Future pledges and endowment earnings	7,879	12,064
Annual Catholic Appeal	3,308	3,315
Apostolate to the Handicapped Programs	10,230	9,654
St. Mother Teresa Mercy Endowment fund	-	5
Respect Life	83	59
Agency Restricted Trust - Diocese construction projects	1,581	-
Camp Gray capital campaign	838	781
Rachel's Vineyard Statute	29	-
Catholic Education Funds	2	-
Catholic Promotion of Authentic Human Development	44	62
Knights of Columbus grant	2	2
St. Joseph Fund - seminarian education	1	31
TOTAL TEMPORARILY RESTRICTED NET ASSETS	<u>\$ 24,036</u>	<u>\$ 26,012</u>

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NOTE 13 - Net Assets - Continued

Temporarily restricted net assets released from restrictions were as follows for the year ended June 30, (dollars in thousands):

	<u>2018</u>	<u>2017</u>
Catholic Promotion for Human Development	\$ 62	\$ 43
Respect life	59	61
Priest for Our Future campaign	6,878	6,977
Camp Gray campaign	1,049	2,139
St. Mother Teresa Mercy Endowment fund	13	-
Passage of Time - Annual Catholic Appeal	3,315	2,982
TOTAL	<u>\$ 11,376</u>	<u>\$ 12,202</u>

Permanently restricted net assets at June 30, are restricted as follows (dollars in thousands):

	<u>2018</u>	<u>2017</u>
Beneficial interest in perpetual trust	\$ 544	\$ 565
St. Mother Teresa Mercy endowment fund	99	60
Priests for Our Future endowments	28,067	23,625
TOTAL PERMANENTLY RESTRICTED NET ASSETS	<u>\$ 28,710</u>	<u>\$ 24,250</u>

NOTE 14 - Functional Expenses

The costs of providing the various program services, fundraising, and other general and administrative activities have been summarized on a functional basis. Accordingly, certain costs have been allocated the amount the program services and other activities benefited. Functional expenses for the years ended June 30, 2018 and 2017, were as follows:

	<u>JUNE 30,</u>	
	<u>2018</u>	<u>2017</u>
Programs and grants	\$ 9,296,415	\$ 9,754,504
General and administrative	4,024,107	2,865,276
Fundraising	538,241	534,890
TOTAL EXPENSES	<u>\$ 13,858,763</u>	<u>\$ 13,154,670</u>

NOTE 15 - Leasing Activities

The Diocese and Affiliates leases the Catholic Multicultural Center building to a parish for \$1 annually under a lease agreement in effect through December 31, 2017. The fair value of the rent is estimated at \$250,000 for the years ended June 30, 2018 and 2017, and is included in rental income and donations expense in the statements of activities. Effective 2018, the lease was extended through December 31, 2021.

NOTE 16 - Defined Contribution Retirement Plan

The Diocese and Affiliates has a defined contribution plan that covers all 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 contributions to the plan. The Diocese and Affiliates is required to contribute 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 compensation. Contributions to the plan totaled \$176,606 and \$211,179 for the years ended June 30, 2018 and 2017, respectively.

ROMAN CATHOLIC DIOCESE OF MADISON, INC. AND AFFILIATES
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NOTE 17 - Related Party Transactions

The Diocese and Affiliates transferred approximately \$580,000 and \$550,000 of proceeds from the Annual Catholic Appeal to Catholic Charities, a not-for-profit organization, which is related to the Diocese and Affiliates for the years ending June 30, 2018 and 2017, respectively.

The Diocese and Affiliates has undertaken an occasion to provide educational loans to encourage faithful Catholic women and/or men to undertake advanced (graduate) studies in Psychology with a particular foundation in Catholic-Christian anthropology, seeking to prepare them for the eventual service of the local Church. To that end, and after becoming aware of an outstanding candidate, the Diocese and Affiliates has made a loan to an individual who is related to an officer of the corporation. The terms of the loan are interest at a rate of five-percent (5.0%) with amortization of loan principal commencing upon completion of the educational program and obtaining local employment in the mental health field.

NOTE 18 - Redevelopment of the Bishop O'Connor Catholic Pastoral Center

The Project and Leased Premises: The former Bishop O'Connor Catholic Pastoral Center (the "Center") is owned by Holy Name Catholic Center, Inc., and leased to Holy Name Heights, LLC. The Diocese and Affiliates owns one percent (1.0%) of Holy Name Heights, LLC. Specifically, the breakdown in ownership is as follows: Holy Name Catholic Center, Inc. - 0.5% (one-half of one percent), and Holy Name Heights MM, LLC, (Holy Name Catholic Center, Inc., its sole member) - 0.5% (one-half of one percent); a combined capital contribution of \$29,197. The leased premises, located at 702 South High Point Road, Madison, Wisconsin, consists of approximately ten (10) acres, and an approximately 256,000 square foot building, and all parking and landscaped areas relating to the building. The building has been redeveloped into a mixed-use development including 53 residential apartments (94,000 square feet); one existing commercial kitchen operation (5,600 square feet); existing religious office space and chapel (78,000 square feet), leased to the Diocese and Affiliates and other not-for-profit entities for religious, worship, and charitable purposes; and common area (78,400 square feet). The 53 new residential apartments represent new construction. This project is funded primarily by a ninety-nine percent (99.0%) tax credit investor and commercial debt.

Capital Lease: In 2015, Holy Name Catholic Center, Inc. (as landlord), and Holy Name Heights, LLC (as tenant), entered into an agreement to lease the Center to tenant under a long-term capital lease for a term of sixty (60) years. Under U.S. GAAP, the transaction is recorded as a Direct Financing Lease. In 2015, Holy Name Catholic Center, Inc., received a cash payment of \$150,000 and recorded a direct financing lease receivable amounting to \$5,405,180, which represent the carrying cost of the leased property plus \$344,319 of unearned income which will be recognized over the term of the lease. Holy Name Heights, LLC, chose to finance the lease with an acquisition note in the sum of \$2,850,000, plus interest accrued at a rate of 2.67%, with payments commencing in 2033 through 2043. The acquisition note is secured by Lot 3 of the Ganser Heights Plat, Madison, Wisconsin, which is subordinate to the project's primary lender.

Commercial Operating Lease: In 2015, the Diocese and Affiliates, specifically the Roman Catholic Diocese of Madison, Inc., entered into a commercial lease with Holy Name Heights, LLC, for a term of approximately ten (10) years, commencing on April 1, 2015, to lease approximately 54,185 square feet of rentable space located in the Center (religious office use and chapel). Rent payments commenced on January 1, 2016, terminating on December 31, 2024, base rent of \$49,842 monthly, flat (no escalation) over the term of the lease, plus additional rent.

ROMAN CATHOLIC DIOCESE OF MADISON, INC. AND AFFILIATES
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NOTE 18 - Redevelopment of the Bishop O'Connor Catholic Pastoral Center - Continued

Future minimum payments, by year and in the aggregate, consisted of the following at June 30, 2018:

2019	\$ 49,842
2020	49,842
2021	49,842
2022	49,842
2023-2024	74,763
Total	<u>\$ 274,131</u>

Guaranty of Commercial Operating Lease: The Diocese and Affiliates, specifically Holy Name Catholic Center, Inc., guarantees the payment of base rent (\$49,842 a month) and additional rent (occupancy costs and common area maintenance) as defined in the commercial operating lease, as described above. This is a guaranty of payment and not merely a guaranty of collection, secured by a mortgage from the Roman Catholic Diocese of Madison, Inc., and Holy Name Catholic Center, Inc., the collateral consisting of Lot 1 and Lot 4 of the Ganser Heights Plat. Lot 1 is owned by Holy Name Catholic Center, Inc., and Lot 4 is owned by Holy Name Catholic Center, Inc., and the Roman Catholic Diocese of Madison, Inc.

Commercial Operating Lease of Related Party: In 2015, Catholic Charities, Inc., entered into a commercial lease with Holy Name Heights, LLC, for a term of approximately ten (10) years, commencing on April 1, 2015, to lease approximately 23,761 square feet of rentable space located in the Center (religious office use). Rent payments commenced January 1, 2016, terminating on December 31, 2024, base rent of \$21,857 monthly, flat (no escalation) over the term of the lease, plus additional rent.

Guaranty of Operating Lease by Related Party: The Diocese and Affiliates, specifically Holy Name Catholic Center, Inc., guarantees the payment of base rent (\$21,857 a month) and additional rent (occupancy costs and common area maintenance) as defined in the commercial operating lease executed by related party, as described above. This is a guaranty of payment and not merely a guaranty of collection, secured by a mortgage from the Roman Catholic Diocese of Madison, Inc., and Holy Name Catholic Center, Inc., the collateral consisting of Lot 1 and Lot 4 of the Ganser Heights Plat. Lot 1 is owned by Holy Name Catholic Center, Inc., and Lot 4 is owned by Holy Name Catholic Center, Inc., and the Roman Catholic Diocese of Madison, Inc.

Collateral Assignment and Pledge of Membership Interest to Primary Project Lender: Holy Name Heights MM, LLC, and Holy Name Catholic Center, Inc., for the benefit of the primary lender to Holy Name Heights, LLC, as collateral security for the prompt and complete payment of construction and permanent financing, (whether at the stated maturity, by acceleration or otherwise) of those obligations, as assignor, grants, pledges, assigns, transfers and sets over to primary lender a security interest in and to all of assignor's membership interest in Holy Name Heights, LLC.

Guaranty: Holy Name Catholic Center, Inc. ("as guarantor"), has guaranteed the Commercial Operating Lease as executed by the Diocese and Affiliates and the Commercial Operating Lease by Related Party as executed by Catholic Charities, Inc., (the leases), pursuant to two separate lease guaranties and unconditionally guarantees the payment to the project developer of all amounts payable by the developer to the primary lender pursuant to a project completion and payment guaranty in the aggregate amount of \$13,913,082, and all amounts paid as tax credit indemnity payments and project expense loan, as defined in the project's operating agreement of Holy Name Heights, LLC, provided however, that the amount of guarantor's liability shall be limited to the aggregate amount of payments of base rent and any additional rent, as defined in the leases. The amount of guarantor's liability under this Guaranty shall be limited to the aggregate amount of payments of base rent and additional rent, as defined in the leases, due under the leases that are not paid by the tenants and not paid by guarantor pursuant to the lease guaranties. This guaranty is secured by a collateral assignment and pledge of membership interests from guarantor and Holy Name Heights MM, LLC, subordinate to the collateral assignment and pledge of membership interest to the primary lender.

ROMAN CATHOLIC DIOCESE OF MADISON, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 18 - Redevelopment of the Bishop O'Connor Catholic Pastoral Center - Continued

Collateral Assignment and Pledge of Membership Interest to Project Developer: Holy Name Heights, LLC, has secured a permanent loan in the aggregate maximum principal amount of \$13,913,082. The project developer has provided a guaranty of completion for the project and guaranties of payment for the two notes evidencing the project loan to the lender and is obligated to make tax credit indemnity payments and project expense loans, as defined in the operating agreement. As collateral security for the prompt and complete payment and performance when due (whether at the stated maturity, by acceleration or otherwise) of these various financial obligations described herein, as assignor, collectively, Holy Name Heights MM, LLC, and Holy Name Catholic Center, Inc., agreed to grant, pledge, assign, transfer and set over to the project developer as security interest in and to all of the assignor's respective membership interest in Holy Name Heights LLC, subordinate to the collateral assignment and pledge of membership interest to the primary lender.

State Historic Tax Credit Mortgage Note: Holy Name Heights, LLC, shall pay to Holy Name Catholic Center, Inc., the sum of \$3,423,886, the proceeds received under the sale of the State Historic Tax credit certificate. Payments are expected to commence in 2019 and terminate in 2043 and the note has a stated interest rate of 2.67%. The mortgage note is secured by a collateral interest in Lot 3, Ganser Heights Plat, Madison, Wisconsin and is subordinate to the interest held by the primary lender.

NOTE 19 - Reclassification and Rounding Dollars in Thousands

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform to the presentation of the current year's financial statements. The decision was made to round dollars into thousands to present the financial statements for ease of the reader and to emphasize important trends. Due to this rounding, there may be instances where it may appear that tables and columns do not sum correctly.

NOTE 20 - Subsequent Event

The Diocese and Affiliates have evaluated subsequent events for potential recognition and/or disclosures through October 23, 2018, the date the financial statements were available to be issued.

On June 21, 2018, a Declaration was executed whereby the Roman Catholic Diocese of Madison, Inc. established the Diocese of Madison Clergy Health and Welfare Trust Fund effective July 1, 2018 (VEBA Trust Fund), which constitutes a voluntary employees' beneficiary association (VEBA) as described in Code section 501(c)(9).

The VEBA Trust Fund is an irrevocable trust, with the Trustee holding, investing, and administering the money and property contributed to the VEBA Trust Fund only for the purposes described in actual Declaration. Money or property contributed to the Fund cannot be used for, or diverted to, any other purpose and cannot be returned to the contributor.

Each arrangement or purpose under which benefits are provided is a "church plan" as defined in ERISA section 3(33). As provided in ERISA section § 4(b)(2), therefore, each such arrangement is exempt from Title I of ERISA and this VEBA Fund is exempt from Title I of ERISA.

ROMAN CATHOLIC DIOCESE OF MADISON, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 20 - Subsequent Event - Continued

The VEBA Trust Fund has three primary arrangements or purposes. The first purpose of the VEBA Trust Fund is hold and protect amounts until they are used to pay the OPEB costs for retired priests, which consists of supplemental Medicare health insurance coverage, prescription drug coverage, dental coverage, vision coverage, and long-term care insurance coverage. The second purpose of the VEBA Trust Fund is the discretionary provision of health and welfare benefits to clergy with special medical needs (not covered by insurance). Clergy encompasses active and retired priests and permanent deacons. Finally, the third purpose of the VEBA Trust Fund is for the provision of health, dental, vision and long-term care benefits to active priests, including the Reserve for Priest Health Insurance Deductible provided through a health reimbursement arrangement (HRA) administered by a third-party.

In July 2018, the Diocese of Madison transferred the sum of \$482,561 into the VEBA Trust Fund, as follows:

1. OPEB Costs	\$ 368,706
2. Discretionary provision of health and welfare benefits	21,782
3. Active priest benefits (including the HRA)	92,073

NOTE 21 - Prior Period Adjustment

During the year, it was discovered that the endowment earnings on the Priests for Our Future endowment fund were incorrectly recorded as unrestricted rather than temporarily restricted. Accordingly, the 2017 financial statements were adjusted to reflect this change. The 2017 temporarily restricted investment return and temporarily restricted net assets were increased by approximately \$1,820,000 and the unrestricted investment return and unrestricted net assets were decreased by approximately \$1,820,000.