

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

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

**JUNE 30, 2021 AND 2020**

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

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## **INDEPENDENT AUDITORS' REPORT**

The Most Reverend Donald J. Hying  
Bishop of Madison  
Roman Catholic Diocese of Madison, Inc. and Affiliates  
Madison, Wisconsin

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, 2021 and 2020, and the related consolidated statements of activities, functional expenses 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 consolidated 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 Diocese and Affiliates 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, 2021 and 2020, and the changes in its net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Hawkins Ash CPAs, LLP*

La Crosse, Wisconsin  
October 14, 2021

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

**FINANCIAL STATEMENTS**

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

		JUNE 30,	
		2021	2020
<u>ASSETS</u>			
Cash		\$ 8,528	\$ 6,110
Accounts receivable, net		771	888
Unconditional promises to give, net		455	699
Broker sales in process		30	85
Inventory		270	246
Prepaid expenses		341	347
Investments and interest in master trust		31,968	23,606
Investments in Catholic Diocese of Madison Foundation		52,571	43,268
Property and equipment, net		10,406	10,847
Direct financing lease receivable		5,405	5,405
Tax credit loan receivable		3,687	3,719
Clergy retirement plan asset		3,093	-
Beneficial interest in perpetual trust		646	550
<b>TOTAL ASSETS</b>		<b>\$ 118,171</b>	<b>\$ 95,770</b>
<u>LIABILITIES AND NET ASSETS</u>			
LIABILITIES			
Accounts payable		\$ 223	\$ 56
Pledges payable		-	80
Accrued expenses		576	643
Due to related party		185	185
Collections held for others		182	100
Brokerage pending purchases		125	111
Accrued post retirement benefits		6,493	7,581
Annuities payable		601	698
Deferred revenue		3,205	3,585
Notes payable		996	926
<b>TOTAL LIABILITIES</b>		<b>12,586</b>	<b>13,965</b>
NET ASSETS			
Without donor restrictions		42,145	31,213
With donor restrictions		63,440	50,592
<b>TOTAL NET ASSETS</b>		<b>105,585</b>	<b>81,805</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>		<b>\$ 118,171</b>	<b>\$ 95,770</b>

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,					
	2021			2020		
	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICITONS	TOTAL	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICITONS	TOTAL
<b>REVENUE, GAINS, AND SUPPORT</b>						
Contributions (including Annual Catholic Appeal)	\$ 1,388	\$ 7,008	\$ 8,396	\$ 1,480	\$ 4,615	\$ 6,095
Parish assessments	5,685	-	5,685	5,436	-	5,436
Program fees	795	-	795	857	-	857
Cemetery sales	1,316	-	1,316	976	-	976
Investment income, net	6,033	10,943	16,976	1,696	1,282	2,978
Change in value of beneficial interest in trusts	-	96	96	-	(17)	(17)
Miscellaneous income	1,373	-	1,373	692	-	692
Net assets released from restrictions	5,199	(5,199)	-	6,762	(6,762)	-
<b>TOTAL REVENUE, GAINS, AND SUPPORT</b>	<b>21,789</b>	<b>12,848</b>	<b>34,637</b>	<b>17,899</b>	<b>(882)</b>	<b>17,017</b>
<b>EXPENSES</b>						
Program	7,773	-	7,773	14,734	-	14,734
Management and general	2,565	-	2,565	2,949	-	2,949
Fundraising	519	-	519	607	-	607
<b>TOTAL EXPENSES</b>	<b>10,857</b>	<b>-</b>	<b>10,857</b>	<b>18,290</b>	<b>-</b>	<b>18,290</b>
<b>CHANGE IN NET ASSETS</b>	10,932	12,848	23,780	(391)	(882)	(1,273)
<b>NET ASSETS, BEGINNING OF YEAR</b>	<b>31,213</b>	<b>50,592</b>	<b>81,805</b>	<b>31,604</b>	<b>51,474</b>	<b>83,078</b>
<b>NET ASSETS, END OF YEAR</b>	<b>\$ 42,145</b>	<b>\$ 63,440</b>	<b>\$ 105,585</b>	<b>\$ 31,213</b>	<b>\$ 50,592</b>	<b>\$ 81,805</b>

The accompanying notes are an integral part of these statements.

**ROMAN CATHOLIC DIOCESE OF MADISON, INC. AND AFFILIATES**  
**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES**  
**YEAR ENDED JUNE 30, 2021**  
(dollars in thousands)

	PROGRAM						MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL
	PASTORAL CARE	CATHOLIC FORMATION	CEMETERIES (BURY THE DEAD)	CARE OF CLERGY	SELF- INSURANCE	TOTAL PROGRAM			
Personnel and related expenses	\$ 2,031	\$ 1,180	\$ 729	\$ 1,221	\$ -	\$ 5,161	\$ 599	\$ 314	\$ 6,074
Net periodic benefit (gain) loss on clergy retirement plan	-	-	-	(3,372)	-	(3,372)	-	-	(3,372)
Net periodic benefit (gain) loss on OPEB	-	-	-	240	-	240	-	-	240
Professional services	125	41	1	-	9	176	149	-	325
Facilities and operating costs	234	1	129	-	-	364	968	-	1,332
Cost of cemetery and crypt sales	-	-	235	-	-	235	-	-	235
Office	127	44	22	-	3	196	79	28	303
Education	5	635	1	-	-	641	2	-	643
Program	242	469	18	-	-	729	40	2	771
Fundraising expenses	-	-	-	-	-	-	-	173	173
Commercial insurance premium	17	-	-	-	1,727	1,744	-	-	1,744
Grants, donations and religious dues	889	46	-	-	-	935	581	2	1,518
Depreciation	413	-	149	-	-	562	53	-	615
Miscellaneous	115	40	6	-	1	162	94	-	256
<b>TOTAL EXPENSES</b>	<b>\$ 4,198</b>	<b>\$ 2,456</b>	<b>\$ 1,290</b>	<b>\$ (1,911)</b>	<b>\$ 1,740</b>	<b>\$ 7,773</b>	<b>\$ 2,565</b>	<b>\$ 519</b>	<b>\$ 10,857</b>

The accompanying notes are an integral part of these statements.



**ROMAN CATHOLIC DIOCESE OF MADISON, INC. AND AFFILIATES**  
**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES - Continued**  
**YEAR ENDED JUNE 30, 2020**  
(dollars in thousands)

	PROGRAM						MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL
	PASTORAL CARE	CATHOLIC FORMATION	CEMETERIES (BURY THE DEAD)	CARE OF CLERGY	SELF- INSURANCE	TOTAL PROGRAM			
Personnel and related expenses	\$ 2,241	\$ 1,231	\$ 762	\$ 1,171	\$ -	\$ 5,405	\$ 682	\$ 311	\$ 6,398
Net periodic benefit (gain) loss on clergy retirement plan	-	-	-	2,775	-	2,775	-	-	2,775
Net periodic benefit (gain) loss on OPEB	-	-	-	850	-	850	-	-	850
Professional services	48	26	-	-	5	79	403	3	485
Facilities and operating costs	174	3	151	-	-	328	983	1	1,312
Cost of cemetery and crypt sales	-	-	249	-	-	249	-	-	249
Office	130	50	25	-	1	206	76	63	345
Education	13	688	-	-	-	701	9	1	711
Program	287	662	19	-	-	968	31	2	1,001
Fundraising expenses	-	-	-	-	-	-	-	221	221
Commercial insurance premium	-	2	-	-	1,492	1,494	-	-	1,494
Grants, donations and religious dues	830	90	-	-	-	920	585	2	1,507
Depreciation	420	-	135	-	-	555	47	-	602
Miscellaneous	136	63	4	-	1	204	133	3	340
<b>TOTAL EXPENSES</b>	<b>\$ 4,279</b>	<b>\$ 2,815</b>	<b>\$ 1,345</b>	<b>\$ 4,796</b>	<b>\$ 1,499</b>	<b>\$ 14,734</b>	<b>\$ 2,949</b>	<b>\$ 607</b>	<b>\$ 18,290</b>

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,	
	2021	2020
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 23,780	\$ (1,273)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	615	602
(Gain) loss on disposal of property and equipment	-	(9)
Permanently restricted contributions	(70)	(60)
Net realized and unrealized (gain) on investments	(15,402)	(2,315)
Allowance for uncollectible accounts receivable	2	-
Change in beneficial interest in trust	(96)	17
Change in value of annuity	(98)	16
Allowance for uncollectible pledges receivable	(46)	(1,201)
Forgiveness of PPP loan	(67)	-
Changes in assets and liabilities		
(Increase) decrease in assets		
Accounts receivable	115	(90)
Unconditional promises to give	290	2,340
Inventory	(24)	16
Prepaid expenses	6	40
Tax credit loan receivable	33	(56)
Clergy retirement plan asset	(3,093)	2,128
Increase (decrease) in liabilities		
Accounts payable, accrued expenses and collections held for others	151	(86)
Pledges payable	(80)	40
Accrued post retirement benefits	(1,087)	234
Deferred revenue	(380)	1,140
<b>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>	<b>4,549</b>	<b>1,483</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of investments	(9,877)	(7,210)
Sales of investments	7,614	7,915
Change in due to/from brokerage	68	76
Purchase of property and equipment	(142)	(412)
Proceeds from sale of property and equipment	-	28
<b>NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES</b>	<b>(2,337)</b>	<b>397</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from notes payable	147	67
Payments on notes payable	(11)	(410)
Proceeds from permanently restricted contributions	70	60
<b>NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES</b>	<b>206</b>	<b>(283)</b>
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>2,418</b>	<b>1,597</b>
<b>CASH AT BEGINNING OF YEAR</b>	<b>6,110</b>	<b>4,513</b>
<b>CASH AT END OF YEAR</b>	<b>\$ 8,528</b>	<b>\$ 6,110</b>

**SUPPLEMENTAL DISCLOSURE OF NONCASH FLOW INFORMATION**

Fixed assets acquired through direct financing	\$ -	\$ 53
Fixed assets included in accounts payable	32	-

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, 2021 AND 2020**

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

**Nature of Activities:** The Roman Catholic Diocese of Madison, Inc. or Diocese of Madison (the Diocese) is a canonical organization operating as a not-for-profit Wisconsin corporation, without capital stock. The Diocese spans eleven counties in Southern Wisconsin, was organized in 1945, and the Bishop of Madison is the canonical administrator. The purpose of the Diocese is to promote the spiritual and educational interests and administer to the temporal affairs of the Roman Catholic Church in this area.

The Diocese is exempt from Federal and State income tax under provisions of Section 501(c) of the Internal Revenue Code as a member of group exemption number 928 as a religious organization. The primary purpose of the accounting and reporting of financial information is for resources received and applied rather than the determination of net income. The Chancery Office of the Diocese is supported primarily through assessments to parishes under the direction of the Bishop and contributions through the Annual Catholic Appeal.

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.

**Programs:**

- Pastoral Care – provides for the Bishop of Madison to teach and sanctify, for his curia of the local Church, the diocesan youth camp, services for the disabled, Hispanic ministry, business services to the parishes, and the charitable gift annuity program.
- Catholic Formation – provides education and formation for men enrolled in the seminary, as well as the permanent diaconate program; diocesan programs of evangelization and catechesis, including faith formation programs at schools and parishes; oversight of Catholic schools; and continuing education of clergy.
- Burial of the Dead – provides for the operation and preservation of diocesan cemeteries.
- Care of Clergy – provides for retirement benefits for retired priests; along with health, dental, vision and long-term care of all active and retired priests of the Diocese.
- Diocesan-wide Self-Insurance – provides liability, property, workers' compensation, and auto protection for all diocesan entities, as well as parishes and schools in the Diocese.

**Accounting Funds and Entities:**

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 clergy retirement plan)
- Self-Insurance Program
- Diocese of Madison Clergy Health and Welfare Trust Fund (VEBA Trust Fund)

**ROMAN CATHOLIC DIOCESE OF MADISON, INC. AND AFFILIATES**  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued  
JUNE 30, 2021 AND 2020

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

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.

A summary of the significant accounting policies follows:

**Basis of Accounting:** The accompanying consolidated 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) as codified by the Financial Accounting Standards Board and, accordingly, reflect all significant receivables, payables, and other liabilities.

**Principles of Consolidation:** The accompanying consolidated financial statements include the balances and activities of the Diocese and Affiliates 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).

**ROMAN CATHOLIC DIOCESE OF MADISON, INC. AND AFFILIATES**  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued  
JUNE 30, 2021 AND 2020

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

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 consolidated 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 consolidated statements of financial position in an unclassified manner, but in order of liquidity.

The Diocese and Affiliates is required to report information regarding its net assets and its activities based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

*Net Assets Without Donor Restrictions* - Net assets available for use in general operations and not subject to donor restrictions. The Finance Council has designated, from net assets without donor restrictions, net assets for a board-designated endowment.

*Net Assets With Donor Restrictions* - Net assets subject to donor imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

**Accounting Pronouncements Adopted** - As of July 1, 2020, the Diocese and Affiliates adopted the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers (Topic 606), as amended. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Results for reporting year ended June 30, 2021 are presented under FASB ASC Topic 606. The ASU has been applied retrospectively to all periods presented, with no effect on net assets or previously issued financial statements.

**Recent Accounting Pronouncements** - In February 2016, the FASB issued Accounting Standards Update 2016-02, *Leases* (Topic 842) effective for annual reporting periods beginning after December 15, 2019. ASU 2020-05 subsequently deferred the effective date for ASU 2016-02 until annual reporting periods beginning after December 15, 2021. Under the new guidance, a lessee will be required to recognize assets and liabilities for leases with lease terms of more than 12 months. Consistent with current GAAP, the recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as a finance or operating lease. However, unlike current GAAP, which requires only capital leases to be recognized on the statements of financial position, the new ASU will require both types of leases to be recognized on the statements of financial position. The ASU will also require disclosures to help financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. These disclosures include qualitative and quantitative requirements providing additional information about the amounts recorded in the financial statements. The Organization is currently evaluating the impact this guidance will have on the consolidated financial statements.

**ROMAN CATHOLIC DIOCESE OF MADISON, INC. AND AFFILIATES**  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued  
JUNE 30, 2021 AND 2020

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

**Recent Accounting Pronouncements, continued** - In September 2020, the FASB issued Accounting Standards Update 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets* (Topic 958) effective for annual reporting periods beginning after June 15, 2021. Under the new guidance, gifts-in-kind will be required to be presented as a separate line item on the consolidated statements of activities and additional disclosures will be required. The Organization is currently evaluating the impact this guidance will have on the consolidated financial statements.

**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.

**Cash and Cash Equivalents:** The Diocese and Affiliates' cash consists of cash on deposit with banks. For purposes of the consolidated statements of cash flows, the Diocese and Affiliates considers all unrestricted, highly-liquid investments with an initial maturity of three months or less to be cash equivalents. However, the Diocese and Affiliates does not consider cash, money market accounts or certificates of deposits included as investments to be cash equivalents for the consolidated statements of cash flows. 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. The Diocese and Affiliates do not have any cash equivalents as of June 30, 2021 and 2020.

**Collections Held for Others:** Included in the Diocese and Affiliates cash are funds held for others. The Diocese and Affiliates has little or no discretion in determining the use of the assets and is merely a pass through. Therefore, the Diocese and Affiliates accounts for this as an agency transaction on the consolidated statements of financial position.

**Accounts Receivable:** Receivables are stated at the amount management expects to collect from outstanding balances. The Diocese and Affiliates use the allowance method to account for uncollectible accounts receivable. 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. Management believes all receivables are collectible and changes in the valuation allowance have not been material to the consolidated financial statements. If accounts previously written off are collected, the payments are recorded as reductions in bad debt expense.

**Promises to Give:** Unconditional promises to give (contributions receivable) that are expected to be collected within one year are recorded at net realizable value. Promises to give 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 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 unconditional promises to give. Changes in the valuation allowance have not been material to the consolidated financial statements.

**Inventory** - Inventory is stated at the lower of cost or net realizable value determined by the first-in, first-out method.

**ROMAN CATHOLIC DIOCESE OF MADISON, INC. AND AFFILIATES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued**  
**JUNE 30, 2021 AND 2020**

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

**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 consolidated statements of activities as increases or decreases in net assets without donor restrictions unless the income or loss is restricted by donor. 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 VEBA Trust Fund, 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 five 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 VEBA Trust Fund, the Cemeteries and the Apostolate. The assets of each participant are totally restricted to that participant's stated purpose.

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 5 for information regarding fair value measurement.

**Investments in Catholic Diocese of Madison Foundation, Inc. (Foundation):** Please refer to Note 9.

**Property and Equipment:** All acquisitions of property and equipment in excess of \$1,000 with useful lives greater than one year are capitalized. Purchased property and equipment are carried at cost. Donated property and equipment are carried at the approximate fair value at the date of donation. Depreciation is computed on the straight-line method based on the following estimated useful lives:

<u>Asset</u>	<u>Life</u>
Furniture, fixtures and equipment	7 - 10 years
Vehicles	5 - 7 years
Land improvements	10 - 20 years
Buildings and improvements	7 - 30 years
Leasehold improvements	5 - 40 years

Construction in progress represents cumulative costs of projects underway but not yet placed in service, and therefore, depreciation is not taken on these uncompleted capitalized costs.

**ROMAN CATHOLIC DIOCESE OF MADISON, INC. AND AFFILIATES**  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued  
JUNE 30, 2021 AND 2020

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

**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 19 for further discussion of the Redevelopment of Holy Name Seminary (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, 2021 and 2020.

**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 net assets with donor restrictions. The value of the beneficial interest in the trust is adjusted annually for the change in its estimated fair value and those changes in value are reported as increases or decreases in net assets with donor restrictions, and in addition, these trust assets (the corpus) will never be distributed to the Diocese and Affiliates. Please refer to Note 8.

**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.

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, 2021 and 2020. With regard to automobile and worker’s compensation insurance, the coverage is “first-dollar” which means the provider pays the entire loss.



**ROMAN CATHOLIC DIOCESE OF MADISON, INC. AND AFFILIATES**  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued  
JUNE 30, 2021 AND 2020

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

**Insurance Program, continued** - 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 is one of thirty-three equity owners of the Catholic Umbrella Pool (CUP), which provides up to \$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 that 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 pro-rata basis over the policy term.

Included in accrued expenses is a reserve for an estimated claims expense for reported open claims of approximately \$56,000 and \$70,000 for the years ended June 30, 2021 and 2020, respectively and a general reserve for the amount of incurred but not reported claims of \$40,000 for the years ended June 30, 2021 and 2020, respectively.

**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:** Payments received during the year for future services and programs are deferred and recognized as revenue when the service is rendered or the program occurs. Deferred revenue primarily includes unearned self-insurance program premium revenue and unearned income on burial fees and camper fees which are to be recognized as revenue as services are performed.

**Revenue Recognition:** The Diocese and Affiliates' recognize revenue in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*, as amended. ASU 2014-09 applies to exchange transactions with customers that are bound by contracts or similar arrangements and establishes a performance obligation approach to revenue recognition. The Diocese and Affiliates records the following exchange transaction revenue in its consolidated statements of activities and changes in net assets:

**Program Fees:** The Diocese offers various programs, workshops and seminars for which program fees are charged. The performance obligation is the delivery of the program. Program fees are billed at the time of registration and recognized as collected. Under ASC 606, these program fees should be recognized ratably over the delivery of the program and any unearned portion should be included as deferred revenue. However, the program fees and portion that would be deferred revenue is immaterial to the consolidated financial statements.

**ROMAN CATHOLIC DIOCESE OF MADISON, INC. AND AFFILIATES**  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued  
JUNE 30, 2021 AND 2020

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

**Revenue Recognition, continued -**

*Program Fees, continued:* Camp Gray offers weekly summer camps that participants pay a camper fee for each session. The camper fee is charged at the time of registration. The performance obligation is the delivery of the camp. Camper fees are recognized ratably as each weekly session occurs. Since the summer camps overlap year-end, camper fees paid prior to year-end are included in deferred revenue on the consolidated statements of financial position.

Also included in program fees is the sale of merchandise at the camp. The performance obligation is the delivery of the good to the customer. The transaction price is established by the Organization based on reasonable retail prices. As each item is individually priced, no allocation of the transaction price is necessary. Revenue is recognized as the customer pays and takes possession of the goods.

*Cemetery Sales:* 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 the 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 \$6,178,968 and \$4,872,252 for the years ended June 30, 2021 and 2020, respectively.

**Contribution Recognition** - Contributions are recognized when received or unconditionally pledged. Conditional contributions and promises to give, are recognized as revenue when the barriers to entitlement are overcome and either a right of return of assets transferred or a right of release of a promisor's obligation to transfer assets is removed. Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions depending on the existence and/or nature of any donor restrictions.

Contributions restricted by donors are reported as increases in net assets without donor restrictions if the restrictions expire in the reporting period in which the revenue is recognized. All other donor restricted contributions are reported as increases in net assets with donor restrictions. Contributions that are not restricted by the donor are reported as an increase in net assets without donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities as net assets released from restrictions.

**Functional Expenses:** The costs of providing the various programs and other activities have been summarized in the consolidated statements of functional expenses. The method of allocation of natural expenses are accounted for on a direct cost basis to the program or function upon which the expense is incurred. Further, certain indirect costs that cannot be allocated on a direct basis have been allocated among the program services and supporting activities benefited. Those expenses include occupancy, depreciation and amortization that are allocated on a square footage basis, as well as non-program salaries and benefits and certain office expenses that are allocated based on estimates of usage.

**ROMAN CATHOLIC DIOCESE OF MADISON, INC. AND AFFILIATES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued**  
**JUNE 30, 2021 AND 2020**

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

**Use of Estimates:** The preparation of consolidated 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 consolidated 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.

**Tax Status:** The Diocese and Affiliates is exempt from income taxes under Internal Revenue Code Section 501(c)(3) and, accordingly, there is no provision for federal or state income taxes.

**Accounting for Uncertainty in Income Taxes:** U.S. GAAP requires management to evaluate tax positions taken by the Diocese and Affiliates and recognize a tax liability (or asset) if the Diocese and Affiliates have taken an uncertain position that more likely than not would not be sustained upon examination by a taxing authority. Management has analyzed the tax positions taken by the Diocese and Affiliates and has concluded that as of June 30, 2021 and 2020, 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 in progress for any tax period. The Diocese and Affiliates will recognize future accrued interest and penalties related to unrecognized tax benefits in income tax expense if incurred.

**Subsequent Events -** The Diocese and Affiliates evaluated subsequent events through October 14, 2021, the date which the financial statements were available to be issued.

**NOTE 2 - Liquidity and Availability**

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following as of June 30:

	<u>2021</u>	<u>2020</u>
Cash	\$ 8,528	\$ 6,110
Accounts receivable, net	771	888
Investments and interests in master trust – Diocese of Madison	19,314	13,134
Investments – Holy Name Seminary	968	889
Investments – Holy Name Catholic Center	1,154	1,054
Investments – Camp Gray	7	8
Unconditional promises to give receivable in less than one year – Annual Catholic Appeal	<u>300</u>	<u>368</u>
Total financial assets available within one year	31,042	22,451
Less amounts not available for general expenditure within one year:		
Net assets with donor restrictions – Diocese of Madison	2,916	426
Cash not available for general expenditure – Apostolate and VEBA	426	284
Collections held for others	<u>182</u>	<u>100</u>
Total financial assets available to management for general expenditure within one year	<u>\$ 27,518</u>	<u>\$ 21,641</u>

**ROMAN CATHOLIC DIOCESE OF MADISON, INC. AND AFFILIATES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued**  
**JUNE 30, 2021 AND 2020**

**NOTE 2 - Liquidity and Availability - Continued**

*Liquidity Management*

The Diocese and Affiliates maintains a policy of structuring its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, in lieu of the Diocese and Affiliates investing cash in excess of weekly requirements in short-term investments, the funds are left on deposit in interest bearing accounts and those amounts on hand defray the costs and service fees associated with maintaining the bank accounts.

**NOTE 3 - Accounts Receivable**

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

	JUNE 30	
	2021	2020
Accounts receivable	\$ 593	\$ 598
Assessment receivable	-	92
Education loans receivable	150	165
Investment interest receivable	35	38
SUBTOTAL	778	893
Less: Allowance for uncollectible receivables	(7)	(5)
<b>TOTAL</b>	<b>\$ 771</b>	<b>\$ 888</b>

**NOTE 4 - Unconditional Promises to Give**

Unconditional promises to give, 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	
	2021	2020
Unconditional promises to give		
Priests for Our Future	\$ 31	\$ 128
Camp Gray capital campaign	124	203
Diocesan Annual Appeal	300	368
<b>NET UNCONDITIONAL PROMISES TO GIVE</b>	<b>\$ 455</b>	<b>\$ 699</b>

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 one or more years, are unconditional, and are recorded at net realizable value.

Unconditional promises to give for the Priests for Our Future - The Church is Alive campaign consist of the following (dollars in thousands):

	JUNE 30	
	2021	2020
Unconditional promises to give	\$ 39,700	\$ 39,438
Less:		
Allowance for doubtful promises	(173)	(128)
SUBTOTAL	39,527	39,310
Total payments received	(39,496)	(39,182)
<b>NET UNCONDITIONAL PROMISES TO GIVE</b>	<b>\$ 31</b>	<b>\$ 128</b>

**ROMAN CATHOLIC DIOCESE OF MADISON, INC. AND AFFILIATES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued**  
**JUNE 30, 2021 AND 2020**

**NOTE 4 - Unconditional Promises to Give - Continued**

The aggregate collection of unconditional promises to give is as follows (dollars in thousands):

	JUNE 30	
	2021	2020
Unconditional promises to give in less than one year	\$ 204	\$ 256
Unconditional promises to give in one to five years	-	-
<b>TOTAL UNCONDITIONAL PROMISES TO GIVE</b>	<b>204</b>	<b>256</b>
Less:		
Allowance for doubtful promises	(173)	(128)
<b>NET UNCONDITIONAL PROMISES TO GIVE</b>	<b>\$ 31</b>	<b>\$ 128</b>

Unconditional promises to give expected to be received in more than one year are discounted at 1.5 percent for the years ended June 30, 2021 and 2020. The estimated bad debt expense relating to the unconditional promises to give for the years ended June 30, 2021 and 2020 was \$173,544 and \$127,853, respectively. Fundraising expenses for the Priests for Our Future - The Church is Alive were \$2,657 and \$10,503 for the years ending June 30, 2021 and 2020, 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.

Unconditional promises to give for the Camp Gray capital campaign consist of the following (dollars in thousands):

	JUNE 30	
	2021	2020
Unconditional promises to give	\$ 6,086	\$ 6,086
Less: Allowance for doubtful promises	-	-
SUBTOTAL	6,086	6,086
Total payments received	(5,962)	(5,883)
<b>NET UNCONDITIONAL PROMISES TO GIVE</b>	<b>\$ 124</b>	<b>\$ 203</b>

The aggregate collection of unconditional promises to give is as follows (dollars in thousands):

	JUNE 30	
	2021	2020
Unconditional promises to give in less than one year	\$ 34	\$ 66
Unconditional promises to give in one to five years	90	137
<b>TOTAL UNCONDITIONAL PROMISES TO GIVE</b>	<b>124</b>	<b>203</b>
Less:		
Unamortized discount	-	-
Allowance for doubtful promises	-	-
<b>NET UNCONDITIONAL PROMISES TO GIVE</b>	<b>\$ 124</b>	<b>\$ 203</b>

Fundraising expenses for the Camp Gray capital campaign were \$0 and \$360 for the years ended June 30, 2021 and 2020, respectively.

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.

**ROMAN CATHOLIC DIOCESE OF MADISON, INC. AND AFFILIATES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued**  
**JUNE 30, 2021 AND 2020**

**NOTE 4 - Unconditional Promises to Give - Continued**

Unconditional promises to give for the Diocesan Annual Catholic Appeal consist of the following (dollars in thousands):

	JUNE 30	
	2021	2020
Unconditional promises to give	\$ 4,207	\$ 3,715
Less: Allowance for doubtful promises	(101)	(193)
SUBTOTAL	4,106	3,522
Total payments received	(3,806)	(3,154)
<b>NET UNCONDITIONAL PROMISES TO GIVE</b>	<b>\$ 300</b>	<b>\$ 368</b>

Fundraising expenses for the Annual Diocesan Appeal were \$169,884 and \$209,612 for the years ended June 30, 2021 and 2020, respectively.

**NOTE 5 - 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 consolidated financial statements.

Interest in Master Trust: The Diocese, the VEBA Trust Fund, 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 1 and 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 and are considered level 1.

**ROMAN CATHOLIC DIOCESE OF MADISON, INC. AND AFFILIATES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued**  
**JUNE 30, 2021 AND 2020**

**NOTE 5 - 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 and are considered level 2.

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 and are considered level 3.

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 and are considered level 3.

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 and are considered level 3.

For the years ended June 30, 2021 and 2020, 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, 2021 (dollars in thousands):

	FAIR VALUE	FAIR VALUE MEASUREMENTS AT REPORTING DATE USING		
		(LEVEL 1)	(LEVEL 2)	(LEVEL 3)
Interest in Master Trust	\$ 25,570	\$ -	\$ 25,570	\$ -
Money Market	382	-	382	-
Mutual Funds				
Real Estate	-	-	-	-
Fixed Income	2,827	722	2,105	-
Common Stock				
Large Cap	1,715	928	787	-
Mid Cap	504	273	231	-
Small Cap	391	212	179	-
International	393	258	135	-
Other	186	-	-	186
TOTAL INVESTMENTS	31,968	2,393	29,389	186
Beneficial interest in perpetual trust	646	-	-	646
Investments in Foundation	52,571	-	-	52,571
<b>TOTAL</b>	<b>\$ 85,185</b>	<b>\$ 2,393</b>	<b>\$ 29,389</b>	<b>\$ 53,403</b>

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	\$ 150	\$ 550	\$ 43,268
Increase (Decrease) in value of assets	36	123	10,930
Distributions	-	(27)	(1,893)
Contributions	-	-	265
<b>BALANCE, ENDING</b>	<b>\$ 186</b>	<b>\$ 646</b>	<b>\$ 52,571</b>

**ROMAN CATHOLIC DIOCESE OF MADISON, INC. AND AFFILIATES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued**  
**JUNE 30, 2021 AND 2020**

**NOTE 5 - 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, 2020 (dollars in thousands):

	FAIR VALUE	FAIR VALUE MEASUREMENTS AT REPORTING DATE USING		
		(LEVEL 1)	(LEVEL 2)	(LEVEL 3)
Interest in Master Trust	\$ 20,342	\$ -	\$ 20,342	\$ -
Money Market	111	-	111	-
Mutual Funds				
Real Estate	17	-	17	-
Fixed Income	2,050	489	1,561	-
Common Stock				
Large Cap	562	278	284	-
Mid Cap	158	83	75	-
Small Cap	84	40	44	-
International	132	119	13	-
Other	150	-	-	150
TOTAL INVESTMENTS	23,606	1,009	22,447	150
Beneficial interest in perpetual trust	550	-	-	550
Investments in Foundation	43,268	-	-	43,268
<b>TOTAL</b>	<b>\$ 67,424</b>	<b>\$ 1,009</b>	<b>\$ 22,447</b>	<b>\$ 43,969</b>

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	\$ 160	\$ 567	\$ 41,694
(Decrease) increase in value of assets	(10)	(17)	1,606
Distributions	-	-	(1,797)
Contributions	-	-	1,765
<b>BALANCE, ENDING</b>	<b>\$ 150</b>	<b>\$ 550</b>	<b>\$ 43,268</b>

**NOTE 6 - Property and Equipment**

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

	JUNE 30	
	2021	2020
Land	\$ 394	\$ 374
Leasehold improvements	553	553
Land improvements	1,151	1,151
Buildings	9,717	9,717
Building improvements	3,930	3,930
Fixtures and equipment	3,472	3,411
Office equipment	1,159	1,149
Vehicles	386	375
Construction in progress	101	29
TOTAL PROPERTY AND EQUIPMENT	20,863	20,689
Less accumulated depreciation	(10,457)	(9,842)
<b>NET PROPERTY AND EQUIPMENT</b>	<b>\$ 10,406</b>	<b>\$ 10,847</b>



**ROMAN CATHOLIC DIOCESE OF MADISON, INC. AND AFFILIATES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued**  
**JUNE 30, 2021 AND 2020**

**NOTE 7 - 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 8 - 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 5, 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 measurement (dollars in thousands). These amounts are shown as net assets with donor restrictions on the June 30 consolidated statements of financial position.

	JUNE 30	
	2021	2020
FMV of trust, beginning of year	\$ 2,201	\$ 2,269
Investment return:		
Investment income	39	53
Net realized and unrealized gains	485	15
Investment fees and expenses	(34)	(32)
TOTAL INVESTMENT RETURN	490	36
Appropriation for expenditure - spending rate	(107)	(104)
FMV of trust, end of year	2,584	2,201
Beneficial interest in trust	25%	25%
<b>TOTAL VALUE</b>	<b>\$ 646</b>	<b>\$ 550</b>

Annual distributions from the trust to the Diocese and Affiliates totaled \$25,871 and \$25,890 for the years ended June 30, 2021 and 2020, respectively.

**NOTE 9 - Investments in Foundation**

The Diocese and Affiliates has executed five 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 - Continued**  
**JUNE 30, 2021 AND 2020**

**NOTE 9 - Investments in Foundation - Continued**

In 2014, the Diocese and Affiliates began a capital campaign as detailed below and in Note 10. 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 \$52,570,890 and \$43,268,305 for the years ended June 30, 2021 and 2020, 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 \$351,452 and \$363,210 for the years ended June 30, 2021 and 2020, respectively.

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

	2021	2020
Interest in Foundation, beginning of year	\$ 7,410	\$ 7,477
Investment return:		
Investment income	130	150
Net realized and unrealized gains	1,859	251
Investment fees and expenses	(112)	(105)
TOTAL INVESTMENT RETURN	1,877	296
Appropriation for expenditure - spending rate	(351)	(363)
<b>INTEREST IN FOUNDATION, END OF YEAR</b>	<b>\$ 8,936</b>	<b>\$ 7,410</b>

*Queen of Apostles Vocation Fund*

In 2016, a retired priest of the Diocese of Madison formally established a designated endowment fund on behalf of the Diocese and Affiliates for the benefit of forming seminarians preparing to be priests of the Diocese of Madison. During the lifetime of the donor, the fund shall accept gifts from the donor and shall have the ability to make distributions to the Diocese and Affiliates provided a minimum fund balance of \$10,000 is maintained. At the time of the original donor’s death, it is expected that additional gifts shall be made and the fund shall convert to an endowment fund to be used in perpetuity for the benefit of forming seminarians preparing to be priests of the Diocese of Madison, subject to the currently adopted spending policy. Annual distributions from the Foundation totaled \$40,000 and \$63,928 for the years ended June 30, 2021 and 2020, respectively.

**ROMAN CATHOLIC DIOCESE OF MADISON, INC. AND AFFILIATES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued**  
**JUNE 30, 2021 AND 2020**

**NOTE 9 - Investments in Foundation - Continued**

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

	2021	2020
Interest in Foundation, beginning of year	\$ 29	\$ -
Investment return:		
Investment income	-	-
Net realized and unrealized gains	4	1
Investment fees and expenses	(1)	(1)
TOTAL INVESTMENT RETURN	3	-
Contributions	43	93
Appropriation for expenditure - spending rate	(40)	(64)
<b>INTEREST IN FOUNDATION, END OF YEAR</b>	<b>\$ 35</b>	<b>\$ 29</b>

*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.

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 \$1,468,574 and \$1,335,954 for the years ended June 30, 2021 and 2020, respectively.

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

	2021	2020
Interest in Foundation, beginning of year	\$ 35,020	\$ 33,476
Investment return:		
Investment income	610	685
Net realized and unrealized gains	8,757	1,084
Investment fees and expenses	(534)	(496)
TOTAL INVESTMENT RETURN	8,833	1,273
Contributions	150	1,607
Appropriation for expenditure - spending rate	(1,469)	(1,336)
<b>INTEREST IN FOUNDATION, END OF YEAR</b>	<b>\$ 42,534</b>	<b>\$ 35,020</b>

*Heart of Mercy Endowment 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.

**ROMAN CATHOLIC DIOCESE OF MADISON, INC. AND AFFILIATES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued**  
**JUNE 30, 2021 AND 2020**

**NOTE 9 - Investments in Foundation - Continued**

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 “net assets with donor restrictions” to be held in perpetuity.

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 \$32,523 and \$33,564 for the years ended June 30, 2021 and 2020, respectively.

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

	2021	2020
Interest in Foundation, beginning of year	\$ 756	\$ 695
Investment return:		
Investment income	14	15
Net realized and unrealized gains	199	28
Investment fees and expenses	(9)	(8)
TOTAL INVESTMENT RETURN	204	35
Contributions	70	60
Appropriation for expenditure - spending rate	(33)	(34)
<b>INTEREST IN FOUNDATION, END OF YEAR</b>	<b>\$ 997</b>	<b>\$ 756</b>

*Bishop Robert C. Morlino Memorial Fund*

Most Reverend Robert C. Morlino, Fourth Bishop of Madison died in November 2018. In December 2018, the Diocese and Affiliates established a non-endowed designated fund 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. The primary purpose of the fund is for the future construction of a chapel and crypt – a final resting place for any past or future Bishops of Madison, constructed in a new cathedral building or a diocesan-owned cemetery.

The Foundation’s policy is to make annual distributions consistent with the then currently adopted spending policy, which is five percent (5%). Nonetheless, the Diocese and Affiliates will forego annual distributions in favor of increasing investment corpus.

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

	2021	2020
Interest in Foundation, beginning of year	\$ 53	\$ 46
Investment return:		
Investment income	1	1
Net realized and unrealized gains	14	2
Investment fees and expenses	(1)	(1)
TOTAL INVESTMENT RETURN	14	2
Contributions	2	5
Appropriation for expenditure - spending rate	-	-
<b>INTEREST IN FOUNDATION, END OF YEAR</b>	<b>\$ 69</b>	<b>\$ 53</b>

**ROMAN CATHOLIC DIOCESE OF MADISON, INC. AND AFFILIATES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued**  
**JUNE 30, 2021 AND 2020**

**NOTE 10 - Endowment Funds**

As described in Note 9, the Diocese and Affiliates endowment funds were established and consist of donor restricted funds designated by the campaign solicitation materials as well as board designated funds to function as endowments.

**Application of UPMIFA** - The Diocese 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 and Affiliates classifies as net assets with donor restrictions (a) the original value of gifts donated to the endowment (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure by the Diocese and Affiliates in a manner consistent with the standard of prudence prescribed by UPMIFA and the Foundation's distribution policy.

The Diocese 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 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 Affiliates 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%). Over the long term, the Diocese 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.

**Endowment Net Asset Composition by Type of Fund as of June 30, 2021 (dollars in thousands):**

	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>	<u>Total</u>
Board-designated endowment funds	\$ 708	\$ -	\$ 708
Donor-restricted endowment funds:			
Original donor-restricted gift and amounts required to be maintained in perpetuity by donors	-	32,935	32,935
Accumulated investment gains	-	9,889	9,889
<b>TOTAL</b>	<b><u>\$ 708</u></b>	<b><u>\$ 42,824</u></b>	<b><u>\$ 43,532</u></b>

**ROMAN CATHOLIC DIOCESE OF MADISON, INC. AND AFFILIATES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued**  
**JUNE 30, 2021 AND 2020**

**NOTE 10 - Endowment Funds - Continued**

*Endowment Net Asset Composition by Type of Fund as of June 30, 2020 (dollars in thousands):*

	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>	<u>Total</u>
Board-designated endowment funds	\$ 568	\$ -	\$ 568
Donor-restricted endowment funds:			
Original donor-restricted gift and amounts required to be maintained in perpetuity by donors	-	32,715	32,715
Accumulated investment gains	-	2,493	2,493
<b>TOTAL</b>	<b><u>\$ 568</u></b>	<b><u>\$ 35,208</u></b>	<b><u>\$ 35,776</u></b>

**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 Diocese and Affiliates to retain as a fund of perpetual duration. In accordance with U.S. GAAP, deficiencies of this nature are reported in net assets with donor restrictions. The deficiencies may result from unfavorable market fluctuations that have occurred. As of June 30, 2021 and 2020, the Diocese and Affiliates did not have any funds with deficiencies.

*Changes in Endowment Net Assets for the Year Ended June 30, 2021 (dollars in thousands):*

	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 568	\$ 35,208	\$ 35,776
Investment return, net	140	8,896	9,037
Contributions	-	220	220
Appropriation of endowment assets pursuant To spending-rate policy	-	(1,501)	(1,501)
Other changes:			
Distribution from board-designated endowment pursuant to distribution policy	-	-	-
<b>Endowment net assets, end of year</b>	<b><u>\$ 708</u></b>	<b><u>\$ 42,824</u></b>	<b><u>\$ 43,532</u></b>

*Changes in Endowment Net Assets for the Year Ended June 30, 2020 (dollars in thousands):*

	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 566	\$ 33,604	\$ 34,170
Investment return, net	27	1,282	1,308
Contributions	-	1,667	1,667
Appropriation of endowment assets pursuant To spending-rate policy	-	(1,345)	(1,345)
Other changes:			
Distribution from board-designated endowment pursuant to distribution policy	(25)	-	(25)
<b>Endowment net assets, end of year</b>	<b><u>\$ 568</u></b>	<b><u>\$ 35,208</u></b>	<b><u>\$ 35,776</u></b>

**ROMAN CATHOLIC DIOCESE OF MADISON, INC. AND AFFILIATES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued**  
**JUNE 30, 2021 AND 2020**

**NOTE 11 - Deferred Revenue**

Payments received during the year are for future programs and ministries including the Self-Insurance Program, prepaid burial interment and entombment, and the Center's capital lease. Deferred revenue as of June 30, consist of the following (dollars in thousands):

	2021	2020
Unearned assessments - program	\$ 884	\$ 867
Refundable advance - Payroll Protection Program	-	709
Unearned revenue - Cemeteries	1,659	1,467
Unearned revenue - Center	269	281
Unearned revenue - Camp Gray	390	259
Other unearned deferred revenue	3	2
<b>TOTAL</b>	<b>\$ 3,205</b>	<b>\$ 3,585</b>

Roman Catholic Diocese of Madison was granted a \$708,500 loan under the Paycheck Protection Program (PPP) administered by a Small Business Administration (SBA) approved partner. The loan was uncollateralized and fully guaranteed by the Federal government. The Organization initially recorded the loan as a refundable advance and subsequently recognized contribution revenue in accordance with guidance for conditional contributions, that is, once the measurable performance or other barrier and right of return of the PPP loan no longer existed. The Organization has recognized \$708,500 as contribution revenue for the year ended June 30, 2021.

**NOTE 12 - Notes Payable**

The Diocese and Affiliates has a construction note payable to a bank with a remaining balance of \$811,842 for the years ended June 30, 2021 and 2020. Annual principal and interest payments of \$160,843 began on October 28, 2018. During the year ended June 30, 2021, no principal payments were made due to COVID-19 and accelerated principal payments were made in previous years. 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. Accelerated principal payments of \$0 and \$260,097 were made during the years ending June 30, 2021 and 2020, respectively. The Dioceses and Affiliates were in compliance with their debt covenant for the year ended June 30, 2021 and the Diocese and Affiliates received a waiver of the debt covenants at June 30, 2020.

Principal requirements for year ending June 30, 2021, are as follows:

2022	\$ 150,209
2023	133,956
2024	139,400
2025	145,065
2026	150,960
Thereafter	92,252
<b>TOTAL</b>	<b>\$ 811,842</b>

Camp Gray was granted a \$66,590 loan under the Paycheck Protection Program (PPP) administered by a Small Business Administration (SBA) approved partner in April of 2020. The loan was uncollateralized and was fully guaranteed by the Federal government. The Organization initially recorded the loan as a note payable as of June 30, 2020 and subsequently recognized contribution revenue in accordance with guidance for conditional contributions, that is, once the measurable performance or other barrier and right of return of the PPP loan no longer existed. The Organization has recognized \$66,590 as contribution revenue for the year ended June 30, 2021.

**ROMAN CATHOLIC DIOCESE OF MADISON, INC. AND AFFILIATES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued**  
**JUNE 30, 2021 AND 2020**

**NOTE 12 - Notes Payable - Continued**

In March of 2021, Camp Gray applied for and was granted a \$146,768 loan under the second round of the Payroll Protection Program (PPP) administered by a Small Business Administration (SBA) approved partner. The loan is uncollateralized and is fully guaranteed by the Federal government. The loan accrues interest, but payments are not required to begin for ten months to one year after the funding of the loan. The Organization is eligible for loan forgiveness of up to 100% of the loan, upon meeting certain requirements. Full forgiveness of the loan is uncertain, and therefore it is recorded as a note payable at June 30, 2021. The balance at June 30, 2021 is \$146,768.

In January 2020, Cemeteries entered into a direct financing, interest free, agreement for equipment in the amount of \$53,224. The term is 60 months with monthly payments of \$887. The balance on the note payable at June 30, 2021 and 2020 was \$37,257 and \$47,902, respectively.

Principal requirements for year ending June 30, 2021, are as follows:

2022	\$ 10,645
2023	10,645
2024	10,645
2025	5,322
<b>TOTAL</b>	<b><u>\$ 37,257</u></b>

**NOTE 13 - Clergy Retirement Plan**

The Diocese of Madison is the sponsor of the St. Raphael Society Clergy Retirement Plan 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 parish assessments and contributions from donors. The retirement program is a tax-qualified "church plan" in the form of an irrevocable trust and is subject to certain provisions of the Internal Revenue Code. The assets in the Retirement Fund will only be used to pay retirement benefits, and minimal administrative expenses.

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.

Priests with 25 years of service and that have attained age 70 (normal retirement age) are eligible to retire and receive monthly retirement 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. U.S. GAAP requires that the cost of member or participant pensions to be recognized over the member's respective service period and an asset be recognized when the fair value of plan assets exceeds the accumulated benefit obligations payable.



**ROMAN CATHOLIC DIOCESE OF MADISON, INC. AND AFFILIATES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued**  
**JUNE 30, 2021 AND 2020**

**NOTE 13 - Clergy Retirement Plan - Continued**

The following provides further information about the Plan as of June 30 (dollars in thousands):

	2021	2020
Change in benefit obligation:		
Benefit obligation at beginning of the year	\$ 24,962	\$ 21,876
Service cost	901	591
Interest cost	706	788
Actuarial gain	1,124	2,621
Other changes	(16)	(12)
Benefit payments	(943)	(902)
Projected Benefit Obligation at End of the Year	26,734	24,962
	2021	2020
Change in plan assets:		
Fair value of plan assets at beginning of the year	24,652	24,006
Actual return on assets	6,104	1,226
Assessment and donor contributions	31	336
Other changes	(17)	(14)
Benefit payments	(943)	(902)
Fair Value of Plan Assets at the End of the Year	29,827	24,652
	2021	2020
Excess (Deficit) of Plan Assets Over Projected Benefit Obligation Recognized in the Consolidated Statements of Financial Position	\$ 3,093	\$ (310)

The accumulated benefit obligation for the defined benefit retirement plan was \$17,427,719 and \$16,423,484 as of June 30, 2021 and 2020, respectively.

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

	2021	2020
Components of net periodic benefit cost (gain):		
Service cost	\$ 901	\$ 591
Interest cost on projected benefit obligation	706	788
Expected return on plan assets	(1,442)	(1,464)
Amortization of net (gain) loss	(3,537)	2,860
<b>PERIODIC BENEFIT COST (GAIN) RECOGNIZED</b>	<b>\$ (3,372)</b>	<b>\$ 2,775</b>

The net periodic benefit (gain) or cost on the clergy retirement plan as reported in the consolidated statements of functional expenses for the years ending June 30, 2021 and 2020 totaled \$(3,372,136) and \$2,774,694, respectively, and consists of the return on plan investments, administrative expenses, interest cost on the unpaid balance of the projected benefit obligation, and the change in actuarially computed retirement liability, as set forth in the table above.

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

	2021	2020
Weighted average assumptions used to determine benefit obligations		
Discount rate	2.80%	2.90%
Expected long-term rate of return on plan assets	6.00%	6.00%

**ROMAN CATHOLIC DIOCESE OF MADISON, INC. AND AFFILIATES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued**  
**JUNE 30, 2021 AND 2020**

**NOTE 13 - Clergy Retirement Plan - Continued**

The discount rate is based on the actuary's proprietary yield curve, under which the retirement 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.

*Plan Assets*

The Plan's investments are held primarily in a separate investment account solely for the benefit of the Retirement Fund. 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 5, 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 of Madison's clergy retirement plan assets at June 30, 2021, by asset class are as follows (dollars in thousands):

	<u>TOTAL</u>	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>
Separate Investment Account	\$ 29,605	<u>\$ 19,856</u>	<u>\$ 9,749</u>	<u>\$ -</u>
Other Plan assets:				
Cash	136			
Other	86			
	<u>\$ 29,827</u>			

The fair values of the Diocese of Madison's clergy retirement plan assets at June 30, 2020, by asset class are as follows (dollars in thousands):

	<u>TOTAL</u>	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>
Separate Investment Account	\$ 24,211	<u>\$ 15,748</u>	<u>\$ 8,463</u>	<u>\$ -</u>
Other Plan assets:				
Cash	361			
Other	80			
	<u>\$ 24,652</u>			

The description of each level above is disclosed in Note 5.

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

<u>YEARS ENDING</u> <u>JUNE 30,</u>	<u>RETIREMENT</u> <u>BENEFITS</u>
2022	\$ 1,166,883
2023	1,169,033
2024	1,194,905
2025	1,207,551
2026	1,200,615
2027-2031	5,898,442

**ROMAN CATHOLIC DIOCESE OF MADISON, INC. AND AFFILIATES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued**  
**JUNE 30, 2021 AND 2020**

**NOTE 13 - Clergy Retirement Plan - Continued**

*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 14 - Other Post-Employment Benefits (OPEB)**

The Diocese of Madison is the sponsor of the Diocese of Madison Clergy Health and Welfare Trust Fund, established 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 plan document. 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.

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 Other Post-Employment Benefits (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). 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.

The following provides further information about the VEBA Trust Fund as of June 30 (dollars in thousands):

	<u>2021</u>	<u>2020</u>
Change in benefit obligation:		
Benefit obligation at beginning of the year	\$ 9,002	\$ 8,352
Service cost	405	300
Interest cost	257	304
Actuarial (gain) or loss	(44)	298
Expenses paid	(27)	(22)
Voluntary clergy contributions (LTC)	4	16
Benefit payments	(243)	(246)
Projected benefit obligation at end of the year	<u>\$ 9,354</u>	<u>\$ 9,002</u>

**ROMAN CATHOLIC DIOCESE OF MADISON, INC. AND AFFILIATES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued**  
**JUNE 30, 2021 AND 2020**

**NOTE 14 - Other Post-Employment Benefits (OPEB) - Continued**

Change in plan assets:		
Fair value of VEBA assets at beginning of the year	\$ 1,731	\$ 1,005
Actual return on investments	378	52
Adjustment to reflect opening balance receivable	-	-
Assessment and donor contributions	1,016	927
Voluntary clergy contributions (LTC)	4	16
Expenses paid	(26)	(22)
Benefit payments	(243)	(247)
Fair value of VEBA assets at the end of the year	<u>\$ 2,860</u>	<u>\$ 1,731</u>

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

	<u>2021</u>	<u>2020</u>
(Deficit) of projected benefit obligation over plan assets recognized in the consolidated statements of financial position	<u>\$ (6,493)</u>	<u>\$ (7,271)</u>

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

	<u>2021</u>	<u>2020</u>
Components of net periodic benefit cost (gain):		
Service cost	\$ 405	\$ 300
Interest cost on projected benefit obligation	257	304
Expected return on VEBA assets	(122)	(81)
Amortization of net loss (gain)	(300)	327
<b>Periodic benefit cost (gain) recognized</b>	<u><b>\$ 240</b></u>	<u><b>\$ 850</b></u>

The net periodic benefit (gain) or cost on the OPEB as reported in the consolidated statements of functional expenses for the years ending June 30, 2021 and 2020 totaled \$239,575 and \$850,294, respectively, and consists of the return on VEBA investments, administrative expenses, interest costs on the unpaid balance of the projected benefit obligation and the change in actuarially computed benefit liability, as set forth in the table above.

*Plan Assets*

The Plan's investments are held primarily in the Master Trust. 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 OPEB obligations is considered a Level 2 security as defined by the fair value categories defined in Note 5, 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 of Madison's VEBA Trust Fund plan assets at June 30, 2021, 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	\$ 2,630	<u>\$ -</u>	<u>\$ 2,630</u>	<u>\$ -</u>
Other Plan assets:				
Cash	230			
Other	-			
	<u>\$ 2,860</u>			

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**NOTE 14 - Other Post-Employment Benefits (OPEB) - Continued**

The fair values of the Diocese of Madison's VEBA Trust Fund plan assets at June 30, 2020, by asset classes 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	\$ 1,252	<u>\$ -</u>	<u>\$ 1,252</u>	<u>\$ -</u>
Other Plan assets:				
Cash	479			
Other	-			
	<u>\$ 1,731</u>			

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

	<u>2021</u>	<u>2020</u>
Weighted average assumptions used to determine benefit obligations		
Discount rate	2.80%	2.90%
Expected long-term rate of return on plan assets	6.00%	6.00%

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 5.7 percent in 2021 down to 4.4 percent in 2038 and thereafter, and from 5.8 percent in 2020 down to 4.5 percent in 2037 and thereafter for participants pre-65 in age, and from 5.8 percent in 2021 to 4.4 percent in 2038 and thereafter, and from 6.0 percent in 2020 down to 4.5 percent in 2037 and thereafter for participants post-65 in age. Finally, the actuarial assumptions project dental and vision cost trend rates on a graded scale at 3.75 percent and 3.25 percent thereafter, respectively in 2021, and 4.25 percent and 3.5 percent thereafter, respectively in 2020.

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

<u>YEARS ENDING</u> <u>JUNE 30,</u>	<u>OTHER</u> <u>BENEFITS</u>
2022	\$ 323,886
2023	338,053
2024	355,514
2025	367,579
2026	378,452
2027-2031	2,024,326

**NOTE 15 - Net Assets**

Included in net assets without donor restrictions are amounts designated by the board for the following purposes at June 30 (dollars in thousands):

	<u>2021</u>	<u>2020</u>
Quasi-endowment	<u>\$ 708</u>	<u>\$ 568</u>
<b>TOTAL DESIGNATED NET ASSETS</b>	<u><b>\$ 708</b></u>	<u><b>\$ 568</b></u>

**ROMAN CATHOLIC DIOCESE OF MADISON, INC. AND AFFILIATES**  
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**NOTE 15 - Net Assets - Continued**

The Diocese and Affiliates Board of Directors has designated funds be set aside to establish and maintain a quasi-endowment for the purpose of securing the long-term financial viability and continuing to meet the needs of the organization.

Net assets with donor restrictions are restricted for the following purposes or periods at June 30 (dollars in thousands):

	<u>2021</u>	<u>2020</u>
Subject to expenditure for specified purpose:		
Rice Bowl Collection	\$ 39	\$ 39
Respect Life	-	17
Apostolate to the Handicapped Programs	12,605	10,375
Beneficial interest in perpetual trust	646	550
Diocese construction projects	272	322
Future construction of a chapel and crypt	69	53
Rural parish support	2,516	-
Diocesan Choir and Organ Recital Concert	11	12
Catholic Education Funds	40	14
Catholic Promotion of Human Development	38	21
	<u>16,236</u>	<u>11,403</u>
Subject to the passage of time:		
Promises to give that have not been received	285	461
Annual Catholic Appeal	4,096	3,520
	<u>4,381</u>	<u>3,981</u>
Endowments		
Amounts required to be held in perpetuity	32,935	32,715
Earnings subject to appropriation and expenditure for specified purpose:		
Seminar education and Office of Vocations Support	9,889	2,493
	<u>9,889</u>	<u>2,493</u>
<b>TOTAL NET ASSETS WITH DONOR RESTRICTIONS</b>	<b><u>\$ 63,440</u></b>	<b><u>\$ 50,592</u></b>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by the donors as follows for the years ended June 30 (dollars in thousands):

	<u>2021</u>	<u>2020</u>
Expiration of time restrictions	\$ 3,520	\$ 3,291
Satisfaction of purpose restrictions:		
Catholic Promotion for Human Development	21	27
Respect life	17	60
Priest for Our Future campaign release and expense	1,473	2,504
Camp Gray campaign	83	446
Diocese construction projects	50	420
St. Mother Teresa Mercy Funds	33	-
Other	2	14
<b>TOTAL RESTRICTIONS RELEASED</b>	<b><u>\$ 5,199</u></b>	<b><u>\$ 6,762</u></b>

**ROMAN CATHOLIC DIOCESE OF MADISON, INC. AND AFFILIATES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued**  
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**NOTE 16 - 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. Effective 2018, the lease was extended through December 31, 2021. The fair value of the rent is estimated at \$250,000 for the years ended June 30, 2021 and 2020, and is included in rental income and donations expense in the statements of activities.

**NOTE 17 - Defined Contribution Retirement Plan**

The Diocese and Affiliates has an employer-sponsored 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. This plan falls under subsection 401(k) of the Internal Revenue Code. 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 \$170,776 and \$165,706 for the years ended June 30, 2021 and 2020, respectively.

In addition, Camp Gray has an employer-sponsored tax-advantaged retirement savings plan that covers all lay employees. This plan falls under subsection 401(b) of the Internal Revenue Code. Employees are permitted to make contributions to the plan. Camp Gray is required to contribute five percent (5.0%) of each eligible employee's compensation. Contributions to the plan totaled \$9,128 and \$13,217 for the years ended June 30, 2021 and 2020, respectively.

**NOTE 18 - Related Party Transactions**

The Diocese and Affiliates transferred approximately \$580,000 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, 2021 and 2020.

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 19 - Redevelopment of Holy Name Seminary**

**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.

**ROMAN CATHOLIC DIOCESE OF MADISON, INC. AND AFFILIATES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued**  
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**NOTE 19 - Redevelopment of Holy Name Seminary - Continued**

Holy Name Heights MM, LLC, is a special purpose limited liability company, organized in 2014, and is a 0.5% (one-half of one percent), equity owner of Holy Name Heights, LLC. Holy Name Heights MM, LLC, elected to be taxed as a corporation, and while separately accounted for, does not maintain cash, instead relying on Holy Name Catholic Center, Inc., its sole member. The appropriate “due to” and “due from” balances have been recorded.

**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 annually, flat (no escalation) over the term of the lease, plus additional rent.

Future minimum payments, by year and in the aggregate, consisted of the following at June 30, 2021:

2022	\$ 49,842
2023	49,842
2024	24,921
<b>Total</b>	<b><u>\$ 124,605</u></b>

**Guaranty of Commercial Operating Lease:** The Diocese and Affiliates, specifically Holy Name Catholic Center, Inc., guarantees the payment of base rent (\$49,842 a year) 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.



**ROMAN CATHOLIC DIOCESE OF MADISON, INC. AND AFFILIATES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued**  
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**NOTE 19 - Redevelopment of Holy Name Seminary - Continued**

**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 long-term 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.

**Collateral Assignment and Pledge of Membership Interest to Project Developer:** Holy Name Heights, LLC, has secured a long-term 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 commenced in fiscal year 2020 and are expected to 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 20 - Reclassification and Rounding Dollars in Thousands**

Certain accounts in the prior year consolidated financial statements have been reclassified for comparative purposes to conform to the presentation of the current year's consolidated financial statements. The decision was made to round dollars into thousands to present the consolidated 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.

**ROMAN CATHOLIC DIOCESE OF MADISON, INC. AND AFFILIATES**  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued  
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**NOTE 21 - Risks and Uncertainties**

**Investments** - The Diocese and Affiliates' investments are exposed to various risks, such as interest rate, and market and credit risks. Due to the level of risk associated with certain investments and the level of uncertainty related to changes in the values of investments, it is reasonably possible that changes in risks in the near term could materially affect the amounts reported in the statements of financial position and the consolidated statements of activities.

**COVID-19 Pandemic** - During 2020 and 2021, the world-wide Coronavirus Pandemic impacted national and global economies. The Diocese and Affiliates continues to closely monitor its operations, liquidity, and capital resources and actively works to minimize the current and future impact of this unprecedented situation. As of the date of issuance of these consolidated financial statements, the current and future full impact to the Organization is not known.