



Financial Statements  
June 30, 2019 and 2018

# Archdiocese of Dubuque Education Fund

Archdiocese of Dubuque Education Fund

Table of Contents

June 30, 2019 and 2018

---

Independent Auditor's Report.....	1
Financial Statements	
Statements of Financial Position.....	3
Statements of Activities.....	4
Statements of Cash Flows.....	5
Notes to Financial Statements.....	6



## Independent Auditor's Report

To the Audit Committee  
Archdiocese of Dubuque Education Fund  
Dubuque, Iowa

### Report on the Financial Statements

We have audited the accompanying financial statements of Archdiocese of Dubuque Education Fund (Education Fund), which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of activities, and cash flows for the years then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Education Fund as of June 30, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Eide Bailly LLP*

Dubuque, Iowa  
March 5, 2020

# Archdiocese of Dubuque Education Fund

## Statements of Financial Position

June 30, 2019 and 2018

	2019	2018
<b>Assets</b>		
Cash and cash equivalents	\$ 39,974	\$ 42,134
Deposits in Archdiocese of Dubuque Deposit and Loan Fund	-	539,124
Receivables - life insurance and bequests	100,000	-
Investments	1,769,493	1,944,659
Annuity/life insurance contracts	1,075,000	1,075,000
Cash surrender value of life insurance	83,775	75,825
Investment in real estate	73,500	73,500
Beneficial interest in assets held by the Catholic Foundation in the Archdiocese of Dubuque	22,860,332	21,702,877
Total assets	\$ 26,002,074	\$ 25,453,119
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts payable	\$ -	\$ 9,133
Accrued expenses	451	-
Funds held for related organizations	154,648	160,133
Payable to Archdiocese of Dubuque Deposit and Loan Fund	126,660	-
Due to other Archdiocesan funds/organizations	75,373	128,516
Annuities payable	445,833	473,779
Total liabilities	802,965	771,561
<b>Net Assets</b>		
Without donor restrictions	25,108,975	24,587,405
With donor restrictions		
Time-restricted for future periods	90,134	94,153
Total net assets	25,199,109	24,681,558
Total liabilities and net assets	\$ 26,002,074	\$ 25,453,119

Archdiocese of Dubuque Education Fund  
Statements of Activities  
Years Ended June 30, 2019 and 2018

	2019	2018
Revenue, Support, and Gains		
Contributions	\$ 138,750	\$ 33,516
Change in value of beneficial interest in assets held by others	1,204,966	424,311
Net investment return	46,098	1,217,792
Net income (loss) on annuities/life insurance	(23,605)	(74,380)
Net assets released from restrictions	31,555	44,483
Total revenue, support, and gains	1,397,764	1,645,722
Expenses		
Program Expenses		
Transfer of investment income to Archdiocese of Dubuque	823,788	816,952
Administrative Expense		
Audit expense	4,900	8,581
Total expenses	828,688	825,533
Revenue in Excess of Expenses	569,076	820,189
Distribution of Earnings	(47,506)	(26,503)
Change in Net Assets Without Donor Restrictions	521,570	793,686
Changes in Net Assets With Donor Restrictions		
Net investment return	16,401	22,635
Change in value of split-interest agreements	11,135	10,119
Net assets released from restrictions	(31,555)	(44,483)
Change in Net Assets With Donor Restrictions	(4,019)	(11,729)
Change in Net Assets	517,551	781,957
Net Assets, Beginning of Year	24,681,558	23,899,601
Net Assets, End of Year	\$ 25,199,109	\$ 24,681,558

## Archdiocese of Dubuque Education Fund

Statements of Cash Flows  
Years Ended June 30, 2019 and 2018

	2019	2018
Operating Activities		
Change in net assets	\$ 517,551	\$ 781,957
Adjustments to reconcile change in net assets to net cash used for operating activities		
Realized and unrealized (gain) loss on investments	(6,053)	(1,164,873)
Change in value of beneficial interest in assets held by others	(1,157,455)	(424,311)
Changes in assets and liabilities		
Receivables - life insurance and bequests	(100,000)	709,031
Cash surrender value of life insurance	(7,950)	6,057
Accounts payable	(9,133)	(3,838)
Accrued expenses	451	-
Funds held for related organizations	(5,485)	9,662
Due to/from other Archdiocesan funds/organizations	(53,143)	30,730
Annuities payable	(27,946)	(9,406)
Net Cash used for Operating Activities	(849,163)	(64,991)
Investing Activities		
Deposits to Archdiocese of Dubuque Deposit and Loan Fund	(247,717)	(993,207)
Withdrawal from Archdiocese of Dubuque Deposit and Loan Fund	786,841	836,963
Proceeds from annuity/life insurance contract	-	175,000
Proceeds from sale of investments	181,219	27,157
Net Cash from Investing Activities	720,343	45,913
Financing Activities		
Deposits to Archdiocese of Dubuque Deposit and Loan Fund	(173,396)	-
Withdrawal from Archdiocese of Dubuque Deposit and Loan Fund	300,056	-
Net cash from Financing Activities	126,660	-
Net Change in Cash and Cash Equivalents	(2,160)	(19,078)
Cash and Cash Equivalents, Beginning of Year	42,134	61,212
Cash and Cash Equivalents, End of Year	\$ 39,974	\$ 42,134
Supplemental Disclosure of Non-cash Investing Activity		
Transfer of investments to the Catholic Foundation in the Archdiocese of Dubuque	\$ -	\$ 21,267,260

**Note 1 - Organization and Significant Accounting Policies****Organization**

The Archdiocese of Dubuque Education Fund (Education Fund) is an endowment-like fund in which the principal is invested and maintained intact with only the income earned from the investments available for Catholic education in the Archdiocese of Dubuque.

**Cash and Cash Equivalents**

The Education Fund considers all cash and highly liquid financial instruments with original maturities of three months or less, and which are neither held for nor restricted by donors for long-term purposes, to be cash and cash equivalents. Cash and highly liquid financial instruments restricted to capital expenditures, endowments that are perpetual in nature, or other long-term purposes of the Education Fund are excluded from this definition.

**Receivables**

Receivables consist primarily of noninterest-bearing amounts due from life insurance policies and bequests.

**Assets Held and Liabilities Under Split-Interest Agreements***Charitable Gift Annuities*

Under charitable gift annuity contracts, the Education Fund receives immediate and unrestricted title to contributed assets and agrees to make fixed recurring payments over the stipulated period. Contributed assets are recorded at fair value on the date of receipt. The related liability for future payments to be made to specified beneficiaries is recorded at fair value using present value techniques and risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the liability. The excess of contributed assets over the annuity liability is recorded as a contribution without donor restrictions. In subsequent years, the liability for future annuity payments is reduced by payments made to the specified beneficiaries and is adjusted to reflect amortization of the discount and changes in actuarial assumptions at the end of the year. Upon termination of the annuity contract, the remaining liability is removed and recognized as income.

**Investments**

Investment purchases are recorded at cost, or if donated, at fair value on the date of donation. Thereafter, investments are reported at their fair value in the statements of financial position. Net investment return is reported in the statements of activities and consists of interest and dividend income and realized and unrealized capital gains and losses, less investment management and custodial fees.

Investment in real estate is recorded at cost.

The Education Fund utilizes various investment instruments. Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the amounts reported in the statements of financial position. Significant fluctuations in fair values could occur from year to year and the amounts the Education Fund will ultimately realize could differ materially.

### **Beneficial Interest in Assets Held by the Catholic Foundation in the Archdiocese of Dubuque**

The Education Fund has established a fund under the Catholic Foundation in the Archdiocese of Dubuque (CFAD). The Education Fund granted variance power to CFAD which allows CFAD to modify any condition or restriction on its distributions for any specified charitable purpose or to any specified organization if, in the sole judgment of CFAD's Board of Directors, such restriction or condition becomes unnecessary, incapable of fulfillment, or inconsistent with the mission of CFAD. The fund is held and invested by CFAD for the benefit of the Education Fund, and is reported at fair value in the statements of financial position, with distributions and changes in fair value recognized in the statement of activities.

### **Net Assets**

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor-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 (or certain grantor) restrictions.

*Net Assets With Donor Restrictions* – Net assets subject to donor (or certain grantor) 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. The Education Fund reports contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) 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. 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. These restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

### **Revenue and Revenue Recognition**

Revenue is recognized when earned. Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

### **Functional Allocation of Expenses**

The statements of activities report categories of expenses that are attributed to program service activities or supporting services activities. The expenses are generally directly attributable to a functional category with no significant allocations between program service activities and supporting service activities occurring.

### **Performance Indicator**

Revenue in excess of (less than) expenses is the performance indicator and excludes distributions of earnings.

### **Incomes Taxes**

The Education Fund is organized as an Iowa non-profit corporation and has been recognized by the Internal Revenue Service as exempt from federal income taxes under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3), and qualifies for the charitable contribution deduction under Section 170(b)(1)(A)(i). The Education Fund is not required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. However, the Education Fund is subject to income tax on net income that is derived from business activities that are unrelated to its exempt purposes. The Education Fund has determined it is not subject to unrelated business income tax and has not filed an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS.

The Education Fund believes that it has appropriate support for any tax positions taken affecting its annual filing requirements, and as such, does not have any uncertain tax positions that are material to the financial statements. The Education Fund would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred.

### **Estimates**

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

### **Financial Instruments and Credit Risk**

The Education Fund manages deposit concentration risk by placing cash and money market accounts with financial institutions believed by management to be creditworthy. At times, amounts on deposit may exceed insured limits or include uninsured investments in money market mutual funds. To date, the Education Fund has not experienced losses in any of these accounts.

Investments are made by diversified investment managers whose performance is monitored by management and the Finance Council. Although the fair values of investments are subject to fluctuation on a year-to-year basis, management and the Finance Council believe that the investment policies and guidelines are prudent for the long-term welfare of the Education Fund.

**Change in Accounting Principle**

As of July 1, 2018, the Education Fund adopted the provisions of Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements for Not-For-Profit Entities*. The provisions of the ASU replace the existing classes of net assets with two new classes (net assets without donor restrictions and net assets with donor restrictions). The ASU introduces new disclosures to improve a financial statement user’s ability to assess the Education Fund’s liquidity and exposure to risk. The ASU also introduces new reporting requirements to present expenses by both function and natural classification in a single location and to present investment returns on the statement of activities net of external and direct internal investment expenses.

The amendments should be applied on a retrospective basis; however, if presenting comparative financial statements, the ASU allows for the option to omit, for any periods presented before the period of adoption, the disclosure about liquidity and availability of resources. The Education Fund has elected not to present comparative information for the liquidity amendment. The Education Fund has adopted this standard as management believes the standard improves the usefulness and understandability of the Education Fund’s financial reporting.

**Reclassifications**

Certain reclassifications of amounts previously reported have been made to the accompanying financial statements to maintain consistency between periods presented. The reclassifications had no impact on previously reported net assets.

**Subsequent Events**

The Education Fund has evaluated subsequent events through March 5, 2020, 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, at June 30, 2019:

Cash and cash equivalents	\$ 39,974
Receivables - life insurance and bequests	100,000
Investments	1,769,493
Cash surrender value of life insurance	<u>83,775</u>
	1,993,242
Annuities payable	(445,833)
Funds held for related organizations	(154,648)
Net assets with donor restrictions	<u>(90,134)</u>
Financial assets available to meet general expenditures within one year	<u><u>\$ 1,302,627</u></u>

The Education Fund established a fund under the Catholic Foundation in the Archdiocese of Dubuque (CFAD). Funds with beneficial interest in assets held by CFAD are invested to provide long-term growth and financial support. Since there are restrictions on amounts that can be withdrawn from CFAD, they have not been included in the table above.

### **Note 3 - Fair Value Measurements and Disclosures**

Certain assets are reported at fair value in the financial statements. Fair value is the price that would be received to sell an asset in an orderly transaction in the principal, or most advantageous, market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Inputs used to determine fair value refer broadly to the assumptions that market participants would use in pricing the asset, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available. A three-tier hierarchy categorizes the inputs as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets that the Education Fund can access at the measurement date.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly. These include quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active, inputs other than quoted prices that are observable for the asset, and market-corroborated inputs.

Level 3 – Unobservable inputs for the asset. In these situations, the Education Fund develops inputs using the best information available in the circumstances.

In some cases, the inputs used to measure the fair value of an asset might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

Assessing the significance of a particular input to entire measurement requires judgment, taking into account factors specific to the asset. The categorization of an asset within the hierarchy is based upon the pricing transparency of the asset and does not necessarily correspond to the Education Fund's assessment of the quality, risk or liquidity profile of the asset or liability. Assessing the significance of a particular input to entire measurement requires judgment, taking into account factors specific to the asset. The categorization of an asset within the hierarchy is based upon the pricing transparency of the asset and does not necessarily correspond to an assessment of the quality, risk or liquidity profile of the asset.

# Archdiocese of Dubuque Education Fund

Notes to Financial Statements

June 30, 2019 and 2018

A significant portion of the Education Fund’s investment assets are classified within Level 1 because they are comprised of open-end mutual funds and stocks with readily determinable fair values based on daily redemption values. Government bonds are valued by the custodians of the securities using pricing models based on credit quality, time to maturity, stated interest rates, and market-rate assumptions, and are classified as Level 2. The fair value of beneficial interest in assets held by CFAD is based on the fair value of fund investments as reported by CFAD. These are considered to be Level 3 measurements.

The following table presents assets measured at fair value on a recurring basis at June 30, 2019:

	<u>Total</u>	<u>Fair Value Measurements at Report Date Using</u>		
		<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
<u>Assets</u>				
Investments				
Growth funds				
Domestic and international	\$ 1,026,917	\$ 1,026,917	\$ -	\$ -
Risk reduction assets				
Domestic fixed assets mutual funds	<u>742,576</u>	<u>742,576</u>	<u>-</u>	<u>-</u>
Total investments	<u>\$ 1,769,493</u>	<u>\$ 1,769,493</u>	<u>\$ -</u>	<u>\$ -</u>
Beneficial Interest in Assets Held by the Catholic Foundation in the Archdiocese of Dubuque	<u>\$ 22,860,332</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 22,860,332</u>

Archdiocese of Dubuque Education Fund

Notes to Financial Statements

June 30, 2019 and 2018

The following table presents assets measured at fair value on a recurring basis at June 30, 2018:

	<u>Total</u>	<u>Fair Value Measurements at Report Date Using</u>		
		<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
<u>Assets</u>				
Investments				
Growth funds				
Domestic and international	\$ 1,247,557	\$ 1,247,557	\$ -	\$ -
Risk reduction assets				
Domestic fixed assets mutual funds	<u>697,102</u>	<u>697,102</u>	<u>-</u>	<u>-</u>
Total investments	<u>\$ 1,944,659</u>	<u>\$ 1,944,659</u>	<u>\$ -</u>	<u>\$ -</u>
Beneficial Interest in Assets Held by the Catholic Foundation in the Archdiocese of Dubuque	<u>\$ 21,702,877</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 21,702,877</u>

Below is a reconciliation of the beginning and ending balance of assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

	<u>Fair Value Measurements at Report Date Using Significant Unobservable Inputs (Level 3)</u>	
	<u>2019</u>	<u>2018</u>
Beneficial Interest in Assets Held by the Catholic Foundation in the Archdiocese of Dubuque		
Beginning Balance	\$ 21,702,877	\$ 11,307
Purchases/contributions of investments	-	21,267,260
Interest and dividends	482,309	327,168
Distributions	(47,511)	-
Net realized and unrealized gain (loss)	852,915	152,636
Administrative fees	<u>(130,258)</u>	<u>(55,494)</u>
Ending Balance	<u>\$ 22,860,332</u>	<u>\$ 21,702,877</u>
Realized and Unrealized Gain (Loss) Included in Net Investment Return in the Statements of Activities Relating to Assets Still Held at Year End	<u>\$ 852,915</u>	<u>\$ 152,636</u>

**Note 4 - Net Investment Return**

Net investment return consists of the following:

	2019	2018
Interest and dividends	\$ 73,497	\$ 95,194
Net realized and unrealized gain (loss)	6,053	1,164,873
Less investment fees	(17,051)	(19,640)
	\$ 62,499	\$ 1,240,427

**Note 5 - Deposits in/Payable to Archdiocese of Dubuque Deposit and Loan Fund**

Certain funds are deposited in/payable to the Archdiocese of Dubuque Deposit and Loan Fund, a separate 501(c)(3) corporation. These deposits can be withdrawn on demand and currently earn interest at the rate of 1.0% per annum at June 30, 2019 and 2018. Negative deposit (payable) balances accrue interest at the rate of 1.5% per annum at June 30, 2019 and 2018.

**Note 6 - Annuity/Life Insurance Contracts and Cash Surrender Value of Life Insurance**

Annuity/life insurance contracts are designed to provide the Education Fund with interest/annuity payments throughout the life of the annuitant/insured. The Education Fund is the owner and named beneficiary of life insurance policies in the amount of the initial investment in these contracts. These investments are recorded at the original amount invested.

The cash surrender value of life insurance value is recorded based on the equity method with adjustments for interest rate changes.

**Note 7 - Net Assets with Donor Restrictions**

Net assets with donor restriction are restricted for the following period.

	2019	2018
Subject to the Passage of Time		
Assets held under split-interest agreements	\$ 90,134	\$ 94,153

Net assets with donor restrictions represent split-interest agreements in the form of gift annuities and charitable remainder unitrusts. The Education Fund accepts the contribution and is obligated to make payments to the donor or a third-party beneficiary until the death of the donor or third-party beneficiary.

**Note 8 - Related Party Transactions**

The Education Fund supports Catholic education within the Archdiocese of Dubuque. During the years ended June 30, 2019 and 2018, the Education Fund transferred \$823,788 and \$816,952, respectively, to the Archdiocese of Dubuque Administrative Offices to fund assistance to educational programs within the Archdiocese.

The Education Fund has money deposited with (payable to) the Archdiocese of Dubuque Deposit & Loan Fund and invested in the Archdiocese of Dubuque Alternative Investments Grantor Trust, both of which are related/affiliated organizations through common management and/or board membership and religious affiliation.