



Financial Statements
June 30, 2017 and 2016

Archdiocese of Dubuque Education Fund

Archdiocese of Dubuque Education Fund

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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, 2017 and 2016, 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 Archdiocese of Dubuque Education Fund as of June 30, 2017 and 2016, 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.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, management has elected to early adopt the guidance contained in Accounting Standards Update 2015-07, *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)* in 2017, which requires that investments for which fair value is measured using the net asset value practical expedient be removed from the fair value hierarchy. The updates of Accounting Standards Update 2015-07 have been applied retrospectively to the 2016 notes to the financial statements. Our opinion is not modified with respect to this matter.

A handwritten signature in black ink that reads "Eide Sully LLP". The signature is written in a cursive, flowing style.

Dubuque, Iowa
August 28, 2018

Archdiocese of Dubuque Education Fund
 Statements of Financial Position
 June 30, 2017 and 2016

	2017	2016
Assets		
Cash and cash equivalents	\$ 61,212	\$ 67,004
Deposits in Archdiocese of Dubuque Deposit and Loan Fund - Note 4	382,880	678,479
Receivables - life insurance and bequests	709,031	150,201
Investments - Note 2	22,074,202	19,346,476
Annuity/life insurance contracts - Note 5	1,250,000	1,250,000
Cash surrender value of life insurance - Note 5	81,882	95,880
Investment in real estate	73,500	73,500
Beneficial interest in assets held by the Catholic Foundation for the Archdiocese of Dubuque - Note 2	11,307	10,108
Total assets	\$ 24,644,014	\$ 21,671,648
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 12,971	\$ 4,194
Funds held for related organizations	150,471	143,787
Due to other Archdiocesan funds/organizations	97,786	40,107
Annuities payable	483,185	543,078
Total liabilities	744,413	731,166
Net Assets		
Unrestricted	23,793,719	20,809,021
Temporarily restricted – Note 6	105,882	131,461
Total net assets	23,899,601	20,940,482
Total liabilities and net assets	\$ 24,644,014	\$ 21,671,648

Archdiocese of Dubuque Education Fund
 Statements of Activities
 Years Ended June 30, 2017 and 2016

	2017	2016
Changes in Unrestricted Net Assets		
Revenue		
Contributions	\$ 987,144	\$ 1,191,192
Net investment return – Note 3	2,657,723	280,936
Net income (loss) on annuities/life insurance	(99,313)	(106,607)
Total revenue	3,545,554	1,365,521
Expenses		
Audit expense	8,400	5,460
Revenues in Excess of Expenses	3,537,154	1,360,061
Transfer of Investment Income to Archdiocese of Dubuque	(552,456)	(546,657)
Change in Unrestricted Net Assets	2,984,698	813,404
Changes in Temporarily Restricted Net Assets		
Net investment return – Note 3	59,425	(29,415)
Change in value of split-interest agreements	(85,004)	(73,066)
Change in Temporarily Restricted Net Assets	(25,579)	(102,481)
Change in Net Assets	2,959,119	710,923
Net Assets, Beginning of Year	20,940,482	20,229,559
Net Assets, End of Year	\$ 23,899,601	\$ 20,940,482

Archdiocese of Dubuque Education Fund
 Statements of Cash Flows
 Years Ended June 30, 2017 and 2016

	2017	2016
Operating Activities		
Change in net assets	\$ 2,959,119	\$ 710,923
Adjustments to reconcile change in net assets to net cash from (used for) operating activities		
Realized and unrealized (gain) loss on investments	(2,301,880)	214,687
Change in interest in net assets held by others	(1,199)	(10,108)
Changes in assets and liabilities		
Receivables - life insurance and bequests	(558,830)	(150,201)
Cash surrender value of life insurance	13,998	13,136
Due to/from other Archdiocesan funds/organizations	57,679	(4,578)
Annuities payable	(59,893)	(4,671)
Accounts payable	8,777	327
Funds held for related organizations	6,684	(96,424)
Net Cash from (used for) Operating Activities	124,455	673,091
Investing Activities		
Deposits to Archdiocese of Dubuque Deposit and Loan Fund	(2,980,479)	(1,201,694)
Withdrawal from Archdiocese of Dubuque Deposit and Loan Fund	3,276,078	741,196
Purchase of investments	(3,278,036)	(2,052,658)
Proceeds from sale of investments	2,852,190	1,846,309
Net Cash from (used for) Investing Activities	(130,247)	(666,847)
Net Change in Cash and Cash Equivalents	(5,792)	6,244
Cash and Cash Equivalents, Beginning of Year	67,004	60,760
Cash and Cash Equivalents, End of Year	\$ 61,212	\$ 67,004

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, permanent endowment, 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 an unrestricted contribution. 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, realized and unrealized capital gains and losses, less investment management and custodial fees.

Certain Catholic organizations of the Archdiocese Diocese of Dubuque, including the Education Fund, invest some of their funds in the Archdiocese of Dubuque Alternative Investments Grantor Trust (Alternative Investments Trust), a pooled investment trust managed by the Archdiocese of Dubuque. Holdings in this trust consist of alternative investments which do not have readily determinable fair values and may include partnerships and other interests that invest in multi-strategy funds, private equity funds, hedge funds, private debt funds, and real asset funds, among others. Investment income and gains or losses are allocated based on a proportionate share of each entity's fair value at the time of each periodic allocation.

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 for the Archdiocese of Dubuque

During 2016, the Education Fund established a fund under the Catholic Foundation for 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 changes in fair value recognized in the statements of activities within net investment return.

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:

Unrestricted Net Assets – Net assets available for use in general operations.

Temporarily Restricted Net Assets – Net assets subject to donor restrictions that may or will be met by expenditures or actions of the Education Fund and/or the passage of time, and certain income earned on permanently restricted net assets that has not yet been appropriated for expenditure by management.

The Education Fund reports contributions restricted by donors as increases in unrestricted net assets 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 temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently Restricted Net Assets – Net assets whose use is limited by donor-imposed restrictions that neither expire by the passage of time nor can be fulfilled or otherwise removed by action of the Education Fund. The restrictions stipulate that resources be maintained permanently, but permit the Education Fund to expend the income generated in accordance with the provisions of the agreements.

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.

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

Management has elected to early adopt the guidance contained in ASU 2015-07, *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)* in 2017, which requires that investments for which fair value is measured using the net asset value practical expedient be removed from the fair value hierarchy. ASU 2015-07 was applied retrospectively to disclosures presented in 2016 (Note 2). The Education Fund has adopted this standard as it eliminates a known diversity in practice for determining whether assets measured at fair value by using the net asset value per share as practical expedient are classified as Level 2 or Level 3 within the fair value hierarchy.

Subsequent Events

The Education Fund has evaluated subsequent events through August 28, 2018, the date which the financial statements were available to be issued.

Note 2 - 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 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 Foundation'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.

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.

Net asset value (NAV) per share, or its equivalent, such as member units or an ownership interest in partners' capital, is used to estimate the fair values of certain hedge funds, private equity funds, funds of funds, and limited partnerships which do not have readily determinable fair values. The Education Fund's estimate of fair value of the Alternative Investments Trust is determined using the calculated allocation of net asset value provided by the trust administrator. Investments that are measured at fair value using NAV per share as a practical expedient are not classified in the fair value hierarchy.

Archdiocese of Dubuque Education Fund
Notes to Financial Statements
June 30, 2017 and 2016

The following table presents assets measured at fair value on a recurring basis, except those measured by using NAV per share as a practical expedient as identified in the following, at June 30, 2017:

	Total	Fair Value Measurements at Report Date Using			
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments Measured at NAV
<u>Assets</u>					
Investments					
Growth funds					
Domestic and international	\$ 15,945,275	\$ 15,945,275	\$ -	\$ -	\$ -
Inflation protection assets					
Interest in limited partnership	3,034	-	-	-	3,034
Risk reduction assets					
Government bonds	51,939	-	51,939	-	-
Domestic fixed assets mutual funds	3,292,977	3,292,977	-	-	-
Hedge funds	17,400	-	-	-	17,400
Alternative Investments Trust	2,763,577	-	-	-	2,763,577
Total investments	<u>\$ 22,074,202</u>	<u>\$ 19,238,252</u>	<u>\$ 51,939</u>	<u>\$ -</u>	<u>\$ 2,784,011</u>
Beneficial Interest in Assets Held by the Catholic Foundation for the Archdiocese of Dubuque					
	<u>\$ 11,307</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,307</u>	<u>\$ -</u>

Archdiocese of Dubuque Education Fund
Notes to Financial Statements
June 30, 2017 and 2016

The following table presents assets measured at fair value on a recurring basis, except those measured by using NAV per share as a practical expedient as identified in the following, at June 30, 2016:

<u>Assets</u>	<u>Total</u>	Fair Value Measurements at Report Date Using			
		<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>Investments Measured at NAV</u>
<u>Investments</u>					
Growth funds					
Domestic and international	\$ 13,713,105	\$ 13,713,105	\$ -	\$ -	\$ -
Inflation protection assets					
Interest in limited partnerships	7,685	-	-	-	7,685
Risk reduction assets					
Domestic and international	450,031	450,031	-	-	-
Government bonds	52,202	-	52,202	-	-
Domestic fixed assets mutual funds	3,232,513	3,232,513	-	-	-
Global fixed assets mutual funds	765,228	765,228	-	-	-
Hedge funds	1,125,712	-	-	-	1,125,712
Total investments	<u>\$ 19,346,476</u>	<u>\$ 18,160,877</u>	<u>\$ 52,202</u>	<u>\$ -</u>	<u>\$ 1,133,397</u>
Beneficial Interest in Assets Held by the Catholic Foundation for the Archdiocese of Dubuque					
	<u>\$ 10,108</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,108</u>	<u>\$ -</u>

Archdiocese of Dubuque Education Fund
Notes to Financial Statements
June 30, 2017 and 2016

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):

	Fair Value Measurements at Report Date Using Significant Unobservable Inputs (Level 3)	
	2017	2016
Beneficial Interest in Assets Held by the Catholic Foundation for the Archdiocese of Dubuque		
Beginning Balance	\$ 10,108	\$ -
Purchases/contributions of investments	-	10,000
Interest and dividends	135	41
Net realized and unrealized gain (loss)	1,064	67
Ending Balance	\$ 11,307	\$ 10,108
Realized and Unrealized Gain (Loss) Included in Net Investment Return in the Statements of Activities Relating to Assets Still Held at Year End	\$ 1,064	\$ 67

Investments in certain entities that calculate NAV per share are as follows as of June 30, 2017 and 2016:

	<u>Fair value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
<u>June 30, 2017</u>				
Interest in Limited Partnership	\$ 3,034	\$ -	Illiquid	None
Hedge Fund	17,400	-	Quarterly	60 days
Alternative Investments Trust	<u>2,763,577</u>	-	(1)	None
	<u>\$ 2,784,011</u>	<u>\$ -</u>		
<u>June 30, 2016</u>				
Interest in Limited Partnerships	\$ 7,685	\$ -	Illiquid	None
Hedge Funds	<u>1,125,712</u>	-	Quarterly, Annually	60 days, 100 days
	<u>\$ 1,133,397</u>	<u>\$ -</u>		

(1) Generally, participants may make contributions to and withdrawals from the Trust at any time, subject to minimum and upper balance limits that the trustees may set from time to time.

The interest in limited partnerships' objective is to maximize the total return to shareholders through cash dividends and appreciation in the value of the shares through investment in real estate portfolios consisting of undeveloped land, residential, multi-family, condominium units, industrial, retail, and office properties.

The hedge funds' objectives are to generate consistent long-term capital appreciation with low volatility and little correlation with the equity and bond markets through portfolios having a diversified risk profile.

The Alternative Investments Trust's strategy includes long-term preservation of capital, maximizing long-term total return and avoidance of market timing techniques that rely upon subjective short-term market forecasts.

Note 3 - Net Investment Return

Net investment return consists of the following:

	2017	2016
Interest and Dividends	\$ 415,268	\$ 466,208
Net Realized and Unrealized Gain (Loss)	2,301,880	(214,687)
	\$ 2,717,148	\$ 251,521

Note 4 - Deposits in Archdiocese of Dubuque Deposit and Loan Fund

Certain funds are deposited in 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 both June 30, 2017 and 2016.

Note 5 - 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 6 - Temporarily Restricted Net Assets

Temporarily restricted net assets 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 7 - Related Party Transactions

The Education Fund supports Catholic education within the Archdiocese of Dubuque. During the years ended June 30, 2017 and 2016, the Education Fund transferred \$552,456 and \$546,657, respectively, to the Archdiocese of Dubuque Administrative Offices to fund assistance to educational programs within the Archdiocese.

The Education Fund has money deposited with and payable to the Archdiocese of Dubuque Deposit & Loan Fund and invests 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.

Note 8 - Bond Issue Guarantee

The Archdiocese of Dubuque Deposit and Loan Fund, Education Fund and Administrative Offices previously guaranteed a bond issue for Newman Catholic School. This debt was restructured during fiscal year 2017 and a guarantee is no longer required. The balance of the guarantee was \$6,018,444 as of June 30, 2016.