



Financial Statements  
June 30, 2017 and 2016

# Archdiocese of Dubuque Perpetual Care Fund

Archdiocese of Dubuque Perpetual Care Fund

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June 30, 2017 and 2016

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## **Independent Auditor's Report**

To the Audit Committee  
Archdiocese of Dubuque  
Dubuque, Iowa

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Archdiocese of Dubuque Perpetual Care Fund (Perpetual Care 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 the Archdiocese of Dubuque Perpetual Care 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. Our opinion is not modified with respect to this matter.

The image shows a handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Dubuque, Iowa  
August 28, 2018

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

	2017	2016
<b>Assets</b>		
Cash and cash equivalents	\$ 20,353	\$ 22,840
Deposits in Archdiocese of Dubuque Deposit and Loan Fund - Note 6	86,471	480,782
Note receivable - Note 4	386,719	398,813
Investments - Note 2	6,673,170	7,744,102
Annuity/life insurance contracts - Note 5	1,225,000	1,225,000
Accrued interest receivable	3,899	4,033
Total assets	\$ 8,395,612	\$ 9,875,570
 <b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts payable - Note 8	\$ 4,302	\$ 47,735
Deposits payable - Note 1	8,296,119	9,791,480
Due to other Archdiocesan funds - Note 8	95,191	36,355
Total liabilities	8,395,612	9,875,570
Net Assets	-	-
Total liabilities and net assets	\$ 8,395,612	\$ 9,875,570

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

	2017	2016
Revenue		
Net investment return - Note 3	\$ 1,005,983	\$ 111,707
Expenses		
Net investment return distributed to depositors	949,754	47,872
Administration fees	56,229	63,835
Total expenses	1,005,983	111,707
Change in Net Assets	-	-
Net Assets at Beginning of Year	-	-
Net Assets at End of Year	\$ -	\$ -

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

	2017	2016
Operating Activities		
Net investment return distributed to depositors	\$ 949,754	\$ 47,872
Adjustments to reconcile net investment return distributed to depositors to net cash provided by operating activities		
Realized and unrealized (gain) loss on investments	(769,131)	157,652
Changes in assets and liabilities		
Accrued interest receivable	134	99
Accounts payable	(43,433)	45,590
Due to other Archdiocesan funds	58,836	31,731
Net Cash provided by Operating Activities	<u>196,160</u>	<u>282,944</u>
Investing Activities		
Purchase of investments	(1,010,479)	(790,201)
Proceeds from sale of investments	2,850,542	2,585,671
Collections on note receivable	12,094	10,968
Deposits to Archdiocese of Dubuque Deposit and Loan Fund	(1,796,073)	-
Withdrawals from Archdiocese of Dubuque Deposit and Loan Fund	<u>2,190,384</u>	<u>-</u>
Net Cash provided by Investing Activities	<u>2,246,468</u>	<u>1,806,438</u>
Financing Activities		
Proceeds from Archdiocese of Dubuque Deposit and Loan Fund	-	31,143
Payments to Archdiocese of Dubuque Deposit and Loan Fund	-	(673,618)
Proceeds from deposits payable	183,543	239,967
Payments on deposits payable	<u>(2,628,658)</u>	<u>(1,690,642)</u>
Net Cash used for Financing Activities	<u>(2,445,115)</u>	<u>(2,093,150)</u>
Net Change in Cash and Cash Equivalents	(2,487)	(3,768)
Cash and Cash Equivalents, Beginning of Year	<u>22,840</u>	<u>26,608</u>
Cash and Cash Equivalents, End of Year	<u>\$ 20,353</u>	<u>\$ 22,840</u>

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

### **Organization**

Archdiocese of Dubuque Perpetual Care Fund (Perpetual Care Fund) is an investment pool for Catholic cemeteries located in the Archdiocese of Dubuque.

### **Cash and Cash Equivalents**

The Perpetual Care 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 Perpetual Care Fund are excluded from this definition.

### **Note Receivable**

Note receivable is stated at principal amount and is collateralized by a real estate mortgage. Payments of note receivable are allocated first to accrued and unpaid interest with the remainder to the outstanding principal balance. Management reviews the note receivable periodically and estimates a portion, if any, of the balance that will not be collected. Accrued interest is stated separately.

### **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 values 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.

Certain Catholic organizations of the Archdiocese Diocese of Dubuque, including the Perpetual Care 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.

The Perpetual Care 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 Perpetual Care Fund will ultimately realize could differ materially.

### **Deposits Payable**

Deposits payable consists of the value of perpetual care funds of cemeteries of the Archdiocese of Dubuque which the Perpetual Care Fund has invested on their behalf.

### **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 Perpetual Care Fund is organized as an Iowa non-profit corporation and has been recognized by the Internal Revenue Service (IRS) 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) as an integrated auxiliary of a church. The Perpetual Care Fund is not required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. However, the Perpetual Care Fund is subject to income tax on net income that is derived from business activities that are unrelated to its exempt purposes. The Perpetual Care 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 Perpetual Care 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 Perpetual Care 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 Perpetual Care 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 Perpetual Care 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 Perpetual Care 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 Perpetual Care 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 Perpetual Care 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 can be accessed 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, inputs are developed 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 investments 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.

# Archdiocese of Dubuque Perpetual Care Fund

Notes to Financial Statements

June 30, 2017 and 2016

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 Perpetual Care 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.

The following table presents assets measured at fair value on a recurring basis, except those measured at cost or 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
Investments					
Growth Funds					
Domestic and international	\$ 5,068,620	\$ 5,068,620	\$ -	\$ -	\$ -
Inflation Protection Assets					
Interest in limited partnership	706	-	-	-	706
Risk Reduction Assets					
Domestic and international	560,275	560,275	-	-	-
Global fixed assets mutual funds	377,205	377,205	-	-	-
Hedge funds	13,316	-	-	-	13,316
Alternative Investments Trust	653,048	-	-	-	653,048
	<u>\$ 6,673,170</u>	<u>\$ 6,006,100</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 667,070</u>

Archdiocese of Dubuque Perpetual Care 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 at cost or by using NAV per share as a practical expedient as identified in the following, at June 30, 2016:

	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
Investments					
Growth Funds					
Domestic and international	\$ 5,149,990	\$ 5,149,990	\$ -	\$ -	\$ -
Inflation Protection Assets					
Interest in limited partnership	4,184	-	-	-	4,184
Risk Reduction Assets					
Domestic and international	1,070,335	1,070,335	-	-	-
Domestic fixed assets					
mutual funds	302,209	302,209	-	-	-
Global fixed assets					
mutual funds	365,077	365,077	-	-	-
Hedge funds	852,307	-	-	-	852,307
	<u>\$ 7,744,102</u>	<u>\$ 6,887,611</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 856,491</u>

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

Investments in certain entities that calculate NAV per share are as follows at 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	\$ 706	\$ -	Illiquid	None
Hedge Funds	13,316	-	Quarterly, Annually	60 days, 100 days
Alternative Investments Trust	653,048	-	(1)	None
	<u>\$ 667,070</u>	<u>\$ -</u>		
<u>June 30, 2016</u>				
Interest in Limited Partnership	\$ 4,184	\$ -	Illiquid	None
Hedge Funds	852,307	-	Quarterly, Annually	60 days, 100 days
	<u>\$ 856,491</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 partnership's objective is to maximize the total return to shareholders through cash dividends and appreciation in the value of the shares through investment in a real estate portfolio 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 for the years ended June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Interest and Dividends (Includes Interest Income on Note Receivable)	\$ 236,852	\$ 269,359
Net Realized and Unrealized Gain (Loss)	769,131	(157,652)
	<u>\$ 1,005,983</u>	<u>\$ 111,707</u>

**Note 4 - Note Receivable**

During the fiscal year ending June 30, 2010, the Perpetual Care Fund entered into a loan agreement with another non-profit organization. The \$450,000 promissory note requires bi-annual payments ranging from \$15,713 to \$18,590, bearing interest at 6%. The final payment on the note (\$260,000) is due October 31, 2024, and is secured by a mortgage. The balance of this note as of June 30, 2017 and 2016 was \$386,719 and \$398,813, respectively.

**Note 5 - Annuity/Life Insurance Contracts**

Annuity/life insurance contracts are designed to provide the Perpetual Care Fund with interest/annuity payments throughout the life of the annuitant/insured. The Perpetual Care 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.

**Note 6 - Deposits in Archdiocese of Dubuque Deposit and Loan Fund**

Certain funds of the Perpetual Care Fund 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. The interest earned on these deposits amounted to \$10,300 and \$3, respectively, for the years ended June 30, 2017 and 2016.

**Note 7 - Functionalized Expenses**

The costs of program and supporting services activities summarized by function were as follows for the years ended June 30, 2017 and 2016:

	2017	2016
Program Expenses	\$ 957,160	\$ 57,143
Management and General	48,823	54,564
	\$ 1,005,983	\$ 111,707

**Note 8 - Related Party Transactions**

The Perpetual Care Fund engages in transactions exclusively with cemeteries of the Archdiocese of Dubuque. The assets of the Perpetual Care Fund arise from deposits by Catholic cemeteries, with corresponding net investment return, net of administration fees, being paid to the Catholic cemeteries.

The Fund has money deposited with and/or payable to the Archdiocese of Dubuque Deposit and 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.

Expenses include administration fees paid to the Archdiocese of Dubuque Deposit and Loan Fund of \$39,558 and \$45,735 for the years ended June 30, 2017 and 2016. Accounts payable at June 30, 2016 includes \$45,735 in administration fees due to the Archdiocese of Dubuque Deposit and Loan Fund. No amounts were owed as of June 30, 2017.

The due to other Archdiocesan funds of \$93,191 and \$36,355 at June 30, 2017 and 2016 primarily includes amounts due to the Archdiocese of Dubuque Deposit and Loan Fund which are owed for expenses paid on the Perpetual Care Fund's behalf.