

# The Catholic Foundation of Southwest Iowa

Financial Report  
June 30, 2018

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## Independent Auditor's Report

RSM US LLP

Board of Directors  
The Catholic Foundation of Southwest Iowa

### Report on the Financial Statements

We have audited the accompanying financial statements of The Catholic Foundation of Southwest Iowa, which comprise the statements of financial position as of June 30, 2018 and 2017, 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 Catholic Foundation of Southwest Iowa as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*RSM US LLP*

Des Moines, Iowa  
November 9, 2018

The Catholic Foundation of Southwest Iowa

Statements of Financial Position  
June 30, 2018 and 2017

	2018	2017
<b>Assets</b>		
Cash	\$ 2,700,448	\$ 2,869,043
Receivables:		
Split-interest agreements	125,609	187,082
Promises to give, net	1,163,954	1,609,835
Investments	70,758,110	64,161,767
Prepaid expenses and other assets	8,513	6,049
	<u>74,756,634</u>	<u>68,833,776</u>
<b>Total assets</b>	<b>\$ 74,756,634</b>	<b>\$ 68,833,776</b>
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable	\$ 28,113	\$ 59,648
Accrued expenses	60,772	3,263
Annuities payable	566,060	4,425
Grants payable	-	165,846
Agency funds	29,226,213	25,423,019
	<u>29,881,158</u>	<u>25,656,201</u>
<b>Total liabilities</b>	<b>29,881,158</b>	<b>25,656,201</b>
Net assets:		
Unrestricted	177,396	222,360
Temporarily restricted	26,186,529	24,807,326
Permanently restricted	18,511,551	18,147,889
	<u>44,875,476</u>	<u>43,177,575</u>
<b>Total net assets</b>	<b>44,875,476</b>	<b>43,177,575</b>
<b>Total liabilities and net assets</b>	<b>\$ 74,756,634</b>	<b>\$ 68,833,776</b>

See notes to financial statements.

The Catholic Foundation of Southwest Iowa

Statement of Activities  
Year Ended June 30, 2018

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Changes in net assets				
Revenues:				
Contributions	\$ 5,460	\$ 756,239	\$ -	\$ 761,699
Investment income	750	3,399,786	-	3,400,536
Change in value of split-interest agreements	-	(53,433)	-	(53,433)
Miscellaneous income	123,415	10,443	-	133,858
Net assets released from restrictions	2,370,170	(2,370,170)	-	-
<b>Total revenues, gains and other support</b>	<b>2,499,795</b>	<b>1,742,865</b>	<b>-</b>	<b>4,242,660</b>
Expenses:				
Program services:				
Grants	1,841,354	-	-	1,841,354
Seminarian loan expense	-	-	-	-
<b>Total program services</b>	<b>1,841,354</b>	<b>-</b>	<b>-</b>	<b>1,841,354</b>
Management and general:				
Payroll and employee benefits	189,838	-	-	189,838
Office supplies	1,374	-	-	1,374
Postage and shipping	4,491	-	-	4,491
Printing	7,149	-	-	7,149
Marketing and advertising	3,262	-	-	3,262
Telephone	1,020	-	-	1,020
Travel	5,189	-	-	5,189
Rent	3,575	-	-	3,575
Meetings	3,977	-	-	3,977
Professional fees	128,557	-	-	128,557
Investment management fees	303,202	-	-	303,202
Miscellaneous	51,771	-	-	51,771
<b>Total supporting services</b>	<b>703,405</b>	<b>-</b>	<b>-</b>	<b>703,405</b>
<b>Total expenses</b>	<b>2,544,759</b>	<b>-</b>	<b>-</b>	<b>2,544,759</b>
<b>Change in net assets before reclassification</b>	<b>(44,964)</b>	<b>1,742,865</b>	<b>-</b>	<b>1,697,901</b>
Net asset reclassification due to change in donor intent	-	(363,662)	363,662	-
<b>Total change in net assets</b>	<b>(44,964)</b>	<b>1,379,203</b>	<b>363,662</b>	<b>1,697,901</b>
Net assets:				
Beginning	222,360	24,807,326	18,147,889	43,177,575
Ending	\$ 177,396	\$ 26,186,529	\$ 18,511,551	\$ 44,875,476

See notes to financial statements.

**The Catholic Foundation of Southwest Iowa**

**Statement of Activities  
Year Ended June 30, 2017**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Changes in net assets</b>				
Revenues:				
Contributions	\$ 4,149	\$ 234,690	\$ -	\$ 238,839
Investment income	5	4,987,130	-	4,987,135
Change in value of split-interest agreements	-	5,772	-	5,772
Miscellaneous income	112,066	2,000	-	114,066
Net assets released from restrictions	2,258,240	(2,258,240)	-	-
<b>Total revenues, gains and other support</b>	<b>2,374,460</b>	<b>2,971,352</b>	<b>-</b>	<b>5,345,812</b>
Expenses:				
Program services:				
Grants	1,795,211	-	-	1,795,211
Seminarian loan expense	96,400	-	-	96,400
<b>Total program services</b>	<b>1,891,611</b>	<b>-</b>	<b>-</b>	<b>1,891,611</b>
Management and general:				
Payroll and employee benefits	103,381	-	-	103,381
Office supplies	995	-	-	995
Postage and shipping	2,571	-	-	2,571
Printing	6,092	-	-	6,092
Marketing and advertising	592	-	-	592
Telephone	1,138	-	-	1,138
Travel	2,815	-	-	2,815
Rent	3,471	-	-	3,471
Meetings	1,803	-	-	1,803
Professional fees	140,049	-	-	140,049
Investment management fees	197,950	-	-	197,950
Miscellaneous	15,538	-	-	15,538
<b>Total supporting services</b>	<b>476,395</b>	<b>-</b>	<b>-</b>	<b>476,395</b>
<b>Total expenses</b>	<b>2,368,006</b>	<b>-</b>	<b>-</b>	<b>2,368,006</b>
<b>Change in net assets before reclassification</b>	<b>6,454</b>	<b>2,971,352</b>	<b>-</b>	<b>2,977,806</b>
Net asset reclassification due to change in donor intent	-	(590,859)	590,859	-
<b>Total change in net assets</b>	<b>6,454</b>	<b>2,380,493</b>	<b>590,859</b>	<b>2,977,806</b>
Net assets:				
Beginning	215,906	22,426,833	17,557,030	40,199,769
Ending	\$ 222,360	\$ 24,807,326	\$ 18,147,889	\$ 43,177,575

See notes to financial statements.

The Catholic Foundation of Southwest Iowa

Statements of Cash Flows  
Years Ended June 30, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Change in net assets	\$ 1,697,901	\$ 2,977,806
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net unrealized (gains) losses on investments	638,906	(1,350,171)
Net realized gains on investments	(3,154,469)	(3,235,625)
Change in value of split-interest agreements	53,433	(5,772)
Change in annuities payable	543,180	-
Contributions and donor reclassification restricted for long-term investments	(363,662)	(590,859)
Change in assets and liabilities:		
Promises to give	445,881	741,172
Prepaid expenses and other assets	(2,464)	(3,424)
Accounts payable	(31,535)	26,241
Accrued expenses	57,509	3,263
Grants payable	(165,846)	165,846
Agency funds	3,803,194	1,650,994
<b>Net cash provided by operating activities</b>	<b>3,522,028</b>	<b>379,471</b>
Cash flows from investing activities:		
Proceeds from sale of investments	82,927,465	42,392,131
Purchase of investments	(87,887,488)	(40,680,177)
<b>Net cash provided by (used in) investing activities</b>	<b>(4,960,023)</b>	<b>1,711,954</b>
Cash flows from financing activities:		
Charitable gift annuities established	940,716	-
Payments of annuity obligations	(34,978)	-
Proceeds from contributions and donor reclassification restricted for long-term investment	363,662	590,859
<b>Net cash provided by financing activities</b>	<b>1,269,400</b>	<b>590,859</b>
<b>Net increase (decrease) in cash</b>	<b>(168,595)</b>	<b>2,682,284</b>
Cash:		
Beginning	2,869,043	186,759
Ending	<b>\$ 2,700,448</b>	<b>\$ 2,869,043</b>

See notes to financial statements.

## The Catholic Foundation of Southwest Iowa

### Notes to Financial Statements

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#### Note 1. Nature of Activities and Significant Accounting Policies

**Nature of activities:** The Catholic Foundation of Southwest Iowa (the Foundation) is a nonprofit corporation organized under the laws of the State of Iowa. Its purpose is to receive, hold, administer and dispose of assets in order to carry out the work of the Catholic Community within the Roman Catholic Diocese of Des Moines (the Diocese), as well as to provide proper management of resources, provide support for the current needs and plan and provide for the future needs of the Catholic Community that is a part of the Diocese.

**Basis of presentation:** The financial statements of the Foundation have been prepared on the accrual basis of accounting. Financial statement presentation follows the recommendations of the Not-for-Profit Entities Topic of the *FASB Accounting Standards Codification*. Accordingly, the Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

**Unrestricted net assets:** Net assets that are neither permanently restricted nor temporarily restricted by donor-imposed stipulations.

**Temporarily restricted net assets:** Net assets that result from contributions and other inflows of assets whose use by the Foundation is limited to donor-imposed stipulations that either expire by passage of time or can be fulfilled by actions of the Foundation meeting the purpose of the restriction. Temporarily restricted net assets include unconditional promises to give with payments due in future periods.

**Permanently restricted net assets:** Net assets include endowment assets subject to donor-imposed restrictions that are to be maintained permanently by the Foundation. Generally, the donors of these assets permit the Foundation to use all or part of the income earned on related investments for general or specific purposes.

**Use of estimates:** The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

**Revenue recognition:** Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. All donor-restricted contributions are reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are released to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Promises to give (pledges receivable) due after one year are discounted at an appropriate discount rate commensurate with risks involved. Amortization of discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance is made for uncollectible promises to give based on managements' judgment and analysis of credit worthiness of the donors past collections. There was no allowance at both June 30, 2018 and 2017.

**Concentration of credit risk:** The Foundation had cash balances with a financial institution in excess of federally insured limits during the years ended June 30, 2018 and 2017. The Foundation has not experienced any losses due to these concentrations.

## The Catholic Foundation of Southwest Iowa

### Notes to Financial Statements

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#### Note 1. Nature of Activities and Significant Accounting Policies (Continued)

**Split interest agreements:** A split interest agreement is one in which a donor makes an initial gift to a trust or directly to the Foundation, in which the Foundation has a beneficial interest, but the donor retains a portion of the benefits of the assets or names a third party as the recipient of a portion of the benefits. To date, the Foundation has received charitable gift annuities and is party to a charitable remainder annuity trust agreement, for which the accounting policy is as follows:

*A charitable gift annuity agreement* is an arrangement between a donor and the organization in which the donor contributes assets to the organization in exchange for a promise by the organization to pay a fixed amount for a specified period of time to the donor or other beneficiary. The assets received are recorded at fair value, and an annuity liability is recognized as the present value of future cash flows expected to be paid to the beneficiary. Contribution revenue is recognized as the difference between the two amounts and is classified according to donor restrictions. During the years ended June 30, 2018 and 2017, contribution revenue of \$406,840 and none, respectively, was recognized in the statement of activities. In subsequent periods, payments to the beneficiary reduce the annuity liability.

*A charitable remainder annuity trust agreement* is an arrangement whereby a trust provides for the payment of distributions to the grantor over the lives of the grantor or the grantor's surviving spouse. At the end of the trust's term, the remaining assets are available for the Foundation's use.

Assets received under these agreements are recorded at fair value and included within investments (see Note 3). Adjustments to the annuity liability to reflect accretion of discount and changes in the life expectancy of the beneficiaries are recognized in the statement of activities as change in value of split-interest agreements. The annuity rate used in computing annuity liabilities was 3.00 percent and 2.35 percent for the years ended June 30, 2018 and 2017, respectively. At June 30, 2018 and 2017, the annuity payable totaled \$566,060 and \$4,425, respectively.

**Investments:** Investments in debt and equity securities are recorded at fair market value, with gains and losses resulting from market fluctuations recognized in the period in which the fluctuations occur. Alternative investments are carried at fair value measured using net asset value (NAV) using the practical expedient. The practical expedient allows for the use of NAV, either as reported by the underlying investment or as adjusted by the Foundation based on various factors including contributions and withdrawals.

Land investments includes land held for investment that is valued at cost. Investment in joint venture, land is accounted for using the equity method of accounting. Under the equity method, the Foundation's share of the net income (loss) of the investee is recognized as income (loss) in the Foundation's statements of activities and added to (deducted from) the investment account and dividends received from the investee are treated as a reduction of the investment account. The joint venture investment, land account had no activity during the years ended June 30, 2018 and 2017.

The investments are evaluated for impairment annually. No impairment was present at either June 30, 2018 and 2017.

**Income taxes:** The Foundation is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and generally is not subject to income taxes. Accordingly, no provision for federal or state taxes has been made. However, any unrelated business income may be subject to taxation. The Foundation is not required to file an annual return for organizations exempt from income tax.

## The Catholic Foundation of Southwest Iowa

### Notes to Financial Statements

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#### Note 1. Nature of Activities and Significant Accounting Policies (Continued)

**Agency funds:** The Foundation acts as a fiscal agent for other Catholic organizations within the state of Iowa that desire to establish a fund to be invested in pooled investment portfolios managed by the Foundation. A parish, school or any other Catholic organization that is a part of the Diocese of Des Moines may enter in to such an agency relationship with the Foundation. The investment portfolios have a focus on long-term investment strategy.

The Foundation reports this activity as agency transactions and accounts for the transfer of such as a liability. Accordingly, contributions to the agency funds in the amount of \$4,720,023 and \$5,272,067 and distributions from the agency funds in the amount of \$916,829 and \$3,621,073 are not recorded or reflected in the Foundation's statements of activities for the years ended June 30, 2018 and 2017, respectively. Included in the agency fund liability is \$2,849,276 and \$2,492,619 at June 30, 2018 and 2017, respectively, that is held on the behalf of related parties.

**Grants payable:** The Foundation provides grants that support the mission of the Roman Catholic Diocese and are recorded as due and payable upon the approved grant date.

**Recent accounting pronouncements:** In August 2016, Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which changes presentation and disclosure requirements for not-for-profit entities to provide more relevant information about their resources (and the changes in those resources) to donors, grantors, creditors, and other users. These include qualitative and quantitative requirements in the following areas: net asset classes, investment return, expenses, liquidity and availability of resources and presentation of operating cash flows. The standard is effective for not-for-profit organizations for periods beginning after December 15, 2017. Early application of the amendments is permitted. Management has evaluated the impact that the adoption will have on its financial reporting, and anticipates expanded disclosures and changes in net asset classifications.

In May 2014, the FASB issued ASU No. 2014-09 as revised by ASU No. 2015-14, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in accounting principles generally accepted in the United States (U.S. GAAP) when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. The updated standard will be effective for annual reporting periods beginning after December 31, 2018. The Foundation has not yet selected a transition method and is currently evaluating the effect that the updated standard will have on the financial statements.

In June 2018, the FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, that clarifies and improves the scope and accounting guidance around contributions of cash and other assets received and made by not-for-profit organizations. The updated standard will be effective for annual periods beginning after December 15, 2018. The Foundation is currently evaluating the potential impact that the adoption will have on its financial reporting.

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*, that removes, modifies and adds certain disclosure requirements. The standard will be effective for annual periods beginning after December 15, 2019. Early application is permitted. The Foundation is currently evaluating the potential impact that the adoption of this update will have on its financial statements.

**Subsequent events:** The Foundation has evaluated subsequent events through November 9, 2018, the date the report was available for issuance.

## The Catholic Foundation of Southwest Iowa

### Notes to Financial Statements

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#### Note 2. Promises to Give

During the year ended June 30, 2013, the Administrative Offices of the Diocese, an affiliated entity, began a capital campaign entitled "Sharing God's Gifts." As part of the campaign, the Diocese secured pledges (promises to give) on behalf of the various endowment funds held by the Foundation (Note 7). These promises to give are to be collected by the Diocese and then remitted to the Foundation and totaled approximately \$1,177,000 and \$1,623,000 at June 30, 2018 and 2017, respectively.

The promises to give balances at June 30, 2018 and 2017, consists of the following:

	2018	2017
Amount due in:		
Less than one year	\$ 883,045	\$ 167,839
One to five years	294,133	1,460,646
	<u>1,177,178</u>	<u>1,628,485</u>
Less unamortized discount at .58% rate	(13,224)	(18,650)
Total	<u>\$ 1,163,954</u>	<u>\$ 1,609,835</u>

#### Note 3. Investments and Fair Value Measurements

Accounting standards define fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The use of valuation techniques that are consistent with the market approach, the income approach and/or the cost approach is required. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources, or unobservable, meaning those that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. In that regard, accounting standards establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

**Level 1:** Quoted prices (unadjusted) for identical assets or liabilities in active markets that the Foundation has the ability to access as of the measurement date.

**Level 2:** The fair value is based on quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, inputs other than quoted prices that are observable for the asset or liability, and inputs that are derived principally from observable market data.

**Level 3:** The fair value is based on unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

**Investments in securities and investments held in charitable gift annuities:** The Foundation has analyzed the valuation techniques and related inputs, and determined an appropriate fair value hierarchy based upon observability of market inputs. Based on the results of this evaluation, the Foundation classified its investments in highly liquid government bonds, exchange traded equities and mutual funds within Level 1, and investments in corporate bonds within Level 2 of the valuation hierarchy.

**The Catholic Foundation of Southwest Iowa**

**Notes to Financial Statements**

**Note 3. Investments and Fair Value Measurements (Continued)**

During the year ended June 30, 2017, the Foundation changed investment custodians and advisors. There were no transfers between levels however there were changes in the investment composition and valuation techniques used for assets measured at fair value.

The Foundation's investments consist of the following as of June 30, 2018 and 2017:

	2018			
	Total	Quoted Prices in Market for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Equities:				
Domestic	\$ 18,710,985	\$ 18,710,985	\$ -	\$ -
Foreign	17,858,145	17,858,145	-	-
Fixed income:				
Corporate bonds	3,424,441	-	3,424,441	-
Government obligations	2,866,676	2,866,676	-	-
Mutual funds:				
Fixed income	8,189,551	8,189,551	-	-
Other	5,669,411	5,669,411	-	-
Investments in charitable gift annuities:				
Equity	609,314	609,314	-	-
Fixed income	75,650	30,857	44,793	-
Mutual funds	232,542	232,542	-	-
	<u>57,636,715</u>	<u>\$ 54,167,481</u>	<u>\$ 3,469,234</u>	<u>\$ -</u>
Investments, not at fair value:				
Alternative investments, at net asset value	12,129,152			
Land investments, at cost	399,937			
Investment in joint venture, land	592,306			
	<u>13,121,395</u>			
 Total investments	 <u>\$ 70,758,110</u>			

**The Catholic Foundation of Southwest Iowa**

**Notes to Financial Statements**

**Note 3. Investments and Fair Value Measurements (Continued)**

	2017			
	Total	Quoted Prices in Market for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Domestic stocks	\$ 15,526,383	\$ 15,526,383	\$ -	\$ -
Foreign stocks	736,302	736,302	-	-
Exchange traded equity funds	21,029,342	21,029,342	-	-
Mutual funds:				
Equity	6,489,828	6,489,828	-	-
Fixed income	3,998,447	3,998,447	-	-
Balanced	11,436,220	11,436,220	-	-
	59,216,522	<u>\$ 59,216,522</u>	<u>\$ -</u>	<u>\$ -</u>
Alternative investments, valued at net asset value, pooled funds	3,953,002			
Land investments, at cost	399,937			
Investment in joint venture, land	592,306			
	<u>4,945,245</u>			
Total investments	<u>\$ 64,161,767</u>			

The following schedule summarizes investment income for the years ended June 30, 2018 and 2017:

	2018	2017
Realized gains on investments	\$ 3,154,469	\$ 3,235,625
Unrealized gains (losses) on investments	(638,906)	1,350,171
Interest and dividends	884,973	401,339
Total investment income	<u>\$ 3,400,536</u>	<u>\$ 4,987,135</u>

Alternative investments are valued at the NAV of units held by the Foundation in each account at year end. The methods used to measure NAV may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value could result in a different fair value measurement at the reporting date. Alternative investments are valued at NAV using the practical expedient.

## The Catholic Foundation of Southwest Iowa

### Notes to Financial Statements

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#### Note 3. Investments and Fair Value Measurements (Continued)

The following table provides a summary of information for investments that are calculated using a net asset value per share as of June 30:

Description	Fair Value	
	2018	2017
Fund of funds (A)	\$ 6,446,003	\$ -
Private equity (B)	1,417,172	-
Pooled funds (C)	4,265,977	3,953,002
	<u>\$ 12,129,152</u>	<u>\$ 3,953,002</u>

(A) The investment grouping includes hedge funds and fund of funds invested in illiquid investments in closed-end funds that allow periodic redemptions with a 30 to 105 day notice period. Investments in foreign entities will incur exposure to risks from currency fluctuations. Approximately 70 percent of funds balance is domiciled in the Cayman Islands.

(B) The investment grouping includes investments in globally diversified private equity funds. The funds are comprised of underlying investments with restrictions including approximately \$560,000 have a two year lockup period and approximately \$860,000 is subject to a five year lockup period. The Foundation has unfunded commitments of approximately \$5,200,000 as of June 30, 2018.

(C) The funds are invested at the Community Foundation of Greater Des Moines in long-term growth portfolios with diversified holdings. Distributions are made quarterly and are subject to a spending policy of 5 percent.

Alternative investments are redeemable with the investee fund at NAV under the original terms of the subscription agreement. Due to the nature of these investments, changes in market conditions and the overall economic environment may significantly impact the NAV of the funds, and therefore the value of the Foundation's interest. It is therefore reasonably possible that, if the Foundation were to sell all or a portion of these investments, the transaction value could be significantly different than the fair value reported as of June 30.

#### Note 4. Related Party Transactions

The Administrative Offices of the Diocese and the Roman Catholic Pastoral Center Foundation leases office space and parking to the Foundation as well as provides certain administrative and accounting support to the Foundation. The Foundation operates under a services agreement that covers the rent, administrative and supportive services provided. Total fees paid were \$5,890 and \$6,238 for the years ended June 30, 2018 and 2017, respectively.

During the year ended June 30, 2018, the Diocese transferred various charitable gift annuities to the Foundation in the amount of \$940,716. The transfer resulted in \$406,840 being recognized as contribution revenue, which is net of a discounted annuity payable also recorded upon transfer of the gift annuities.

## The Catholic Foundation of Southwest Iowa

### Notes to Financial Statements

#### Note 4. Related Party Transactions (Continued)

The Diocese also made a contribution to the Foundation in the amount of \$157,703 and none to fund various programs during the years ended June 30, 2018 and 2017, respectively, of which \$50,000 and none is deferred and included in accrued expenses as of June 30, 2018 and 2017, respectively. The Foundation periodically provides grants for specific projects of the Diocese. Such transfers to the Diocese totaled \$1,706,526 and \$1,342,324 during the years ended June 30, 2018 and 2017, respectively. At June 30, 2018 and 2017, the Foundation owes none and \$165,846, respectively, to the Diocese for grants approved but unpaid.

#### Note 5. Restrictions on Net Assets

Temporarily restricted net assets are available for the following purposes as of June 30, 2018 and 2017:

	2018	2017
Split-interest agreements	\$ 516,824	\$ 182,657
Adoption	100,000	100,000
Phoenix House	162,142	162,142
Council Bluffs Counseling	76,501	76,501
St. Joseph's Shelter	5,132	5,132
Donor Advised Fund	83,255	73,415
Time and purpose restriction	1,163,954	1,609,835
Cumulative investment returns on endowments and temporarily restricted contributions to endowments (Note 7)	24,078,721	22,597,644
	<u>\$ 26,186,529</u>	<u>\$ 24,807,326</u>

All permanently restricted net assets are included in the endowment. The purpose of the permanent restriction is disclosed in Note 7.

#### Note 6. Assets Released from Restriction

Net assets were released from donor restrictions by granting or incurring expenses satisfying the purpose or time restrictions specified by donors for the years ended June 30, 2018 and 2017, as follows:

Fund Name	Purpose Restriction	2018	2017
Endowments:			
Diocesan Ministry	Diocesan Operations	\$ 651,781	\$ 645,396
Larry Breheny	Catholic Charities initiatives	246,852	216,908
Educational Excellence	Parish and school grants	153,756	137,162
Priests' Medical Fund	Medical care for priests	467,812	444,296
Seminarian Fund	Promote continuing education	504,748	566,679
Hispanic Fund	Hispanic parish grants	25,475	17,246
Endow Iowa Fund	Activities of the organization	292,387	229,626
Donor Advised	Activities of the organization	25,333	927
Charitable gift annuity funds	Activities of the organization	2,026	-
		<u>\$ 2,370,170</u>	<u>\$ 2,258,240</u>

## The Catholic Foundation of Southwest Iowa

### Notes to Financial Statements

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#### Note 7. Endowment Funds and Permanently Restricted Net Assets

The Foundation's endowment funds consist of permanently restricted net assets which provide that the principal be invested in perpetuity and the income only be used for specific purposes as stipulated by the donors. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

**Interpretation of relevant law:** The Foundation has interpreted the State of Iowa Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by SPMIFA.

In accordance with SPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) duration and preservation of the various funds, (2) the purpose of the donor restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and appreciation of investments, (6) the Foundation's spending policy for endowment funds, and (7) the Foundation's investment policies.

**Investment policies:** The Foundation has adopted an investment management policy for endowment assets. The investment policy of the endowment fund is with the objective of achieving long-term asset appreciation. The investment policy establishes an achievable return objective through diversification of asset classes. The current performance expectation of the endowment fund's assets is a long-term, total rate of return on assets that is equal to or in excess of a 5 percent spending rate, anticipated inflation, investment management fees, administrative costs, and a growth factor as established from time to time. The target rate of return for the fund's investment assets is based on the assumption that future real returns will approximate or exceed the indexed rates of return experience for each asset class. To satisfy the long-term rate-of-return objectives, a total return strategy in which investment returns are achieved through both capital appreciations (realized and unrealized) and current yield (interest and dividends) is relied upon. A diversified asset allocation is targeted and it places an emphasis on fixed income, equity, and alternative investments to achieve its long-term return objectives within prudent risk parameters.

**Spending policies:** The Foundation has adopted a distribution and spending policy to ensure adherence to donor restrictions and to allow use of a portion of the endowment as a funding source toward making funds available for current operations where appropriate and not in violation of donor restrictions. The policy protects the Foundation from year-to-year fluctuations in market returns and investment results by providing a predictable amount in the funds made available from endowment. The Foundation generally limits total appropriations to 5 percent or less of the three-year average balance as of June 30 of the preceding budget year for expenditure from any endowment fund unless a larger amount is required to address donor stipulations. The level of appropriation with the current performance expectations for investments is generally consistent with the Foundation's objective to maintain the original value of permanent endowment gifts in perpetuity.

**The Catholic Foundation of Southwest Iowa**

**Notes to Financial Statements**

**Note 7. Endowment Funds and Permanently Restricted Net Assets (Continued)**

Endowment net asset composition by fund as of June 30, 2018 and 2017, is as follows:

	2018			Total Net Endowment Assets
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Diocesan Ministry	\$ -	\$ 8,429,742	\$ 2,567,009	\$ 10,996,751
Larry Breheny	-	3,619,107	2,300,376	5,919,483
Educational Excellence	-	1,295,691	2,500,729	3,796,420
Priests' Medical Fund	-	3,759,224	4,500,000	8,259,224
Seminarian Fund	-	6,338,253	2,500,000	8,838,253
Hispanic Fund	-	636,704	-	636,704
Endow Iowa Fund	-	-	4,143,437	4,143,437
Total funds	\$ -	\$ 24,078,721	\$ 18,511,551	\$ 42,590,272

	2017			Total Net Endowment Assets
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Diocesan Ministry	\$ -	\$ 8,173,417	\$ 2,567,009	\$ 10,740,426
Larry Breheny	-	3,361,896	2,300,376	5,662,272
Educational Excellence	-	1,119,269	2,500,729	3,619,998
Priests' Medical Fund	-	3,460,534	4,500,000	7,960,534
Seminarian Fund	-	5,922,134	2,500,000	8,422,134
Hispanic Fund	-	560,394	-	560,394
Endow Iowa Fund	-	-	3,779,775	3,779,775
CGA Funds	-	-	-	-
Total funds	\$ -	\$ 22,597,644	\$ 18,147,889	\$ 40,745,533

Changes in endowment net assets as of June 30, 2018, are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Endowment net assets, beginning of year	\$ -	\$ 22,597,644	\$ 18,147,889	\$ 40,745,533
Contributions	-	784,371	-	784,371
Investment income	-	3,392,738	-	3,392,738
Miscellaneous income	-	10,443	-	10,443
Reclass of donor intent, Endow Iowa	-	(363,662)	363,662	-
Released from restriction	-	(2,342,813)	-	(2,342,813)
Endowment net assets, end of year	\$ -	\$ 24,078,721	\$ 18,511,551	\$ 42,590,272

## The Catholic Foundation of Southwest Iowa

### Notes to Financial Statements

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#### Note 7. Endowment Funds and Permanently Restricted Net Assets (Continued)

Changes in endowment net assets as of June 30, 2017, are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Endowment net assets, beginning of year	\$ -	\$ 19,501,443	\$ 17,557,030	\$ 37,058,473
Contributions	-	963,688	-	963,688
Investment income	-	4,978,685	-	4,978,685
Miscellaneous income	-	2,000	-	2,000
Reclass of donor intent, Endow Iowa	-	(590,859)	590,859	-
Released from restriction	-	(2,257,313)	-	(2,257,313)
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 22,597,644</u>	<u>\$ 18,147,889</u>	<u>\$ 40,745,533</u>

From time to time, the fair value of endowment funds associated with individual donor-restricted endowment funds may fall below the level that the donor or SPMIFA requires the Foundation to retain as a fund of perpetual duration, underwater endowments. As of June 30, 2018 and 2017, none of the Foundation's donor restricted endowment funds were underwater.