

**ADMINISTRATIVE OFFICES OF THE ROMAN  
CATHOLIC DIOCESE OF DES MOINES**

**FINANCIAL REPORT**

**YEAR ENDED JUNE 30, 2018**

## **C O N T E N T S**

	<b>Page</b>
<b>INDEPENDENT AUDITOR'S REPORT</b>	1 and 2
<b>FINANCIAL STATEMENTS</b>	
Statement of financial position	3
Statement of activities	4
Statement of functional expenses	5
Statement of cash flows	6
Notes to financial statements	7-20

## INDEPENDENT AUDITOR'S REPORT

To the Boards of Directors  
Roman Catholic Diocese of Des Moines  
Des Moines, Iowa

### Report on the Financial Statements

We have audited the accompanying financial statements of the Administrative Offices of the Roman Catholic Diocese of Des Moines (the "Diocese", a nonprofit organization), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, functional expenses, and cash flows for the year 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 audit. We conducted our audit 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 Administrative Offices of the Roman Catholic Diocese of Des Moines as of June 30, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Report on Summarized Comparative Information***

We have previously audited the Diocese 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 6, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017 is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Brooks Jodden, P.C.*

West Des Moines, Iowa  
November 15, 2018

**ADMINISTRATIVE OFFICES OF THE ROMAN CATHOLIC  
DIOCESE OF DES MOINES**

**STATEMENT OF FINANCIAL POSITION**

June 30, 2018

With Comparative Totals at June 30, 2017

<b>ASSETS</b>	<b>2018</b>	<b>2017</b>
	<u>                    </u>	<u>                    </u>
Cash and cash equivalents	\$ 746,379	\$ 4,170,896
Receivables:		
Accounts, less allowance 2018 \$84,846; 2017 \$85,637	292,080	224,100
Due from affiliates (Note 10)	8,529	50,269
Bequests	1,009,842	436,390
Promises to give, net of allowance for uncollectible accounts (Note 9)	2,900,910	7,967,681
Split-interest agreement receivable (Note 8)	30,544	-
Investments (Note 3)	6,780,601	6,670,951
Equity balance in insurance pool	351,142	382,181
Property and equipment, net (Note 4)	10,656,552	5,732,352
Prepays and other assets	79,593	91,801
Totals	<u>\$ 22,856,172</u>	<u>\$ 25,726,621</u>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 615,991	\$ 2,277,177
Due to affiliates (Note 10)	175,204	11,843
Funds held for others	47,111	61,359
Capital campaign - amounts raised for other organizations	2,234,604	5,130,233
Accrued employee benefits (Note 5)	116,529	111,094
Annuities payable (Note 8)	-	1,002,019
Deferred revenue	14,917	-
Line of credit payable (Note 11)	750,000	-
Total liabilities	<u>\$ 3,954,356</u>	<u>\$ 8,593,725</u>
<b>ACCRUED POSTRETIREMENT BENEFITS</b> (Note 6)	<u>\$ 3,315,568</u>	<u>\$ 3,336,771</u>
<b>EXCESS OF PENSION PLAN PROJECTED BENEFIT OBLIGATION OVER PLAN ASSETS</b> (Note 7)	<u>\$ 2,038,534</u>	<u>\$ 1,888,527</u>
<b>NET ASSETS</b>		
Unrestricted net assets	\$ 7,364,248	\$ 1,846,570
Temporarily restricted (Note 2)	6,183,466	10,061,028
Total net assets	<u>\$ 13,547,714</u>	<u>\$ 11,907,598</u>
Totals	<u>\$ 22,856,172</u>	<u>\$ 25,726,621</u>

*See Notes to Financial Statements.*

**ADMINISTRATIVE OFFICES OF THE ROMAN CATHOLIC  
DIOCESE OF DES MOINES**

**STATEMENT OF ACTIVITIES**

Year Ended June 30, 2018

With Comparative Totals for the Year Ended June 30, 2017

	Unrestricted	Temporarily Restricted	Total	
			2018	2017
<b>SUPPORT AND REVENUE</b>				
Capital campaigns results (Note 9)	\$ 75,152	\$ 92,420	\$ 167,572	\$ 2,828,422
Less: Amounts raised for other organizations	(39,909)	-	(39,909)	(21,804)
Net capital campaign contributions	\$ 35,243	\$ 92,420	\$ 127,663	\$ 2,806,618
Appeal income	960,456	3,125,289	4,085,745	4,305,466
Foundation grants (Note 10)	1,342,429	-	1,342,429	1,406,204
Contributions	496,069	-	496,069	425,057
Bequests	1,739,496	-	1,739,496	425,605
Program service fees	441,753	-	441,753	373,738
National Catholic youth conference	283,085	-	283,085	-
Investment return (Note 3)	101,446	69,128	170,574	537,466
Advertising revenue	64,033	-	64,033	56,266
Grants	119,351	-	119,351	279,356
Change in value of split-interest agreements	(26,654)	3,047	(23,607)	(40,597)
Other reimbursements	746,218	-	746,218	638,887
Insurance risk retention:				
Property, casualty and liability	-	1,022,511	1,022,511	1,032,128
Worker's compensation	-	479,263	479,263	507,335
Net assets released from restrictions	8,669,220	(8,669,220)	-	-
Total support and revenue	\$ 14,972,145	\$ (3,877,562)	\$ 11,094,583	\$ 12,753,529
<b>FUNCTIONAL EXPENSES</b>				
Program services:				
Pastoral	\$ 1,544,211	\$ -	\$ 1,544,211	\$ 1,668,038
Religious development	1,171,709	-	1,171,709	1,068,360
Education	1,050,077	-	1,050,077	676,233
Clergy care	710,802	-	710,802	697,862
Total program services	\$ 4,476,799	\$ -	\$ 4,476,799	\$ 4,110,493
Supporting services:				
Diocesan administration	\$ 2,452,625	\$ -	\$ 2,452,625	\$ 2,332,851
Development and stewardship	106,290	-	106,290	166,744
Group insurance	1,482,278	-	1,482,278	1,525,170
Pastoral Center	618,680	-	618,680	651,139
Capital campaign	188,991	-	188,991	285,189
Total supporting services	\$ 4,848,864	\$ -	\$ 4,848,864	\$ 4,961,093
Total expenses	\$ 9,325,663	\$ -	\$ 9,325,663	\$ 9,071,586
Change in net assets before other changes	\$ 5,646,482	\$ (3,877,562)	\$ 1,768,920	\$ 3,681,943
<b>OTHER CHANGES</b>				
Change in value of accrued postretirement benefits	\$ 21,203	\$ -	\$ 21,203	\$ (5,299)
Pension related changes other than net periodic pension costs (Note 7)	164,506	-	164,506	2,434,746
Pension actuarial adjustment (Note 7)	(314,513)	-	(314,513)	(481,380)
Total other changes	\$ (128,804)	\$ -	\$ (128,804)	\$ 1,948,067
<b>CHANGE IN NET ASSETS</b>	\$ 5,517,678	\$ (3,877,562)	\$ 1,640,116	\$ 5,630,010
<b>NET ASSETS</b>				
Beginning	1,846,570	10,061,028	11,907,598	6,277,588
Ending	\$ 7,364,248	\$ 6,183,466	\$ 13,547,714	\$ 11,907,598

*See Notes to Financial Statements.*

**ADMINISTRATIVE OFFICES OF THE ROMAN CATHOLIC  
DIOCESE OF DES MOINES**

**STATEMENT OF FUNCTIONAL EXPENSES**

Year Ended June 30, 2018

With Comparative Totals for the Year Ended June 30, 2017

	<b>Program Services</b>				<b>Total</b>
	<b>Pastoral</b>	<b>Religious Development</b>	<b>Education</b>	<b>Clergy Care</b>	
Salaries and wages	\$ 568,220	\$ 211,238	\$ 416,670	\$ 12,191	\$ 1,208,319
Employee health, retirement benefits and personal allowances	97,880	57,807	67,567	682,552	905,806
Payroll taxes	34,806	3,301	29,469	933	68,509
Total salaries and related expenses	<u>\$ 700,906</u>	<u>\$ 272,346</u>	<u>\$ 513,706</u>	<u>\$ 695,676</u>	<u>\$ 2,182,634</u>
Contract services	312,809	14,773	110,528	-	438,110
Professional services	53	570	-	-	623
Supplies	94,020	37,783	43,827	2,469	178,099
Telephone	1,603	2,437	605	2,866	7,511
Postage and shipping	81,440	6,866	95	-	88,401
Occupancy, including rent expense \$77,342 (2018)	-	-	200	-	200
Printing, publications and subscriptions	114,857	27,324	2,627	454	145,262
Local transportation	58,226	78,219	18,879	84	155,408
Conferences, conventions, and meetings	11,842	1,930	3,654	-	17,426
National Catholic youth conference	-	-	295,482	-	295,482
Equipment rent and maintenance	675	504	465	1,277	2,921
Membership dues and liturgies	3,259	3,930	1,717	-	8,906
Program services and materials	29,648	36,540	40,876	7,976	115,040
Education and related assistance	79,440	687,166	300	-	766,906
Program support to Catholic Charities	-	-	-	-	-
Support to parishes	-	-	-	-	-
Contributions	-	-	6,000	-	6,000
Bad debt expense	-	-	2,500	-	2,500
Assessments and collections	46,183	-	-	-	46,183
Bank charges	-	-	-	-	-
Risk retention fund claims paid:					
Property, casualty and liability	-	-	-	-	-
Worker's compensation	-	-	-	-	-
Depreciation	-	-	-	-	-
Advertising	5,465	-	8,006	-	13,471
Miscellaneous	3,785	1,321	610	-	5,716
Total expenses	<u>\$ 1,544,211</u>	<u>\$ 1,171,709</u>	<u>\$ 1,050,077</u>	<u>\$ 710,802</u>	<u>\$ 4,476,799</u>

*See Notes to Financial Statements.*

**Supporting Services**

Diocesan Administration	Development and Stewardship	Group Insurance	Pastoral Center	Capital Campaign	Total	Total	
						2018	2017
\$ 724,308	\$ 49,284	\$ -	\$ 92,244	\$ 13,485	\$ 879,321	\$ 2,087,640	\$ 2,040,703
175,934	1,115	-	6,645	-	183,694	1,089,500	1,072,027
52,286	4,046	-	6,969	1,036	64,337	132,846	132,079
\$ 952,528	\$ 54,445	\$ -	\$ 105,858	\$ 14,521	\$ 1,127,352	\$ 3,309,986	\$ 3,244,809
428,031	1,914	-	15,623	420	445,988	884,098	855,761
105,334	-	5,413	-	-	110,747	111,370	108,258
45,463	12,285	-	15,401	-	73,149	251,248	227,949
24,350	-	-	660	-	25,010	32,521	29,373
26,257	12,161	-	-	12,811	51,229	139,630	136,980
77,142	-	-	175,344	-	252,486	252,686	328,433
36,438	20,646	-	-	2,525	59,609	204,871	171,166
30,258	784	-	6,692	-	37,734	193,142	180,718
4,073	672	-	-	-	4,745	22,171	84,644
-	-	-	-	-	-	295,482	-
126,772	-	-	4,977	36,669	168,418	171,339	155,390
2,019	2,862	-	-	-	4,881	13,787	27,435
28,023	521	-	415	-	28,959	143,999	110,746
23,312	-	-	49	-	23,361	790,267	713,748
372,263	-	-	-	-	372,263	372,263	257,236
5,000	-	-	-	-	5,000	5,000	5,000
-	-	-	-	32,596	32,596	38,596	46,844
-	-	-	-	89,449	89,449	91,949	219,830
138,832	-	-	-	-	138,832	185,015	389,553
23,506	-	-	2,284	-	25,790	25,790	19,889
-	-	1,021,010	-	-	1,021,010	1,021,010	1,003,260
-	-	453,849	-	-	453,849	453,849	517,653
-	-	-	282,499	-	282,499	282,499	187,022
1,415	-	-	-	-	1,415	14,886	12,918
1,609	-	2,006	8,878	-	12,493	18,209	36,971
<u>\$ 2,452,625</u>	<u>\$ 106,290</u>	<u>\$ 1,482,278</u>	<u>\$ 618,680</u>	<u>\$ 188,991</u>	<u>\$ 4,848,864</u>	<u>\$ 9,325,663</u>	<u>\$ 9,071,586</u>



**ADMINISTRATIVE OFFICES OF THE ROMAN CATHOLIC  
DIOCESE OF DES MOINES**

**STATEMENT OF CASH FLOWS**

Year Ended June 30, 2018

With Comparative Totals for the Year Ended June 30, 2017

	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 1,640,116	\$ 5,630,010
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	282,499	187,022
(Gain) loss on disposal of property and equipment	(500)	22,403
Bad debt expense	91,949	219,830
Change in value of split-interest agreements	23,607	40,597
Pension actuarial adjustment	314,513	481,380
Pension related changes other than net periodic pension costs	(164,506)	(2,434,746)
Unrealized loss (gain) on securities	59,549	(267,917)
Realized (gain) on sale of securities	(103,950)	(177,410)
(Increase) in accounts receivable	(72,980)	(49,861)
(Increase) in bequests receivable	(573,452)	(424,604)
Decrease in promises to give receivable, net of amounts received and restricted for long-term purposes	3,791,273	2,206,667
Decrease (increase) in prepaids and other assets	12,208	(26,498)
(Decrease) increase in accounts payable	(1,661,186)	1,684,576
(Decrease) in campaign liabilities	(2,813,775)	(3,683,412)
Increase (decrease) in other liabilities	20,352	(36,577)
(Decrease) increase in other accrued postretirement benefits	(21,203)	5,299
Net cash provided by operating activities	\$ 824,514	\$ 3,376,759
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from the sale of investments	\$ 1,558,317	\$ 5,458,913
Purchase of investments	(2,642,323)	(2,936,272)
Decrease (increase) in equity balance in insurance pool	31,039	(35,985)
Purchase of property and equipment	(5,212,099)	(3,161,971)
Proceeds from sale of property and equipment	5,900	-
Net cash (used in) investing activities	\$ (6,259,166)	\$ (675,315)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net change in due to and due from affiliates	\$ 205,101	\$ (184,043)
Proceeds from contributions restricted for long-term purposes	1,106,695	1,139,565
Proceeds from contributions for annuities	-	221,535
Payments for annuity obligations	(37,413)	(87,192)
(Decrease) increase in funds held for others	(14,248)	15,707
Net borrowings on line of credit	750,000	-
Net cash provided by financing activities	\$ 2,010,135	\$ 1,105,572
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>\$ (3,424,517)</b>	<b>\$ 3,807,016</b>
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning	4,170,896	363,880
Ending	\$ 746,379	\$ 4,170,896
<b>SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING ACTIVITIES</b>		
Transfer of annuity obligations and related investments	\$ 1,018,757	\$ -

*See Notes to Financial Statements.*

**ADMINISTRATIVE OFFICES OF THE ROMAN CATHOLIC  
DIOCESE OF DES MOINES**

**NOTES TO FINANCIAL STATEMENTS**

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

**Nature of activities:**

The Roman Catholic Diocese of Des Moines (the Diocese) was organized in 1911, and is a constituent of the Roman Catholic Church. The Diocese spans twenty-three counties in Central and Southwest Iowa, and its purpose is to promote the spiritual and educational interests and administer to the temporal affairs of the Roman Catholic Church in this area.

On June 30, 2016, the Roman Catholic Pastoral Center Foundation (the Foundation) was merged with the Diocese. The Foundation, formed in 1993 was organized to hold, own, operate, manage and control all the property, real and personal constituting the chancellery of the Diocese.

**Major programs:**

**Pastoral** - Provides marriage preparation, worship, Hispanic ministry, evangelization using traditional and new forms of media, and the monthly Catholic Mirror.

**Religious Development** - Provides education and formation for men enrolled in the seminary and for couples enrolled in the permanent diaconate. Priests are provided a sabbatical during their years of ministry as well as an active campus and youth ministry program.

**Education** - Provides oversight and assistance to the seventeen schools in the Diocese along with the Faith Formation programs at each parish.

**Clergy Care** - Provides for the health insurance needs of all active and retired priests in the Diocese.

**Significant accounting policies:**

**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. Accordingly, actual results could differ from those estimates.

**Revenue recognition:**

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor 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 reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

## NOTES TO FINANCIAL STATEMENTS

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

#### Significant accounting policies: (*Continued*)

##### Revenue recognition: (*Continued*)

Bequests are recognized as contributions when the donor passes away and the will has been declared valid. The amount initially recognized is generally based on the executor's estimated value of the amount to be received.

##### Donated assets:

Donated marketable securities and other noncash donations are recorded as contributions at their estimated fair values at the date of donation.

##### Cash and cash equivalents:

Cash consists of checking and savings accounts. The Diocese considers money market funds and short-term treasury funds with a maturity of three months or less at inception to be cash equivalents. Cash management funds held in brokerage accounts are classified as investments.

##### Investments:

Investments are recorded at fair value, with gains and losses resulting from market fluctuations recognized in the period in which the fluctuations occur. Investment return is reported as an increase or decrease in unrestricted net assets, unless the use of the assets is restricted by the donor.

##### Split interest gifts:

A split interest gift is one in which a donor makes an initial gift to a trust or directly to the Diocese, in which the Diocese 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 Diocese has received charitable gift annuities and has been party to a charitable remainder annuity trust agreement, for which the accounting policy is as follows:

A charitable gift annuity is an arrangement between a donor and the Diocese in which the donor contributes assets to the Diocese in exchange for a promise by the Diocese 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. 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 Diocese's use.

## NOTES TO FINANCIAL STATEMENTS

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

#### Significant accounting policies: (*Continued*)

##### Split interest gifts: (*Continued*)

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 under the caption “change in value of split-interest agreements.” The annuity rate used in computing annuity liabilities was 3.20% for the year ended June 30, 2018.

During the year ended June 30, 2018, the Diocese transferred all of its interests associated with split interest gifts (including annuity liabilities and related investment assets) to the Catholic Foundation of Southwest Iowa. The Diocese retains a receivable balance related to a split interest gift for which it is a beneficiary.

##### Property and equipment:

Property and equipment is stated at cost. Depreciation is computed using the straight-line method over the useful lives of the assets, which range from 2 to 40 years.

##### Funds held for others:

The Diocese accepts cash or other assets from donors and agrees to use the assets on behalf of or transfer the assets to a specified beneficiary. These amounts are recognized as funds held for others in the statement of financial position.

##### Net assets:

The statement of financial position reports amounts for three classes of net assets—permanently restricted net assets, temporarily restricted net assets, and unrestricted net assets based upon the existence or absence of donor-imposed restrictions.

Unrestricted – assets that are neither permanently restricted nor temporarily restricted by donor-imposed stipulations.

Temporarily restricted – assets resulting from contributions and other inflows of assets whose use by the Diocese is limited to donor-imposed stipulations that either expire by passage of time or can be fulfilled by actions of the Diocese meeting the purpose of the restriction.

Permanently restricted – assets resulting from contributions and other inflows of assets whose use by the Diocese is limited by donor-imposed stipulation that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Diocese meeting the purpose of the restriction. The Diocese currently has no such assets.

##### Significant estimates and change in accounting estimate:

The allowance for uncollectible promises to give (collectability of capital campaign pledges) was initially based primarily on Management’s communications with other Dioceses’ experiences with recent capital campaigns, weighted for the future anticipated years of collections. As the campaign progressed, the allowance was adjusted based on further analysis of specific collection experience, primarily relating to delinquent installments.

## NOTES TO FINANCIAL STATEMENTS

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

#### Significant accounting policies: (*Continued*)

##### Significant estimates and change in accounting estimate: (*Continued*)

Bequests receivable are generally based on the executor's estimated value of the amount to be received. Due to the nature of these types of contributions, including the processes used to by the executors to value them, it is reasonably possible the estimates may change significantly in the near term.

The liabilities for accrued postretirement benefits and pension plan obligation are based on a number of actuarial assumptions, including mortality tables, discount rates, rates of compensation increases, and expected returns on assets.

It is reasonably possible that any or all of these estimates will change significantly in the near term.

During the year ended June 30, 2018, there was a change in the accounting estimate related to a bequest that was reported as a receivable and included as support as of and for the year ended June 30, 2017. Based on additional information received from the executor and the amount ultimately received, the estimate was decreased by approximately \$260,500 during the year ended June 30, 2018.

##### Income taxes:

The Organization is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code.

The Diocese is not required to file an annual return for organizations exempt from income tax.

##### Concentrations of credit risk:

Accounts receivable consist of amounts due from individuals, parishes, and schools who use Diocesan services and advertise in the Catholic Mirror. Receivables are unsecured and repayment is based upon the economic conditions of Central and Southwest Iowa and the individual debtor.

The Diocese maintains demand deposit and savings accounts at local banks, which may exceed the FDIC insurance level from time to time.

##### Agency Activity:

As part of the Sharing God's Gifts capital campaign, the Diocese acts as a fiscal agent for other Catholic organizations and parishes by collecting and remitting pre-determined portions of the total campaign as further described in the related campaign literature.

In accordance with ASC Topic 958-605, the Diocese reports this activity as agency transactions. Amounts raised for the other organizations and parishes are reflected as a reduction to the gross campaign results within the statement of activities. Amounts due to other organizations and parishes relative to the outstanding pledges receivable (promises to give) are reflected in the statement of financial position as an agency liability labeled as "capital campaign – amounts raised for other organizations."

## NOTES TO FINANCIAL STATEMENTS

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

#### Significant accounting policies: (*Continued*)

##### Comparative amounts:

The amounts shown for 2017 in the accompanying financial statements are included to provide a basis for comparison with 2018 and are not intended to present all information necessary for a fair presentation of the 2017 financial statements in conformity with generally accepted accounting principles.

### Note 2. Temporarily Restricted Net Assets

A summary of temporarily restricted net assets at June 30, 2018 follows:

Gift annuities	\$ 30,543
Risk retention fund - property and casualty	1,019,049
CUP II property insurance pool	351,142
Workers Compensation insurance pool	50,874
Annual Diocesan appeal	3,196,793
Sharing God's Gifts capital campaign	222,717
Campus ministry and Priests' housing	1,010,821
Other funds	301,527
Total	<u>\$ 6,183,466</u>

Individuals have given, through a gift annuity program funds for which the Diocese is the beneficiary.

The risk retention fund was established in 1998. Each parish in the Diocese contributes to the fund and losses below the stop loss amounts are paid from the fund. Losses in excess of the stop loss provisions are paid by the insurance carrier. Current stop loss provision amounts are \$25,000 for property and casualty losses and \$50,000 for liability losses. Once retained losses exceed \$200,000, all insured property and casualty losses are paid by the insurance carrier.

The CUP II property insurance pool represents the accumulation of equity balance for the Diocese based on the results of the insurance pool activity. These funds are purpose restricted, to be spent on property and casualty insurance needs.

The Workers Compensation insurance pool represents incentive awards to parishes for projects that were underway at year-end.

Individuals donating to the annual Diocesan appeal in the spring of each year give the funds with the restriction that they be used in the next fiscal year.

Sharing God's Gifts restricted net assets represents funds pledged to be given in future years.

## NOTES TO FINANCIAL STATEMENTS

### Note 2. Temporarily Restricted Net Assets (*Continued*)

The campus ministry and Priests' housing funds include amounts raised through the Sharing God's Gifts capital campaign and are purpose restricted to be used for campus ministry and providing housing for retired priests.

All other temporarily restricted net assets represent donor-imposed purpose restrictions on the expenditure of the funds.

### Note 3. Investments, Investment Return, and Fair Value Measurements

The Fair Value Measurements and Disclosures Topic of the *FASB Accounting Standards Codification* establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, Level 2 inputs consist of quoted prices of similar assets or liabilities in active markets or quoted prices for identical or similar assets in inactive markets, and Level 3 inputs have the lowest priority.

#### *Level 1 Fair Value Measurements*

The fair values of cash management funds, equity securities, mutual funds, and fixed income securities are based on quoted market values of the share held by the Diocese at year-end.

#### *Level 2 Fair Value Measurements*

The fair value of 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 Fair Value Measurements*

The undivided interest in investment funds held by the Catholic Foundation of Southwest Iowa ("Catholic Foundation") is not actively traded and significant other observable inputs are not available. However, such assets are valued at the Catholic Foundation using Level 1 and Level 2 inputs.

The Diocese investments consist of the following as of June 30, 2018:

Cash management funds (Level 1)	\$ 134,231
Fixed income securities (Level 1)	3,876,087
Undivided interest in investment funds held by Catholic Foundation (Level 3)	2,770,283
	<u>\$ 6,780,601</u>

## NOTES TO FINANCIAL STATEMENTS

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

The following table provides further details at the Level 3 fair value measurements:

Balance, beginning of year	\$ 2,375,052
Purchases	301,282
Interest and dividends	58,349
Net realized and unrealized gains	85,610
Distributions	(36,669)
Expenses	(13,341)
Balance, end of year	<u>\$ 2,770,283</u>

The following schedule summarizes investment return (loss) for the year ended June 30, 2018:

Realized gains on investments	\$ 103,950
Unrealized losses on investments	(59,549)
Interest	126,173
Total investment return	<u>\$ 170,574</u>

### Note 4. Property and Equipment

A summary of property and equipment at June 30, 2018 is as follows:

Land	\$ 750,000
Building and improvements	10,471,534
Office furniture and equipment	542,363
Automobiles	152,569
Construction in process	1,067,329
Total property and equipment	<u>\$ 12,983,795</u>
Less accumulated depreciation	(2,327,243)
Property and equipment - net	<u>\$ 10,656,552</u>

At June 30, 2018 the Diocese had a signed contract or commitment for the remodeling of the Pastoral Center with a general contractor as follows:

	<u>Contract Total</u>
Contract amount	\$ 6,914,766
Amount paid	<u>(6,784,610)</u>
Net commitment, including retainage of \$39,353	<u>\$ 130,156</u>



## NOTES TO FINANCIAL STATEMENTS

### Note 5. Employee Benefit Plans

The Diocese maintains a 403(b) retirement savings plan for all employees. Contributions by the Diocese are equal to 50% of employee elective deferrals up to a maximum of 8% of eligible compensation for certain employees and an additional 2% for other employees, based on the date of employment. Total contributions for the year ended June 30, 2018 were \$105,072.

### Note 6. Accrued Postretirement Benefits

The Diocese provides a postretirement health care plan covering substantially all priests of the Diocese of Des Moines. The Diocese provides for the entire insurance premium for active and retired priests. The priests are required to pay any deductibles and non-covered costs. The plan is unfunded, and the liability was calculated using a discount rate of 5.0% and an expected rate of increase in insurance premiums of 2.0%. Total expenses for the year ended June 30, 2018 were approximately \$188,000. The estimated future payments for the next five years and the aggregate five years thereafter as follows:

<b>Year Ended June 30,</b>	
2019	<b>\$ 198,000</b>
2020	<b>202,000</b>
2021	<b>213,000</b>
2022	<b>217,000</b>
2023	<b>228,000</b>
2024-2028	<b>1,250,000</b>

### Note 7. Defined Benefit Pension Plan

The Diocese has a noncontributory defined benefit pension plan covering substantially all the priests of the Diocese. The plan provides priests with benefits upon retirement and for total and permanent disability incurred prior to the normal retirement date, which ranges from 65 to 68. The following provides further information about the plan as of and for the year ended June 30, 2018.

Change in benefit obligation:	
Benefit obligation at beginning of year	<b>\$ 13,627,840</b>
Service cost	<b>270,672</b>
Interest cost	<b>496,044</b>
Actuarial loss	<b>442,914</b>
Benefit payments	<b>(675,873)</b>
Projected benefit obligation at end of year	<b><u>\$ 14,161,597</u></b>

## NOTES TO FINANCIAL STATEMENTS

### Note 7. Defined Benefit Pension Plan (Continued)

Change in plan assets:	
Fair value of plan assets at beginning of year	\$ 11,739,313
Actual return on assets	952,370
Employer contributions	119,766
Other changes	(12,513)
Benefit payments	(675,873)
Fair value of plan assets at end of year	<u>\$ 12,123,063</u>

Excess of projected benefit obligation over plan assets recognized in the statement of financial position	<u>\$ 2,038,534</u>
--	---------------------

Weighted average assumptions used to determine benefit obligations:	
Discount rate	3.75%
Expected long-term rate of return on plan assets	6.75%
Components of net periodic benefit cost:	
Service cost	\$ 270,672
Interest cost on projected benefit obligation	496,044
Expected return on plan assets	(614,942)
Amortization of prior service cost	38,166
Amortization of net loss	124,573
Periodic benefit cost recognized	<u>\$ 314,513</u>

The periodic benefit cost is reported as follows in the accompanying statement of activities:

Pension actuarial adjustment	\$ 314,513
	<u>\$ 314,513</u>

The net periodic benefit cost related to the plan is projected as follows for the year ending June 30, 2018:

Service cost	\$ 278,090
Interest cost	549,064
Expected return on plan assets	(588,316)
Amortization of prior service cost	38,166
Amortization of net loss	132,496
Net periodic benefit cost	<u>\$ 409,500</u>

## NOTES TO FINANCIAL STATEMENTS

### Note 7. Defined Benefit Pension Plan (Continued)

Weighted average assumptions used to determine net periodic benefit cost for the year ending June 30, 2018:

Discount rate	<b>4.00%</b>
Expected long-term rate of return on plan assets	<b>6.50%</b>

Historical and future expected returns of multiple asset classes were analyzed to develop a risk-free real rate of return and risk premiums for each asset class. The overall rate for each asset class was developed by combining a long-term inflation component with the calculated risk-free real rate of return and the associated risk premium. A weighted average rate was then developed based on those overall rates and the target asset allocation of the plan.

The following table sets forth, by level within the fair value hierarchy (further described in Note 3), the plan's assets as of June 30, 2018:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents	\$ 170,164	\$ 170,164	\$ -	\$ -
Debt securities	778,451	-	778,451	-
Equity securities	1,377,468	1,377,468	-	-
Other securities	13,473	13,473	-	-
Pooled separate accounts:				
Domestic & international equity	6,161,594	-	6,161,594	-
Fixed income-bond and mortgage	3,368,075	-	3,368,075	-
Balanced-real estate	201,430	-	201,430	-
Undivided interest in investment funds held by Catholic Foundation	52,408	-	-	52,408
	<b>\$ 12,123,063</b>	<b>\$ 1,561,105</b>	<b>\$ 10,509,550</b>	<b>\$ 52,408</b>

The following table provides further details at the Level 3 fair value measurements:

Balance, beginning of year	\$ -
Contributions	51,671
Purchases	-
Interest and dividends	798
Net realized and unrealized gain	132
Expenses	(193)
Balance, end of year	<b>\$ 52,408</b>

## NOTES TO FINANCIAL STATEMENTS

### Note 7. Defined Benefit Pension Plan (Continued)

The plan's investment policy for plan assets is to manage the portfolio to preserve principal and liquidity while maximizing the return on the investment portfolio through the full investment of available funds. The portfolio is diversified by investing in multiple types of investment-grade securities.

The estimated plan contributions are expected to be \$20,000 to \$45,000 annually.

The estimated future benefit payments for the next five years and the aggregate five years thereafter as follows:

<b>Year Ended</b> <b>June 30,</b>	
2019	\$ 870,000
2020	890,000
2021	880,000
2022	880,000
2023	870,000
2024-2028	4,470,000

### Note 8. Split-Interest Agreements

The Diocese transferred the administration duties and related assets and liabilities to the Catholic Foundation of Southwest Iowa for the charitable gift annuity program which provides for the investment of contributions made by individuals from which the periodic contractual annuity payment is made to the annuitant.

The Diocese is the beneficiary of one charitable remainder annuity trust agreement. The 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 value is available for the Diocese's use.

The portion of the split-interest agreement attributable to the present value of the future benefits to be received by the Diocese is recorded in the accompanying statement of activities as temporarily restricted contribution revenue in the period the agreement is established. The estimated net present value of the amount to be received under the split-interest agreement at June 30, 2018 totaled \$30,544. On an annual basis, the Diocese revalues this receivable based upon actuarial assumptions.

## NOTES TO FINANCIAL STATEMENTS

### Note 9. Capital Campaigns

During the year ended June 30, 2013, the Diocese began a capital campaign entitled “Sharing God’s Gifts.” The goal of the campaign was to raise \$30,000,000, net of expenses, to be used for parish capital improvements, additional funding for the Catholic Foundation of Southwest Iowa, pastoral center building expenses, and support for other affiliated organizations.

During the year ended June 30, 2016, the Diocese began a limited capital campaign for the renovation of the Catholic Pastoral Center. The goal of the campaign was to raise \$5,500,000 to update the infrastructure of the 55 year-old building.

As of June 30, 2018, a summary of the campaigns’ progress to date follows:

	Sharing God's Gifts	Pastoral Center	Total
Pledges	\$ 42,528,660	\$ 3,500,251	\$ 46,028,911
Bequests designated for campaign	-	2,065,100	2,065,100
Payments received	(35,379,608)	(3,451,665)	(38,831,273)
Pledges written off	(2,339,036)	-	(2,339,036)
Net receivable before discount, allowance, and designations	\$ 4,810,016	\$ 2,113,686	\$ 6,923,702
Present value discount	-	-	-
Bequest designated for campaign, included in in bequests receivable	-	(900,000)	(900,000)
Allowance for uncollectible accounts	(3,122,792)	-	(3,122,792)
Net receivable	\$ 1,687,224	\$ 1,213,686	\$ 2,900,910

The Sharing God’s Gifts and Pastoral Center Campaigns are nearing the end of their campaign periods. Net present value materially approximates current value, therefore, no present value discount is calculated.

Relative to the Sharing God’s Gifts campaign, the current estimated allowance for uncollectible accounts is based primarily on payment history, with balances being assigned an allowance ranging from 20% to 100%.

## NOTES TO FINANCIAL STATEMENTS

### Note 9. Capital Campaigns (Continued)

The net receivables before discount, allowance, and designations is pledged to be paid in fiscal years ending June 30 are as follows:

Years	Sharing God's Gifts	Pastoral Center	Total
2019	\$ 3,948,473	\$ 1,301,149	\$ 5,249,622
2020	566,877	393,500	960,377
2021	294,666	384,037	678,703
2022	-	35,000	35,000
Total	\$ 4,810,016	\$ 2,113,686	\$ 6,923,702

### Note 10. Related Party Transactions

Operating advances between certain other nonprofit organizations formed by the Roman Catholic Church within the Diocese of Des Moines have resulted in the following amounts due to the Organizations at June 30, 2018:

	Due from Affiliates	Due to Affiliates
Catholic Charities	\$ -	\$ 175,204
Catholic Foundation of Southwest Iowa	3,142	-
Catholic Tuition Organization	5,387	-
Totals	\$ 8,529	\$ 175,204

The Diocese provides administrative, human resource, accounting and fund raising support to the Catholic Charities. The Diocese also provides office space and other related occupancy expenses to Catholic Charities at no charge.

Each year the Catholic Foundation of Southwest Iowa ("Catholic Foundation") provides grants to the Diocese to fund various programs. For the year ended June 30, 2018, total grants paid to the Diocese were \$1,342,429. During the year ended June 30, 2018, the Diocese provided \$262,263 in funding to Catholic Charities for various programs. During the year ended June 30, 2018, the Diocese was reimbursed \$104,703 for administrative, human resource, accounting and fund raising support and \$10,700 for parking costs provided to Catholic Charities. During the year ended June 30, 2018, the Diocese was reimbursed \$10,742 for office space, administrative and accounting support and parking provided to the Catholic Tuition Organization. During the year ended June 30, 2018, the Diocese was reimbursed \$6,425 for office space, administrative and accounting support and parking provided to the Catholic Foundation.

## NOTES TO FINANCIAL STATEMENTS

### **Note 11. Line of Credit**

The Diocese maintains a \$4,000,000 line of credit with Bankers Trust. The line of credit bears interest at 3.75% and expires January 28, 2019. The balance on the line of credit at June 30, 2018 was \$750,000. The line is secured by substantially all assets of the Diocese.

### **Note 12. Commitments**

The Diocese has guaranteed certain debt obligations of two parishes. One is to aid in the construction of an elementary school and the second is to aid in the construction of a new church. As of June 30, 2018, approximately \$5,459,000 and \$4,425,000 were outstanding, respectively. Default by the parishes on the obligations would require performance by the Diocese. The guarantees are to remain in force until the payment in full of the obligations.

### **Note 13. Contingencies**

The Diocese has been named as a co-defendant in an employment related lawsuit and has also been named in a complaint filed with the Iowa Civil Rights Commission. The Diocese intends to contest both these matters vigorously. Both proceedings are in very early stages and the potential loss, if any, cannot be reasonably estimated.

### **Note 14. Subsequent Events**

The Diocese has evaluated subsequent events through November 15, 2018, the date the financial statements were available to be issued.