

Diocese of Davenport

Financial Report
June 30, 2011

Contents

Independent Auditor's Report	1
<hr/>	
Financial Statement	
Balance sheets	2 – 3
Statements of activities	4 – 5
Statements of cash flows	6
Notes to financial statements	7 – 18



Independent Auditor's Report

To the Board of Directors
Diocese of Davenport
Davenport, Iowa

We have audited the accompanying balance sheets of the Diocese of Davenport as of June 30, 2011 and 2010, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Diocese's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Diocese of Davenport as of June 30, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

McGladrey & Pullen, LLP

Davenport, Iowa
October 28, 2011

Diocese of Davenport

Balance Sheets June 30, 2011 and 2010

Assets	2011		
	Operating	Insurance Fund	Total
Cash and cash equivalents	\$ 117,547	\$ 371,592	\$ 489,139
Certificates of deposit	-	-	-
Receivables:			
Due from parishes, Annual Diocesan Appeal	867,951	-	867,951
Due from the Catholic Foundation for the Diocese of Davenport (Note 11)	58,696	-	58,696
Marriage tribunal, less allowance for doubtful amounts 2011 \$5,500; 2010 \$5,900	1,750	-	1,750
Priests and former seminarians, less allowance for doubtful amounts 2011 \$21,740; 2010 \$22,446	3,172	-	3,172
Insurance recovery	-	106,415	106,415
Prepays	58,157	180	58,337
Other receivable	33,353	972	34,325
Investments:			
Christian Brothers (Notes 2 and 3)	1,251,873	-	1,251,873
Omer Woltering Trust (Notes 2 and 3)	498,927	-	498,927
Vanguard (Notes 2 and 3)	270,843	-	270,843
Quad City Bank and Trust account (Notes 2 and 3)	291,111	-	291,111
	<u>2,312,754</u>	<u>-</u>	<u>2,312,754</u>
Property and equipment, net of accumulated depreciation (Note 4)	3,725,305	-	3,725,305
Total assets	\$ 7,178,685	\$ 479,159	\$ 7,657,844
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued expenses	\$ 260,847	\$ -	\$ 260,847
Accounts payable, special collections	129,506	-	129,506
Accounts payable, insurance claims	-	136,086	136,086
Total current liabilities	<u>390,353</u>	<u>136,086</u>	<u>526,439</u>
Long-term debt (Note 5)	-	-	-
Total liabilities	<u>390,353</u>	<u>136,086</u>	<u>526,439</u>
Commitment and contingency (Note 9)			
Net assets:			
Unrestricted	5,835,872	343,073	6,178,945
Temporarily restricted (Note 6)	679,085	-	679,085
Permanently restricted (Note 7)	273,375	-	273,375
Total net assets	<u>6,788,332</u>	<u>343,073</u>	<u>7,131,405</u>
Total liabilities and net assets	\$ 7,178,685	\$ 479,159	\$ 7,657,844

See Notes to Financial Statements.

2010		
Operating	Insurance Fund	Total
\$ 316,230	\$ 321,963	\$ 638,193
-	53,485	53,485
880,266	-	880,266
19,102	-	19,102
1,950	-	1,950
4,416	-	4,416
-	1,692	1,692
-	-	-
44,243	18,683	62,926
-	-	-
429,162	-	429,162
207,282	-	207,282
284,185	-	284,185
920,629	-	920,629
2,319,743	-	2,319,743
\$ 4,506,579	\$ 395,823	\$ 4,902,402
\$ 293,055	\$ -	\$ 293,055
45,580	-	45,580
-	21,192	21,192
338,635	21,192	359,827
955,000	-	955,000
1,293,635	21,192	1,314,827
2,259,939	374,631	2,634,570
679,630	-	679,630
273,375	-	273,375
3,212,944	374,631	3,587,575
\$ 4,506,579	\$ 395,823	\$ 4,902,402

Diocese of Davenport

Statements of Activities

Years Ended June 30, 2011 and 2010

	2011			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Support and revenue:				
Annual Diocesan Appeal	\$ 2,915,014	\$ -	\$ -	\$ 2,915,014
Support revenue for special collections	-	54,591	-	54,591
Contributions and bequests	1,787,648	-	-	1,787,648
Insurance revenue (expense), net of expenses (Note 9)	(31,558)	-	-	(31,558)
Investment income (losses):				
Interest and dividends, net of fees	7,500	5,402	-	12,902
Net realized gains (losses) on sale of investments	-	22,229	-	22,229
Net unrealized gains on investments	58,715	86,255	-	144,970
Other income, including primarily education receipts	389,680	-	-	389,680
Insurance recoveries	2,000,000	-	-	2,000,000
Net assets released from restrictions, satisfaction of program restrictions (Note 8)	169,022	(169,022)	-	-
Total support and revenue	7,296,021	(545)	-	7,295,476
Expenses:				
Chancery office	328,853	-	-	328,853
Marriage tribunal office	135,348	-	-	135,348
Pastoral services office	732,377	-	-	732,377
Vocations and clergy support	54,829	-	-	54,829
Support of special collections	39,130	-	-	39,130
Assistance of clergy (health benefits)	152,133	-	-	152,133
University hospital chaplains	97,080	-	-	97,080
National, regional, local councils and organizations	100,605	-	-	100,605
Deacon and seminarian education	379,316	-	-	379,316
Stewardship and development office	129,878	-	-	129,878
Communications office	266,485	-	-	266,485
School education	179,962	-	-	179,962
Administration and finance office	485,405	-	-	485,405
St. Vincent's Center	452,969	-	-	452,969
Bankruptcy related expenses	77,987	-	-	77,987
Depreciation	139,289	-	-	139,289
Total expenses	3,751,646	-	-	3,751,646
Change in net assets	3,544,375	(545)	-	3,543,830
Net assets at beginning of year	2,634,570	679,630	273,375	3,587,575
Net assets at end of year	\$ 6,178,945	\$ 679,085	\$ 273,375	\$ 7,131,405

See Notes to Financial Statements.

2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$	2,898,943	\$ -	\$ -	\$ 2,898,943
	-	76,729	-	76,729
	1,514,612	77,303	-	1,591,915
	69,785	-	-	69,785
	10,659	5,012	-	15,671
	(59,116)	(30,151)	-	(89,267)
	93,157	83,932	-	177,089
	634,822	-	-	634,822
	628	-	-	628
	526,573	(526,573)	-	-
	5,690,063	(313,748)	-	5,376,315
	369,933	-	-	369,933
	133,118	-	-	133,118
	1,062,896	-	-	1,062,896
	61,626	-	-	61,626
	119,908	-	-	119,908
	41,231	-	-	41,231
	100,409	-	-	100,409
	102,591	-	-	102,591
	419,338	-	-	419,338
	141,464	-	-	141,464
	251,302	-	-	251,302
	-	-	-	-
	474,500	-	-	474,500
	412,212	-	-	412,212
	74,145	-	-	74,145
	64,258	-	-	64,258
	3,828,931	-	-	3,828,931
	1,861,132	(313,748)	-	1,547,384
	773,438	993,378	273,375	2,040,191
\$	2,634,570	\$ 679,630	\$ 273,375	\$ 3,587,575

Diocese of Davenport

Statements of Cash Flows

Years Ended June 30, 2011 and 2010

	2011	2010
Cash flows from operating activities:		
Change in net assets	\$ 3,543,830	\$ 1,547,384
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Contribution for chancery building	(1,600,000)	(1,400,000)
Depreciation	139,289	64,258
Loss on disposal of property and equipment	1,420	356
Net realized (gains) losses on sale of investments	(22,229)	89,267
Net unrealized (gains) on investments	(144,970)	(177,089)
Changes in assets and liabilities:		
(Increase) decrease in receivables	(62,363)	24,945
(Increase) in prepaid assets	(58,337)	-
Increase (decrease) in accounts payable and accrued expenses	138,022	(156,062)
Net cash provided by (used in) operating activities	1,934,662	(6,941)
Cash flows from investing activities:		
(Increase) decrease in due from Foundation	(39,594)	297,175
Purchase of certificates of deposit	-	(4,560)
Redemption of certificates of deposit	53,485	319,337
Purchase of investments	(1,384,058)	(349,651)
Proceeds from sale of investments	159,132	605,399
Proceeds from sale of equipment	300	3,915
Purchase of property and equipment	(1,517,981)	(1,997,792)
Net cash (used in) investing activities	(2,728,716)	(1,126,177)
Cash flows from financing activities:		
Payments on long-term debt	(955,000)	(1,240,000)
Proceeds from long-term debt	-	1,225,000
Contribution for chancery building	1,600,000	1,400,000
Net cash provided by financing activities	645,000	1,385,000
Net increase (decrease) in cash and cash equivalents	(149,054)	251,882
Cash and cash equivalents:		
Beginning	638,193	386,311
Ending	\$ 489,139	\$ 638,193
Supplemental disclosure of cash flows information, cash paid for interest	\$ 31,524	\$ 55,566
Noncash investing and financing activities, accounts payable incurred for construction in progress	\$ 28,590	\$ 107,875

See Notes to Financial Statements.

Diocese of Davenport

Notes to Financial Statements

Note 1. Nature of Organization and Significant Accounting Policies

Nature of organization:

The Diocese of Davenport is an Iowa nonprofit corporation. This financial report includes all known funds and all known major assets and liabilities of the Diocese of Davenport.

The Diocese of Davenport is affiliated with numerous other Iowa nonprofit corporations because the Bishop of the Diocese of Davenport, as Ordinary of the Catholic Church activities in southeast Iowa, serves as president of this and the following affiliated organizations:

- Approximately 90 parish and school corporations
- The Catholic Messenger
- St. Ambrose University Board of Trustees
- St. Vincent's Home
- Newman Catholic Student Center of Iowa City, Iowa
- Catholic Foundation for the Diocese of Davenport

None of the assets or liabilities of these affiliated corporations, or any other related organizations, are included in this financial report.

Significant accounting policies:

The financial statements of the Diocese of Davenport have been prepared in accordance with *Accounting Principles and Reporting Practices for Churches and Church-Related Organizations*, adopted by the United States Conference of Catholic Bishops, which is consistent with accounting principles generally accepted in the United States of America in all material respects.

Accounting estimates: The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Net assets: The Diocese 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. The three classes are based on the presence or absence of donor-imposed restrictions. Temporarily restricted net assets include net assets restricted by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained in perpetuity.

Cash and cash equivalents: For purposes of reporting cash flows, the Diocese includes all cash accounts, which are not subject to withdrawal or donor restrictions or penalties, and money market funds with an original maturity of three months or less excluding agency account cash and cash of the Omer Woltering Trust, to be cash and cash equivalents. Cash and cash equivalents are carried at cost.

Receivables: Receivables are carried at original amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a monthly basis. Management determines the allowance for doubtful accounts by identifying troubled accounts and considers the financial condition and history. Receivables are written off when deemed uncollectible. Recoveries of previously written off receivables are recorded when received. Bad debts expense, net was approximately \$4,000 and \$14,000 for the years ended June 30, 2011 and 2010, respectively.

Diocese of Davenport

Notes to Financial Statements

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

Investments: Investments in marketable equity and debt securities are carried at fair value based on quoted market prices. Cash and cash equivalents included with investments are carried at cost. For alternative investments where the quoted market value of investments may not be available, fair values are based on information provided by the fund manager, which includes quoted fair values when available and estimates of fair value of investments that are not readily ascertainable. Gains and losses on sale of investments are determined by the specific-identification method.

Income (losses) and net gains (losses) on investments are reported as follows:

- As increases (decreases) in temporarily restricted net assets if the terms of the gift impose restrictions on the use of the income and if the gift is part of the endowment fund, until appropriated by the Board of Directors or the co-trustees of the trust or, in the case of losses, until the accumulated income and gains are reduced to zero; and
- As increases (decrease) in unrestricted net assets in all other cases.

Property and equipment: Property and equipment are stated at cost if purchased or at estimated fair value at the date of donation if received as a gift. Depreciation is computed using the straight-line method over the estimated useful lives of the various classifications as follows:

	<u>Years</u>
Buildings and land and building improvements	10 - 40
Equipment, automobiles and furnishings	5 - 10

Annual Diocesan Appeal: The Diocese of Davenport derives a substantial portion of its support and revenue from the Annual Diocesan Appeal which is an annual parish-level diocesan fund drive. Amounts due from parishes pursuant to this annual drive are recognized as support and revenue when the parishes are assessed.

Contributions: The Diocese reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor 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 statements of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying financial statements.

The Diocese reports gifts of land, buildings and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Diocese reports expirations of donor restrictions when the donated assets are placed in service or expenditures are incurred for the long lived assets.

Education receipts: Education receipts are recognized as revenue when the services are provided.

Insurance recoveries: During the year ended June 30, 2011, the Diocese received \$2,000,000 of insurance proceeds related to the bankruptcy claim that was settled in November 2007. No recovery was received during the year ended June 30, 2010.

Diocese of Davenport

Notes to Financial Statements

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

Bankruptcy related expenses: During the years ended June 30, 2011 and 2010, the Diocese incurred expenses of \$77,987 and \$74,145, respectively, related to the ongoing responsibilities of the Diocese associated with the bankruptcy claim that was settled in November 2007.

Income tax: The Internal Revenue Service has recognized the Diocese as exempt from income taxes under Internal Revenue Code Section 501(c)(3).

Pending pronouncement: In May 2011, the FASB issued ASU 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*. This ASU was issued to clarify FASB's intent on application of certain aspects of existing fair value measurement requirements and to change certain requirements for measuring fair value and for disclosing information about fair value measurements. These changes include guidance on measuring the fair value of financial instruments that are managed within a portfolio, application of premiums and discounts, and additional disclosures about fair value measurements. FASB has concluded that this ASU will achieve the objective of developing common fair value measurement and disclosure requirements in U.S. GAAP and IFRSs. This ASU is effective for the Diocese for annual reporting periods beginning after December 15, 2011. Management is in the process of evaluating the potential impact this standard will have on its financial statements.

Subsequent events: The Diocese has evaluated subsequent events through October 28, 2011, which is the date on which the financial statements were available to be issued.

Note 2. Investments, Endowment Fund and Net Asset Classifications

Omer Woltering Trust:

The Omer Woltering Trust was created in 1991 by a \$250,000 bequest from the estate of Omer Woltering. The trust is required to be maintained for 25 years. Therefore the corpus and unappropriated earnings are considered endowment assets. Annually the income can be used for specific purposes. The corpus can be distributed, not to exceed \$37,500 in any calendar year, with unanimous vote from the co-trustees. After the 25 years, the trust shall terminate and the corpus of the trust together with any remaining accumulated income shall be distributed in its entirety to the Diocese. The Diocese is the beneficiary of the trust.

During the years ended June 30, 2011 and 2010, the co-trustees approved appropriations from accumulated earnings of \$37,500, which has been paid to the Diocese subsequent to year-end and leaves \$461,427 and \$391,662 of the trust classified as temporarily restricted net assets, respectively.

Vanguard Fund:

The Vanguard Fund was created in 2005 by a corporate stock bequest from the estate of Marguerite Ritzinger. Half of the bequest was restricted for scholarships for students to attend colleges or universities and the remaining half was restricted to be used by the Seminary Education Fund for the education and training of priests. The corporate stock was liquidated and invested in a mutual fund.

Quad City Bank and Trust Account:

This investment consists primarily of funds related to the permanently restricted net assets.

Diocese of Davenport

Notes to Financial Statements

Note 2. Investments, Endowment Fund and Net Asset Classifications (Continued)

Christian Brothers Alternative Investments:

Alternative investments are investments not listed on national exchanges or over-the-counter markets, or for which quoted market prices are not available from sources such as financial publications. Alternative investments may be structured as limited partnerships, limited liability corporations, trusts or corporations. The alternative investments include Religious Communities Trust (RCT) short bond and intermediate diversified bond funds and Catholic United Investment Trust (CUIT) growth, value equity, international equity, and small capitalization equity index funds. See Note 3 for additional information on these investments.

The fair values of the investments as of June 30, 2011 and 2010 are as follows:

	2011	2010
Cash and cash equivalents	\$ 10,125	\$ 3,725
Equity mutual funds	727,907	620,062
Fixed income mutual funds	322,849	296,842
Alternative investments	1,251,873	-
	<u>\$ 2,312,754</u>	<u>\$ 920,629</u>

The investments of the Diocese are exposed to various risks such as interest rate, market and credit. Due to the level of risk associated with such investments and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term could materially affect investment balances and the amounts reported in the financial statements.

The Diocese's endowment funds consist of various donor restricted endowment funds. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Diocese has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) adopted by the Iowa legislature 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 Diocese classifies as permanently or temporarily restricted net assets (a) the original value of gifts donated to the permanent or temporary endowment and (b) the original value of subsequent gifts to the permanent endowment. The remaining portion of the temporary donor-restricted endowment fund is also classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Diocese in a manner consistent with the standard of prudence prescribed by the State of Iowa in its enacted version of UPMIFA. In accordance with UPMIFA, the Diocese considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the endowment funds; (2) the purposes of the Diocese and the donor-restricted endowment fund; (3) general economic conditions; (4) the possible effect of inflation and deflation; (5) the expected total return from income and the appreciation of investments; (6) other resources of the Diocese; and (7) the investment policies of the Diocese.

Diocese of Davenport

Notes to Financial Statements

Note 2. Investments, Endowment Fund and Net Asset Classifications (Continued)

The Diocese has adopted investment and spending policies for its endowment funds. The objective of these policies is to provide the Diocese with a predictable funding stream for its programs while protecting the purchasing power of the endowment fund. The Diocese, through its investment policy, has established a target (inflation-adjusted) annualized rate of return over the long-term of at least 6 percent; the total return during any single measurement period may deviate from the long-term return objective. To satisfy its long-term rate-of-return objective, the Diocese currently invests in publicly traded mutual funds and money market funds. The purpose is to moderate the overall investment risk of the endowment funds.

All of the income of the permanently and temporarily restricted endowment investments may be appropriated for expenditure on an annual basis. The income on the temporarily restricted endowment investments can be used on an annual basis to support primarily clergy education. The corpus of the trust may be distributed to the Diocese by unanimous vote of the individual co-trustees provided that the distribution does not exceed \$37,500 in any calendar year. During each of the years ended June 30, 2011 and 2010, the Diocese spent \$37,500, of the accumulated income of the temporarily restricted investments. The Diocese spent all of the income of approximately \$6,600 and \$10,600 of the permanently restricted investment for the years ended June 30, 2011 and 2010, respectively.

The changes in endowment net assets for the years ended June 30, 2011 and 2010 were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
2011				
Endowment net assets, beginning of year	\$ -	\$ 391,662	\$ 273,375	\$ 665,037
Investment return:				
Interest and dividends, net of fees	-	5,402	-	5,402
Net appreciation (realized and unrealized)	-	108,484	-	108,484
Total investment return	-	113,886	-	113,886
Appropriation of endowment funds for expenditure	-	(44,121)	-	(44,121)
Endowment net assets, end of year	\$ -	\$ 461,427	\$ 273,375	\$ 734,802
2010				
Endowment net assets, beginning of year	\$ -	\$ 380,939	\$ 273,375	\$ 654,314
Investment return:				
Interest and dividends, net of fees	-	5,012	-	5,012
Net appreciation (realized and unrealized)	-	53,781	-	53,781
Total investment return	-	58,793	-	58,793
Appropriation of endowment funds for expenditure	-	(48,070)	-	(48,070)
Endowment net assets, end of year	\$ -	\$ 391,662	\$ 273,375	\$ 665,037

From time to time, the fair value of endowment funds may fall below the level that the donor requires the Diocese to retain as a fund of perpetual or temporary duration, also known as underwater endowments. There were no underwater endowment funds as of June 30, 2011 or 2010.

Diocese of Davenport

Notes to Financial Statements

Note 3. Fair Value Measurements

The Fair Value Measurements and Disclosure Topic of the FASB Accounting Standards Codification defines fair value, establishes a framework for measuring fair value and requires disclosures about fair value measurements. The fair value hierarchy set forth in the topic is as follows:

- Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the Diocese has the ability to access as of the measurement date.
- Level 2: Significant other observable inputs other than level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data. Investments measured using the practical expedient that do not have significant redemption restrictions, lock-up periods, gates or other characteristics that would cause report and liquidation date net asset value (NAV) to be significantly different, if redemption were requested at the report date.
- Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

A description of the valuation methodologies used for assets measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below.

Investments: Where quoted prices are available in an active market, securities are classified within level 1 of the valuation hierarchy. Level 1 securities primarily include exchange traded mutual funds. The Diocese's level 2 securities are funds where the value is based on net asset value provided by the investment manager.

There were no changes in valuation methodologies during the year ended June 30, 2011.

Diocese of Davenport

Notes to Financial Statements

Note 3. Fair Value Measurements (Continued)

The following table summarizes assets measured at fair value on a recurring basis as of June 30, 2011 and 2010 segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

	Investments at Fair Value			
	Level 1	Level 2	Level 3	Total
	As of June 30, 2011			
Assets:				
Mutual funds:				
Domestic:				
Small/mid-cap equities	\$ 114,821	\$ 75,667	\$ -	\$ 190,488
Large-cap equities	520,542	-	-	520,542
Other	-	151,428	-	151,428
International	92,544	75,236	-	167,780
Bond funds:				
Short-term	283,785	799,968	-	1,083,753
Other	39,064	149,574	-	188,638
	<u>\$ 1,050,756</u>	<u>\$ 1,251,873</u>	<u>\$ -</u>	<u>2,302,629</u>
Cash and cash equivalents				10,125
				<u>\$ 2,312,754</u>

	Investments at Fair Value			
	Level 1	Level 2	Level 3	Total
	As of June 30, 2010			
Assets:				
Mutual funds:				
Domestic:				
Small/mid-cap equities	\$ 84,985	\$ -	\$ -	\$ 84,985
Large-cap equities	459,665	-	-	459,665
International	75,412	-	-	75,412
Bond funds:				
Short-term	283,518	-	-	283,518
Other	13,324	-	-	13,324
	<u>\$ 916,904</u>	<u>\$ -</u>	<u>\$ -</u>	<u>916,904</u>
Cash and cash equivalents				3,725
				<u>\$ 920,629</u>

There were no transfers between levels 1 and 2 of the fair value hierarchy during the year ended June 30, 2011.

Diocese of Davenport

Notes to Financial Statements

Note 3. Fair Value Measurements (Continued)

The following table sets forth additional disclosure of the Diocese's investments whose fair value is estimated using net asset value (NAV) per share (or its equivalent) as of June 30, 2011:

Investment	Fair Value	Unfunded Commitment	Redemption Frequency	Redemption Notice Period
Investments:				
RCT Short Bond Fund (A)	\$ 799,968	\$ -	Daily	Trade Date minus 1 Day
RCT Intermediate Diversified Bond Fund (B)	149,574	-	Daily	Trade Date minus 1 Day
CUIT Growth Fund (C)	75,750	-	Daily	Trade Date minus 1 Day
CUIT Value Equity Fund (C)	75,678	-	Daily	Trade Date minus 1 Day
CUIT International Equity Fund (D)	75,236	-	Daily	Trade Date minus 1 Day
CUIT Small Capitalization Equity Index Fund (C)	75,667	-	Daily	Trade Date minus 1 Day
	<u>\$ 1,251,873</u>	<u>\$ -</u>		

- (A) This fund invests primarily in securities issued by the U.S. Government, its agencies or instrumentalities, investment grade corporate debt obligations, mortgage-backed securities and other asset backed securities. This fund can be redeemed at net asset value per share based on the fair value of the Fund's securities and other assets, less liabilities at the close of business on any day the NYSE is open. The fair value of this investment has been estimated using the net asset value per share of the investments provided by the fund manager.
- (B) This fund invests primarily in U.S. Government securities, securities issued by U.S. Government agencies, fixed income obligations of corporations, asset-back, mortgage-backed and municipal securities. This fund can be redeemed at net asset value per share based on the fair value of the Fund's securities and other assets, less liabilities at the close of business on any day the NYSE is open. The fair value of this investment has been estimated using the net asset value per share of the investments provided by the fund manager.
- (C) These funds invest in marketable equity securities that are all exchange traded in the United States of America (USA) and that are categorized as the title of each respective fund suggests (growth, value, small cap). These funds can be redeemed at net asset value per share based on the fair value of the fund's securities and other assets, less liabilities at the close of business on any day the NYSE is open. The fair value of this investment has been estimated using the net asset value per share of the investments provided by the fund manager.
- (D) This fund invests primarily in international equity securities that are all exchange traded in the United States of America (USA) primarily in countries in the Morgan Stanley Capital International Europe, Australia, the Far East Index (EAFE) and Canada. This fund can be redeemed at net asset value per share based on the fair value of the fund's securities and other assets, less liabilities at the close of business on any day the NYSE is open. The fair value of this investment has been estimated using the net asset value per share of the investments provided by the fund manager.

Diocese of Davenport

Notes to Financial Statements

Note 4. Property and Equipment

A summary of property and equipment as of June 30, 2011 and 2010 is as follows:

	2011	2010
Land	\$ 351,800	\$ 351,800
Land improvements	355,990	310,884
Automobiles	114,549	120,422
Buildings and improvements	2,859,440	1,202,913
Equipment and furniture	558,421	452,636
Construction in progress	28,590	351,021
	<u>4,268,790</u>	<u>2,789,676</u>
Less accumulated depreciation	543,485	469,933
	<u>\$ 3,725,305</u>	<u>\$ 2,319,743</u>

Note 5. Long-Term Debt

The Diocese borrowed a total of \$1,970,000 from St. Vincent's Home and The Catholic Messenger on June 18, 2008 with \$1,128,810 being received from St. Vincent's Home and \$841,190 from The Catholic Messenger. The agreements required quarterly payments of interest only at 4 percent. The notes were unsecured and were paid in full during the year ended June 30, 2011.

Note 6. Temporarily Restricted Net Assets

Temporarily restricted net assets as of June 30, 2011 and 2010 are available for the following purposes:

	2011	2010
College scholarships	\$ 141,527	\$ 162,527
Catholic charity	3,461	66,573
Special collections, Campaign for Human Development	11,353	4,755
Special collections, Volunteer Program in Latin America	32,403	30,721
Special collections, Works of Charity	28,914	23,392
Omer Woltering Trust, Clergy Education	461,427	391,662
	<u>\$ 679,085</u>	<u>\$ 679,630</u>

Note 7. Permanently Restricted Net Assets

Permanently restricted net assets are restricted to investment in perpetuity, the income from which is expendable to support seminary education.

Diocese of Davenport

Notes to Financial Statements

Note 8. Net Assets Released from Restrictions

Net assets were released from donor restrictions during the years ended June 30, 2011 and 2010 by incurring expenses satisfying the restricted purposes.

	2011	2010
Purpose restrictions accomplished:		
Special collections, Campaign for Human Development	\$ 1,660	\$ 8,335
Special collections, Volunteer Program in Latin America	15,325	11,406
Special collections, Works of Charity	23,805	21,670
Special collections, Flood Relief	-	86,832
Catholic charity	63,111	254,957
Seminary education	6,621	87,873
Clergy education	37,500	37,500
College scholarships	21,000	18,000
Total assets released from restrictions	\$ 169,022	\$ 526,573

Note 9. Insurance Funds

The Diocese established an insurance fund to provide uniform property and casualty, worker's compensation and blanket liability coverage under one comprehensive plan for all parishes and affiliates of the Diocese of Davenport. The fund collects fees from subscribers and remits premiums to the insurance carriers during the policy year. The various insurance policies have deductibles ranging from none to \$25,000. Any potential deductibles incurred are the responsibility of the Diocese and would be paid from accumulated cash.

The Diocese also established a medical insurance fund to provide medical and dental insurance for parishes and affiliates of the Diocese of Davenport. The fund collects fees from subscribers and remits premiums to the insurance carrier during the policy year.

Diocese of Davenport

Notes to Financial Statements

Note 9. Insurance Funds (Continued)

Activity in these funds for the years ended June 30, 2011 and 2010 was as follows:

	Property Insurance Fund	Medical Insurance Fund	Total
2011			
Fees collected	\$ 863,503	\$ 513,744	\$ 1,377,247
Interest earned	-	834	834
Premiums paid	(831,553)	(485,554)	(1,317,107)
Recoveries	218,512	16	218,528
Claims expense	(280,688)	(25,741)	(306,429)
Other income (expense)	(40)	(4,591)	(4,631)
	<u>\$ (30,266)</u>	<u>\$ (1,292)</u>	<u>\$ (31,558)</u>
2010			
Fees collected	\$ 892,930	\$ 483,275	\$ 1,376,205
Interest earned	-	891	891
Premiums paid	(813,366)	(452,779)	(1,266,145)
Recoveries	7,854	-	7,854
Claims expense	(16,164)	(28,552)	(44,716)
Other income (expense)	-	(4,304)	(4,304)
	<u>\$ 71,254</u>	<u>\$ (1,469)</u>	<u>\$ 69,785</u>

Note 10. Retirement Plan

The Diocese has adopted a 401(k) retirement plan which covers substantially all of its employees. The Diocese will match 100 percent of employees' contributions up to 2 percent of employee compensation. The Diocese also has the option to make discretionary contributions to the plan. The Diocese's matching and discretionary contributions were approximately \$86,000 and \$81,000 for the years ended June 30, 2011 and 2010, respectively.

Note 11. Related Party Transaction and Commitments

Professional services contract: The Diocese had a professional services contract with a company to provide campaign fundraising services for the benefit of the Catholic Foundation for the Diocese of Davenport (Foundation) for the time period of December 2008 to July 2010. The Foundation agreed to assume the liability under the contract. There are no remaining fees due under this contract for professional services.

Related party: The Diocese has a receivable from the Foundation for \$58,696 and \$19,102 as of June 30, 2011 and 2010, respectively. The Diocese received contributions from the Foundation totaling \$1,658,696 and \$1,400,000 for the years ended June 30, 2011 and 2010, respectively.

Diocese of Davenport

Notes to Financial Statements

Note 12. Functional Expenses

The cost of providing various programs and other activities has been summarized on a functional basis. Directly identifiable expenses are charged to program services. Expenses related to more than one function are charged to program services on the basis of time and expense estimates. Management and general expenses include those expenses that are not directly identifiable with any other specific function, but provide for the overall support and direction of the Diocese. Fundraising expenses include those expenses that are directly identifiable to the solicitation of the Annual Diocesan Appeal and contributions. Expenses of the Diocese related to these services for the years ended June 30, 2011 and 2010 are as follows:

	2011	2010
Program services:		
Serving others (a)	\$ 1,607,842	\$ 1,592,003
Teaching and training (b)	1,046,935	1,212,095
Celebrating and sharing (c)	350,238	323,958
	<u>3,005,015</u>	<u>3,128,056</u>
Management and general expenses	643,425	590,404
Fundraising expenses	103,206	110,471
	<u>\$ 3,751,646</u>	<u>\$ 3,828,931</u>

- (a) Assisting others in living and sharing the gospel message through social action and caring for those in need.
- (b) Teaching the faith of the Catholic Church and training priests, deacons and lay ministers to serve the Diocese.
- (c) Building community through shared worship by communicating the mission of the Diocese.