

***DIOCESE OF DAVENPORT***  
***FINANCIAL STATEMENTS***  
***JUNE 30, 2016***

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## Independent Auditors' Report

To the Board of Directors  
Diocese of Davenport  
Davenport, Iowa

### Report On The Financial Statements

We have audited the accompanying financial statements of the Diocese of Davenport, which comprise the balance sheets as of June 30, 2016 and 2015, 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.

### *Auditors' 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 auditors' 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 Diocese of Davenport as of June 30, 2016 and 2015 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.

**HONKAMP KRUEGER & CO., P.C.**

*Honkamp Krueger & Co.*

Davenport, Iowa  
November 21, 2016

# DIOCESE OF DAVENPORT

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## BALANCE SHEETS

	June 30, 2016		
	Operating	Insurance Fund	Total
<b>Assets</b>			
<b>Cash And Cash Equivalents</b>	\$ 310,431	\$ 436,821	\$ 747,252
<b>Certificates Of Deposit</b>	400,000	—	400,000
<b>Receivables</b>			
Due from parishes - annual diocesan appeal	145,885	—	145,885
Due from the Catholic Foundation for the Diocese of Davenport	296,529	—	296,529
Priests and former seminarians - less allowance for doubtful amounts 2016 \$13,737; 2015 \$13,737	1,709	—	1,709
Insurance recovery	—	—	—
Other	97,902	18	97,920
Due (to) from other fund	(30,810)	30,810	—
<b>Investments</b>			
Christian Brothers	2,179,591	—	2,179,591
Omer Woltering Trust	460,972	—	460,972
Vanguard	428,095	—	428,095
<b>Total Investments</b>	3,068,658	—	3,068,658
<b>Property And Equipment</b>	3,104,150	—	3,104,150
	<b>\$ 7,394,454</b>	<b>\$ 467,649</b>	<b>\$ 7,862,103</b>
<b>Liabilities And Net Assets</b>			
<b>Liabilities</b>			
Accounts payable and accrued expenses	\$ 322,480	\$ 3,842	\$ 326,322
Accounts payable - special collections	89,289	—	89,289
Accounts payable - insurance claims	—	33,781	33,781
<b>Total Liabilities</b>	411,769	37,623	449,392
<b>Net Assets</b>			
Unrestricted net assets			
Unrestricted	5,999,351	430,026	6,429,377
Unrestricted - board designated	563,472	—	563,472
<b>Total unrestricted net assets</b>	6,562,823	430,026	6,992,849
Temporarily restricted net assets	146,487	—	146,487
Permanently restricted net assets	273,375	—	273,375
<b>Total Net Assets</b>	6,982,685	430,026	7,412,711
	<b>\$ 7,394,454</b>	<b>\$ 467,649</b>	<b>\$ 7,862,103</b>

June 30, 2015		
Operating	Insurance Fund	Total
\$ 314,755	\$ 336,669	\$ 651,424
400,982	—	400,982
175,348	—	175,348
268,871	—	268,871
1,709	—	1,709
—	209,601	209,601
54,108	3,557	57,665
96,500	(96,500)	—
1,936,392	—	1,936,392
482,661	—	482,661
812,136	—	812,136
3,231,189	—	3,231,189
3,217,812	—	3,217,812
<u>\$ 7,761,274</u>	<u>\$ 453,327</u>	<u>\$ 8,214,601</u>
\$ 417,079	\$ 16,747	\$ 433,826
155,901	—	155,901
—	91,355	91,355
572,980	108,102	681,082
6,769,783	345,225	7,115,008
—	—	—
6,769,783	345,225	7,115,008
145,136	—	145,136
273,375	—	273,375
7,188,294	345,225	7,533,519
<u>\$ 7,761,274</u>	<u>\$ 453,327</u>	<u>\$ 8,214,601</u>

# DIOCESE OF DAVENPORT

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## STATEMENTS OF ACTIVITIES

	For The Year Ended June 30, 2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<b>Support And Revenue</b>				
Annual diocesan appeal	\$ 3,136,974	\$ —	\$ —	\$ 3,136,974
Support revenue for special collections	—	42,753	—	42,753
Contributions and bequests	482,134	—	—	482,134
Insurance revenue	84,801	—	—	84,801
Investment income	(146,357)	(15,513)	—	(161,870)
Other income - including primarily education receipts	856,008	—	—	856,008
Net assets released from restrictions - satisfaction of program restrictions	25,889	(25,889)	—	—
<b>Total Support And Revenue</b>	<b>4,439,449</b>	<b>1,351</b>	<b>—</b>	<b>4,440,800</b>
<b>Expenses</b>				
Chancery office	311,374	—	—	311,374
Marriage tribunal office	133,651	—	—	133,651
Pastoral services office	1,234,963	—	—	1,234,963
Vocations and clergy support	68,667	—	—	68,667
Support of special collections	30,061	—	—	30,061
Assistance of clergy (health benefits)	101,482	—	—	101,482
University hospital chaplains	104,617	—	—	104,617
National, regional, local councils and organizations	114,738	—	—	114,738
Deacon and seminarian education	693,656	—	—	693,656
Stewardship and development office	154,986	—	—	154,986
Communications office	286,243	—	—	286,243
School education	198,288	—	—	198,288
Administration and finance office	520,928	—	—	520,928
St. Vincent's Center	455,093	—	—	455,093
Depreciation	152,861	—	—	152,861
<b>Total Expenses</b>	<b>4,561,608</b>	<b>—</b>	<b>—</b>	<b>4,561,608</b>
<b>Change In Net Assets</b>	<b>(122,159)</b>	<b>1,351</b>	<b>—</b>	<b>(120,808)</b>
<b>Net Assets - Beginning Of Year</b>	<b>7,115,008</b>	<b>145,136</b>	<b>273,375</b>	<b>7,533,519</b>
<b>Net Assets - End Of Year</b>	<b>\$ 6,992,849</b>	<b>\$ 146,487</b>	<b>\$ 273,375</b>	<b>\$ 7,412,711</b>

For The Year Ended June 30,  
2015

Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 3,043,590	\$ —	\$ —	\$ 3,043,590
—	36,606	—	36,606
360,695	4,000	—	364,695
67,955	—	—	67,955
97,896	39,443	—	137,339
447,153	—	—	447,153
557,979	(557,979)	—	—
4,575,268	(477,930)	—	4,097,338
338,882	—	—	338,882
149,201	—	—	149,201
859,562	—	—	859,562
89,276	—	—	89,276
43,860	—	—	43,860
92,928	—	—	92,928
104,532	—	—	104,532
112,097	—	—	112,097
649,565	—	—	649,565
144,877	—	—	144,877
285,092	—	—	285,092
204,096	—	—	204,096
483,024	—	—	483,024
463,957	—	—	463,957
152,237	—	—	152,237
4,173,186	—	—	4,173,186
402,082	(477,930)	—	(75,848)
6,712,926	623,066	273,375	7,609,367
\$ 7,115,008	\$ 145,136	\$ 273,375	\$ 7,533,519



# DIOCESE OF DAVENPORT

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## STATEMENTS OF CASH FLOWS

	For The Years Ended June 30,	
	2016	2015
<b>Cash Flows From Operating Activities</b>		
Change in net assets	\$ (120,808)	\$ (75,848)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	152,861	152,237
Loss on disposal of property and equipment	11,737	3,201
Net realized losses (gains) on sale of investments	22,824	(50,899)
Net unrealized losses (gains) on investments	175,030	(56,182)
Changes in assets and liabilities:		
Receivables	239,064	(101,551)
Other	(40,255)	29,907
Accounts payable and accrued expenses	(231,690)	250,425
<b>Net Cash Provided By Operating Activities</b>	<b>208,763</b>	<b>151,290</b>
<b>Cash Flows From Investing Activities</b>		
(Increase) in due from Foundation	(27,658)	(51,270)
Purchase of certificates of deposit	(400,000)	(400,982)
Redemption of certificates of deposit	400,982	15,000
Purchase of investments	(435,323)	(32,724)
Proceeds from sales of investments	400,000	157,500
Purchase of property and equipment	(50,936)	(50,918)
Proceeds from sale of property and equipment	—	142,759
<b>Net Cash Used In Investing Activities</b>	<b>(112,935)</b>	<b>(220,635)</b>
<b>Change In Cash And Cash Equivalents</b>	<b>95,828</b>	<b>(69,345)</b>
<b>Cash And Cash Equivalents - Beginning Of Year</b>	<b>651,424</b>	<b>720,769</b>
<b>Cash And Cash Equivalents - End Of Year</b>	<b>\$ 747,252</b>	<b>\$ 651,424</b>

# DIOCESE OF DAVENPORT

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## NOTES TO FINANCIAL STATEMENTS

### 1. **Nature Of Organization And Summary Of Significant Accounting Policies**

The Diocese of Davenport (the “Diocese”) 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 organizations, or any other related organizations, are included in this financial report.

A summary of the Diocese’s significant accounting policies follows:

#### **Basis Of Presentation**

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.

#### **The Use Of Estimates**

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported revenues and expenses. Actual results could differ from those estimates.

#### **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 a 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.

# DIOCESE OF DAVENPORT

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## Notes To Financial Statements (Continued)

### 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 debt expense, net, was approximately none and \$1,000 for the years ended June 30, 2016 and 2015, respectively.

### 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 of 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 (decreases) in unrestricted net assets in all other cases.

### Property And Equipment

Property and equipment are carried at cost, less accumulated depreciation and amortization. Major expenditures for improvements and those which substantially increase useful lives are capitalized. Maintenance, repairs and minor renewals are expensed as incurred. When assets are retired or otherwise disposed of, their costs and related accumulated depreciation or amortization are removed from the accounts and resulting gains or losses are included in income.

Property and equipment are depreciated or amortized using the straight-line method over the following estimated useful lives:

Land, land improvements, buildings and building improvements	10 – 40 years
Automobiles, equipment and furnishings	3 – 10 years

# DIOCESE OF DAVENPORT

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## Notes To Financial Statements (Continued)

### **Net Assets**

The Diocese's resources are classified into three separate classes of net assets as follows:

*Unrestricted Net Assets:* Net assets which are free of donor-imposed restrictions; all revenues, expenses, gains, and losses that are not changes in permanently or temporarily restricted net assets.

*Temporarily Restricted Net Assets:* Net assets whose use by the Diocese are limited by donor-imposed restrictions that either expire by the passage of time or can be removed by fulfillment of the stipulated purpose for which the donation was restricted.

*Permanently Restricted Net Assets:* Net assets donated with stipulations that they be invested to provide a permanent source of income (e.g., endowment funds); such restrictions can neither expire with the passage of time nor be removed by fulfillment of a stipulated purpose.

### **Annual Diocesan Appeal**

The Diocese 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.

## DIOCESE OF DAVENPORT

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### Notes To Financial Statements (Continued)

#### **Income Taxes**

The Diocese of Davenport is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and comparable state law and contributions to it are tax deductible within the limitations prescribed by the Internal Revenue Code.

In accordance with the income taxes topic of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC"), management evaluated the Diocese's tax positions and concluded that the Diocese had maintained its tax-exempt status and had taken no uncertain tax positions that require adjustment to the financial statements. Therefore, no provision or liability for income taxes has been included in the financial statements.

#### **Recently Adopted Accounting Pronouncement**

In May 2015, the FASB issued Accounting Standards Update ("ASU") 2015-07, Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent), which exempts investments measured using the net asset value ("NAV") practical expedient in Accounting Standards Codification ("ASC") 820, Fair Value Measurement, from categorization within the fair value hierarchy. The guidance requires retrospective application and is effective for nonpublic business entities for fiscal years, and interim periods within those years, beginning after December 15, 2016. Early adoption is permitted. Management elected to early adopt the provisions of this new standard.

#### **Recent Accounting Pronouncements**

In May 2014, the FASB issued ASU 2014-09, *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 U.S. Generally Accepted Accounting Principles ("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 15, 2018. The Diocese has not yet selected a transition method and is currently evaluating the effect that the updated standard will have on the financial statements.

# DIOCESE OF DAVENPORT

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## Notes To Financial Statements (Continued)

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. While the guidance is effective for fiscal years beginning after December 15, 2017, early adoption is allowed. Some of the key elements of the ASU are as follows. Under the new guidance the Diocese would present net assets under two classifications, net assets with donor restrictions and net assets without donor restrictions. Expanded disclosures on any board designation of net assets without donor restrictions will also be required. The placed-in-service approach will be required for determining when restrictions are met for all capital gifts, eliminating the over-time option for expiration of capital restrictions. Additional disclosures, both qualitative and quantitative, will be required to communicate information useful in assessing liquidity within one year of the balance sheet date. The components of net investment expense no longer will be required to be disclosed; however, organizations may continue to include this information when their financial statement users have an interest in that information. In addition, some of the new reporting requirements related to expenses are included as follows: disclosure of expenses by both nature and function (excluding investment expenses that have been netted with investment return), disclosure of expense netted with investment return and enhanced disclosures regarding cost allocations. The Diocese is currently evaluating the effect this updated standard will have on the financial statements.

### **Reclassifications**

Certain reclassifications have been made to the 2015 financial statements, where appropriate, to conform to the 2016 presentation used.

### **Subsequent Events**

Management has evaluated subsequent events through November 21, 2016, the date which the financial statements were available to be issued.

## **2. Investments, Endowment Fund And Net Asset Classifications**

### **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 Catholic United Investment Trust (CUIT) value equity and small capitalization equity index funds. See Note 3 for additional information on these investments.

## DIOCESE OF DAVENPORT

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### Notes To Financial Statements (Continued)

#### 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 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 year ended June 30, 2015, the trust ended as the 25 year time requirement was met. The entire trust was released from restriction and transferred to unrestricted net assets.

#### 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.

The fair values of the investments are as follows:

	<b>June 30,</b>	
	<b>2016</b>	<b>2015</b>
Mutual funds	\$ 561,442	\$ 941,273
Alternative investments	2,507,216	2,289,916
	<b>\$ 3,068,658</b>	<b>\$ 3,231,189</b>

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.

## DIOCESE OF DAVENPORT

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### Notes To Financial Statements (Continued)

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 funds; (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.

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 5 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. During the year ended June 30, 2015, the trust ended as the 25 year time requirement was met. The entire trust was released from restriction and transferred to unrestricted net assets. The Diocese spent all of the income of approximately \$16,000 and \$19,000 of the permanently restricted investment for the years ended June 30, 2016 and 2015, respectively.



# DIOCESE OF DAVENPORT

## Notes To Financial Statements (Continued)

The changes in endowment net assets were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
For The Year Ended June 30, 2016				
<b>Endowment Net Assets - Beginning Of Year</b>	\$ —	\$ —	\$ 273,375	\$ 273,375
Investment return				
Interest and dividends - net of fees	—	—	—	—
Net appreciation (realized and unrealized)	—	15,513	—	15,513
Total investment return	—	15,513	—	15,513
Appropriation of endowment funds for expenditure	—	(15,513)	—	(15,513)
<b>Endowment Net Assets - End Of Year</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 273,375</b>	<b>\$ 273,375</b>
For The Year Ended June 30, 2015				
<b>Endowment Net Assets - Beginning Of Year</b>	\$ —	\$ 462,488	\$ 273,375	\$ 735,863
Investment return				
Interest and dividends - net of fees	—	4,131	—	4,131
Net appreciation (realized and unrealized)	—	35,312	—	35,312
Total investment return	—	39,443	—	39,443
Appropriation of endowment funds for expenditure	—	(501,931)	—	(501,931)
<b>Endowment Net Assets - End Of Year</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 273,375</b>	<b>\$ 273,375</b>

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, 2016 and 2015.

The following summarizes investment income:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
For The Year Ended June 30, 2016				
Interest and dividends	\$ 35,984	\$ —	\$ —	\$ 35,984
Realized (losses)	(22,824)	—	—	(22,824)
Unrealized (losses)	(159,517)	(15,513)	—	(175,030)
	<b>\$ (146,357)</b>	<b>\$ (15,513)</b>	<b>\$ —</b>	<b>\$ (161,870)</b>
For The Year Ended June 30, 2015				
Interest and dividends	\$ 26,127	\$ 4,131	\$ —	\$ 30,258
Realized gains	37,018	13,881	—	50,899
Unrealized gains	34,751	21,431	—	56,182
	<b>\$ 97,896</b>	<b>\$ 39,443</b>	<b>\$ —</b>	<b>\$ 137,339</b>

# DIOCESE OF DAVENPORT

## Notes To Financial Statements (Continued)

### 3. Fair Value Measurements

ASC Topic 820 establishes a framework for measuring fair value which provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under ASC Topic 820 are described as follows:

Level 1	Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Diocese has the ability to access.
Level 2	Inputs to the valuation methodology include: <ul style="list-style-type: none"><li>• Quoted prices for similar assets or liabilities in active markets;</li><li>• Quoted prices for identical or similar assets or liabilities in inactive markets;</li><li>• Inputs other than quoted prices that are observable for the asset or liability;</li><li>• Inputs that are derived principally from or corroborated by observable market data by correlation or other means.</li></ul> If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.
Level 3	Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2016 and 2015.

If quoted market prices are not available, then fair values are estimated by the Diocese's investment manager using pricing models, quoted prices of securities with similar characteristics, audited financial statements of the funds, or discounted cash flow. The Diocese's securities are funds where the value is based on net asset value provided by the investment manager.

# DIOCESE OF DAVENPORT

## Notes To Financial Statements (Continued)

The following tables set forth by level within the fair value hierarchy the Diocese's assets at fair value:

	June 30, 2016			
	Level 1	Level 2	Level 3	Total
Investments measured at fair value	\$ 561,442	\$ —	\$ —	\$ 561,442
Investments measured at net asset value (a)				2,507,216
				<b>\$ 3,068,658</b>

  

	June 30, 2015			
	Level 1	Level 2	Level 3	Total
Investments measured at fair value	\$ 941,273	\$ —	\$ —	\$ 941,273
Investments measured at net asset value (a)				2,289,916
				<b>\$ 3,231,189</b>

(a) In accordance with Subtopic 820-10, certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.

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

Investment	June 30, 2016			
	Fair Value	Unfunded Commitment	Redemption Frequency	Redemption Notice Period
CUIT value equity fund (1)	\$ 1,665,695	\$ —	Daily	Trade date minus 1 day
CUIT small capitalization equity Index fund (1)	841,521	—	Daily	Trade date minus 1 day
	<b>\$ 2,507,216</b>	<b>\$ —</b>		

  

Investment	June 30, 2015			
	Fair Value	Unfunded Commitment	Redemption Frequency	Redemption Notice Period
CUIT value equity fund (1)	\$ 1,386,631	\$ —	Daily	Trade date minus 1 day
CUIT small capitalization equity Index fund (1)	903,285	—	Daily	Trade date minus 1 day
	<b>\$ 2,289,916</b>	<b>\$ —</b>		

(1) 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 (value and 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.

## DIOCESE OF DAVENPORT

### Notes To Financial Statements (Continued)

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#### 4. Property And Equipment

A summary of property and equipment consists of:

	June 30,	
	2016	2015
Land	\$ 275,000	\$ 275,000
Land improvements	365,935	371,990
Automobiles	110,057	107,213
Buildings and improvements	2,931,800	2,914,951
Equipment and furniture	434,005	630,995
	<u>4,116,797</u>	<u>4,300,149</u>
Less: accumulated depreciation	1,012,647	1,082,337
	<u>\$ 3,104,150</u>	<u>\$ 3,217,812</u>

#### 5. Unrestricted – Board Designated Net Assets

The board has designated unrestricted net assets at June 30, 2016 of \$460,972 from which an annual withdrawal can be made of up to \$50,000 to be spent on priest sabbaticals, education of priests and deacons, seminarian education, pastoral care of students at St. Ambrose University, vocations or respect for human life. Another \$102,500 has been designated at June 30, 2016 to be used for installation or ordination of a new bishop.

#### 6. Temporarily Restricted Net Assets

Temporarily restricted net assets consists of:

	June 30,	
	2016	2015
College scholarships	\$ 67,839	\$ 78,839
Special collections - campaign for human development	751	158
Special collections - volunteer program	54,562	54,293
Special collections - works of charity	23,335	11,846
	<u>\$ 146,487</u>	<u>\$ 145,136</u>

## DIOCESE OF DAVENPORT

### Notes To Financial Statements (Continued)

#### 7. Net Assets Released From Restrictions

Net assets released from donor restrictions by incurring expenses satisfying the restricted purposes consists of:

	<b>For The Years Ended June 30,</b>	
	<b>2016</b>	<b>2015</b>
Purpose restrictions accomplished		
Special collections - campaign for human development	\$ 8,801	\$ 7,200
Special collections - volunteer program	3,923	5,820
Special collections - works of charity	17,678	31,840
Seminary education	(15,513)	19,270
Clergy education	—	482,661
College scholarships	11,000	11,188
	<b>\$ 25,889</b>	<b>\$ 557,979</b>

#### 8. Retirement Plan

The Diocese has adopted a 401(k) retirement plan which covers substantially all of its employees. The Diocese will match 100% of the employee's contributions up to 2% of the employee compensation. The Diocese also has the option to make discretionary contributions to the plan. The Diocese's matching and discretionary contributions were approximately \$103,000 for both of the years ended June 30, 2016 and 2015.

#### 9. Related Party Transactions

The Diocese has a receivable from the Catholic Foundation for the Diocese of Davenport of \$296,529 and \$268,871 as of June 30, 2016 and 2015, respectively. The Diocese received contributions from the Foundation totaling \$296,529 and \$268,871 for the years ended June 30, 2016 and 2015, respectively.

The Diocese has an agreement with the Catholic Foundation for the Diocese of Davenport to provide the services of the Finance Department including the processing of pledges, pledge payments, pledge reminders, preparing financial reports for board meetings and assistance with the financial audit. The Foundation pays the Diocese once a year for the percentage of the time the Finance employees spend on the Foundation work valued at salary plus estimated benefits. The revenue recorded by the Diocese for the years ended June 30, 2016 and 2015 was \$54,475 and \$63,833, respectively.

# DIOCESE OF DAVENPORT

## Notes To Financial Statements (Continued)

### 10. 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. For the period from April 1, 2014 through March 31, 2015, the Diocese was self-insured for medical insurance and remained self-insured for dental insurance. The Diocese had purchased stop-loss insurance in order to limit its exposure, which would reimburse the Diocese for individual claims in excess of \$50,000 annually or aggregate claims exceeding \$333,052 but not more than \$1,333,052 annually. Beginning April 1, 2015, the Diocese was fully insured for medical and remained self-insured for dental insurance and the fund collected fees from subscribers and remitted premiums to the insurance carrier during the policy year.

Activity in these funds consists of:

	Property Insurance Fund	Medical Insurance Fund	Total
<b>For The Year Ended June 30, 2016</b>			
Fees collected	\$ 1,140,143	\$ 717,589	\$ 1,857,732
Premiums paid	(1,018,893)	(687,613)	(1,706,506)
Recoveries	214,907	50	214,957
Claims expense	(263,133)	(16,901)	(280,034)
Other expense	—	(1,348)	(1,348)
	<b>\$ 73,024</b>	<b>\$ 11,777</b>	<b>\$ 84,801</b>
<b>For The Year Ended June 30, 2015</b>			
Fees collected	\$ 1,174,206	\$ 690,992	\$ 1,865,198
Premiums paid	(1,104,330)	(318,081)	(1,422,411)
Recoveries	18,153	136,215	154,368
Claims expense	(48,586)	(423,750)	(472,336)
Other expense	—	(56,864)	(56,864)
	<b>\$ 39,443</b>	<b>\$ 28,512</b>	<b>\$ 67,955</b>

## DIOCESE OF DAVENPORT

### Notes To Financial Statements (Continued)

#### 11. 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 those program services consist of:

	<b>For The Years Ended June 30,</b>	
	<b>2016</b>	<b>2015</b>
Serving others (1)	<b>\$ 1,612,099</b>	\$ 1,695,353
Teaching and training (2)	<b>1,395,417</b>	1,389,494
Celebrating and sharing (3)	<b>813,471</b>	377,060
	<b>3,820,987</b>	3,461,907
Management and general expenses	<b>614,215</b>	594,099
Fundraising expenses	<b>126,406</b>	117,180
	<b>\$ 4,561,608</b>	\$ 4,173,186

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