

DIOCESE OF DAVENPORT

FINANCIAL STATEMENTS
(WITH INDEPENDENT AUDITOR'S REPORT THEREON)

June 30, 2012 and 2011

DIOCESE OF DAVENPORT

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Diocese of Davenport
Davenport, Iowa

We have audited the accompanying balance sheet of the Diocese of Davenport as of June 30, 2012, and the related statements of activities and cash flows for the year 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 audit. The financial statements of the Diocese of Davenport for the year ended June 30, 2011 were audited by other auditors whose report, dated October 28, 2011, expressed an unqualified opinion on those statements.

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 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 audit provides a reasonable basis for our opinion.

In our opinion, the 2012 financial statements referred to above present fairly, in all material respects, the financial position of the Diocese of Davenport as of June 30, 2012, and the change in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Doyle & Keenan, P.C.

September 27, 2012

DIOCESE OF DAVENPORT
Balance Sheets
Years Ended June 30, 2012 and 2011

	2012		
	Operating	Insurance Fund	Total
ASSETS			
Cash and Cash Equivalents	\$ 52,343	\$ 287,101	\$ 339,444
Certificates of Deposit	-	30,000	30,000
Receivables:			
Due from Parishes, Annual Diocesan Appeal	307,990	5,463	313,453
Due from the Catholic Foundation for the Diocese of Davenport (Note 9)	84,634	-	84,634
Marriage Tribunal, Less Allowance for Doubtful Amounts 2012 \$5,125; 2011 \$5,500	1,480	-	1,480
Priests and Former Seminarians, Less Allowance for Doubtful Amounts 2012 \$20,630; 2011 \$21,740	2,802	-	2,802
Insurance Recovery	-	119,946	119,946
Prepays	157	-	157
Other Receivable	45,244	-	45,244
Investments:			
Christian Brothers (Notes 2 and 3)	955,530	-	955,530
Omer Woltering Trust (Notes 2 and 3)	422,682	-	422,682
Vanguard (Notes 2 and 3)	1,263,833	-	1,263,833
Quad City Bank and Trust Account (Notes 2 and 3)	297,513	-	297,513
Total Investments	<u>2,939,558</u>	<u>-</u>	<u>2,939,558</u>
Property and Equipment, Net of Accumulated Depreciation (Note 4)	3,569,311	-	3,569,311
Total Assets	<u>\$ 7,003,519</u>	<u>\$ 442,510</u>	<u>\$ 7,446,029</u>
LIABILITIES AND NET ASSETS			
Liabilities:			
Accounts Payable and Accrued Expenses	\$ 198,565	\$ -	\$ 198,565
Accounts Payable, Special Collections	19,823	-	19,823
Accounts Payable, Insurance Claims	-	136,720	136,720
Total Current Liabilities	<u>218,388</u>	<u>136,720</u>	<u>355,108</u>
Net Assets:			
Unrestricted	5,921,437	305,790	6,227,227
Temporarily Restricted (Note 5)	590,319	-	590,319
Permanently Restricted (Note 6)	273,375	-	273,375
Total Net Assets	<u>6,785,131</u>	<u>305,790</u>	<u>7,090,921</u>
Total Liabilities and Net Assets	<u>\$ 7,003,519</u>	<u>\$ 442,510</u>	<u>\$ 7,446,029</u>

See Notes to the Financial Statements.

2011		
Operating	Insurance Fund	Total
\$ 117,547	\$ 371,592	\$ 489,139
-	-	-
867,951	-	867,951
58,696	-	58,696
1,750	-	1,750
3,172	-	3,172
-	106,415	106,415
58,157	180	58,337
33,353	972	34,325
1,251,873	-	1,251,873
498,927	-	498,927
270,843	-	270,843
291,111	-	291,111
<u>2,312,754</u>	<u>-</u>	<u>2,312,754</u>
3,725,305	-	3,725,305
<u>\$ 7,178,685</u>	<u>\$ 479,159</u>	<u>\$ 7,657,844</u>
\$ 260,847	\$ -	\$ 260,847
129,506	-	129,506
-	136,086	136,086
<u>390,353</u>	<u>136,086</u>	<u>526,439</u>
5,835,872	343,073	6,178,945
679,085	-	679,085
273,375	-	273,375
<u>6,788,332</u>	<u>343,073</u>	<u>7,131,405</u>
<u>\$ 7,178,685</u>	<u>\$ 479,159</u>	<u>\$ 7,657,844</u>

DIOCESE OF DAVENPORT
Statements of Activities
Years Ended June 30, 2012 and 2011

	2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and Revenue:				
Annual Diocesan Appeal	\$ 2,887,829	\$ -	\$ -	\$ 2,887,829
Support Revenue for Special Collections	-	59,224	-	59,224
Contributions and Bequests	232,402	-	-	232,402
Insurance Revenue (Expense), Net of Expenses (Note 10)	(37,283)	-	-	(37,283)
Investment Income (Losses)				
Interest and Dividends, Net of Fees	55,606	6,105	-	61,711
Net Realized Gains (Losses) on Sale of Investments	(1,453)	(10,573)	-	(12,026)
Net Unrealized Gains on Investments	54,662	4,190	-	58,852
Other Income, Including Primarily Education Receipts	788,911	-	-	788,911
Insurance Recoveries	-	-	-	-
Net Assets Released from Restrictions, Satisfaction of Program Restrictions (Note 7)	147,712	(147,712)	-	-
Total Support and Revenue	4,128,386	(88,766)	-	4,039,620
Expenses:				
Chancery Office	330,628	-	-	330,628
Marriage Tribunal Office	138,363	-	-	138,363
Pastoral Services Office	1,040,392	-	-	1,040,392
Vocations and Clergy Support	53,875	-	-	53,875
Support of Special Collections	41,848	-	-	41,848
Assistance of Clergy (Health Benefits)	126,847	-	-	126,847
University Hospital Chaplains	98,074	-	-	98,074
National, Regional, Local Councils and Organizations	100,872	-	-	100,872
Deacon and Seminarian Education	543,018	-	-	543,018
Stewardship and Development Office	134,478	-	-	134,478
Communications Office	242,470	-	-	242,470
School Education	188,692	-	-	188,692
Administration and Finance Office	426,943	-	-	426,943
St. Vincent's Center	383,567	-	-	383,567
Bankruptcy Related Expenses	68,802	-	-	68,802
Depreciation	161,235	-	-	161,235
Total Expenses	4,080,104	-	-	4,080,104
Change in Net Assets	48,282	(88,766)	-	(40,484)
Net Assets at Beginning of Year	6,178,945	679,085	273,375	7,131,405
Net Assets at End of Year	\$ 6,227,227	\$ 590,319	\$ 273,375	\$ 7,090,921

See Notes to the Financial Statements.

2011

Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 2,915,014	\$ -	\$ -	\$ 2,915,014
-	54,591	-	54,591
1,787,648	-	-	1,787,648
(31,558)	-	-	(31,558)
7,500	5,402	-	12,902
-	22,229	-	22,229
58,715	86,255	-	144,970
389,680	-	-	389,680
2,000,000	-	-	2,000,000
<u>169,022</u>	<u>(169,022)</u>	<u>-</u>	<u>-</u>
<u>7,296,021</u>	<u>(545)</u>	<u>-</u>	<u>7,295,476</u>
328,853	-	-	328,853
135,348	-	-	135,348
732,377	-	-	732,377
54,829	-	-	54,829
39,130	-	-	39,130
152,133	-	-	152,133
97,080	-	-	97,080
100,605	-	-	100,605
379,316	-	-	379,316
129,878	-	-	129,878
266,485	-	-	266,485
179,962	-	-	179,962
485,405	-	-	485,405
452,969	-	-	452,969
77,987	-	-	77,987
139,289	-	-	139,289
<u>3,751,646</u>	<u>-</u>	<u>-</u>	<u>3,751,646</u>
3,544,375	(545)	-	3,543,830
2,634,570	679,630	273,375	3,587,575
<u>\$ 6,178,945</u>	<u>\$ 679,085</u>	<u>\$ 273,375</u>	<u>\$ 7,131,405</u>

DIOCESE OF DAVENPORT
Statements of Cash Flows
Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash Flows from Operating Activities:		
Change in Net Assets	\$ (40,484)	\$ 3,543,830
Adjustments to Reconcile Change in Net Assets to Cash Provided by (Used In) Operating Activities:		
Contribution for Chancery Building	-	(1,600,000)
Depreciation	161,235	139,289
Loss on Disposal of Property and Equipment	-	1,420
Net Realized (Gains) Losses on Sale of Investments	12,026	(22,229)
Net Unrealized (Gains) Losses on Sale of Investments	(58,852)	(144,970)
Changes in Assets and Liabilities:		
(Increase) Decrease in Receivables	530,688	(62,363)
(Increase) Decrease in Prepaid Assets	58,180	(58,337)
Increase (Decrease) in Accounts Payable and Accrued Expenses	<u>(171,331)</u>	<u>138,022</u>
Net Cash Provided By (Used In) Operating Activities	<u>491,462</u>	<u>1,934,662</u>
Cash Flows from Investing Activities:		
(Increase) Decrease in Due from Foundation	(25,938)	(39,594)
Purchase of Certificates of Deposit	(30,000)	-
Redemption of Certificates of Deposit	-	53,485
Purchase of Investments	(1,795,909)	(1,384,058)
Proceeds from Sales of Investments	1,215,931	159,132
Proceeds from Sale of Equipment	-	300
Purchase of Property and Equipment	<u>(5,241)</u>	<u>(1,517,981)</u>
Net Cash Provided By (Used In) Investing Activities	<u>(641,157)</u>	<u>(2,728,716)</u>
Cash Flows from Financing Activities:		
Payments on Long-Term Debt	-	(955,000)
Contributions for Chancery Building	<u>-</u>	<u>1,600,000</u>
Net Cash Provided by (Used In) Financing Activities	<u>-</u>	<u>645,000</u>
Increase (Decrease) in Cash and Cash Equivalents	(149,695)	(149,054)
Cash and Cash Equivalents, Beginning	<u>489,139</u>	<u>638,193</u>
Cash and Cash Equivalents, Ending	\$ <u><u>339,444</u></u>	\$ <u><u>489,139</u></u>
Supplemental Disclosure of Cash Flow Information, Cash Paid for Interest	\$ <u><u>-</u></u>	\$ <u><u>31,524</u></u>
Noncash Investing and Financing Activities, Accounts Payable Incurred for Construction in Progress	\$ <u><u>-</u></u>	\$ <u><u>28,590</u></u>

See Notes to the Financial Statements.

DIOCESE OF DAVENPORT
Notes to Financial Statements

Note 1. Nature of the Organization and Summary of Significant Accounting Policies

Nature of the 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.

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

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 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 public support, revenue and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events – In accordance with the Subsequent Events Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification, in preparing these consolidated financial statements, the Diocese has evaluated events and transactions for potential recognition or disclosure through September 27, 2012, the date the financial statements were available to be issued.

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 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.

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 \$2,000 and \$4,000 for the years ended June 30, 2012 and 2011, respectively.

DIOCESE OF DAVENPORT
Notes to Financial Statements

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

Marketable Securities – 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 is 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, 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, 2012.

Bankruptcy Related Expenses – During the years ended June 30, 2012 and 2011, the Diocese incurred expenses of \$68,802 and \$77,987, respectively, related to the ongoing responsibilities of the Diocese associated with the bankruptcy claim that was settled in November 2007.

DIOCESE OF DAVENPORT
Notes to Financial Statements

Note 1. Nature of the Organization and Summary of Significant Accounting Policies (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 Code.

In accordance with the Income Taxes Topic of the FASB Accounting Standards Codification, 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.

Note 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.

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 years ended June 30, 2012 and 2011, the co-trustees approved appropriations from accumulated earnings of \$70,000 and \$37,500, respectively, which has been paid to the Diocese and leaves \$385,182 and \$461,427 of the trust classified as temporarily restricted net assets, respectively. The trust includes \$37,500 of funds that have been appropriated but not distributed as of June 30, 2012 and 2011.

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)

The fair values of the investments as of June 30, 2012 and 2011 are as follows:

	2012		2011
Cash and Cash Equivalents	\$ 130,207	\$	10,125
Equity Mutual Funds	-		727,907
Fixed Income Mutual Funds	1,556,138		322,849
Alternative Investments	1,253,213		1,251,873
	\$ 2,939,558	\$	2,312,754

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 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 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. For the years ended June 30, 2012 and 2011, the Diocese spent \$70,000 and \$37,500, respectively, of the accumulated income of the temporarily restricted investments. The Diocese spent all of the income of approximately \$6,000 and \$6,600 of the permanently restricted investment for the years ended June 30, 2012 and 2011, respectively.

DIOCESE OF DAVENPORT
Notes to Financial Statements

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

The changes in endowment net assets for the years ended June 30, 2012 and 2011 were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<u>2012</u>				
Endowment Net Assets, Beginning of Year	\$ -	\$ 461,427	\$ 273,375	\$ 734,802
Investment Return:				
Interest and Dividends, Net of Fees	-	6,105	-	6,105
Net Depreciation (Realized and Unrealized)	-	(6,383)	-	(6,383)
Total Investment Return	-	(278)	-	(278)
Appropriation of Endowment Funds for expenditure	-	(75,967)	-	(75,967)
Endowment Net Assets, End of Year	<u>\$ -</u>	<u>\$ 385,182</u>	<u>\$ 273,375</u>	<u>\$ 658,557</u>
<u>2011</u>				
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	<u>\$ -</u>	<u>\$ 461,427</u>	<u>\$ 273,375</u>	<u>\$ 734,802</u>

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, 2012 and 2011.

Note 3. Fair Value Measurements

The Fair Value Measurements and Disclosures Topic of the FASB Accounting Standards Codification establishes a framework for measuring fair value. That framework 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 and Level 2 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

- Level 1 - Quoted prices in active markets for identical securities.
- Level 2 - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 - Significant unobservable inputs.

DIOCESE OF DAVENPORT
Notes to Financial Statements

Note 3. Fair Value Measurements (Continued)

Investments are valued at fair market value, as summarized in the following schedule. Cost includes the amounts of reinvested dividends.

Investments at Fair Value as of June 30, 2012				
	Level 1	Level 2	Level 3	Total
Assets:				
Mutual Funds:				
Domestic:				
Small/Mid-Cap Equities	\$ -	\$ 360,726	\$ -	\$ 360,726
Large-Cap Equities	285,538	892,487	-	1,178,025
Bond Funds:				
Short-Term	292,305	-	-	292,305
Other	978,295	-	-	978,295
	<u>\$ 1,556,138</u>	<u>\$ 1,253,213</u>	<u>\$ -</u>	<u>2,809,351</u>
Cash and Cash Equivalents				<u>130,207</u>
			<u>\$</u>	<u>2,939,558</u>

Investments at Fair Value as of June 30, 2011				
	Level 1	Level 2	Level 3	Total
Assets:				
Mutual Funds:				
Domestic:				
Small/Mid-Cap Equities	\$ 114,821	\$ 75,667	\$ -	\$ 190,488
Large-Cap Equities	520,542	151,428	-	671,970
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				<u>10,125</u>
			<u>\$</u>	<u>2,312,754</u>

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 assets value (NAV) per share (or its equivalent) as of June 30, 2012 and 2011:

As of June 30, 2012				
Investment	Fair Value	Unfunded Commitment	Redemption Frequency	Redemption Notice Period
Investments:				
CUIT Value Equity Fund (1)	\$ 892,487	\$ -	Daily	Trade Date Minus 1 Day
CUIT Small Capitalization Equity Index Fund (1)	360,726	-	Daily	Trade Date Minus 1 Day
	<u>\$ 1,253,212</u>	<u>\$ -</u>		
As of June 30, 2011				
Investment	Fair Value	Unfunded Commitment	Redemption Frequency	Redemption Notice Period
Investments:				
RCT Short Bond Fund (2)	\$ 799,968	\$ -	Daily	Trade Date Minus 1 Day
RCT Intermediate Diversified Bond Fund (3)	149,574	-	Daily	Trade Date Minus 1 Day
CUIT Growth Fund (1)	75,750	-	Daily	Trade Date Minus 1 Day
CUIT Value Equity Fund (1)	75,678	-	Daily	Trade Date Minus 1 Day
CUIT International Equity Fund (4)	75,236	-	Daily	Trade Date Minus 1 Day
CUIT Small Capitalization Equity Index Fund (1)	75,667	-	Daily	Trade Date Minus 1 Day
	<u>\$ 1,251,873</u>	<u>\$ -</u>		

- (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, small cap, growth). 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.
- (2) 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.
- (3) 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 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.

DIOCESE OF DAVENPORT
Notes to Financial Statements

Note 3. Fair Value Measurements (Continued)

(4) This fund invests primarily in international equity securities that are all exchange traded in the USA and primarily 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.

Note 4. Property and Equipment

A summary of property and equipment as of June 30, 2012 and 2011 is as follows:

	2012	2011
Land	\$ 351,800	\$ 351,800
Land Improvements	371,990	355,990
Automobiles	114,549	114,549
Buildings and Improvements	2,867,614	2,859,440
Equipment and Furniture	568,078	558,421
Construction in Progress	-	28,590
	4,274,031	4,268,790
Less: Accumulated Depreciation	704,720	543,485
	\$ 3,569,311	\$ 3,725,305

Note 5. Temporarily Restricted Net Assets

Temporarily Restricted Net Assets as of June 30, 2012 and 2011 are available for the following purposes:

	2012	2011
College Scholarships	\$ 114,027	\$ 141,527
Catholic Charity	1,064	3,461
Special Collections, Campaign for Human Development	-	11,353
Special Collections, Volunteer Program in Latin America	51,658	32,403
Special Collections, Works of Charity	38,388	28,914
Omer Woltering Trust, Clergy Education	385,182	461,427
	\$ 590,319	\$ 679,085

Note 6. 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 7. Net Assets Released from Restrictions

Net assets were released from donor restrictions during the years ended June 30, 2012 and 2011 by incurring expenses satisfying the restricted purposes.

	<u>2012</u>	<u>2011</u>
Purpose Restrictions Accomplished:		
Special Collections, Campaign for Human Development	\$ 19,366	\$ 1,660
Special Collections, Volunteer Program in Latin America	1,007	15,325
Special Collections, Works of Charity	21,475	23,805
Catholic Charity	2,397	63,111
Seminary Education	5,967	6,621
Clergy Education	70,000	37,500
College Scholarships	27,500	21,000
Total Assets Released from Restrictions	<u>\$ 147,712</u>	<u>\$ 169,022</u>

Note 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 \$91,000 and \$86,000 for the years ended June 30, 2012 and 2011, respectively.

The retirement plan was amended from a single employer plan to a multiple-employer plan in 2010 and submitted to IRS for approval. As of June 30, 2012, the IRS has not approved plan.

Note 9. Related Party Transactions

The Diocese has a receivable from the Catholic Foundation for the Diocese of Davenport of \$84,634 and \$58,696 as of June 30, 2012 and 2011, respectively. The Diocese received contributions from the Foundation totaling \$84,634 and \$1,658,696 for the years ended June 30, 2012 and 2011, 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, 2012 and 2011 was \$62,000 and none, respectively.

Note 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. 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 10. Insurance Funds (Continued)

Activity in these funds for the years ended June 30, 2012 and 2011 was as follows:

	Property Insurance Fund	Medical Insurance Fund	Total
<u>2012</u>			
Fees Collected	\$ 885,684	\$ 533,311	\$ 1,418,995
Premiums Paid	(874,967)	(492,445)	(1,367,412)
Recoveries	242,114	730	242,844
Claims Expense	(293,889)	(25,849)	(319,738)
Other Income (Expense)	(118)	(11,854)	(11,972)
	<u>\$ (41,176)</u>	<u>\$ 3,893</u>	<u>\$ (37,283)</u>
<u>2011</u>			
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>

Note 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 services for the years ended June 30, 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
Program Services		
Serving Others (1)	\$ 1,595,210	\$ 1,607,842
Teaching and Training (2)	1,469,615	1,046,935
Celebrating and Sharing (3)	330,969	350,238
	<u>3,395,794</u>	<u>3,005,015</u>
Management and General Expenses	577,491	643,425
Fundraising Expenses	106,819	103,206
Total Assets Released from Restrictions	<u>\$ 4,080,104</u>	<u>\$ 3,751,646</u>

- (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.