

Diocese of Davenport

Financial Report

06.30.2009

McGladrey & Pullen
Certified Public Accountants

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McGladrey & Pullen

Certified Public Accountants

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, 2009 and 2008, and the statements of activities and cash flows for the year ended June 30, 2009. 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, 2009 and 2008, and the changes in its net assets and its cash flows for the year ended June 30, 2009 in conformity with accounting principles generally accepted in the United States of America.

McGladrey & Pullen, LLP

Davenport, Iowa
November 6, 2009

Diocese of Davenport			
Balance Sheets			
June 30, 2009 and 2008			
	2009		
	Operating	Insurance Fund	Total
Assets			
Cash and Cash Equivalents:	\$ 155,203	\$ 231,108	\$ 386,311
Certificates of Deposit	315,668	52,594	368,262
Receivables:			
Due from parishes, Annual Diocesan Appeal	867,016	-	867,016
Due from the Catholic Foundation for the Diocese of Davenport (Note 11)	316,277	-	316,277
Marriage tribunal, less allowance for doubtful amounts 2009 \$4,900; 2008 \$4,600	1,435	-	1,435
Priests and former seminarians, less allowance for doubtful amounts 2009 \$14,351; 2008 \$238,876	5,450	-	5,450
Insurance recovery	-	20,935	20,935
Other receivable	46,075	35,284	81,359
Investments:			
Omer Woltering Trust (Note 2)	418,439	-	418,439
Marguerite Ritzinger Charitable Fund (Note 2)	273,549	-	273,549
Agency account, cash and cash equivalents	396,567	-	396,567
Property and Equipment, net of accumulated depreciation (Note 4)	282,605	-	282,605
Prepaid Assets	-	-	-
Total assets	\$ 3,078,284	\$ 339,921	\$ 3,418,205
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued expenses	\$ 177,951	\$ -	\$ 177,951
Professional fees payable	-	-	-
Accounts payable, special collections	194,988	-	194,988
Accounts payable, insurance claims	-	35,075	35,075
Total current liabilities	372,939	35,075	408,014
Long-term debt (Note 5)	970,000	-	970,000
Total liabilities	1,342,939	35,075	1,378,014
Contingency (Notes 11 and 12)			
Net Assets:			
Unrestricted	468,592	304,846	773,438
Temporarily restricted (Note 6)	993,378	-	993,378
Permanently restricted (Note 7)	273,375	-	273,375
Total net assets	1,735,345	304,846	2,040,191
Total liabilities and net assets	\$ 3,078,284	\$ 339,921	\$ 3,418,205
See Notes to Financial Statements.			

2008		
Operating	Insurance Fund	Total
\$ 798,508	\$ 219,610	\$ 1,018,118
313,041	52,128	365,169
808,722	-	808,722
-	-	-
1,330	-	1,330
11,624	-	11,624
-	17,815	17,815
50,427	28,838	79,265
588,411	-	588,411
370,154	-	370,154
991,478	-	991,478
97,274	-	97,274
40,910	184	41,094
\$ 4,071,879	\$ 318,575	\$ 4,390,454
\$ 160,475	\$ -	\$ 160,475
630,519	-	630,519
240,154	-	240,154
-	27,805	27,805
1,031,148	27,805	1,058,953
2,000,000	-	2,000,000
3,031,148	27,805	3,058,953
(739,625)	290,770	(448,855)
1,506,981	-	1,506,981
273,375	-	273,375
1,040,731	290,770	1,331,501
\$ 4,071,879	\$ 318,575	\$ 4,390,454

Diocese of Davenport				
Statement of Activities				
Year Ended June 30, 2009				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and Revenue:				
Annual Diocesan Appeal	\$ 2,775,006	\$ -	\$ -	\$ 2,775,006
Support revenue for special collections	-	372,695	-	372,695
Contributions and bequests	324,770	5,495	-	330,265
Insurance revenue, net of expenses (Note 9)	18,318	-	-	18,318
Investment income (losses):				
Interest and dividends, net of fees	15,935	3,555	-	19,490
Net realized (losses) on sale of investments	-	(67,597)	-	(67,597)
Net unrealized (losses) on investments	(104,122)	(103,426)	-	(207,548)
Other income, including primarily education receipts	514,957	-	-	514,957
Insurance recoveries (Note 13)	600,000	-	-	600,000
Net assets released from restrictions, satisfaction of program restrictions (Note 8)	724,325	(724,325)	-	-
Total support and revenue	4,869,189	(513,603)	-	4,355,586
Expenses:				
Chancery office	333,290	-	-	333,290
Marriage tribunal office	137,382	-	-	137,382
Pastoral services office	885,993	-	-	885,993
Vocations and clergy support	65,033	-	-	65,033
Support of special collections	306,198	-	-	306,198
Assistance of clergy (health benefits)	165,807	-	-	165,807
University hospital chaplains	96,417	-	-	96,417
National, regional, local councils and organizations	106,892	-	-	106,892
Deacon and seminarian education	314,995	-	-	314,995
Stewardship and development office	116,062	-	-	116,062
Communications office	263,918	-	-	263,918
Administration and finance office	444,397	-	-	444,397
St. Vincent's Center	322,272	-	-	322,272
Bankruptcy related expenses (Note 13)	57,660	-	-	57,660
Depreciation	30,580	-	-	30,580
Total expenses	3,646,896	-	-	3,646,896
Change in net assets	1,222,293	(513,603)	-	708,690
Net assets at beginning of year	(448,855)	1,506,981	273,375	1,331,501
Net assets at end of year	\$ 773,438	\$ 993,378	\$ 273,375	\$ 2,040,191
See Notes to Financial Statements.				

Diocese of Davenport	
Statement of Cash Flows	
Year Ended June 30, 2009	
Cash Flows from Operating Activities:	
Change in net assets	\$ 708,690
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Contribution of land and building	(160,000)
Depreciation	30,580
(Gain) on sale of property and equipment	(40)
Net realized losses on sale of investments	67,597
Net unrealized losses on investments	207,548
Changes in assets and liabilities:	
(Increase) in other receivables	(57,439)
Decrease in prepaid assets	41,094
(Decrease) in accounts payable and accrued expenses	(650,939)
Net cash provided by operating activities	187,091
Cash Flows from Investing Activities:	
(Increase) in due from Foundation	(316,277)
Purchase of certificates of deposit	(3,093)
Purchase of investments	(390,534)
Proceeds from sale of investments	976,877
Proceeds from sale of equipment	40
Purchase of property and equipment	(55,911)
Net cash provided by investing activities	211,102
Cash Flows (used in) Financing Activities, payments on long-term debt	
	(1,030,000)
Net (decrease) in cash and cash equivalents	(631,807)
Cash and cash equivalents:	
Beginning	1,018,118
Ending	<u>\$ 386,311</u>
Supplemental Disclosure of Cash Flows Information,	
cash payments for interest	\$ 55,701
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 Directors
- St. Vincent's Home
- Newman Catholic Student Center of Iowa City, Iowa
- Catholic Foundation for the Diocese of Davenport

The Bishop of the Diocese of Davenport also serves as Chairman of the Board of Kahl Home for the Aged and Infirm.

None of the assets and 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 National Conference of Catholic Bishops, United States Catholic Conference, which is consistent with accounting principles generally accepted in the United States of America in all material respects.

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.

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.

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.

Diocese of Davenport

Notes to Financial Statements

Note 1. Nature of Organization and Significant Accounting Policies (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 debts, net were approximately \$1,300 for the year ended June 30, 2009.

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. Realized and unrealized gains and losses on investments are included in the statement of activities.

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:

	Years	
Buildings 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 statement 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 or acquired long-lived assets are placed in service.

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

Subsequent events: In May 2009, the FASB issued SFAS 165, *Subsequent Events*, which establishes general standards of accounting for, and disclosure of, events that occur after the date of the financial statements but before the financial statements are issued or are available to be issued. SFAS 165 requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date. The Diocese adopted SFAS 165 on June 30, 2009. The adoption of this guidance did not have any impact on the financial statements. The Diocese has considered subsequent events through November 6, 2009, the date on which the financial statements were available to be issued. See Note 13.

Diocese of Davenport

Notes to Financial Statements

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.

The fair values of the investments in this trust as of June 30, 2009 and 2008 are as follows:

	2009	2008
Cash	\$ 10,450	\$ 5,003
Marketable securities, mutual funds, at fair value	407,989	583,408
	<u>\$ 418,439</u>	<u>\$ 588,411</u>

During the year ended June 30, 2009, the Diocese board approved appropriations from accumulated earnings of \$37,500, which leaves \$380,939 of the trust classified as temporarily restricted net assets.

Investment return (loss) on long-term funds is classified in the statement of activities as income (losses) from temporarily restricted net assets. Investment (loss) for the year ended June 30, 2009 is summarized as follows:

Interest and dividends	\$ 11,148
Net realized and unrealized losses	(171,023)
Investment fees and expenses	(7,593)
	<u>\$ (167,468)</u>

Marguerite Ritzinger Charitable Fund:

The Marguerite Ritzinger Charitable 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 value of the mutual fund as of June 30, 2009 and 2008 was \$273,549 and 370,154, respectively.

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 balance sheet.

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

Notes to Financial Statements

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

The Diocese adopted FASB Staff Position No. FAS 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds*. This staff position provides guidance on the net asset classification of donor-restricted endowment funds for not-for-profit organizations that are subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and improves disclosures for endowment funds, both donor-restricted and board designated (quasi-endowment).

The Diocese has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) adopted by the 2008 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.

The Diocese has adopted investment and spending policies for its endowment funds. The objective of these policies is to provide the Diocese 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%; 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 not exceed \$37,500 in any calendar year. During the year ended June 30, 2009, the Diocese spent \$37,500 of the accumulated income of the temporarily restricted investments. The Diocese spent all of the income of approximately \$2,500 of the permanently restricted investment for the year ended June 30, 2009.

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 year ended June 30, 2009 were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ -	\$ 588,411	\$ 273,375	\$ 861,786
Investment return:				
Interest and dividends, net of fees	-	3,555	-	3,555
Net (depreciation) (realized and unrealized)	-	(171,023)	-	(171,023)
Total investment return	-	420,943	273,375	694,318
Appropriation of endowment funds for expenditure	-	(40,004)	-	(40,004)
Endowment net assets, end of year	\$ -	\$ 380,939	\$ 273,375	\$ 654,314

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, underwater endowments. There were no underwater endowment funds as of June 30, 2009 or 2008.

Note 3. Fair Value Measurements

The Diocese adopted the provisions of SFAS 157, Fair Value Measurements, as of July 1, 2008. SFAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements.

SFAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. SFAS 157 requires the use of valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources, or unobservable, meaning those that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. In that regard, SFAS 157 establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

- Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Association has the ability to access.

Diocese of Davenport

Notes to Financial Statements

Note 3. Fair Value Measurements (Continued)

Level 2: Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets
- Quoted prices for identical or similar assets or liabilities in active markets
- Inputs other than quoted prices that are observable for the asset or liability
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means

If the asset or liability has a specific (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.

A description of the valuation methodologies used for assets and liabilities 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 includes highly liquid government bonds and exchange traded equities and mutual funds. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flow. Level 2 securities would include U.S. agency securities, mortgage-backed agency securities, obligations of states and political subdivisions and certain corporate, asset backed and other securities.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Diocese believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table summarizes investments measured at fair value on a recurring basis as of June 30, 2009, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

	Fair Value Measurements as of June 30, 2009 Using			
		Quoted Prices in Active Markets for Identical Assets Fair Value (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments, mutual funds	\$ 681,538	\$ 681,538	\$ -	\$ -

Diocese of Davenport

Notes to Financial Statements

Note 4. Property and Equipment

A summary of property and equipment as of June 30, 2009 and 2008 is as follows:

	2009	2008
Land	\$ 76,800	\$ -
Buildings and improvements	111,265	28,065
Equipment and furniture	493,398	447,487
Automobiles	101,993	91,993
	783,456	567,545
Less accumulated depreciation	500,851	470,271
	<u>\$ 282,605</u>	<u>\$ 97,274</u>

Note 5. Long-Term Debt

Long-term debt as of June 30, 2009 and 2008 consists of the following:

	2009	2008
Note payable (A)	\$ -	\$ 30,000
Related party debt (B)	970,000	1,970,000
	<u>\$ 970,000</u>	<u>\$ 2,000,000</u>

(A) The Diocese borrowed \$2,000,000 from a bank on May 30, 2008 and repaid \$1,970,000 during June 2008 with the funds borrowed from St. Vincent's Home and The Catholic Messenger. The agreement requires monthly payments of interest only at 1% below prime with a floor of 5%. The remaining balance was paid off in 2009.

(B) 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 require quarterly payments of interest only at 4%. The agreements mature June 18, 2013. The notes are unsecured.

Diocese of Davenport

Notes to Financial Statements

Note 6. Temporarily Restricted Net Assets

Temporarily restricted net assets as of June 30, 2009 and 2008 are available for the following purposes:

	2009	2008
Seminary education	\$ -	\$ 189,630
Seminary scholarships	180,527	180,527
Catholic charity	321,529	493,606
Special collections, Campaign for Human Development	5,235	7,359
Special collections, Volunteer Program in Latin America	16,420	19,502
Special collections, Works of Charity	11,164	27,946
Special collections, Flood Relief	77,564	-
Omer Woltering Trust, Clergy Education	380,939	588,411
	<u>\$ 993,378</u>	<u>\$ 1,506,981</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.

Note 8. Net Assets Released from Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes.

Purpose restrictions accomplished:		
Special collections, Campaign for Human Development	\$ 10,922	
Special collections, Volunteer Program in Latin America	20,391	
Special collections, Works of Charity	45,306	
Special collections, Flood Relief	240,500	
Catholic charity	177,572	
Seminary education	192,134	
Clergy education	37,500	
Total assets released from restrictions	<u>\$ 724,325</u>	

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.

Diocese of Davenport

Notes to Financial Statements

Note 9. Insurance Funds (Continued)

The Diocese also established a medical insurance fund to provide medical, dental and life 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.

Activity in these funds for the year ended June 30, 2009 was as follows:

	Property Insurance Fund	Medical Insurance Fund	Total
Fees collected	\$ 912,515	\$ 467,993	\$ 1,380,508
Interest earned	-	466	466
Premiums paid	(863,151)	(448,060)	(1,311,211)
Recoveries	76,608	625	77,233
Claims expense	(112,289)	(20,283)	(132,572)
Other income (expense)	3,928	(34)	3,894
	<u>\$ 17,611</u>	<u>\$ 707</u>	<u>\$ 18,318</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% of employees' contributions up to 2% of employee compensation. The Diocese also has the option to make discretionary contributions to the plan. The Diocese's matching and discretionary contribution was approximately \$74,000 for the year ended June 30, 2009.

Note 11. Related Party Transaction and Commitment

The Diocese entered into a professional services contract with a company to provide campaign fund raising services for the benefit of the Catholic Foundation for the Diocese of Davenport for the time period of December 2008 to June 2010. The monthly payment amounts range from \$16,000 to \$122,500. The contract may be canceled by giving the company 90 days notice and payment of prorated professional fees based on services provided and other operational expenses incurred. The Catholic Foundation for the Diocese of Davenport has agreed to assume the liability under the contract.

The Diocese has a receivable from the Catholic Foundation for the Diocese of Davenport for \$316,277 as of June 30, 2009 related to the professional services contract and other expenses paid by the Diocese on behalf of the Catholic Foundation for the Diocese of Davenport.

Note 12. Concentrations of Credit Risk

The Diocese routinely invests their surplus operating funds in money market funds. Money market funds are not insured or guaranteed by the U.S. government; however, management believes that credit risk related to these investments is minimal.

Diocese of Davenport

Notes to Financial Statements

Note 13. Bankruptcy Related Settlement and Subsequent Event

The Diocese had numerous lawsuits filed against it. On October 10, 2006, the Diocese filed a voluntary petition under Chapter 11 of the federal bankruptcy laws in the United States Bankruptcy Court for the Southern District of Iowa.

On November 29, 2007, the Diocese entered into a settlement agreement with the Official Committee of Unsecured Creditors which was affirmed by the Bankruptcy Court in May 2008. The settlement required a significant cash payment in fiscal year 2008 and required the Diocese to transfer the deed to the St. Vincent's Center which was transferred on July 21, 2008 to the settlement Trustee but the property was removed from the balance sheet at the time of the settlement agreement. The Diocese shall remain in possession of the property and pay all occupancy costs during its possession in lieu of rent. On July 31, 2009, the St. Vincent's Center was purchased by an affiliated organization.

The Diocese must also comply with various operational and administrative matters as required by the settlement agreement.

The professional fees of \$630,519 accrued as of June 30, 2008 relating to the bankruptcy were paid during the year ended June 30, 2009. During 2009, the Diocese also received an additional \$600,000 recovery from insurance and incurred expenses of \$57,650 relating to the bankruptcy.

Subsequent to the affiliate acquisition of St. Vincent Center, the Diocese began outside improvements on the St. Vincent's Center property. The estimated cost of the outside improvements is approximately \$200,000. The outside improvements were authorized by the affiliated organization, who owns the property. The Diocese expects to fund the outside improvements using operating cash.

Diocese of Davenport

Balance Sheets June 30, 2009 and 2008

Assets	2009		
	Operating	Insurance Fund	Total
Cash and Cash Equivalents:	\$ 155,203	\$ 231,108	\$ 386,311
Certificates of Deposit	315,668	52,594	368,262
Receivables:			
Due from parishes, Annual Diocesan Appeal	867,016	-	867,016
Due from the Catholic Foundation for the Diocese of Davenport (Note 11)	316,277	-	316,277
Marriage tribunal, less allowance for doubtful amounts 2009 \$4,900; 2008 \$4,600	1,435	-	1,435
Priests and former seminarians, less allowance for doubtful amounts 2009 \$14,351; 2008 \$238,876	5,450	-	5,450
Insurance recovery	-	20,935	20,935
Other receivable	46,075	35,284	81,359
Investments:			
Omer Woltering Trust (Note 2)	418,439	-	418,439
Marguerite Ritzinger Charitable Fund (Note 2)	273,549	-	273,549
Agency account, cash and cash equivalents	396,567	-	396,567
Property and Equipment, net of accumulated depreciation (Note 4)	282,605	-	282,605
Prepaid Assets	-	-	-
Total assets	\$ 3,078,284	\$ 339,921	\$ 3,418,205
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued expenses	\$ 177,951	\$ -	\$ 177,951
Professional fees payable	-	-	-
Accounts payable, special collections	194,988	-	194,988
Accounts payable, insurance claims	-	35,075	35,075
Total current liabilities	372,939	35,075	408,014
Long-term debt (Note 5)	970,000	-	970,000
Total liabilities	1,342,939	35,075	1,378,014
Contingency (Notes 11 and 12)			
Net Assets:			
Unrestricted	468,592	304,846	773,438
Temporarily restricted (Note 6)	993,378	-	993,378
Permanently restricted (Note 7)	273,375	-	273,375
Total net assets	1,735,345	304,846	2,040,191
Total liabilities and net assets	\$ 3,078,284	\$ 339,921	\$ 3,418,205

See Notes to Financial Statements.

2008		
Operating	Insurance Fund	Total
\$ 798,508	\$ 219,610	\$ 1,018,118
313,041	52,128	365,169
808,722	-	808,722
-	-	-
1,330	-	1,330
11,624	-	11,624
-	17,815	17,815
50,427	28,838	79,265
588,411	-	588,411
370,154	-	370,154
991,478	-	991,478
97,274	-	97,274
40,910	184	41,094
<u>\$ 4,071,879</u>	<u>\$ 318,575</u>	<u>\$ 4,390,454</u>

\$ 160,475	\$ -	\$ 160,475
630,519	-	630,519
240,154	-	240,154
-	27,805	27,805
<u>1,031,148</u>	<u>27,805</u>	<u>1,058,953</u>
2,000,000	-	2,000,000
<u>3,031,148</u>	<u>27,805</u>	<u>3,058,953</u>

(739,625)	290,770	(448,855)
1,506,981	-	1,506,981
273,375	-	273,375
<u>1,040,731</u>	<u>290,770</u>	<u>1,331,501</u>
<u>\$ 4,071,879</u>	<u>\$ 318,575</u>	<u>\$ 4,390,454</u>

Diocese of Davenport

Statement of Activities
Year Ended June 30, 2009

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and Revenue:				
Annual Diocesan Appeal	\$ 2,775,006	\$ -	\$ -	\$ 2,775,006
Support revenue for special collections	-	372,695	-	372,695
Contributions and bequests	324,770	5,495	-	330,265
Insurance revenue, net of expenses (Note 9)	18,318	-	-	18,318
Investment income (losses):				
Interest and dividends, net of fees	15,935	3,555	-	19,490
Net realized (losses) on sale of investments	-	(67,597)	-	(67,597)
Net unrealized (losses) on investments	(104,122)	(103,426)	-	(207,548)
Other income, including primarily education receipts	514,957	-	-	514,957
Insurance recoveries (Note 13)	600,000	-	-	600,000
Net assets released from restrictions, satisfaction of program restrictions (Note 8)	724,325	(724,325)	-	-
Total support and revenue	4,869,189	(513,603)	-	4,355,586
Expenses:				
Chancery office	333,290	-	-	333,290
Marriage tribunal office	137,382	-	-	137,382
Pastoral services office	885,993	-	-	885,993
Vocations and clergy support	65,033	-	-	65,033
Support of special collections	306,198	-	-	306,198
Assistance of clergy (health benefits)	165,807	-	-	165,807
University hospital chaplains	96,417	-	-	96,417
National, regional, local councils and organizations	106,892	-	-	106,892
Deacon and seminarian education	314,995	-	-	314,995
Stewardship and development office	116,062	-	-	116,062
Communications office	263,918	-	-	263,918
Administration and finance office	444,397	-	-	444,397
St. Vincent's Center	322,272	-	-	322,272
Bankruptcy related expenses (Note 13)	57,660	-	-	57,660
Depreciation	30,580	-	-	30,580
Total expenses	3,646,896	-	-	3,646,896
Change in net assets	1,222,293	(513,603)	-	708,690
Net assets at beginning of year	(448,855)	1,506,981	273,375	1,331,501
Net assets at end of year	\$ 773,438	\$ 993,378	\$ 273,375	\$ 2,040,191

See Notes to Financial Statements.

Diocese of Davenport

Statement of Cash Flows
Year Ended June 30, 2009

Cash Flows from Operating Activities:	
Change in net assets	\$ 708,690
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Contribution of land and building	(160,000)
Depreciation	30,580
(Gain) on sale of property and equipment	(40)
Net realized losses on sale of investments	67,597
Net unrealized losses on investments	207,548
Changes in assets and liabilities:	
(Increase) in other receivables	(57,439)
Decrease in prepaid assets	41,094
(Decrease) in accounts payable and accrued expenses	(650,939)
Net cash provided by operating activities	<u>187,091</u>
Cash Flows from Investing Activities:	
(Increase) in due from Foundation	(316,277)
Purchase of certificates of deposit	(3,093)
Purchase of investments	(390,534)
Proceeds from sale of investments	976,877
Proceeds from sale of equipment	40
Purchase of property and equipment	(55,911)
Net cash provided by investing activities	<u>211,102</u>
Cash Flows (used in) Financing Activities, payments on long-term debt	<u>(1,030,000)</u>
Net (decrease) in cash and cash equivalents	<u>(631,807)</u>
Cash and cash equivalents:	
Beginning	<u>1,018,118</u>
Ending	<u>\$ 386,311</u>
Supplemental Disclosure of Cash Flows Information, cash payments for interest	\$ 55,701

See Notes to Financial Statements.

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

	<u>2009</u>	<u>2008</u>
Cash	\$ 10,450	\$ 5,003
Marketable securities, mutual funds, at fair value	407,989	583,408
	<u>\$ 418,439</u>	<u>\$ 588,411</u>

Interest and dividends	\$ 11,148
Net realized and unrealized losses	(171,023)
Investment fees and expenses	(7,593)
	<u>\$ (167,468)</u>

	Temporarily Restricted	Permanently Restricted	Total
	2009		
Donor-restricted endowment funds, Clergy/Seminarian Education	418,439	273,375	\$ 691,814
	2008		
Donor-restricted endowment funds, Clergy/Seminarian Education	588,411	273,375	\$ 861,786

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ -	\$ 588,411	\$ 273,375	\$ 861,786
Investment return:				
Interest and dividends, net of fees	-	3,555	-	3,555
Net (depreciation) (realized and unrealized)	-	(171,023)	-	(171,023)
Total investment return	-	420,943	273,375	694,318
Appropriation of endowment funds for expenditure	-	(40,004)	-	(40,004)
Endowment net assets, end of year	\$ -	\$ 380,939	\$ 273,375	\$ 654,314

Note 4. Fair Value Measurement (N_FVMeas)

	Fair Value Measurements as of June 30, 2009 Using			
	Quoted Prices			
	in Active	Significant Other	Significant	
	Markets for	Observable	Unobservable	
	Identical Assets	Inputs	Inputs	
Fair Value	(Level 1)	(Level 2)	(Level 3)	
Investments, mutual funds	\$ 681,538	\$ 681,538	\$ -	\$ -

	<u>2009</u>	<u>2008</u>
Land	\$ 76,800	\$ -
Buildings and improvements	111,265	28,065
Equipment and furniture	493,398	447,487
Automobiles	101,993	91,993
	<u>783,456</u>	<u>567,545</u>
Less accumulated depreciation	500,851	470,271
	<u>\$ 282,605</u>	<u>\$ 97,274</u>

Purpose restrictions accomplished:

Special collections, Campaign for Human Development	\$	10,922
Special collections, Volunteer Program in Latin America		20,391
Special collections, Works of Charity		45,306
Special collections, Flood Relief		240,500
Catholic charity		177,572
Seminary education		192,134
Clergy education		37,500
Total assets released from restrictions	\$	<u>724,325</u>

	Property Insurance Fund	Medical Insurance Fund	Total
Fees collected			\$ -
Interest earned			-
Premiums paid			-
Recoveries			-
Claims expense			-
Other			-
	\$ -	\$ -	\$ -

Note 8. Insurance Funds and Contingency (N_InsFund)

	Property Insurance Fund	Medical Insurance Fund	Total
Fees collected	\$ 912,515	\$ 467,993	\$ 1,380,508
Interest earned	-	466	466
Premiums paid	(863,151)	(448,060)	(1,311,211)
Recoveries	76,608	625	77,233
Claims expense	(112,289)	(20,283)	(132,572)
Other income (expense)	3,928	(34)	3,894
	<u>\$ 17,611</u>	<u>\$ 707</u>	<u>\$ 18,318</u>

Liquidation of cash, investments and other assets
Related party contributions received for settlement
Transfer of St. Vincent's Center property at the
stated amount in the settlement agreement
Insurance proceeds
Long-term borrowings

\$ -

Omer Woltering Trust, Clergy Education

	380,939	588,411
	<u>\$ 993,378</u>	<u>\$ 1,506,981</u>

Note 7. Net Assets Released from Restrictions (N_NetAssts)

Purpose restrictions accomplished:

	2009	2008
Special collections, Campaign for Human Development	\$ 10,922	\$ 6,897
Special collections, Volunteer Program in Latin America	20,392	14,185
Special collections, Works of Charity	45,306	16,775
Catholic charity	60,525	18,159
Seminary education (A)	2,505	13,051
Total assets released from restrictions	<u>\$ 139,650</u>	<u>\$ 69,067</u>

Note 11. Lawsuit and Petition for Reorganization under Chapter 11 (N_Chpt11)

Claims payable - court verdict

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Note 8. Bankruptcy and Related Settlement (N_Settle)