

# Diocese of Davenport

Balance Sheet Report

06.30.2008

**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 sheet of the Diocese of Davenport as of June 30, 2008. This financial statement is the responsibility of the Diocese's management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the balance sheet is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the balance sheet. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall balance sheet presentation. We believe that our audit of the balance sheet provides a reasonable basis for our opinion.

In our opinion, the balance sheet referred to above presents fairly, in all material respects, the financial position of the Diocese of Davenport as of June 30, 2008 in conformity with accounting principles generally accepted in the United States of America.

*McGladrey & Pullen, LLP*

Davenport, Iowa  
November 7, 2008

# Diocese of Davenport

## Balance Sheet June 30, 2008

Assets	Operating	Insurance Fund	Total
<b>Cash and Cash Equivalents:</b>			
Unrestricted	\$ 798,508	\$ 219,610	\$ 1,018,118
<b>Certificates of deposit:</b>			
Unrestricted	-	52,128	52,128
Temporarily restricted by donor	313,041	-	313,041
	<u>313,041</u>	<u>52,128</u>	<u>365,169</u>
<b>Receivables:</b>			
Due from parishes, Annual Diocesan Appeal	808,722	-	808,722
Marriage tribunal, less allowance for doubtful amounts of \$4,600	1,330	-	1,330
Priests and former seminarians, less allowance for doubtful amounts of \$238,876	11,624	-	11,624
Insurance recovery	-	17,815	17,815
Other receivable	50,427	28,838	79,265
<b>Investments:</b>			
Omer Woltering Trust (Note 2)	588,411	-	588,411
Marguerite Ritzinger Charitable Fund (Note 2)	370,154	-	370,154
Agency account, cash and cash equivalents (Note 8)	991,478	-	991,478
Equipment, furniture and automobiles, net of accumulated depreciation of \$470,271	97,274	-	97,274
Prepaid Assets	40,910	184	41,094
	<u>2,960,330</u>	<u>46,837</u>	<u>3,007,167</u>
<b>Total assets</b>	<u>\$ 4,071,879</u>	<u>\$ 318,575</u>	<u>\$ 4,390,454</u>
<b>Liabilities and Net Assets</b>			
<b>Liabilities:</b>			
Accounts payable and accrued expenses	\$ 160,475	\$ -	\$ 160,475
Professional fees payable (Note 8)	630,519	-	630,519
Accounts payable, special collections	240,154	-	240,154
Accounts payable, insurance claims	-	27,805	27,805
<b>Total current liabilities</b>	<u>1,031,148</u>	<u>27,805</u>	<u>1,058,953</u>
Long-term debt (Note 3)	2,000,000	-	2,000,000
<b>Total liabilities</b>	<u>3,031,148</u>	<u>27,805</u>	<u>3,058,953</u>
<b>Contingency (Notes 6 and 7)</b>			
<b>Net Assets:</b>			
Unrestricted	(739,625)	290,770	(448,855)
Temporarily restricted (Note 4)	1,506,981	-	1,506,981
Permanently restricted (Note 5)	273,375	-	273,375
<b>Total net assets</b>	<u>1,040,731</u>	<u>290,770</u>	<u>1,331,501</u>
<b>Total liabilities and net assets</b>	<u>\$ 4,071,879</u>	<u>\$ 318,575</u>	<u>\$ 4,390,454</u>

See Notes to Balance Sheet.

## Diocese of Davenport

### Notes to Balance Sheet

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#### 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 corporations:

- Approximately 100 parish and school corporations
- The Catholic Messenger
- St. Ambrose University
- The Priests Aid Society, Inc.
- St. Vincent's Home Corporation
- Newman Catholic Student Center of Iowa City, Iowa

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 balance sheet of the Diocese of Davenport has 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: In conformity with accounting principles generally accepted in the United States of America, the preparation of the balance sheet 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 balance sheet. Actual results could differ from those estimates.

Restricted certificates of deposit: The temporarily restricted certificates of deposit are donor restricted by the John C. Massion Estate for social programs for the poor and needy in memory of Thomas R. Massion.

## Diocese of Davenport

### Notes to Balance Sheet

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#### 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.

Investments: Investments in marketable equity and debt securities are carried at fair value based on quoted market prices.

Equipment and furniture and automobiles: Equipment, furniture and automobiles 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, which range from 5 to 10 years.

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.

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.

Pending accounting pronouncements: In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157 (SFAS No. 157), *Fair Value Measurements*. SFAS No. 157 establishes a single authoritative definition of fair value, sets out a framework for measuring fair value and requires additional disclosures about fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. The FASB has adopted a one-year deferral for the implementation of the statement for nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis. The Diocese has not yet completed its analysis of the effects of this Statement and has not determined if the adoption of SFAS No. 157 will have a material impact on the financial statements.

## Diocese of Davenport

### Notes to Balance Sheet

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

In August 2008, the FASB issued FASB Staff Position (FSP) No. 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, which provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). UPMIFA is a model act approved by the Uniform Law Commission that serves as a guideline for states to use in enacting legislation. This FSP also improves disclosures about an organization's endowment funds (both donor-restricted endowment funds and board-designated endowment funds), whether or not the organization is subject to UPMIFA. FSP 117-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008. The Diocese is currently evaluating the impact of adopting this Staff Position on the Diocese's net asset classifications and financial statement disclosures.

#### Note 2. Investments and Subsequent Event

##### 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. During the years, the income of the trust can be used on an annual basis to support primarily clergy education. After the 25 years, the trust shall terminate and the corpus of the trust together with any income shall be distributed in its entirety to the Diocese. The Diocese is the beneficiary of the trust.

The assets of this trust as of June 30, 2008 are as follows:

Cash	\$ 5,003
Marketable securities, mutual funds, at fair value	<u>583,408</u>
	<u>\$ 588,411</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.

##### Commingled investment fund:

The Diocese of Davenport administers a voluntary commingled investment program (Kingdom Co) for the benefit of those Diocesan affiliates who request to participate in the program. The Diocese of Davenport withdrew all of their funds in December 2006 from Kingdom Co, and as of June 30, 2008 did not have a financial interest in Kingdom Co. The investments of Kingdom Co are not included in the balance sheet.

## Diocese of Davenport

### Notes to Balance Sheet

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#### Note 2. Investments (Continued)

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.

Subsequent to year-end, the credit and liquidity crisis in the United States and throughout the global financial system has resulted in substantial volatility in financial markets and the banking system. These and other economic events have had a significant adverse impact on investment portfolios. As a result, the Omer Woltering Trust and Marguerite Ritzinger Trust's investments have likely incurred a significant decline in fair value since June 30, 2008.

#### Note 3. Long-Term Debt

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

Note payable (A)	\$ 30,000
Related party debt (B)	<u>1,970,000</u>
	<u><u>\$ 2,000,000</u></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%, which was the interest rate as of June 30, 2008. The agreement matures May 2013. The agreement is collateralized by substantially all of the Diocese's assets and the assets of St. Vincent's Home and The Catholic Messenger.
- (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 Balance Sheet

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#### Note 4. Temporarily Restricted Net Assets

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

Seminary education	\$ 370,157
Catholic charity	493,606
Special collections, Campaign for Human Development	7,359
Special collections, Volunteer Program in Latin America	19,502
Special collections, Works of Charity	27,946
Omer Woltering Trust, Clergy Education	588,411
	<u>\$ 1,506,981</u>

#### Note 5. 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 6. Insurance Funds and Contingency

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.

The Diocese also established an insurance fund to provide medical 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.

#### Note 7. Concentrations of Credit Risk

The Diocese has deposits exceeding the federal depository insurance limits in various major financial institutions. These financial institutions have strong credit ratings and management believes the credit risk related to these deposits is minimal.

The Diocese routinely invests their surplus operating funds in money market funds. These funds generally invest in highly liquid U.S. government and agency obligations and various investment grade corporate obligations. Investments in money market funds are not insured or guaranteed by the U.S. government or by the underlying corporation; however, management believes that credit risk related to these investments is minimal.

## Diocese of Davenport

### Notes to Balance Sheet

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#### Note 8. Bankruptcy and Related Settlement

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. Under Chapter 11, certain claims against the Diocese in existence prior to the filing of the petition for relief under the federal bankruptcy laws were stayed while the Diocese continued business operations as a Debtor-in-Possession.

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 which totaled \$37,000,000. The settlement required the Diocese to pay \$13,600,000 in cash, which includes payment of certain agreed-upon professional fees, plus the deed to the St. Vincent's Center property which was valued at \$3,900,000 in the settlement. The settlement agreement also included \$19,500,000 from the insurance company which was paid in May 2008. The Diocese made the disbursements to the bankruptcy trustee on June 2 and 3, 2008. Certain of the agreed-upon professional fees totaling \$630,519 were unpaid on June 30<sup>th</sup> and are recorded as a liability and subsequently paid in July 2008 using funds from the agency account. The deed to St. Vincent's Center property 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. The settlement Trustee shall provide at least 90 days notice prior to terminating the right of occupancy and possession of the property. Within 90 days after the receipt of any such written notice from the settlement Trustee, the Diocese shall vacate and surrender possession of the property to the settlement Trustee.

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

The settlement has or will be funded approximately as follows:

Liquidation of cash, investments and other assets	\$ 5,700,000
Related party contributions received for settlement	5,900,000
Transfer of St. Vincent's Center property at the stated amount in the settlement agreement	3,900,000
Insurance proceeds	19,500,000
Long-term borrowings	2,000,000
	<u>\$ 37,000,000</u>