

Catholic Foundation for the Diocese of Davenport

Financial Report
June 30, 2011

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Independent Auditor's Report

To the Board of Directors
Catholic Foundation for the Diocese of Davenport
Davenport, Iowa

We have audited the accompanying balance sheets of Catholic Foundation for the Diocese of Davenport as of June 30, 2011 and 2010, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Foundation'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 Catholic Foundation for the Diocese of Davenport as of June 30, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

McGladrey & Pullen, LLP

Davenport, Iowa
October 13, 2011

**Catholic Foundation for the
Diocese of Davenport**

**Balance Sheets
June 30, 2011 and 2010**

Assets	2011	2010
Cash and cash equivalents	\$ 1,668,096	\$ 1,720,635
Investments (Note 2)	2,015,776	-
Contributions receivable, net (Note 3)	9,372,379	12,372,497
Prepays	-	590
	\$ 13,056,251	\$ 14,093,722
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Liabilities and Net Assets		
Due to Diocese of Davenport (Note 7)	\$ 58,696	\$ 19,102
Accounts payable	11,064	5,176
Payable to parishes (Note 7)	482,310	927,620
	552,070	951,898
Net assets:		
Unrestricted	12,371,618	12,975,167
Temporarily restricted (Note 4)	132,563	166,657
	12,504,181	13,141,824
	\$ 13,056,251	\$ 14,093,722

See Notes to Financial Statements.

**Catholic Foundation for the
Diocese of Davenport**

**Statements of Activities
Years Ended June 30, 2011 and 2010**

	2011		
	Unrestricted	Temporarily Restricted	Total
Revenue, contributions	\$ 2,315,908	\$ 21,069	\$ 2,336,977
Investment income (losses):			
Interest and dividends, net of fees	19,881	-	19,881
Net realized and unrealized gains on investments	98,456	-	98,456
Net assets released from restrictions, satisfaction of program restrictions (Note 5)	55,163	(55,163)	-
	<u>2,489,408</u>	<u>(34,094)</u>	<u>2,455,314</u>
Expenses:			
Program services:			
Provision for uncollectible contributions and contribution write-offs	234,240	-	234,240
Contributions to Diocese (Note 7)	1,658,696	-	1,658,696
Parish sharing contributions (Note 7)	1,059,633	-	1,059,633
Contributions to schools	11,014	-	11,014
Other	4,560	-	4,560
Total program services expenses	<u>2,968,143</u>	<u>-</u>	<u>2,968,143</u>
Support services, management and general, primarily professional fees	9,114	-	9,114
Fund raising:			
Contracted services (Note 7)	85,000	-	85,000
Printing and publications	29,969	-	29,969
Meetings and travel	731	-	731
Total fund raising expenses	<u>115,700</u>	<u>-</u>	<u>115,700</u>
Total expenses	<u>3,092,957</u>	<u>-</u>	<u>3,092,957</u>
Changes in net assets	<u>(603,549)</u>	<u>(34,094)</u>	<u>(637,643)</u>
Net assets:			
Beginning	12,975,167	166,657	13,141,824
Ending	<u>\$ 12,371,618</u>	<u>\$ 132,563</u>	<u>\$ 12,504,181</u>

See Notes to Financial Statements.

2010

Unrestricted	Temporarily Restricted	Total
\$ 16,884,247	\$ 178,799	\$ 17,063,046
-	-	-
-	-	-
28,149	(28,149)	-
<u>16,912,396</u>	<u>150,650</u>	<u>17,063,046</u>
1,078,401	7,841	1,086,242
1,400,000	-	1,400,000
927,620	-	927,620
-	-	-
1,916	-	1,916
<u>3,407,937</u>	<u>7,841</u>	<u>3,415,778</u>
15,148	-	15,148
1,380,000	-	1,380,000
122,652	-	122,652
22,551	-	22,551
<u>1,525,203</u>	<u>-</u>	<u>1,525,203</u>
4,948,288	7,841	4,956,129
11,964,108	142,809	12,106,917
1,011,059	23,848	1,034,907
<u>\$ 12,975,167</u>	<u>\$ 166,657</u>	<u>\$ 13,141,824</u>

**Catholic Foundation for the
Diocese of Davenport**

**Statements of Cash Flows
Years Ended June 30, 2011 and 2010**

	2011	2010
Cash Flows from Operating Activities:		
Change in net assets	\$ (637,643)	\$ 12,106,917
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Write-off of contributions	333,373	99,881
Net realized and unrealized gains on investments	(98,456)	-
Changes in assets and liabilities:		
Decrease (increase) in contributions receivable	2,666,745	(11,204,029)
Decrease (increase) in prepaids	590	(590)
Increase (decrease) in due to Diocese of Davenport	39,594	(297,175)
Increase (decrease) in accounts payable and payable to parishes	(439,422)	932,796
Net cash provided by operating activities	1,864,781	1,637,800
Cash Flows (Used in) Investing Activities,		
purchase of investments	(1,917,320)	-
Net increase (decrease) in cash and cash equivalents	(52,539)	1,637,800
Cash and cash equivalents:		
Beginning	1,720,635	82,835
Ending	\$ 1,668,096	\$ 1,720,635

See Notes to Financial Statements.

**Catholic Foundation for the
Diocese of Davenport**

Notes to Financial Statements

Note 1. Nature of Organization and Significant Accounting Policies

Nature of organization:

Catholic Foundation for the Diocese of Davenport (Foundation) was incorporated on February 10, 2009, and is a not-for-profit foundation established to promote the strength and growth of the Diocese of Davenport and its affiliated entities. This financial report includes all known funds and all known major assets and liabilities of the Catholic Foundation for the Diocese of Davenport.

Significant accounting policies:

The financial statements of the Foundation have been prepared in accordance with accounting principles generally accepted in the United States of America.

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 revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include the provision for uncollectible contributions and the discount on the contributions.

Net assets: The Foundation 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. The Foundation had no permanently restricted net assets as of June 30, 2011 and 2010.

Cash and cash equivalents: The Foundation considers highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

Investments: 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.

Contributions receivable and revenue: The Foundation records contributions (including promises to give) when the contribution is deemed unconditional. Unconditional promises relate to the Foundation's capital campaign are included in the financial statements as contributions receivable and contributions revenue by the appropriate net asset category. Contributions are reflected in the financial statements at the earlier of the transfer of assets or at the time the unconditional promises to give are made. Pledges, bequests and other promises to give that are to be received within a one-year period have not been discounted to reflect the present value of the future cash flows. Contributions which are material and are to be received in excess of one year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on contributions.

**Catholic Foundation for the
Diocese of Davenport**

Notes to Financial Statements

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

An allowance for uncollectible contributions receivable is provided based on management's judgment including such factors as collection history of the Foundation and industry, type of contribution and nature of fund raising activity. Management periodically evaluates individual contributions receivable for collectability. Contributions written off as uncollectible totaled \$333,373 and \$99,881 for the years ended June 30, 2011 and 2010, respectively.

The Foundation 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 Foundation 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 Foundation reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Conditional promises to give, where the donor has placed a condition on the gift that the ultimate transfer of assets or promises to give is contingent on a future and uncertain event, are not recorded as contributions until the condition is met. There are approximately \$187,100 and \$260,900 of conditional promises to give as of June 30, 2011 and 2010.

Contributions payable: Contributions payable, including payable to parishes, are charged to operations and recognized as liabilities when authorized by the Board of Directors, regardless of the year in which they are paid.

Functional expenses: The costs of providing contributions and other activities have been summarized on a functional basis in the statements of activities. Directly identifiable expenses are charged to programs and supporting services. Management and general expenses include those expenses that are not directly identifiable with any other specific function, but provide overall support and direction of the Foundation. Fundraising expenses include those expenses that are directly identifiable to the solicitation of contributions.

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

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

**Catholic Foundation for the
Diocese of Davenport**

Notes to Financial Statements

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

Subsequent events: The Foundation has evaluated subsequent events through October 13, 2011, which is the date on which the financial statements were available to be issued. The Foundation invested an additional \$1 million and \$600,000 of its cash in the investment funds currently held by the Foundation in July 2011 and September 2011, respectively.

Note 2. Investments and Fair Value Measurements

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

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

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

If quoted market prices are not available, then fair values are estimated by the Foundation's investment manager using pricing models, quoted prices of securities with similar characteristics, audited financial statements of the funds, or discounted cash flow. The Foundation's level 2 securities are funds where the value is based on net asset value provided by the investment manager.

**Catholic Foundation for the
Diocese of Davenport**

Notes to Financial Statements

Note 2. Investments and Fair Value Measurements (Continued)

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

	Investments at Fair Value			
	Total	Level 1	Level 2	Level 3
	As of June 30, 2011			
Assets:				
Alternative investments:				
RCT Short Bond Fund	\$ 195,031	\$ -	\$ 195,031	\$ -
RCT Intermediate Diversified Bond Fund	583,963	-	583,963	-
CUIT Growth Equity Fund	305,300	-	305,300	-
CUIT Value Equity Fund	311,067	-	311,067	-
CUIT International Equity Fund	302,447	-	302,447	-
CUIT Small Capitalization Equity Index Fund	317,968	-	317,968	-
	<u>\$ 2,015,776</u>	<u>\$ -</u>	<u>\$ 2,015,776</u>	<u>\$ -</u>

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

Investment	Fair Value	Unfunded Commitment	Redemption Frequency	Redemption Notice Period
Investments:				
RCT Short Bond Fund (A)	\$ 195,031	\$ -	Daily	Trade Date minus 1 Day
RCT Intermediate Diversified Bond Fund (B)	583,963	-	Daily	Trade Date minus 1 Day
CUIT Growth Equity Fund (C)	305,300	-	Daily	Trade Date minus 1 Day
CUIT Value Equity Fund (C)	311,067	-	Daily	Trade Date minus 1 Day
CUIT International Equity Fund (D)	302,447	-	Daily	Trade Date minus 1 Day
CUIT Small Capitalization Equity Index Fund (C)	317,968	-	Daily	Trade Date minus 1 Day
	<u>\$ 2,015,776</u>	<u>\$ -</u>		

**Catholic Foundation for the
Diocese of Davenport**

Notes to Financial Statements

Note 3. Investments and Fair Value Measurements (Continued)

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

Note 3. Contributions Receivable

Contributions receivable as of June 30, 2011 and 2010 consist of the following:

	2011	2010
Amounts due in:		
Less than one year	\$ 3,892,079	\$ 3,921,802
One to two years	3,170,722	3,621,471
Two to three years	2,116,268	3,097,447
Three to four years	1,160,875	2,005,828
Four to five years	122,373	985,633
After five years	93,255	119,292
	<u>10,555,572</u>	<u>13,751,473</u>
Less:		
Unamortized discount	183,912	278,858
Provision for uncollectible contributions	999,281	1,100,118
	<u>\$ 9,372,379</u>	<u>\$ 12,372,497</u>

**Catholic Foundation for the
Diocese of Davenport**

Notes to Financial Statements

Note 4. Temporarily Restricted Net Assets

Temporarily restricted net assets as of June 30, 2011 and 2010 can be used for the following:

	2011	2010
Vocations	\$ 70,794	\$ 69,163
Faith formation	3,682	7,383
Social action	14,172	20,630
Diocesan operations	-	5,875
Schools	21,225	29,350
Deacon formation	3,420	5,731
Priest health care	11,421	21,085
Cathedral renovation	7,849	7,440
	<u>\$ 132,563</u>	<u>\$ 166,657</u>

Note 5. Net Assets Released from Restrictions

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

	2011	2010
Purpose restrictions accomplished:		
Vocations	\$ 9,341	\$ -
Faith formation	5,507	-
Social action	8,226	-
Diocesan operations	6,075	-
Schools	11,014	-
Deacon formation	2,719	-
Priest health care	10,944	-
Chancery building	468	25,119
Parish sharing	869	3,030
	<u>\$ 55,163</u>	<u>\$ 28,149</u>

Note 6. Capital Campaign

The Foundation conducted the *Moving Forward in Faith and Hope* capital campaign primarily during the year ended June 30, 2010 to provide resources primarily for four essential needs: strengthening the Church of the Davenport Diocese, supporting our clergy and seminarians, reaching out to our people and assisting our parishes, plus other needs as allowed by the Foundation mission statement. The Foundation hoped to raise approximately \$22,000,000 as part of the campaign.

**Catholic Foundation for the
Diocese of Davenport**

Notes to Financial Statements

Note 6. Capital Campaign (Continued)

The following reconciles the total contributions for the capital campaign as of June 30, 2011 to the amounts recorded in the statements of activities for the years ended June 30, 2011 and 2010 and the period ended June 30, 2009:

	2011	2010	2009	Total
Total contributions for the capital campaign	\$ 2,222,651	\$ 17,689,854	\$ 1,749,748	\$ 21,662,253
Less pledges received directly by the Diocese of Davenport (A)	(500)	(45,695)	(194,038)	(240,233)
Less gifts to Community Foundation of the Great River Bend for the Catholic Foundation, donor advised funds	(13,576)	(46,995)	(53,000)	(113,571)
Conditional pledges recognized or written off	73,800	21,315	-	95,115
Less conditional pledges not yet recognized	-	(274,715)	(7,500)	(282,215)
Less other adjustments	(40,344)	(32,064)	-	(72,408)
	<u>2,242,031</u>	<u>17,311,700</u>	<u>1,495,210</u>	<u>21,048,941</u>
Plus (less) unamortized discount	94,946	(248,654)	(30,204)	(183,912)
Contributions revenue on the statements of activities	<u>\$ 2,336,977</u>	<u>\$ 17,063,046</u>	<u>\$ 1,465,006</u>	<u>\$ 20,865,029</u>

(A) These contributions were received by the Diocese of Davenport for the capital campaign. Donors have requested these contributions count towards the capital campaign goal.

Note 7. Related Party Transactions

The Diocese of Davenport had a professional services contract with a company to provide campaign fund raising services for the benefit of the Foundation for the time period of December 2008 to July 2010. The monthly payment amounts ranged from \$16,000 to \$152,500. The Foundation agreed to assume the liability under the contract. The costs incurred with the company for the years ended June 30, 2011 and 2010 were \$85,000 and \$1,380,000, respectively. There are no remaining fees due for professional services.

The Foundation made contributions to the Diocese of Davenport totaling \$1,658,696 and \$1,400,000 for the years ended June 30, 2011 and 2010, respectively.

The Foundation owed the Diocese of Davenport \$58,696 and \$19,102 as of June 30, 2011 and 2010, respectively.

Under the campaign policies, a parish is entitled to receive 20 percent of the cash received from its parishioners as part of the capital campaign. If the cash received exceeds the parish's goal under the capital campaign, the parish is entitled to receive 50 percent of the cash received from its parishioners in excess of the parish's goal. Payments will be made to the parishes on a semiannual basis. As of June 30, 2011 and 2010, the Foundation has a payable to parishes of \$482,310 and \$927,620, respectively. Parish sharing under the campaign policies were \$1,059,633 and \$927,620 for the years ended June 30, 2011 and 2010, respectively.

The contributions revenue from members of the Foundation board and Foundation management for the years ended June 30, 2011 and 2010 were approximately \$11,100 and \$49,000, respectively. The contributions receivable from members of the Foundation board and Foundation management as of June 30, 2011 and 2010 are approximately \$103,700 and \$159,000, respectively.

**Catholic Foundation for the
Diocese of Davenport**

Notes to Financial Statements

Note 8. Concentration of Credit Risk

The Foundation routinely invests operating funds in money market funds with Edward Jones. Money market funds are not insured or guaranteed by the U.S. government; however, management believes that credit risk related to these funds is minimal. The balance in the money market fund was approximately \$32,000 as of June 30, 2011 and was included in cash and cash equivalents.