

DIOCESE OF DAVENPORT

FINANCIAL STATEMENTS
(WITH INDEPENDENT AUDITOR'S REPORT THEREON)

June 30, 2014 and 2013

DIOCESE OF DAVENPORT

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Diocese of Davenport
Davenport, Iowa

Report on the Financial Statements

We have audited the accompanying financial statements of the Diocese of Davenport, which comprise the balance sheets as of June 30, 2014 and 2013, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Diocese of Davenport as of June 30, 2014 and 2013, and the change in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



October 3, 2014

DIOCESE OF DAVENPORT
Balance Sheets
June 30, 2014 and 2013

	2014		
	Operating	Insurance Fund	Total
ASSETS			
Cash and Cash Equivalents	\$ 326,941	\$ 393,828	\$ 720,769
Certificates of Deposit	-	15,000	15,000
Receivables:			
Due from Parishes, Annual Diocesan Appeal	172,282	-	172,282
Due from the Catholic Foundation for the Diocese of Davenport (Note 9)	217,601	-	217,601
Marriage Tribunal, Less Allowance for Doubtful Amounts 2014 \$6,800; 2013 \$4,900	1,725	-	1,725
Priests and Former Seminarians, Less Allowance for Doubtful Amounts 2014 \$14,611; 2013 \$19,475	2,000	-	2,000
Insurance Recovery	-	109,100	109,100
Prepays	22,491	-	22,491
Other Receivable	62,639	2,442	65,081
Due (to) from Other Fund	100,000	(100,000)	-
Investments:			
Christian Brothers (Notes 2 and 3)	1,837,129	-	1,837,129
Omer Woltering Trust (Notes 2 and 3)	499,988	-	499,988
Vanguard (Notes 2 and 3)	911,767	-	911,767
Total Investments	<u>3,248,884</u>	<u>-</u>	<u>3,248,884</u>
Property and Equipment, Net of Accumulated Depreciation (Note 4)	<u>3,465,091</u>	<u>-</u>	<u>3,465,091</u>
Total Assets	<u>\$ 7,619,654</u>	<u>\$ 420,370</u>	<u>\$ 8,040,024</u>
LIABILITIES AND NET ASSETS			
Liabilities:			
Accounts Payable and Accrued Expenses	\$ 275,433	\$ -	\$ 275,433
Accounts Payable, Special Collections	12,124	-	12,124
Accounts Payable, Insurance Claims	-	143,100	143,100
Total Current Liabilities	<u>287,557</u>	<u>143,100</u>	<u>430,657</u>
Net Assets:			
Unrestricted	6,435,656	277,270	6,712,926
Temporarily Restricted (Note 5)	623,066	-	623,066
Permanently Restricted (Note 6)	273,375	-	273,375
Total Net Assets	<u>7,332,097</u>	<u>277,270</u>	<u>7,609,367</u>
Total Liabilities and Net Assets	<u>\$ 7,619,654</u>	<u>\$ 420,370</u>	<u>\$ 8,040,024</u>

See Notes to the Financial Statements.

2013		
Operating	Insurance Fund	Total
\$ 243,316	\$ 259,521	\$ 502,837
401,647	15,000	416,647
223,186	-	223,186
177,054	-	177,054
960	-	960
2,417	-	2,417
-	18,872	18,872
69,956	-	69,956
34,098	6,315	40,413
-	-	-
1,508,148	-	1,508,148
420,947	-	420,947
836,036	-	836,036
<u>2,765,131</u>	<u>-</u>	<u>2,765,131</u>
<u>3,459,946</u>	<u>-</u>	<u>3,459,946</u>
\$ <u><u>7,377,711</u></u>	\$ <u><u>299,708</u></u>	\$ <u><u>7,677,419</u></u>
\$ 315,918	\$ -	\$ 315,918
18,301	-	18,301
-	31,872	31,872
<u>334,219</u>	<u>31,872</u>	<u>366,091</u>
6,159,085	267,836	6,426,921
611,032	-	611,032
273,375	-	273,375
<u>7,043,492</u>	<u>267,836</u>	<u>7,311,328</u>
\$ <u><u>7,377,711</u></u>	\$ <u><u>299,708</u></u>	\$ <u><u>7,677,419</u></u>

See Notes to the Financial Statements.

DIOCESE OF DAVENPORT
Statements of Activities
Years Ended June 30, 2014 and 2013

	2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and Revenue:				
Annual Diocesan Appeal	\$ 2,922,025	\$ -	\$ -	\$ 2,922,025
Support Revenue for Special Collections	-	44,466	-	44,466
Contributions and Bequests	320,476	4,000	-	324,476
Insurance Revenue (Expense), Net of Expenses (Note 10)	9,434	-	-	9,434
Investment Income (Losses):				
Interest and Dividends, Net of Fees	33,865	6,751	-	40,616
Net Realized Gains (Losses) on Sale of Investments	263	3,920	-	4,183
Net Unrealized Gains on Investments	340,449	97,083	-	437,532
Other Income, Including Primarily Education Receipts	853,345	-	-	853,345
Net Assets Released from Restrictions, Satisfaction of Program Restrictions (Note 7)	144,186	(144,186)	-	-
Total Support and Revenue	<u>4,624,043</u>	<u>12,034</u>	<u>-</u>	<u>4,636,077</u>
Expenses:				
Chancery Office	355,896	-	-	355,896
Marriage Tribunal Office	150,478	-	-	150,478
Pastoral Services Office	1,153,199	-	-	1,153,199
Vocations and Clergy Support	61,185	-	-	61,185
Support of Special Collections	57,973	-	-	57,973
Assistance of Clergy (Health Benefits)	78,048	-	-	78,048
University Hospital Chaplains	102,706	-	-	102,706
National, Regional, Local Councils, and Organizations	108,759	-	-	108,759
Deacon and Seminarian Education	606,669	-	-	606,669
Stewardship and Development Office	137,595	-	-	137,595
Communications Office	279,810	-	-	279,810
School Education	192,299	-	-	192,299
Administration and Finance Office	455,787	-	-	455,787
St. Vincent's Center	425,500	-	-	425,500
Bankruptcy Related Expenses	16,482	-	-	16,482
Depreciation	155,652	-	-	155,652
Total Expenses	<u>4,338,038</u>	<u>-</u>	<u>-</u>	<u>4,338,038</u>
Change in Net Assets	286,005	12,034	-	298,039
Net Assets at Beginning of Year	6,426,921	611,032	273,375	7,311,328
Net Assets at End of Year	<u>\$ 6,712,926</u>	<u>\$ 623,066</u>	<u>\$ 273,375</u>	<u>\$ 7,609,367</u>

See Notes to the Financial Statements.

2013				
Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
\$ 2,873,341	\$ -	\$ -	\$ 2,873,341	
-	72,547	-	72,547	
298,560	4,000	-	302,560	
(37,952)	-	-	(37,952)	
38,732	9,411	-	48,143	
1,635	12,386	-	14,021	
235,309	52,086	-	287,395	
479,111	-	-	479,111	
129,718	(129,718)	-	-	
<u>4,018,454</u>	<u>20,712</u>	<u>-</u>	<u>4,039,166</u>	
324,923	-	-	324,923	
142,636	-	-	142,636	
666,946	-	-	666,946	
57,772	-	-	57,772	
74,533	-	-	74,533	
189,344	-	-	189,344	
101,968	-	-	101,968	
103,286	-	-	103,286	
526,148	-	-	526,148	
125,130	-	-	125,130	
257,598	-	-	257,598	
197,875	-	-	197,875	
440,559	-	-	440,559	
432,107	-	-	432,107	
22,868	-	-	22,868	
155,065	-	-	155,065	
<u>3,818,758</u>	<u>-</u>	<u>-</u>	<u>3,818,758</u>	
199,696	20,712	-	220,408	
6,227,225	590,320	273,375	7,090,920	
<u>\$ 6,426,921</u>	<u>\$ 611,032</u>	<u>\$ 273,375</u>	<u>\$ 7,311,328</u>	

See Notes to the Financial Statements.

DIOCESE OF DAVENPORT
Statements of Cash Flows
Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Cash Flows from Operating Activities:		
Change in Net Assets	\$ 298,039	\$ 220,408
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	155,652	155,065
(Gain) on Disposal of Property and Equipment	-	(2,400)
Net Realized (Gains) on Sale of Investments	(4,183)	(14,021)
Net Unrealized (Gains) on Investments	(437,532)	(287,395)
Changes in Assets and Liabilities:		
(Increase) Decrease in Receivables	(64,340)	197,074
(Increase) Decrease in Prepaid Assets	47,465	(69,798)
Increase in Accounts Payable and Accrued Expenses	64,566	10,985
Net Cash Provided by Operating Activities	<u>59,667</u>	<u>209,918</u>
Cash Flows from Investing Activities:		
(Increase) in Due from Foundation	(40,547)	(92,420)
Purchase of Certificates of Deposit	-	(401,647)
Redemption of Certificates of Deposit	401,647	15,000
Purchase of Investments	(342,138)	(49,158)
Proceeds from Sales of Investments	300,100	525,000
Proceeds from Sale of Property and Equipment	-	2,400
Purchase of Property and Equipment	(160,797)	(45,700)
Net Cash Provided by (Used in) Investing Activities	<u>158,265</u>	<u>(46,525)</u>
Increase in Cash and Cash Equivalents	217,932	163,393
Cash and Cash Equivalents, Beginning	<u>502,837</u>	<u>339,444</u>
Cash and Cash Equivalents, Ending	<u>\$ 720,769</u>	<u>\$ 502,837</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 financial statements, the Diocese has evaluated events and transactions for potential recognition or disclosure through October 3, 2014, 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 debt expense, net, was approximately \$2,000 and \$4,000 for the years ended June 30, 2014 and 2013, 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	3 - 10

Annual Diocesan Appeal – The Diocese derives a substantial portion of its support and revenue from the Annual Diocesan Appeal which is an annual parish-level diocesan fund drive. Amounts due from parishes pursuant to this annual drive are recognized as support and revenue when the parishes are assessed.

Contributions – The Diocese reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying financial statements.

The Diocese reports gifts of land, buildings and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Diocese reports expirations of donor restrictions when the donated assets are placed in service or expenditures are incurred for the long-lived assets.

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

Bankruptcy Related Expenses – During the years ended June 30, 2014 and 2013, the Diocese incurred expenses of \$16,482 and \$22,868, respectively, related to the ongoing responsibilities of the Diocese associated with the bankruptcy claim that was settled in November 2007.

Reclassifications - Certain prior year amounts have been reclassified to conform to the current year presentation.

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.

Recent Accounting Pronouncement – In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606) requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. The updated standard will be effective for annual reporting periods beginning after December 15, 2017. The Diocese has not yet selected a transition method and is currently evaluating the effect that the updated standard will have on the financial statements.

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, 2014 and 2013, the co-trustees approved appropriations from accumulated earnings of \$37,500 which has been paid to the Diocese and leaves \$462,488 and \$420,947 of the trust classified as temporarily restricted net assets, respectively. The funds are invested in Christian Brothers alternative investments and a mutual fund. Funds included in the trust that have been appropriated but not distributed as of June 30, 2014 and 2013, were \$37,500 and none, respectively.

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.

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, 2014 and 2013 are as follows:

	2014	2013
Cash and Cash Equivalents	\$ -	\$ 928
Mutual Funds	1,039,474	1,255,482
Alternative Investments	2,209,410	1,508,721
	\$ 3,248,884	\$ 2,765,131

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 5 percent; the total return during any single measurement period may deviate from the long-term return objective. To satisfy its long-term rate-of-return objective, the Diocese currently invests in publicly traded mutual funds and money market funds. The purpose is to moderate the overall investment risk of the endowment funds.

All of the income of the permanently and temporarily restricted endowment investments may be appropriated for expenditure on an annual basis. The income on the temporarily restricted endowment investments can be used on an annual basis to support primarily clergy education. 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, 2014 and 2013, the Diocese spent \$37,500 of the accumulated income of the temporarily restricted investments. The Diocese spent all of the income of approximately \$29,000 and \$600 of the permanently restricted investment for the years ended June 30, 2014 and 2013, 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, 2014 and 2013 were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<u>2014</u>				
Endowment Net Assets, Beginning of Year	\$ -	\$ 420,947	\$ 273,375	\$ 694,322
Investment Return:				
Interest and Dividends, Net of Fees	-	6,751	-	6,751
Net Appreciation (Realized and Unrealized)	-	101,003	-	101,003
Total Investment Return:	-	107,754	-	107,754
Appropriation of Endowment Funds for Expenditure	-	(66,213)	-	(66,213)
Endowment Net Assets, End of Year	<u>\$ -</u>	<u>\$ 462,488</u>	<u>\$ 273,375</u>	<u>\$ 735,863</u>
<u>2013</u>				
Endowment Net Assets, Beginning of Year	\$ -	\$ 385,182	\$ 273,375	\$ 658,557
Investment Return:				
Interest and Dividends, Net of Fees	-	9,411	-	9,411
Net Appreciation (Realized and Unrealized)	-	64,472	-	64,472
Total Investment Return:	-	73,883	-	73,883
Appropriation of Endowment Funds for Expenditure	-	(38,118)	-	(38,118)
Endowment Net Assets, End of Year	<u>\$ -</u>	<u>\$ 420,947</u>	<u>\$ 273,375</u>	<u>\$ 694,322</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, 2014 and 2013.

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 value, as summarized in the following schedule. Cost includes the amounts of reinvested dividends.

Investments at Fair Value as of June 30, 2014				
	Level 1	Level 2	Level 3	Total
Assets:				
Mutual Funds:				
Domestic:				
Small/Mid-Cap Equities	\$ -	\$ 850,598	\$ -	\$ 850,598
Large-Cap Equities	213,941	1,358,812	-	1,572,753
Bond Funds:				
Short-Term	825,533	-	-	825,533
	\$ 1,039,474	\$ 2,209,410	\$ -	\$ 3,248,884
Investments at Fair Value as of June 30, 2013				
	Level 1	Level 2	Level 3	Total
Assets:				
Mutual Funds:				
Domestic:				
Small/Mid-Cap Equities	\$ -	\$ 423,888	\$ -	\$ 423,888
Large-Cap Equities	168,275	1,084,833	-	1,253,108
Bond Funds:				
Short-Term	297,242	-	-	297,242
Other	789,965	-	-	789,965
	\$ 1,255,482	\$ 1,508,721	\$ -	2,764,203
Cash and Cash Equivalents				928
				\$ 2,765,131

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, 2014 and 2013:

As of June 30, 2014				
Investment	Fair Value	Unfunded Commitment	Redemption Frequency	Redemption Notice Period
Investments:				
CUIT Value Equity Fund (1)	\$ 1,358,812	\$ -	Daily	Trade Date Minus 1 Day
CUIT Small Capitalization Equity Index Fund (1)	850,598	-	Daily	Trade Date Minus 1 Day
	<u>\$ 2,209,410</u>	<u>\$ -</u>		
As of June 30, 2013				
Investment	Fair Value	Unfunded Commitment	Redemption Frequency	Redemption Notice Period
Investments:				
CUIT Value Equity Fund (1)	\$ 1,084,833	\$ -	Daily	Trade Date Minus 1 Day
CUIT Small Capitalization Equity Index Fund (1)	423,888	-	Daily	Trade Date Minus 1 Day
	<u>\$ 1,508,721</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 and small cap). These funds can be redeemed at net asset value per share based on the fair value of the fund's securities and other assets, less liabilities at the close of business on any day the NYSE is open. The fair value of this investment has been estimated using the net asset value per share of the investments provided by the fund manager.

Note 4. Property and Equipment

A summary of property and equipment as of June 30, 2014 and 2013 is as follows:

	2014	2013
Land	\$ 351,800	\$ 351,800
Land Improvements	371,990	371,990
Automobiles	96,219	96,219
Buildings and Improvements	2,967,752	2,845,211
Equipment and Furniture	630,995	592,738
	<u>4,418,756</u>	<u>4,257,958</u>
Less: Accumulated Depreciation	953,665	798,012
	<u>\$ 3,465,091</u>	<u>\$ 3,459,946</u>

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Note 5. Temporarily Restricted Net Assets

Temporarily Restricted Net Assets as of June 30, 2014 and 2013 are available for the following purposes:

	<u>2014</u>	<u>2013</u>
College Scholarships	\$ 86,027	\$ 102,027
Special Collections, Campaign for Human Development	188	-
Special Collections, Volunteer Program	58,637	56,649
Special Collections, Works of Charity	15,726	31,409
Omer Woltering Trust, Clergy Education	462,488	420,947
	<u>\$ 623,066</u>	<u>\$ 611,032</u>

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.

Note 7. Net Assets Released from Restrictions

Net assets were released from donor restrictions during the years ended June 30, 2014 and 2013 by incurring expenses satisfying the restricted purposes.

	<u>2014</u>	<u>2013</u>
Purpose Restrictions Accomplished:		
Special Collections, Campaign for Human Development	\$ 7,778	\$ 8,940
Special Collections, Volunteer Program	2,218	30,606
Special Collections, Works of Charity	47,977	34,990
Catholic Charity	-	1,064
Seminary Education	28,713	618
Clergy Education	37,500	37,500
College Scholarships	20,000	16,000
Total Assets Released from Restrictions	<u>\$ 144,186</u>	<u>\$ 129,718</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 \$94,000 and \$90,000 for the years ended June 30, 2014 and 2013, respectively.

Note 9. Related Party Transactions

The Diocese has a receivable from the Catholic Foundation for the Diocese of Davenport of \$217,601 and \$177,054 as of June 30, 2014 and 2013, respectively. The Diocese received contributions from the Foundation totaling \$213,668 and \$177,054 for the years ended June 30, 2014 and 2013, 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, 2014 and 2013 was \$68,124 and \$65,700, respectively.

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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. Through March 31, 2014, the Diocese was fully insured for medical and dental insurance and the fund collected fees from subscribers and remitted premiums to the insurance carrier during the policy year. As of April 1, 2014, the Diocese is self-insured for medical insurance and remains fully insured for dental insurance. The Diocese has purchased stop-loss insurance in order to limit its exposure, which will reimburse the Diocese for individual claims in excess of \$50,000 annually or aggregate claims exceeding \$333,052 but not more than \$1,333,052 annually. Self-insurance losses are accrued based on the Diocese's estimate of the aggregate liability for uninsured claims incurred but not reported at year end. At June 30, 2014, the accrued liability for self-insured losses of \$25,000 is included in accounts payable and accrued expenses on the balance sheet.

Activity in these funds for the years ended June 30, 2014 and 2013 was as follows:

	Property Insurance Fund	Medical Insurance Fund	Total
<u>2014</u>			
Fees Collected	\$ 1,070,704	\$ 627,951	\$ 1,698,655
Premiums Paid	(1,038,403)	(475,525)	(1,513,928)
Recoveries	224,301	1,174	225,475
Claims Expense	(269,215)	(110,604)	(379,819)
Other Income (Expense)	-	(20,949)	(20,949)
	<u>\$ (12,613)</u>	<u>\$ 22,047</u>	<u>\$ 9,434</u>
<u>2013</u>			
Fees Collected	\$ 975,414	\$ 522,054	\$ 1,497,468
Premiums Paid	(963,568)	(485,737)	(1,449,305)
Recoveries	78,554	2,228	80,782
Claims Expense	(114,440)	(23,372)	(137,812)
Other Income (Expense)	-	(29,085)	(29,085)
	<u>\$ (24,040)</u>	<u>\$ (13,912)</u>	<u>\$ (37,952)</u>

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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, 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Program Services:		
Serving Others (1)	\$ 1,660,127	\$ 1,709,924
Teaching and Training (2)	1,292,089	1,109,238
Celebrating and Sharing (3)	<u>706,425</u>	<u>328,934</u>
	3,658,641	3,148,096
Management and General Expenses	567,617	569,437
Fundraising Expenses	<u>111,780</u>	<u>101,225</u>
Total Expenses	<u>\$ 4,338,038</u>	<u>\$ 3,818,758</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.