

**CATHOLIC FOUNDATION FOR THE  
DIOCESE OF TUCSON**

**YEARS ENDED JUNE 30, 2010 AND 2009**

CATHOLIC FOUNDATION FOR THE DIOCESE OF TUCSON

YEARS ENDED JUNE 30, 2010 AND 2009

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BEACHFLEISCHMAN

Independent Auditors' Report

Board of Directors  
Catholic Foundation for the Diocese of Tucson  
Tucson, Arizona

We have audited the accompanying statements of financial position of Catholic Foundation for the Diocese of Tucson as of June 30, 2010 and 2009, 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 U.S. generally accepted auditing standards established by the AICPA Auditing Standards Board. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and 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 Tucson as of June 30, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

September 27, 2010

A handwritten signature in black ink that reads "BeachFleischman PC".

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**CATHOLIC FOUNDATION FOR THE DIOCESE OF TUCSON**

**STATEMENTS OF FINANCIAL POSITION**

**JUNE 30, 2010 AND 2009**

**ASSETS**

	<u>2010</u>	<u>2009</u>
Cash and cash equivalents	\$ 758,942	\$ 643,555
Investments	10,794,397	9,900,473
Promises to give, net	30,300	30,889
Real estate held for resale		40,000
Other assets	29,382	34,055
Property and equipment, net	<u>1,427,075</u>	<u>1,440,406</u>
	<u>\$ 13,040,096</u>	<u>\$ 12,089,378</u>

**LIABILITIES AND NET ASSETS**

<b>Liabilities:</b>		
Accounts payable	\$ 5,849	\$ 3,806
Accrued expenses	44,632	6,224
Grants payable	657	5,485
Note payable	90,536	135,659
Annuity contract obligations	998,208	970,477
Custodial accounts	<u>5,060,141</u>	<u>4,512,485</u>
	<u>6,200,023</u>	<u>5,634,136</u>
<b>Net assets:</b>		
Unrestricted:		
Undesignated	1,309,238	1,177,559
Board designated	573,980	486,200
Net investment in property and equipment	<u>1,336,539</u>	<u>1,304,747</u>
	3,219,757	2,968,506
Temporarily restricted	297,096	207,659
Permanently restricted	<u>3,323,220</u>	<u>3,279,077</u>
	<u>6,840,073</u>	<u>6,455,242</u>
	<u>\$ 13,040,096</u>	<u>\$ 12,089,378</u>

**CATHOLIC FOUNDATION FOR THE DIOCESE OF TUCSON**

**STATEMENT OF ACTIVITIES**

**YEAR ENDED JUNE 30, 2010**

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Revenues and other support:				
Contributions	\$ 181,729	\$ 14,500	\$ 3,210	\$ 199,439
Annual dinner gala revenues	63,314			63,314
Service fees	68,068	(32,709)		35,359
Rental revenue	190,643			190,643
Net investment gain	317,748	227,224	40,933	585,905
	821,502	209,015	44,143	1,074,660
Net assets released from restrictions	119,578	(119,578)		
	941,080	89,437	44,143	1,074,660
Expenses:				
Management and general	417,249			417,249
Grants and contributions	120,114			120,114
Life annuity gift expense	43,591			43,591
Investment costs	20,749			20,749
Fundraising	16,963			16,963
Interest expense	2,877			2,877
	621,543			621,543
Nonoperating expenses and losses:				
Loss on disposal of asset	4,972			4,972
Direct costs of dinner gala	63,314			63,314
Total expenses and direct costs	689,829			689,829
Increase in net assets	251,251	89,437	44,143	384,831
Net assets, beginning	2,968,506	207,659	3,279,077	6,455,242
Net assets, ending	\$ 3,219,757	\$ 297,096	\$ 3,323,220	\$ 6,840,073

**CATHOLIC FOUNDATION FOR THE DIOCESE OF TUCSON**

**STATEMENT OF ACTIVITIES**

**YEAR ENDED JUNE 30, 2009**

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Revenues and other support:				
Contributions	\$ 143,075	\$ 70,121	\$ 400	\$ 213,596
Annual dinner gala revenues	37,678			37,678
Service fees	60,658	(31,300)		29,358
Rental revenue	185,435			185,435
	<u>426,846</u>	<u>38,821</u>	<u>400</u>	<u>466,067</u>
Net assets released from restrictions	24,744	(24,744)		
	<u>451,590</u>	<u>14,077</u>	<u>400</u>	<u>466,067</u>
Expenses:				
Management and general	344,413			344,413
Grants and contributions	81,000			81,000
Life annuity gift expense	27,720			27,720
Investment costs	22,556			22,556
Fundraising	16,748			16,748
Interest expense	3,990			3,990
	<u>496,427</u>			<u>496,427</u>
Nonoperating expenses and losses:				
Net investment loss	507,820	470,792	91,307	1,069,919
Direct costs of dinner gala	37,678			37,678
Total expenses and direct costs	<u>1,041,925</u>	<u>470,792</u>	<u>91,307</u>	<u>1,604,024</u>
Decrease in net assets	(590,335)	(456,715)	(90,907)	(1,137,957)
Net assets, beginning	<u>3,558,841</u>	<u>664,374</u>	<u>3,369,984</u>	<u>7,593,199</u>
Net assets, ending	<u>\$ 2,968,506</u>	<u>\$ 207,659</u>	<u>\$ 3,279,077</u>	<u>\$ 6,455,242</u>

**CATHOLIC FOUNDATION FOR THE DIOCESE OF TUCSON**

**STATEMENTS OF CASH FLOWS**

**YEARS ENDED JUNE 30, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ 384,831	\$(1,137,957)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation and amortization	41,871	39,431
Net realized and unrealized (gains) losses on unrestricted and restricted investments	(804,220)	2,220,828
Loss on disposal of real estate held for resale	4,972	
Change in value of split-interest agreements	27,731	49,704
Changes in operating assets and liabilities:		
Promises to give	589	37,997
Other assets	4,673	(49,620)
Accounts payable	2,043	(1,875)
Accrued expenses	38,408	(3,578)
Grants payable	(4,828)	(2,244)
Custodial accounts	547,656	(785,052)
Total adjustments	<u>(141,105)</u>	<u>1,505,591</u>
Net cash provided by operating activities	<u>243,726</u>	<u>367,634</u>
Cash flows from investing activities:		
Proceeds from sale of real estate held for resale	35,028	
Purchase of investments	(11,138,387)	(2,776,648)
Proceeds from sale of investments	11,048,683	2,043,729
Purchases of property and equipment	<u>(28,540)</u>	<u>(738)</u>
Net cash used in investing activities	<u>(83,216)</u>	<u>(733,657)</u>
Cash flows from financing activities:		
Repayments on long-term debt	<u>(45,123)</u>	<u>(44,010)</u>
Net cash used in financing activities	<u>(45,123)</u>	<u>(44,010)</u>
Net increase (decrease) in cash and cash equivalents	115,387	(410,033)
Cash and cash equivalents, beginning	<u>643,555</u>	<u>1,053,588</u>
Cash and cash equivalents, ending	<u>\$ 758,942</u>	<u>\$ 643,555</u>

See notes to financial statements.

# CATHOLIC FOUNDATION FOR THE DIOCESE OF TUCSON

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2010 AND 2009

1. Organization and significant accounting policies:

Organization:

The Catholic Foundation for the Diocese of Tucson (Foundation) is a nonprofit corporation organized in 1981 to further the religious, charitable and educational activities of the Diocese of Tucson and to receive and administer funds for these purposes. Significant revenue comes from donations and investment earnings.

Accounting standards:

During 2009, the Financial Accounting Standards Board (FASB) Accounting Standards Codification (the Codification or ASC) became effective and superseded prior existing financial accounting standards and is now the single source of authoritative U.S. generally accepted accounting principles (GAAP). The Codification does not change previous GAAP and, accordingly, its adoption did not have a material impact on the Foundation's financial statements.

Financial statement presentation:

The Foundation reports 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.

Estimates:

The preparation of financial statements in conformity with GAAP 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 reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Restricted and unrestricted revenue and support:

Donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a 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 in the statement of activities as net assets released from restriction.

Cash and cash equivalents:

The Foundation considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

The Foundation places its cash and cash equivalents with high quality credit institutions. At times, such investments may be in excess of the FDIC and SPIC insurance limits; however, management does not believe it is exposed to any significant credit risk on cash and cash equivalents.

# CATHOLIC FOUNDATION FOR THE DIOCESE OF TUCSON

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED JUNE 30, 2010 AND 2009

1. Organization and significant accounting policies (continued):

Cash and cash equivalents (continued):

The Foundation's policy is to maintain cash balances sufficient to liquidate custodial obligations and contract annuities as they arise in the near term. At June 30, 2010 and 2009, the Foundation held \$528,717 and \$616,429 as cash for this purpose.

Investments:

Investments are reported at fair value in the statements of financial position. Investment gains and losses are included in the change in net assets in the accompanying statements of activities as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor-imposed stipulations or legal requirements.

Fair value measurements:

Under GAAP, the provisions of fair value is defined as the price to sell an asset or transfer a liability between market participants as of the measurement date. Fair value measurements assume the asset or liability is exchanged in an orderly manner; the exchange is in the principal market for that asset or liability (or in the most advantageous market when no principal market exists); and that the market participants are independent, knowledgeable and able and willing to transact an exchange. GAAP also clarifies that the reporting entity's nonperformance risk (credit risk) should be considered in valuing liabilities.

GAAP establishes a framework for measuring fair value by creating a hierarchy for observable independent market inputs and unobservable market assumptions and expands disclosures about fair value measurements. Considerable judgment is required in interpreting market data used to develop the estimates of fair value. Accordingly, the estimates presented in the financial statements are not necessarily indicative of the amounts that could be realized in a current market exchange. The use of different market assumptions and estimation methodologies may have a material effect on the estimated fair value.

Promises to give:

Unconditional promises to give are recognized as revenues at their estimated net realizable value in the period received and as assets, decreases of liabilities, or expense depending on the form of the benefits received. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the pledges become unconditional. Promises to give that are collectible over future periods are discounted to their net present value. The provision for uncollectible pledges is based on management's estimate of current economic factors, applied as a percentage to gross revenues. Promises to give are periodically reviewed for collectibility and written off to the provision at the time of such determination.

Property, equipment, depreciation and amortization:

Expenditures for major improvements or items that benefit future periods are capitalized at cost, if purchased, or at fair market value at date of gift, if donated. Repairs and maintenance are expensed as incurred. Depreciation is computed using the straight-line method over the estimated useful lives of the assets.

CATHOLIC FOUNDATION FOR THE DIOCESE OF TUCSON

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED JUNE 30, 2010 AND 2009

1. Organization and significant accounting policies (continued):

Donated services:

Support arising from donated services is recognized in the financial statements at their fair market value if the services require specialized skills and are provided by individuals possessing those skills and the services would typically need to be purchased if not donated.

Certain general and administrative support is provided to the Foundation by the Administrative Offices of the Diocese of Tucson. The estimated fair market value of this support is not recorded as revenue and expense as its fair market is not material to these financial statements.

Designation of unrestricted net assets:

It is the policy of the Foundation's Board of Directors to designate unrestricted net assets for certain purposes, such as grants, and for the amount contributed to the Foundation in excess of the present value of future benefit annuities that have been earmarked by the Board for specific purposes. The total amounts designated as of June 30, 2010 and 2009 are as follows:

	<u>2010</u>	<u>2009</u>
Grants - Cornerstone fund	\$ 371,795	\$ 290,962
Unrestricted portion of annuity obligations	129,497	134,550
Lease maintenance	<u>72,688</u>	<u>60,688</u>
	<u>\$ 573,980</u>	<u>\$ 486,200</u>

Annuity contracts:

As designated by the donor, future payments under life annuity contracts have been recorded as a general annuity liability of the Foundation at the discounted net present value of the future cash flows expected to be paid.

Custodial accounts:

The Foundation manages funds for other Catholic organizations located in southern Arizona. Since these funds can be withdrawn and are not restricted as to use, they are reported as liabilities in the statements of financial position.

Management and general expenses:

All management and general expenses of the Foundation are incurred for its exempt purpose. Such expenses include the costs of personnel, occupancy, printing, mailing and other direct and indirect costs of soliciting contributions.

**CATHOLIC FOUNDATION FOR THE DIOCESE OF TUCSON**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**YEARS ENDED JUNE 30, 2010 AND 2009**

1. Organization and significant accounting policies (continued):

Tax exempt status:

The Foundation is deemed exempt from income taxes based on an Internal Revenue Service determination letter encompassing all entities appearing in the Official Catholic Directory. The Foundation is also exempt from state income taxes. Accordingly, no provision is made for income taxes in the financial statements. Management is not aware of any matters which may cause the Foundation to jeopardize its tax exempt status.

Effective July 1, 2009, the Foundation was required to adopt the revised provisions of ASC 740, relating to uncertain tax positions. These standards require management to perform an evaluation of all tax positions taken or expected to be taken in the course of preparing the Foundation's tax returns to determine whether the tax positions meet a "more likely than not" standard of being sustained under examination by the applicable taxing authorities. This evaluation is required to be performed for all open tax years, as defined by the various statutes of limitations, for federal and state purposes.

The Foundation is only subject to income taxes on unrelated business taxable income (UBTI). As a result, the Foundation is required to file informational returns for federal and state purposes and, if it has UBTI, federal and state income tax returns. With limited exceptions, the Foundation is no longer subject to tax examination for any years earlier than 2006 for federal and 2006 for state. Management has performed its evaluation of tax positions taken on all open tax returns and has determined that there were no positions taken that do not meet the "more likely than not" standard.

From time to time, the Foundation may be subject to penalties and interest assessed by various taxing authorities, which are classified as general and administrative expenses when they occur.

Subsequent events:

The Foundation's management has evaluated the events that have occurred subsequent to June 30, 2010 through September 27, 2010, the date that the financial statements were available to be issued. Management has determined that no events have occurred during this period that require adjustment to or disclosure in the financial statements. Management has no responsibility to update these financial statements for events and circumstances occurring after this date.

**CATHOLIC FOUNDATION FOR THE DIOCESE OF TUCSON**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**YEARS ENDED JUNE 30, 2010 AND 2009**

2. Investments:

	2010	2009
Fixed income securities	\$ 2,818,790	\$ 3,972,457
Equity funds	7,702,486	5,204,813
Strategy and private equity funds	173,121	623,203
Investments at fair value	10,694,397	9,800,473
Certificate of deposit	100,000	100,000
Total investments	10,794,397	9,900,473
Plus cash and cash equivalents	758,942	643,555
Less custodial	(5,060,141)	(4,512,485)
Less temporarily restricted	(297,096)	(207,659)
Less permanently restricted	(3,323,220)	(3,279,077)
Unrestricted	\$ 2,872,882	\$ 2,544,807

Investment income consisted of the following for the year ended June 30, 2010 and 2009:

	2010	2009
Interest and dividend income	\$ 289,619	\$ 392,437
Net realized losses	(53,883)	(290,271)
Net unrealized gains (losses)	858,103	(1,930,557)
	1,093,839	(1,828,391)
Less net gains (losses) applicable to custodial accounts	507,934	(758,472)
	\$ 585,905	\$ (1,069,919)

**CATHOLIC FOUNDATION FOR THE DIOCESE OF TUCSON**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**YEARS ENDED JUNE 30, 2010 AND 2009**

3. Fair value measurements:

At June 30, 2010, the fair value of assets measured on a recurring basis is as follows:

	<u>Fair value</u>	<u>Quoted prices (level 1)</u>	<u>Significant other observable inputs (level 2)</u>	<u>Significant unobservable inputs (level 3)</u>
Fixed income securities:				
Certificates of deposits	\$ 100,157	\$ 100,157		
Corporate bonds	2,718,633	2,718,633		
Equity funds:				
US securities	2,704,204	2,704,204		
International securities	105,050	105,050		
US mutual funds	3,930,040	3,930,040		
International mutual funds	963,192	963,192		
Strategy and private equity funds:				
Venture capital partnership	151,339			151,339
Hedge fund	21,782			21,782
	<u>\$ 10,694,397</u>	<u>\$ 10,521,276</u>	<u>\$</u>	<u>\$ 173,121</u>

**CATHOLIC FOUNDATION FOR THE DIOCESE OF TUCSON**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**YEARS ENDED JUNE 30, 2010 AND 2009**

3. Fair value measurements (continued):

At June 30, 2009, the fair value of assets measured on a recurring basis is as follows:

	<u>Fair value</u>	<u>Quoted prices (level 1)</u>	<u>Significant other observable inputs (level 2)</u>	<u>Significant unobservable inputs (level 3)</u>
Fixed income securities:				
Government bonds	\$ 552,733	\$ 552,733		
Municipal bonds	51,166	51,166		
Mutual funds	97,842	97,842		
Certificates of deposit	351,637	351,637		
Corporate bonds	2,919,079	2,919,079		
Equity funds:				
US securities	3,779,708	3,779,708		
International securities	1,425,105	1,425,105		
Strategy and private equity funds:				
Commodities	177,140	177,140		
Real estate	144,001	144,001		
Venture capital partnership	72,831			\$ 72,831
Hedge fund	229,231			229,231
	<u>\$ 9,800,473</u>	<u>\$ 9,498,411</u>	<u>\$</u>	<u>\$ 302,062</u>

The preceding tables are based on the following hierarchy of observable independent market inputs and unobservable market assumptions:

Level 1 – Inputs represent unadjusted quoted prices for identical assets or liabilities exchanged in active markets.

**CATHOLIC FOUNDATION FOR THE DIOCESE OF TUCSON**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**YEARS ENDED JUNE 30, 2010 AND 2009**

3. Fair value measurements (continued):

Level 2 – Inputs include directly or indirectly observable inputs other than Level 1 inputs such as quoted prices for similar assets or liabilities exchanged in active or inactive markets; quoted prices for identical assets or liabilities exchanged in inactive markets; other inputs that are considered in fair value determinations of the assets or liabilities, such as interest rates and yield curves that are observable at commonly quoted intervals, volatilities, prepayment speeds, loss severities, credit risks and default rates; and inputs that are derived principally from or corroborated by observable market data.

Level 3 – Inputs include unobservable inputs used in the measurement of assets and liabilities. The Foundation is required to use its own assumptions regarding unobservable inputs because there is little, if any, market activity in the assets or liabilities or related observable inputs that can be corroborated at the measurement date. Measurements of nonexchange traded derivative contract assets and liabilities are primarily based on valuation models, discounted cash flow models or other valuation techniques that are believed to be used by market participants. Unobservable inputs require the Foundation to make certain projections and assumptions about the information that would be used by market participants in pricing assets or liabilities.

A reconciliation of assets measured at fair value on a recurring basis with the use of significant unobservable inputs (Level 3) from July 1, 2009 to June 30, 2010 is as follows:

	Venture capital partnerships	Hedge funds
Balance at July 1, 2009	\$ 72,831	\$ 229,231
Gains included in changes in net assets	3,508	36,179
Purchases, sales, issuances and settlements	<u>75,000</u>	<u>(243,628)</u>
Balance at June 30, 2010	<u>\$ 151,339</u>	<u>\$ 21,782</u>

The realized and unrealized gains included in changes in net assets for the year ended June 30, 2010 are reported in the statement of activities as follows:

	Venture capital partnerships	Hedge funds
Realized gains included in changes in net assets	<u>\$</u>	<u>\$ 15,241</u>
Unrealized gains relating to assets still held at June 30, 2010 that are included in changes in net assets	<u>\$ 3,508</u>	<u>\$ 20,938</u>

**CATHOLIC FOUNDATION FOR THE DIOCESE OF TUCSON**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**YEARS ENDED JUNE 30, 2010 AND 2009**

3. Fair value measurements (continued):

A reconciliation of assets measured at fair value on a recurring basis with the use of significant unobservable inputs (Level 3) from July 1, 2008 to June 30, 2009 is as follows:

	<u>Venture capital partnerships</u>	<u>Hedge funds</u>
Balance at July 1, 2008	\$ 65,000	\$ 250,000
Losses included in changes in net assets	(27,169)	(20,769)
Purchases, sales, issuances and settlements	<u>35,000</u>	<u>          </u>
Balance at June 30, 2009	<u>\$ 72,831</u>	<u>\$ 229,231</u>

The amount of total losses for the year included in changes in net assets attributable to the change in unrealized losses relating to assets still held at June 30, 2009

	<u>\$ (27,169)</u>	<u>\$ (20,769)</u>
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The fair value of the Foundation's investments in fixed maturity securities is valued using pricing provided by individual brokers based primarily on observable market data. The Foundation's investment in mutual funds that are traded on active markets are based on the closing price reported in the market on which the individual securities are traded.

The partnership invests in privately held companies to obtain high potential returns and diversification away from public equity markets. The fair value of the partnership has been estimated based on its net asset value, which is derived from the fair value of the underlying privately held companies. The fair value, which is calculated quarterly, has been adjusted for expected selling and administrative expenses of up to 1.25% annually. The Foundation is required to make quarterly contributions of \$25,000 to the partnership up to \$500,000. At June 30, 2010 and 2009 the Foundation has contributed \$175,000 and \$100,000. The Foundation is restricted from redeeming this investment indefinitely, however is permitted to transfer its ownership interest to another entity upon approval of the general partner at any time. The partnership agreement provides provisions allowing distributions to be made at the discretion of the general partner, as defined.

**CATHOLIC FOUNDATION FOR THE DIOCESE OF TUCSON**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**YEARS ENDED JUNE 30, 2010 AND 2009**

4. Promises to give:

Promises to give consist of pledges from individual donors. At June 30, 2010 and 2009, pledges receivable are as follows:

	2010	2009
Pledges receivable in less than one year	\$ 42,000	\$ 25,000
Pledges receivable in one to five years	2,000	34,000
Less unamortized discount to present value	(111)	(4,310)
Less allowance for uncollectible pledges	(13,589)	(23,801)
	30,300	30,889
Less current portion	28,411	21,719
Noncurrent portion	\$ 1,889	\$ 9,170

The amortized discount rate of 3.28% for the long-term promise is based on the time at which the original promise was made.

5. Real estate held for resale:

During 2009, a home with an estimated fair market value of \$40,000 was donated to the Foundation. During 2010, the Foundation sold the home and recognized a loss of \$4,972 on the sale.

6. Property and equipment:

	2010	2009
Land	\$ 245,250	\$ 245,250
Building and leasehold improvements	1,418,273	1,418,273
Computer equipment	51,336	22,797
	1,714,859	1,686,320
Less accumulated depreciation and amortization	287,784	245,914
	\$ 1,427,075	\$ 1,440,406

During 2010, a new software program was purchased to be shared by the Foundation and two other entities. The total cost of the software will be approximately \$100,000 and the Foundation's portion of it is approximately \$33,000. At June 30, 2010, approximately \$27,000 costs related to the software had been capitalized by the Foundation.

**CATHOLIC FOUNDATION FOR THE DIOCESE OF TUCSON**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**YEARS ENDED JUNE 30, 2010 AND 2009**

7. Note payable:

The Foundation purchased property from the Diocese of Tucson in 2003. The note related to the purchase is payable in monthly installments of \$4,000 through June 2012 including fixed interest at 2.5%. Interest expense related to the note was \$2,877 and \$3,990 at June 30, 2010 and 2009.

Future maturities of the note payable are as follows:

Year ending <u>June 30,</u>		
2011		\$ 46,264
2012		<u>44,272</u>
		<u>\$ 90,536</u>

8. Life annuity contracts:

The Foundation has entered into life annuity gift agreements with various individuals. Under the terms of the agreements, the Foundation receives lump sum amounts and agrees to make annual payments to the annuitants for their lifetimes. Annuitant payments are remitted monthly, quarterly, semi-annually or annually based on the terms of the agreements. Life annuity gift expense totaled \$43,591 and \$27,720 for the years ended June 30, 2010 and 2009.

The life annuity gift agreements are of two types: restricted and unrestricted. Restricted contracts require that the nonannuity portion will be used to establish either a permanent endowment fund or a restriction is placed on the use of the funds for a specific purpose. Unrestricted contracts stipulate that the nonannuity portion is to be used for the general religious, educational, and charitable purposes for which the Foundation was established. Adjustments to the annuity liability to reflect amortization of the discount and revaluations due to changes in life expectancy are reported in the current year as a change in value of split-interest agreements. Discount rates on these obligations ranged from 5.0% to 11.4% for the years ended June 30, 2010 and 2009. The net present value of life annuity contracts totaled \$998,208 and \$970,477 at June 30, 2010 and 2009.

9. Custodial accounts:

	<u>2010</u>	<u>2009</u>
Parishes and missions	\$ 1,019,364	\$ 923,346
Schools and scholarships	3,441,062	3,064,211
Other agencies	<u>599,715</u>	<u>524,928</u>
	<u>\$ 5,060,141</u>	<u>\$ 4,512,485</u>

**CATHOLIC FOUNDATION FOR THE DIOCESE OF TUCSON**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**YEARS ENDED JUNE 30, 2010 AND 2009**

10. Endowment:

The Foundation's endowment consists of approximately 76 individual funds established for a variety of purposes. Its endowment includes both donor-restricted funds and as required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of relevant law:

The Board of Directors of the Foundation adheres to Arizona's version titled the "Management of Charitable Funds Act" (the Act) of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and follows GAAP rules pertaining to donor restricted endowment funds absent explicit donor stipulations to the contrary. The Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets.

The endowment net asset composition by type of fund as of June 30, 2010 is as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor restricted endowment funds		\$ 297,096	\$ 3,323,220	\$ 3,620,316
Board designated endowment funds	<u>\$ 371,795</u>			<u>371,795</u>
	<u>\$ 371,795</u>	<u>\$ 297,096</u>	<u>\$ 3,323,220</u>	<u>\$ 3,992,111</u>

**CATHOLIC FOUNDATION FOR THE DIOCESE OF TUCSON**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**YEARS ENDED JUNE 30, 2010 AND 2009**

10. Endowment (continued):

Changes in endowment net assets for the year ended June 30, 2010 are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, beginning	\$ 290,962	\$ 207,659	\$ 3,279,077	\$ 3,777,698
Investment return:				
Investment income	9,776	95,074		104,850
Net appreciation (realized and unrealized)	<u>21,497</u>	<u>132,150</u>	<u>40,933</u>	<u>194,580</u>
Total investment return	31,273	227,224	40,933	299,430
Contributions	69,179	14,500	3,210	86,889
Appropriation of endowment assets for expenditures	(16,200)	(119,578)		(135,778)
Administrative fees	<u>(3,419)</u>	<u>(32,709)</u>		<u>(36,128)</u>
	<u>\$ 371,795</u>	<u>\$ 297,096</u>	<u>\$ 3,323,220</u>	<u>\$ 3,992,111</u>

The endowment net asset composition by type of fund as of June 30, 2009 is as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor restricted endowment funds		\$ 207,659	\$ 3,279,077	\$ 3,486,736
Board designated endowment funds	<u>\$ 290,962</u>			<u>290,962</u>
	<u>\$ 290,962</u>	<u>\$ 207,659</u>	<u>\$ 3,279,077</u>	<u>\$ 3,777,698</u>

**CATHOLIC FOUNDATION FOR THE DIOCESE OF TUCSON**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**YEARS ENDED JUNE 30, 2010 AND 2009**

10. Endowment (continued):

Changes in endowment net assets for the year ended June 30, 2009 are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, beginning	\$ 367,728	\$ 664,374	\$ 3,369,984	\$ 4,402,086
Investment return:				
Investment income	8,930	86,619		95,549
Net depreciation (realized and unrealized)	<u>(72,037)</u>	<u>(557,411)</u>	<u>(91,307)</u>	<u>(720,755)</u>
Total investment return	(63,107)	(470,792)	(91,307)	(625,206)
Contributions	47,063	70,121	400	117,584
Appropriation of endowment assets for expenditures	(57,500)	(24,744)		(82,244)
Administrative fees	<u>(3,222)</u>	<u>(31,300)</u>		<u>(34,522)</u>
	<u>\$ 290,962</u>	<u>\$ 207,659</u>	<u>\$ 3,279,077</u>	<u>\$ 3,777,698</u>

Funds with deficiencies:

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or the Act requires to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were \$6,238 and \$109,336 as of June 30, 2010 and 2009. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board of Directors.

Return objectives and risk parameters:

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity or for donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the S&P 500 Index while assuming a moderate level of investment risk. The Foundation expects its endowment funds, over time, to provide an average rate of return of approximately 8% annually. Actual returns in any given year may vary from this amount.

**CATHOLIC FOUNDATION FOR THE DIOCESE OF TUCSON**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**YEARS ENDED JUNE 30, 2010 AND 2009**

10. Endowment (continued):

Strategies employed for achieving objectives:

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending policy and how the investment objectives relate to spending policy:

The Foundation had a policy of appropriating for distribution each year 4% of its endowment fund's average fair value over the prior 8 quarters through the calendar year-end preceding the fiscal year in which the distribution is planned. In 2010, the policy was changed from an 8 quarter look back to a 3 year look back. In establishing this policy, the Foundation considered the long-term expected return on its endowment. Over the long term, the Foundation expects the current spending policy to allow its endowment to grow at an average of 3% annually. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

11. Temporarily restricted net assets:

	<u>June 30,</u> <u>2009</u>	<u>Additions</u> <u>and gains</u>	<u>Fees and</u> <u>losses</u>	<u>Releases</u>	<u>June 30,</u> <u>2010</u>
Marriage counseling	\$ 67,828	\$ 13,730	\$ (1,337)	\$ (4,500)	\$ 75,721
Children's programs	5,891	2,162	(213)	(3,282)	4,558
Diocesan elementary schools		7,712	(2,114)		5,598
General diocesan purposes	23,861	13,718	(1,332)	(8,908)	27,339
Bishop's discretion	46,983	96,028	(7,784)	(52,434)	82,793
Children and elderly		85,290	(16,523)	(41,325)	27,442
Disadvantaged parishes		4,671	(1,111)	(3,560)	
Vocations	58,261	13,046	(1,334)		69,973
Other	<u>4,835</u>	<u>5,367</u>	<u>(961)</u>	<u>(5,569)</u>	<u>3,672</u>
	<u>\$ 207,659</u>	<u>\$ 241,724</u>	<u>\$ (32,709)</u>	<u>\$ (119,578)</u>	<u>\$ 297,096</u>

**CATHOLIC FOUNDATION FOR THE DIOCESE OF TUCSON**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**YEARS ENDED JUNE 30, 2010 AND 2009**

11. Temporarily restricted net assets (continued):

	June 30, 2008	Additions and gains	Fees and losses	Releases	June 30, 2009
Marriage counseling	\$ 97,235	\$ 3,692	\$ (30,099)	\$ (3,000)	\$ 67,828
Children's programs	8,796	587	(2,492)	(1,000)	5,891
Diocesan elementary schools	31,237	5,525	(31,762)	(5,000)	
General diocesan purposes	51,021	3,648	(29,564)	(1,244)	23,861
Bishop's discretion	198,821	21,516	(173,354)		46,983
Children and elderly	232,045	43,069	(270,114)	(5,000)	
Disadvantaged parishes	14,077	2,893	(16,970)		
Vocations	19,639	63,911	(25,289)		58,261
Other	11,503	10,444	(7,612)	(9,500)	4,835
	<u>\$ 664,374</u>	<u>\$ 155,285</u>	<u>\$ (587,256)</u>	<u>\$ (24,744)</u>	<u>\$ 207,659</u>

12. Permanently restricted net assets:

Income from endowments, including capital gains, as applicable, are generally restricted by the donor for various purposes. Permanently restricted net assets at June 30, 2010 and 2009 consisted of the following:

	2010	2009
Income restrictions:		
Joseph Baron	\$ 57,831	\$ 57,831
Albert Beraud, Sr.	17,168	17,168
Laumer C. Leonard Catholic Education	203,406	203,406
General endowment	101,963	101,963
Hughes general Diocese	701,000	701,000
Nursing Home Pastoral Ministry	2,380	2,380
Clara Read Memorial	1,572,968	1,572,968
Edward Rosetti Memorial	106,911	106,911
Endowment portion of life annuities	171,285	160,063
Youth ministry	29,239	25,629
McAndrew annuity endowment	238,085	208,374
St. Pancras	60,287	60,687
Bishop Francis Green	58,441	58,441
Catherine A. Dougherty	2,256	2,256
	<u>\$ 3,323,220</u>	<u>\$ 3,279,077</u>

**CATHOLIC FOUNDATION FOR THE DIOCESE OF TUCSON**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**YEARS ENDED JUNE 30, 2010 AND 2009**

13. Functional allocation of expenses:

Expenditures for the years ended June 30, 2010 and 2009 are allocated as follows:

	2010	2009
Program services	\$ 187,331	\$ 135,266
Support services:		
Management and general	417,249	344,413
Fundraising	16,963	16,748
	\$ 621,543	\$ 496,427

14. Service fees:

The Foundation charges 1% of the average balance in endowment and custodial accounts annually to manage the investment pools. Foundation fees charged during the years ended June 30, 2010 and 2009 were as follows:

	2010	2009
Total fees	\$ 68,068	\$ 60,658
Less service fees charged by third party on temporarily restricted investments	(32,709)	(31,300)
	\$ 35,359	\$ 29,358

15. Pension plans:

The Foundation's employees have the option to participate in the defined benefit pension plan covering all employees of the Diocese of Tucson (a multi-employer plan). The pension plan does not provide separately calculated financial information for its participants; therefore, the actuarially computed value of the plan benefits and the net assets available for benefits applicable only to the Foundation's employees is not available. As the Foundation had three employees participating in the pension plan during 2010 and 2009, management believes that any prepaid or underfunded benefit obligation applicable to the Foundation is not material to the financial statements and, accordingly, no amounts are reported at June 30, 2010 and 2009. The Foundation incurred no pension plan expense during the years ended June 30, 2010 and 2009.

**CATHOLIC FOUNDATION FOR THE DIOCESE OF TUCSON**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**YEARS ENDED JUNE 30, 2010 AND 2009**

15. Pension plans (continued):

The employees also have the option to participate in the defined contribution plan pursuant to Internal Revenue Code Section 403(b), which covers all employees of the Diocese of Tucson (a multi-employer plan). Employees are eligible to participate upon date of hire and can contribute up to the maximum allowed by the IRS, which was \$16,500 for 2010 and 2009. The Diocese of Tucson charges the Foundation 6.57% of vested salaries. This charge covers both matching and administrative expenses related to the defined contribution plan. Any additional funds remaining are applied to the pension plan. The Foundation will make matching contributions equal to 25% of the employee's contributions up to a maximum of \$1,000 per year. Employee and employer contributions vest immediately. The Foundation incurred defined contribution plan expense of \$7,970 and \$10,313, which includes matching and administrative costs, for the years ended June 30, 2010 and 2009.

16. Related party transactions:

Lease:

In June 2003, the Foundation purchased a building from the Diocese of Tucson. Subsequent to the purchase of the building, the Foundation leased the building back in its entirety to the Diocese of Tucson charging it monthly rent payments. The lease agreement expires June 30, 2053. The monthly base rent is \$16,155 and is increased by an amount equal to the increase in Consumer Price Index for the 12 months immediately preceding. The total rental income for the year ended June 30, 2010 and 2009 was \$190,643 and \$185,435. The base rent payments are reduced by monthly credits of \$1,344 and \$1,305 for 2010 and 2009 for consideration of the Diocese of Tucson's management of the building and \$1,209 and \$1,174 for 2010 and 2009 in consideration of the Foundation's sublease of its office space. These expenses totaled approximately \$31,000 and \$29,000 for the years ended June 30, 2010 and 2009.

Insurance:

In conjunction with certain other Catholic dioceses in the United States, the Diocese of Tucson implemented a self-insurance program and now provides insurance coverage for noncatastrophic property, casualty, and workers' compensation losses. The Foundation pays a premium to the Diocese of Tucson for this insurance coverage and, therefore, any future authorized claims against the Foundation will be paid out of the self-insurance program's fund. In accordance with the lease, this expense is included in the Foundation's monthly rent payment to the Diocese of Tucson.