



Keegan, Linscott & Kenon, PC

Certified Public Accountants
Certified Fraud Examiners
Certified Insolvency & Restructuring Advisors

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THE ROMAN CATHOLIC CHURCH
DIOCESE OF TUCSON, A CORPORATION SOLE

FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2011
(WITH SUMMARIZED COMPARATIVE TOTALS
FOR THE YEAR ENDED JUNE 30, 2010)

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INDEPENDENT AUDITORS' REPORT

Board of Directors
The Roman Catholic Church Diocese of Tucson, A Corporation Sole
Tucson, Arizona

We have audited the accompanying balance sheets of The Roman Catholic Church Diocese of Tucson, A Corporation Sole, (the "Organization") as of June 30, 2011 and 2010, and the related statement of operations and changes in net assets for the year ended June 30, 2011, and the related statements of cash flows for the years ended June 30, 2011 and 2010. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year's summarized comparative information has been derived from the Organization's June 30, 2010 financial statements and, in our report dated September 21, 2010, we expressed an unqualified opinion on those financial statements.

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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of June 30, 2011 and 2010, and the results of its cash flows for the years then ended, and results of its operations and changes in net assets for the year ended June 30, 2011, in conformity with accounting principles generally accepted in the United States of America.

Keegan, Linscott & Kenon, P.C.

Tucson, Arizona
September 20, 2011



BALANCE SHEETS
AS OF JUNE 30,

	<u>2011</u>	<u>2010</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,431,608	\$ 2,592,425
Assets limited as to use (insurance reserve)	2,739,516	2,000,318
Accounts and grants receivable, net	258,264	84,330
Notes receivable, current	44,272	46,264
Other receivables	175,511	471,127
Investments:		
Debt and equity securities	4,846,656	3,393,588
Other	1,825,769	1,490,993
Prepaid expenses and other assets	4,784	8,874
Custodial funds held for others	847,867	275,346
Total current assets	12,174,247	10,363,265
Other assets	80,850	80,850
Notes receivable	-	44,272
Land, buildings and equipment, net	3,293,337	3,339,051
Total assets	<u>\$ 15,548,434</u>	<u>\$ 13,827,438</u>
Liabilities and Net Assets		
Liabilities		
Current liabilities:		
Accounts payable	\$ 64,350	\$ 109,835
Accrued expenses	413,589	285,028
Custodial funds held for others	847,867	275,346
Notes payable, current	314,490	294,618
Total current liabilities	1,640,296	964,827
Notes payable	3,632,521	3,942,373
Insurance reserve	3,008,975	1,959,424
Total liabilities	<u>8,281,792</u>	<u>6,866,624</u>
Net Assets		
Unrestricted net assets	3,647,556	3,191,262
Temporarily restricted net assets	1,445,265	1,595,731
Permanently restricted net assets	2,173,821	2,173,821
Total liabilities and net assets	<u>\$ 15,548,434</u>	<u>\$ 13,827,438</u>

STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30,

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2011	Summarized Total 2010
Revenues and Support:					
Annual Catholic Appeal Grant	\$ 2,000,000	\$ -	\$ -	\$ 2,000,000	\$ 2,000,000
Chancery assessment	1,785,953	-	-	1,785,953	1,757,833
Parish and school assistance assessment	351,254	-	-	351,254	350,657
Contributions, grants, and bequests	456,181	497,693	-	953,874	1,268,013
Advertising revenue	105,687	-	-	105,687	99,803
Fees for service	435,020	-	-	435,020	438,285
Insurance billings	912,466	-	-	912,466	682,631
Facilities rentals	44,113	-	-	44,113	52,036
Program fees	142,725	-	-	142,725	130,525
Investment income, net	959,183	145,708	-	1,104,891	689,875
Other revenues	6,385	-	-	6,385	5,933
Net assets released from restriction	793,867	(793,867)	-	-	-
Total revenues and support	7,992,834	(150,466)	-	7,842,368	7,475,591
Expenses and Losses:					
Program Services:					
Vocations, seminarians and other religious personnel	582,447	-	-	582,447	656,048
Vicar for Women Religious	20,997	-	-	20,997	19,233
Pastoral parish programs	654,825	-	-	654,825	443,613
Catholic schools administration	349,072	-	-	349,072	299,163
Parish assistance	637,768	-	-	637,768	758,596
Catholic social missions	70,606	-	-	70,606	60,955
Archives	66,019	-	-	66,019	57,350
Supporting Services:					
Offices of the Bishop, Vicar General, Chancellor & Marriage Tribunal	577,207	-	-	577,207	500,929
Office of child, adolescent, & adult protection	149,651	-	-	149,651	160,173
General administration	864,774	-	-	864,774	769,943
Fiscal and employee services	735,741	-	-	735,741	709,842
Catholic Vision and community relations	299,666	-	-	299,666	298,495
Property management	350,523	-	-	350,523	335,266
Insurance	1,826,112	-	-	1,826,112	1,078,582
Interest expense, net	87,787	-	-	87,787	102,835
Depreciation	70,550	-	-	70,550	69,375
Bad debt expense	192,795	-	-	192,795	382,621
Total expenses and losses	7,536,540	-	-	7,536,540	6,703,019
Change in Net Assets	456,294	(150,466)	-	305,828	772,572
Net Assets - Beginning of Year	3,191,262	1,595,731	2,173,821	6,960,814	6,188,242
Net Assets - End of Year	<u>\$ 3,647,556</u>	<u>\$ 1,445,265</u>	<u>\$ 2,173,821</u>	<u>\$ 7,266,642</u>	<u>\$ 6,960,814</u>

STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30,

	<u>2011</u>	<u>2010</u>
Cash Flows from Operating Activities:		
Change in net assets	\$ 305,828	\$ 772,572
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	70,550	69,375
Increase in allowance for accounts receivable	37,388	231,659
Net realized and unrealized (gain) on investments	(131,228)	(212,108)
Forgiveness of notes payable	-	(308,001)
Changes in operating assets and liabilities:		
Increase in assets limited as to use	(739,198)	(660,302)
Increase in accounts and grants receivable	(211,322)	(20,597)
Decrease (increase) in other receivables	295,616	(320,330)
Decrease (increase) in prepaids and other assets	4,090	(2,485)
(Decrease) increase in accounts payable	(45,485)	22,013
Increase (decrease) in accrued expenses	128,561	(115,528)
Increase in insurance reserve	1,049,551	619,408
Net cash provided by operating activities	<u>764,351</u>	<u>75,676</u>
Cash Flows from Investing Activities:		
Purchases of land, buildings and equipment	(24,836)	(59,836)
Proceeds received for repayment of notes receivable	46,264	45,123
(Purchase) sale of investments	<u>(1,656,616)</u>	<u>595,951</u>
Net cash (used in) provided by investing activities	<u>(1,635,188)</u>	<u>581,238</u>
Cash Flows from Financing Activities:		
Repayment of notes payable	<u>(289,980)</u>	<u>(247,881)</u>
Net cash used in financing activities	<u>(289,980)</u>	<u>(247,881)</u>
Net (decrease) increase in cash and cash equivalents	(1,160,817)	409,033
Cash and cash equivalents at beginning of year	<u>2,592,425</u>	<u>2,183,392</u>
Cash and cash equivalents at end of year	<u>\$ 1,431,608</u>	<u>\$ 2,592,425</u>
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the year for interest	<u>\$ 87,787</u>	<u>\$ 102,835</u>
Non-Cash Activities:		
Forgiveness of notes payable	<u>\$ -</u>	<u>\$ 308,001</u>

NOTES TO FINANCIAL STATEMENTS

1. Organization

The Roman Catholic Church Diocese of Tucson, A Corporation Sole (the “Diocese of Tucson”, the “Diocese” or the “Organization”) is a hierarchical religious organization governed by the Code of Canon Law of the Roman Catholic Church. Each office of the Diocese of Tucson performs specific functions in support of the Bishop’s pastoral ministries and in support of the parishes and schools in the territory of the Diocese of Tucson. The offices include:

Office of the Bishop	Tribunal
Chancellor’s Office	Formation
Vocations	Catechesis
Human Resources	Evangelization
Fiscal Services	Catholic Schools
Property and Insurance Services	Catholic Social Mission
Communications	

2. Significant Accounting Policies

Basis of Presentation

The Diocese of Tucson follows accounting standards set by the Financial Accounting Standards Board (“FASB”). The FASB sets generally accepted accounting principles (“GAAP”) that the Organization follows to ensure the consistent reporting of its financial condition, changes in net assets and cash flows. References to GAAP issued by the FASB in the accompanying footnotes are to the FASB Accounting Standards Codification (“ASC”).

The Diocese of Tucson’s financial statements have been prepared in accordance with FASB ASC 958, *Not-for-Profit Entities*. Under this authoritative guidance, the Organization is required to provide financial statements which are prepared to focus on the organization as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions. Resources are reported for accounting purposes in separate classes of net assets based on the existence or absence of donor-imposed restrictions. In the accompanying financial statements, net assets that have similar characteristics have been combined into similar categories as follows:

- **Permanently Restricted** – Net assets that are subject to donor-imposed stipulations such that assets must be maintained permanently by the Organization. The donors of these assets permit the Organization to use all of the investment return of these assets in support of the Diocese’s ministries and mission.
- **Temporarily Restricted** – Net assets whose use by the Organization is subject to donor-imposed stipulations that can be fulfilled by actions of the Organization pursuant to those stipulations or that expire through the passage of time. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted support. However, if a restriction is fulfilled in the same time period in which the contribution is received, the Diocese of Tucson reports the support as unrestricted.
- **Unrestricted** – Net assets that are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors or may otherwise be limited by contractual agreements with outside parties. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor.

NOTES TO FINANCIAL STATEMENTS

Significant Accounting Policies (continued)

Endowment Funds

The Organization interprets the law that underlies the Organization's net asset classification of donor-restricted endowment funds as requiring the preservation of the fair value of the original gift. As a result of this interpretation, the Organization classifies as permanently restricted net assets (1) the original value of gifts donated to the permanent endowment, (2) the original value of subsequent gifts to the permanent endowment, and (3) 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 until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by the law.

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by the endowment funds. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity or for donor-specified periods. Under this policy, as approved by the Bishop and the Diocesan Finance Council, the endowment assets are invested in a balanced portfolio comprised of cash, certificates of deposit, fixed income securities, and equities. To satisfy its long-term objectives, the Organization 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) while assuming a moderate level of investment risk. The Organization targets a diversified asset allocation that places more emphasis on fixed income securities than equity securities to achieve its long-term return objectives within prudent risk constraints. The Organization expects its endowment funds, over time, to provide an average rate of return of approximately 6.5 percent annually. Actual returns in any given year may vary from that amount.

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 current law requires the Organization to retain for a fund of perpetual duration. In accordance with accounting principles generally accepted in the United States of America, deficiencies of this nature are reported in unrestricted net assets. There were no such deficiencies as of June 30, 2011 and 2010, respectively.

Use of 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.

Cash and Cash Equivalents

Cash and cash equivalents include all cash balances and highly liquid investments with an original maturity of three months or less. Cash and cash equivalents include short-term certificates of deposit and money market funds that are readily convertible into cash. These cash equivalents are stated at amortized cost plus interest, which approximates fair value.

The Organization places its cash and cash equivalents with high credit quality institutions. At times, such amounts may be in excess of the FDIC insurance limit; however, management does not believe it is exposed to any significant credit risk on cash and cash equivalents. All such cash accounts are monitored by management to mitigate risk.

NOTES TO FINANCIAL STATEMENTS

Significant Accounting Policies (continued)

Assets Limited as to Use

Pursuant to a liability insurance program, which the Diocese along with Parishes and other Catholic organizations are members, have established a risk retention insurance layer as specified in the respective insurance policies (refer to Note 14). The Diocese, as the insurance program manager, assesses a proportionate share to the various parishes and other participating Catholic organizations to fund this risk retention insurance layer. These amounts are therefore reported as assets limited as to use and insurance reserve liability in the accompanying financial statements and are available to fund any future claims that might arise pertaining to any insurance program member. Assets limited as to use consist of FDIC insured depository accounts, certificates of deposit, and accounts receivable related to insurance billings due from the parishes, and other Catholic entities in the territory of the Diocese of Tucson.

Accounts and Grants Receivable

Accounts and grants receivable consist principally of uncollateralized amounts due from parishes and schools in the territory of the Diocese of Tucson. The carrying amount of accounts receivable is reduced by a valuation allowance that reflects management's best estimate of amounts that will not be collected. The allowance for doubtful accounts is based on management's assessment of the collectability of specific accounts and the aging of accounts receivable. All accounts or portions thereof deemed to be uncollectible are written off. Recoveries of accounts receivable previously written off are recorded when received. Accounts receivable are presented net of an allowance for doubtful accounts of \$435,350 and \$397,962 for the years ended June 30, 2011 and 2010, respectively.

Investments

- **Debt and Equity Securities** – Investments are accounted for in accordance with ASC 958-320, *Investments - Debt and Equity Securities*. Investments in debt and equity securities are valued at their fair values in the accompanying balance sheet. Investment income, gains and losses are reported in the statement of operations and changes in net assets as increases or decreases in net assets. Gains and investment income limited to specific uses by donor-imposed restrictions are reported as increases in unrestricted net assets if the restrictions are met in the same reporting period as the gains and income are recognized. Donated investments are recorded at fair value at the date of donation.

The Organization invests in professionally managed portfolios that contain equity and fixed income securities. Such investments are exposed to various risks such as 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 would materially affect investment balances and the amounts reported in the financial statements.

Investments are considered to be impaired when a decline in fair value is judged to be other-than-temporary. The Organization employs a systematic methodology on an annual basis that considers available quantitative and qualitative evidence in evaluating potential impairment of our investments. If the cost of an investment exceeds its fair value, management evaluates, among other factors, general market conditions, the duration and extent to which the fair value is less than cost, and our intent and ability to hold the investment. The Organization also considers specific adverse conditions related to the financial health of and business outlook for the investee, including industry and sector performance, changes in technology, operational and financing cash flow factors, and rating agency actions. Once a decline in fair value is determined to be other-than-temporary, an impairment charge is recorded and a new cost basis in the investment is established.

NOTES TO FINANCIAL STATEMENTS

Significant Accounting Policies (continued)

Investments (continued)

- **Other** – Certificates of deposit held for investment that are not debt securities are included in other investments. Certificates of deposit with original maturities greater than three months and remaining maturities less than one year are classified as current assets in the accompanying balance sheets.

Custodial Funds Held for Others

Custodial funds held for others represent amounts held by the Diocese that are earmarked to be distributed to specific parishes and/or other related Catholic entities and consist of FDIC insured depository accounts. The fair value of these depository accounts approximates their carrying value. These funds are reported as assets and liabilities in the accompanying balance sheets.

Land, Buildings and Equipment

Land, buildings and equipment are stated at cost if purchased, or fair value, if donated. Depreciation and amortization are calculated using the straight line basis over the estimated useful lives of the related assets, which range from 3 to 40 years.

Acquisitions of land, buildings and equipment and repairs or betterments that materially prolong the useful lives of assets in excess of \$5,000 are capitalized. Repairs and maintenance for normal upkeep are charged to expense as incurred.

In accordance with ASC 360-10, *Property, Plant and Equipment*, The Organization periodically reviews the carrying value of long-lived assets held and used, and assets to be disposed of, for possible impairment when events and circumstances warrant such a review. For the years ended June 30, 2011 and 2010, the Organization had not experienced impairment losses on its long-lived assets.

Donated Property and Equipment

Donations of property and equipment are recorded at their estimated fair value at the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. The Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service or as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at the time the assets are placed in service.

Income Taxes

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and is also exempt from state income taxes. Accordingly, no provision is made for income taxes in the accompanying financial statements. Furthermore, the Organization qualifies as a religious organization and is exempt from the Federal Form 990 and State Form 99 filing requirements.

Management evaluated the Organization's tax positions in accordance with the accounting standard on accounting for uncertainty in income taxes and concluded that the Organization had taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of the accounting standard. In addition, Management is not aware of any matters which would cause the Organization to lose its tax-exempt status.

NOTES TO FINANCIAL STATEMENTS

Significant Accounting Policies (continued)

Revenue Recognition

Contribution and grant revenue is recorded as temporarily restricted or unrestricted revenue at the time the contribution, grant or unconditional promise is received, depending on the stipulations of the donor. The Organization has adopted a policy of recording donor-restricted contributions as unrestricted revenue when the restrictions are met in the same reporting period. Net assets released from restrictions (i.e. the donor-stipulated purpose has been met and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets in the statement of operations and changes in net assets.

The Chancery assessment is recognized as revenue at the time of the assessment. Fees for services are recognized as revenue when the services are provided by the Organization.

Prior Year Information

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2010, from which the summarized information was derived.

Reclassifications

Certain amounts in the prior year's financial statements have been reclassified to conform to the current year's presentation.

3. Recent Accounting Pronouncements

FASB ASC 820, *Fair Value Measurements and Disclosures*, defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. In January 2010, FASB issued Accounting Standards Update ("ASU") No. 2010-06, *Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements*, which requires additional disclosures and clarifies existing guidance for disclosures required by FASB ASC 820. The guidance in ASU No. 2010-06 is effective for interim and annual reporting beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010.

4. Fair Value Measurements

Effective July 1, 2008, the Organization adopted ASC 820, *Fair Value Measurements and Disclosures* ("ASC 820"), for financial assets and liabilities measured at fair value on a recurring basis. This statement provides a definition of fair value which focuses on an exit price rather than an entry price, establishes a framework for measuring fair value which emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and requires expanded disclosure about fair value measurements. In accordance with ASC 820, the Organization may use valuation techniques consistent with the market, income, and cost approach to measure fair value. The adoption of ASC 820 did not have a material impact on the Organization financial position or results of operations on the effective date.

To increase consistency and comparability in fair value measurements and related disclosures, the Organization utilizes the fair value hierarchy required by ASC 820 which prioritizes the inputs to valuation techniques used to measure fair value into three levels:

NOTES TO FINANCIAL STATEMENTS

Fair Value Measurement (continued)

Level 1	Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Organization has the ability to access at the measurement date;
Level 2	Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, directly or indirectly.
Level 3	Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Inputs may include price information, volatility statistics, specific and broad credit data, liquidity statistics, and other factors. The availability of observable inputs can vary from product to product and is affected by a wide variety of factors, including, for example, the type of product, whether the product is new and not yet established in the marketplace, and other characteristics particular to the transaction. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised by the Organization in determining fair value is greatest for instruments categorized in level 3. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes the level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety. Fair value is a market-based measure considered from the perspective of a market participant who holds the asset or owes the liability rather than an entity-specific measure. Therefore, even when market assumptions are not readily available, the Organization's own assumptions are set to reflect those that market participants would use in pricing the asset or liability at the measurement date. The Organization uses prices and inputs that are current as of the measurement date, including during periods of market dislocation. In periods of market dislocation, the observability of prices and inputs may be reduced for many instruments. This condition could cause an instrument to be reclassified from Level 1 to Level 2 or Level 2 to Level 3.

The Organization defines active markets for equity instruments based on the average daily trading volume both in absolute terms and relative to the market capitalization for the instrument. The Organization defines active markets for debt instruments based on both the average daily trading volume and the number of days with trading activity.

The Organization's financial assets are generally classified within Level 1 or Level 2 of the fair value hierarchy because they are valued using readily determinable fair values or alternative pricing sources with reasonable levels of price transparency. The types of instruments valued based on readily determinable fair values in active markets include common stocks. Such instruments are generally classified within Level 1 of the fair value hierarchy. The Organization's mutual funds are given Level 1 status as a fair value per share for these instruments is determined and published and the basis for current transactions. The types of instruments that trade in markets that are not considered to be active, but are valued on alternative pricing sources with reasonable levels of price transparency include the Organization's corporate bonds and government sponsored entity bonds. Such instruments are classified within Level 2 of the fair value hierarchy.

NOTES TO FINANCIAL STATEMENTS

Fair Value Measurement (continued)

The following table represents the Organization's financial assets that are measured at fair value on a recurring basis at June 30, 2011, consistent with the fair value hierarchy provisions of ASC 820:

Description	6/30/2011	Fair Value Measurements at June 30, 2011 Using:		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Corporate bonds	\$ 793,797	\$ -	\$ 793,797	\$ -
Government sponsored entity bonds	3,410,934	-	3,410,934	-
Common stocks	512,392	512,392	-	-
Mutual funds	129,533	129,533	-	-
Total	<u>\$ 4,846,656</u>	<u>\$ 641,925</u>	<u>\$ 4,204,731</u>	<u>\$ -</u>

The following table represents the Organization's financial assets that are measured at fair value on a recurring basis at June 30, 2010, consistent with the fair value hierarchy provisions of ASC 820:

Description	6/30/2010	Fair Value Measurements at June 30, 2010 Using:		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Corporate bonds	\$ 1,839,974	\$ -	\$ 1,839,974	\$ -
Government sponsored entity bonds	1,003,638	-	1,003,638	-
Common stocks	446,700	446,700	-	-
Mutual funds	103,276	103,276	-	-
Total	<u>\$ 3,393,588</u>	<u>\$ 549,976</u>	<u>\$ 2,843,612</u>	<u>\$ -</u>

5. Investments

Debt and equity investments consist of the following as of June 30:

	2011	2010
Restricted Investment Pool - Catholic Foundation	\$ 393,008	\$ 444,249
Corporate bonds	671,178	1,618,561
Government sponsored entity bonds	3,381,857	1,003,638
Common stocks	400,613	327,140
	<u>\$ 4,846,656</u>	<u>\$ 3,393,588</u>

NOTES TO FINANCIAL STATEMENTS

Investments (continued)

Other investments consist of the following as of June 30:

	<u>2011</u>	<u>2010</u>
Certificates of deposit	<u>\$ 1,825,769</u>	<u>\$ 1,490,993</u>

Included in investment income, net:

	<u>2011</u>	<u>2010</u>
Investment income	\$ 973,663	\$ 477,767
Realized and unrealized (loss) gain, net	131,228	212,108
	<u>\$ 1,104,891</u>	<u>\$ 689,875</u>

6. Assets Limited as to Use

Assets limited as to use consist of the following as of June 30:

	<u>2011</u>	<u>2010</u>
Cash and cash equivalents	\$ 1,059,222	\$ 1,617,830
Certificates of deposit	1,513,849	341,594
Insurance receivables, net of allowance of \$252,154 and \$103,212	166,445	40,894
	<u>\$ 2,739,516</u>	<u>\$ 2,000,318</u>

7. Notes Receivable

Notes receivable consist of the following as of June 30:

	<u>2011</u>	<u>2010</u>
Note receivable, \$4,000 monthly principal and interest payments, was renegotiated in July 2007. Original terms included interest payments at the "parish rate" plus 1.5% (6.19% at June 30, 2007) until paid in full. Renegotiated terms include interest payments at the fixed rate of 2.5% until paid in full.	\$ 44,272	\$ 90,536
Current portion	(44,272)	(46,264)
Notes receivable, noncurrent portion	<u>\$ -</u>	<u>\$ 44,272</u>

NOTES TO FINANCIAL STATEMENTS

Notes Receivable (continued)

In June 2004, St. Augustine Catholic High School (“St. Augustine”) purchased the Regina Cleri Center (the “Property”) from the Diocese for \$3.0 million. St Augustine paid \$600,000 in cash and executed a promissory note to the Diocese in the amount of \$2.4 million. The note was secured by a first priority deed of trust on the Property. In February 2009, due to financial challenges resulting from limited enrollment, St. Augustine defaulted on the note and conveyed title to the Property back to the Diocese in full satisfaction of the note. As part of the agreement, St. Augustine will lease (rent free) from the Diocese a portion of the Property from the date of the conveyance through June 2023. In addition, the Diocese will pay the costs of casualty and liability insurance associated with the operation of the school and commencing in 2009-2010, the Diocese may provide an annual cash subsidy in an amount not to exceed \$250,000 in any school year. The total of the cash subsidies will not exceed \$500,000 in the aggregate. There were no cash subsidies during the year ended June 30, 2011 and 2010.

8. Land, Buildings and Equipment

Land, buildings and equipment consist of the following as of June 30:

	2011	2010
Land	\$ 7,200	\$ 7,200
Buildings and improvements	140,841	140,841
Property	2,750,000	2,750,000
Furniture and equipment	224,765	224,765
Vehicles	116,534	94,248
Leasehold improvements	417,396	414,846
	3,656,736	3,631,900
Less accumulated depreciation	(363,399)	(292,849)
	\$ 3,293,337	\$ 3,339,051

NOTES TO FINANCIAL STATEMENTS

9. Long-Term Debt

Long-term debt at June 30 is summarized as follows:

	<u>2011</u>	<u>2010</u>
Unsecured note payable, due in monthly installments of \$17,364, including interest of 2.5% through September 2015.	\$ 2,481,418	\$ 2,666,703
Unsecured note payable, due in monthly installments of \$15,400, including interest of 4.5% through September 2012, at which time all remaining principal will become due.	1,396,135	1,505,467
Other	<u>69,458</u>	<u>64,821</u>
Total	3,947,011	4,236,991
Less current portion of long-term debt	<u>(314,490)</u>	<u>(294,618)</u>
Long-term debt	<u><u>\$ 3,632,521</u></u>	<u><u>\$ 3,942,373</u></u>

The scheduled maturities of long-term debt at June 30, 2011 are as follows:

<u>Year</u>	<u>Total</u>
2012	\$ 314,490
2013	1,826,176
2014	497,371
2015	509,948
2016	<u>799,026</u>
Total	<u><u>\$ 3,947,011</u></u>

10. Letter of Credit

The Diocese of Tucson has entered into an agreement with a financial institution for a \$300,000 letter of credit, collateralized by certificates of deposits, issued in favor of the Industrial Commission of Arizona pursuant to its workers compensation self-insurance program (see Note 14). No amounts were outstanding as of June 30, 2011 and 2010.

11. Retirement Plans***Lay Employees Pension Plan***

The Diocese of Tucson participates in a non-contributory multi-employer defined benefit pension plan. The plan was established July 1, 1983 and covers all eligible lay employees of the Diocese of Tucson and participating Catholic entities. The plan is currently under funded; however, information is not available from the plan to allow the Organization to determine its share of funded or unfunded vested benefits. The plan was frozen to new participants as of December 31, 2006.

NOTES TO FINANCIAL STATEMENTS

Retirement Plans (continued)**403(b) Plans**

On March 1, 2003, the Diocese of Tucson adopted a 403(b) qualified defined contribution plan. This is a multi-employer plan that covers all eligible lay employees of the Diocese of Tucson and participating Catholic entities. Employees are eligible for plan participation on their date of hire and contribute to the plan through salary deferrals. Employees are eligible to receive employer contributions upon completion of two years of continuous service. Employer contributions are equal to 25% of the employee's contribution up to a maximum of \$1,000 annually. Employees are 100% vested in employee and employer contributions at all times. Participation in this plan is limited to employees hired prior to December 31, 2006.

Effective January 1, 2007, the Diocese of Tucson adopted a new 403(b) qualified defined contribution plan for employees hired subsequent to December 31, 2006. This is a multi-employer plan that covers all eligible lay employees of the Diocese of Tucson and participating Catholic entities. Employees are eligible for plan participation on their date of hire and may contribute to the plan through salary deferrals. Employees are eligible to receive employer contributions upon completion of two years of continuous service. Non-matching employer contributions are discretionary and for calendar year 2009 (the first year of contributions) were 3% of each eligible employee's gross wage and will be paid annually to the plan. Employees that have completed two years of service are eligible for a 25% match of their voluntary contributions up to a maximum of \$1,000 annually. Employees are 100% vested in employee and employer contributions at all times.

The Diocese of Tucson's contributions for the above plans totaled \$90,732 and \$84,378 for the years ended June 30, 2011 and 2010, respectively.

12. Temporarily Restricted Net Assets

Temporarily restricted net assets were restricted for the following purposes as of June 30:

	2011	2010
Capital improvements	\$ 30,961	\$ 49,112
Seminarians/Diaconate	342,722	350,184
Retired religious women	92,097	82,747
Indian missions	65,667	73,167
Evangelization	253,837	245,114
Formation programs	6,129	6,561
Parish life and ministry programs	5,708	3,464
Catholic schools administration	23,927	50,881
Human development	2,503	28,819
Priests' programs	46,071	48,895
Safe environment programs	241,814	289,411
Other miscellaneous programs	333,829	367,376
	<u>\$ 1,445,265</u>	<u>\$ 1,595,731</u>

NOTES TO FINANCIAL STATEMENTS

13. Permanently Restricted Net Assets

Permanently restricted net assets consist of the following as of June 30:

	<u>2011</u>	<u>2010</u>
Seminarian Education	\$ 1,177,882	\$ 1,177,882
Endowed Care - Regina Cleri	605,393	605,393
Scholarship assistance	80,095	80,095
Mass foundations	73,428	73,428
Catholic Foundation Social Mission	2,000	2,000
Catholic Foundation Hughes Vision Diocesan newspaper	150,000	150,000
Catholic Foundation Catholic Schools - general funds for Catholic School Department	85,023	85,023
	<u>\$ 2,173,821</u>	<u>\$ 2,173,821</u>

Endowment net asset composition by type of fund as of June 30, 2011:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 90,141	\$ 2,173,821	\$ 2,263,962
Total funds	<u>\$ -</u>	<u>\$ 90,141</u>	<u>\$ 2,173,821</u>	<u>\$ 2,263,962</u>

Changes in endowment net assets for the fiscal year ended June 30, 2011

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, June 30, 2010	\$ -	\$ 4,612	\$ 2,173,821	\$ 2,178,433
Investment return:				
Investment income	-	76,857	-	76,857
Net appreciation / (depreciation)	-	68,692	-	68,692
Total investment return	-	145,549	-	145,549
Contributions	-	-	-	-
Appropriation of endowment funds for expenditure	(60,020)	-	-	(60,020)
Transfers between funds	60,020	(60,020)	-	-
Endowment net assets, June 30, 2011	<u>\$ -</u>	<u>\$ 90,141</u>	<u>\$ 2,173,821</u>	<u>\$ 2,263,962</u>

NOTES TO FINANCIAL STATEMENTS

Permanently Restricted Net Assets (continued)

Endowment net asset composition by type of fund as of June 30, 2010:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	4,612	\$ 2,173,821	\$ 2,178,433
Total funds	<u>\$ -</u>	<u>\$ 4,612</u>	<u>\$ 2,173,821</u>	<u>\$ 2,178,433</u>

Changes in endowment net assets for the fiscal year ended June 30, 2010:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, June 30, 2009	\$ (65,932)	\$ -	\$ 2,168,821	\$ 2,102,889
Investment return:				
Investment income	-	62,094	-	62,094
Net appreciation / (depreciation)	-	81,868	-	81,868
Total investment return	-	143,962	-	143,962
Contributions	-	-	5,000	5,000
Appropriation of endowment	-	-	-	-
funds for expenditure	-	(73,418)	-	(73,418)
Transfer between funds	65,932	(65,932)	-	-
Endowment net assets, June 30, 2010	<u>\$ -</u>	<u>\$ 4,612</u>	<u>\$ 2,173,821</u>	<u>\$ 2,178,433</u>

The \$90,141 and \$4,612 remaining balances of permanently restricted endowments for the year ended June 30, 2011 and 2010, respectively, are reflected in multiple temporarily restricted net asset programs; consequently, they are not listed as separate line items at Note 12.

Permanently restricted net assets are included in cash and cash equivalents and investments in the accompanying balance sheets.

14. Commitments and Contingencies

The Diocese of Tucson administrative offices are leased under an operating lease agreement that expires in June 2053. Annual lease expense totaled \$196,770 and \$191,039 during the years ended June 30, 2011 and 2010, respectively. The lease has an annual inflationary adjustment clause and requires the Diocese of Tucson to pay property taxes, insurance, and normal maintenance and repair costs.

NOTES TO FINANCIAL STATEMENTS

Commitments and Contingencies (continued)

The minimum future rentals on the non-cancelable operating lease as of June 30, 2011 for the next five fiscal years are as follows:

<u>Year</u>	<u>Amount</u>
2012	\$ 202,673
2013	208,754
2014	215,016
2015	221,467
2016	228,111

The Diocese is partially self-insured for workers' compensation, property and crime claims. The self-insured retention is \$100,000 for property, \$50,000 for crime and \$150,000 for workers' compensation per claim for the years ended June 30, 2011 and 2010. The Diocese has obtained insurance coverage for claims in excess of the individual claim retention limits and annual aggregates of \$450,000, for property and crime claims, and \$250,000 and \$175,000, for workers compensation claims for the years ended June 30, 2011 and 2010, respectively. A portion of the insurance coverage is provided by BPIC ("Bishops Plan Insurance Corporation"), a captive insurance company in which the Diocese retained an ownership interest as of June 30, 2006, which totaled \$80,850.

On July 31, 2006, BPIC converted to a non-profit entity and converted its shares to subordinated surplus notes. Accordingly, the Diocese has a note receivable from BPIC in the amount \$80,850 as of June 30, 2011 and 2010. The note balance and ownership interest are included in other assets in the accompanying balance sheets as of June 30, 2011 and 2010.

The Bishop has guaranteed the debt of seven separately incorporated parishes: San Felipe Parish, St Mark the Evangelist Parish, St Odilia Parish, St Andrew the Apostle Parish, St Pius Parish, St John Neumann Parish, and Holy Angels Parish. Guaranteed debt outstanding as of June 30, 2011 and 2010 is approximately \$4,638,000 and \$4,935,000, respectively. The Organization believes the likelihood of having to make payments under the guarantee is remote and no liabilities are reported at June 30, 2011 and 2010 in the accompanying financial statements.

15. Evaluation of Subsequent Events

The Organization evaluated subsequent events through September 20, 2011, the date these financial statements were available to be issued. There were no material subsequent events that required recognition or additional disclosure in these financial statements.