

**CATHOLIC FOUNDATION  
- DIOCESE OF AUSTIN**

**Financial Statements**

**June 30, 2011 and 2010**  
(With Independent Auditors' Report)

**CATHOLIC FOUNDATION  
- DIOCESE OF AUSTIN**

**C O N T E N T S**

	<u>Page</u>
Independent Auditors' Report	1
Financial Statements	
Statements of Financial Position	2
Statements of Activities	
Year Ended June 30, 2011	3
Year Ended June 30, 2010	4
Statements of Cash Flows	5
Notes to Financial Statements	6

## **Independent Auditors' Report**

Most Reverend Joe Vásquez and Finance Council  
Diocese of Austin

We have audited the accompanying statements of financial position of the Catholic Foundation - Diocese of Austin (the Foundation) as of June 30, 2011 and 2010, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

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

**DATE**

Austin, Texas

**CATHOLIC FOUNDATION - DIOCESE OF AUSTIN**

Statements of Financial Position

As of June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
<b>Assets</b>		
Assets:		
Cash	\$ 2,657	\$ -
Investments	<u>17,279,623</u>	<u>14,074,169</u>
Total Assets	<u><u>\$ 17,282,280</u></u>	<u><u>\$ 14,074,169</u></u>
<b>Liabilities and Net Assets</b>		
Accounts Payable	<u>\$ 21,887</u>	<u>\$ -</u>
Total liabilities	<u>21,887</u>	<u>-</u>
Net assets:		
Unrestricted	15,909,461	13,617,993
Temporarily restricted	160,271	(18,729)
Permanently restricted	<u>1,190,661</u>	<u>474,905</u>
Total net assets	<u>17,260,393</u>	<u>14,074,169</u>
Total Liabilities and Net Assets	<u><u>\$ 17,282,280</u></u>	<u><u>\$ 14,074,169</u></u>

See accompanying notes to financial statements.

**CATHOLIC FOUNDATION - DIOCESE OF AUSTIN**Statement of Activities  
Year Ended June 30, 2011

	<b>Unrestricted</b>	<b>Temporarily restricted</b>	<b>Permanently restricted</b>	<b>Total</b>
Revenues, gains, and other support:				
Contributions	\$ -	\$ -	\$ 715,756	\$ 715,756
Investment Revenue	507,168	36,428	-	543,596
Net appreciation (depreciation)	2,447,288	166,634	-	2,613,922
Other	1,750	-	-	1,750
Total revenues, gains, and other support	2,956,206	203,062	715,756	3,875,024
Net assets released from restrictions	24,062	(24,062)	-	-
Total revenues and release of restrictions	2,980,268	179,000	715,756	3,875,024
Expenses and losses:				
Administration	41,747	-	-	41,747
Investment Fees	37,564	-	-	37,564
Distributions to Diocese of Austin	609,489	-	-	609,489
Total expenses and losses	688,800	-	-	688,800
Change in net assets	2,291,468	179,000	715,756	3,186,224
Net assets at beginning of year	13,617,993	(18,729)	474,905	14,074,169
Net assets at end of year	\$ 15,909,461	\$ 160,271	\$ 1,190,661	\$ 17,260,393

See accompanying notes to financial statements.

**CATHOLIC FOUNDATION - DIOCESE OF AUSTIN**

Statement of Activities  
Year Ended June 30, 2010

	<b>Unrestricted</b>	<b>Temporarily restricted</b>	<b>Permanently restricted</b>	<b>Total</b>
Revenues, gains, and other support:				
Contributions	\$ 14,000,000	\$ -	\$ 474,905	\$ 14,474,905
Investment Revenue	120,707	3,466	-	124,173
Net appreciation (depreciation)	(493,288)	(22,195)	-	(515,483)
Total revenues, gains, and other support	13,627,419	(18,729)	474,905	14,083,595
Net assets released from restrictions	-	-	-	-
Total revenues and release of restrictions	13,627,419	(18,729)	474,905	14,083,595
Expenses and losses:				
Investment Fees	9,426	-	-	9,426
Total expenses and losses	9,426	-	-	9,426
Change in net assets	13,617,993	(18,729)	474,905	14,074,169
Net assets at beginning of year	-	-	-	-
Net assets at end of year	\$ 13,617,993	\$ (18,729)	\$ 474,905	\$ 14,074,169

See accompanying notes to financial statements.

**CATHOLIC FOUNDATION - DIOCESE OF AUSTIN**Statements of Cash Flows  
Years Ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities and non-operating gains:		
Change in net assets	\$ 3,186,224	\$ 14,074,169
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Non-cash Contributed Investments	(560,170)	(13,751,159)
Net unrealized and realized (gains) losses on investments	(2,608,999)	515,483
Increase (decrease) in accounts payable	<u>21,887</u>	<u>-</u>
Net cash provided by operating activities	<u>38,942</u>	<u>838,493</u>
Cash from investing activities:		
Proceeds from sale and maturities of investments	4,417,962	675,677
Purchase of investments	(4,000,110)	(559,149)
Net change in money market funds	<u>(454,137)</u>	<u>(955,021)</u>
Net cash provided by (used in) investing activities	<u>(36,285)</u>	<u>(838,493)</u>
Net increase in cash	2,657	-
Cash and cash equivalents at beginning of year	<u>-</u>	<u>-</u>
Cash and cash equivalents at end of year	<u>\$ 2,657</u>	<u>\$ -</u>
Cash paid for interest	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes to financial statements.

## CATHOLIC FOUNDATION - DIOCESE OF AUSTIN

Notes to Financial Statements

June 30, 2011 and 2010

### **Note A - Organization**

The accompanying financial statements are those of the Catholic Foundation - Diocese of Austin (the Foundation). The Foundation is a separate nonprofit Texas corporation created under IRC sections 501(c)(3) and 509(a)(3) as a supporting organization and integrated auxiliary of the Catholic Church.

The Foundation was formed to promote the establishment and growth of endowment funds and planned giving to provide perpetual funding to the Central Administrative Office of the Diocese of Austin (the Diocese) and to participating parishes, schools and other Catholic organizations within the Diocese. The initial establishment of the endowment funds in the Foundation began in December 2009 with the transfer of \$14,000,000 of funds from the Our Faith, Our Legacy Capital Campaign of the Diocese.

### **Note B - Summary of Significant Investment and Spending Policies**

#### ***1. Investment Return Objectives, Risk Parameters and Strategies***

The Foundation Board has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long term. The investment process seeks to achieve an after-cost total real rate of return that exceeds the annual distribution with acceptable levels of risk. The Foundation Board expects its endowment assets over time to produce a rate of return sufficient to provide those annual distributions.

The Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the endowment fund, (2) the purposes of the endowment, (3) the general economic conditions, (4) the possible effects of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Foundation, and (7) the Foundation's investment policies (including but not limited to its policy concerning minimum balances for an endowment fund).

Under the Foundation's standard endowment contract, the Foundation does not guarantee a rate of return or that the value of the fund will appreciate, nor does it have any responsibility to replenish the funds should net depreciation occur.

#### ***2. Spending Policy***

Income available for spending is determined by a total return system. The Foundation expects to make distributions to the endowment beneficiary in the amount of four percent (4%) of the net fair market value of the fund, which includes the change in market value of the fund, dividends and interest, net of expenses, all averaged over the prior three (3) years.

## CATHOLIC FOUNDATION - DIOCESE OF AUSTIN

Notes to Financial Statements

June 30, 2011 and 2010

### **Note B - Summary of Significant Investment and Spending Policies (continued)**

#### ***3. Classification of Net Assets***

The Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, and (b) the original value of subsequent gifts to the permanent endowment. The remaining portion of donor-restricted endowment funds 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 Foundation in a manner consistent with the standard of prudence prescribed by state law (Chapter 117, Property Code). Unrestricted and temporarily restricted net assets are considered appropriated for expenditure when distributions are made to the recipient beneficiary.

#### ***4. Funds with Deficiencies***

Because the Foundation has no responsibility under the endowment contracts to replenish depreciated funds, other activity related to permanently restricted endowments, including investment gains and losses, distributions and administrative fees are recorded as temporarily restricted net assets.

### **Note C - Summary of Significant Accounting Policies**

#### ***1. Method of Accounting***

The financial statements of the Foundation are presented on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America applicable to nonprofit organizations.

#### ***2. Basis of Presentation***

The financial statements of the Foundation are presented in accordance with the Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) 958 Not-for-Profit Entities. The Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted.

The net assets of an endowment fund can result from three sources: original principal, gains and losses, or interest and dividends. Each source is unrestricted unless its use is restricted, temporarily or permanently, by donor or by law. The donor may place different restrictions on each of the three sources.

*Unrestricted net assets*-- Includes net assets that are not subject to donor-imposed restrictions. An entity's governing board may establish an endowment fund. For such an endowment, all three sources: contributions, income and gains and losses are unrestricted.

*Temporarily restricted net assets*-- Includes gifts for which donor-imposed restrictions have not been met. Term endowments are donated assets with stipulations that they be invested for a specified period of time, or until the occurrence of a specified event, to provide income for a specified period of time. In the absence of donor stipulations to the contrary, investment income and gains and losses on donor-restricted endowments are reported as temporarily restricted net assets.

## CATHOLIC FOUNDATION - DIOCESE OF AUSTIN

Notes to Financial Statements

June 30, 2011 and 2010

### Note C- Summary of Significant Accounting Policies (continued)

#### *2. Basis of Presentation (continued)*

*Permanently restricted net assets*-- Includes gifts that require, by donor restriction, that the corpus be invested in perpetuity to provide a permanent source of income.

#### *3. Significant Accounting Policies*

##### *Cash and Cash Equivalents*

Cash and cash equivalents include cash in banks and time deposits with an initial maturity of less than 90 days. Money market funds are considered to be held for investment and are not included in cash and cash equivalents.

##### *Investments*

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statements of financial position. Unrealized gains and losses are included in the statements of activities. (See Note D.)

Investment income includes interest and dividends on investments, as well as both (1) the realized gains and losses on investment transactions and (2) unrealized gains and losses from changes in the market value of investments.

Realized gains and losses on disposition of investment securities are determined using average cost and transactions are recorded on a trade date basis. Net realized gains (losses) on disposition of investments for the years ended June 30, 2011 and 2010 were \$305,991 and (\$29,278), respectively.

##### *Fair Value of Financial Instruments*

The fair value of investments are estimated based on valuations provided by the third party custodians. (See Note G.)

##### *Contributions and Bequests*

Contributions and bequests are recognized as revenue when they are received or unconditionally pledged. Contributions are recorded as unrestricted, temporarily restricted or permanently restricted, depending on the existence and/or nature of any donor restrictions.

##### *Income Taxes*

The Foundation is exempt from Federal income tax under provisions of Section 501(c)(3) of the Internal Revenue Code. However, the Foundation is subject to tax under Section 511(a) to the extent it has unrelated business taxable income. The Foundation had no material unrelated business taxable income during the fiscal year ended June 30, 2011 and 2010.

**CATHOLIC FOUNDATION - DIOCESE OF AUSTIN**

Notes to Financial Statements

June 30, 2011 and 2010

**Note C- Summary of Significant Accounting Policies (continued)**

***3. Significant Accounting Policies (continued)***

***Income Taxes (continued)***

Effective July 1, 2010, the Foundation adopted FASB ASC 740-10, which prescribed a comprehensive model for how an organization should measure, recognize, present, and disclose in its financial statements uncertain tax positions that an organization has taken or expects to take on a tax return. There was no impact to the Foundation's financial statements as a result of the implementation of FASB ASC 740-10.

***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.

***Risks and Uncertainties***

The Foundation invests in various securities including mutual funds, corporate stocks, bonds and money market funds. Investment securities, in general, are exposed to various risks, such as interest rate, credit, foreign exchange fluctuations, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position and the statement of activities.

***Reclassifications***

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

***Subsequent Events***

Management of the Foundation has evaluated subsequent events for disclosure through the date of the independent auditors' report, the date the financial statements were issued.

**CATHOLIC FOUNDATION - DIOCESE OF AUSTIN**

Notes to Financial Statements

June 30, 2011 and 2010

**Note D- Investments**

Investments at June 30, 2011 and 2010 are summarized as follows:

	2011		2010	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Unrestricted				
Marketable securities				
Mutual funds - Bond	\$ 4,952,649	\$ 5,101,504	\$ 4,407,049	\$ 4,522,806
Mutual funds - Equity	4,773,800	5,919,497	5,098,011	4,851,003
Corporate stocks	4,322,290	4,849,464	4,100,293	3,745,339
Money market funds	1,409,158	1,409,158	955,021	955,021
Total Investments	<u>\$ 15,457,897</u>	<u>\$ 17,279,623</u>	<u>\$ 14,560,374</u>	<u>\$ 14,074,169</u>

Investment income (loss) for the years ended June 30, 2011 and 2010 is comprised of the following:

	<u>2011</u>	<u>2010</u>
Interest and dividend income	\$ 543,596	\$ 124,173
Realized gains (losses)	305,991	(29,278)
Unrealized gains (losses)	2,307,931	(486,205)
	<u>\$ 3,157,518</u>	<u>\$ (391,310)</u>

**Note E - Endowment Funds**

Endowment funds at June 30, 2011 and 2010 consist of the following:

	<u>2011</u>	<u>2010</u>
Unrestricted		
Our Faith ~ Our Legacy Seminarian Endowment	\$ 5,689,066	\$ 4,863,677
Our Faith ~ Our Legacy Catholic Charities of Central Texas Endowment	3,413,390	2,918,205
Our Faith ~ Our Legacy Retired Priests Endowment	3,413,390	2,918,205
Our Faith ~ Our Legacy Catholic Schools Endowment	1,137,715	972,735
Our Faith ~ Our Legacy Campus Ministry Endowment	1,137,715	972,735
Our Faith ~ Our Legacy Permanent Diaconate Endowment	1,137,715	972,735
	<u>15,928,991</u>	<u>13,618,292</u>

**CATHOLIC FOUNDATION - DIOCESE OF AUSTIN**

Notes to Financial Statements

June 30, 2011 and 2010

**Note E - Endowment Funds (Continued)**

	<u>2011</u>	<u>2010</u>
Permanently Restricted		
Beverly Guirard Endowment	\$ 470,399	\$ -
Bishop John E. McCarthy Endowment	235,482	201,418
Bishop Gregory M. Aymond Endowment	162,452	103,426
H.L. Grant Catholic Student Center Endowment	124,214	-
Deacon Alfredo Vásquez Endowment	106,460	90,778
The Fr. Bob Scott, CSP, Good Stop Endowment	94,816	-
St. Ignatius, Martyr, Catholic School Endowment	76,135	-
Diocese of Austin Seminarian Endowment	63,336	48,157
Diocese of Austin Retired Priest Endowment	13,120	9,802
Diocese of Austin Catholic Schools Endowment	4,218	2,296
	<u>1,350,632</u>	<u>455,877</u>
	<u>\$ 17,279,623</u>	<u>\$ 14,074,169</u>

**Note F - Restricted Net Assets**

Contributions, income and gains and losses that are restricted by the donor are recognized as temporarily or permanently restricted revenues. (See Note C, Basis of Presentation.) Temporary donor restrictions are released when the purpose set forth by the donor has been substantially achieved, generally when distributions are made to the recipient beneficiary.

Temporarily restricted net assets at June 30, 2011 and 2010 include:

	<u>2011</u>	<u>2010</u>
Investment gain (loss) on permanently restricted endowments	\$ 160,271	\$ (18,729)

Permanently restricted net assets at June 30, 2011 and 2010 include:

	<u>2011</u>	<u>2010</u>
Beverly Guirard Endowment	\$ 388,336	\$ -
Bishop John E. McCarthy Endowment	207,064	207,064
Bishop Gregory M. Aymond Endowment	152,789	112,629
H.L. Grant Catholic Student Center Endowment	126,102	-
Deacon Alfredo Vásquez Endowment	92,938	92,538
The Fr. Bob Scott, CSP, Good Stop Endowment	78,285	-
St. Ignatius, Martyr, Catholic School Endowment	72,893	-
Diocese of Austin Seminarian Endowment	56,600	49,705
Diocese of Austin Retired Priest Endowment	11,644	10,469
Diocese of Austin Catholic Schools Endowment	4,010	2,500
	<u>\$ 1,190,661</u>	<u>\$ 474,905</u>

**CATHOLIC FOUNDATION - DIOCESE OF AUSTIN**

Notes to Financial Statements

June 30, 2011 and 2010

**Note F - Restricted Net Assets (Continued)**

Net assets were released from donor restrictions by satisfying the purpose specified by donors as follows:

	<u>2011</u>	<u>2010</u>
Release of temporarily restricted investment revenue for distributions and expenses	\$ 24,062	\$ -

**Note G - Fair Values of Financial Instruments**

FASB ASC 820-10, Fair Value Measurements, requires disclosure of fair value information about financial instruments, whether or not recognized in the statements of financial position. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instruments. FASB ASC 820-10 excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Foundation.

Fair values for investment securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments.

The estimated fair values of the Foundation's financial instruments as of June 30, 2011 and 2010 are as follows:

	<u>2011</u>		<u>2010</u>	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Investment securities	\$ 17,279,623	\$ 17,279,623	\$ 14,074,169	\$ 14,074,169

During 2010 the Foundation implemented FASB ASC 820-10 which 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 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB-ASC 820-10 are described below:

**Level 1** - Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. Level 1 also includes U.S. Treasury and federal agency securities and federal agency mortgage-backed securities, which are traded by dealers or brokers in active markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

**CATHOLIC FOUNDATION - DIOCESE OF AUSTIN**

Notes to Financial Statements

June 30, 2011 and 2010

**Note G - Fair Values of Financial Instruments (continued)**

*Level 2* - Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party pricing services for identical or similar assets or liabilities.

*Level 3* - Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

The Foundation uses appropriate valuation techniques based on available inputs to measure the fair value of its investments. An asset's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques must maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value:

*Common stocks, corporate bonds and U.S. government securities:* Valued at the closing price reported on the active market on which the individual securities are traded.

*Mutual funds:* Valued at the net asset value (NAV) of shares held at year end.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the fair value of assets as of June 30, 2011:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds - Bond	\$ 5,101,504	\$ -	\$ -	\$ 5,101,504
Mutual funds - Equity	5,919,497	-	-	5,919,497
Corporate stocks	4,849,464	-	-	4,849,464
Money market funds	1,409,158	-	-	1,409,158
	<u>\$ 17,279,623</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 17,279,623</u>

**CATHOLIC FOUNDATION - DIOCESE OF AUSTIN**

Notes to Financial Statements

June 30, 2011 and 2010

**Note G - Fair Values of Financial Instruments (continued)**

The following table sets forth by level, within the fair value hierarchy, the fair value of assets as of June 30, 2010:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds - Bond	\$ 4,522,806	\$ -	\$ -	\$ 4,522,806
Mutual funds - Equity	4,851,003	-	-	4,851,003
Corporate stocks	3,745,339	-	-	3,745,339
Money market funds	955,021	-	-	955,021
	<u>\$ 14,074,169</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,074,169</u>