



**CATHOLIC DIOCESE OF SALT LAKE CITY
REAL ESTATE CORPORATION**

Financial Statements

June 30, 2011 and 2010

(With Independent Auditors' Report Thereon)



KPMG LLP
Suite 1500
15 W. South Temple
Salt Lake City, UT 84101

Independent Auditors' Report

The Most Reverend John Charles Wester:

We have audited the accompanying statements of financial position of the Catholic Diocese of Salt Lake City Real Estate Corporation (Real Estate Corporation) 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 Real Estate Corporation'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 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 Real Estate Corporation'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, 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 Diocese of Salt Lake City Real Estate Corporation as of June 30, 2011 and 2010, and the results of its activities and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

KPMG LLP

September 22, 2011

**CATHOLIC DIOCESE OF SALT LAKE CITY
REAL ESTATE CORPORATION**

Statements of Financial Position

June 30, 2011 and 2010

	Assets	<u>2011</u>	<u>2010</u>
Cash	\$	663,178	89,821
Land		9,974,883	8,727,831
Buildings and equipment, net		29,689,411	31,344,503
Investments		3,207,815	—
Total assets	\$	<u>43,535,287</u>	<u>40,162,155</u>
Liabilities and Net Assets			
Accounts payable	\$	820	—
Total liabilities		<u>820</u>	<u>—</u>
Net assets:			
Unrestricted		39,742,216	40,162,155
Temporarily restricted		3,792,251	—
Total net assets		<u>43,534,467</u>	<u>40,162,155</u>
Total liabilities and net assets	\$	<u>43,535,287</u>	<u>40,162,155</u>

See accompanying notes to financial statements.

**CATHOLIC DIOCESE OF SALT LAKE CITY
REAL ESTATE CORPORATION**

Statements of Activities

Years ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Changes in unrestricted net assets:		
Rental income	\$ 18,387	34,716
Transfers from (to) other Catholic entities	1,247,052	(1,326,900)
Depreciation	(1,655,092)	(1,661,905)
Property taxes	(22,466)	(44,617)
Other income (expense), net	(7,820)	(14,728)
	<u>(419,939)</u>	<u>(3,013,434)</u>
Changes in temporarily restricted net assets:		
Interest and dividend income	68,650	—
Net realized gains (losses) on investments	(58,534)	—
Net unrealized gains on investments	167,832	—
Investment advisory fees	(6,813)	—
Transfers from other Catholic entities	3,621,116	—
	<u>3,792,251</u>	<u>—</u>
Increase (decrease) increase in net assets	3,372,312	(3,013,434)
Net assets at beginning of year	<u>40,162,155</u>	<u>43,175,589</u>
Net assets at end of year	<u>\$ 43,534,467</u>	<u>40,162,155</u>

See accompanying notes to financial statements.

**CATHOLIC DIOCESE OF SALT LAKE CITY
REAL ESTATE CORPORATION**

Statements of Cash Flows

Years ended June 30, 2011 and 2010

	2011	2010
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ 3,372,312	(3,013,434)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation	1,655,092	1,661,905
Net unrealized gains on investments	(167,832)	—
Net realized losses on investments	58,534	—
Noncash conveyance of property (from) to related Catholic entities	(1,247,052)	1,587,286
Noncash conveyance of investments from related Catholic entities	(2,526,423)	—
Changes in operating assets:		
Accounts receivable	—	24,916
Accounts payable	820	—
Net cash provided by operating activities	1,145,451	260,673
Cash flows from investing activities:		
Purchase of land, buildings, and equipment	—	(300,000)
Purchase of investments	(1,062,594)	—
Proceeds from sale of investments	490,500	—
Net cash used in investing activities	(572,094)	(300,000)
Net increase (decrease) in cash	573,357	(39,327)
Cash at beginning of year	89,821	129,148
Cash at end of year	\$ 663,178	89,821

See accompanying notes to financial statements.

**CATHOLIC DIOCESE OF SALT LAKE CITY
REAL ESTATE CORPORATION**

Notes to Financial Statements

June 30, 2011 and 2010

(1) Organization and Summary of Significant Accounting Policies

(a) Basis of Presentation

The accompanying financial statements include all accounts of the Catholic Diocese of Salt Lake City Real Estate Corporation (the Corporation). The Corporation is to act as a support organization exclusively for the benefit of the Roman Catholic Bishop of Salt Lake City, a Utah Corporation Sole (Bishop), the Ministries of the Catholic Diocese of Salt Lake City, LLC, a Utah Nonprofit Series Limited Liability Company, including all series established thereunder, and Skaggs Catholic Center, a Utah Nonprofit Limited Liability Company.

The Corporation is to own, hold, maintain, preserve, pledge, lease, rent, acquire, sell, transfer, or otherwise hold and dispose of real and personal property exclusively for the benefit of the aforementioned entities.

Transfers from other Catholic entities consist primarily of the conveyance of real property to the Corporation from the aforementioned entities. Assets transferred from other Catholic entities are recorded at the carrying value of the asset as all entities involved are under the common control of the Bishop. Transferring real property to the Corporation is an on-going process that will take several years due to the involved procedures that are required by each individual county in which the properties are located. In January 2011, \$3.6 million of cash and investment securities were transferred to the Corporation for the purpose of providing maintenance to the Skaggs Catholic Center. Accordingly, these amounts are considered to be temporarily restricted.

(b) Net Assets

Net assets and changes in net assets are categorized as unrestricted or temporarily restricted based on the existence or absence of donor-imposed restrictions. Donor-restricted contributions whose restrictions are not in the same reporting period are recorded as temporarily restricted contributions then as unrestricted net assets released from restrictions. Externally restricted funds may only be utilized on accordance with the purpose established by the source of such funds.

(c) Land

Land held for future sites is carried at cost. Real estate donated or bequeathed to the Corporation is recorded at its fair market value at the date received. It is a policy of the Corporation to purchase or hold only those sites that are reasonably foreseen to be necessary for the benefit of the aforementioned entities. During fiscal year 2010, certain rental properties held by the Corporation located in Salt Lake County were conveyed back to the local Catholic entity, which operates the rental properties.

(d) Buildings and Equipment

Buildings and equipment are recorded at cost less accumulated depreciation. Depreciation on buildings and equipment is calculated using the straight-line method over the estimated useful lives of the assets. The estimated useful life for buildings and improvements is 15 to 30 years and 5 to 10 years for all other assets. Donated assets are recorded at appraised value at the date of donation.

**CATHOLIC DIOCESE OF SALT LAKE CITY
REAL ESTATE CORPORATION**

Notes to Financial Statements

June 30, 2011 and 2010

(e) Income Taxes

No provision for income taxes has been provided as the Corporation is exempt from federal income tax under provisions of Section 501(c)(3) of the Internal Revenue Code, as indicated in a determination letter to the United States Conference of Catholic Bishops from the Internal Revenue Service dated July 22, 2010.

GAAP requires management to evaluate tax positions taken by the Corporation and recognize a tax liability (or asset) if the Corporation has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS. Management has analyzed the tax positions taken by the Corporation, and has concluded that as of June 30, 2011, there were no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. The Corporation is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any periods in progress.

(f) Use of Estimates

The Corporation has made a number of estimates and assumptions relating to the reporting of assets, revenues, and expenses to prepare these financial statements in conformity with U.S. generally accepted accounting principles. Actual results could differ from those estimates.

(2) Buildings and Equipment, Net

Buildings and equipment, net consisted of the following as of June 30, 2011 and 2010:

	<u>Estimated useful lives</u>		<u>2011</u>	<u>2010</u>
Buildings and improvements	15 – 30 years	\$	41,012,297	41,012,297
Equipment	5 – 10 years		<u>7,125,038</u>	<u>7,125,038</u>
			48,137,335	48,137,335
Accumulated depreciation			<u>(18,447,924)</u>	<u>(16,792,832)</u>
		\$	<u><u>29,689,411</u></u>	<u><u>31,344,503</u></u>

(3) Fair Value Measurements

The methodologies used to determine the fair values of assets and liabilities under the “exit price” notion reflect market participant objectives and are based on the application of the fair value hierarchy that prioritizes observable market inputs over unobservable inputs. The hierarchy is based on the reliability of inputs as follows:

- Level 1 – Valuation is based upon quoted prices for identical assets and liabilities in active markets. The Corporation does not adjust the quoted price for Level 1 securities.
- Level 2 – Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and independent pricing

**CATHOLIC DIOCESE OF SALT LAKE CITY
REAL ESTATE CORPORATION**

Notes to Financial Statements

June 30, 2011 and 2010

models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions, and other factors such as credit loss assumptions for which all significant assumptions are observable in the market.

- Level 3 – Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

The following table summarizes the levels within the fair value hierarchy in which the fair value measurements of the Corporation's investments are classified as of June 30, 2011:

<u>Asset</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
June 30, 2011:			
Corporate stocks	\$ 2,637,164	—	2,637,164
Domestic corporate bonds	—	388,640	388,640
Mutual fund – fixed income	182,011	—	182,011
	<u>\$ 2,819,175</u>	<u>388,640</u>	<u>3,207,815</u>

The Corporation's assets are invested in a variety of investments. Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility risks. Due to the level or 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 statements of financial position.

(4) Guarantees

During 2011, the Corporation co-guaranteed with the Diocesan Pastoral Administration of the Roman Catholic Bishop of Salt Lake City (the Administration), a \$5,000,000 borrowing from a commercial bank by an affiliate organization, Catholic Diocese of Salt Lake City Capital Development Corporation (Diocesan Capital Corp). The borrowing, a line of credit, which bears a 5.0% interest rate as of June 30, 2011, is due on June 5, 2012. The guarantee was made to ensure that the Diocesan Capital Corp had sufficient cash to loan to parishes and schools primarily for capital projects as committed by the Diocesan Capital Corp. The guarantee is for the entire amount and term of the borrowing. The guarantee is secured by the unrestricted assets of the Diocesan Real Estate Corp and the assets of the Administration. If the Diocesan Capital Corp defaults on a payment, the co-guarantors would have to perform under the guarantee, and it is reasonably possible that they would be required to make payments for the outstanding debt under the guarantees. The maximum amount of undiscounted payments the co-guarantors would have to make in the event of default is \$5,000,000; \$2,400,000 is outstanding on the Diocesan Capital Corp's line of credit as of June 30, 2011. The financial performance of the Diocesan Capital Corp is monitored on a monthly basis. Because of the related-party status, no liability has been accrued. No amounts have been accrued as a loss contingency related to this guarantee because payment by the co-guarantors is not probable at this time.

**CATHOLIC DIOCESE OF SALT LAKE CITY
REAL ESTATE CORPORATION**

Notes to Financial Statements

June 30, 2011 and 2010

(5) Subsequent Events

The Corporation has evaluated subsequent events through September 22, 2011, the date the financial statements were available to be issued.