Catholic Foundation for the Diocese of Tucson

Financial Statements

For the Years Ended December 31, 2019 and 2018

Catholic Foundation for the Diocese of Tucson

Financial Statements
Years Ended December 31, 2019 and 2018

CATHOLIC FOUNDATION FOR THE DIOCESE OF TUCSON

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Catholic Foundation for the Diocese of Tucson

Report on Financial Statements

We have audited the accompanying financial statements of Catholic Foundation for the Diocese of Tucson (Foundation) which comprise the statement of financial position as of December 31, 2019, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Catholic Foundation for the Diocese of Tucson as of December 31, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Catholic Foundation for the Diocese of Tucson's financial statements, and our report dated May 10, 2019, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Heinfeld Meech & Co. PC

Heinfeld, Meech & Co., P.C.
Tucson, Arizona
May 13, 2020

CATHOLIC FOUNDATION FOR THE DIOCESE OF TUCSON
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2019
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2018)

	2019	2018
Assets		
Current assets:		
Cash and cash equivalents	$ 1,337,351	$ 2,850,188
Investments	26,126,611	22,536,473
Cash and investments - gift annuity	3,932,879	3,337,241
Contributions receivable	872,343	1,262,021
Other assets	123,263	120,320
Total current assets	32,392,447	30,106,243
Noncurrent assets:		
Property and equipment, net of accumulated depreciation	19,677,542	17,266,614
Contributions receivable, net of allowance and discounts	97,005	339,025
Total noncurrent assets	19,774,547	17,605,639
Total assets	$ 52,166,994	$ 47,711,882
Liabilities		
Current liabilities:		
Accounts payable	$ 2,839	$ 1,542,070
Accrued expenses	336,589	1,374,897
Unearned campaign revenue	4,040	
Annuity contract obligations	226,305	56,063
Custodial accounts	7,622,916	6,663,899
Current portion of loan payable	108,707	
Total current liabilities	8,301,396	9,636,929
Noncurrent liabilities:		
Annuity contract obligations	3,706,574	3,423,577
Loan payable	2,677,085	
Total noncurrent liabilities	6,383,659	3,423,577
Total liabilities	14,685,055	13,060,506
Net assets		
Without donor restrictions:		
Undesignated	1,926,514	1,196,441
Board designated	1,091,196	922,134
Net investment in property and equipment	16,891,750	17,266,614
Total net assets without donor restrictions	19,909,460	19,385,189
With donor restrictions	17,572,479	15,266,187
Total net assets	37,481,939	34,651,376
Total liabilities and net assets	$ 52,166,994	$ 47,711,882

See accompanying notes to financial statements.

CATHOLIC FOUNDATION FOR THE DIOCESE OF TUCSON
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2019
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2018)

	2019			2018
	Without Donor Restrictions	With Donor Restrictions	Total	Total
Revenue, support, and gains:				
Annual Catholic Appeal	$	3,909,088	$ 3,909,088	$ 3,997,004
Notre Dame ACE Academies		26,805	26,805	97,881
Cathedral Square		667,236	667,236	3,336,442
Contributions	121,307	37,775	159,082	4,185,489
Investment return, net	261,108	2,712,772	2,973,880	(1,136,973)
Rental revenue	195,003		195,003	
Service fees, net	172,978		172,978	418,681
Annual dinner gala revenues	298,959		298,959	336,029
Gain on sale of capital assets				183,970
Other revenue	112		112	
Net assets released from restrictions	5,047,384	(5,047,384)		
Total revenue, support, and gains	6,096,851	2,306,292	8,403,143	11,418,523
Expenses and losses:				
Program services:				
Grants and contributions:				
Annual Catholic Appeal	3,455,004		3,455,004	3,470,002
Cathedral Square				26,318
Other	329,978		329,978	785,711
Program management	1,179,539		1,179,539	756,849
Life annuity gift expense	141,136		141,136	95,883
Total program services	5,105,657		5,105,657	5,134,763
Supporting services:				
Management and general	214,591		214,591	255,395
Fundraising	252,332		252,332	282,048
Total supporting services	466,923		466,923	537,443
Total expenses and losses	5,572,580		5,572,580	5,672,206
Change in net assets	524,271	2,306,292	2,830,563	5,746,317
Net assets, beginning of year	19,385,189	15,266,187	34,651,376	28,905,059
Net assets, end of year	$ 19,909,460	$ 17,572,479	$ 37,481,939	$ 34,651,376

See accompanying notes to financial statements.

CATHOLIC FOUNDATION FOR THE DIOCESE OF TUCSON
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2019
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2018)

	2019				2018
	Program Services	General and Administrative	Fundraising	Total	Total
Grants	$ 3,784,982			$ 3,784,982	$ 4,282,031
Salaries and wages	223,577	123,191	114,339	461,107	497,221
Fees and permits	45,818	8,338	6,274	60,430	77,453
Professional fees	40,574	40,540	4,508	85,622	79,480
Contract services	13,228		17,719	30,947	100,092
Supplies	15,731	16,173	10,243	42,147	44,385
Postage and printing	62,591	196	3,577	66,364	94,670
Occupancy	47,147	13,292	12,605	73,044	51,216
Food and beverage	5,533		49,357	54,890	73,525
Entertainment			25,923	25,923	
Travel	6,353	380	1,538	8,271	15,157
Utilities	4,653	720	1,821	7,194	1,823
Staff development		2,125		2,125	10,150
Life annuity expense	141,136			141,136	95,883
Bad debt	228,981			228,981	236,563
Insurance	2,038	1,099	1,042	4,179	2,181
Marketing	13,566	4,199		17,765	
Advertising	28		497	525	2,824
Donations		948		948	7,214
Depreciation	406,439			406,439	
Interest	51,176			51,176	
Other	12,106	3,390	2,889	18,385	338
Total expenses	$ 5,105,657	$ 214,591	$ 252,332	$ 5,572,580	$ 5,672,206

See accompanying notes to the financial statements.

CATHOLIC FOUNDATION FOR THE DIOCESE OF TUCSON
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2019
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2018)

	2019	2018
Cash flows from operating activities:		
Change in net assets	$ 2,830,563	$ 5,746,317
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities:		
Depreciation	406,439	
Gain on disposal of property and equipment		(183,970)
Net realized gain/(loss) on investments	209,331	(506,833)
Unrealized gain/(loss) on investments	(3,905,276)	2,157,114
Changes in assets and liabilities:		
Contributions receivable	631,698	1,198,622
Other assets	(2,943)	(3,150)
Accounts payable	(1,539,231)	467,871
Unearned campaign revenue	4,040	(11,250)
Accrued expenses	(1,038,308)	1,070,549
Annuity contract obligations	453,239	(390,188)
Net cash provided by operating activities	(1,950,448)	9,545,082
Cash flows from investing activities:		
Proceeds from sale of investments	8,803,966	6,872,099
Purchases of investments	(8,597,718)	(7,355,764)
Interest on investments	376,315	14,775
Purchases of property and equipment	(2,817,367)	(12,157,971)
Proceeds from sale of property and equipment		583,970
Net cash provided by (used for) investing activities	(2,234,804)	(12,042,891)
Cash flows from financing activities:		
Proceeds from loan payable	3,500,000	
Repayments on loan payable	(714,208)	
Net cash provided by (used for) financing activities	2,785,792	
Net increase (decrease) in cash and cash equivalents	(1,399,460)	(2,497,809)
Cash and cash equivalents, beginning of year	2,850,188	5,347,997
Cash and cash equivalents, end of year	$ 1,450,728	$ 2,850,188

See accompanying notes to financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

The Catholic Foundation for the Diocese of Tucson (Foundation) was organized as a nonprofit corporation in July 2011 through a merger of the Diocese of Tucson Charity and Ministry Fund and the Catholic Foundation for the Diocese of Tucson to further the religious, charitable and educational activities of the Diocese of Tucson. Significant revenues are raised in the form of contributions from the parishioners, parishes and other religious organizations under the Diocese of Tucson and investment earnings.

Included in the accompanying financial statements are the following program activities:

- Annual Catholic Appeal – The Annual Catholic Appeal raises funds in the form of contributions from the parishioners, parishes and other religious organizations under the Diocese of Tucson. These funds are restricted to support the religious, charitable and educational activities of the Diocese of Tucson and its twenty-six ministries and departments. The appeal typically runs from January to December with fundraising efforts initially and allocations thereafter.

- Capital Campaigns – Capital campaigns are conducted to support specific long-term projects of the Foundation. Currently there is one capital campaign project; the Notre Dame ACE Academies capital campaign, a fundraising effort for Catholic education primarily for two schools partnered with Notre Dame.

- Cathedral Square – The Foundation believes renovation of Cathedral Square is an essential component and contribution to the continued development of downtown Tucson and an important symbol of the history and future of the Catholic Church in southern Arizona. Funds raised will be used to renovate and preserve Cathedral Square. Specifically, funds will be used to renovate the Chapel and to build a conference, educational, and pastoral center.

- Endowment – The endowment consists of approximately 86 individual funds established for a variety of purposes that are funded through the underlying investment earnings.

The more significant accounting policies are described below.

Basis of Accounting

The financial statements of the Foundation have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statements of the Foundation have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to not-for-profit entities. The Financial Accounting Standards Board (FASB) is the accepted standard-setting body for establishing not-for-profit accounting and financial reporting principles. The Foundation is required to report information regarding its financial position and activities according to two classes based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Foundation and changes therein are classified as follows:

Net assets without donor restrictions – Net assets that are not subject to donor-imposed stipulations. The Board of Directors has designated, from net assets without donor restrictions, net assets for an operating reserve and board designated endowment.

Net assets with donor restrictions – Net assets subject to donor-imposed stipulations. Some donor restrictions are temporary in nature; those restrictions will be met either by actions of the Foundation and/or the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds must be maintained in perpetuity.

Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Statement of Activities as net assets released from restrictions.

Use of Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

Comparative Financial 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 generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended December 31, 2018, from which the summarized information was derived.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the Foundation considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Investments

The Foundation reports investments at fair value. Net investment income return is reported in the Statement of Activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less investment expense. Net investment income restricted by donors are reported as increases in net assets without donor restrictions if the restrictions are met (either a stipulated time period ends or a purpose restriction is accomplished) in the reporting period in which the income and gains are recognized.

Concentrations of Credit and Market Risk

Financial instruments that potentially expose the Foundation to concentrations of credit and market risk consist primarily of cash equivalents and investments. The Foundation maintains its cash and cash equivalents in bank deposit accounts, which, for short periods of time, may exceed federally insured limits. At year end, the carrying amount of the Foundation's deposits was $224,986 and the bank balance was $137,912. At year end, all of the Foundation's deposits were insured and collateralized. To minimize risk, cash accounts are maintained at high-quality financial institutions and credit exposure is limited to any one institution. The Foundation's investments do not represent significant concentrations of market risk inasmuch as the Foundation's investment portfolio is adequately diversified among issuers.

Donated Services and In-Kind Contributions

Donations of property and equipment are recorded as contributions at fair value at the date of donation. Such donations are reported as increases in net assets without donor restrictions 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 increases in net assets with donor restrictions. Absent donor stipulations regarding how long those donated assets must be maintained, the Foundation reports expirations of donor restrictions when the donated or acquired assets are placed in service. The Foundation reclassifies net assets with donor restrictions to net assets without restrictions at that time.

Volunteers contribute significant amounts of time to the Foundation's program services, administration, and fundraising activities; however the financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed in generally accepted accounting principles.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Contributions Receivable
Unconditional promises to give are recognized as revenues when the promise is received. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

Unconditional promises to give that are expected to be collected in less than one year are reported at net realizable value. Unconditional promises to give that are expected to be collected in periods greater than one year are recorded at net present value of expected cash flows. The provision for uncollectible amounts is based on management's estimate of the collectability of specific accounts and the aging of promises to give. Promises to give are periodically reviewed for collectability and written off to the provision at the time of such determination.

Property and Equipment
All acquisitions of property and equipment with a cost in excess of $5,000 and all expenses for repairs, maintenance, renewals, and betterments that materially prolong the useful lives of assets are capitalized. Property and equipment are carried at cost or, if donated, at the approximate fair market value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets.

The Foundation reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. Management does not believe impairment indicators are present.

Compensated Absences
Employees are entitled to vacation, depending on job classification, length of service, and other factors. It is the Foundation's policy to recognize the cost of vacation when leave is earned by employees.

Revenue Recognition
Revenue is recognized when earned. Program service fees and payments under cost-reimbursable contracts received in advance are deferred to the applicable period in which the related services are performed or expenditures are incurred, respectively.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the Statement of Activities and in the Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Such allocations are determined by management on an equitable basis.

The expenses that are allocated include the following:

Expense	Method of Allocation
Salaries and benefits	Time and effort
Professional services	Time and effort
Information technology	Time and effort
Travel	Time and effort

Advertising

The Foundation uses advertising to promote its programs among the audiences it serves. The production costs of advertising are expensed as incurred. During the current fiscal year, advertising costs totaled $525.

Income Tax Status

The Foundation is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and similar State of Arizona tax provisions. Annually, the Roman Catholic Church obtains an updated group ruling determination from the Internal Revenue Service based on an initial determination letter from 1946 that it is exempt from federal income tax. As an entity listed in the Official Catholic Directory, the Foundation is exempt from filing an IRS Form 990, *Return of Organization Exempt from Income Taxes*.

New Accounting Pronouncement

During the year, the Foundation adopted Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606).* The update addresses the inconsistencies in revenue requirements, provides a more robust framework for addressing revenue issues, and provides improved disclosure requirements. The Foundation has adjusted the presentation of these statements accordingly.

Date of Management's Review

In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through May 13, 2020, which is the date the financial statements were available to be issued

NOTE 2 – LIQUIDITY AND AVAILABILITY

The following represents the Foundation's financial assets at fiscal year end:

Financial assets at year end:	
Cash and cash equivalents	$ 1,450,728
Contributions receivable	969,348
Accounts receivable	47,505
Investments	29,946,113
Total financial assets	32,413,694
Less amounts not available to be used within one year:	
Cash and investments held in trust for annuity contracts	3,932,879
Net assets with donor restrictions	17,572,479
Quasi-endowment established by the Board	1,091,196
Financial assets available to meet general expenditures over the next twelve months	$ 9,817,140

The Foundation regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. The Foundation maintains cash balances sufficient to liquidate custodial obligations and contract annuities in the near term (less than 1 year). The Foundation has a $5.0 million credit line available to meet cash flow needs. The interest rate is 1.0 percent plus the one month LIBOR rate, with interest due monthly and principal due upon maturity. The Foundation borrowed $1,000,000 during the year for cash flows requirements related to the Cathedral Square renovation, however this balance was paid off during the fiscal year. Additionally, the Foundation has a quasi-endowment that was established according to Board policy. The quasi-endowment has a spending rate of 5 percent. Although the Foundation does not intend to spend from its quasi-endowment other than amounts appropriated for general expenditure as part of its annual budget approval and appropriation process, amounts from its quasi-endowment could be made available if necessary.

NOTE 3 – INVESTMENTS AND FAIR VALUE MEASUREMENTS

Fair value is defined as the price that the Foundation would receive to sell an asset or pay to transfer a liability in an orderly transaction between market participants at the measurement date.

Accounting standards establish a three-tier fair value hierarchy that prioritizes the inputs to valuation techniques. Inputs refer broadly to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Observable inputs are those that reflect the assumptions that market participants would use in pricing the asset and are based on market data obtained from independent sources. Unobservable inputs reflect the Foundation's assumptions about the inputs market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

NOTE 3 – INVESTMENTS AND FAIR VALUE MEASUREMENTS

The three-tier hierarchy of inputs is summarized in the three broad levels listed below:

Level 1: Quoted prices in active markets for identical investments.

Level 2: Quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, inputs other than quoted prices that are observable for the asset or liability.

Level 3: Unobservable inputs for the asset or liability.

The level of fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

Fair Values Measured on Recurring Basis

Fair values of assets measured on a recurring basis at year end are as follows:

	Hierarchy Level	Fair Value
Investments:		
Money market funds	Level 2	$ 1,225,542
Fixed income	Level 2	12,488,389
Equities	Level 1	15,986,359
Real estate funds	Level 1	1,471,365
Total assets		$ 31,171,655

The following methods and assumptions were used to estimate the fair value for each class of financial instrument measured at fair value.

Investments – Equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Debt securities classified in Level 2 of the fair value hierarchy are valued using matrix pricing techniques. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices. Private company equity classified in Level 3 is valued by external appraisals and is calculated quarterly. The appraisals are performed using generally accepted valuation approaches by an independent appraiser.

Money market funds held by the Foundation are reported as cash and cash equivalents on the financial statements.

NOTE 3 – INVESTMENTS AND FAIR VALUE MEASUREMENTS

Contribution Receivable – Fair value for the contribution receivable from a beneficial interest in assets held by a community foundation is determined based on calculating the present value of the future distributions expected to be received, using a five percent discount rate. The Foundation re-measures the fair value of its beneficial interest annually and adjusts the measurement inputs based on market conditions and other relevant data.

The Foundation recognizes transfers into and out of levels within the fair value hierarchy at the end of the reporting period. There were no transfers between levels during the current fiscal year.

Assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3 inputs) are as follows:

	Venture Capital Partnership
Beginning of year	$ 190,505
Unrealized losses	93,095
Realized losses	(49,256)
Distributions	(234,344)
End of year	$

NOTE 4 – CONTRIBUTIONS RECEIVABLE

Unconditional contributions receivable consist of the following:

Contributions receivable before unamortized discount	$ 1,193,361
Less: Unamortized discount	(6,760)
Total	1,186,601
Less: Allowance for uncollectibles	(217,253)
Net contributions receivable	$ 969,348
Amounts due in:	
Less than one year	$ 872,343
More than one year	97,005
Total	$ 969,348

The discount rate used to determine the present value of contributions receivable is commensurate with the risks involved and was five percent.

NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment consist of the following.

Buildings	$ 19,536,181
Furniture and equipment	547,800
Total property and equipment	20,083,981
Less: Accumulated depreciation and amortization	(406,439)
Net property and equipment	$ 19,677,542

NOTE 6 – ENDOWMENTS

The Foundation's endowments consist of contributions received for a variety of purposes. As required by generally accepted accounting principles (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 has interpreted the State of Arizona's version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation retains in perpetuity (a) the original value of initial and subsequent gifts donated to the endowment and (b) any accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditures by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

a. The duration and preservation of the fund
b. The purpose of the donor-restricted endowment fund
c. General economic conditions
d. The possible effect of inflation and deflation
e. The expected total return from income and the appreciation of investments
f. Other resources of the organization
g. The investment policies of the organization

NOTE 6 – ENDOWMENTS

Endowment Net Asset Composition by Type of Fund as of year end:

	With Donor Restriction
Donor restricted endowment funds:	
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	$ 13,394,358
Accumulated investment gains	3,656,312
Total funds	$ 17,050,670

Investment Return Objectives, Risk Parameters and Strategies

The Foundation has adopted investment and spending policies, approved by the Board, 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 endowment assets are invested in a balanced portfolio comprised of cash, fixed income securities and equities. To satisfy its long-term 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) which assuming a moderate level of investment risk. The Foundation targets an asset allocation of 55% equity securities and 45% fixed income securities to achieve its long-term return objectives within prudent risk constraints. 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. The Foundation expects its endowment assets, over time, to produce an average rate of return of approximately six percent annually. Actual returns in any given year may vary from this amount. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk. 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

The Foundation has a policy of appropriating for distribution each year four percent of its endowment fund's average fair value over a three-year look back through June 30 of the fiscal year preceding the year in which the distribution is planned. In establishing this policy, the Foundation considered the long-term expected return on its investment assets, the nature and duration of the individual endowment funds, many of which must be maintained in perpetuity because of donor-restrictions, and the possible effects of inflation. The Foundation expects the current spending policy to allow its endowment funds to grow at an average rate of three percent 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.

NOTE 6 – ENDOWMENTS

Changes in Endowment Net Assets as of year end:

	Without Donor Restriction	With Donor Restriction	Total
Endowment net assets, beginning of year	$ 922,134	$ 14,789,652	$15,711,786
Contributions	317,091	31,796	348,887
Investment return, net	163,524	2,712,772	2,876,296
Amounts appropriated for expenditure	(311,553)	(483,550)	(795,103)
Endowment net assets, end of year	$ 1,091,196	$ 17,050,670	$ 18,141,866

NOTE 7 – NET ASSETS

Net assets without donor restrictions are as follows:

	2019	2018
Board designated	$ 1,091,196	$ 922,134
Undesignated	1,926,514	1,196,441
Total	$ 3,017,710	2,118,575

Net assets with donor restrictions were as follows:

	2019	2018
Subject to expenditure for specified purpose:		
Notre Dame Ace Academies	$ 58,490	$ 31,685
Subject to passage of time:		
Annual Catholic Appeal	463,586	444,850
Endowments:		
Subject to appropriation and expenditure for a specified purpose:		
Bishop’s discretion	1,132,467	1,011,466
Diocesan elementary schools	453,556	404,843
Disadvantaged parishes	229,191	204,670
General	655,762	575,455
Marriage counseling	204,039	182,523
Scholarships	618,398	530,425
Poor and social justice	2,412,589	2,150,821
Healthcare funds	10,616,755	9,085,062
Vocations	644,677	572,506
Youth Ministry	83,236	71,881
Total Endowments	17,050,670	14,789,652
Total	$ 17,572,746	$ 15,266,187

NOTE 7 – NET ASSETS

Net assets released from donor restrictions are as follows:

	2019	2018
Satisfaction of purpose restrictions		
Cathedral Square	$ 667,236	$ 7,873,401
Notre Dame ACE Academies		358,990
Endowments	484,727	539,536
Satisfaction of time restrictions		
Annual Catholic Appeal	3,895,341	4,134,039
Total	$ 5,047,304	$ 12,905,966

NOTE 8 – ANNUITY CONTRACT OBLIGATIONS

The Foundation has established a gift annuity program in which the Foundation has entered into life annuity gift agreements with donors who make irrevocable gifts to the Foundation. Under the terms of the agreements, the Foundation receives lump sum amounts and agrees to make annual payments to the annuitants for their lifetime and/or their survivor's lifetime. The payments to the individuals are generally based on published rates and the gift values are based on rates established by the Internal Revenue Service which range from 4.4 percent to 10.6 percent. Annuitant payments are remitted monthly, quarterly, semi-annually or annually based on the terms of the agreements.

Contribution revenues are recognized at the date the annuities are established after recording liabilities for the present value of the estimated future payments to be made to the donors and/or other beneficiaries. During the year the Foundation recognized $102,766 of charitable gift income for new gift annuity agreements. The assets contributed under the charitable gift annuities are reported separately as investments in the accompanying statement of financial position and at carried fair value. Annuity obligations were determined by U.S. Bank using the 2000 CM mortality table with an assumed rate of interest of 1.8 percent.

NOTE 9 – CUSTODIAL ACCOUNTS

The custodial accounts are resources held by the Foundation on behalf of others.

	2019	2018
Parishes and missions	$ 921,238	$ 867,972
Schools and scholarships	6,138,735	5,325,031
Other agencies	562,943	470,896
Total custodial accounts	$ 7,622,916	$ 6,663,899

Service fees:

The Foundation charges 1.25 percent of the average balance in endowment and custodial accounts annually to manage the investment pools. Foundation fees charged during the years ended December 31, 2019 and 2018 were as follows:

	2019	2018
Total fees	$ 406,178	$ 372,588
Less service fees charged by third party on temporarily restricted investments	(125,472)	(125,035)
Net fees	$ 280,706	$ 247,553

NOTE 10 – OPERATING LEASE COMMITMENTS

The Foundation leased office space from January to March under the provisions of a lease agreement classified as an operating lease for accounting purposes. Lease expenses under the terms of the operating leases totaled $12,250 for the year ended. The operating lease expired at the end of March 2019.

The Foundation leased office space from April to December under the provisions of a lease agreement classified as an operating lease for accounting purposes. The lease is structured with land and building components. The Foundation leases the underlying land for the Cathedral Square complex from the St. Augustine Parish. The Cathedral Square building is owned by the Foundation, which leases the building to the Diocese of Tucson. The Diocese of Tucson sub-leases a portion of the office space to the Foundation based on square footage usage. Lease expenses under the terms of the operating leases totaled $58,500 for the year ended.

NOTE 10 – OPERATING LEASE COMMITMENTS

The future minimum rental payments required under the operating leases at year end were as follows:

Year End:		Land	Building	Total Occupancy
	2020	$ 30,000	$ 48,000	$ 78,000
	2021	30,000	48,000	78,000
	2022	30,000	48,000	78,000
	2023	30,000	48,000	78,000
	2024	30,000	48,000	78,000
	Thereafter	1,327,500	684,000	2,011,500
Total		$1,477,500	$ 924,000	$2,401,500

The Foundation has entered into a lease agreement as a lessor under the provisions of a lease agreement classified as an operating lease for accounting purposes. The Foundation leases building space to the Diocese of Tucson. The lease agreement expires on March 31, 2039, unless terminated sooner. Rental income under the terms of the operating lease totaled $195,003 for the year ended.

The future minimum rental payments required under the operating lease at year end were as follows:

Year end:		
	2020	$ 260,004
	2021	260,004
	2022	260,004
	2023	260,004
	2024	260,004
	Thereafter	3,705,057
Total		$ 5,005,077

NOTE 11 – NOTE PAYABLE

Description	
The Foundation entered into a loan agreement with the Catholic Order of Foresters on July 12, 2019. The $3,500,000 loan is secured with the ground lease and Cathedral Square complex. The loan is a 25 year loan with a 5% annual interest rate. The loan has a $511,826 balloon payment due upon maturity.	$2,785,792

The future scheduled maturities of the loan payable is as follows:

Year End:	Principal	Interest
2020	$ 108,708	$ 136,824
2021	114,269	131,263
2022	120,114	125,418
2023	126,260	119,272
2024	132,719	112,813
Thereafter	2,183,722	683,251
Total	$ 2,785,792	$ 1,308,841

NOTE 12 – PENSION PLANS

Prior to 2007, the Foundation's employees participated in the Defined Benefit Pension Plan for Lay Employees of the Diocese of Tucson Trust, covering all employees of the Diocese of Tucson (a multi-employer plan). This benefit plan was frozen to new participants in 2007. None of the employees working for the Foundation during 2019 were eligible for the defined benefit pension plan. The defined benefit 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 former employees, is not available. Management believes that any prepaid or underfunded benefit obligation relating to the defined benefit plan is not material to the financial statements and, accordingly, no amounts are reported at December 31, 2019.

Since 2008, the Foundation employees have had 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 $19,000 for 2019. The Diocese of Tucson Lay Employee Pension Plan charges the Foundation 5.25 percent of all salaries. This charge covers both matching and administrative expense related to the defined contribution plan, as well as the discretionary contribution to the employee's 403(b) account once they have become vested following two years of service.

NOTE 12 – PENSION PLANS

Any of the 5.25 percent funds that may still be remaining are contributed to the defined benefit plan that was frozen to new participants in 2007 and which covers the pension liabilities of former Foundation employees who were vested under that plan. The Diocese of Tucson Lay Employee Pension Plan will make matching contributions equal to 25 percent of the employee’s contributions up to a maximum of $1,000 per year. The Foundation incurred pension plan expense charges of $19,803 for the year ended December 31, 2019.

NOTE 13 – 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. Therefore, any future authorized claims against the Foundation will be paid out of the self-insurance program’s fund.

NOTE 14 – RELATED PARTY TRANSACTIONS

In April 2019, the Foundation entered into lease agreements with the Diocese of Tucson. See Note 10 – Operating Lease Commitments for additional information.