Catholic Foundation for the Diocese of Tucson

Financial Statements

for the Years Ended December 31, 2021 and 2020

Catholic Foundation for the Diocese of Tucson

Financial Statements
Years Ended December 31, 2021 and 2020

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 Audit of Financial Statements

Opinion
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, 2021, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Catholic Foundation for the Diocese of Tucson as of December 31, 2021, 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.

Basis for Opinion
We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of the Catholic Foundation for the Diocese of Tucson and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements
Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Foundation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Foundation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Report on Summarized Comparative Information
We have previously audited the Catholic Foundation for the Diocese of Tucson's 2020 financial statements, and our report dated May 27, 2021, 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, 2020, 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 19, 2022

CATHOLIC FOUNDATION FOR THE DIOCESE OF TUCSON
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2021
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2020)

Assets	**2021**	**2020**
Current assets:		
Cash and cash equivalents	$ 2,760,252	$ 5,762,165
Investments	38,193,396	29,344,558
Contributions receivable	92,212	421,343
Other current assets	256,147	202,049
Total current assets	41,302,007	35,730,115
Noncurrent assets:		
Cash - gift annuity	192,804	82,693
Investments - gift annuity	4,366,348	4,180,055
Contributions receivable, net of allowance and discounts	8,000	61,700
Property and equipment, net of accumulated depreciation	18,603,698	19,152,239
Total noncurrent assets	23,170,850	23,476,687
Total assets	$ 64,472,857	$ 59,206,802
Liabilities		
Current liabilities:		
Accounts payable	$ 14,865	$ 8,650
Accrued expenses	27,605	25,807
Grants payable	1,458,415	1,535,400
Deferred revenue	14,800	
Annuity contract obligations	244,305	244,305
Custodial accounts	9,587,887	8,406,983
Current portion of lease payable	1,291	
Current portion of loan payable	181,571	132,936
Total current liabilities	11,530,739	10,354,081
Noncurrent liabilities:		
Annuity contract obligations	4,314,847	4,018,443
Lease payable	5,325	
Loan payable	1,180,242	2,179,290
Total noncurrent liabilities	5,500,414	6,197,733
Total liabilities	17,031,153	16,551,814
Net assets		
Without donor restrictions:		
Undesignated	2,445,522	2,931,116
Board designated	1,106,400	1,101,205
Net investment in property and equipment	17,241,885	16,840,013
Total net assets without donor restrictions	20,793,807	20,872,334
With donor restrictions	26,647,897	21,782,654
Total net assets	47,441,704	42,654,988
Total liabilities and net assets	$ 64,472,857	$ 59,206,802

See accompanying notes to financial statements.

CATHOLIC FOUNDATION FOR THE DIOCESE OF TUCSON
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2021
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2020)

	2021			2020
Revenue, support, and gains:	Without Donor Restrictions	With Donor Restrictions	Total	Total
Annual Catholic Appeal	$	$ 4,279,753	$ 4,279,753	$ 4,199,463
Notre Dame ACE Academies		5,000	5,000	10,000
Cathedral Square		31,440	31,440	896,909
Contributions	117,894	2,550,255	2,668,149	2,997,392
Investment return, net	283,906	2,729,573	3,013,479	2,538,622
Rental revenue	260,004		260,004	260,004
Service fees, net	210,582		210,582	180,002
Annual dinner gala revenues	185,668		185,668	59,160
Other revenue	33		33	
Net assets released from restrictions	4,730,778	(4,730,778)		
Total revenue, support, and gains	5,788,865	4,865,243	10,654,108	11,141,552
Expenses and losses:				
Program services				
Grants and contributions:				
Annual Catholic Appeal	3,344,654		3,344,654	3,515,323
Cathedral Square				12,353
Other	730,337		730,337	640,149
Program management	1,213,157		1,213,157	1,340,981
Life annuity gift expense	157,777		157,777	147,505
Total program services	5,445,925		5,445,925	5,656,311
Supporting services:				
Management and general	218,364		218,364	199,470
Fundraising	203,103		203,103	112,722
Total supporting services	421,467		421,467	312,192
Total expenses and losses	5,867,392		5,867,392	5,968,503
Change in net assets	(78,527)	4,865,243	4,786,716	5,173,049
Net assets, beginning of year	20,872,334	21,782,654	42,654,988	37,481,939
Net assets, end of year	$ 20,793,807	$ 26,647,897	$ 47,441,704	$ 42,654,988

See accompanying notes to financial statements.

CATHOLIC FOUNDATION FOR THE DIOCESE OF TUCSON
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2021
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2020)

	2021				2020
	Program Services	General and Administrative	Fundraising	Total	Total
Grants	$ 4,074,991	$	$	$ 4,074,991	$ 4,167,825
Salaries and wages	175,879	96,260	105,072	377,211	383,367
Fees and permits	52,647	6,041	7,784	66,472	63,376
Professional fees	54,637	39,250	6,071	99,958	89,443
Contract services	248		7,308	7,556	7,445
Supplies	17,395	8,852	8,281	34,528	19,747
Postage and printing	48,432	217	804	49,453	103,948
Occupancy	54,075	12,399	14,268	80,742	80,506
Food and beverage	750		38,852	39,602	1,628
Entertainment			4,388	4,388	
Travel	423	51	1,058	1,532	2,162
Utilities	3,858	503	668	5,029	5,688
Staff development		35		35	25
Life annuity expense	157,777			157,777	147,505
Bad debt	172,407			172,407	183,113
Insurance	1,074	579	549	2,202	2,574
Marketing	609	40,049	450	41,108	32,073
Donations		6,194	500	6,694	5,065
Depreciation	555,369			555,369	547,268
Interest	72,848			72,848	121,961
Other	2,506	7,934	7,050	17,490	3,784
Total expenses	$ 5,445,925	$ 218,364	$ 203,103	$ 5,867,392	$ 5,968,503

See accompanying notes to financial statements.

CATHOLIC FOUNDATION FOR THE DIOCESE OF TUCSON
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2021
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2020)

	2021	2020
Cash flows from operating activities:		
Change in net assets	$ 4,786,716	$ 5,173,049
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities:		
Depreciation	555,369	547,268
Net realized gain (loss) on investments	(652,127)	(819,125)
Unrealized gain (loss) on investments	(3,025,904)	(2,357,454)
Changes in assets and liabilities:		
Contributions receivable	382,831	486,305
Other assets	(54,098)	(78,786)
Accounts payable	6,215	5,811
Grants payable	(76,985)	1,215,400
Deferred revenue	14,800	(4,040)
Accrued expenses	1,798	9,218
Annuity contract obligations	296,404	329,869
Net cash provided by (used for) operating activities	2,235,019	4,507,515
Cash flows from investing activities:		
Proceeds from sale of investments	5,819,065	7,042,646
Purchases of investments	(10,573,609)	(7,153,221)
Interest on investments	584,974	492,721
Purchases of property and equipment	(6,828)	(21,964)
Net cash provided by (used for) investing activities	(4,176,398)	360,182
Cash flows from financing activities:		
Repayments on loan payable	(950,423)	(473,567)
Net cash provided by (used for) financing activities	(950,423)	(473,567)
Net increase (decrease) in cash and cash equivalents	(2,891,802)	4,394,130
Cash and cash equivalents, beginning of year	5,844,858	1,450,728
Cash and cash equivalents, end of year	$ 2,953,056	$ 5,844,858
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	$ 72,848	$ 121,961

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 80 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, 2020, 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 $272,844 and the bank balance was $284,750. At year end, $24,855 of the Foundation’s deposits were uninsured and uncollateralized. 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 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

Contributions. As reported in the financial statements, contributions include the Annual Catholic Appeal, Notre Dame ACE Academies, Cathedral Square and contributions. The Foundation recognizes contributions when cash, securities or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. Conditional promises to give – that is, those with a measurable performance or other barrier and a right of return - are not recognized until the conditions on which they depend have been met. The Foundation did not have any conditional promises to give at December 31, 2021.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Annual Dinner Gala Revenues. Annual Dinner Gala revenues include corporate sponsorship and ticket sales. Transactions often include both exchange and contribution components. Event ticket sales that result in substantially commensurate value for the participant are considered exchange transactions and recognized at a point in time, when the event takes place. Amounts in excess of commensurate value are recognized as conditional contributions when the relevant barriers are met, generally coinciding with when the event takes place.

Service Fees. The Foundation charges a percent of the average balance in endowment and custodial accounts to manage the investment pools. The management service fees are collected monthly. Service fee revenues are netted with net asset administration fees.

Rental revenue. Rental revenue is recognized when the Diocese of Tucson pays the rent due in equal monthly installments in advance of the first day of each calendar month during the term of the lease

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

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*.

Recent Accounting Pronouncements Issued Not Yet Effective

In February 2016, the FASB issued ASU Update 2016-02, *Leases* (Topic 842). The ASU will require entities to recognize assets and liabilities for both capital and operating leases with lease terms of more than 12 months on the statement of financial position. This ASU is effective for fiscal years beginning after December 15, 2021. The Foundation is evaluating the effect that this pronouncement will have on its financial statements and related disclosures.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Date of Management's Review
In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through May 19, 2022, 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	$ 2,953,056
Contributions receivable	100,212
Accounts receivable	55,234
Investments	42,559,744
Total financial assets	45,668,246
Less amounts not available to be used within one year:	
Cash and investments held in trust for annuity contracts	4,559,152
Cash and investments held in custodial accounts	9,587,887
Net assets with donor restrictions	26,647,897
Quasi-endowment established by the Board	1,106,400
Financial assets available to meet general expenditures over the next twelve months	$ 3,766,910

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. No funds were borrowed under this agreement 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.

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	$ 2,669,344
Fixed income investments	Level 2	14,471,668
Equities	Level 1	25,859,130
Real estate	Level 1	2,228,946
Total assets		$ 45,229,088

NOTE 3 – INVESTMENTS AND FAIR VALUE MEASUREMENTS

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.

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

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.

NOTE 4 – CONTRIBUTIONS RECEIVABLE

Unconditional contributions receivable consist of the following:

Contributions receivable	$ 468,155
Less: Allowance for uncollectibles	(367,943)
Net contributions receivable	$ 100,212
Amounts due in:	
Less than one year	$ 92,212
More than one year	8,000
Total	$ 100,212

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	$ 19,558,145
Furniture and equipment	554,629
Total property and equipment	20,112,774
Less: Accumulated depreciation and amortization	(1,509,076)
Net property and equipment	$ 18,603,698

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
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	$ 18,429,297
Accumulated investment gains	6,948,803
Total funds	$ 25,378,100

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.

NOTE 6 – ENDOWMENTS

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 two 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.

Changes in Endowment Net Assets as of year end:

	Without Donor Restriction	With Donor Restriction	Total
Endowment net assets, beginning of year	$ 1,101,205	$ 21,053,531	$ 22,154,736
Contributions	185,668	2,520,340	2,706,008
Investment return, net	142,102	2,729,569	2,871,671
Amounts appropriated for expenditure	(322,575)	(925,340)	(1,247,915)
Endowment net assets, end of year	$ 1,106,400	$ 25,378,100	$ 26,484,500

NOTE 7 – NET ASSETS

Net assets without donor restrictions not invested in property are as follows:

	2021	2020
Board designated	$ 1,106,400	$ 1,101,205
Undesignated	2,445,522	2,931,116
Total unrestricted net assets	$ 3,551,922	$ 4,032,321

NOTE 7 – NET ASSETS

Net assets with donor restrictions were as follows:

	2021	2020
Subject to expenditure for specified purpose:		
Notre Dame Ace Academies	$ 73,490	$ 68,490
Subject to passage of time:		
Annual Catholic Appeal	1,196,307	660,633
Endowments:		
Subject to appropriation and expenditure for a specified purpose:		
Bishop's discretion	1,308,679	1,222,954
Diocesan elementary schools	524,159	489,818
Disadvantaged parishes	264,852	247,503
Elderly	2,448,757	
General	760,113	707,472
Marriage counseling	235,471	220,061
Scholarships	722,139	668,893
Poor and social justice	2,792,534	2,608,086
Healthcare funds	12,529,889	11,589,657
Vocations	3,681,692	3,197,471
Youth Ministry	109,815	101,616
Total Endowments	25,378,100	21,053,531
Total	$ 26,647,897	$ 21,782,654

Net assets released from donor restrictions are as follows:

	2021	2020
Satisfaction of purpose restrictions:		
Cathedral Square	$ 31,440	$ 896,909
Endowments	955,258	768,556
Satisfaction of time restrictions:		
Annual Catholic Appeal	3,744,080	4,003,846
Total	$ 4,730,778	$ 5,669,311

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 $111,844 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 2.8 percent.

NOTE 9 – CUSTODIAL ACCOUNTS

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

	2021	2020
Parishes and missions	$ 1,087,249	$ 997,467
Schools and scholarships	7,602,710	6,779,659
Other agencies	897,928	629,857
Total custodial accounts	$ 9,587,887	$ 8,406,983

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, 2021 and 2020 were as follows:

	2021	2020
Total fees	$ 550,341	$ 429,550
Less service fees charged by third party on temporarily restricted investments	(155,338)	(131,957)
Net fees	$ 395,003	$ 297,593

NOTE 10 – OPERATING LEASE COMMITMENTS

The Foundation leased office space 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 $78,000 for the year ended.

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

Year End:		Land	Building	Total Occupancy
	2022	$ 30,000	$ 48,000	$ 78,000
	2023	30,000	48,000	78,000
	2024	30,000	48,000	78,000
	2025	30,000	48,000	78,000
	2026	30,000	48,000	78,000
	2027-31	150,000	240,000	390,000
	2032-36	150,000	240,000	390,000
	2037-41	150,000	108,000	258,000
	2042-46	150,000		150,000
	2047-51	150,000		150,000
	2052-56	150,000		150,000
	2057-61	150,000		150,000
	2062-66	150,000		150,000
	2067-69	67,500		67,500
Total		$ 1,417,500	$ 828,000	$ 2,245,500

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 $260,004 for the year ended.

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

Year end:		
	2022	$ 260,004
	2023	260,004
	2024	260,004
	2025	260,004
	2026	260,004
	Thereafter	3,185,049
Total		$ 4,485,069

NOTE 11 – OBLIGATIONS UNDER CAPITAL LEASES

The Foundation has acquired a copier under the provisions of a long-term lease agreement classified as a capital lease. The economic substance of the lease is that the Foundation is financing the acquisition of the asset through the lease, and, accordingly, it is recorded in the Foundation's assets and liabilities.

Equipment representing property consisted of $6,828, less the amount representing accumulated depreciation and amortization of $569, resulting in a net equipment value of $6,259.

The following is a schedule by years of future minimum payments required under the lease together with their present value as of year end:

Year End:		
	2022	$ 1,472
	2023	1,471
	2024	1,473
	2025	1,472
	2026	1,227
Total minimum lease payments		7,115
Less: amount representing interest		499
Present value of minimum lease payments		$ 6,616

Amortization of assets held under capital leases is included with depreciation expense.

NOTE 12 – LOAN 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.	$1,361,803

NOTE 12 – LOAN PAYABLE

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

Year End:	Principal	Interest
2022	$ 181,571	$ 63,967
2023	190,852	54,679
2024	200,614	44,912
2025	210,878	34,651
2026	221,667	23,861
Thereafter	356,231	14,355
Total	$ 1,361,813	$ 236,425

NOTE 13 – 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 the year 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, 2021.

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 $19,500 for the year. The Diocese of Tucson Lay Employee Pension Plan charges the Foundation 6.25 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.

Any of the 6.25 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 50 percent of the employee's contributions up to a maximum of $2,000 per year. The Foundation incurred pension plan expense charges of $17,760 for the year.

NOTE 14 – 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 15 – 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.

NOTE 16 – SUBSEQUENT EVENT

Subsequent events have been evaluated through May 19, 2022, which is the date the financial statements were available to be issued.

In February 2022, the Foundation borrowed $1.35 million from the Diocese of Tucson to pay off the Catholic Order of Foresters loan in full. The loan with the Diocese is a seven year loan with a five percent annual interest rate to be paid in equal monthly installments of $19,081 on the first of each month starting March 2022.