Catholic Foundation for the Diocese of Tucson

Financial Statements

For the Years Ended December 31, 2017 and December 31, 2016

CATHOLIC FOUNDATION FOR THE DIOCESE OF TUCSON

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FINANCIAL STATEMENTS

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Catholic Foundation for the Diocese of Tucson

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, 2017, and the related statements of activities 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 of 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, 2017, 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 Prior Year Comparative Information

We have previously audited the Foundation's 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 12, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Heinfeld, Meech & Co., P.C.

Heinfeld, Meech & Co., P.C.
Tucson, Arizona
May 8, 2018

CATHOLIC FOUNDATION FOR THE DIOCESE OF TUCSON
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2017
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2016)

Assets	**2017**	**2016**
Current assets:		
Cash and cash equivalents	$ 5,347,997	$ 4,467,292
Investments	24,332,759	24,628,911
Investments - gift annuity	3,685,727	3,490,522
Promises to give	2,119,431	2,133,662
Other assets	117,170	131,648
Total current assets	35,603,084	34,852,035
Noncurrent assets:		
Property and equipment, net of accumulated depreciation	4,363,508	
Promises to give, net of allowance and discounts	680,237	1,318,905
Total noncurrent assets	5,043,745	1,318,905
Total assets	$ 40,646,829	$ 36,170,940
Liabilities		
Current liabilities:		
Accounts payable	$ 399,064	$ 5,585
Accrued expenses	304,348	535,474
Unearned campaign revenue	11,250	3,600
Annuity contract obligations	22,063	94,294
Custodial accounts	7,157,280	6,659,221
Total current liabilities	7,894,005	7,298,174
Noncurrent liabilities:		
Annuity contract obligations	3,847,765	3,456,412
Total liabilities	11,741,770	10,754,586
Net assets		
Unrestricted:		
Undesignated	6,176,060	5,696,495
Board designated	949,395	811,600
Net investment in property and equipment	4,363,508	
Total unrestricted net assets	11,488,963	6,508,095
Temporarily restricted	8,002,958	9,562,743
Permanently restricted	9,413,138	9,345,516
Total net assets	28,905,059	25,416,354
Total liabilities and net assets	$ 40,646,829	$ 36,170,940

See accompanying notes to financial statements.

CATHOLIC FOUNDATION FOR THE DIOCESE OF TUCSON
STATEMENTS OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2017
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2016)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals 2017	Totals 2016
Revenue and other support:					
Annual Catholic Appeal	$	$ 4,265,124	$	$ 4,265,124	$ 4,037,140
Notre Dame ACE Academies		34,608		34,608	27,460
Cathedral Square		1,674,509		1,674,509	3,647,204
Contributions	84,450		22,047	106,497	159,748
Investment income	713,507	1,269,598	45,575	2,028,680	894,280
Rental revenue					52,960
Service fees, net	464,362			464,362	301,250
Annual dinner gala revenues	237,244			237,244	291,750
Gain on sale of capital assets					1,136,380
Other revenue	2,759			2,759	6,340
Total revenue and support	1,502,322	7,243,839	67,622	8,813,783	10,554,512
Net assets released from restrictions	8,803,624	(8,803,624)			
Total revenue and other support	10,305,946	(1,559,785)	67,622	8,813,783	10,554,512
Expenses:					
Program services:					
Grants and contributions:					
Annual Catholic Appeal	3,370,000			3,370,000	3,090,000
Treasures of the Heart					8,507
Cathedral Square	587,977			587,977	1,678,426
Other	673,222			673,222	516,505
Program management	544,682			544,682	330,597
Life annuity gift expense	90,237			90,237	179,646
Investment costs	343,233			343,233	261,430
Total program services	5,609,351			5,609,351	6,065,111
Supporting services:					
Management and general	458,414			458,414	454,624
Fundraising	98,995			98,995	213,139
Total supporting services	557,409			557,409	667,763
Total expenses	6,166,760			6,166,760	6,732,874
Change in net assets before other income (expenses)	4,139,186	(1,559,785)	67,622	2,647,023	3,821,638
Other expenses and losses:					
Direct costs of dinner gala	86,848			86,848	102,525
Total other expenses and losses	86,848			86,848	102,525
Change in net assets	4,052,338	(1,559,785)	67,622	2,560,175	3,719,113
Net assets, beginning of year, as restated	7,436,625	9,562,743	9,345,516	26,344,884	21,697,241
Net assets, end of year	$ 11,488,963	$ 8,002,958	$ 9,413,138	$ 28,905,059	$ 25,416,354

See accompanying notes to financial statements.

CATHOLIC FOUNDATION FOR THE DIOCESE OF TUCSON
STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2017
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2016)

	2017	2016
Cash flows from operating activities:		
Change in net assets	$ 2,560,175	$ 3,719,113
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities:		
Depreciation		11,956
Net realized gain/(loss) on investments	(223,806)	735
Unrealized gain/(loss) on investments	(2,006,832)	743,836
Changes in assets and liabilities:		
Promises to give	652,899	(929,556)
Due from Diocese of Tucson		898
Other assets	14,476	(18,407)
Accounts payable	393,479	(11,619)
Unearned campaign revenue	7,650	400
Accrued expenses	(231,126)	283,476
Annuity contract obligations	319,122	2,511
Net cash provided by operating activities	1,486,037	3,803,343
Cash flows from investing activities:		
Proceeds from sale of investments	9,209,973	13,053,851
Purchases of investments	(6,569,282)	(17,276,754)
Interest on investments	188,955	219,140
Purchases of property and equipment	(3,434,978)	
Net cash provided by (used for) investing activities	(605,332)	(4,003,763)
Net increase (decrease) in cash and cash equivalents	880,705	(200,420)
Cash and cash equivalents, beginning of year	4,467,292	4,667,712
Cash and cash equivalents, end of year	$ 5,347,997	$ 4,467,292

See accompanying notes to financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 500 person capacity meeting facility for Diocesan and other gatherings.

- 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.

A. 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

B. 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 three classes based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Foundation and changes therein are classified as follows:

Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Foundation and/or the passage of time. The Foundation's unspent contributions are classified in this class if the donor limited their use.

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Foundation. Generally, the donors of these assets permit the Foundation to use all or part of the income earned on related investments for general purposes. The portion of donor-restricted endowment funds that must be maintained in perpetuity are classified in this net asset class.

C. Expense Allocation

Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are charged to programs and supporting services on the basis of periodic time and expense studies. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Foundation. The costs of providing various programs and other activities have been summarized on a functional basis in the Statement of Activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

D. 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

E. Comparative Financial Information

The financial statements include certain prior-year summarized comparative information. 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, 2016, from which the summarized information was derived.

F. Restricted and Unrestricted Revenue Support

Donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets in the statement of activities as net assets released from restriction.

G. Cash and Cash Equivalents

The Foundation considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

H. Investments

The Foundation reports investments at fair value. Investment income, gains and losses are included in the change in net assets.

I. 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. Repairs and maintenance are expensed as incurred. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

J. Impairment of Long-Lived 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.

K. Donated Services

Support arising from donated services is recognized in the financial statements at their fair market value if the services require specialized skills and are provided by individuals possessing those skills and the services would typically need to be purchased if not donated.

Certain general and administrative support is provided to the Foundation by the Administrative Offices of the Diocese of Tucson. The estimated fair market value of this support is not recorded as revenue and expense as its fair market value is not material to these financial statements.

L. Promises to Give

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 and 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 pledges 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

M. Income Tax Status

The Foundation is exempt from federal income tax as an organization other than private foundation under Section 501(c)(3) of the Internal Revenue Code and from state income taxes under Arizona Revised Statutes (A.R.S.). 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*.

N. Subsequent Events

Subsequent events have been evaluated through May 8, 2018, which is the date the financial statements were available to be issued.

NOTE 2 – INVESTMENT INCOME

Investment income consisted of the following for the current fiscal year.

Interest and dividends	$ 554,041
Net unrealized gains	2,006,832
Net realized gains	223,806
Total investment income	2,784,679
Less income applicable to custodial accounts	755,999
Total	$ 2,028,680

NOTE 3 – INVESTMENTS AND FAIR VALUE MEASUREMENTS

The Foundation places its cash and cash equivalents with high quality credit institutions, which at times, may be in excess of the FDIC and SPIC insurance limits. At year end, the Foundation's cash balances were covered by the FDIC.

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.

Valuation Techniques. 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.

NOTE 3 – FAIR VALUE MEASUREMENTS

Investments in debt securities and equities with readily determinable fair values are carried at fair value. Fair values of assets measured on a recurring basis are as follows:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Unobservable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Corporate bonds	$ 10,760,227	$	$ 10,760,227	$
Hedged fixed income	103,684		103,684	
U.S. securities	9,986,756	9,986,756		
International securities	5,179,468	4,680,881	498,587	
Hedged equity	131,060	131,060		
Real estate managed funds	1,516,389	1,516,389		
Venture capital partnership	340,753			340,753
Money market	3,341,311		3,341,311	
Total assets	$ 31,359,648	$ 16,315,086	$ 14,703,809	$ 340,753

Venture Capital Partnerships. The Foundation invests in a venture capital partnership to obtain high potential returns and diversification away from public equity markets. The fair value of the partnership has been estimated based on its net asset value, which is derived from the fair value of the underlying privately held companies. The fair value, which is calculated quarterly, has been adjusted for expected selling and administrative expenses of up to 1.25 percent annually. The Foundation's required commitment to the partnership is $500,000, of which they have contributed $483,500 as of December 31, 2017. The Foundation is restricted from redeeming this investment indefinitely; however, is permitted to transfer its ownership interest to another entity upon approval of the general partner at anytime. The partnership agreement provides provisions allowing distributions to be made at the discretion of the general partner, as defined. To date, the partnership has distributed $489,619 to the Foundation.

The venture capital partnership assets are measured at fair value on a recurring basis using significant unobservable inputs. The changes in the partnership assets are as follows.

	Venture Capital Partnership
Beginning of year	$ 359,130
Unrealized gains	27,453
Purchases	(45,830)
End of year	$ 340,753

NOTE 4 – 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.

A. Interpretation of Relevant Law

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 classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) the accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by 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 Foundation
g. The investment policies of the Foundation

NOTE 4 – ENDOWMENTS

B. Return Objectives and Risk Parameters

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. 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. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the S&P 500 Index while assuming a moderate level of investment risk. The Foundation expects its endowment funds, over time, to provide an average rate of return of approximately eight percent annually. Actual returns in any given year may vary from this amount.

C. Strategies Employed for Achieving Objectives

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.

D. 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 the calendar year end preceding the fiscal 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, all 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 4 – ENDOWMENTS

Changes in endowment net assets:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 1,796,085	$ 9,345,516	$ 11,141,601
Investment income	220,368		220,368
Net appreciation, realized and unrealized	1,049,232	45,575	1,094,807
Total investment return	1,269,600	45,575	1,315,175
Contributions		22,047	22,047
Appropriation of endowment assets for expenditures	275,106		275,106
Administrative expenses	199,260		199,260
Endowment net assets, end of year	$ 2,591,319	$ 9,413,138	$ 12,004,457

Temporarily restricted net assets:

	2017	2016
Bishop's discretion	$ 363,747	$ 301,577
Children and elderly programs	706,944	603,150
Children's programs	36,571	27,337
Didinium scholarships	86,102	48,924
Diocesan elementary schools	73,813	57,316
Disadvantaged parishes	59,836	47,369
General diocesan purposes	74,553	64,860
Marriage counseling	166,048	145,492
Other	35,106	22,834
St. Andrew scholarships	25,265	21,158
Vocations	168,420	145,896
St. Joseph's Catholic Healthcare	794,914	310,172
Total endowment balance	2,591,319	1,796,085
Annual Catholic Appeal	581,886	383,158
Notre Dame ACE Academies	292,794	445,065
Cathedral Square	4,536,959	6,938,435
Total temporarily restricted net assets	$ 8,002,958	$ 9,562,743

NOTE 4 – ENDOWMENTS

Permanently restricted net assets:

	2017	2016
Albert Beraud, Sr. Joseph Baron	$ 17,268	$ 17,268
Bishop Francis Green	58,441	58,441
Campbell scholarship	50,000	50,000
Charles Gallegos	21,830	18,570
Clara Read Memorial	1,576,876	1,576,877
Didinium scholarship	323,069	311,316
Education of Seminarians	337,082	336,082
Edward Rosetti Memorial	106,911	106,911
General endowment	116,892	116,892
Hughes general Diocese	757,612	757,612
Joseph Baron	57,831	57,831
Laumer C. Leonard Catholic Education	220,215	220,215
Lopez Endowment	100,000	100,000
McAndrew annuity endowment	425,902	380,327
Robert and Ann Hout	65,000	65,000
St. Andrew K-12 scholarships	25,000	25,000
St. Andrew post high school scholarships	50,000	50,000
St. Joseph's Catholic Healthcare	5,011,683	5,005,648
St. Pancras	60,287	60,287
Youth ministry	31,239	31,239
Total permanently restricted	$ 9,413,138	$ 9,345,516

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 year ended December 31, 2017 and 2016 were as follows.

	2017	2016
Total fees	$ 317,734	$ 207,506
Less service fees charged by third party on temporarily restricted investments	(118,474)	(77,020)
Net fees	$ 199,260	$ 130,486

NOTE 5 – RESTRICTIONS ON NET ASSETS

The Foundation's Board of Directors has chosen to place limitations of $949,395 on unrestricted net assets designated for Cornerstone.

NOTE 6 – PROMISES TO GIVE

Promises to give consist of pledges from individual donors for the Cathedral Square, Notre Dame ACE Academies, and Annual Catholic Appeal capital campaign with a discount rate of five percent. At December 31, 2017, pledges receivable are as follows:

	Notre Dame ACE Academies	Cathedral Square	Annual Catholic Appeal
Receivable in less than one year	$ 132,800	$ 1,968,377	$ 18,255
Receivable in one to five years	50,950	700,372	
Total unconditional promises to give	183,750	2,668,749	18,255
Less discounts to net present value		(40,586)	
Less allowance for uncollectible promises receivable	(30,500)		
Net unconditional promises to give	$ 153,250	$ 2,628,163	$ 18,255

NOTE 7 – 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 $77,842 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 2.6 percent.

NOTE 8 – CUSTODIAL ACCOUNTS

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

	2017	2016
Parishes and missions	$ 958,089	$ 903,472
Schools and scholarships	5,721,542	5,319,562
Other agencies	477,649	436,187
Total custodial accounts	$ 7,157,280	$ 6,659,221

NOTE 9 – 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 2017 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, 2017.

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 $18,000 for 2017. 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. 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 $19,806 for the year ended December 31, 2017.

NOTE 10 – PROPERTY AND EQUIPMENT

As of December 31, 2017, property and equipment consisted of $4,363,508 for construction in progress, resulting in a net property and equipment value of $4,363,508. There is no value for the year ended December 31, 2016.

In February 2018, the Board of Directors, in conjunction with the Diocese of Tucson, decided that the Catholic Foundation for the Diocese of Tucson would own the new Cathedral Square buildings and renovations.

Construction Commitments – At year end, the Foundation had contractual commitments related to various capital projects for the construction of Cathedral Square. At year end the Foundation had spent $4.4 million on the projects and had estimated remaining contractual commitments of $14.9 million.

NOTE 11 – OBLIGATIONS UNDER LEASES

Operating Leases

The Foundation subleases office space from the Diocese of Tucson under a noncancelable operating lease agreement ending September 2018. Rental expenses for the lease totaled $47,768 for the current fiscal year. Future minimum lease payments the operating lease remaining term total $35,820.

NOTE 12 – 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 13 – PRIOR PERIOD ADJUSTMENTS

The January 1, 2017, net assets do not agree to the prior year financial statements due to the capitalization of Cathedral Square expenses not capitalized in prior years.

	Statement of Activities
Net assets, December 31, 2016, as previously reported	$ 25,416,354
Capitalization of Cathedral Square construction	928,530
Net assets, January 1, 2017, as restated	$ 26,344,884