



Catholic Foundation for the Diocese of Tucson
Financial Statements
for the Years Ended December 31, 2022 and 2021

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CATHOLIC FOUNDATION FOR THE DIOCESE OF TUCSON

TABLE OF CONTENTS

INDEPENDENT AUDITOR’S REPORT 1

FINANCIAL STATEMENTS

 Statement of Financial Position..... 3

 Statement of Activities 4

 Statement of Functional Expenses 5

 Statement of Cash Flows..... 6

 Notes to Financial Statements 7

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, 2022, 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, 2022, 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.

Change in Accounting Principle

As described in Note 1, the Foundation implemented the provisions of the Financial Accounting Standards Board (FASB) Accounting Standards Update 2016-02, *Leases* (Topic 842), for the year ended December 31, 2022, which represents a change in accounting principle. Our opinion is not modified with respect to this matter.

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 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 2021 financial statements, and our report dated May 19, 2022, 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, 2021, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Heinfeld, Meech & Co., P.C.

Tucson, Arizona

Report Date

CATHOLIC FOUNDATION FOR THE DIOCESE OF TUCSON
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2022
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2021)

<u>Assets</u>	<u>2022</u>	<u>2021</u>
Current assets:		
Cash and cash equivalents	\$ 3,793,124	\$ 2,760,252
Investments	29,965,134	38,193,396
Contributions receivable	11,267	92,212
Other current assets	189,033	256,147
Total current assets	<u>33,958,558</u>	<u>41,302,007</u>
Noncurrent assets:		
Cash - gift annuity	57,203	192,804
Investments - gift annuity	3,582,367	4,366,348
Contributions receivable, net of allowance and discounts		8,000
Property and equipment, net of accumulated depreciation	18,092,457	18,603,698
Right-of-use assets, net of accumulated amortization	782,630	
Total noncurrent assets	<u>22,514,657</u>	<u>23,170,850</u>
Total assets	<u>\$ 56,473,215</u>	<u>\$ 64,472,857</u>
 <u>Liabilities</u>		
Current liabilities:		
Accounts payable	\$ 25,672	\$ 14,865
Accrued expenses	32,503	27,605
Grants payable	1,395,000	1,458,415
Deferred revenue	4,000	14,800
Annuity contract obligations	244,305	244,305
Custodial accounts	7,755,020	9,587,887
Current portion of finance lease payable	1,330	1,291
Current portion of operating leases payable	39,011	
Current portion of loan payable	172,236	181,571
Total current liabilities	<u>9,669,077</u>	<u>11,530,739</u>
Noncurrent liabilities:		
Annuity contract obligations	3,395,264	4,314,847
Finance lease payable	3,996	5,325
Operating leases payable	758,488	
Loan payable	1,040,655	1,180,242
Total noncurrent liabilities	<u>5,198,403</u>	<u>5,500,414</u>
Total liabilities	<u>14,867,480</u>	<u>17,031,153</u>
 <u>Net assets</u>		
Without donor restrictions:		
Undesignated	1,825,474	2,445,522
Board designated	938,421	1,106,400
Net investment in property and equipment	16,879,566	17,241,885
Total net assets without donor restrictions	<u>19,643,461</u>	<u>20,793,807</u>
With donor restrictions	<u>21,962,274</u>	<u>26,647,897</u>
Total net assets	<u>41,605,735</u>	<u>47,441,704</u>
Total liabilities and net assets	<u>\$ 56,473,215</u>	<u>\$ 64,472,857</u>

See accompanying notes to financial statements.

CATHOLIC FOUNDATION FOR THE DIOCESE OF TUCSON
STATEMENT OF ACTIVITIES
DECEMBER 31, 2022
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2021)

	<u>2022</u>			<u>2021</u>
	Without Donor Restrictions	With Donor Restrictions	Total	Total
Revenue, support, and gains:				
Annual Catholic Appeal	\$	\$ 4,186,288	\$ 4,186,288	\$ 4,279,753
Notre Dame ACE Academies		2,000	2,000	5,000
Cathedral Square		22,280	22,280	31,440
Contributions	39,845	313,745	353,590	2,668,149
Investment return, net	(899,871)	(4,028,676)	(4,928,547)	3,013,479
Lease revenue	260,004		260,004	260,004
Service fees, net	194,393		194,393	210,582
Annual dinner gala revenues	243,325		243,325	185,668
Other revenue	1,527		1,527	33
Net assets released from restrictions	5,181,260	(5,181,260)		
Total revenue, support, and gains	<u>5,020,483</u>	<u>(4,685,623)</u>	<u>334,860</u>	<u>10,654,108</u>
Expenses and losses:				
Program services				
Grants and contributions:				
Annual Catholic Appeal	3,597,288		3,597,288	3,344,654
Cathedral Square				
Other	752,591		752,591	730,337
Program management	1,228,877		1,228,877	1,213,157
Life annuity gift expense	69,634		69,634	157,777
Total program services	<u>5,648,390</u>		<u>5,648,390</u>	<u>5,445,925</u>
Supporting services:				
Management and general	240,736		240,736	218,364
Fundraising	281,703		281,703	203,103
Total supporting services	<u>522,439</u>		<u>522,439</u>	<u>421,467</u>
Total expenses and losses	<u>6,170,829</u>		<u>6,170,829</u>	<u>5,867,392</u>
Change in net assets	<u>(1,150,346)</u>	<u>(4,685,623)</u>	<u>(5,835,969)</u>	<u>4,786,716</u>
Net assets, beginning of year	<u>20,793,807</u>	<u>26,647,897</u>	<u>47,441,704</u>	<u>42,654,988</u>
Net assets, end of year	<u>\$ 19,643,461</u>	<u>\$ 21,962,274</u>	<u>\$ 41,605,735</u>	<u>\$ 47,441,704</u>

See accompanying notes to financial statements.

CATHOLIC FOUNDATION FOR THE DIOCESE OF TUCSON
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2022
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2021)

	<u>2022</u>			<u>2021</u>	
	<u>Program Services</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total</u>	<u>Total</u>
Grants	\$ 4,349,879	\$	\$	\$ 4,349,879	\$ 4,074,991
Salaries and wages	192,521	115,709	118,345	426,575	377,211
Fees and permits	46,386	5,840	8,136	60,362	66,472
Professional fees	67,756	39,500	6,917	114,173	99,958
Contract services	11,050	2,907	23,929	37,886	7,556
Supplies	11,827	11,613	16,610	40,050	34,528
Postage and printing	94,305	209	4,895	99,409	49,453
Occupancy	67,257	13,827	16,285	97,369	80,742
Food and beverage	4,649		70,075	74,724	39,602
Entertainment			5,900	5,900	4,388
Travel	1,927	105	375	2,407	1,532
Utilities	2,857	347	267	3,471	5,029
Staff development		1,447		1,447	35
Life annuity expense	69,634			69,634	157,777
Bad debt	105,974			105,974	172,407
Insurance	1,356	731	693	2,780	2,202
Marketing	10,809	18,733	2,226	31,768	41,108
Donations		20,583	1,000	21,583	6,694
Depreciation	546,189			546,189	555,369
Interest	61,415			61,415	72,848
Other	2,599	9,185	6,050	17,834	17,490
Total expenses	<u>\$ 5,648,390</u>	<u>\$ 240,736</u>	<u>\$ 281,703</u>	<u>\$ 6,170,829</u>	<u>\$ 5,867,392</u>

See accompanying notes to financial statements.

CATHOLIC FOUNDATION FOR THE DIOCESE OF TUCSON
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2022
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2021)

	2022	2021
Cash flows from operating activities:		
Change in net assets	\$ (5,835,969)	\$ 4,786,716
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities:		
Depreciation	546,189	555,369
Amortization on operating leases	14,869	
Net realized gain/loss on investments	(116,058)	(652,127)
Unrealized gain/loss on investments	6,966,758	(3,025,904)
Changes in assets and liabilities:		
Contributions receivable	88,945	382,831
Other assets	67,114	(54,098)
Accounts payable	10,807	6,215
Grants payable	(63,415)	(76,985)
Deferred revenue	(10,800)	14,800
Accrued expenses	4,898	1,798
Annuity contract obligations	(919,583)	296,404
	753,755	2,235,019
Net cash provided by (used for) operating activities		
Cash flows from investing activities:		
Proceeds from sale of investments	13,014,309	5,819,065
Purchases of investments	(13,418,210)	(10,573,609)
Interest on investments	732,577	584,974
Purchases of property and equipment	(34,948)	(6,828)
	293,728	(4,176,398)
Net cash provided by (used for) investing activities		
Cash flows from financing activities:		
Repayment on lease payable	(1,290)	
Proceeds from loan payable	1,350,000	
Repayments on loan payable	(1,498,922)	(950,423)
	(150,212)	(950,423)
Net cash provided by (used for) financing activities		
Net increase (decrease) in cash and cash equivalents	897,271	(2,891,802)
Cash and cash equivalents, beginning of year	2,953,056	5,844,858
Cash and cash equivalents, end of year	\$ 3,850,327	\$ 2,953,056
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	\$ 61,415	\$ 72,848

See accompanying notes to financial statements.

CATHOLIC FOUNDATION FOR THE DIOCESE OF TUCSON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022

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.

CATHOLIC FOUNDATION FOR THE DIOCESE OF TUCSON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022

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, 2021, from which the summarized information was derived.

CATHOLIC FOUNDATION FOR THE DIOCESE OF TUCSON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022

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 \$254,776 and the bank balance was \$263,568. At year end, \$6,335 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.

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 may contribute 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.

CATHOLIC FOUNDATION FOR THE DIOCESE OF TUCSON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022

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.

Leases

The Foundation determines if an arrangement is or contains a lease at inception. All leases are recorded on the statement of financial position except for leases with an initial term less than 12 months. Lease assets and obligations are recognized based on future lease payments, discounted by the incremental borrowing rate for the Foundation's operating leases and the rate implicit in the lease for finance leases.

Operating lease right-of-use assets (ROU) include adjustments related to lease payments made and lease incentives received at or before the commencement date. The assets resulting from operating leases are included in right-of-use assets and the related liabilities are included in operating leases payable on the statement of financial position. Finance lease assets are included in property and equipment, net, and the related liabilities are included in finance leases payable on the statement of financial position.

CATHOLIC FOUNDATION FOR THE DIOCESE OF TUCSON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Operating lease expense is recognized on a straight-line basis over the lease term. Lease and non-lease components of lease agreements are accounted for separately. Lease terms may include options to extend or terminate the lease when it is reasonably certain that the Foundation will exercise that option.

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, 2022.

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.

Lease revenue. Lease 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:

<u>Expense</u>	<u>Method of Allocation</u>
Salaries and benefits	Time and effort
Professional services	Time and effort
Information technology	Time and effort
Travel	Time and effort

CATHOLIC FOUNDATION FOR THE DIOCESE OF TUCSON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 fiscal year, the Foundation adopted Accounting Standards Update (ASU) No. 2016-02, *Leases* (Topic 842). This update requires entities to recognize assets and liabilities for both capital and operating leases on the statement of financial position, and disclose key information about leasing arrangements. In adopting Topic 842, the Foundation elects the practical expedient transition package to not reassess (i) expired or existing contracts to determine whether they are or contain a lease, (ii) the lease classification of any existing leases, or (iii) initial direct costs for existing leases. It also elects not to report assets or liabilities for leases with terms of one year or less.

Upon adoption, the Foundation recognized operating lease right-of-use assets of \$834,611 and related lease liabilities of \$834,611 in the statement of financial position. The adoption did not result in a significant effect on amounts reported in the statement of activities. The Foundation has elected not to restate the comparative period (2021).

Date of Management's Review

In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through **Report Date**, which is the date the financial statements were available to be issued.

CATHOLIC FOUNDATION FOR THE DIOCESE OF TUCSON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022

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	\$ 3,850,327
Contributions receivable	11,267
Investments	<u>33,547,501</u>
Total financial assets	<u>37,409,095</u>
Less amounts not available to be used within one year:	
Cash and investments held in trust for annuity contracts	3,639,570
Cash and investments held in custodial accounts	7,755,020
Net assets with donor restrictions	21,962,274
Quasi-endowment established by the Board	<u>938,421</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 3,113,810</u>

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.

**CATHOLIC FOUNDATION FOR THE DIOCESE OF TUCSON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022**

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	\$ 3,595,551
Fixed income investments	Level 2	11,771,657
Equities	Level 1	20,437,101
Real estate	Level 1	1,338,743
Total assets		<u>\$ 37,143,052</u>

CATHOLIC FOUNDATION FOR THE DIOCESE OF TUCSON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022

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	\$ 425,339
Less: Allowance for uncollectibles	<u>(414,072)</u>
Net contributions receivable	<u>\$ 11,267</u>
Amounts due in:	
Less than one year	\$ 11,267
More than one year	<u>0</u>
Total	<u>\$ 11,267</u>

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

CATHOLIC FOUNDATION FOR THE DIOCESE OF TUCSON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022

NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment consist of the following.

Buildings		\$	19,558,145
Furniture and equipment			563,228
Construction in progress			26,349
Total property and equipment			20,147,722
Less: Accumulated depreciation and amortization			(2,055,265)
Net property and equipment		\$	18,092,457

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

CATHOLIC FOUNDATION FOR THE DIOCESE OF TUCSON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022

NOTE 6 – ENDOWMENTS

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

	<u>With Donor Restriction</u>
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	\$ 18,454,234
Accumulated investment gains	1,829,118
Total funds	<u>\$ 20,283,352</u>

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.

CATHOLIC FOUNDATION FOR THE DIOCESE OF TUCSON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022

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 <u>Restriction</u>	With Donor <u>Restriction</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 1,106,400	\$ 25,378,100	\$ 26,484,500
Contributions	53,350	24,937	78,287
Investment return, net	(175,579)	(4,028,692)	(4,204,271)
Amounts appropriated for expenditure	<u>(45,750)</u>	<u>(1,090,993)</u>	<u>(1,136,743)</u>
Endowment net assets, end of year	<u>\$ 938,421</u>	<u>\$ 20,283,352</u>	<u>\$ 21,221,773</u>

NOTE 7 – NET ASSETS

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

	<u>2022</u>	<u>2021</u>
Board designated	\$ 938,421	\$ 1,106,400
Undesignated	1,825,474	2,445,522
Total unrestricted net assets	<u>\$ 2,763,895</u>	<u>\$ 3,551,922</u>

CATHOLIC FOUNDATION FOR THE DIOCESE OF TUCSON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022

NOTE 7 – NET ASSETS

Net assets with donor restrictions were as follows:

	<u>2022</u>	<u>2021</u>
Subject to expenditure for specified purpose:		
Notre Dame Ace Academies	\$ 75,490	\$ 73,490
Subject to passage of time:		
Annual Catholic Appeal	1,603,432	1,196,307
Endowments:		
Subject to appropriation and expenditure for a specified purpose:		
Bishop’s discretion	1,034,577	1,308,679
Diocesan elementary schools	414,570	524,159
Disadvantaged parishes	209,379	264,852
Elderly	2,039,893	2,448,757
General	640,181	760,113
Marriage counseling	194,035	235,471
Scholarships	573,954	722,139
Poor and social justice	2,211,454	2,792,534
Healthcare funds	9,886,252	12,529,889
Vocations	2,989,372	3,681,692
Youth Ministry	89,685	109,815
Total Endowments	<u>20,283,352</u>	<u>25,378,100</u>
Total	<u>\$ 21,962,274</u>	<u>\$ 26,647,897</u>

Net assets released from donor restrictions are as follows:

	<u>2022</u>	<u>2021</u>
Satisfaction of purpose restrictions:		
Catholic Community Services	\$ 288,808	\$
Cathedral Square	22,280	31,440
Endowments	1,091,008	955,258
Satisfaction of time restrictions:		
Annual Catholic Appeal	<u>3,779,164</u>	<u>3,744,080</u>
Total	<u>\$ 5,181,260</u>	<u>\$ 4,730,778</u>

CATHOLIC FOUNDATION FOR THE DIOCESE OF TUCSON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022

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 10.3 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 \$28,084 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 5.2 percent.

NOTE 9 – CUSTODIAL ACCOUNTS

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

	<u>2022</u>	<u>2021</u>
Parishes and missions	\$ 883,299	\$ 1,087,249
Schools and scholarships	6,088,706	7,602,710
Other agencies	<u>783,015</u>	<u>897,928</u>
Total custodial accounts	<u>\$ 7,755,020</u>	<u>\$ 9,587,887</u>

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, 2022 and 2021 were as follows:

	<u>2022</u>	<u>2021</u>
Total fees	\$ 530,042	\$ 550,341
Less service fees charged by third party on temporarily restricted investments	<u>(147,362)</u>	<u>(155,338)</u>
Net fees	<u>\$ 382,680</u>	<u>\$ 395,003</u>

CATHOLIC FOUNDATION FOR THE DIOCESE OF TUCSON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022

NOTE 10 – LEASES

Lessor Arrangements

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 the Cathedral Square Conference and Education Center to the Diocese of Tucson. The lease agreement expires on March 31, 2039, unless terminated sooner. Lease revenue 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:		
	2023	\$ 260,004
	2024	260,004
	2025	260,004
	2026	260,004
	2027	260,004
	Thereafter	<u>2,925,045</u>
	Total	<u>\$ 4,225,065</u>

Lessee Arrangements

The Foundation leases 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. Total operating lease expense for the fiscal year included \$92,869 recognized straight-line over the term of the leases.

The Foundation has not included the possibility of early termination in the calculation of the right-of-use asset and lease liabilities since the Foundation does not intend to terminate the lease before the expiration of the term. The Foundation has also determined that there were no nonlease components to be allocated to the leases. In determining the value of the right-of-use asset and lease liabilities, future lease payments were discounted applying the discount rate of five percent. The Foundation considers the discount rate to be an appropriate measure of the interest cost to obtain financing for the purchase of the leased property.

CATHOLIC FOUNDATION FOR THE DIOCESE OF TUCSON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022

NOTE 10 – LEASES

In addition, The Foundation has acquired a copier under the provisions of a lease agreement classified as a finance lease for accounting purposes. 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 property and equipment.

Interest expenses on the operating and finance leases payables were \$40,888 and \$181, respectively. Amortization of the right-of-use assets held under leases for the current fiscal year is included with depreciation expense. Right-of-use assets at year end and the related amortization expense for the year are as follows.

	<u>Operating</u>	<u>Finance</u>
Leased assets	\$ 834,611	\$ 6,828
Less: accumulated amortization	<u>(51,981)</u>	<u>(1,935)</u>
Leased assets, net	<u>\$ 782,630</u>	<u>\$ 4,893</u>
Amortization expense	\$ 51,981	\$ 1,366

The following table provides a schedule of future lease payments and other supplemental information for the Foundation’s operating and finance leases as of year end:

Year End:	<u>Operating</u>	<u>Finance</u>
2023	\$ 78,000	\$ 1,471
2024	78,000	1,473
2025	78,000	1,472
2026	78,000	1,227
2027	78,000	
Thereafter	<u>1,297,500</u>	
Total minimum lease payments	1,687,500	5,643
Less: discount to present value	<u>(890,001)</u>	<u>(317)</u>
Present value of lease liabilities	<u>\$ 797,499</u>	<u>\$ 5,326</u>
Weighted average remaining lease term	409 months	46 months
Weighted average discount rate	5.00%	7.25%

There were no noncash investing and financing transactions related to leasing other than the transition entry described in Note 1.

CATHOLIC FOUNDATION FOR THE DIOCESE OF TUCSON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022

NOTE 11 – LOAN PAYABLE

Description	2022	2021
The Foundation entered into a loan agreement with the Roman Catholic Church of the Diocese of Tucson on February 1, 2022. The \$1,350,000 loan is secured with the ground lease and Cathedral Square complex. The loan is a 7-year loan with a 5% annual interest rate. The loan proceeds were used to liquidate the loan with Catholic Order of Foresters.	\$ 1,212,891	
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

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

Year End:	Principal	Interest
2023	\$ 172,236	\$ 56,733
2024	181,048	47,921
2025	190,311	38,658
2026	200,048	28,922
2027	210,283	18,687
Thereafter	258,965	8,165
Total	\$ 1,212,891	\$ 199,086

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 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, 2022.

CATHOLIC FOUNDATION FOR THE DIOCESE OF TUCSON
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022

NOTE 12 – PENSION PLANS

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 \$19,817 for the year.

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 – Leases for additional information.

NOTE 15 – SUBSEQUENT EVENT

Subsequent events have been evaluated through **Report Date**, which is the date the financial statements were available to be issued.