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Certified Public Accountants
Certified Fraud Examiners
Certified Insolvency & Restructuring Advisors
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THE ROMAN CATHOLIC CHURCH
DIOCESE OF TUCSON,
A CORPORATION SOLE

AUDITED FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2019
(WITH SUMMARIZED COMPARATIVE TOTALS
FOR THE YEAR ENDED JUNE 30, 2018)

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INDEPENDENT AUDITOR'S REPORT

To the Bishop of Tucson
The Roman Catholic Church Diocese of Tucson, A Corporation Sole
Tucson, Arizona

Report on the Financial Statements

We have audited the accompanying financial statements of The Roman Catholic Church Diocese of Tucson, A Corporation Sole, (the "Organization") which comprise the balance sheets as of June 30, 2019 and 2018, and the related statements of cash flows and expenses by function and nature for the years then ended, the related statement of operations and changes in net assets for the year ended June 30, 2019, 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization'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 Organization'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.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of June 30, 2019 and 2018, and its cash flows for the years then ended, and the results of its operations for the year ended June 30, 2019, in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Organization's 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 24, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Keegan, Linscott & Kenon, PC

Tucson, Arizona
September 24, 2019

AUDITED FINANCIAL STATEMENTS

BALANCE SHEETS
AS OF JUNE 30,

	2019	2018
Assets		
Current assets		
Cash and cash equivalents	$ 997,534	$ 852,291
Accounts receivable, net	39,072	118,519
Contributions receivable, current portion	111,000	89,000
Investments	6,066,349	6,395,942
Prepaid expenses and other current assets	3,948	33,111
Custodial funds held for others	456,562	562,752
Total current assets	7,674,465	8,051,615
Contribution receivable	46,000	92,000
Beneficial interest in perpetual trust	1,361,339	1,409,266
Land, buildings and equipment, net	3,052,982	3,042,348
Total assets	$ 12,134,786	$ 12,595,229
Liabilities and Net Assets		
Current liabilities		
Accounts payable	$ 330,624	$ 39,760
Accrued expenses	238,562	1,024,297
Custodial funds held for others	456,562	562,752
Total current liabilities	1,025,748	1,626,809
Total liabilities	1,025,748	1,626,809
Net assets		
Without donor restrictions	5,689,270	5,019,226
With donor restrictions	5,419,768	5,949,194
Total net assets	11,109,038	10,968,420
Total liabilities and net assets	$ 12,134,786	$ 12,595,229

STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2019
(WITH COMPARATIVE SUMMARIZED TOTALS FOR THE YEAR ENDED JUNE 30, 2018)

	Without Donor Restrictions	With Donor Restrictions	Total 2019	Summarized Total 2018
Revenues and Support				
Annual Catholic Appeal Grant	$ 2,370,000	$ -	$ 2,370,000	$ 2,398,163
Chancery assessment	2,008,463	-	2,008,463	1,850,739
Fees for service	839,816	-	839,816	827,097
Investment income, net	438,697	142,501	581,198	595,706
Parish and school assistance assessment	344,295	-	344,295	369,956
Contributions, grants, and bequests	273,130	361,339	634,469	1,082,472
Program fees	212,307	-	212,307	225,994
Facilities rentals	68,301	-	68,301	50,484
Advertising revenue	36,795	-	36,795	40,445
Change in value of perpetual trust	-	(47,927)	(47,927)	26,099
Gain on disposal of equipment	803	-	803	-
Other revenues	934	57,912	58,846	55,613
Net assets released from restriction	1,043,251	(1,043,251)	-	-
Total revenues and support	7,636,792	(529,426)	7,107,366	7,522,768
Expenses and Losses				
Fiscal and employee services	1,279,567	-	1,279,567	1,218,238
Pastoral parish programs	1,038,043	-	1,038,043	1,054,499
General administration	982,012	-	982,012	713,584
Offices of the Bishop, Vicar General, Chancellor & Marriage Tribunal	861,253	-	861,253	1,015,715
Vocations, seminarians and other religious personnel	811,599	-	811,599	884,679
Parish assistance	519,700	-	519,700	544,618
Catholic schools administration	429,633	-	429,633	471,634
Property management	349,384	-	349,384	304,449
Catholic Vision and community relations	328,553	-	328,553	299,879
Office of child, adolescent, and adult protection	232,399	-	232,399	216,833
Archives	76,109	-	76,109	76,492
Depreciation	44,329	-	44,329	50,347
Bad debt expense	14,167	-	14,167	-
Total expenses and losses	6,966,748	-	6,966,748	6,850,967
Change in net assets	670,044	(529,426)	140,618	671,801
Net assets, beginning of year	5,019,226	5,949,194	10,968,420	10,296,619
Net assets, end of year	$ 5,689,270	$ 5,419,768	$ 11,109,038	$ 10,968,420

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30,

	2019	2018
Cash Flows from Operating Activities		
Change in net assets	$ 140,618	$ 671,801
Adjustments to reconcile change in net assets to net cash used in operating activities		
Gain on disposal of land, buildings and equipment	(803)	-
Forgiveness of debt	-	(70,442)
Depreciation	44,329	50,348
Net realized and unrealized gain on investments	(385,328)	(459,857)
Change in beneficial interest in perpetual trust	47,927	(26,099)
Changes in operating assets and liabilities		
Accounts receivable, net	79,447	(62,915)
Contribution receivable	24,000	(77,000)
Prepaid expenses and other current assets	29,163	5,896
Accounts payable	290,864	(96,576)
Accrued expenses	(785,735)	(20,107)
Net cash used in operating activities	(515,518)	(84,951)
Cash Flows from Investing Activities		
Purchases of land, buildings and equipment	(63,160)	(34,294)
Proceeds from sale of land, buildings and equipment	9,000	-
Net sales of investments	714,921	11,916
Net cash provided by (used in) investing activities	660,761	(22,378)
Net change in cash and cash equivalents	145,243	(107,329)
Cash and cash equivalents, beginning of year	852,291	959,620
Cash and cash equivalents, end of year	$ 997,534	$ 852,291
Supplemental Schedule of Non-Cash Investing and Financing Activities		
Forgiveness of debt	$ -	$ 70,442

STATEMENT OF EXPENSES BY FUNCTION AND NATURE
FOR THE YEAR ENDED JUNE 30, 2019

	Program Services	Supporting Services: Management and General	Supporting Services: Fundraising	Total
Salaries & wages	$ 2,778,886	$ 633,419	$ 12,891	$ 3,425,196
Seminarian support	502,862	-	-	502,862
Program, events & training	478,962	9,486	1,618	490,066
Licenses & fees	290,874	70,374	252	361,500
Software, equipment & supplies	134,011	34,460	1,724	170,195
Professional fees	119,953	164,926	-	284,879
Grants & subsidies	713,814	-	-	713,814
Occupancy	348,340	158,724	4,076	511,140
Travel, food, vehicles & housing	171,991	58,529	8,032	238,552
Insurance	83,991	21,770	115	105,876
Printing, postage and other administrative	95,924	7,681	567	104,172
Bad debt expense	-	14,167	-	14,167
Depreciation	36,350	7,536	443	44,329
Total expenses and losses	$ 5,755,958	$ 1,181,072	$ 29,718	$ 6,966,748

NOTES TO FINANCIAL STATEMENTS

1. Organization

The Roman Catholic Church Diocese of Tucson, A Corporation Sole (the "Diocese of Tucson", the "Diocese" or the "Organization") is a hierarchical religious organization governed by the Code of Canon Law of the Roman Catholic Church. Each office of the Diocese of Tucson performs specific functions in support of the Bishop's pastoral ministries and in support of the parishes and schools in the territory of the Diocese of Tucson. The offices include:

- Office of the Bishop
- Chancellor's Office
- Vocations
- Human Resources
- Fiscal Services
- Property and Insurance Services
- Communications
- Tribunal
- Formation
- Catechesis
- Evangelization
- Catholic Schools
- Catholic Social Mission

2. Significant Accounting Policies

Basis of Presentation

The Diocese of Tucson follows accounting standards set by the Financial Accounting Standards Board ("FASB"). The FASB sets accounting principles generally accepted in the United States of America ("U.S. GAAP") that the Organization follows to ensure the consistent reporting of its financial condition, changes in net assets and cash flows. References to U.S. GAAP issued by the FASB are to the FASB Accounting Standards Codification ("ASC").

The Diocese of Tucson's financial statements have been prepared in accordance with ASC 958, *Not-for-Profit Entities*. Under this authoritative guidance, the Organization is required to provide financial statements which are prepared to focus on the Organization as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions. Resources are reported for accounting purposes in separate classes of net assets based on the existence or absence of donor-imposed restrictions. In the accompanying financial statements, net assets that have similar characteristics have been combined into similar categories as follows:

- **Without Donor Restrictions** – Net assets that represent the portion of expendable funds, which are available for support of the Organization's operations and are not subject to donor-imposed restrictions. Net assets without donor restriction may be designated for specific purposes by action of the Bishop or may otherwise be limited by contractual agreements with outside parties.

- **With Donor Restrictions** – Net assets whose use by the Organization is subject to donor-imposed stipulations that can be fulfilled by actions of the Organization pursuant to those stipulations or that expire through the passage of time or must be maintained by the Organization permanently.

NOTES TO FINANCIAL STATEMENTS

Significant Accounting Policies (continued)

Basis of Presentation (continued)
Expenses are generally reported as decreases in net assets without donor restrictions. Expirations of donor-imposed stipulations that simultaneously increase one class of net assets and decrease another are reported as releases between the applicable classes of net assets. Contributions received with donor-imposed restrictions that are expended in the same period as the revenue is recognized are classified as net assets without donor restrictions.

Endowment Funds
The Organization has interpreted the "Management of Charitable Funds Act" (Arizona's version of the Uniform Prudent Management of Institutional Funds Act or "UPMIFA"), which underlies the Organization's net asset classification of donor-restricted endowment funds as requiring the preservation of the fair value of the original gift. As a result of this interpretation, the Organization classifies as net assets with donor restrictions (1) the original value of gifts donated to the endowment, (2) the original value of subsequent gifts to the endowment, and (3) accumulations to the 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 is classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by the law, at which time those amounts will be reported as net assets without donor restrictions.

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by the endowment funds. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity or for donor-specified periods. Under this policy, as approved by the Bishop and the Diocesan Finance Council, the endowment assets are invested in a balanced portfolio comprised of cash, certificates of deposit, fixed income securities, and equities. To satisfy its long-term objectives, the Organization 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) while assuming a moderate level of investment risk. The Organization targets an asset allocation of 65% equity securities and 35% fixed income securities to achieve its long-term return objectives within prudent risk constraints. The Organization expects its endowment funds, over time, to provide an average rate of return of approximately 6.0 percent annually. Actual returns in any given year may vary from that amount.

The Organization has a policy that permits spending from underwater endowment funds depending on the degree to which the fund is underwater, unless precluded by donor intent or relevant laws and regulations. The Organization did not spend from underwater endowment funds during the year.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or current law requires the Organization to retain for a fund of perpetual duration. In accordance with U.S. GAAP, deficiencies of this nature are reported in net assets with donor restrictions. There were no such deficiencies as of June 30, 2019 and 2018.

NOTES TO FINANCIAL STATEMENTS

Significant Accounting Policies (continued)

Cash and Cash Equivalents

Cash and cash equivalents consist primarily of cash deposits and highly liquid investments with an original maturity of three months or less. Cash and cash equivalents include short-term certificates of deposit and money market funds that are readily convertible into cash. These cash equivalents are stated at amortized cost-plus interest, which approximates fair value, and are considered Level 1 inputs in the fair value hierarchy.

The Organization places its cash and cash equivalents with high credit quality institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation ("FDIC") up to certain limits. At June 30, 2019 and 2018, the Organization had $570,172 and $360,706 in excess of FDIC insured limits, respectively. The Organization has not experienced any losses and does not believe it is exposed to any significant credit risk on cash balances. All such cash accounts are monitored by management to mitigate risk.

Accounts Receivable, Net

Accounts receivable consist principally of uncollateralized amounts due from parishes and schools in the territory of the Diocese of Tucson. The carrying amount of accounts receivable are reduced by a valuation allowance that reflects management's best estimate of amounts that will not be collected. The allowance for doubtful accounts is based on management's assessment of the collectability of specific accounts and the aging of receivables. All accounts or portions thereof deemed to be uncollectible are written off. Recoveries of receivables previously written off are recorded when received. Accounts receivable are presented net of an allowance for doubtful accounts of $65,240 and $75,665 as of June 30, 2019 and 2018, respectively.

Contributions Receivable

The Organization accounts for contributions to be made in future years as unconditional promises to give in the year the pledge is made. Contributions to be received after one year are presented at their discounted present value at a risk-adjusted rate. Amortization of the discount is recorded as additional contribution revenue in accordance with the donor-imposed restrictions, if any, on the contributions. As of June 30, 2019, and 2018 contributions receivable are considered fully collectible by management; therefore, no allowance for uncollectible amounts has been provided.

Investments

- **Debt and Equity Securities** – Investments are accounted for in accordance with ASC 958-320, *Investments - Debt and Equity Securities*. Investments in debt and equity securities are valued at their fair values in the accompanying balance sheets. Investment income, gains and losses are reported net of related investment fees in the statement of operations and changes in net assets as increases or decreases in net assets. Gains and investment income limited to specific uses by donor-imposed restrictions are reported as increases in net assets without donor restrictions if the restrictions are met in the same reporting period as the gains and income are recognized. Donated investments are recorded at fair value at the date of donation.

  The Organization invests in professionally managed portfolios that contain equity and fixed income securities. Such investments are exposed to various risks such as market and credit. Due to the level of risk associated with such investments and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term would materially affect investment balances and the amounts reported in the financial statements.

NOTES TO FINANCIAL STATEMENTS

Significant Accounting Policies (continued)

Investments (continued)

Investments are considered to be impaired when a decline in fair value is judged to be other-than-temporary. The Organization employs a systematic methodology on an annual basis that considers available quantitative and qualitative evidence in evaluating potential impairment of investments. If the cost of an investment exceeds its fair value, management evaluates, among other factors, general market conditions, the duration and extent to which the fair value is less than cost, and the intent and ability to hold the investment. The Organization also considers specific adverse conditions related to the financial health of and business outlook for the investee, including industry and sector performance, changes in technology, operational and financing cash flow factors, and rating agency actions. Once a decline in fair value is determined to be other-than-temporary, an impairment charge is recorded and a new cost basis in the investment is established.

Custodial Funds Held for Others

Custodial funds held for others represent amounts held by the Diocese that are earmarked to be distributed to specific parishes and/or other related Catholic entities and primarily consist of FDIC insured depository accounts. The fair value of these depository accounts approximates their carrying value and are considered Level 1 inputs in the fair value hierarchy. These funds are reported as assets and liabilities in the accompanying balance sheets.

Land, Buildings and Equipment, Net

Land, buildings and equipment are stated at cost if purchased, or fair value, if donated. Amortization of leasehold improvements is computed using the straight-line method over the shorter of the remaining lease term or the estimated useful lives of the improvements and is included in depreciation expense. Depreciation is calculated using the straight-line basis over the estimated useful lives of the related assets, which range from 3 to 40 years. Acquisitions of land, buildings and equipment and repairs or betterments that materially prolong the useful lives of assets in excess of $5,000 are capitalized. Repairs and maintenance for normal upkeep are charged to expense as incurred.

In accordance with ASC 360-10, *Property, Plant and Equipment*, the Organization periodically reviews the carrying value of long-lived assets held and used, and assets to be disposed of, for possible impairment when events and circumstances warrant such a review. For the years ended June 30, 2019 and 2018, the Organization had not experienced impairment losses on its long-lived assets.

Donated Goods, Property and Services

Contributions of donated non-cash assets including goods and property are recorded at their fair values on the date the asset is donated. Absent explicit donor stipulations, contributions of long-lived assets or cash or other assets to be used to acquire or construct long-lived assets are reported as net assets without donor restrictions when placed in service. Donated services are recognized in the financial statements at their fair value. Donated services are recognized when the services are received and (a) create or enhance non-financial assets, or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. During the year ended June 30, 2019, the Organization recognized no donated goods, property and services.

NOTES TO FINANCIAL STATEMENTS

Significant Accounting Policies (continued)

Income Taxes

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and is also exempt from state income taxes. Accordingly, no provision is made for income taxes in the accompanying financial statements. Furthermore, the Organization qualifies as a religious organization and is exempt from the Federal Form 990 and State Form 99 filing requirements.

Management evaluated the Organization's tax positions in accordance with the accounting standard on accounting for uncertainty in income taxes and concluded that the Organization had taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of the accounting standard. In addition, Management is not aware of any matters which would cause the Organization to lose its tax-exempt status.

Revenue Recognition

Contribution and grant revenue are recorded at the time the contribution, grant or unconditional promise is received, depending on the stipulations of the donor. Net assets released from restrictions (i.e., the donor-stipulated purpose has been met and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets in the statement of operations and changes in net assets. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met.

The Chancery and Parish and school assistance assessments are recognized as revenue at the time of the assessment. Fees for services and program service fees are recognized as revenue when the program or services are provided by the Organization.

Prior Year 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 U.S. GAAP. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2018, from which the summarized information was derived.

3. New Accounting Pronouncements

Adopted as of June 30, 2019

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The amendments in ASU 2016-14 change presentation and disclosure requirements for not-for-profit entities to provide more relevant information about their resources (and the changes in those resources) to donors, grantors, creditors, and other users. These include qualitative and quantitative requirements in the following areas: Net Asset Classes; Investment Return; Expenses; Liquidity and Availability of Resources; and Presentation of Operating Cash Flows. ASU 2016-14 is effective for not-for-profit organizations for annual financial statements issued for fiscal years beginning after December 15, 2017, and for interim periods within fiscal years beginning after December 15, 2018. Application to interim financial statements is permitted but not required in the initial year of application.

NOTES TO FINANCIAL STATEMENTS

Recent Accounting Pronouncements (continued)

Adopted as of June 30, 2019 (continued)

Early application of the amendments is permitted. The Organization adopted ASU 2016-14 during fiscal year 2018. The adoption of this ASU primarily affected the grouping and presentation of the Organization's net assets as either with or without donor restrictions, disclosure of policies and related activity for the Organization's net assets with donor restrictions, including donor-restricted endowment funds, disclosure of liquidity and availability of financial assets, and disclosure of an analysis of expenses by function and nature as well as the Organization's related policy in allocating expenses among program and supporting services. The Organization has elected the option to omit the analysis of expenses by function and nature for the period presented before the period of adoption (i.e., fiscal year 2018).

Not Yet Required to be Adopted as of June 30, 2019

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The amendments in this ASU affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards (e.g., insurance contracts or lease contracts). This ASU will supersede the revenue recognition requirements in ASC Topic 605, *Revenue Recognition*, and most industry-specific guidance, and creates Topic 606 *Revenue from Contracts with Customers*. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either the full retrospective or retrospective with cumulative effect transition method. Subsequent amendments have been issued for technical corrections (ASU No. 2016-20); narrow scope improvements and practical expedients (ASU No. 2016-12); identifying performance obligations and licensing arrangements (ASU No. 2016-10); and gross versus net revenue reporting (ASU No. 2016-08). ASU No. 2014-09 (and subsequent amendments) is effective for annual reporting periods beginning after December 15, 2018. Early adoption is permitted with certain restrictions. The Organization has not yet selected a transition method and is currently evaluating the effect that the standard will have on the financial statements and disclosures.

In June 2018, the FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendments clarify and improve the scope and accounting guidance around contributions of cash and other assets received and made by not-for-profit organizations and business enterprises. The ASU clarifies and improves current guidance in the revenue recognition and other applicable standards. It also provides a more robust framework for determining whether a contribution is conditional or unconditional, and for distinguishing a donor-imposed condition from a donor-imposed restriction. ASU 2018-08 is effective for annual reporting periods beginning after December 15, 2018, and interim periods with fiscal years beginning after December 15, 2019. Application to interim financial statements is permitted but not required in the initial year of application. Early application of the amendments is permitted. The Organization is currently evaluating the effect that implementation of the new standard will have on the financial statements and disclosures.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842).* The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in

NOTES TO FINANCIAL STATEMENTS

Recent Accounting Pronouncements (continued)

Not Yet Required to be Adopted as of June 30, 2018 (continued)

the income statement. In July 2019, the FASB voted to delay the effective date one year for private companies; consequently, the new standard is effective for fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. A modified retrospective transition approach is required (see ASU 2018-11 for optional transition method) for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available.

In July 2018, the FASB issued ASU No. 2018-11, *Leases (Topic 842): Targeted Improvements*. This ASU is intended to reduce costs and ease implementation of the leases standard for financial statement preparers. ASU 2018-11 provides a new transition method and a practical expedient for separating components of a contract. The amendments ASU 2018-11 provide entities with an additional (and optional) transition method to adopt the new leases standard. Under this new transition method, an entity initially applies the new leases standard at the adoption date and recognizes a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. Consequently, an entity's reporting for the comparative periods presented in the financial statements in which it adopts the new leases standard will continue to be in accordance with current U.S. GAAP in Topic 840, *Leases*. The amendments in ASU 2018-11 also provide lessors with a practical expedient, by class of underlying asset, to not separate nonlease components from the associated lease component and, instead, to account for those components as a single component if the nonlease components otherwise would be accounted for under the new revenue guidance (Topic 606). The effective date and transition requirements for the amendments in this update related to separating components of a contract are the same as the effective date and transition requirements in ASU 2016-02 (i.e., fiscal years beginning after December 15, 2020). All entities, including early adopters, that elect the practical expedient related to separating components of a contract in this ASU must apply the expedient, by class of underlying asset, to all existing lease transactions that qualify for the expedient at the date elected. The Organization is currently evaluating the effect these standards will have on the financial statements and disclosures.

In August 2018, the FASB has issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*. The ASU applies the provisions of recently released Chapter 8, "*Notes to Financial Statements*," of the FASB's *Conceptual Framework for Financial Reporting*, resulting in the removal, modification and addition of certain disclosure requirements. The ASU also clarifies that materiality is an appropriate consideration of entities and their auditors when evaluating disclosure requirements. The ASU is effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted. The Organization is currently evaluating the effect that the standard will have on the financial statements and disclosures.

NOTES TO FINANCIAL STATEMENTS

4. Liquidity and Availability of Resources

The following table shows a determination of the Organization's financial assets that are available to meet cash needs for general expenditures within one year as of June 30:

	2019	2018
Cash and cash equivalents	$ 997,534	$ 852,291
Accounts and contributions receivable	150,072	207,519
Investments (debt, equity, and other)	6,066,349	6,395,942
Total financial assets	7,213,955	7,455,752
Less amounts unavailable for general expenditure within one year, due to:		
Restricted by donor with purpose restrictions	1,005,522	1,627,117
Subject to appropriation and satisfaction of donor restrictions	4,414,246	4,322,077
Financial assets available to meet cash needs for general expenditures within one year	$ 1,794,187	$ 1,506,558

The Organization is substantially supported by an annual catholic appeal grant and a chancery assessment, which are relatively predictable. As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The Organization manages liquidity by maintaining adequate working capital and monitoring liquid assets on a monthly basis. In the event of financial distress, the Organization would be able to liquidate investments for short-term cash needs.

5. Contributions Receivable

Contributions receivable consists of the following as of June 30:

	2019	2018
Amounts expected to be collected:		
Less than one year	$ 111,000	$ 89,000
One to five years	46,000	92,000
Total	$ 157,000	$ 181,000

NOTES TO FINANCIAL STATEMENTS

6. Investments

Debt and equity investments consist of the following as of June 30:

	2019	2018
Restricted Investment Pool – Catholic Organization	$ 390,321	$ 390,541
Corporate bonds	202,670	218,527
Government sponsored entity bonds	377,667	351,364
Common stocks	4,572,773	4,181,962
Mutual funds – money market instruments	522,918	1,253,548
	$ 6,066,349	$ 6,395,942

Included in investment income, net:

	2019	2018
Interest and dividend income	$ 195,870	$ 135,849
Realized and unrealized gain (loss), net	385,328	459,857
	$ 581,198	$ 595,706

7. Fair Value Measurements

The Organization utilizes the fair value hierarchy required by ASC 820 which prioritizes the inputs to valuation techniques used to measure fair value into three levels:

Level 1: Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Organization has the ability to access at the measurement date.

Level 2: Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, directly or indirectly.

Level 3: Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The Organization defines active markets for equity instruments based on the average daily trading volume both in absolute terms and relative to the market capitalization for the instrument. The Organization defines active markets for debt instruments based on both the average daily trading volume and the number of days with trading activity.

The Organization's investments are classified within Level 1 or Level 2 of the fair value hierarchy because they are valued using readily determinable fair values or alternative pricing sources with reasonable levels of price transparency. The types of instruments valued based on readily determinable fair values in active markets include common stocks and mutual funds. Such instruments are classified within Level 1 of the fair value hierarchy. The types of instruments that trade in markets that are not considered to be active but are

NOTES TO FINANCIAL STATEMENTS

Fair Value Measurements (continued)

valued on alternative pricing sources with reasonable levels of price transparency include the Organization's corporate bonds and government sponsored entity bonds. Such instruments are classified within Level 2 of the fair value hierarchy.

The beneficial interest in the perpetual trust is classified within Level 3 of the fair value hierarchy due to the lack of a market in which the Organization's beneficial interest in the perpetual trust could be bought or sold. The fair value of the beneficial interest is measured using the fair value of the underlying assets (net asset value).

The following table represents the Organization's financial assets that are measured at fair value on a recurring basis as of June 30, 2019:

Description	6/30/2019	Level 1	Level 2	Level 3
Corporate bonds	$ 360,285	$ -	$ 360,285	$ -
Government sponsored entity bonds	411,450	-	411,450	-
Common stocks (a)	4,769,071	4,769,071	-	-
Mutual funds – money market instruments	525,543	525,543	-	-
Total before beneficial interest in perpetual trust	6,066,349	5,294,614	771,735	-
Beneficial interest in perpetual trust	1,361,339	-	-	1,361,339
Total	$ 7,427,688	$ 5,294,614	$ 771,735	$ 1,361,339

The following table presents reconciliations for all Level 3 assets measured at fair value for the year ended June 30, 2019:

Description	Beneficial Interest In Perpetual Trust	Total
Balance, July 1, 2018	$ 1,409,266	$ 1,409,266
Total realized/unrealized gains (losses) included in changes in net assets	(47,927)	(47,927)
Balance, June 30, 2019	$ 1,361,339	$ 1,361,339

NOTES TO FINANCIAL STATEMENTS

Fair Value Measurements (continued)

The following table represents the Organization's financial assets that are measured at fair value on a recurring basis as of June 30, 2018:

Description	6/30/2018	Level 1	Level 2	Level 3
Corporate bonds	$ 353,822	$ -	$ 353,822	$ -
Government sponsored entity bonds	392,975	-	392,975	-
Common stocks (a)	4,372,469	$ 4,372,469	-	-
Mutual funds – money market instruments	1,276,676	1,276,676	-	-
Total before beneficial Interest in perpetual trust	6,395,942	5,649,145	746,797	-
Beneficial interest in perpetual trust	1,409,266	-	-	1,409,266
Total	$ 7,805,208	$ 5,649,145	$ 746,797	$ 1,409,266

The following table presents reconciliations for all Level 3 assets measured at fair value for the year ended June 30, 2018:

Description	Beneficial Interest In Perpetual Trust	Total
Balance, July 1, 2017	$ 1,383,167	$ 1,383,167
Total realized/unrealized gains (losses) included in changes in net assets	26,099	26,099
Balance, June 30, 2018	$ 1,409,266	$ 1,409,266

(a) On the basis of its analysis of the nature, characteristics, and risks of the investments, the Organization has determined that presenting common stocks as a single class is appropriate.

There were no financial assets or liabilities measured at fair value on a nonrecurring basis for the year ended June 30, 2019.

NOTES TO FINANCIAL STATEMENTS

Fair Value Measurements (continued)

The following table presents the Organization's financial assets and liabilities that are measured at fair value on a nonrecurring basis as of and for the year ended June 30, 2018:

Description	6/30/2018	Level 1	Level 2	Level 3	Total Revenue For the Year Ended 6/30/2018
Initially recognized Contributions receivable, net	$ 138,000	$ -	$ -	$ 138,000	$ 138,000
	$ 138,000	$ -	$ -	$ 138,000	$ 138,000

The Organization's long-term contributions receivable are classified within Level 3 of the fair value hierarchy because the inputs are unobservable and are generated by the Organization itself, using the Organization's own data. The fair value of the contributions receivable is measured using the income approach valuation technique. The key inputs for the fair value measurements of the Organization's contributions receivable are the schedule of expected future cash flows for each contribution and the discount rate used to convert the expected future cash flows associated with the contributions to a present value amount per the income approach. The determined discount rate is developed based on the notion of an exit price, the price that would be received to sell the asset in the most advantageous market. Only the current year's additions to contributions receivable are included in the fair value hierarchy nonrecurring basis table because the Organization's contributions receivable involved fair value measurement only upon initial recognition.

Reconciliation of initially recognized contributions receivable, which are included in fair value hierarchy, to total contributions receivable in the statements of financial position is as follows:

	2019	2018
Initially recognized contributions receivable, net	$ -	$ 138,000
Contributions receivable, (net) recognized in prior years	157,000	43,000
Total	$ 157,000	$ 181,000

8. Beneficial Interest in Perpetual Trust

The Diocese of Tucson is the sole beneficiary of a perpetual trust held by a third party. In accordance with ASC 958-605, *Not-for-Profit Entities – Revenue Recognition*, the Diocese of Tucson measures the fair value of beneficial interest in perpetual trust using the fair value of the underlying assets. Subsequent changes in the fair value of the underlying assets are reported in permanently restricted revenue and support as a change in value of perpetual trust in the accompanying statement of operations and changes in net assets. Distributions received from the trust are recorded as investment income without donor restrictions. The fair value of the beneficial interest in perpetual trust totaled $1,361,339 and $1,409,266 as of June 30, 2019 and 2018, respectively. The change in value of the perpetual trust resulted in a loss of $47,927 and a gain of $26,099 for the years ended June 30, 2019 and 2018, respectively.

NOTES TO FINANCIAL STATEMENTS

9. Land, Buildings and Equipment, Net

Land, buildings and equipment consist of the following as of June 30:

	2019	2018
Land	$ 7,200	$ 7,200
Buildings and improvements	188,450	158,541
Property	2,750,000	2,750,000
Furniture and equipment	99,033	113,388
Vehicles	16,594	16,594
Leasehold improvements	414,846	414,846
Software	27,852	27,852
	3,503,975	3,488,421
Less accumulated depreciation	(450,993)	(446,073)
	$ 3,052,982	$ 3,042,348

10. Note Payable

The Diocese of Tucson had an unsecured note payable due to a parish which was to be forgiven in annual installments equal to the expenses incurred by sponsored seminarians. During fiscal years 2019 and 2018, the parish forgave $0 and $70,442, respectively, of the note payable. This debt forgiveness has been recognized as contribution revenue in the accompanying statement of operations and changes in net assets. There was no outstanding balance on the note payable as of June 30, 2019 and 2018.

11. Net Assets With Donor Restrictions

Net assets with donor restrictions were restricted for the following purposes as of June 30:

	2019	2018
Subject to expenditure for specified purpose		
Seminarians/Diaconate	$ 155,346	$ 156,640
Retired religious women	74,160	74,160
Indian missions	232,021	173,094
Evangelization	113,884	128,230
Formation programs	156,881	205,183
Catholic school's administration	55,063	63,029
Renovation projects	-	542,395
Safe environment	106,585	126,891
Other miscellaneous programs	111,582	157,495
	$ 1,005,522	$ 1,627,117

NOTES TO FINANCIAL STATEMENTS

Net Assets With Donor Restrictions (continued)

	2019	2018
Subject to spending policy and appropriation		
Original donor-restricted endowment gift amount and amounts required to be maintained by donor		
Seminarian Education	$ 1,327,846	$ 1,324,726
Endowed Care – Regina Cleri	605,394	605,394
Scholarship assistance	80,095	80,095
Mass Organizations	73,428	73,428
Priest and seminarian formation	58,441	58,441
Catholic Organization Hughes Vision Diocesan newspaper	150,000	150,000
Catholic Organization Catholic Schools – general funds for Catholic School Department	85,023	85,023
Unappropriated earnings from endowment funds	672,680	535,704
	3,052,907	2,912,811
Beneficial interest in perpetual trust	1,361,339	1,409,266
	4,414,246	4,322,077
Total net assets with donor restrictions	$ 5,419,768	$ 5,949,194

12. Donor-Restricted Endowment Funds

Changes in endowment net assets for the year ended June 30, 2019:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, June 30, 2018	$ -	$ 2,912,811	$ 2,912,811
Investment return			
Investment income	-	60,381	60,381
Net appreciation	-	103,042	103,042
Total investment return	-	163,423	163,423
Contributions	-	3,121	3,121
Appropriation of endowment funds for expenditure	(26,448)	-	(26,448)
Transfers between funds	26,448	(26,448)	-
Endowment net assets, June 30, 2019	$ -	$ 3,052,907	$ 3,052,907

NOTES TO FINANCIAL STATEMENTS

Donor Restricted Endowment Funds (continued)

Changes in endowment net assets for the year ended June 30, 2018:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, June 30, 2017	$ -	$ 2,788,922	$ 2,788,922
Investment return			
Investment income	-	48,468	48,468
Net appreciation	-	238,273	238,273
Total investment return	-	286,741	286,741
Contributions	-	4,680	4,680
Appropriation of endowment funds for expenditure	(167,532)	-	(167,532)
Transfers between funds	167,532	(167,532)	-
Endowment net assets, June 30, 2018	$ -	$ 2,912,811	$ 2,912,811

Net assets with donor restrictions are included in cash and cash equivalents, and investments in the accompanying balance sheets.

13. Methods Used for Allocation of Expenses Among Program and Supporting Services

The financial statements report certain categories of expenses that are attributable to one or more program or supporting services of the Organization. Salaries, wages and fringe costs are allocated based on direct and indirect activity of the employee, allocable by hours worked. Travel expenses are charged to programs as applicable and allowable. Occupancy and utilities are allocated on a square footage basis.

14. Retirement Plans

Lay Employees' Pension Plan

The Diocese of Tucson participates in a non-contributory multi-employer defined benefit pension plan. The plan was established July 1, 1983 and covers all eligible lay employees of the Diocese of Tucson and participating Catholic entities. There are no separate valuations of plan benefits or segregation of plan assets specifically for the Diocese of Tucson. Information is not available from the plan to allow the Organization to determine its share of contributions for the years ended June 30, 2019 and 2018; however, the amounts are not significant when compared to the financial statements. The risks of participating in this multi-employer plan are different from single-employer plans in the following aspects:

- Assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of other participating employers.
- If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.

NOTES TO FINANCIAL STATEMENTS

Retirement Plans (continued)

Lay Employees' Pension Plan (continued)

- If the Diocese of Tucson chooses to stop participating in the multi-employer plan, it may be required to pay the plan an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

The portion of the projected benefit obligation, plan assets, and unfunded liability of the multi-employer pension plan is not material to the financial position of the Diocese of Tucson; however, the failure of participating employers to remain solvent could affect the Diocese's portion of the plan's unfunded liability. Based on the most recent actuarial information from December of 2017, the plan is slightly under 80% funded and is considered to be in the "yellow zone" according to the Pension Protection Act of 2006. This percentage is an estimate and is subject to change based upon future actuarial evaluations. The plan was frozen to new participants as of December 31, 2006 and will be frozen to all participants effective January 1, 2020. The Organization plans to move all employees to the 403(b) plan.

403(b) Plans

On March 1, 2003, the Diocese of Tucson adopted a 403(b)-qualified defined contribution plan. This is a multi-employer plan that covers all eligible lay employees of the Diocese of Tucson and participating Catholic entities. Employees are eligible for plan participation on their date of hire and contribute to the plan through salary deferrals. Employees are eligible to receive employer contributions upon completion of two years of continuous service. Employer contributions are equal to 25% of the employee's contribution up to a maximum of $1,000 annually. Employees are 100% vested in employee and employer contributions at all times. Participation in this plan is limited to employees hired prior to December 31, 2006.

Effective January 1, 2007, the Diocese of Tucson adopted a new 403(b) qualified defined contribution plan for employees hired subsequent to December 31, 2006. This is a multi-employer plan that covers all eligible lay employees of the Diocese of Tucson and participating Catholic entities. Employees are eligible for plan participation on their date of hire and may contribute to the plan through salary deferrals. Employees that have completed two years of service are eligible for a discretionary employer matching contribution up to a maximum of $1,000 annually. Non-matching employer contributions are also discretionary. Employees are 100% vested in employee and employer contributions at all times. For the years ended June 30, 2019 and 2018 a matching contribution of 25% was contributed to eligible employees totaling $117,983 and $112,538, respectively.

NOTES TO FINANCIAL STATEMENTS

15. Commitments and Contingencies

Operating Leases

The Organization leases property and equipment under various non-cancelable operating leases with an aggregate monthly payment of $25,692. Of that amount, $21,667 is due to a related party. The leases expire at various times through March 2039. The following is a summary of future minimum lease payments under non-cancelable operating leases as of June 30, 2019:

Year Ending	Amount
2020	$ 304,010
2021	287,727
2022	268,650
2023	263,578
2024	263,280

Total rent expense for the years ended June 30, 2019 and 2018 totaled $374,413 and $315,246, respectively.

Guarantees

The Bishop has guaranteed the debt of the following separately incorporated entities: Our Lady of Grace Parish, Our Lady of Fatima, St Helen Parish, St Mark the Evangelist Parish, St Odilia Parish, St Pius Parish, St John Neumann Parish, St Michael the Archangel Parish, San Felipe de Jesus Parish, and Corpus Christi Parish. Guaranteed debt outstanding as of June 30, 2019 and 2018 is approximately $10.8 million and $12.3 million, respectively. The Organization believes the likelihood of having to make payments under the guarantee is remote and no liabilities are recorded as of June 30, 2019 and 2018 in the accompanying financial statements.

16. Evaluation of Subsequent Events

The Organization evaluated subsequent events through September 24, 2019, the date these financial statements were available to be issued and noted no material subsequent events that required recognition or additional disclosure in these financial statements.