Keegan, Linscott & Kenon, PC
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, 2018
(WITH SUMMARIZED COMPARATIVE TOTALS
FOR THE YEAR ENDED JUNE 30, 2017)

TABLE OF CONTENTS

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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, 2018 and 2017, and the related statements of cash flows for the years then ended, the related statement of operations and changes in net assets for the year ended June 30, 2018, 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, 2018 and 2017, and its cash flows for the years then ended, and the results of its operations for the year ended June 30, 2018, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 3 to the financial statements, the 2017 financial statements have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited the Organization's 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 29, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Keegan, Linscott & Kenon, PC

Tucson, Arizona
October 24, 2018

AUDITED FINANCIAL STATEMENTS

BALANCE SHEETS
AS OF JUNE 30,

	2018	2017
Assets		
Current assets		
Cash and cash equivalents	$ 852,291	$ 959,620
Accounts receivable, net	118,519	55,604
Contributions receivable, current portion	89,000	104,000
Investments	6,395,942	5,948,001
Prepaid expenses and other current assets	33,111	39,007
Custodial funds held for others	562,752	383,059
Total current assets	8,051,615	7,489,291
Contribution receivable	92,000	-
Beneficial interest in perpetual trust	1,409,266	1,383,167
Land, buildings and equipment, net	3,042,348	3,058,402
Total assets	$ 12,595,229	$ 11,930,860
Liabilities and Net Assets		
Current liabilities		
Accounts payable	$ 39,760	$ 136,336
Accrued expenses	1,024,297	1,044,404
Custodial funds held for others	562,752	383,059
Note payable	-	70,442
Total current liabilities	1,626,809	1,634,241
Total liabilities	1,626,809	1,634,241
Unrestricted net assets	5,019,226	4,621,872
Temporarily restricted net assets	2,162,821	1,919,153
Permanently restricted net assets	3,786,373	3,755,594
Total net assets	10,968,420	10,296,619
Total liabilities and net assets	$ 12,595,229	$ 11,930,860

STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2018
(WITH COMPARATIVE SUMMARIZED TOTALS FOR THE YEAR ENDED JUNE 30, 2017)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2018	Summarized Total 2017
Revenues and Support					
Annual Catholic Appeal Grant	$ 2,398,163	$ -	$ -	$ 2,398,163	$ 2,285,000
Chancery assessment	1,850,739	-	-	1,850,739	1,791,564
Parish and school assistance assessment	369,956	-	-	369,956	351,216
Contributions, grants, and bequests	542,815	534,977	4,680	1,082,472	1,118,577
Advertising revenue	40,445	-	-	40,445	42,729
Fees for service	827,097	-	-	827,097	704,610
Change in value of perpetual trust	-	-	26,099	26,099	61,739
Facilities rentals	50,484	-	-	50,484	50,470
Program fees	225,994	-	-	225,994	153,984
Investment income, net	337,546	258,160	-	595,706	678,030
Other revenues	27,849	27,764	-	55,613	14,467
Net assets released from restriction	577,233	(577,233)	-	-	-
Total revenues and support	7,248,321	243,668	30,779	7,522,768	7,252,386
Expenses and Losses					
Program services					
Vocations, seminarians and other religious personnel	848,995	-	-	848,995	949,596
Vicar for Women Religious	35,684	-	-	35,684	31,769
Pastoral parish programs	1,015,817	-	-	1,015,817	1,000,689
Catholic schools administration	471,634	-	-	471,634	491,359
Parish assistance	544,618	-	-	544,618	582,307
Catholic social missions	38,682	-	-	38,682	30,031
Archives	76,492	-	-	76,492	74,859
Supporting services					
Offices of the Bishop, Vicar General, Chancellor & Marriage Tribunal	1,015,715	-	-	1,015,715	786,823
Office of child, adolescent, and adult protection	216,833	-	-	216,833	189,878
General administration	713,584	-	-	713,584	931,038
Fiscal and employee services	1,218,238	-	-	1,218,238	1,276,444
Catholic Vision and community relations	299,879	-	-	299,879	315,137
Property management	304,449	-	-	304,449	263,190
Interest expense	-	-	-	-	7,500
Depreciation	50,347	-	-	50,347	55,336
Bad debt expense	-	-	-	-	70,053
Total expenses and losses	6,850,967	-	-	6,850,967	7,056,009
Change in net assets	397,354	243,668	30,779	671,801	196,377
Net assets, beginning of year	4,621,872	1,919,153	3,755,594	10,296,619	10,100,242
Net assets, end of year	$ 5,019,226	$ 2,162,821	$ 3,786,373	$ 10,968,420	$ 10,296,619

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30,

	2018	2017
Cash Flows from Operating Activities		
Change in net assets	$ 671,801	$ 196,377
Adjustments to reconcile change in net assets to net cash used in operating activities		
Loss on disposal of land, buildings and equipment	-	4,266
Forgiveness of debt	(70,442)	(383,094)
Depreciation	50,348	55,336
Net realized and unrealized (gain) loss on investments	(459,857)	(538,896)
Change in beneficial interest in perpetual trust	(26,099)	(61,739)
Changes in operating assets and liabilities		
Accounts receivable, net	(62,915)	58,276
Contribution receivable	(77,000)	160,581
Prepaid expenses and other current assets	5,896	32,591
Accounts payable	(96,576)	35,113
Accrued expenses	(20,107)	(322,292)
Net cash used in operating activities	(84,951)	(763,481)
Cash Flows from Investing Activities		
Purchases of land, buildings and equipment	(34,294)	-
Net sales of investments	11,916	913,507
Net cash (used in) provided by investing activities	(22,378)	913,507
Cash Flows from Financing Activities		
Repayment of notes payable	-	(2,203)
Net cash used in financing activities	-	(2,203)
Net change in cash and cash equivalents	(107,329)	147,823
Cash and cash equivalents, beginning of year	959,620	811,797
Cash and cash equivalents, end of year	$ 852,291	$ 959,620
Supplemental Disclosure of Cash Flow Information		
Cash paid during the year for interest	$ -	$ 7,976
Supplemental Schedule of Non-Cash Investing and Financing Activities		
Forgiveness of debt	$ 70,442	$ 383,094

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:

- **Unrestricted** – Net assets that are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Bishop or may otherwise be limited by contractual agreements with outside parties. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor.

- **Temporarily Restricted** – 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. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted support. However, if a restriction is fulfilled in the same time period in which the contribution is received, the Organization reports the support as unrestricted.

NOTES TO FINANCIAL STATEMENTS

Significant Accounting Policies (continued)

Basis of Presentation (continued)

- **Permanently Restricted** – Net assets that are subject to donor-imposed stipulations such that assets must be maintained permanently by the Organization. The donors of these assets permit the Organization to use all investment returns of these assets in support of the Diocese's ministries and mission.

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 permanently restricted net assets (1) the original value of gifts donated to the permanent endowment, (2) the original value of subsequent gifts to the permanent endowment, and (3) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by the law.

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 a diversified asset allocation that places more emphasis on fixed income securities than equity 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 6.5 percent annually. Actual returns in any given year may vary from that amount.

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 unrestricted net assets. There were no such deficiencies as of June 30, 2018 and 2017.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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, 2018 and 2017, the Organization had $360,706 and $607,076 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 $75,665 and $104,460 as of June 30, 2018 and 2017, 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, 2018, and 2017 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 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 unrestricted net assets 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.

NOTES TO FINANCIAL STATEMENTS

Significant Accounting Policies (continued)

Investments (continued)

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. 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, 2018 and 2017, the Organization had not experienced impairment losses on its long-lived assets.

Donated Property and Equipment

Donations of property and equipment are recorded at their estimated fair value at the date of donation. Such donations are reported as unrestricted support 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 restricted support. The Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service or as instructed by the donor.

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 is recorded as temporarily restricted or unrestricted revenue 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 are recognized as revenue when the 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, 2017, from which the summarized information was derived.

Functional Allocation of Expenses
The costs of providing various program and supporting activities which can be identified with a specific activity have been summarized on a functional basis in the statement of operations and changes in net assets. Accordingly, certain common costs have been allocated among the programs and supporting services benefited by other reasonable methods.

3. Restatement of Prior Year Information

During 2018, management determined it was necessary to record a beneficial interest in a perpetual trust resulting from an agreement first executed in 1955 and most recently amended in 1968. The distributions of income received from the trust were previously recorded, but not the fair value of the perpetual trust or the change in the fair value of perpetual trust. To correct this error, the fiscal year ended 2017 financial statements were restated. The restatement resulted in a $1,383,167 increase to total assets and permanently restricted net assets as of June 30, 2017. In addition, there was a $61,739 increase to the change in net assets for the year ended June 30, 2017 to reflect the change in the fair value of the beneficial interest in the perpetual trust.

NOTES TO FINANCIAL STATEMENTS

Restatement of Prior Year Information (continued)

The components of the restated June 30, 2017 permanently restricted net asset balance are as follows:

Permanently restricted net assets as of June 30, 2017, as previously stated	$ 2,372,427
Effect of June 30, 2016 fair value of the beneficial interest in perpetual trust	1,321,428
Effect of fiscal year 2017 change in fair value of perpetual trust	61,739
Permanently restricted net assets as of June 30, 2017, as restated	$ 3,755,594

The components of the restated June 30, 2017 beneficial interest in perpetual trust are as follows:

Effect of June 30,2016 fair value of the beneficial interest in perpetual t trust	$ 1,321,428
Effect of fiscal year 2017 change in fair value of perpetual trust	61,739
Beneficial interest in perpetual trust as of June 30, 2017, as restated	$ 1,383,167

The components of the restated change in net assets for the year ended June 30, 2017 are as follows:

Change in net assets for the year ended June 30, 2017, as previously reported	$ 134,638
Effect of fiscal year 2017 change in fair value of perpetual trust	61,739
Change in net assets for the year ended June 30, 2017, as restated	$ 196,377

4. New Accounting Pronouncements

Not Adopted as of June 30, 2018

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.

NOTES TO FINANCIAL STATEMENTS

New Accounting Pronouncements (continued)

Not Adopted as of June 30, 2018 (continued)

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 the statement of operations and changes in net assets. The new standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. A modified retrospective transition approach is required (See ASU No. 2018-11 below 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. The Organization is currently evaluating the effect this standard will have on the financial statements and disclosures.

In July 2018, the FASB has 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 in 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 non-lease components from the associated lease component and, instead, to account for those components as a single component if the non-lease 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 the ASU No. 2016-02 (i.e., fiscal years beginning after December 15, 2019). All entities, including early adopters, that elect the practical expedient related to separating components of a contract in the ASU must apply the expedient, by class of underlying asset, to all existing lease transactions that qualify for the expedient at the date elected.

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 No. 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 No. 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. 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.

NOTES TO FINANCIAL STATEMENTS

New Accounting Pronouncements (continued)

Not Adopted as of June 30, 2018 (continued)

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 not-for-profit organizations for annual financial statements issued for fiscal years 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 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.

5. Contributions Receivable

Contributions receivable consists of the following as of June 30:

	2018	2017
Amounts expected to be collected:		
Less than one year	$ 89,000	$ 104,000
One to five years	92,000	-
Total	$ 181,000	$ 104,000

NOTES TO FINANCIAL STATEMENTS

6. Investments

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

	2018	2017
Restricted Investment Pool – Catholic Foundation	$ 390,541	$ 385,502
Corporate bonds	218,527	227,482
Government sponsored entity bonds	351,364	362,183
Common stocks	4,181,962	3,738,988
Mutual funds – money market instruments	1,253,548	1,233,846
	$ 6,395,942	$ 5,948,001

Included in investment income:

	2018	2017
Interest and dividend income	$ 135,849	$ 139,134
Realized and unrealized gain (loss), net	459,857	538,896
	$ 595,706	$ 678,030

Investment income in the statement of operations and changes in net assets is presented net of fees paid to investment advisers. Those fees were $44,242 and $36,642 in 2018 and 2017, respectively.

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

NOTES TO FINANCIAL STATEMENTS

Fair Value Measurements (continued)

value hierarchy. The types of instruments that trade in markets that are not considered to be active but are 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, 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	-	-
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

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, 2017:

Description	6/30/2017	Level 1	Level 2	Level 3
Corporate bonds	$ 358,644	$ -	$ 358,644	$ -
Government sponsored entity bonds	371,963	-	371,963	-
Common stocks (a)	3,952,685	3,952,685	-	-
Mutual funds – money market instruments	1,264,709	1,264,709	-	-
Beneficial interest in perpetual trust	1,383,167	-	-	1,383,167
Total	$ 7,331,168	$ 5,217,394	$ 730,607	$ 1,383,167

The following table presents reconciliations for all Level 3 assets measured at fair value for the year ended June 30, 2017:

Description	Beneficial Interest In Perpetual Trust	Total
Balance, July 1, 2016	$ 1,321,428	$ 1,321,428
Total realized/unrealized gains (losses) included in changes in net assets	61,739	61,739
Balance, June 30, 2017	$ 1,383,167	$ 1,383,167

(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.

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

NOTES TO FINANCIAL STATEMENTS

Fair Value Measurements (continued)

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:

	2018	2017
Initially recognized contributions receivable, net	$ 138,000	$ -
Contributions receivable, (net) recognized in prior years	43,000	104,000
Total	$ 181,000	$ 104,000

There were no financial assets or liabilities measured at fair value on a nonrecurring basis for the year ended June 30, 2017.

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 unrestricted investment income. The fair value of the beneficial interest in perpetual trust totaled $1,409,266 and $1,383,167 as of June 30, 2018 and 2017, respectively. The change in value of the perpetual trust for the years ended June 30, 2018 and 2017 totaled $26,099 and $61,739, respectively.

NOTES TO FINANCIAL STATEMENTS

9. Land, Buildings and Equipment, Net

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

	2018	2017
Land	$ 7,200	$ 7,200
Buildings and improvements	158,541	140,841
Property	2,750,000	2,750,000
Furniture and equipment	113,388	187,800
Vehicles	16,594	-
Leasehold improvements	414,846	417,396
Software	27,852	27,852
	3,488,421	3,531,089
Less accumulated depreciation	(446,073)	(472,687)
	$ 3,042,348	$ 3,058,402

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 2018 and 2017, the parish forgave $70,442 and $383,094, respectively, of the note payable. This debt forgiveness has been recognized as unrestricted contribution revenue in the accompanying statement of operations and changes in net assets. The amount outstanding to the parish totaled $0 and $70,442 as of June 30, 2018 and 2017, respectively.

11. Temporarily Restricted Net Assets

Temporarily restricted net assets were restricted for the following purposes as of June 30:

	2018	2017
Seminarians/Diaconate	$ 156,640	$ 173,368
Retired religious women	74,160	74,160
Indian missions	173,094	177,918
Evangelization	128,230	131,409
Formation programs	205,183	136,072
Catholic school's administration	63,029	65,873
Renovation projects	542,395	542,395
Unappropriated earnings from endowment funds	535,704	416,495
Safe environment	126,891	-
Other miscellaneous programs	157,495	201,463
	$ 2,162,821	$ 1,919,153

NOTES TO FINANCIAL STATEMENTS

12. Permanently Restricted Net Assets

Permanently restricted net assets consist of the following as of June 30:

	2018	2017
Endowment Funds	2,377,107	2,372,427
Beneficial interest in perpetual trust	1,409,266	1,383,167
	$ 3,786,373	$ 3,755,594

13. Endowment Funds

Endowment net assets consist of the following as of June 30:

	2018	2017
Seminarian Education	$ 1,324,726	$ 1,320,046
Endowed Care – Regina Cleri	605,394	605,394
Scholarship assistance	80,095	80,095
Mass foundations	73,428	73,428
Priest and seminarian formation	58,441	58,441
Catholic Foundation Hughes Vision Diocesan newspaper	150,000	150,000
Catholic Foundation Catholic Schools - general funds for Catholic School Department	85,023	85,023
	$ 2,377,107	$ 2,372,427

Endowment net asset composition by type of fund as of June 30, 2018:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 535,704	$ 2,377,107	$ 2,912,811
Total funds	$ -	$ 535,704	$ 2,377,107	$ 2,912,811

NOTES TO FINANCIAL STATEMENTS

Endowment Funds (continued)

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, June 30, 2017	$ -	$ 416,495	$ 2,372,427	$ 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	$ -	$ 535,704	$ 2,377,107	$ 2,912,811

Endowment net asset composition by type of fund as of June 30, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 416,495	$ 2,372,427	$ 2,788,922
Total funds	$ -	$ 416,495	$ 2,372,427	$ 2,788,922

Changes in endowment net assets for the year ended June 30, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, June 30, 2016	$ -	$ 303,578	$ 2,366,322	$ 2,669,900
Investment return:				
Investment income	-	47,376	-	47,376
Net appreciation	-	272,025	-	272,025
Total investment return	-	319,401	-	319,401
Contributions	-	-	6,105	6,105
Appropriation of endowment funds for expenditure	(206,484)	-	-	(206,484)
Transfers between funds	206,484	(206,484)	-	-
Endowment net assets, June 30, 2017	$ -	$ 416,495	$ 2,372,427	$ 2,788,922

Permanently restricted net assets are included in cash and cash equivalents, and investments in the accompanying balance sheets.

NOTES TO FINANCIAL STATEMENTS

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, 2018 and 2017; 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.
- 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.

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, 2018 and 2017 a matching contribution of 25% was contributed to eligible employees totaling $112,538 and $109,364.

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 $26,286. The leases expire at various times through May 2023. The following is a summary of future minimum lease payments under non-cancelable operating leases as of June 30, 2018:

Year Ending	Amount
2019	$ 234,079
2020	36,079
2021	21,293
2022	3,288
2023	3,014

Total rent expense for the years ended June 30, 2018 and 2017 totaled $315,246 and $326,321, 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 and Corpus Christi Parish. Guaranteed debt outstanding as of June 30, 2018 and 2017 is approximately $12,296,069 and $14,859,800, 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, 2018 and 2017 in the accompanying financial statements.

16. Evaluation of Subsequent Events

The Organization evaluated subsequent events through October 24, 2018, 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.