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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, 2016
(WITH SUMMARIZED COMPARATIVE TOTALS
FOR THE YEAR ENDED JUNE 30, 2015)

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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, 2016 and 2015, 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, 2016, 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 of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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, 2016 and 2015, and its cash flows for the years then ended, and the results of its operations for the year ended June 30, 2016, 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 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 20, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Keegan, Linscott & Kenon, PC

Tucson, Arizona
October 25, 2016

# AUDITED FINANCIAL STATEMENTS

# BALANCE SHEETS
## AS OF JUNE 30,

| | 2016 | 2015 |
|---|---|---|
| **Assets** | | |
| Current assets | | |
| Cash and cash equivalents | $ 811,797 | $ 1,643,689 |
| Accounts receivable, net | 113,880 | 62,813 |
| Contribution receivable | 264,581 | 97,500 |
| Other receivables | - | 3,327 |
| Investments | | |
| Debt and equity securities | 5,361,365 | 5,358,334 |
| Other | 961,247 | 784,993 |
| Prepaid expenses and other current assets | 71,598 | 19,495 |
| Custodial funds held for others | 418,474 | 409,796 |
| Total current assets | 8,002,942 | 8,379,947 |
| Land, buildings and equipment, net | 3,118,004 | 3,138,178 |
| Total assets | $ 11,120,946 | $ 11,518,125 |
| **Liabilities and Net Assets** | | |
| Current liabilities | | |
| Accounts payable | $ 101,223 | $ 385,949 |
| Accrued expenses | 1,366,696 | 277,268 |
| Custodial funds held for others | 418,474 | 409,796 |
| Notes payable, current portion | 87,500 | 80,973 |
| Total current liabilities | 1,973,893 | 1,153,986 |
| Notes payable | 368,239 | 1,103,311 |
| Total liabilities | 2,342,132 | 2,257,297 |
| Unrestricted net assets | 4,407,998 | 5,239,595 |
| Temporarily restricted net assets | 2,004,494 | 1,659,591 |
| Permanently restricted net assets | 2,366,322 | 2,361,642 |
| | 8,778,814 | 9,260,828 |
| Total liabilities and net assets | $ 11,120,946 | $ 11,518,125 |

# STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS
## FOR THE YEAR ENDED JUNE 30, 2016
## (WITH COMPARATIVE SUMMARIZED TOTALS FOR THE YEAR ENDED JUNE 30, 2015)

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total 2016 | Summarized Total 2015 |
|---|---|---|---|---|---|
| **Revenues and Support** | | | | | |
| Annual Catholic Appeal Grant | $ 2,285,000 | $ - | $ - | $ 2,285,000 | $ 2,050,000 |
| Chancery assessment | 1,891,183 | - | - | 1,891,183 | 1,848,899 |
| Parish and school assistance assessment | 350,004 | - | - | 350,004 | 347,815 |
| Contributions, grants, and bequests | 452,018 | 1,293,247 | 4,680 | 1,749,945 | 908,602 |
| Advertising revenue | 57,450 | - | - | 57,450 | 62,541 |
| Fees for service | 686,297 | - | - | 686,297 | 813,905 |
| Facilities rentals | 60,425 | - | - | 60,425 | 60,425 |
| Program fees | 176,415 | - | - | 176,415 | 128,440 |
| Investment income, net | 45,365 | (9,962) | - | 35,403 | 317,968 |
| Other revenues | 2,163 | 17,946 | - | 20,109 | 23,549 |
| Net assets released from restriction | 956,328 | (956,328) | - | - | - |
| Total revenues and support | 6,962,648 | 344,903 | 4,680 | 7,312,231 | 6,562,144 |
| **Expenses and Losses** | | | | | |
| Program services | | | | | |
| Vocations, seminarians and other religious personnel | 865,533 | - | - | 865,533 | 673,674 |
| Vicar for Women Religious | 32,505 | - | - | 32,505 | 43,997 |
| Pastoral parish programs | 959,397 | - | - | 959,397 | 1,005,442 |
| Catholic schools administration | 443,273 | - | - | 443,273 | 462,126 |
| Parish assistance | 1,663,985 | - | - | 1,663,985 | 766,015 |
| Catholic social missions | 29,175 | - | - | 29,175 | 31,038 |
| Archives | 76,897 | - | - | 76,897 | 59,980 |
| Supporting services | | | | | |
| Offices of the Bishop, Vicar General, Chancellor & Marriage Tribunal | 725,064 | - | - | 725,064 | 698,548 |
| Office of child, adolescent, and adult protection | 184,345 | - | - | 184,345 | 178,459 |
| General administration | 994,821 | - | - | 994,821 | 1,082,112 |
| Fiscal and employee services | 1,077,270 | - | - | 1,077,270 | 1,029,730 |
| Catholic Vision and community relations | 345,449 | - | - | 345,449 | 307,061 |
| Property management | 242,855 | - | - | 242,855 | 207,951 |
| Interest expense | 22,020 | - | - | 22,020 | 28,282 |
| Depreciation | 57,582 | - | - | 57,582 | 55,019 |
| Bad debt expense | 74,074 | - | - | 74,074 | 15,962 |
| Total expenses and losses | 7,794,245 | - | - | 7,794,245 | 6,645,396 |
| Change in net assets | (831,597) | 344,903 | 4,680 | (482,014) | (83,252) |
| Net assets, beginning of year | 5,239,595 | 1,659,591 | 2,361,642 | 9,260,828 | 9,344,080 |
| Net assets, end of year | $ 4,407,998 | $ 2,004,494 | $ 2,366,322 | $ 8,778,814 | $ 9,260,828 |

## STATEMENTS OF CASH FLOWS
## FOR THE YEARS ENDED JUNE 30,

| | 2016 | 2015 |
|---|---|---|
| **Cash Flows from Operating Activities** | | |
| Change in net assets | $ (482,014) | $ (83,252) |
| Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities | | |
| Loss on disposal of land, buildings and equipment | 2,736 | - |
| Forgiveness of debt | (647,572) | (73,928) |
| Depreciation | 57,582 | 55,019 |
| Net realized and unrealized loss (gain) on investments | 51,771 | (192,199) |
| Changes in operating assets and liabilities | | |
| Decrease (increase) in accounts receivable, net | (51,067) | 20,586 |
| Decrease (increase) in contribution receivable | (167,081) | 379,130 |
| Decrease in other receivables | 3,327 | 127,727 |
| Increase in prepaid expenses and other current assets | (52,103) | (15,062) |
| Increase (decrease) in accounts payable | (284,726) | 309,459 |
| Increase in accrued expenses | 1,089,428 | 34,024 |
| Net cash (used in) provided by operating activities | (479,719) | 561,504 |
| **Cash Flows from Investing Activities** | | |
| Purchases of land, buildings and equipment | (40,144) | (25,714) |
| Net (purchases) sales of investments | (231,056) | 851,433 |
| Net cash (used in) provided by investing activities | (271,200) | 825,719 |
| **Cash Flows from Financing Activities** | | |
| Repayment of notes payable | (80,973) | (318,879) |
| Net cash used in financing activities | (80,973) | (318,879) |
| Net (decrease) increase in cash and cash equivalents | (831,892) | 1,068,344 |
| Cash and cash equivalents, beginning of year | 1,643,689 | 575,345 |
| Cash and cash equivalents, end of year | $ 811,797 | $ 1,643,689 |
| **Supplemental Disclosure of Cash Flow Information** | | |
| Cash paid during the year for interest | $ 22,465 | $ 28,454 |
| **Supplemental Schedule of Non-Cash Investing and Financing Activities** | | |
| Forgiveness of debt | $ 647,572 | $ 73,928 |

# 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 ("GAAP") that the Organization follows to ensure the consistent reporting of its financial condition, changes in net assets and cash flows. References to 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 of the investment return 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 GAAP, deficiencies of this nature are reported in unrestricted net assets. There were no such deficiencies as of June 30, 2016 and 2015.

*Use of Estimates*

The preparation of financial statements in conformity with 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, 2016 and 2015, the Organization had $450,993 and $1,155,794 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*

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 $49,296 and $26,382 as of June 30, 2016 and 2015, 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, 2016 and 2015 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.

- **Other** – Certificates of deposit held for investment that are not debt securities are included in other investments. Certificates of deposit with original maturities greater than three months and remaining maturities less than one year are classified as current assets in the accompanying balance sheets.

### *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*

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, 2016 and 2015, the Organization had not experienced impairment losses on its long-lived assets.

# NOTES TO FINANCIAL STATEMENTS

**Significant Accounting Policies (continued)**

***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.

***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, 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 GAAP. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2015, 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.

# NOTES TO FINANCIAL STATEMENTS

## 3. Recent Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update ("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 GAAP when it becomes effective and permits the use of either the full retrospective or retrospective with cumulative effect transition method.

In August 2015, the FASB issued ASU No. 2015-14 which defers the effective date of ASU 2014-09 one year making it 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 this standard will have on the financial statements.

In March 2016, the FASB issued ASU No. 2016-08, *Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net).* The amendments relate to when another party, along with the entity, is involved in providing a good or service to a customer. Topic 606 *Revenue from Contracts with Customers* requires an entity to determine whether the nature of its promise is to provide that good or service to the customer (i.e., the entity is a principal) or to arrange for the good or service to be provided to the customer by the other party (i.e., the entity is an agent). The amendments amend certain existing illustrative examples and add additional illustrative examples to assist in the application of the guidance. The effective date and transition of these amendments is the same as the effective date and transition of ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*.

In April 2016, the FASB issued ASU No. 2016-10, *Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing*. The amendments clarify the following two aspects of Topic 606: (a) identifying performance obligations; and (b) the licensing implementation guidance. The amendments do not change the core principle of the guidance in Topic 606. The effective date and transition of these amendments is the same as the effective date and transition of ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*.

In May 2016, the FASB has issued Accounting Standards Update No. 2016-12, *Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients*. The amendments do not change the core revenue recognition principle in Topic 606. The amendments provide clarifying guidance in certain narrow areas and add some practical expedients. The effective date and transition of these amendments is the same as the effective date and transition of ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*.

# NOTES TO FINANCIAL STATEMENTS

**Recent Accounting Pronouncements (continued)**

In August 2014, the FASB issued ASU No. 2014-15, *Presentation of Financial Statements—Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*. This ASU explicitly requires management to evaluate, at each annual or interim reporting period, whether there are conditions or events that exist which raise substantial doubt about an entity's ability to continue as a going concern and to provide related disclosures. ASU 2014-15 is effective for annual periods ending after December 15, 2016, and annual and interim periods thereafter, with early adoption permitted. The adoption of ASU 2014-15 is not expected to have a material effect on the Organization's financial statements or disclosures.

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. Early application of the amendments is permitted. The Organization is currently evaluating the effect that implementation of the new standard will have on its financial statements and disclosures.

## 4. Contribution Receivable

Contribution receivable consists of the following as of June 30:

| | 2016 | 2015 |
|---|---|---|
| Amounts expected to be collected: | | |
| Less than one year | $ 264,581 | $ 97,500 |
| One to five years | - | - |
| Total | $ 264,581 | $ 97,500 |

## 5. 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.

# NOTES TO FINANCIAL STATEMENTS

**Fair Value Measurements (continued)**

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 financial assets are generally 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 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 following table represents the Organization's financial assets that are measured at fair value on a recurring basis as of June 30, 2016:

| Description | 6/30/2016 | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Corporate bonds | $ 371,978 | $ - | $ 371,978 | $ - |
| Government sponsored entity bonds | 361,995 | - | 361,995 | - |
| Common stocks (a) | 3,370,165 | 3,370,165 | - | - |
| Mutual funds – money market instruments | 1,257,227 | 1,257,227 | - | - |
| Total | $ 5,361,365 | $ 4,627,392 | $ 733,973 | $ - |

The following table represents the Organization's financial assets that are measured at fair value on a recurring basis as of June 30, 2015:

| Description | 6/30/2015 | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Corporate bonds | $ 352,918 | $ - | $ 352,918 | $ - |
| Government sponsored entity bonds | 343,297 | - | 343,297 | - |
| Common stocks (a) | 3,419,586 | 3,419,586 | - | - |
| Mutual funds – money market instruments | 1,242,533 | 1,242,533 | - | - |
| Total | $ 5,358,334 | $ 4,662,119 | $ 696,215 | $ - |

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

# NOTES TO FINANCIAL STATEMENTS

## 6. Investments

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

| | 2016 | 2015 |
|---|---|---|
| Restricted Investment Pool – Catholic Foundation | $ 370,218 | $ 395,163 |
| Corporate bonds | 237,066 | 219,582 |
| Government sponsored entity bonds | 347,485 | 330,593 |
| Common stocks | 3,184,905 | 3,214,681 |
| Mutual funds – money market instruments | 1,221,691 | 1,198,315 |
| | $ 5,361,365 | $ 5,358,334 |

Other investments consist of the following as of June 30:

| | 2016 | 2015 |
|---|---|---|
| Certificates of deposit | $ 961,247 | $ 784,993 |

Included in investment income, net:

| | 2016 | 2015 |
|---|---|---|
| Interest and dividend income | $ 87,174 | $ 125,769 |
| Realized and unrealized gain (loss), net | (51,771) | 192,199 |
| | $ 35,403 | $ 317,968 |

## 7. Land, Buildings and Equipment

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

| | 2016 | 2015 |
|---|---|---|
| Land | $ 7,200 | $ 7,200 |
| Buildings and improvements | 140,841 | 140,841 |
| Property | 2,750,000 | 2,750,000 |
| Furniture and equipment | 187,800 | 175,507 |
| Vehicles | - | 35,660 |
| Leasehold improvements | 432,067 | 432,067 |
| Software | 53,565 | 25,713 |
| | 3,571,473 | 3,566,988 |
| Less accumulated depreciation | (453,469) | (428,810) |
| | $ 3,118,004 | $ 3,138,178 |

# NOTES TO FINANCIAL STATEMENTS

## 8. Notes Payable

Notes payable as of June 30 is summarized as follows:

| | 2016 | 2015 |
|---|---|---|
| Unsecured note payable, to be forgiven in annual installments equal to the expenses incurred by sponsored seminarians. | $ 155,739 | $ 316,888 |
| Unsecured note payable, due in monthly installments of $8,177 beginning June 2017, including interest of 2.5% through May 2027. | 300,000 | 867,396 |
| Total | 455,739 | 1,184,284 |
| Less current portion | (87,500) | (80,973) |
| Notes payable, noncurrent portion | $ 368,239 | $ 1,103,311 |

The scheduled principal maturities of notes payable are as follows:

| Fiscal Year Ending June 30 | Total |
|---|---|
| 2017 | $ 87,500 |
| 2018 | 97,240 |
| 2019 | 27,476 |
| 2020 | 28,170 |
| 2021 | 28,883 |
| Thereafter | 186,470 |
| Total | $ 455,739 |

During fiscal years 2016 and 2015, creditors forgave $647,572 and $73,928, respectively, of Diocese of Tucson debt. The debt forgiveness has been recognized as temporarily restricted contribution revenue in the accompanying statement of operations and changes in net assets.

# NOTES TO FINANCIAL STATEMENTS

## 9. Temporarily Restricted Net Assets

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

| | 2016 | 2015 |
|---|---|---|
| Capital improvements | $ 686 | $ 686 |
| Seminarians/Diaconate | 277,439 | 321,700 |
| Retired religious women | 74,160 | 74,160 |
| Indian missions | 200,268 | 188,533 |
| Evangelization | 141,809 | 150,459 |
| Formation programs | 254,250 | 95,817 |
| Catholic schools administration | 74,294 | 86,971 |
| Priests' programs | - | 46,071 |
| Renovation projects | 542,396 | - |
| Unappropriated earnings from endowment funds | 303,578 | 513,739 |
| Other miscellaneous programs | 135,614 | 181,456 |
| | $ 2,004,494 | $ 1,659,591 |

## 10. Endowment Funds

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

| | 2016 | 2015 |
|---|---|---|
| Seminarian Education | $ 1,313,942 | $ 1,367,702 |
| Endowed Care – Regina Cleri | 605,393 | 605,393 |
| Scholarship assistance | 80,095 | 80,095 |
| Mass foundations | 73,428 | 73,428 |
| Priest and seminarian formation | 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 |
| | $ 2,366,322 | $ 2,361,642 |

Endowment net asset composition by type of fund as of June 30, 2016:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Donor-restricted endowment funds | $ - | $ 303,578 | $ 2,366,322 | $ 2,669,900 |
| Total funds | $ - | $ 303,578 | $ 2,366,322 | $ 2,669,900 |

## NOTES TO FINANCIAL STATEMENTS

**Endowment Funds (continued)**

Changes in endowment net assets for the year ended June 30, 2016:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Endowment net assets, June 30, 2015 | $ - | $ 513,739 | $ 2,361,642 | $ 2,875,381 |
| Investment return: | | | | |
| Investment income | - | 45,623 | - | 45,623 |
| Net appreciation | - | (49,590) | - | (49,590) |
| Total investment return | - | (3,967) | - | (3,967) |
| Contributions | - | - | 4,680 | 4,680 |
| Appropriation of endowment funds for expenditure | (206,194) | - | - | (206,194) |
| Transfers between funds | 206,194 | (206,194) | - | - |
| Endowment net assets, June 30, 2016 | $ - | $ 303,578 | $ 2,366,322 | $ 2,669,900 |

Endowment net asset composition by type of fund as of June 30, 2015:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Donor-restricted endowment funds | $ - | $ 513,739 | $ 2,361,642 | $ 2,875,381 |
| Total funds | $ - | $ 513,739 | $ 2,361,642 | $ 2,875,381 |

Changes in endowment net assets for the year ended June 30, 2015:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Endowment net assets, June 30, 2014 | $ - | $ 580,164 | $ 2,358,962 | $ 2,939,126 |
| Investment return: | | | | |
| Investment income | - | 48,832 | - | 48,832 |
| Net appreciation | - | 105,340 | - | 105,340 |
| Total investment return | - | 154,172 | - | 154,172 |
| Contributions | - | - | 4,680 | 4,680 |
| Appropriation of endowment | (222,597) | | | (222,597) |
| funds for expenditure | | - | - | |
| Transfers between funds | 222,597 | (220,597) | (2,000) | - |
| Endowment net assets, June 30, 2015 | $ - | $ 513,739 | $ 2,361,642 | $ 2,875,381 |

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

# NOTES TO FINANCIAL STATEMENTS

## 11. 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, 2016 and 2015; however the amounts are insignificant when compared to the financial statements as a whole. 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 May of 2015, the plan is approximately 89% funded and is considered to be in the "green 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, 2016 and 2015 a matching contribution of 25% was contributed to eligible employees totaling $105,493 and $105,264.

# NOTES TO FINANCIAL STATEMENTS

## 12. Commitments and Contingencies

### *Operating Leases*

The Organization leases property and equipment under various non-cancelable operating leases with an aggregate monthly payment of $22,873. The leases expire at various times through April 30, 2021. The following is a summary of future minimum lease payments under non-cancelable operating leases as of June 30, 2016:

| Year Ending | Amount |
|---|---|
| 2017 | $ 321,869 |
| 2018 | 255,236 |
| 2019 | 191,554 |
| 2020 | 26,953 |
| 2021 | 12,484 |

Total rent expense for the years ended June 30, 2016 and 2015 totaled $270,966 and $211,839, respectively.

### *Guarantees*

The Bishop has guaranteed the debt of the following separately incorporated entities: Our Lady of Grace Parish, San Felipe Parish, St Mark the Evangelist Parish, St Odilia Parish, St Pius Parish, St John Neumann Parish, Corpus Christi Parish, and Catholic Community Services (Note: the Catholic Community Services guarantee was released in June 2015). Guaranteed debt outstanding as of June 30, 2016 and 2015 is approximately $13,158,878 and $12,347,000, 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, 2016 and 2015 in the accompanying financial statements.

## 13. Evaluation of Subsequent Events

The Organization evaluated subsequent events through October 25, 2016, 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.