



Keegan Linscott & Associates, PC

Certified Public Accountants
Certified Fraud Examiners
Certified Insolvency & Restructuring Advisors

**THE ROMAN CATHOLIC CHURCH
DIOCESE OF TUCSON,
A CORPORATION SOLE**

**AUDITED FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2023
(WITH SUMMARIZED COMPARATIVE TOTALS
FOR THE YEAR ENDED JUNE 30, 2022)**

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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

Opinion

We have audited the financial statements of The Roman Catholic Church Diocese of Tucson, A Corporation Sole, (the "Organization"), which comprise the balance sheets as of June 30, 2023 and 2022, the related statements of cash flows and expenses by function and nature for the years then ended, and the related statement of operations and changes in net assets for the year ended June 30, 2023, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as of June 30, 2023 and 2022, and its cash flows for the years then ended, and the results of its operations for the year ended June 30, 2023, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 3 to the financial statements, effective July 1, 2022, the Organization adopted ASU No. 2016-02, *Leases* (Topic 842). Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited the Organization's 2022 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 3, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2022, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern within one year after the date that the financial statements are issued or available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

A handwritten signature in blue ink that reads "Keegan Fincoth".

Tucson, Arizona
February 9, 2024

AUDITED FINANCIAL STATEMENTS

BALANCE SHEETS
AS OF JUNE 30,

	<u>2023</u>	<u>2022</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 4,810,471	\$ 681,794
Accounts receivable, net	23,630	61,229
Contributions receivable	180,000	183,500
Notes receivable	176,587	167,992
Investments	6,497,970	9,119,134
Prepaid expenses and other current assets	6,080	-
Cash and cash equivalents - Custodial funds held for others	210,222	1,196,922
Investments - Custodial funds held for others	-	2,883,718
Total current assets	<u>11,904,960</u>	<u>14,294,289</u>
Operating lease right-of-use asset, net	3,954,072	-
Contributions receivable	-	46,000
Notes receivable	1,451,260	1,127,847
Beneficial interest in perpetual trust	1,316,636	1,272,442
Land, buildings and equipment, net	<u>3,531,842</u>	<u>3,593,869</u>
Total assets	<u><u>\$ 22,158,770</u></u>	<u><u>\$ 20,334,447</u></u>
Liabilities and Net Assets		
Current liabilities		
Accounts payable	\$ 127,709	\$ 104,109
Accrued expenses	372,419	291,348
Custodial funds held for others	210,222	4,080,640
Operating lease liability, current	<u>155,880</u>	<u>-</u>
Total current liabilities	866,230	4,476,097
Operating lease liability	<u>3,798,192</u>	<u>-</u>
Total liabilities	4,664,422	4,476,097
Net assets		
Without donor restrictions	10,683,427	9,540,659
With donor restrictions	<u>6,810,921</u>	<u>6,317,691</u>
Total net assets	<u>17,494,348</u>	<u>15,858,350</u>
Total liabilities and net assets	<u><u>\$ 22,158,770</u></u>	<u><u>\$ 20,334,447</u></u>

STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2023
(WITH COMPARATIVE SUMMARIZED TOTALS FOR THE YEAR ENDED JUNE 30, 2022)

	Without Donor Restrictions	With Donor Restrictions	Total 2023	Summarized Total 2022
Revenues and Support				
Annual Catholic Appeal Grant	\$ 2,300,000	\$ -	\$ 2,300,000	\$ 2,300,000
Chancery assessment	2,146,204	-	2,146,204	1,859,004
Fees for service	928,512	-	928,512	890,270
Investment income (loss), net	633,490	299,362	932,852	(810,199)
Parish and school assistance assessment	361,107	-	361,107	361,740
Contributions, grants, and bequests	175,574	709,937	885,511	637,924
Program fees	228,424	-	228,424	187,679
Facilities rentals	228,385	-	228,385	262,801
Advertising revenue	-	-	-	159
Change in value of perpetual trust	-	44,194	44,194	(269,933)
Gain on disposal of equipment	-	-	-	179,515
Other revenues (Note 17)	3,757,605	9,569	3,767,174	33,537
PPP promissory note forgiveness	-	-	-	517,840
Net assets released from restriction	569,832	(569,832)	-	-
Total revenues and support	11,329,133	493,230	11,822,363	6,150,337
Expenses and Losses				
Program services	5,159,166	-	5,159,166	4,921,095
Management and general	4,995,490	-	4,995,490	1,139,985
Fundraising	31,709	-	31,709	29,589
Total expenses and losses	10,186,365	-	10,186,365	6,090,669
Change in net assets	1,142,768	493,230	1,635,998	59,668
Net assets, beginning of year	9,540,659	6,317,691	15,858,350	15,798,682
Net assets, end of year	<u>\$ 10,683,427</u>	<u>\$ 6,810,921</u>	<u>\$ 17,494,348</u>	<u>\$ 15,858,350</u>

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

	<u>2023</u>	<u>2022</u>
Cash Flows from Operating Activities		
Change in net assets	\$ 1,635,998	\$ 59,668
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities		
Depreciation	62,027	62,721
Net realized and unrealized (gain) loss on investments	(712,806)	931,847
Change in beneficial interest in perpetual trust	(44,194)	269,933
Reduction in carrying amount of right-of-use asset	(157,815)	-
In-kind expense for contributed building	-	180,382
Gain on disposal of land, buildings and equipment	-	(179,515)
Forgiveness of PPP promissory note	-	(517,840)
Changes in operating assets and liabilities		
Accounts receivable, net	37,599	(38,335)
Contributions receivable	49,500	26,000
Prepaid expenses and other current assets	(6,080)	1,527
Custodial funds held for others	(3,870,418)	578,811
Accounts payable	23,600	63,231
Accrued expenses	81,071	62,238
Operating lease liability	157,815	-
Net cash (used in) provided by operating activities	<u>(2,743,703)</u>	<u>1,500,668</u>
Cash Flows from Investing Activities		
Purchases of land, buildings and equipment	-	(29,883)
Purchases of investments	(1,819,029)	(5,430,713)
Proceeds from sale of investments	8,036,717	3,308,499
Additions on notes receivable	(500,000)	(1,350,000)
Repayments on notes receivable	167,992	54,161
Net cash provided by (used in) investing activities	<u>5,885,680</u>	<u>(3,447,936)</u>
Net change in cash, cash equivalents, and restricted cash	3,141,977	(1,947,268)
Cash, cash equivalents, and restricted cash, beginning of year	<u>1,878,716</u>	<u>3,825,984</u>
Cash, cash equivalents, and restricted cash, end of year	<u>\$ 5,020,693</u>	<u>\$ 1,878,716</u>
Supplemental Disclosure of Cash Flow Information		
Cash paid during the year for interest	<u>\$ 841</u>	<u>\$ 1,073</u>
Cash paid for amounts included in measurement of lease liabilities		
Operating cash outflows - payments on operating leases	<u>\$ 290,394</u>	<u>\$ -</u>
Right-of-use assets obtained in exchange for new lease obligations		
Operating leases	<u>\$ 4,111,887</u>	<u>\$ -</u>
Supplemental Schedule of Non-Cash Investing and Financing Activities		
In-kind expense for contributed building	<u>\$ -</u>	<u>\$ 180,382</u>
Forgiveness of PPP Promissory Note	<u>\$ -</u>	<u>\$ 517,840</u>

STATEMENT OF EXPENSES BY FUNCTION AND NATURE
FOR THE YEAR ENDED JUNE 30, 2023

	Program Services	Supporting Services		Total
		Management and General	Fundraising	
Salaries & wages	\$ 2,291,718	\$ 637,793	\$ 15,693	\$ 2,945,204
Seminarian support	357,331	-	-	357,331
Program, events & training	364,197	14,548	883	379,628
Licenses & fees	324,189	104,192	333	428,714
Software, equipment & supplies	195,277	56,863	1,587	253,727
Professional fees	187,380	15,955	-	203,335
Grants & subsidies (Note 17)	815,411	3,752,833	-	4,568,244
Occupancy	466,851	171,594	4,792	643,237
Travel, food, vehicles & housing	78,770	66,236	7,173	152,179
Insurance	13,949	154,805	280	169,034
Printing, postage and other administrative	19,794	6,937	460	27,191
Bad debt expense	(3,486)	-	-	(3,486)
Depreciation	47,785	13,734	508	62,027
Total expenses and losses	<u>\$ 5,159,166</u>	<u>\$ 4,995,490</u>	<u>\$ 31,709</u>	<u>\$ 10,186,365</u>

STATEMENT OF EXPENSES BY FUNCTION AND NATURE
FOR THE YEAR ENDED JUNE 30, 2022

	Program Services	Supporting Services		Total
		Management and General	Fundraising	
Salaries & wages	\$ 2,056,458	\$ 552,233	\$ 14,590	\$ 2,623,281
Seminarian support	417,533	-	-	417,533
Program, events & training	178,935	14,921	921	194,777
Licenses & fees	269,449	92,615	313	362,377
Software, equipment & supplies	195,619	64,174	1,326	261,119
Professional fees	260,685	42,433	-	303,118
Grants & subsidies	939,040	-	-	939,040
Occupancy	412,195	155,560	4,690	572,445
Travel, food, vehicles & housing	86,310	53,261	5,966	145,537
Insurance	11,870	143,026	280	155,176
Printing, postage and other administrative	25,067	7,700	932	33,699
Bad debt expense	19,846	-	-	19,846
Depreciation	48,088	14,062	571	62,721
Total expenses and losses	<u>\$ 4,921,095</u>	<u>\$ 1,139,985</u>	<u>\$ 29,589</u>	<u>\$ 6,090,669</u>

NOTES TO FINANCIAL STATEMENTS

1. Organization

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

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

2. Significant Accounting Policies

Basis of Presentation

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

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

- **Without Donor Restrictions** – Net assets that represent the portion of expendable funds, which are available for support of the Organization’s operations and are not subject to donor-imposed restrictions. Net assets without donor restriction may be designated for specific purposes by action of the Bishop or may otherwise be limited by contractual agreements with outside parties.
- **With Donor Restrictions** – Net assets whose use by the Organization is subject to donor-imposed stipulations that can be fulfilled by actions of the Organization pursuant to those stipulations or that expire through the passage of time or must be maintained by the Organization permanently.

NOTES TO FINANCIAL STATEMENTS

Significant Accounting Policies (continued)

Basis of Presentation (continued)

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

Endowment Funds

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

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

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

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or current law requires the Organization to retain for a fund of perpetual duration. In accordance with U.S. GAAP, deficiencies of this nature are reported in net assets with donor restrictions. There were no such deficiencies as of June 30, 2023 and 2022.

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.

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, 2023 and 2022, the Organization had \$4,403,412 and \$253,671 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.

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the balance sheets to total cash, cash equivalents, and restricted cash reported in the statements of cash flows as of June 30, 2023 and 2022:

	2023	2022
Cash and cash equivalents	\$ 4,810,471	\$ 681,794
Cash and cash equivalents - Custodial funds held for others	210,222	1,196,922
Total cash, cash equivalents, and restricted cash	<u>\$ 5,020,693</u>	<u>\$ 1,878,716</u>

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 \$3,673 and \$7,158 as of June 30, 2023 and 2022, 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, 2023 and 2022 contributions receivable are considered fully collectible by management; therefore, no allowance for uncollectible amounts has been provided.

Investments

Debt and Equity Securities – Investments are accounted for in accordance with ASC 958-320, *Investments - Debt and Equity Securities*. Investments in debt and equity securities are valued at their fair values in the accompanying balance sheets. Investment income, gains and losses are reported net of related investment

NOTES TO FINANCIAL STATEMENTS

Significant Accounting Policies (continued)

Investments (continued)

fees in the statements of operations and changes in net assets as increases or decreases in net assets. Gains and investment income limited to specific uses by donor-imposed restrictions are reported as increases in net assets without donor restrictions if the restrictions are met in the same reporting period as the gains and income are recognized. Donated investments are recorded at fair value at the date of donation.

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

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 depository and investment accounts. 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, 2023 and 2022, the Organization had not experienced impairment losses on its long-lived assets.

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.

Lessee Leases

In February 2016, the FASB issued ASC Topic 842, *Leases*, to increase transparency and comparability among organizations related to their leasing arrangements. The update requires lessees to recognize most leases on their balance sheets as a right-of-use ("ROU") asset representing the right to use an underlying asset and a lease liability representing the obligation to make lease payments over the lease term, measured on a discounted basis. Topic 842 also requires additional disclosure of key quantitative and qualitative information for leasing arrangements. Similar to the previous lease guidance, the update retains a distinction between finance leases (similar to capital leases in Topic 840, *Leases*) and operating leases, with classification affecting the pattern of expense recognition in the income statement. The Organization adopted Topic 842 on July 1, 2022, using the optional transition method to the modified retrospective approach, which eliminates the requirement to restate the prior-period financial statements. Under this transition provision, the Organization has applied Topic 842 to reporting periods beginning on July 1, 2022, while prior periods continue to be reported and disclosed in accordance with the Organization's historical accounting treatment under ASC Topic 840, *Leases*.

The Organization elected the "package of practical expedients" under the transition guidance within Topic 842, in which the Organization does not reassess (1) the historical lease classification, (2) whether any existing contracts at transition are or contain leases, or (3) the initial direct costs for any existing leases. The Organization has not elected to adopt the "hindsight" practical expedient, and therefore will measure the ROU asset and lease liability using the remaining portion of the lease term upon adoption of ASC 842 on July 1, 2022.

The Organization determines if an arrangement is or contains a lease at inception, which is the date on which the terms of the contract are agreed to, and the agreement creates enforceable rights and obligations. A contract is or contains a lease when (i) explicitly or implicitly identified assets have been deployed in the contract and (ii) the Organization obtains substantially all of the economic benefits from the use of that underlying asset and directs how and for what purpose the asset is used during the term of the contract. The Organization also considers whether its service arrangements include the right to control the use of an asset.

The Organization made an accounting policy election available under Topic 842 not to recognize ROU assets and lease liabilities for leases with a term of 12 months or less. For all other leases, ROU assets and lease

NOTES TO FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (continued)

Lessee Leases (continued)

liabilities are measured based on the present value of future lease payments over the lease term at the commencement date of the lease (or July 1, 2022, for existing leases upon the adoption of Topic 842). The ROU assets also include any initial direct costs incurred and lease payments made at or before the commencement date and are reduced by any lease incentives. To determine the present value of lease payments, the Organization made an accounting policy election available to non-public companies to utilize a risk-free borrowing rate, which is aligned with the lease term at the lease commencement date (or remaining term for leases existing upon the adoption of Topic 842).

Future lease payments may include fixed rent escalation clauses or payments that depend on an index (such as the consumer price index), which is initially measured using the index or rate at lease commencement. Subsequent changes of an index and other periodic market-rate adjustments to base rent are recorded in variable lease expense in the period incurred. Residual value guarantees or payments for terminating the lease are included in the lease payments only when it is probable they will be incurred.

The Organization has made an accounting policy election to account for lease and non-lease components in its contracts as a single lease component for its real estate asset classes. The non-lease components typically represent additional services transferred to the Organization, such as common area maintenance for real estate, which are variable in nature and recorded in variable lease expense in the period incurred.

Lessor Leases

On July 1, 2022, the Organization adopted FASB ASC Topic 842, *Leases*, using the modified retrospective approach by electing a package of practical expedients including (1) to not reassess its prior conclusions under ASC Topic 840, *Leases*, regarding (a) whether a preexisting contract is or contains a lease, (b) whether a preexisting lease should be classified as an operating or finance lease and (c) whether the initial direct costs capitalized for a preexisting lease under Topic 840 qualify for capitalization.

The Organization leases certain offices within its facilities to three related parties. These leases may contain extension and termination options that are predominantly at the sole discretion of the lessee, provided certain conditions are satisfied.

As a lessor, the Organization's leases with tenants for its real estate assets may provide for the lease of space. Under Topic 842, the lease of space is considered a lease component while the common area maintenance billings are considered nonlease components, which fall under revenue recognition guidance in FASB ASC Topic 606, *Revenue from Contracts with Customers*. However, upon adopting the guidance in Topic 842, the Organization determined that its tenant leases met the criteria to apply the practical expedient provided by ASU 2018-11 to recognize the lease and non-lease components together as one single component. This conclusion was based on the consideration that 1) the timing and pattern of transfer of the nonlease components and associated lease component are the same, and 2) the lease component, if accounted for separately, would be classified as an operating lease. As the lease of space is the predominant component of the Organization's leasing arrangements, the Organization accounted for all lease and non-lease components as one single component under Topic 842. As a result, the adoption of Topic 842 did not have any impact on the Organization's timing or pattern of recognition of rental revenues as compared to previous guidance.

NOTES TO FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (continued)

Lesser Leases (continued)

In addition, under Topic 842, lessors will only capitalize incremental direct leasing costs. The Organization does not capitalize non-incremental direct leasing costs. These costs are expensed as incurred and are included within management and general expenses on the statement of operations and changes in net assets.

Revenue Recognition

Contributions

Contributions are classified based on the existence or absence of donor-imposed restrictions as either conditional or unconditional as follows:

- **Conditional** – Includes all contributions with donor-imposed conditions or stipulations representing a barrier that must be overcome before the recipient is entitled to the assets being transferred or promised. A failure to overcome the barrier gives the contributor a right of return of the assets it has transferred or the ability to rescind an obligation to transfer.
- **Unconditional** – Includes all contributions that do not contain a barrier to use and therefore are recorded as revenue once cash or a contribution is received. Donor imposed restrictions for time and/or purpose are not considered a significant barrier and thus these contributions are recorded as unconditional.

Contribution revenue is recorded when the unconditional promise to give is received. Under this method, the recognition of support for financial statement purposes bears no relation to the period in which the expenses are incurred. Revenue related to conditional contributions is recognized once the relevant barriers of each contribution are met. If the funds are received from the donor before the relevant barriers are met, deferred revenue is recorded on the balance sheet for the amount of funds provided by the donor.

Donated Goods, Property and Services – Contributions of donated non-cash assets including goods and property are recorded at their fair values on the date the asset is donated. Absent explicit donor stipulations, contributions of long-lived assets or cash or other assets to be used to acquire or construct long-lived assets are reported as net assets without donor restrictions when placed in service. Donated services are recognized in the financial statements at their fair value. Donated services are recognized when the services are received and (a) create or enhance non-financial assets, or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

Exchange Transactions

The Organization recognizes assessments, fees for service and program fees in accordance with ASC 606, *Revenue from Contracts with Customers*, which provides a five-step model for recognizing revenue from contracts with customers as follows:

- Identify the contract with a customer
- Identify the performance obligations in the contract
- Determine the transaction price

NOTES TO FINANCIAL STATEMENTS

Significant Accounting Policies (continued)

Revenue Recognition (continued)

- Allocate the transaction price to the performance obligations in the contract
- Recognize revenue when or as performance obligations are satisfied

Chancery assessment and Parish and school assistance assessment – These revenues are reported at the amount that reflects the consideration to which the Organization expects to be entitled in exchange for providing diocesan administrative services. These amounts are due from the parishes and related Catholic schools and are recognized as revenue when the performance obligations have been satisfied, at the time of the assessment. Performance obligations are determined based on the nature of the services provided. Management believes that services that are delivered to the parishes under the Parish Services Agreement vary, to include HR, Fiscal, Insurance and Legal. However, all are paid through the respective assessments and are considered one performance obligation, even though the underlying tasks performed for each parish may vary. The Organization recognizes revenue over time since the client simultaneously receives and consumes the benefits of the services provided. Management believes this method provides a faithful depiction of the transfer of services over the term of performance obligations based on the inputs needed to satisfy the obligations.

Fees for service – Fees for service revenues consist of charges by the Diocese for providing services such as payroll processing and related tax compliance, employee benefits administration, marriage tribunal, and parish accounting services. Each parish is billed on a monthly basis based upon level of service for most departments or a fixed fee contract for parish accounting services. Revenue is recognized when the parish is billed by the Diocese at the time the services are administered. Performance obligations are determined based on the nature of the services provided. Each service, as described above, all are paid according to their respective fees and are considered a standalone performance obligation. The Organization recognizes revenue at a point in time, once the service has been performed and the performance obligation has been satisfied. Fees for service recognized at a point in time totaled \$433,642 and \$400,270 for the fiscal years ended June 30, 2023 and 2022, respectively.

The management fees charged by the Diocese to the Pooled Self-Insurance Retention Trust ("PSIRT") are determined at the board level and billed annually; however, the management services performance obligations are satisfied over time as the Diocese expends funds for certain management responsibilities of the PSIRT. Therefore, these fees are determined to be recognized over time. Fees for service recognized over time totaled \$494,870 and \$490,000 for the fiscal years ended June 30, 2023 and 2022, respectively.

Program fees – The Organization recognizes program fees, which primarily consists of school administrative and accreditation support, digital communications support, and amounts paid for classes and retreats. Revenues are recognized at a point in time, after services have been rendered. Performance obligations are determined to be the completion of each program, class or retreat provided by the Diocese, which are considered standalone performance obligations. The Organization recognizes revenue at a point in time, once the performance obligation has been satisfied.

NOTES TO FINANCIAL STATEMENTS

Significant Accounting Policies (continued)***Revenue Recognition (continued)***

The revenue recognized over time and at a point in time was as follows for the years ended December 31:

	2023	2022
Revenue recognized over time	\$ 3,002,181	\$ 2,710,744
Revenue recognized at a point in time	662,066	587,949
Total revenue	<u>\$ 3,664,247</u>	<u>\$ 3,298,693</u>

Facilities rentals – Facilities rentals income primarily consists of facilities leases (Note 12). The Organization recognizes facilities rentals income in accordance with ASC 842, *Leases*. Rental income is recognized evenly over the terms of the tenant leases on the accrual basis. Rental receipts received in advance are deferred until earned.

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, 2022, from which the summarized information was derived.

3. Recent Accounting Pronouncements***Adopted as of June 30, 2023***

In February 2016, the FASB issued ASC Topic 842, *Leases*, to increase transparency and comparability among organizations related to their leasing arrangements. The update requires lessees to recognize most leases on their balance sheets as a right-of-use ("ROU") asset representing the right to use an underlying asset and a be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2021. 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.

In July 2018, the FASB issued ASU No. 2018-11, *Leases (Topic 842): Targeted Improvements*. This ASU is intended to reduce costs and ease implementation of the leases standard for financial statement preparers. ASU 2018-11 provides a new transition method and a practical expedient for separating components of a contract. The amendments ASU 2018-11 provide entities with an additional (and optional) transition method to adopt the new leases standard. Under this new transition method, an entity initially applies the new leases standard at the adoption date and recognizes a cumulative-effect adjustment to the opening balance of net assets in the period of adoption. Consequently, an entity's reporting for the comparative periods presented in the financial statements in which it adopts the new leases standard will continue to be in accordance with current U.S. GAAP in Topic 840, *Leases*. The amendments in ASU 2018-11 also provide lessors with a practical expedient, by class of underlying asset, to not separate nonlease components from

NOTES TO FINANCIAL STATEMENTS

Recent Accounting Pronouncements (continued)

Adopted as of June 30, 2023 (continued)

the associated lease component and, instead, to account for those components as a single component if the nonlease components otherwise would be accounted for under the new revenue guidance (Topic 606). The effective date and transition requirements for the amendments in this update related to separating components of a contract are the same as the effective date and transition requirements in ASU No. 2016-02 (i.e., fiscal years beginning after December 15, 2021). All entities, including early adopters, that elect the practical expedient related to separating components of a contract in this ASU must apply the expedient, by class of underlying asset, to all existing lease transactions that qualify for the expedient at the date elected. Adoption of Topic 842 resulted in the recording of additional ROU assets and lease liabilities related to the Organization's operating leases of \$4,111,887 at July 1, 2022. The adoption of the new lease standard resulted in significant new disclosures about the Organization's leasing activities and did not materially impact change in net assets or cash flows and did not result in a cumulative-effect adjustment to the opening balance of net assets.

The Organization accounted for its existing facilities leases as operating leases. As lessor, adoption ASC 842 for its facilities leases did not result in adjustments to the financial statements.

Not Adopted as of June 30, 2023

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which creates a new credit impairment standard for financial assets measured at amortized cost and available-for-sale debt securities. The ASU requires financial assets measured at amortized cost (including loans, trade receivables and held-to-maturity debt securities) to be presented at the net amount expected to be collected, through an allowance for credit losses that are expected to occur over the remaining life of the asset, rather than incurred losses. The ASU requires that credit losses on available-for-sale debt securities be presented as an allowance rather than as a direct write-down. The measurement of credit losses for newly recognized financial assets (other than certain purchased assets) and subsequent changes in the allowance for credit losses are recorded in the statement of income as the amounts expected to be collected change. The ASU is effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. Early adoption is permitted for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. The Organization does not intend to early adopt. The Organization is currently evaluating the impact of adopting this new guidance on its financial statements and disclosures.

NOTES TO FINANCIAL STATEMENTS

4. Liquidity and Availability of Resources

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

	2023	2022
Cash and cash equivalents	\$ 4,810,471	\$ 681,794
Accounts and contributions receivable, current portion	203,630	244,729
Note receivable, current portion	176,587	167,992
Investments (debt, equity, and other)	6,497,970	9,119,134
Total financial assets	11,688,658	10,213,649
Less amounts unavailable for general expenditure within one year, due to:		
Restricted by donor with purpose restrictions	1,161,724	1,096,095
Subject to appropriation and satisfaction of donor restrictions	3,945,561	3,544,154
Financial assets available to meet cash needs for general expenditures within one year	\$ 6,581,373	\$ 5,573,400

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

5. Contributions Receivable

Contribution's receivable consists of the following as of June 30:

	2023	2022
Amounts expected to be collected:		
Less than one year	\$ 180,000	\$ 183,500
One to five years	-	46,000
Total	\$ 180,000	\$ 229,500

6. Notes Receivable

In September 2022, the Organization issued a note receivable to a limited liability company for \$500,000. The uncollateralized note bears no interest through September 2027, thereafter, the note requires quarterly interest only payments with interest at 3%. A balloon payment of principal and any unpaid interest are due at maturity in September 2032.

NOTES TO FINANCIAL STATEMENTS

Notes Receivable (continued)

In February 2022, the Organization issued a note receivable to another not-for-profit organization, a related party, for \$1,350,000. The note is collateralized by a leasehold deed of trust encumbering all possessory interest in building and improvements and accrues interest at 5% per annum. Principal and interest are payable in monthly installments of \$19,081 due at maturity in February 2029.

The outstanding balance of the notes receivable totaled \$1,627,847 and \$1,295,839 as of June 30, 2023 and 2022, respectively.

Future maturities of the note receivable are as follows as of June 30, 2023:

2024	\$	176,587
2025		185,622
2026		195,119
2027		205,101
2028		215,595
Thereafter		649,823
Total	\$	<u>1,627,847</u>

7. Investments

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

	<u>2023</u>	<u>2022</u>
Restricted Investment Pool – Catholic Organization	\$ 503,361	\$ 369,289
Corporate bonds	618,018	1,145,801
Government sponsored entity bonds	1,620,174	2,663,351
Common stocks	3,719,664	2,748,927
Mutual funds – money market instruments	36,753	2,191,766
	<u>\$ 6,497,970</u>	<u>\$ 9,119,134</u>

Investment income (loss), net consists of the following for the years ended June 30:

	<u>2023</u>	<u>2022</u>
Interest and dividend income	\$ 284,413	\$ 205,976
Realized and unrealized gain (loss), net	712,806	(931,847)
Investment fees	(64,367)	(84,328)
	<u>\$ 932,852</u>	<u>\$ (810,199)</u>

NOTES TO FINANCIAL STATEMENTS

8. Fair Value Measurements

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

- | | |
|----------|---|
| Level 1: | Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Organization has the ability to access at the measurement date. |
| Level 2: | Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, directly or indirectly. |
| Level 3: | Valuations based on inputs that are unobservable and significant to the overall fair value measurement. |

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

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

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, 2023:

Description	6/30/2023	Level 1	Level 2	Level 3
Corporate bonds	\$ 777,546	\$ -	\$ 777,546	\$ -
Government sponsored entity bonds	1,668,901	-	1,668,901	-
Common stocks (a)	3,996,627	3,996,627	-	-
Real Estate Funds	18,143	18,143	-	-
Mutual funds – money market instruments	36,753	36,753	-	-
	6,497,970	4,051,523	2,446,447	-
Beneficial interest in perpetual trust	1,316,636	-	-	1,316,636
Total	\$ 7,814,606	\$ 4,051,523	\$ 2,446,447	\$ 1,316,636

The following table represents the Organization's financial assets that are measured at fair value on a recurring basis as of June 30, 2022:

Description	6/30/2022	Level 1	Level 2	Level 3
Corporate bonds	\$ 1,263,960	\$ -	\$ 1,263,960	\$ -
Government sponsored entity bonds	2,685,146	-	2,685,146	-
Common stocks (a)	2,960,063	2,960,063	-	-
Real Estate Funds	18,199	18,199	-	-
Mutual funds – money market instruments	2,191,766	2,191,766	-	-
	9,119,134	5,170,028	3,949,106	-
Beneficial interest in perpetual trust	1,272,442	-	-	1,272,442
Total	\$ 10,391,576	\$ 5,170,028	\$ 3,949,106	\$ 1,272,442

- (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.

NOTES TO FINANCIAL STATEMENTS

Fair Value Measurements (continued)

The following table presents a reconciliation for all Level 3 assets measured at fair value for the years ended June 30:

	2023	2022
Balance, July 1	\$ 1,272,442	\$ 1,542,375
Total realized/unrealized gains (losses) net of fees included in changes in net assets	110,052	(226,939)
Disbursements	(65,858)	(42,994)
Balance, June 30	<u>\$ 1,316,636</u>	<u>\$ 1,272,442</u>

The following tables present the Organization's financial assets and liabilities that are measured at fair value on a nonrecurring basis as of and for the years ended June 30:

Description	6/30/2023	Level 1	Level 2	Level 3	Total Revenue For the Year Ended 6/30/2023
Initially-recognized Contributions receivable, net	\$ 134,000	\$ -	\$ -	\$ 134,000	\$ 159,000
	<u>\$ 134,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 134,000</u>	<u>\$ 159,000</u>

Description	6/30/2022	Level 1	Level 2	Level 3	Total Revenue For the Year Ended 6/30/2022
Initially-recognized Contributions receivable, net	\$ 137,500	\$ -	\$ -	\$ 137,500	\$ 195,000
	<u>\$ 137,500</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 137,500</u>	<u>\$ 195,000</u>

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.

NOTES TO FINANCIAL STATEMENTS

Fair Value Measurements (continued)

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:

	2023	2022
Initially recognized contributions receivable, net	\$ 134,000	\$ 137,500
Contributions receivable, (net) recognized in prior years	46,000	92,000
Total	\$ 180,000	\$ 229,500

9. 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 net assets with donor restrictions revenue and support as a change in value of perpetual trust in the accompanying statements of operations and changes in net assets. Distributions received from the trust are recorded as investment income without donor restrictions. The fair value of the beneficial interest in perpetual trust totaled \$1,316,636 and \$1,272,442 as of June 30, 2023 and 2022, respectively. The change in value of the perpetual trust resulted in a gain of \$44,194 for the year ended June 30, 2023 and a loss of \$269,933 for the year ended June 30, 2022.

10. Land, Buildings and Equipment, Net

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

	2023	2022
Land	\$ 7,200	\$ 7,200
Buildings and improvements	792,281	792,281
Property	2,750,000	2,750,000
Furniture and equipment	106,566	106,566
Vehicles	68,182	68,182
Leasehold improvements	414,846	414,846
Software	27,852	27,852
	4,166,927	4,166,927
Less accumulated depreciation	(635,085)	(573,058)
	\$ 3,531,842	\$ 3,593,869

11. Lessee Leases

The Organization leases real estate, equipment and vehicles under operating lease agreements that have initial terms ranging from 2 to 20 years. Some leases may include one or more options to renew, generally at the Organization's sole discretion. In addition, certain leases may contain termination options, where the

NOTES TO FINANCIAL STATEMENTS

Lessee Leases (continued)

rights to terminate are held by either the Organization, the lessor or both parties. These options to extend or terminate a lease are included in the lease terms when it is reasonably certain that the Organization will exercise that option. The Organization's operating leases generally do not contain any material restrictive covenants or residual value guarantees. Operating lease cost is recognized on a straight-line basis over the lease term.

The components of lease expense are as follows for the year ended June 30, 2023:

Operating lease cost	\$ 290,394
Total lease cost	\$ <u>290,394</u>

Supplemental balance sheet information related to leases is as follows as of June 30, 2023:

Operating lease:	
Operating lease, right-of-use assets	\$ <u>3,954,072</u>
Operating lease liability, current	\$ 155,880
Operating lease liability, non-current	<u>3,798,192</u>
Total operating lease liabilities	\$ <u><u>3,954,072</u></u>

Weighted-average remaining lease term:

Operating lease	20.54 years
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Weighted-average discount rate:

Operating lease	3.30%
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Future undiscounted cash flows for each of the next five years and thereafter and a reconciliation to the lease liabilities recognized on the balance sheet are as follows as of June 30, 2023:

Year Ending June 30,	Operating Leases
2024	\$ 290,394
2025	272,779
2026	261,457
2027	260,004
2028	260,004
Thereafter	<u>4,095,063</u>
Total lease payments	5,439,701
Less imputed interest	<u>(1,485,629)</u>
Total present value of lease liabilities	\$ <u><u>3,954,072</u></u>

NOTES TO FINANCIAL STATEMENTS

Lessee Leases (continued)

The following is a summary of future minimum lease payments under non-cancelable operating leases as of June 30, 2022:

<u>Year Ending</u>	<u>Amount</u>
2023	\$ 294,972
2024	291,696
2025	276,896
2026	261,379
2027	260,004

Total operating lease expenses for the year ended June 30, 2022 totaled \$299,257, \$260,004 of which was due to building rent.

12. Lessor Leases

The Organization leases property under various non-cancelable operating leases with three tenants (all related parties). The leases expire at various times through March 2039, with right to extend for one to five-year terms. Aggregate monthly payment totaled \$10,417 for the years ended June 30, 2023 and 2022, respectively.

Future minimum rental payments to be received from the leases is as follows:

<u>Year Ending</u>	<u>Amount</u>
2024	\$ 125,004
2025	113,004
2026	77,004
2027	77,004
2028	77,004
Thereafter	57,753
	<u>\$ 651,777</u>

Rental income related to lessor leases totaled \$125,004 and \$125,234 for the years ended June 30, 2023 and 2022, respectively, and is included in facilities rentals in the accompanying statements of operations and changes in net assets.

NOTES TO FINANCIAL STATEMENTS

13. Net Assets With Donor Restrictions

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

	2023	2022
Subject to expenditure for specified purpose		
Seminarians/Diaconate	\$ 196,047	\$ 187,032
Retired religious women	74,160	74,160
Indian missions	130,233	128,944
Evangelization	124,875	135,475
Formation programs	88,179	139,543
Catholic school's administration	327,091	182,022
Safe environment	47,214	62,214
Other miscellaneous programs	173,925	186,705
	<u>1,161,724</u>	<u>1,096,095</u>
Subject to passage of time		
Bishop's residence	<u>387,000</u>	<u>405,000</u>
Subject to spending policy and appropriation		
Original donor-restricted endowment gift amount and amounts required to be maintained by donor		
Seminar Education	1,327,847	1,327,847
Endowed Care – Regina Cleri	605,393	605,393
Scholarship assistance	80,095	80,095
Mass foundation for intentions	73,428	73,428
Priest and seminarian formation	58,441	58,441
Catholic Organization Hughes Diocesan news	150,000	150,000
Catholic Organization Catholic Schools – general funds for Catholic School Department	199,458	85,023
Unappropriated earnings from endowment funds	<u>1,450,899</u>	<u>1,163,927</u>
	<u>3,945,561</u>	<u>3,544,154</u>
Beneficial interest in perpetual trust	<u>1,316,636</u>	<u>1,272,442</u>
	<u>5,262,197</u>	<u>4,816,596</u>
Total net assets with donor restrictions	<u>\$ 6,810,921</u>	<u>\$ 6,317,691</u>

NOTES TO FINANCIAL STATEMENTS

14. Donor-Restricted Endowment Funds

Changes in endowment net assets for the year ended June 30, 2023:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, June 30, 2022	\$ -	\$ 3,544,154	\$ 3,544,154
Investment return			
Investment income	-	36,791	36,791
Net depreciation	-	262,571	262,571
Total investment return	-	299,362	299,362
Contributions	-	114,435	114,435
Appropriation of funds for expenditure	-	(12,390)	(12,390)
Endowment net assets, June 30, 2023	\$ -	\$ 3,945,561	\$ 3,945,561

Changes in endowment net assets for the year ended June 30, 2022:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, June 30, 2021	\$ -	\$ 3,974,568	\$ 3,974,568
Investment return			
Investment income	-	26,322	26,322
Net appreciation	-	(445,731)	(445,731)
Total investment return	-	(419,409)	(419,409)
Transfers between funds	-	(11,005)	(11,005)
Endowment net assets, June 30, 2022	\$ -	\$ 3,544,154	\$ 3,544,154

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

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

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

NOTES TO FINANCIAL STATEMENTS

16. 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, 2023 and 2022; 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 January of 2021, the plan is 86.2% 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 and to all participants as of January 1, 2020. All active employees whose start date was before January 1, 2007 and were therefore participants in the Lay Employees' Pension Plan were eligible to participate in the 403(b) effective January 1, 2020.

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 50% of the employee's contribution up to a maximum of \$2,000 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 \$2,000 annually. Non-matching employer contributions are also discretionary. Employees are 100% vested in employee and employer contributions at all times.

NOTES TO FINANCIAL STATEMENTS

Retirement Plans (continued)

403(b) Plans (continued)

For the years ended June 30, 2023 and 2022, matching and discretionary contributions were contributed for eligible employees totaling \$127,928 and \$109,161, respectively.

17. Employee Health Care Benefits Trust

Through June 2022, pursuant to a service agreement with participating Catholic organizations operating within the boundaries of the Diocese of Tucson, the Diocese of Tucson provided an employee health care benefits insurance program, covering health care benefits for employees of the Diocese and of the participating Catholic organizations. Additional coverage was obtained through a captive health care benefit company, and various health care benefit policies. The Diocese assessed a proportionate share of the health care benefit premiums including estimated self-insurance costs to the participating Catholic organizations.

Effective July 1, 2022, the Employee Health Care Benefits Trust ("EHCBT") was created as a separate legal entity to administer the health care benefits program for the employees of the Diocese and participating Catholic organizations. All activities pertaining to the health care benefits program, formerly administered by the Diocese of Tucson are now performed by the EHCBT including assessing and collecting from the participating Catholic organizations and paying out amounts needed to settle claims which fall within the provisions of the policies comprising the health care benefits program.

In July 2022, the Diocese contributed approximately \$3.75 million in assets to the EHCBT, which is reported as grants and subsidies expense in the accompanying statement of operations and changes in net assets. Prior to the formation of the EHCBT, the Diocese was responsible for paying the health care claims up to certain maximums, as specified in the various policies, for claims assessed against the employees of the participating Catholic organizations and/or the Diocese of Tucson. Since the EHCBT now holds the assets and has the responsibility to settle future claims, management, in accordance with ASC 450, *Contingencies*, recorded a decrease of approximately \$3.75 million in the custodial funds held for others liability, which is reported as other revenues in the accompanying statement of operations and changes in net assets. The balance of the portion of the custodial funds held for others liability related to the employee health care benefits programs totaled \$0 and \$3,752,833 as of June 30, 2023 and 2022, respectively.

18. Commitments and Contingencies

Guarantees

The Diocese of Tucson's Bishop has guaranteed the debt of the following separately incorporated entities: Our Lady of Grace Parish, Our Lady of Fatima, St. Pius Parish, St. John Neumann Parish, St. Michael the Archangel Parish, San Felipe de Jesus Parish, and Corpus Christi Parish. Guaranteed debt outstanding as of June 30, 2023 and 2022 is approximately \$7.9 million and \$8.5 million, respectively. The Organization believes the likelihood of having to make payments under the guarantee is remote and no liabilities are recorded as of June 30, 2023 and 2022 in the accompanying financial statements.

NOTES TO FINANCIAL STATEMENTS

19. Evaluation of Subsequent Events

The Organization evaluated subsequent events through February 9, 2024, which represents the date the financial statements were available to be issued, and concluded that no additional disclosures are required.