CATHOLIC COMMUNITY FOUNDATION FOR THE DIOCESE OF PHOENIX

FINANCIAL STATEMENTS

Year Ended June 30, 2019

CATHOLIC COMMUNITY FOUNDATION FOR THE DIOCESE OF PHOENIX

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CONTENTS

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of

CATHOLIC COMMUNITY FOUNDATION FOR THE DIOCESE OF PHOENIX

We have audited the accompanying financial statements of ***Catholic Community Foundation for the Diocese of Phoenix*** (a nonprofit organization), which comprise the statement of financial position as of June 30, 2019, and the related statements of activities and change in net assets and cash flows for the year then ended, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 entity'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 entity'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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ***Catholic Community Foundation for the Diocese of Phoenix*** as of June 30, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, ***Catholic Community Foundation for the Diocese of Phoenix*** adopted Financial Accounting Standards Update ("ASU") No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, in 2019. Our opinion is not modified with respect to this matter.

Mayer Hoffman McCann P.C.

September 17, 2019

CATHOLIC COMMUNITY FOUNDATION FOR THE DIOCESE OF PHOENIX

STATEMENT OF FINANCIAL POSITION

June 30, 2019

A S S E T S

CASH AND CASH EQUIVALENTS	$ 69,089
CONTRIBUTIONS RECEIVABLE, net	141,367
INVESTMENTS (NOTE 2)	66,940,166
SPLIT INTEREST AGREEMENTS (NOTE 3)	2,576,829
CHARITABLE LEAD ANNUITY TRUST	159,164
PROPERTY AND EQUIPMENT, net	13,763
PREPAIDS AND OTHER ASSETS	185,322
TOTAL ASSETS	$ 70,085,700

L I A B I L I T I E S   A N D   N E T   A S S E T S

GRANTS PAYABLE (NOTE 4)	$ 864,155
ACCOUNTS PAYABLE AND ACCRUED EXPENSES	338,699
PRESENT VALUE OF ANNUITY PAYMENTS (NOTE 3)	1,406,653
AGENCY ENDOWMENT FUNDS (NOTE 5)	17,532,502
AGENCY SAVINGS AND GROWTH FUNDS (NOTE 5)	7,702,627
TOTAL LIABILITIES	27,844,636
NET ASSETS	
Without donor restrictions	
Board designated	9,781,315
Undesignated	6,864,725
Total net assets without donor restrictions	16,646,040
With donor restrictions (NOTE 6)	25,595,024
TOTAL NET ASSETS	42,241,064
TOTAL LIABILITIES AND NET ASSETS	$ 70,085,700

CATHOLIC COMMUNITY FOUNDATION FOR THE DIOCESE OF PHOENIX

STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS

Year Ended June 30, 2019

	Without donor restrictions	With donor restrictions	Total
CONTRIBUTIONS, REVENUES AND OTHER SUPPORT			
Contributions	$ 1,059,015	$ 1,016,607	$ 2,075,622
Change in donor intent	(168,916)	168,916	-
Investment return	1,198,231	1,108,003	2,306,234
Change in value of split-interest agreements	(84,905)	(6,517)	(91,422)
Total revenue before fundraising events and net assets released from restrictions	2,003,425	2,287,009	4,290,434
Fundraising events:			
Fundraising events revenue	548,494	-	548,494
Less: cost of direct donor benefits	(238,384)	-	(238,384)
Gross profit on fundraising events	310,110	-	310,110
Net assets released from restrictions	1,038,692	(1,038,692)	-
TOTAL CONTRIBUTIONS, REVENUES AND OTHER SUPPORT	3,352,227	1,248,317	4,600,544
EXPENSES			
Scholarships, grants, and awards	3,172,701	-	3,172,701
Salaries and wages	727,387	-	727,387
Employee benefits and taxes	202,291	-	202,291
Professional fees	215,006	-	215,006
Conferences and travel	41,130	-	41,130
Subscriptions and contract costs	61,268	-	61,268
Supplies	13,172	-	13,172
Facilities and operations	129,847	-	129,847
Venue and catering	47,005	-	47,005
Printing and design	45,824	-	45,824
Sponsorships	44,941	-	44,941
Tax expense	292,583	-	292,583
Other expenses	71,793	-	71,793
TOTAL EXPENSES	5,064,948	-	5,064,948
CHANGE IN NET ASSETS	(1,712,721)	1,248,317	(464,404)
NET ASSETS, BEGINNING OF YEAR AS RESTATED	18,358,761	24,346,707	42,705,468
NET ASSETS, END OF YEAR	$ 16,646,040	$ 25,595,024	$ 42,241,064

CATHOLIC COMMUNITY FOUNDATION FOR THE DIOCESE OF PHOENIX

STATEMENT OF CASH FLOWS

Year Ended June 30, 2019

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	$ (464,404)
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Net realized and unrealized gains on investments	(1,267,882)
Contributions restricted in perpetuity	(982,835)
Change in charitable lead annuity trust	22,873
Depreciation and amortization	5,977
Changes in operating assets and liabilities:	
Decrease (increase) in:	
Receivables	(85,042)
Prepaids and other assets	(171,726)
Increase (decrease) in:	
Grants payable	(219,463)
Accounts payable and accrued expenses	289,883
Present value of annuity payments	(117,656)
Agency funds	1,201,305
Net cash used in operating activities	(1,788,970)
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of investments	(22,116,621)
Proceeds from sale of investments	22,915,047
Purchases of property and equipment	(2,980)
Net cash provided by investing activities	795,446
CASH FLOWS FROM FINANCING ACTIVITIES	
Proceeds from receipt of contributions restricted in perpetuity	982,835
Net cash provided by financing activities	982,835
NET CHANGE IN CASH AND CASH EQUIVALENTS	(10,689)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	79,778
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 69,089
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITIES	
Realized and unrealized investment gains on agency endowment funds	$ (602,010)
Noncash grant of donor advised funds to an Agency Growth Fund	$ 745,568

(1) Foundation's operations and summary of significant accounting policies

Foundation operations – ***Catholic Community Foundation for the Diocese of Phoenix*** (the "Foundation") was incorporated on May 18, 1983 in Arizona as a nonprofit corporation governed by a board of directors consisting of the Bishop of Phoenix and his successor in office as the sole members. On September 3, 2003 the Foundation amended and restated its Articles of Incorporation. As a result, the Foundation is organized as a nonprofit organization with no members. Later in September 2003, the Foundation received a decree declaring its status as "an Autonomous Pious Foundation" under Canon law, acknowledging its management by primarily lay leadership, and no longer under the auspices of the Diocese of Phoenix.

The Foundation's purpose is to promote the Catholic faith by building financial resources that will benefit both the generations of today and tomorrow. The Foundation provides services and products to the community, including free consulting services for agencies, charitable giving vehicles for both individuals and agencies, as well as programs to help address the needs of the greater community of Arizona. As a financial institution, the Foundation focuses on asset protection, managing and building wealth with a Catholic values focus, and providing services for those in all stages of life (endowment management, estate planning, donor advised funds, charitable giving annuities, etc.). The Foundation's goal is to connect charitable organizations with financial need to those individuals who have the capacity and desire to give.

The significant accounting policies followed by the Foundation are summarized below:

Basis of presentation – The Foundation's financial statements are presented in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 958-205, *Not-for-Profit Entities – Presentation of Financial Statements*. Under FASB ASC 958-205, the Foundation is required to report information regarding their financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

The Foundation maintains its accounts on the accrual basis of accounting. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

<u>Net assets without donor restrictions</u> – Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Foundation. These net assets may be used at the discretion of the Foundation's management and the board of directors.

<u>Net assets with donor restrictions</u> – Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Foundation or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Change in donor intent – From time to time, the Foundation receives requests by donors or their designees to change the use for which the donor's original gift was intended. These donor requests may result in the reclassification of net assets between those with donor restrictions and those without.

Management's use of estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 these estimates.

(1) Foundation's operations and summary of significant accounting policies (continued)

Contributions – The Foundation accounts for contributions in accordance with FASB ASC 958-605, *Not-for-Profit Entities – Revenue Recognition*. Contributions received are recorded as contributions without donor restrictions or contributions with donor restrictions depending on the existence and/or nature of any donor restrictions. All donor-restricted support is reported as an increase in net assets with donor restrictions depending on the existence and/or nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities and change in net assets as net assets released from restrictions. Any contributions received whose restrictions are met in the same reporting period the contributions are received are reported as net assets without donor restrictions.

One donor comprised 22% of contributions for the year ended June 30, 2019. For the year ended June 30, 2019, the Foundation recognized $130,682 of contribution and fundraising event revenue from members of the Board of Directors and their respective business entities.

Contributions receivable – Contributions receivable (pledges) are recognized as revenues in the period the unconditional promise is received and as assets, decreases of liabilities or expenses depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Contributions receivable are stated at the amount management expects to collect. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual balances. Balances that are outstanding after management has used reasonable collection efforts are written off through a charge to an allowance for uncollectable accounts and a credit to contributions receivable. All contributions receivable are expected to be collected within one year.

Charitable lead annuity trust – The Foundation is the beneficiary of a charitable lead trust. Under the terms of the trust agreement, the Foundation is to receive a fixed payment annually over the specified terms in the trust agreement. Upon the termination of the trust agreement, the remaining trust assets are distributed to others. The charitable lead trust is carried at fair value. Based on the terms of the trust and the use of a discount rate of 4.25% for the year ended June 30, 2019, the present value of future benefits expected to be received by the Foundation were estimated to be $159,164 as of June 30, 2019.

Cash and cash equivalents – For purposes of reporting cash flows, cash and cash equivalents include liquid accounts with original maturities of three months or less that are not designated for investment purposes. Investments carried at fair value include certain liquid accounts which are generally not used in operations. Cash deposits are insured in limited amounts by the Federal Deposit Insurance Corporation ("FDIC").

(1) Foundation's operations and summary of significant accounting policies (continued)

Investments – The Foundation accounts for its investments in accordance with FASB ASC 958-320, *Not-for-Profit Entities – Investments – Debt and Equity Securities* and FASB ASC 958-325*, Not-for-Profit Entities – Investments – Other*. Under ASC 958-320, the Foundation is required to report investments in equity securities that have readily determinable fair values, and all investments in debt securities, at fair value. The fair value is based on quoted market prices. Real estate held for investment was recorded at fair value at the date the investments were donated and is periodically revalued through the use of a third party appraiser or other appropriate valuation methods, including the market and income approaches, when a third party appraisal is not available. In accordance with FASB ASC 958-325, the Foundation values its partnership interests at fair value. The partnership interests were recorded at fair value at the date the partnership interests were donated and are periodically revalued through the use of a third party appraiser or other appropriate valuation methods.

Investment return (including interest, dividends, unrealized gains and losses, and realized gains and losses on investments, and investment fees) is included in operations.

Investments are exposed to various risks such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in risks in the near term could materially affect account balances and the amounts reported in the accompanying financial statements.

Property and equipment and depreciation and amortization – Purchased property and equipment are valued at cost and donated property and equipment are recorded at fair value at the date of the gift to the Foundation. Maintenance and repairs are charged to operations when incurred. Generally, property and equipment in excess of $1,000 are capitalized. Property and equipment consists of furniture, fixtures, equipment, and leasehold improvements with a total cost of $114,258 and accumulated depreciation of $100,495 at June 30, 2019. Depreciation and amortization of property and equipment are computed on a straight-line basis over the lesser of the lease term or estimated useful lives of 3 to 7 years. Depreciation and amortization expense charged to operations was $5,977 for the year ended June 30, 2019.

Donated assets – Assets and other non-cash items donated to the Foundation are recorded as contributions at their estimated fair value at the date of donation. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire long lived assets are reported as restricted contributions. The Foundation records donations of property and equipment that are not restricted as to their use by the donor as contributions without donor restrictions and, accordingly, increases in net assets without donor restrictions. The Foundation reclassifies net assets with donor restrictions to net assets without donor restrictions when the donated assets are placed in service.

Functional allocations of expenses – The costs of providing various programs and other activities have been summarized by function and nature in Note 11 to the financial statements. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are charged to program and supporting services on the basis of personnel activity and other appropriate allocation methods. The management and general expense category includes those expenses that are not directly identifiable with any specific program, but provide for the overall support and direction of the Foundation and are allocated based on personnel activity or other appropriate indicators. Fundraising expenses include those expenses related to the overall acquisition of contributions to the Foundation.

(1) Foundation's operations and summary of significant accounting policies (continued)

Expenses that have been allocated include the following:

Expense	Allocation Basis
Salaries and employee related costs	Time incurred
Facilities and operations	Number of employees

Fair value measurements – FASB ASC 820, *Fair Value Measurement*, establishes a common definition for fair value to be applied to accounting principles generally accepted in the United States of America requiring use of fair value, establishes a framework for measuring fair value, and expands disclosures about such fair value measurements. FASB ASC 820 also establishes a hierarchy for ranking the quality and reliability of the information used to determine fair values by requiring that assets and liabilities carried at fair value be classified and disclosed in one of the following three categories:

Level 1: Unadjusted quoted market prices in active markets for identical assets or liabilities.

Level 2: Unadjusted quoted prices in active markets for similar assets or liabilities, unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable for the asset or liability.

Level 3: Unobservable inputs for the asset or liability.

Income tax status – The Foundation qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code (the "Code") and, accordingly, there is no provision for income taxes. In addition, the Foundation qualifies for the charitable contribution deduction under Section 170 of the Code and has been classified as an organization that is not a private foundation. Income determined to be unrelated business taxable income would be taxable. The Foundation evaluates its uncertain tax positions, if any, on a continual basis through review of its policies and procedures, review of its regular tax filings, and discussions with outside experts.

During the year ended June 30, 2019, the Foundation sold its partnership interest in Sage Hospice, LLC for $970,396 resulting in a gain on sale of approximately $85,000. As a result of this sale, the Foundation has accrued estimated income taxes of approximately $290,000 which is included in accounts payable and accrued expenses in the accompanying statement of financial position.

The Foundation's federal Return of Organization Exempt from Income Tax (Form 990) for fiscal 2016, 2017 and 2018 are subject to examination by the IRS, generally for three years after they were filed. The Foundation's fiscal 2019 return has not yet been filed as of the date of this report.

Recent accounting pronouncements – In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*. The core principle of ASU 2014-09 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. Additionally, ASU 2014-09 will require an entity to disclose sufficient information to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. For nonpublic entities, the ASU will be effective for annual reporting periods beginning after December 15, 2017 and interim periods within annual periods beginning after December 15, 2018. Nonpublic entities may elect to early adopt the ASU, however, adoption is not permitted prior to the public entity effective date.

(1) Foundation's operations and summary of significant accounting policies (continued)

In August 2015, the FASB issued FASB ASU No. 2015-14, *Revenue from Contracts with Customers (Topic 606)*, which changed the effective date of the provisions of FASB ASU No. 2014-09. As a result, the new effective dates for public business entities, certain not-for-profit entities, and certain employee benefit plans to apply the guidance in FASB ASU No. 2014-09 is for annual reporting periods beginning after December 15, 2017. All other entities should apply the guidance in FASB ASU No. 2014-09 to annual reporting periods beginning after December 15, 2018. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016. Transition to the new guidance may be done using either a full or modified retrospective method. The Foundation is currently evaluating the full effect that the adoption of this standard will have on the financial statements.

In June 2018, the FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958), Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. ASU 2018-08 is intended to clarify current guidance about whether a transfer of assets is a contribution or an exchange transaction. ASU 2018-08 is effective for annual periods beginning after December 15, 2019. Early adoption is permitted. The amendments of this ASU are to be applied on a modified prospective basis, but retrospective application is permitted. The Foundation is currently evaluating the full effect that the adoption of this standard will have on the financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842).* ASU 2016-02 requires that a lease liability and related right-of-use-asset representing the lessee's right to use or control the asset be recorded on the balance sheet upon the commencement of all leases except for short-term leases. Leases will be classified as either finance leases or operating leases, which are substantially similar to the classification criteria for distinguishing between capital leases and operating in existing lease accounting guidance. As a result, the effect of leases in the statement of activities and change in net assets and the statement of cash flows will be substantially unchanged from the existing lease accounting guidance. The ASU is effective for fiscal years beginning after December 15, 2019. Early adoption is permitted. The Foundation is currently evaluating the effect that the adoption of this standard will have on the financial statements.

In January 2016, the FASB issued ASU No. 2016-01, *Financial Instruments – Overall (Subtopic 825-10)*. ASU 2016-01 requires all equity investments to be measured at fair value with changes in the fair value recognized through net income (other than those accounted for under equity method of accounting or those that result in consolidation of the investee). ASU 2016-01 also requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. In addition, ASU 2016-01 eliminates the requirement to disclose the fair value of financial instruments measured at amortized cost for entities that are not public business entities and the requirement to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet for public business entities. The amendments in ASU 2016-01 are effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption of the amendments in ASU 2016-01 as of the fiscal years beginning after December 15, 2017, including interim periods within those fiscal years, is permitted for all entities that are not public business entities. The Foundation is currently evaluating the effect that the adoption of this standard will have on the financial statements.

(1) Foundation's operations and summary of significant accounting policies (continued)

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*. ASU 2016-14 improves the current net asset classification requirements and the information presented in financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows. ASU 2016-14 is effective for annual financial statements issued for fiscal years beginning after December 15, 2017. Early application is permitted. The amendments of this ASU are to be applied on a retrospective basis in the years that the ASU is first applied. The Foundation adopted ASU 2016-14 in 2019.

In accordance with the amendments of this ASU, the Foundation added a footnote to expand disclosures around the presentation of expenses by function and nature (Note 11). Additionally, the Foundation disclosed its liquidity and availability of resources (Note 12). As a result of the adoption of this ASU, certain donor-restricted endowment funds with fair values less than the amount required to be maintained by donors or by law (underwater endowments) had deficiencies of $77,104 that were reported as unrestricted net assets at June 30, 2018 and have been restated in beginning net assets as net assets with donor restrictions.

A summary of the beginning net asset reclassifications driven by the adoption of ASU 2016-14 is as follows:

	ASU 2016-14 Classifications		
Net Asset Classifications	**Without donor restrictions**	**With donor restrictions**	**Total**
As previously reported:			
Unrestricted	$ 18,281,657	$ -	$ 18,281,657
Underwater endowments	77,104	(77,104)	-
Temporarily restricted	-	9,890,845	9,890,845
Permanently restricted	-	14,532,966	14,532,966
Net assets, as reclassified	$ 18,358,761	$ 24,346,707	$ 42,705,468

Subsequent events – The Foundation has evaluated subsequent events through September 17, 2019 which is the date the financial statements were available to be issued.

(2) Investments

Investments consist of the following at June 30, 2019:

US equity mutual funds	$ 25,688,884
International equity mutual funds	16,504,359
Fixed income funds	20,551,157
Marketable limited partnerships	1,631,381
Cash and cash equivalents	1,792,214
Partnership interests	3,301,000
Real estate held for investment	48,000
Total	69,516,995
Investments in split interest agreements	(2,576,829)
Total investments	$ 66,940,166

(2) Investments (continued)

Investment return for the year ended June 30, 2019 consists of:

	Without donor restrictions	With donor restrictions	Totals
Interest, dividend, and fee income, net of fees	$ 558,059	$ 480,293	$ 1,038,352
Realized/unrealized gains on investments	640,172	627,710	1,267,882
Total investment return	$ 1,198,231	$ 1,108,003	$ 2,306,234

Partnership investment net losses of $191,266 were included in realized/unrealized gain on investments in 2019.

(3) Split interest agreements

At June 30, 2019, the Foundation administered 22 charitable gift annuities. The assets contributed under the charitable gift annuities are carried at fair value. The gift annuities totaling $2,576,829 at June 30, 2019, are included in investments in split interest agreements as identified in Note 2. Contribution revenues are recognized at the date the annuities are established after recording liabilities for the present value of the estimated future payments to be made to the donors and/or other beneficiaries. Present values are calculated using discount rates that reflect the fair value as determined at the time the annuities are established and range from 1.4% to 7.8%, and actuarial tables and guidelines used for calculating the available deduction for income tax purposes. The liabilities are adjusted for the accretion of the discount and other changes in the estimates of future benefits. The present value of the estimated annuity payments associated with the charitable gift annuities is $1,406,653 at June 30, 2019.

(4) Grants payable

Grants authorized, but unpaid are reported as liabilities in accordance with FASB ASC 958-720, *Not-for-Profit Entities – Other Expenses – Contributions Made.* The following is a summary of grants authorized and payable at June 30, 2019:

Christian Service Award Scholarships	$ 855,000
Designated grants payable	9,155
Total	$ 864,155

Grants payable to be paid in less than one year	$ 336,155
Grants payable to be paid in one to five years	528,000
Gross grants authorized but unpaid	$ 864,155

The discount on long-term grants payable was not material at June 30, 2019.

(5) Agency funds

The Foundation maintains variance power and legal ownership of the assets within the agency funds and as such continues to report the funds as cash and investments of the Foundation.

However, FASB ASC 958-605 establishes standards for transactions in which a community foundation accepts a contribution from a donor and agrees to transfer those assets, the return on investment of those assets, or both, to another entity that is specified by the donor. FASB ASC 958-605 specifically requires that if a not-for-profit organization ("NPO") establishes a fund at a community foundation with its own funds and specifies itself or one of its affiliates as the beneficiary of that fund, the community foundation must account for the transfer of such assets as a liability.

In accordance with FASB ASC 958-605, a liability has been established for the fair value of the funds, which is generally equivalent to the present value of future payments expected to be made to the NPOs.

The Foundation's agency funds consist of agency endowment funds, agency savings funds and agency growth funds. Agency endowment funds are intended to be perpetual in nature and distribute earnings to the beneficiaries on an annual basis. Agency savings funds provide a short-term investment option for fund beneficiaries with a guaranteed investment return of 1.25%. Agency growth funds provide a short-term investment option without a guaranteed return and an administrative fee is charged for holding and investing funds in accordance with the fund holder's requests.

The activity for the agency funds is summarized below:

Agency funds, beginning of the year	$ 23,431,814
Contributions	2,138,582
Investment income, net	520,632
Realized and unrealized investment gains	602,010
Distributions	(1,191,559)
Administration fees	(266,350)
Agency funds, end of year	$ 25,235,129

Agency funds consist of:	
Agency endowment funds	$ 17,532,502
Agency savings and growth funds	7,702,627
Total agency funds	$ 25,235,129

Both the liability and the assets are measured at fair value. The inputs used to determine the fair value of the invested assets are based upon the nature of the assets held in the agency funds. The inputs used to determine the fair value of the liability are based upon the fair value of the underlying assets of the agency funds. Since the fair value of the liability is based primarily upon the observable inputs used during the valuation of the assets but not based upon identical inputs for identical agency liabilities, the fair value inputs for the agency funds are considered to be Level 2 inputs in the fair value hierarchy.

(6) Net assets with donor restrictions

Net assets with donor restrictions include certain assets for which the donors stipulated the principal is to be maintained in perpetuity. The earnings and net appreciation on these funds are reported as follows:

- An increase in net assets with donor restrictions held in perpetuity if the terms of the gift or the Foundation's board interpretation of relevant state law require that they be added to the principal of a permanent endowment fund;
- An increase in net assets with donor restrictions for a specific purpose if the terms of the gift impose restrictions on the use of income; or
- An increase in net assets with donor restrictions for a specific period until appropriated for expenditure.

Net assets with donor restrictions for a specified purpose or time period consist primarily of earnings on net assets with donor restrictions held in perpetuity as described above, donor restricted quasi-endowments and scholarship funds. These earnings are donor designated for specific purposes including scholarships.

Net assets with donor restrictions are restricted for purposes or periods as follows at June 30, 2019:

Restricted for scholarships and other programs	$ 7,824,337
Net accumulated earnings on donor restricted endowments subject to the Foundation's spending policy	2,315,789
Total net assets subject to restriction for a specified purpose or time	10,140,126
Subject to restriction in perpetuity:	
Investments in perpetuity subject to donor restrictions	14,668,010
Annuity agreements	786,888
Total net assets subject to restriction in perpetuity	15,454,898
Total net assets with donor restrictions	$ 25,595,024

Net assets released from restrictions consist primarily of scholarship awards.

(7) Endowments

The Foundation's endowments consist of 185 individual donor restricted endowments and board designated endowments established for a variety of purposes as of June 30, 2019. Additionally, at June 30, 2019, the Foundation's endowments included 16 donor restricted quasi-endowments. As required by accounting principles generally accepted in the United States of America ("GAAP"), net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

In September 2008, the State of Arizona enacted ARS§10-11801 et seq Management of Charitable Funds Act ("MCFA"). The Board of Directors of the Foundation has interpreted MCFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary.

(7) Endowments (continued)

As a result of this interpretation, the Foundation classifies as net assets restricted in perpetuity (a) the original value of gifts donated to the permanent endowment, and (b) the original value of subsequent gifts to the permanent endowment. The remaining portion of the donor-restricted endowment fund that is not classified in net assets restricted in perpetuity is classified as net assets subject to purpose or time restrictions based on the presence or absence of direction from the donor and are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by MCFA.

The Foundation has adopted investment and spending policies for endowment assets that seek to provide a predictable stream of funding to programs supported by its endowments while maintaining the purchasing power of the endowment assets. The Foundation's spending and investment policies work together to achieve this objective. Actual returns in any given year may vary.

To achieve its investment objectives over long periods of time, the Foundation has adopted an investment strategy that invests in domestic and international equities, alternative, and fixed income investments. The majority of assets are invested in equity or equity-like securities. Fixed income assets are used to lower short-term volatility. Alternative investments diversify income streams and help to mitigate volatility of the underlying portfolio. Diversifications by asset class, investment style, etc. are employed to avoid undue risk concentration and enhance total return. The primary performance objective is to achieve an annualized total rate of return, net of investment fees, that is equal to or greater than 8% over long periods of time.

The spending policy determines the amount of money in a given year that will be distributed from the Foundation's various endowment assets, which includes agency, designated, restricted and unrestricted funds. The current spending policy is to distribute an amount equal to 4% of the previous twelve quarter rolling average balance of each fund’s assets at market value. New permanent endowment funds may withdraw up to 4% after the first full year (up to the third year) even if in existence less than twelve quarters.

Endowment funds with large contributions may also withdraw 4% based upon an average of less than twelve quarters. Based on the spending policy, over the long term, the Foundation expects its endowment assets to grow at the rate of inflation. This is consistent with the Foundation's objective to maintain the purchasing power of endowment assets as well as to provide additional real growth through new gifts and investment returns.

Endowment net asset composition by type of fund as of June 30, 2019 are as follows:

	Without donor restrictions	With donor restrictions	Total
Board designated endowment	$ 9,465,764	$ -	$ 9,465,764
Donor restricted quasi-endowment	-	2,893,888	2,893,888
Donor restricted endowments - held in perpetuity	-	14,668,010	14,668,010
Net accumulated earnings on donor restricted endowments subject to spending policies	-	2,315,789	2,315,789
Endowment net assets, total funds	$ 9,465,764	$ 19,877,687	$ 29,343,451

(7) Endowments (continued)

The changes in endowment net assets for the year ended June 30, 2019 are as follows:

	Without donor restrictions	With donor restrictions	Total
Endowment net assets, July 1, 2018	$ 9,653,091	$ 18,804,637	$ 28,457,728
Contributions	6,000	913,961	919,961
Change in donor intent	-	62,250	62,250
Investment return:			
Investment income	225,139	455,395	680,534
Realized and unrealized gains	293,703	641,660	935,363
Appropriation of endowment assets for expenditure	(712,169)	(1,000,216)	(1,712,385)
Endowment net assets, June 30, 2019	$ 9,465,764	$ 19,877,687	$ 29,343,451

Funds with Deficiencies – From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). The Foundation has interpreted MCFA to permit spending from underwater endowments in accordance with prudent measures required under law. The Foundation will cease spending from underwater endowment funds if they become 15% underwater until the principal has been recovered.

At June 30, 2019, funds with original gift values of $1,060,843, fair values of $983,665, and deficiencies of $77,178 were reported as net assets with donor restrictions.

(8) Pension plan

The Foundation participates in the Lay Employees Retirement Plan (the "Plan"), a multi-employer defined benefit pension plan administered by the Diocese. The Plan covers lay employees of the Diocese, the Central Administrative Office, the Diocesan High Schools, the parishes, and employees of the Foundation. Contributions to the Plan are based on salary levels of eligible employees. The Foundation made contributions to the Plan of $72,845 for the year ended June 30, 2019. The portion of the Plan's assets and liabilities allocable to the Foundation has not been determined with respect to accumulated benefits. In the event of withdrawals from the Plan and under certain other conditions, a contributor to a multi-employer plan may be liable to the Plan for a portion of the underfunded status, if any.

(9) Leases

The Foundation leases certain office space and furniture and fixtures from the Diocese of Phoenix, a separate civil and canonical institution, under an operating lease agreement. Upon expiration of the lease agreement on June 30, 2019, the Foundation renewed the lease with the Diocese of Phoenix for a reduced amount of office space, thereby reducing monthly rent costs. The Foundation also leases office equipment under an operating lease agreement with a term expiring in fiscal 2022. Total rental expense was $101,081 for the year ended June 30, 2019.

(9) Leases (continued)

Future minimum lease payments under noncancellable operating leases are as follows:

Years Ending June 30,		
2020	$	52,754
2021		7,874
2022		5,906
Total	$	66,534

(10) Fair value measurements

The following table sets forth the level, within the fair value hierarchy, of the Foundation's assets and liabilities subject to recurring fair value measurement as of June 30, 2019:

	(Level 1)	(Level 2)	(Level 3)	Total
International equity mutual funds:				
EAFE	$ 9,527,350	$ -	$ -	$ 9,527,350
Emerging market	4,124,563	-	-	4,124,563
Global equity	640,968	-	-	640,968
Asian	2,211,478	-	-	2,211,478
Total international equity mutual funds	16,504,359	-	-	16,504,359
U.S. equity mutual funds:				
U.S. large cap equity	18,526,550	-	-	18,526,550
U.S. mid cap equity	4,471,205	-	-	4,471,205
U.S. small cap equity	2,691,129	-	-	2,691,129
Total U.S. equity mutual funds	25,688,884	-	-	25,688,884
Fixed income funds:				
Fixed income bond funds	14,269,256	3,640,617	-	17,909,873
US treasury bonds	-	257,133	-	257,133
Corporate bonds	-	2,384,151	-	2,384,151
Total fixed income funds	14,269,256	6,281,901	-	20,551,157
Marketable limited partnerships	1,631,381	-	-	1,631,381
Partnership interests	-	-	3,301,000	3,301,000
Real estate held for investment	-	-	48,000	48,000
Charitable lead annuity trust	-	-	159,164	159,164
Agency fund liability	-	(25,235,129)	-	(25,235,129)

(10) Fair value measurements (continued)

The table below presents the change in fair value measurements that used Level 3 inputs during the year ended June 30, 2019:

	Partnership Interests	Real Estate Held for Investment	Charitable Lead Annuity Trust	Total
Balance at June 30, 2018	$ 4,439,789	$ 48,000	$ 182,037	$ 4,669,826
Sales	(970,396)	-	-	(970,396)
Realized gains	84,995	-	-	84,995
Net unrealized losses	(253,388)	-	(22,873)	(276,261)
Balance at June 30, 2019	$ 3,301,000	$ 48,000	$ 159,164	$ 3,508,164

The following table summarizes the significant unobservable inputs used in the valuation techniques for recurring fair value measurements for assets in Level 3 of the fair value hierarchy as of June 30, 2019:

Investment	Fair Value at June 30, 2019	Valuation Technique	Unobservable Inputs	Input Values
Partnership holding land in Verde Valley, AZ	$ 2,275,000	Market	Discount for lack of control	0% to 52.3% (16.2%)
			Discount for lack of marketability	23.5% - 35.3% (25%)
Partnership holding marketable securities	$ 981,000	Market	Discount for lack of control	1.2% - 41.8% (12%)
			Discount for lack of marketability	11.4% - 47.2% (25%)

(11) Functional expenses

The Foundation's expenses by function and nature for the year ended June 30, 2019:

	Grants and Scholarships Programs	Fundraising: Development and Fundraising	Fundraising: Crozier Gala	Management and General	Total
Scholarships, grants, and awards	$ 3,172,701	$ -	$ -	$ -	$ 3,172,701
Salaries and wages	88,258	203,633	85,370	350,126	727,387
Employee benefits and taxes	25,706	59,310	24,865	92,410	202,291
Professional fees	33,047	36,045	31,555	114,359	215,006
Conferences and travel	605	18,619	548	21,358	41,130
Subscriptions and contract costs	-	394	-	60,874	61,268
Supplies	895	2,340	33,812	6,936	43,983
Facilities and operations	20,698	34,751	16,032	58,366	129,847
Venue and catering	1,418	5,515	144,933	102,712	254,578
Printing and design	4,095	4,267	5,098	32,364	45,824
Sponsorships	44,941	-	-	-	44,941
Tax expense	-	-	-	292,583	292,583
Other expenses	688	5,697	8,733	56,675	71,793
Total	$ 3,393,052	$ 370,571	$ 350,946	$ 1,188,763	$ 5,303,332

(12) Liquidity and availability of resources

The Foundation's assets available within one year of the statement of financial position date for general expenditures consist of the following:

Cash and cash equivalents	$ 69,089
Contributions receivable	141,367
Investments, less real estate	66,892,166
Split interest agreements	2,576,829
Charitable lead annuity trust	159,164
Total financial assets available within one year	69,838,615
Less: contractual or donor-imposed restrictions making financial assets unavailable within one year:	
Restricted by donors with purpose restrictions	(7,824,337)
Donor restricted quasi-endowment, restricted in perpetuity	(15,454,898)
Investments held in trust, less amounts to be received within one year	(128,554)
Agency investments	(25,235,129)
Investments held for annuity agreements	(2,576,829)
Partnership interests	(3,301,000)
Board designations for quasi endowment funds, primarily for long-term investing, net of spending policy	(9,087,133)
Donor advised funds with an implied restriction of not available for general expenditures	(3,827,906)
Financial assets available to meet cash needs for general expenditures within one year	$ 2,402,829

The Foundation is substantially supported by the administrative fees that are earned through the management of the underlying investment balances of fund holders, which entails investment allocation decisions and performing administrative functions to operate and maintain the funds of donors. During fiscal year 2019, $687,000 of administrative fees were earned. These fees are available to be used at the discretion of management and are earned and reallocated to operations on a quarterly basis.

As part of the Foundation's liquidity management, the board has granted management discretion to utilize board designated assets to assist in addressing any financial distress or any immediate liquidity needs resulting from budget shortfalls or operating needs. The CEO has the ability to use up to $50,000 of quasi-endowment funds, in addition to the current year available to spend generated from these quasi-endowments, before approaching the board for further funding.

The Foundation expects to minimize operating costs, increase unrestricted contributions, retire inefficient programs, and increase assets under management to increase administrative revenue to negate the usage of quasi-endowments in the next 3 - 5 year period. However, no assurance can be made that management will be successful in its efforts. In addition, the Foundation generates operational funding from the annual gala which is partially used to support the general operations of the Foundation.

As part of the Foundation's liquidity management plan, the Foundation holds $150,000 as a target for liquidity to fulfill cash requirements that arise from the requests of fund holders and to meet operational needs. Cash in excess of the $150,000 are invested in short-term duration corporate bonds and money market accounts.