CATHOLIC COMMUNITY FOUNDATION

FINANCIAL STATEMENTS

Year Ended June 30, 2022

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CONTENTS

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of

CATHOLIC COMMUNITY FOUNDATION

Opinion

We have audited the financial statements of ***Catholic Community Foundation*** (the "Organization"), which comprise the statement of financial position as of June 30, 2022, 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.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as of June 30, 2022, 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.

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 Auditors' 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 audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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 for one year after the date that the financial statements are available to be issued.

Auditors' 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 auditors' 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.

Mayer Hoffman McCann P.C.

October 20, 2022

CATHOLIC COMMUNITY FOUNDATION

STATEMENT OF FINANCIAL POSITION

June 30, 2022

ASSETS

CASH AND CASH EQUIVALENTS	$ 59,713
CONTRIBUTIONS RECEIVABLE	1,901,878
INVESTMENTS (NOTE 2)	97,624,237
SPLIT INTEREST AGREEMENTS (NOTE 3)	2,672,086
CHARITABLE LEAD ANNUITY TRUST	57,527
PREPAIDS AND OTHER ASSETS	59,488
TOTAL ASSETS	$ 102,374,929

LIABILITIES AND NET ASSETS

GRANTS PAYABLE (NOTE 4)	$ 441,670
ACCOUNTS PAYABLE AND ACCRUED EXPENSES	96,391
PRESENT VALUE OF ANNUITY PAYMENTS (NOTE 3)	1,352,714
AGENCY ENDOWMENT FUNDS (NOTE 5)	19,645,472
AGENCY SAVINGS AND GROWTH FUNDS (NOTE 5)	22,552,936
TOTAL LIABILITIES	44,089,183
NET ASSETS	
Without donor restrictions	
Board designated	7,636,891
Undesignated	10,684,414
Total net assets without donor restrictions	18,321,305
With donor restrictions (NOTE 6)	39,964,441
TOTAL NET ASSETS	58,285,746
TOTAL LIABILITIES AND NET ASSETS	$ 102,374,929

See Notes to Financial Statements

CATHOLIC COMMUNITY FOUNDATION

STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS

Year Ended June 30, 2022

	Without donor restrictions	With donor restrictions	Total
CONTRIBUTIONS AND SUPPORT			
Contributions	$ 1,932,829	$ 10,817,591	$ 12,750,420
Investment loss	(3,686,970)	(5,476,735)	(9,163,705)
Change in value of split-interest agreements	(95,739)	65,303	(30,436)
Total contributions and support before fundraising events, transfers and net assets released from restrictions	(1,849,880)	5,406,159	3,556,279
Fundraising events:			
Fundraising events revenue	524,396	-	524,396
Less: cost of direct donor benefits	(110,540)	-	(110,540)
Gross profit on fundraising events	413,856	-	413,856
Million Dollar Match transfers	(800,997)	800,997	-
Net assets released from restrictions	1,737,635	(1,737,635)	-
TOTAL CONTRIBUTIONS, REVENUES AND OTHER SUPPORT	(499,386)	4,469,521	3,970,135
EXPENSES			
Scholarships, grants, and awards	2,827,592	-	2,827,592
Salaries and wages	677,235	-	677,235
Employee benefits and taxes	206,716	-	206,716
Professional fees	96,126	-	96,126
Conferences and travel	28,747	-	28,747
Subscriptions and contract costs	77,198	-	77,198
Supplies	16,524	-	16,524
Facilities and operations	79,342	-	79,342
Venue and catering	45,580	-	45,580
Printing and design	43,902	-	43,902
Sponsorships	68,848	-	68,848
Advertising and promotion	17,921	-	17,921
Other expenses	47,517	-	47,517
TOTAL EXPENSES	4,233,248	-	4,233,248
CHANGE IN NET ASSETS	(4,732,634)	4,469,521	(263,113)
NET ASSETS, BEGINNING OF YEAR	23,053,939	35,494,920	58,548,859
NET ASSETS, END OF YEAR	$ 18,321,305	$ 39,964,441	$ 58,285,746

See Notes to Financial Statements

CATHOLIC COMMUNITY FOUNDATION

STATEMENT OF CASH FLOWS

Year Ended June 30, 2022

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	$ (263,113)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Net realized and unrealized losses on investments	11,027,018
Net realized and unrealized losses on agency liability funds	(4,121,280)
Contributions restricted in perpetuity	(7,645,795)
Change in charitable lead annuity trust	52,933
Changes in operating assets and liabilities:	
Decrease (increase) in:	
Contributions receivable	845,220
Prepaids and other assets	(5,937)
Increase (decrease) in:	
Grants payable	(466,303)
Accounts payable and accrued expenses	4,965
Present value of annuity payments	(151,890)
Deferred revenue	(53,217)
Agency funds	6,241,666
Net cash provided by operating activities	5,464,267
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of investments	(48,614,921)
Proceeds from sale of investments	36,972,124
Proceeds from annuity contracts	67,783
Net cash used in investing activities	(11,575,014)
CASH FLOWS FROM FINANCING ACTIVITIES	
Proceeds from receipt of contributions restricted in perpetuity	5,845,795
Net cash provided by financing activities	5,845,795
NET CHANGE IN CASH AND CASH EQUIVALENTS	(264,952)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	324,665
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 59,713

See Notes to Financial Statements

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

Foundation operations – ***Catholic Community Foundation*** (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 2015, the Foundation received a decree declaring its status as a "Private Juridic Individual" under Canon Law, acknowledging its separation as an independent entity, 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 its 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 evaluates grants and contributions for evidence of the transfer of commensurate value from the Foundation to the grantor or resource provider. The transfer of commensurate value from the Foundation to the grantor or resource provider may include instances when a) the goods or services provided by the Foundation directly benefit the grantor or resource provider or are for the sole use of the grantor or resource provider or b) the grantor or resource provider obtains proprietary rights or other privileges from the goods or services provided by the Foundation. When such factors exist, the Foundation accounts for the grants or contributions as exchange transactions under ASC 606, *Revenue from Contracts with Customers*, or other appropriate guidance. In the absence of these factors, the Foundation accounts for the award under the contribution accounting model.

In the absence of the transfer of commensurate value from the Foundation to the resource provider, the Foundation evaluates the contribution for criteria indicating the existence of measurable barriers to entitlement for the Foundation or the right of return to the resource provider. A barrier to entitlement is subject to judgment and generally represents an unambiguous threshold for entitlement that provides clarity to both the Foundation and resource provider whether the threshold has been met and when. These factors may include measurable performance thresholds or limited discretion on the part of the Foundation to use the funds. Should the existence of a measurable barrier to entitlement exist and be accompanied by a right of return of the funds to the resource provider or release of the resource provider from the obligation, the contribution is treated as a conditional contribution. If both the barrier to entitlement and right of return do not exist, the contribution is unconditional.

The Foundation recognizes amounts received from unconditional contributions at the time the Foundation receives notification of the award. Contributions that include conditions imposed by the grantor or resource provider are recognized when those conditions are met by the Foundation.

The Foundation accounts for contributions in accordance with FASB ASC 958-605, *Not-for-Profit Entities – Revenue Recognition*. In accordance with FASB ASC 958-605, contributions received are recorded as contributions with donor restrictions or contributions without 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 on the statement of activities and change in net assets depending on the nature of the restriction. All contributions are considered to be available for use unless specifically restricted by the donor. 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. Additionally, contributions of land, buildings and equipment without donor stipulations concerning the use of such long-lived assets are reported as contributions without donor restrictions. Contributions of cash or other assets to be used to acquire land, buildings and equipment with such donor stipulations are reported as contributions with donor restrictions. The restrictions are considered to be released at the time such long-lived assets are placed into service.

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. Management considers contributions receivable fully collectible as of June 30, 2022, accordingly, an allowance is not considered necessary. Included within contributions receivable is a receivable from a single donor totaling $1,800,000.

(1) <u>Foundation's operations and summary of significant accounting policies (continued)</u>

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, 2022, the present value of future benefits expected to be received by the Foundation was estimated to be $57,527 as of June 30, 2022.

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").

Investments – The Foundation accounts for their equity securities in accordance with FASB ASC 958-321, *Not-for-Profit Entities – Investments – Equity Securities* and their debt securities in accordance with FASB ASC 958-320, *Not-for-Profit Entities – Investments – Debt Securities*. Under FASB ASC 958-320 and FASB ASC 958-321, the Foundation reports investments in equity and debt securities at fair value. The fair values of marketable equity securities with readily determinable fair values are based on quoted market prices. The fair value of fixed income securities are measured using quoted market prices multiplied by the quantity held when quoted market prices are observable. If quoted market prices are not available, fair value is determined using one, or a combination, of the following methods (1) a matrix pricing for similar bonds, (2) quoted prices for recent trading activity of assets with similar characteristics to the bond or (3) using an income approach valuation technique that considers, among other things, rates currently observed in publicly traded debt markets for debt of similar terms to companies with comparable credit risk and a credit value adjustment to consider the likelihood of counterparty nonperformance, after consideration for the impact of collateralization and netting agreements, if applicable.

As of June 30, 2022, the Foundation's investments in equity instruments without readily determinable fair values consisted of investments in non-traded partnership interests. The Foundation adjusts the carrying value of non-marketable equity securities up or down for observable price changes in orderly transactions for identical or similar investments of the same issuer and for impairment, if any (referred to as the measurement alternative). All gains and losses on non-marketable equity securities, realized and unrealized, are recognized in the statement of activities and change in net assets as changes in net assets.

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.

The Foundation is invested in several annuity contracts. Under the terms of the contracts, the Foundation receives fixed annual payments over the terms of the contracts. The annuity contract is carried at fair value. Based on the terms of the contracts and the use of a discount rate of 4.25% for the year ended June 30, 2022, the present value of the contracts is $406,401 as of June 30, 2022.

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

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, and equipment with a total cost of $78,303 and accumulated depreciation of $78,303 at June 30, 2022. 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. There was no depreciation and amortization expense charged to operations for the year ended June 30, 2022.

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.

Expenses that have been allocated include the following:

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

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.

(1) <u>Foundation's operations and summary of significant accounting policies (continued)</u>

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.

The Foundation's federal Return of Organization Exempt from Income Tax (Form 990) for fiscal 2019, 2020 and 2021 are subject to examination by the IRS, generally for three years after they were filed. The Foundation's fiscal 2022 return has not yet been filed as of the date of this report.

Recent accounting pronouncements –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, 2021. Early adoption is permitted. The Foundation is currently evaluating the effect that the adoption of this standard will have on the financial statements.

In September 2020, the FASB issued ASU No. 2020-07, *Not-for-Profit Entities (Topic 958) Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which requires the entity to present contributed nonfinancial assets in a separate line item in the statement of activities and change in net assets and disclose qualitative information about whether the contributed nonfinancial assets were either monetized or utilized during the reporting period. Additionally, the entity must disclose a description of the valuation techniques and inputs used to arrive at a fair value measure at initial recognition. The ASU is effective for fiscal years beginning after June 15, 2021. The adoption of this standard did not have a material impact on the Foundation's financial statements.

Subsequent events – The Foundation has evaluated subsequent events through October 20, 2022 which is the date the financial statements were available to be issued.

(2) Investments

Investments consist of the following at June 30, 2022:

Cash and cash equivalents	$ 3,919,276
Equity mutual funds	
US large cap mutual funds	27,720,691
US mid cap mutual funds	6,226,945
Developed international mutual funds	8,696,373
Emerging markets mutual funds	4,594,899
US small cap mutual funds	1,629,361
Other mutual funds	1,322,353
Total equity mutual funds	50,190,622
Fixed income	
Corporate bonds	16,865,947
Foreign government bonds	5,805,045
Pooled vehicle fixed income	7,995,372
Treasury bonds	6,891,312
Mortgage backed securities	3,793,276
Other fixed income	101,596
Total fixed income	41,452,548
Structured notes	1,051,136
Annuity contracts	406,401
Non-marketable partnership interests	3,228,340
Real estate held for investment	48,000
Total	100,296,323
Investments in split interest agreements	(2,672,086)
Total investments	$ 97,624,237

Investment loss for the year ended June 30, 2022 consists of:

	Without donor restrictions	With donor restrictions	Totals
Interest, dividend, and fee income, net of fees	$ 988,075	$ 875,238	$ 1,863,313
Realized/unrealized losses on investments	(4,675,045)	(6,351,973)	(11,027,018)
Total investment loss	$ (3,686,970)	$ (5,476,735)	$ (9,163,705)

(3) Split interest agreements

At June 30, 2022, the Foundation administered 20 charitable gift annuities. The assets contributed under the charitable gift annuities are carried at fair value. The gift annuities totaling $2,672,086 at June 30, 2022, 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 0.40% 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 $1,352,714 at June 30, 2022.

(4) Grants payable

The Foundation adopted the amendments of FASB ASU No. 2018-08, *Not-for-Profit Entities (Topic 958), Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made* in 2021 on a modified prospective basis. In accordance with ASU 2018-08, conditional scholarship grants are not recorded until the students meet the terms of the conditions (typically enrollment).

As of June 30, 2022, there are $660,000 of outstanding awards granted through scholarship programs which have not been accrued within the financial statements, as required by the ASU No. 2018-08. The students must satisfy the scholarship conditions annually to receive the future payments.

Prior to July 1, 2020, the Foundation recorded grants authorized, but unpaid, as liabilities. The following is a summary of grants authorized prior to July 1, 2020 and payable at June 30, 2022:

Grants payable to be paid in less than one year	$ 189,970
Grants payable to be paid in one to four years	251,700
Gross grants authorized but unpaid	$ 441,670

The discount on long-term grants payable was not material at June 30, 2022.

(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.

(5) Agency funds (continued)

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. Catholic savings funds provide a short-term investment option for fund beneficiaries with a guaranteed investment return. Catholic growth funds provide a mid to long-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	$ 40,078,022
Contributions	11,310,925
Investment income, net	686,351
Realized and unrealized investment losses	(4,121,280)
Distributions	(5,214,266)
Administration fees	(541,344)
Agency funds, end of year	$ 42,198,408

Agency funds consist of:	
Agency endowment funds	$ 19,645,472
Catholic savings and growth funds	22,552,936
Total agency funds	$ 42,198,408

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.

(6) Net assets with donor restrictions (continued)

Net assets with donor restrictions are restricted for purposes or periods as follows at June 30, 2022:

Restricted for scholarships and other programs	$ 10,388,347
Net accumulated earnings on donor restricted endowments subject to the Foundation's spending policy	2,077,039
Total net assets subject to restriction for a specified purpose or time	12,465,386
Subject to restriction in perpetuity:	
Investments in perpetuity subject to donor restrictions	24,862,277
Perpertually restricted contribution receivable	1,800,000
Annuity agreements	836,778
Total net assets subject to restriction in perpetuity	27,499,055
Total net assets with donor restrictions	$ 39,964,441

Net assets released from restrictions consist primarily of scholarship awards and annual endowment disbursements.

(7) Endowments

The Foundation’s endowments consist of 221 individual donor restricted endowments and board designated endowments established for a variety of purposes as of June 30, 2022. Additionally, at June 30, 2022, the Foundation’s endowments included 1 donor restricted quasi-endowment and 17 board designated 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.

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.

(7) Endowments (continued)

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 that is equal to or greater than the Consumer Price Index + 5.8% 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 and restricted funds. The normal 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.

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, 2022 are as follows:

	Without donor restrictions	With donor restrictions	Total
Board designated endowment	$ 7,636,891	$ -	$ 7,636,891
Donor restricted quasi-endowment	-	2,987,798	2,987,798
Donor restricted endowments - held in perpetuity	-	24,862,277	24,862,277
Net accumulated earnings on donor restricted endowments subject to spending policies	-	2,077,039	2,077,039
Endowment net assets, total funds	$ 7,636,891	$ 29,927,114	$ 37,564,005

The changes in endowment net assets for the year ended June 30, 2022 are as follows:

	Without donor restrictions	With donor restrictions	Total
Endowment net assets, July 1, 2021	$ 9,817,710	$ 28,638,589	$ 38,456,299
Contributions	351,198	5,825,152	6,176,350
Million Dollar Match transfers	(800,997)	800,997	-
Investment return:			
Investment income	191,110	677,950	869,060
Realized and unrealized losses	(1,534,332)	(4,963,706)	(6,498,038)
Appropriation of endowment assets for expenditure	(387,798)	(1,051,868)	(1,439,666)
Endowment net assets, June 30, 2022	$ 7,636,891	$ 29,927,114	$ 37,564,005

(7) Endowments (continued)

To encourage endowment building, the Foundation started the Million Dollar Match initiative, which offers a matching grant from the Foundation's board designated endowment to the donor restricted endowment fund that an individual contributes to, all of which are held at the Foundation. New gifts will be matched at 25% for new contributions made, up to $250,000 per individual or organization. During fiscal year 2022, the Foundation transferred approximately $801,000 in matching grants from the board designated endowment to the donor restricted endowments for a cumulative value of approximately $1,736,000 since the inception of the initiative.

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 and have a fair market value in excess of $20,000 until the principal has been recovered.

At June 30, 2022, funds with original gift values of $9,960,680, fair values of $9,100,237, and deficiencies of $860,443 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 of Phoenix. The Plan covers lay employees of the Diocese of Phoenix, 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 $68,371 for the year ended June 30, 2022. 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) Commitments and contingencies

Leases

The Foundation signed a lease agreement for office space expiring in July 2025. The Foundation also leases office equipment under an operating lease agreement with a term expiring in fiscal 2026. Total rental expense was $42,393 for the year ended June 30, 2022.

Future minimum lease payments under non-cancellable operating leases are as follows:

Years Ending June 30,	
2023	$ 42,134
2024	43,265
2025	44,429
2026	6,301
Total	$ 136,129

(9) Commitments and contingencies (continued)

Contingencies
On March 11, 2020, the World Health Organization declared the outbreak of a respiratory disease caused by a new coronavirus as a “pandemic”. First identified in late 2019 and now known as COVID-19, the outbreak has impacted millions of individuals worldwide. In response, many countries have implemented measures to combat the outbreak which have impacted global business operations. The extent of the impact of COVID-19 on the Foundation’s operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, and the impact on donors, employees, investment markets and vendors, all of which are uncertain and cannot be predicted.

(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, 2022:

	(Level 1)	(Level 2)	(Level 3)	Total
Equity mutual funds				
US large cap mutual funds	27,720,691	-	-	27,720,691
US mid cap mutual funds	6,226,945	-	-	6,226,945
Developed international mutual funds	8,696,373	-	-	8,696,373
Emerging markets mutual funds	4,594,899	-	-	4,594,899
US small cap mutual funds	1,629,361	-	-	1,629,361
Other mutual funds	1,322,353	-	-	1,322,353
Total equity mutual funds	50,190,622	-	-	50,190,622
Fixed income				
Corporate bonds	-	16,756,765	109,182	16,865,947
Foreign government bonds	-	5,805,045	-	5,805,045
Pooled vehicle fixed income	7,995,372	-	-	7,995,372
Treasury bonds	6,891,312	-	-	6,891,312
Mortgage backed securities	-	3,312,849	480,427	3,793,276
Other fixed income	-	101,596	-	101,596
Total fixed income	14,886,684	25,976,255	589,609	41,452,548
Structured notes	-	-	1,051,136	1,051,136
Annuity contracts	-	-	406,401	406,401
Charitable lead annuity trust	-	-	57,527	57,527
Agency fund liability	-	(42,198,408)	-	(42,198,408)

(10) Fair value measurements (continued)

As disclosed in Note 1, the Foundation measures its investments in non-marketable partnership interests at carrying value, less impairment, and adjusted for observable price changes in orderly transactions. During the year ended June 30, 2022, the Foundation did not recognize any changes in the fair value of its non-marketable partnership investments.

(11) Functional expenses

The Foundation's expenses by function and nature for the year ended June 30, 2022:

	Grants and Scholarships Programs	Development and Fundraising	Management and General	Total
Scholarships, grants, and awards	$ 2,827,592	$ -	$ -	$ 2,827,592
Salaries and wages	102,734	356,623	217,878	677,235
Employee benefits and taxes	30,771	106,817	69,128	206,716
Professional fees	600	27,295	68,231	96,126
Conferences and travel	256	10,810	17,681	28,747
Subscriptions and contract costs	149	16,785	60,264	77,198
Supplies	1,044	10,680	4,800	16,524
Facilities and operations	10,116	35,116	34,110	79,342
Venue and catering	294	144,787	11,039	156,120
Printing and design	573	14,664	28,665	43,902
Sponsorships	68,848	-	-	68,848
Advertising and promotion	-	14,344	3,577	17,921
Other expenses	-	5,792	41,725	47,517
Total	$ 3,042,977	$ 743,713	$ 557,098	$ 4,343,788

(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	$	59,713
Contributions receivable		1,901,878
Investments, less real estate		97,576,237
Split interest agreements		2,672,086
Charitable lead annuity trust		57,527
Total financial assets available within one year		102,267,441
Less: contractual or donor-imposed restrictions making financial assets unavailable within one year:		
Restricted by donors with purpose restrictions		(10,388,347)
Perpetually restricted contribution receivable		(1,800,000)
Donor restricted quasi-endowment, restricted in perpetuity		(25,699,055)
Investments held in trust, less amounts to be received within one year		(433,318)
Agency investments		(42,198,408)
Investments held for annuity agreements		(2,672,086)
Non marketable partnership interests		(3,228,340)
Board designations for quasi endowment funds, primarily for long-term investing, net of spending policy		(7,331,415)
Accumulated earnings on endowments, net of spending policy		(1,993,957)
Donor advised funds with an implied restriction of not available for general expenditures		(5,589,857)
Financial assets available to meet cash needs for general expenditures within one year	$	932,658

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 2022, $950,000 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 monthly basis.

As described in Note 7, the Foundation's endowment 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 normal 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.

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.

(12) Liquidity and availability of resources (continued)

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 various investment vehicles including corporate bonds, money market accounts and equities.

(13) Concentrations

For the year ended June 30, 2022, the Foundation recognized $653,400 of contribution and fundraising event revenue from members of the Board of Directors and their respective business entities. Additionally, one donor comprised approximately 51% of total contributions for the year ended June 30, 2022.