CATHOLIC COMMUNITY FOUNDATION

FINANCIAL STATEMENTS

Year Ended June 30, 2020

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CONTENTS

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of

CATHOLIC COMMUNITY FOUNDATION

We have audited the accompanying financial statements of ***Catholic Community Foundation*** (a nonprofit organization), which comprise the statement of financial position as of June 30, 2020, 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*** as of June 30, 2020, 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.

Mayer Hoffman McCann P.C.

September 22, 2020

CATHOLIC COMMUNITY FOUNDATION

STATEMENT OF FINANCIAL POSITION

June 30, 2020

ASSETS

CASH AND CASH EQUIVALENTS	$ 6,348
CONTRIBUTIONS RECEIVABLE, net	139,370
INVESTMENTS (NOTE 2)	68,659,055
SPLIT INTEREST AGREEMENTS (NOTE 3)	2,411,171
CHARITABLE LEAD ANNUITY TRUST	135,319
PREPAIDS AND OTHER ASSETS	15,292
TOTAL ASSETS	$ 71,366,555

LIABILITIES AND NET ASSETS

GRANTS PAYABLE (NOTE 4)	$ 1,022,650
ACCOUNTS PAYABLE AND ACCRUED EXPENSES	132,875
DEFERRED REVENUE	195,282
PRESENT VALUE OF ANNUITY PAYMENTS (NOTE 3)	1,353,591
AGENCY ENDOWMENT FUNDS (NOTE 5)	17,236,585
AGENCY SAVINGS AND GROWTH FUNDS (NOTE 5)	7,851,216
TOTAL LIABILITIES	27,792,199
NET ASSETS	
Without donor restrictions	
Board designated	9,306,191
Undesignated	8,211,924
Total net assets without donor restrictions	17,518,115
With donor restrictions (NOTE 6)	26,056,241
TOTAL NET ASSETS	43,574,356
TOTAL LIABILITIES AND NET ASSETS	$ 71,366,555

See Notes to Financial Statements

CATHOLIC COMMUNITY FOUNDATION

STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS

Year Ended June 30, 2020

	Without donor restrictions	With donor restrictions	Total
CONTRIBUTIONS, REVENUES AND OTHER SUPPORT			
Contributions	$ 2,279,902	$ 1,880,764	$ 4,160,666
Investment return	751,603	777,464	1,529,067
Change in value of split-interest agreements	(162,183)	(1,784)	(163,967)
Total revenue before net assets released from restrictions	2,869,322	2,656,444	5,525,766
Net assets released from restrictions	2,195,227	(2,195,227)	-
TOTAL CONTRIBUTIONS, REVENUES AND OTHER SUPPORT	5,064,549	461,217	5,525,766
EXPENSES			
Scholarships, grants, and awards	2,976,201	-	2,976,201
Salaries and wages	587,506	-	587,506
Employee benefits and taxes	166,936	-	166,936
Professional fees	143,371	-	143,371
Conferences and travel	20,012	-	20,012
Subscriptions and contract costs	45,234	-	45,234
Supplies	3,652	-	3,652
Facilities and operations	72,525	-	72,525
Venue and catering	30,799	-	30,799
Printing and design	38,123	-	38,123
Sponsorships	29,490	-	29,490
Advertising and promotion	26,006	-	26,006
Other expenses	52,619	-	52,619
TOTAL EXPENSES	4,192,474	-	4,192,474
CHANGE IN NET ASSETS	872,075	461,217	1,333,292
NET ASSETS, BEGINNING OF YEAR	16,646,040	25,595,024	42,241,064
NET ASSETS, END OF YEAR	$ 17,518,115	$ 26,056,241	$ 43,574,356

CATHOLIC COMMUNITY FOUNDATION

STATEMENT OF CASH FLOWS

Year Ended June 30, 2020

CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$	1,333,292
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Net realized and unrealized gains on investments		(471,893)
Contributions restricted in perpetuity		(781,933)
Assignment of annuity contracts		(394,987)
Change in charitable lead annuity trust		23,845
Provision for bad debts		2,500
Loss on sale of property and equipment		12,396
Depreciation and amortization		1,367
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Contributions receivable		(503)
Prepaids and other assets		(2,322)
Increase (decrease) in:		
Grants payable		158,495
Accounts payable and accrued expenses		(205,824)
Present value of annuity payments		(53,062)
Deferred revenue		195,282
Agency funds		(340,873)
Net cash used in operating activities		(524,220)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments		(23,238,483)
Proceeds from sale of investments		22,856,773
Proceeds from annuity contracts		61,256
Net cash used in investing activities		(320,454)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from receipt of contributions restricted in perpetuity		781,933
Net cash provided by financing activities		781,933
NET CHANGE IN CASH AND CASH EQUIVALENTS		(62,741)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR		69,089
CASH AND CASH EQUIVALENTS, END OF YEAR	$	6,348
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITIES		
Realized and unrealized investment gains on agency funds	$	(193,545)

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 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 adopted the amendments of FASB Accounting Standards Update (“ASU”) No. 2018-08, *Not-For-Profit Entities (Topic 958), Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made* effective July 1, 2019 on a modified prospective basis for contributions received. ASU 2018-08 clarifies the characterization of grants as either reciprocal transaction (exchanges) or nonreciprocal transactions (contributions). ASU 2018-08 also provides additional guidance to distinguish between conditional and unconditional contributions. In accordance with ASU 2018-08, 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.

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

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, 2020, the present value of future benefits expected to be received by the Foundation was estimated to be $135,319 as of June 30, 2020.

Annuity contracts – 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, 2020, the present value of the contracts is $506,083 as of June 30, 2020.

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.

Prior to July 1, 2019, the Foundation accounted for non-marketable equity securities at fair value with unrealized and realized gains and losses recognized in the statement of activities and change in net assets as increases or decreases in net assets.

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

On July 1, 2019, the Foundation adopted ASUs 2016-01 and 2018-03 which changed the accounting for non-marketable equity securities through the adoption of a practical expedient. As of July 1, 2019, 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. The ASUs were adopted prospectively as permitted by the ASU, resulting in no impact to beginning net assets.

As of June 30, 2020, the Foundation's investments in equity instruments without readily determinable fair values consisted of investments in non-traded partnership interests which are further described in Note 2.

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, and equipment with a total cost of $78,303 and accumulated depreciation of $78,303 at June 30, 2020. 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 $1,367 for the year ended June 30, 2020.

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.

The Foundation's federal Return of Organization Exempt from Income Tax (Form 990) for fiscal 2017, 2018 and 2019 are subject to examination by the IRS, generally for three years after they were filed. The Foundation's fiscal 2020 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 (Topic 606)* that will supersede most current revenue recognition guidance, including industry-specific guidance. The core principle of the new guidance is that an entity will recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include the capitalization and amortization of certain contract costs, ensuring the time value of money is considered in the transaction price, and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. Additionally, the guidance requires disclosures related to the nature, amount, timing, and uncertainty of revenue that is recognized.

(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. Transition to the new guidance may be done using either a full or modified retrospective method. The Foundation adopted this standard as of July 1, 2019, using a modified retrospective approach, and the guidance is applied to the most current period presented, recognizing the cumulative effect of the adoption change as an adjustment to beginning net assets. The timing of revenue recognition was not affected by the adoption of Topic 606. As a result, there were no adjustment to net assets as of July 1, 2019.

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*, which clarifies the scope and accounting guidance for contributions received and contributions made. ASU 2018-08 clarifies the characterization of grants and similar contracts with governmental agencies as either reciprocal transactions (exchanges) or nonreciprocal transactions (contributions). ASU 2018-08 also provides additional guidance to distinguish between conditional and unconditional contributions. The amendments of ASU 2018-08 in which an entity is the resource recipient is effective for annual periods beginning after December 15, 2018. The amendments of ASU 2018-08 in which the entity is the resource provider is effective for annual periods beginning after December 15, 2019. The Foundation adopted the amendments of the ASU for which the Foundation is the resource recipient during fiscal 2020 using the modified prospective approach. There was no impact on the Foundation's financial statements as a result of adoption. The Foundation is currently evaluating the effect that the adoption of the amendments of the ASU in which the Foundation is the resource provider 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, 2020. Early adoption is permitted. The Foundation is currently evaluating the effect that the adoption of this standard will have on the financial statements.

In June 2020, the FASB issued ASU No. 2020-05, *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842),* which allows certain entities to elect to defer the effective date of provisions of FASB ASU No. 2014-09 and ASU No. 2016-02. These entities may elect to adopt the guidance for revenue for annual reporting periods beginning after December 15, 2019. Additionally, under the amendments, entities may elect to adopt the lease guidance for fiscal years beginning after December 15, 2021.

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

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows* (*Topic 230*). This ASU requires that a statement of cash flows explain the change during the period in the total cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments in the ASU do not provide a definition of restricted cash or restricted cash equivalents. The ASU is effective for all nonpublic business entities for fiscal years beginning after December 15, 2018. There was no impact to the Foundation's financial statements as a result of the adoption during 2020.

In August 2018, the FASB issued ASU No. 2018-03, *Fair Value Measurement (Topic 820)*. This ASU simplifies the disclosures of fair value measurements including transfers between Level 1 and Level 2 investments as well as the valuation process for Level 3 fair value measurements. The ASU is effective for fiscal years beginning after December 15, 2019 and the amendments should be applied prospectively. Early adoption is permitted. The Foundation adopted the standard in fiscal 2020 and therefore updated disclosures in Note 10.

Subsequent events – The Foundation has evaluated subsequent events through September 22, 2020 which is the date the financial statements were available to be issued.

(2) Investments

Investments consist of the following at June 30, 2020:

US equity mutual funds	$ 25,440,500
International equity mutual funds	15,899,382
Fixed income funds	14,466,264
Corporate bonds	6,613,915
Marketable limited partnerships	3,167,568
Cash and cash equivalents	1,700,174
Annuity contracts	506,083
Non-marketable partnership interests	3,228,340
Real estate held for investment	48,000
Total	71,070,226
Investments in split interest agreements	(2,411,171)
Total investments	$ 68,659,055

Investment return for the year ended June 30, 2020 consists of:

	Without donor restrictions	With donor restrictions	Totals
Interest, dividend, and fee income, net of fees	$ 518,334	$ 538,840	$ 1,057,174
Realized/unrealized gains on investments	233,269	238,624	471,893
Total investment return	$ 751,603	$ 777,464	$ 1,529,067

(3) Split interest agreements

At June 30, 2020, the Foundation administered 21 charitable gift annuities. The assets contributed under the charitable gift annuities are carried at fair value. The gift annuities totaling $2,411,171 at June 30, 2020, 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 0.6% 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 $1,353,591 at June 30, 2020.

(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, 2020:

Grants payable to be paid in less than one year	$	324,875
Grants payable to be paid in one to five years		697,775
Gross grants authorized but unpaid	$	1,022,650

The discount on long-term grants payable was not material at June 30, 2020.

(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. 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	$ 25,235,129
Contributions	1,892,753
Investment income, net	425,674
Realized and unrealized investment gains	193,545
Distributions	(2,387,202)
Administration fees	(272,098)
Agency funds, end of year	$ 25,087,801

Agency funds consist of:	
Agency endowment funds	$ 17,236,585
Agency savings and growth funds	7,851,216
Total agency funds	$ 25,087,801

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) <u>Net assets with donor restrictions (continued)</u>

Net assets with donor restrictions are restricted for purposes or periods as follows at June 30, 2020:

Restricted for scholarships and other programs	$ 7,812,073
Net accumulated earnings on donor restricted endowments subject to the Foundation's spending policy	2,034,085
Total net assets subject to restriction for a specified purpose or time	9,846,158
Subject to restriction in perpetuity:	
Investments in perpetuity subject to donor restrictions	15,508,611
Annuity agreements	701,472
Total net assets subject to restriction in perpetuity	16,210,083
Total net assets with donor restrictions	$ 26,056,241

Net assets released from restrictions consist primarily of scholarship awards.

(7) <u>Endowments</u>

The Foundation's endowments consist of 191 individual donor restricted endowments and board designated endowments established for a variety of purposes as of June 30, 2020. Additionally, at June 30, 2020, the Foundation's endowments included 17 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.

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, 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.

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, 2020 are as follows:

	Without donor restrictions	With donor restrictions	Total
Board designated endowment	$ 9,306,191	$ -	$ 9,306,191
Donor restricted quasi-endowment	-	2,863,637	2,863,637
Donor restricted endowments - held in perpetuity	-	15,508,611	15,508,611
Net accumulated earnings on donor restricted endowments subject to spending policies	-	2,034,085	2,034,085
Endowment net assets, total funds	$ 9,306,191	$ 20,406,333	$ 29,712,524

The changes in endowment net assets for the year ended June 30, 2020 are as follows:

	Without donor restrictions	With donor restrictions	Total
Endowment net assets, July 1, 2019	$ 9,465,764	$ 19,877,687	$ 29,343,451
Contributions	150,000	720,677	870,677
Transfers	(119,618)	119,618	-
Investment return:			
Investment income	203,810	441,282	645,092
Realized and unrealized gains	90,217	184,722	274,939
Appropriation of endowment assets for expenditure	(483,982)	(937,653)	(1,421,635)
Endowment net assets, June 30, 2020	$ 9,306,191	$ 20,406,333	$ 29,712,524

(7) Endowments (continued)

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, 2020, funds with original gift values of $1,931,457, fair values of $1,782,508, and deficiencies of $148,949 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 $57,957 for the year ended June 30, 2020. 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
During the year ended June 30, 2020, the Foundation leased 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 April 30, 2020, the Foundation signed a lease agreement for a new office space with a new lessor expiring in July 2025. The Foundation also leases office equipment under an operating lease agreement with a term expiring in fiscal 2022. Total rental expense was $34,652 for the year ended June 30, 2020.

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

Years Ending June 30,		
2021	$	46,762
2022		42,456
2023		37,693
2024		38,824
2025		39,989
Thereafter		3,341
Total	$	209,065

Commitments
To encourage endowment building, the Foundation started the Million Dollar Match initiative, which offers a matching grant to individuals that contribute to an endowment fund held at the Foundation. New gifts will be matched at 50% for new contributions made, up to $50,000 per individual. During fiscal year 2020, the Foundation paid out approximately $120,000 in matching grants.

(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, and vendors, all of which are uncertain and cannot be predicted. Additionally, the outbreak could impact the Foundation's ability to receive contributions and collections of receivables. As a result of the pandemic, the Annual Crozier Gala was postponed and as of June 30, 2020, $195,282 of funds received for the gala were included in deferred revenue on the statement of financial position.

As of the date the financial statements were available to be issued, the Foundation's operations have not been significantly negatively impacted. However, the Foundation continues to closely monitor the situation. Depending on the severity and duration of the pandemic, the Foundation could experience a material negative impact to operations, cash flow, and financial condition. However, the extent of the impact cannot be reasonable estimated at this time.

(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, 2020:

	(Level 1)	(Level 2)	(Level 3)	Total
International equity mutual funds:				
EAFE	$ 7,874,048	$ -	$ -	$ 7,874,048
Emerging market	3,672,629	-	-	3,672,629
Global equity	923,199	-	-	923,199
Asian	3,429,506	-	-	3,429,506
Total international equity mutual funds	15,899,382	-	-	15,899,382
U.S. equity mutual funds:				
U.S. large cap equity	20,198,490	-	-	20,198,490
U.S. mid cap equity	3,186,247	-	-	3,186,247
U.S. small cap equity	2,055,763	-	-	2,055,763
Total U.S. equity mutual funds	25,440,500	-	-	25,440,500
Fixed income bond funds	14,466,264	-	-	14,466,264
Corporate bonds	-	6,613,915	-	6,613,915
Marketable limited partnerships	3,167,568	-	-	3,167,568
Annuity contracts	-	-	506,083	506,083
Charitable lead annuity trust	-	-	135,319	135,319
Agency fund liability	-	(25,087,801)	-	(25,087,801)

(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, 2020, the Foundation recognized impairment of $72,659 in the carrying value of one non-marketable partnership investment resulting from a decline in value of the underlying partnership investments in securities below the Foundation's carrying value. The impairment charge is recognized as a nonrecurring level three fair value measurement. The impairment charge has been recorded by the Foundation in investment return in the accompanying statement of activities and change in net assets.

(11) Functional expenses

The Foundation's expenses by function and nature for the year ended June 30, 2020:

	Grants and Scholarships Programs	Development and Fundraising	Management and General	Total
Scholarships, grants, and awards	$ 2,976,201	$ -	$ -	$ 2,976,201
Salaries and wages	77,143	265,719	244,644	587,506
Employee benefits and taxes	21,638	74,742	70,556	166,936
Professional fees	-	8,750	134,621	143,371
Conferences and travel	648	7,200	12,164	20,012
Subscriptions and contract costs	-	2,395	42,839	45,234
Supplies	109	1,529	2,014	3,652
Facilities and operations	6,582	26,606	39,337	72,525
Venue and catering	2,166	19,993	8,640	30,799
Printing and design	271	17,080	20,772	38,123
Sponsorships	29,490	-	-	29,490
Advertising and promotion	2,900	1,339	21,767	26,006
Other expenses	-	10	52,609	52,619
Total	$ 3,117,148	$ 425,363	$ 649,963	$ 4,192,474

(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	$ 6,348
Contributions receivable	139,370
Investments, less real estate	68,611,055
Split interest agreements	2,411,171
Charitable lead annuity trust	135,319
Total financial assets available within one year	71,303,263
Less: contractual or donor-imposed restrictions making financial assets unavailable within one year:	
Restricted by donors with purpose restrictions	(7,812,073)
Donor restricted quasi-endowment, restricted in perpetuity	(16,210,083)
Investments held in trust, less amounts to be received within one year	(546,410)
Agency investments	(25,087,801)
Investments held for annuity agreements	(2,411,171)
Non marketable partnership interests	(3,228,340)
Board designations for quasi endowment funds, primarily for long-term investing, net of spending policy	(8,933,943)
Accumulated earnings on endowments, net of spending policy	(1,952,722)
Donor advised funds with an implied restriction of not available for general expenditures	(3,771,868)
Financial assets available to meet cash needs for general expenditures within one year	$ 1,348,852

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 2020, $672,000 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.

(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, 2020, the Foundation recognized $438,231 of contribution and fundraising event revenue from members of the Board of Directors and their respective business entities. Approximately 12% of contributions were received from one donor in the year ended June 30, 2020.