CATHOLIC COMMUNITY FOUNDATION FOR THE DIOCESE OF PHOENIX

FINANCIAL STATEMENTS

Year Ended June 30, 2016

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CONTENTS

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of

CATHOLIC COMMUNITY FOUNDATION FOR THE DIOCESE OF PHOENIX

We have audited the accompanying financial statements of ***Catholic Community Foundation for the Diocese of Phoenix***, which comprise the statement of financial position as of June 30, 2016, and the related statements of activities and changes 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 for the Financial Statements

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ***Catholic Community Foundation for the Diocese of Phoenix*** as of June 30, 2016, 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.

Other Matters

Correction of Error

During the year ended June 30, 2016, items were identified by management which required adjustment to the previously issued 2015 financial statements. As described in Note 17, certain funds were previously classified as agency endowment funds instead of permanently restricted endowment funds, certain funds were also previously classified as unrestricted funds instead of permanently restricted endowment funds and other related matters. The classification of these funds and net assets as of June 30, 2015 has been restated for the effects of these adjustments. Our opinion is not modified with respect to this matter.

Mayer Hoffman McCann P.C.

August 2, 2018

CATHOLIC COMMUNITY FOUNDATION FOR THE DIOCESE OF PHOENIX

STATEMENT OF FINANCIAL POSITION

June 30, 2016

ASSETS

CASH AND CASH EQUIVALENTS	$ 1,087,910
RECEIVABLES, net (NOTE 2)	104,335
INVESTMENTS (NOTE 3)	52,369,793
SPLIT INTEREST AGREEMENTS (NOTE 4)	2,091,564
CHARITABLE LEAD ANNUITY TRUST	225,026
PROPERTY AND EQUIPMENT, net (NOTE 5)	35,359
TOTAL ASSETS	$ 55,913,987

LIABILITIES AND NET ASSETS

GRANTS PAYABLE (NOTE 6)	$ 1,036,532
ACCOUNTS PAYABLE AND ACCRUED EXPENSES	81,314
PRESENT VALUE OF ANNUITY PAYMENTS, net (NOTE 4)	1,382,356
AGENCY ENDOWMENT FUNDS (NOTE 8)	15,672,678
AGENCY SAVINGS FUNDS (NOTE 8)	5,495,964
LINE OF CREDIT (NOTE 7)	80,000
TOTAL LIABILITIES	23,748,844
NET ASSETS	
Unrestricted:	
Board designated (NOTE 9)	1,796,308
Undesignated	13,857,542
Total unrestricted	15,653,850
Temporarily restricted (NOTE 10)	2,448,517
Permanently restricted (NOTE 11)	14,062,776
TOTAL NET ASSETS	32,165,143
TOTAL LIABILITIES AND NET ASSETS	$ 55,913,987

See Notes to Financial Statements

CATHOLIC COMMUNITY FOUNDATION FOR THE DIOCESE OF PHOENIX

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year Ended June 30, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
CONTRIBUTIONS, REVENUES AND OTHER SUPPORT				
Contributions	$ 1,100,947	$ 258,883	$ 93,346	$ 1,453,176
Investment return	(10,546)	33,676	(27,692)	(4,562)
Change in value of split-interest agreements	(207,912)	-	(94,795)	(302,707)
Total revenue before fundraising events and net assets released from restrictions	882,489	292,559	(29,141)	1,145,907
Fundraising events:				
Fundraising events revenue	451,306	-	-	451,306
Less: cost of direct donor benefits	(131,267)	-	-	(131,267)
Gross profit on fundraising events	320,039	-	-	320,039
Change in donor intent	(50,000)	(782,595)	832,595	-
Net assets released from restrictions	1,082,475	(1,082,475)	-	-
TOTAL CONTRIBUTIONS, REVENUES AND OTHER SUPPORT	2,235,003	(1,572,511)	803,454	1,465,946
EXPENSES				
Program services:				
Grants and scholarships	2,089,484	-	-	2,089,484
Management and general	1,568,188	-	-	1,568,188
Fundraising (NOTE 15)	43,162	-	-	43,162
TOTAL EXPENSES	3,700,834	-	-	3,700,834
CHANGE IN NET ASSETS	(1,465,831)	(1,572,511)	803,454	(2,234,888)
NET ASSETS, BEGINNING OF YEAR (as previously stated)	18,601,218	4,050,205	9,772,055	32,423,478
PRIOR PERIOD ADJUSTMENTS	(1,481,537)	(29,177)	3,487,267	1,976,553
NET ASSETS, BEGINNING OF YEAR (as restated)	17,119,681	4,021,028	13,259,322	34,400,031
NET ASSETS, END OF YEAR	$ 15,653,850	$ 2,448,517	$ 14,062,776	$ 32,165,143

See Notes to Financial Statements

CATHOLIC COMMUNITY FOUNDATION FOR THE DIOCESE OF PHOENIX

STATEMENT OF CASH FLOWS

Year Ended June 30, 2016

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	$ (2,234,888)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Net realized and unrealized losses on investments	634,809
Permanently restricted contributions	(93,346)
Change in charitable lead annuity trust	20,188
Depreciation and amortization	16,928
Provision for uncollectible pledges	37,813
Changes in operating assets and liabilities:	
Decrease (increase) in:	
Receivables	(3,732)
Prepaid expenses and other current assets	4,770
Increase (decrease) in:	
Grants payable	(35,302)
Accounts payable and accrued expenses	(5,983)
Present value of annuity payments, net	8,186
Agency endowment funds	3,442,751
Net cash provided by operating activities	1,792,194
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of investments	(55,337,511)
Proceeds from sale of investments	52,614,642
Purchases of property and equipment	(3,343)
Net cash used in investing activities	(2,726,212)
CASH FLOWS FROM FINANCING ACTIVITIES	
Proceeds from borrowings on line of credit	80,000
Proceeds from receipt of permanently restricted contributions	93,346
Net cash provided by financing activities	173,346
NET CHANGE IN CASH AND CASH EQUIVALENTS	(760,672)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,848,582
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 1,087,910
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITIES	
Realized and unrealized investment losses on agency endowment funds	$ 399,656

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

Organization operations – ***Catholic Community Foundation for the Diocese of Phoenix*** (the "Foundation") was incorporated on May 18, 1983 in Arizona as a nonprofit corporation governed by a board of directors consisting of the Bishop of Phoenix and his successor in office as the sole members. On September 3, 2003 the Foundation amended and restated its Articles of Incorporation. As a result, the Foundation is organized as a nonprofit organization with no members. Later in September 2003, the Foundation received a decree declaring its status as "an Autonomous Pious Foundation" under Canon law, acknowledging its management by primarily lay leadership, and no longer under the auspices of the Diocese of Phoenix. The Foundation was formerly known as Catholic Community Foundation; however it adopted its current name in October 2015.

The purpose of the Foundation includes the solicitation, receiving, holding, investing, reinvesting and administering of donor-restricted funds or property and donated unrestricted funds or property. The endowment and memorial funds provided through the Foundation's activities continue to support the religious, communication, educational, and charitable objectives of the Roman Catholic Church, as well as the charitable objectives of Catholic philanthropists who reside primarily in the area served by the Diocese of Phoenix.

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 three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

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 unrestricted, temporarily restricted, or permanently restricted net assets.

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.

Contributions – The Foundation accounts for contributions in accordance with FASB ASC 958-605, *Not-for-Profit Entities – Revenue Recognition*. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the existence and/or nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and changes in net assets as net assets released from restrictions. Any contributions received whose restrictions are met in the same reporting period the contributions are received are reported as unrestricted.

For the year ended June 30, 2016, the Foundation recognized approximately $153,000 of contribution and fundraising event revenue from members of the Board of Directors.

(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.

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, 2016, the present value of future benefits expected to be received by the Foundation were estimated to be $225,026 as of June 30, 2016.

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

Investment return (including interest, dividends, unrealized gains and losses, and realized gains and losses on investments) 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. 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.

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

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 unrestricted contributions and, accordingly, increases in unrestricted net assets. The Foundation reclassifies temporarily restricted net assets to unrestricted net assets when the donated assets are placed in service.

Advertising – Advertising costs are charged to operations when incurred. Advertising expense charged to operations was $3,553 for the year ended June 30, 2016.

Functional allocations of expenses – The costs of providing various programs and other activities have been summarized on a functional basis in the accompanying statement of activities and changes in net assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on 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. Fundraising expenses include those expenses related to the overall acquisition of contributions to the Foundation.

Fair value measurements – FASB ASC 820, *Fair Value Measurements*, 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 2014, 2015 and 2016 are subject to examination by the IRS, generally for three years after they were filed.

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

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

In August 2015, the FASB issued ASU No. 2015-14, *Revenue from Contracts with Customers (Topic 606)*, which changed the effective date of the provisions of 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 ASU No. 2014-09 is for annual reporting periods beginning after December 15, 2017. All other entities should apply the guidance in ASU No. 2014-09 to annual reporting periods beginning after December 15, 2018. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016. Transition to the new guidance may be done using either a full or modified retrospective method. The Foundation is currently evaluating the full effect that the adoption of this standard will have on the financial statements.

In 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 changes in net assets and the statement of cash flows will be substantially unchanged from the existing lease accounting guidance. The ASU is effective for fiscal years beginning after December 15, 2019. Early adoption is permitted. The Foundation is currently evaluating the effect that the adoption of this standard will have on the financial statements.

FASB ASU 2014-15, *Presentation of Financial Statements—Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*. The amendments in ASU 2014-15 are intended to define management's responsibility to evaluate whether there is substantial doubt about an organization's ability to continue as a going concern and to provide related footnote disclosures. FASB ASU 2014-15 is effective for annual periods ending after December 15, 2016, and interim periods within annual periods beginning after December 15, 2016. The Foundation elected to early adopt ASU 2014-15 during 2016 without significant impact to the financial statements.

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958), Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 improves the current net asset classification requirements and the information presented in financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows. ASU 2016-14 is effective for annual financial statements issued for fiscal years beginning after December 15, 2017. Early application is permitted. The amendments of this ASU are to be applied on a retrospective basis in the year that the ASU is first applied. The Foundation is currently evaluating the full effect that the adoption of this standard will have on the financial statements.

Subsequent events – The Foundation has evaluated subsequent events through August 2, 2018 which is the date the financial statements were available to be issued.

(2) Receivables

Receivables consist of the following as of June 30, 2016:

Contributions receivable	$ 108,983
Allowance for uncollectable accounts	(4,648)
Total receivables	$ 104,335

Receivables 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, less the allowance for uncollectable accounts, are expected to be collected within one year.

(3) Investments

Investments consist of the following at June 30, 2016:

U.S. equity mutual funds	$ 20,442,591
International equity mutual funds	14,030,116
Fixed income funds	12,690,759
Marketable limited partnerships	3,374,407
Cash and cash equivalents	966,994
Partnership interests	2,908,490
Real estate held for investment	48,000
Total	54,461,357
Investments in split interest agreements	(2,091,564)
Total investments	$ 52,369,793

Expenses relating to investment revenues, including custodial fees and investment advisory fees of $169,114 for the year ended June 30, 2016 were included in investment return in the accompanying statement of activities and changes in net assets.

Investment return for the year ended June 30, 2016 consists of:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
Interest, dividend, and fee income	$ 394,237	$ 236,272	$ -	$ 630,509
Realized and unrealized losses on investments	(404,783)	(202,596)	(27,692)	$ (635,071)
Total investment return	$ (10,546)	$ 33,676	$ (27,692)	$ (4,562)

Partnership investment losses of $27,510 were included in realized/unrealized losses on investments in 2016.

(4) Split interest agreements

At June 30, 2016, the Foundation administered 27 charitable gift annuities. The assets contributed under the charitable gift annuities are carried at fair value. The gift annuities totaling $2,091,564 at June 30, 2016 are included in investments in split interest agreements as identified in Note 3. 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 2% to 8.4%, 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 $1,382,356 at June 30, 2016.

(5) Property and equipment

Property and equipment consists of the following as of June 30, 2016:

Furniture, fixtures, and equipment	$ 74,648
Leasehold improvements	30,823
Total cost	105,471
Accumulated depreciation and amortization	(70,112)
Net property and equipment	$ 35,359

Depreciation and amortization expense charged to operations was $16,928 for the year ended June 30, 2016.

(6) 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, 2016:

Christian service scholarships	$ 674,000
Designated grants payable	362,532
Total	$ 1,036,532
Grants payable to be paid in less than one year	$ 624,532
Grants payable to be paid in one to five years	412,000
Gross grants authorized but unpaid	$ 1,036,532

The discount on long-term grants payable was not material at June 30, 2016.

(7) Line of credit

The Foundation has a $200,000 unsecured line of credit with a bank. The line of credit bore interest at the Wall Street Journal prime rate plus 1% through February 2016 at which time the line matured and was extended. Under the modified terms of the agreement, the line of credit bears interest at the Wall Street Journal prime rate plus .94% (4.44% at June 30, 2016) and matured February 2017, and was not renewed. Under the terms of the line of credit, the Foundation is required to maintain compliance with certain non-financial covenants. There was $80,000 outstanding on the line of credit as of June 30, 2016.

(8) Agency funds

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

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

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

The Foundation's agency funds consist of agency endowment funds as well as agency savings 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.

The activity for the agency funds is summarized below:

Agency funds, beginning of the year (as restated)	$ 18,125,547
Contributions	4,081,335
Investment income, net	343,770
Realized and unrealized investment losses	(399,656)
Distributions	(761,606)
Administration fees	(220,748)
Agency funds, end of year	$ 21,168,642

Agency funds consist of:	
Agency endowment funds	$ 15,672,678
Agency savings funds	5,495,964
Total agency funds	$ 21,168,642

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.

(9) Board designated net assets

Board designated net assets consist of unrestricted net assets that are set aside by the Board of Directors as part of a match program relating to parishes and schools. The net assets can be reclassified as undesignated by a vote from the Board of Directors.

(10) Temporarily restricted net assets

Temporarily restricted net assets consist primarily of earnings on permanently restricted assets and scholarship funds. These earnings are donor designated for specific purposes including scholarships. Net assets released from restrictions consist primarily of scholarship awards.

(11) Permanently restricted net assets

Permanently restricted net assets consist of funds 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 permanently restricted net assets 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 temporarily restricted net assets if the terms of the gift impose restrictions on the use of income; or
- An increase in temporarily restricted net assets until appropriated for expenditure.

(12) Endowments

The Foundation's endowments consist of 177 individual donor restricted endowment funds established for a variety of purposes. 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 permanently restricted net assets (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 permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by MCFA.

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

To achieve its investment objectives over long periods of time, the Foundation has adopted an investment strategy that invests in domestic and international equities, 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. Diversifications by asset class, investment style, etc. are employed to avoid undue risk concentration and enhance total return. The primary performance objective is to achieve an annualized total rate of return, net of investment fees, that is equal to or greater than 8% over long periods of time.

(12) Endowments (continued)

The spending policy determines the amount of money in a given year that will be distributed from the Foundation's various endowment assets, which includes agency, designated, restricted and unrestricted funds. The current spending policy is to distribute an amount equal to 4% of the previous twelve quarter rolling average balance of each fund's assets at market value. New permanent endowment funds may withdraw up to 4% after the first full year (up to the third year) even if in existence less than twelve quarters. Endowment funds with large contributions may also withdraw 4% based upon an average of less than twelve quarters. Based on the spending policy, over the long term, the Foundation expects its endowment assets to grow at the rate of inflation. This is consistent with the Foundation's objective to maintain the purchasing power of endowment assets as well as to provide additional real growth through new gifts and investment returns.

The Foundation's endowments consist entirely of donor-restricted endowment funds. The changes in endowment net assets for the year ended June 30, 2016 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets,				
June 30, 2015 (as restated)	$ (143,091)	$ 1,529,894	$ 12,703,234	$ 14,090,037
Contributions	-	-	93,346	93,346
Change in donor intent	-	-	832,595	832,595
Investment return:				
Investment income	13,825	217,190	-	231,015
Realized and unrealized losses	(107,338)	(138,904)	-	(246,242)
Appropriation of endowment assets for expenditure	(30,851)	(616,715)	-	(647,566)
Endowment net assets,				
June 30, 2016	$ (267,455)	$ 991,465	$ 13,629,175	$ 14,353,185

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or MCFA requires the Foundation to retain as a fund of perpetual duration. In accordance with accounting principles generally accepted in the United States of America, deficiencies of this nature reported in unrestricted net assets were $267,455 as of June 30, 2016. These deficiencies resulted from unfavorable market fluctuations.

(13) 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 approximately $138,000 for 2016. 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.

(14) Leases

The Foundation leases certain office space and furniture and fixtures from the Diocese of Phoenix under an operating lease agreement through June 30, 2019. The Foundation also leases office equipment under an operating lease agreement with a term expiring in fiscal 2018. Total rental expense was approximately $104,000 for the year ended June 30, 2016.

Future minimum lease payments under noncancellable operating leases with terms in excess of one year are as follows:

Years Ending June 30,		
2017	$	100,912
2018		103,752
2019		100,445
Total	$	305,109

(15) Fundraising expense

Fundraising expenses consist of development costs and expenses and an allocation of indirect expenses for fundraising events as follows:

Events	$	36,001
Promotions		1,434
Professional services		5,425
Supplies		302
Total fundraising expense	$	43,162

(16) 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, 2016:

	(Level 1)	(Level 2)	(Level 3)	Total
International equity mutual funds:				
EAFE	$ 7,108,158	$ -	$ -	$ 7,108,158
European	2,215,662	-	-	2,215,662
Emerging market	2,381,844	-	-	2,381,844
Asian	2,324,452	-	-	2,324,452
Total international equity mutual funds	14,030,116	-	-	14,030,116
U.S. equity mutual funds:				
U.S. large cap equity	10,857,720	-	-	10,857,720
U.S. mid cap equity	4,119,970	-	-	4,119,970
U.S. small cap equity	5,464,901	-	-	5,464,901
Total U.S. equity mutual funds	20,442,591	-	-	20,442,591
Fixed income funds	12,690,759	-	-	12,690,759
Marketable limited partnerships	3,374,407	-	-	3,374,407
Partnership interests	-	-	2,908,490	2,908,490
Real estate held for investment	-	-	48,000	48,000
Charitable lead annuity trust	-	-	225,026	225,026
Agency endowment fund liability	-	(21,168,642)	-	(21,168,642)

The table below presents the change in fair value measurements that used Level 3 inputs during the year ended June 30, 2016:

	Partnership Interests	Real Estate Held for Investment	Charitable Lead Annuity Trust	Total
Balance at June 30, 2015	$ 2,936,000	$ 48,000	$ 245,214	$ 3,229,214
Unrealized losses	(27,510)	-	(20,188)	(47,698)
Balance at June 30, 2016	$ 2,908,490	$ 48,000	$ 225,026	$ 3,181,516

(16) Fair value measurements (continued)

The following table summarizes the significant unobservable inputs used in the valuation techniques for recurring fair value measurements for assets in Level 3 of the fair value hierarchy as of June 30, 2016:

Investment	Fair Value at June 30, 2016	Valuation Technique	Unobservable Inputs	Input Values
Partnership holding land in Verde Valley, AZ	$ 1,687,000	Market	Discount to Net Asset Value	5.9% to 67.2% (39%)
			Adjustments to comparable real estate sales	-54.6% to 59.8% (3%)
Partnership holding marketable securities	$ 1,176,490	Market	Discount to Net Asset Value	-39.3% to 21% (12%)
Charitable lead annuity trust	$ 225,026	Discounted Cash Flows	Discount to Net Asset Value	4.25%

(17) Prior period adjustments

During the year ended June 30, 2016, additional analysis by management identified that certain amounts previously classified as agency liabilities in the statement of financial position should be reported as permanently restricted endowment funds, funds previously classified as unrestricted in the statement of financial position should be reported as endowment funds and other related matters. As a result of these adjustments, the Foundation recognized an increase to permanently restricted net assets of $3,487,267, a decrease to temporarily restricted net assets of $29,177, a decrease to unrestricted net assets of $1,481,537, an increase to pledges receivable of $62,500 and a decrease in agency fund liabilities of $1,914,053 as of June 30, 2015.