

CATHOLIC EDUCATION FOUNDATION, INC.

FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

CPAs / ADVISORS



CATHOLIC EDUCATION FOUNDATION, INC.

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REPORT OF INDEPENDENT AUDITORS

The Board of Directors
Catholic Education Foundation, Inc.
Louisville, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of Catholic Education Foundation, Inc. (the Foundation), which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities and cash flows for the years 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 auditor's 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 the Foundation as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Blue & Co., LLC

Louisville, Kentucky
October 26, 2018

CATHOLIC EDUCATION FOUNDATION, INC.

STATEMENTS OF FINANCIAL POSITION JUNE 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 734,216	\$ 887,066
Investments	21,475,365	20,271,874
Interest receivable	56,288	57,807
Pledges receivable, current portion	630,957	708,330
Prepaid expenses	<u>11,012</u>	<u>26,180</u>
Total current assets	22,907,838	21,951,257
Pledges receivable, less current portion	723,182	605,092
Net property and equipment	<u>8,373</u>	<u>12,144</u>
Total assets	<u>\$ 23,639,393</u>	<u>\$ 22,568,493</u>
 LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 106,624	\$ 12,042
Net assets		
Unrestricted net assets	2,549,245	3,029,184
Temporarily restricted net assets	2,683,052	3,009,478
Permanently restricted net assets	<u>18,300,472</u>	<u>16,517,789</u>
Total net assets	<u>23,532,769</u>	<u>22,556,451</u>
Total liabilities and net assets	<u>\$ 23,639,393</u>	<u>\$ 22,568,493</u>

See accompanying notes to financial statements.

CATHOLIC EDUCATION FOUNDATION, INC.

STATEMENTS OF ACTIVITIES YEARS ENDED JUNE 30, 2018 AND 2017

	2018			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and support				
Contributions	\$ 1,537,510	\$ 793,244	\$ 1,282,683	\$ 3,613,437
Special event revenue-Salute Dinner	808,023	149,500	0	957,523
Special event revenue-The Game Luncheon	215,617	105,250	0	320,867
In-kind donations	59,233	0	0	59,233
Total revenues, support and gains	<u>2,620,383</u>	<u>1,047,994</u>	<u>1,282,683</u>	<u>4,951,060</u>
Net assets released from restrictions	<u>1,497,268</u>	<u>(1,497,268)</u>	<u>0</u>	<u>0</u>
Total revenues and support and net assets released from restrictions	4,117,651	(449,274)	1,282,683	4,951,060
Expenses				
Fundraising				
Special event expense-Salute Dinner	250,958	0	0	250,958
Special event expense-The Game Luncheon	86,529	0	0	86,529
Salaries and salary-related expenses	525,301	0	0	525,301
Other fundraising expenses	23,119	0	0	23,119
Total fundraising	<u>885,907</u>	<u>0</u>	<u>0</u>	<u>885,907</u>
Education grants	3,847,497	0	0	3,847,497
Administrative expenses	658,745	0	0	658,745
Total expenses	<u>5,392,149</u>	<u>0</u>	<u>0</u>	<u>5,392,149</u>
Revenues and support in excess (deficit) of expenses	(1,274,498)	(449,274)	1,282,683	(441,089)
Other support (expense)				
Interest and dividend income, net of investment expenses	236,525	22,488	0	259,013
Miscellaneous income	2,451	0	0	2,451
Realized investment gains	251,057	43,748	0	294,805
Unrealized gain in market value of investments	804,526	56,612	0	861,138
Total other support (expense)	<u>1,294,559</u>	<u>122,848</u>	<u>0</u>	<u>1,417,407</u>
Change in net assets	20,061	(326,426)	1,282,683	976,318
Reclassification of net assets	(500,000)	0	500,000	0
Net assets, beginning of year	<u>3,029,184</u>	<u>3,009,478</u>	<u>16,517,789</u>	<u>22,556,451</u>
Net assets, end of year	<u>\$ 2,549,245</u>	<u>\$ 2,683,052</u>	<u>\$ 18,300,472</u>	<u>\$ 23,532,769</u>

See accompanying notes to financial statements.

CATHOLIC EDUCATION FOUNDATION, INC.

STATEMENTS OF ACTIVITIES YEARS ENDED JUNE 30, 2018 AND 2017

	2017			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Revenues and support				
Contributions	\$ 1,044,856	\$ 1,114,479	\$ 136,100	\$ 2,295,435
Special event revenue-Salute Dinner	587,356	301,000	0	888,356
Special event revenue-The Game Luncheon	175,832	189,415	0	365,247
In-kind donations	56,134	0	0	56,134
Total revenues, support and gains	1,864,178	1,604,894	136,100	3,605,172
Net assets released from restrictions	1,690,815	(1,690,815)	0	0
Total revenues and support and net assets released from restrictions	3,554,993	(85,921)	136,100	3,605,172
Expenses				
Fundraising				
Special event expense-Salute Dinner	217,023	0	0	217,023
Special event expense-The Game Luncheon	120,921	0	0	120,921
Salaries and salary-related expenses	484,566	0	0	484,566
Other fundraising expenses	18,231	0	0	18,231
Total fundraising	840,741	0	0	840,741
Education grants	3,326,422	0	0	3,326,422
Administrative expenses	489,243	0	0	489,243
Total expenses	4,656,406	0	0	4,656,406
Revenues and support in excess (deficit) of expenses	(1,101,413)	(85,921)	136,100	(1,051,234)
Other support (expense)				
Interest and dividend income, net of investment expenses	171,252	10,085	0	181,337
Realized investment losses	(358,664)	(21,123)	0	(379,787)
Unrealized gain in market value of investments	2,189,484	128,949	0	2,318,433
Total other support (expense)	2,002,072	117,911	0	2,119,983
Change in net assets	900,659	31,990	136,100	1,068,749
Net assets, beginning of year	2,128,525	2,977,488	16,381,689	21,487,702
Net assets, end of year	\$ 3,029,184	\$ 3,009,478	\$ 16,517,789	\$ 22,556,451

See accompanying notes to financial statements.

CATHOLIC EDUCATION FOUNDATION, INC.

STATEMENTS OF CASH FLOWS YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
Operating activities		
Cash received from contributions	\$ 2,290,037	\$ 2,704,582
Cash received from special events	1,185,165	1,155,801
Interest and dividends received	323,230	245,663
Cash paid to suppliers, employees, and others	(1,338,920)	(1,311,157)
Grants paid	(3,847,497)	(3,326,422)
Net cash flows from operating activities	(1,387,985)	(531,533)
Investing activities		
Purchase of investments	(3,867,490)	(6,425,391)
Proceeds from sales of investments	3,819,942	6,648,337
Net cash flows from investing activities	(47,548)	222,946
Financing activities		
Proceeds from contributions received for investment in permanent endowment	1,282,683	136,100
Net change in cash and cash equivalents	(152,850)	(172,487)
Cash and cash equivalents, beginning of year	887,066	1,059,553
Cash and cash equivalents, end of year	\$ 734,216	\$ 887,066
Reconciliation of change in net assets to net cash flows from operating activities		
Change in net assets	\$ 976,318	\$ 1,068,749
Adjustment to reconcile change in net assets to net cash flows from operating activities		
Contributions restricted for long-term purposes	(1,282,683)	(136,100)
Bad debt expense	2,150	625
Depreciation	3,771	3,771
Realized investment losses/(gains)	(294,805)	379,787
Unrealized gain in market value of investments	(861,138)	(2,318,433)
Change in discount on pledges receivable	14,894	(36,061)
Changes in operating assets and liabilities		
Interest receivable	1,519	860
Pledges receivable	(57,761)	580,683
Prepaid expenses	15,168	4,189
Accounts payable	94,582	(79,603)
Net cash flows from operating activities	\$ (1,387,985)	\$ (531,533)

See accompanying notes to financial statements.

CATHOLIC EDUCATION FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Catholic Education Foundation, Inc. (the Foundation) in Louisville, Kentucky was formed to promote the growth and vitality of Catholic education in the Archdiocese of Louisville (the Archdiocese). The Foundation supports Catholic education by offering grants and financial assistance to Catholic schools and parishes in the Archdiocese for tuition assistance, educators' professional development, technology, and religious education.

General Accounting Principles

The Foundation records unconditional promises to give (pledges) as receivables and revenues, and distinguishes between contributions received for each net asset category in accordance with donor imposed restrictions, if any. The Foundation classifies resources for accounting purposes into three net asset categories according to donor-imposed restrictions. A description of the three net asset categories follows:

Unrestricted net assets include the portion of expendable funds available for support in the operations of the Foundation.

Temporarily restricted net assets include gifts for which donor imposed restrictions are to be met.

Permanently restricted net assets include amounts for which the donor has stipulated that the corpus be invested in perpetuity and only the income be made available for program operations in accordance with donor restrictions.

The Foundation reports gifts of cash and other assets as restricted support if they are received with donor stipulations limiting the use of the donated assets. 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 statements of activities as net assets released from restrictions.

Management's Estimates

Management uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses. Actual results could vary from the estimates used.

Donated Professional Services and Goods

Donated materials, facilities, and services are shown as gifts, valued at their estimated value at the date of receipt with the offsetting expense reflected in administrative expenses. No amounts are recorded for donated services which are not objectively quantifiable.

CATHOLIC EDUCATION FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

Functional Expenses

The costs of providing the various programs and supporting services have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. While the methods of allocation are considered appropriate, other methods could produce different results.

Cash and Cash Equivalents

Cash equivalents primarily include highly liquid investment securities with maturities of three months or less at the time of purchase.

Property and Equipment

Property and equipment is recorded at cost less accumulated depreciation. Depreciation is recorded using the straight-line method over the estimated useful lives of three to seven years.

Investments

Investments are carried at fair value, generally determined by quoted prices. Receipt of donated investments is recorded at the quoted value of the investment at the time of donation.

Going Concern Evaluation

Management evaluates whether there are conditions or events that raise substantial doubt about the entity's ability to continue as a going concern for a period of one year from the date the financial statements are available to be issued.

Date of Management's Review

The Foundation has evaluated all events or transactions occurring subsequent to the statement of financial position date for recognition and disclosure in the accompanying financial statements through the date the financial statements are available to be issued, which is October 26, 2018.

CATHOLIC EDUCATION FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

2. RECLASSIFICATION OF NET ASSETS

In March 2016, the Foundation received a \$500,000 contribution to its permanent endowment fund conditioned upon a matching gift. In 2018, the Foundation's Board of Directors approved the transfer of \$500,000 from the Foundation's unrestricted net assets to the permanent endowment fund to satisfy the matching gift obligation.

3. CHANGE IN ACCOUNTING PRINCIPLE

During 2018, the Foundation adopted Accounting Standards Update 2015-07, *Disclosures for Investments in Certain Entities That Calculate Net Asset Value Per Share*, which removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. As such, certain investments that were measured at net asset value per share practical expedient have not been classified in the fair value hierarchy table. The 2017 fair value measurement disclosures have been restated for this change.

4. RECENTLY ISSUED ACCOUNTING STANDARDS

In August 2016, FASB issued ASU No. 2016-14 *Presentation of Financial Statements of Not-for-Profit Entities (Topic 958)* that amends how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance, and cash flows. This new standard, which the Foundation is not required to adopt until its year ending June 30, 2019, requires improved presentation and disclosures to help not-for-profits provide more relevant information about their resources (and the changes in those resources) to donor, grantor, creditors, and other users. This ASU completes the first phase of a two-phase project to amend non-for-profit financial reporting requirements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. This new standard, which the Foundation is not required to adopt until its year ending June 30, 2020, is intended to improve financial reporting about leasing transactions by requiring entities that lease assets to recognize on their balance sheet the assets and liabilities for the rights and obligations created by those leases, and to provide additional disclosures regarding the leases. Leases with terms (as defined in the ASU) of twelve months or less are not required to be reflected on an entity's balance sheet.

The Foundation is presently evaluating the effects that these ASUs will have on its future financial statements, including related disclosures.

CATHOLIC EDUCATION FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

5. INCOME TAXES

The Foundation is exempt from income taxes from related activities under Section 501(c)(3) of the United States Internal Revenue Code and corresponding state tax law. Accordingly, no provision has been made for federal or state income taxes. Additionally, the Foundation has been determined not to be a private foundation under Section 509(a) of the Internal Revenue Code.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Foundation and recognize a tax liability if the Foundation has taken an uncertain position that more likely than not would not be sustained upon examination by various federal and state taxing authorities. Management has analyzed the tax positions taken by the Foundation, and has concluded that as of June 30, 2018 and 2017, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the accompanying financial statements.

Accordingly, the Foundation is generally exempt from income taxes. However, the Foundation is required to file an informational return on Federal Form 990 – Return of Organization Exempt from Income Tax. The Foundation is subject to routine audits by taxing jurisdictions. However, as of the date the financial statements were available to be issued, there were no audits for any tax periods in progress.

6. INVESTMENTS

Investments are summarized as follows:

	2018		2017	
	Cost	Fair Value	Cost	Fair Value
Cash and cash equivalents	\$ 1,678,040	\$ 1,678,040	\$ 1,471,702	\$ 1,471,702
Marketable securities and mutual / exchange funds	9,886,113	12,452,291	10,300,008	12,084,537
Hedge fund	850,000	1,011,169	1,250,000	1,321,467
Proprietary funds	<u>6,090,726</u>	<u>6,333,865</u>	<u>5,174,931</u>	<u>5,394,168</u>
Total	<u>\$ 18,504,879</u>	<u>\$ 21,475,365</u>	<u>\$ 18,196,641</u>	<u>\$ 20,271,874</u>

Fees netted with interest and dividends were \$60,247 and \$63,466 for the years ended June 30, 2018 and 2017, respectively.

CATHOLIC EDUCATION FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

7. FAIR VALUE MEASUREMENTS

The framework for measuring fair value provides a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3). The three levels of the fair value hierarchy are described as follows:

- Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Foundation has the ability to access.
- Level 2 – Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.
- Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2018 and 2017.

- *Equities*: Valued at the closing price reported on the active market on which the individual securities are traded.
- *Mutual funds*: Valued at the daily closing price as reported by the fund. Mutual funds held by the Foundation are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The mutual funds are deemed to be actively traded.
- *Hedge funds and proprietary funds*: Valued at the NAV of the units of the funds, as provided by the investment managers. The NAV is based on the fair value of the underlying investments held by the funds less their liabilities.

CATHOLIC EDUCATION FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

The following tables set forth by level, within the hierarchy, the Foundation's assets measured at fair value on a recurring basis as of the reporting date.

	Assets at Fair Value as of June 30, 2018			
	Level 1	Level 2	Level 3	Total
Foundation investments				
Mutual funds				
Global real estate	\$ 652,441	\$ 0	\$ 0	\$ 652,441
Foreign large value	3,028,429	0	0	3,028,429
Mid-cap blend	1,062,457	0	0	1,062,457
Emerging markets	2,200,734	0	0	2,200,734
Total mutual funds	6,944,061	0	0	6,944,061
Equities				
Materials	202,111	0	0	202,111
Industrials	515,584	0	0	515,584
Consumer discretionary	832,898	0	0	832,898
Consumer staples	359,656	0	0	359,656
Energy	361,694	0	0	361,694
Healthcare	391,163	0	0	391,163
Financials	838,752	0	0	838,752
Telecommunication services	125,163	0	0	125,163
Information technology	1,478,007	0	0	1,478,007
Real estate	211,458	0	0	211,458
Utilities	177,473	0	0	177,473
Other	14,271	0	0	14,271
Total equities	5,508,230	0	0	5,508,230
Total assets at fair value	\$ 12,452,291	\$ 0	\$ 0	12,452,291
Hedge funds and proprietary funds*				7,345,034
Cash and cash equivalents				1,678,040
Total investments				\$ 21,475,365

CATHOLIC EDUCATION FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

	Assets at Fair Value as of June 30, 2017			
	Level 1	Level 2	Level 3	Total
Foundation investments				
Mutual funds				
Global real estate	\$ 500,414	\$ 0	\$ 0	\$ 500,414
Foreign large value	2,952,475	0	0	2,952,475
Mid-cap blend	1,085,103	0	0	1,085,103
Emerging markets	2,242,608	0	0	2,242,608
Total mutual funds	6,780,600	0	0	6,780,600
Equities				
Materials	209,917	0	0	209,917
Industrials	519,445	0	0	519,445
Consumer discretionary	747,935	0	0	747,935
Consumer staples	419,966	0	0	419,966
Energy	309,779	0	0	309,779
Healthcare	403,493	0	0	403,493
Financials	949,087	0	0	949,087
Telecommunication services	125,135	0	0	125,135
Information technology	1,192,629	0	0	1,192,629
Real estate	208,095	0	0	208,095
Utilities	184,189	0	0	184,189
Other	34,267	0	0	34,267
Total equities	5,303,937	0	0	5,303,937
Total assets at fair value	\$ 12,084,537	\$ 0	\$ 0	12,084,537
Hedge funds and proprietary funds*				6,715,635
Cash and cash equivalents				1,471,702
Total investments				\$ 20,271,874

* In accordance with Subtopic 820-10, certain investments that were measured at net asset value per share (or its equivalent) have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented at fair value in the statement of financial position.

The Foundation's policy is to recognize transfers between levels as of the end of the reporting period. There were no transfers between levels for the years ended June 30, 2018 and 2017.

Gains and losses (realized and unrealized) for the years ended June 30, 2018 and 2017, are reported in the statement of activities.

CATHOLIC EDUCATION FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

Fair Value of Investments in Entities that Use Net Asset Value

The following table summarizes investments measured at fair value based on net asset value (NAV) per share as of June 30, 2018 and 2017, respectively.

	<u>2018</u>	<u>2017</u>	<u>Redemption Notice</u>	<u>Redemption Frequency</u>
Hedge funds				
Lighthouse SRI Global Long/Short Fund Limited	\$ 1,011,169	\$ 1,321,467	90 days notice	Monthly
Proprietary funds				
StoneRoad Core Plus Fixed Income SRI Investment Trust Fund	3,885,465	3,781,184	N/A	Bi-monthly
StoneRoad Strategic Income Plus SRI Investment Trust Fund	1,861,016	974,528	N/A	Bi-monthly
Harvest MLP Income Fund II LLC	<u>587,384</u>	<u>638,456</u>	N/A	Bi-monthly
	<u>\$ 7,345,034</u>	<u>\$ 6,715,635</u>		

Lighthouse SRI Global Long/Short Fund Limited

The investment objective of the Lighthouse SRI Global Long/Short Fund Limited is to maximize capital appreciation over the long term while at the same time seeking to comply with the Fund's Socially Responsible Investing ("SRI") guidelines ("SRI Guidelines"), which are described below. The Fund is a multi-manager fund that will seek to achieve its objective by deploying its assets primarily among a select group of sub-advisers who invest principally in global equity markets by employing an investing style known as "long/short," while at the same time seeking to comply with the Fund's SRI Guidelines. The "long/short" style combines long investments with short sales in the pursuit of opportunities in rising or declining markets. The Investment Manager will seek to combine long/short managers with the goal of generating capital appreciation while attempting to limit risk through the use of a multi-strategy, multi-manager, diversified investment philosophy.

CATHOLIC EDUCATION FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

Proprietary funds allow withdrawals from the partnership upon at least five business days' prior written notice to the Investment Manager as of the fifteenth and the last calendar day of each calendar month.

StoneRoad Core Plus Fixed Income SRI Investment Trust Fund

The StoneRoad Core Plus Fixed Income SRI Investment Trust Fund's principal investment objective is to seek income and total return. In addition, investments will be made consistent with the Fund's socially responsible investing ("SRI") principles. The Fund will use social screens to exclude investments in companies that engage in activities designated by the Fund as contrary to the Fund's SRI principles.

StoneRoad Strategic Income Plus SRI Investment Trust Fund

The StoneRoad Strategic Income Plus SRI Investment Trust Fund's principal investment objective is to generate excess return with a high level of income and a reduced correlation to traditional assets. In addition, investments will be made consistent with the Fund's socially responsible investing ("SRI") principles. The Fund will use social screens to exclude investments in companies that engage in activities designated by the Fund as contrary to the Fund's SRI principles.

Harvest MLP Income Fund II LLC

Harvest MLP Income Fund II LLC's principal investment objective is to deliver to their clients both high yield and stable growth, through the disciplined application of our investment and trading strategies to MLP and energy infrastructure assets.

Due to the nature of the investments held by the hedge fund and the proprietary funds, changes in market conditions and the economic environment may significantly impact the net asset value of the hedge fund and the proprietary funds and, consequently, the fair value of the Foundation's interests in the funds. Although a secondary market exists for these investments, it is not active and individual transactions are typically not observable. When transactions do occur in this limited secondary market, they may occur at discounts to the reported net asset value. It is therefore reasonably possible that if the Foundation were to sell these investments in the secondary market, a buyer may require a discount to the reported net asset value, and the discount could be significant.

The Foundation holds investments which are exposed to various risks such as interest rate, market, and credit. Due to the level of risk associated with these securities and the level of uncertainty related to changes in the value, it is at least reasonably possible that changes in the various risk factors will occur in the near term that could materially affect the amounts reported in the accompanying financial statements.

CATHOLIC EDUCATION FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

8. PLEDGES RECEIVABLE AND ALLOWANCE FOR UNCOLLECTIBLE PLEDGES

Unconditional promises to give and expected to be collected within one year are recorded at net realizable value. Unconditional promises to give and expected to be collected after one year are recorded at the present value of their estimated cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenues. Conditional promises to give are not included as support and revenues until the conditions are substantially met.

At June 30, 2018 and 2017, the promises to give are expected to be received as follows:

	<u>2018</u>	<u>2017</u>
Amounts due in		
One year or less	\$ 630,957	\$ 708,330
One to five years	668,936	535,952
More than five years	<u>101,420</u>	<u>101,420</u>
Subtotal	1,401,313	1,345,702
Less present value discount	(44,674)	(29,780)
Less allowance for uncollectible pledges	<u>(2,500)</u>	<u>(2,500)</u>
 Total	 <u>\$ 1,354,139</u>	 <u>\$ 1,313,422</u>

The Foundation provides an allowance for uncollectible pledges based upon the collectability of each specific pledge. The Foundation does not charge interest on pledges receivable.

9. PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2018 and 2017 consist of the following:

	<u>2018</u>	<u>2017</u>
Furniture and fixtures	\$ 30,482	\$ 30,482
Leasehold improvements	<u>5,964</u>	<u>5,964</u>
	36,446	36,446
Less accumulated depreciation	<u>28,073</u>	<u>24,302</u>
 Net property and equipment	 <u>\$ 8,373</u>	 <u>\$ 12,144</u>

Depreciation expense was \$3,771 for the years ended June 30, 2018 and 2017.

CATHOLIC EDUCATION FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

10. TEMPORARILY RESTRICTED NET ASSETS AND NET ASSETS RELEASED FROM RESTRICTIONS

Temporarily restricted net assets are available for the following purposes or programs at June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Program services		
Tuition assistance	\$ 1,275,933	\$ 1,059,120
Time restricted	1,375,677	1,912,916
Teacher and school awards	0	6,000
Evangelization	<u>31,442</u>	<u>31,442</u>
Total	<u>\$ 2,683,052</u>	<u>\$ 3,009,478</u>

Temporarily restricted net assets were released from restrictions due to satisfaction of purpose restrictions during the years ended June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Program services		
Tuition assistance	\$ 912,574	\$ 884,779
Time restricted	<u>584,694</u>	<u>806,036</u>
Total	<u>\$ 1,497,268</u>	<u>\$ 1,690,815</u>

11. OPERATING LEASE

The Foundation rents its office space from an unrelated party under a contract which expired July 31, 2013. Subsequently, the Foundation has been maintaining the premises at the current location on a month-to-month agreement. The agreement requires monthly payments of \$1. In addition, in-kind rent contributions are the estimated value of rent forgiven by the landlord for the office space used by the Foundation. The in-kind rent contributions included in revenues are \$37,130 for the years ended June 30, 2018 and 2017.

12. ENDOWMENT

The majority of the Foundation's funds consist of donor-restricted endowment funds established for a variety of purposes. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

CATHOLIC EDUCATION FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

The Board of Directors has interpreted the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as requiring the preservation of the historic gift value 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, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds.

- (1) The duration and preservation of the fund
- (2) The purposes of the Foundation and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Foundation
- (7) The investment policies of the Foundation

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding for granting purposes while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Foundation must use for a donor-specified purpose. The Foundation's investment policy, as approved by the Board of Directors, has a primary objective to maximize total return consistent with an acceptable level of risk. Endowment assets are invested in a well diversified asset mix, including equity and debt securities, which are intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to fund annually the purposes of the Foundation.

Management continues to monitor the investments and endowment funds balances, including the consideration of additional fund raising and the necessity to adjust the annual grants distribution percentage.

The Foundation's spending policy has been to distribute income based upon the lesser of a moving average of the market value for the prior three years ending December 31, or the market value at December 31 of the current fiscal year. The policy allows the Board of Directors to establish an annual distribution rate, not to exceed 7%.

Endowed funds are donor restricted funds classified as permanently restricted as of June 30, 2018 and 2017. Contributions received for the endowed funds during the year ended June 30, 2018 and 2017 totaled \$1,782,683 and \$136,100, respectively.

CATHOLIC EDUCATION FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

13. RETIREMENT PLAN

The Foundation participates in the Archdiocese of Louisville 401(k) plan. The plan covers the Foundation's eligible employees. The plan allows employee contributions, up to the statutory limit, and personal management of the employees' retirement account. The Foundation contributes 4% and matches up to 3% of the eligible employees' gross pay each pay period. The Foundation made contributions of \$43,684 and \$32,925 for the years ended June 30, 2018 and 2017, respectively.

14. CONCENTRATIONS OF CREDIT RISK

The Foundation maintains its cash balances in bank deposit accounts which, at times, may exceed coverage provided by the Federal Deposit Insurance Corporation (FDIC). The Foundation has not experienced any losses in such accounts. At June 30, 2018, the Company's cash balances were fully insured.

Investments are maintained at investment firms. The balances exceed the Securities Investor Protection Corporation insured limits up to \$500,000.

During the years ended June 30, 2018 and June 30, 2017, two donors accounted for 26% and 30% of the total contributions, respectively. It was noted that individual members of the board contributed 30% of all contributions during the year ended June 30, 2018.

15. IN-KIND CONTRIBUTIONS

In-kind contributions are donated goods and services. These goods and services consist of advertising, entertainment, formal wear, music and video production, postage services, and travel for the special events. In-kind contributions other than for the special events are rent expense, board meeting space, marketing support and information technology support. The in-kind contributions for the Salute Dinner and The Game Luncheon included in their respective revenues are:

	<u>2018</u>	<u>2017</u>
Salute Dinner	\$ 70,923	\$ 40,510
The Game Luncheon	22,302	57,292
