

CATHOLIC EDUCATION FOUNDATION, INC.

FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

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, 2019 and 2018, and the related statements of activities, functional expenses, 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, 2019 and 2018, 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.

Change in Accounting Principle

As discussed in Note 2 to the financial statements, effective July 1, 2018, the Foundation adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statement of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

Blue & Co., LLC

Louisville, Kentucky
November 5, 2019

CATHOLIC EDUCATION FOUNDATION, INC.

STATEMENTS OF FINANCIAL POSITION JUNE 30, 2019 AND 2018

	ASSETS	
	<u>2019</u>	<u>2018</u>
Current assets		
Cash and cash equivalents	\$ 1,035,814	\$ 734,216
Advanced pledge receipts	404,459	375,730
Investments	22,106,741	21,099,635
Interest receivable	74,262	56,288
Pledges receivable, current portion	534,058	630,957
Prepaid expenses	<u>19,123</u>	<u>11,012</u>
Total current assets	24,174,457	22,907,838
Pledges receivable, less current portion	618,044	723,182
Net property and equipment	<u>19,186</u>	<u>8,373</u>
Total assets	<u>\$ 24,811,687</u>	<u>\$ 23,639,393</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 173,500	\$ 106,624
Net assets		
Without donor restrictions (see note 2)	2,317,420	2,549,245
With donor restrictions (see note 2):		
Restricted for specified purposes	2,630,615	2,683,052
Restricted in perpetuity - endowment	<u>19,690,152</u>	<u>18,300,472</u>
Total net assets with donor restrictions	<u>22,320,767</u>	<u>20,983,524</u>
Total net assets	<u>24,638,187</u>	<u>23,532,769</u>
Total liabilities and net assets	<u>\$ 24,811,687</u>	<u>\$ 23,639,393</u>

See accompanying notes to financial statements.

CATHOLIC EDUCATION FOUNDATION, INC.

STATEMENTS OF ACTIVITIES YEARS ENDED JUNE 30, 2019 AND 2018

	2019		
	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
Revenues and support			
Contributions	\$ 1,389,268	\$ 2,780,079	\$ 4,169,347
Special event revenue-Salute Dinner	928,760	117,500	1,046,260
Special event revenue-The Game Luncheon	285,946	48,000	333,946
In-kind donations	71,417	0	71,417
Total revenues and support	2,675,391	2,945,579	5,620,970
Net assets released from restrictions	1,736,613	(1,736,613)	0
Total revenues and support and net assets released from restrictions	4,412,004	1,208,966	5,620,970
Expenses			
Program services	3,784,218	0	3,784,218
Management and general	334,618	0	334,618
Fundraising	1,055,901	0	1,055,901
Total expenses	5,174,737	0	5,174,737
Revenues and support in excess (deficit) of expenses	(762,733)	1,208,966	446,233
Other support (expense)			
Interest and dividend income, net of investment expenses	210,362	44,327	254,689
Miscellaneous income	1,284	0	1,284
Realized / unrealized investment gains	319,262	83,950	403,212
Total other support	530,908	128,277	659,185
Change in net assets	(231,825)	1,337,243	1,105,418
Net assets, beginning of year	2,549,245	20,983,524	23,532,769
Net assets, end of year	\$ 2,317,420	\$ 22,320,767	\$ 24,638,187

See accompanying notes to financial statements.

CATHOLIC EDUCATION FOUNDATION, INC.

STATEMENTS OF ACTIVITIES YEARS ENDED JUNE 30, 2019 AND 2018

	2018		
	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
Revenues and support			
Contributions	\$ 1,537,510	\$ 2,075,927	\$ 3,613,437
Special event revenue-Salute Dinner	808,023	149,500	957,523
Special event revenue-The Game Luncheon	215,617	105,250	320,867
In-kind donations	59,233	0	59,233
Total revenues and support	2,620,383	2,330,677	4,951,060
Net assets released from restrictions	1,497,268	(1,497,268)	0
Total revenues and support and net assets released from restrictions	4,117,651	833,409	4,951,060
Expenses			
Program services	3,992,992	0	3,992,992
Management and general	344,521	0	344,521
Fundraising	1,054,636	0	1,054,636
Total expenses	5,392,149	0	5,392,149
Revenues and support in excess (deficit) of expenses	(1,274,498)	833,409	(441,089)
Other support (expense)			
Interest and dividend income, net of investment expenses	236,525	22,488	259,013
Miscellaneous income	2,451	0	2,451
Realized / unrealized investment gains	1,055,583	100,360	1,155,943
Total other support	1,294,559	122,848	1,417,407
Change in net assets	20,061	956,257	976,318
Reclassification of net assets	(500,000)	500,000	0
Net assets, beginning of year (see note 2)	3,029,184	19,527,267	22,556,451
Net assets, end of year (see note 2)	\$ 2,549,245	\$ 20,983,524	\$ 23,532,769

See accompanying notes to financial statements.

CATHOLIC EDUCATION FOUNDATION, INC.

STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2019

	2019							
	Program Services							
	Tuition Assistance	Technology Enhancements	Religious Education	Professional Development	Total Program Services Expense	Management and General	Fundraising	Total Expenses
Salaries, benefits, and taxes	\$ 137,726	\$ 6,699	\$ 14,889	\$ 8,190	\$ 167,504	\$ 168,511	\$ 556,362	\$ 892,377
Grants	3,331,975	97,395	88,769	98,575	3,616,714	0	0	3,616,714
Salute dinner	0	0	0	0	0	0	228,965	228,965
Game lunch	0	0	0	0	0	0	111,150	111,150
Office	0	0	0	0	0	99,806	0	99,806
Professional services	0	0	0	0	0	20,269	15,000	35,269
Newsletter and annual report	0	0	0	0	0	0	89,715	89,715
Advertising	0	0	0	0	0	0	54,709	54,709
Miscellaneous	0	0	0	0	0	46,032	0	46,032
	<u>\$ 3,469,701</u>	<u>\$ 104,094</u>	<u>\$ 103,658</u>	<u>\$ 106,765</u>	<u>\$ 3,784,218</u>	<u>\$ 334,618</u>	<u>\$ 1,055,901</u>	<u>\$ 5,174,737</u>

See accompanying notes to financial statements.

CATHOLIC EDUCATION FOUNDATION, INC.

STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2018

	2018							
	Program Services							
	Tuition Assistance	Technology Enhancements	Religious Education	Professional Development	Total Program Services Expense	Management and General	Fundraising	Total Expenses
Salaries, benefits, and taxes	\$ 104,015	\$ 9,014	\$ 20,740	\$ 11,726	\$ 145,495	\$ 177,251	\$ 546,580	\$ 869,326
Grants	3,474,578	135,582	127,710	109,627	3,847,497	0	0	3,847,497
Salute dinner	0	0	0	0	0	0	250,958	250,958
Game lunch	0	0	0	0	0	0	86,530	86,530
Office	0	0	0	0	0	107,090	0	107,090
Professional services	0	0	0	0	0	14,877	0	14,877
Newsletter and annual report	0	0	0	0	0	0	82,885	82,885
Advertising	0	0	0	0	0	0	87,683	87,683
Miscellaneous	0	0	0	0	0	45,303	0	45,303
	<u>\$ 3,578,593</u>	<u>\$ 144,596</u>	<u>\$ 148,450</u>	<u>\$ 121,353</u>	<u>\$ 3,992,992</u>	<u>\$ 344,521</u>	<u>\$ 1,054,636</u>	<u>\$ 5,392,149</u>

See accompanying notes to financial statements.

CATHOLIC EDUCATION FOUNDATION, INC.

STATEMENTS OF CASH FLOWS YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
Operating activities		
Cash received from contributions	\$ 2,953,322	\$ 2,414,528
Cash received from special events	1,287,457	1,185,165
Interest and dividends received	360,787	323,230
Cash paid to suppliers, employees, and others	(1,451,193)	(1,338,920)
Grants paid	(3,616,714)	(3,847,497)
Net cash flows from operating activities	(466,341)	(1,263,494)
Investing activities		
Purchase of property and equipment	(17,500)	0
Purchase of investments	(13,665,735)	(3,991,981)
Proceeds from sales of investments	13,061,841	3,819,942
Net cash flows from investing activities	(621,394)	(172,039)
Financing activities		
Proceeds from contributions received for investment in permanent endowment	1,389,333	1,282,683
Net change in cash and cash equivalents	301,598	(152,850)
Cash and cash equivalents, beginning of year	734,216	887,066
Cash and cash equivalents, end of year	\$ 1,035,814	\$ 734,216
Reconciliation of change in net assets to net cash flows from operating activities		
Change in net assets	\$ 1,105,418	\$ 976,318
Adjustment to reconcile change in net assets to net cash flows from operating activities		
Contributions restricted for long-term purposes	(1,389,333)	(1,282,683)
Bad debt expense	770	2,150
Depreciation	6,687	3,771
Realized / unrealized investment gains	(403,212)	(1,155,943)
Change in discount on pledges receivable	(15,600)	14,894
Changes in operating assets and liabilities		
Advanced pledge receipts	(28,729)	124,491
Interest receivable	(17,974)	1,519
Pledges receivable	216,867	(57,761)
Prepaid expenses	(8,111)	15,168
Accounts payable	66,876	94,582
Net cash flows from operating activities	\$ (466,341)	\$ (1,263,494)

See accompanying notes to financial statements.

CATHOLIC EDUCATION FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

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 net asset categories according to donor-imposed restrictions. Accordingly, the net assets of the Foundation are classified and reported as follows:

Net assets without donor restrictions – Net assets that are currently available for operating purposes under the direction of the board or designated by the board for specific use.

Net assets with donor restrictions – Net assets subject to donor stipulations for specific operating purposes or time restrictions. These include donor restrictions requiring the net assets be held in perpetuity or for a specified term with investment return available for operations or specific purposes.

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, net assets with donor restrictions are reclassified to net assets without donor restrictions 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, 2019 AND 2018

Allocation of Expenses

Operating expenses directly identifiable with a functional area are charged to that area and, where expenses affect more than one area, they are allocated on the basis of ratios determined by management. The expenses that are allocated include salaries and benefits which are allocated based on estimates of time and effort. 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.

Advanced Pledge Receipts

When donors pre-fund multi-year pledges, they are recorded as advanced pledge receipts. The Foundation places these funds into a money market account. All advanced pledge receipts are available, if needed, to fund current operations, and are recognized as revenues in the year they are received. The Foundation regularly transfers scheduled amounts into operating cash.

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.

Reclassification

Reclassification has been made to the prior year financial statements in order for them to be in conformity with the current year presentation. Total net assets and change in net assets were unchanged due to these reclassifications.

CATHOLIC EDUCATION FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

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 November 5, 2019.

2. CHANGE IN ACCOUNTING PRINCIPLE

Effective July 1, 2018, the Foundation adopted the Financial Accounting Standards Board's ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. The ASU simplifies and improves how a not-for-profit organization classifies its net assets, as well as information it presents in the financial statements and notes about its liquidity, financial performance and cash flows. The Foundation has adjusted the presentation of its 2018 financial statements to conform with this accounting change. In addition to changes in terminology used to describe categories of net assets throughout the financial statements, new disclosures were added regarding liquidity and the availability of resources (Note 13), and disclosures related to the functional allocation of expenses were expanded (Note 1).

The impact of the adoption of ASU No. 2016-14 on the Foundation's net assets are as follows:

	As Previously Stated	Adjustments	As Adjusted
Statement of Financial Position			
at June 30, 2018:			
Unrestricted net assets	\$ 2,549,245	\$ (2,549,245)	\$ 0
Temporarily restricted net assets	2,683,052	(2,683,052)	0
Permanently restricted net assets	18,300,472	(18,300,472)	0
Net assets without donor restrictions	0	2,549,245	2,549,245
Net assets with donor restrictions	0	20,983,524	20,983,524
Total net assets	<u>\$ 23,532,769</u>	<u>\$ 0</u>	<u>\$ 23,532,769</u>
Statement of Activities for the year			
at June 30, 2018:			
Change in unrestricted net assets	\$ 20,061	\$ (20,061)	\$ 0
Change in temporarily restricted net assets	(326,426)	326,426	0
Change in permanently restricted net assets	1,282,683	(1,282,683)	0
Change in net assets without donor restrictions	0	20,061	20,061
Change in net assets with donor restrictions	0	956,257	956,257
Total net assets	<u>\$ 976,318</u>	<u>\$ 0</u>	<u>\$ 976,318</u>

There was no significant impact to the statement of cash flows as a result of adopting this ASU.

CATHOLIC EDUCATION FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

3. 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 net assets without donor restrictions to the net assets with donor restrictions to satisfy the matching gift obligation.

4. RECENTLY ISSUED ACCOUNTING STANDARDS

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, 2021, 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 this ASU will have on its future financial statements, including related disclosures.

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, 2019 and 2018, 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.

CATHOLIC EDUCATION FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

6. INVESTMENTS

Investments are summarized as follows:

	<u>2019</u>	<u>2018</u>
	<u>Fair Value</u>	<u>Fair Value</u>
Cash and cash equivalents	\$ 1,306,906	\$ 1,302,310
Fixed income	1,103,132	0
Marketable securities and mutual / exchange funds	7,933,559	12,452,291
Hedge fund	950,815	1,011,169
Proprietary funds	603,522	6,333,865
Pooled unit trusts	<u>10,208,807</u>	<u>0</u>
Total	<u>\$ 22,106,741</u>	<u>\$ 21,099,635</u>

Fees netted with interest and dividends were \$122,788 and \$126,758 for the years ended June 30, 2019 and 2018, respectively.

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.

CATHOLIC EDUCATION FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

- 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, 2019 and 2018.

- *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.
- *Pooled unit trusts*: 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, 2019 AND 2018

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, 2019			
	Level 1	Level 2	Level 3	Total
Foundation investments				
Mutual funds				
Emerging markets	\$ 2,458,256	\$ 0	\$ 0	\$ 2,458,256
Fixed income	1,103,132	0	0	1,103,132
Foreign large value	3,108,018	0	0	3,108,018
Global real estate	695,740	0	0	695,740
Mid-cap blend	1,671,545	0	0	1,671,545
Total assets at fair value	\$ 9,036,691	\$ 0	\$ 0	9,036,691
Hedge funds and proprietary funds*				1,554,337
Pooled unit trusts*				10,208,807
Cash and cash equivalents				1,306,906
Total investments				\$ 22,106,741

CATHOLIC EDUCATION FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

	Assets at Fair Value as of June 30, 2018			
	Level 1	Level 2	Level 3	Total
Foundation investments				
Mutual funds				
Emerging markets	\$ 2,200,734	\$ 0	\$ 0	\$ 2,200,734
Foreign large value	3,028,429	0	0	3,028,429
Global real estate	652,441	0	0	652,441
Mid-cap blend	1,062,457	0	0	1,062,457
Total mutual funds	6,944,061	0	0	6,944,061
Equities				
Consumer discretionary	832,898	0	0	832,898
Consumer staples	359,656	0	0	359,656
Energy	361,694	0	0	361,694
Financials	838,752	0	0	838,752
Healthcare	391,163	0	0	391,163
Industrials	515,584	0	0	515,584
Information technology	1,478,007	0	0	1,478,007
Materials	202,111	0	0	202,111
Real estate	211,458			211,458
Telecommunication services	125,163	0	0	125,163
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				1,302,310
Total investments				\$ 21,099,635

* 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 statements of financial position.

The Foundation recognizes transfers between levels as of the end of the reporting period. There were no transfers between levels for the years ended June 30, 2019 and 2018.

Gains and losses (realized and unrealized) for the years ended June 30, 2019 and 2018, are reported in the statements of activities.

CATHOLIC EDUCATION FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

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, 2019 and 2018.

	2019	2018	Redemption Notice	Redemption Frequency
Hedge funds				
Lighthouse SRI Global Long/Short Fund Limited	\$ 950,815	\$ 1,011,169	90 days notice	Monthly
Proprietary funds				
StoneRoad Core Plus Fixed Income SRI Investment Trust Fund	0	3,885,465	N/A	Bi-monthly
StoneRoad Strategic Income Plus SRI Investment Trust Fund	0	1,861,016	N/A	Bi-monthly
Harvest MLP Income Fund II LLC	603,522	587,384	N/A	Bi-monthly
Pooled unit trusts				
CUIT Intermediate Diversified Bond Class B	2,145,041	0	N/A	Bi-monthly
CUIT Core Equity Index Fund Class B	6,481,240	0	N/A	Bi-monthly
CUIT Small Cap Equity Index Class B	<u>1,582,526</u>	<u>0</u>	N/A	Bi-monthly
	<u>\$ 11,763,144</u>	<u>\$ 7,345,034</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.

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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 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 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.

Pooled unit trusts have no unfunded commitments, and are eligible for daily redemption with no special notice required.

Christian Brothers Investment Services, Inc.

Christian Brothers Investment Services, Inc.'s primary objective is to deliver highly competitive risk-adjusted investment returns in a manner consistent with the moral and social teachings of the Catholic Church.

Due to the nature of the investments held by the unit trusts, 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.

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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.

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, 2019 and 2018, the promises to give are expected to be received as follows:

	<u>2019</u>	<u>2018</u>
Amounts due in		
One year or less	\$ 534,058	\$ 630,957
One to five years	573,548	668,936
More than five years	<u>76,070</u>	<u>101,420</u>
Subtotal	1,183,676	1,401,313
Less present value discount	(29,074)	(44,674)
Less allowance for uncollectible pledges	<u>(2,500)</u>	<u>(2,500)</u>
Total	<u>\$ 1,152,102</u>	<u>\$ 1,354,139</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.

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NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

9. PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2019 and 2018 consist of the following:

	<u>2019</u>	<u>2018</u>
Furniture and fixtures	\$ 30,482	\$ 30,482
Computer hardware and software	17,500	0
Leasehold improvements	<u>5,964</u>	<u>5,964</u>
	53,946	36,446
Less accumulated depreciation	<u>34,760</u>	<u>28,073</u>
Net property and equipment	<u>\$ 19,186</u>	<u>\$ 8,373</u>

Depreciation expense was \$6,687 and \$3,771 for the years ended June 30, 2019 and 2018, respectively.

10. NET ASSETS WITH DONOR RESTRICTIONS AND NET ASSETS RELEASED FROM RESTRICTIONS

Net assets with donor restrictions restricted for specific purposes are available for the following purposes or programs at June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Program services		
Tuition assistance	\$ 1,303,034	\$ 1,275,933
Time restricted	1,296,139	1,375,677
Evangelization	<u>31,442</u>	<u>31,442</u>
Total	<u>\$ 2,630,615</u>	<u>\$ 2,683,052</u>

Net assets with donor restrictions were released from restrictions due to satisfaction of purpose restrictions during the years ended June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Program services		
Tuition assistance	\$ 907,487	\$ 912,574
Time restricted	<u>829,126</u>	<u>584,694</u>
Total	<u>\$ 1,736,613</u>	<u>\$ 1,497,268</u>

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NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

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, 2019 and 2018.

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.

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

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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 fundraising and the necessity to adjust the annual grants distribution percentage.

The Foundation's spending policy has been to distribute income based upon a moving average of the market value for the prior three years ending December 31. 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 net assets with donor restrictions as of June 30, 2019 and 2018. Contributions received for the endowed funds during the year ended June 30, 2019 and 2018 totaled \$1,389,333 and \$1,782,683, respectively.

13. LIQUIDITY AND AVAILABILITY

The following table reflects the Foundations' financial assets as of June 30, 2019 reduced by amounts that are not available to meet general expenditures within one year of the statement of financial position date because of contractual or other restrictions.

Financial assets

Cash and cash equivalents	\$ 1,035,814
Advanced pledge receipts	404,459
Pledges receivable	534,058
Interest receivable	<u>74,262</u>
	<u>\$ 2,048,593</u>

The Foundation strives to maintain liquid financial assets sufficient to cover 90 days of general expenditures. Financial assets in excess of daily cash requirements are invested in money market funds and other short-term investments.

14. 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 accounts. The Foundation contributes 4% and matches up to 3% of the eligible employees' gross pay each pay period. The Foundation made contributions of \$51,312 and \$43,684 for the years ended June 30, 2019 and 2018, respectively.

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15. 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, 2019, 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.

It was noted that individual members of the board contributed 22% of all contributions during the year ended June 30, 2018. Contributions from individual members of the board were not significant for the year ended June 30, 2019.

16. 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:

	2019	2018
Salute Dinner	\$ 42,073	\$ 70,923
The Game Luncheon	50,676	22,302