

CATHOLIC EDUCATION FOUNDATION, INC.

FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

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, 2020 and 2019, 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, 2020 and 2019, 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 13, 2020

CATHOLIC EDUCATION FOUNDATION, INC.

STATEMENTS OF FINANCIAL POSITION JUNE 30, 2020 AND 2019

	ASSETS	
	<u>2020</u>	<u>2019</u>
Current assets		
Cash and cash equivalents	\$ 1,291,808	\$ 1,035,814
Advanced pledge receipts	355,000	404,459
Investments	21,297,912	22,106,741
Interest receivable	45,831	74,262
Pledges receivable, current portion	912,688	534,058
Prepaid expenses	<u>20,774</u>	<u>19,123</u>
Total current assets	23,924,013	24,174,457
Pledges receivable, less current portion	1,062,393	618,044
Net property and equipment	<u>20,679</u>	<u>19,186</u>
Total assets	<u>\$ 25,007,085</u>	<u>\$ 24,811,687</u>
	LIABILITIES AND NET ASSETS	
Current liabilities		
Accounts payable	\$ 195,110	\$ 173,500
Current portion of long-term debt	<u>55,239</u>	<u>0</u>
Total current liabilities	250,349	173,500
Long-term debt, less current portion	<u>70,361</u>	<u>0</u>
Total liabilities	320,710	173,500
Net assets		
Without donor restrictions	906,377	2,317,420
With donor restrictions:		
Restricted for specified purposes	2,479,531	2,630,615
Restricted in perpetuity - endowment	<u>21,300,467</u>	<u>19,690,152</u>
Total net assets with donor restrictions	<u>23,779,998</u>	<u>22,320,767</u>
Total net assets	<u>24,686,375</u>	<u>24,638,187</u>
Total liabilities and net assets	<u>\$ 25,007,085</u>	<u>\$ 24,811,687</u>

See accompanying notes to financial statements.

CATHOLIC EDUCATION FOUNDATION, INC.

STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2020

	2020		
	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
Revenues and support			
Contributions	\$ 1,097,266	\$ 3,119,008	\$ 4,216,274
Special event revenue-Salute Dinner	793,870	72,500	866,370
Special event revenue-The Game Luncheon	243,233	35,000	278,233
In-kind donations	55,023	0	55,023
Total revenues and support	2,189,392	3,226,508	5,415,900
Net assets released from restrictions	1,719,031	(1,719,031)	0
Total revenues and support and net assets released from restrictions	3,908,423	1,507,477	5,415,900
Expenses			
Program services	3,857,876	0	3,857,876
Management and general	334,727	0	334,727
Fundraising	913,096	0	913,096
Total expenses	5,105,699	0	5,105,699
Revenues and support in (deficit) excess of expenses	(1,197,276)	1,507,477	310,201
Other support (expense)			
Interest and dividend income, net of investment expenses	211,325	47,694	259,019
Realized / unrealized investment losses	(425,092)	(95,940)	(521,032)
Total other expenses	(213,767)	(48,246)	(262,013)
Change in net assets	(1,411,043)	1,459,231	48,188
Net assets, beginning of year	2,317,420	22,320,767	24,638,187
Net assets, end of year	\$ 906,377	\$ 23,779,998	\$ 24,686,375

See accompanying notes to financial statements.

CATHOLIC EDUCATION FOUNDATION, INC.

STATEMENT OF ACTIVITIES YEAR ENDED JUNE 30, 2019

	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 (deficit) excess 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.

STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2020

	2020							
	Program Services							
	Tuition Assistance	Technology Enhancements	Religious Education	Professional Development	Total Program Services Expense	Management and General	Fundraising	Total Expenses
Salaries, benefits, and taxes	\$ 151,953	\$ 7,893	\$ 17,716	\$ 9,823	\$ 187,385	\$ 181,243	\$ 602,198	\$ 970,826
Grants	3,374,602	90,929	99,849	95,406	3,660,786	0	0	3,660,786
Salute Dinner	0	0	0	0	0	0	72,316	72,316
The Game Luncheon	0	0	0	0	0	0	92,344	92,344
Office	0	0	0	0	0	103,429	0	103,429
Professional services	9,705	0	0	0	9,705	14,460	6,284	30,449
Newsletter and annual report	0	0	0	0	0	0	84,013	84,013
Advertising	0	0	0	0	0	0	55,941	55,941
Miscellaneous	0	0	0	0	0	35,595	0	35,595
	<u>\$ 3,536,260</u>	<u>\$ 98,822</u>	<u>\$ 117,565</u>	<u>\$ 105,229</u>	<u>\$ 3,857,876</u>	<u>\$ 334,727</u>	<u>\$ 913,096</u>	<u>\$ 5,105,699</u>

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
The Game Luncheon	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.

STATEMENTS OF CASH FLOWS YEARS ENDED JUNE 30, 2020 AND 2019

	2020	2019
Operating activities		
Cash received from contributions	\$ 1,832,439	\$ 2,953,322
Cash received from special events	1,090,620	1,287,457
Interest and dividends received	397,038	360,787
Cash paid to suppliers, employees, and others	(1,412,805)	(1,451,193)
Grants paid	(3,660,786)	(3,616,714)
Net cash flows from operating activities	(1,753,494)	(466,341)
Investing activities		
Purchase of property and equipment	(14,224)	(17,500)
Purchase of investments	(3,046,188)	(13,665,735)
Proceeds from sales of investments	3,333,985	13,061,841
Net cash flows from investing activities	273,573	(621,394)
Financing activities		
Proceeds from long-term debt	125,600	0
Proceeds from contributions received for investment in permanent endowment	1,610,315	1,389,333
Net cash flows from financing activities	1,735,915	1,389,333
Net change in cash and cash equivalents	255,994	301,598
Cash and cash equivalents, beginning of year	1,035,814	734,216
Cash and cash equivalents, end of year	\$ 1,291,808	\$ 1,035,814
Reconciliation of change in net assets to net cash flows from operating activities		
Change in net assets	\$ 48,188	\$ 1,105,418
Adjustment to reconcile change in net assets to net cash flows from operating activities		
Contributions restricted for long-term purposes	(1,610,315)	(1,389,333)
Bad debt expense	0	770
Depreciation	12,731	6,687
Realized / unrealized investment losses (gains)	521,032	(403,212)
Change in discount on pledges receivable	(17,593)	(15,600)
Changes in operating assets and liabilities		
Advanced pledge receipts	49,459	(28,729)
Interest receivable	28,431	(17,974)
Pledges receivable	(805,386)	216,867
Prepaid expenses	(1,651)	(8,111)
Accounts payable	21,610	66,876
Net cash flows from operating activities	\$ (1,753,494)	\$ (466,341)

See accompanying notes to financial statements.

CATHOLIC EDUCATION FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2020 AND 2019

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, 2020 AND 2019

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.

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 13, 2020.

CATHOLIC EDUCATION FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2020 AND 2019

2. RECENTLY ISSUED ACCOUNTING STANDARD

In February 2016, the Financial Account Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)*. This new standard, which the Foundation is not required to adopt until its year ended June 30, 2023, 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.

3. 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, 2020 and 2019, 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, 2020 AND 2019

4. INVESTMENTS

Investments are summarized as follows:

	<u>2020</u>	<u>2019</u>
	<u>Fair Value</u>	<u>Fair Value</u>
Cash and cash equivalents	\$ 1,249,920	\$ 1,306,906
Fixed income mutual funds	684,716	1,103,132
Equities and mutual funds	8,345,858	7,933,559
Hedge fund	-	950,815
Proprietary funds	450,843	603,522
Pooled unit trusts	<u>10,566,575</u>	<u>10,208,807</u>
Total	<u>\$ 21,297,912</u>	<u>\$ 22,106,741</u>

Fees netted with interest and dividends were \$109,588 and \$122,788 for the years ended June 30, 2020 and 2019, respectively.

5. 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, 2020 AND 2019

- 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, 2020 and 2019.

- *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, 2020 AND 2019

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, 2020			
	Level 1	Level 2	Level 3	Total
Foundation investments				
Mutual funds				
Emerging markets	\$ 2,183,510	\$ 0	\$ 0	\$ 2,183,510
Fixed income	684,715	0	0	684,715
Foreign large blend	4,887,616	0	0	4,887,616
Global real estate	615,137	0	0	615,137
Total mutual funds	8,370,978	0	0	8,370,978
Equities				
Consumer discretionary	58,657	0	0	58,657
Consumer staples	59,049	0	0	59,049
Energy	23,832	0	0	23,832
Financials	98,056	0	0	98,056
Healthcare	69,284	0	0	69,284
Industrials	60,578	0	0	60,578
Information technology	133,305	0	0	133,305
Materials	26,533	0	0	26,533
Real estate	38,392	0	0	38,392
Telecommunication services	23,891	0	0	23,891
Utilities	68,019	0	0	68,019
Total equities	659,596	0	0	659,596
Total assets at fair value	\$ 9,030,574	\$ 0	\$ 0	9,030,574
Hedge funds and proprietary funds*				450,843
Pooled unit trusts*				10,566,575
Cash and cash equivalents				1,249,920
Total investments				\$ 21,297,912

CATHOLIC EDUCATION FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

	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

* 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.

CATHOLIC EDUCATION FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2020 AND 2019

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, 2020 and 2019.

	<u>2020</u>	<u>2019</u>	<u>Redemption Notice</u>	<u>Redemption Frequency</u>
Hedge funds				
Lighthouse SRI Global Long/Short Fund Limited	\$ 0	\$ 950,815	90 days notice	Monthly
Proprietary funds				
Harvest MLP Income Fund II LLC	450,843	603,522	N/A	Bi-monthly
Pooled unit trusts				
CUIT Intermediate Diversified Bond Class B	1,415,736	2,145,041	N/A	Bi-monthly
CUIT Core Equity Index Fund Class B	7,508,288	6,481,240	N/A	Bi-monthly
CUIT Small Cap Equity Index Class B	<u>1,642,551</u>	<u>1,582,526</u>	N/A	Bi-monthly
	<u>\$ 11,017,418</u>	<u>\$ 11,763,144</u>		

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.

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 bi-monthly 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.

CATHOLIC EDUCATION FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2020 AND 2019

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.

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.

6. 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, 2020 and 2019, the promises to give are expected to be received as follows:

	2020	2019
Amounts due in		
One year or less	\$ 912,688	\$ 534,058
One to five years	1,056,374	573,548
More than five years	20,000	76,070
Subtotal	1,989,062	1,183,676
Less present value discount	(11,481)	(29,074)
Less allowance for uncollectible pledges	(2,500)	(2,500)
Total	<u>\$ 1,975,081</u>	<u>\$ 1,152,102</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.

CATHOLIC EDUCATION FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2020 AND 2019

7. PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2020 and 2019 consist of the following:

	<u>2020</u>	<u>2019</u>
Furniture and fixtures	\$ 21,547	\$ 30,482
Computer hardware and software	31,724	17,500
Leasehold improvements	<u>0</u>	<u>5,964</u>
	53,271	53,946
Less accumulated depreciation	<u>32,592</u>	<u>34,760</u>
Net property and equipment	<u>\$ 20,679</u>	<u>\$ 19,186</u>

Depreciation expense was \$12,731 and \$6,687 for the years ended June 30, 2020 and 2019, respectively.

8. LONG-TERM DEBT

Effective April 16, 2020, the Foundation received a low interest loan in the amount of \$125,600 under the Paycheck Protection Program (PPP) administered by the Small Business Administration. The PPP loan is unsecured, bears interest at 1% and funds advanced under the program are subject to forgiveness, if certain criteria are met, with the remaining balance repayable within two years of disbursement. The PPP loan may be forgivable to the extent that employers incur and spend the funds on qualified expenditures, which include payroll, employee health insurance, rent, utilities and interest costs during the covered period as defined by the PPP guidance. In addition, employers must maintain specified employment and wage levels during the COVID-19 health pandemic, and submit adequate documentation of such expenditures to qualify for loan forgiveness. If the loan is not forgiven, monthly principal and interest payments of \$7,068 will begin November 16, 2020, with a maturity date of April 16, 2022. The Foundation has elected to account for this loan as debt, and will recognize any forgiveness when it has been legally forgiven by the Small Business Administration.

There was no balance of long-term debt as of June 30, 2019.

Maturities required on the long-term debt at June 30, 2020 is as follows:

<u>Year Ending June 30,</u>	
2021	\$ 55,239
2022	<u>70,361</u>
	<u>\$ 125,600</u>

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NOTES TO FINANCIAL STATEMENTS JUNE 30, 2020 AND 2019

9. 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, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Program services		
Tuition assistance	\$ 984,945	\$ 1,303,034
Time restricted	1,463,144	1,296,139
Evangelization	31,442	31,442
Total	<u>\$ 2,479,531</u>	<u>\$ 2,630,615</u>

Net assets with donor restrictions were released from restrictions due to satisfaction of purpose restrictions during the years ended June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Program services		
Tuition assistance	\$ 799,198	\$ 907,487
Time restricted	919,833	829,126
Total	<u>\$ 1,719,031</u>	<u>\$ 1,736,613</u>

10. OPERATING LEASE

The Foundation rented its office space from an unrelated party under a contract which expired July 31, 2013. Subsequently, the Foundation had been maintaining the premises at the current location on a month-to-month agreement, ending in February of 2020. The former agreement required 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 and expenses were \$20,353 and \$37,130 for the years ended June 30, 2020 and 2019, respectively.

In February 2020, the Foundation entered into a new lease for the office space with the unrelated third party which expires in January 2023. Rental expense under this agreement was \$13,560 for the year ended June 30, 2020.

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Future minimum payments under this arrangement is as follows:

<u>Year Ending June 30,</u>	
2021	\$ 32,640
2022	32,640
2023	<u>19,040</u>
	<u>\$ 84,320</u>

11. 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

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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 fund 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, 2020 and 2019. Contributions received for the endowed funds during the years ended June 30, 2020 and 2019 totaled \$1,610,315 and \$1,389,333, respectively.

12. LIQUIDITY AND AVAILABILITY

The following table reflects the Foundations' financial assets as of June 30, 2020 and 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.

	2020	2019
Financial assets		
Cash and cash equivalents	\$ 1,291,808	\$ 1,035,814
Advanced pledge receipts	355,000	404,459
Pledges receivable	1,975,081	1,152,102
Investments	21,297,912	22,106,741
Interest receivable	<u>45,831</u>	<u>74,262</u>
Financial assets available in one year	24,965,632	24,773,378
Donor restricted	<u>(23,779,998)</u>	<u>(22,320,767)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 1,185,634</u>	<u>\$ 2,452,611</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.

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13. RETIREMENT PLAN

The Foundation participates in the Archdiocese of Louisville 401(k) plan, which 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 \$55,765 and \$51,312 for the years ended June 30, 2020 and 2019, 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, 2020, the Company's uninsured cash balances were approximately \$331,000.

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

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>2020</u>	<u>2019</u>
Salute Dinner	\$ 32,500	\$ 42,073
The Game Luncheon	21,483	50,676

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16. CONTINGENCY

On March 11, 2020, the World Health Organization declared coronavirus (COVID-19) a pandemic. The continued spread of COVID-19, or any similar outbreaks in the future, may adversely impact the local, regional, national and global economies. The extent to which COVID-19 impacts the Foundation's operating results is dependent on the breadth and duration of the pandemic and could be affected by other factors management is not currently able to predict. Potential impacts include, but are not limited to, additional costs for responding to COVID-19, increased demand for grants, reduction to contributions and funding, and investment portfolio declines. Management believes the Foundation is taking appropriate actions to respond to the pandemic; however, the full impact is unknown and cannot be reasonably estimated at the date the financial statements were available to be issued.