

Seeds of Hope of Northern Colorado, Inc.

Consolidated Financial Statements

June 30, 2018 and 2017

(With Independent Auditor's Report Thereon)

Kundinger, Corder & Engle, P.C.

Certified Public Accountants

Independent Auditor's Report

**Board of Directors
Seeds of Hope of Northern Colorado, Inc.:**

We have audited the accompanying consolidated financial statements of Seeds of Hope of Northern Colorado, Inc., which comprise the consolidated statements of financial position as of June 30, 2018 and 2017, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Seeds of Hope of Northern Colorado, Inc. as of June 30, 2018 and 2017, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

KUNDINGER, CORDER & ENGLE, P.C.

October 15, 2018

Seeds of Hope of Northern Colorado, Inc.
Consolidated Statements of Financial Position
June 30, 2018 and 2017

	2018	2017
Assets:		
Cash and cash equivalents	\$ 2,329,427	2,441,303
Parish assessments receivable, net of allowance of \$3,574 and \$340	49,878	46,505
Prepaid expenses and other	5,019	-
Contributions receivable (note 2)	288,309	439,035
Investments (notes 3 and 4)	8,004,222	7,863,366
Furniture and equipment, net of accumulated depreciation of \$17,500 and \$32,555	-	3,889
Total assets	\$ 10,676,855	10,794,098
 Liabilities and Net Assets:		
Accounts payable and accrued expenses	\$ 81,473	19,132
Total liabilities	81,473	19,132
 Net assets (note 5):		
Unrestricted - undesignated	1,594,079	1,923,166
Unrestricted - board designated	316,000	320,000
Total unrestricted	1,910,079	2,243,166
Temporarily restricted	956,582	983,260
Permanently restricted (note 6)	7,728,721	7,548,540
Total net assets	10,595,382	10,774,966
Commitments (notes 7 and 9)		
Total liabilities and net assets	\$ 10,676,855	10,794,098

See the accompanying notes to the consolidated financial statements.

Seeds of Hope of Northern Colorado, Inc.
Consolidated Statement of Activities
Year Ended June 30, 2018

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenue, gains and support:				
Contributions	\$ 224,173	1,219,497	–	1,443,670
Less amounts designated by donors for specific schools or students	<u>(66,000)</u>	<u>–</u>	<u>–</u>	<u>(66,000)</u>
Total contributions	158,173	1,219,497	–	1,377,670
Special events	242,969	331,900	–	574,869
Less direct expenses	(115,476)	–	–	(115,476)
Parish assessments	282,650	–	–	282,650
Investment return, net (note 3)	(18,262)	34,465	496,181	512,384
Permanently restricted net assets released from donor-imposed restrictions (note 6)	316,000	–	(316,000)	–
Net assets released from restrictions (note 5)	<u>1,612,540</u>	<u>(1,612,540)</u>	<u>–</u>	<u>–</u>
Total revenue, gains and support	<u>2,478,594</u>	<u>(26,678)</u>	<u>180,181</u>	<u>2,632,097</u>
Expenses:				
Program services:				
Grants to schools and students	2,018,355	–	–	2,018,355
Grant making expenses	<u>463,602</u>	<u>–</u>	<u>–</u>	<u>463,602</u>
Total program services	<u>2,481,957</u>	<u>–</u>	<u>–</u>	<u>2,481,957</u>
Supporting services:				
Management and general	75,741	–	–	75,741
Development and fundraising	<u>253,983</u>	<u>–</u>	<u>–</u>	<u>253,983</u>
Total supporting services	<u>329,724</u>	<u>–</u>	<u>–</u>	<u>329,724</u>
Total expenses	<u>2,811,681</u>	<u>–</u>	<u>–</u>	<u>2,811,681</u>
Change in net assets	(333,087)	(26,678)	180,181	(179,584)
Net assets at beginning of year	<u>2,243,166</u>	<u>983,260</u>	<u>7,548,540</u>	<u>10,774,966</u>
Net assets at end of year	<u>\$ 1,910,079</u>	<u>956,582</u>	<u>7,728,721</u>	<u>10,595,382</u>

See the accompanying notes to the consolidated financial statements.

Seeds of Hope of Northern Colorado, Inc.
Consolidated Statement of Activities
Year Ended June 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenue, gains and support:				
Contributions	\$ 65,149	1,033,313	–	1,098,462
Less amounts designated by donors for specific schools or students	(44,000)	–	–	(44,000)
Total contributions	21,149	1,033,313	–	1,054,462
Special events	255,515	481,040	–	736,555
Less direct expenses	(175,125)	–	–	(175,125)
Parish assessments	298,828	–	–	298,828
Investment return, net (note 3)	(2,551)	41,064	809,090	847,603
Permanently restricted net assets released from donor-imposed restrictions (note 6)	320,000	–	(320,000)	–
Net assets released from restrictions (note 5)	1,442,896	(1,442,896)	–	–
Total revenue, gains and support	<u>2,160,712</u>	<u>112,521</u>	<u>489,090</u>	<u>2,762,323</u>
Expenses:				
Program services:				
Grants to schools and students	1,779,256	–	–	1,779,256
Grant making expenses	285,104	–	–	285,104
Total program services	<u>2,064,360</u>	<u>–</u>	<u>–</u>	<u>2,064,360</u>
Supporting services:				
Management and general	82,697	–	–	82,697
Development and fundraising	132,907	–	–	132,907
Total supporting services	<u>215,604</u>	<u>–</u>	<u>–</u>	<u>215,604</u>
Total expenses	<u>2,279,964</u>	<u>–</u>	<u>–</u>	<u>2,279,964</u>
Change in net assets	(119,252)	112,521	489,090	482,359
Net assets at beginning of year	<u>2,362,418</u>	<u>870,739</u>	<u>7,059,450</u>	<u>10,292,607</u>
Net assets at end of year	<u>\$ 2,243,166</u>	<u>983,260</u>	<u>7,548,540</u>	<u>10,774,966</u>

See the accompanying notes to the consolidated financial statements.

Seeds of Hope of Northern Colorado, Inc.
Consolidated Statement of Functional Expenses
Year Ended June 30, 2018

	Program services	Manage- ment and general	Develop- ment and fundraising	Total
Grants to schools and students	\$ 2,018,355	-	-	2,018,355
Service fee (note 7)	221,208	25,174	290,789	537,171
Salaries and related expenses	212,056	19,583	70,338	301,977
Professional fees	18,447	29,295	1,383	49,125
Office equipment and supplies	4,872	808	-	5,680
Bank and merchant fees	-	-	4,656	4,656
Depreciation	3,889	-	-	3,889
Miscellaneous expenses	449	881	460	1,790
Travel and meetings	1,681	-	71	1,752
Advertising	-	-	1,512	1,512
Bad debt expense	1,000	-	250	1,250
Total functional expenses	2,481,957	75,741	369,459	2,927,157
Less expenses included with revenue in the statement of activities	-	-	(115,476)	(115,476)
Total expenses	<u>\$ 2,481,957</u>	<u>75,741</u>	<u>253,983</u>	<u>2,811,681</u>

See the accompanying notes to the consolidated financial statements.

Seeds of Hope of Northern Colorado, Inc.
Consolidated Statement of Functional Expenses
Year Ended June 30, 2017

	Program services	Manage- ment and general	Develop- ment and fundraising	Total
Grants to schools and students	\$ 1,779,256	-	-	1,779,256
Service fee (note 7)	271,826	45,058	303,116	620,000
Professional fees	3,000	36,165	-	39,165
Depreciation	5,833	-	-	5,833
Bank and merchant fees	-	-	4,895	4,895
Payroll and benefits	3,000	-	-	3,000
Travel and meetings	1,445	1,461	21	2,927
Miscellaneous expense	-	13	-	13
Total functional expenses	2,064,360	82,697	308,032	2,455,089
Less expenses included with revenue in the statement of activities	-	-	(175,125)	(175,125)
Total expenses	<u>\$ 2,064,360</u>	<u>82,697</u>	<u>132,907</u>	<u>2,279,964</u>

See the accompanying notes to the consolidated financial statements.

Seeds of Hope of Northern Colorado, Inc.
Consolidated Statements of Cash Flows
Years Ended June 30, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Change in net assets	\$ (179,584)	482,359
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	3,889	5,833
Provision for doubtful accounts	4,484	-
Amortization of pledge discounts	(884)	(4,123)
Interest and dividends restricted for endowment	(36,572)	(24,679)
Realized and unrealized gains on investments	(501,118)	(856,501)
Decrease (increase) in operating assets:		
Parish assessments receivable	(6,607)	(2,600)
Prepaid expenses and other	(5,019)	-
Contributions receivable	150,360	101,813
Increase in operating liabilities:		
Accounts payable and accrued expenses	62,341	19,132
Net cash used in operating activities	(508,710)	(278,766)
Cash flows from investing activities:		
Net sales of investments	14,262	25,387
Distribution from endowment earnings	346,000	326,500
Net cash provided by investing activities	360,262	351,887
Cash flows from financing activities:		
Interest and dividends restricted for endowment	36,572	24,679
Net cash provided by financing activities	36,572	24,679
Net (decrease) increase in cash and cash equivalents	(111,876)	97,800
Cash and cash equivalents at beginning of year	2,441,303	2,343,503
Cash and cash equivalents at end of year	\$ 2,329,427	2,441,303

See the accompanying notes to the consolidated financial statements.

Seeds of Hope of Northern Colorado, Inc.

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(1) Summary of Significant Accounting Policies

(a) General

The Seeds of Hope Charitable Trust (the “Trust”) was formed in August 1996 by an alliance of concerned business and community leaders and the Archdiocese of Denver (the “Archdiocese”). The purpose of the Trust is to develop the financial resources necessary to strengthen Catholic educational opportunities for economically disadvantaged children in the territory of the Archdiocese, and specifically within the inner city of Denver. Earnings of the charitable trust may be used to provide grants for tuition assistance, programming, and equipment for Catholic schools in economically disadvantaged areas in northern Colorado, as well as the inner city of Denver.

Seeds of Hope of Northern Colorado, Inc. (“SOH Inc.”) was created on June 13, 2017 as a Colorado nonprofit organization to both support and expand the mission of the Trust. In furtherance of such purposes, SOH Inc. expanded its tuition assistance program so income-eligible students at any of the thirty-four Archdiocese Catholic K – 8 schools can apply for a scholarship. SOH Inc. also partnered with the Archdiocese’s Office of Catholic Schools to create and roll out a centralized, right-sizing tuition program to a limited number of schools to help boost enrollment. SOH Inc. increased its administrative capacity to handle the expansion of scholarship assignments and management of the new tuition program.

Effective September 9, 2017, the Trust’s charitable trust agreement was amended and restated to convert the Trust to an irrevocable trust and to name SOH Inc. as the Trust’s sole trustee who will provide oversight and management of the Trust.

The accompanying consolidated financial statements include the accounts of the Trust and SOH Inc. All intercompany balances and transactions have been eliminated in consolidation. The Trust and SOH Inc. are hereinafter collectively referred to as “The Organization”.

The Organization’s revenue is derived primarily from contributions, special events, and returns on investments.

(b) Basis of Accounting

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting, and accordingly reflect all significant receivables, payables, and other liabilities.

(c) Financial Statement Presentation

The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Seeds of Hope of Northern Colorado, Inc.

Notes to Consolidated Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(d) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(e) Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions. Donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions.

The Organization follows the accounting standard *Transfers of Assets to a Not-for-Profit Organization or Charitable Trust That Raises or Holds Contributions for Others*. In accordance with this standard, if the Organization accepts contributions and agrees to transfer the contributions to a specified unaffiliated entity and the donor does not explicitly grant the Organization variance power, the Organization is required to record the contributions as a liability (and not as a contribution). During the years ended June 30, 2018 and 2017, the Organization received \$66,000 and \$44,000, respectively, of such contributions. These amounts are shown in the accompanying consolidated statements of activities in the "revenue, gains, and support" section as revenue and expense, netting to \$0.

(f) Contributions Receivable

Unconditional contributions receivable are recognized as revenue in the period the pledge is received. Unconditional contributions receivable are recorded at net realizable value if expected to be collected in one year and at fair value if expected to be collected in more than one year. Conditional contributions receivable are recognized when the conditions on which they depend are substantially met. The Organization uses the allowance method to determine uncollectible contributions receivable. The allowance is based on prior years' experience and management's analysis of specific promises made. There was no allowance for uncollectible contributions receivable at June 30, 2018 and 2017.

(g) Donated Services

Donated services and materials are recorded as contributions and corresponding expenses at their estimated fair values at the date of donation. Many individuals volunteer their time and perform a variety of tasks that assist the Organization with specific program tasks and with fundraising events, but these were not recognized in the consolidated financial statements because they did not meet the criteria for recognition under generally accepted accounting principles.

Seeds of Hope of Northern Colorado, Inc.

Notes to Consolidated Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(h) Cash and Cash Equivalents

The Organization considers all unrestricted highly liquid investments with an original maturity of three months or less, and which are not held by investment managers as part of an investment portfolio, to be cash equivalents. Included in cash and cash equivalents at June 30, 2018 and 2017, are amounts held in a savings deposit account at the Archdiocese of Denver Irrevocable Revolving Fund Trust totaling \$1,624,856 and \$1,490,614, respectively (see note 9).

(i) Parish Assessments Receivable

The Archdiocese bills and collects parish assessments on behalf of the Organization and then periodically remits the collected amounts to the Organization. The allowance for doubtful accounts is based on past collection experience and on analysis of specific past due account balances. Accounts deemed uncollectible are charged to the allowance in the year they are deemed uncollectible. Parish assessments are considered to be past due based on contractual terms.

(j) Investments

The Organization reports investments at fair value. Fair value is determined as more fully described under the fair value measurements footnote (note 4). The Organization's management is responsible for the fair value measurement of investments reported in the financial statements and believes that the reported values are reasonable. Investment return consists of the Organization's distributive share of any interest, dividends, and capital gains and losses generated from investments. Investment gain or loss (including realized and unrealized gains and losses on investments) is included in the change in net assets in the consolidated statements of activities as increases or decreases in unrestricted net assets unless the income or loss is restricted by donor or law.

The Financial Accounting Standards Board issued ASU No. 2015-07, *Disclosures of Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent)*, 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. The standard is effective for years beginning after December 31, 2016. The Organization has adopted ASU 2015-07 for the year ended June 30, 2018.

(k) Furniture and Equipment

Furniture and equipment is recorded at cost or, if donated, at fair market value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which range from three to five years. The Organization capitalizes all fixed asset purchases over \$1,000 with an estimated useful life of three or more years.

Seeds of Hope of Northern Colorado, Inc.

Notes to Consolidated Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(l) Concentrations of Credit Risk

Financial instruments which potentially subject the Organization to concentrations of credit risk consist of cash and cash equivalents, investment securities, parish assessments receivable, and contributions receivable.

The Organization places its cash and cash equivalents primarily with the Archdiocese of Denver Irrevocable Revolving Fund Trust. At times, a portion of these account balances may not be insured by the Federal Deposit Insurance Corporation or related entity. The Organization has investments in a pooled investment fund, and is therefore subject to concentrations of credit risk. Investments are made and monitored by the management of the Organization pursuant to an investment policy adopted by the Board of Directors. Though the market value of investments is subject to fluctuations on a year-to-year basis, management believes that the investment policy is prudent for the long-term welfare of the Organization.

Credit risk with respect to parish assessments receivable and contributions receivable is limited due to the number and credit worthiness of the parishes, foundations and individuals from whom the amounts are due.

(m) Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the accompanying financial statements. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

(n) Program Grants

Program grants awarded by the Organization are recorded as expenses and liabilities when they have been approved.

(o) Income Tax Status

The Trust and SOH Inc. are exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code through their inclusion in the United States Conference of Catholic Bishops (USCCB) group ruling and listing in the Official Catholic Directory. Accordingly, the Trust and SOH Inc. qualify for the charitable contribution deduction. Income from activities not directly related to the Organizations' tax-exempt purpose is subject to taxation as unrelated business income. There was no unrelated business income subject to tax during the years ended June 30, 2018 and 2017.

The Trust and SOH Inc. follow the *Accounting for Uncertainty in Income Taxes* accounting standard which requires management to determine whether a tax position (and the related tax benefit) is more likely than not to be sustained upon examination by the applicable taxing authority, based solely on the technical merits of the position. Management believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are significant to the financial statements. The federal Forms 990, Return of Organization Exempt from Income Tax, for the years ended June 30, 2015 through 2017 are subject to examination by the IRS, generally for three years after they were filed.

Seeds of Hope of Northern Colorado, Inc.

Notes to Consolidated Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(p) Subsequent Events

Management is required to evaluate, through the date the financial statements are issued or available to be issued, events or transactions that may require recognition or disclosure in the financial statements, and to disclose the date through which subsequent events were evaluated. The Organization's financial statements were available to be issued on October 15, 2018 and this is the date through which subsequent events were evaluated.

(2) Contributions Receivable

Contributions receivable are due as follows as of June 30:

	<u>2018</u>	<u>2017</u>
Amounts due in:		
Less than one year	\$ 288,309	439,418
One to three years	<u> —</u>	<u> 500</u>
	288,309	439,918
Less discount to present value	<u> —</u>	<u> (883)</u>
Total contributions receivable	<u>\$ 288,309</u>	<u>439,035</u>

As of June 30, 2018, the Organization has a conditional grant in which the donor agreed to grant up to \$80,000 to the Organization for 2018/2019 for scholarship awards to children in kindergarten through 8th grade from low-income families residing in northern Colorado. This grant is subject to a four-to-one matching requirement. The grant award has not been recorded as contribution revenue in 2018 since the conditions have not been met.

(3) Investments

Investments are held by The Catholic Foundation of Northern Colorado ("The Catholic Foundation") and are stated at fair value totaling \$8,004,222 and \$7,863,366 at June 30, 2018 and 2017, respectively.

The Organization's investments held by The Catholic Foundation are pooled with The Catholic Foundation's portfolio assets and are managed by investment managers engaged by The Catholic Foundation. Investment income and fees are allocated monthly on a pro-rata basis to the Organization's account based on the Organization's percentage ownership in the portfolio. The Organization's account provides daily liquidity.

At June 30, 2018, the portfolio managed by The Catholic Foundation was allocated among the following strategies:

Cash	4.84%
Fixed income	6.87%
Multi-strategy	29.44%
Real assets	0.03%
Total equity	58.82%

Seeds of Hope of Northern Colorado, Inc.

Notes to Consolidated Financial Statements, Continued

(3) Investments, Continued

Investments are recorded in the following net assets accounts at June 30:

	<u>2018</u>	<u>2017</u>
Unrestricted	\$ 228,177	264,692
Temporarily restricted	47,324	50,134
Permanently restricted	<u>7,728,721</u>	<u>7,548,540</u>
Total investments	<u>\$ 8,004,222</u>	<u>7,863,366</u>

Investment return, including interest on cash and cash equivalents that are not included in the investment portfolio, is summarized as follows for the years ended June 30:

	<u>2018</u>	<u>2017</u>
Interest and dividends	\$ 73,198	48,445
Net realized and unrealized gains	501,118	856,501
Less investment fees	<u>(61,932)</u>	<u>(57,343)</u>
Net investment return	<u>\$ 512,384</u>	<u>847,603</u>

(4) Fair Value Measurements

The carrying amount reported in the consolidated statements of financial position for cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, approximates fair value because of the immediate or short term maturities of these financial instruments. The fair value of contributions receivable is estimated by discounting the future cash flows using the rates offered for deposits of similar remaining maturities.

The Organization reports required types of financial instruments in accordance with fair value accounting standards. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. These standards require an entity to maximize the use of observable inputs (such as quoted prices in active markets) and minimize the use of unobservable inputs (such as appraisals or other valuation techniques) to determine fair value. In addition, the Organization reports certain investments using the net asset value per share as determined by investment managers under the so called "practical expedient." The practical expedient allows net asset value per share to represent fair value for reporting purposes when the criteria for using this method are met.

Fair value measurement standards also require the Organization to classify these financial instruments into a three-level hierarchy, with the exception of those valued at net asset value per share, based on the priority of inputs to the valuation technique. Instruments measured and reported at fair value are classified and disclosed in one of the following categories:

Level 1 – Quoted prices are available in active markets for identical instruments as of the reporting date. Instruments which are generally included in this category include listed equity and debt securities publicly traded on an exchange, listed derivatives, cash and cash equivalents.

Seeds of Hope of Northern Colorado, Inc.

Notes to Consolidated Financial Statements, Continued

(4) Fair Value Measurements, Continued

Level 2 – Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. Investments which are generally included in this category include corporate and government bonds, less liquid and restricted equity securities and certain over-the-counter derivatives.

Level 3 – Pricing inputs are unobservable for the instrument and include situations where there is little, if any, market activity for the instrument. The inputs into the determination of fair value require significant management judgment or estimation. Investments that are included in this category generally include limited partnership interests in corporate private equity and real estate funds, funds of hedge funds, and distressed debt.

In some instances, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such instances, an instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. These classifications (Level 1, 2 and 3) are intended to reflect the observability of inputs used in the valuation of investments and are not necessarily an indication of risk or liquidity.

Market price is affected by a number of factors, including the type of instrument and the characteristics specific to the instrument, as well as the effects of market, interest and credit risk. Instruments with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value. It is reasonably possible that change in values of these instruments will occur in the near term and that such changes could materially affect amounts reported in the Organization's financial statements.

As of June 30, 2018 and 2017, the Organization's investments held by The Catholic Foundation totaling \$8,004,222 and \$7,863,366, respectively, are reported using the net asset value per share; and accordingly, are not classified within the three-level hierarchy.

There were no changes in the valuation techniques during the current year.

(5) Net Assets

Unrestricted Net Assets

At June 30, 2018 and 2017, a portion of unrestricted net assets totaling \$316,000 and \$320,000 is designated by the Board of Directors for tuition assistance grants for the 2018/2019 and 2017/2018 school years, respectively.

Temporarily Restricted Net Assets

At June 30, temporarily restricted net assets consist of pledges and unexpended cash restricted for the following purposes:

	<u>2018</u>	<u>2017</u>
Adopt-a-Program	\$ 266,600	290,016
Scholarships/tuition assistance	642,658	643,110
Unspent earnings on endowment funds (note 6)	<u>47,324</u>	<u>50,134</u>
Total temporarily restricted net assets	<u>\$ 956,582</u>	<u>983,260</u>

Seeds of Hope of Northern Colorado, Inc.

Notes to Consolidated Financial Statements, Continued

(5) Net Assets, Continued

During the years ended June 30, 2018 and 2017, net assets totaling \$1,612,540 and \$1,442,896, respectively, were released from donor restrictions as a result of incurring expenses satisfying the related restricted purposes of the donor or the passage of time.

Permanently Restricted Net Assets

Permanently restricted net assets related to the Hearts on Fire Fund and the Catholic School Education Fund, both part of the Tuition Assistance Endowment, consist of original contributions plus accumulated earnings and appreciation in excess of the amounts distributed under the Organization's spending policy.

Under the Organization's spending policy for these two endowment funds, up to 5% of the twelve-quarter trailing average of the fair market value of investments held in these funds, net of investment management fees, may be distributed in accordance with the donor's instructions in the gift agreement. The donor's gift agreements allow for spending as long as the funds' values do not fall below 70% of the original donated principal amount. However, the Board of Directors has adopted a more stringent policy whereby spending can occur so long as the funds' values do not fall below 85% of the original donated principal amount.

Permanently restricted net assets related to the William Randolph Hearst Endowment, the Elementary Education Fund and the Josephine J. Aquila Endowment consist of endowment fund assets that are subject to donor restrictions requiring that the principal be invested in perpetuity and only the income may be used, as defined by the gift agreements. Permanently restricted net assets related to The Frank and Marie Gold Scholarship Fund Endowment consist of endowment fund assets that are subject to an agreement requiring the principal be invested in perpetuity and only the income may be used, limited each year to the Organization's endowment spending policy. At June 30, permanently restricted net assets consist of the following:

	<u>2018</u>	<u>2017</u>
William Randolph Hearst Endowment	\$ 200,000	200,000
Tuition Assistance Endowment:		
Hearts on Fire Fund	5,535,243	5,440,602
Elementary Education Fund	1,262,421	1,187,010
Catholic School Education Fund	<u>592,375</u>	<u>582,246</u>
	<u>7,590,039</u>	<u>7,409,858</u>
The Frank and Marie Gold Scholarship Endowment	50,000	50,000
Josephine J. Aquila Endowment	<u>88,682</u>	<u>88,682</u>
Total permanently restricted net assets	<u>\$ 7,728,721</u>	<u>7,548,540</u>

Seeds of Hope of Northern Colorado, Inc.

Notes to Consolidated Financial Statements, Continued

(6) Endowment Funds

The following is a brief description of the individual funds:

William Randolph Hearst Endowment

This fund was established with a gift from the William Randolph Hearst Foundation. Income from this fund is to be used for tuition assistance to elementary school children.

Tuition Assistance Endowment

The Tuition Assistance Endowment is comprised of funds from three major sources: The Catholic School Education Fund; the Elementary Education Fund; and the Archdiocese of Denver's Hearts on Fire capital campaign, which was completed in December 2001. Income attributable to the Elementary Education Fund included in the endowment may be used for tuition assistance for five specific inner city schools in Denver. Distributions from the remaining endowment funds may be used to provide grants for tuition assistance, programming, information and equipment for Catholic schools in northern Colorado as well as the inner city of Denver.

The Frank and Marie Gold Scholarship Endowment

This fund was established with a gift from Richard W. Hall to provide annual scholarships to students attending Guardian Angels School in Denver, Colorado.

Josephine J. Aquila Endowment

This fund was established with gifts received for an endowment in memory of Josephine J. Aquila. The earnings on the endowment are to be used for general operating purposes.

The State of Colorado adopted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) effective September 1, 2008. The Organization has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization 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. The remaining portion of the donor-restricted endowment funds that are not classified in permanently restricted net assets are classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the Organization 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 purpose of the Organization and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effects of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other Organization resources
- (7) The investment policies of the Organization.

Seeds of Hope of Northern Colorado, Inc.

Notes to Consolidated Financial Statements, Continued

(6) Endowment Funds, Continued

The Organization's endowment net assets consisted of the following as of June 30:

	<u>2018</u>	<u>2017</u>
Permanently restricted net assets (note 5)	\$ 7,728,721	7,548,540
Temporarily restricted net assets (note 5)	47,324	50,134
Unrestricted net assets	<u>—</u>	<u>—</u>
Total endowment net assets	<u>\$ 7,776,045</u>	<u>7,598,674</u>

Changes in the endowment net assets for the years ended June 30, 2018 and 2017 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets at June 30, 2016	\$ (6,298)	20,210	7,059,450	7,073,362
Investment return:				
Investment income, net	-	6,182	24,679	30,861
Net appreciation (realized and unrealized)	<u>6,298</u>	<u>34,882</u>	<u>784,411</u>	<u>825,591</u>
Net investment return	6,298	41,064	809,090	856,452
Appropriation of endowment assets for expenditure	<u>-</u>	<u>(11,140)</u>	<u>(320,000)</u>	<u>(331,140)</u>
Endowment net assets at June 30, 2017	-	50,134	7,548,540	7,598,674
Investment return:				
Investment income, net	-	9,621	36,572	46,193
Net appreciation (realized and unrealized)	<u>-</u>	<u>24,844</u>	<u>459,609</u>	<u>484,453</u>
Net investment return	-	34,465	496,181	530,646
Appropriation of endowment assets for expenditure	<u>-</u>	<u>(37,275)</u>	<u>(316,000)</u>	<u>(353,275)</u>
Endowment net assets at June 30, 2018	<u>\$ -</u>	<u>47,324</u>	<u>7,728,721</u>	<u>7,776,045</u>

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the amount of the original donation. At June 30, 2018 and 2017, there were no deficiencies.

Return Objectives and Risk Parameters

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowments while seeking to maintain the purchasing power of the endowment assets. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to maximize utilization of investments which preserve principal, maximize income commensurate with risk, provide liquidity to help ensure adequate reserves, and fit within the Organization's preference of acceptable principal and interest risk.

Seeds of Hope of Northern Colorado, Inc.

Notes to Consolidated Financial Statements, Continued

(6) Endowment Funds, Continued

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Organization's spending policy allows for appropriating the investment earnings for distribution based upon a maximum of 5% of the twelve-quarter trailing average of the fair market value of investments held in a fund. In establishing the distribution policy, the Organization considers the long-term expected return on its endowment funds. Accordingly, over the long term, the Organization expects the current spending policy to allow its endowment to grow, net of spending, at the rate of inflation or greater over the investment horizon thus maintaining the purchasing power of the endowment assets held in perpetuity as well as to provide additional real growth through new gifts and investment return.

(7) Administration and Donor Services Agreement

Effective January 1, 2015, the Organization entered into an administrative and donor services agreement with The Catholic Alliance (the "Alliance") whereby, for a base annual fee, the Alliance performs services for the Organization including fundraising, donor communications and management, event planning and management, donor and volunteer relations, and grant solicitation and grant issuance similar to what the Organization had historically done in these areas. Pursuant to the agreement, the Alliance administers and carries out special events benefiting the Organization and directly pays all event expenses at no additional cost to the Organization. The Alliance also performed accounting services for the Organization through June 30, 2017. Effective April 1, 2018, all rights, title, interest, and obligations in, to, and under the service agreement were assigned to and assumed by the Archdiocese. The agreement is negotiated and renewed on an annual basis.

For the year ended June 30, 2018, fees incurred in connection with this service agreement totaled \$537,171, of which \$405,921 were paid to the Alliance and \$131,250 were paid to the Archdiocese. At June 30, 2018, the Organization recorded a payable to the Archdiocese totaling \$43,750 for services rendered under this agreement.

For the year ended June 30, 2017, total fees incurred in connection with this service agreement were \$620,000.

These amounts are included in the special event and development and fundraising expenses in the consolidated statements of activities. The fees have been allocated on a functional basis in the consolidated statements of functional expenses based on estimates of how the Alliance/Archdiocese staff spent their time performing services under the agreement.

Seeds of Hope of Northern Colorado, Inc.

Notes to Consolidated Financial Statements, Continued

(8) Pension Plan

Beginning with the quarter ended September 30, 2017, the employees of the Organization participate in the Archdiocese of Denver Lay Employee's Money Purchase Pension Plan and Trust (the Plan) sponsored by the Archdiocese. The Plan is a defined contribution plan, qualifies as a Church plan, and is funded by contributions from its participating employers, including the Organization. Third-party administrators of the Plan collect and invest contributions and pay benefits in accordance with plan provisions. The Organization contributes 6% of participants' eligible annual compensation, which is credited to each participant's account along with earnings from the participant's self-directed investments. Pension expense incurred by the Organization during the years ended June 30, 2018 and 2017 was \$11,677 and \$0, respectively. At June 30, 2018 and 2017, the Organization recorded a payable totaling \$3,254 and \$0, respectively, for the fourth quarter contribution to the plan.

(9) Other Transactions with Archdiocesan Entities

The Archdiocese of Denver Irrevocable Revolving Fund Trust ("Revolving Fund Trust") provides a secure means for the Archdiocese of Denver, the parishes within the Archdiocese and other related ecclesiastical organizations to support one another by depositing surplus funds with the Revolving Fund Trust, which funds can be loaned to parishes and related ecclesiastical organizations for specific needs. The Organization has a savings deposit account at the Revolving Fund Trust, the balance of which was \$1,624,856 at June 30, 2018 and \$1,490,614 at June 30, 2017. These amounts are included in cash and cash equivalents in the consolidated statements of financial position. Interest income earned on the savings deposit account totaled \$24,242 and \$14,874 during the years ended June 30, 2018 and 2017, respectively.

Starting the quarter ended September 30, 2017, the Archdiocese of Denver Management Corporation (the "Management Corporation") performs payroll services for the Organization and the Organization reimburses the Management Corporation for the payroll amounts. Amounts due to the Management Corporation for payroll totaled \$12,094 at June 30, 2018.

The Archdiocese of Denver Welfare Benefits Trust administers a self-funded employee benefit plan (the Benefits Trust) for the employee participants of the Archdiocese, certain related entities, and the parishes within the territory of the Archdiocese. The Benefits Trust purchases health insurance coverage for claims in excess of certain amounts. The coverage is also effective if aggregate cash payments exceed defined limits. Participants covered under the Benefits Trust have access to various healthcare facilities through a contracted managed care network. The Organization paid \$17,537 and \$0 to the Benefits Trust during the years ended June 30, 2018 and 2017, respectively.

The various welfare benefit plans (e.g. medical, dental and other) sponsored, operated and maintained under the Benefits Trust are self-funded church medical benefits plans that are currently "grandfathered plans" under the Patient Protection and Affordable Care Act (PPACA), which was signed into law by the President on March 23, 2010. Accordingly, these plans are generally not subject to the requirements of the PPACA, and are exempt from the regulations promulgated by the United States Department of Health and Human Services regarding mandatory provision of contraceptive services.

Effective July 1, 2018, SOH Inc. subleases office space from the Archdiocese under an agreement that is subject to renewal on an annual basis.