

Seeds of Hope of Northern Colorado, Inc.

Consolidated Financial Statements

June 30, 2019 and 2018

(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.

Report on the Financial Statements

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, 2019 and 2018, 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, 2019 and 2018, 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.

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

Emphasis of Matter

As discussed in note 1, Seeds of Hope of Northern Colorado, Inc. adopted the Financial Accounting Standards Board's Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities* as of and for the year ended June 30, 2019. The requirements of the ASU have been applied retrospectively for all years presented. Our opinion is not modified with respect to this matter.

Kennedinger, Cochrane & Congle, P.C.

October 21, 2019

Seeds of Hope of Northern Colorado, Inc.
Consolidated Statements of Financial Position
June 30, 2019 and 2018

	2019	2018
Assets		
Cash and cash equivalents	\$ 1,942,088	2,329,427
Parish assessments receivable, net of allowance of \$13,932 and \$3,574	343,800	49,878
Prepaid expenses and other assets	8,361	5,019
Contributions receivable (note 3)	277,299	288,309
Investments (note 4)	8,017,761	8,004,222
Furniture and equipment, net of accumulated depreciation of \$0 and \$17,500	—	—
Total assets	\$ 10,589,309	10,676,855
 Liabilities and net assets		
Accounts payable and accrued expenses	\$ 27,584	81,473
Total liabilities	27,584	81,473
 Net assets (notes 5 and 6):		
Without donor restrictions - undesignated	1,562,483	1,594,079
Without donor restrictions - board designated	316,000	316,000
Total net assets without donor restrictions	1,878,483	1,910,079
With donor restrictions	8,683,242	8,685,303
Total net assets	10,561,725	10,595,382
 Commitments (notes 7 and 9)		
Total liabilities and net assets	\$ 10,589,309	10,676,855

See the accompanying notes to the consolidated financial statements.

Seeds of Hope of Northern Colorado, Inc.
Consolidated Statement of Activities
Year Ended June 30, 2019

	Without donor restrictions	With donor restrictions	Total
Revenue, gains and support			
Contributions	\$ 213,954	1,338,640	1,552,594
Less amounts designated by donors for specific schools or students	(66,000)	–	(66,000)
Total contributions	147,954	1,338,640	1,486,594
Special events	462,232	120,000	582,232
Less direct expenses	(110,513)	–	(110,513)
Parish assessments	562,407	–	562,407
Investment return, net (note 4)	(16,811)	379,851	363,040
Net assets released from restrictions (note 5)	1,840,552	(1,840,552)	–
Total revenue, gains and support	2,885,821	(2,061)	2,883,760
Expenses			
Program services:			
Grants to schools and students	2,017,104	–	2,017,104
Grant making expenses	518,210	–	518,210
Total program services	2,535,314	–	2,535,314
Supporting services:			
Management and general	84,671	–	84,671
Fund raising	297,432	–	297,432
Total supporting services	382,103	–	382,103
Total expenses	2,917,417	–	2,917,417
Change in net assets	(31,596)	(2,061)	(33,657)
Net assets at beginning of year	1,910,079	8,685,303	10,595,382
Net assets at end of year	\$ 1,878,483	8,683,242	10,561,725

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

	Without donor restrictions	With donor restrictions	Total
Revenue, gains and support			
Contributions	\$ 224,173	1,219,497	1,443,670
Less amounts designated by donors for specific schools or students	(66,000)	–	(66,000)
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 4)	(18,262)	530,646	512,384
Net assets released from restrictions (note 5)	1,928,540	(1,928,540)	–
Total revenue, gains and support	2,478,594	153,503	2,632,097
Expenses			
Program services:			
Grants to schools and students	2,018,355	–	2,018,355
Grant making expenses	463,602	–	463,602
Total program services	2,481,957	–	2,481,957
Supporting services:			
Management and general	75,741	–	75,741
Fund raising	253,983	–	253,983
Total supporting services	329,724	–	329,724
Total expenses	2,811,681	–	2,811,681
Change in net assets	(333,087)	153,503	(179,584)
Net assets at beginning of year	2,243,166	8,531,800	10,774,966
Net assets at end of year	\$ 1,910,079	8,685,303	10,595,382

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, 2019

	Program services	Manage- ment and general	Fund raising	Total
Grants to schools and students	\$ 2,017,104	–	–	2,017,104
Service fee (note 7)	228,620	29,900	201,480	460,000
Salaries and related expenses	263,687	28,482	71,005	363,174
Special event expenses	–	–	122,203	122,203
Professional fees	4,000	23,530	–	27,530
Office equipment and supplies	10,447	139	196	10,782
Printing and postage	647	719	7,912	9,278
Rent	5,681	777	1,012	7,470
Bank and merchant fees	1,335	300	2,415	4,050
Miscellaneous expenses	2,066	220	869	3,155
Advertising	1,669	227	826	2,722
Travel and meetings	58	377	27	462
Total functional expenses	2,535,314	84,671	407,945	3,027,930
Less expenses included with revenue in the statement of activities	–	–	(110,513)	(110,513)
Total expenses	\$ 2,535,314	84,671	297,432	2,917,417

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	Fund raising	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	\$ 2,481,957	75,741	253,983	2,811,681

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, 2019 and 2018

	2019	2018
Cash flows from operating activities		
Change in net assets	\$ (33,657)	(179,584)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	–	3,889
Provision for doubtful accounts	10,358	4,484
Amortization of pledge discounts	–	(884)
Interest and dividends restricted for endowment	(66,068)	(36,572)
Realized and unrealized gains on investments	(303,227)	(501,118)
Change in operating assets and liabilities		
Parish assessments receivable	(304,280)	(6,607)
Prepaid expenses and other	(3,342)	(5,019)
Contributions receivable	11,010	150,360
Accounts payable and accrued expenses	(53,889)	62,341
Net cash used in operating activities	(743,095)	(508,710)
Cash flows from investing activities		
Net sales (purchases) of investments	(26,312)	14,262
Distribution from endowment earnings	316,000	346,000
Net cash provided by investing activities	289,688	360,262
Cash flows from financing activities		
Interest and dividends restricted for endowment	66,068	36,572
Net cash provided by financing activities	66,068	36,572
Net decrease in cash and cash equivalents	(387,339)	(111,876)
Cash and cash equivalents at beginning of year	2,329,427	2,441,303
Cash and cash equivalents at end of year	\$ 1,942,088	2,329,427

See the accompanying notes to the consolidated financial statements.

Seeds of Hope of Northern Colorado, Inc.

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

(1) Summary of Significant Accounting Policies

(a) Organization

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 cultivate minds and hearts for Christ by developing the financial resources necessary to strengthen Catholic educational opportunities for low-income families and 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 Archdiocese Catholic K – 8 schools can apply for a scholarship. SOH Inc. has 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, parish assessments, and return 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 is required to present information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions – Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of the Organization’s management and the board of directors. The board designated funds are included in net assets without donor restrictions.

Seeds of Hope of Northern Colorado, Inc.

Notes to Consolidated Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(c) Financial Statement Presentation, Continued

Net assets with donor restrictions – Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

(d) Cash and Cash Equivalents

The Organization considers all 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, 2019 and 2018, are amounts held in a savings deposit account at the Archdiocese of Denver Irrevocable Revolving Fund Trust totaling \$1,157,320 and \$1,624,856, respectively (see note 9).

(e) 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, and is therefore subject to concentrations of credit risk. The investments are pooled with the investments of and managed by investment managers engaged by The Catholic Foundation of Northern Colorado (“The Catholic Foundation”). 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.

(f) Parish Assessments Receivable

The Archdiocese bills and collects parish assessments on behalf of the Organization to support Catholic education 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.

Seeds of Hope of Northern Colorado, Inc.

Notes to Consolidated Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(g) 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, 2019 and 2018.

(h) Investments

The Organization reports investments at fair value. Fair value is determined as more fully described under the fair value measurements footnote (note 1(i)). 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 net assets without donor restrictions unless the income or loss is restricted by donor or law.

(i) Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset in the principal or most advantageous market for the asset in an orderly transaction between market participants on the measurement date. Fair value should be based on the assumptions market participants would use when pricing an asset. U.S. generally accepted accounting principles establish a fair value hierarchy that prioritizes investments based on those assumptions. The fair value hierarchy gives the highest priority to quoted prices in active markets (observable inputs) and the lowest priority to an entity's assumptions (unobservable inputs). Assets are grouped in three levels based on the markets in which the assets are traded and the reliability of the assumptions used to determine fair value. These levels are:

- Level 1 Unadjusted quoted market prices for identical assets or liabilities in active markets as of the measurement date.
- Level 2 Inputs other than quoted market prices that are observable for the asset, either directly or indirectly.
- Level 3 Unobservable inputs that cannot be corroborated by observable market data.

In addition, certain investments are reported using the "practical expedient" method. The practical expedient method allows net asset value per share or its equivalent to represent fair value for reporting purposes when the criteria for using this method are met. Investments valued using net asset value per share or its equivalent are not categorized within the hierarchy. At June 30, 2019 and 2018, the Organization's investments are valued using the net asset value per share; and accordingly, are not classified within the three-level hierarchy.

Seeds of Hope of Northern Colorado, Inc.

Notes to Consolidated Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(j) 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.

(k) Contributions

Contributions are recognized when cash, securities or other assets, and an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

All donor restricted support, including pledges, is reported as an increase in net assets with donor restrictions, depending on the nature of the restriction. When a donor restriction expires, (that is, 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 consolidated statements of activities as net assets released from donor 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 both of the years ended June 30, 2019 and 2018, the Organization received \$66,000 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.

(l) 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 fund raising 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

(m) Functional Allocation of Expenses

The costs of providing program and supporting services have been summarized on a functional basis in the accompanying statements of functional expenses. The Organization incurs expenses that directly relate to, and can be assigned to, a specific program or supporting activity. The Organization also conducts a number of activities which benefit both program objectives as well as supporting services (i.e. fund raising and management and general activities). These costs, which are not specifically attributable to a specific program or supporting activity, are allocated by management on a consistent basis among program and supporting services benefited, based on either financial or nonfinancial data, such as estimates of time and effort incurred by personnel.

(n) Program Grants

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

(o) 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.

(p) 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, 2019 and 2018.

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, 2016 through 2018 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

(q) Subsequent Events

The Organization has evaluated subsequent events through October 21, 2019, the date the financial statements were available to be issued.

(r) Not-for-Profit Financial Statement Presentation

During the year ended June 30, 2019, the Organization adopted ASU No. 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*, which is intended to improve how a not-for-profit entity classifies its net assets, as well as the information it presents in its financial statements about its liquidity and availability of resources, expenses and investment returns, and cash flows. The guidance replaces the three classes of net assets previously presented on the statement of financial position with two new classes of net assets, which are based on the existence or absence of donor-imposed restrictions. ASU 2016-14 includes specific disclosure requirements intended to improve a financial statement user's ability to assess an entity's available financial resources, along with its management of liquidity and liquidity risk (note 2).

(2) Liquidity and Availability of Financial Assets

The following represents the Organization's financial assets available for general expenditures within one year as of June 30, 2019:

Cash and cash equivalents	\$ 1,942,088
Parish assessment receivable	343,800
Contributions receivable	277,299
Investments not subject to donor restrictions (note 4)	<u>191,512</u>
Financial assets available to meet cash expenditures over the next twelve months	\$ <u>2,754,699</u>

The Organization's financial assets available to meet cash needs for general expenditures within one year represent funding for ongoing operational requirements. Investments totaling \$7,826,249 represent the Organization's donor-restricted endowment funds, which are subject to an annual spending policy and the income from which is restricted for specific purposes as described in notes 5 and 6. In the normal course of operations, the Organization receives significant contributions that are available to meet cash needs for general expenditures throughout the year. As part of its liquidity management, cash in excess of daily requirements is invested in interest bearing checking, sweep and savings accounts (see note 9) and investment funds that provide immediate liquidity.

(3) Contributions Receivable

Contributions receivable total \$277,299 and \$288,309 as of June 30, 2019 and 2018, respectively, and are due in less than one year.

As of June 30, 2019, the Organization has a conditional grant in which the donor agreed to grant up to \$80,000 to the Organization for 2019/2020 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 2019 since the conditions have not been met.

Seeds of Hope of Northern Colorado, Inc.

Notes to Consolidated Financial Statements, Continued

(4) Investments

Investments are held by The Catholic Foundation and total \$8,017,761 and \$8,004,222 at June 30, 2019 and 2018, respectively.

The Organization's investments are pooled with The Catholic Foundation's portfolio assets. 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 amount represents the Organization's proportionate interest in the capital of the invested funds. These funds are reported at their estimated fair value as measured by the net asset value reported by fund managers. There were no changes in the valuation technique during the current year. The account provides daily liquidity.

At June 30, 2019, the portfolio managed by The Catholic Foundation was allocated among the following strategies:

Cash	0.47%
Fixed income	13.92%
Multi-strategy	12.43%
Real assets	7.24%
Total equity	65.94%

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

	<u>2019</u>	<u>2018</u>
Net assets without restrictions	\$ 191,512	228,177
Net assets with restrictions	<u>7,826,249</u>	<u>7,776,045</u>
Total investments	<u>\$ 8,017,761</u>	<u>8,004,222</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>2019</u>	<u>2018</u>
Interest and dividends	\$ 119,625	73,198
Net realized and unrealized gains	303,227	501,118
Less investment fees	<u>(59,812)</u>	<u>(61,932)</u>
Net investment return	<u>\$ 363,040</u>	<u>512,384</u>

(5) Net Assets

Net assets without donor restrictions

At both June 30, 2019 and 2018, a portion of net assets without restrictions totaling \$316,000 is designated by the Board of Directors for tuition assistance grants and operating expenses for the upcoming school year.

Seeds of Hope of Northern Colorado, Inc.

Notes to Consolidated Financial Statements, Continued

(5) Net Assets, Continued

Net assets with donor restrictions

Net assets with donor restrictions are restricted for the following purposes or years as of June 30:

	<u>2019</u>	<u>2018</u>
Subject to expenditure for specific purpose		
Scholarships/tuition assistance	\$ 334,944	374,557
Adopt-a-Program	244,750	246,392
Subject to passage of time		
Contributions receivable (note 3)	<u>277,299</u>	<u>288,309</u>
Total subject to purpose and time restrictions	<u>856,993</u>	<u>909,258</u>
Endowments subject to spending policy and appropriation (note 6)		
Gifts restricted in perpetuity	7,759,304	7,728,721
Unspent earnings on endowment funds	<u>66,945</u>	<u>47,324</u>
Total endowment funds	<u>7,826,249</u>	<u>7,776,045</u>
Total net assets with donor restrictions	<u>\$ 8,683,242</u>	<u>8,685,303</u>

Net assets were released from donor restrictions as follows for the years ended June 30:

	<u>2019</u>	<u>2018</u>
Satisfaction of purpose and time restrictions		
Scholarships/tuition assistance	\$ 1,215,405	1,089,265
Adopt-a-Program	<u>295,500</u>	<u>486,000</u>
Total purpose and time restrictions released	1,510,905	1,575,265
Distributions from endowments in support of grants to schools and students	<u>329,647</u>	<u>353,275</u>
Total net assets released from restrictions	<u>\$ 1,840,552</u>	<u>1,928,540</u>

(6) Endowment Funds

At June 30, the Organization's donor-restricted endowment funds restricted in perpetuity consist of the following:

	<u>2019</u>	<u>2018</u>
William Randolph Hearst Endowment	\$ 200,000	200,000
Tuition Assistance Endowment:		
Hearts on Fire Fund	5,517,887	5,535,243
Elementary Education Fund	1,312,215	1,262,421
Catholic School Education Fund	<u>590,520</u>	<u>592,375</u>
Total Tuition Assistance Endowment	<u>7,420,622</u>	<u>7,390,039</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 donor-restricted endowment funds	<u>\$ 7,759,304</u>	<u>7,728,721</u>

Seeds of Hope of Northern Colorado, Inc.

Notes to Consolidated Financial Statements, Continued

(6) Endowment Funds, Continued

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 Hearts on Fire Fund; the Elementary Education Fund; and the Catholic School Education Fund. Distributions from the Hearts on Fire Fund and Catholic School Education Fund may be used to provide grants for tuition assistance, equipment and general operations for Catholic schools in northern Colorado as well as the inner city of Denver. 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.

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.

Net assets associated with these endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. Net assets maintained in perpetuity 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.

Net assets maintained in perpetuity 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. Net assets maintained in perpetuity 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.

Seeds of Hope of Northern Colorado, Inc.

Notes to Consolidated Financial Statements, Continued

(6) Endowment Funds, Continued

The Organization has interpreted the Colorado Uniform Prudent Management of Institutional Funds Act (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 donor-restricted endowment funds to be maintained in perpetuity (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the 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 retained in perpetuity are classified as net assets with donor restrictions 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.

Changes in the endowment net assets for the years ended June 30, 2019 and 2018 are as follows:

Endowment net assets at June 30, 2017	\$ 7,598,674
Investment return, net	530,646
Appropriation of endowment assets for expenditure	<u>(353,275)</u>
Endowment net assets at June 30, 2018	7,776,045
Investment return, net	379,851
Appropriation of endowment assets for expenditure	<u>(329,647)</u>
Endowment net assets at June 30, 2019	\$ <u>7,826,249</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, 2019 and 2018, 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 (through The Catholic Foundation as portfolio manager) 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 April 1, 2018, for a base annual fee, the Archdiocese's Office of Development (OOD) provides fund raising and related development services and resources to the Organization that include: donor communications and relations, grant reporting and solicitation, database management and metrics. The agreement is negotiated and renewed on an annual basis. Prior to April 1, 2018, similar services were provided by The Catholic Alliance. For the year ended June 30, 2019, fees incurred in connection with this service agreement totaled \$460,000. For the year ended June 30, 2018, fees incurred in connection with the service agreement totaled \$537,171, of which \$405,921 were paid to The Catholic Alliance and \$131,250 were paid to the OOD. At June 30, 2019 and 2018, the Organization recorded a payable to the OOD totaling \$0 and \$43,750, respectively, for services rendered under this agreement.

The fees have been allocated on a functional basis in the consolidated statements of functional expenses based on estimates of how the OOD staff spent their time performing services under the agreement.

(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, 2019 and 2018 was \$14,982 and \$11,677, respectively. At June 30, 2019 and 2018, the Organization recorded a payable totaling \$3,381 and \$3,254, respectively, for the fourth quarter contribution to the Plan.

Seeds of Hope of Northern Colorado, Inc.

Notes to Consolidated Financial Statements, Continued

(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 \$1,157,320 at June 30, 2019 and \$1,624,856 at June 30, 2018. 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 \$32,464 and \$24,242 during the years ended June 30, 2019 and 2018, 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 \$0 and \$12,094 at June 30, 2019 and 2018, respectively.

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 \$27,046 and \$17,537 to the Benefits Trust during the years ended June 30, 2019 and 2018, 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. Rent paid to the Archdiocese totaled \$7,470 for the year ended June 30, 2019.