



**CATHOLIC EDUCATION FOUNDATION OF THE ARCHDIOCESE OF
WASHINGTON, INC.**

Financial Statements

June 30, 2016 and 2015

(With Independent Auditors' Report Thereon)



KPMG LLP
1676 International Drive
McLean, VA 22102

Independent Auditors' Report

The Board of Directors
Catholic Education Foundation of the Archdiocese of Washington, Inc.:

We have audited the accompanying financial statements of Catholic Education Foundation of the Archdiocese of Washington, Inc. (Catholic Education Foundation), which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; 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.

Auditors' 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 auditors' 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 Catholic Education Foundation of the Archdiocese of Washington, Inc. as of June 30, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

KPMG LLP

December 15, 2016

**CATHOLIC EDUCATION FOUNDATION OF THE ARCHDIOCESE OF
WASHINGTON, INC.**

Statements of Financial Position

June 30, 2016 and 2015

Assets	2016	2015
Cash (note 1(c))	\$ 4,332,910	2,316,588
Contributions receivable, net (notes 3 and 7)	2,671,964	4,907,757
Trust receivable	—	800,000
Beneficial interest in assets held by others	273,792	275,000
Receivable due from affiliate (note 7)	—	11,895
Investments (note 2)	17,629,628	19,237,363
Total assets	\$ 24,908,294	27,548,603
Liabilities and Net Assets		
Liabilities:		
Accounts payable	24,684	23,400
Deferred revenue	60,208	74,648
Payable to affiliates (note 7)	692,212	531,626
Funds held on behalf of others (notes 1(f), 4, and 7)	1,016,913	1,235,296
Total liabilities	1,794,017	1,864,970
Net assets:		
Unrestricted	7,803,817	8,799,746
Temporarily restricted (notes 5 and 6)	11,661,484	13,234,911
Permanently restricted (notes 5 and 6)	3,648,976	3,648,976
Total net assets	23,114,277	25,683,633
Total liabilities and net assets	\$ 24,908,294	27,548,603

See accompanying notes to financial statements.

**CATHOLIC EDUCATION FOUNDATION OF THE ARCHDIOCESE OF
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Statement of Activities

Year ended June 30, 2016

	2016			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues, gains, and other support:				
Contributions, donations, and gifts	\$ —	3,990,093	—	3,990,093
Change in beneficial interest in assets held by others	(3,915)	—	—	(3,915)
Investment income				
at amount appropriated (note 2)	101,279	62,873	—	164,152
Administrative fees	28,350	—	—	28,350
Net assets released from restrictions	5,468,692	(5,468,692)	—	—
Total revenues, gains, and other support	<u>5,594,406</u>	<u>(1,415,726)</u>	<u>—</u>	<u>4,178,680</u>
Expenses:				
Program services:				
Tuition assistance	5,529,055	—	—	5,529,055
Seminarian education	22,816	—	—	22,816
Catholic education grant	18,100	—	—	18,100
Total program services	<u>5,569,971</u>	<u>—</u>	<u>—</u>	<u>5,569,971</u>
Management and general	<u>306,178</u>	<u>—</u>	<u>—</u>	<u>306,178</u>
Total expenses	<u>5,876,149</u>	<u>—</u>	<u>—</u>	<u>5,876,149</u>
Change in net assets from operations	(281,743)	(1,415,726)	—	(1,697,469)
Other changes in net assets:				
Excess of investment income (loss) over amount appropriated	(714,186)	(157,701)	—	(871,887)
Change in net assets	(995,929)	(1,573,427)	—	(2,569,356)
Net assets at beginning of year	<u>8,799,746</u>	<u>13,234,911</u>	<u>3,648,976</u>	<u>25,683,633</u>
Net assets at end of year	<u>\$ 7,803,817</u>	<u>11,661,484</u>	<u>3,648,976</u>	<u>23,114,277</u>

See accompanying notes to financial statements.

**CATHOLIC EDUCATION FOUNDATION OF THE ARCHDIOCESE OF
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Statement of Activities

Year ended June 30, 2015

		2015			
		Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues, gains, and other support:					
Contributions, donations, and gifts	\$	—	5,449,109	—	5,449,109
Investment income					
at amount appropriated (note 2)		237,718	136,608		374,326
Administrative fees		50,317	—	—	50,317
Net assets released from restrictions		5,109,516	(5,109,516)	—	—
Total revenue, gains, and other support		<u>5,397,551</u>	<u>476,201</u>	<u>—</u>	<u>5,873,752</u>
Expenses:					
Program services:					
Tuition assistance		5,353,893	—	—	5,353,893
Seminarian education		10,000	—	—	10,000
Total program services		<u>5,363,893</u>	<u>—</u>	<u>—</u>	<u>5,363,893</u>
Management and general		331,099	—	—	331,099
Fundraising		156,960	—	—	156,960
Total expenses		<u>5,851,952</u>	<u>—</u>	<u>—</u>	<u>5,851,952</u>
Change in net assets from operations		(454,401)	476,201	—	21,800
Other changes in net assets:					
Excess of investment income (loss) over amount appropriated		(588,699)	(191,231)	—	(779,930)
Donor redesignation		—	250,000	(250,000)	—
Change in net assets		<u>(1,043,100)</u>	<u>534,970</u>	<u>(250,000)</u>	<u>(758,130)</u>
Net assets at beginning of year		<u>9,842,846</u>	<u>12,699,941</u>	<u>3,898,976</u>	<u>26,441,763</u>
Net assets at end of year	\$	<u><u>8,799,746</u></u>	<u><u>13,234,911</u></u>	<u><u>3,648,976</u></u>	<u><u>25,683,633</u></u>

See accompanying notes to financial statements.

**CATHOLIC EDUCATION FOUNDATION OF THE ARCHDIOCESE OF
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Statements of Cash Flows

Years ended June 30, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
Change in net assets	\$ (2,569,356)	(758,130)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Unrealized and realized investment losses, net	707,735	396,114
Decrease (increase) in assets:		
Contributions receivable	2,235,793	364,513
Trust receivable	800,000	—
Beneficial interest in assets held by others	(8,242)	—
Prepaid expense	—	49,565
Receivable due from affiliate	11,895	289,584
Increase (decrease) in liabilities:		
Accounts payable	1,284	2,350
Deferred revenue	(14,440)	74,648
Payable due to affiliates	160,586	19,253
Funds held on behalf of others	(218,383)	1,235,296
Net cash provided by operating activities	1,106,872	1,673,193
Cash flows from investing activity:		
Proceeds from sale of investments	900,000	900,000
Proceeds from liquidation of assets held by others	9,450	—
Net cash provided by investing activity	909,450	900,000
Cash flows from financing activity:		
Repayment of cash overdraft with bank	—	(256,605)
Net cash used in financing activity	—	(256,605)
Net increase in cash and cash equivalents	2,016,322	2,316,588
Cash at beginning of year	2,316,588	—
Cash at end of year	\$ 4,332,910	2,316,588

See accompanying notes to financial statements.

**CATHOLIC EDUCATION FOUNDATION OF THE ARCHDIOCESE OF
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Notes to Financial Statements

June 30, 2016 and 2015

(1) Summary of Significant Accounting Policies

(a) Organization

Catholic Education Foundation of the Archdiocese of Washington, Inc. (Catholic Education Foundation) (formerly, named Cornerstone for Tomorrow, Inc.) was incorporated as a 501(c)(3) corporation on April 22, 1988. The purpose of Catholic Education Foundation is to support Catholic education in the Archdiocese of Washington.

(b) Basis of Presentation

The accompanying financial statements have been prepared in accordance with U.S. generally accepted accounting principles on the accrual basis of accounting.

(c) Cash

Catholic Education Foundation maintains its cash in bank deposit accounts, which, at times, may exceed federally insured limits. Catholic Education Foundation has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on its cash balances.

(d) Investments

Investments are recorded at fair value, which is determined using quoted market prices or, with respect to investments without quoted market prices, at estimated fair values provided by external investment managers. Management reviews and evaluates the fair values provided by the external investment managers and believes that the valuation methods and assumptions used in determining their estimated fair values are reasonable.

(e) Contributions Receivable

Contributions are recognized as revenue in the period received or pledged by the donor. Contributions receivable are initially recorded net of a discount for the time value of money for payments to be received in future years and net of an allowance for uncollectible amounts. The contributions receivable are subsequently adjusted for accretion of discount and changes in estimates of collectibility.

(f) Funds Held on Behalf of Others

Catholic Education Foundation has undertaken a special fundraising campaign for contributions for Catholic education on behalf of itself as well as for certain other Catholic educational institutions. Funds raised for others are recorded as a liability until paid to the related entities. Those entities pay an administrative fee to Catholic Education Foundation to help recover a portion of the fundraising costs.

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(g) Revenue Recognition and Net Assets

Net assets and revenue, gains, and losses are classified based on the existence or absence of donor imposed restrictions; accordingly, the net assets of Catholic Education Foundation and changes therein are classified and reported as follows:

Unrestricted net assets – Net assets that are not subject to donor imposed restrictions.

Temporarily restricted net assets – Net assets subject to donor imposed restrictions that may or will be met either by actions of Catholic Education Foundation and/or by the passage of time.

Permanently restricted net assets – Net assets subject to donor imposed restrictions that they be maintained permanently by Catholic Education Foundation. Generally, the donors of these assets permit Catholic Education Foundation to use all or part of the income earned on related investments for general or specific purposes.

Revenue is reported as increases in unrestricted net assets unless use of the related assets is limited by donor imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Contributions, which include unconditional promises to give, are recognized as revenue in the period the promise is made by the donor. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value at the date of gift.

Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of the discount is recorded as additional revenue and used in accordance with donor-imposed restrictions, if any, on the contributions.

Expirations of temporary restrictions on net assets (i.e., the donor's stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

(h) Measure of Operations

Catholic Education Foundation has chosen to present changes in net assets from operations. Investment income (loss) included in operating revenue represents the amount approved by the board for use based on a spending rate formula. The variance between actual investment income (loss) and the amount recognized in operations is presented in 'Other changes in net assets.'

(i) Income Taxes

Catholic Education Foundation is exempt from federal income tax, except on unrelated activities, under the provisions of Section 501(c)(3) of the Internal Revenue Code. No provision has been made for income taxes during the fiscal years ended June 30, 2016 and 2015 since Catholic Education Foundation had no significant unrelated business income.

Tax positions are recognized or derecognized based on a more-likely than-not threshold. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which change in

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judgment occurs. This applies to positions taken or expected to be taken in a tax return. The Catholic Education Foundation recognizes interest accrued related to unrecognized tax benefits and penalties related to unrecognized tax benefits in accounts payable and accrued liabilities, if assessed. No interest expense or penalties have been recognized as of and for the years ended June 30, 2016 and 2015. Management annually reviews its tax positions and has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements.

(j) Concentration of Credit Risk

Catholic Education Foundation invests in various investment securities. Investments are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the statements of financial position.

(k) Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires Catholic Education Foundation to make certain estimates 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

(l) Recent Accounting Pronouncements

In May 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2015-07 “*Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent)*” (the ASU), which updates existing fair value guidance and amends Accounting Standards Codification 820, “*Fair Value Measurement*”. The amendments in the ASU remove the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the NAV per share practical expedient. Prior to the issuance of the ASU, investments valued using the NAV per share practical expedient were categorized within the fair value hierarchy based upon Catholic Education Foundation’s ability to redeem its investment on the measurement date. Reporting entities are required to adopt the ASU retrospectively. The effective date for adoption for public entities is fiscal years beginning after December 15, 2015 and for all other entities is fiscal years beginning after December 15, 2016 and interim periods within those fiscal years. Early adoption is permitted for all entities. Management has evaluated the ASU and determined that the NAV per share or its equivalent is the practical expedient for the investment in CITW. Management therefore adopted ASU 2015-07 in the year ended June 30, 2015, which changed certain disclosures in note 2, but did not have a material impact on its statements of financial position, activities, and cash flows.

(m) Reclassifications

Certain reclassifications have been made to prior year amounts to conform to the current year presentation.

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(2) Investments and Fair Value Measurements

Fair value refers to the price that would be received upon selling an asset or the price paid to transfer a liability (an exit price) in the principal or most advantageous market for an asset or liability in an orderly transaction between market participants at the reporting date.

In accordance with the authoritative guidance on fair value measurements and disclosures under U.S. GAAP, as a practical expedient, an entity holding investments in certain entities that calculate NAV per share or its equivalent for which the fair value is not readily determinable, is permitted to measure the fair value of such investments on the basis of that NAV per share or its equivalent without adjustment.

Management uses its best judgment in estimating the fair value of Catholic Education Foundation's investments including its consideration on the use of NAV as a practical expedient. There are inherent limitations in any estimation technique. Because of the inherent uncertainty of valuation, this estimated fair value may differ significantly from the value that would have been used had a ready market for the investments existed, and the difference could be significant.

Fair Value Measurements and Disclosures, under FASB Accounting Standards Codification Topic 820 (ASC 820), prioritizes within the measurement of fair value, the use of market-based information over entity specific information and establishes a three-level hierarchy for fair value measurements based on the nature of inputs used in the valuation of an asset or liability as of the measurement date. 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).

Catholic Education Foundation's investments are classified within the fair value hierarchy based on the lowest level of input that is significant to the fair value measurement. The three levels of the fair value hierarchy and its applicability to the portfolio investments are described below:

- Level 1 Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that Catholic Education Foundation has the ability to access at the measurement date
- Level 2 Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly, including inputs in markets that are not considered to be active
- Level 3 Inputs that are unobservable.

An individual investment's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. However, the determination of what constitutes "observable" requires significant judgment by management.

Observable data is that market data, which is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by multiple, independent sources that are actively involved in the relevant market. The categorization of an investment within the hierarchy is based upon the pricing transparency of that investment and does not necessarily correspond to the perceived risk of that investment.

Inputs broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Assumptions used due to lack of observable inputs may significantly impact the resulting fair value, and therefore, the results of operations.

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The following table shows classification of investments by level of the fair value hierarchy in the CITW portfolio as of June 30, 2016 and 2015:

	2016	2015
Level 1	46.5%	41.1%
Level 2	8.2	8.3
Level 3	—	—
NAV	45.3	50.6
	100.0%	100.0%

Catholic Education Foundation entered into a Trust Agreement with the Catholic Investment Trust of Washington (CITW) on March 29, 2012. Pursuant to this agreement, the Catholic Education Foundation transferred its long term investments to CITW effective April 2, 2012. The Catholic Education Foundation owns only its interest in CITW and has no claim on the interest held by other participants in CITW and no other participants have a claim on the Catholic Education Foundation's interest in CITW.

Effective July 1, 2014, CITW entered into a limited partnership agreement with Cambridge Associates Resources, LLC, as General Partner, creating CITW Fund LP. CITW Fund LP invests in publicly-traded stocks, exchange-traded funds, mutual funds, bonds, derivative contracts, unaffiliated limited partnerships, limited liability companies, private equity, and/or venture capital funds. CITW Fund LP generally seeks to achieve long-term equity-like returns through broadly diversifying by asset class, investment manager, geography, economic sector, and security.

For the years ended June 30, 2016 and 2015, CITW invested in CITW Fund LP, which maintains two portfolios, Liquid and Illiquid. The investment objective of each portfolio, consistent with the Investment Policy Statement approved by CITW's Board of Trustees, is long term total return net of fees exceeds the aggregate Portfolio benchmark's total return with less risk.

Redemptions from CITW Fund LP are permitted upon written notice received by the General Partner at least 90 days prior to the end of any fiscal year and 60 days prior to the end of any fiscal quarter. The General Partner has discretion to suspend withdrawals if considered necessary to prevent an adverse impact on CITW Fund LP.

In accordance with ASC subtopic 820-10, *Fair Value Measurement – Overall*, the investments measured at NAV per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value of the investments in CITW of \$17,629,628 and \$19,237,363 at June 30, 2016 and 2015, respectively, is estimated using the NAV as practical expedient. There are no unfunded commitments for this investment.

The fair value of other financial instruments, principally cash and cash equivalents, receivables and payables approximates their carrying value at June 30, 2016 and 2015 because of the short maturity of these items.

Investment income for the years ended June 30, 2016 and 2015 consisted of net unrealized losses in the amount of \$707,735 and \$405,604, respectively.

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Investment income (loss) is reported as follows in the statements of activities for the years ended June 30, 2016 and 2015:

	2016	2015
In operations	\$ 164,152	374,326
In other changes to net assets	(871,887)	(779,930)
	\$ (707,735)	(405,604)

(3) Contributions Receivable

Contributions receivable are summarized as follows at June 30:

	2016	2015
Unconditional promises before unamortized discount expected to be collected in:		
Less than one year	\$ 1,729,000	3,606,100
One year to five years	990,000	1,374,089
	2,719,000	4,980,189
Less unamortized discounts (discount rates ranging from 0.9% to 1.57%)	(47,036)	(72,432)
	\$ 2,671,964	4,907,757

This amount includes a receivable due from a related party of \$1,334,000 and \$1,220,000 at June 30, 2016 and 2015, respectively, as discussed in note 7.

(4) Funds Held on Behalf of Others

Funds held on behalf of others are summarized as follows at June 30:

	2016	2015
Archdiocesan affiliates:		
Archbishop Carroll High School	\$ 544,830	660,133
Don Bosco Cristo Rey High School	79,997	92,871
Consortium of Catholic Academies	61,366	72,063
St. Jude Catholic Church	220,480	273,485
Funds held on behalf of related parties (note 7)	906,673	1,098,552
Non-archdiocesan Catholic entity	110,240	136,744
Funds held on behalf of others	\$ 1,016,913	1,235,296

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(5) Temporarily and Permanently Restricted Net Assets

The following table summarizes the nature of the temporarily restricted net assets at June 30 and the purposes for which such net assets may be used:

	2016	2015
Tuition assistance (high school/elementary)	\$ 11,387,092	12,964,496
Seminarian education	274,392	270,415
	\$ 11,661,484	13,234,911

The following table summarizes the nature of the permanently restricted net assets at June 30 and the purposes for which the income or a portion of income on such net assets may be used:

	2016	2015
Tuition assistance (high school/elementary)	\$ 3,133,567	3,133,567
Seminarian education	515,409	515,409
	\$ 3,648,976	3,648,976

(6) Endowments

Effective January 23, 2008, the District of Columbia enacted the Uniform Prudent Management of Institutional Funds Act (the Act), the provisions of which apply to funds existing on or established after that date. The State of Maryland enacted the Act effective April 14, 2009.

The board of directors of Catholic Education Foundation (the Board) has interpreted the Act as allowing Catholic Education Foundation to spend or accumulate the amount of an endowment fund that Catholic Education Foundation determines is prudent for the uses, benefits, purposes, and duration for which the endowment fund is established, subject to the intent of the donor as expressed in the gift instrument. For accounting and reporting purposes, Catholic Education 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. The remaining portion of the donor restricted endowment fund that is not classified in permanently restricted net assets is 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 the Act. If the disbursements under the spending rate policy exceed accumulated earnings, the deficiency is classified as an offset to unrestricted net assets until such time as it is recovered by future earnings. In accordance with the Act, Catholic Education 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 Catholic Education 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 Catholic Education Foundation, and (7) the investment policies of the Catholic Education Foundation.

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Catholic Education Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor restricted funds that Catholic Education Foundation must hold in perpetuity or for donor specified period(s) as well as designated funds. Under this policy, as approved by the Board, Catholic Education Foundation expects its endowment funds, over time, to provide an average rate of return that, net of fees, exceeds the aggregate benchmark's total return with less risk. Actual returns in any given year may vary from this amount.

To satisfy its long term rate of return objectives, Catholic Education Foundation 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). Catholic Education Foundation 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.

Catholic Education Foundation's policy includes the following: the classification of restricted gifts, the investment of restricted gifts, the definition of income earned, and the calculation of annual distributions. Gifts are pooled and invested to ensure assets increase over time thereby enhancing the funds' long term health and fiscal viability. Income earned includes interest, dividends, and realized/unrealized gains and losses unless otherwise specified by the donor. Distributions can be made annually at a rate not to exceed 4% of the sum of the fair market value of the endowment assets and the income earned (which are classified as temporarily restricted net assets) using a three year rolling average.

Endowment net assets composition by type of fund as of June 30 were as follows:

	2016			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	\$ (73,192)	997,787	3,648,976	4,573,571
Board-designated endowment funds	6,203,110	—	—	6,203,110
	\$ 6,129,918	997,787	3,648,976	10,776,681
	2015			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	\$ (52,389)	1,151,572	3,648,976	4,748,159
Board-designated endowment funds	6,476,149	—	—	6,476,149
	\$ 6,423,760	1,151,572	3,648,976	11,224,308

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Changes in endowment net assets for the year ended June 30, 2016 are as follows:

	2016			Total
	Unrestricted	Temporarily restricted	Permanently restricted	
Endowment net assets, beginning of year	\$ 6,423,760	1,151,572	3,648,976	11,224,308
Net unrealized losses	(167,845)	(115,630)	—	(283,475)
Replenish net assets	(24,718)	24,718	—	—
Appropriation of endowment assets for expenditure	(101,279)	(62,873)	—	(164,152)
Endowment net assets, end of year	<u>\$ 6,129,918</u>	<u>997,787</u>	<u>3,648,976</u>	<u>10,776,681</u>

Changes in endowment net assets for the year ended June 30, 2015 are as follows:

	2015			Total
	Unrestricted	Temporarily restricted	Permanently restricted	
Endowment net assets, beginning of year	\$ 6,786,804	1,075,347	3,898,976	11,761,127
Net unrealized losses	(96,684)	(65,809)	—	(162,493)
Replenish net assets	(28,642)	28,642	—	—
Donor redesignation	—	250,000	(250,000)	—
Appropriation of endowment assets for expenditure	(237,718)	(136,608)	—	(374,326)
Endowment net assets, end of year	<u>\$ 6,423,760</u>	<u>1,151,572</u>	<u>3,648,976</u>	<u>11,224,308</u>

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or the states' enacted legislation requires Catholic Education Foundation to retain as a fund for perpetual duration. In accordance with generally accepted accounting principles, the deficiencies of this nature that are reported in unrestricted net assets totaled \$73,192 and \$52,389 as of June 30, 2016 and 2015, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of the permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board.

**CATHOLIC EDUCATION FOUNDATION OF THE ARCHDIOCESE OF
WASHINGTON, INC.**

Notes to Financial Statements

June 30, 2016 and 2015

(7) Related Party Transactions

Catholic Education Foundation has significant transactions with related entities of the Archdiocese of Washington. Below is a summary of the impact of these transactions with related parties on the statements of financial position and the statements of activities as of and for the years ended June 30:

	<u>2016</u>	<u>2015</u>
Statements of Financial Position:		
Contribution receivable due from Forward in Faith	\$ 1,334,000	1,220,000
Receivable due from Central Pastoral Administration (CPA)	—	11,895
Payable to affiliates:		
Consortium of Catholic Academies	499,795	530,126
CPA	192,417	—
Parishes	—	1,500
Funds held on behalf of others (note 4)	906,673	1,098,552
Statements of Activities:		
Contributions for tuition assistance from CPA and parishes	2,098,870	3,094,148
Contributions for tuition assistance from Forward in Faith	1,334,000	1,220,000
Tuition assistance expense for Archdiocesan Catholic schools	4,943,025	4,724,673
Expenses incurred with CPA:		
Seminarian education	22,816	10,000
Management and general	272,000	295,000
Grant for feasibility study	18,100	—

A member of the Board of Catholic Education Foundation is also a member of the board of trustees of CITW and a member of the Archdiocesan finance council. Payables to affiliates are non-interest bearing transactions with no stated maturity date.

(8) Subsequent Events

In preparing these financial statements, Catholic Education Foundation has evaluated events and transactions for potential recognition or disclosure through December 15, 2016, the date that the financial statements were available to be issued. There were no events or transactions that were discovered during the evaluation that required accrual or further disclosure.