

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

FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

**CATHOLIC EDUCATION FOUNDATION OF THE ARCHDIOCESE OF WASHINGTON, INC.
TABLE OF CONTENTS
YEARS ENDED JUNE 30, 2017 AND 2016**

| | |
|---|----------|
| INDEPENDENT AUDITORS' REPORT | 1 |
| FINANCIAL STATEMENTS | |
| STATEMENTS OF FINANCIAL POSITION | 3 |
| STATEMENTS OF ACTIVITIES | 4 |
| STATEMENTS OF CASH FLOWS | 6 |
| NOTES TO FINANCIAL STATEMENTS | 7 |

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Catholic Education Foundation of the Archdiocese of Washington, Inc., which comprise the statement of financial position as of June 30, 2017, the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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.

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

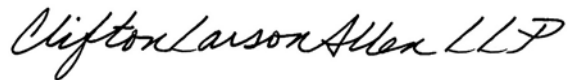
Opinion

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, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Prior Year Financial Statements

The financial statements of Catholic Education Foundation of the Archdiocese of Washington, Inc. for the year ended June 30, 2016, were audited by other auditors whose report, dated December 15, 2016, expressed an unmodified opinion on those financial statements.



CliftonLarsonAllen LLP

Arlington, Virginia
November 29, 2017

CATHOLIC EDUCATION FOUNDATION OF THE ARCHDIOCESE OF WASHINGTON, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2017 AND 2016

| | 2017 | 2016 |
|--|---------------|---------------|
| ASSETS | | |
| Cash (note 1(d)) | \$ 4,074,120 | \$ 4,332,910 |
| Contributions receivable, net (notes 1(e), 3 and 7) | 2,695,525 | 2,671,964 |
| Funds held by others (note 1(f)) | 295,072 | 273,792 |
| Receivable due from affiliate (note 7) | 55,052 | - |
| Investments (note 2) | 19,005,018 | 17,629,628 |
| Total assets | \$ 26,124,787 | \$ 24,908,294 |
| LIABILITIES AND NET ASSETS | | |
| LIABILITIES | | |
| Accounts payable | \$ 15,360 | \$ 24,684 |
| Deferred revenue | 45,311 | 60,208 |
| Payable to affiliates (note 7) | 493,439 | 692,212 |
| Funds held on behalf of others (notes 1(f), 6 and 7) | 733,888 | 1,016,913 |
| Total liabilities | 1,287,998 | 1,794,017 |
| NET ASSETS | | |
| Unrestricted | 9,173,296 | 7,803,817 |
| Temporarily restricted (notes 5 and 6) | 11,971,878 | 11,661,484 |
| Permanently restricted (notes 5 and 6) | 3,691,615 | 3,648,976 |
| Total net assets | 24,836,789 | 23,114,277 |
| Total liabilities and net assets | \$ 26,124,787 | \$ 24,908,294 |

See accompanying Notes to Financial Statements.

CATHOLIC EDUCATION FOUNDATION OF THE ARCHDIOCESE OF WASHINGTON, INC.
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2017

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---------------------|---------------------------|---------------------------|----------------------|
| REVENUE, GAINS AND OTHER SUPPORT | | | | |
| Contributions, donations, and gifts | \$ - | \$ 5,684,511 | \$ - | \$ 5,684,511 |
| Change in funds held by others | 3,915 | 18,416 | 5,883 | 28,214 |
| Investment income at amount appropriated (note 2) | 202,134 | 190,862 | - | 392,996 |
| Administrative fees | 15,750 | - | - | 15,750 |
| Net assets released from restrictions | 5,672,199 | (5,672,199) | - | - |
| Total revenue, gains and other support | 5,893,998 | 221,590 | 5,883 | 6,121,471 |
| EXPENSES | | | | |
| Program services: | | | | |
| Tuition assistance | 5,829,332 | - | - | 5,829,332 |
| Seminarian education | - | - | - | - |
| Catholic education grant | 45,000 | - | - | 45,000 |
| Total program services | 5,874,332 | - | - | 5,874,332 |
| Management and general | 307,021 | - | - | 307,021 |
| Total expenses | 6,181,353 | - | - | 6,181,353 |
| Change in net assets from operations | (287,355) | 221,590 | 5,883 | (59,882) |
| OTHER CHANGES IN NET ASSETS | | | | |
| Excess of investment income over amount appropriated | 1,656,834 | 88,804 | 36,756 | 1,782,394 |
| CHANGE IN NET ASSETS | 1,369,479 | 310,394 | 42,639 | 1,722,512 |
| Net Assets, Beginning of Year | 7,803,817 | 11,661,484 | 3,648,976 | 23,114,277 |
| NET ASSETS, END OF YEAR | \$ 9,173,296 | \$ 11,971,878 | \$ 3,691,615 | \$ 24,836,789 |

See accompanying Notes to Financial Statements.

CATHOLIC EDUCATION FOUNDATION OF THE ARCHDIOCESE OF WASHINGTON, INC.
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2016

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|--------------|---------------------------|---------------------------|---------------|
| REVENUE, GAINS AND OTHER SUPPORT | | | | |
| Contributions, donations, and gifts | \$ - | \$ 3,990,093 | \$ - | \$ 3,990,093 |
| Change in funds 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 revenue, gains and other support | 5,594,406 | (1,415,726) | - | 4,178,680 |
| 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 | 5,569,971 | - | - | 5,569,971 |
| Management and general | 306,178 | - | - | 306,178 |
| Total expenses | 5,876,149 | - | - | 5,876,149 |
| Change in net assets from operations | (281,743) | (1,415,726) | - | (1,697,469) |
| OTHER CHANGES IN NET ASSETS | | | | |
| Excess of investment loss over amount appropriated | (714,186) | (157,701) | - | (871,887) |
| CHANGE IN NET ASSETS | (995,929) | (1,573,427) | - | (2,569,356) |
| Net Assets, Beginning of Year | 8,799,746 | 13,234,911 | 3,648,976 | 25,683,633 |
| NET ASSETS, END OF YEAR | \$ 7,803,817 | \$ 11,661,484 | \$ 3,648,976 | \$ 23,114,277 |

See accompanying Notes to Financial Statements.

CATHOLIC EDUCATION FOUNDATION OF THE ARCHDIOCESE OF WASHINGTON, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2017 AND 2016

| | 2017 | 2016 |
|---|--------------|----------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Change in net assets | \$ 1,722,512 | \$ (2,569,356) |
| Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities: | | |
| Unrealized and realized investment (gains) losses, net | (2,175,390) | 707,735 |
| Contributions collected and revenues restricted for long term investments | (42,639) | - |
| Decrease (increase) in assets: | | |
| Contributions receivable | (23,561) | 2,235,793 |
| Trust receivable | - | 800,000 |
| Funds held by others | (30,246) | (8,242) |
| Receivable due from affiliate | (55,052) | 11,895 |
| Increase (decrease) in liabilities: | | |
| Accounts payable | (9,324) | 1,284 |
| Deferred revenue | (14,897) | (14,440) |
| Payable due to affiliates | (198,773) | 160,586 |
| Funds held on behalf of others | (283,025) | (218,383) |
| | (1,110,395) | 1,106,872 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Proceeds from sale of investments | 800,000 | 900,000 |
| Proceeds from liquidation of assets held by others | 8,966 | 9,450 |
| | 808,966 | 909,450 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from revenues restricted for: | | |
| Investment in endowment | 42,639 | - |
| | 42,639 | - |
| NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS | (258,790) | 2,016,322 |
| Cash and Cash Equivalents, Beginning of Year | 4,332,910 | 2,316,588 |
| CASH AND CASH EQUIVALENTS, END OF YEAR | \$ 4,074,120 | \$ 4,332,910 |

See accompanying Notes to Financial Statements.

CATHOLIC EDUCATION FOUNDATION OF THE ARCHDIOCESE OF WASHINGTON, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 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 accounting principles generally accepted in the United States of America on the accrual basis of accounting.

(c) **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.

(d) **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.

(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 collectability.

(f) **Funds Held By Others**

Funds held by others includes beneficial interests in trusts administered on behalf of Catholic Education Foundation by independent financial institutions. The amounts are recorded at fair value as reported by the financial institution. Funds held by others also includes annuities which are administered by the Central Pastoral Administration of the Archdiocese of Washington (CPA) for the benefit of Catholic Education Foundation.

(g) **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.

CATHOLIC EDUCATION FOUNDATION OF THE ARCHDIOCESE OF WASHINGTON, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) 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.

(i) 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.

(j) 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 on the accompanying statements of activities.

CATHOLIC EDUCATION FOUNDATION OF THE ARCHDIOCESE OF WASHINGTON, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) 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, 2017 and 2016, as 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 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, 2017 and 2016. 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.

(l) 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.

(m) Subsequent Events

In preparing these financial statements, Catholic Education Foundation has evaluated events and transactions for potential recognition or disclosure through November 29, 2017, the date that the financial statements were available to be issued.

NOTE 2 INVESTMENTS AND FAIR VALUE MEASUREMENTS

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.

CATHOLIC EDUCATION FOUNDATION OF THE ARCHDIOCESE OF WASHINGTON, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 2 INVESTMENTS AND FAIR VALUE MEASUREMENTS (CONTINUED)

Fair Value Measurements (Continued)

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.

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, 2017 and 2016, 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 \$19,005,018 and \$17,629,628 at June 30, 2017 and 2016, respectively, is estimated using the NAV as practical expedient. There are no unfunded commitments for this investment.

Investment income for the years ended June 30, 2017 and 2016 consisted of net unrealized gains (losses) in the amount of \$2,175,390 and (\$707,735), respectively.

CATHOLIC EDUCATION FOUNDATION OF THE ARCHDIOCESE OF WASHINGTON, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 2 INVESTMENTS AND FAIR VALUE MEASUREMENTS (CONTINUED)

Fair Value Measurements (Continued)

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

| | <u>2017</u> | <u>2016</u> |
|--------------------------------|---------------------|---------------------|
| In operations | \$ 392,996 | \$ 164,152 |
| In other changes to net assets | 1,782,394 | (871,887) |
| | <u>\$ 2,175,390</u> | <u>\$ (707,735)</u> |

NOTE 3 CONTRIBUTIONS RECEIVABLE

Contributions receivable are summarized as follows at June 30:

| | <u>2017</u> | <u>2016</u> |
|---|---------------------|---------------------|
| Unconditional promises before unamortized discount expected to be collected in: | | |
| Less than one year | \$ 2,083,618 | \$ 1,729,000 |
| One year to five years | 765,000 | 990,000 |
| | <u>2,848,618</u> | <u>2,719,000</u> |
| Less unamortized discounts (discount rates ranging from 0.9% and 1.57%) | <u>(153,093)</u> | <u>(47,036)</u> |
| | <u>\$ 2,695,525</u> | <u>\$ 2,671,964</u> |

This amount includes a receivable due from a related party of \$1,331,000 and \$1,334,000 at June 30, 2017 and 2016, respectively, as discussed in Note 7.

NOTE 4 FUNDS HELD ON BEHALF OF OTHERS

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

| | <u>2017</u> | <u>2016</u> |
|--|-------------------|---------------------|
| Archdiocesan affiliates: | | |
| Archbishop Carroll High School | \$ 379,784 | \$ 544,830 |
| Don Bosco Cristo Rey High School | 59,552 | 79,997 |
| Consortium of Catholic Academies | 44,591 | 61,366 |
| St. Jude Catholic Church | 166,640 | 220,480 |
| Funds held on behalf of related parties (note 7) | 650,567 | 906,673 |
| Non-archdiocesan Catholic entity | 83,321 | 110,240 |
| Funds held on behalf of others | <u>\$ 733,888</u> | <u>\$ 1,016,913</u> |

CATHOLIC EDUCATION FOUNDATION OF THE ARCHDIOCESE OF WASHINGTON, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 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:

| | <u>2017</u> | <u>2016</u> |
|---|----------------------|----------------------|
| Tuition assistance (high school/elementary) | \$ 11,675,548 | \$ 11,387,092 |
| Seminarian education | 296,330 | 274,392 |
| | <u>\$ 11,971,878</u> | <u>\$ 11,661,484</u> |

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:

| | <u>2017</u> | <u>2016</u> |
|---|---------------------|---------------------|
| Tuition assistance (high school/elementary) | \$ 3,170,323 | \$ 3,133,567 |
| Seminarian education | 521,292 | 515,409 |
| | <u>\$ 3,691,615</u> | <u>\$ 3,648,976</u> |

NOTE 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.

CATHOLIC EDUCATION FOUNDATION OF THE ARCHDIOCESE OF WASHINGTON, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 6 ENDOWMENTS (CONTINUED)

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 were as follows as of June 30:

| | 2017 | | | Total |
|----------------------------------|---------------------|------------------------|------------------------|----------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | |
| Donor-restricted endowment funds | \$ (40,547) | \$ 1,098,238 | \$ 3,691,615 | \$ 4,749,306 |
| Board-designated endowment funds | 6,511,586 | - | - | 6,511,586 |
| | <u>\$ 6,471,039</u> | <u>\$ 1,098,238</u> | <u>\$ 3,691,615</u> | <u>\$ 11,260,892</u> |

| | 2016 | | | Total |
|----------------------------------|---------------------|------------------------|------------------------|----------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | |
| Donor-restricted endowment funds | \$ (73,192) | \$ 997,787 | \$ 3,648,976 | \$ 4,573,571 |
| Board-designated endowment funds | 6,203,110 | - | - | 6,203,110 |
| | <u>\$ 6,129,918</u> | <u>\$ 997,787</u> | <u>\$ 3,648,976</u> | <u>\$ 10,776,681</u> |

CATHOLIC EDUCATION FOUNDATION OF THE ARCHDIOCESE OF WASHINGTON, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 6 ENDOWMENTS (CONTINUED)

Changes in endowment net assets are as follows for the years ended June 30:

| | 2017 | | | Total |
|---|---------------------|------------------------|------------------------|----------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | |
| Endowment net assets, beginning of year | \$ 6,129,918 | \$ 997,787 | \$ 3,648,976 | \$ 10,776,681 |
| Net unrealized gains | 510,610 | 323,958 | 42,639 | 877,207 |
| Replenish net assets | 32,645 | (32,645) | - | - |
| Appropriation of endowment assets for expenditure | (202,134) | (190,862) | - | (392,996) |
| Endowment net assets, end of year | <u>\$ 6,471,039</u> | <u>\$ 1,098,238</u> | <u>\$ 3,691,615</u> | <u>\$ 11,260,892</u> |
| | 2016 | | | |
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| 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> |

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 \$40,547 and \$73,192 as of June 30, 2017 and 2016, 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, 2017 AND 2016

NOTE 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:

| | 2017 | 2016 |
|--|--------------|--------------|
| Statements of Financial Position: | | |
| Contribution receivable due from Forward in Faith | \$ 1,331,000 | \$ 1,334,000 |
| Receivable due from Central Pastoral Administration (CPA) | 412,670 | - |
| Funds held by CPA | 14,189 | - |
| Payable to affiliates: | | |
| Consortium of Catholic Academies | 493,439 | 499,795 |
| CPA | - | 192,417 |
| Funds held on behalf of others (note 4) | 650,567 | 906,673 |
| Statement of Activities: | | - |
| Contributions for tuition assistance from CPA and parishes | 2,309,282 | 2,098,870 |
| Contributions for tuition assistance from Forward in Faith | 1,331,000 | 1,334,000 |
| Tuition assistance expense for Archdiocesan Catholic schools | 5,150,969 | 4,943,025 |
| Expenses incurred with CPA: | | |
| Seminar education | - | 22,816 |
| Management and general | 280,000 | 272,000 |
| Grant for faith knowledge assessment | 45,000 | - |
| 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.