

**Seeds of Hope Charitable Trust**

**Financial Statements**

**June 30, 2017 and 2016**

**(With Independent Auditor's Report Thereon)**

*Kundinger, Corder & Engle, P.C.*

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*Certified Public Accountants*

**Independent Auditor's Report**

**Board of Trustees  
Seeds of Hope Charitable Trust:**

We have audited the accompanying financial statements of Seeds of Hope Charitable Trust, which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

**Management's Responsibility for the Financial Statements**

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

**Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Seeds of Hope Charitable Trust as of June 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**KUNDINGER, CORDER & ENGLE, P.C.**

October 16, 2017

**Seeds of Hope Charitable Trust**  
**Statements of Financial Position**  
**June 30, 2017 and 2016**

	2017	2016
<b>Assets:</b>		
Cash and cash equivalents	\$ 2,441,303	2,343,503
Parish assessments receivable, net of allowance of \$340 and \$0	46,505	43,905
Contributions receivable (note 2)	439,035	536,725
Investments (notes 3 and 4)	7,863,366	7,358,752
Furniture and equipment, net of accumulated depreciation of \$32,555 and \$26,722	3,889	9,722
Total assets	\$ 10,794,098	10,292,607
 <b>Liabilities and Net Assets:</b>		
Accounts payable and accrued expenses	\$ 19,132	-
Total liabilities	19,132	-
 Net assets (note 5):		
Unrestricted - undesignated	1,923,166	2,030,368
Unrestricted - board designated	320,000	332,050
Total unrestricted	2,243,166	2,362,418
Temporarily restricted	983,260	870,739
Permanently restricted (note 6)	7,548,540	7,059,450
Total net assets	10,774,966	10,292,607
Commitment (note 7)		
Total liabilities and net assets	\$ 10,794,098	10,292,607

See the accompanying notes to the financial statements.

**Seeds of Hope Charitable Trust**  
**Statement of Activities**  
**Year Ended June 30, 2017**

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

See the accompanying notes to the financial statements.

**Seeds of Hope Charitable Trust**  
**Statement of Activities**  
**Year Ended June 30, 2016**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Revenue, gains and support:</b>				
Contributions	\$ 376,091	674,475	–	1,050,566
Less amounts designated by donors for specific schools or students	<u>(46,000)</u>	<u>–</u>	<u>–</u>	<u>(46,000)</u>
Total contributions	330,091	674,475	–	1,004,566
Special events	326,797	370,000	–	696,797
Less direct expenses	(150,992)	–	–	(150,992)
Parish assessments	280,059	–	–	280,059
Investment return, net (note 3)	(43,612)	12,704	(300,469)	(331,377)
Permanently restricted net assets released from donor-imposed restrictions (note 6)	332,050	–	(332,050)	–
Net assets released from restrictions (note 5)	<u>1,019,961</u>	<u>(1,019,961)</u>	<u>–</u>	<u>–</u>
Total revenue, gains and support	<u>2,094,354</u>	<u>37,218</u>	<u>(632,519)</u>	<u>1,499,053</u>
<b>Expenses:</b>				
<b>Program services:</b>				
Grants to schools and students	1,569,000	–	–	1,569,000
Grant making expenses	<u>215,002</u>	<u>–</u>	<u>–</u>	<u>215,002</u>
Total program services	<u>1,784,002</u>	<u>–</u>	<u>–</u>	<u>1,784,002</u>
<b>Supporting services:</b>				
Management and general	94,213	–	–	94,213
Development and fundraising	<u>193,274</u>	<u>–</u>	<u>–</u>	<u>193,274</u>
Total supporting services	<u>287,487</u>	<u>–</u>	<u>–</u>	<u>287,487</u>
Total expenses	<u>2,071,489</u>	<u>–</u>	<u>–</u>	<u>2,071,489</u>
<b>Change in net assets</b>	22,865	37,218	(632,519)	(572,436)
<b>Net assets at beginning of year</b>	<u>2,339,553</u>	<u>833,521</u>	<u>7,691,969</u>	<u>10,865,043</u>
<b>Net assets at end of year</b>	<u>\$ 2,362,418</u>	<u>870,739</u>	<u>7,059,450</u>	<u>10,292,607</u>

See the accompanying notes to the financial statements.

**Seeds of Hope Charitable Trust**  
**Statement of Functional Expenses**  
**Year Ended June 30, 2017**

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

See the accompanying notes to the financial statements.

**Seeds of Hope Charitable Trust**  
**Statement of Functional Expenses**  
**Year Ended June 30, 2016**

	Program services	Manage- ment and general	Develop- ment and fundraising	Total
Grants to schools and students	\$ 1,569,000	–	–	1,569,000
Service fee (note 7)	206,169	71,921	330,310	608,400
Professional fees	3,000	22,260	–	25,260
Bad debt	–	–	10,000	10,000
Depreciation	5,833	–	–	5,833
Bank and merchant fees	–	25	3,956	3,981
Miscellaneous expense	–	7	–	7
Total functional expenses	1,784,002	94,213	344,266	2,222,481
Less expenses included with revenue in the statement of activities	–	–	( 150,992)	( 150,992)
Total expenses	<u>\$ 1,784,002</u>	<u>94,213</u>	<u>193,274</u>	<u>2,071,489</u>

See the accompanying notes to the financial statements.

**Seeds of Hope Charitable Trust**  
**Statements of Cash Flows**  
**Years Ended June 30, 2017 and 2016**

	2017	2016
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ 482,359	(572,436)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	5,833	5,833
Provision for doubtful accounts	–	10,000
Amortization of pledge discounts	(4,123)	(12,889)
Interest and dividends restricted for endowment	(24,679)	(110,721)
Realized and unrealized (gains) losses on investments	(856,501)	446,339
Decrease (increase) in operating assets:		
Parish assessments receivable	(2,600)	8,878
Contributions receivable	101,813	(95,102)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	19,132	(15,236)
Net cash used in operating activities	(278,766)	(335,334)
<b>Cash flows from investing activities:</b>		
Net sales (purchases) of investments	25,387	(138,079)
Distribution from endowment earnings	326,500	332,050
Net cash provided by investing activities	351,887	193,971
<b>Cash flows from financing activities:</b>		
Interest and dividends restricted for endowment	24,679	110,721
Net cash provided by financing activities	24,679	110,721
<b>Net increase (decrease) in cash and cash equivalents</b>	97,800	(30,642)
<b>Cash and cash equivalents at beginning of year</b>	2,343,503	2,374,145
<b>Cash and cash equivalents at end of year</b>	\$ 2,441,303	2,343,503

See the accompanying notes to the financial statements.



# Seeds of Hope Charitable Trust

## Notes to Financial Statements

June 30, 2017 and 2016

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### **(1) Summary of Significant Accounting Policies**

#### **(a) General**

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

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

#### **(b) Basis of Accounting**

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

#### **(c) Financial Statement Presentation**

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

#### **(d) Use of Estimates**

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

#### **(e) Contributions**

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

# Seeds of Hope Charitable Trust

## Notes to Financial Statements, Continued

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### (1) Summary of Significant Accounting Policies, Continued

#### (e) Contributions, Continued

The Trust 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 Trust accepts contributions and agrees to transfer the contributions to a specified unaffiliated entity and the donor does not explicitly grant the Trust variance power, the Trust is required to record the contributions as a liability (and not as a contribution). During the years ended June 30, 2017 and 2016, the Trust received \$44,000 and \$46,000, respectively, of such contributions. These amounts are shown in the accompanying statements of activities in the “revenue, gains, and support” section as revenue and expense, netting to \$0.

#### (f) Contributions Receivable

Unconditional contributions receivable are recognized as revenue in the period the pledge is received. Unconditional contributions receivable are recorded at net realizable value if expected to be collected in one year and at fair value if expected to be collected in more than one year. Conditional contributions receivable are recognized when the conditions on which they depend are substantially met.

The Trust 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, 2017 and 2016.

#### (g) Donated Services

During the year ended June 30, 2016, the Trust received investment advisory services at no charge, which were valued at \$33,516. Donated services 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 Trust with specific program tasks and with fundraising events, but these were not recognized in the financial statements because they did not meet the criteria for recognition under generally accepted accounting principles.

#### (h) Cash and Cash Equivalents

The Trust considers all unrestricted highly liquid investments with an original maturity of three months or less, and which are not held by investment managers as part of an investment portfolio, to be cash equivalents. Included in cash and cash equivalents at June 30, 2017 and 2016, are amounts held in a savings deposit account at the Archdiocese of Denver Irrevocable Revolving Fund Trust totaling \$1,490,614 and \$1,675,740, respectively (see note 8).

# Seeds of Hope Charitable Trust

## Notes to Financial Statements, Continued

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### (1) Summary of Significant Accounting Policies, Continued

#### (i) Parish Assessments Receivable

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

#### (j) Investments

The Trust reports investments at fair value. Fair value is determined as more fully described under the fair value measurements footnote (note 4). The Trust's management is responsible for the fair value measurement of investments reported in the financial statements and believes that the reported values are reasonable. Unrealized gains and losses are included in the change in net assets in the statements of activities.

Investments in marketable equity and fixed income securities with readily determinable market values are reported at fair value based upon quoted prices in active markets.

The fair value of the Trust's alternative investment represents the Trust's pro-rata interest in the net assets of the investment and is based on financial information determined and reported by the investment manager or on the basis of other information evaluated periodically by the Trust. Alternative investments are not publicly traded on national security exchanges, are generally illiquid, and may be valued differently if readily available markets existed for such investments. Because of inherent uncertainties in the valuation of alternative investments, the reported fair value of such investment may differ significantly from the realized value.

#### (k) Concentrations of Credit Risk

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

The Trust 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 Trust has investments in a pooled investment fund, and is therefore subject to concentrations of credit risk. Investments are made and monitored by the management of the Trust pursuant to an investment policy adopted by the Board of Trustees. 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 Trust.

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.

# Seeds of Hope Charitable Trust

## Notes to Financial Statements, Continued

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### (1) Summary of Significant Accounting Policies, Continued

#### (l) Functional Allocation of Expenses

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

#### (m) Program Grants

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

#### (n) Income Tax Status

The Trust is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code through its inclusion in the United States Conference of Catholic Bishops (USCCB) group ruling and listing in the Official Catholic Directory. Accordingly, the Trust qualifies for the charitable contribution deduction. Income from activities not directly related to the Trust's 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, 2017 and 2016.

The Trust follows the *Accounting for Uncertainty in Income Taxes* accounting standard which requires the Trust 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. The Trust 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 Trust's federal Return of Organization Exempt From Income Tax (Form 990) for the years ended June 30, 2014 through 2016 are subject to examination by the IRS, generally for three years after they were filed.

#### (o) Subsequent Events

Management is required to evaluate, through the date the financial statements are issued or available to be issued, events or transactions that may require recognition or disclosure in the financial statements, and to disclose the date through which subsequent events were evaluated. The Trust's financial statements were available to be issued on October 16, 2017 and this is the date through which subsequent events were evaluated.

# Seeds of Hope Charitable Trust

## Notes to Financial Statements, Continued

### (2) Contributions Receivable

Contributions receivable are due as follows as of June 30:

	<u>2017</u>	<u>2016</u>
Amounts due in:		
Less than one year	\$ 439,418	421,188
One to three years	<u>500</u>	<u>120,543</u>
Total	439,918	541,731
Less discount to present value	<u>(883)</u>	<u>(5,006)</u>
	<u>\$ 439,035</u>	<u>536,725</u>

Amounts due in the future have been discounted to their present values using discount rates ranging from approximately 2%-5%.

As of June 30, 2017, the Trust has two conditional grants. Under the first agreement, the donor agreed to grant up to \$50,000 in 2018 to be used to reward certain schools who demonstrate enrollment growth of at least 3% from the 2016/2017 school year to the 2017/2018 school year. Under the second grant agreement, the donor agreed to grant up to \$120,000 to the Trust in 2018 for scholarship awards to children in kindergarten through 8<sup>th</sup> grade from low-income families residing in the Denver area. This grant is subject to a four to one matching requirement. Neither grant award has been recorded as contribution revenue in 2017 since the conditions have not been met.

### (3) Investments

Investments are stated at fair value and consist of the following at June 30:

	<u>2017</u>	<u>2016</u>
Investments held by The Catholic Foundation	\$ 7,863,366	6,758,037
Hedged equity fund	-	600,687
Money market fund	<u>-</u>	<u>28</u>
Total investments	<u>\$ 7,863,366</u>	<u>7,358,752</u>

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

At June 30, 2017, the portfolio managed by The Catholic Foundation was allocated among the following strategies:

Cash	1.76%
Fixed income	11.01%
Multi-strategy	29.60%
Real assets	2.79%
Total equity	54.84%

# Seeds of Hope Charitable Trust

## Notes to Financial Statements, Continued

### (3) Investments, Continued

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

	<u>2017</u>	<u>2016</u>
Unrestricted	\$ 264,692	279,092
Temporarily restricted	50,134	20,210
Permanently restricted	<u>7,548,540</u>	<u>7,059,450</u>
	<u>\$ 7,863,366</u>	<u>7,358,752</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>2017</u>	<u>2016</u>
Interest and dividends	\$ 48,445	152,723
Net realized and unrealized gains (losses)	856,501	(446,339)
Less investment fees	<u>(57,343)</u>	<u>(37,761)</u>
Net investment return	<u>\$ 847,603</u>	<u>(331,377)</u>

### (4) Fair Value Measurements

The carrying amount reported in the statements of financial position for cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, approximates fair value because of the immediate or short term maturities of these financial instruments. The fair value of contributions receivable is estimated by discounting the future cash flows using the rates offered for deposits of similar remaining maturities, ranging from approximately 2% to 5%.

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

# Seeds of Hope Charitable Trust

## Notes to Financial Statements, Continued

### (4) Fair Value Measurements, Continued

Fair value measurement standards also require the Trust to classify these financial instruments into a three-level hierarchy, based on the priority of inputs to the valuation technique or in accordance with net asset value practical expedient rules, which allow for either Level 2 or Level 3 reporting depending on lock up and notice periods associated with the underlying funds. Instruments measured and reported at fair value are classified and disclosed in one of the following categories:

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

Level 2 – Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. Investments which are generally included in this category include corporate and government bonds, less liquid and restricted equity securities and certain over-the-counter derivatives. Level 2 also includes practical expedient investments with notice periods for redemption of 90 days or less.

Level 3 – Pricing inputs are unobservable for the instrument and include situations where there is little, if any, market activity for the instrument. The inputs into the determination of fair value require significant management judgment or estimation. Investments that are included in this category generally include limited partnership interests in corporate private equity and real estate funds, funds of hedge funds, and distressed debt. Level 3 also includes practical expedient investments with notice periods for redemption of more than 90 days.

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

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

The following table summarizes the Trust's investments by the above fair value hierarchy levels as of June 30, 2017:

<u>Description</u>	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments held by				
The Catholic Foundation	\$ <u>7,863,366</u>	<u>—</u>	<u>7,863,366</u>	<u>—</u>
Total	\$ <u>7,863,366</u>	<u>—</u>	<u>7,863,366</u>	<u>—</u>

# Seeds of Hope Charitable Trust

## Notes to Financial Statements, Continued

### (4) Fair Value Measurements, Continued

The following table summarizes the Trust's investments by the above fair value hierarchy levels as of June 30, 2016:

<u>Description</u>	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments held by				
The Catholic Foundation	\$ 6,758,037	-	6,758,037	-
Hedged equity fund	600,687	-	600,687	-
Money market fund	<u>28</u>	<u>28</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 7,358,752</u>	<u>28</u>	<u>7,358,724</u>	<u>-</u>

All assets have been valued using a market approach, except for Level 2 assets. The fair values of Level 2 assets have been estimated using the net asset value per share as reported by the investment managers. There were no changes in the valuation techniques during the current year.

### (5) Net Assets

#### Unrestricted Net Assets

At June 30, 2017 and 2016, a portion of unrestricted net assets totaling \$320,000 and \$332,050 is designated by the Board of Trustees for tuition assistance grants for the 2017/2018 and 2016/2017 school years, respectively.

#### Temporarily Restricted Net Assets

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

	<u>2017</u>	<u>2016</u>
Adopt-a-Program	\$ 290,016	258,716
Scholarships/tuition assistance	643,110	591,813
Unspent earnings on endowment funds (note 6)	<u>50,134</u>	<u>20,210</u>
	<u>\$ 983,260</u>	<u>870,739</u>

During the years ended June 30, 2017 and 2016, net assets totaling \$1,442,896 and \$1,019,961, respectively, were released from donor restrictions as a result of incurring expenses satisfying the related restricted purposes of the donor or the passage of time.

#### Permanently Restricted Net Assets

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



# Seeds of Hope Charitable Trust

## Notes to Financial Statements, Continued

### (5) Net Assets, Continued

Under the Trust'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 Trustees has adopted a more stringent policy whereby spending can occur so long as the funds' values do not fall below 85% of the original donated principal amount.

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

	<u>2017</u>	<u>2016</u>
William Randolph Hearst Endowment	\$ 200,000	200,000
Tuition Assistance Endowment:		
Hearts on Fire Fund	5,440,602	5,110,796
Elementary Education Fund	1,187,010	1,063,023
Catholic School Education Fund	<u>582,246</u>	<u>546,949</u>
	<u>7,409,858</u>	<u>6,920,768</u>
The Frank and Marie Gold Scholarship Endowment	50,000	50,000
Josephine J. Aquila Endowment	<u>88,682</u>	<u>88,682</u>
	<u>\$ 7,548,540</u>	<u>7,059,450</u>

### (6) Endowment Funds

The following is a brief description of the individual funds:

#### William Randolph Hearst Endowment

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

#### Tuition Assistance Endowment

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

# Seeds of Hope Charitable Trust

## Notes to Financial Statements, Continued

### (6) Endowment Funds, Continued

#### The Frank and Marie Gold Scholarship Endowment

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

#### Josephine J. Aquila Endowment

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

The State of Colorado adopted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) effective September 1, 2008. The Trust has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Trust classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment funds that are not classified in permanently restricted net assets are classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Trust in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the Trust 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 Trust 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 Trust resources
- (7) The investment policies of the Trust.

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

	<u>2017</u>	<u>2016</u>
Permanently restricted net assets (note 5)	\$ 7,548,540	7,059,450
Temporarily restricted net assets (note 5)	50,134	20,210
Unrestricted net assets	<u>—</u>	<u>(6,298)</u>
Total endowment net assets	<u>\$ 7,598,674</u>	<u>7,073,362</u>

# Seeds of Hope Charitable Trust

## Notes to Financial Statements, Continued

### (6) Endowment Funds, Continued

Changes in the endowment net assets for the years ended June 30, 2017 and 2016 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets at June 30, 2015	\$ -	27,459	7,691,969	7,719,428
Investment return:				
Investment income, net	-	26,498	110,721	137,219
Net depreciation (realized and unrealized)	<u>(6,298)</u>	<u>(13,794)</u>	<u>(411,190)</u>	<u>(431,282)</u>
Net investment return	-	12,704	(300,469)	(294,063)
Appropriation of endowment assets for expenditure	<u>-</u>	<u>(19,953)</u>	<u>(332,050)</u>	<u>(352,003)</u>
Endowment net assets at June 30, 2016	(6,298)	20,210	7,059,450	7,073,362
Investment return:				
Investment income, net	-	6,182	24,679	30,861
Net appreciation (realized and unrealized)	<u>6,298</u>	<u>34,882</u>	<u>784,411</u>	<u>825,591</u>
Net investment return	6,298	41,064	809,090	856,452
Appropriation of endowment assets for expenditure	<u>-</u>	<u>(11,140)</u>	<u>(320,000)</u>	<u>(331,140)</u>
Endowment net assets at June 30, 2017	\$ <u>-</u>	<u>50,134</u>	<u>7,548,540</u>	<u>7,598,674</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, 2017, there were no deficiencies. At June 30, 2016, these deficiencies totaled (\$6,298).

#### *Return Objectives and Risk Parameters*

The Trust 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 Trustees, 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 Trust's preference of acceptable principal and interest risk.

#### *Strategies Employed for Achieving Objectives*

To satisfy its long-term rate-of-return objectives, the Trust 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 Trust 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.

# Seeds of Hope Charitable Trust

## Notes to Financial Statements, Continued

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### (6) Endowment Funds, Continued

#### *Spending Policy and How the Investment Objectives Relate to Spending Policy*

The Trust'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 Trust considers the long-term expected return on its endowment funds. Accordingly, over the long term, the Trust 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) Service Agreement with The Catholic Alliance

Effective January 1, 2015, the Trust entered into an administrative and donor services agreement with The Catholic Alliance (the "Alliance"). The Alliance allows for the consolidated effort of resources and people to be brought together to more efficiently and strategically serve eight Catholic ministries, one of which is the Trust.

For a base annual fee, the Alliance performs services for the Trust including fundraising, donor communications and management, event planning and management, donor and volunteer relations, and grant solicitation and grant issuance similar to what the Trust had historically done in these areas. Pursuant to the agreement, the Alliance administers and carries out special events benefiting the Trust and directly pays all event expenses at no additional cost to the Trust. The Alliance also performs accounting services for the Trust. The base fee payable by the Trust after the first year of the term of the agreement is agreed to annually based upon the performance of the Alliance and its associated costs and expenses of providing the services to the Trust and the other seven ministries.

The term of the service agreement is for an initial period of three years beginning January 1, 2015 and will automatically renew for successive one-year periods, unless terminated by either party upon written notice delivered no later than 90 days prior to the commencement of such renewal term. If during either of the first two years of the initial term, the Alliance does not collect and distribute, in the aggregate, at least 85% of the aggregate "target amounts" (as defined in the agreement) budgeted for all of the ministries receiving services under agreements similar to this agreement, then the agreement may be terminated.

Total fees incurred in connection with this service agreement were \$620,000 and \$608,400 for the years ended June 30, 2017 and 2016, respectively. These amounts are included in the special event and development and fundraising expenses in the statements of activities. The fees have been allocated on a functional basis in the statements of functional expenses based on estimates of how the Alliance staff spent their time performing services under the agreement.

# Seeds of Hope Charitable Trust

## Notes to Financial Statements, Continued

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### **(8) 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. Seeds of Hope has a savings deposit account at the Revolving Fund Trust, the balance of which was \$1,490,614 at June 30, 2017 and \$1,675,740 at June 30, 2016. These amounts are included in cash and cash equivalents in the statements of financial position. Interest income earned on the savings deposit account totaled \$14,874 and \$8,812 during the years ended June 30, 2017 and 2016, respectively.

### **(9) Amendment to the Seeds of Hope Charitable Trust Agreement**

Seeds of Hope of Northern Colorado, Inc. was created in June 2017 as a Colorado nonprofit organization to both support and expand the mission of the Trust. On August 1, 2017, the Board of Trustees of the Trust voted to endorse the Archbishop of Denver’s amendment to the Trust’s charitable trust agreement that converts the Trust to an irrevocable trust and names Seeds of Hope of Northern Colorado, Inc. as the Trust’s sole trustee who will provide oversight and management of the Trust.