

**THE CABBAGE PATCH SETTLEMENT
HOUSE, INCORPORATED
LOUISVILLE, KENTUCKY**

FINANCIAL STATEMENTS

YEAR ENDED APRIL 30, 2019

THE CABBAGE PATCH SETTLEMENT HOUSE, INCORPORATED

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Independent Auditor's Report

Board of Directors

The Cabbage Patch Settlement House, Incorporated

Louisville, Kentucky

We have audited the accompanying financial statements of **The Cabbage Patch Settlement House, Incorporated** (a nonprofit organization), which comprise the statement of financial position as of April 30, 2019, and the related statements of activities and changes in net assets, cash flows and statement of functional expenses 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.

Auditor's 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 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 **The Cabbage Patch Settlement House, Incorporated** as of April 30, 2019, 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.

Louisville, Kentucky

February 20, 2020

THE CABBAGE PATCH SETTLEMENT HOUSE, INCORPORATED
STATEMENT OF FINANCIAL POSITION
YEAR ENDED APRIL 30, 2019

ASSETS

CURRENT ASSETS

Cash	\$ 137,185
Pledges receivable	84,086
Interest receivable	15,024
Prepaid program costs	9,800
Total Current Assets	<u>246,095</u>

NON-CURRENT ASSETS

Pledges receivable, net of current portion	87,814
Property and equipment, net	5,134,525
Investments	13,114,674
Beneficial interest in annuity trust	291,479
Beneficial interest in perpetual trusts	7,433,664
Total Non-Current Assets	<u>26,062,156</u>

TOTAL ASSETS	<u><u>\$ 26,308,251</u></u>
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LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	\$ 35,590
Accrued payroll and employee related expenses	91,820
Deferred revenue	23,500
Total Liabilities	<u>150,910</u>

NET ASSETS

Without donor restrictions	7,762,898
With donor restrictions	18,394,443
Total Net Assets	<u>26,157,341</u>

TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 26,308,251</u></u>
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See notes to financial statements.

THE CABBAGE PATCH SETTLEMENT HOUSE, INCORPORATED
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED APRIL 30, 2019

	<u>Without Donor</u>	<u>With Donor</u>	<u>Total</u>
	<u>Restrictions</u>	<u>Restrictions</u>	
Revenues and Other Support			
Contributions	\$ 651,790	607,083	\$ 1,258,873
Contributions in kind - operations	71,517	-	71,517
Other revenues	16,552	-	16,552
Special events, Golf			
Contributions in kind	\$ 1,626		
Special events income	147,615		
Less: expenses	<u>(63,477)</u>	85,764	-
Special events, Auction			
Contributions in kind	\$ 873		
Special events income	218,972		
Less: expenses	<u>(88,857)</u>	130,988	-
Special events, Putting Event			
Contributions in kind	\$ -		
Special events income	68,150		
Less: expenses	<u>(44,896)</u>	23,254	-
Distributions from perpetual trusts:			
Marshall Trust	174,399	-	174,399
Milton Trusts	154,420	-	154,420
Chandler Trust	6,253	-	6,253
Net investment return	139,225	856,850	996,075
Rental income - 1421 South 6th Street	12,000	-	12,000
Net assets released from restrictions	499,868	(499,868)	-
Total Revenues and Other Support	1,966,030	964,065	2,930,095
Expenses			
Program services	1,791,030	-	1,791,030
General and administrative expenses	279,665	-	279,665
Fundraising	270,708	-	270,708
Total Expenses	<u>2,341,403</u>	<u>-</u>	<u>2,341,403</u>
Change in Net Assets	\$ (375,373)	\$ 964,065	\$ 588,692
Net assets, beginning of year	<u>8,138,271</u>	<u>17,430,378</u>	<u>25,568,649</u>
Net Assets, End of Year	<u><u>\$ 7,762,898</u></u>	<u><u>\$ 18,394,443</u></u>	<u><u>\$ 26,157,341</u></u>

See notes to financial statements.

THE CABBAGE PATCH SETTLEMENT HOUSE, INCORPORATED
STATEMENT OF CASH FLOWS
YEAR ENDED APRIL 30, 2019

OPERATING ACTIVITIES

Changes in net assets	\$ 588,692
Adjustments to reconcile changes in net assets to net cash used in operating activities:	
Depreciation	257,352
Contributions restricted for long-term purposes	(293,600)
Net realized and unrealized gains on investments	(616,946)
Increase in value of funds held in trust by others	(189,778)
(Increase) decrease in:	
Pledges receivable	(41,211)
Interest receivable	(3,223)
Prepaid program costs	5,300
Increase (decrease) in:	
Accounts payable	719
Accrued payroll and employee related expenses	5,579
Deferred revenue - programs and special events	1,000
Net Cash Used In Operating Activities	<u>(286,116)</u>

INVESTING ACTIVITIES

Purchases of property and equipment	(62,327)
Purchases of marketable investments	(5,857,039)
Sales of marketable investments	5,694,974
Net Cash Used In Investing Activities	<u>(224,392)</u>

FINANCING ACTIVITIES

Proceeds from contributions restricted for:	
Investment in property and equipment	38,090
Investment in endowments	236,170
Net Cash Provided by Financing Activities	<u>274,260</u>

Decrease in Cash (236,248)

Cash at beginning of year 373,433

Cash at End of Year \$ 137,185

See notes to financial statements.

THE CABBAGE PATCH SETTLEMENT HOUSE, INCORPORATED
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED APRIL 30, 2019

Program Services

	<u>Youth</u>			<u>Total</u>
	<u>Development</u>	<u>Family Services</u>	<u>Educational</u>	<u>Program</u>
	<u>and Recreation</u>	<u>and Counseling</u>	<u>Opportunities</u>	<u>Services</u>
Association dues and fees	\$ 66	\$ 68	\$ 166	\$ 300
Audit fees	-	-	-	-
Auction, putting and golf direct expenses	-	-	-	-
Auction, putting and golf direct expenses (donated)	-	-	-	-
Advertising and marketing	5,396	87	439	5,922
Advertising, promotion and printing (donated)	-	-	-	-
Board meetings	-	-	-	-
Depreciation	200,735	15,441	28,308	244,484
Friends luncheons	-	-	-	-
Insurance	30,086	2,344	4,689	37,119
Miscellaneous	4	-	34	38
Occupancy	31,945	2,449	4,898	39,292
Occupancy (donated)	-	-	-	-
Office expense	6,318	2,996	5,110	14,424
Payroll services	2,320	268	456	3,044
Payroll taxes	34,675	16,064	19,604	70,343
Printing, publications and postage	3,437	2,385	2,385	8,207
Professional fees	681	575	584	1,840
Program costs and special projects	27,609	36,891	85,417	149,917
Program costs and special projects (donated)	35,947	8,035	15,580	59,562
Repairs and maintenance	15,850	1,235	2,470	19,555
Retirement contribution	23,138	21,122	16,649	60,909
Salaries and benefits	505,215	248,265	294,259	1,047,739
Staff development	3,155	1,796	3,293	8,244
Strategic planning	-	-	-	-
Telephone	9,437	735	1,471	11,643
Transportation	6,141	469	957	7,567
Volunteer cost	353	249	279	881
Total expenses	942,508	361,474	487,048	1,791,030
Less expenses included with revenues on the statement of activities	-	-	-	-
Total expenses included in the expense section of the statement of activities	\$ 942,508	\$ 361,474	\$ 487,048	\$ 1,791,030

See notes to financial statements.

General and Administrative Expenses

Special Events

Fund Raising Expenses

<u>General and Administrative</u>	<u>Property Fund Expenses</u>	<u>Golf</u>	<u>Auction</u>	<u>Putting</u>	<u>Total Special Events</u>	<u>Fund Raising</u>	<u>Comprehensive Campaign Expenses</u>	<u>Total Supporting Services</u>	<u>Total Expenses</u>
\$ 5,827	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,827	\$ 6,127
15,750	-	-	-	-	-	-	-	15,750	15,750
-	-	39,927	59,478	21,448	120,853	-	-	-	120,853
-	-	1,626	873	-	2,499	-	-	-	2,499
2,403	-	-	-	2	2	331	-	2,734	8,658
-	-	-	-	-	-	-	-	-	-
7,035	-	-	-	-	-	-	-	7,035	7,035
7,721	-	-	-	-	-	5,147	-	12,868	257,352
150	-	-	-	-	-	925	-	1,075	1,075
1,961	-	-	337	337	674	-	-	1,961	39,754
4,703	-	527	144	-	671	4,014	-	8,717	9,426
2,041	-	-	-	-	-	-	-	2,041	41,333
-	5,400	-	-	-	-	-	-	5,400	5,400
2,247	-	-	-	-	-	-	-	2,247	16,671
2,233	-	-	-	-	-	-	-	2,233	5,277
10,645	-	1,292	1,656	1,375	4,323	5,505	7,288	23,438	98,104
2,189	-	-	-	-	-	19,710	-	21,899	30,106
7,126	-	-	-	-	-	-	-	7,126	8,966
1,393	-	-	500	146	646	4,209	-	5,602	156,165
-	-	-	-	-	-	-	-	-	59,562
1,097	-	-	-	-	-	-	-	1,097	20,652
9,859	-	593	826	601	2,020	4,857	11,819	26,535	89,464
162,570	-	19,512	25,043	20,987	65,542	86,298	99,503	348,371	1,461,652
5,635	-	-	-	-	-	-	-	5,635	13,879
19,380	-	-	-	-	-	-	20,460	39,840	39,840
1,018	-	-	-	-	-	-	-	1,018	12,661
1,192	-	-	-	-	-	642	-	1,834	9,401
90	-	-	-	-	-	-	-	90	971
274,265	5,400	63,477	88,857	44,896	197,230	131,638	139,070	550,373	2,538,633
-	-	(63,477)	(88,857)	(44,896)	(197,230)	-	-	-	(197,230)
\$ 274,265	\$ 5,400	\$ -	\$ -	\$ -	\$ -	\$ 131,638	\$ 139,070	\$ 550,373	\$ 2,341,403

THE CABBAGE PATCH SETTLEMENT HOUSE, INCORPORATED
NOTES TO FINANCIAL STATEMENTS
APRIL 30, 2019

(1) **NATURE OF OPERATIONS**

The Cabbage Patch Settlement House, Incorporated (the “Organization”) is a local, non-profit Christian Organization established in 1910, which serves the Louisville metropolitan area. The stated purpose of the Organization is to do generally what is known as social settlement work, including conducting religious services, training of the mind and body, assisting parents in the care of their children, and whatever pertains to the uplifting of people who may be brought into contact with the Organization’s work (from original Articles of Incorporation).

The mission of the Organization is to equip and empower at-risk children, youth and their families, to be self-sufficient by helping them maximize their economic, educational, emotional, moral, physical, social and spiritual potential.

The Organization’s program services include youth development and recreation, family services and counseling providing assistance to inner-city families and educational opportunities providing scholarships and educational assistance.

(2) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Basis of Accounting

The financial statements of the Organization have been prepared on the accrual basis of accounting. The significant accounting policies are described below.

Basis of Presentation

The Organization reports information regarding its financial position and activities in two classes of net assets: net assets with donor restrictions and net assets without donor restrictions. Contributions whose restrictions are met in the same period are treated as net assets without donor restrictions. The terms are defined below:

Net assets with donor restrictions – Net assets subject to donor-imposed restrictions.

Net assets without donor restrictions – Net assets not subject to donor imposed restrictions.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimated.

Concentration of Credit Risk

The Organization maintains its cash at financial institutions. At April 30, 2019, the Organization had no amounts in excess of the amounts insured by the FDIC.

THE CABBAGE PATCH SETTLEMENT HOUSE, INCORPORATED
NOTES TO FINANCIAL STATEMENTS - CONTINUED
APRIL 30, 2019

(2 – continued)

Donations

The Organization records and reports its assets, liabilities, net assets, revenues, gains, and losses, and other support based on the existence or absence of donor-imposed restrictions. The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets.

When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and are reported in the statement of activities and changes in net assets as net assets released from restrictions.

The Organization reports gifts as without donor restrictions unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are recorded as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Contributions

All unconditional promises to give (contributions) are considered to be without donor restrictions unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as restricted support that increases net assets with donor restrictions.

Contributions that are expected to be collected within one year are recorded at their net realizable value. Contributions that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discounts on those amounts are computed using a risk adjusted interest rate applicable to the year in which the promise is received. Amortization of the discount is included in contributions.

Property and Equipment

The Organization records property and equipment at cost if purchased and at the estimated fair value at the date of acquisition if donated. The Organization typically capitalizes items costing or valued over \$1,000 with a useful life of at least five years. Repairs and maintenance are expensed as incurred. Depreciation is provided on the basis of the estimated useful lives of the assets ranging from 3 to 40 years, using the straight-line method. Depreciation expense of \$257,352 was recognized in the year ended April 30, 2019.

Investments

Investments are recorded at fair market value. Unrealized gains and losses are included in the change in net assets. Donated investments are recorded at the fair market value as of the date received.

THE CABBAGE PATCH SETTLEMENT HOUSE, INCORPORATED
NOTES TO FINANCIAL STATEMENTS - CONTINUED
APRIL 30, 2019

(2 – continued)

Advertising and Marketing Costs

Advertising and marketing cost are expensed as incurred. These expenses amounted to \$8,658 for the year ended April 30, 2019.

Income Taxes

The Organization has received a determination letter from the Internal Revenue Service indicating that it qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. Accordingly no income taxes have been provided in the accompanying financial statement.

The Organization implemented the accounting guidance for uncertainty in income taxes. Using that guidance, tax positions initially need to be recognized in the financial statement when it is more-likely-than-not the position will be sustained upon examination by the tax authorities. As of April 30, 2019 the Organization has no uncertain tax positions that qualify for either recognition or disclosures in the financial statements.

Functional Allocation of Expenses

Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are charged to programs and supporting services on the basis of periodic time and expense studies. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

(3) **LIQUIDITY**

The Organization's financial assets available within one year of the balance sheet date for general expenditures are as follows:

Cash	\$ 137,185
Pledges receivable	171,900
Interest receivable	15,024
Investments	<u>13,114,674</u>
	13,438,783
Less those unavailable for general expenditures within one year:	
Contractual or donor-imposed restrictions	(10,565,214)
Board designated:	
Capital expenditures	(261,110)
Quasi-endowment funds, primarily for operating reserve	<u>(2,305,510)</u>
Total	<u><u>\$ 306,949</u></u>

THE CABBAGE PATCH SETTLEMENT HOUSE, INCORPORATED
NOTES TO FINANCIAL STATEMENTS - CONTINUED
APRIL 30, 2019

(3 – continued)

As part of the Organization’s liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, the Organization invests cash in excess of daily requirements in short-term investments such as cash equivalents. The Organization has two quasi-endowment funds that have been designated by the Board of Directors as an operating reserve. These quasi-endowments, may be drawn upon with approval by the Board, to meet unexpected liquidity needs if necessary.

(4) **PLEDGES RECEIVABLE**

Pledges receivable at April 30, 2019 include the following unconditional promises to give:

Operations	\$ 85,410
Donor restricted	72,570
Educational opportunities	14,970
Gross pledges receivable	172,950
Less unamortized discount on future pledges	1,050
Total	\$ 171,900

Gross pledges receivable are due according to the following schedule:

Less than one year	\$ 84,086
One to five years	87,814
	\$ 171,900

Contributions receivable in future periods were discounted at 2.39%, the one year U.S. Treasury note rate.

THE CABBAGE PATCH SETTLEMENT HOUSE, INCORPORATED
NOTES TO FINANCIAL STATEMENTS - CONTINUED
APRIL 30, 2019

(5) **INVESTMENTS**

Fair value of investments, by classification as of April 30, 2019, are as follows:

Cash Equivalents	\$ 309,420
Bonds:	
Government	122,768
Financial	108,060
Corporate	690,603
Limited Partnership Interest in Real Estate	24,441
Mutual Funds:	
Equity	4,093,889
Fixed Income	1,808,164
Exchange Traded Funds:	
Bond	239,001
Equity	817,737
International	103,496
Alternative	2,416
Equities	
Basic Materials	174,837
Consumer Goods	580,123
Energy	93,291
Financial	927,411
Healthcare	512,017
Industrial Goods	281,933
Real Estate	60,862
Services	625,193
Technology	793,286
Telecommunication	115,385
Utilities	54,927
Common Trust Fund	401,486
Pooled Separate Accounts	173,928
	<u>\$ 13,114,674</u>
Investments, board designated	\$ 2,566,620
Investments, restricted to endowments	10,548,054
Total	<u>\$ 13,114,674</u>

THE CABBAGE PATCH SETTLEMENT HOUSE, INCORPORATED
NOTES TO FINANCIAL STATEMENTS - CONTINUED
APRIL 30, 2019

(6) ANNUITY TRUST

During the year ended April 30, 2019, the Organization became a beneficiary of the Kim Hamilton Trust. The trust is neither in the possession nor under the control of the Organization, but is held and administered by outside agents. The Organization receives its share of the net income annually. The Trust is scheduled to distribute 5% of the original trust principal annually for a period of ten years, 10% of the remaining trust principal for five years and 100% of the remaining trust principal thereafter.

At April 30, 2019, the Organization's interest in the trust is valued at the fair value of the trust and recorded as a beneficial interest in annuity trust on the statement of financial position.

(7) PERPETUAL TRUSTS

The Organization is a beneficiary of the Louise Marshall Trust, the Milton Trusts and the James W. Chandler Trust. These trusts are neither in the possession nor under the control of the Organization, but are held and administered by outside agents. The Organization receives all of the distributions from the Louise Marshall Trust and a portion of the distributions from the Milton and Chandler trusts to be used for operating expenses.

At April 30, 2019, the Organization's interest in the trusts are valued at the fair value of the trusts and recorded as a beneficial interest in perpetual trusts on the statement of financial position. During the year ended April 30, 2019, after making \$335,072 in distributions from the trusts, the value of the perpetual trusts increased by \$189,778.

(8) CONTRIBUTIONS OTHER THAN CASH

Contributions of marketable investments are recorded at the quoted fair value of the investments on the date they are received. Donated professional services, occupancy and advertising are recorded at their estimated fair value and donated property and equipment at their appraised or estimated fair value. Contributed services and occupancy in the amount of \$74,016 during the year ended April 30, 2019, were recorded as contributions, and program, supporting services and special events expenses.

During the year ended April 30, 2019, approximately 421 volunteers donated 3,811 hours of time to the Organization. This time represents non-professional services and is, therefore, not recorded in the accompanying financial statements.

(9) PROPERTY AND EQUIPMENT

Property and equipment consists of the following components at April 30, 2019:

Land	\$ 51,500
Building and improvements	7,460,578
Equipment, furniture, and fixtures	737,094
Vehicles	113,568
	8,362,740
Less: accumulated depreciation	3,228,215
	\$ 5,134,525

THE CABBAGE PATCH SETTLEMENT HOUSE, INCORPORATED
NOTES TO FINANCIAL STATEMENTS - CONTINUED
APRIL 30, 2019

(10) **BOARD DESIGNATED NET ASSETS**

At April 30, 2019, board designated net assets consisted of the following:

Board designated for capital expenditures	\$ 261,110
Quasi-endowment funds, primarily for operating reserve	<u>2,305,510</u>
	<u>\$ 2,566,620</u>

(11) **NET ASSETS WITH DONOR RESTRICTIONS**

At April 30, 2019, net assets with donor restrictions consisted of the following:

General operations - future years	\$ 311,479
Endowment funds:	
Donor restricted	7,767,847
Educational opportunities	2,881,453
Perpetual trusts	<u>7,433,664</u>
	<u>\$ 18,394,443</u>

(12) **NET ASSET ENDOWMENTS**

The Organization's endowment funds consist of donor-imposed restricted funds, all of which were established for a variety of purposes. As required by accounting principles generally accepted in the United States of America, net assets associated with the endowment funds are classified and reported based on the existence of donor-imposed restrictions.

Interpretation of Relevant Law

In August 2008, the Financial Accounting Standards Board (FASB) issued guidance on the net asset classification of donor-restricted endowment funds for a nonprofit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). This guidance requires additional disclosures about an organization's endowment funds (both donor restricted endowment funds and board-designated endowment funds) whether or not the organization is subject to UPMIFA.

On March 25, 2010, Kentucky enacted UPMIFA, the provisions of which apply to endowment funds existing on or established after that date. The Organization has determined its permanently restricted net assets meet the definition of endowment funds under UPMIFA. Based on the Organization's interpretation of UPMIFA, the Organization has reviewed all of its endowment funds and has determined there are no changes in the classification of the donor-restricted net assets. As a result of this interpretation, the Organization continues to classify, as permanently restricted net assets, the original value of gifts donated to the permanent endowment and accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instruments or, in the absence of such stipulations, that the Board of Directors has determined must be retained permanently.

THE CABBAGE PATCH SETTLEMENT HOUSE, INCORPORATED
NOTES TO FINANCIAL STATEMENTS - CONTINUED
APRIL 30, 2019

(12 – continued)

Prior to the enactment of UPMIFA, the Board of Directors had interpreted the Uniform Management of Institutional Funds Act (UMIFA), prescribed in Kentucky Revised Statutes sections 273.510 through 273.590, 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. From time to time the fair value of assets associated with individual donor-restricted endowment funds may have fallen below the level that the donor or UMIFA required the Organization to retain as a fund of perpetual duration. In accordance with generally accepted accounting principles, deficiencies of this nature were reported in unrestricted net assets. There were no such deficiencies as of April 30, 2019.

Return Objectives and Risk Parameters

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity or for a donor-specified period. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results to mirror those of major indexes while assuming a moderate level of investment risk.

Strategies Employed for Achieving Objectives

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

Spending Policy and How Investment Objectives Relate to Spending Policy

The Organization has a policy of appropriating distributions of 5% of its endowment fund's average fair value over the previous 12 quarters rolling average adjusted on a quarterly basis in which the distribution is planned. In establishing this policy, the Organization considered the long-term expected return on its endowment. Accordingly, over the long term, the Organization expects the current spending policy to allow its endowment to maintain the fair value of the original gift. This is consistent with the Organization's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term, as well as to provide additional real growth through new gifts and investment return.

THE CABBAGE PATCH SETTLEMENT HOUSE, INCORPORATED
NOTES TO FINANCIAL STATEMENTS - CONTINUED
APRIL 30, 2019

(12 – continued)

The changes in endowment net assets for the year ended April 30, 2019 is as follows:

	<u>Without Donor</u> <u>Restrictions</u>	
	<u>Board</u> <u>Designated</u>	<u>With Donor</u> <u>Restrictions</u>
Balance, Beginning of Year	\$ 2,288,675	\$ 17,350,528
Investment return		
Investment income, net	22,847	160,792
Net appreciation -		
unrealized and realized	102,431	685,393
Contributions	-	238,316
Amounts appropriated for		
expenditures	<u>(108,443)</u>	<u>(453,307)</u>
 Balance, End of Year	 <u>\$ 2,305,510</u>	 <u>\$ 17,981,722</u>

(13) **RETIREMENT PLAN**

The Organization sponsors a defined contribution pension plan. The plan covers all employees meeting eligibility requirements. Plan contributions are based on a percentage of participants' salaries. The contributions were \$89,464 for the year ended April 30, 2019.

THE CABBAGE PATCH SETTLEMENT HOUSE, INCORPORATED
NOTES TO FINANCIAL STATEMENTS - CONTINUED
APRIL 30, 2019

(14) **FAIR VALUE MEASUREMENTS**

The Organization adopted the provisions of FASB ASC 820, *Fair Value Measurements*, for financial assets and financial liabilities. The Organization has no nonfinancial assets and nonfinancial liabilities determined at fair value.

FASB ASC 820 defines fair value as 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. FASB ASC 820 establishes a fair value hierarchy that prioritizes the use of inputs used in valuation methodologies into the following three levels:

- Level 1: Inputs to the valuation methodology are quoted prices, unadjusted, for identical assets or liabilities in active markets. A quoted market price in an active market provides the most reliable evidence of fair value and shall be used to measure fair value whenever available.
- Level 2: Inputs to the valuation methodology include quoted market prices for similar assets or liabilities in active markets; quoted market prices for identical or similar assets or liabilities in markets that are not active; or inputs that are derived principally from or can be corroborated by observable market data by correlation or other means.
- Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement. Level 3 assets and liabilities include financial instruments whose value is determined using discounted cash flow methodologies, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

A description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below. These valuation methodologies were applied to all of the Organization's financial assets and liabilities carried at fair value.

THE CABBAGE PATCH SETTLEMENT HOUSE, INCORPORATED
NOTES TO FINANCIAL STATEMENTS - CONTINUED
APRIL 30, 2019

(14 – continued)

The table below presents the balances of assets and liabilities measured at fair value on a recurring basis as of April 30, 2019.

	<u>Carrying Value</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
	<i>(in thousands)</i>			
<i>Assets Measured on a Recurring Basis</i>				
Investments:				
Cash Equivalents	\$ 309	\$ -	\$ -	\$ 309
Bonds:				
Government	-	123	-	123
Financial	-	108	-	108
Corporate	-	690	-	690
Mutual Funds:				
Equity:				
Large Cap	1,477	-	-	1,477
Mid Cap	245	-	-	245
Small Cap	464	-	-	464
International	1,461	-	-	1,461
Other	447	-	-	447
Fixed Income	1,809	-	-	1,809
Exchange Traded Funds:				
Bond	239	-	-	239
Equity	817	-	-	817
International Equity	104	-	-	104
Other	2	-	-	2
Equities				
Basic Materials	175	-	-	175
Consumer Goods	580	-	-	580
Energy	93	-	-	93
Financial	928	-	-	928
Healthcare	512	-	-	512
Industrial Goods	282	-	-	282
Real Estate	61	-	-	61
Services	625	-	-	625
Technology	793	-	-	793
Telecommunication	115	-	-	115
Utilities	55	-	-	55
Limited Partnership Interest in Real Estate	-	-	24	24
Pooled Separate Account	-	-	174	174
Common Trust Fund (A)				402
Total Investments				<u>\$ 13,114</u>

THE CABBAGE PATCH SETTLEMENT HOUSE, INCORPORATED
NOTES TO FINANCIAL STATEMENTS - CONTINUED
APRIL 30, 2019

(14 – continued)

	<u>Carrying Value</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
	<i>(in thousands)</i>			
Beneficial interest in annuity trust:				
Cash Equivalents	\$ 41	\$ -	\$ -	\$ 41
Mutual Funds:				
Equity:				
Large Cap	40	-	-	40
Mid Cap	8	-	-	8
Small Cap	5	-	-	5
International	10	-	-	10
Fixed Income	16	-	-	16
Exchange Traded Funds:				
Bond	3	-	-	3
Equity	35	-	-	35
REIT	32	-	-	32
Other	-	102	-	102
Total Beneficial interest in annuity trust				<u>\$ 292</u>
Beneficial interest in perpetual trusts:				
Cash Equivalents	\$ 188	\$ -	\$ -	\$ 188
Bonds:				
Government	-	239	-	239
Corporate	-	679	-	679
Mutual Funds:				
Equity:				
Large Cap	75	-	-	75
Mid Cap	-	-	-	-
Small Cap	157	-	-	157
International	1,124	-	-	1,124
Fixed Income	980	-	-	980
Other	2	-	-	2
Exchange Traded Funds:				
Equity	527	-	-	527
Equities				
Basic Materials	76	-	-	76
Consumer Goods	583	-	-	583
Energy	75	-	-	75
Financial	787	-	-	787
Healthcare	437	-	-	437
Industrial Goods	394	-	-	394
Real Estate	56	-	-	56
Technology	679	-	-	679
Telecommunication	343	-	-	343
Utilities	32	-	-	32
Total Beneficial interest in perpetual trusts				<u>\$ 7,433</u>

THE CABBAGE PATCH SETTLEMENT HOUSE, INCORPORATED
NOTES TO FINANCIAL STATEMENTS - CONTINUED
APRIL 30, 2019

(14 – continued)

(A) In accordance with FASB ASC Subtopic 820-10, certain investments that were measured at net asset value (“NAV”) per share (or its equivalent) have not been classified in the fair value hierarchy. The fair value amounts presented in the tables are intended to permit reconciliation of the fair value hierarchy to the line items presented in the statement of net assets available for benefits.

In general, fair value is based upon quoted market prices, where available. If quoted market prices are not available, fair value is based on internally developed models or obtained from third parties that primarily use, as inputs, observable market-based parameters or a matrix pricing model that employs the Bond Market Association’s standard calculations for cash flow and price/yield analysis and observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments may include unobservable parameters. Any such valuation adjustments have been applied consistently over time. The Organization's valuation methodologies may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. While management believes the Organization's valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

Cash equivalents. Values at the net asset value of the units held by the Organization at year-end.

Government and Corporate bonds. Valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing value on yields currently available on comparable securities of issuers with similar credit ratings.

Mutual Funds and Exchange Traded Funds. Valued at the daily closing price as reported by the fund. Mutual funds held by the Plan are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The mutual funds held by the Organization are deemed to be actively traded.

Equities. Valued at the quoted market price of the shares held by the Organization at year-end.

Limited partnership interests. The Organization has several limited partnerships which are invested in real estate. The fair value is based on recent appraisals.

Pooled Separate Account. Valued at the Organization’s allocation of the fair value of the pool’s underlying assets at year-end as provided by the Community Foundation of Louisville’s Fund administrator. The shares of the funds are not publicly traded; redemption can only be made by the fund on the redemption dates and subject to the required notice periods specified in the offering documents of the fund. The rights of the fund to request redemption of its investments in the fund may vary in frequency from weekly to annual redemptions. As a result, the carrying values of the funds may not be indicative of the values ultimately realized on redemption. In addition, the fund may be materially affected by the actions of other investors who have invested in the funds in which the fund has invested.

THE CABBAGE PATCH SETTLEMENT HOUSE, INCORPORATED
NOTES TO FINANCIAL STATEMENTS - CONTINUED
APRIL 30, 2019

(14 – continued)

Investments and beneficial interest in trusts. Investments and beneficial interest in trusts are reported at fair value on a recurring basis. These securities are classified as Level 1 of the valuation hierarchy where quoted market prices from reputable third-party brokers are available in an active market. If quoted market prices are not available, the Organization obtains fair value measurements from independent pricing services. These securities are reported using Level 2 inputs and the fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, U.S. government and agency yield curves, live trading levels, trade execution data, market consensus prepayment speeds, credit information, and the security’s terms and conditions, among other factors.

The changes in Level 3 assets measure at fair value on a recurring basis using significant unobservable inputs during the year ended April 30, 2019 is as follows:

Beginning of year	\$ 228,153
Interest and dividends, net	4,833
Net unrealized and realized appreciation	(8,426)
Sales	(17,875)
Distributions	<u>(8,317)</u>
End of year	<u><u>\$ 198,368</u></u>

(15) **SUBSEQUENT EVENTS**

The Organization has evaluated whether any subsequent events that require recognition or disclosure in the accompanying financial statements and related notes thereto have taken place through February 20, 2020, the date these financial statements were issued. The Organization has determined that there are no such subsequent events.