

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

FINANCIAL STATEMENTS

YEAR ENDED APRIL 30, 2021

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, 2021, 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, 2021, 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

May 10, 2022

THE CABBAGE PATCH SETTLEMENT HOUSE, INCORPORATED
STATEMENT OF FINANCIAL POSITION
APRIL 30, 2021

ASSETS

CURRENT ASSETS

Cash	\$ 381,679
Pledges receivable	95,518
Interest receivable	11,893
Prepaid program costs	2,000
Total Current Assets	491,090

NON-CURRENT ASSETS

Pledges receivable, net of current portion	160,787
Property and equipment, net	4,786,081
Investments	16,945,687
Beneficial interest in annuity trust	317,947
Beneficial interest in perpetual trusts	8,706,020
Total Non-Current Assets	30,916,522

TOTAL ASSETS	\$ 31,407,612
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LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	\$ 62,332
Accrued payroll and employee related expenses	50,137
Deferred revenue	69,725
Total Liabilities	182,194

NET ASSETS

Without donor restrictions	8,252,488
With donor restrictions	22,972,930
Total Net Assets	31,225,418

TOTAL LIABILITIES AND NET ASSETS	\$ 31,407,612
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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, 2021

	<u>Without Donor</u>	<u>With Donor</u>	<u>Total</u>
	<u>Restrictions</u>	<u>Restrictions</u>	
Revenues and Other Support			
Contributions	\$ 1,074,304	\$ 361,632	\$ 1,435,936
Contributions in kind - operations	15,934	-	15,934
Paycheck Protection Program loan	307,600	-	307,600
Special events, Auction			
Special events income	\$ 157,419		
Less: expenses	<u>(27,898)</u>	129,521	-
Distributions from perpetual trusts:			
Marshall Trust	180,939	-	180,939
Milton Trusts	175,048	-	175,048
Chandler Trust	5,517	-	5,517
Net investment return	786,339	5,509,539	6,295,878
Rental income - 1421 South 6th Street	12,000	-	12,000
Net assets released from restrictions	452,249	(452,249)	-
Total Revenues and Other Support	<u>3,139,451</u>	<u>5,418,922</u>	<u>8,558,373</u>
Expenses			
Program services	1,778,241	-	1,778,241
General and administrative expenses	276,054	-	276,054
Fundraising	233,475	-	233,475
Total Expenses	<u>2,287,770</u>	<u>-</u>	<u>2,287,770</u>
Change in Net Assets	851,681	5,418,922	6,270,603
Net assets, beginning of year	<u>7,400,807</u>	<u>17,554,008</u>	<u>24,954,815</u>
Net Assets, End of Year	<u>\$ 8,252,488</u>	<u>\$ 22,972,930</u>	<u>\$ 31,225,418</u>

See notes to financial statements.

THE CABBAGE PATCH SETTLEMENT HOUSE, INCORPORATED
STATEMENT OF CASH FLOWS
YEAR ENDED APRIL 30, 2021

OPERATING ACTIVITIES

Changes in net assets	\$ 6,270,603
Adjustments to reconcile changes in net assets to net cash provided by operating activities:	
Depreciation	240,997
Net realized and unrealized gains on investments	(4,179,409)
Increase in value of funds held in trust by others	(1,975,257)
Paycheck Protection Program loan forgiveness	(307,600)
Decrease in:	
Pledges receivable	116,910
Interest receivable	2,644
Prepaid program costs	3,250
Increase in:	
Accounts payable	14,385
Accrued payroll and employee related expenses	2,724
Deferred revenue - programs and special events	36,425
Net Cash Provided By Operating Activities	<u>225,672</u>

INVESTING ACTIVITIES

Purchases of property and equipment	(67,838)
Purchases of marketable investments	(4,557,200)
Sales of marketable investments	4,228,088
Net Cash Used In Investing Activities	<u>(396,950)</u>

Decrease in Cash (171,278)

Cash at beginning of year 552,957

Cash at End of Year \$ 381,679

See notes to financial statements.

THE CABBAGE PATCH SETTLEMENT HOUSE, INCORPORATED
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED APRIL 30, 2021

	<u>Program Services</u>			
	<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	\$ -	\$ -	\$ -	\$ -
Audit fees	-	-	-	-
Auction direct expenses	-	-	-	-
Advertising and marketing	673	-	104	777
Board meetings	-	-	-	-
Depreciation	187,977	14,460	26,510	228,947
Insurance	35,996	4,588	6,679	47,263
Miscellaneous	-	-	-	-
Occupancy	32,525	2,534	5,069	40,128
Occupancy (donated)	-	-	-	-
Office expense	22,803	9,118	29,630	61,551
Payroll services	2,602	300	511	3,413
Payroll taxes	33,167	16,682	19,150	68,999
Printing, publications and postage	2,649	1,475	1,541	5,665
Professional fees	-	-	-	-
Program costs and special projects	19,559	53,741	107,170	180,470
Program costs and special projects (donated)	650	4,620	3,219	8,489
Repairs and maintenance	11,763	870	1,740	14,373
Retirement contribution	20,209	20,555	14,530	55,294
Salaries and benefits	472,437	240,981	328,942	1,042,360
Staff development	1,742	1,863	1,290	4,895
Strategic planning	-	-	-	-
Telephone	9,523	742	1,484	11,749
Transportation	3,135	244	489	3,868
Total expenses	857,410	372,773	548,058	1,778,241
Less expenses included with revenues on the statement of activities	-	-	-	-
Total expenses included in the expense section of the statement of activities	<u>\$ 857,410</u>	<u>\$ 372,773</u>	<u>\$ 548,058</u>	<u>\$ 1,778,241</u>

See notes to financial statements.

General and Administrative Special
Expenses Events

Fund Raising Expenses

	<u>General and</u>	<u>Property</u>		<u>Fund</u>	<u>Comprehensive</u>	<u>Total</u>	<u>Total</u>
	<u>Administrative</u>	<u>Fund</u>	<u>Auction</u>	<u>Raising</u>	<u>Campaign</u>	<u>Supporting</u>	<u>Expenses</u>
		<u>Expenses</u>			<u>Expenses</u>	<u>Services</u>	
\$	11,955	\$ -	\$ -	\$ -	\$ -	\$ 11,955	\$ 11,955
	11,000	-	-	-	-	11,000	11,000
	-	-	6,416	-	-	-	6,416
	2,459	-	-	165	-	2,624	3,401
	1,277	-	-	-	-	1,277	1,277
	7,230	-	-	4,820	-	12,050	240,997
	5,155	-	257	433	-	5,588	53,108
	8,635	-	-	5,641	-	14,276	14,276
	2,112	-	-	-	-	2,112	42,240
	-	6,500	-	-	-	6,500	6,500
	11,550	-	-	-	-	11,550	73,101
	3,072	-	-	-	-	3,072	6,485
	11,391	-	1,342	6,846	4,696	22,933	93,274
	2,424	-	-	18,119	-	20,543	26,208
	1,369	-	-	-	-	1,369	1,369
	(362)	-	-	4,758	-	4,396	184,866
	945	-	-	-	-	945	9,434
	725	-	-	-	-	725	15,098
	10,724	-	660	5,780	5,003	21,507	77,461
	163,675	-	19,223	99,575	64,478	327,728	1,389,311
	2,520	-	-	-	-	2,520	7,415
	-	-	-	-	13,161	13,161	13,161
	11,282	-	-	-	-	11,282	23,031
	416	-	-	-	-	416	4,284
	269,554	6,500	27,898	146,137	87,338	509,529	2,315,668
	-	-	(27,898)	-	-	-	(27,898)
\$	269,554	\$ 6,500	\$ -	\$ 146,137	\$ 87,338	\$ 509,529	\$ 2,287,770

THE CABBAGE PATCH SETTLEMENT HOUSE, INCORPORATED
NOTES TO FINANCIAL STATEMENTS
APRIL 30, 2021

(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, 2021, the Organization had \$130,205 in excess of the amounts insured by the FDIC.

THE CABBAGE PATCH SETTLEMENT HOUSE, INCORPORATED
NOTES TO FINANCIAL STATEMENTS - CONTINUED
APRIL 30, 2021

(2 – continued)

Revenues and Support

On May 1, 2020, the Organization adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (Topic 606), (ASU 2014-09) and FASB ASU 2018-08, *Not-For-Profit Entities* (Topic 958): *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (ASU 2018-08). These two ASUs were adopted together as of May 1, 2020, and establish standards for characterizing grants and similar contracts with resource providers as either exchange transactions or conditional contributions. ASU 2014-09 was adopted on a modified retrospective basis to agreements that were not completed at May 1, 2020. ASU 2018-08 was applied on a modified prospective basis to agreements that were not completed May 1, 2020, or that were entered into after that date. The adoption did not have a material impact on the timing of revenue recognition as of the adoption date and did not result in a cumulative effect adjustment to net assets.

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.

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.

THE CABBAGE PATCH SETTLEMENT HOUSE, INCORPORATED
NOTES TO FINANCIAL STATEMENTS - CONTINUED
APRIL 30, 2021

(2 – continued)

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 \$240,997 was recognized in the year ended April 30, 2021.

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.

Advertising and Marketing Costs

Advertising and marketing cost are expensed as incurred. These expenses amounted to \$3,401 for the year ended April 30, 2021.

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, 2021 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.

THE CABBAGE PATCH SETTLEMENT HOUSE, INCORPORATED
NOTES TO FINANCIAL STATEMENTS - CONTINUED
APRIL 30, 2021

(3) LIQUIDITY

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

Cash	\$ 381,679
Pledges receivable	256,305
Interest receivable	11,893
Investments	<u>16,945,687</u>
	17,595,564
Less those unavailable for general expenditures within one year:	
Contractual or donor-imposed restrictions	(14,103,295)
Board designated:	
Capital expenditures	(321,117)
Quasi-endowment funds, primarily for operating reserve	<u>(2,931,091)</u>
Total	<u>\$ 240,061</u>

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, 2021 include the following unconditional promises to give:

Operations	\$ 11,729
Donor restricted	62,755
Educational opportunities	<u>182,000</u>
Gross pledges receivable	256,484
Less unamortized discount on future pledges	<u>179</u>
Total	<u>\$ 256,305</u>

THE CABBAGE PATCH SETTLEMENT HOUSE, INCORPORATED
NOTES TO FINANCIAL STATEMENTS - CONTINUED
APRIL 30, 2021

(4 – continued)

Gross pledges receivable are due according to the following schedule:

Less than one year	\$ 95,518
One to five years	160,787
	\$ 256,305

Contributions receivable in future periods were discounted at .05%, the one year U.S. Treasury note rate.

(5) INVESTMENTS

Fair value of investments, by classification as of April 30, 2021, are as follows:

Cash Equivalents	\$ 536,972
Bonds:	
Government	26,861
Financial	230,983
Corporate	703,981
Limited Partnership Interest in Real Estate	24,441
Mutual Funds:	
Equity	5,605,510
Fixed Income	2,319,334
Exchange Traded Funds:	
Equity	1,043,721
International	502,652
Equities	
Basic Materials	142,198
Consumer Goods	1,011,953
Energy	16,224
Financial	1,158,219
Healthcare	469,144
Industrial Goods	351,827
Real Estate	44,195
Services	610,495
Technology	1,263,457
Telecommunication	83,226
Utilities	45,629
Common Trust Fund	548,629
Pooled Separate Accounts	206,036
	\$ 16,945,687
Investments, board designated	\$ 3,252,208
Investments, restricted to endowments	13,693,479
Total	\$ 16,945,687

THE CABBAGE PATCH SETTLEMENT HOUSE, INCORPORATED
NOTES TO FINANCIAL STATEMENTS - CONTINUED
APRIL 30, 2021

(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, 2021, 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, 2021, 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, 2021, after making \$361,504 in distributions from the trusts, the value of the perpetual trusts increased by \$1,975,257.

(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 \$15,934 during the year ended April 30, 2021, were recorded as contributions, and program, supporting services and special events expenses.

(9) PROPERTY AND EQUIPMENT

Property and equipment consist of the following components at April 30, 2021:

Land	\$ 51,500
Building and improvements	7,508,035
Equipment, furniture, and fixtures	792,764
Vehicles	113,568
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	8,465,867
Less: accumulated depreciation	3,679,786
	<hr/> <hr/>
	\$ 4,786,081

THE CABBAGE PATCH SETTLEMENT HOUSE, INCORPORATED
NOTES TO FINANCIAL STATEMENTS - CONTINUED
APRIL 30, 2021

(10) BOARD DESIGNATED NET ASSETS

At April 30, 2021, board designated net assets consisted of the following:

Board designated for capital expenditures	\$ 321,117
Quasi-endowment funds, primarily for operating reserve	<u>2,931,091</u>
	<u><u>\$ 3,252,208</u></u>

(11) NET ASSETS WITH DONOR RESTRICTIONS

At April 30, 2021, net assets with donor restrictions consisted of the following:

General operations - future years	\$ 317,947
Endowment funds:	
Donor restricted	9,944,600
Educational opportunities	4,004,363
Perpetual trusts	<u>8,706,020</u>
	<u><u>\$ 22,972,930</u></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, 2021

(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, 2021.

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, 2021

(12 – continued)

The changes in endowment net assets for the year ended April 30, 2021 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	\$ 2,032,415	\$ 17,213,168
Investment return		
Investment income, net	20,550	130,964
Net appreciation -		
unrealized and realized	620,440	5,454,876
Contributions	376,900	446,266
Amounts appropriated for		
expenditures	(119,215)	(527,831)
	<hr/>	<hr/>
Balance, End of Year	<u>\$ 2,931,090</u>	<u>\$ 22,717,443</u>

(13) PAYCHECK PROTECTION PROGRAM LOAN

The Organization received \$307,600 in funding through a loan under the Small Business Administration's (SBA's) Paycheck Protection Program. The organization elected to account for this loan as a conditional grant. As of April 30, 2021, the proceeds had been fully expended and the amount has been recognized as income since the conditions of the use of the loan had been met and forgiveness was obtained.

(14) 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 \$77,461 for the year ended April 30, 2021.

THE CABBAGE PATCH SETTLEMENT HOUSE, INCORPORATED
NOTES TO FINANCIAL STATEMENTS - CONTINUED
APRIL 30, 2021

(15) **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
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APRIL 30, 2021

(15 – continued)

The table below presents the balances of assets and liabilities measured at fair value on a recurring basis as of April 30, 2021.

	<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	\$ 537	\$ -	\$ -	\$ 537
Bonds:				
Government	-	27	-	27
Financial	-	231	-	231
Corporate	-	704	-	704
Mutual Funds:				
Equity:				
Large Cap	2,556	-	-	2,556
Mid Cap	391	-	-	391
Small Cap	785	-	-	785
International	1,312	-	-	1,312
Other	562	-	-	562
Fixed Income	2,319	-	-	2,319
Exchange Traded Funds:				
Equity	1,044	-	-	1,044
International Equity	503	-	-	503
Equities				
Basic Materials	142	-	-	142
Consumer Goods	1,012	-	-	1,012
Energy	16	-	-	16
Financial	1,158	-	-	1,158
Healthcare	469	-	-	469
Industrial Goods	352	-	-	352
Real Estate	44	-	-	44
Services	611	-	-	611
Technology	1,263	-	-	1,263
Telecommunication	83	-	-	83
Utilities	46	-	-	46
Limited Partnership Interest				
in Real Estate	-	-	24	24
Pooled Separate Account	-	-	206	206

THE CABBAGE PATCH SETTLEMENT HOUSE, INCORPORATED
NOTES TO FINANCIAL STATEMENTS - CONTINUED
APRIL 30, 2021

(15 – continued)

	Carrying Value			
	<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	\$ 14	\$ -	\$ -	\$ 14
Mutual Funds:				
Equity:				
Large Cap	82	-	-	82
Mid Cap	15	-	-	15
Small Cap	2	-	-	2
International	17	-	-	17
Fixed Income	59	-	-	59
Exchange Traded Funds:				
Bond	9	-	-	9
Equity	108	-	-	108
REIT	12	-	-	12
Beneficial interest in perpetual trusts:				
Cash Equivalents	\$ 202	\$ -	\$ -	\$ 202
Bonds:				
Government	-	102	-	102
Corporate	-	858	-	858
Mutual Funds:				
Equity:				
Small Cap	190	-	-	190
International	752	-	-	752
Fixed Income	963	-	-	963
Other	820	-	-	820
Exchange Traded Funds:				
Equity	654	-	-	654
Equities				
Basic Materials	54	-	-	54
Consumer Goods	660	-	-	660
Energy	14	-	-	14
Financial	976	-	-	976
Healthcare	380	-	-	380
Industrial Goods	466	-	-	466
Real Estate	221	-	-	221
Technology	829	-	-	829
Telecommunication	547	-	-	547
Utilities	18	-	-	18

THE CABBAGE PATCH SETTLEMENT HOUSE, INCORPORATED
NOTES TO FINANCIAL STATEMENTS - CONTINUED
APRIL 30, 2021

(15 – continued)

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
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APRIL 30, 2021

(15 – 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, 2021 is as follows:

Beginning of year	\$ 176,962
Interest and dividends, net	4,178
Net unrealized and realized appreciation	57,424
Distributions	<u>(8,086)</u>
End of year	<u><u>\$ 230,478</u></u>

(16) **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 May 10, 2022, the date these financial statements were issued. The Organization has determined there are no such subsequent events.