

**COLLEGE HEIGHTS FOUNDATION, INC.**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2019 AND 2018**

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**INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors  
College Heights Foundation, Inc.

We have audited the accompanying financial statements of College Heights Foundation, Inc. (a non-profit organization), which comprise the statements of financial position as of December 31, 2019 and 2018, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to 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 College Heights Foundation, Inc. as of December 31, 2019 and 2018, 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.

*Hensley & Throneberry, CPAs*

Bowling Green, KY  
June 30, 2020

**COLLEGE HEIGHTS FOUNDATION, INC.**

**STATEMENTS OF FINANCIAL POSITION**

December 31, 2019 and 2018

	<b>2019</b>	<b>2018</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 4,447,629	\$ 2,510,477
Interest and dividends receivable	67,420	67,420
Investments	75,097,293	62,833,930
Beneficial interest in third party trusts	5,946,063	4,991,229
Assets held for others	2,946,249	2,481,929
Fixed assets, net of depreciation	2,076,905	1,385,241
Other assets	<u>750</u>	<u>-0-</u>
<b>Total assets</b>	<b><u>\$ 90,582,309</u></b>	<b><u>\$ 74,270,226</u></b>
 <b>LIABILITIES AND NET ASSETS</b>		
Liabilities		
Accounts payable	\$ -0-	\$ 1,467,790
Refundable advances and gift annuity liabilities	2,756,827	2,502,545
Liability for assets held for others	<u>2,946,249</u>	<u>2,481,929</u>
<b>Total liabilities</b>	5,703,076	6,452,264
Net assets		
Without donor restrictions	12,541,945	974,819
With donor restrictions	<u>72,337,288</u>	<u>66,843,143</u>
<b>Total net assets</b>	<u>84,879,233</u>	<u>67,817,962</u>
<b>Total liabilities and net assets</b>	<b><u>\$ 90,582,309</u></b>	<b><u>\$ 74,270,226</u></b>

See accompanying notes.

**COLLEGE HEIGHTS FOUNDATION, INC.**

**STATEMENTS OF ACTIVITIES**  
Years Ended December 31, 2019 and 2018

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
<b>REVENUES, GAINS, AND OTHER SUPPORT</b>						
Contributions	\$ 658,339	\$ 8,959,325	\$ 9,617,664	\$ 1,124,178	\$ 5,718,843	\$ 6,843,021
Event registration fees	-0-	-0-	-0-	13,366	-0-	13,366
Net investment income	380,345	1,945,889	2,326,234	144,123	1,792,448	1,936,571
Net realized and unrealized gains (losses) on investments	409,063	10,686,334	11,095,397	(235,151)	(4,885,870)	(5,121,021)
Change in value of split-interest agreements	-0-	925,612	925,612	-0-	(246,381)	(246,381)
Net assets released from restrictions						
Satisfaction of program restrictions	16,993,709	(16,993,709)	-0-	147,055	(147,055)	-0-
Gain (loss) on exchange of assets	-0-	(29,306)	(29,306)	-0-	(81,406)	(81,406)
<b>Total revenues, gains, and other support</b>	<b>18,441,456</b>	<b>5,494,145</b>	<b>23,935,601</b>	<b>1,193,571</b>	<b>2,150,579</b>	<b>3,344,150</b>
<b>EXPENSES</b>						
Program services	6,062,243	-0-	6,062,243	6,016,188	-0-	6,016,188
Supporting services						
Management and general	788,708	-0-	788,708	746,464	-0-	746,464
Fundraising	23,379	-0-	23,379	21,058	-0-	21,058
<b>Total supporting services</b>	<b>812,087</b>	<b>-0-</b>	<b>812,087</b>	<b>767,522</b>	<b>-0-</b>	<b>767,522</b>
<b>Total expenses</b>	<b>6,874,330</b>	<b>-0-</b>	<b>6,874,330</b>	<b>6,783,710</b>	<b>-0-</b>	<b>6,783,710</b>
<b>Change in net assets</b>	<b>11,567,126</b>	<b>5,494,145</b>	<b>17,061,271</b>	<b>(5,590,139)</b>	<b>2,150,579</b>	<b>(3,439,560)</b>
Net assets, beginning of year	974,819	66,843,143	67,817,962	6,564,958	64,692,564	71,257,522
<b>Net assets, end of year</b>	<b>\$ 12,541,945</b>	<b>\$ 72,337,288</b>	<b>\$ 84,879,233</b>	<b>\$ 974,819</b>	<b>\$ 66,843,143</b>	<b>\$ 67,817,962</b>

See accompanying notes.

**COLLEGE HEIGHTS FOUNDATION, INC.**

**STATEMENT OF FUNCTIONAL EXPENSES**

Year Ended December 31, 2019

	<b>Program Services</b>	<b>Supporting Services</b>		<b>Total</b>
		<b>Management and General</b>	<b>Fund Raising</b>	
Scholarships	\$ 5,757,259	\$ -0-	\$ -0-	\$ 5,757,259
Salaries and benefits	-0-	581,737	-0-	581,737
Other expenses	304,982	46,166	-0-	351,148
Professional fees	-0-	26,365	-0-	26,365
Equipment and furnishings	-0-	25,656	-0-	25,656
Fundraising	-0-	-0-	23,379	23,379
Real estate expenses	-0-	19,102	-0-	19,102
Renovation expenses	-0-	11,142	-0-	11,142
Scholarship celebration	-0-	11,001	-0-	11,001
Travel and transportation	-0-	9,054	-0-	9,054
Postage	-0-	8,733	-0-	8,733
Software	-0-	7,599	-0-	7,599
Memberships	-0-	3,660	-0-	3,660
Bank fees	-0-	3,203	-0-	3,203
Telephone	-0-	2,635	-0-	2,635
Office supplies	-0-	2,369	-0-	2,369
Sponsorships	-0-	2,050	-0-	2,050
Staff development	-0-	1,334	-0-	1,334
Gifts	-0-	856	-0-	856
<b>Total expenses before depreciation</b>	<b>6,062,241</b>	<b>762,662</b>	<b>23,379</b>	<b>6,848,282</b>
Depreciation	-0-	26,046	-0-	26,046
<b>Total expenses</b>	<b>\$ 6,062,241</b>	<b>\$ 788,708</b>	<b>\$ 23,379</b>	<b>\$ 6,874,328</b>

See accompanying notes.

**COLLEGE HEIGHTS FOUNDATION, INC.**

**STATEMENT OF FUNCTIONAL EXPENSES**

Year Ended December 31, 2018

	<b>Program Services</b>	<b>Supporting Services</b>		<b>Total</b>
		<b>Management and General</b>	<b>Fund Raising</b>	
Scholarships	\$ 5,735,185	\$ -0-	\$ -0-	\$ 5,735,185
Salaries and benefits	-0-	607,310	-0-	607,310
Other expenses	281,003	38,337	-0-	319,340
Fundraising	-0-	-0-	21,058	21,058
Professional fees	-0-	17,835	-0-	17,835
Travel and transportation	-0-	14,690	-0-	14,690
Postage	-0-	12,236	-0-	12,236
Equipment and furnishings	-0-	8,213	-0-	8,213
Software	-0-	5,504	-0-	5,504
Scholarship celebration	-0-	4,244	-0-	4,244
Sponsorships	-0-	3,750	-0-	3,750
Memberships	-0-	3,710	-0-	3,710
Bank fees	-0-	3,296	-0-	3,296
Telephone	-0-	2,612	-0-	2,612
Staff development	-0-	2,400	-0-	2,400
Office supplies	-0-	2,211	-0-	2,211
Gifts	-0-	2,100	-0-	2,100
<b>Total expenses before depreciation</b>	<b>6,016,188</b>	<b>728,448</b>	<b>21,058</b>	<b>6,765,694</b>
Depreciation	-0-	18,016	-0-	18,016
<b>Total expenses</b>	<b>\$ 6,016,188</b>	<b>\$ 746,464</b>	<b>\$ 21,058</b>	<b>\$ 6,783,710</b>

See accompanying notes.

**COLLEGE HEIGHTS FOUNDATION, INC.**

**STATEMENTS OF CASH FLOWS**  
Years Ended December 31, 2019 and 2018

	<b>2019</b>	<b>2018</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 17,061,271	\$ (3,439,560)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Contributions restricted for permanent endowment	(4,614,499)	(2,169,847)
Gifts of property	(295,432)	(92,812)
Depreciation	26,046	18,016
Net realized and unrealized (gains) losses on investments	(12,649,387)	5,427,402
Gifts in kind	(23,700)	(404,500)
Changes in:		
Interest and dividends receivable	-0-	(7,107)
Other assets	(750)	-0-
Accounts payable	<u>(1,467,790)</u>	<u>1,466,224</u>
Net cash provided/(used) in operating activities	(1,964,241)	797,816
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of certificates of deposit	(10,083)	(254,243)
Proceeds from certificates of deposit	-0-	100,000
Purchase of debt and equity securities	(18,416,281)	(13,477,784)
Proceeds from sales and maturities of debt securities	17,954,043	11,646,607
Proceeds from sale of real estate	198,943	-0-
Purchase of fixed assets	<u>(717,710)</u>	<u>(1,009,281)</u>
Net cash used by investing activities	(991,088)	(2,994,701)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from contributions restricted for permanent endowment	<u>4,892,481</u>	<u>1,844,881</u>
Net cash provided by financing activities	<u>4,892,481</u>	<u>1,844,881</u>
<b>Increase/(decrease) in cash and cash equivalents</b>	<b>1,937,152</b>	<b>(352,004)</b>
Cash and cash equivalents, beginning of year	<u>2,510,477</u>	<u>2,862,481</u>
<b>Cash and cash equivalents, end of year</b>	<b><u>\$ 4,447,629</u></b>	<b><u>\$ 2,510,477</u></b>

See accompanying notes.



# COLLEGE HEIGHTS FOUNDATION, INC.

## NOTES TO FINANCIAL STATEMENTS

December 31, 2019 and 2018

### NOTE 1. NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Nature of Organization

College Heights Foundation, Inc. (the Foundation) is a non-profit corporation chartered in 1923 and designated by Western Kentucky University (the University) to receive contributions for the University's benefit, to manage the investments of funds received and to disburse funds in accordance with terms of the various gifts received. A substantial portion of funds received consist of endowment funds from which corpus is not available to be distributed. The Foundation is considered a discretely presented component unit of the University.

#### Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP). Revenues and gains are recognized when they are earned, and expenses and losses are recognized when they are incurred. The Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) is the sole source of authoritative GAAP for non-governmental entities.

#### Basis of Financial Statement Presentation

The Foundation reports information regarding its financial position and activities according to two classes of net assets that are based upon the existence or absence of restrictions on use that are placed by its donors: net assets without donor restrictions and net assets with donor restrictions. Net assets without donor restrictions are resources available to support operations and not subject to donor restrictions. Net assets with donor restrictions are resources that are subject to donor-imposed restrictions. Some restrictions are temporary in nature, such as those that are restricted by a donor for use for a particular purpose or in a future period. Other restrictions may be perpetual in nature, such as those that are restricted by a donor that the resources be maintained in perpetuity.

#### Cash Equivalents

The Foundation considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2019 and 2018, cash equivalents consisted primarily of money market accounts held at brokerage houses and checking accounts.

#### Investments

The Foundation's investments are generally administered as pools of commingled assets held in custodial investment accounts managed by professional investment advisors. The investment objective for endowed assets is to achieve growth that will preserve and increase the purchasing power of such assets. The objective is to protect endowed assets against inflation and to produce current income to support the numerous programs and requirements of the Foundation. In order to provide current support and ensure support in the future, the Foundation and its Board of Directors have adopted a total return approach to investment management with a long-term investment horizon. Such a strategy will balance income and capital appreciation-oriented assets to generate desired returns. The Foundation targets a diversified asset allocation that places a slightly greater emphasis on equity-based investments, allowing the respective investment advisors to take advantage of market opportunities to achieve long-term return objectives, while maintaining a prudent level of risk.

Investments in equity securities having a readily determinable fair value and all debt securities are carried at fair value as determined by quoted market prices. Investments also consist of vested beneficial interests in various charitable remainder unitrusts and gift annuities for which the Foundation acts as the trustee. Such vested beneficial interests are included in investments at fair value. Investments in certificates of deposit are stated at cost, which approximates fair value. Investment in a real estate partnership is stated at estimated fair value. Investments in real estate are stated at cost, which management considers to approximate fair value.

**COLLEGE HEIGHTS FOUNDATION, INC.**

**NOTES TO FINANCIAL STATEMENTS**

December 31, 2019 and 2018

**NOTE 1. NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The Foundation's investments are commingled with certain investments held for the University and the WKU Foundation (Note 4). Accordingly, investment income, unrealized and realized gains/losses, and advisory fees are allocated between the respective organizations on a pro-rata basis.

Investment income, gains, and losses are reflected in the statements of activities as with or without donor restrictions based upon the existence and nature of any donor or legally imposed restrictions. Losses on investments of a donor-restricted endowment fund reduce net assets with donor restrictions to the extent that donor-imposed restrictions on net appreciation of the fund have not been met before the loss occurs. Any remaining loss reduces net assets without donor restrictions. In subsequent years, gains are restored to net assets without donor restrictions to restore the fair value of the assets with donor restrictions to the amount required by donor stipulations.

**Beneficial Interest in Third Party Trusts**

The Foundation has a beneficial interest in some split-interest agreements in which the Foundation is not the trustee. These interests are recorded and measured at the estimated fair market value.

**Fixed Assets**

Property and equipment are stated at cost or at an estimated fair value if received as a contribution. The Foundation follows the practice of capitalizing all expenditures or contributions in excess of \$5,000 for property and equipment with a useful life of one or more years. Depreciation is computed using the straight-line method at rates based on the estimated useful lives below.

	<u>Years</u>
Building improvements	3
Building	39

**Income Recognition**

Contributions, including unconditional promises to give (pledges receivable), are recognized as revenue in the period when they are received or unconditionally pledged and are recorded as with or without donor restrictions depending on the existence and nature of any donor-imposed restrictions. Net assets with donor restrictions are reclassified to net assets without donor restrictions upon satisfaction of the time or purpose restriction. Contributions that are originally restricted by donor stipulation and for which the restriction is satisfied in the same fiscal year are recorded as with donor restrictions and then released from restriction. Conditional contributions are not included as support until the applicable conditions are met.

When applicable, gifts of long-lived assets are reported as contributions without donor restrictions unless explicit donor stipulations specify how such assets must be used, in which case such gifts are reported as contributions with donor restrictions. Absent explicit donor stipulations regarding the time period for which the long-lived assets must be held, expirations of restrictions resulting in the reclassification of net assets with donor restrictions as net assets without donor restrictions are reported when the long-lived assets are placed in service.

Interest and dividends on investment securities are included in income when earned. Contributions from beneficial interests in split-interest agreements when the Foundation is not the trustee are recognized in the period in which the Foundation is notified of the gift's existence.

**Use of Estimates**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

# COLLEGE HEIGHTS FOUNDATION, INC.

## NOTES TO FINANCIAL STATEMENTS

December 31, 2019 and 2018

### NOTE 1. NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Functional Allocation of Expenses

The costs of providing the various programs and other activities are summarized on a functional basis in the accompanying statements of activities. Directly identifiable expenses are charged to the applicable program and supporting services. Expenses related to more than one function are allocated among the programs and supporting services benefited. Management and general expenses include those expenses that are not directly identifiable with any other specific function.

#### Income Taxes

The Foundation has received notification from the Internal Revenue Service that it qualifies as a Section 501(c)(3) tax exempt organization and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Internal Revenue Code and a similar provision of state law.

When applicable, the Foundation recognizes uncertain income tax positions using a “more-likely-than-not” approach as defined in the ASC. No such uncertain tax positions have been reflected in the accompanying financial statements. The Foundation’s 2016 through 2019 tax years remain open and subject to examination.

#### Fundraising Expense

Fundraising expenses totaled \$23,379 and \$21,058 for the years ended December 31, 2019 and 2018, respectively.

#### Reclassifications

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements.

#### Subsequent Events

The Foundation has evaluated events occurring between the end of its most recent fiscal year (December 31, 2019) and June 30, 2020, the date the accompanying financial statements were available to be issued.

### NOTE 2. LIQUIDITY

The following reflects the Foundation's financial assets as of the statement of financial position date, reduced by amounts not available for general use within one year of the statement of financial position date because of contractual restrictions, donor-imposed restrictions, or internal designations.

	2019	2018
Financial assets at end of year	\$ 88,504,654	\$ 72,884,985
Less:		
Donor restricted to maintain as an endowment	(68,742,003)	(64,127,504)
Board designated quasi-endowment	(2,589,222)	(3,092,222)
Assets held for others	<u>(2,946,249)</u>	<u>(2,481,929)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 14,227,180</u>	<u>\$ 3,183,330</u>

As part of the Foundation’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. To help manage unanticipated liquidity needs, the Foundation has a line of credit based upon 60% of a single investment account. At December 31, 2019 and 2018, this amount equaled approximately \$8,100,000 and \$6,900,000, respectively. Although the Foundation does not intend to spend from its quasi-endowment fund for general expenditures, amounts could be made available if necessary.

# COLLEGE HEIGHTS FOUNDATION, INC.

## NOTES TO FINANCIAL STATEMENTS

December 31, 2019 and 2018

### NOTE 3. CONCENTRATIONS OF CREDIT RISK

The federal deposit insurance coverage provided by the Federal Deposit Insurance Corporation (FDIC) is currently \$250,000 per depositor at each FDIC insured U.S. depository institution. At December 31, 2019 and 2018, the Foundation's uninsured cash balances totaled \$5,813,738 and \$3,562,405, respectively.

### NOTE 4. INVESTMENTS

Investments consist of the following at December 31, 2019 and 2018:

	2019	2018
Mutual funds	\$ 39,134,181	\$ 28,595,564
Equity securities	25,648,647	19,948,595
Exchange traded funds	6,609,178	9,218,948
Corporate bonds and other fixed income securities	4,916,846	4,683,811
Certificates of deposit	1,050,962	1,040,879
Real estate	586,400	1,549,714
Futures	97,285	149,483
U. S. government and government agency obligations	<u>43</u>	<u>73</u>
	78,043,542	65,187,067
Investments included above held for:		
Western Kentucky University	<u>(2,946,249)</u>	<u>(2,353,137)</u>
	<u>\$ 75,097,293</u>	<u>\$ 62,833,930</u>

As indicated above, the Foundation is invested in various types of investment securities. Investments are exposed to various risks such as interest rate risk, credit risk, and market risk. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect the amounts reported in the accompanying statement of financial position.

Management considers the carrying value of the real estate to approximate fair value at December 31, 2019 and 2018.

Investment advisory fees for the years ended December 31, 2019 and 2018 were \$255,675 and \$249,880, respectively.

### NOTE 5. ASSETS HELD IN TRUST, GIFT ANNUITIES AND REFUNDABLE ADVANCES

The Foundation is party to various split-interest agreements, which are gifts that are partially for the Foundation's benefit and partially for the benefit of the respective donor or their designated beneficiaries. When the Foundation is the trustee and upon acceptance of a split-interest agreement, the Foundation records the contributed asset and the actuarially determined present value of the liability payable to the beneficiary. When the Foundation is not the trustee of the split-interest agreement, the beneficial interest and contribution is recorded at the actuarially determined present value when notified. These agreements include charitable gift annuities and charitable remainder unitrusts.

# COLLEGE HEIGHTS FOUNDATION, INC.

## NOTES TO FINANCIAL STATEMENTS

December 31, 2019 and 2018

### NOTE 5. ASSETS HELD IN TRUST, GIFT ANNUITIES AND REFUNDABLE ADVANCES (Continued)

A charitable gift annuity is an arrangement between a donor and the trustee in which the donor contributes assets to the trustee in exchange for a promise by the trustee to pay a fixed amount to the donor or to others designated by the donor for a specific period of time. Obligations continue until the death of the beneficiary. The accompanying statements of financial position as of December 31, 2019 and 2018 reflect liabilities totaling \$1,796,347 and \$1,951,508, respectively, relative to the estimated present value of the future annuity obligations calculated using discount rates ranging from 1.09% to 11.5% for the annuities which the Foundation acts as the trustee. At December 31, 2019 and 2018, investments relative to charitable gift annuities totaled \$4,069,385 and \$3,603,205, respectively.

Charitable remainder trusts are arrangements in which a donor establishes and funds a trust with specified distributions to be made to the donor or designated beneficiaries over the trust's term. Upon the termination of the trust, the Foundation receives the assets remaining in the trust. Obligations to the beneficiaries are limited to the trust's assets. The accompanying statements of financial position as of December 31, 2019 and 2018 reflect liabilities totaling \$575,199 and \$551,037, respectively, relative to the estimated present value of the future obligations calculated using discount rates ranging from 5.3% to 8%. At December 31, 2019 and 2018, investments relative to charitable remainder trusts totaled \$1,516,585 and \$1,406,106, respectively.

Trust assets are reported at fair value in the same manner as are all Foundation investments. The income or loss recognized under these trusts is included in net assets with donor restrictions. Discount rates are determined in accordance with the Internal Revenue Code and represent the rate at the date (month and year) of the contribution. Actuarial assumptions used in calculating present values include the beneficiary's age and life expectancies using the applicable mortality tables, the date of the gift, the fair market value of the principal donated, the estimated rate of return, the payout rate, the payment schedule, and the discount rate.

The carrying amount of the deferred gift liabilities estimates fair value and is calculated using Level 3 inputs. See Note 11.

### NOTE 6. FIXED ASSETS

Land, building, and equipment consist of the following at December 31, 2019 and 2018:

	2019	2018
Building	\$ 1,907,471	\$ 1,352,962
Land and land improvements	109,688	-0-
Building improvements	54,048	54,048
Furniture and fixtures	53,513	-0-
Less: accumulated depreciation	<u>(47,815)</u>	<u>(21,769)</u>
	<u>\$ 2,076,905</u>	<u>\$ 1,385,241</u>

### NOTE 7. ASSETS HELD FOR OTHERS

Assets held for others represent resources in the possession of, but not under the control of the Foundation and represent funds received for investment by the Foundation through the Commonwealth of Kentucky's Regional University Excellence Trust Fund. Assets held for others at December 31, 2019 and 2018 totaled \$2,946,249 and \$2,481,929, respectively. Accordingly, the statement of financial position reflects liabilities for assets held for others in these same amounts as of December 31, 2019 and 2018.

**COLLEGE HEIGHTS FOUNDATION, INC.**

**NOTES TO FINANCIAL STATEMENTS**

December 31, 2019 and 2018

**NOTE 8. LINE OF CREDIT**

The Foundation established a line of credit in September 2018, which is open ended without a maturity date. There have been no borrowings on this line of credit since inception. Interest on any outstanding balance is due monthly at the rate of 4% off the prime rate. The line of credit is secured by a single fixed income investment account. The available credit is 60% of the balance in the investment account. At December 31, 2019 and 2018, the available credit limit was \$8,134,121 and \$6,933,142, respectively.

**NOTE 9. NET ASSETS WITH DONOR RESTRICTIONS**

At December 31, 2019 and 2018, net assets with donor restrictions consist of the following:

	<b>2019</b>	<b>2018</b>
Scholarship funds	\$ 57,347,752	\$ 56,548,916
Other program support	<u>14,989,536</u>	<u>10,294,227</u>
	<u>\$ 72,337,288</u>	<u>\$ 66,843,143</u>

**NOTE 10. ENDOWMENT FUNDS**

In 2008, the FASB issued ASC 958-205-45-28, *Classification of Donor-Restricted Endowment Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act*. This pronouncement provided guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). The pronouncement also improved disclosures about an organization's endowment funds, both donor restricted endowment funds and board designated endowment funds. In 2010, the state of Kentucky enacted UPMIFA legislation, the effective date of which was July 15, 2010. Accordingly, the Foundation adopted the enacted state of Kentucky UPMIFA legislation for the year ending December 31, 2010.

Currently, the Foundation classifies as net assets with donor restrictions the original value of contributions to the permanent endowment and the original value of any such subsequent contributions.

At December 31, 2019, endowment net assets consist of the following:

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
Board designated endowment funds	\$ 2,589,222	\$ -0-	\$ 2,589,222
Donor restricted endowment funds	<u>-0-</u>	<u>68,742,003</u>	<u>68,742,003</u>
	<u>\$ 2,589,222</u>	<u>\$ 68,742,003</u>	<u>\$ 71,331,225</u>

**COLLEGE HEIGHTS FOUNDATION, INC.**

**NOTES TO FINANCIAL STATEMENTS**

December 31, 2019 and 2018

**NOTE 10. ENDOWMENT FUNDS (Continued)**

At December 31, 2018, endowment net assets consist of the following:

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
Board designated endowment funds	\$ 3,092,222	\$ -0-	\$ 3,092,222
Donor restricted endowment funds	-0-	64,127,504	64,127,504
	<u>\$ 3,092,222</u>	<u>\$ 64,127,504</u>	<u>\$ 67,219,726</u>

Changes in endowment net assets during the year ended December 31, 2019 are as follows:

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
Beginning of the year	\$ 3,092,222	\$ 64,127,504	\$ 67,219,726
Contributions	658,339	4,614,499	5,272,838
Investment return			
Investment income	2,745	-0-	2,745
Net appreciation (unrealized and realized)	11,932	-0-	11,932
Appropriation of endowment assets for expenditure	<u>(1,176,016)</u>	<u>-0-</u>	<u>(1,176,016)</u>
	<u>\$ 2,589,222</u>	<u>\$ 68,742,003</u>	<u>\$ 71,331,225</u>

Changes in endowment net assets during the year ended December 31, 2018 are as follows:

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
Beginning of the year	\$ 3,638,227	\$ 61,957,657	\$ 65,595,884
Contributions	1,124,178	2,169,847	3,294,025
Investment return			
Investment income	306,301	-0-	306,301
Net appreciation (unrealized and realized)	(715,089)	-0-	(715,089)
Appropriation of endowment assets for expenditure	<u>(1,261,395)</u>	<u>-0-</u>	<u>(1,261,395)</u>
	<u>\$ 3,092,222</u>	<u>\$ 64,127,504</u>	<u>\$ 67,219,726</u>

# COLLEGE HEIGHTS FOUNDATION, INC.

## NOTES TO FINANCIAL STATEMENTS

December 31, 2019 and 2018

### NOTE 10. ENDOWMENT FUNDS (Continued)

#### *Funds with deficiencies:*

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets when they occur. There are no such deficiencies as of December 31, 2019 and 2018.

#### *Return objectives and risk parameters:*

The Foundation 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. The Foundation's spending and investment policies work together to achieve this objective. The investment policy establishes an achievable return objective through the diversification of asset classes. The current long-term return objective is to return 4.5% above CPI (consumer price index). Actual returns in any given year may vary from this objective.

#### *Strategies employed for achieving return objectives:*

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

#### *Spending policy and how the investment objectives relate to the spending policy:*

The Foundation's annual distribution target is 4% of the endowment fund's trailing three-year (twelve calendar quarters) moving market value average. The annual distribution from accumulated earnings may be made at any time during the fiscal year. Annual distributions may not be carried over between fiscal years unless the Foundation's Board of Directors grants prior approval to do so.

### NOTE 11. FAIR VALUE MEASUREMENTS

FASB ASC 820-10 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 - Quoted prices in active markets for identical assets or liabilities.
- Level 2 - Observable inputs such as quoted prices in active markets for similar assets or liabilities or quoted prices for identical or similar assets or liabilities in markets that are not active or unobservable inputs that are derived principally from or corroborated by observable market data.
- Level 3 - Unobservable inputs that are based on the Foundation's own assumptions as to how knowledgeable parties would price assets or liabilities that are not corroborated by market data.



# COLLEGE HEIGHTS FOUNDATION, INC.

## NOTES TO FINANCIAL STATEMENTS

December 31, 2019 and 2018

### NOTE 11. FAIR VALUE MEASUREMENTS (Continued)

The following is a description of the valuation methodologies used for the assets and liabilities measured at fair value. There have been no changes in the methodologies used to determine fair value at December 31, 2019 and 2018.

*Certificates of deposit:* Carried at cost, which approximates fair value.

*Mutual funds:* Valued at the quoted market price of the shares held by the Foundation.

*U. S. government and government agency obligations:* Valued using a yield curve matrix derived from quoted prices for similar assets in active markets.

*Corporate bonds/notes and other fixed income securities:* Valued using a yield curve matrix derived from quoted prices for similar assets in active markets.

*Exchange traded funds:* Valued at the quoted market price of the shares held by the Foundation.

*Equity securities:* Valued at the quoted market price of the shares held by the Foundation.

*Real estate:* Valued at the carrying values of the respective real estate investments, which approximate fair value.

*Real estate partnership interest:* Valued at the carrying values of the respective real estate investments less any partnership liabilities, which approximate fair value.

*Real estate investment trusts:* Valued at the net asset value of the shares held by the Foundation.

*Futures:* Valued at the quoted market price of the shares held by the Foundation.

*Beneficial interest in third party trusts:* The estimated fair value is based on the present value of the income distributions or other payments to the donors or other designated beneficiaries during the terms of the respective split-interest agreements. The actuarial related assumptions used in calculating the respective present values include the beneficiary's age and life expectancy using the applicable mortality tables, the date of the gift, the fair value of the amount gifted, the estimated rate of return, the payout rate, the payment schedule, and the discount rate.

*Deferred gift liabilities:* The estimated fair value is based on the present value of the income distributions or other payments to the donors or other designated beneficiaries during the terms of the respective split-interest agreements. The actuarial related assumptions used in calculating the respective present values include the beneficiary's age and life expectancy using the applicable mortality tables, the date of the gift, the fair value of the amount gifted, the estimated rate of return, the payout rate, the payment schedule, and the discount rate. See Note 5.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Foundation believes its valuation methods 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 fair value measurement at the reporting date.

**COLLEGE HEIGHTS FOUNDATION, INC.**

**NOTES TO FINANCIAL STATEMENTS**

December 31, 2019 and 2018

**NOTE 11. FAIR VALUE MEASUREMENTS (Continued)**

The following table sets forth by level within the fair value hierarchy, the Foundation's assets (investments) at fair value at December 31, 2019:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Certificates of deposit	\$1,050,962	\$ -0-	\$ -0-	\$1,050,962
Mutual funds				
Equities	23,471,760	-0-	-0-	23,471,760
Fixed income	<u>15,662,421</u>	<u>-0-</u>	<u>-0-</u>	<u>15,662,421</u>
	39,134,181	-0-	-0-	39,134,181
U. S. government and government agency obligations -- not rated	-0-	43	-0-	43
Corporate bonds/notes and other fixed income securities				
Rated Aaa	-0-	840,852	-0-	840,852
Rated Aa1 to Aa3	-0-	649,846	-0-	649,846
Rated A1 to A3	-0-	2,676,701	-0-	2,676,701
Rated Bbb1 to Bbb3	<u>-0-</u>	<u>749,447</u>	<u>-0-</u>	<u>749,447</u>
	-0-	4,916,846	-0-	4,916,846
Exchange traded funds	6,609,178	-0-	-0-	6,609,178
Equity securities				
Communications	1,937,163	-0-	-0-	1,937,163
Consumer discretionary	3,785,195	-0-	-0-	3,785,195
Consumer staples	155,187	-0-	-0-	155,187
Energy	222,606	-0-	-0-	222,606
Financials	6,567,093	-0-	-0-	6,567,093
Health care	1,685,680	-0-	-0-	1,685,680
Industrials	3,222,483	-0-	-0-	3,222,483
Information technology	6,657,643	-0-	-0-	6,657,643
Materials	362,803	-0-	-0-	362,803
Real estate	143,645	-0-	-0-	143,645
Services	761,615	-0-	-0-	761,615
Utilities	<u>147,534</u>	<u>-0-</u>	<u>-0-</u>	<u>147,534</u>
	25,648,647	-0-	-0-	25,648,647
Real estate	-0-	-0-	586,400	586,400
Futures	<u>97,285</u>	<u>-0-</u>	<u>-0-</u>	<u>97,285</u>
Total investments	<u>\$72,540,253</u>	<u>\$4,916,889</u>	<u>\$ 586,400</u>	<u>\$78,043,542</u>

**COLLEGE HEIGHTS FOUNDATION, INC.**

**NOTES TO FINANCIAL STATEMENTS**

December 31, 2019 and 2018

**NOTE 11. FAIR VALUE MEASUREMENTS (Continued)**

The following table sets forth by level within the fair value hierarchy, the Foundation's assets (investments) at fair value at December 31, 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Certificates of deposit	\$1,040,879	\$ -0-	\$ -0-	\$1,040,879
Mutual funds				
Equities	14,870,941	-0-	-0-	14,870,941
Fixed income	<u>13,724,623</u>	<u>-0-</u>	<u>-0-</u>	<u>13,724,623</u>
	28,595,564	-0-	-0-	28,595,564
U. S. government and government agency obligations -- not rated	-0-	73	-0-	73
Corporate bonds/notes and other fixed income securities				
Rated Aaa	-0-	793,964	-0-	793,964
Rated Aa1 to Aa3	-0-	659,658	-0-	659,658
Rated A1 to A3	-0-	2,481,186	-0-	2,481,186
Rated Bbb1 to Bbb3	<u>-0-</u>	<u>749,003</u>	<u>-0-</u>	<u>749,003</u>
	-0-	4,683,811	-0-	4,683,811
Exchange traded funds	9,218,948	-0-	-0-	9,218,948
Equity securities				
Communications	1,554,124	-0-	-0-	1,554,124
Consumer discretionary	2,871,715	-0-	-0-	2,871,715
Consumer staples	128,755	-0-	-0-	128,755
Energy	71,023	-0-	-0-	71,023
Financials	4,298,965	-0-	-0-	4,298,965
Health care	1,989,039	-0-	-0-	1,989,039
Industrials	2,555,077	-0-	-0-	2,555,077
Information technology	4,733,904	-0-	-0-	4,733,904
Materials	363,976	-0-	-0-	363,976
Real estate	271,943	-0-	-0-	271,943
Services	961,891	-0-	-0-	961,891
Utilities	<u>148,183</u>	<u>-0-</u>	<u>-0-</u>	<u>148,183</u>
	19,948,595	-0-	-0-	19,948,595
Real estate	-0-	-0-	1,549,714	1,549,714
Futures	<u>149,483</u>	<u>-0-</u>	<u>-0-</u>	<u>149,483</u>
Total investments	<u>\$58,953,469</u>	<u>\$4,683,884</u>	<u>\$1,549,714</u>	<u>\$65,187,067</u>

**COLLEGE HEIGHTS FOUNDATION, INC.**

**NOTES TO FINANCIAL STATEMENTS**

December 31, 2019 and 2018

**NOTE 11. FAIR VALUE MEASUREMENTS (Continued)**

At December 31, 2019 and 2018, investments included under Level 3 represent Foundation investments in real estate. The 2019 and 2018 activity, with respect to the investments included under Level 3, is as follows:

	<b>2019</b>	<b>2018</b>
Beginning of the year	\$ 1,549,714	\$ 1,549,714
Investments sold	<u>(963,314)</u>	<u>-0-</u>
End of the year	<u>\$ 586,400</u>	<u>\$ 1,549,714</u>

A realized loss on the sale of real estate totaled \$764,371 in 2019. This loss is reported in net realized and unrealized gains (losses) on investments in the statement of activities.

The following table sets forth by level within the fair value hierarchy, the Foundation's beneficial interest in third party trusts at fair value at December 31, 2019:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Trusts held by third party	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$5,946,063</u>	<u>\$5,946,063</u>

The following table sets forth by level within the fair value hierarchy, the Foundation's beneficial interest in third party trusts at fair value at December 31, 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Trusts held by third party	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$4,991,229</u>	<u>\$4,991,229</u>

The 2019 and 2018 activity, with respect to the third party trusts included under Level 3, is as follows:

	<b>2019</b>	<b>2018</b>
Beginning of the year	\$ 4,991,229	\$ 5,018,908
New deferred gifts	-0-	217,397
Net actuarial gain (loss)	<u>954,834</u>	<u>(245,076)</u>
End of the year	<u>\$ 5,946,063</u>	<u>\$ 4,991,229</u>

The following table sets forth by level within the fair value hierarchy, the Foundation's liabilities (deferred gift liabilities) at fair value at December 31, 2019:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Charitable remainder unitrusts	\$ -0-	\$ -0-	\$ 575,198	\$ 575,198
Charitable gift annuities	<u>-0-</u>	<u>-0-</u>	<u>2,181,629</u>	<u>2,181,629</u>
	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 2,756,827</u>	<u>\$ 2,756,827</u>

**COLLEGE HEIGHTS FOUNDATION, INC.**

**NOTES TO FINANCIAL STATEMENTS**

December 31, 2019 and 2018

**NOTE 11. FAIR VALUE MEASUREMENTS (Continued)**

The following table sets forth by level within the fair value hierarchy, the Foundation's liabilities (deferred gift liabilities) at fair value at December 31, 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Charitable remainder unitrusts	\$ -0-	\$ -0-	\$ 551,037	\$ 551,037
Charitable gift annuities	<u>-0-</u>	<u>-0-</u>	<u>1,951,508</u>	<u>1,951,508</u>
	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 2,502,545</u>	<u>\$ 2,502,545</u>

The 2019 and 2018 activity, with respect to the liabilities (deferred gift liabilities) included under Level 3, is as follows:

	<b>2019</b>	<b>2018</b>
Beginning of the year	\$ 2,502,545	\$ 2,827,511
New deferred gifts	57,754	18,263
Payment obligations	(378,483)	(497,670)
Net actuarial (gain) loss	<u>575,011</u>	<u>154,441</u>
End of the year	<u>\$ 2,756,827</u>	<u>\$ 2,502,545</u>

**NOTE 12. RELATED PARTY TRANSACTIONS**

Western Kentucky University processes the Foundation's payroll. No administrative expenses are charged to the Foundation by the University, and the Foundation does not recognize revenue and expense related to these transactions as the amounts thereof are considered immaterial. The Foundation also owns a parking lot which is used by the University for which no rent is charged. At December 31, 2019 and 2018, the amounts payable to Western Kentucky University were \$-0- and \$1,467,790, respectively.

**NOTE 13. EMPLOYEES' RETIREMENT PLANS**

Through the University, the Foundation participates in the Kentucky Employees' Retirement System (KERS) and the Kentucky Teachers Retirement System (KTRS), both of which are cost sharing, multiple-employer, defined benefit pension plans administered by the respective KERS and KTRS boards of trustees. The Foundation is not represented on either of the boards of trustees. Both KERS and KTRS provide retirement, disability, and death benefits to the Foundation's eligible employees. The service retirement benefit is a lifetime benefit. Both multiple employer plans pay a defined amount upon retirement based on the length of service and the final average salary of the employee, along with a retirement multiplier. Retirement eligibility is determined by the employee's age and years of service. Total contributions of \$70,828 in 2019 and \$66,187 in 2018 were expensed to salaries and benefits for ongoing participation in these plans.

**COLLEGE HEIGHTS FOUNDATION, INC.**

**NOTES TO FINANCIAL STATEMENTS**

December 31, 2019 and 2018

**NOTE 13. EMPLOYEES' RETIREMENT PLANS (Continued)**

The risks of participating in these multiple employer defined benefit pension plans are different from single-employer plans because: (a) assets contributed to the multiple employer plan by one employer may be used to provide benefits to employees of other participating employers, (b) if a participating employer stops contributing to the plan, the unfunded obligations of the plan may be required to be borne by the remaining participating employers, and (c) if the Foundation chooses to stop participating in one of the multiple employer plans, it may be required to pay a withdrawal liability to the plan. If the plan were to terminate, if participants voluntarily withdrew, or there was a mass withdrawal, the Foundation may also be required to make additional payments to the plan for its proportionate share of underfunded liabilities. The Foundation has no plans to withdraw from its multiple employer retirement plans.

The following presents information about the Foundation's multiple employer plans as of the two most recently published comprehensive annual financial reports.

Pension Fund	EIN and Plan # (if available)	Total Plan Assets	Accum. Benefit Obligations	% Funded	Total Plan Assets	Accum. Benefit Obligations	% Funded
		June 30, 2019	June 30, 2019	2019	June 30, 2018	June 30, 2018	2018
KERS	61-0600439	\$2,877,927,000	\$17,692,622,000	16.3%	\$2,658,540,000	\$16,827,155,000	15.8%
KTRS	61-0600439	\$20,154,161,000	\$34,676,713,000	58.1%	\$19,496,056,000	\$33,795,671,000	57.7%

Pension Fund	EIN and Plan # (if available)	Foundation Contributions	Foundation Contributions	Surcharge Imposed	Funding Improvement Plan / Rehab Plan	Expiration of Collective Bargain Agreement
		2019	2018		Plan	Agreement
KERS	61-0600439	\$ 39,097	\$ 36,360	no	no	n/a
KTRS	61-0600439	31,731	29,827	no	no	n/a
		<u>\$ 70,828</u>	<u>\$ 66,187</u>			

The plans' accumulated benefit obligations are determined annually by the plans' actuary. Significant actuarial assumptions utilized include an expected annual investment rate of return, active member payroll increases, and rates of salary increases.

Current year contributions under KERS made on behalf of eligible employees represent 49.47% of covered wages. The employer contribution rate is expected to remain at 49.47% through June 30, 2020. The KERS participants contribute 5% of their covered wages if their participation date is prior to September 1, 2008 or 6% if the date is after September 1, 2008.

Current year contributions under KTRS made on behalf of these eligible employees represent 15.865% of covered wages for the year ended December 31, 2019. The KTRS participants contribute 6.5% of their covered wages if their participation date is prior to July 1, 2008 or 7.16% if the date is after July 1, 2008.

The Foundation is not obligated for any minimum contributions for either plan. Based on the most recent annual financial reports, the Foundation did not contribute more than 5% of the total contributions to either plan.

KERS and KTRS issue a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to Kentucky Retirement System, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, online at [kyret.ky.gov](http://kyret.ky.gov) and [trs.ky.gov](http://trs.ky.gov), or by calling (502) 564-4646.

**COLLEGE HEIGHTS FOUNDATION, INC.**

**NOTES TO FINANCIAL STATEMENTS**

December 31, 2019 and 2018

**NOTE 14. ADDITIONAL CASH FLOW INFORMATION**

	<b>2019</b>	<b>2018</b>
Noncash Investing and Financing Activities		
Investment securities received as contributions	\$ 295,432	\$ 92,812
Gifts in kind	<u>23,700</u>	<u>404,500</u>
	<u>\$ 319,132</u>	<u>\$ 497,312</u>