

Financial Statements and Report of Independent Certified Public Accountants

The Catholic Foundation

December 31, 2017

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Trustees
The Catholic Foundation

We have audited the accompanying financial statements of The Catholic Foundation (the "Foundation"), which comprise the statement of financial position as of December 31, 2017 and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's responsibility for the financial statements

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

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 Catholic Foundation as of December 31, 2017, and the results of its changes in net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on 2016 summarized comparative information

We have previously audited the Foundation's 2016 financial statements (not presented herein), and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 11, 2017. In our opinion, the accompanying summarized comparative information as of and for the year ended December 31, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.



Dallas, Texas
May 10, 2018

The Catholic Foundation

STATEMENTS OF FINANCIAL POSITION

December 31, 2017
(with comparative amounts as of December 31, 2016)

| ASSETS | <u>2017</u> | <u>2016</u> |
|--|----------------------|----------------------|
| Cash and cash equivalents | \$ 2,216,389 | \$ 2,714,336 |
| Accounts and trade receivable | 657,199 | 647,892 |
| Receivable from fund manager | 1,700,000 | 725,000 |
| Contributions Receivable | 1,500,000 | - |
| Pledges receivable, net | 7,779,623 | 21,834,959 |
| Beneficial interest in trusts held by others | 1,799,032 | 1,880,954 |
| Investments | 160,876,593 | 141,425,356 |
| Agency funds | 53,208,778 | 45,950,748 |
| Real estate held for investment | 2,635,240 | 3,278,031 |
| Other assets | <u>671,811</u> | <u>774,459</u> |
| Total assets | <u>\$233,044,665</u> | <u>\$219,231,735</u> |
| LIABILITIES AND NET ASSETS | | |
| Liabilities | | |
| Accounts payable and accrued liabilities | \$ 886,319 | \$ 738,682 |
| Distributions payable | 61,427 | 62,590 |
| Grants payable | 2,436,995 | 1,952,046 |
| Liability to trust beneficiaries | 4,650,415 | 3,422,062 |
| Agency funds | 53,208,778 | 45,950,748 |
| Deferred revenue | 4,395,291 | 4,154,536 |
| Annuities payable | <u>4,899,524</u> | <u>4,869,587</u> |
| Total liabilities | 70,538,749 | 61,150,251 |
| Net assets | | |
| Unrestricted | 31,598,321 | 28,134,488 |
| Temporarily restricted | 98,317,744 | 97,753,374 |
| Permanently restricted | <u>32,589,851</u> | <u>32,193,622</u> |
| Total net assets | <u>162,505,916</u> | <u>158,081,484</u> |
| Total liabilities and net assets | <u>\$233,044,665</u> | <u>\$219,231,735</u> |

The accompanying notes are an integral part of this statement.

The Catholic Foundation

STATEMENTS OF ACTIVITIES

Year ended December 31, 2017

(with summarized financial information for the year ended December 31, 2016)

| | <u>Unrestricted</u> | <u>Temporarily restricted</u> | <u>Permanently restricted</u> | <u>2017 Total</u> | <u>2016 Total</u> |
|--|---------------------|-----------------------------------|-----------------------------------|-----------------------|-----------------------|
| Revenue, gains, and other support | | | | | |
| Contributions, net | \$ 425,040 | \$13,494,893 | \$ 172,331 | \$ 14,092,264 | \$ 10,048,385 |
| Investment income | | | | | |
| Dividends and interest | 671,046 | 1,902,546 | 43,188 | 2,616,780 | 2,310,475 |
| Net realized and unrealized gains on investments | 6,378,906 | 9,246,133 | 265,959 | 15,890,998 | 7,300,740 |
| Real estate income | 11,965 | 5,472 | - | 17,437 | 12,238 |
| Investment advisory fees | 1,444,358 | - | - | 1,444,358 | 1,562,714 |
| Other | 195,578 | 1,574 | - | 197,152 | 54,849 |
| Loss on uncollectible accounts | - | (3,243,024) | - | (3,243,024) | (874,503) |
| Change in value of split-interest agreements | (408,887) | (224,096) | (85,249) | (718,232) | (67,859) |
| Net assets released from restrictions | <u>20,619,128</u> | <u>(20,619,128)</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total revenue, gains and other support | 29,337,134 | 564,370 | 396,229 | 30,297,733 | 20,347,039 |
| Expenses | | | | | |
| Grants | 1,935,398 | - | - | 1,935,398 | 1,983,924 |
| Distributions | 18,447,560 | - | - | 18,447,560 | 16,371,061 |
| Annuity payments and distributions to beneficiaries | 326,284 | - | - | 326,284 | 589,441 |
| Development | 1,318,466 | - | - | 1,318,466 | 1,284,894 |
| Management and general | <u>3,845,593</u> | <u>-</u> | <u>-</u> | <u>3,845,593</u> | <u>3,632,863</u> |
| Total expenses | <u>25,873,301</u> | <u>-</u> | <u>-</u> | <u>25,873,301</u> | <u>23,862,183</u> |
| Change in net assets | 3,463,833 | 564,370 | 396,229 | 4,424,432 | (3,515,144) |
| Net assets at beginning of year | <u>28,134,488</u> | <u>97,753,374</u> | <u>32,193,622</u> | <u>158,081,484</u> | <u>161,596,628</u> |
| Net assets at end of year | <u>\$31,598,321</u> | <u>\$98,317,744</u> | <u>\$32,589,851</u> | <u>\$162,505,916</u> | <u>\$158,081,484</u> |

The accompanying notes are an integral part of this statement.

The Catholic Foundation

STATEMENTS OF CASH FLOWS

Year ended December 31, 2017
(with comparative amounts for the year ended December 31, 2016)

| | 2017 | 2016 |
|--|--------------|----------------|
| Cash flows from operating activities | | |
| Change in net assets | \$ 4,424,432 | \$ (3,515,144) |
| Adjustments to reconcile change in net assets to net cash used in operating activities | | |
| Contributed stock | (5,753,332) | (3,836,838) |
| Contributed real estate | - | (337,000) |
| Net realized and unrealized gains on investments | (15,890,998) | (7,300,740) |
| Change in value of split-interest agreements | 718,232 | 67,859 |
| Contributions restricted for long-term investments | (172,331) | (613,294) |
| Unamortized discount on pledges receivable | (332,785) | (624,132) |
| Allowance for uncollectible pledges | (2,306,677) | (4,971,126) |
| Gain on sale of real estate | (23,463) | (17,913) |
| Changes in operating assets and liabilities | | |
| Accounts and trade receivable | (9,307) | (351,446) |
| Receivable from fund manager | (975,000) | (725,000) |
| Contributions receivable | (1,500,000) | - |
| Pledges receivable | 16,694,798 | 21,003,878 |
| Other assets | 102,648 | 70,315 |
| Accounts payable and accrued liabilities | 147,637 | (1,391,009) |
| Distributions payable | (1,163) | 1,540 |
| Grants payable | 484,949 | 456,638 |
| Liability to trust beneficiaries | 1,042,120 | 62,233 |
| Annuities payable | (378,950) | (171,046) |
| Net cash used in operating activities | (3,729,190) | (2,192,225) |
| Cash flows from investing activities | | |
| Proceeds from sale of real estate | 337,000 | 717,913 |
| Proceeds from sale of investments | 26,655,816 | 27,338,369 |
| Purchases of investments | (23,933,904) | (28,321,315) |
| Net cash provided by (used in) investing activities | 3,058,912 | (265,033) |
| Cash flows from financing activities | | |
| Contributions restricted for long-term investments | 172,331 | 613,294 |
| Net cash provided by financing activities | 172,331 | 613,294 |
| Net decrease in cash and cash equivalents | (497,947) | (1,843,964) |
| Cash and cash equivalents at beginning of year | 2,714,336 | 4,558,300 |
| Cash and cash equivalents at end of year | \$ 2,216,389 | \$ 2,714,336 |
| Noncash investing transactions: | | |
| Contributed stock | \$ 5,753,332 | \$ 3,836,838 |

The accompanying notes are an integral part of this statement.

The Catholic Foundation

NOTES TO FINANCIAL STATEMENTS

December 31, 2017
(with comparative totals for 2016)

NOTE A - NATURE OF OPERATIONS

The Catholic Foundation (the "Foundation") is a not-for-profit corporation authorized primarily to serve Catholic institutions within the Diocese of Dallas which are of a religious, charitable or educational character.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant accounting policies applied in the preparation of the accompanying financial statements follows.

Basis of Presentation

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Foundation. Generally, the donors of these assets permit the Foundation to distribute all or part of the income earned on related investments for general or specific purposes, as specified by original grantor.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met by actions of the Foundation and/or the passage of time.

Unrestricted net assets - Net assets not subject to donor-imposed stipulations.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporarily restricted net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

Contributions are recognized as revenue in the period unconditional promises to give are received. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value.

Realized and unrealized gains (losses) and income on investments are reported as follows:

- as increases (decreases) in permanently restricted net assets if the terms of the gift require that they be included in the principal of a permanent endowment fund;
- as increases (decreases) in temporarily restricted net assets if the terms of the gift impose restrictions on their use or when appropriated for expenditure;
- as increases (decreases) in unrestricted net assets in all other cases.

The Catholic Foundation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2017
(with comparative totals for 2016)

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Cash and Cash Equivalents

The Foundation considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. The Foundation maintains cash depositories with high quality financial institutions which, at times, may exceed federally insured limits. The Foundation has not experienced any losses on such accounts.

Accounts and Trade Receivable and Receivable from Fund Manager

Accounts and trade receivables are primarily due to investment transactions that have not been completed and are stated at the amount owed to the Foundation.

As of December 31, 2017, the Foundation recorded receivables totaling \$1,700,000 due from an alternative investment fund manager. As of December 31, 2016 there was \$725,000 due from two fund managers.

Contributions Receivable

Contributions receivable are due from estates which had not been settled prior to year-end. This amount is based upon estimates of amounts owed to the Foundation from these estates. As of December 31, 2017 and 2016, there were \$1,500,000 and \$-0- owed to the Foundation from unsettled estates, respectively.

Pledges Receivable and Contributions

Unconditional promises to give are recorded as pledges receivable and contribution revenue when the promise is made. Pledges and contribution revenues expected to be received within one year are recorded at net realizable value. Unconditional promises that are expected to be collected in future years are recorded at the net present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates appropriate for the expected term of the promise to give applicable to the years in which the pledges are made. The discount is included in contribution revenue in accordance with donor imposed restrictions, if any, on the contributions.

The Foundation provides an allowance for pledges that are greater than 60 days past due. Additionally, the Foundation provides a general allowance based on subsequent campaign results. This is based upon actual results experienced over the last five years of the campaigns. The allowance is accounted for as a loss on uncollectible accounts in the Statement of Activities.

Beneficial Interest in Trusts Held by Others

The Foundation became the beneficiary of two charitable lead trusts created by a donor in 2013, the assets of which are not in the possession of the Foundation. The Foundation receives an income stream from these assets for a period of fifteen years. The net present value of the fair market value of the Foundation's share of the trusts is recognized as an asset of the Foundation and was recognized as a contribution in prior years. This present value has been determined using a current discount rate of 2.2%.

The Catholic Foundation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2017
(with comparative totals for 2016)

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Changes in this calculated asset value due to changes in the trust's asset value are accounted for as a change in value of split-interest agreements in the Statement of Activities.

Investments

All investments are carried at fair value. Investments in money market funds, marketable securities, fixed income securities and mutual funds are stated at fair value based on quoted market prices. Fair values of investments in limited partnerships, including hedge funds and private equity that have limited marketability are based on net asset value as a practical expedient in estimating fair value. The net asset values are determined by the fund manager or general partner based on their best estimates using fair value estimation techniques, substantiated, in part, by their audited financial statements and supported by the due diligence of the Foundation's investment management. There are investments held in six limited partnerships that are accounted for under the equity method with gains, losses and fair value adjustments recorded by the investment managers based upon local market conditions, trading values of underlying investments on market exchanges, current and projected operating performance, marketability, restrictions on disposition and financing transactions subsequent to the acquisitions of the underlying investments. Unrealized gains (losses) from fair value fluctuations on investments are included in the Statement of Activities in the period that such fluctuations occur. Investments which are received by gift are recorded at fair value at the date of donation and adjusted for any unrealized gains (losses) occurring thereafter.

Agency Funds

The Foundation accepts funds to manage and invest on behalf of Catholic organizations primarily within the Diocese of Dallas. Accordingly, these assets are generally carried at fair value with a corresponding liability. There are no amounts reflected in the Statement of Activities relating to these funds.

Real Estate Held for Investments

Real estate held for investment is recorded at fair value based on appraisals made and comparable sales in the area. Contributions of real estate are recorded at fair value at the time of donation. Permanent decreases in fair value below cost are recorded to expense in the year that such decreases become known. The Foundation closed on the sale of a piece of real estate on January 11, 2018. The value of the real estate was written down by \$305,792 to the sale price as of December 31, 2017. No permanent decreases were recorded for the year ended December 31, 2016.

Grants Payable

Grants are recognized as expenses in the financial statements at the time recipients are entitled to such grants. Generally, this occurs when the Foundation's Distribution Committee approves a specific grant. Approved grants are generally paid within a twelve month period.

The Catholic Foundation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2017
(with comparative totals for 2016)

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Liability to Trust Beneficiaries

Fixed Payment Charitable Remainder Trusts

Under fixed payment charitable remainder trust agreements, the Foundation pays annual benefits from trust assets over the term of the trust to third party beneficiaries with remaining trust assets at the end of the trust's term being distributed to the Foundation. For irrevocable charitable remainder trusts, assets of the trust are generally carried at fair value. A liability is recognized equal to the present value of amounts which the Foundation expects to pay to third party beneficiaries at the risk-free rate ranging from 5.0% to 8.8%. Changes in the calculated liability due to increases or decreases in the actuarially determined life expectancy of third party beneficiaries are reflected as change in value of split-interest agreements in the Statement of Activities and Statement of Cash Flows.

Deferred Revenue

Net Income Charitable Remainder Trusts

Under net income charitable remainder trust agreements, a donor gives assets to the Foundation to invest, and the Foundation must pay the investment income earned to the donor until the donor's death, at which time the assets become the property of the Foundation. Assets are generally recognized at fair value with deferred revenue recognized equal to the difference between the fair value of the assets and the present value of those assets discounted at the risk-free rate ranging from 5.0% to 10.0% over the actuarially determined life expectancy of the donor. Changes in the calculated deferred revenue due to increases or decreases in the actuarially determined life expectancy of the donor are reflected as change in value of split-interest agreements in the Statement of Activities and Statement of Cash Flows.

Annuities Payable

The Foundation has charitable annuity agreements with donors to make payments to the annuitants for the remainder of their lives. Assets are recorded at fair value when received on the Statement of Financial Position. A liability is recorded equal to the present value of the estimated future obligations. Changes in annuity liabilities due to amortization of discount and increases or decreases in the actuarially determined life expectancy of the donor are reflected as change in value of split-interest agreements in the Statement of Activities and Statement of Cash Flows.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the Statement of Activities. Accordingly, certain expenses have been allocated among development and management and general.

The Catholic Foundation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2017
(with comparative totals for 2016)

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Income Tax Status

The Foundation is exempt from federal income tax under Section 501(a) of the Internal Revenue Code of 1986 ("IRC"), as amended, and as a public charity described in Section 501(c)(3) of the IRC. However, income generated from activities unrelated to the Foundation's exempt purpose is subject to tax under IRC Section 511. The Foundation had no unrelated business income tax during the years ended December 31, 2017 and 2016.

The Foundation has reviewed its tax positions and believes it is more likely than not that they will be sustained upon examination. Accordingly, the Foundation does not have any unrecognized tax benefits or liabilities.

The Foundation is no longer subject to income tax examination by tax authorities for the tax years prior to 2013.

Use of Estimates

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

Comparative Financial Statements

The financial statements include certain prior year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the Foundation's audited financial statements for the year ended December 31, 2016, from which the summarized information was derived.

NOTE C - FAIR VALUE OF FINANCIAL INSTRUMENTS

The Foundation records its financial instruments in accordance with the fair value guidance as established by the Financial Accounting Standard Board ("FASB"). In accordance with this guidance, fair value is defined as the price the Foundation would receive from the sale of an asset, or pay to transfer a liability, in a timely transaction with an independent buyer in the principal market. This guidance establishes a three-tier hierarchy to distinguish between various types of inputs used in determining the value of the Foundation's investments and liabilities. The inputs are summarized in three levels as outlined below:

Level 1 - Quoted prices in active markets for identical assets or liabilities. Assets utilizing Level 1 inputs include the Foundation's money market funds, publicly traded securities and mutual fund investments. Valuations of these instruments do not require a high degree of judgment as the valuations are based on quoted prices in active markets that are readily available.

The Catholic Foundation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2017
(with comparative totals for 2016)

NOTE C - FAIR VALUE OF FINANCIAL INSTRUMENTS - Continued

Level 2 - Other significant observable inputs that reflect the assumptions market participants would use in pricing an asset or liability based on market data obtained from independent market sources. These observable inputs include quoted prices for similar investments, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability. Valuations in this category are inherently less reliable than quoted market prices due to the degree of subjectivity involved in determining appropriate methodologies and the applicable underlying assumptions. Assets included in Level 2 include six investment pools, real estate, one limited partnership investing in primarily publicly traded growth oriented companies and an annuity contract.

Level 3 - Unobservable inputs that reflect the reporting entities own assumptions market participants would use in pricing an asset or liability based upon the best information available in the circumstances. Assets utilizing Level 3 inputs include the Foundation's investment in a private equity venture capital partnership and private equity small company funds, distressed securities funds and beneficial interest in trusts held by others. These financial instruments have inputs that cannot be validated by readily determinable market data and generally involve considerable judgment by management of the funds. The Foundation's assessment of the significance of a particular input to the fair value measurements in its entirety requires judgment and considers factors specific to the financial instruments.

In May 2015, the FASB issued Accounting Standards Update ("ASU") No. 2015-07, "Fair Value Measurement: Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)". ASU 2015-07 eliminates the requirement to categorize within the fair value hierarchy investments whose fair values are measured at net asset value using the net asset value per share practical expedient. Instead, ASU 2015-07 requires entities to disclose the fair values of such investments so that financial statement users can reconcile amounts reported in the fair value hierarchy table and the amounts reported on the balance sheet. The Company adopted ASU 2015-07 as of January 1, 2017. The 2016 amounts have been reclassified to conform to current year presentation. As of December 31, 2017 and December 31, 2016 such investments totaled \$6,942,769 and \$9,867,076, respectively.

The Catholic Foundation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2017
(with comparative totals for 2016)

NOTE C - FAIR VALUE OF FINANCIAL INSTRUMENTS - Continued

The schedule below classifies the Foundation's financial assets measured on a recurring basis based upon the three-tier hierarchy discussed above:

Fair Value Measurements at December 31, 2017

| <u>Description</u> | <u>December 31, 2017</u> | <u>Using Quoted Prices In Active Markets For Identical Assets (Level 1)</u> | <u>Significant other Observable Inputs (Level 2)</u> | <u>Significant Unobservable Inputs (Level 3)</u> |
|-------------------------------------|------------------------------|---|--|--|
| Money market | \$28,106,948 | \$28,106,948 | \$ - | \$ - |
| Fixed income | 888,800 | 888,800 | - | - |
| Equities: | | | | |
| Domestic | 15,170,281 | 14,551,964 | 618,317 | - |
| International | 617,960 | 617,960 | - | - |
| Mutual funds: | | | | |
| Domestic | 36,231,053 | 36,231,053 | - | - |
| International | 12,327,694 | 12,327,694 | - | - |
| Investment Pools: | | | | |
| Money market | 3,124,945 | - | 3,124,945 | - |
| Mutual Funds Domestic | 39,613,126 | - | 39,613,126 | - |
| Mutual Funds International | 13,846,660 | - | 13,846,660 | - |
| Investments in limited partnerships | 2,502,588 | - | 2,502,588 | - |
| Private Equity | | | | |
| Venture Capital | 789,317 | - | - | 789,317 |
| Private Equity | | | | |
| Small Company | 186,127 | - | - | 186,127 |
| Distressed Securities | <u>528,325</u> | <u>-</u> | <u>-</u> | <u>528,325</u> |
| Total | <u>\$153,933,824</u> | <u>\$92,724,419</u> | <u>\$59,705,636</u> | <u>\$1,503,769</u> |
| Investments at NAV | <u>6,942,769</u> | | | |
| Total investments | <u>\$160,876,593</u> | | | |

The Catholic Foundation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2017
(with comparative totals for 2016)

NOTE C - FAIR VALUE OF FINANCIAL INSTRUMENTS - Continued

Fair Value Measurements at December 31, 2017

| <u>Description</u> | <u>December 31, 2017</u> | <u>Using Quoted Prices In Active Markets For Identical Assets (Level 1)</u> | <u>Significant other Observable Inputs (Level 2)</u> | <u>Significant Unobservable Inputs (Level 3)</u> |
|--|------------------------------|---|--|--|
| Beneficial interest in trusts held by others | \$ 1,799,032 | \$ - | \$ - | \$ 1,799,032 |
| Real estate held for investment | \$ 2,635,240 | \$ - | \$ 2,635,240 | \$ - |

The schedule below summarizes the 2017 year activity for the investments above which have been classified as a Level 3 investments:

| | <u>Private Equity Venture Capital</u> | <u>Private Equity Small Company</u> | <u>Distressed Securities</u> | <u>Funds Held in Trust by Others</u> |
|--|---|---|----------------------------------|--|
| Beginning Balance | \$ 408,151 | \$206,496 | \$267,328 | \$1,880,954 |
| Total gains (losses) | | | | |
| Included in realized/unrealized | 65,054 | 15,013 | 19,496 | - |
| Included in other income (loss) | (1,915) | 23,976 | 34,301 | - |
| Change in value of split interest agreements | - | - | - | (81,922) |
| Purchases and issuances | 553,000 | - | 207,200 | - |
| Distributions | (234,973) | (59,358) | - | - |
| Ending Balance | <u>\$ 789,317</u> | <u>\$186,127</u> | <u>\$528,325</u> | <u>\$1,799,032</u> |

Total Level 3 gains and losses are all included in the Statement of Activities, and all relate to financial assets still held at year-end. The gains relating to assets still held at December 31, 2017 was \$157,840.

The following table summarizes the fair value measurement of the Foundation's investments in certain entities that calculate net asset value per share:

| | <u>Fair Value</u> | <u>Unfunded Commitments</u> | <u>Redemption Frequency</u> | <u>Redemption Notice</u> |
|----------------------------------|-------------------|---------------------------------|---------------------------------|------------------------------|
| Alternatives - | | | Quarterly/ Annually | |
| Hedge Fund of Funds (1) | \$5,778,172 | - | | 45-110 days |
| Real Estate Opportunity Fund (2) | 325,651 | - | n/a | - |
| Special Situations Fund (3) | 838,946 | - | n/a | 5 Year Lockup |

The Catholic Foundation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2017
(with comparative totals for 2016)

NOTE C - FAIR VALUE OF FINANCIAL INSTRUMENTS – Continued

- (1) This category contains three hedge funds with varying strategies which include absolute return, event driven, and multi-strategy. As of December 31, 2017, the Foundation was in the process of redeeming one of these investments.
- (2) This category contains one fund which capitalizes on opportunities in mortgage securities and structured credit. The fund will invest in companies that are experiencing distress, including companies in bankruptcy proceedings as well as opportunities in residential and commercial mortgage-related investments.
- (3) This category contains one fund focusing on opportunistic and situational investing in the European sovereign, corporate and financial institutional credit markets.

The schedule below classifies the Foundation's financial assets measured on a recurring basis based upon the three-tier hierarchy discussed above:

Fair Value Measurements at December 31, 2016

| <u>Description</u> | <u>December 31, 2016</u> | <u>Using Quoted Prices In Active Markets For Identical Assets (Level 1)</u> | <u>Significant other Observable Inputs (Level 2)</u> | <u>Significant Unobservable Inputs (Level 3)</u> |
|-------------------------------------|------------------------------|---|--|--|
| Money market | \$ 25,424,978 | \$25,424,978 | \$ - | \$ - |
| Fixed income | 895,807 | 895,807 | - | - |
| Equities: | | | | |
| Domestic | 13,335,533 | 12,809,150 | 526,383 | - |
| International | 284,466 | 284,466 | - | - |
| Mutual funds: | | | | |
| Domestic | 31,048,784 | 31,048,784 | - | - |
| International | 10,364,486 | 10,364,486 | - | - |
| Investment Pools: | | | | |
| Money market | 3,097,807 | - | 3,097,807 | - |
| Mutual Funds Domestic | 33,835,902 | - | 33,835,902 | - |
| Mutual Funds International | 10,388,260 | - | 10,388,260 | - |
| Investments in limited partnerships | 2,000,282 | - | 2,000,282 | - |
| Private Equity: | | | | |
| Venture Capital | 408,151 | - | - | 408,151 |
| Private Equity: | | | | |
| Small Company | 206,496 | - | - | 206,496 |
| Distressed Securities | <u>267,328</u> | <u>-</u> | <u>-</u> | <u>267,328</u> |
| Total | <u>\$131,558,280</u> | <u>\$80,827,671</u> | <u>\$49,848,634</u> | <u>\$881,975</u> |
| Investments at NAV | <u>9,867,076</u> | | | |
| Total investments | <u>\$141,425,356</u> | | | |

The Catholic Foundation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2017
(with comparative totals for 2016)

NOTE C - FAIR VALUE OF FINANCIAL INSTRUMENTS - Continued

Fair Value Measurements at December 31, 2016

| <u>Description</u> | <u>December 31, 2016</u> | <u>Using Quoted Prices In Active Markets For Identical Assets (Level 1)</u> | <u>Significant other Observable Inputs (Level 2)</u> | <u>Significant Unobservable Inputs (Level 3)</u> |
|--|------------------------------|---|--|--|
| Beneficial interest in trusts held by others | \$1,880,954 | \$ - | \$ - | \$1,880,954 |
| Real estate held for investment | \$3,278,031 | \$ - | \$3,278,031 | \$ - |

The schedule below summarizes the 2016 year activity for the investments above which have been classified as a Level 3 investments:

| | <u>Private Equity Venture Capital</u> | <u>Private Equity Small Company</u> | <u>Distressed Securities</u> | <u>Funds Held in Trust by Others</u> |
|--|---|---|----------------------------------|--|
| Beginning Balance | \$332,462 | \$271,042 | \$168,511 | \$1,995,633 |
| Total gains (losses) | | | | |
| Included in realized/unrealized | 213 | - | (8,028) | - |
| Included in other income (loss) | (10,468) | (8,702) | 1,526 | - |
| Change in value of split interest agreements | - | - | - | (114,679) |
| Purchases and issuances | 165,750 | - | 105,319 | - |
| Distributions | <u>(79,806)</u> | <u>(55,844)</u> | <u>-</u> | <u>-</u> |
| Ending Balance | <u>\$408,151</u> | <u>\$206,496</u> | <u>\$267,328</u> | <u>\$1,880,954</u> |

Total Level 3 gains and losses are all included in the Statement of Activities, and are all related to financial assets still held at year-end. The gains relating to assets still held at December 31, 2016 was \$1,739.

The following table summarizes the fair value measurement of the Foundation's investments in certain entities that calculate net asset value per share:

| | <u>Fair Value</u> | <u>Unfunded Commitments</u> | <u>Redemption Frequency</u> | <u>Redemption Notice</u> |
|---------------------------------|-------------------|---------------------------------|---------------------------------|------------------------------|
| Alternatives - | | | Quarterly/ Annually | |
| Hedge Fund of Funds (1) | \$8,326,412 | - | Annually | 45-110 days |
| Real Estate Opportunity Fund(2) | 751,819 | - | n/a | - |
| Special Situations Fund (3) | 788,845 | - | n/a | 5 Year Lockup |

(1) This category contains three hedge funds with varying strategies which include absolute return, event driven, and multi-strategy. As of December 31, 2016, the Foundation was in the process of redeeming a portion of two of these investments and the third investment is being liquidated over the next 18-24 months.

The Catholic Foundation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2017
(with comparative totals for 2016)

NOTE C - FAIR VALUE OF FINANCIAL INSTRUMENTS - Continued

- (2) This category contains one fund which capitalizes on opportunities in mortgage securities and structured credit. The fund will invest in companies that are experiencing distress, including companies in bankruptcy proceedings as well as opportunities in residential and commercial mortgage-related investments.
- (3) This category contains one fund focusing on opportunistic and situational investing in the European sovereign, corporate and financial institutional credit markets.

The Foundation invests in four private equity funds with investment strategies focused on private companies and limited partnerships. These funds are valued at fair value utilizing the following methodologies: the nature of the investment, local market conditions, trading values on public exchanges for comparable securities, current and projected operating performance, marketability, restrictions on disposition, and financing transactions subsequent to the acquisition of the underlying investments. The fair value measurements for these funds generally involve considerable judgment by management of these funds. Investments in these funds cannot be redeemed because the investments include restrictions that do not allow for fund redemption, varying from 12 months to 12 years, after acquisition. The Foundation has made capital commitments to the investment managers of the private equity funds and the distressed securities funds of \$5,050,000 million. As of December 31, 2017 and 2016, \$1,990,000 and \$2,751,000, respectively, of these capital commitments had been funded.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

Cash and Cash Equivalents, Accounts and Trade Receivable, Contributions Receivable and Grants Payable

The carrying amounts approximate fair value because of the short term maturity of these instruments.

Pledges Receivable

The fair value of pledges receivable is based upon the discounted value of expected future cash flows using the three, five, and ten year treasury bill rates.

Liability to Trust Beneficiaries, Annuities Payable and Deferred Revenue

The carrying amounts approximate fair value based on the discounted value of expected future cash flows.

The Catholic Foundation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2017
(with comparative totals for 2016)

NOTE D - PLEDGES RECEIVABLE AND CONTRIBUTIONS

During 2017, the Foundation continued to receive and process pledge payments associated with nine capital campaigns. The St. Augustine Catholic Church Building in Faith Capital Campaign, the Building Together the Future of Good Shepherd Catholic Church Capital Campaign, the Nuestra Senora del Pilar Catholic Church Evangelizing Future Generations Capital Campaign, the St. Michael the Archangel Catholic Church Go Build God’s House Capital Campaign and the Sacred Heart Catholic Church Our Past, Our Present, Our Future Capital Campaign, were all established in 2016. These funds joined the Our Faith Our Future Diocese of Dallas Capital Campaign, which was established in 2013, the St. Anthony Catholic Church Caring for Our Present, Planning for Our Future Capital Campaign, the Divine Mercy of Our Lord Catholic Church Growing with Faith Capital Campaign, and the St. Gabriel the Archangel Catholic Community Raising the Walls Capital Campaigns, all established in 2014. The pledge phase of all campaigns has been completed. The collection phase of these campaigns is expected to continue through 2023. These pledges and payments are deemed to be temporarily restricted.

The allowance for uncollectible pledges has decreased in the current year due to the following; the completion of the pledge phase of the campaigns and the write off of any pledges greater than 730 days past due. The Diocese of Dallas and the parishes are responsible for the relationships with these donors. The Foundation is working closely with them to maximize collections going forward.

Pledges receivable, all related to the campaigns as described above, consisted of the following:

| | December 31, | |
|---|--------------|---------------|
| | 2017 | 2016 |
| Pledges receivable before unamortized discount and allowance for uncollectibles | | |
| Less than one year | \$ 2,300,949 | \$ 1,428,486 |
| One to five years | 18,692,670 | 36,188,429 |
| More than five years | 75,189 | 146,691 |
| Total | 21,068,808 | 37,763,606 |
| Less: | | |
| Unamortized present value discount | (168,845) | (501,630) |
| Allowance for uncollectibles | (13,120,340) | (15,427,017) |
| Pledges receivable, net | \$ 7,779,623 | \$ 21,834,959 |

Pledge receivables at December 31, 2017 and 2016 were discounted using rates ranging from .48% to 3.04%.

The Catholic Foundation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2017
(with comparative totals for 2016)

NOTE E - ENDOWMENTS

The Foundation's endowment consists of approximately 90 individual funds established for a variety of purposes. These individual funds consist of donor restricted endowment funds which are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Foundation interprets the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) enacted by the State of Texas as allowing the Foundation, absent of any donor stipulations to the contrary, to appropriate so much of an endowment fund as the Foundation determines is prudent for the uses, benefits, purposes, and duration for which the endowment is established. Unless stated otherwise in the gift instrument, the assets in an endowment fund are donor-restricted assets until appropriated for expenditure by the Foundation. The following factors are considered in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund.
2. The purposes of the Foundation and the donor-restricted endowment fund.
3. General economic conditions.
4. The possible effect of inflation and deflation.
5. The expected total return from income and the appreciation of investments.
6. Other resources of the Foundation.
7. The investment policies of the Foundation.

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 requires the Foundation to retain as a fund of perpetual duration. These deficiencies are the result of unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that were deemed prudent by the Foundation. Losses on the investments of a donor-restricted endowment fund reduce temporarily restricted net assets to the extent that restrictions on the net appreciation of the fund have not been met before the loss occurs. Any remaining loss reduces unrestricted net assets. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level are classified as an increase in unrestricted net assets. As of December 31, 2017 there were no funds that had fallen below their original gift value. The aggregate amount of funds that had fallen below their original gift value as of December 31, 2016 was \$(28,085).

The Catholic Foundation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2017
(with comparative totals for 2016)

NOTE E - ENDOWMENTS - Continued

Endowment Net Asset Composition by Type of Fund as of December 31, 2017:

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|--|---------------------|-----------------------------------|-----------------------------------|---------------------|
| Donor-restricted endowment funds | \$ <u>-</u> | <u>\$19,767,740</u> | <u>\$30,793,134</u> | <u>\$50,560,874</u> |
| Changes in Endowment Net Assets for the year ended December 31, 2017: | | | | |
| Endowment net assets, beginning of year | \$(28,085) | \$13,633,418 | \$30,523,043 | \$44,128,376 |
| Contributions | - | 4,780 | 172,331 | 177,111 |
| Investment income | | | | |
| Dividends and interest | - | 1,061,226 | - | 1,061,226 |
| Net realized and unrealized gains on investments | 28,085 | 6,635,185 | - | 6,663,270 |
| Net assets released from restrictions | - | (1,474,581) | - | (1,474,581) |
| Transfers | - | (97,760) | 97,760 | - |
| Other | <u>-</u> | <u>5,472</u> | <u>-</u> | <u>5,472</u> |
| Endowment net assets, end of year | <u>\$ -</u> | <u>\$19,767,740</u> | <u>\$30,793,134</u> | <u>\$50,560,874</u> |

The Catholic Foundation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2017
(with comparative totals for 2016)

NOTE E - ENDOWMENTS - Continued

Endowment Net Asset Composition by Type of Fund as of December 31, 2016:

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|--|---------------------|-----------------------------------|-----------------------------------|--------------|
| Donor-restricted endowment funds | \$(28,085) | \$13,633,418 | \$30,523,043 | \$44,128,376 |
| Changes in Endowment Net Assets for the year ended December 31, 2016: | | | | |
| Endowment net assets, beginning of year | \$(39,996) | \$10,251,106 | \$29,909,749 | \$40,120,859 |
| Contributions | - | 1,350 | 613,294 | 614,644 |
| Investment income | | | | |
| Dividends and interest | - | 947,447 | - | 947,447 |
| Net realized and unrealized gains on investments | 11,911 | 4,329,046 | - | 4,340,957 |
| Net assets released from restrictions | - | (1,896,518) | - | (1,896,518) |
| Other | <u>-</u> | <u>987</u> | <u>-</u> | <u>987</u> |
| Endowment net assets, end of year | \$(28,085) | \$13,633,418 | \$30,523,043 | \$44,128,376 |

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 endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity or for a donor specified period as well as board-designated funds. The Foundation expects its endowment funds, over time, to provide an average rate of return of approximately 5.5% annually plus inflation. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving 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 equity-based investments to achieve its long-term return objectives within prudent risk constraints.

The Catholic Foundation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2017
(with comparative totals for 2016)

NOTE E - ENDOWMENTS - Continued

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Foundation may appropriate for distribution each year 4.5% of its endowment fund's previous twenty quarters average ending fair value. In establishing this policy, the Foundation considered the long-term expected return on its endowment. Accordingly, over the long term, the Foundation expects the current spending policy to allow its endowment to grow at an average of 1% plus inflation annually. This is consistent with the Foundation'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.

NOTE F - NET ASSETS

Permanently and temporarily restricted net assets are restricted primarily for Catholic organizations in the Diocese of Dallas.

Unrestricted net assets include \$1,665,639 and \$1,103,114 of board designated grants at December 31, 2017 and 2016, respectively.

Temporarily restricted net assets were released from restrictions by satisfaction of restrictions as follows:

| | <u>Years ended December 31,</u> | |
|--|---------------------------------|---------------------|
| | <u>2017</u> | <u>2016</u> |
| Distributions from donor advised funds | \$ 8,504,850 | \$ 7,706,469 |
| Distributions from designated capital campaign funds | 9,912,710 | 8,664,591 |
| Distributions from split-interest agreements | 326,284 | 336,067 |
| Other | <u>1,875,284</u> | <u>1,906,631</u> |
| | <u>\$20,619,128</u> | <u>\$18,613,758</u> |

NOTE G - COMMITMENTS AND CONTINGENCIES

The Foundation leases office space and equipment under noncancellable operating lease agreements. During 2015, the Foundation signed a new lease for 8,732 square feet of office space for a term of eight years beginning August 1, 2015. Rent expense, including electrical costs, was approximately \$145,000 and \$144,000 for the years ended December 31, 2017 and 2016, respectively. The office lease expires July 31, 2023 and the equipment leases expire May 16, 2021 and April 30, 2019.

The Catholic Foundation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2017
(with comparative totals for 2016)

NOTE G - COMMITMENTS AND CONTINGENCIES - Continued

Minimum future rental payments as of December 31, 2017 are as follows:

| Years ending <u>December 31,</u> | |
|-------------------------------------|----------------|
| 2018 | \$166,340 |
| 2019 | 167,300 |
| 2020 | 171,050 |
| 2021 | 173,196 |
| 2022 | 176,456 |
| Thereafter | <u>104,419</u> |
| Total | \$958,761 |

NOTE H - EMPLOYEE BENEFIT PLAN

The Foundation allows employees to contribute to a savings plan (the “Plan”) which is subject to Section 403(b) of the IRC. All employees are eligible to contribute to the Plan any whole percentage of their salary not to exceed the maximum allowed by the IRC. The total value of the participant’s contribution is fully and immediately vested. Employees are eligible to participate in the Plan upon employment with the Foundation. The Foundation matches up to 6% of the employee’s annual salary. The Foundation’s match vests to the participant ratably over a three-year period. The Foundation’s contributions for the years ended December 31, 2017 and 2016 were approximately \$94,000 and \$80,000, respectively.

NOTE I - AGENCY FUNDS

The Foundation accepts funds to manage and invest from organizations primarily in the Catholic Diocese of Dallas. A number of the funds managed by the Foundation are held as agency accounts since the owner of the fund has the ability to withdraw the funds at their discretion.

The following is a summary of assets held under agency relationships:

| | <u>December 31,</u> | |
|----------------------------------|---------------------|---------------------|
| | <u>2017</u> | <u>2016</u> |
| Accounts and interest receivable | \$ 15,417 | \$ 18,435 |
| Investments, at fair value | | |
| Money market funds | 23,373 | 27,159 |
| Marketable securities | 16,810,795 | 14,486,248 |
| Pooled investments | 35,626,560 | 30,733,298 |
| Other assets | <u>732,633</u> | <u>685,608</u> |
| Total agency assets | <u>\$53,208,778</u> | <u>\$45,950,748</u> |

The Catholic Foundation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2017
(with comparative totals for 2016)

NOTE I - AGENCY FUNDS - Continued

The following is a summary of agency activity. This activity is not included in the Foundation's Statement of Activities.

| | <u>Years ended December 31,</u> | |
|--|---------------------------------|--------------|
| | <u>2017</u> | <u>2016</u> |
| Revenue and net gains on investments | | |
| Investment income | \$ 898,296 | \$ 825,192 |
| Net realized and unrealized gains on investments | 6,995,424 | 2,358,526 |
| Other income | 48,948 | 44,887 |
| Total revenue and net gains on investments | 7,942,668 | 3,228,605 |
| Operating expenses and transfers | (307,820) | (280,526) |
| Agency accounts additions | 1,383,518 | 2,324,175 |
| Agency accounts distributions | (1,760,336) | (4,745,899) |
| Net agency activity | 7,258,030 | 526,355 |
| Agency liability at beginning of year | 45,950,748 | 45,424,393 |
| Agency liability at end of year | \$53,208,778 | \$45,950,748 |

NOTE J - SUBSEQUENT EVENTS

The Foundation evaluated its financial statements for subsequent events through May 10, 2018, the date the financial statements were available to be issued. The Foundation is not aware of any subsequent events which would require recognition or disclosure in the financial statements.