



The Catholic Foundation

promotes compassionate charitable giving

and stewardship that serves donors

and the needs of our community.

THE CATHOLIC FOUNDATION

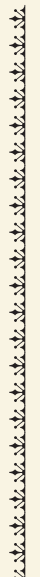
2006 ANNUAL REPORT



The Catholic Foundation

promotes compassionate charitable giving

and stewardship that serves donors



Donors trust The Catholic Foundation. We make their charitable investments count with prudent investment strategies, optimal tax advantages, and comprehensive knowledge about community needs. As an enduring public charity, The Catholic Foundation also helps donors shape a lasting legacy.

“WE CAN AFFORD TO BE MORE GENEROUS WHEN WE KNOW
OUR MONEY IS DOING THE MOST GOOD FOR OTHERS.
AND THE REASSURANCE THAT OUR FUNDS WILL PERPETUALLY HELP
THOSE IN NEED INSPIRES US TO DO MORE.”

– John Bradley

The Catholic Foundation

promotes compassionate charitable giving

A community foundation, The Catholic Foundation fosters charitable giving by making it easy for donors to provide financial support to the institutions, agencies, and organizations that most effectively address the educational, religious, cultural, and social service needs of the community.

“THE PEOPLE OF THE CATHOLIC FOUNDATION MAKE IT EASY
FOR US TO GIVE TO OUR CHURCH AND OUR CHILDREN’S SCHOOLS,
BUT ALSO TO ALL THE OTHER THINGS WE CARE ABOUT.
THERE’S NO HASSLE – ONLY GOOD FEELINGS.”

– Ray and Ruth Hemmig

The Catholic Foundation

Guided by its mission of service, The Catholic Foundation has for 50 years functioned as the primary philanthropic resource within the Catholic Diocese of Dallas. Thanks to our generous donors, the Foundation was able to award more than \$5 million in grants to deserving charitable programs, schools, churches, agencies, and institutions in 2006.

“THE DIFFERENCE FOR US IS THE COMMITMENT

THE CATHOLIC FOUNDATION HAS MADE TO OUR COMMUNITY.”

– Rose and Al Hrubetz

Dear friends,

The Catholic Foundation began its second 50 years in 2006 with a year of great accomplishment and promise. Led by Chairman Hugh O'Brien and a dedicated Board of Trustees and staff, the Foundation stepped boldly into its future. Change was the order of the day: for the Foundation; for our donors; in the community we serve; and, change in the financials that are included in this annual report.

As you can see by the cover to this report we are very proud of and committed to the mission of the Foundation. During 2006, we held several intense sessions to reexamine our mission statement and articulate the vision and values of the Foundation. We set and reset our guideposts and, in doing so, we placed increased emphasis and recognition on our donors. We cannot accomplish our mission or vision without involved and invested donors. So, serving donors became an integral part of the mission of the Foundation.

Our vision of being the primary philanthropic leader in our Catholic community and meeting all of the needs of our community can only be accomplished through our donors and supporters. The Foundation recommitted itself to serving our existing donors and encouraging the new generation of donors to step forward through the Foundation. You will read in this report that we have all of the tools and expertise to make charitable giving within our community very easy.

The Foundation had a very good financial year in 2006. We were humbled as donors made \$3.7 million in gifts to the Foundation, helping grow total assets by more than \$4 million. And, this growth is after grants were made of nearly \$5.4 million. Investment returns of approximately 12.1% also contributed to our growth and are a reflection of the Foundation's commitment

to achieve the best possible investment results for our many donor-advised funds and endowments, as well as within our own investment portfolio.

The grants from The Catholic Foundation touched every aspect of our community and fostered change and growth. The Foundation's unrestricted permanent endowment produced \$1.8 million in grants and included the completion of The Catholic Foundation Plaza at The Cathedral Shrine of the Virgin of Guadalupe in The Dallas Arts District. We also supported many other worthy endeavors such as a new kitchen at St. Joseph's in Waxahachie; desks for the teachers at Holy Trinity Catholic School; and, the expansion of the church entrance at St. Francis of Assisi in Lancaster. All of the unrestricted grants are listed elsewhere in this report.

Eleven percent of the grants in 2006 went to charitable causes, 57% towards education and 32% to religious undertakings such as parish building projects. Our donor-advised funds and endowments made nearly 1,000 grants totaling more than \$3.5 million, touching every aspect of our community.

The Foundation sees the needs within our community and is committed to doing all it can to meet these critical needs. We hope you will read our annual report, be pleased with our work, and challenge yourself to do more with us for the good of our rapidly growing community.

As a recent Catholic Foundation honoree said in his acceptance remarks, "Alone one can do good things, together we can do great things."

Thank you for your continued support. We are humbled. God bless you.



Len Ruby
Len Ruby
Chairman of the Board



Edwin M. Schaffler
Edwin M. Schaffler
President & CEO

Meaningful Generosity

Catholic Foundation donors – whatever their capacity to give, whatever their philanthropic vision – belong to a rich tradition of faithful, meaningful charitable giving. ☪

And The Catholic Foundation makes this charitable giving easy. You decide how much you want to contribute and for what purposes, and we take care of all the financial, investment, and administrative work.

Because we are a community foundation, we provide optimal income and estate tax advantages. And we can accept gifts of any kind – from cash to intellectual property – and translate them into funding for any qualifying charity.

We serve as trusted stewards, not only of your charitable gifts or estate by investing them responsibly, but also of your charitable vision, by making sure the grants we award are as efficient and effective as possible.

Make your generosity meaningful. Join us at The Catholic Foundation.



"THE CATHOLIC FOUNDATION HAS BEEN INSTRUMENTAL IN HELPING US ACCOMPLISH OUR CHARITABLE OBJECTIVES. WE HAVE A PLAN AND A PEACE OF MIND THAT COMES FROM THE EXPERIENCE AND REPUTATION OF THE FOUNDATION."

– Holly and Joe Hughes

Lasting Legacies

Creating a legacy is a deeply personal enterprise, one rooted not only in the money you might leave behind, but also in the way you live and the values you share with your family, through your work, and in the community. ❧



“WE DEPEND ON THE CATHOLIC FOUNDATION TO MAKE THE MOST EFFECTIVE USE OF OUR CHARITABLE DOLLARS, AND WE LIKE THE FACT THAT WE HAVE MORE TO GIVE TO CHARITY BECAUSE OF THE TAX BENEFITS THE FOUNDATION AFFORDS US.”

– Mara and Ray Chavez

The Catholic Foundation is in the business of helping our donors develop great legacies.

You, of course, have all the raw materials: the financial resources; commitments to your family, friends, and business; love of your community; and a vision of a better world. The Foundation has the structures, the experience, and the expertise to shape a legacy that honors your life and generosity by making a difference in the lives of others in perpetuity.

We invite you to work with us, along with your legal and financial advisors, to make

philanthropy part of your financial and estate planning. The Catholic Foundation offers a variety of vehicles for giving, all of which will optimize the tax advantages afforded by a community foundation to make the most of your charitable investment.

Philanthropic programs at The Catholic Foundation fall into three broad categories:

CURRENT GIFTS

With a current gift, the donor typically gives cash, securities, or other assets of value to the Foundation. The gift can be designated for the Foundation’s Unrestricted Endowment Fund to enable the Foundation to respond to the needs of Catholic institutions and charitable organizations within the Diocese of Dallas now and in the future. A gift can also be for the creation of a Donor-Advised or Designated Fund at The Catholic Foundation.

DONOR-ADVISED AND DESIGNATED GIFTS

The Catholic Foundation offers two types of Donor-Advised and Designated Funds: permanent endowment funds and non-permanent funds. Some donors create non-permanent funds during their lifetimes, then provide bequests or charitable trusts to create permanent endowments thereafter. With Donor-Advised gifts, a donor gives a gift to the Foundation but retains the right to advise on the ultimate recipient of the charity. A Designated Fund allows donors to support a specific eligible organization or a broad field of interest that is meaningful to the donor. Donor-Advised and Designated Funds are simple, affordable, and flexible charitable giving tools that allow maximum tax benefits, while providing personalized donor services.

PLANNED GIFTS

Planned gifts include wills and bequests, charitable gift annuities, charitable remainder trusts, and charitable lead trusts. Charitable gift annuities and trusts can be designed to deliver financial benefits to donors and their loved ones during their lifetimes and philanthropic benefits for others that continue in perpetuity.



“THROUGH THE YEARS, THE CATHOLIC FOUNDATION HAS DEVELOPED A NUMBER OF SERVICES THAT HELP DONORS IN OUR COMMUNITY SUCCESSFULLY INTEGRATE CHARITABLE GIVING INTO THEIR BROADER FINANCIAL AND ESTATE PLANNING ACTIVITIES.”

– Hal Tehan

How to Give

The Catholic Foundation welcomes gifts of any size from our donors for causes throughout the Diocese of Dallas and beyond. ☪

Our professionals will guide you step-by-step through the process. It's easy. It's effective. And it's meaningful – to you and to the community we serve.

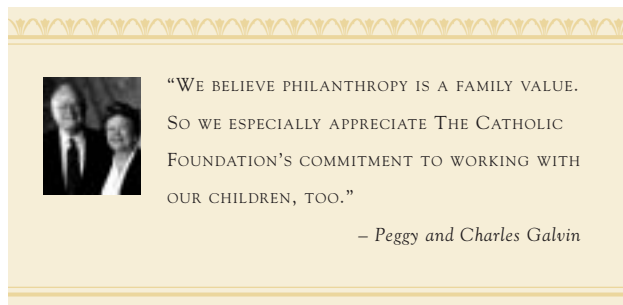
First, determine how much you wish to invest in philanthropy now and/or as a bequest.

Then outline your personal philanthropic goals. You may want to provide support for a school or college, a parish or ministry, a cultural institution or a social services program; or for an idea, such as education or health care; or a gift to the Unrestricted Endowment Fund to help meet the ever-changing needs in our community. It's entirely your choice.

Third, name the fund, and name the fund's advisors.

Next, work with a Foundation professional to establish investment and spending policies for the fund.

Finally, make your gift to The Catholic Foundation and by doing so you have translated your charitable intentions into a meaningful gift and a lasting legacy.



THE CATHOLIC FOUNDATION IS THE PRIMARY PHILANTHROPIC LEADER WITHIN THE DIOCESE OF DALLAS. WHAT DOES THAT MEAN?

It means more than \$5 million in grants distributed annually.

It means The Catholic Foundation is the "go-to" place for the institutions, agencies and organizations serving people in need in our community.

We serve both our donors and those serving people in need with programs that create the promise of prosperity and hope for the future.

2006 Unrestricted Fund Grant Recipients

Big Thought \$20,700 for Arts Learning Experiences in 4 Diocesan Schools	Montserrat Jesuit Retreat House \$50,000 for Furnishing for New Edmund Campion Hall	St. Joseph School (Richardson) \$45,000 for Science Classroom Infrastructure
Bishop Dunne Catholic School \$25,000 for Construction of Community Center/Athletic Field House	Mt. Carmel Center & Monastery \$58,000 for Repairs/Renovation of Monastery/Retreat Center	St. Joseph School (Waxahachie) \$75,000 for Renovation of School Kitchen
Catholic Campus Ministry/SMU \$15,000 for its "Young Adult Theological Initiative"	Notre Dame School \$3,000 for Purchase of New Freezer	St. Mary of Carmel School \$61,000 for Air Conditioning Repairs & Reading Program
Catholic Charities/Marillac Social Center \$13,407 to Upgrade Computer Technology	Nuestra Señora del Pilar Church \$50,000 for Pews for New Church	St. Philip School \$25,000 to Update Computer Lab
Children's Education Fund \$50,000 Matching Grant for Catholic School Tuition Assistance	Our Lady of Perpetual Help Church \$3,000 for New Roof for Rectory	St. Pius X School \$5,000 for Creation of Tutoring Program for At-Risk Students
Collins Catholic School (Corsicana) \$42,500 for Updating & Renovation of Parish/School Gym	Our Lady of Perpetual Help School \$10,705 for Miscellaneous Repairs & Maintenance	Scholarship Program for Inner-City Schools \$10,000
Diocesan Catholic Schools Office \$20,250 for Reading & Literacy Initiative at OLPH School and Professional Development for Teachers	Prince of Peace School (Plano) \$25,000 for Mobile Computer Lab	University of Dallas \$10,000 for 50th Anniversary Gala \$60,000 for Campus-Wide Energy Conservation Project
Diocesan Office of Evangelization \$8,000 to Subsidize Parish Participation in RENEW Program	Sacred Heart Church (Rowlett) \$30,000 for the Purchase of 25-Passenger Bus	White Rose Center \$35,000 for Salary Support for One Year
Divine Mercy of Our Lord Church \$60,000 for Unexpected Construction Expenses for New Church	St. Ann Parish (Coppell) \$10,000 for Audio Equipment	The Catholic Foundation Plaza \$75,000
Good Shepherd School (Garland) \$45,000 for New Science Lab	St. Augustine Church \$80,000 for a New Rectory	The Catholic Foundation Scholars' Awards \$8,500
Holy Trinity School \$6,000 to Replace 18 Teacher Desks	Santa Clara Catholic Academy \$45,000 for Support of Literacy Program	The Catholic Foundation Award Dinner Honoree Charity Grant \$10,000
Immaculate Conception School (Grand Prairie) \$48,508 for New Roof for Main School Building	St. Cecilia Parish \$20,000 for Repair & Restoration of Gym Floor	The Catholic Foundation High School Scholarships \$65,000
Low Birth Weight Development Center \$15,000 for Funding to Complete New Building	St. Bernard of Clairvaux School \$50,000 for Replacement of Classroom Furniture	50th Anniversary Net Proceeds \$500,460 to Fund The Catholic Foundation Plaza
	St. Francis of Assisi Church (Lancaster) \$50,000 for Expansion of Entry Area of Church	Total 2006 Unrestricted Fund Grants: \$1,839,030

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Trustees
The Catholic Foundation

We have audited the accompanying statement of financial position of The Catholic Foundation (the "Foundation") as of December 31, 2006, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Foundation's 2005 financial statements and, in our report dated April 19, 2006, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America as established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of

expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2006 and its changes in net assets and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

GRANT THORNTON LLP

Dallas, Texas
May 7, 2007

STATEMENT OF FINANCIAL POSITION

December 31, 2006 (with summarized financial information as of December 31, 2005)	2006	2005
Assets		
Cash and cash equivalents	\$ 171,221	\$ 27,336
Accounts receivable	929,262	645,458
Contributions receivable	1,250	400,000
Investments		
Money market funds	1,202,850	1,918,628
The Aquinas Funds, Inc.	47,380,930	47,169,304
Marketable securities	24,629,814	20,676,438
Alternative investments	5,245,131	4,629,444
Agency funds	40,383,425	40,490,490
Real estate held for investment, net	302,533	384,478
Other assets, net	952,506	912,821
Total assets	\$121,198,922	\$117,254,397
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued liabilities	\$ 232,728	\$ 210,343
Distributions payable	110,222	96,761
Grants payable	1,523,377	1,728,970
Liability to trust beneficiaries	3,273,832	3,136,211
Agency funds	40,383,425	40,490,490
Deferred revenue	6,003,222	5,945,216
Annuities payable	2,424,985	2,477,549
Total liabilities	53,951,791	54,085,540
Net assets		
Unrestricted	25,774,268	24,814,858
Temporarily restricted	23,085,164	21,857,872
Permanently restricted	18,387,699	16,496,127
Total net assets	67,247,131	63,168,857
Total liabilities and net assets	\$121,198,922	\$117,254,397

The accompanying notes are an integral part of this statement.

STATEMENT OF ACTIVITIES

Year ended December 31, 2006 (with summarized financial information for the year ended December 31, 2005)

	Unrestricted	Temporarily restricted	Permanently restricted	2006 Total	2005 Total
Revenue, gains (losses), and other support					
Contributions	\$ 349,729	\$ 2,926,185	\$ 432,868	\$ 3,708,782	\$ 4,503,952
Investment income					
The Aquinas Funds, Inc.	303,915	620,636	9,584	934,135	840,944
Marketable securities	76,376	650,899	32,199	759,474	699,828
Net realized and unrealized gains on investments	3,100,586	1,369,552	1,514,271	5,984,409	1,910,306
Real estate income	28,002	2,088	-	30,090	27,214
Investment advisory fees	212,108	-	-	212,108	25,000
Other	283,464	51,701	-	335,165	196,367
Change in value of split-interest agreements	57,324	9,311	(97,350)	(30,715)	663,150
Net assets released from restrictions	4,403,080	(4,403,080)	-	-	-
Total revenue, gains (losses), and other support	8,814,584	1,227,292	1,891,572	11,933,448	8,866,761
Expenses					
Grants	1,839,030	-	-	1,839,030	1,312,984
Distributions	3,515,214	-	-	3,515,214	2,532,686
Annuity payments and distributions to beneficiaries	643,981	-	-	643,981	608,447
Development	777,005	-	-	777,005	715,705
Management and general	1,079,944	-	-	1,079,944	940,911
Total expenses	7,855,174	-	-	7,855,174	6,110,733
Change in net assets from continuing operations	959,410	1,227,292	1,891,572	4,078,274	2,756,028
Discontinued operations (Note E)					
Loss from operations of AIAI	-	-	-	-	(91,634)
Net gain from sale of AIAI	-	-	-	-	53,969
Change in net assets	959,410	1,227,292	1,891,572	4,078,274	2,718,363
Net assets at beginning of year	24,814,858	21,857,872	16,496,127	63,168,857	60,450,494
Net assets at end of year	\$25,774,268	\$23,085,164	\$18,387,699	\$67,247,131	\$63,168,857

The accompanying notes are an integral part of this statement.

STATEMENT OF CASH FLOWS

Year ended December 31, 2006 (with summarized financial information for the year ended December 31, 2005)

	2006	2005
Cash flows from operating activities		
Change in net assets	\$ 4,078,274	\$ 2,718,363
Adjustments to reconcile change in net assets to net cash used in operating activities		
Noncash contributions	(1,292,750)	(820,616)
Noncash distributions	769,877	3,298,679
Gifts restricted for long-term purposes	-	(475,625)
Net realized and unrealized gains on investments	(5,984,409)	(1,910,306)
Change in value of split-interest agreements	30,715	(663,150)
Net gain from sale of AIAI	-	(53,969)
Changes in operating assets and liabilities		
Accounts receivable	(283,804)	(503,314)
Contributions receivable	399,875	(400,000)
Beneficial interest in a trust	-	367,640
Assets held for sale	-	6,630
Other assets	(39,685)	(32,850)
Accounts payable and accrued liabilities	22,385	8,107
Distributions payable	13,461	(118)
Grants payable	(205,593)	74,294
Liabilities of discontinued operations	-	26,635
Liability to trust beneficiaries	106,463	(3,294,482)
Annuities payable	4,760	148,712
Net cash used in operating activities	(2,380,431)	(1,505,370)
Cash flows from investing activities		
Proceeds from sale of real estate	251,660	-
Proceeds from sale of investments	18,289,214	24,584,346
Purchases of investments	(16,016,558)	(23,528,672)
Net cash provided by investing activities	2,524,316	1,055,674
Cash flows from financing activities		
Restricted gifts proceeds	-	475,625
Net cash provided by financing activities	-	475,625
Net increase in cash and cash equivalents	143,885	25,929
Cash and cash equivalents at beginning of year	27,336	1,407
Cash and cash equivalents at end of year	\$ 171,221	\$ 27,336

The accompanying notes are an integral part of this statement.

NOTES TO FINANCIAL STATEMENTS

December 31, 2006 (with summarized financial information for the year ended December 31, 2005)

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;
- as increases (decreases) in unrestricted net assets in all other cases.

Cash and Cash Equivalents

The Foundation considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Accounts Receivable

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

Investments

Investments in money market funds, The Aquinas Funds, Inc. and marketable securities are stated at market value. The carrying amounts of alternative investments (primarily private equity funds) are based on the fair value of the underlying funds. The net realized and unrealized gains (losses) in market value of investments are reflected in the statement of activities.

Agency Funds

The Foundation is the trustee for certain revocable and irrevocable trusts under which the Foundation may not ultimately be a beneficiary. Accordingly, assets of such agreements 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

Real estate held for investment is recorded at the lower of cost or fair value. Permanent decreases in fair value below cost are recorded to expense in the year that such decreases become known. Contributions of real estate are recorded at fair market value at the time of donation.

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.

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 current risk-free rate of 5.8%. 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.

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 current risk-free rate of 5.8% 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 annuity agreements with donors to make payments to the annuitants for the remainder of their lives. For charitable gift annuities, 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 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.

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.

Income Tax Status

The Foundation is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (US 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 US GAAP. Accordingly, such information should be read in conjunction with the Foundation’s audited financial statements for the year ended December 31, 2005.

Reclassifications

During 2006, there was a reclass between Accounts Receivable and Contributions Receivable in the amount of \$358,000 in order to conform with current year presentation.

Note C - Fair Value of Financial Instruments

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

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

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

Beneficial Interest in a Trust, 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.

Investments

The carrying amounts of money market funds, The Aquinas Funds, Inc. and marketable securities approximate fair value based on quoted market prices. The carrying amounts of alternative investments are based on the fair value of the underlying funds.

Note D - Investments

Investments at market or fair value, excluding agency assets at December 31, 2006 and 2005, consist of the following:

December 31,	2006	2005
Money market funds	\$ 1,202,850	\$ 1,918,628
The Aquinas Funds, Inc.		
Fixed income fund	21,530,427	22,590,622
Value fund	10,801,873	9,992,284
Growth fund	11,275,022	11,249,274
Small cap fund	3,773,608	3,337,124
	<u>47,380,930</u>	<u>47,169,304</u>
Marketable securities		
Fixed income	2,957,249	3,077,742
Equities	11,805,697	10,053,803
Mutual funds	9,866,868	7,544,893
	<u>24,629,814</u>	<u>20,676,438</u>
Alternative investments	5,245,131	4,629,444
	<u>\$ 78,458,725</u>	<u>\$ 74,393,814</u>

The following summarizes total investment return, excluding agency assets:

Years ended December 31,	2006	2005
Dividend and interest income	\$ 1,693,609	\$ 1,540,772
Net realized and unrealized gains on investments	5,984,409	1,910,306
	<u>\$ 7,678,018</u>	<u>\$ 3,451,078</u>

Note E - Discontinued Operations

On July 8, 2005, the Foundation completed a share purchase agreement whereby an unrelated buyer agreed to purchase all of the stock of Aquinas Investment Advisers, Inc. The Foundation received \$500,000 cash at closing; promissory notes totaling \$600,000 receivable annually over four years, subject to decrease if the Foundation does not maintain specified amounts invested in the Aquinas Funds or their successors during that time; and an additional retention bonus, receivable quarterly over the next ten years based on amounts invested by the Foundation in the Aquinas Funds or their successors during that time. The Foundation recognized a gain on the sale of \$53,969, net of related expenses.

The results of operations of Aquinas Investment Advisers, Inc. were eliminated from the ongoing operations of the Foundation and have been reflected as discontinued operations in the statement of activities for the year ended December 31, 2005.

Operating results of discontinued operations for the period from January 1, 2005 to July 8, 2005 are summarized as follows:

	2005
Total revenues	\$ 679,060
Investment advisory expense	(424,782)
Management and general expense	(345,912)
Net loss of discontinued operations	<u>\$ (91,634)</u>

Note F - Net Assets

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

Unrestricted net assets include \$784,605 and \$948,153 board designated for grants at December 31, 2006 and 2005, respectively.

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

Years ended December 31,	2006	2005
Distributions from donor advised funds	\$ 3,515,214	\$ 2,532,686
Distributions from split-interest agreements	520,529	496,704
Other	367,337	207,851
	<u>\$ 4,403,080</u>	<u>\$ 3,237,241</u>

Note G - Commitments and Contingencies

The Foundation leases office space and equipment under noncancellable operating lease agreements. Rent expense was approximately \$93,000 and \$81,000 for the years ended December 31, 2006 and 2005, respectively.

Minimum future rental payments as of December 31, 2006 are as follows:

Years ending December 31,	
2007	\$ 93,322
2008	94,198
2009	15,469
2010	6,191
	<u>\$209,180</u>

The Foundation has made capital commitments to the investment managers of the alternative investments of \$1.2 million. As of December 31, 2006, \$699,030 of this capital commitment has been funded.

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 Internal Revenue Code. All employees are eligible to contribute to the Plan any whole percentage of their salary not to exceed the maximum allowed by the Internal Revenue Code. 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, 2006 and 2005 were approximately \$43,000 and \$35,000, respectively.

Note I - Agency Funds

The Foundation accepts funds to manage and invest from organizations and individuals 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 any time.

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

December 31,	2006	2005
Cash	\$ 9,634	\$ 9,962
Accounts and interest receivable	17,216	23,487
Investments, at market value		
Money market funds	2,570,510	3,322,592
The Aquinas Funds, Inc.		
Fixed income fund	9,065,777	9,958,119
Value fund	6,449,487	10,083,059
Growth fund	4,225,893	8,500,752
Small cap fund	286,833	944,209
	<u>20,027,990</u>	<u>29,486,139</u>
Marketable securities	17,376,434	7,296,984
Real estate held for investment	75,000	75,000
Other assets	306,641	276,326
	<u>\$ 40,383,425</u>	<u>\$ 40,490,490</u>

The following is a summary of agency activity. This activity is not included in the Foundation’s statement of activities.

Years ended December 31,	2006	2005
Revenue and net gains on investments		
Investment income	\$ 972,269	\$ 744,458
Net realized and unrealized gains on investments	2,196,920	1,238,984
Other income	30,550	49,996
	<u>3,199,739</u>	<u>2,033,438</u>
Total revenue and net gains on investments	3,199,739	2,033,438
Operating expenses and transfers	(206,166)	(138,170)
Agency accounts additions	4,277,742	2,661,605
Agency accounts distributions	(7,378,380)	(4,538,737)
Net agency activity	(107,065)	18,136
Agency liability at beginning of year	40,490,490	40,472,354
Agency liability at end of year	<u>\$ 40,383,425</u>	<u>\$ 40,490,490</u>

Note J - Current Year Event

During 2006, the Foundation completed construction of The Catholic Foundation Plaza (the “Plaza”) at The Cathedral Sanctuario de Guadalupe (the “Cathedral”) for a total approximate cost of \$590,000. The Plaza is a gift from the Foundation to the Cathedral made possible by grants and the net proceeds of The Catholic Foundation 50th Anniversary events held during 2005.

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