
LAFAYETTE DIOCESAN FOUNDATION, INC.
FINANCIAL STATEMENTS
Together with Independent Auditors' Report
DECEMBER 31, 2017 AND 2016



Lafayette
Diocesan Foundation, Inc.
An Indiana Corporation with a Board of Directors

GREENWALT^{CPAs}

We Deliver Peace of Mind

LAFAYETTE DIOCESAN FOUNDATION, INC.

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DECEMBER 31, 2017 AND 2016

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Lafayette Diocesan Foundation, Inc.:

We have audited the accompanying financial statements of the Lafayette Diocesan Foundation, Inc. (the Foundation), which comprise the statements of financial position as of December 31, 2017 and 2016 and the related statements of activities and cash flows for the years 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.

Auditors' 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 auditors' 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 Foundation as of December 31, 2017 and 2016, 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.

Greenwalt CPAs, Inc.

June 13, 2018

LAFAYETTE DIOCESAN FOUNDATION, INC.

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
<u>ASSETS</u>		
Cash	\$ 534,347	\$ 612,349
Accounts receivable	9,179	5,395
Investments	14,745,738	12,366,136
Remainder interest in real property	<u>251,106</u>	<u>301,845</u>
<i>Total assets</i>	<u><u>\$ 15,540,370</u></u>	<u><u>\$ 13,285,725</u></u>
<u>LIABILITIES AND NET ASSETS</u>		
LIABILITIES		
Grants payable	\$ 1,141,048	\$ 1,019,755
Gift annuities payable:		
Annual payment obligations	204,031	214,794
Residual payable	144,168	133,969
Charitable remainder trusts payable:		
Annual payment obligations	535,544	524,005
Residual payable	48,920	44,048
Other	<u>700</u>	<u>38,047</u>
<i>Total liabilities</i>	<u>2,074,411</u>	<u>1,974,618</u>
NET ASSETS		
Unrestricted		
Undesignated	2,166,774	1,941,905
Designated	<u>96,148</u>	<u>82,193</u>
<i>Total unrestricted net assets</i>	2,262,922	2,024,098
Temporarily restricted	<u>11,203,037</u>	<u>9,287,009</u>
<i>Total net assets</i>	<u>13,465,959</u>	<u>11,311,107</u>
<i>Total liabilities and net assets</i>	<u><u>\$ 15,540,370</u></u>	<u><u>\$ 13,285,725</u></u>

LAFAYETTE DIOCESAN FOUNDATION, INC.

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2017

WITH SUMMARIZED COMPARATIVE INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2017 Total</u>	<u>2016 Total</u>
REVENUES, GAINS AND OTHER SUPPORT				
Contributions	\$ 72,919	\$ 636,158	\$ 709,077	\$ 595,552
Investment return, net	371,149	1,954,081	2,325,230	1,025,552
Change in value of gift annuities payable	-	(25,471)	(25,471)	(37,639)
Change in value of charitable remainder trusts	-	(70,996)	(70,996)	(45,333)
Net assets released from restrictions	577,744	(577,744)	-	-
<i>Total revenues, gains and other support</i>	<u>1,021,812</u>	<u>1,916,028</u>	<u>2,937,840</u>	<u>1,538,132</u>
EXPENSES				
Grants	689,991	-	689,991	574,708
General and administrative	92,997	-	92,997	107,552
<i>Total functional expenses</i>	<u>782,988</u>	<u>-</u>	<u>782,988</u>	<u>682,260</u>
CHANGE IN NET ASSETS	238,824	1,916,028	2,154,852	855,872
TRANSFER IN OF NET ASSETS	-	-	-	1,240,969
NET ASSETS, BEGINNING OF YEAR	<u>2,024,098</u>	<u>9,287,009</u>	<u>11,311,107</u>	<u>9,214,266</u>
NET ASSETS, END OF YEAR	<u>\$ 2,262,922</u>	<u>\$ 11,203,037</u>	<u>\$ 13,465,959</u>	<u>\$ 11,311,107</u>

LAFAYETTE DIOCESAN FOUNDATION, INC.

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUES, GAINS AND OTHER SUPPORT				
Contributions	\$ 86,348	\$ 509,204	\$ -	\$ 595,552
Investment return, net	175,257	850,295	-	1,025,552
Change in value of gift annuities payable	-	(37,639)	-	(37,639)
Change in value of charitable remainder trusts	-	(45,333)	-	(45,333)
Net assets released from restrictions	485,758	(485,758)	-	-
<i>Total revenues, gains and other support</i>	<u>747,363</u>	<u>790,769</u>	<u>-</u>	<u>1,538,132</u>
EXPENSES				
Grants	574,708	-	-	574,708
General and administrative	107,552	-	-	107,552
<i>Total functional expenses</i>	<u>682,260</u>	<u>-</u>	<u>-</u>	<u>682,260</u>
CHANGE IN NET ASSETS	65,103	790,769	-	855,872
TRANSFER OF NET ASSETS	-	301,845	(301,845)	-
TRANSFER IN OF NET ASSETS	-	1,240,969	-	1,240,969
NET ASSETS, BEGINNING OF YEAR	<u>1,958,995</u>	<u>6,953,426</u>	<u>301,845</u>	<u>9,214,266</u>
NET ASSETS, END OF YEAR	<u>\$ 2,024,098</u>	<u>\$ 9,287,009</u>	<u>\$ -</u>	<u>\$ 11,311,107</u>

See accompanying notes to financial statements.

INCREASE (DECREASE) IN CASH

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from contributors	\$ 621,230	\$ 473,057
Cash paid to vendors and grantees	(588,775)	(424,508)
Investment income received	33,881	151,238
	<u>66,336</u>	<u>199,787</u>
<i>Net cash provided by operating activities</i>		
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of remainder interest in real property	54,424	-
Purchase of investments	(118,113)	(12,478,849)
Proceeds from sales of investments	46,676	11,210,912
	<u>(17,013)</u>	<u>(1,267,937)</u>
<i>Net cash used in investing activities</i>		
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from contributions restricted for investment subject to annuity agreements	-	25,804
Payments on annuity obligations	(127,325)	(51,156)
Transfer in of net assets for restricted purposes	-	1,240,969
	<u>(127,325)</u>	<u>1,215,617</u>
<i>Net cash provided by (used in) financing activities</i>		
CHANGE IN CASH	(78,002)	147,467
CASH, BEGINNING OF YEAR	<u>612,349</u>	<u>464,882</u>
CASH, END OF YEAR	<u>\$ 534,347</u>	<u>\$ 612,349</u>
NONCASH OPERATING ACTIVITIES		
In-kind contributions	<u>\$ 72,920</u>	<u>\$ 86,170</u>
NONCASH INVESTING ACTIVITIES		
Donated stock	<u>\$ 11,143</u>	<u>\$ 14,924</u>

**RECONCILIATION OF CHANGE IN NET ASSETS TO
NET CASH PROVIDED BY OPERATING ACTIVITIES**

	<u>2017</u>	<u>2016</u>
CHANGE IN NET ASSETS	<u>\$ 2,154,852</u>	<u>\$ 855,872</u>
ADJUSTMENTS TO RECONCILE CHANGE IN NET ASSETS TO NET CASH FLOWS PROVIDED BY OPERATING ACTIVITIES		
Change in value of gift annuities payable	25,471	37,639
Change in value of charitable remainder trusts	70,996	45,333
Change in remainder interest in real property	(3,685)	-
Net realized and unrealized gains on investments	(2,287,664)	(874,314)
Proceeds from contributions restricted for investment subject to charitable remainder trust agreements	-	(25,804)
Donated stock	(11,143)	(14,924)
<i>(Increase) decrease in operating assets:</i>		
Accounts receivable	(3,784)	4,403
<i>Increase (decrease) in operating liabilities:</i>		
Grants payable	<u>121,293</u>	<u>171,582</u>
 <i>Total adjustments</i>	 <u>(2,088,516)</u>	 <u>(656,085)</u>
 NET CASH PROVIDED BY OPERATING ACTIVITIES	 <u><u>\$ 66,336</u></u>	 <u><u>\$ 199,787</u></u>

LAFAYETTE DIOCESAN FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

1. NATURE OF ACTIVITIES

The Lafayette Diocesan Foundation, Inc. (the Foundation) was incorporated as a not-for-profit organization under the laws of the State of Indiana. The Foundation was organized exclusively for religious, charitable, educational and scientific purposes. The Foundation's main sources of revenue are from contributions and investment market returns, as applicable.

The mission of the Foundation is to encourage and facilitate the growth and development of the Catholic Church in the Diocese of Lafayette-in-Indiana by:

- Promoting and assisting in securing new endowment funds.
- Providing information to prospects contemplating charitable gifts.
- Serving as advisors for the management of endowment funds to maximize returns with prudent investment practices.
- Encouraging responsible stewardships through regular communications with the Pastoral Office for Stewardship and Development, and
- Marketing.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF ACCOUNTING AND USE OF ESTIMATES

The financial statements of the Foundation have been prepared on the accrual basis of accounting. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the 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 support and expenses during the reporting period. Actual results could vary from the estimates that were used.

CASH AND CASH EQUIVALENTS

The Foundation considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. There were no cash equivalents at December 31, 2017 and 2016. The Foundation maintains cash balances at commercial banks. Accounts at the banks are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At December 31, 2017, the Foundation maintained cash in excess of the FDIC coverage limits of approximately \$315,000.

INVESTMENTS AND INVESTMENT RETURN

Investments are carried at fair value for financial reporting purposes. Contributed investments are recorded at the fair value of each investment on the date it is received. Changes in unrealized appreciation or depreciation of investments are reflected in the statement of activities in the period in which such changes occur. Realized gains or losses upon the sale of investments are based on the cost of specifically identified securities. Interest and dividend income is recorded when earned.

Investment return is recorded as an increase or decrease in unrestricted net assets unless its use is temporarily or permanently restricted by donors to a specified purpose or future period.

LAFAYETTE DIOCESAN FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

REMAINDER INTEREST IN REAL PROPERTY

In 2001, the Foundation received a contribution of a 50% interest in two separate condominiums. Ownership of the properties passes upon the donor permanently closing to occupy the property. The properties were given to establish a permanent endowment fund. The purpose of the fund is to provide financial support for capital improvements to an existing church within St. Lawrence Muncie Parish. During 2016, the Foundation revised its gift agreement with the donor and transferred the net assets to temporarily restricted net assets.

In late 2016, one of the properties was vacated by the owner, and in April 2017 that property was sold. The remaining property was reappraised to \$251,106 at the current appraisal as discounted, using a discount rate of 5% and the applicable mortality table. It is the practice of the Foundation to obtain new property appraisals approximately every three years.

CHARITABLE GIFT ANNUITIES

The Foundation has established a gift annuity program whereby donors may contribute assets to the Foundation in exchange for the right to receive a predetermined annual return during their lifetime or they may assign that right to a designated beneficiary. A portion of the original transfer amount is considered to be a charitable contribution for income tax purposes. The difference between the amount provided for the gift annuity and the present value of the liability for future payments, determined on an actuarial basis, is recognized as an unrestricted contribution at the date of the gift. There was \$0 and \$25,805 contributed for charitable gift annuity purposes during 2017 and 2016.

The calculation of the present value of the future benefits to be distributed to the beneficiaries is performed using discount rates ranging from 1.4% to 6.0% and the applicable mortality table. Payments are made quarterly, semi-annually or annually. The annuity liability is revalued annually based upon actuarially computed present values. The resulting actuarial gain (loss) is recorded in the temporarily restricted net asset class in the statement of activities.

Also, as part of the Foundation's gift annuity program, the donor is given the right to name an outside third party (an organization other than the Foundation) as the final beneficiary. When the Foundation is not named as the final beneficiary, the difference between the amount provided for the gift annuity and the present value of the liability for future payments, determined on an actuarial basis, is recorded as a residual payable.

At December 31, 2017 and 2016, \$204,031 and \$214,794, respectively, is recorded in the statement of financial position at fair value as the annual payment obligations of gift annuities payable. The final amount of the gift annuities that are expected to be paid out to organizations other than the Foundation upon the death of the annuitant at December 31, 2017 and 2016, is \$144,168 and \$133,969, respectively, and is recorded in the statement of financial position at fair value as the residual payable of gift annuities payable.

The fair value of the investments held for the future payment of the annuity liabilities amounts to \$429,048 and \$422,939 at December 31, 2017 and 2016, respectively, and is included in investments in the statement of financial position.

LAFAYETTE DIOCESAN FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

CHARITABLE REMAINDER TRUSTS

The Foundation, serving as the trustee, administers two charitable remainder trusts. Both were created during 2014. The trusts provide for the payment of distributions to the grantor or other designated beneficiaries over the trust's term (designated by the beneficiary's lifetime). At the end of the trusts' term, the remaining assets are available for the Foundation's use.

The portion of the charitable remainder trust attributable to the present value of future benefits to be received by the Foundation is reported in the statement of activities as temporarily restricted contributions in the period the trust is established.

In one of the trusts, the donor also named outside third parties (organizations other than the Foundation) as additional final beneficiaries for 50% of the residual trust amount. The difference between the assets provided for the trust and the present value of the liability for future payments, determined on an actuarial basis, multiplied by the third party beneficiaries' 50% interest, is recorded as a residual payable.

Assets held in trust total \$892,136 and \$905,459 at December 31, 2017 and 2016, respectively, and are included in investments in the statement of financial position. On an annual basis, the Foundation revalues the liability for distributions to the designated beneficiaries based on actuarial assumptions. The present value of the estimated future payments to beneficiaries at December 31, 2017 and 2016 amounts to \$535,544 and \$524,005, respectively, and is recorded in the statement of financial position as the annual payment obligations of charitable remainder trusts payable. The final amount of the charitable remainder trusts that are expected to be paid out to organizations other than the Foundation upon the death of the beneficiaries at December 31, 2017 and 2016 is \$48,920 and \$44,048, respectively, and is recorded on the statement of financial position as the residual payable of charitable remainder trusts. The fair value of the estimated future payments is calculated using a discount rate of 2.2% and the applicable mortality tables.

NET ASSETS

The Organizations maintain the following classifications of net assets:

Unrestricted

These are resources available to support operations. The only limits on the use of unrestricted net assets are the broad limits resulting from the nature of the Foundation, the environment in which it operates, the purposes specified in its corporate documents and its application for tax-exempt status, and any limits resulting from contractual agreements with creditors and others that are entered into in the course of its operations. The Foundation maintains two funds in the unrestricted net asset class, as follows:

Undesignated - Funds used for general operations

Designated - Unrestricted funds that have been designated for use as directed by the Bishop or Board of Directors. See Note 4.

Temporarily Restricted

These are resources that are restricted by the donor for use for a particular purpose or in a particular future period. The Foundation's unspent contributions are classified in this class if the donor limited their use, as is the unspent appreciation of its donor restricted endowment fund. See Note 4.

LAFAYETTE DIOCESAN FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

NET ASSETS, CONTINUED

When a donor's restriction is satisfied, either by using the resources in the manner specified by the donor or by the passage of time, the expiration of the restriction is reported in the financial statements by reclassifying the net assets from temporarily restricted to unrestricted net assets. Net assets restricted for acquisition of buildings or equipment (or less commonly, the contribution of those assets directly) are reported as temporarily restricted until the specified asset is placed in service by the Foundation, unless the donor provides more specific directions about the period of its use.

CONTRIBUTIONS

Contributions are recognized as support in the period promised.

Support that is not restricted by the donor is reported as an increase in unrestricted net assets. All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets.

DONATED SERVICES

Contributions of services are recognized as revenue at their estimated fair value when the services received create or enhance nonfinancial assets or require specialized skills possessed by the individuals providing the service and the service would typically need to be purchased if not donated.

The Foundation's accounting and general management functions are performed by the Administration and the cost of such services was \$72,920 and \$86,170 in 2017 and 2016, respectively.

INCOME TAXES

The Foundation is organized as a not-for-profit corporation other than a private foundation, and is exempt from income tax under Section 501(c)(3) of the U.S. Internal Revenue Code and similar state law and has been classified as an organization that is not a private foundation under Section 509(a) of the Internal Revenue Code.

As a religious organization, the Foundation is not required to file annual Federal or state information returns.

SUBSEQUENT EVENTS

Subsequent events have been evaluated through June 13, 2018, which is the date the financial statements were available to be issued.

LAFAYETTE DIOCESAN FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

3. **INVESTMENTS**

Investments are comprised of the following at December 31:

	<u>2017</u>	<u>2016</u>
Cash	\$ 104,558	\$ 603,809
Common stocks (U.S. and International)		
Large cap growth	388,101	373,473
Large cap value	701,897	653,485
Mid cap growth	60,025	66,360
Mid cap value	95,914	111,698
Other US equities	31,377	-
International equities	8,312	31,865
Real estate investment trust	23,513	17,851
Total common stocks	<u>1,309,139</u>	<u>1,254,732</u>
Mutual funds		
PIMCO – Total Return III fund	-	2,648,565
PIMCO – Total Return ESG fund	2,962,991	-
Common trust funds		
MSCI ACWI screened index fund	5,212,669	3,885,428
Russell 3000 screened index	5,156,381	3,973,602
Total common trust funds	<u>10,369,050</u>	<u>7,859,030</u>
	<u>\$ 14,745,738</u>	<u>\$ 12,366,136</u>

The Foundation's investments are professionally managed by third parties.

INVESTMENT RETURNS

The following schedule summarizes investment return for all investments of the Foundation for the years ended December 31:

	<u>2017</u>	<u>2016</u>
Interest and dividend income	\$ 113,005	\$ 253,761
Realized and unrealized gains	2,287,664	874,314
Investment management fees	<u>(75,439)</u>	<u>(102,523)</u>
Investment return, net	<u>\$ 2,325,230</u>	<u>\$ 1,025,552</u>

LAFAYETTE DIOCESAN FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

4. **NET ASSETS**

DESIGNATED FOR ENDOWMENT

Included in unrestricted net assets are six funds which have been designated at the request of the Bishop. Each fund was established with an initial balance of \$10,000. The investment return from each fund is designated for a specific purpose.

The portion of the funds that will be utilized annually for the purposes for which the fund was established is up to 5% of the beginning of the year balance, determined by the market value on a rolling 36 month average. The total of the six funds is \$96,148 and \$82,193 at December 31, 2017 and 2016, respectively.

TEMPORARILY RESTRICTED

Temporarily restricted net assets are available to support the following purposes at December 31:

	<u>2017</u>	<u>2016</u>
Charitable remainder trusts and gift annuities	\$ 388,180	\$ 349,391
Term endowments	10,494,940	8,683,361
Purpose restrictions	<u>319,917</u>	<u>254,257</u>
	<u>\$ 11,203,037</u>	<u>\$ 9,287,009</u>

RELEASED FROM RESTRICTIONS

Net assets were released from donor restrictions as follows during the years ended December 31:

	<u>2017</u>	<u>2016</u>
Grants and awards from term endowments	\$ 518,832	\$ 431,798
Administrative fees allocated to term endowments	12,058	16,222
Purpose restrictions met	<u>46,854</u>	<u>37,738</u>
	<u>\$ 577,744</u>	<u>\$ 485,758</u>

TRANSFER IN OF NET ASSETS

During 2016, the Lafayette Catholic School System transferred its educational endowment of \$1,108,763 to the Foundation. Additionally in 2016, the Administration transferred a scholarship endowment of \$132,206 to the Foundation.

5. **ENDOWMENT**

The Foundation's endowment consists of board designated and donor restricted funds established to support a variety of charitable purposes. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

5. **ENDOWMENT, CONTINUED**

APPLICATION OF UPMIFA

Management has interpreted the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as requiring the preservation of the fair value of the original gift as of the gift date of the donor restricted endowment funds absent explicit donor stipulations to the contrary. As a result of the interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulation to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulations are added to the fund. At the present time, the Foundation does not have any donor restricted permanent endowments.

The Foundation does have a number of temporarily restricted funds that are restricted by donors for particular purposes and that have been designated by the Board of Directors to function as endowments. These are classified as donor restricted term endowment funds.

In accordance with UPMIFA, the Foundation considers the following factors 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

RETURN OBJECTIVES AND RISK PARAMETERS

The Foundation has adopted investment and spending policies for assets held for endowment that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the fair value of the endowment assets. Assets held for endowment include those assets of donor restricted funds designated to function as endowment (term endowment funds), as well as unrestricted funds designated to function as endowment (board designated endowment funds). Under this policy, as approved by the Board of Directors, the endowed investments are invested in a manner that is intended to produce a total return which protects the purchasing power of the endowed investments and which allows a spending rate of up to 6.0% of the market value on a rolling 36 month average. The Foundation evaluates its investments by comparing actual investment performance to various applicable benchmarks. The Foundation expects its endowment investments to meet or exceed these benchmarks over time. Actual returns in any given year may vary from these benchmarks.

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 fixed income and investments to achieve its long-term return objectives within prudent risk constraints.

LAFAYETTE DIOCESAN FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

5. ENDOWMENT, CONTINUED**SPENDING POLICY AND HOW THE INVESTMENT OBJECTIVES RELATE TO SPENDING POLICY**

The Foundation has a policy for its donor restricted endowment fund of appropriating for distribution each year up to 5.0% of the market value on a rolling 36 month average and up to 1% for administrative expenses. In establishing this policy, the Foundation considered the long-term expected return on its assets held for endowment. Accordingly, over the long term, the Foundation expects the current spending policy to allow its endowment to grow.

This is consistent with the Foundation's objective to maintain the fair value of the endowment assets held in perpetuity as well as to provide additional real growth through new gifts and investment return.

The composition of endowment net assets is as follows at December 31:

	2017			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Board designated endowment funds	\$ 96,148	\$ -	\$ -	\$ 96,148
Donor restricted term endowment funds	-	10,494,940	-	10,494,940
Total funds	<u>\$ 96,148</u>	<u>\$ 10,494,940</u>	<u>\$ -</u>	<u>\$ 10,591,088</u>

	2016			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Board designated endowment funds	\$ 82,193	\$ -	\$ -	\$ 82,193
Donor restricted term endowment funds	-	8,683,361	-	8,683,361
Total funds	<u>\$ 82,193</u>	<u>\$ 8,683,361</u>	<u>\$ -</u>	<u>\$ 8,765,554</u>

LAFAYETTE DIOCESAN FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

5. ENDOWMENT, CONTINUED

The change in endowment net assets is as follows for the years ended December 31:

	2017			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 82,193	\$ 8,683,361	\$ -	\$ 8,765,554
Contributions	-	577,434	-	577,434
Investment return, net	19,317	1,753,249	-	1,772,566
Distributions and other changes	<u>(5,362)</u>	<u>(519,104)</u>	<u>-</u>	<u>(524,466)</u>
Endowment net assets, end of year	<u>\$ 96,148</u>	<u>\$ 10,494,940</u>	<u>\$ -</u>	<u>\$ 10,591,088</u>
	2016			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 78,254	\$ 6,404,965	\$ 301,845	\$ 6,785,064
Contributions	-	483,399	-	483,399
Investment return, net	9,024	698,203	-	707,227
Transfer of net assets	-	1,542,814	(301,845)	1,240,969
Distributions and other changes	<u>(5,085)</u>	<u>(446,020)</u>	<u>-</u>	<u>(451,105)</u>
Endowment net assets, end of year	<u>\$ 82,193</u>	<u>\$ 8,683,361</u>	<u>\$ -</u>	<u>\$ 8,765,554</u>

6. **FAIR VALUE MEASUREMENTS**

Accounting Standards for Fair Value Measurement define fair value as the price that would be received for an asset or paid to transfer a liability (exit price) in an orderly transaction between market participants at the measurement date. Those standards also establish a three-level fair value hierarchy for disclosure that prioritizes valuations based on whether the significant inputs used to estimate fair value are observable, giving highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and lowest priority to valuations primarily based on unobservable inputs (level 3 measurements). Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability.

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value. There have been no changes in the methodologies used at December 31, 2017 and 2016.

- *Common stocks*: Valued at the closing price reported on the active market on which the individual securities are traded.
- *Mutual funds*: Valued at the daily closing prices as reported by the fund. Mutual funds held by the Foundation are open-end mutual funds registered with the Securities and Exchange Commission.
These funds are required to publish their daily NAV and to transact at that price. The mutual funds held by the Foundation are deemed to be actively traded.
- *Common Trust Funds*: Valued at the NAV reported by the fund.
- *Remainder interest in real property*: Valued at the present value of the estimated fair value based on most recent appraisals of the properties.
- *Gift annuities payable*: Valued at the present value of the future benefits expected to be distributed to beneficiaries using applicable mortality tables and discount rates commensurate with the expected terms of the agreements.
- *Charitable remainder trusts payable*: Valued at the present value of the future benefits expected to be distributed to beneficiaries using applicable mortality tables and discount rates commensurate with the expected terms of the agreements.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although 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 different fair value measurements at the reporting date.

During 2016, the Foundation early adopted Accounting Standards Update 2015-07, *Disclosures for Investments in Certain Entities that Calculate Net Asset Value Per Share*, which removed the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share as a practical expedient. As such, investments in common trust funds, if any, are valued at their respective net asset value and are not classified within the fair value hierarchy.

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6. FAIR VALUE MEASUREMENTS, CONTINUED

The following table sets forth, within the hierarchy, the Foundation's assets and liabilities measured at fair value on a recurring basis as of December 31, 2017:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments:				
Common stocks:				
Large cap growth	\$ 388,101	\$ -	\$ -	\$ 388,101
Large cap value	701,897	-	-	701,897
Mid cap growth	60,025	-	-	60,025
Mid cap value	95,914	-	-	95,914
International equities	8,312	-	-	8,312
Real estate investment trust	-	23,513	-	23,513
Other US equities	31,377	-	-	31,377
Mutual funds:				
PIMCO – ESG fund	2,962,991	-	-	2,962,991
Common trust funds				
MSCI ACWI screened index fund				5,212,669
Russell 3000 screened index				5,156,381
Total investments	<u>4,248,617</u>	<u>23,513</u>	<u>-</u>	<u>14,641,180</u>
Other assets:				
Remainder interest in real property	-	251,106	-	251,106
Total assets	<u>\$ 4,248,617</u>	<u>\$ 274,619</u>	<u>\$ -</u>	<u>\$ 14,892,286</u>
Liabilities:				
Gift annuities payable:				
Annual payment obligations	\$ -	\$ -	\$ 204,031	\$ 204,031
Residual payable	-	-	144,168	144,168
Total gift annuities payable	<u>-</u>	<u>-</u>	<u>348,199</u>	<u>348,199</u>
Charitable remainder trusts payable:				
Annual payment obligations	-	-	535,544	535,544
Residual payable	-	-	48,920	48,920
Total charitable remainder trusts payable	<u>-</u>	<u>-</u>	<u>584,464</u>	<u>584,464</u>
Total liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 932,663</u>	<u>\$ 932,663</u>

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6. FAIR VALUE MEASUREMENTS, CONTINUED

The following table sets forth, within the hierarchy, the Foundation's assets and liabilities measured at fair value on a recurring basis as of December 31, 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments:				
Common stocks:				
Large cap growth	\$ 373,473	\$ -	\$ -	\$ 373,473
Large cap value	653,485	-	-	653,485
Mid cap growth	66,360	-	-	66,360
Mid cap value	111,698	-	-	111,698
International equities	31,865	-	-	31,865
Real estate investment trust	-	17,851	-	17,851
Mutual funds:				
PIMCO – Total Return III	2,648,565	-	-	2,648,565
Common trust funds				
MSCI ACWI screened index fund				3,885,428
Russell 3000 screened index				3,973,602
Total investments	<u>3,885,446</u>	<u>17,851</u>	<u>-</u>	<u>11,762,327</u>
Other assets:				
Remainder interest in real property	-	301,845	-	301,845
Total assets	<u>\$ 3,885,446</u>	<u>\$ 319,696</u>	<u>\$ -</u>	<u>\$ 12,064,172</u>
Liabilities:				
Gift annuities payable:				
Annual payment obligations	\$ -	\$ -	\$ 214,794	\$ 214,794
Residual payable	-	-	133,969	133,969
Total gift annuities payable	<u>-</u>	<u>-</u>	<u>348,763</u>	<u>348,763</u>
Charitable remainder trusts payable:				
Annual payment obligations	-	-	524,005	524,005
Residual payable	-	-	44,048	44,048
Total charitable remainder trusts payable	<u>-</u>	<u>-</u>	<u>568,053</u>	<u>568,053</u>
Total liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 916,816</u>	<u>\$ 916,816</u>

LAFAYETTE DIOCESAN FOUNDATION, INC.
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6. FAIR VALUE MEASUREMENTS, CONTINUED

The Foundation's policy is to recognize transfers between levels as of the end of the reporting period. There were no transfers among levels during 2017 and 2016. In addition, all cash and cash equivalents held as a part of the investment portfolio are for long term investing purposes and are recorded at cost.

The change in financial assets and liabilities with significant unobservable (Level 3) inputs is as follows for the years ended December 31:

	<u>2017</u>	
	<u>Gift Annuities Payable</u>	<u>CRT's Payable</u>
Beginning balance	\$ 348,763	\$ 568,053
Contributions	-	-
Payments made to annuitants	(28,405)	(54,585)
Payments made to residual beneficiaries	(6,988)	-
Actuarial losses on annuity obligations	(25,471)	-
Investment gains	49,492	-
Change in value of split-interest agreements	-	70,996
Change in annuities payable	10,808	-
Ending balance	<u>\$ 348,199</u>	<u>\$ 584,464</u>
	<u>2016</u>	
	<u>Gift Annuities Payable</u>	<u>CRT's Payable</u>
Beginning balance	\$ 334,051	\$ 603,404
Contributions	21,644	-
Payments made to annuitants	(25,095)	(90,666)
Payments made to residual beneficiaries	(7,569)	-
Actuarial losses on annuity obligations	(37,639)	-
Investment gains	31,616	9,982
Change in value of split-interest agreements	-	45,333
Change in annuities payable	31,755	-
Ending balance	<u>\$ 348,763</u>	<u>\$ 568,053</u>

7. RISK AND UNCERTAINTIES

The Foundation's investments (Note 3) are exposed to various risks such as interest rate, market and credit. Due to the level of risk associated with these securities and the level of uncertainty related to changes in the value, it is at least reasonably possible that changes in the various risk factors will occur in the near term that could materially affect the amounts reported in the accompanying financial statements.