

BIG SHOULDERS FUND
FINANCIAL STATEMENTS
June 30, 2016 and 2015

BIG SHOULDERS FUND
Chicago, Illinois

FINANCIAL STATEMENTS
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INDEPENDENT AUDITOR'S REPORT

The Executive Committee
Big Shoulders Fund
Chicago, Illinois

Report on the Financial Statements

We have audited the accompanying financial statements of Big Shoulders Fund (the "Fund"), which comprise the statements of financial position as of June 30, 2016 and 2015, 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

(Continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Big Shoulders Fund as of June 30, 2016 and 2015, 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.

A handwritten signature in black ink that reads "CROWE HORWATH LLP". The letters are in all caps and have a cursive, flowing style.

Crowe Horwath LLP

Chicago, Illinois
November 9, 2016

BIG SHOULDERS FUND
STATEMENTS OF FINANCIAL POSITION
June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Assets		
Cash and cash equivalents	\$ 9,266,955	\$ 4,720,676
Investments:		
Investments attributable to endowments	29,765,279	33,279,837
Other investments	<u>13,322,336</u>	<u>12,199,618</u>
Total investments	<u>43,087,615</u>	<u>45,479,455</u>
Accounts receivable from sale of investments	-	3,395,113
Pledges receivable, net	17,120,797	18,045,243
Fixed assets, net	205,799	269,211
Other assets	<u>173,023</u>	<u>168,851</u>
Total	<u>\$ 69,854,189</u>	<u>\$ 72,078,549</u>
Liabilities		
Accounts payable and accrued expenses	\$ 291,516	\$ 312,243
Deferred revenue	180,125	242,050
Grants payable, net	<u>4,621,821</u>	<u>6,229,887</u>
Total liabilities	<u>5,093,462</u>	<u>6,784,180</u>
Net Assets		
Unrestricted	24,847,378	24,293,485
Temporarily restricted	32,893,033	34,314,964
Permanently restricted	<u>7,020,316</u>	<u>6,685,920</u>
Total net assets	<u>64,760,727</u>	<u>65,294,369</u>
Total	<u>\$ 69,854,189</u>	<u>\$ 72,078,549</u>

See accompanying notes to financial statements.

BIG SHOULDERS FUND
STATEMENTS OF ACTIVITIES
For the years ended June 30, 2016 and 2015

	2016				2015			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Changes in net assets - operating								
Public support and other revenue								
Contributions	\$ 4,223,099	\$ 10,572,294	\$ -	\$ 14,795,393	\$ 3,553,794	\$ 12,709,039	\$ -	\$ 16,262,833
Less amounts designated to other organizations by donors	-	(728,912)	-	(728,912)	-	(1,256,420)	-	(1,256,420)
Fund-raising events revenue, net	7,180,712	-	-	7,180,712	526,222	-	-	526,222
Total public support and event revenue	<u>11,403,811</u>	<u>9,843,382</u>	<u>-</u>	<u>21,247,193</u>	<u>4,080,016</u>	<u>11,452,619</u>	<u>-</u>	<u>15,532,635</u>
Net investment return - operating	56,100	-	-	56,100	31,351	-	-	31,351
Endowment earnings used for programs and operations (Note 4)	1,038,141	514,645	-	1,552,786	978,150	466,483	-	1,444,633
Other income	2,850	-	-	2,850	2,200	-	-	2,200
Net assets released from restrictions	<u>10,435,530</u>	<u>(10,435,530)</u>	<u>-</u>	<u>-</u>	<u>10,026,848</u>	<u>(10,026,848)</u>	<u>-</u>	<u>-</u>
Net contributions and other revenue available for operations	<u>22,936,432</u>	<u>(77,503)</u>	<u>-</u>	<u>22,858,929</u>	<u>15,118,565</u>	<u>1,892,254</u>	<u>-</u>	<u>17,010,819</u>
Expenses								
Program expense	16,891,837	-	-	16,891,837	17,604,893	-	-	17,604,893
Management expense	1,401,391	-	-	1,401,391	1,072,355	-	-	1,072,355
Fund-raising expense	768,851	-	-	768,851	771,215	-	-	771,215
Total expenses	<u>19,062,079</u>	<u>-</u>	<u>-</u>	<u>19,062,079</u>	<u>19,448,463</u>	<u>-</u>	<u>-</u>	<u>19,448,463</u>
Other changes in net assets - operating								
Loss on uncollectible and rescinded pledges	-	(11,630)	-	(11,630)	-	-	-	-
Changes in net assets - operating	<u>3,874,353</u>	<u>(89,133)</u>	<u>-</u>	<u>3,785,220</u>	<u>(4,329,898)</u>	<u>1,892,254</u>	<u>-</u>	<u>(2,437,644)</u>
Changes in net assets - non-operating								
Contributions	-	-	334,396	334,396	-	-	721,163	721,163
Net investment return - non-operating	(2,282,319)	(818,153)	-	(3,100,472)	1,870,076	645,309	-	2,515,385
Less endowment earnings used for programs and operations	<u>(1,038,141)</u>	<u>(514,645)</u>	<u>-</u>	<u>(1,552,786)</u>	<u>(978,150)</u>	<u>(466,483)</u>	<u>-</u>	<u>(1,444,633)</u>
Changes in net assets - non-operating	<u>(3,320,460)</u>	<u>(1,332,798)</u>	<u>334,396</u>	<u>(4,318,862)</u>	<u>891,926</u>	<u>178,826</u>	<u>721,163</u>	<u>1,791,915</u>
Changes in net assets	553,893	(1,421,931)	334,396	(533,642)	(3,437,972)	2,071,080	721,163	(645,729)
Net assets at beginning of year	<u>24,293,485</u>	<u>34,314,964</u>	<u>6,685,920</u>	<u>65,294,369</u>	<u>27,731,457</u>	<u>32,243,884</u>	<u>5,964,757</u>	<u>65,940,098</u>
Net assets at end of year	<u>\$ 24,847,378</u>	<u>\$ 32,893,033</u>	<u>\$ 7,020,316</u>	<u>\$ 64,760,727</u>	<u>\$ 24,293,485</u>	<u>\$ 34,314,964</u>	<u>\$ 6,685,920</u>	<u>\$ 65,294,369</u>

See accompanying notes to financial statements.

BIG SHOULDERS FUND
 STATEMENTS OF CASH FLOWS
 For the years ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities		
Change in net assets (total operating and non-operating activities)	\$ (533,642)	\$ (645,729)
Adjustments to reconcile change in net assets to net cash flow provided by (used in) operating activities:		
Net investment (gains) / losses	3,476,900	(1,275,152)
Amortization of bond premiums	40,608	13,728
Depreciation expense	63,412	59,503
Contributions for permanent endowment fund	(334,396)	(721,163)
Changes in assets and liabilities:		
Pledges receivable	924,446	(921,474)
Other assets	(4,172)	(86,536)
Accounts payable and accrued expenses	(20,727)	93,655
Deferred revenue	(61,925)	59,700
Grants payable	<u>(1,608,066)</u>	<u>348,771</u>
Net cash flow provided by (used in) operating activities	1,942,438	(3,074,697)
 Cash flows from investing activities		
Purchases of investments	(24,998,340)	(6,961,716)
Proceeds from sales of investments	27,267,785	3,161,026
Purchases of fixed assets	<u>-</u>	<u>(39,088)</u>
Net cash flow provided by (used in) investing activities	2,269,445	(3,839,778)
 Cash flows from financing activities		
Contributions for permanent endowment fund	<u>334,396</u>	<u>721,163</u>
Net cash flow provided by financing activities	<u>334,396</u>	<u>721,163</u>
 Change in cash and cash equivalents	4,546,279	(6,193,312)
Cash and cash equivalents at beginning of year	<u>4,720,676</u>	<u>10,913,988</u>
 Cash and cash equivalents at end of year	<u>\$ 9,266,955</u>	<u>\$ 4,720,676</u>

See accompanying notes to financial statements.

BIG SHOULDERS FUND
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 1 - NATURE OF OPERATIONS

Big Shoulders Fund (the “Fund”) is an independent corporation established in 1986 to develop, manage, and distribute funds for the educational system of the Archdiocese of Chicago (the “Archdiocese”). Operating support is derived primarily from contributions from private individuals, corporate donations, and investment earnings. Funds raised are distributed as scholarships to students, operating and capital grants to schools, and other grants and expenses for specific programs benefiting schools within the educational system.

These financial statements reflect the financial position, changes in net assets, and cash flows of the Fund. The Archdiocese is a separate and distinct organization whose activities are not reflected in these financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Fund are prepared on the accrual basis of accounting. The following is a summary of significant accounting policies:

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.

Operations: The Fund classifies changes in net assets as either operating or non-operating activity. Non-operating activity includes permanently restricted contributions, investment return in excess of amounts used for operations associated with long-term investments and endowments, and other infrequent changes in net assets. Operating activity includes all other activity not classified as non-operating. For purposes of the Statement of Cash Flow only, “operating activities” refers to the changes both in operating and non-operating net assets.

Contributions: Contributions with a readily determinable fair value are reflected in the financial statements at the time contributions are received. Multi-year pledges are recorded at the risk-adjusted present value of their expected future payments. Contributions received with donor-imposed restrictions that are met in the same year as the contributions are received are reported as revenue of the temporarily restricted net asset class and released from restriction in the same period. Net income from fundraising events that is designated for a particular use is recorded as unrestricted income if it is expended in the same period.

Contributions designated by donors for use by specific beneficiaries/other organizations are known as agency transactions. Current US GAAP requires the exclusion of these receipts from revenue. However, in order to present the full results of the Fund’s fundraising efforts, which includes these transactions, they are included along with other contributions received by the Fund on the Statement of Activities and are then presented as a reduction of gross contribution revenue in the same period the contribution revenue is recognized. On the Statement of Financial Position they are recorded as liabilities of the Fund. Expenditures made as result of agency transactions reduce these liabilities when the payment is made.

Functional Expenses: Operating expenses directly identified with a functional area (program, management or fund-raising) are charged to that area. When expenses affect more than one area, they are allocated on the basis of employee hours or other relevant means.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(Continued)

BIG SHOULDERS FUND
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

Program Expenses: Unconditional grants are recognized as expenses during the period in which they are authorized by the Fund's Executive Committee. Unconditional grants payable that are due in future years are recorded at the present value of their expected future payments. Scholarships are recognized as expenses during the period in which they are authorized by the Fund's Executive Committee and paid. Conditional grants are recognized when conditions are met.

Cash and Cash Equivalents: Cash equivalents are defined as all highly liquid debt instruments with original maturities of three months or less, which are not part of investments. The Fund maintains cash balances at certain financial institutions in excess of the insurance limits provided by the Federal Deposit Insurance Corporation. The Fund has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash.

Investments: Investments in marketable securities with readily determinable fair values are valued primarily from quoted market prices where available, or quoted market prices of comparable instruments, where prices are not available. For other investments for which there is no active market, generally referred to as "alternative investments", fair values are based on valuations determined by the investment managers using net asset values or equivalents ("NAV"). The NAVs of the investment funds are determined on the accrual basis of accounting in conformity with US GAAP. The investment managers utilize standard valuation procedures and policies to assess the fair value of the underlying investment holdings to derive NAV. Unrealized gains and losses are included in the change in net assets. See Note 3 for further disclosures.

Pledges and Other Receivables: Pledges receivable are recorded at the time an unconditional promise to give is received by the Fund. Other receivables are recorded at the time an obligation to the Fund is incurred. Conditional pledges are not recorded until the conditions are substantially met. Unconditional pledges designated by donors for use by a specific beneficiary (agency transactions) are not recorded as assets or liabilities of the Fund at the time the pledge is made. They are, however, included on the statement of activities in gross contribution revenue and the corresponding reduction of contribution revenue in the same manner as other agency transactions. Future collections on these pledges increase liabilities of the Fund.

Fixed Assets: Donated furniture and leasehold improvements are recorded at fair value as of the date of gift. Purchased fixed assets are recorded at cost. Furniture and equipment are being depreciated on a straight-line method over their estimated useful life. Leasehold improvements are being depreciated on a straight-line method over the lease term.

Long-lived assets, such as furniture and leasehold improvements, are reviewed for impairment whenever events or changes in circumstances indicate that the fair value of an asset may be less than its carrying value. This loss would be recorded if it is not recoverable.

Deferred Revenue: Deferred revenue consists of payments received in advance of the annual golf outing that is held during August of each year and the annual social fund-raiser held in the September of each year.

(Continued)

BIG SHOULDERS FUND
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets: The Fund classifies net assets as follows:

Unrestricted - Net assets which are free of donor-imposed restrictions; all revenue, expenses, gains, and losses that are not changes in permanently or temporarily restricted net assets. For the Fund, this category includes contributions and investment income not related to permanently restricted endowments, and all program, fund-raising, and management expenses.

Temporarily Restricted - Net assets whose use by the Fund is limited by donor-imposed restrictions that either expire by the passage of time or can be removed by the fulfillment of the stipulated purpose for which the donation was restricted. All temporarily restricted funds are restricted for scholarships, grants and program expenses benefitting students and schools served by the Fund.

Permanently Restricted - Net assets donated with stipulations that they be invested to provide a permanent source of income (e.g., endowment funds); such restrictions neither can expire with the passage of time nor be removed by the fulfillment of a stipulated purpose.

Recent Accounting Pronouncements: In February 2016, the Financial Accounting Standards Board ("FASB"), issued Accounting Standards Update 2016-02 ("ASU 2016-02"), *Leases (Topic 842)*. ASU 2016-02 requires the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under previous US GAAP. For non-public business entities, the amendments in ASU 2016-02 are effective for fiscal years beginning after December 15, 2019. Early application of the amendments in ASU is permitted. The Fund has not yet implemented ASU 2016-02 and is in the process of assessing the effect on the Fund's financial statements.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958)*. ASU 2016-14 requires certain changes to the current net asset classification requirements for not-for-profit entities (NFP's) and to the information presented in financial statements and notes about a NFP's liquidity, financial performance, and cash flows. The amendments in the ASU 2016-14 are effective for annual financial statements issued for fiscal years beginning after December 15, 2017. Early application of the amendments in this ASU is permitted. The Fund has not yet implemented ASU 2016-14 and is in the process of assessing the effect on the Fund's financial statements.

Subsequent Events: Management has performed an analysis of the activities and transactions subsequent to June 30, 2016, to determine the need for any adjustments to and/or disclosures within the audited financial statements for the year ended June 30, 2016. Management has performed their analysis and reflected such adjustments and disclosures to these financial statements through November 9, 2016, the date the financial statements were available to be issued.

(Continued)

NOTE 3 - INVESTMENTS AND INVESTMENT RETURN

Certain investments are accounted for at fair value using a three-tier framework based on various inputs. The hierarchy of inputs utilized by the Fund for classifying investments is summarized below:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date. Investments in this category for the Fund consist of publicly traded mutual funds or corporate bonds with quoted prices on nationally recognized securities exchanges.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data. Investments in this category for the Fund consist of corporate bonds which may not currently have active markets and certificates of deposit.

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability. The Fund currently has no investments classified at Level 3.

Other investments which are valued using the practical expedient of the Net Asset Value ("NAV") as determined by the investment manager are not categorized by level.

In many cases, a valuation technique used to measure fair value includes inputs from multiple levels of the fair value hierarchy. The lowest level of significant input determines the placement of the entire fair value measurement in the hierarchy. The categorization of an investment within the hierarchy is therefore based on price transparency and is not necessarily an indication of risk associated with these investments.

Investments that are not publicly traded may not be readily marketable, and their estimated value is subject to uncertainty. Therefore, there may be a material difference between their estimated value and the value that would have been used had a readily determinable fair value for such investments existed.

The Fund relies on information provided by fund managers to determine the fair value of investments using the Net Asset Value. The Fund reviews the performance of investments at least quarterly with its investment consultant, including (1) comparisons of investment returns to relevant benchmarks, (2) comparison of annual results reported on periodic management statements to audited financial statements, and (3) periodic review of management of fund managers, including personal meetings or telephone conferences with fund representatives and review of any commentary presented by fund managers. The Fund believes its reliance on the investment fund managers' estimates of fair value for non-publicly traded investments is appropriate.

(Continued)

BIG SHOULDERS FUND
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 3 - INVESTMENTS AND INVESTMENT RETURN (Continued)

Investments are the only asset currently measured at fair value on a recurring basis. There are no liabilities currently measured at fair value on a recurring basis. Investments are summarized below:

<u>Type of Investment</u>	<u>Level 1</u>	<u>Level 2</u>	<u>NAV</u>	<u>Total</u>	<u>Percent of Total</u>
<u>2016</u>					
Certificates of deposit	\$ -	\$ 642,403	\$ -	\$ 642,403	1.5%
Large cap equity funds	9,450,152	-	1,949,109	11,399,261	26.5%
Small cap equity funds	1,048,663	-	1,872,085	2,920,748	6.8%
International equity - developed markets funds	2,538,174	-	1,206,402	3,744,576	8.7%
International equity - emerging markets funds	-	-	5,302,087	5,302,087	12.3%
Hedged equity funds	-	-	4,312,257	4,312,257	10.0%
Fixed income	3,031,743	4,394,592	-	7,426,335	17.2%
Absolute return funds	-	-	6,012,804	6,012,804	14.0%
Alternative fixed income fund	-	-	1,327,144	1,327,144	<u>3.0%</u>
Total investments	\$ 16,068,732	\$ 5,036,995	\$ 21,981,888	\$ 43,087,615	<u>100%</u>
Percent of total	37.3%	11.7%	51.0%	100%	

<u>Type of Investment</u>	<u>Level 1</u>	<u>Level 2</u>	<u>NAV</u>	<u>Total</u>	<u>Percent of Total</u>
<u>2015</u>					
Certificates of deposit	\$ -	\$ 402,489	\$ -	\$ 402,489	0.9%
Large cap equity funds	12,401,598	-	-	12,401,598	27.3%
Small cap equity funds	1,060,277	-	2,931,012	3,991,289	8.8%
International equity - developed markets funds	4,132,028	-	-	4,132,028	9.1%
International equity - emerging markets funds	-	-	5,741,986	5,741,986	12.6%
Hedged equity funds	-	-	4,440,774	4,440,774	9.7%
Real assets fund	761,719	-	-	761,719	1.7%
Fixed income	7,047,742	1,486,664	-	8,534,406	18.8%
Absolute return funds	-	-	3,202,876	3,202,876	7.0%
Alternative fixed income fund	-	-	1,870,290	1,870,290	<u>4.1%</u>
Total investments	\$ 25,403,364	\$ 1,889,153	\$ 18,186,938	\$ 45,479,455	<u>100%</u>
Percent of total	55.9%	4.1%	40.0%	100%	

There are no unfunded commitments related to investments at June 30, 2016.

Transfers between levels due to changes in inputs are considered to take place at the end of the reporting period. There were no transfers between levels during 2016 or 2015.

At June 30, 2015 the Fund had a receivable due to the sale of an investment in the amount of \$3,395,113 as noted on the statement of financial position. The Fund received all proceeds of this sale during the year ended June 30, 2016.

(Continued)

BIG SHOULDERS FUND
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 3 - INVESTMENTS AND INVESTMENT RETURN (Continued)

In May, 2016, the Fund submitted a full redemption request for one of its absolute return managers. This manager requires an 85 day redemption notice, and also limits any redemption to 25% of the value of an investment in any one quarter, with a full redemption being processed at 25% per quarter over a period of four quarters. One quarter of the shares in this investment were redeemed on August 1, 2016. The balance will be redeemed on a pro rata basis on November 1, 2016, February 1, 2017 and May 1, 2017. The redemption is processed at the net asset value of the fund as of each specific redemption date.

Investments, except for certain designated investments, are managed on a pooled basis, using a unit method to allocate both values and earnings to individual endowment funds or to general funds. Of the investment total of \$43,087,615, the amount allocable to all endowments is \$29,765,279. The balance of \$13,322,336 represents general investments of the Fund. Of the net investment loss of \$3,100,472, the loss allocable to endowments is \$2,391,772.

Net investment return consisted of the following for the years ended June 30, 2016 and 2015:

	<u>2016</u>		<u>2015</u>	
	<u>Operating Accounts</u>	<u>Long-term Investments</u>	<u>Operating Accounts</u>	<u>Long-term Investments</u>
Net interest and other income	\$ 81,300	\$ 479,212	\$ 52,311	\$ 1,283,001
Amortization of bond premiums	(40,608)	-	(13,728)	-
Net realized gains (losses)	(2,252)	1,393,625	(38)	1,884,781
Change in net unrealized gains (losses) on investments	17,660	(4,885,933)	(7,194)	(602,397)
Less investment expenses	-	(87,376)	-	(50,000)
Net investment return	<u>\$ 56,100</u>	<u>\$ (3,100,472)</u>	<u>\$ 31,351</u>	<u>\$ 2,515,385</u>

(Continued)

BIG SHOULDERS FUND
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 3 - INVESTMENTS AND INVESTMENT RETURN (Continued)

The following tables summarize the basic strategies of each investment and also disclose related information regarding valuation methods and redemption restrictions for the years ended 2016 and 2015. Investments may be investment funds, or investments in individual equity or debt instruments. See the key following the tables for a more complete description of each column.

Investment Strategies and Selected Investment Information - 2016

Investment/Strategy	Fair Value 2016	Level 2016	NAV Used?	Redemption Date(s)	Redemption Notice	Lock-up Date	Gate allowed?	Gate im- posed?	Side Pockets allowed?	Side Pocket alloc.?	Estimated Final Liquidation
Certificates of Deposit	\$ 642,403	2	No	Daily	None	n/a	No	No	No	No	n/a
Large Cap Equity Fund, generally US growth stocks	971,707	1	No	Daily	None	n/a	No	No	No	No	n/a
Large Cap Equity Fund, concentrated long only equity strategy	1,949,109	n/a	Yes	End of each quarter	30 days	n/a	Yes	No	No	No	n/a
Large Cap Equity, individual US stocks	4,120,587	1	No	Daily	5 days	n/a	No	No	No	No	n/a
Large Cap Equity Fund, generally US stocks	4,357,858	1	No	Daily	None	n/a	No	No	No	No	n/a
Small Cap Equity Fund, generally US stocks	1,048,663	1	No	Daily	5 days	n/a	No	No	No	No	n/a
Small Cap Equity Fund, specific industry sector stocks only	1,872,085	n/a	Yes	3/31, 9/30	30 days	n/a	No	No	No	No	n/a
International Equity, Individual stocks	2,538,174	1	No	Daily	4 days	n/a	No	No	No	No	n/a
International Equity, generally international stocks	1,206,402	n/a	Yes	Last day of the month	30 days	n/a	Yes	No	No	No	n/a
International Equity, fund of international hedge funds	1,692,867	n/a	Yes	12/31	90 days	n/a	No	No	No	No	n/a
International Investment Fund, generally emerging market equities, long bias	1,624,796	n/a	Yes	End of each quarter	60 days	n/a	No	No	No	No	n/a
International Equity Fund, generally specific geographical area	1,984,424	n/a	Yes	Last day of the month	30 days	n/a	No	No	No	No	n/a
Hedged Equity Fund, generally stocks	4,272,229	n/a	Yes	5/1	45 days	5/1/17	Yes	No	No	No	n/a
Hedged Equity Fund, in liquidation	40,028	n/a	Yes	n/a	None	n/a	No	No	No	No	5 years +
Fixed Income Fund, short/intermediate high quality debt instruments	3,031,743	1	No	Daily	None	n/a	No	No	No	No	n/a
Fixed Income, individual corporate and government bonds	4,394,592	2	No	Daily	None	n/a	No	No	No	No	n/a
Absolute Return Fund, event driven debt and equity investments	3,287,966	n/a	Yes	End of each quarter	65 days	n/a	Yes	No	Yes	No	n/a
Absolute Return Fund, hedged, catalyst driven credit and mortgage trading	2,724,838	n/a	Yes	2/1, 5/1, 8/1, 11/1	85 days	n/a	Yes	Yes	Yes	No	5/1/17
Alternative Fixed Income Fund, structured credit in real estate and corporate debt	1,327,144	n/a	Yes	n/a	n/a						The initial term of the fund will expire on 11/30/16. The fund is subject to two additional one year extensions, the first year of which has already been approved. The fund is currently making distributions of return of capital.
Total	\$ 43,087,615										

(Continued)

BIG SHOULDERS FUND
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 3 - INVESTMENTS AND INVESTMENT RETURN (Continued)

Investment Strategies and Selected Investment Information – 2015

Investment/Strategy	Fair Value 2015	Level 2015	NAV Used?	Redemption Date(s)	Redemption Notice	Lock-up Date	Gate allowed?	Gate im- posed?	Side Pockets allowed?	Side Pocket alloc.?	Estimated Final Liquidation
Certificates of Deposit	\$ 402,489	2	No	Daily	None	n/a	No	No	No	No	n/a
Large Cap Equity Fund, generally US stocks	12,401,598	1	No	Daily	None	n/a	No	No	No	No	n/a
Small Cap Equity Fund, generally US stocks	1,060,277	1	No	Daily	5 days	n/a	No	No	No	No	n/a
Small Cap Equity Fund, specific industry sector stocks only	2,931,012	n/a	Yes	3/31, 9/30	30 days	n/a	No	No	No	No	n/a
International Equity Fund, generally international stocks	4,132,028	1	No	Daily	None	n/a	No	No	No	No	n/a
International Investment Fund, generally emerging market equities, long bias	1,699,498	n/a	Yes	End of each quarter	60 days	n/a	No	No	No	No	n/a
International Equity Fund, generally specific geographical area	2,205,624	n/a	Yes	Last day of the month	30 days	n/a	No	No	No	No	n/a
International Equity, fund of international hedge funds	1,836,864	n/a	Yes	12/31	90 days	n/a	No	No	No	No	n/a
Hedged Equity Fund, generally stocks	4,402,153	n/a	Yes	5/1	45 days	5/1/16	Yes	No	No	No	n/a
Hedged Equity Fund, in liquidation	38,621	n/a	Yes	n/a	None	n/a	No	No	No	No	5 years +
Real Assets Fund, equities in the natural resource industry	761,719	1	No	Daily	None	n/a	No	No	No	No	n/a
Fixed Income Fund, short/intermediate high quality debt instruments	2,995,279	1	No	Daily	None	n/a	No	No	No	No	n/a
Fixed Income Fund, short/intermediate high quality debt instruments	1,007,276	1	No	Daily	None	n/a	No	No	No	No	n/a
Fixed Income, individual corporate bonds	4,531,851	1,2	No	Daily	None	n/a	No	No	No	No	n/a
Absolute Return Fund, event driven debt and equity investments	3,202,876	n/a	Yes	End of each quarter	65 days	n/a	Yes	No	Yes	No	n/a
Alternative Fixed Income Fund, structured credit in real estate and corporate debt	1,870,290	n/a	Yes	n/a	n/a	The initial term of the fund will expire on 11/30/16. The fund is subject to two additional one year extensions if approved. The fund is currently making distributions of return of capital.					
Total	\$ 45,479,455										

(Continued)

BIG SHOULDERS FUND
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 3 - INVESTMENTS AND INVESTMENT RETURN (Continued)

Key:

NAV Used?: Is the valuation based on the net asset value or equivalent provided by the investment fund manager?

Redemption Date(s): The date(s) on which the Fund has the ability to request a redemption from the individual fund manager.

Redemption Notice: The number of days' notice in advance the Fund must give the individual fund manager prior to the redemption date.

Lock-up Date: The earliest date that the Fund can request a redemption from an individual fund manager due to restrictions imposed by the manager on new or renewed investments.

Gate Allowed?: Can the individual fund manager restrict redemptions from their fund (generally due to excessive redemption requests by investees at any one date)?

Gate Imposed?: As discussed above, was a gate imposed as of June 30, 2016 or 2015?

Side Pockets Allowed?: Does the individual fund manager have the ability to allocate specific illiquid or other investments in their portfolio to individual investees?

Side Pockets Allocated?: As discussed above, have any such illiquid assets been allocated as of June 30, 2016 or 2015?

Estimated Final Liquidation: The estimated time frame for total liquidation of an investment, based on the fund manager's projections.

(Continued)

BIG SHOULDERS FUND
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 4 - ENDOWMENTS

The Fund's endowment consists of both donor-restricted endowment funds and funds designated by the Executive Committee to function as endowments. Depending on the source of the fund, earnings may be restricted or designated for use in scholarships, programs, or for the general use of the Fund.

Net assets associated with endowment funds, including funds internally designated to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The State of Illinois has adopted the Uniform Prudent Management of Institutional Funds Act (UPMIFA). The Executive Committee of the Fund has interpreted UPMIFA for accounting purposes 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 this interpretation, the Fund 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) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Fund in a manner consistent with the standard of prudence prescribed by UPMIFA.

The Fund has adopted an investment policy that states that the long-term goal is to preserve and grow the purchasing power of the endowment without taking on unnecessary downside risk. The specific objectives of the management of investments are: 1) up to a 5% payout for expenses; 2) a need for growth at the rate of 5% on a real (net of inflation) basis; and 3) preservation of principal. The Fund utilizes a total return strategy whereby it is portfolio total risk and total return that matters. The Fund has set goals for investing in and maintaining diverse asset classes which balance expected returns, both for current income and long-term appreciation, and risk tolerance. Actual returns and allocations in any given year may vary from expected goals.

The annual spending policy of the Fund is to utilize a percentage of the floating three-year average fair value of an individual fund as of June 30 in the following fiscal year. The utilization rate for endowments, both donor restricted and internally designated, with restrictions or designations as to use is 5%. The utilization rate for endowments, both donor restricted and internally designated, with no restrictions or designations as to use is 3% to 5%, based on the current needs of the Fund. The rate used in 2016 and 2015 for endowments with no restriction or designation as to use was 5%. Based on this policy, endowment earnings of \$1,552,786 and \$1,444,633 were appropriated for expenditure and used for operations for the years ended June 30, 2016 and 2015, respectively. Assets are considered appropriated for expenditure in the year for which the Executive Committee authorizes the actual expenditure.

(Continued)

BIG SHOULDERS FUND
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 4 - ENDOWMENTS (Continued)

Endowments, which represent only a portion of investments, are composed of the following as of June 30, 2016 and 2015:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<u>2016</u>				
Donor-restricted endowment funds and unappropriated earnings	\$ (29,236)	\$ 3,931,704	\$ 6,824,757	\$ 10,727,225
Internally-designated funds	<u>19,038,054</u>	<u>-</u>	<u>-</u>	<u>19,038,054</u>
Total invested endowment funds	19,008,818	3,931,704	6,824,757	29,765,279
Endowment funds receivable	<u>-</u>	<u>-</u>	<u>195,559</u>	<u>195,559</u>
Total endowment funds	<u>\$ 19,008,818</u>	<u>\$ 3,931,704</u>	<u>\$ 7,020,316</u>	<u>\$ 29,960,838</u>
<u>2015</u>				
Donor-restricted endowment funds and unappropriated earnings	\$ -	\$ 5,252,138	\$ 6,394,757	\$ 11,646,895
Internally-designated funds	<u>21,632,942</u>	<u>-</u>	<u>-</u>	<u>21,632,942</u>
Total invested endowment funds	21,632,942	5,252,138	6,394,757	33,279,837
Endowment funds receivable	<u>-</u>	<u>-</u>	<u>291,163</u>	<u>291,163</u>
Total endowment funds	<u>\$ 21,632,942</u>	<u>\$ 5,252,138</u>	<u>\$ 6,685,920</u>	<u>\$ 33,571,000</u>

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or UPMIFA requires the Fund to retain as a fund of perpetual duration. Deficiencies of this nature that are in excess of related temporarily restricted amounts are reported in unrestricted net assets. As indicated above, the fair values of certain permanently restricted funds were below historical dollar cost by a total of \$29,236 at June 30, 2016. None of the fair values of individual funds were below historical cost at June 30, 2015. UPMIFA does allow the expenditure of funds from these endowments if the Fund deems it prudent and the donor has not stated otherwise.

During 2015, a pledge was received for the endowment. Since the unpaid portion of the pledge will continue to be received in future years, the net amount of the pledge is not included in invested endowment funds, but the net pledge receivable is included in total endowment funds.

(Continued)

BIG SHOULDERS FUND
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 4 - ENDOWMENTS (Continued)

Changes in endowment net assets for the years ended June 30, 2016 and 2015, are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Total endowment funds, June 30, 2014	\$ 21,389,803	\$ 5,083,419	\$ 5,964,757	\$ 32,437,979
New gifts	-	-	721,163	721,163
Earnings appropriated for expenditure and used for programs and operations	(978,150)	(466,483)	-	(1,444,633)
Net investment return	<u>1,221,289</u>	<u>635,202</u>	<u>-</u>	<u>1,856,491</u>
Total endowment funds, June 30, 2015	21,632,942	5,252,138	6,685,920	33,571,000
New gifts	-	-	334,396	334,396
Earnings appropriated for expenditure and used for programs and operations	(1,038,141)	(514,645)	-	(1,552,786)
Net investment return	<u>(1,585,983)</u>	<u>(805,789)</u>	<u>-</u>	<u>(2,391,772)</u>
Total endowment funds, June 30, 2016	<u>\$ 19,008,818</u>	<u>\$ 3,931,704</u>	<u>\$ 7,020,316</u>	<u>\$ 29,960,838</u>

(Continued)

BIG SHOULDERS FUND
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 5 - PLEDGES RECEIVABLE

For measurement purposes, discount rates between 0.8% and 4.4% are used to determine the present value of the pledges receivable, which includes an adjustment for risk premium. Aging and valuation at June 30, 2016 and 2015, are as follows:

	<u>2016</u>	<u>2015</u>
Due in		
Less than one year	\$ 6,338,053	\$ 6,141,168
One to five years	9,990,100	10,326,400
More than five years	<u>3,203,200</u>	<u>4,272,925</u>
Gross pledges receivable	19,531,353	20,740,493
Less agency pledges	(58,733)	(55,000)
Less allowance for uncollectible pledges	(14,130)	(3,000)
Less discount to risk-adjusted present value	<u>(2,337,693)</u>	<u>(2,637,250)</u>
Net pledges receivable	<u>\$ 17,120,797</u>	<u>\$ 18,045,243</u>

NOTE 6 - FIXED ASSETS

Fixed assets, including \$350,735 of furniture and leasehold improvements which were donated in prior years, are comprised of the following at June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Furniture and equipment	\$ 266,604	\$ 266,604
Vehicles	89,021	89,021
Leasehold improvements	<u>123,219</u>	<u>123,219</u>
Total fixed assets	478,844	478,844
Less allowance for depreciation	<u>(273,045)</u>	<u>(209,633)</u>
Net fixed assets	<u>\$ 205,799</u>	<u>\$ 269,211</u>

The provision for depreciation of furniture, equipment, and leasehold improvements amounted to \$63,412 and \$59,503 for the years ended June 30, 2016 and 2015 respectively.

(Continued)

BIG SHOULDERS FUND
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 7 - GRANTS PAYABLE

The Fund awards operating, capital and programmatic grants to schools, and also incurs other expenses for specific programs benefiting schools within the educational system. Certain grants may cover multiple years. For measurement purposes, discount rates between 0.6% and 1.7% were used to determine the present value of grants payable. Grants payable at June 30, 2016 and 2015, are as follows:

	<u>2016</u>	<u>2015</u>
Payable		
Less than one year	\$ 3,302,760	\$ 3,124,490
One to five years	<u>1,333,000</u>	<u>3,145,667</u>
Gross grants payable	4,635,760	6,270,157
Less discount to present value	<u>(13,939)</u>	<u>(40,270)</u>
Net grants payable	<u>\$ 4,621,821</u>	<u>\$ 6,229,887</u>

NOTE 8 – CONTRIBUTED SERVICES

The Fund received contributed legal and consulting services from outside entities of \$246,015 and \$6,845 during the years ended June 30, 2016 and 2015, respectively. The receipt and use of these services are shown as revenue and expenses in the statements of activities.

NOTE 9 - FUND-RAISING EVENTS

The Fund holds several fund-raising events each year, such as the Golf Classic and Auxiliary Board Ball. The Humanitarian Award Dinner has been held bi-annually over the last several years, most recently in 2016.

In conjunction with these events, the Fund may receive event contributions or event revenue.

The Fund defines event contributions as payments for which the donor receives no goods or services of value in return. Event contributions are included in general contributions to the Fund on the statement of activities.

The Fund defines event revenue as payments for which the donor receives something of value in return, such as dinner, foursomes at a golf outing, auction items, etc. "Fund-raising events revenue, net" on the statement of activities represents event revenue, as defined above, less direct event expenses.

Net fundraising event revenue consists of the following:

	<u>2016</u>	<u>2015</u>
Event revenue	\$ 8,150,138	\$ 848,990
Event expenses	<u>(969,426)</u>	<u>(322,768)</u>
Fund-raising events revenue, net	<u>\$ 7,180,712</u>	<u>\$ 526,222</u>

(Continued)

BIG SHOULDERS FUND
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 10 - EXPENSES

The summary of expenses for the years ended June 30, 2016 and 2015, is as follows:

	<u>Program Expenses</u>	<u>Management Expenses</u>	<u>Fund-Raising Expenses</u>	<u>Total Expenses</u>
<u>2016</u>				
Operating, capital and programmatic expenses paid to and on behalf of schools	\$ 7,916,458	\$ -	\$ -	\$ 7,916,458
Scholarships	<u>8,429,363</u>	-	-	<u>8,429,363</u>
Total grants and scholarships	16,345,821	-	-	16,345,821
Less expenditures for agency transactions	<u>(778,518)</u>	-	-	<u>(778,518)</u>
Net grants and scholarships expense	15,567,303	-	-	15,567,303
Salaries and related benefits	1,198,984	1,071,907	496,642	2,767,533
All other expenses	<u>125,550</u>	<u>329,484</u>	<u>272,209</u>	<u>727,243</u>
Total expenses	<u>\$ 16,891,837</u>	<u>\$ 1,401,391</u>	<u>\$ 768,851</u>	<u>\$ 19,062,079</u>
Percent of total	88.6%	7.4%	4.0%	100.0%
	<u>Program Expenses</u>	<u>Management Expenses</u>	<u>Fund-Raising Expenses</u>	<u>Total Expenses</u>
<u>2015</u>				
Operating, capital and programmatic expenses paid to and on behalf of schools	\$ 9,206,123	\$ -	\$ -	\$ 9,206,123
Scholarships	<u>8,628,781</u>	-	-	<u>8,628,781</u>
Total grants and scholarships	17,834,904	-	-	17,834,904
Less expenditures for agency transactions	<u>(1,360,386)</u>	-	-	<u>(1,360,386)</u>
Net grants and scholarships expense	16,474,518	-	-	16,474,518
Salaries and related benefits	987,328	754,063	494,069	2,235,460
All other expenses	<u>143,047</u>	<u>318,292</u>	<u>277,146</u>	<u>738,485</u>
Total expenses	<u>\$ 17,604,893</u>	<u>\$ 1,072,355</u>	<u>\$ 771,215</u>	<u>\$ 19,448,463</u>
Percent of total	90.5%	5.5%	4.0%	100.0%

(Continued)

BIG SHOULDERS FUND
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 10 - EXPENSES (Continued)

Expenditures for agency transactions represent payments made pursuant to contributions received that were designated by donors for use by specific beneficiaries. Current US GAAP requires the exclusion of these expenditures from expenses. However, these payments are included in gross expenses of the Fund on the preceding summary in order to present the full amount of the benefits provided to schools and students, and are then presented as a reduction of the related expenses in the period in which the payments are made. See Note 2 for a description of the Fund's policy regarding these transactions.

NOTE 11 - CONDITIONAL SCHOLARSHIPS

Certain student scholarships awarded by the Fund cover multiple years. As a condition to maintaining these scholarship awards, students may be required to achieve a minimum grade point average, actively participate in the scholastic program or fulfill other donor-imposed obligations. Because the scholarship awards are conditional on the continued attendance at a participating Catholic school, academic performance, and program participation of the student, they have not been accrued and expensed in these financial statements. Management estimates that these conditional scholarship awards which may be provided by the Fund are approximately \$23,231,000 at June 30, 2016, due as follows:

Year ending <u>June 30</u>	
2017	\$ 6,033,000
2018	5,324,000
2019	3,637,000
2020	3,263,000
2021	2,667,000
2022 through 2025	<u>2,307,000</u>
Total	<u>\$ 23,231,000</u>

Funding for these provisional scholarships is anticipated as follows:

	<u>Total</u>	<u>Percent of Total</u>
Temporarily restricted gifts already received by the Fund	\$ 4,766,000	20.5%
Future collections on unconditional pledges to the Fund	8,546,000	36.8%
Future endowment earnings	347,000	1.5%
Future collections on conditional pledges expected to be received by the Fund based on revocable intentions to give by donors	5,036,000	21.7%
Unrestricted assets of the Fund	<u>4,536,000</u>	<u>19.5%</u>
	<u>\$ 23,231,000</u>	<u>100.0%</u>

(Continued)

BIG SHOULDERS FUND
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 12 - LEASE AND OTHER COMMITMENTS

The Fund leases certain office facilities and office equipment pursuant to agreements that expire between 2016 and 2021. At June 30, 2016, the future minimum lease commitments under these non-cancelable operating leases are as follows:

Year ending <u>June 30</u>	
2017	\$ 116,630
2018	119,812
2019	122,996
2020	124,530
2021	<u>161</u>
Total	<u>\$ 484,129</u>

Rent expense for the years ended June 30, 2016 and 2015, for the Fund was \$108,328 and \$114,286, respectively.

The Fund has committed to the use of facilities for the annual golf outing to be held in August 2016 and a social fundraising event to be held in September 2016. A balance of \$98,847 will be payable in Fall 2016 for the use of those facilities and related expenses.

NOTE 13 - RETIREMENT PLANS

Employees are eligible to participate in the Fund's Defined Contribution Retirement Plan (Section 403(b) plan). Employees may contribute pre-tax dollars to an individual investment account. The Fund currently matches contributions at a rate of \$0.50 per \$1.00 contributed up to a maximum of 8% of the employee's eligible wages. In 2016 and 2015, the Fund contributed \$61,734 and \$52,335, respectively, to the plan on behalf of participating employees.

(Continued)

BIG SHOULDERS FUND
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 14 - TAX-EXEMPT STATUS

The Fund has received a determination letter from the Internal Revenue Service indicating that the Fund is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code of 1986 and, except for taxes pertaining to unrelated business income, is exempt from federal and state income taxes. The Fund is classified as a public charity under Section 509(a)(1) and Section 170(b)(1)(A)(vi), an organization that normally receives a substantial part of its support from direct or indirect contributions from the general public. No provision has been made for income taxes in the accompanying financial statements as the Fund had no material unrelated business income in fiscal years 2016 and 2015.

The Fund recognizes a tax position as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded. The Fund does not expect the total amount of unrecognized tax benefits to significantly change in the next twelve months.

The Fund has applied this criterion to all tax positions for which the statute of limitations remains open. Tax years open to examination by tax authorities under the statute of limitations include fiscal years ending June 2013 through 2015. The Fund recognizes interest and penalties related to unrecognized tax benefits in interest and income tax expense, respectively. The Fund has no amounts accrued for interest or penalties as of June 30, 2016 and 2015. The Fund has determined that its tax provisions satisfy the more likely than not criterion and that no provision for income taxes is required at June 30, 2016.