



**Consolidated Financial Statements
(Together with Independent Auditors' Report
and Supplementary Information)**

FOR THE YEARS ENDED AUGUST 31, 2018 AND 2017

M A R K S P A N E T H

ACCOUNTANTS & ADVISORS

CATALYST INC.

**CONSOLIDATED FINANCIAL STATEMENTS
(Together with Independent Auditors' Report)**

FOR THE YEARS ENDED AUGUST 31, 2018 AND 2017

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INDEPENDENT AUDITORS' REPORT

The Board of Directors of
Catalyst Inc.

We have audited the accompanying consolidated financial statements of Catalyst Inc. ("Catalyst"), which comprise the consolidated statements of financial position as of August 31, 2018 and 2017, and the related consolidated statements of activities and cash flows for the years then ended and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 of consolidated 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 consolidated financial statements based on our audits. We did not audit the financial statements for the years ended August 31, 2018 and 2017, of Catalyst Canada, Inc., a controlled subsidiary, whose financial statements reflect total assets of seventeen and fourteen percent of consolidated assets at August 31, 2018 and 2017, respectively, and total revenues constituting eleven and nine percent of consolidated revenues for the years then ended. Those statements were audited by other auditors in accordance with Canadian generally accepted auditing standards, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Catalyst Canada, Inc., as of and for the years ended August 31, 2018 and 2017, is based solely on the report of other auditors, and additional audit procedures to meet the relevant requirements of auditing standards generally accepted in the United States of America performed by other auditors. 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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. 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 consolidated 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, based on our audits and the report of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Catalyst Inc. as of August 31, 2018 and 2017, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information on pages 14 and 15 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Marko Paveth CPA

New York, NY
February 28, 2019

CATALYST INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS OF AUGUST 31, 2018 AND 2017

	2018	2017
ASSETS		
Cash (Note 10)	\$ 4,757,698	\$ 3,676,379
Grants and contributions receivable, net (Notes 2F and 3)	2,598,173	3,878,304
Accounts and other receivables (Note 2F)	1,240,552	844,061
Investments (Notes 2D, 5 and 10)	17,042,391	16,456,342
Prepaid expenses and other assets	646,733	700,755
Property and equipment, net (Notes 2G, 4 and 7)	1,489,952	1,647,518
TOTAL ASSETS	\$ 27,775,499	\$ 27,203,359
 LIABILITIES		
Accounts payable and accrued expenses	\$ 1,416,204	\$ 1,305,120
Deferred revenue (Note 2I)	287,138	339,033
Deferred rent obligation (Notes 2H and 9)	1,162,503	1,249,766
TOTAL LIABILITIES	2,865,845	2,893,919
 COMMITMENTS AND CONTINGENCIES (Note 9)		
NET ASSETS (Notes 2C and 6)		
Unrestricted		
Invested in property and equipment	1,489,952	1,647,518
Operations	11,790,250	11,162,605
Total unrestricted	13,280,202	12,810,123
Temporarily restricted	552,869	898,172
Permanently restricted	11,076,583	10,601,145
TOTAL NET ASSETS	24,909,654	24,309,440
TOTAL LIABILITIES AND NET ASSETS	\$ 27,775,499	\$ 27,203,359

The accompanying notes are an integral part of these consolidated financial statements.

CATALYST INC.
CONSOLIDATED STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED AUGUST 31, 2018 AND 2017

	For the Year Ended August 31, 2018				For the Year Ended August 31, 2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2018	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2017
REVENUE AND SUPPORT:								
Contributions and grants	\$ 6,983,026	\$ 814,080	\$ 5,184	\$ 7,802,290	\$ 7,299,544	\$ 977,070	\$ 5,637	\$ 8,282,251
Special events revenue (net of direct donor benefit costs of \$434,438 in 2018 and \$447,088 in 2017)	4,187,749	200,000	-	4,387,749	3,864,920	207,500	-	4,072,420
Donated services and assets (Notes 2E and 7)	436,292	-	-	436,292	999,430	-	-	999,430
Consulting income	487,607	-	-	487,607	578,195	-	-	578,195
Conference and other events	523,895	-	-	523,895	444,831	-	-	444,831
Honoraria and other	903,437	-	-	903,437	654,031	-	-	654,031
Leading with Inclusion Workshops	588,802	-	-	588,802	139,764	-	-	139,764
MARC Workshops	1,961,262	-	-	1,961,262	741,335	-	-	741,335
Interest and dividend income (Note 5)	155,175	-	193,143	348,318	129,960	-	174,133	304,093
Realized and unrealized income on investments (Note 5)	139,795	-	277,111	416,906	70,432	-	654,879	725,311
Net assets released from restrictions (Notes 2C and 6)	1,359,383	(1,359,383)	-	-	2,973,889	(2,973,889)	-	-
TOTAL REVENUE AND SUPPORT	17,726,423	(345,303)	475,438	17,856,558	17,896,331	(1,789,319)	834,649	16,941,661
EXPENSES:								
Program services:								
National education	1,348,443	-	-	1,348,443	2,184,032	-	-	2,184,032
Global brand and strategic communications	2,093,424	-	-	2,093,424	530,592	-	-	530,592
Research	1,550,598	-	-	1,550,598	2,538,471	-	-	2,538,471
Global events	1,490,325	-	-	1,490,325	2,689,176	-	-	2,689,176
Consulting services	2,047,235	-	-	2,047,235	2,901,296	-	-	2,901,296
Global learning products and programs	2,316,348	-	-	2,316,348	-	-	-	-
Information center and services	1,669,335	-	-	1,669,335	1,760,283	-	-	1,760,283
Total program services	12,515,708	-	-	12,515,708	12,603,850	-	-	12,603,850
Supporting services:								
Finance and administration	2,404,223	-	-	2,404,223	2,404,918	-	-	2,404,918
Development	2,336,413	-	-	2,336,413	2,503,547	-	-	2,503,547
Total supporting services	4,740,636	-	-	4,740,636	4,908,465	-	-	4,908,465
TOTAL EXPENSES	17,256,344	-	-	17,256,344	17,512,315	-	-	17,512,315
CHANGE IN NET ASSETS	470,079	(345,303)	475,438	600,214	384,016	(1,789,319)	834,649	(570,654)
Net assets - beginning of year	12,810,123	898,172	10,601,145	24,309,440	12,426,107	2,687,491	9,766,496	24,880,094
NET ASSETS - END OF YEAR	\$ 13,280,202	\$ 552,869	\$ 11,076,583	\$ 24,909,654	\$ 12,810,123	\$ 898,172	\$ 10,601,145	\$ 24,309,440

The accompanying notes are an integral part of these consolidated financial statements.

CATALYST INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED AUGUST 31, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 600,214	\$ (570,654)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	395,532	510,336
Realized (gain) on investment sales	(428,078)	(199,087)
Unrealized loss (gain) on investments	11,172	(526,224)
Bad debt expense	345,477	228,806
Change in discount on contributions receivable	(19,835)	(23,348)
Loss on disposal of property and equipment	1,860	-
Contributed property and equipment	(94,924)	-
Subtotal	811,418	(580,171)
Changes in operating assets and liabilities:		
(Increase) or decrease in assets:		
Grants and contributions receivable	954,489	892,735
Accounts and other receivables	(396,491)	(52,580)
Prepaid expenses and other assets	54,022	(33,509)
Increase or (decrease) in liabilities:		
Accounts payable and accrued expenses	111,084	(14,211)
Deferred revenue	(51,895)	41,575
Deferred rent obligation	(87,263)	(64,157)
Net Cash Provided by Operating Activities	1,395,364	189,682
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(4,652,278)	(4,945,900)
Proceeds from investment sales	4,483,135	4,941,973
Purchases of property and equipment	(144,902)	(94,139)
Net Cash Used in Investing Activities	(314,045)	(98,066)
NET INCREASE IN CASH	1,081,319	91,616
Cash - beginning of the year	3,676,379	3,584,763
CASH - END OF YEAR	\$ 4,757,698	\$ 3,676,379

The accompanying notes are an integral part of these consolidated financial statements.

CATALYST INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AUGUST 31, 2018 AND 2017

NOTE 1 – ORGANIZATION AND NATURE OF ACTIVITIES

Catalyst Inc. is a leading nonprofit with a mission to accelerate progress for women through workplace inclusion. Catalyst Canada, Inc. (“Catalyst Canada”) was incorporated on December 27, 2000 to fulfill the mission of Catalyst in Canada and is controlled by Catalyst Inc. Catalyst Europe AG (“Catalyst Europe”) was incorporated on June 22, 2006 to fulfill the mission of Catalyst in Europe. Catalyst Women Research and Consultancy India Private Limited (“Catalyst India”) was incorporated on September 14, 2011 to fulfill the mission of Catalyst in India. Catalyst Australia Women Research and Consulting Limited (“Catalyst Australia”) was incorporated on June 3, 2013 to fulfill the mission of Catalyst in Australia. Catalyst Japan Women Research and Consulting Limited (“Catalyst Japan”) was incorporated on May 6, 2014 to fulfill the mission of Catalyst in Japan. The accompanying consolidated financial statements include the accounts of Catalyst Inc., Catalyst Canada, Catalyst Europe, Catalyst India, Catalyst Australia and Catalyst Japan (collectively, “Catalyst”). These entities are controlled by Catalyst Inc.

In January 2018, Catalyst determined that it intends to cease operations in Catalyst Japan and Catalyst India. Operations in these two subsidiaries were winding down as of August 31, 2018. The remaining balances in these two subsidiaries are immaterial to the consolidated financial statements, as a whole.

Descriptions of Catalyst’s major programs and supporting services are as follows:

- **National Education** – National Education fosters awareness and informs decision makers of the changing role and needs of women in the workplace by promoting Catalyst’s mission of advancing women in business and the professions, Catalyst’s research, and services. National Education also includes the execution of strategic plans to expand the reach of Catalyst’s mission in the North American, European and Asian business communities.
- **Global Brand and Strategic Communications** – The Global Brand and Strategic Communications Department creates and executes strategies to increase Catalyst’s visibility globally by developing and strengthening its brand, products and services. The Department is responsible for editing, designing and producing all products, publications and collateral materials, and for building public education and awareness of Catalyst’s work through media relations, marketing opportunities and social media campaigns, as well as initiatives like the Catalyst CEO Champions For Change.
- **Research** – The Research team conducts applied research to promote gender, racial and ethnic inclusion in workplaces around the world. This research culminates in published studies that include findings from interviews, focus groups and surveys, as well as company best practices and recommendations for companies and firms creating equitable and inclusive workplaces for women and men. Catalyst conducts research globally and has produced reports specific to the United States, Canada, Europe, India, Australia, Japan and Mexico.
- **Global Events** – The Global Events department is responsible for Catalyst’s largest annual fundraiser – the Catalyst Awards Conference and Dinner. This annual event raises over 25% of overall revenue and engages over 2,000 people including some of the most powerful global CEO’s and companies. The department is responsible for all other global convening events and roundtables to share learning, celebrate success and inspire change. The department delivers over 24 webinars annually, reaching over 4,500 participants globally to share knowledge and solutions among our Catalyst supporter community.
- **Consulting Services** – Consulting Services is the department charged with fostering impact through a variety of services, benefits and activities. It drives engagement and impact through: Consulting Services, Vital Signs and leadership of the CEO Summit franchise. It supports Catalyst’s relationships with donors through involvement with relationship managers. The team also contributes to Catalyst’s knowledge development through the Insight Loop, focusing on Impact Metrics and by scaling insights from consulting work into publications, tools, communications and events.

CATALYST INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AUGUST 31, 2018 AND 2017

NOTE 1 – ORGANIZATION AND NATURE OF ACTIVITIES (Continued)

- **Global Learning Products and Programs** – The Global LPP team is responsible for the development and delivery of fee-for-service workshops and other programming designed to accelerate progress for women in the workplace through individual awareness building, shifting mindsets and behaviors and commitment to action plans. Two foundational programs include MARC (Men Advocating Real Change) which engages men in championing women in the workplace and LWI (Leading With Inclusion) which helps individuals learn how to overcome bias and become more inclusive leaders. Through in-person and virtual workshops, LPP solutions reach thousands of individuals globally.
- **Information Center and Services** – The Information Center responds to public queries on the topic of advancing women and building inclusive workplaces, and it creates knowledge products that increase understanding on topics related to diversity and inclusion. The Information Center provides efficient, valuable information to Catalyst donors, the media and those who formulate public policy.
- **Finance and Administration** – Finance and Administration maintains operational, administrative and financial responsibility for Catalyst.
- **Development** – Development enlists corporate, individual, governmental and foundation contributions for general support and special research projects. The department manages relationships with sponsors headquartered in the United States, Canada, Europe, India, Australia and Japan.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- A. Catalyst's consolidated financial statements have been prepared on the accrual basis of accounting. Catalyst adheres to accounting principles generally accepted in the United States of America ("U.S. GAAP").
- B. The consolidated financial statements include the accounts of Catalyst Inc., Catalyst Canada, Catalyst Europe, Catalyst India, Catalyst Australia and Catalyst Japan. Upon consolidation, all significant intercompany balances and transactions are eliminated.
- C. Pledges are recorded as revenue when Catalyst is formally notified of the grants or contributions by the respective donors.

Catalyst reports contributions as unrestricted support unless they are received with donor stipulations that limit the use of the donated assets; such assets are considered temporarily restricted. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions. Temporarily restricted net assets were released from donor restrictions by incurring expenses and satisfying time restrictions, thereby satisfying the restricted purposes of providing program services as specified by the donors.

Catalyst reports gifts of cash and other assets as permanently restricted support when use by Catalyst is limited by donor-imposed stipulations that neither expire by the passage of time nor can be fulfilled or otherwise removed by actions of Catalyst. Earnings on the reserve fund component of certain permanently restricted net assets can be borrowed for research projects, as described in Note 6. Additionally, interest earned on permanently restricted research project center earnings can be used to support the activities on the research centers as described in Note 6.

- D. Investments are stated at their fair values. Realized and unrealized gains and losses are recognized as changes in net assets in the period in which they occur and investment income is recognized as revenue in the period earned. In order to increase consistency and comparability in fair value measurements, a fair value hierarchy prioritizes observable and unobservable inputs used to measure fair value into three levels, as described below:
 - Level 1 – Valuations for assets and liabilities that can be obtained from readily available active pricing sources for market transactions involving identical assets or liabilities.

CATALYST INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AUGUST 31, 2018 AND 2017

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- Level 2 – Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third-party pricing services for similar assets or liabilities.
- Level 3 – Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models or similar techniques, and not based on market exchange, dealer, or broker-traded transactions.

The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the end of the reporting period.

Catalyst evaluates the significance of transfers between levels based upon the nature of the financial instrument and the size of the transfer relative to total net assets. For the years ended August 31, 2018 and 2017, there were no transfers.

Fair value measurements are based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In order to increase consistency and comparability in fair value measurements, a fair value hierarchy prioritizes observable and unobservable inputs used to measure fair value into the three levels described above.

- E. Donated services are recognized in the consolidated financial statements if the services enhance or create non-financial assets or require specialized skills and are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. Donated goods or contributions of use of facilities are recognized at their estimated fair value.
- F. Catalyst has determined that an allowance of \$241,024 and \$221,300, respectively, was necessary for uncollectible grants and contributions receivable and no allowance for accounts and other receivables was necessary as of August 31, 2018 and 2017. Such estimates are based on management's assessments of the creditworthiness of its donors, the aged basis of its receivables, as well as current economic conditions and historical information.
- G. Property and equipment is stated at cost less accumulated depreciation or amortization. These amounts do not purport to represent replacement or realizable values. Catalyst capitalizes all owned property and equipment having a useful life of greater than one year and a cost of more than \$1,000. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets. Leasehold improvements are amortized over the lesser of the useful lives of the improvements or the term of the applicable lease.

Contributed property and equipment is recorded at fair value on the date of donation. When donors stipulate restrictions on the use of the assets, such contributions are recorded as restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted support. During the year ended August 31, 2018, Catalyst received \$94,924 of contributed computer equipment.

- H. Catalyst leases real property under operating leases at various dates in the future. Since the rent payments increase over time, Catalyst records an adjustment to rent expense each year to reflect its straight-lining policy. Straight-lining of rent gives rise to a timing difference that is reflected as deferred rent obligation in the accompanying consolidated statements of financial position. The annual adjustment recorded for the years ended August 31, 2018 and 2017 decreased the deferred rent obligation by \$87,263 and \$64,157, respectively.
- I. Catalyst receives cash in advance of special events that are to be held after the date of the consolidated statements of financial position. It is Catalyst's policy to record the contribution portion of the events as revenue when received and the exchange portion as deferred revenue until earned. Additionally, advisory fee, honoraria and miscellaneous income are reported as revenue when expenses are incurred in accordance with the terms of the agreement. Deferred revenue balances include special event, advisory fee, honoraria and miscellaneous receipts applicable to the next fiscal year.

CATALYST INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AUGUST 31, 2018 AND 2017

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- J. All elements of financial statements for Catalyst Canada, Catalyst Europe, Catalyst India, Catalyst Australia and Catalyst Japan are translated by using a currency exchange rate. For assets and liabilities, the exchange rate as of the consolidated statement of financial position date is used. For revenues, support and expenses, an average exchange rate for the period is used. As of August 31, 2018 and 2017, the accumulated adjustments to net assets related to currency exchange rates amounted to a decrease in net assets of approximately \$(1,000) and \$(380,000), respectively. For the years ended August 31, 2018 and 2017, Catalyst incurred a foreign exchange gain and (loss) of \$379,000 and \$(391,000), respectively. Through February 2019, there are no significant exchange rate changes.
- K. The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures at the date of the consolidated financial statements. Actual results could differ from those estimates.
- L. Certain line items in the August 31, 2017 consolidated financial statements were reclassified to conform to the August 31, 2018 presentation. These changes had no impact on the change in net assets for the year ended August 31, 2017.

NOTE 3 – GRANTS AND CONTRIBUTIONS RECEIVABLE, NET

Grants and contributions receivable consist of the following as of August 31:

	<u>2018</u>	<u>2017</u>
Amounts due in less than one year	\$ 2,839,197	\$ 3,720,724
Amounts due in one to five years	-	405,000
	<u>2,839,197</u>	<u>4,125,724</u>
Less: allowance for doubtful accounts	(241,024)	(221,300)
Less: Discount on long-term pledges receivable	-	(26,120)
Grants and contributions receivable, net	<u>\$ 2,598,173</u>	<u>\$ 3,878,304</u>

NOTE 4 – PROPERTY AND EQUIPMENT, NET

Property, equipment and leasehold improvements consist of the following as of August 31:

	<u>2018</u>	<u>2017</u>	<u>Estimated Useful Life</u>
Furniture and fixtures	\$ 403,166	\$ 407,671	5 years
Equipment	2,333,404	3,030,059	5 years
Leasehold improvements	<u>1,533,251</u>	<u>1,528,634</u>	Lease term
Total cost	4,269,821	4,966,364	
Less: accumulated depreciation and amortization	<u>(2,779,869)</u>	<u>(3,318,846)</u>	
Net book value	<u>\$ 1,489,952</u>	<u>\$ 1,647,518</u>	

Depreciation and amortization expense for the years ended August 31, 2018 and 2017 amounted to \$395,532 and \$510,336, respectively. During the year ended August 31, 2018, equipment with a cost of \$8,148 and accumulated depreciation of \$6,288 was written off, along with \$928,221 of fully depreciated equipment.

CATALYST INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AUGUST 31, 2018 AND 2017

NOTE 5 – INVESTMENTS AND FAIR VALUE MEASUREMENT

Investments consist of cash held for investment and financial assets carried at fair value at August 31, 2018 and 2017 and are classified as level 1 in the table below as follows:

	<u>2018</u>	<u>2017</u>
Investments Carried at Fair Value		
Certificates of deposit	\$ 3,771,447	\$ 4,236,887
Domestic equities	166,950	170,625
Mutual funds	<u>12,019,563</u>	<u>11,296,535</u>
Total investments at fair value	15,957,960	15,704,047
Cash investments	<u>1,084,431</u>	<u>752,295</u>
TOTAL INVESTMENTS	<u>\$ 17,042,391</u>	<u>\$ 16,456,342</u>

Investment income consists of the following for the years ended August 31:

	<u>2018</u>	<u>2017</u>
Realized gain	\$ 428,078	\$ 199,087
Unrealized (loss) gain	(11,172)	526,224
Interest and dividend income	<u>348,318</u>	<u>304,093</u>
	<u>\$ 765,224</u>	<u>\$ 1,029,404</u>

Investments, in general, are exposed to various risks, such as interest rate, credit and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the amounts reported in the consolidated financial statements.

NOTE 6 – NET ASSETS

Temporarily Restricted Net Assets

Temporarily restricted net assets as of August 31, 2018 and 2017 are restricted as follows:

	<u>2018</u>	<u>2017</u>
Major Gifts Campaign - Global Expansion	\$ 217,471	\$ 266,978
Major Gifts Campaign - Preservation of Catalyst Archives at Hagley Museum	83,503	159,947
Canada Sponsorships	141,006	151,495
Miscellaneous (less than \$100,000)	<u>15,889</u>	<u>99,792</u>
	457,869	678,212
Time restricted	<u>95,000</u>	<u>219,960</u>
	<u>\$ 552,869</u>	<u>\$ 898,172</u>

Temporarily restricted net assets of \$1,359,383 and \$2,973,889 were released from donor imposed restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors during the years ended August 31, 2018 and 2017.

CATALYST INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AUGUST 31, 2018 AND 2017

NOTE 6 – NET ASSETS (Continued)

Permanently Restricted Net Assets

During 1992, the “Felice N. Schwartz Reserve Fund for the Advancement of Women in Business and the Professions” was created. The principal amount of the fund may be borrowed on a short-term basis by Catalyst to complete research projects, which are of strategic importance, but lack complete funding, and to meet temporary cash flow needs. The income earned from invested principal will be used to grow the fund in line with inflation and to complete the financing of research projects for which the majority of funds have been raised. Borrowings from the principal and interest of this fund must be repaid. There were no borrowings from the fund for the years ended August 31, 2018 and 2017.

In December 2010, the Major Gifts Campaign to fund the Longitudinal Research Initiative: Change Leadership Research Center, Career Pathways Research Center, Corporate Practices Research Center and Corporate Governance Research Center was established. The principal amount of the fund will remain intact. Once all the payments are received, the interest on the fund will support the activities of the four Research Centers. Expenditures will include salaries for the Research Center Leaders; Endowed Fellows and Scholars; Endowed Longitudinal Data Sets and Thought Leaders Convening Events. There was no spending for the years ended August 31, 2018 and 2017.

Contributions made to the Major Gifts Campaign - Longitudinal Research Initiative through August 31, 2013, were allocated 70% for permanent endowment and 30% as temporarily restricted contributions subject to purpose and time restrictions. For the years ended August 31, 2018 and 2017, contributions made to the Major Gifts Campaign - Longitudinal Research Initiative are allocated 50% for permanent endowment and 50% as temporarily restricted contributions subject to purpose and time restrictions. All other Major Gift Campaign program contributions are temporarily restricted for purpose or time.

As required by U.S. GAAP, net assets associated with endowment funds are classified and reported based on existence or absence of donor-imposed restrictions. Catalyst is subject to the Ohio-enacted version of the Uniform Prudent Management of Institutional Funds Act (“UPMIFA”) in relation to its donor restricted endowment funds. The Board of Directors of Catalyst has interpreted the Ohio-enacted version of UPMIFA as allowing Catalyst to appropriate for expenditure or accumulate so much of an endowment fund as Catalyst determines is prudent for the uses, benefits, purposes and duration for which the endowment funds is established, subject to the intent of the donor as expressed in the gift instrument. The earnings from the endowment funds shall be temporarily restricted until appropriated for expenditure by the Board of Directors.

Changes in permanently restricted endowment net assets for years ended August 31, 2018 and 2017, are as follows:

	<u>2018</u>	<u>2017</u>
Investment activity:		
Interest and dividends	\$ 193,143	\$ 174,133
Unrealized (loss) gain on investments	(6,730)	530,558
Realized gain on investments	<u>283,841</u>	<u>124,321</u>
Total investment activity	470,254	829,012
Contributions	<u>5,184</u>	<u>5,637</u>
Change in endowment net assets	475,438	834,649
Endowment net assets, beginning of year	<u>10,601,145</u>	<u>9,766,496</u>
Endowment net assets, end of year	<u>\$ 11,076,583</u>	<u>\$ 10,601,145</u>

CATALYST INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AUGUST 31, 2018 AND 2017

NOTE 6 – NET ASSETS (Continued)

Endowment net assets of \$11,076,583 and \$10,601,145 are included with investments and grants and contributions receivable on the consolidated statements of financial position as of August 31, 2018 and 2017, respectively.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires Catalyst to retain as a fund of perpetual duration. In accordance with Catalyst's policy, deficiencies of this nature are reported as a reduction of unrestricted net assets. There were no deficiencies for the years ended August 31, 2018 and 2017.

NOTE 7 – DONATED SERVICES AND ASSETS

Catalyst received the following donated services and assets for the years ended August 31, 2018 and 2017:

	2018	2017
Legal	\$ 333,646	\$ 139,931
Other services	7,722	859,499
Capitalized computer equipment	94,924	-
	\$ 436,292	\$ 999,430

A member of Catalyst's Board of Directors is an attorney. For many years, her law firm has provided pro-bono legal services to Catalyst. For the years ended August 31, 2018 and 2017, Catalyst recorded contributed goods and services as noted above which are included in revenue, expenses and fixed assets for capitalized property and equipment in the accompanying consolidated financial statements.

NOTE 8 – PENSION PLAN

Catalyst sponsors a defined contribution money purchase plan. Catalyst contributes 5% of compensation and employees are given the choice to contribute up to 5% of their compensation with Catalyst matching dollar for dollar up to limits established by the Internal Revenue Code. An employee becomes eligible to participate in the plan after one year of service. Total pension expense for the years ended August 31, 2018 and 2017 amounted to \$684,845 and \$744,160, respectively.

NOTE 9 – COMMITMENTS AND CONTINGENCIES

- A. In October 2011, Catalyst entered into a lease agreement for office space, expiring in 2027, for its New York City headquarters. In connection with the lease, Catalyst received nine months of free rent and reimbursement from the landlord for leasehold improvements of approximately \$907,000. The reimbursement from the landlord for leasehold improvements, as well as the value of the nine months of free rent, have been recorded as a deferred rent obligation and are being amortized over the lease term. Rental expense for this space is recorded on a straight-line basis. The lease provides for an escalation based on operating costs.
- B. In June 2002, Catalyst Canada executed a lease for office space which expired in 2007 and was extended to June 2012. The lease was extended and expired on April 30, 2018. It was further extended through April 30, 2023. In connection with the lease, Catalyst Canada received three months of free rent that has been recorded as a deferred rent obligation and is being amortized over the lease term. Under the lease, Catalyst Canada is obligated to pay for rent and other occupancy costs.

CATALYST INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AUGUST 31, 2018 AND 2017

NOTE 9 – COMMITMENTS AND CONTINGENCIES (Continued)

- C. Catalyst is obligated, pursuant to lease agreements, to approximate future minimum annual lease payments for the years ended after August 31, 2018, as follows:

2019	\$	739,456
2020		740,325
2021		740,325
2022		800,912
2023		790,425
Thereafter		<u>2,918,763</u>
	\$	<u>6,730,206</u>

Occupancy expense for the years ended August 31, 2018 and 2017, amounted to \$833,822 and \$912,203, respectively.

- D. Catalyst holds a Letter of Credit in connection with occupancy of the leased office space at 120 Wall Street in New York City. The Letter of Credit allows up to \$250,000 to be borrowed. As of August 31, 2018 and 2017, the landlord has the right to draw down \$199,936 against the Letter of Credit.
- E. Catalyst Inc. is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and has been classified as an organization that is not a private foundation under Section 509(a). Catalyst Canada was incorporated under the Canada Corporations Act as a not-for-profit organization and is exempt from tax under paragraph 149(l)(1) of the Income Tax Act. Catalyst Inc. believes that it has no uncertain tax positions as of August 31, 2018 and 2017 in accordance with FASB Accounting Standards Codification (“ASC”) Topic 740, *Income Taxes*, which provides standards for establishing and classifying any tax provisions for uncertain tax positions.

NOTE 10 – CONCENTRATIONS OF CREDIT RISK

Cash and cash equivalents that potentially subject Catalyst to a concentration of credit risk include cash accounts with banks that exceed the Federal Deposit Insurance Corporation (“FDIC”) insurance limits. Interest and noninterest bearing accounts are insured up to \$250,000 per depositor. As of August 31, 2018 and 2017, there was approximately \$1,252,000 and \$385,000, respectively, of cash and cash equivalents held by three banks that exceeded FDIC limits. Such excess includes outstanding checks. Canada Deposit Insurance Corporation (“CDIC”) insurance limits of 100,000 CAD were exceeded by approximately \$980,000 and \$478,000 as of August 31, 2018 and 2017, respectively, at one bank. India Deposit Insurance and Credit Guarantee Program (“DICGC”) insurance limits of 100,000 INR were exceeded by approximately \$15,000 and \$11,000 as of August 31, 2018 and 2017, respectively, at one bank. The Deposit Protection of Swiss Banks and Securities Dealers limits of deposits of up to 100,000 CHF were exceeded by approximately \$2,255,000 and \$1,969,000 as of August 31, 2018 and 2017, respectively, at one bank. Financial Claims Scheme in Australia limits deposits up to 250,000 AUD. Catalyst Australia exceeded the limits by approximately \$217,000 and \$169,000 as of August 31, 2018 and 2017, respectively, at one bank. Catalyst Japan did not exceed insurance limits as of August 31, 2018 and 2017.

NOTE 11 – SUBSEQUENT EVENTS

Management has evaluated, for potential recognition and disclosure, events subsequent to the date of the consolidated statement of financial position through February 28, 2019, the date the consolidated financial statements were available to be issued.

CATALYST INC.
CONSOLIDATED SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED AUGUST 31, 2018
(With Comparative Totals for 2017)

For the Year Ended August 31, 2018

	Program Services							Supporting Services					Total 2018	Total 2017
	National Education	Global Brand and Strategic Communications	Research	Global Events	Consulting Services	Global Learning Products and Programs	Information Center and Services	Total Program Services	Finance and Administration	Development	Total Supporting Services			
OPERATING EXPENSES:														
Salaries, benefits and payroll taxes	\$ 456,528	\$ 1,251,677	\$ 1,121,743	\$ 664,273	\$ 1,658,398	\$ 1,129,658	\$ 923,359	\$ 7,205,636	\$ 1,762,954	\$ 1,315,548	\$ 3,078,502	\$ 10,284,138	\$ 11,057,080	
Professional fees	749,870	371,040	67,020	55,200	27,500	655,976	54,118	1,980,724	243,644	219,805	463,449	2,444,173	2,316,832	
Pension expense	30,406	72,848	71,448	49,809	121,681	74,303	64,193	484,688	125,900	74,257	200,157	684,845	744,160	
Occupancy	23,104	111,495	83,248	48,487	82,719	88,518	101,734	539,305	139,468	155,048	294,516	833,821	912,203	
Printing, typesetting and design	-	61,364	-	189,263	70,620	-	-	321,247	-	-	-	321,247	228,486	
Supplies	925	8,437	2,284	4,251	2,077	2,619	17,469	38,062	3,525	4,193	7,718	45,780	43,116	
Postage and shipping	359	1,371	501	5,419	707	754	5,538	14,649	1,975	1,504	3,479	18,128	18,446	
Books and subscriptions	1,016	15,121	2,084	774	14,677	2,580	25,136	61,388	1,578	6,321	7,899	69,287	67,732	
Meetings, conferences and travel	51,228	19,397	62,211	34,159	19,470	97,610	12,288	296,363	12,240	120,125	132,365	428,728	422,409	
Repairs and maintenance	1,504	39,932	62,116	1,216	3,684	3,929	233,863	346,244	18,555	9,463	28,018	374,262	352,294	
Telephone	950	1,404	434	3,748	830	1,218	81,680	90,264	1,927	6,169	8,096	98,360	65,670	
Depreciation and amortization	4,225	32,087	49,463	8,030	23,992	165,271	31,452	314,520	41,334	39,678	81,012	395,532	510,336	
Conference expense	-	-	-	382,111	-	-	-	382,111	-	-	-	382,111	383,842	
Bad debt expense	-	-	-	-	-	-	-	-	-	345,478	345,478	345,478	228,806	
Other	28,328	107,251	28,046	43,585	20,880	93,912	118,505	440,507	51,123	38,824	89,947	530,454	160,903	
TOTAL EXPENSES	\$ 1,348,443	\$ 2,093,424	\$ 1,550,598	\$ 1,490,325	\$ 2,047,235	\$ 2,316,348	\$ 1,669,335	\$ 12,515,708	\$ 2,404,223	\$ 2,336,413	\$ 4,740,636	\$ 17,256,344	\$ 17,512,315	

See independent auditors' report.

CATALYST INC.
CONSOLIDATED SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED AUGUST 31, 2017

For the Year Ended August 31, 2017

	Program Services						Supporting Services				Total 2017
	National Education	Global Brand and Strategic Communications	Research	Global Events	Consulting Services	Information Center and Services	Total Program Services	Finance and Administration	Development	Total Supporting Services	
OPERATING EXPENSES:											
Salaries, benefits and payroll taxes	\$ 969,086	\$ 287,339	\$ 1,736,096	\$ 1,395,299	\$ 2,312,263	\$ 1,096,215	\$ 7,796,298	\$ 1,718,210	\$ 1,542,572	\$ 3,260,782	\$ 11,057,080
Professional fees	1,000,808	211,870	315,652	280,555	8,496	17,653	1,835,034	312,864	168,934	481,798	2,316,832
Pension expense	59,928	7,743	121,799	93,811	158,018	73,749	515,048	122,560	106,552	229,112	744,160
Occupancy	92,761	21,734	126,096	146,086	100,757	101,277	588,711	143,279	180,213	323,492	912,203
Printing, typesetting and design	2,685	-	1,948	222,646	1,207	-	228,486	-	-	-	228,486
Supplies	1,579	666	2,439	10,111	2,857	17,251	34,903	3,294	4,919	8,213	43,116
Postage and shipping	637	350	1,527	8,956	642	1,211	13,323	2,268	2,855	5,123	18,446
Books and subscriptions	15,724	89	470	3,994	5,907	33,953	60,137	2,058	5,537	7,595	67,732
Meetings, conferences and travel	35,349	4,139	99,428	48,400	50,273	15,426	253,015	7,919	161,475	169,394	422,409
Repairs and maintenance	2,388	715	62,966	5,152	4,297	249,174	324,692	17,753	9,849	27,602	352,294
Telephone	3,090	565	336	4,703	2,486	43,253	54,433	2,528	8,709	11,237	65,670
Depreciation and amortization	22,679	7,110	86,113	49,068	180,048	42,597	387,615	62,072	60,649	122,721	510,336
Conference expense	-	-	-	362,754	21,088	-	383,842	-	-	-	383,842
Bad debt expense	-	-	-	-	-	-	-	-	228,806	228,806	228,806
Other	(22,682)	(11,728)	(16,399)	57,641	52,957	68,524	128,313	10,113	22,477	32,590	160,903
TOTAL EXPENSES	<u>\$ 2,184,032</u>	<u>\$ 530,592</u>	<u>\$ 2,538,471</u>	<u>\$ 2,689,176</u>	<u>\$ 2,901,296</u>	<u>\$ 1,760,283</u>	<u>\$ 12,603,850</u>	<u>\$ 2,404,918</u>	<u>\$ 2,503,547</u>	<u>\$ 4,908,465</u>	<u>\$ 17,512,315</u>

See independent auditors' report.