



Financial Statements  
June 30, 2011 and 2010

# Catholic Education Foundation of the Roman Catholic Diocese of Joliet

Catholic Education Foundation of the Roman Catholic Diocese of Joliet

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June 30, 2011 and 2010

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## Independent Auditor's Report

To His Excellency  
The Most Reverend R. Daniel Conlon  
Bishop of the Roman Catholic Diocese of Joliet  
and the Board of Directors  
Catholic Education Foundation of the Roman Catholic Diocese of Joliet  
Joliet, Illinois

We have audited the accompanying statements of financial position of the Catholic Education Foundation of the Roman Catholic Diocese of Joliet (Foundation), a division of the Roman Catholic Diocese of Joliet, as of June 30, 2011 and 2010, and the related statements of activities and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Catholic Education Foundation of the Roman Catholic Diocese of Joliet as of June 30, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Eide Bailly LLP*

Dubuque, Iowa  
October 28, 2011

Catholic Education Foundation of the Roman Catholic Diocese of Joliet  
 Statements of Financial Position  
 June 30, 2011 and 2010

	2011	2010
<b>Assets</b>		
Cash and cash equivalents	\$ 561,642	\$ 1,332,030
Accounts receivable	-	41,000
Due from Diocese of Joliet	168,428	3,263,674
Accrued interest receivable	3,400	18,000
Investments at fair value - Note 2	9,156,945	4,001,380
Total assets	\$ 9,890,415	\$ 8,656,084
 <b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Other liabilities	\$ 77,179	\$ 51,900
 <b>Net Assets</b>		
Unrestricted		
Undesignated	6,163,269	5,449,423
Designated - Scholarships for needy high school students	2,027,490	1,775,000
Designated - Kankakee area scholarships	1,263,043	1,108,929
Temporarily restricted - Note 10	159,184	70,582
Permanently restricted - Note 10	200,250	200,250
Total net assets	9,813,236	8,604,184
Total liabilities and net assets	\$ 9,890,415	\$ 8,656,084

	2011			
	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total Net Assets
Change in Net Assets				
Revenue				
Interest and dividends	\$ 243,407	\$ 7,911	\$ -	\$ 251,318
Realized gains on investments, net	517,915	16,832	-	534,747
Change in unrealized gains and losses on investments	531,954	17,288	-	549,242
Contributions	833,242	-	-	833,242
Kazma grant	422,500	-	-	422,500
Kaminski grant	49,980	50,020	-	100,000
Hostert scholarship	2,000	5,008	-	7,008
Archbishop Sartain scholarship	3,250	1,760	-	5,010
Total revenue	<u>2,604,248</u>	<u>98,819</u>	<u>-</u>	<u>2,703,067</u>
Net assets released from restrictions	10,217	(10,217)	-	-
	<u>2,614,465</u>	<u>88,602</u>	<u>-</u>	<u>2,703,067</u>
Expenses				
Administrative expenses	103,455	-	-	103,455
High school tuition assistance	356,500	-	-	356,500
Parish tuition assistance	410,800	-	-	410,800
Challenge grants	95,330	-	-	95,330
Diocesan tuition assistance	32,515	-	-	32,515
Bishop's grants	3,250	-	-	3,250
Kazma grant	422,500	-	-	422,500
Kaminski grant	49,980	-	-	49,980
Leaders for the future grants	11,000	-	-	11,000
Religious education grants	25,000	-	-	25,000
Smith bequest	9,000	-	-	9,000
Other grants	7,200	-	-	7,200
Total expenses	<u>1,526,530</u>	<u>-</u>	<u>-</u>	<u>1,526,530</u>
Revenues in excess of expenses	1,087,935	88,602	-	1,176,537
Transfers from Diocese of Joliet	32,515	-	-	32,515
Increase in net assets	<u>1,120,450</u>	<u>88,602</u>	<u>-</u>	<u>1,209,052</u>
Net assets, beginning of year	<u>8,333,352</u>	<u>70,582</u>	<u>200,250</u>	<u>8,604,184</u>
Net assets, end of year	<u>\$ 9,453,802</u>	<u>\$ 159,184</u>	<u>\$ 200,250</u>	<u>\$ 9,813,236</u>

See Notes to Financial Statements

Catholic Education Foundation of the Roman Catholic Diocese of Joliet  
 Statements of Activities and Changes in Net Assets  
 Years Ended June 30, 2011 and 2010

2010			
Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total Net Assets
\$ 125,219	\$ 6,127	\$ -	\$ 131,346
28,600	1,336	-	29,936
257,403	10,146	-	267,549
2,609,844	-	-	2,609,844
279,000	-	-	279,000
40,000	-	-	40,000
-	-	-	-
-	-	-	-
<u>3,340,066</u>	<u>17,609</u>	<u>-</u>	<u>3,357,675</u>
840	(840)	-	-
<u>3,340,906</u>	<u>16,769</u>	<u>-</u>	<u>3,357,675</u>
88,827	-	-	88,827
302,750	-	-	302,750
290,000	-	-	290,000
-	-	-	-
37,078	-	-	37,078
1,500	-	-	1,500
279,000	-	-	279,000
40,000	-	-	40,000
18,000	-	-	18,000
25,000	-	-	25,000
-	-	-	-
11,250	-	-	11,250
<u>1,093,405</u>	<u>-</u>	<u>-</u>	<u>1,093,405</u>
2,247,501	16,769	-	2,264,270
<u>1,195,321</u>	<u>53,813</u>	<u>-</u>	<u>1,249,134</u>
3,442,822	70,582	-	3,513,404
<u>4,890,530</u>	<u>-</u>	<u>200,250</u>	<u>5,090,780</u>
<u>\$ 8,333,352</u>	<u>\$ 70,582</u>	<u>\$ 200,250</u>	<u>\$ 8,604,184</u>

Catholic Education Foundation of the Roman Catholic Diocese of Joliet  
 Statements of Cash Flows  
 Years Ended June 30, 2011 and 2010

	2011	2010
Operating Activities		
Increase in net assets	\$ 1,209,052	\$ 3,513,404
Adjustments to reconcile increase in net assets to net cash from operating activities		
Realized gains on investments, net	(534,747)	(29,936)
Change in unrealized gains and losses on investments	(549,242)	(267,549)
Changes in assets and liabilities		
Accounts receivable	41,000	(24,000)
Accrued interest receivable	14,600	4,000
Due from Diocese of Joliet	3,095,246	(3,082,438)
Other liabilities	25,279	25,400
Net Cash from Operating Activities	3,301,188	138,881
Investing Activities		
Purchases of investments	(12,068,026)	(3,161,338)
Proceeds from sales of investments	7,996,450	3,093,431
Net Cash used for Investing Activities	(4,071,576)	(67,907)
Net Increase (Decrease) in Cash and Cash Equivalents	(770,388)	70,974
Cash and Cash Equivalents at Beginning of Year	1,332,030	1,261,056
Cash and Cash Equivalents at End of Year	\$ 561,642	\$ 1,332,030

## **Note 1 - Organization and Significant Accounting Policies**

### **Organization**

The Catholic Education Foundation of the Roman Catholic Diocese of Joliet (Foundation) is a non-profit organization established July 1, 1996, to provide financial assistance and to support Catholic education within the Roman Catholic Diocese of Joliet (Diocese).

From July 1, 1996 through June 30, 2009, the Foundation oversaw the investments and distribution of earnings for endowments restricted for Parish schools and high schools. The endowments were transferred into the Foundation from the Diocese, along with funded investments, on July 1, 1996. At the close of business on June 30, 2009, the endowments were transferred out of the Foundation and into a new entity (Educational Endowment Fund) whose sole responsibility is management of the endowments.

### **Tax-Exempt Status**

The Foundation is organized as an Illinois non-profit corporation and has been recognized by the Internal Revenue Service as exempt from federal income taxes under Internal Revenue Code Section 501(c)(3). The Foundation is not required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS pursuant to Section 501(a) of the Code. However, the Foundation is subject to income tax on net income that is derived from business activities that are unrelated to its exempt purpose, if applicable.

The Foundation would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred.

### **Basis of Accounting**

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Revenues are recognized when earned and expenses are recorded when the liability is incurred.

### **Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

### **Cash and Cash Equivalents**

The Foundation considers all investments purchased with an original maturity of three months or less to be cash and cash equivalents.

### **Investments**

Marketable securities are stated at fair value. Securities traded on national securities exchanges are valued at the last reported sales price on the last business day of the fiscal year. Investments traded in the over-the-counter market and listed securities, for which no sale was reported on that date, are valued at the average of the last reported bid and asked prices.

### **Temporarily and Permanently Restricted Net Assets**

Temporarily restricted net assets are those whose use by the Foundation has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Foundation in perpetuity.

### **Contributions**

The Foundation reports contributions of cash and other assets as temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. Contributions of cash and other assets that are received without donor stipulations that limit the use of the donated assets are reported as unrestricted support. When a temporary 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 statements of activities as net assets released from restrictions. However, if the restriction on the temporary support is met in the same reporting period as the contribution or income is received or earned, the activity is recorded as unrestricted on the statement of activities and changes in net assets.

Contributions are recorded by the Foundation when the contributions are received at the administrative offices.

### **Fair Value Measurements**

The Foundation has determined the fair value of certain assets and liabilities in accordance with generally accepted accounting principles, which provides a framework for measuring fair value.

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques should maximize the use of observable inputs and minimize the use of unobservable inputs. A fair value hierarchy has been established, which prioritizes the valuation inputs into three broad levels.

Level 1 inputs consist of quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the related asset or liability. Level 3 inputs are unobservable inputs related to the asset or liability.

### **Subsequent Events**

The Foundation has evaluated subsequent events through October 28, 2011, the date which the financial statements were available to be issued.

### **Reclassifications**

Certain items from the 2010 financial statements have been reclassified to conform to the current year presentation. These reclassifications had no effect on the increase in net assets.

**Note 2 - Investments**

As of June 30, 2011 and 2010, the investment portfolio consisted of:

	2011		2010	
	Cost	Fair Value	Cost	Fair Value
Common Stock	\$ 5,800,376	\$ 6,554,464	\$ 2,186,090	\$ 2,331,958
Corporate Bond and Notes	2,585,377	2,602,481	878,942	940,913
Government Obligations	-	-	714,398	728,509
Total investments	\$ 8,385,753	\$ 9,156,945	\$ 3,779,430	\$ 4,001,380

**Note 3 - Risks and Uncertainties**

The Foundation invests in various investment securities which are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect participants' account balances and the amounts reported in the statement of activities and changes in net assets.

**Note 4 - Related Party**

The Foundation and the Diocese of Joliet are organizations affiliated through common members of their respective Boards of Directors and the Diocesan Finance Council. The Foundation receives administrative services and operating support from the Diocese and reimburses the Diocese for direct expenses incurred. For the years ended June 30, 2011 and 2010, the Foundation reimbursed the Diocese for direct expenses of \$73,550 and \$70,345, respectively.

**Note 5 - Fund Raising Expenses**

Included in administrative expenses are fund raising expenses totaling \$75,041 and \$66,621 for the years ended June 30, 2011 and 2010, respectively.

**Note 6 - Concentration of Credit Risk**

The Foundation's cash balances are maintained in various bank deposit accounts. At times these deposits may be in excess of federally insured limits. Management believes these financial institutions have strong credit ratings and that credit risk related to these deposits is minimal.

**Note 7 - Due from Diocese of Joliet**

At June 30, 2010, the Diocese of Joliet had committed to transfer \$1,162,742 in funds previously held within its designated unrestricted net assets and temporarily restricted net assets to the Education Foundation. These funds are to be used for elementary and high school scholarships, which the Education Foundation will administer. Another \$1,775,000 was committed to be transferred from the net proceeds of the sale of the Driscoll High School property. The Diocese committed those funds to be used for high school scholarships, which the Education Foundation will administer.

**Note 8 - Fair Value of Assets**

Assets measured at fair value on a recurring basis at June 30, 2011 and 2010, are as follows:

	2011	2010
Common Stock	\$ 6,554,464	\$ 2,331,958
Corporate Bond and Note	2,602,481	940,913
Government Obligation	-	728,509
	\$ 9,156,945	\$ 4,001,380

Catholic Education Foundation of the Roman Catholic Diocese of Joliet  
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The related fair values of these assets are determined as follows:

	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
June 30, 2011			
Common Stock			
Basic industries	\$ 132,776	\$ -	\$ -
Materials	203,991	-	-
Capital goods	122,017	-	-
Industrial	484,672	-	-
Consumer staples	481,819	-	-
Consumer cyclical	101,134	-	-
Consumer discretionary	380,123	-	-
Energy	504,273	-	-
Financial	736,627	-	-
Foreign	1,811,511	-	-
Health care	423,230	-	-
Utilities	190,221	-	-
Technology	106,188	-	-
Information technology	683,076	-	-
Transportation	24,318	-	-
Telecommunication services	168,488	-	-
Total common stock	<u>6,554,464</u>	<u>-</u>	<u>-</u>
Corporate Bonds and Notes			
Maturing in 2-10 Years	<u>2,602,481</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$ 9,156,945</u>	<u>\$ -</u>	<u>\$ -</u>

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	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
June 30, 2010			
Common Stock			
Basic industries	\$ 81,322	\$ -	\$ -
Materials	51,934	-	-
Capital goods	51,585	-	-
Industrial	163,209	-	-
Consumer staples	237,534	-	-
Consumer cyclical	30,046	-	-
Consumer discretionary	232,876	-	-
Energy	244,678	-	-
Financial	427,034	-	-
Health care	226,336	-	-
Utilities	101,512	-	-
Technology	50,336	-	-
Information technology	344,404	-	-
Transportation	3,910	-	-
Telecommunication services	85,242	-	-
Total common stock	<u>2,331,958</u>	<u>-</u>	<u>-</u>
Corporate Bonds and Notes			
Maturing in less than 1 year	46,032	-	-
Maturing in 2-9 years	882,802	-	-
Maturing in 10 years or more	12,079	-	-
Total corporate bonds and notes	<u>940,913</u>	<u>-</u>	<u>-</u>
Government Obligations			
Maturing in less than 1 year	70,335	-	-
Maturing in 2-10 years	658,174	-	-
Total government obligations	<u>728,509</u>	<u>-</u>	<u>-</u>
 Total assets	 <u>\$ 4,001,380</u>	 <u>\$ -</u>	 <u>\$ -</u>

The fair value for common stock and government obligations was determined by reference to quoted market prices. Corporate bonds and notes were measured at fair value determined by reference to yields currently available on comparable securities issues with similar credit ratings.

**Note 9 - Endowment**

The Foundation's endowment at June 30, 2011 and 2010 consists of one donor restricted endowment fund. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

**Interpretation of Relevant Law**

The management of the Foundation has interpreted the State of Illinois Prudent Management of Institutional Funds Act (SPMIFA) 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 Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) 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 as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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

The composition of Endowment Net Assets by fund type as of June 30, 2011 and 2010, respectively, is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
June 30, 2011				
Donor-Restricted Endowment Funds	\$ -	\$ 40,474	\$ 200,250	\$ 240,724
June 30, 2010				
Donor-Restricted Endowment Funds	\$ -	\$ 16,769	\$ 200,250	\$ 217,019

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Changes in Endowment Net Assets for the years ending June 30, 2011 and 2010, respectively, are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>June 30, 2011</b>				
Endowment Net Assets, Beginning of Year	\$ -	\$ 16,769	\$ 200,250	\$ 217,019
Investment Return:				
Investment income	-	6,339	-	6,339
Net realized and unrealized appreciation	-	27,341	-	27,341
Appropriation of Endowment Assets for Expenditure	-	(9,975)	-	(9,975)
Endowment Net Assets, End of Year	<u>\$ -</u>	<u>\$ 40,474</u>	<u>\$ 200,250</u>	<u>\$ 240,724</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>June 30, 2010</b>				
Endowment Net Assets, Beginning of Year	\$ -	\$ -	\$ 200,250	\$ 200,250
Investment Return:				
Investment income	-	6,127	-	6,127
Net realized and unrealized depreciation	-	11,482	-	11,482
Appropriation of Endowment Assets for Expenditure	-	(840)	-	(840)
Endowment Net Assets, End of Year	<u>\$ -</u>	<u>\$ 16,769</u>	<u>\$ 200,250</u>	<u>\$ 217,019</u>

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The components of endowment funds classified as temporarily restricted net assets and permanently restricted net assets as of June 30, 2011 and 2010, respectively, are as follows:

	2011	2010
Temporarily Restricted Net Assets:		
The portion of perpetual endowment funds subject to a purpose restriction under SPMIFA	\$ 40,474	\$ 16,769
Permanently Restricted Net Assets:		
The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or by SPMIFA	\$ 200,250	\$ 200,250

**Funds with Deficiencies**

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or SPMIFA requires the Foundation to retain as a fund of perpetual duration. There were no such deficiencies as of June 30, 2011 and 2010.

**Return Objectives and Risk Parameters**

The Foundation has adopted investment and spending policies for endowment assets that attempt to ensure the health and long-term life of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity or for a donor-specified period(s). Under this policy, the endowment assets are invested in a manner to accept prudent levels of short and long-term volatility consistent with the near-term cash flow needs, funding level, and long-term liability structure of the investment portfolio.

**Strategies Employed for Achieving Objectives**

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

**Spending Policy and How the Investment Objectives Relate to Spending Policy**

The Foundation has a policy of making available for appropriating each year the net investment earning plus accumulated earnings from prior periods. The amount to be appropriated each year from this temporarily restricted income related to the endowment funds is determined by the trustee as directed by donor-imposed restrictions. In periods when there are no investment earnings and no accumulated earnings from prior years, appropriations of these endowment funds are not allowed.

**Note 10 - Temporarily and Permanently Restricted Net Assets**

Restricted funds by net asset class are as follows:

<u>Purpose</u>	2011			2010
	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total Restricted Net Assets	Total Restricted Net Assets
Foundation Funds Restricted for the Following Purposes:				
Scholarships specifically for:				
Bishop McNamara students, students at Joliet Catholic and Aquinas Catholic Academies	\$ 40,473	\$ 200,250	\$ 240,723	\$ 217,019
Scholarships for needy students	<u>118,711</u>	<u>-</u>	<u>118,711</u>	<u>53,813</u>
Totals	<u>\$ 159,184</u>	<u>\$ 200,250</u>	<u>\$ 359,434</u>	<u>\$ 270,832</u>