

**Catholic Education Foundation, Inc.**

**FINANCIAL STATEMENTS**

**JUNE 30, 2008 AND 2007**

# Catholic Education Foundation, Inc.

## TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT .....	1
STATEMENTS OF FINANCIAL POSITION.....	2
STATEMENTS OF ACTIVITIES.....	3
STATEMENTS OF CASH FLOWS.....	4
NOTES TO FINANCIAL STATEMENTS.....	5 – 9



**Independent Auditor's Report**

October 21, 2008

Board of Directors  
Catholic Education Foundation, Inc.  
Louisville, Kentucky

We have audited the accompanying statements of financial position of Catholic Education Foundation, Inc. as of June 30, 2008 and 2007, and the related statements of activities 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 Catholic Education Foundation, Inc. as of June 30, 2008 and 2007, 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.

*Cotton and Allen, P.S.C.*  
Cotton and Allen, P.S.C.

**STATEMENTS OF FINANCIAL POSITION**

June 30,	2008	2007
<b><u>ASSETS</u></b>		
Cash and cash equivalents (Note 7)	\$ 434,595	\$ 370,376
Investments (Notes 2 and 7)	15,744,567	16,691,262
Interest receivable	59,878	53,071
Due from the Archdiocese of Louisville (Note 4)	4,507	9,622
Pledges receivable (Notes 3 and 7)	69,733	190,188
Prepaid expenses	979	
Office equipment, net of accumulated depreciation (Note 5)	2,021	5,313
<b><u>TOTAL ASSETS</u></b>	<b>16,316,280</b>	<b>17,319,832</b>
<b><u>LIABILITIES AND NET ASSETS</u></b>		
<b>LIABILITIES</b>		
Accounts payable	8,936	7,577
<b>NET ASSETS</b>		
Unrestricted net assets (deficiency)		
Invested in equipment	2,021	5,313
Net expendable assets (deficiency)	(243,239)	833,556
Board designated	37,265	37,265
<b>Total Unrestricted Net Assets (Deficiency)</b>	<b>(203,953)</b>	<b>876,134</b>
Temporarily restricted net assets (Note 6)	631,986	556,810
Permanently restricted net assets (Note 7)	15,879,311	15,879,311
<b>Total Net Assets</b>	<b>16,307,344</b>	<b>17,312,255</b>
<b><u>TOTAL LIABILITIES AND NET ASSETS</u></b>	<b>\$ 16,316,280</b>	<b>\$ 17,319,832</b>

## STATEMENTS OF ACTIVITIES

Year Ended June 30,

2008

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>REVENUES, SUPPORT AND GAINS</b>				
Contributions	\$ 203,414	\$ 406,564	\$	\$ 609,978
Special event revenue	292,500			292,500
In-kind donations	55,058			55,058
Interest and dividend income	355,759			355,759
Realized investment gains				
Unrealized increase in market value of investments				
<b>Total</b>	<b>906,731</b>	<b>406,564</b>	<b>0</b>	<b>1,313,295</b>
Net assets released from restrictions	331,388	(331,388)		
<b>Total Revenues, Support and Gains</b>	<b>1,238,119</b>	<b>75,176</b>	<b>0</b>	<b>1,313,295</b>
<b>EXPENSES AND LOSSES</b>				
Fund-raising				
Special event expense	160,462			160,462
Salaries and salary-related expenses	36,947			36,947
Duplication, supplies, and postage	109			109
<b>Total Fund-Raising</b>	<b>197,518</b>	<b>0</b>	<b>0</b>	<b>197,518</b>
Education grants	931,995			931,995
Administrative expenses	188,108			188,108
Realized investment losses	28,720			28,720
Unrealized decrease in market value of investments	971,865			971,865
<b>Total Expenses and Losses</b>	<b>2,318,206</b>	<b>0</b>	<b>0</b>	<b>2,318,206</b>
<b>INCREASE (DECREASE) IN NET ASSETS</b>	<b>(1,080,087)</b>	<b>75,176</b>	<b>0</b>	<b>(1,004,911)</b>
<b>NET ASSETS (DEFICIENCY), BEGINNING OF YEAR</b>	<b>876,134</b>	<b>556,810</b>	<b>15,879,311</b>	<b>17,312,255</b>
<b>NET ASSETS (DEFICIENCY), END OF YEAR</b>	<b>\$ (203,953)</b>	<b>\$ 631,986</b>	<b>\$ 15,879,311</b>	<b>\$ 16,307,344</b>

2007			
Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 593,978	\$ 385,000	\$	\$ 978,978
241,450			241,450
68,781			68,781
361,386			361,386
597,850			597,850
1,124,546			1,124,546
2,987,991	385,000	0	3,372,991
14,839	(14,839)		
3,002,830	370,161	0	3,372,991
161,306			161,306
36,746			36,746
198,052	0	0	198,052
641,231			641,231
174,733			174,733
1,014,016	0	0	1,014,016
1,988,814	370,161	0	2,358,975
(1,112,680)	186,649	15,879,311	14,953,280
\$ 876,134	\$ 556,810	\$ 15,879,311	\$ 17,312,255

## STATEMENTS OF CASH FLOWS

Year Ended June 30,	2008	2007
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from contributions	\$ 670,011	\$ 826,816
Cash received from special event	292,500	261,598
Interest and dividends received	348,952	352,841
Cash paid to suppliers, employee, and others	(261,359)	(299,576)
Grants paid	(931,995)	(641,231)
<b>Net Cash Provided by Operating Activities</b>	<b>118,109</b>	<b>500,448</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of investments	(10,569,864)	(30,750,628)
Proceeds from sales of investments	10,515,974	30,271,807
<b>Net Cash Used in Investing Activities</b>	<b>(53,890)</b>	<b>(478,821)</b>
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>64,219</b>	<b>21,627</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<b>370,376</b>	<b>348,749</b>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>434,595</b>	<b>370,376</b>
<b>RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Change in net assets	(1,004,911)	2,358,975
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Provision for uncollectible pledges	10,479	
Realized investment (gains) losses	28,720	(597,850)
Unrealized (increase) decrease in market value of investments	971,865	(1,124,546)
Decrease in discount on contributions receivable	(6,280)	(875)
Depreciation	3,292	3,292
(Increase) decrease in:		
Interest receivable	(6,807)	(8,545)
Due from the Archdiocese of Louisville	5,115	20,148
Pledges receivable	116,256	(151,287)
Prepaid expenses	(979)	781
Increase (decrease) in:		
Accounts payable	1,359	355
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>\$ 118,109</b>	<b>\$ 500,448</b>

See Notes to Financial Statements

## NOTES TO FINANCIAL STATEMENTS

### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Nature of the Organization

The Catholic Education Foundation, Inc. (the "Foundation") was formed to promote Catholic education at the grade school and high school levels within the Archdiocese of Louisville (the "Archdiocese") and to support Catholic education by offering grants and financial assistance to Catholic schools in the Archdiocese.

The Foundation provides grants for tuition assistance, educators' professional development, technology, and religious education.

#### General Accounting Principles

The Foundation records unconditional promises to give (pledges) as receivables and revenues and distinguishes between contributions received for each net asset category in accordance with donor imposed restrictions, if any. The Foundation classifies resources for accounting and reporting purposes into three net asset categories according to externally (donor) imposed restrictions. A description of the three net asset categories follows:

**Unrestricted Net Assets (Deficiency)** include the following:

Net Expendable Assets (Deficiency): These net assets represent the portion of expendable funds available for support in the operation of the Foundation.

Invested in Equipment: These net assets represent cumulative resources expended for equipment, less accumulated depreciation recorded.

Board Designated: These net assets represent unrestricted funds designated for the Easter Fund by the Board of Directors. Although the Board could release or revise the designations in the future, to the extent not externally restricted, there is no intent to do so.

**Temporarily Restricted Net Assets** include gifts for which donor imposed restrictions are to be met.

**Permanently Restricted Net Assets** include amounts for which the donor has stipulated that the corpus be invested in perpetuity and only the income be made available for program operations in accordance with donor restrictions.

The Foundation reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. 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 statements of activities as net assets released from restrictions. The Foundation treats restricted gifts whose restrictions are met in the same reporting period as unrestricted.

#### Management's Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes. Actual results could differ from those estimates.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Cash and Cash Equivalents

Cash equivalents primarily include highly liquid investment securities with maturities of three months or less at the time of purchase.

The Foundation maintains its cash balances in bank deposit accounts which, at times, may exceed the \$100,000 coverage provided by the Federal Deposit Insurance Corporation ("FDIC"). The Foundation has not experienced any losses in such accounts. Management believes the Foundation is not exposed to any significant risk on bank deposits.

#### Investments

Investments are carried at fair value, generally determined by quoted market prices. Receipt of donated investments is recorded at the quoted market value of the investment at the time of donation.

The Foundation invests in fixed income securities, including government and corporate bonds, and in publicly traded stocks and mutual funds. These investment securities are subject to the risks common to financial markets, including interest rate risks, credit risks, and overall market risks, all of which could affect the value of the investments in the future.

#### Donated Goods and Services

Donated materials, office equipment, facilities and services are shown as gifts, valued at their estimated value at the date of receipt with the offsetting expense reflected in administrative expenses. No amounts are recorded for donated services which are not objectively quantifiable. Nevertheless, a large number of volunteers have given significant amounts of their time for the operation of the Foundation. An entity of which a former board member is a senior officer provided accounting services valued at \$8,500 and \$25,000 during the years ended June 30, 2008 and 2007, respectively.

#### Income Taxes

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

#### New Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation 48 ("FIN 48"), *Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109*. This interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken. The interpretation is also applicable to tax-exempt organizations such as the Foundation. The interpretation provides guidance on derecognition, classification, and other matters. FIN 48 is effective for the years beginning after December 15, 2007. The Foundation is in the process of assessing what impact, if any, the application of FIN 48 will have on its financial statements.

In August 2008, the FASB issued Staff Position, FSP 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds*. FSP 117-1 provides guidance on improved disclosures regarding endowment funds. The FSP is effective for fiscal years ending on or after December 15, 2008. The Foundation is assessing the impact that the application of FSP 117-1 will have on its financial statements.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

### NOTE 2. INVESTMENTS

Investments at June 30, 2008 and 2007 are summarized as follows:

June 30,	2008		2007	
	Cost	Market Value	Cost	Market Value
Cash equivalents	\$ 1,304,548	\$ 1,304,548	\$ 721,208	\$ 721,208
Equity securities	8,288,530	8,737,361	9,445,002	10,838,505
Equity mutual funds	1,199,151	1,147,478	908,861	1,016,087
U.S. Government and Government-backed securities	2,519,572	2,581,200	2,728,695	2,675,215
Corporate obligations	1,998,440	1,973,980	1,481,305	1,440,247
<b>Total Investments</b>	<b>\$ 15,310,241</b>	<b>\$ 15,744,567</b>	<b>\$ 15,285,071</b>	<b>\$ 16,691,262</b>

### NOTE 3. PLEDGES RECEIVABLE AND ALLOWANCE FOR UNCOLLECTIBLE PLEDGES

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected after one year are recorded at the present value of their estimated cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as support and revenue until the conditions are substantially met.

Included in pledges receivable are the following unconditional promises to give:

June 30,	2008	2007
Amounts due in:		
One year or less	\$ 26,842	\$ 140,064
One to five years	39,227	48,080
More than five years	27,586	29,245
<b>Subtotal</b>	<b>93,655</b>	<b>217,389</b>
Less discount of \$10,922 and \$17,201 and allowance for uncollectible pledges of \$13,000 and \$10,000 at June 30, 2008 and 2007, respectively.	(23,922)	(27,201)
<b>Total</b>	<b>\$ 69,733</b>	<b>\$ 190,188</b>

Pledges receivable were discounted to their present value using a discount rate of 3.99% and 5.19%, compounded annually at June 30, 2008 and 2007, respectively.

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**NOTE 3. PLEDGES RECEIVABLE AND ALLOWANCE FOR UNCOLLECTIBLE PLEDGES (CONTINUED)**

The Foundation provides an allowance for uncollectible pledges based upon the collectibility of each specific pledge. The Foundation does not charge interest on pledges receivable. A summary of the changes in the allowance for uncollectible pledges is as follows:

Year Ended June 30,	2008	2007
<b>Balance, Beginning of Year</b>	<b>\$ 10,000</b>	<b>\$ 10,000</b>
Provision charged to operations	10,479	
Pledges written off	(7,479)	
<b>Balance, End of Year</b>	<b>\$ 13,000</b>	<b>\$ 10,000</b>

**NOTE 4. RELATED PARTY TRANSACTIONS**

The Archdiocese acts as the administrator for an Easter collection benefiting the Foundation. Amounts due from the Archdiocese of \$4,507 and \$9,622 at June 30, 2008 and 2007, respectively are a result of the Easter collection.

**NOTE 5. OFFICE EQUIPMENT**

Office equipment is recorded at cost. Depreciation is recorded using the straight – line method over the estimated useful lives of three to five years. Depreciation expense was \$3,292 for each of the years ended June 30, 2008 and 2007.

**NOTE 6. TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets consist of the following:

June 30,	2008	2007
Tuition assistance	<b>\$ 496,030</b>	\$ 450,530
Religious education	<b>100,000</b>	100,000
Office assistance		4,709
Teacher and school awards	<b>25,956</b>	1,571
Evangelization	<b>10,000</b>	
<b>Total</b>	<b>\$ 631,986</b>	<b>\$ 556,810</b>

**NOTE 7. PERMANENTLY RESTRICTED NET ASSETS**

Permanently restricted net assets consist of endowment funds, the income from which is available to support the activities of the Foundation. The Foundation policy has been to distribute a percentage of the average market value of investments over the eight fiscal quarters ending with the December preceding the Foundation's year end. The policy allows the Board of Trustees to set this distribution rate, but the rate may not exceed 7%. Due to market performance during the year ended June 30, 2008, the annual investment income was less than the distribution level. This situation resulted in the Foundation using permanently restricted endowment investments to fund scheduled distributions. Cash, investments, and pledges receivable were approximately \$260,000 less than the required permanent endowment at June 30, 2008. These borrowings from the endowment fund were unsecured and non-interest bearing. The interfund debt was not reflected as an asset or a liability in these financial statements.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

### **NOTE 7. PERMANENTLY RESTRICTED NET ASSETS (CONTINUED)**

Management continues to monitor the investments and endowment funds balances including the consideration of additional fund raising and the necessity to adjust the annual grants distribution percentage.

For the year ended June 30, 2007, there was no Interfund Debt as the total of cash, investments, and pledges receivable exceeded the required permanent endowment.

### **NOTE 8. RETIREMENT PLAN**

The Foundation participates in the Archdiocese of Louisville's 401 (k) plan. The plan covers the Foundation's eligible employee. The plan allows employee contributions, up to the statutory limit, and personal management of the employee's retirement account. The Foundation contributes 6% of eligible employee's gross pay each pay period. The Foundation made contributions of \$4,814 and \$4,105 in 2008 and 2007, respectively.

### **NOTE 9. SUBSEQUENT EVENTS**

Subsequent to year-end, the credit and liquidity crisis in the United States and throughout the global financial system has resulted in substantial volatility in financial markets and the banking system. These and other economic events have had a significant adverse impact on investment portfolios. As a result, the Foundation's investments have likely incurred a significant decline in fair value since June 30, 2008.