

**DIOCESAN EXCELLENCE  
IN EDUCATION FUND, INC**

Jefferson City, Missouri

**INDEPENDENT AUDITORS' REPORT**

For The Year Ended June 30, 2011

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of  
**Diocesan Excellence in Education Fund, Inc.**  
Jefferson City, Missouri:

We have audited the accompanying statement of financial position of **Diocesan Excellence in Education Fund, Inc. (DEEF)** (a nonprofit organization) as of June 30, 2011 and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of DEEF's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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 audit provides 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 **Diocesan Excellence in Education Fund, Inc.** as of June 30, 2011 and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

*Evers & Company, CPA's, L.L.C.*

EVERS & COMPANY, CPA's, L.L.C.  
Jefferson City, Missouri

November 7, 2011

**DIOCESAN EXCELLENCE IN EDUCATION FUND, INC.**

Jefferson City, Missouri

**STATEMENT OF FINANCIAL POSITION**

June 30, 2011

**Assets**

Cash and cash equivalents	\$	200,287
Investments, at fair value		5,435
Funds on deposit with The Catholic Diocese of Jefferson City Fund		
Deposit and loan program		77,323
Cash and cash equivalents		97,660
Equity securities		4,048,973
Fixed income securities		5,936,500
Total investments		<u>10,165,891</u>
Accrued interest receivable		20
Pledged contributions receivable, net		368,188
Total Assets	\$	<u><u>10,734,386</u></u>

**Net Assets**

Unrestricted	\$	1,100,813
Permanently restricted		9,633,573
Total Net Assets	\$	<u><u>10,734,386</u></u>

See accompanying notes to the financial statements.

**DIOCESAN EXCELLENCE IN EDUCATION FUND, INC.**

Jefferson City, Missouri

**STATEMENT OF ACTIVITIES**

For The Year Ended June 30, 2011

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Revenues, Gains, and Other Support</b>			
Contributions	\$ -	\$ 19,655	\$ 19,655
Miscellaneous income	636	-	636
Investing activity			
Investment income	398,209	-	398,209
Net unrealized gains (losses) on investments	676,575	-	676,575
Total investing activity	<u>1,074,784</u>	<u>-</u>	<u>1,074,784</u>
Total Revenues, Gains, and Other Support	<u>1,075,420</u>	<u>19,655</u>	<u>1,095,075</u>
<b>Expenses</b>			
General and administration	553	-	553
Investment management	25,030	-	25,030
Teacher grants	218,075	-	218,075
Total Expenses	<u>243,658</u>	<u>-</u>	<u>243,658</u>
Change in net assets	<u>831,762</u>	<u>19,655</u>	<u>851,417</u>
Net assets, beginning of year	269,051	9,631,898	9,900,949
Prior period adjustment	-	(17,980)	(17,980)
Net assets, beginning of year, as restated	<u>269,051</u>	<u>9,613,918</u>	<u>9,882,969</u>
Net assets, end of year	<u>\$ 1,100,813</u>	<u>\$ 9,633,573</u>	<u>\$ 10,734,386</u>

See accompanying notes to the financial statements.

**DIOCESAN EXCELLENCE IN EDUCATION FUND, INC.**

Jefferson City, Missouri

**STATEMENT OF CASH FLOWS (INDIRECT METHOD)**

For the Year Ended June 30, 2011

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**Cash Flows from Operating Activities:**

Change in net assets	\$	851,417
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Net unrealized and realized losses/(gains) on investments		(676,575)
Increase in accrued investment income		(20)
Decrease in pledged contributions receivable		304,585
Net Cash Provided by Operating Activities		<u>479,407</u>

**Cash Flows from Investing Activities:**

Purchase of investments		<u>(403,751)</u>
Net Cash Provided by Investing Activities		<u>(403,751)</u>

Net change in cash and cash equivalents 75,656

Cash and cash equivalents - beginning of year 124,631

Cash and cash equivalents - end of year \$ 200,287

Supplemental Disclosures of Cash Flow Information:

Cash paid during the year for:

Income Taxes	\$	-0-
Interest	\$	-0-

See accompanying notes to the financial statements.

**DIOCESAN EXCELLENCE IN EDUCATION FUND, INC.**  
Jefferson City, Missouri

**NOTES TO THE FINANCIAL STATEMENTS**  
For The Year Ended June 30, 2011

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

**Organization and Nature of Activities**

Diocesan Excellence in Education Fund, Inc. (DEEF) is a not-for-profit organization established November 2, 1989 solely to acquire funds to assist parish and inter-parish schools of the Diocese of Jefferson City, Missouri in providing salaries for professional educators. DEEF is governed by a Board of Directors representing the 38 counties which comprise the Diocese. Grants to professional educators from investment earnings were made in accordance with the distribution policy adopted by the Board of Directors.

**Basis of Accounting**

The books and records of DEEF are maintained and the financial statements are prepared on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

**Basis of Presentation**

DEEF is required to report information regarding its assets, liabilities, and net assets according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets based upon the existence or absence of donor-imposed restrictions. As of June 30, 2011, DEEF had unrestricted and permanently restricted net assets and no temporarily restricted net assets.

**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**

Cash and cash equivalents are defined as cash balances held in bank accounts and short term investments with an original maturity no longer than three months. Deposit accounts designated for long-term purposes or received with donor-imposed restrictions limiting the use to long-term purposes are not considered cash and cash equivalents.

DEEF also maintains deposits with the Catholic Diocese of Jefferson City Fund. However, DEEF does not consider funds on deposit with the Diocese of Jefferson City Fund to be cash equivalents and accounts for them like other investments.

**DIOCESAN EXCELLENCE IN EDUCATION FUND, INC.**  
Jefferson City, Missouri

**NOTES TO THE FINANCIAL STATEMENTS**  
For The Year Ended June 30, 2011

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:** (Cont'd)

Fair Value Measurements

Market value was determined using Level 1 inputs for equity funds, which are quoted market prices for identical securities in active markets and Level 2 inputs for fixed income securities, which are quoted prices for similar securities in active markets. Level 2 inputs were derived using the market approach, which is a valuation technique that uses prices and other relevant information generated by market transactions involving identical or comparable (that is, similar) assets, liabilities, or a group of assets and liabilities, such as a business. The market prices were derived from investment broker statements as of June 30, 2011. Fair value measurements using Level 3 inputs for pledged contribution receivables are unobservable inputs for the asset and rely on management's own assumptions. Level 3 inputs were derived using the income approach, which is a valuation technique used to convert future cash flows to a single present amount. The measurement is based on the value indicated by current market expectations about those future cash flows.

Income Taxes

DEEF is exempt from federal income tax as part of the Catholic Church under provisions of Section 501(c)(3) of the Internal Revenue Code. In addition, due to religious activities, DEEF is not required to file an IRS Form 990. However, income from certain activities not directly related to DEEF's exempt purpose is subject to taxation as unrelated business income. DEEF had no unrelated business income for the year ended June 30, 2011.

Pledged Contributions Receivable

The Diocese of Jefferson City Jubilee Fund conducted the Grateful Memories Faithful Future Capital Campaign in which donors could designate their contributions to Diocesan Excellence in Education Fund, Inc. These pledges are recognized as contributions when the donor makes a promise to give to DEEF that is, in substance, unconditional. These unconditional promises to give due in the next year are reflected as pledged contributions receivable in less than one year in Note 4 and are recorded at their net realizable value. The unconditional promises to give due in subsequent years are reflected as pledged contributions receivable in one to five years in Note 4 and are recorded at the present value of their net realizable value, using risk-free interest rates applicable to the years in which the promises are to be received to discount the amounts.

The payments made on this receivable are based on the collection of the pledges within the Diocese of Jefferson City Jubilee Fund. The discount at June 30, 2011 was \$915.



**DIOCESAN EXCELLENCE IN EDUCATION FUND, INC.**  
Jefferson City, Missouri

**NOTES TO THE FINANCIAL STATEMENTS**  
For The Year Ended June 30, 2011

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:** (Cont'd)

Subsequent Events

DEEF evaluates events and transactions occurring subsequent to the date of the financial statements for matters requiring recognition or disclosure in the financial statements. The accompanying financial statements consider events through November 7, 2011, which is the date the financial statements were available to be issued.

**NOTE 2 - PERMANENTLY RESTRICTED NET ASSETS:**

Permanently restricted:

General purposes of the fund	\$8,107,941
Specific restrictions	<u>1,525,632</u>
	<u>\$9,633,573</u>

A donor has restricted a \$150,000 gift to DEEF. According to the terms of the restriction, the yield from investment of the gift is to be distributed to a particular parish school of the Diocese up to the sum of \$1,000 per year per full time professional educator, with any remaining yield to be used for the general purposes of DEEF.

On July 1, 1994, the DEEF Board of Directors accepted a gift of \$1,375,632 restricted for St. Pius X Teachers Fund of Moberly, Missouri. This fund was established to support the teachers of St. Pius X School. Under terms of the gift, DEEF will continue to provide a minimum of \$45,000 in support to St. Pius X School with any excess earnings available for general distribution.

Permanently restricted net assets for general purposes of the fund represent contributions from donors that are to be held indefinitely. Investment earnings from these contributions can be used to support the general operations of DEEF.

Investment Return Objectives, Risk Parameters and Strategies

DEEF has adopted investment policies, approved by the Board of Directors, for assets that attempt to provide a predictable stream of funding to DEEF programs while also maintaining the purchasing power of those assets over the long-term. Accordingly, the investment process seeks to achieve an average total annual rate of return which consists of the Consumer Price Index (CPI) plus 3%. Assets are invested in a diversified asset mix, which includes equity and fixed income securities. DEEF expects its assets, over time, to produce an average rate of return of approximately 5% annually. Actual returns in any given year may vary from this amount.

**DIOCESAN EXCELLENCE IN EDUCATION FUND, INC.**  
Jefferson City, Missouri

**NOTES TO THE FINANCIAL STATEMENTS**  
For The Year Ended June 30, 2011

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**NOTE 2 – PERMANENTLY RESTRICTED NET ASSETS:** (Cont'd)

**Spending Policy**

DEEF sets its spending policy at a rate to ensure the assets grow at a nominal average rate of 5% annually. This is consistent with DEEF's objective to maintain the purchasing power of the assets as well as to provide additional real growth through new gifts and investment return.

**NOTE 3 – CONCENTRATIONS:**

DEEF invests in various investment securities. Investment securities 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 value of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position.

DEEF places its cash and cash equivalents with credit-worthy, high quality financial institutions. Balances at these institutions are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. As of June 30, 2011, all funds at these institutions were insured.

DEEF has funds on deposit with the Catholic Diocese of Jefferson City Fund of \$77,323 which comprise 0.7% of the Diocesan Excellence in Education Fund, Inc.'s net assets. DEEF also has investments held in the name of the Catholic Diocese of Jefferson City Fund of \$10,083,132 which comprises 94% of DEEF's net assets.

**NOTE 4 - RELATED PARTY:**

Diocesan Excellence in Education Fund, Inc. is related through the Bishop of the Diocese of Jefferson City to the following entities: The Priest's Mutual Benefit Society of the Diocese of Jefferson City, Inc.; The Catholic Diocese of Jefferson City Fund; The Catholic Diocese of Jefferson City – Chancery Office; The Diocese of Jefferson City Jubilee Fund; The Jefferson City Diocesan Chancery Building Fund, Inc.; The Jubilee Retirement Trust Fund; the Fr. Augustine Tolton Regional Catholic High School in Columbia; Helias High School in Jefferson City; and all parishes under the Bishop. DEEF maintains separate books and records. All financial information for the above entities is presented separately and is excluded from this report.

During the fiscal year, The Catholic Diocese of Jefferson City Fund allocated net investment income to DEEF of \$1,055,334 on the investments held in its name for DEEF. As of June 30, 2011, the account balance held by The Catholic Diocese of Jefferson City Fund was \$10,083,132.

The Catholic Diocese of Jefferson City Fund holds investments in the deposit and loan program for DEEF of \$77,323 as of June 30, 2011. During the fiscal year ended June 30, 2011, The Catholic Diocese of Jefferson City Fund paid \$1,080 in interest income to DEEF for these investments.

**DIOCESAN EXCELLENCE IN EDUCATION FUND, INC.**  
Jefferson City, Missouri

**NOTES TO THE FINANCIAL STATEMENTS**  
For The Year Ended June 30, 2011

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**NOTE 4 - RELATED PARTY:** (Cont'd)

During fiscal year ended June 30, 2011, the Diocese of Jefferson City Jubilee Fund remitted \$323,257 to the Diocese Excellence in Education Fund.

Pledged contribution receivable at June 30, 2011, are as follows:

Contributions Receivable from Diocese of Jefferson City Jubilee Fund	\$ 369,103
Less: discounts to net present value	(915)
	<u>\$ 368,188</u>
Receivable in less than one year	\$ 349,304
Receivable in one to five years	19,799
	<u>\$ 369,103</u>

Discount rate used on long-term promises to give was 4.16%

During the fiscal year, DEEF paid \$218,075 to related parish schools to help fund teacher salaries.

**NOTE 5 - FUNCTIONAL ALLOCATION OF EXPENSES:**

Diocesan Excellence in Education Fund considers all expenses to be program expenses, since they relate directly to activities that result in the distribution of funds to beneficiaries that fulfill the purpose and mission for which the organization exists.

**DIOCESAN EXCELLENCE IN EDUCATION FUND, INC.**  
Jefferson City, Missouri

**NOTES TO THE FINANCIAL STATEMENTS**  
For The Year Ended June 30, 2011

**NOTE 6 – FAIR VALUE MEASUREMENTS:**

Fair values of assets measured on a recurring basis at June 30, 2011 are as follows:

	Cost	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Quoted Prices in Active Markets for Similar Assets (Level 2)	Significant Unobservable Inputs (Level 3)
Mutual Funds	\$ 4,435	\$ 5,435	\$ -	\$ 5,435	\$ -
Equity Securities	3,849,463	4,048,973	4,048,973	-	-
Fixed Income Securities	5,709,644	5,936,500	-	5,936,500	-
Pledged Contributions Receivable, net	368,188	368,188	-	-	368,188

Fair value for the pledged contributions receivable is determined by calculating the present value of the future contributions expected to be received, using a 4.16% discount rate.

Pledged Contributions Receivable, net

Balance, July 1, 2010	\$ 672,773
Change in allowance and discount	18,672
Payments from Jubilee Fund	<u>(323,257)</u>
Balance, June 30, 2011	<u>\$ 368,188</u>

**NOTE 7 – PRIOR PERIOD ADJUSTMENT:**

DEEF calculates the present value of future cash flows for pledges expected to be collected in more than one year. This fair value measurement method of valuing the pledges allows for contribution revenue to be recognized consistently over the time period of the pledge. During the current year it was noted that the discount factor used to calculate the present value of future cash flows for pledges had been revised annually. Generally accepted accounting principles allows for the change in present value due only to the passage of time and not the change in discount rate. A prior period adjustment was made at June 30, 2010 to restate net assets and pledged contributions receivable by a decrease of \$17,980.