

**FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT**

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

**June 30, 2012**

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

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## Independent Auditors' Report

Board of Directors  
Diocesan Excellence in Education Fund, Inc.  
Jefferson City, Missouri

We have audited the accompanying statement of financial position of the Diocesan Excellence in Education Fund, Inc. (DEEF) (a Missouri corporation, not-for-profit) as of June 30, 2012, 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 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 DEEF'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 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 the Diocesan Excellence in Education Fund, Inc. as of June 30, 2012, 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.

St. Louis, Missouri  
January 18, 2013

*Kerber, Eck & Braeckel LLP*

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

**STATEMENT OF FINANCIAL POSITION**  
June 30, 2012

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<b>Assets</b>	
Cash and cash equivalents	\$ 29,070
Investments	
Funds on deposit with The Catholic Diocese of Jefferson City Fund	
Depositor's fund	185,074
Pooled investments	10,481,570
Other investments	5,401
Total Investments	<u>10,672,045</u>
Pledged contributions receivable, net	<u>33,996</u>
Total Assets	<u><u>\$ 10,735,111</u></u>
<b>Net Assets</b>	
Temporarily restricted	\$ 1,100,462
Permanently restricted	<u>9,634,649</u>
Total Net Assets	<u><u>\$ 10,735,111</u></u>

See accompanying notes to the financial statements.

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

Jefferson City, Missouri

**STATEMENT OF ACTIVITIES**

Year Ended June 30, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Support and Revenues</b>				
Contributions	\$ -	\$ -	\$ 1,076	\$ 1,076
Investment income				
Interest and dividend income	-	337,666	-	337,666
Net realized gains on investments	-	38,308	-	38,308
Net unrealized gains on investments	-	51,798	-	51,798
Total Investment Income	-	427,772	-	427,772
Net assets released from restrictions	428,123	(428,123)	-	-
<b>Total Support and Revenues</b>	<b>428,123</b>	<b>(351)</b>	<b>1,076</b>	<b>428,848</b>
<b>Expenses</b>				
Investment management	27,173	-	-	27,173
Teacher grants	400,950	-	-	400,950
<b>Total Expenses</b>	<b>428,123</b>	<b>-</b>	<b>-</b>	<b>428,123</b>
Change in net assets	-	(351)	1,076	725
Net assets at July 1, 2011, as originally reported	1,100,813	-	9,633,573	10,734,386
Prior period adjustment	(1,100,813)	1,100,813	-	-
Net assets at July 1, 2011, as restated	-	1,100,813	9,633,573	10,734,386
Net assets at June 30, 2012	\$ -	\$ 1,100,462	\$ 9,634,649	\$ 10,735,111

See accompanying notes to the financial statements.

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

**STATEMENT OF CASH FLOWS (INDIRECT METHOD)**  
Year Ended June 30, 2012

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<b>Cash Flows from Operating Activities</b>	
Change in net assets	\$ 725
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Net unrealized and realized gains on investments	(90,106)
Decrease in accrued interest receivable	20
Decrease in pledged contributions receivable	<u>334,192</u>
Net cash provided by operating activities	<u>244,831</u>
<b>Cash Flows from Investing Activities</b>	
Proceeds from sale of investments	432,415
Purchase of investments	<u>(848,463)</u>
Net cash used in investing activities	<u>(416,048)</u>
Net change in cash and cash equivalents	(171,217)
Cash and cash equivalents at July 1, 2011	<u>200,287</u>
Cash and cash equivalents at June 30, 2012	<u>\$ 29,070</u>

See accompanying notes to the financial statements.

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

**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2012

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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 (Diocese) 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, 2012, DEEF had temporarily restricted and permanently restricted net assets and no unrestricted net assets.

Unrestricted Net Assets

Include all non-designated and designated resources other than temporarily restricted or permanently restricted net assets available for support of operations.

Temporarily Restricted Net Assets

Include all resources whose use is limited by donor-imposed stipulations that either expire by the passage of time or can be fulfilled by actions of DEEF pursuant to those stipulations.

Permanently Restricted Net Assets

Resources whose use is limited by donor-imposed stipulations that neither expire by the passage of time nor can be fulfilled or otherwise removed by actions of DEEF.

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

**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2012

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

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

Income Taxes

DEEF is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code and State of Missouri taxes under the applicable statute. 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, 2012.

The Financial Accounting Standards Board (FASB) issued Accounting Standards Codification (ASC) Section 740-10. ASC Section 740-10 clarifies the accounting for income taxes by prescribing the minimum standard a tax position is required to meet before being recognized in the financial statements. The Diocese has not taken any uncertain tax positions that should be accounted for under ASC Section 740-10.



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

**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2012

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

Investments

Investments are reported at fair value. A majority of investments are managed along with investments of affiliates in the Catholic Diocese of Jefferson City Fund (DJC Fund). Fair value of the underlying investments in the DJC Fund 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, 2012. 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.

Pooled investment fund interest and dividends, realized gains and losses, and unrealized gains and losses are allocated based on the proportionate share of each entity's fair value at the time of allocation. The financial statements of each entity reflect only that entity's share of the pooled fund.

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.

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

**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2012

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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 January 18, 2013, which is the date the financial statements were available to be issued.

**NOTE 2 – ENDOWMENT NET ASSETS**

DEEF has adopted standards for the reporting of endowments. These standards provide guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) and improves disclosures about an organization's endowed funds (both donor restricted endowment funds and board designated endowment funds).

DEEF has donor-restricted endowment funds established for educational and operational purposes. 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.

The State of Missouri enacted UPMIFA effective August 28, 2009, the provisions of which apply to endowment funds existing on or established after that date. DEEF has interpreted UPMIFA 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, DEEF classifies as permanently restricted net assets (a) the original value of the gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulation to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by DEEF.

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

**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2012

**NOTE 2 – ENDOWMENT NET ASSETS** (Cont'd)

Endowment net asset composition by type of fund at June 30, 2012 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	<u>\$ -</u>	<u>\$ 1,100,462</u>	<u>\$ 9,634,649</u>	<u>\$ 10,735,111</u>

Changes in endowment net assets for the year ended June 30, 2012 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets at July 1, 2011	\$ 1,100,813	\$ -	\$ 9,633,573	\$ 10,734,386
Reclassify net assets for adoption of new accounting standard	(1,100,813)	1,100,813	-	-
Contributions	-	-	1,076	1,076
Investment income	-	427,772	-	427,772
Amounts appropriated for expenditure	-	(428,123)	-	(428,123)
Endowment net assets at June 30, 2012	<u>\$ -</u>	<u>\$ 1,100,462</u>	<u>\$ 9,634,649</u>	<u>\$ 10,735,111</u>

**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**  
June 30, 2012

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**NOTE 2 – ENDOWMENT 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 – PERMANENTLY RESTRICTED NET ASSETS**

Permanently restricted net assets at June 30, 2012 are restricted to investment in perpetuity, the income from which is to support:

General purposes of the fund	\$8,109,017
Specific restrictions	<u>1,525,632</u>
	<u>\$9,634,649</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 ownership of \$1,375,632 in non-cash assets belonging to the 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.

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

**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2012

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**NOTE 4 – CONCENTRATIONS**

Investment securities are exposed to various risks, such as interest rate, market, and credit risk. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in risk in the near term would 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 on interest-bearing accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. Non-interest bearing account balances are covered by FDIC insurance up to an unlimited balance. As of June 30, 2012, all funds at these institutions were fully insured.

DEEF has funds on deposit in the DJC Fund of \$185,074 which comprise 1.7% of DEEF's net assets. DEEF also has investments held in the name of the DJC Fund of \$10,481,570 which comprises 97.6% of DEEF's net assets.

**NOTE 5 - RELATED PARTY TRANSACTIONS**

DEEF is related through the Bishop of the Diocese of Jefferson City to the following entities: The Priests' Mutual Benefit Society; The Catholic Diocese of Jefferson City Fund; The Diocese of Jefferson City - Chancery Office; The Diocese of Jefferson City Jubilee Fund; The Jefferson City Diocesan Chancery Building Fund, Inc.; The Diocese of Jefferson City Jubilee Retirement Trust Fund; Catholic Charities of Central and Northern Missouri; the Fr. Augustine Tolton Regional Catholic High School in Columbia; Helias High School in Jefferson City; Diocese of Jefferson City Real Estate Corporation, Inc.; 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 DJC Fund allocated net investment income to DEEF of \$398,698 on the investments held in its name for DEEF. As of June 30, 2012, the account balance held by The Catholic Diocese of Jefferson City Fund was \$10,481,570.

The DJC Fund holds investments in the deposit and loan program for DEEF of \$185,074 as of June 30, 2012. During the fiscal year ended June 30, 2012, the DJC Fund paid \$1,901 in interest income to DEEF for these investments.

During the fiscal year ended June 30, 2012, the Diocese of Jefferson City Jubilee Fund remitted \$334,963 to DEEF in connection with the Grateful Memories Faithful Future Capital Campaign.

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

**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2012

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**NOTE 5 - RELATED PARTY TRANSACTIONS** (Cont'd)

Pledged contributions receivable at June 30, 2012, are as follows:

Contributions receivable from Diocese of Jefferson City Jubilee Fund	\$ 34,140
Less: discounts to net present value	<u>(144)</u>
	\$ <u>33,996</u>
Receivable in less than one year	\$ 32,649
Receivable in one to five years	<u>1,347</u>
	\$ <u>33,996</u>

The discount rate used on long-term promises to give was 4.16%.

During the year ended June 30, 2012, DEEF paid \$400,950 to related parish schools to help fund teacher salaries.

**NOTE 6 – FUNCTIONAL ALLOCATION OF EXPENSES**

DEEF 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.

**NOTE 7 – FAIR VALUE MEASUREMENTS**

Fair value is 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.

The majority of DEEF's investments are held in a pooled investment account with the DJC Fund. Pooled investments include common stocks, equity mutual funds, municipal bonds, U.S. government agency securities, fixed income mutual funds, certificates of deposit and cash and cash equivalents. DEEF investments in the pooled investment fund at June 30, 2012 were allocated 1% to cash and cash equivalents, 38% equities and 61% fixed income.

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

**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2012

**NOTE 7 – FAIR VALUE MEASUREMENTS** (Cont'd)

DEEF deposits funds in excess of three months of operating needs in the DJC Fund. The Depositor's fund program operates similar to a money market account and pays interest on the deposited funds competitive with current market rates. Interest rates on deposits varied at June 30, 2012 from 1.75% to 3.75%, depending on the term of the deposit.

Fair values of assets measured on a recurring basis at June 30, 2012 are as follows:

	Cost	Fair Value	Level 1	Level 2	Level 3
Pooled investments					
Cash and cash equivalents	\$ 98,199	\$ 98,199	\$ -	\$ 98,199	\$ -
Equity securities	3,926,284	3,944,787	3,944,787	-	-
Fixed income securities	5,978,736	6,438,584	-	6,438,584	-
Total	10,003,219	10,481,570	3,944,787	6,536,783	-
Depositor's Fund	185,074	185,074	-	185,074	-
Other investments	4,487	5,401	-	5,401	-
Total investments	10,192,780	10,672,045	3,944,787	6,727,258	-
Pledged contributions receivable	33,996	33,996	-	-	33,996
Total	<u>\$ 10,226,776</u>	<u>\$ 10,706,041</u>	<u>\$ 3,944,787</u>	<u>\$ 6,727,258</u>	<u>\$ 33,996</u>

The following sets forth a summary of the changes in the fair value of DEEF's level 3 assets for the year ended June 30, 2012. 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.

Balance at July 1, 2011	\$ 368,188
Change in allowance and discount	771
Payments from the Diocese of Jefferson City Jubilee Fund	(334,963)
Balance at June 30, 2012	<u>\$ 33,996</u>

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

**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2012

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**NOTE 8 – PRIOR PERIOD ADJUSTMENT**

Effective July 1, 2011, DEEF adopted the standards for reporting of endowments which provide guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of UPMIFA. The effect of adoption of these accounting standards was to reclassify unrestricted net assets of \$1,100,813 to temporarily restricted net assets as of July 1, 2011. Temporarily restricted net assets will be released from restrictions when the donor restriction is met or the Board of Directors appropriates temporarily restricted assets for expenditure.