

**DIOCESAN EXCELLENCE IN EDUCATION FUND, INC.
JEFFERSON CITY, MISSOURI**

FINANCIAL STATEMENTS

June 30, 2017 and 2016

**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 financial statements of Diocesan Excellence in Education Fund, Inc. (a Missouri corporation, not-for-profit), which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 and fair presentation of 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 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the 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 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. Accordingly, we express no such opinion. 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 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, 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, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Kerber, Eck & Braeckel LLP

St. Louis, Missouri
January 9, 2018

Other Locations

Belleville, IL • Carbondale, IL • Columbia, IL • Litchfield, IL • Harrisburg, IL • Springfield, IL • Cape Girardeau, MO • Milwaukee, WI

**DIOCESAN EXCELLANCE IN EDUCATION FUND, INC.
JEFFERSON CITY, MISSOURI**

STATEMENTS OF FINANCIAL POSITION
June 30,

	<u>2017</u>	<u>2016</u>
Assets		
Cash and cash equivalents	\$ 8,164	\$ 8,581
Investments		
Funds on deposit with The Catholic Diocese of Jefferson City Fund		
Depositor's fund	2,910	201,801
Pooled investments	11,557,352	10,804,796
Other investments	<u>-</u>	<u>6,794</u>
Total investments	<u>11,560,262</u>	<u>11,013,391</u>
Total assets	<u>\$ 11,568,426</u>	<u>\$ 11,021,972</u>
 Net assets		
Temporarily restricted	\$ 1,855,575	\$ 1,309,162
Permanently restricted	<u>9,712,851</u>	<u>9,712,810</u>
Total net assets	<u>\$ 11,568,426</u>	<u>\$ 11,021,972</u>

See notes to financial statements.

**DIOCESAN EXCELLANCE IN EDUCATION FUND, INC.
JEFFERSON CITY, MISSOURI**

**STATEMENTS OF ACTIVITIES
Years ended June 30,**

	2017				2016			
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Unrestricted	Temporarily restricted	Permanently restricted	Total
Support and revenue								
Investment income								
Interest and dividend income	\$ -	\$ 255,253	\$ -	\$ 255,253	\$ -	\$ 276,999	\$ -	\$ 276,999
Net realized gains on investments	-	88,079	-	88,079	-	79,911	-	79,911
Net unrealized gain (loss) on investments	-	493,842	-	493,842	-	(87,316)	-	(87,316)
Investment management fees	-	(32,861)	-	(32,861)	-	(30,935)	-	(30,935)
Total investment income	-	804,313	-	804,313	-	238,659	-	238,659
Contributions	-	300	41	341	-	300	41	341
Net assets released from restriction	258,200	(258,200)	-	-	417,400	(417,400)	-	-
Total support and revenues	258,200	546,413	41	804,654	417,400	(178,441)	41	239,000
Expenses								
Teacher grants	258,200	-	-	258,200	417,400	-	-	417,400
Change in net assets	-	546,413	41	546,454	-	(178,441)	41	(178,400)
Net assets, beginning of year	-	1,309,162	9,712,810	11,021,972	-	1,487,603	9,712,769	11,200,372
Net assets, end of year	\$ -	\$ 1,855,575	\$ 9,712,851	\$ 11,568,426	\$ -	\$ 1,309,162	\$ 9,712,810	\$ 11,021,972

See notes to financial statements.

**DIOCESAN EXCELLENCE IN EDUCATION FUND, INC.
JEFFERSON CITY, MISSOURI**

STATEMENTS OF CASH FLOWS
Years ended June 30,

	<u>2017</u>	<u>2016</u>
Increase (decrease) in cash and cash equivalents		
Cash flows from operating activities		
Change in net assets	\$ 546,454	\$ (178,400)
Adjustments to reconcile change in net assets to net cash used in operating activities		
Net unrealized and realized (gain) loss on investments	<u>(581,921)</u>	<u>7,405</u>
Net cash used in operating activities	<u>(35,467)</u>	<u>(170,995)</u>
Cash flows from investing activities		
Proceeds from sale of investments	340,128	449,235
Purchase of investments	<u>(305,078)</u>	<u>(276,874)</u>
Net cash provided by investing activities	<u>35,050</u>	<u>172,361</u>
Net change in cash and cash equivalents	(417)	1,366
Cash and cash equivalents, beginning of year	<u>8,581</u>	<u>7,215</u>
Cash and cash equivalents, end of year	<u>\$ 8,164</u>	<u>\$ 8,581</u>

See notes to financial statements.

**DIOCESAN EXCELLENCE IN EDUCATION FUND, INC.
JEFFERSON CITY, MISSOURI**

NOTES TO FINANCIAL STATEMENTS

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 are 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 net assets according to three classes: unrestricted, temporarily restricted, and permanently restricted based upon the existence or absence of donor-imposed restrictions. As of June 30, 2017 and 2016, 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.
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NOTES TO FINANCIAL STATEMENTS

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 (DJC Fund). However, DEEF does not consider funds on deposit with DJC 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 Internal Revenue Service 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 years ended June 30, 2017 and 2016.

Investments

Investments are reported at fair value. A majority of investments are managed along with investments of affiliates in the DJC Fund. Fair value of the underlying investments in the DJC Fund was determined using Level 1 inputs for common stocks and mutual funds, which are quoted market prices for identical securities in active markets and Level 2 inputs for cash and cash equivalents and 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. The market prices were provided by investment broker statements as of June 30, 2017 and 2016.

DIOCESAN EXCELLENCE IN EDUCATION FUND, INC.
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NOTES TO FINANCIAL STATEMENTS

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.

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 9, 2018, 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.

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.
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NOTES TO FINANCIAL STATEMENTS

During the years ended June 30, 2017 and 2016, DEEF's donor-restricted endowment net assets had the following activity:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets at July 1, 2015	\$ -	\$ 1,487,603	\$ 9,712,769	\$ 11,200,372
Contributions	-	300	41	341
Investment income	-	238,659	-	238,659
Amounts appropriated for expenditure	<u>-</u>	<u>(417,400)</u>	<u>-</u>	<u>(417,400)</u>
Endowment net assets at June 30, 2016	-	1,309,162	9,712,810	11,021,972
Contributions	-	300	41	341
Investment income	-	804,313	-	804,313
Amounts appropriated for expenditure	<u>-</u>	<u>(258,200)</u>	<u>-</u>	<u>(258,200)</u>
Endowment net assets at June 30, 2017	<u>\$ -</u>	<u>\$ 1,855,575</u>	<u>\$ 9,712,851</u>	<u>\$ 11,568,426</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 of 5% which consists of the Consumer Price Index (CPI) plus 3%. Actual returns in any given year may vary from this amount. Assets are invested in a diversified asset mix, which includes equity and fixed income securities.

Spending Policy

DEEF sets its spending policy at a rate to ensure the assets grow at a nominal average rate of the CPI 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.

**DIOCESAN EXCELLENCE IN EDUCATION FUND, INC.
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NOTES TO FINANCIAL STATEMENTS

NOTE 3 – PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets at June 30, 2017 and 2016 are restricted to investment in perpetuity, the income from which is to support:

	<u>2017</u>	<u>2016</u>
General purposes of the fund	\$ 8,187,219	\$ 8,187,178
Specific restrictions	<u>1,525,632</u>	<u>1,525,632</u>
	<u>\$ 9,712,851</u>	<u>\$ 9,712,810</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.

NOTE 4 – CONCENTRATIONS OF CREDIT RISK

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 statements of financial position.

DEEF places its cash and cash equivalents with credit-worthy, high quality financial institutions. Account balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. From time to time, cash balances may exceed FDIC insurance limits. DEEF has not experienced any loss in its account with this financial institution and believes it is not exposed to any significant credit risk.

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NOTES TO FINANCIAL STATEMENTS

As of June 30, 2017, DEEF has funds on deposit in the DJC Fund of \$2,910 which comprise 0.03% of DEEF's net assets. DEEF also has pooled investments held in the name of the DJC Fund of \$11,557,352 which comprises 99.9% of DEEF's net assets. As of June 30, 2016, DEEF has funds on deposit in the DJC Fund of \$201,801 which comprise 1.8% of DEEF's net assets. DEEF also has pooled investments held in the name of the DJC Fund of \$10,804,796 which comprises 98.0% of DEEF's net assets.

NOTE 5 – RELATED PARTY TRANSACTIONS

DEEF is related through the Bishop of the Catholic Diocese of Jefferson City to the following entities: The Priests' Mutual Benefit Society; The Catholic Diocese of Jefferson City Fund; The Catholic Diocese of Jefferson City - Chancery Office; The Diocese of Jefferson City Parish Development Corporation; 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 Catholic High School in Jefferson City; Diocese of Jefferson City Real Estate Corporation, Inc.; and all parishes within the Jefferson City Diocese. DEEF maintains separate books and records. All financial information for the above entities is presented separately and is excluded from this report.

As of June 30, 2017 and 2016, the DJC Fund held pooled investments for DEEF in the amount of \$11,557,352 and \$10,804,796, respectively. As of June 30, 2017 and 2016, funds held in the deposit and loan program with the DJC Fund totaled \$2,910 and \$201,801, respectively.

DEEF had the following transactions with related parties for the years ended June 30,:

	<u>2017</u>	<u>2016</u>
The Catholic Diocese of Jefferson City Fund		
Investment income from the fund		
Pooled investments	\$ 802,580	\$ 232,367
Depositors fund	1,109	5,768

During the years ended June 30, 2017 and 2016, DEEF paid \$258,200 and \$417,400, respectively, 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.

DIOCESAN EXCELLENCE IN EDUCATION FUND, INC.
JEFFERSON CITY, MISSOURI

NOTES TO FINANCIAL STATEMENTS

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 and in the principal or most advantageous market for that asset or liability.

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’s investments in the pooled investment fund at June 30, 2017 were allocated 1% to cash and cash equivalents, 51% equities and 48% fixed income. DEEF’s investments in the pooled investment fund at June 30, 2016 were allocated 1% to cash and cash equivalents, 49% equities and 50% fixed income.

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 from 1.5% to 3.5% at June 30, 2017 and 2016, respectively.

Fair values of assets measured on a recurring basis at June 30, 2017 are as follows:

	<u>Cost</u>	<u>Fair value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Pooled investments					
Cash and cash equivalents	\$ 66,683	\$ 66,683	\$ -	\$ 66,683	\$ -
Equity securities	4,425,068	5,964,880	5,964,880	-	-
Fixed income securities	5,660,790	5,525,789	3,923,310	1,602,479	-
Total	<u>10,152,541</u>	<u>11,557,352</u>	<u>9,888,190</u>	<u>1,669,162</u>	<u>-</u>
Depositor's fund	<u>2,910</u>	<u>2,910</u>	<u>-</u>	<u>2,910</u>	<u>-</u>
Total investments	<u>\$ 10,155,451</u>	<u>\$ 11,560,262</u>	<u>\$ 9,888,190</u>	<u>\$ 1,672,072</u>	<u>\$ -</u>

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NOTES TO FINANCIAL STATEMENTS

Fair values of assets measured on a recurring basis at June 30, 2016 are as follows:

	<u>Cost</u>	<u>Fair value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Pooled investments					
Cash and cash equivalents	\$ 115,443	\$ 115,443	\$ -	\$ 115,443	\$ -
Equity securities	4,228,665	5,284,516	5,284,516	-	-
Fixed income securities	5,551,604	5,404,837	3,513,144	1,891,693	-
Total	<u>9,895,712</u>	<u>10,804,796</u>	<u>8,797,660</u>	<u>2,007,136</u>	<u>-</u>
Depositor's fund	201,801	201,801	-	201,801	-
Other investments	<u>4,909</u>	<u>6,794</u>	<u>6,794</u>	<u>-</u>	<u>-</u>
Total investments	<u>\$ 10,102,422</u>	<u>\$ 11,013,391</u>	<u>\$ 8,804,454</u>	<u>\$ 2,208,937</u>	<u>\$ -</u>