**Audited**
**Financial Statements**

# The Catholic Schools Foundation, Inc.

**June 30, 2009**

G.T. Reilly & Company
Certified Public Accountants/Business Consultants

# The Catholic Schools Foundation, Inc.

**Audited Financial Statements and Other Financial Information**

**June 30, 2009**

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Certified Public Accountants/Business Consultants

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# INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
The Catholic Schools Foundation, Inc.

We have audited the accompanying statements of financial position of The Catholic Schools Foundation, Inc. as of June 30, 2009 and 2008, 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 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 The Catholic Schools Foundation, Inc. as of June 30, 2009 and 2008, and the changes in its net assets and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

G. T. Reilly & Company

G. T. Reilly & Company

Milton, Massachusetts
May 11, 2010

## Statements of Financial Position

**June 30**

| | **2009** | 2008 |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents (Note 2) | **$ 4,652,575** | $ 6,825,843 |
| Investments, at fair value (Notes 2 & 4) | **35,554,190** | 42,712,494 |
| Accrued interest and dividends receivable | **44,494** | 44,908 |
| Contributions receivable within one year, net of estimated uncollectibles of $120,533 in 2009 ($133,058 in 2008) (Notes 2 & 6) | **990,723** | 637,507 |
| Contributions receivable in future years, net (Notes 2 & 6) | **522,891** | 543,200 |
| Interest in net assets of the Catholic Foundation (Notes 2 & 3) | **2,364,129** | 2,844,078 |
| Prepaid expenses | **14,499** | 12,474 |
| Furniture, equipment and software, net (Notes 2 & 7) | **30,006** | 49,899 |
| TOTAL ASSETS | **$ 44,173,507** | $ 53,670,403 |
| **Liabilities and Net Assets** | | |
| Liabilities: | | |
| Accounts payable and accrued expenses | **$ 108,205** | $ 73,107 |
| Grants payable (Note 2) | **6,737,000** | 6,794,306 |
| | **6,845,205** | 6,867,413 |
| Net assets (Notes 2, 12 & 13): | | |
| Unrestricted | **11,639,752** | 14,667,787 |
| Temporarily restricted | **2,439,340** | 7,910,993 |
| Permanently restricted endowment funds | **23,249,210** | 24,224,210 |
| | **37,328,302** | 46,802,990 |
| TOTAL LIABILITIES AND NET ASSETS | **$ 44,173,507** | $ 53,670,403 |



The accompanying notes are an integral part of these financial statements.

## Statements of Activities and Change in Net Assets

### Year Ended June 30

| | 2009 | | | | 2008 | | | |
|---|---|---|---|---|---|---|---|---|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| REVENUES, GAINS (LOSSES) & OTHER SUPPORT | | | | | | | | |
| Contributions | $ 5,767,416 | $ 1,699,439 | $ 525,000 | $ 7,991,855 | $ 6,765,688 | $ 1,536,700 | $ 1,715,072 | $10,017,460 |
| Less writedowns and provision for uncollectible pledges | - | - | - | - | (158,357) | | - | (158,357) |
| | 5,767,416 | 1,699,439 | 525,000 | 7,991,855 | 6,607,331 | 1,536,700 | 1,715,072 | $9,859,103 |
| Investment income | 857,536 | 1,019,577 | - | 1,877,113 | 1,469,352 | 1,452,451 | - | 2,921,803 |
| Interest in change in net assets of the Catholic Foundation (Notes 2 & 3) | (15,000) | (247,888) | - | (262,888) | 15,000 | (180,893) | 72,946 | (92,947) |
| Net realized and unrealized gains (losses) on investments (Note 2) | (7,400,565) | (2,601,297) | - | (10,001,862) | (2,408,497) | (2,513,881) | - | (4,922,378) |
| Net assets released from permanent restriction through change in donor restriction | | 1,500,000 | (1,500,000) | - | | | | |
| Net assets released from restrictions through satisfaction of program restrictions (Note 11) | 6,841,484 | (6,841,484) | - | - | 8,190,516 | (8,190,516) | - | - |
| TOTAL REVENUES, GAINS (LOSSES) AND OTHER SUPPORT | 6,050,871 | (5,471,653) | (975,000) | (395,782) | 13,873,702 | (7,896,139) | 1,788,018 | 7,765,581 |
| EXPENSES | | | | | | | | |
| Program: | | | | | | | | |
| Financial aid grants | 6,524,685 | - | - | 6,524,685 | 6,373,372 | - | - | 6,373,372 |
| Special projects | 1,241,694 | - | - | 1,241,694 | 1,375,192 | - | - | 1,375,192 |
| Program overhead | 189,892 | - | - | 189,892 | 240,543 | - | - | 240,543 |
| Supporting services: | | | | | | | | |
| Management and operations | 375,126 | - | - | 375,126 | 372,433 | - | - | 372,433 |
| Fundraising event | 268,560 | - | - | 268,560 | 206,568 | - | - | 206,568 |
| Other fundraising | 410,453 | - | - | 410,453 | 356,215 | - | - | 356,215 |
| Marketing and public relations | 68,496 | - | - | 68,496 | 60,374 | - | - | 60,374 |
| TOTAL EXPENSES | 9,078,906 | - | - | 9,078,906 | 8,984,697 | - | - | 8,984,697 |
| INCREASE (DECREASE) IN NET ASSETS | (3,028,035) | (5,471,653) | (975,000) | (9,474,688) | 4,889,005 | (7,896,139) | 1,788,018 | (1,219,116) |
| NET ASSETS AT BEGINNING OF YEAR | 14,667,787 | 7,910,993 | 24,224,210 | 46,802,990 | 9,778,782 | 15,807,132 | 22,436,192 | 48,022,106 |
| NET ASSETS AT END OF YEAR | $ 11,639,752 | $ 2,439,340 | $ 23,249,210 | $ 37,328,302 | $ 14,667,787 | $ 7,910,993 | $ 24,224,210 | $ 46,802,990 |



The accompanying notes are an integral part of these financial statements.

## Statements of Cash Flows

### Year Ended June 30

| | **2009** | 2008 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Increase (decrease) in net assets | **$ (9,474,688)** | $ (1,219,116) |
| Adjustments to reconcile change in net assets to net cash from operating activities: | | |
| Donation of investments | **(21,740)** | (679,330) |
| Depreciation | **25,144** | 19,810 |
| Net realized and unrealized losses on investments | **10,001,862** | 4,922,378 |
| Transfer of assets from the Catholic Foundation | **217,061** | 119,599 |
| Interest in change in net assets of the Catholic Foundation | **262,888** | 92,947 |
| Changes in operating assets and liabilities: | | |
| Contributions receivable | **(345,432)** | (288,569) |
| Provision for uncollectible pledges | **12,525** | (16,942) |
| Accrued interest and dividends receivable | **414** | 40,210 |
| Prepaid expenses | **(2,025)** | 4,266 |
| Accounts payable | **35,098** | (48,800) |
| Financial aid grants payable | **(57,306)** | (2,241,483) |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | **653,801** | 704,970 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Additions to furniture, equipment and software | **(5,251)** | (38,482) |
| Investment sales and maturities (purchases), net | **(2,821,818)** | (5,235,530) |
| NET CASH APPLIED TO INVESTING ACTIVITIES | **(2,827,069)** | (5,274,012) |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | **(2,173,268)** | (4,569,042) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | **6,825,843** | 11,394,885 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | **$ 4,652,575** | $ 6,825,843 |



The accompanying notes are an integral part of these financial statements.

**Notes to Financial Statements**

**June 30, 2009**

## Note 1 - Nature of Activities

The Catholic Schools Foundation, Inc. ("the Foundation") was formed on September 12, 1983 for the purpose of raising funds from individuals, corporations and foundations to support the educational mission of the Church through programs and services that insure optimal educational opportunities for all students regardless of race, religion, national origin, or gender attending Roman Catholic primary and secondary schools located in the Archdiocese of Boston.

## Note 2 - Significant Accounting Policies

Accounting 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 certain reported amounts and disclosures.

Accrual Basis - The financial statements of the Foundation have been prepared on the accrual basis.

Financial Statement Presentation - The Foundation reports information regarding its financial position and activities according to three classes of net assets as determined by donor-imposed restrictions: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. See Note 12 regarding restrictions on net assets.

Evaluation of Subsequent Events – In accordance with generally accepted accounting principles, management has evaluated subsequent events involving the Foundation for potential recognition or disclosure in the accompanying financial statements. Subsequent events are events or transactions that occurred after June 30, 2009 (the date of the accompanying financial statements) up through May 11, 2010, the date the accompanying financial statements were available to be issued.

Contributions and Donor Restrictions - Donors' unconditional promises to contribute cash or other assets to the Foundation are recorded as receivable when the pledges are made and documented. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. Amortization of discounts is included in contribution revenue. Conditional promises to contribute are recorded only when the specified conditions are substantially met.

The Foundation reports contributions of cash or other assets as restricted support, thereby increasing temporarily restricted net assets, if they are received with donor stipulations that limit, specify or otherwise restrict the use of such contributions. Contributions restricted for general financial aid are designated by the Board as inner city or neighborhood financial aid. When a donor restriction expires, either by use of the funds for the specified purpose or by the expiration of a time restriction, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Endowment funds established by donor restrictions to permanently maintain the principal, while allowing the use of income generated there from, are classified as permanently restricted net assets. Income derived from the investment of endowment funds is reported as unrestricted revenue or as restricted revenue depending on the terms of the donor instrument. Unrealized gains or losses on endowment fund investments are reported as increases or decreases in temporarily restricted net assets unless the donor explicitly states otherwise.

See Notes 12 and 13 regarding restrictions on net assets.

**Note 2 - Significant Accounting Policies (Cont.)**

Cash Equivalents - The Foundation considers short-term, highly liquid investments with original maturities of three months or less to be cash equivalents.

Investments - The Foundation reports investments in marketable equity and debt securities and mutual funds at fair value. Increases or decreases in the fair value of such investments are reflected in the statement of activities. The Foundation has an interest in a limited partnership that is accounted for under the equity method, at cost plus the Foundation's share of undistributed earnings (losses), which approximates fair value as the underlying assets consist of marketable equity securities and cash equivalents. (see Note 4).

Contributions Receivable – Contributions receivable are stated net of an allowance for doubtful accounts, which is reported on the face of the Foundation’s statement of financial position. The allowance is established via a provision for bad debts charged against support. On a periodic basis, management evaluates its contributions receivable and establishes or adjusts its allowance to an amount that it believes will be adequate to absorb possible losses on accounts that may become uncollectible, based on evaluations of the collectability of individual accounts. Accounts are charged against the allowance when management believes that the collectability of the specific account is unlikely. Charges to the allowance for doubtful accounts were approximately $13,000 in 2009 and $230,000 in 2008.

Accounting for Assets Held by Others – The Foundation follows the provisions of Statement of Financial Accounting Standards No. 136, “Transfer of Assets to a Not-for-Profit Organization or Charitable Trust that Raises or Holds Contributions for Others” (SFAS No. 136). The statement requires the Foundation to recognize as an asset its interest in the net assets of other related organizations who hold funds that have been donated for the benefit of the Foundation. Additionally, the statement requires the Foundation to adjust its interest for its share of the change in the related organization’s net assets. Transfers of funds from the holding organization to the Foundation are recorded as reductions in its interest (see Note 3).

Furniture and Equipment – Furniture and equipment are stated at cost when purchased and at estimated fair market value when donated. Maintenance, repairs and minor renewals and additions are expensed as incurred. Depreciation is provided over the estimated useful lives of the respective assets on a straight-line basis. The estimated useful life used for furniture and equipment is three years.

Financial Aid and Grants – A liability is recorded and an expense is recognized in the period in which the Foundation's Board of Directors approves the amount of financial aid for tuition and grants estimated for future distributions to schools. All commitments are reflected in the Foundation's statements of financial position.

Contributed Services and Equipment – Contributions of services to the Foundation are recognized as support with an equal amount recognized as expense if the services provided require special skills and would need to be purchased by the Foundation if not contributed (see Note 11). Contributions of noncash assets are recorded at fair market value at the date of contribution.

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

**Note 3 – Interest in the Catholic Foundation**

The Foundation is the beneficiary of donations collected on its behalf by the Catholic Foundation, a related party. As discussed in Note 2, “Accounting for Assets Held by Others”, the Foundation has recorded as an asset its interest in the Foundation’s net assets, which approximated $2,364,000 at June 30, 2009 ($2,844,000 at June 30, 2008). The change in the Foundation's interest is reflected in the statement of activities as a decrease in net assets of $262,888 in 2009 and $92,947 in 2008. Transfers of funds from the Catholic Foundation totaled $217,061 and $119,599 for the years ended June 30, 2009 and 2008, respectively.

**Note 4 - Investments**

Investments consist of the following:

| | Cost | Net Unrealized Gains (Losses) | Fair Value |
|---|---|---|---|
| **June 30, 2009** | | | |
| **Mutual Funds** | **$ 32,480,602** | **$ (4,396,449)** | **$ 28,084,153** |
| **Common Stocks** | **5,620,730** | **(822,111)** | **4,798,619** |
| **Investment in Limited Partnership** | **3,000,000** | **(328,582)** | **2,671,418** |
| | **$ 41,101,332** | **$ (5,547,142)** | **$ 35,554,190** |
| June 30, 2008 | | | |
| Mutual Funds | $ 33,742,211 | $ 332,100 | $ 34,074,311 |
| Common Stocks | 5,684,196 | (455,326) | 5,228,870 |
| Investment in Limited Partnership | 3,000,000 | 409,313 | 3,409,313 |
| | $ 42,426,407 | $ 286,087 | $ 42,712,494 |

The limited partnership invests and manages a portfolio of various common stocks and cash equivalents. At June 30, 2009, Catholic Schools Foundation's limited partnership interest approximates 24% (25% in 2008).

Investment Risks and Uncertainties – The Foundation utilizes various investment instruments including common stocks, mutual funds and an investment in a limited partnership. Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and those changes could materially affect the amounts reported in the statements of net assets.

**Note 5 – Fair Value Measurements**

The Foundation adopted Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" (FAS 157) effective July 1, 2008. FAS 157 establishes a fair value hierarchy that prioritizes the inputs and assumptions used to measure fair value, giving the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FAS 157 are described below:

Level 1 – Valuations based on quoted prices available in active markets for identical assets and liabilities.

Level 2 – Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable either directly or indirectly for the asset or liability.

Level 3 – Valuations based on inputs that are unobservable and significant to the overall fair value measurement for the asset or liability.

**Note 5 – Fair Value Measurements (Cont.)**

The following is a schedule of the Corporation's assets reported at fair value, by level, within the fair value hierarchy at June 30, 2009:

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Mutual Funds | $28,084,153 | $ - | $ - | $28,084,153 |
| Common Stocks | 4,798,619 | | | 4,798,619 |
| Investment in Limited Partnership | - | 2,671,418 | - | 2,671,418 |
| | $32,882,772 | $ 2,671,418 | $ - | $35,554,190 |

The fair value measurement level is based on the lowest level of any input that is significant to the fair value measurement of the asset or liability. The following is a description of the valuation methodologies used for investments measured at fair value, including the general classification of such instruments pursuant to the valuation hierarchy.

Mutual Funds - The investments are public investment vehicles valued using the Net Asset Value (NAV) provided by the administrator of the fund. The NAV is a quoted price in an active market and is classified as being valued using a Level 1 input under the fair value hierarchy.

Common Stocks - The investments are valued at the closing price reported on the active market on which the individual securities are traded and are classified as being valued using a Level 1 input under the fair value hierarchy.

Investment in Limited Partnership - Partnership interests in The Frontier Research Fund, LP do not have quoted prices in active markets or significant other observable inputs that have quoted market prices although the Foundation can redeem its investment at the net asset value per partner percentage interest at June 30, 2009. These assets are classified as being valued using Level 2 inputs under the fair value hierarchy following FASB Accounting Standards Update 2009-12, which the Foundation early-adopted. The Foundation accounts for the investment under the equity method, which approximates the fair value of its partnership interest based on the Foundation's interest in the underlying investment portfolio that consists of actively traded common stocks and money market funds.

**Note 6 – Contributions Receivable**

Included in Contributions Receivable are the following unconditional promises to give, summarized by use-restriction:

| | **2009** | 2008 |
|---|---|---|
| Scholarships | **$ 451,600** | $ 108,000 |
| Urban recruitment | **950,000** | 1,000,000 |
| Hispanic program | **13,116** | |
| Unrestricted | **252,540** | 222,565 |
| Unconditional promises to give before unamortized discount and provision for uncollectible pledges | **1,667,256** | 1,330,565 |
| Less unamortized discount | **33,109** | 16,800 |
| | **1,634,147** | 1,313,765 |
| Less provision for uncollectible pledges | **120,533** | 133,058 |
| | **$ 1,513,614** | $ 1,180,707 |

**Note 6 – Contributions Receivable (Cont.)**

| | **2009** | 2008 |
|---|---|---|
| Amounts due in: | | |
| Less than one year | **$ 990,723** | $ 637,507 |
| One to three years | **522,891** | 543,200 |
| | **$ 1,513,614** | $ 1,180,707 |

**Note 7 – Furniture, Equipment and Software**

Furniture, equipment and software consist of the following at June 30:

| | **2009** | 2008 |
|---|---|---|
| Furniture | **$ 19,241** | $ 19,241 |
| Computer equipment | **43,724** | 40,567 |
| Software | **58,839** | 56,744 |
| | **121,804** | 116,552 |
| Less accumulated provisions for depreciation | **91,798** | 66,653 |
| | **$ 30,006** | $ 49,899 |

**Note 8 – Lease Commitments**

The Foundation leases office space under an agreement expiring on March 31, 2010. The minimum future lease commitment for June 30, 2010 is $62,775.

Rent expense approximated $84,000 for each of the years ended June 30, 2009 and 2008.

**Note 9 - Related Party Transactions**

During the years ended June 30, 2009 and 2008, the Foundation was charged $34,935 and $33,053, respectively, by the Roman Catholic Archbishop of Boston (RCAB), a Corporation Sole (an entity related by common board members), for health, life, disability and facility insurance administered by the RCAB, in addition to the pension contributions discussed in Note 10.

**Note 10 – Employee Pension Plan**

The Foundation participates in a multi-employer noncontributory employee retirement income plan, the Roman Catholic Archdiocese of Boston Pension Plan. The Plan provides defined benefits to participants upon retirement. The amount of the Foundation's annual contribution is actuarially determined and is accrued and funded annually. The relative position of the Foundation with regard to the plan's net assets and actuarial present value of accumulated plan benefits has not been distinguished from those of other groups participating in the retirement income plan.

Pension expense for the years ended June 30, 2009 and 2008 approximated $24,500 and $24,400, respectively.

### Note 11 – Contributed Services

For the years ended June 30, 2009 and 2008, the Foundation recorded contributed services of approximately $84,500 and $98,000, respectively, for design and production services on the Inner City Scholarship Fund campaign.

### Note 12 - Restricted Net Assets

Permanently restricted net assets at June 30 consist of endowments restricted to investment in perpetuity, the income from which is expendable for specific purposes. Restrictions consist of:

| | **2009** | 2008 |
|---|---|---|
| Income restricted for: | | |
| Scholarships | **$15,935,498** | $15,410,498 |
| Urban recruitment | **-** | 1,500,000 |
| Technology | **3,832,000** | 3,832,000 |
| Marketing | **1,300,000** | 1,300,000 |
| Special projects | **1,092,100** | 1,092,100 |
| Interest in permanently restricted net assets of the Catholic Foundation (Note 3) | **1,089,612** | 1,089,612 |
| | **$23,249,210** | $24,224,210 |

See Note 13 regarding the components of endowments.

Temporarily restricted net assets at June 30 consist of the following:

| | **2009** | 2008 |
|---|---|---|
| Restricted for: | | |
| Scholarships | **$ 544,273** | $ 6,096,080 |
| Urban recruitment | **1,342,165** | 44,180 |
| Special projects | **276,953** | 994,619 |
| Interest in temporarily restricted net assets of the Catholic Foundation (Note 3) | **275,949** | 740,898 |
| | **2,439,340** | 7,875,777 |
| Unrealized gains on investments related to permanently restricted net assets (Note 2) | **-** | 35,216 |
| | **$ 2,439,340** | $ 7,910,993 |

During the years ended June 30, 2009 and 2008, net assets were released from donor restrictions by incurring expenses or by the occurrence of other events satisfying the restricted purposes as follows:

| | **2009** | 2008 |
|---|---|---|
| Scholarships | **$ 5,358,457** | $ 6,841,836 |
| 2010 Innitiative | **250,000** | 250,000 |
| Urban recruitment | **110,834** | - |
| Special projects | **694,136** | 727,935 |
| Annual event | **268,560** | 206,568 |
| Other supporting services | **159,497** | 164,177 |
| | **$ 6,841,484** | $ 8,190,516 |

**Note 12 - Restricted Net Assets (Cont.)**

During the year ended June 30, 2009, the donor of $1.5 million in endowed funds changed the restriction to allow spending of the principal in addition to investment income for urban recruitment. As such, the funds are shown as released from permanently restricted and recorded as temporarily restricted net assets.

**Note 13 – Endowments**

The Foundation's endowment consists of six funds established for the support of various education initiatives within the Catholic primary and secondary schools in the Archdiocese of Boston. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds are classified and reported based on the existence or absence of donor imposed restrictions.

<u>Interpretation of Relevant Law</u> - The Foundation has historically viewed the Massachusetts Uniform Management of Institutional Funds Act (UMIFA) as requiring the Foundation to preserve the fair value of the original gift as of the gift date of 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) 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. This is regarded as the "historic dollar value" of the endowment fund. Any "net appreciation" on invested endowment funds is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation.

<u>Funds with Deficiencies</u> - From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the "historic dollar value." Deficiencies of this nature are reported by a charge to unrestricted net assets and a corresponding increase to temporarily restricted net assets. Such deficiencies totaled approximately $2,958,000 as of June 30, 2009 and resulted from unfavorable market fluctuations from investments of permanently restricted contributions. Over time these may reverse due to appreciation of the underlying investments.

<u>Endowment Investment Policy</u> - The Foundation has adopted an investment philosophy, which combined with the spending rate, attempts to provide a predictable stream of returns thereby making funds available to programs that are supported by its endowment, while at the same time seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor restricted funds that the Foundation must hold in perpetuity or for donor-specified periods. Under the Foundation's investment policy and spending rate, both of which are approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce an inflation-adjusted return in excess of the spending rate over a long period of time. Actual returns in any given year may vary.

<u>Strategies Employed for Achieving Objectives</u> - 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 Investment Committee is responsible for selecting the investment vehicles, including any investment managers for the endowment funds. The Investment Committee's investment rationale is to include an array of different strategies and investment managers for the endowment portfolio to reduce overall volatility while providing investment returns above industry benchmarks.

**Note 13 – Endowments**

Changes in Endowment Net Assets

Endowment net assets and changes therein as of and for the years ended June 30 are as follows:

| | Endowment Fund Net Assets | | | |
|---|---|---|---|---|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| For the year ended June 30, 2009: | | | | |
| Endowment net assets at beginning of year | $ - | $ 3,447,859 | $ 24,224,210 | $ 27,672,069 |
| Contributions | - | | 525,000 | 525,000 |
| Interest in change in net assets of Catholic Foundation | - | (192,685) | - | (192,685) |
| Interest and dividends | - | 1,000,271 | - | 1,000,271 |
| Realized losses on investments | - | (2,251,493) | - | (2,251,493) |
| Unrealized losses on invesments | (2,958,350) | (244,532) | - | (3,202,882) |
| Net assets released through change in donor restriction | - | 24,151 | (1,500,000) | (1,475,849) |
| Appropriation of endowment assets for expenditure | - | (842,963) | - | (842,963) |
| Endowment net assets at end of year | $ (2,958,350) | $ 940,608 | $ 23,249,210 | $ 21,231,468 |

| | Endowment Fund Net Assets | | | |
|---|---|---|---|---|
| For the year ended June 30, 2008: | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Endowment net assets at beginning of year | $ - | $ 5,680,788 | $ 22,436,192 | $ 28,116,980 |
| Contributions | - | - | 1,715,072 | 1,715,072 |
| Interest in change in net assets of Catholic Foundation | - | (115,289) | 72,946 | (42,343) |
| Interest and dividends | - | 1,452,451 | - | 1,452,451 |
| Realized gains on investments | - | 489,300 | - | 489,300 |
| Unrealized losses on invesments | - | (3,003,181) | - | (3,003,181) |
| Appropriation of endowment assets for expenditure | - | (1,056,210) | - | (1,056,210) |
| Endowment net assets at end of year | $ - | $ 3,447,859 | $ 24,224,210 | $ 27,672,069 |

**Note 14 - Financial Instruments and Concentrations of Credit Risk**

The Foundation's financial instruments that potentially subject it to concentrations of credit risk consist of cash, cash equivalents, investments, and a beneficial interest in the net assets of a related foundation.

The Foundation maintains its cash and cash equivalents accounts in high quality financial institutions. At times during the year, cash amounts on deposit may exceed the Federal Deposit Insurance Corporation (FDIC) insured limits. At June 30, 2009, based on bank balances, the excess approximates $170,000 on deposit with one financial institution. Cash equivalents consist of non-FDIC insured money market accounts which approximate $4,236,000 at June 30, 2009, based on bank balances.

**Note 14 - Financial Instruments and Concentrations of Credit Risk (Cont.)**

As more fully disclosed in Note 4, the Foundation's investments at June 30, 2009 substantially consist of mutual funds, although it does invest in other marketable securities and a limited partnership. The composition of the mutual fund investment portfolio is dispersed among various investment houses, with the largest investment approximating $4.2 million (11.9% of total investments).

As more fully discussed in Note 3, the Foundation has a beneficial interest in the net assets of the Catholic Foundation in the amount of $2,364,000 at June 30, 2009.

The Foundation's pledges receivable are dispersed among various corporate and individual contributors throughout the United States. At June 30, 2009, approximately $950,000 or 57% of the Foundation's total pledges receivable is due from one major contributor.