

**Audited  
Financial Statements**

**The Catholic Schools  
Foundation, Inc.**

**June 30, 2006**

# The Catholic Schools Foundation, Inc.

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## Audited Financial Statements and Other Financial Information

June 30, 2006

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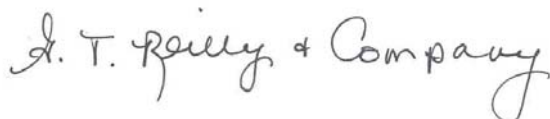
## INDEPENDENT AUDITORS' REPORT

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, 2006 and 2005, 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, 2006 and 2005, 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

Milton, Massachusetts  
October 20, 2006

# The Catholic Schools Foundation, Inc.

## Statements of Financial Position

June 30

|  | <u>2006</u>                 | <u>2005</u>                 |
|--|-----------------------------|-----------------------------|
| <b><u>Assets</u></b>   |                             |                             |
| Cash and cash equivalents (Note 2)   | \$ 9,282,193                | \$ 5,373,462                |
| Investments, at market value (Notes 2 & 4)   | 35,764,174                  | 33,449,878                  |
| Accrued interest and dividends receivable  | 49,570                      | 23,371                      |
| Contributions receivable within one year, net of estimated uncollectibles of \$250,000 in 2006 and \$200,000 in 2005 (Notes 2 & 5) | 1,136,915                   | 1,051,715                   |
| Contributions receivable in future years, net (Notes 2 & 5)  | 297,376                     | 287,422                     |
| Interest in net assets of the Catholic Foundation (Notes 2 & 3)  | 2,814,655                   | 5,519,820                   |
| Prepaid expenses   | 6,975                       | 16,916                      |
| Furniture and equipment, net (Notes 2 & 6)   | 0                           | 2,416                       |
|  | <u>                    </u> | <u>                    </u> |
| TOTAL ASSETS   | <u>\$ 49,351,858</u>        | <u>\$ 45,725,000</u>        |
| <br>   |                             |                             |
| <b><u>Liabilities and Net Assets</u></b>   |                             |                             |
| Liabilities:   |                             |                             |
| Accounts payable and accrued expenses  | \$ 222,385                  | \$ 135,705                  |
| Financial aid grants payable (Note 2)  | 7,200,000                   | 7,000,000                   |
| Deferred revenue (Note 2)  | 0                           | 52,800                      |
|  | <u>7,422,385</u>            | <u>7,188,505</u>            |
| <br>   |                             |                             |
| Net assets (Notes 2 & 11):   |                             |                             |
| Unrestricted   | 6,842,761                   | 4,855,269                   |
| Temporarily restricted   | 13,937,280                  | 12,565,154                  |
| Permanently restricted endowment funds   | 21,149,432                  | 21,116,072                  |
|  | <u>41,929,473</u>           | <u>38,536,495</u>           |
|  | <u>                    </u> | <u>                    </u> |
| TOTAL LIABILITIES AND NET ASSETS   | <u>\$ 49,351,858</u>        | <u>\$ 45,725,000</u>        |

# The Catholic Schools Foundation, Inc.

## Statements of Activities and Change in Net Assets

### Year Ended June 30

|  | 2006                |                        |                        |                      | 2005                |                        |                        |                      |
|--|---------------------|------------------------|------------------------|----------------------|---------------------|------------------------|------------------------|----------------------|
|  | Unrestricted        | Temporarily Restricted | Permanently Restricted | Total                | Unrestricted        | Temporarily Restricted | Permanently Restricted | Total                |
| <b>REVENUES, GAINS &amp; OTHER SUPPORT</b>   |                     |                        |                        |                      |                     |                        |                        |                      |
| Contributions  | \$ 493,715          | \$ 8,233,526           | \$ 64,000              | \$ 8,791,241         | \$ 50,359           | \$ 7,769,133           | \$ 0                   | \$7,819,492          |
| Less writedowns and provision for uncollectible pledges                                      | 0                   | (238,007)              | 0                      | (238,007)            | 0                   | (25,214)               | 0                      | (25,214)             |
|  | <b>493,715</b>      | <b>7,995,519</b>       | <b>64,000</b>          | <b>8,553,234</b>     | <b>50,359</b>       | <b>7,743,919</b>       | <b>0</b>               | <b>\$7,794,278</b>   |
| Investment income  | 547,491             | 419,571                | 0                      | 967,062              | 437,244             | 354,853                | 0                      | 792,097              |
| Interest in change in net assets of the Catholic Foundation (Notes 2 & 3)                    | 0                   | 424,739                | (30,640)               | 394,099              | 0                   | 211,958                | 0                      | 211,958              |
| Net realized and unrealized gains on investments (Note 2)                                    | 1,588,724           | 1,302,485              | 0                      | 2,891,209            | 1,133,456           | 914,948                | 0                      | 2,048,404            |
| Net assets released from restrictions through satisfaction of program restrictions (Note 11) | 8,770,188           | (8,770,188)            | 0                      | 0                    | 8,447,714           | (8,447,714)            | 0                      | 0                    |
| <b>TOTAL REVENUES, GAINS AND OTHER SUPPORT</b>   | <b>11,400,118</b>   | <b>1,372,126</b>       | <b>33,360</b>          | <b>12,805,604</b>    | <b>10,068,773</b>   | <b>777,964</b>         | <b>0</b>               | <b>10,846,737</b>    |
| <b>EXPENSES</b>  |                     |                        |                        |                      |                     |                        |                        |                      |
| Program:   |                     |                        |                        |                      |                     |                        |                        |                      |
| Financial aid grants   | 6,436,885           | 0                      | 0                      | 6,436,885            | 6,425,173           | 0                      | 0                      | 6,425,173            |
| Special projects   | 1,745,591           | 0                      | 0                      | 1,745,591            | 1,688,548           | 0                      | 0                      | 1,688,548            |
| Supporting services:   |                     |                        |                        |                      |                     |                        |                        |                      |
| Management and operations  | 395,144             | 0                      | 0                      | 395,144              | 336,123             | 0                      | 0                      | 336,123              |
| Fundraising event  | 240,281             | 0                      | 0                      | 240,281              | 210,229             | 0                      | 0                      | 210,229              |
| Other fundraising  | 576,115             | 0                      | 0                      | 576,115              | 182,188             | 0                      | 0                      | 182,188              |
| Marketing and public relations   | 18,610              | 0                      | 0                      | 18,610               | 17,549              | 0                      | 0                      | 17,549               |
| <b>TOTAL EXPENSES</b>  | <b>9,412,626</b>    | <b>0</b>               | <b>0</b>               | <b>9,412,626</b>     | <b>8,859,810</b>    | <b>0</b>               | <b>0</b>               | <b>8,859,810</b>     |
| <b>INCREASE IN NET ASSETS</b>  | <b>1,987,492</b>    | <b>1,372,126</b>       | <b>33,360</b>          | <b>3,392,978</b>     | <b>1,208,963</b>    | <b>777,964</b>         | <b>0</b>               | <b>1,986,927</b>     |
| <b>NET ASSETS AT BEGINNING OF YEAR</b>   | <b>4,855,269</b>    | <b>12,565,154</b>      | <b>21,116,072</b>      | <b>38,536,495</b>    | <b>3,646,306</b>    | <b>11,787,190</b>      | <b>21,116,072</b>      | <b>36,549,568</b>    |
| <b>NET ASSETS AT END OF YEAR</b>   | <b>\$ 6,842,761</b> | <b>\$ 13,937,280</b>   | <b>\$ 21,149,432</b>   | <b>\$ 41,929,473</b> | <b>\$ 4,855,269</b> | <b>\$ 12,565,154</b>   | <b>\$ 21,116,072</b>   | <b>\$ 38,536,495</b> |

# The Catholic Schools Foundation, Inc.

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## Statements of Cash Flows

Year Ended June 30

|   | <u>2006</u>                | <u>2005</u>                |
|---|----------------------------|----------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES  |                            |                            |
| Increase in net assets  | \$ 3,392,978               | \$ 1,986,927               |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: |                            |                            |
| Donation of investments   | (349,991)                  | (314,490)                  |
| Depreciation  | 2,416                      | 13,871                     |
| Net realized and unrealized gains on investments  | (2,891,209)                | (2,048,404)                |
| Transfer of assets from the Catholic Foundation   | 3,099,264                  | 2,296,104                  |
| Interest in change in net assets of the Catholic Foundation                                 | (394,099)                  | (211,958)                  |
| Changes in operating assets and liabilities:  |                            |                            |
| Contributions receivable  | (145,154)                  | (119,120)                  |
| Provision for uncollectible pledges   | 50,000                     | (50,000)                   |
| Accrued interest and dividends receivable   | (26,199)                   | (23,122)                   |
| Prepaid expenses  | 9,941                      | (4,610)                    |
| Accounts payable  | 86,680                     | (134,171)                  |
| Financial aid grants payable  | 200,000                    | 0                          |
| Deferred revenue  | (52,800)                   | 52,800                     |
| NET CASH PROVIDED BY OPERATING ACTIVITIES   | <u>2,981,827</u>           | <u>1,443,827</u>           |
| CASH FLOWS PROVIDED BY (APPLIED TO) INVESTING ACTIVITIES                                    |                            |                            |
| Sales and maturities of investments, net of purchases                                       | <u>926,904</u>             | <u>(1,731,331)</u>         |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS  | <u>3,908,731</u>           | <u>(287,504)</u>           |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR  | <u>5,373,462</u>           | <u>5,660,966</u>           |
| CASH AND CASH EQUIVALENTS AT END OF YEAR  | <u><u>\$ 9,282,193</u></u> | <u><u>\$ 5,373,462</u></u> |

# The Catholic Schools Foundation, Inc.

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## Notes to Financial Statements

June 30, 2006

### 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. The support is in the form of scholarships, counseling programs and technology-related special projects.

### 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 11 regarding restrictions on net assets.

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 therefrom, 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 Note 11 regarding restrictions on net assets.

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

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

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 (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 to 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 collectibility of individual accounts. Accounts are charged against the allowance when management believes that the collectibility of the specific account is unlikely. Charges to the allowance for doubtful accounts were approximately \$188,000 in 2006 and \$75,000 in 2005.

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 lives used for furniture and equipment is three years.

Financial Aid – 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 estimated for future distributions to schools. All commitments are reflected in the Foundation's statements of financial position.

Deferred Revenue - When contributions are received from special events that have not taken place before the end of the fiscal year, the exchange portion of the payment is classified as deferred revenue.

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 10). 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 \$2,815,000 at June 30, 2006 (\$5,520,000 at June 30, 2005). The change in the Foundation's interest is reflected in the statement of activities as an increase in net assets of \$394,099 and \$211,958 in 2006 and 2005, respectively. Transfers of funds from the Catholic Foundation totaled \$3,099,264 and \$2,296,104 for the years ended June 30, 2006 and 2005, respectively.



#### Note 4 - Investments

Investments consist of the following:

|                                   | <u>Cost</u>         | <u>Unrealized<br/>Gains (Losses)</u> | <u>Fair Value</u>   |
|-----------------------------------|---------------------|--------------------------------------|---------------------|
| <b><u>June 30, 2006</u></b>       |                     |                                      |                     |
| Investment in Limited Partnership | \$ 2,000,000        | \$ 129,350                           | \$ 2,129,350        |
| Mutual Funds                      | 27,123,249          | 1,783,017                            | 28,906,266          |
| Common Stocks                     | 3,709,505           | 1,019,053                            | 4,728,558           |
|                                   | <u>\$32,832,754</u> | <u>\$2,931,420</u>                   | <u>\$35,764,174</u> |
| <u>June 30, 2005</u>              |                     |                                      |                     |
| U.S. Government Obligations       | \$ 1,606,495        | \$ (55,351)                          | \$ 1,551,144        |
| Mutual Funds                      | 25,411,298          | 1,117,661                            | 26,528,959          |
| Common Stocks                     | 4,343,310           | 1,026,465                            | 5,369,775           |
|                                   | <u>\$31,361,103</u> | <u>\$2,088,775</u>                   | <u>\$33,449,878</u> |

During 2006, the Foundation invested \$2 million into a limited partnership. The partnership invests and manages a portfolio of various common stocks. At June 30, 2006, Catholic Schools Foundation's limited partnership interest approximates 17.5%.

#### Note 5 – Contributions Receivable

Included in Contributions Receivable are the following unconditional promises to give:

|   | <u>2006</u>        | <u>2005</u>        |
|---|--------------------|--------------------|
| Inner City  | \$1,521,509        | \$1,486,215        |
| Neighborhood  | 175,000            | 95,000             |
| Young Professional  | 406                | 1,000              |
| Management and operations   | <u>25,000</u>      | <u>0</u>           |
| Unconditional promises to give before unamortized discount<br>and provision for uncollectible pledges | 1,721,915          | 1,582,215          |
| Less unamortized discount   | <u>37,624</u>      | <u>43,078</u>      |
|   | 1,684,291          | 1,539,137          |
| Less provision for uncollectible pledges  | <u>250,000</u>     | <u>200,000</u>     |
|   | <u>\$1,434,291</u> | <u>\$1,339,137</u> |
| Amounts due in:   |                    |                    |
| Less than one year  | \$1,136,915        | \$1,051,715        |
| One to three years  | <u>297,376</u>     | <u>287,422</u>     |
|   | <u>\$1,434,291</u> | <u>\$1,339,137</u> |

#### Note 6 – Furniture and Equipment

Furniture and equipment consist of the following at June 30, 2006:

|  |               |
|--|---------------|
| Furniture                                    | \$ 19,241     |
| Computer equipment                           | <u>22,387</u> |
|  | 41,628        |
| Less accumulated provisions for depreciation | <u>41,628</u> |
|  | <u>\$ 0</u>   |

## Note 7 – Lease Commitments

During 2005, the Foundation entered into a new lease for office space. The lease is treated as an operating lease and it expires on March 31, 2010.

Minimum future lease commitments are as follows:

| Year Ending<br><u>June 30</u> |                   |
|-------------------------------|-------------------|
| 2007                          | \$ 83,700         |
| 2008                          | 83,700            |
| 2009                          | 83,700            |
| 2010                          | <u>62,775</u>     |
|                               | <u>\$ 313,875</u> |

Rent expense under the terms of the current and previous leases approximated \$84,000 for the year ended June 30, 2006 (\$72,000 for 2005).

## Note 8 - Related Party Transactions

During the years ended June 30, 2006 and 2005, the Foundation was charged \$41,365 and \$28,577, 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 9.

## Note 9 – 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, 2006 and 2005 approximated \$16,000 and \$24,000, respectively.

## Note 10 – Contributed Services

For the years ended June 30, 2006 and 2005, the Foundation recorded contributed services of \$75,000 each year for design and production services on the Inner City Scholarship Fund campaign.

## Note 11 - Restricted Net Assets

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

|  | <u>2006</u>         | <u>2005</u>         |
|--|---------------------|---------------------|
| Inner city   | \$ 9,907,610        | \$ 7,865,610        |
| Neighborhood   | 1,911,697           | 1,911,697           |
| Scholarships   | 1,920,000           | 1,920,000           |
| Technology   | 3,832,000           | 3,550,000           |
| Marketing  | 1,300,000           | 1,050,000           |
| Special projects   | 1,092,100           | 1,092,100           |
| Interest in net assets of the Catholic Foundation (Note 3) | <u>1,186,025</u>    | <u>3,726,665</u>    |
|  | <u>\$21,149,432</u> | <u>\$21,116,072</u> |

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

|   | <u>2006</u>         | <u>2005</u>         |
|---|---------------------|---------------------|
| Restricted for:   |                     |                     |
| Scholarships  | \$ 9,923,702        | \$ 8,873,156        |
| Special projects  | 1,525,695           | 1,413,056           |
| Interest in net assets of the Catholic Foundation (Note 3)                            | 738,232             | 794,586             |
| Other   | <u>0</u>            | <u>114,379</u>      |
|   | 12,187,629          | 11,195,177          |
| Unrealized gains on investments related to permanently restricted net assets (Note 2) | <u>1,749,651</u>    | <u>1,369,977</u>    |
|   | <u>\$13,937,280</u> | <u>\$12,565,154</u> |

During the years ended June 30, 2006 and 2005, net assets were released from donor restrictions by incurring expenses or by the occurrence of other events satisfying the restricted purposes as follows:

|                           | <u>2006</u>        | <u>2005</u>        |
|---------------------------|--------------------|--------------------|
| Inner city scholarships   | \$6,389,876        | \$6,359,176        |
| Neighborhood scholarships | 654,297            | 1,032,793          |
| Annual event              | 240,281            | 210,229            |
| Special projects          | 1,448,385          | 833,563            |
| Other supporting services | <u>37,349</u>      | <u>11,953</u>      |
|                           | <u>\$8,770,188</u> | <u>\$8,447,714</u> |

## Note 12 - 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 insured limits. At June 30, 2006, based on bank balances, the excess approximated \$744,000 on deposit with one financial institution. Cash equivalents consist of uninsured money market accounts which approximate \$8,550,000 at June 30, 2006, based on bank balances.

**Note 12 - Financial Instruments and Concentrations of Credit Risk (Cont.)**

As more fully disclosed in Note 4, the Foundation's investments at June 30, 2006 substantially consist of mutual funds, although it does invest in other marketable securities. The composition of the mutual fund investment portfolio is dispersed among various investment houses, with the largest investment approximating \$3 million.

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 \$2,814,655 at June 30, 2006.

The Foundation's pledges receivable are dispersed among various corporate and individual contributors throughout the United States. At June 30, 2006, approximately \$750,000 or 44% of the Foundation's total pledges receivable is due from six major contributors. At June 30, 2005, approximately \$875,000 or 60% of the total was due from six major contributors.