

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT  
THE CATHOLIC DIOCESE OF BELLEVILLE PARISH AND AGENCY RESOURCE FUND

June 30, 2010

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### Independent Auditors' Report

The Catholic Diocese of Belleville Parish and Agency Resource Fund  
Belleville, Illinois

We have audited the accompanying statement of financial position of The Catholic Diocese of Belleville Parish and Agency Resource Fund (the Fund) as of June 30, 2010, and the related statements of activities and changes in net assets and of cash flows for the year then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Catholic Diocese of Belleville Parish and Agency Resource Fund as of June 30, 2010, 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.

*Kerber, Eck & Braeckel LLP*

Springfield, Illinois  
November 4, 2010

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Other Locations

Jacksonville, IL • Belleville, IL • Carbondale, IL • Cape Girardeau, MO • St. Louis, MO • Milwaukee, WI

Catholic Diocese of Belleville Parish and Agency Resource Fund

STATEMENT OF FINANCIAL POSITION

June 30, 2010

ASSETS

Cash	\$	2,041,086
Loans receivable, net of allowance of \$ 1,100,000		13,013,073
Due from other Diocesan Funds		35,545
Investments		123,973
Investments in Catholic Community Foundation		<u>2,850,990</u>
Total assets	\$	<u><u>18,064,667</u></u>

LIABILITIES AND NET ASSETS

Accounts payable and accrued expenses	\$	844
Deposits payable		<u>17,995,473</u>
Total liabilities		17,996,317
Net assets		
Unrestricted		<u>68,350</u>
Total liabilities and net assets	\$	<u><u>18,064,667</u></u>

The accompanying notes are an integral part of this statement.

Catholic Diocese of Belleville Parish and Agency Resource Fund

STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS

Year ended June 30, 2010

Support and revenue	
Investment income	\$ 830,822
Expenses	
Program	
Benefits of parishes and agencies	
Interest	479,065
Bad debt	1,014,824
Contributions to Diocese of Belleville	100,000
Miscellaneous	544
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Total expenses for benefits of parishes and agencies	1,594,433
Management and general	
Professional services	12,966
Management fees	17,200
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Total management and general	30,166
	<hr/>
Total expenses	1,624,599
	<hr/>
Change in net assets	(793,777)
Net assets at beginning of year	862,127
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Net assets at end of year	\$ 68,350
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The accompanying notes are an integral part of this statement.

Catholic Diocese of Belleville Parish and Agency Resource Fund

STATEMENT OF CASH FLOWS

Year ended June 30, 2010

Cash flows from operating activities	
Change in net assets	\$ (793,777)
Adjustments to reconcile change in net assets to net cash used in operating activities	
Unrealized gain on investments	(197,222)
Allowance for doubtful accounts	1,014,824
Change in assets and liabilities	
Decrease in accrued interest receivable on loans	48,597
Increase in due from other Diocesan Funds	(35,545)
Increase in accounts payable and accrued expenses	804
Decrease in accrued interest payable	<u>(41,817)</u>
Net cash used in operating activities	(4,136)
Cash flows from investing activities	
Purchase of investments	(10,777)
Proceeds from sale of investments	535,554
Additions to Catholic Community Foundation investments	(750,000)
Loans to parishes and agencies	(3,600,420)
Principal payments from parishes and agencies	<u>1,974,450</u>
Net cash used in investing activities	(1,851,193)
Cash flows from financing activities	
Deposits received	4,902,127
Deposit withdrawals	<u>(3,169,754)</u>
Net cash provided by financing activities	<u>1,732,373</u>
Net decrease in cash	(122,956)
Cash at beginning of year	<u>2,164,042</u>
Cash at end of year	<u>\$ 2,041,086</u>
Interest paid	<u>\$ 520,882</u>

The accompanying notes are an integral part of this statement.

Catholic Diocese of Belleville Parish and Agency Resource Fund

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

NOTE A - SUMMARY OF ACCOUNTING POLICIES

A summary of the significant accounting policies consistently applied in the preparation of the accompanying financial statement follows.

*1. Financial Reporting Entity*

The Catholic Diocese of Belleville Parish and Agency Resource Fund (the Fund), is a not-for-profit corporation established under the laws of the State of Illinois, and it operates as a religious organization. The Fund is located in Southern Illinois and it provides parishes, schools, and other agencies and organizations of the Catholic Diocese of Belleville, Illinois a means to deposit funds with interest. These deposits are used to provide loans to other parishes, schools and agencies of the Diocese.

*2. Basis of Accounting*

The accompanying financial statements have been prepared on the accrual basis of accounting and, accordingly, report all significant receivables, payables, and other liabilities.

*3. Financial Statement Presentation*

The Fund is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. To ensure observance of limitations and restrictions placed on the use of resources available, the Fund reports donations of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. There were no temporarily or permanently restricted net assets at June 30, 2010.

*4. Cash and Cash Equivalents*

Cash and cash equivalents consist of short-term highly liquid investments, which are readily convertible into cash within ninety (90) days of purchase, including cash and cash equivalents held temporarily as part of an investment portfolio. There were no cash equivalents at June 30, 2010.

Catholic Diocese of Belleville Parish and Agency Resource Fund

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2010

NOTE A - SUMMARY OF ACCOUNTING POLICIES - Continued

5. *Investments and Investments in Catholic Community Foundation*

Investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair values in the statement of financial position. Unrealized gains and losses are included in the statement of activities.

6. *Loans Receivable*

Allowances for loans receivable are recorded based on a combination of historical information, industry practice, and aging analysis.

7. *Income Taxes*

The Catholic Diocese of Belleville Parish and Agency Resource Fund is a not-for-profit corporation under Section 501(c)(3) of the Internal Revenue Code and, as such, is exempt from income taxes under Section 501(a) of the Code.

The Fund adopted the accounting standards for uncertainty in income taxes effective July 1, 2009. This guidance prescribes a comprehensive model for financial statement recognition, measurement, classification and disclosure of uncertain tax positions. The implementation of the standards had no net effect on net assets.

As of June 30, 2010, the Fund has recognized in the financial statements the effects of all tax positions and continually evaluates expiring statutes of limitations, audits, changes in tax law and new authoritative rulings. The Fund is not aware of any circumstances or events that make it reasonably possible that unrecognized tax benefits may increase or decrease within 12 months of the balance sheet date. Penalties and interest assessed by taxing authorities are included in the provision for income taxes, if applicable. There were no interest or penalties paid during the year ended June 30, 2010.

8. *Functional Allocation of Expenses*

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Catholic Diocese of Belleville Parish and Agency Resource Fund

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2010

NOTE A - SUMMARY OF ACCOUNTING POLICIES - Continued

*9. Use of 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. Accordingly, actual results could differ from those estimates.

*10. Subsequent Events*

Management has evaluated subsequent events for recognition and disclosure in the financial statements through November 4, 2010 which is the date the financial statements were available to be issued. Through November 4, 2010 no subsequent events required recognition or disclosure in the financial statements.

NOTE B - CONCENTRATION OF CREDIT RISK

The Fund maintains its primary cash balances at a financial institution in Belleville, Illinois. At June 30, 2010, accounts at this institution were insured by the Federal Deposit Insurance Corporation up to \$ 250,000. At times, these accounts may exceed federally insured limits. As of June 30, 2010, the Fund has not experienced any losses in such accounts.

NOTE C - LOANS RECEIVABLE

Loans receivable from parishes, schools, and related entities due to the Fund, bear interest at a rate of 0.0% to 5.0% and are administered by the Administrative Offices of the Catholic Diocese of Belleville under a management and administrative agreement with the Fund.

Loans receivable at June 30, 2010 consists of:

Principal balance of loans	\$ 13,911,619
Accrued interest receivable	201,454
Allowance for doubtful accounts	<u>(1,100,000)</u>
	<u>\$ 13,013,073</u>

Catholic Diocese of Belleville Parish and Agency Resource Fund

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2010

NOTE D - INVESTMENTS AND INVESTMENTS IN CATHOLIC COMMUNITY FOUNDATION

Investments at June 30, 2010 consist of:

	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Gain</u>
Certificates of deposit	\$ 123,973	\$ 123,973	-

The Fund has various investments at June 30, 2010 in the Catholic Community Foundation, which is a related party, as follows:

	<u>Basis</u>	<u>Fair Value</u>	<u>Unrealized Gain</u>
Limited term agreements	\$ 2,461,163	\$ 2,850,990	\$ 389,827

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Accounting standards establish a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standards describe three levels of inputs that may be used to measure fair value:

Level 1 - Quoted prices in active markets for identical assets or liabilities. Level 1 assets and liabilities include debt and equity securities that are traded in an active exchange market, as well as U.S. Treasury securities.

Level 2 - Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets and liabilities include debt securities with quoted prices that are traded less frequently than exchange-traded instruments. This category generally includes certain U.S. Government and agency mortgage-backed debt securities and corporate debt securities. Level 2 assets also include certain entities that calculate net asset value per share if the Company has the ability to redeem the investment at net asset value per share at the measurement date or shortly thereafter. Examples of these entities include hedge funds, private equity funds, real estate funds, offshore funds and funds of funds.

Catholic Diocese of Belleville Parish and Agency Resource Fund

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2010

NOTE D - INVESTMENTS AND INVESTMENTS IN CATHOLIC COMMUNITY FOUNDATION - Continued

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant measurement judgment or estimation. This category generally includes certain private debt and equity investments. Level 3 assets also include certain entities that calculate net asset value per share in which the Company never has the ability to redeem the investment at net asset value per share or cannot redeem the investment in the near-term.

Fair value estimates are made at a specific point in time, based on available market information and judgments about the financial asset, including estimates of timing, amount of expected future cash flows and the credit standing of the issuer. In some cases, the fair value estimates cannot be substantiated by comparison to independent markets. In addition, the disclosed fair value may not be realized in the immediate settlement of the financial asset. In addition, the disclosed fair values do not reflect any premium or discount that could result from offering for sale at one time an entire holding of a particular financial asset.

Fair values of certificates of deposit were determined by amortized cost, which approximates fair value. The Catholic Community Foundation is invested entirely in equity securities and mutual funds, for which fair values also have been determined from by the quoted market prices as determined by the Foundation's custodian.

The following table presents the Fund's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of June 30, 2010.

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Certificates of deposit Catholic Community Foundation	\$ 123,973 <u>2,850,990</u>	\$ - <u>2,850,990</u>	\$ 123,973 <u>-</u>	\$ - <u>-</u>
Total	<u>\$ 2,974,963</u>	<u>\$ 2,850,990</u>	<u>\$ 123,973</u>	<u>\$ -</u>

Catholic Diocese of Belleville Parish and Agency Resource Fund

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2010

NOTE E - DEPOSITS PAYABLE

The deposits payable of \$ 17,995,473 as of June 30, 2010, represent the amount of monies on deposit with the Fund by parishes, schools, and other organizations related to the Administrative Offices of The Catholic Diocese of Belleville, Illinois and are administered by the Diocese under a management and administrative agreement with the Fund. Deposits bear an interest rate of 2.75% for the year ended June 30, 2010.

NOTE F - RELATED PARTY TRANSACTIONS

The Fund enters into transactions with the Catholic Diocese of Belleville (the Diocese), as well as parishes, schools and other agencies of the Diocese. The Fund made contributions to the Diocese of \$ 100,000 for the year ended June 30, 2010. Additionally, the Fund paid management fees of \$ 17,200 to the Diocese for the year ended June 30, 2010.