

# Mecklenburg Area Catholic Schools of the Roman Catholic Diocese of Charlotte

Financial Statements as of and for the  
Years Ended June 30, 2009 and 2008, and  
Independent Auditors' Report

# MECKLENBURG AREA CATHOLIC SCHOOLS OF THE ROMAN CATHOLIC DIOCESE OF CHARLOTTE

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## INDEPENDENT AUDITORS' REPORT

To the Most Reverend Peter J. Jugis,  
Bishop of Charlotte, and the Mecklenburg Area  
Catholic Schools Regional Board of Education:

We have audited the accompanying statements of financial position of Mecklenburg Area Catholic Schools of the Roman Catholic Diocese of Charlotte (MACS) as of June 30, 2009 and 2008, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of MACS' 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of MACS' internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of MACS as of June 30, 2009 and 2008, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Deloitte + Touche LLP*

September 17, 2009

**MECKLENBURG AREA CATHOLIC SCHOOLS OF THE  
ROMAN CATHOLIC DIOCESE OF CHARLOTTE**

**STATEMENTS OF FINANCIAL POSITION  
AS OF JUNE 30, 2009 AND 2008**

	<b>2009</b>	<b>2008</b>
<b>ASSETS</b>		
CASH AND CASH EQUIVALENTS	\$ 12,567,317	\$ 11,906,996
TUITION RECEIVABLE AND OTHER — Net of allowance for doubtful accounts of \$60,240 and \$56,257 in 2009 and 2008, respectively	211,295	194,621
PREPAID EXPENSES	292,070	328,431
DEFERRED RENT	739,728	633,181
PROPERTY AND EQUIPMENT — Net	31,109,751	32,135,969
EQUITY INTEREST IN MACS EDUCATION FOUNDATION	1,302,475	1,373,532
BOND ISSUANCE COSTS	73,991	87,249
INVESTMENTS HELD BY THE DIOCESAN FOUNDATION	<u>73,989</u>	<u>99,232</u>
TOTAL	<u>\$46,370,616</u>	<u>\$46,759,211</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES:</b>		
Accounts payable and accrued expenses	\$ 278,979	\$ 438,451
Accrued salaries and benefits	2,326,745	2,127,329
Unearned revenue — advance tuition	5,935,282	6,118,004
Interest payable	40,831	51,608
Fair value of interest rate swap agreement	490,760	156,810
Bonds payable	10,375,000	11,940,000
Note payable to affiliate	<u>3,910,775</u>	<u>4,334,362</u>
Total liabilities	<u>23,358,372</u>	<u>25,166,564</u>
<b>NET ASSETS:</b>		
Unrestricted net assets	22,402,230	21,046,679
Temporarily restricted net assets	429,105	365,059
Permanently restricted net assets	<u>180,909</u>	<u>180,909</u>
Total net assets	<u>23,012,244</u>	<u>21,592,647</u>
TOTAL	<u>\$46,370,616</u>	<u>\$46,759,211</u>

See notes to financial statements.

# MECKLENBURG AREA CATHOLIC SCHOOLS OF THE ROMAN CATHOLIC DIOCESE OF CHARLOTTE

## STATEMENTS OF ACTIVITIES FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

	2009				2008			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES AND OTHER SUPPORT:								
Tuition and fees	\$27,532,979	\$ -	\$ -	\$27,532,979	\$26,001,641	\$ -	\$ -	\$26,001,641
Parish tuition assistance	2,543,468			2,543,468	2,414,683			2,414,683
Donations and gifts	1,341,793	314,846		1,656,639	1,283,935	141,515		1,425,450
MACS Education Foundation contributions		272,699		272,699		310,596		310,596
Contributed services	6,363			6,363	36,890			36,890
Investment income	132,286	(20,143)		112,143	350,672	(15,996)		334,676
Change in fair value of interest rate swap agreement	(333,950)			(333,950)	(478,463)			(478,463)
Change in equity interest in MACS Education Foundation	(85,008)	13,951		(71,057)	14,581	(8,141)		6,440
Supplementary services revenue	2,551,991			2,551,991	2,601,253			2,601,253
School activity revenue	642,193			642,193	682,506			682,506
Government awards	143,488			143,488	141,910			141,910
Income from rental property	679,710			679,710	679,710			679,710
Other income	59,978			59,978	63,670			63,670
Net assets released from restriction	517,307	(517,307)		-	356,338	(356,338)		-
<b>Total revenues and other support</b>	<b>35,732,598</b>	<b>64,046</b>	<b>-</b>	<b>35,796,644</b>	<b>34,149,326</b>	<b>71,636</b>	<b>-</b>	<b>34,220,962</b>
EXPENSES:								
Program:								
Salaries and benefits	18,430,469			18,430,469	16,807,739			16,807,739
Instructional expenses	2,128,886			2,128,886	1,771,894			1,771,894
School activity expense	636,806			636,806	645,722			645,722
Administrative:								
Salaries and benefits	2,040,938			2,040,938	1,821,462			1,821,462
Facilities	5,431,210			5,431,210	5,204,603			5,204,603
Supplementary services expenses	2,650,969			2,650,969	2,513,340			2,513,340
Interest expense	740,356			740,356	831,502			831,502
Other	2,317,413			2,317,413	2,217,452			2,217,452
<b>Total expenses</b>	<b>34,377,047</b>	<b>-</b>	<b>-</b>	<b>34,377,047</b>	<b>31,813,714</b>	<b>-</b>	<b>-</b>	<b>31,813,714</b>
<b>CHANGE IN NET ASSETS</b>	<b>1,355,551</b>	<b>64,046</b>	<b>-</b>	<b>1,419,597</b>	<b>2,335,612</b>	<b>71,636</b>	<b>-</b>	<b>2,407,248</b>
NET ASSETS:								
Beginning of year	21,046,679	365,059	180,909	21,592,647	18,711,067	293,423	180,909	19,185,399
End of year	\$22,402,230	\$ 429,105	\$180,909	\$23,012,244	\$21,046,679	\$ 365,059	\$180,909	\$21,592,647

See notes to financial statements.

**MECKLENBURG AREA CATHOLIC SCHOOLS OF THE  
ROMAN CATHOLIC DIOCESE OF CHARLOTTE**

**STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008**

	<b>2009</b>	<b>2008</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ 1,419,597	\$ 2,407,248
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization expense	2,013,410	1,927,085
Loss on sale/disposal of property and equipment	21,053	
Increase in equity interest in MACS Education Foundation	71,057	
Change in fair value of interest rate swap agreement	333,950	478,463
Change in operating assets and liabilities:		
Tuition receivable and other	(16,674)	25,969
Prepaid expenses	36,361	47,380
Net unrealized/realized gain on investments	25,243	18,778
Accounts payable and accrued expenses	(246,797)	(344,936)
Accrued salaries and benefits	199,416	264,167
Interest payable	(10,777)	(16,001)
Unearned revenue — advance tuition	(182,722)	180,059
Deferred rent	(106,547)	(116,231)
	<u>3,556,570</u>	<u>4,871,981</u>
Net cash provided by operating activities		
<b>CASH FLOWS FROM INVESTING ACTIVITIES —</b>		
Purchase of property and equipment — net	<u>(907,662)</u>	<u>(1,698,524)</u>
Net cash used in investing activities	<u>(907,662)</u>	<u>(1,698,524)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Repayment of note payable — affiliate	(423,587)	(400,365)
Repayment of bonds payable	<u>(1,565,000)</u>	<u>(1,235,000)</u>
Net cash used in financing activities	<u>(1,988,587)</u>	<u>(1,635,365)</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	660,321	1,538,092
<b>CASH AND CASH EQUIVALENTS:</b>		
Beginning of year	<u>11,906,996</u>	<u>10,368,904</u>
End of year	<u>\$ 12,567,317</u>	<u>\$ 11,906,996</u>
<b>SUPPLEMENTAL DATA:</b>		
Interest paid	<u>\$ 748,627</u>	<u>\$ 848,913</u>
Purchases of property and equipment included in accounts payable	<u>\$ 87,325</u>	<u>\$ -</u>

See notes to financial statements.

# MECKLENBURG AREA CATHOLIC SCHOOLS OF THE ROMAN CATHOLIC DIOCESE OF CHARLOTTE

## NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

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### 1. ORGANIZATION

The Mecklenburg Area Catholic Schools of the Roman Catholic Diocese of Charlotte (MACS) is a regional school system consisting of eight schools throughout Mecklenburg County as of June 30, 2009. MACS was organized for the purpose of providing Catholic education at the primary and secondary school levels.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES

**Basis of Presentation** — The accounts of MACS are maintained on an accrual basis. MACS complies with provisions of Financial Accounting Standards Board (FASB) Statement No. 116, *Accounting for Contributions Received and Contributions Made*, and FASB Statement No. 117, *Financial Statements of Not-for-Profit Organizations*.

**Use of Estimates in the Preparation of Financial Statements** — 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 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 held in banks, as well as amounts invested in the Diocesan concentration account and with the Diocesan investment program. The Diocesan concentration account and investment program are administered by the Central Administration of the Roman Catholic Diocese of Charlotte (the “Central Administration”).

**Equity Interest in MACS Education Foundation** — In accordance with FASB Statement No. 136, *Transfers of Assets to a Not-for-Profit Organization or Charitable Trust That Raises or Holds Contributions for Others*, the equity interest in MACS Education Foundation included in the accompanying statements of financial position represents amounts donated to and held by the MACS Education Foundation on behalf of MACS. Additionally, the annual change in net assets of the Foundation has been included in the accompanying statements of activities.

**Property and Equipment (Net)** — Property and equipment are stated at cost. Depreciation expense is determined by using the straight-line method over the estimated useful lives of the assets. The major classes of property and equipment as of June 30, 2009 and 2008, are as follows:

	2009	2008	Life (In Years)
Land	\$ 1,415,757	\$ 1,415,757	N/A
Land improvements	1,928,312	1,894,904	15
Buildings	27,784,648	27,784,648	40
Building improvements	4,412,848	3,871,565	15
Football stadium	1,442,706	1,442,706	15
Furniture and equipment	5,403,373	5,591,491	3–10
Vehicles	1,292,617	1,173,196	5
Construction and work in progress	183,707	241,248	N/A
Interest in St. Matthew’s Education Center	5,561,331	5,561,331	Varies
Less accumulated depreciation	<u>(18,315,548)</u>	<u>(16,840,877)</u>	
	<u>\$ 31,109,751</u>	<u>\$ 32,135,969</u>	

The interest in St. Matthew’s Education Center shown above represents the total amount paid by MACS for the acquisition and construction of property and equipment in accordance with a joint usage agreement with St. Matthew’s Catholic Church. It is being amortized over the useful lives of the assets in which MACS has an interest. The amortization is included in accumulated depreciation shown above.

Interest expense incurred that relates to the acquisition or construction of property and equipment is capitalized. No interest expense was capitalized in fiscal years 2009 and 2008.

**Accrued Salaries and Benefits** — Faculty salaries and benefits are recognized over the school year (10 months) in which earned. Accrued salaries and benefits payable at June 30, 2009 and 2008, include faculty summer pay for those instructors who have opted to receive their salary over a 12-month period.

**Net Assets** — MACS’ net assets consist of the following:

*Unrestricted* — Unrestricted net assets consist of the operating resources of MACS that have no donor-imposed restrictions. The MACS Regional School Board may, at its discretion, designate unrestricted support for a specified purpose.

*Temporarily Restricted* — Temporarily restricted net assets consist of contributions received whose use by MACS is limited by donor-imposed stipulations that expire by passage of time or can be fulfilled by actions of MACS. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restriction.

*Permanently Restricted* — Permanently restricted net assets consist of MACS’ equity interest in the MACS Education Foundation of \$140,450 at June 30, 2009 and 2008, and contributions received from donors whose use by MACS is limited permanently by donor-imposed stipulations, primarily to provide income to be used for students with special needs. Permanently restricted donor contributions are invested in endowments with the Foundation of the Roman Catholic Diocese of Charlotte, Inc.

**Tuition Income and Parish Tuition Assistance** — Tuition and related fees represent amounts paid by students’ families, net of applied tuition assistance, and are recognized over the school year (10 months) in which earned. Unearned revenue represents amounts received in the current year for the following school year’s tuition. Parish tuition assistance primarily represents contributions made by the participating parishes of The Roman Catholic Diocese of Charlotte (the “Diocese”), specifically for tuition assistance.

**Contributed Services** — Contributed services have been recognized when specialized skills are provided by individuals possessing those skills and would typically be purchased if not provided by donation as required by the provisions of FASB Statement No. 116.

Contributed services of religious employees represent the difference between the amounts paid on behalf of religious employees and the comparable compensation, which would be paid to a layperson if laypersons were to occupy these positions. During fiscal 2009 and 2008, contributed services of religious employees amounted to \$6,363 and \$36,890, respectively.

**Allocation of Expense** — The costs of providing educational services have been summarized on a functional basis in the accompanying statements of activities. Accordingly, certain costs have been allocated among the programs and administrative services benefited.

**New Accounting Pronouncements** — Effective July 1, 2008, MACS adopted the provisions of FASB Statement No. 157, *Fair Value Measurements*, for all financial instruments accounted for at fair value. In February 2008, the FASB issued FASB Staff Position (FSP) FAS 157-2, *Effective Date of FASB Statement No. 157*, which provides a one-year deferral of the effective date of FASB Statement No. 157 for nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed in the financial statements at fair value at least annually. FASB Statement No. 157 establishes a framework for measuring fair value and expands related disclosures. Broadly, the FASB Statement No. 157 framework requires fair value to be determined based on 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. FASB Statement No. 157 establishes a three-level valuation hierarchy based upon observable and unobservable inputs.

*Level 1* — Unadjusted quoted prices for identical instruments in active markets that are available as of the measurement date

*Level 2* — Inputs, other than quoted market prices in Level 1, that are observable either directly or indirectly

*Level 3* — Inputs that are unobservable

MACS has segregated its investments and assets limited as to use into the most appropriate level within the fair value hierarchy based on the inputs used to determine the fair value as of June 30, 2009, as follows:

<b>Fair Value Measurement at June 30, 2009</b>				
	<b>June 30, 2009</b>	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
Fair value of interest swap agreement	\$ (490,760)	\$ -	\$ (490,760)	\$ -
Investments held by the Diocesan Foundation	<u>73,989</u>	<u>-</u>	<u>73,989</u>	<u>-</u>
Total	<u>\$ (416,771)</u>	<u>\$ -</u>	<u>\$ (416,771)</u>	<u>\$ -</u>

Effective July 1, 2008, MACS adopted the provisions of FASB Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities — Including an amendment of FASB Statement No. 115*. FASB Statement No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value, with the objective of improving financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings. The adoption of this standard did not have a material effect on MACS' financial statements.

In March 2008, the FASB issued FASB Statement No. 161, *Disclosures about Derivative Instruments and Hedging Activities — an amendment of FASB Statement No. 133*. FASB Statement No. 161 is effective for fiscal years beginning after November 15, 2008, and expands the disclosures required by FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*, about an entity's derivative instruments and hedging activities. MACS is currently evaluating the impact of FASB Statement No. 161 on its financial statements.

In June 2006, the FASB issued FASB Interpretation (FIN) No. 48, *Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement No. 109*. FIN No. 48 prescribes a recognition threshold and measurement process for recording in the financial statements uncertain tax positions taken or expected to be taken in a tax return in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. In December 2008, the FASB issued FSP FIN 48-3, *Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises*. FSP FIN 48-3 permits the deferral of the effective date of the accounting provision of FIN No. 48, and the organization has elected to exercise this deferral. As a result, the effective date of the accounting provision for the organization is July 1, 2009. The organization is currently evaluating the provisions of FIN No. 48; however, it does not expect the impact of adoption to be material to its financial position, results of operations, or cash flows.

### 3. TAX-EXEMPT STATUS

MACS is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code (IRC). Accordingly, no provision for income taxes has been reflected in these financial statements.

### 4. CENTRAL ADMINISTRATION-PROVIDED SERVICES

**Insurance Programs** — The Central Administration provides certain health benefits for the employees of MACS. MACS paid premiums for this program of \$1,603,860 and \$1,460,629 in fiscal 2009 and 2008, respectively, which are reported within salaries and benefits and supplementary services expenses in the accompanying statements of activities.

MACS is also insured with regard to property and casualty losses and workers' compensation through the Central Administration. Insurance premiums paid by MACS amounted to \$464,594 and \$439,885 in fiscal 2009 and 2008, respectively, and are reported within facilities and supplementary services expenses in the accompanying statements of activities.

**Employee Retirement Plans** — The Central Administration sponsors a noncontributory defined benefit pension plan for all eligible Diocesan lay employees, including the employees of MACS. The plan provides for benefits based on an employee's years of service and compensation. It is the intent of the Central Administration for the minimum funding to be the actuarially recommended contribution amount. Contributions to the Central Administration for the defined benefit plan amount to 4.5% of employees' gross salaries. MACS' contributions to this plan amounted to \$791,699 and \$732,764 in fiscal 2009 and 2008, respectively, and are reported within salaries and benefits and supplementary services expenses in the accompanying statements of activities.

The Central Administration also sponsors a tax-deferred defined contribution plan under Section 403(b) of the IRC for all eligible Diocesan employees, including the employees of MACS. Employer-matching contributions to the plan are based on a percentage of employee contributions. MACS is directly responsible for payment of contributions to the tax-deferred defined contribution plan for MACS' employees. MACS' contributions to this plan amounted to \$220,538 and \$192,099 in fiscal 2009 and 2008, respectively, and are reported within salaries and benefits and supplementary services expenses in the accompanying statements of activities.

**Cash Investments** — The Central Administration paid MACS \$137,387 and \$327,523 in 2009 and 2008, respectively, for interest on cash balances invested in the Central Administration's concentration account and investment program, which are reported as investment income in the accompanying statements of activities.

## 5. BONDS AND NOTES PAYABLE

**Bonds Payable** — In November 2002, Mauricio W. West, as administrator of the Diocese, issued variable-rate demand bonds for the benefit of MACS ("Series 2002 Bonds"). The initial issuance was in the principal amount of \$3,000,000 with subsequent issuances, so that the maximum amount authorized of \$15,800,000 was issued. The proceeds therefrom were used to finance the construction and equipping of new MACS facilities and to pay bond issuance costs. The Series 2002 Bonds will mature, subject to prior redemption, on May 1, 2014.

Principal and interest payments on the Series 2002 Bonds are supported by an irrevocable, direct-pay letter of credit by a bank. As of June 30, 2009, the letter of credit, which expires on December 6, 2009 (subject to earlier termination or extension in accordance with the letter-of-credit agreement), supports the entire loan amount. Management anticipates obtaining an extension of the letter of credit prior to its expiration date. The annual fee associated with this letter of credit is 0.45%.

Interest accrues at a variable rate and is due monthly. The interest rate is adjusted weekly as the bonds are remarketed, and was 0.450% and 2.58% at June 30, 2009 and 2008, respectively. Interest expense amounted to \$561,508 and \$ 619,575 during fiscal 2009 and 2008, respectively. The Diocese has covenanted that it will cause the bonds to be redeemed from May 2004 through May 2014. As of June 30, 2009, the Diocese has made the required principal payments according to the redemption schedule.

The future debt service requirements of the Series 2002 Bonds, assuming the bonds continue to be remarketed and mature over their scheduled repayment terms, are as follows:

2010	\$ 2,468,748
2011	2,468,378
2012	2,487,211
2013	2,475,037
2014	<u>2,078,167</u>
	11,977,541
Less amount representing interest and other fees	<u>(1,602,541)</u>
Series 2002 Bonds outstanding as of June 30, 2009	<u>\$ 10,375,000</u>

In December 2002, the Diocese entered into a 12-year interest rate swap agreement for the benefit of MACS for a portion of the Series 2002 Bonds. The notional amount of the agreement at June 30, 2009, was \$7,781,250. The agreement requires MACS to pay the counterparty a 4.4% fixed rate of interest on the notional amount. In return, the counterparty will pay MACS interest at a variable rate based on the published LIBOR index in accordance with the swap agreement. MACS recorded the interest rate swap in accordance with FASB Statement No. 133, as amended, and did not designate the derivative as a hedge instrument. The fair value of this derivative of \$(490,760) as of June 30, 2009, and \$(156,810) as of June 30, 2008, is reported as the fair value of interest rate swap agreement in the accompanying statements of financial position, and changes in the fair value are reflected as the change in fair value of interest rate swap agreement in the accompanying statements of activities.

**Note Payable to Affiliate** — In June 2000, the North Carolina Educational Facilities Finance Agency issued \$19,700,000 of variable-rate educational facilities revenue bonds (“Series 2000 Bonds”) with final maturity, subject to prior redemption, on June 1, 2017. The proceeds therefrom have been loaned to the Bishop of the Diocese and are administered by the Central Administration. In June 2000, MACS borrowed approximately \$6,717,000 of the Series 2000 Bonds proceeds from the Central Administration. The Series 2000 Bonds accrue interest at a variable rate amounting to 0.32% and 1.5% at June 30, 2009 and 2008, respectively. The related balances outstanding were \$3,910,775 and \$4,334,362 at June 30, 2009 and 2008, respectively. The proceeds were used to refinance the bank loan relating to the construction and equipping of Charlotte Catholic High School, as well as to pay bond issuance costs. The scheduled maturities over the next five years are as follows: \$448,155 in 2010, \$474,149 in 2011, \$498,201 in 2012, \$527,097 in 2013, \$557,669 in 2014, and \$1,405,504 thereafter. Interest expense amounted to \$178,848 and \$211,927 during fiscal 2009 and 2008, respectively.

In June 2004, the Central Administration entered into an 11-year interest rate swap agreement for a portion of the Series 2000 Bonds, which became effective on June 1, 2006. MACS’ pro rata notional amount is equal to 75% of MACS’ share of the Series 2000 Bonds outstanding. The agreement requires MACS, through the Central Administration, to pay the counterparty a 4.50% fixed rate of interest on the notional amount. In return, the counterparty will pay MACS interest at a variable rate based on the published The Bond Market Association index in accordance with the swap agreement.

## **6. FACILITIES USAGE AND LEASE AGREEMENTS**

MACS has agreements with participating parishes and the Central Administration for their use of various facilities, with terms ranging from 12 to 18 years. These agreements provide for contingent rentals based on usage and may be amended or modified at any time. Expenses totaled \$553,361 and \$552,180 for fiscal 2009 and 2008, respectively, and are reported within facilities expense in the accompanying statements of activities.

In November 2003, MACS entered into an agreement to lease the former All Saints School to a third party beginning July 1, 2004, for a 10-year period. In 2004, MACS paid to a broker a leasing commission of \$222,000 (approximately one-half of the total commission due under the agreement). In 2005, MACS paid an additional \$208,673 in leasing commission to the broker. This total leasing commission is being amortized over the life of the lease. Rental revenue is recognized on a straight-line basis over the life of the lease. As revenue recognized as of June 30, 2009 and 2008, exceeded rental payments received, a deferred rent asset of \$739,728 and \$633,181 is recorded in the statements of financial position as of June 30, 2009 and 2008, respectively.

## **7. INVESTMENT HELD BY DIOCESAN FOUNDATION**

MACS has established endowments with the Foundation of the Roman Catholic Diocese of Charlotte, Inc. (the "Foundation"), consisting of both donor-restricted funds and management designated funds. The Foundation classifies as permanently restricted net assets (a) the original value of donor gifts to the permanent endowment, (b) the original value of subsequent contributions by donors to the permanent endowment, and (c) other accumulations to the permanent endowment as required by donor gift instruments. The remaining portion of donor-restricted endowment funds that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation consistent with the donor's wishes. Losses on the investment of donor-restricted endowment funds are recorded as a reduction of temporarily restricted net assets to the extent that the donor-imposed temporary restrictions on net appreciation of the fund have not been met before the loss occurs. Any remaining losses reduce unrestricted net assets. Investment losses on donor-restricted endowment funds totaling \$178 and \$0 as of June 30, 2009 and 2008, respectively, have been recorded as a reduction in unrestricted net assets.

At June 30, 2009, endowments established by MACS totaled \$72,703, which consist of cumulative contributions of \$59,762 and accumulated investment income of \$12,941. At June 30, 2008, endowments established by MACS totaled \$91,952 which consist of cumulative contributions of \$59,762 and accumulated investment income of \$32,190. Accumulated investment income is available for distribution, subject to the Foundation's distribution policy. These endowments are recorded as investments held by the Diocesan Foundation in the accompanying statements of financial position.

MACS is also the beneficiary of endowments held by the Foundation that have been established by third parties. As beneficiary, MACS is the designated recipient of the earnings on the endowment. Cumulative undistributed investment income of \$1,286 and \$7,280 as of June 30, 2009 and 2008, respectively, are recorded as investments held by the Diocesan Foundation in the accompanying statements of financial position. Accumulated investment income is available for distribution, subject to the Foundation's distribution policy.

The endowment net asset composition by fund type as of June 30, 2009, is composed of the following:

<b>Endowment Net Asset Composition by Fund Type as of June 30, 2009</b>				
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Endowments established by MACS:				
Management designated	\$ 21,587	\$ -	\$ -	\$ 21,587
Donor restricted	(178)	10,835	40,459	51,116
Endowment gifts to the Foundation for benefit of MACS	<u>          </u>	<u>1,286</u>	<u>          </u>	<u>1,286</u>
Total funds	<u>\$ 21,409</u>	<u>\$ 12,121</u>	<u>\$ 40,459</u>	<u>\$ 73,989</u>

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