



Financial Statements  
June 30, 2015 and 2014

# Diocese of Joliet Catholic Education Foundation Trust

Diocese of Joliet Catholic Education Foundation Trust

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June 30, 2015 and 2014

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## **Independent Auditor's Report**

To His Excellency  
The Most Reverend R. Daniel Conlon  
Bishop of the Roman Catholic Diocese of Joliet  
and the Board of Directors  
Diocese of Joliet Catholic Education Foundation Trust  
Joliet, Illinois

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Diocese of Joliet Catholic Education Foundation Trust (Foundation), a division of the Roman Catholic Diocese of Joliet, which comprise the statements of financial position as of June 30, 2015 and 2014, and the related statements of activities, and cash flows for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Diocese of Joliet Catholic Education Foundation Trust , as of June 30, 2015 and 2014, and the changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Eide Bailly LLP*

Dubuque, Iowa  
November 18, 2015

Diocese of Joliet Catholic Education Foundation Trust  
 Statements of Financial Position  
 June 30, 2015 and 2014

	2015	2014
<b>Assets</b>		
Cash and cash equivalents	\$ 705,741	\$ 410,532
Due from other Diocesan entities	213,222	239,538
Accrued interest receivable	3,500	3,200
Investments	11,224,374	11,241,253
Total assets	\$ 12,146,837	\$ 11,894,523
 <b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Deferred revenue	\$ 100,000	\$ -
Other liabilities	375,207	340,268
Total liabilities	475,207	340,268
 <b>Net Assets</b>		
Unrestricted		
Undesignated	7,062,462	7,093,896
Designated - Scholarships for needy high school students	2,487,248	2,498,568
Designated - Kankakee area scholarships	1,485,217	1,494,975
	11,034,927	11,087,439
Temporarily restricted	366,067	266,566
Permanently restricted	270,636	200,250
Total net assets	11,671,630	11,554,255
Total liabilities and net assets	\$ 12,146,837	\$ 11,894,523

## 2015

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total Net Assets
<b>Revenue</b>				
Net investment return	\$ 409,546	\$ 13,285	\$ -	\$ 422,831
Contributions	1,087,471	98,665	70,386	1,256,522
Kazma grant	553,500	-	-	553,500
Kaminski grant	100,000	-	-	100,000
Net assets released from restrictions	12,449	(12,449)	-	-
<b>Total revenue</b>	<b>2,162,966</b>	<b>99,501</b>	<b>70,386</b>	<b>2,332,853</b>
<b>Expenses</b>				
Administrative expenses	379,823	-	-	379,823
High school tuition assistance	431,865	-	-	431,865
Parish tuition assistance	705,755	-	-	705,755
Diocesan tuition assistance	44,555	-	-	44,555
Bishop's grants	62,900	-	-	62,900
Kazma grant	553,982	-	-	553,982
Kaminski grant	100,000	-	-	100,000
Leaders for the future grants	22,980	-	-	22,980
Religious education grants	34,373	-	-	34,373
Smith bequest	11,000	-	-	11,000
Other grants	11,000	-	-	11,000
<b>Total expenses</b>	<b>2,358,233</b>	<b>-</b>	<b>-</b>	<b>2,358,233</b>
Change in Net Assets before Transfer	(195,267)	99,501	70,386	(25,380)
Transfers from Diocese of Joliet	142,755	-	-	142,755
Change in Net Assets	(52,512)	99,501	70,386	117,375
Net Assets, Beginning of Year	11,087,439	266,566	200,250	11,554,255
Net Assets, End of Year	<u>\$ 11,034,927</u>	<u>\$ 366,067</u>	<u>\$ 270,636</u>	<u>\$ 11,671,630</u>

See Notes to Financial Statements

Diocese of Joliet Catholic Education Foundation Trust  
 Statements of Activities  
 Years Ended June 30, 2015 and 2014

2014			
Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total Net Assets
\$ 1,659,176	\$ 53,768	\$ -	\$ 1,712,944
1,141,576	14,801	-	1,156,377
569,500	-	-	569,500
100,000	-	-	100,000
9,399	(9,399)	-	-
3,479,651	59,170	-	3,538,821
352,354	-	-	352,354
423,500	-	-	423,500
629,260	-	-	629,260
51,365	-	-	51,365
76,410	-	-	76,410
567,000	-	-	567,000
100,000	-	-	100,000
25,584	-	-	25,584
32,600	-	-	32,600
9,000	-	-	9,000
12,140	-	-	12,140
2,279,213	-	-	2,279,213
1,200,438	59,170	-	1,259,608
142,365	-	-	142,365
1,342,803	59,170	-	1,401,973
9,744,636	207,396	200,250	10,152,282
\$ 11,087,439	\$ 266,566	\$ 200,250	\$ 11,554,255

Diocese of Joliet Catholic Education Foundation Trust  
 Statements of Cash Flows  
 Years Ended June 30, 2015 and 2014

	2015	2014
Operating Activities		
Change in net assets	\$ 117,375	\$ 1,401,973
Adjustments to reconcile change in net assets to net cash from operating activities		
Net realized and unrealized gains	(200,650)	(1,260,142)
Changes in assets and liabilities		
Accrued interest receivable	(300)	300
Due from the Diocese of Joliet	26,316	(83,614)
Deferred revenue	100,000	-
Other liabilities	34,939	85,267
	77,680	143,784
Net Cash from Operating Activities		
Investing Activities		
Purchases of investments	(4,615,601)	(4,176,039)
Proceeds from sales of investments	4,833,130	3,749,059
	217,529	(426,980)
Net Cash from (used for) Investing Activities		
Net Change in Cash and Cash Equivalents	295,209	(283,196)
Cash and Cash Equivalents at Beginning of Year	410,532	693,728
Cash and Cash Equivalents at End of Year	\$ 705,741	\$ 410,532



## **Note 1 - Organization and Significant Accounting Policies**

### **Organization**

The Diocese of Joliet Catholic Education Foundation Trust (Foundation) is a non-profit organization established July 1, 1996 as an Illinois corporation and converted to a trust on June 30, 2015, to provide financial assistance and to support Catholic education within the Roman Catholic Diocese of Joliet (Diocese).

### **Cash and Cash Equivalents**

The Foundation considers all cash and highly liquid financial instruments with original maturities of three months or less, and which are neither held for nor restricted by donors for long-term purposes, to be cash and cash equivalents. Cash and highly liquid financial instruments restricted to capital expenditures, permanent endowment, or other long-term purposes of the Foundation are excluded from this definition.

### **Investments**

Investment purchases are recorded at cost, or if donated, at fair value on the date of donation. Thereafter, investments are reported at their fair values in the statement of financial position. Net investment return is reported in the statement of activities and consists of interest and dividend income, and realized and unrealized capital gains and losses.

### **Net Assets**

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

*Unrestricted Net Assets* – Net assets available for use in general operations. Unrestricted designated assets consist of net assets designated by the Board of Directors for scholarships based on specific criteria.

*Temporarily Restricted Net Assets* – Net assets subject to donor restrictions that may or will be met by expenditures or actions of the Foundation and/or the passage of time, and certain income earned on permanently restricted net assets that has not yet been appropriated for expenditure by the Foundation's Board of Directors.

The Foundation reports contributions restricted by donors as increases in unrestricted net assets if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

*Permanently Restricted Net Assets* – Net assets whose use is limited by donor-imposed restrictions that neither expire by the passage of time nor can be fulfilled or otherwise removed by action of the Foundation. The restrictions stipulate that resources be maintained permanently but permit the Foundation to expend the income generated in accordance with the provisions of the agreements.

### **Revenue and Revenue Recognition**

Revenue is recognized when earned. Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

### **Income Taxes**

The Foundation is organized as an Illinois nonprofit organization and is exempt from income tax under section 501(c)(3) of the Internal Revenue Code under the group ruling exemption of the United States Conference of Catholic Bishops. The Foundation is not required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. However, the Foundation is subject to income tax on net income that is derived from business activities that are unrelated to its exempt purposes. The Foundation has determined it is not subject to unrelated business income tax and has not filed an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS.

The Foundation believes that it has appropriate purpose for any tax positions taken affecting its annual filing requirements, and as such, does not have any uncertain tax positions that are material to the financial statements. The Foundation would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred.

### **Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities 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 and those differences could be material.

### **Financial Instruments and Credit Risk**

The Foundation manages deposit concentration risk by placing cash with financial institutions believed by management to be creditworthy. At times, amounts on deposit may exceed insured limits. To date, the Foundation has not experienced losses in any of these accounts. Investments are made by diversified investment managers whose performance is monitored by management and the Investment Committee of the Diocesan Finance Council, as delegated by the Board of Directors. Although the fair values of investments are subject to fluctuation on a year-to-year basis, management and the Investment Committee believe that the investment policies and guidelines are prudent for the long-term welfare of the Foundation.

### **Subsequent Events**

The Foundation has evaluated subsequent events through November 18, 2015, the date the financial statements were available to be issued. There are no events that require disclosure.

### **Note 2 - Fair Value Measurements and Disclosures**

Certain assets are reported at fair value in the financial statements. Fair value is the price that would be received to sell an asset in an orderly transaction in the principal, or most advantageous, market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Inputs used to determine fair value refer broadly to the assumptions that market participants would use in pricing the asset, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset based on the best information available. A three-tier hierarchy categorizes the inputs as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets that the Foundation can access at the measurement date.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly. These include quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active, inputs other than quoted prices that are observable for the asset, and market-corroborated inputs.

Level 3 – Unobservable inputs for the asset. In these situations, the Foundation develops inputs using the best information available in the circumstances.

In some cases, the inputs used to measure the fair value of an asset might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to entire measurement requires judgment, taking into account factors specific to the asset. The categorization of an asset within the hierarchy is based upon the pricing transparency of the asset and does not necessarily correspond to the Foundation's assessment of the quality, risk or liquidity profile of the asset.

A significant portion of the Foundation's investment assets are classified within Level 1 because they are comprised of common stock and open-end mutual funds with readily determinable fair values based on daily redemption values.

The Foundation uses Net Asset Value (NAV) per share, or its equivalent, such as member units or an ownership interest in partners' capital, to estimate the fair values of the real estate investment trust which does not have a readily determinable fair value. Investments valued at NAV are classified within Level 2 if the Foundation has the ability to redeem the investment at NAV per share, or its equivalent, at the measurement date or within the near term; otherwise, the investment is classified within Level 3.

Diocese of Joliet Catholic Education Foundation Trust  
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June 30, 2015 and 2014

The following table presents assets measured at fair value on a recurring basis at June 30, 2015:

	Total	Fair Value Measurements at Report Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Common Stock				
Basic industries	\$ 176,634	\$ 176,634	\$ -	\$ -
Materials	146,821	146,821	-	-
Capital goods	95,728	95,728	-	-
Industrial	482,604	482,604	-	-
Consumer staples	424,318	424,318	-	-
Consumer cyclical	50,437	50,437	-	-
Consumer discretionary	610,421	610,421	-	-
Energy	334,500	334,500	-	-
Financial	850,418	850,418	-	-
Foreign	1,920,666	1,920,666	-	-
Health care	561,454	561,454	-	-
Utilities	190,635	190,635	-	-
Technology	212,135	212,135	-	-
Information technology	798,008	798,008	-	-
Transportation	14,925	14,925	-	-
Telecommunication services	102,371	102,371	-	-
Total common stock	<u>6,972,075</u>	<u>6,972,075</u>	<u>-</u>	<u>-</u>
Mutual Funds				
Fixed income	3,081,789	3,081,789	-	-
Real Estate Investment Trust				
REEF America REIT II	<u>1,170,510</u>	<u>-</u>	<u>1,170,510</u>	<u>-</u>
	<u>\$ 11,224,374</u>	<u>\$ 10,053,864</u>	<u>\$ 1,170,510</u>	<u>\$ -</u>

Diocese of Joliet Catholic Education Foundation Trust  
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The following table presents assets measured at fair value on a recurring basis at June 30, 2014:

	Total	Fair Value Measurements at Report Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Common Stock</b>				
Basic industries	\$ 190,961	\$ 190,961	\$ -	\$ -
Materials	168,487	168,487	-	-
Capital goods	187,534	187,534	-	-
Industrial	443,277	443,277	-	-
Consumer staples	434,706	434,706	-	-
Consumer cyclical	49,816	49,816	-	-
Consumer discretionary	471,189	471,189	-	-
Energy	483,351	483,351	-	-
Financial	861,503	861,503	-	-
Foreign	2,159,276	2,159,276	-	-
Health care	506,708	506,708	-	-
Utilities	206,435	206,435	-	-
Technology	65,750	65,750	-	-
Information technology	831,245	831,245	-	-
Transportation	25,032	25,032	-	-
Telecommunication services	99,121	99,121	-	-
<b>Total common stock</b>	<b>7,184,391</b>	<b>7,184,391</b>	<b>-</b>	<b>-</b>
<b>Mutual Funds</b>				
Fixed income	3,023,964	3,023,964	-	-
<b>Real Estate Investment Trusts</b>				
REEF America REIT II	1,032,898	-	1,032,898	-
	<b>\$ 11,241,253</b>	<b>\$ 10,208,355</b>	<b>\$ 1,032,898</b>	<b>\$ -</b>

Diocese of Joliet Catholic Education Foundation Trust  
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Investments in certain entities that calculate NAV per share are as follows at June 30, 2015 and 2014:

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
<u>June 30, 2015</u>				
Real Estate Investment Trusts	\$ 1,170,510	\$ -	Quarterly	45 Days
<u>June 30, 2014</u>				
Real Estate Investment Trusts	1,032,898	-	Quarterly	45 Days

Real Estate Investment Trusts - The RREEF America REIT II is an open-ended core fund organized to serve as a collective investment vehicle through which eligible investors may invest in a professionally managed real estate portfolio consisting of multi-family, industrial, retail, and office properties in targeted metropolitan areas within the continental United States. The objective is to generate attractive, predictable investment returns from a target portfolio of low-risk equity investments in income-producing real estate while maximizing the total return to shareholders through cash dividends and appreciation in shares.

**Note 3 - Net Investment Return**

Net investment return consists of the following for the year ended June 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Interest and Dividends	\$ 222,181	\$ 452,802
Net Realized and Unrealized Gain (Loss)	200,650	1,260,142
	<u>\$ 422,831</u>	<u>\$ 1,712,944</u>

**Note 4 - Endowments**

The Foundation's endowment (the Endowment) consists of one gift established by a donor to provide annual funding for scholarships. Net assets associated with the endowment fund are classified and reported based on the existence or absence of donor-imposed restrictions.

The Foundation's Board of Directors has interpreted the Illinois Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, unless there are explicit donor stipulations to the contrary. At June 30, 2015 and 2014, there were no such donor stipulations. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the Endowment, (b) the original value of subsequent gifts donated to the Endowment (including promises to give net of discount and allowance for doubtful accounts, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added. The remaining portion of the donor-restricted endowment is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. The Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the organization and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the organization
- The investment policies of the organization

As of June 30, 2015 and 2014 the Foundation had the following endowment net asset composition by type of fund:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
June 30, 2015				
Donor-Restricted Endowment Funds	\$ -	\$ 79,937	\$ 270,636	\$ 350,573
June 30, 2014				
Donor-Restricted Endowment Funds	\$ -	\$ 81,743	\$ 200,250	\$ 281,993

Diocese of Joliet Catholic Education Foundation Trust

Notes to Financial Statements

June 30, 2015 and 2014

*Investment and Spending Policies*

The Foundation has adopted investment and spending policies for endowment assets that attempt to ensure the health and long-term life of the endowment assets. Under these policies, the endowment assets are invested in a manner to accept prudent levels of short and long-term volatility consistent with the near-term cash flow needs, funding levels, and long-term liability structure of the investment portfolio. The investment strategy attempts to provide a predictable stream of funding for scholarships while seeking to maintain the purchasing power of the endowment assets. 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 Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

The Foundation has a policy of making available for appropriating each year the net investment earnings plus accumulated earnings from prior periods. The amount to be appropriated each year from this temporarily restricted income related to the endowment funds is determined by the trustee as directed by donor-imposed restrictions. In periods when there are no investment earnings and no accumulated earnings from prior years, appropriations of these endowment funds are not allowed.

Changes in Endowment net assets for the year ending June 30, 2015 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets, Beginning of Year	\$ -	\$ 81,743	\$ 200,250	\$ 281,993
Investment Return:				
Investment income	-	5,423	-	5,423
Net realized and unrealized appreciation	-	4,897	-	4,897
Contributions	-	-	70,386	70,386
Appropriation of Endowment Assets for Expenditure	-	(12,126)	-	(12,126)
Endowment Net Assets, End of Year	\$ -	\$ 79,937	\$ 270,636	\$ 350,573



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Changes in Endowment net assets for the year ending June 30, 2014 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets, Beginning of Year	\$ -	\$ 49,000	\$ 200,250	\$ 249,250
Investment Return:				
Investment income	-	11,117	-	11,117
Net realized and unrealized depreciation	-	30,938	-	30,938
Appropriation of Endowment Assets for Expenditure	-	(9,312)	-	(9,312)
Endowment Net Assets, End of Year	\$ -	\$ 81,743	\$ 200,250	\$ 281,993

**Note 5 - Restricted Net Assets**

Restricted net assets at June 30, 2015 and 2014 consist of:

	2015			2014
	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total Restricted Net Assets	Total Restricted Net Assets
Scholarships Specifically for: Bishop McNamara students, students at Joliet Catholic and Aquinas Catholic Academies	\$ 79,937	\$ 200,250	\$ 280,187	\$ 281,993
Scholarships for Needy Students	286,130	70,386	356,516	184,823
Totals	\$ 366,067	\$ 270,636	\$ 636,703	\$ 466,816

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Net assets were released from restrictions as follows during the years ended June 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Satisfaction of Purpose Restrictions		
Bishop McNamara students, students at Joliet Catholic and Aquinas Catholic Academics	\$ 11,000	\$ 9,000
Fees allocated to temporarily restricted net assets	<u>1,449</u>	<u>399</u>
	<u>\$ 12,449</u>	<u>\$ 9,399</u>

**Note 6 - Related Party**

The Foundation receives administrative services and operating support from the Diocese of Joliet (Diocese) and reimburses the Diocese for direct expenses incurred. For the years ended June 30, 2015 and 2014 the Foundation reimbursed the Diocese for direct expenses of \$346,478 and \$293,249, respectively.

**Note 7 - Fund Raising Expenses**

Included in administrative expenses are fund raising expenses totaling \$276,284 and \$239,197 for the years ended June 30, 2015 and 2014, respectively.