Catholic Education Foundation of the Roman Catholic Archdiocese of Los Angeles

Financial Report
June 30, 2008

McGladrey & Pullen
Certified Public Accountants

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Independent Auditor's Report

To His Eminence
Cardinal Roger M. Mahony
Archbishop of Los Angeles

We have audited the accompanying statements of financial position of the Catholic Education Foundation of the Roman Catholic Archdiocese of Los Angeles (the Foundation) as of June 30, 2008 and 2007, and the related statements of activities 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 Foundation as of June 30, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

McGladrey & Pullen, LLP

Pasadena, California
December 30, 2008

Catholic Education Foundation of
the Roman Catholic Archdiocese of Los Angeles

Statements of Financial Position
June 30, 2008 and 2007

Assets (Note 10)	2008				2007			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Accounts Receivable	$ -	$ -	$ -	$ -	$ 131,780	$ -	$ -	$ 131,780
Pledges Receivable, net (Note 3)	-	469,887	1,000	470,887	-	973,966	12,938	986,904
Investment in Pooled Funds (Note 4)	42,591,196	6,045,507	7,545,715	56,182,418	49,975,194	7,941,587	7,350,323	65,267,104
Other Investment (Note 5)	79,491,395	-	-	79,491,395	79,240,634	-	-	79,240,634
Prepaid Expenses	-	-	-	-	7,133	-	-	7,133
Total assets	$ 122,082,591	$ 6,515,394	$ 7,546,715	$ 136,144,700	$ 129,354,741	$ 8,915,553	$ 7,363,261	$ 145,633,555

Liabilities and Net Assets (Note 10)								
Due to the Administrative Office (Note 2)	$ 63,901	$ -	$ -	$ 63,901	$ 948,235	$ -	$ -	$ 948,235
Program Awards Payable	10,038,770	-	-	10,038,770	7,287,501	-	-	7,287,501
Accounts Payable and Accrued Expenses	29,992	-	-	29,992	19,109	-	-	19,109
Total liabilities	10,132,663	-	-	10,132,663	8,254,845	-	-	8,254,845
Commitment and Contingencies (Notes 9 and 11)								
Net Assets (Note 8)	111,949,928	6,515,394	7,546,715	126,012,037	121,099,896	8,915,553	7,363,261	137,378,710
Total liabilities and net assets	$ 122,082,591	$ 6,515,394	$ 7,546,715	$ 136,144,700	$ 129,354,741	$ 8,915,553	$ 7,363,261	$ 145,633,555

See Notes to Financial Statements.

Catholic Education Foundation of
the Roman Catholic Archdiocese of Los Angeles

Statements of Activities
Years Ended June 30, 2008 and 2007

	2008				2007			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues:								
Donations	$ -	$ 2,827,998	$ 183,454	$ 3,011,452	$ -	$ 4,199,212	$ 544,190	$ 4,743,402
Net investment pool (loss) gain (Note 4)	(3,446,424)	(1,090,330)	-	(4,536,754)	7,194,727	2,165,094	-	9,359,821
Dividend income from other investment (Note 5)	2,481,972	-	-	2,481,972	2,286,945	-	-	2,286,945
Unrealized gain on other investment (Note 5)	250,761	-	-	250,761	19,684,778	-	-	19,684,778
	(713,691)	1,737,668	183,454	1,207,431	29,166,450	6,364,306	544,190	36,074,946
Net assets released from restrictions:								
Satisfaction of program restrictions	4,137,827	(4,137,827)	-	-	4,178,727	(4,178,727)	-	-
Total revenues	3,424,136	(2,400,159)	183,454	1,207,431	33,345,177	2,185,579	544,190	36,074,946
Expenses:								
Tuition awards program	10,031,255	-	-	10,031,255	7,530,999	-	-	7,530,999
Tuition and other program awards	1,081,198	-	-	1,081,198	466,752	-	-	466,752
Santa Barbara tuition awards	346,750	-	-	346,750	338,680	-	-	338,680
Total program expenses	11,459,203	-	-	11,459,203	8,336,431	-	-	8,336,431
Employee compensation and benefits (Note 11)	561,006	-	-	561,006	520,842	-	-	520,842
General operating expenses	194,312	-	-	194,312	194,576	-	-	194,576
Fund raising expenses	92,000	-	-	92,000	354,088	-	-	354,088
	847,318	-	-	847,318	1,069,506	-	-	1,069,506
Provision for uncollectible pledges (Note 3)	267,583	-	-	267,583	-	-	-	-
Total operating expenses	1,114,901	-	-	1,114,901	1,069,506	-	-	1,069,506
Total expenses	12,574,104	-	-	12,574,104	9,405,937	-	-	9,405,937
(Decrease) increase in net assets	(9,149,968)	(2,400,159)	183,454	(11,366,673)	23,939,240	2,185,579	544,190	26,669,009
Net assets, beginning of year	121,099,896	8,915,553	7,363,261	137,378,710	97,160,656	6,729,974	6,819,071	110,709,701
Net assets, end of year	$ 111,949,928	$ 6,515,394	$ 7,546,715	$ 126,012,037	$ 121,099,896	$ 8,915,553	$ 7,363,261	$ 137,378,710

See Notes to Financial Statements.

Catholic Education Foundation of
the Roman Catholic Archdiocese of Los Angeles

Statements of Cash Flows
Years Ended June 30, 2008 and 2007

	2008	2007
Cash Flows from Operating Activities		
(Decrease) increase in net assets	$ (11,366,673)	$ 26,669,009
Adjustments to reconcile (decrease) increase in net assets to net cash (used in) provided by operating activities:		
Realized and unrealized investment pool loss (gain)	5,991,054	(7,890,545)
Unrealized gain on other investment	(250,761)	(19,684,778)
Increase in allowance for uncollectible pledges	267,583	-
Amortization of pledge discounts	(35,406)	28,798
Assets contributed for long-term investments	(183,454)	(544,190)
Decrease (increase) in accounts receivable	131,780	(131,780)
Decrease (increase) in pledges receivable	283,840	(453,824)
Decrease (increase) in prepaid expenses	7,133	(7,133)
(Decrease) increase in due to the Administrative Office	(884,334)	764,780
Increase in program awards payable	2,751,269	1,408,255
Increase in accounts payable and accrued expenses	10,883	7,038
Net cash (used in) provided by operating activities	(3,277,086)	165,630
Cash Flows from Investing Activities		
Additions to investment in pooled funds	(9,149,953)	(8,658,222)
Redemptions from investment in pooled funds	12,243,585	7,948,402
Net cash provided by (used in) investing activities	3,093,632	(709,820)
Cash Flows from Financing Activities, assets contributed for long-term investments	183,454	544,190
Net change in cash and cash equivalents	-	-
Cash and Cash Equivalents, beginning of year	-	-
Cash and Cash Equivalents, end of year	$ -	$ -

See Notes to Financial Statements.

Note 1. Nature of Organization and Summary of Significant Accounting Policies

Nature of organization: The Catholic Education Foundation (the Foundation) of the Roman Catholic Archdiocese of Los Angeles (the Archdiocese) was formed in 1987 as a trust for charitable purposes. It continues to have a primary mission to provide tuition assistance to the most financially deserving students attending Parish elementary schools in the Archdiocese or Catholic high schools within the Archdiocese that particularly assist a financially deserving population. The Foundation's revenues are derived from contributions from individuals, corporations and foundations and from earnings on investments.

A summary of significant accounting policies is as follows:

Basis of accounting: The financial statements of the Foundation have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Basis of presentation: The financial statements of the Foundation have been presented in accordance with accounting principles applicable to nonprofit organizations generally accepted in the United States of America. These principles state that net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Foundation and changes therein are classified and reported as follows:

Unrestricted net assets: Net assets that are not subject to donor-imposed restrictions.

Temporarily restricted net assets: Includes amounts for which donor-imposed restrictions have not been met and pledges receivable for which the ultimate purpose of the proceeds is not permanently restricted. All temporarily restricted net assets are available to fund future tuition and other awards. 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.

Permanently restricted net assets: Includes gifts and pledges, which require, by donor restriction, that the corpus be invested in perpetuity and only the income be made available for program operations in accordance with donor restrictions. All permanently restricted investments provide investment income, which is temporarily restricted until utilized for program awards.

The permanently restricted endowment funds of the Foundation are invested in the investment pool of the Archdiocese (see Note 4).

Pledges receivable: In accordance with Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 116, *Accounting for Contributions Received and Contributions Made*, unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. 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. The discounts on those amounts are computed using a risk-free interest rate applicable to the years in which the promises are received. This discount rate used is the risk-free interest rate on treasury notes, which was 4.59 percent and 5.21 percent for 2008 and 2007, respectively. Amortization of the discounts is included in donation revenue. Conditional promises to give are not included in pledges receivable until the conditions are met. Pledges deemed uncollectible by management are included in the allowance for uncollectible pledges. If a restriction is fulfilled in the same time period in which the contribution is received, the Foundation reports the support as unrestricted.

Note 1. Nature of Organization and Summary of Significant Accounting Policies, Continued

Investments: The Foundation has an investment in the Investment Pool of the Roman Catholic Archdiocese of Los Angeles (the Pool) (see Note 4), which is recorded at fair value for investments in equity securities with readily determinable fair values and investments in debt securities. The Foundation is allocated income (loss) based upon its allocation of the total return earned in invested equity and debt securities held by the Pool, including realized and unrealized gains and losses. Investments in equity securities whose value is not readily determinable are based upon certain industry standard valuation methodology, including the methodology used for land holdings of other publicly traded real estate investment trusts. Gains and losses on investments are reported in the statement of activities as increases or decreases in unrestricted net assets unless their use is temporarily restricted by explicit donor stipulations.

Program awards payable: Includes tuition assistance and other donor-designated programs for students attending Archdiocesan elementary and high schools. Tuition assistance is granted to students prior to year-end for the following academic year.

Insurance: The Foundation is insured for various risks associated with the operations by an Archdiocesan self-insurance program of Archdiocesan participation in a captive mutual insurance company. The Administrative Office of the Roman Catholic Archdiocese of Los Angeles (the Administrative Office) assesses the Foundation with its portion of the estimated insurance expense. Claims currently payable by the Foundation plus an estimated amount for incurred but not reported claims have been accrued as Administrative Office liabilities.

Income taxes: The Foundation is exempt from federal income and California franchise taxes under sections 501(c)(3) of the Internal Revenue Code and 23701(d) of the California Revenue and Taxation Code, respectively.

Use of estimates: In preparing financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses, including allocations to various program costs, during the reporting period. Actual results could differ from those estimates. The Foundation's management considers the allowance for uncollectible pledges to be such an estimate. The Foundation's management also makes an annual estimate for a reduction in liability for award programs triggered by a decrease in student enrollment between the time the awards are committed and the time the awards are paid out. That estimate is set at 7 percent and 8 percent of the award commitment in 2008 and 2007, respectively.

Recent accounting pronouncements: SFAS No. 157, *Fair Value Measurements,* provides guidance for using fair value to measure assets and liabilities and expands disclosures about fair value measurements. Under SFAS No. 157, fair value refers to the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the market in which the reporting entity transacts. This standard clarifies the principle that fair value should be based on the assumptions market participants would use when pricing the asset or liability and establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. The fair value hierarchy gives the highest priority to quoted prices in active markets and the lowest priority to unobservable data, for example, the reporting entity's own data. The provisions of SFAS No. 157 are effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. On December 1, 2007, the FASB has proposed a one-year deferral for this Statement. Earlier application is encouraged, provided that the reporting entity has not yet issued financial statements for that fiscal year, including any financial statements for an interim period within that fiscal year.

Note 1. Nature of Organization and Summary of Significant Accounting Policies, Continued

In February 2008, the Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) No. FAS 157-2, *Effective Date of FASB Statement No. 157,* to partially defer FASB Statement No. 157, *Fair Value Measurements*. This FSP defers the effective date of Statement No. 157 for nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years.

On October 10, 2008, the FASB issued FSP No. FAS 157-3, *Determining the Fair Value of a Financial Asset When the Market for that Asset is Not Active*. This FSP amends FASB No. 157 and clarifies its application in an inactive market. This FSP specifically states that the guidance in it is consistent with the joint guidance issued by the SEC and the FASB on September 30, 2008. This FSP is effective as of its date of issuance (October 10, 2008) and is also effective for prior periods for which financial statements have not been issued (e.g. September 30, 2008) as of the date of its issuance. Revisions to fair value estimates resulting from the adoption of this FSP must be accounted for as a change in accounting estimate under FASB Statement No. 154, *Accounting Changes and Error Corrections*.

SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities—Including an amendment of FASB Statement No. 115*, was issued in February 2007 and permits an entity to choose to measure many financial instruments and certain other items at fair value. Most of the provisions of SFAS No. 159 are elective; however, the amendment to SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities,* applies to all entities with available-for-sale or trading securities. For financial instruments elected to be accounted for at fair value, an entity will report the unrealized gains and losses in earnings. SFAS No. 159 is effective as of the beginning of the first fiscal year that begins after November 15, 2007.

In August 2008, the FASB issued FSP No. FAS 117-1, *Endowments of Not-for-Profit Organizations—Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds*, which provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). UPMIFA is a model act approved by the Uniform Law Commission (ULC, formerly known as the National Conference of Commissioners on Uniform State Laws) that serves as a guideline for states to use in enacting legislation. This FSP also improves disclosures about an organization's endowment funds (both donor-restricted endowment funds and board-designated endowment funds), whether or not the organization is subject to UPMIFA. This Staff Position is effective for fiscal years ending after December 15, 2008. The Foundation is currently evaluating the impact of adopting this Staff Position on the Foundation's net asset classifications.

Note 2. Due to the Administrative Office

The Administrative Office receives and disburses funds on behalf of the Foundation primarily for program awards and employee-related expenses. Funds received by the Foundation are processed through the Administrative Office for deposit in the Investment Pool. Funds disbursed by the Administrative Office are reimbursed by the Foundation within a short period of time after payment. Reimbursements due to the Administrative Office were $63,901 and $948,235 at June 30, 2008 and 2007, respectively. Additionally, the Foundation occupies an office at the Administrative office, for which no rent is being charged to the Foundation.

Note 3. Pledges Receivable

Included in pledges receivable are the following as of June 30:

		2008		2007
Pledges receivable, before unamortized discount and allowance for uncollectible pledges	$	1,799,130	$	2,150,553
Less unamortized discount		(78,243)		(113,649)
		1,720,887		2,036,904
Less allowance for uncollectible pledges		(1,250,000)		(1,050,000)
Pledges receivable, net	$	470,887	$	986,904
Amounts due in:				
Less than one year	$	184,100	$	370,648
One to five years		169,000		516,876
More than five years		1,446,030		1,263,029
	$	1,799,130	$	2,150,553

The discount rate applied in determining the unamortized discount is 4.59 percent and 5.21 percent for 2008 and 2007, respectively, which is the rate for the 20-year treasury securities.

Pledges receivable totaling $395,030 and $787,030 were receivable from related parties, net of allowance for uncollectible pledges of $1,200,000 and $1,000,000 at June 30, 2008 and 2007, respectively. Related parties include trustees of the Foundation and entities owned by those trustees.

Note 4. Investment in Pooled Funds

In November 1986, the Archdiocese established an investment pool, which administers assets in trust, as agent and through independent custodial arrangements for the benefit of the various entities of the Archdiocese. The Foundation has participated in the investment pool since its formation in 1987. The funds deposited by or on behalf of each participant are the sole property of that participant and are processed by the investment pool service providers and the Archdiocese as agents, custodians and trustees for the participants. During the year ended June 30, 2004, the servicing and custodial arrangements for the investment pool were enhanced to allow for direct fund access and reporting for all participants. These enhancements continue to be updated to provide better participant services. The investment pool has two separate pools, the Balanced Pool and the Income Pool.

The Balanced Pool was established for participants with long-term objectives of capital appreciation combined with capital preservation. Assets of the Balanced Pool, as of June 30, 2008 and 2007 are invested 68 percent and 69 percent in equities, 29 percent and 28 percent in fixed income securities, 2 percent and 2 percent in cash and cash equivalents and 1 percent and 1 percent in other assets and investments, respectively.

The Income Pool was established to provide shorter-term objectives of current income with low risk of fluctuation in principal value. Assets of the Income Pool as of June 30, 2008 and 2007 are invested 88 percent and 75 percent in fixed income securities, 5 percent and 10 percent in notes receivable, 6 percent and 14 percent in cash and cash equivalents and 1 percent and 1 percent in other assets and investments, respectively.

Note 4. Investment in Pooled Funds, Continued

As of June 30, 2008 and 2007, the Foundation's fair value on the portion invested in the pools was $55,826,827 and $64,913,666 in the Balanced Pool and $355,591 and $353,438 in the Income Pool, respectively.

The investments in both pooled funds are carried at market value. The investment pool is operated under the total return concept, under which each participant is allocated income (loss) based upon the total return earned on invested funds, including realized and unrealized gains and losses. Participant allocation of income earned and realized and unrealized gains and losses in the Balance Pool and Income Pool are based upon the time and dollar-weighted method under which participants are assigned a weighted value for the time that the funds have been held in the respective pools.

See Note 9 for discussions regarding the effects to the Foundation due to the current credit and liquidity crises.

The average annual return and net realized and unrealized gain or (loss) related to these investments for the years ended June 30 are as follows:

	2008	2007
Average annual return:		
Balanced pool	(7.00)%	16.90%
Income pool	2.30%	5.50%
Interest and dividend income:		
Balanced pool	$ 1,888,378	$ 1,875,577
Income pool	14,373	17,004
Total interest and dividend income	1,902,751	1,892,581
Net realized and unrealized (loss) gain:		
Balanced pool	(5,985,359)	7,888,403
Income pool	(5,695)	2,142
Total net realized and unrealized (loss) gain	(5,991,054)	7,890,545
Investment expenses	(448,451)	(423,305)
Total investment (loss) income, net	$ (4,536,754)	$ 9,359,821

Note 5. Other Investment

Other investment includes the investment in Watson Land Company (501,523 shares owned in 2008 and 2007), which was donated to the Foundation in 1991. Fair value of the investment is based upon certain industry standard valuation methodology, including the methodology used for land holdings of other publicly traded real estate investment trusts. The fair values were $79,491,395 and $79,240,634 at June 30, 2008 and 2007, respectively.

Note 5. Other Investment, Continued

The unrealized gain on investment in Watson Land Company was $250,761 and $19,684,778 for the years ended June 30, 2008 and 2007, respectively. Dividend income on Watson Land Company shares was $2,481,972 and $2,286,945 for the years ended June 30, 2008 and 2007, respectively. The Foundation's investment in Watson Land Company stock represents 58.6 percent and 54.8 percent of total investments at June 30, 2008 and 2007, respectively, and therefore, presents a concentration of credit risk.

Note 6. Revocable Living Trusts and Bequests

The Foundation has received certain pledges of net estate assets characterized as living trusts or bequests by will. As it is not practicable to determine a value for the gifts and bequests, and because the trusts are revocable at the discretion of the trustor, the aggregate value of these trusts is not reported on the accompanying statements of financial position.

Note 7. Irrevocable Deferred Gifts

The Foundation is the designated beneficiary of certain gift annuities that are not reported in the accompanying statements of financial position. The principal amount of these gift annuities totals $1,124,667 and $722,740 during the years ended June 30, 2008 and 2007, respectively, and is disclosed in the financial statements of the Annuity Fund. Amounts received from gift annuities are recorded as revenue when received and may be less than the principal amount.

Note 8. Net Assets

Temporarily restricted assets represent gifts and bequests for which donor-imposed restrictions have not been met. Permanently restricted assets represent permanent endowments established by donor-restricted gifts and bequests. Temporarily restricted and permanently restricted assets consist of the following at June 30:

	2008	
	Temporarily Restricted	Permanently Restricted
Tuition awards program	$ 1,248,971	$ -
Santa Barbara funds	5,067,329	-
Urban Peace and Racial Tolerance 1 and 2	123,839	-
Annette and Paul Doyle Pre-K Reading Program	75,255	-
Tuition awards program, honorary funds	-	1,300,336
Tuition awards program, individual donors	-	6,246,379
	$ 6,515,394	$ 7,546,715

Note 8. Net Assets, Continued

	2007	
	Temporarily Restricted	Permanently Restricted
Tuition awards program	$ 2,882,803	$ -
Santa Barbara funds	5,893,822	-
The Beesley-Bryne Fund for Teachers	7,153	-
Urban Peace and Racial Tolerance 1 and 2	124,792	-
Annette and Paul Doyle Pre-K Reading Program	6,983	-
Tuition awards program, honorary funds	-	1,104,944
Tuition awards program, individual donors	-	6,258,317
	$ 8,915,553	$ 7,363,261

Note 9. Contingencies and Subsequent Events

Litigation: The Archdiocese has been involved in numerous lawsuits related to claims of sexual misconduct by certain individuals. Most of the claims were filed after legislation was adopted in 2002 in California to allow otherwise time-barred claims to be brought in 2003. The claims were coordinated in the Superior Court of California as the Clergy I coordinated proceedings and were administered in the Los Angeles Superior Courts (Clergy I Litigation). The Foundation was not a named party in any of the claims brought in the Clergy I Litigation. In December 2006, the Archdiocese resolved certain of the Clergy I Litigation claims. The Archdiocese reached an agreement in principle to settle the remaining Clergy I Litigation claims against it in July 2007 and the settlement was fully documented and effective on November 30, 2007 with initial funding on December 3, 2007.

No assets of the Foundation were or will be used to fund the settlements. The Archdiocese does not currently believe that the operations of the Foundation will be impacted by the settlement. In accordance with accounting principles generally accepted in the United States of America, the unpaid amounts committed to resolve the settlement have been accrued at June 30, 2008 and 2007 on the financial statements of the Administrative Office of the Archdiocese of Los Angeles and, accordingly, no accrual has been made in these financial statements.

The Archdiocese is subject to various other lawsuits and claims, including general litigation and claims of sexual misconduct, not addressed in Clergy I. Various lawsuits and claims, not related to the sexual misconduct claims, are pending against the Archdiocese. There are no such claims against the Foundation and the resolution of such claims against the Archdiocese is not expected to have any financial impact on the Foundation.

Investments: Subsequent to year-end, the credit and liquidity crisis in the United States and throughout the global financial system has resulted in substantial volatility in financial markets and the banking system. These and other economic events have had a significant adverse impact on investment portfolios. As a result, the investments of the Foundation have incurred a significant decline in fair value since June 30, 2008.

Note 10. Fair Value of Financial Instruments

The following summarizes the major methods and assumptions used in estimating the fair values of financial instruments:

Investment in pooled funds: The carrying amounts of these financial instruments are a reasonable estimate of their fair value due to the short-term to maturity and readily available markets for the investments.

Investment in other investments: The fair value of the other investments in nonpublicly traded equity securities is determined by independent appraisal.

Pledges receivable: The fair values of the pledges receivable are determined by analyzing discounted cash flow, using the interest rate used for the 20-year treasury securities. The carrying amount approximates the fair value.

Due to the Administrative Office: The carrying amounts approximate fair value based on the terms of payment to the Administrative Office.

Accounts payable, accrued expenses and program awards payable: The carrying amounts approximate fair value based on the terms of payment to the Foundation's vendors and grantees.

Note 11. Pension Plan

The Foundation participates in an Archdiocesan defined-benefit pension plan covering substantially all full-time lay employees. Benefits are based upon an employee's years of service and compensation. The Administrative Office administers the pension plan and assesses the Foundation its portion of the annual estimated pension cost. The Archdiocese has partially funded the pension plan and has accrued liabilities for unfunded pension cost in the Administrative Office's financial statements in accordance with SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106, and 132(R)*. Assessed pension cost for the Foundation was $18,045 and $13,636 for the years ended June 30, 2008 and 2007, respectively.