

# **Catholic Education Foundation of the Roman Catholic Archdiocese of Los Angeles**

Financial Report  
June 30, 2009

**McGladrey & Pullen**

Certified Public Accountants

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# McGladrey & Pullen

Certified Public Accountants

## Independent Auditor's Report

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

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, 2009 and 2008, 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.

As described in Note 12 to the financial statements, the Foundation has adopted Financial Accounting Standards Board Staff Position 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 (UPMIFA)*, and *Enhanced Disclosures for All Endowment Funds*.

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, 2009 and 2008, 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*

Los Angeles, CA  
January 22, 2010

**Catholic Education Foundation of  
the Roman Catholic Archdiocese of Los Angeles**

**Statements of Financial Position  
June 30, 2009 and 2008**

| <b>Assets (Note 10)</b>                          | <b>2009</b>          |                               |                               |                       | <b>2008</b>           |                               |                               |                       |
|--|----------------------|-------------------------------|-------------------------------|-----------------------|-----------------------|-------------------------------|-------------------------------|-----------------------|
|  | <b>Unrestricted</b>  | <b>Temporarily Restricted</b> | <b>Permanently Restricted</b> | <b>Total</b>          | <b>Unrestricted</b>   | <b>Temporarily Restricted</b> | <b>Permanently Restricted</b> | <b>Total</b>          |
| Cash   | \$ 17,862            | \$ -                          | \$ -                          | \$ 17,862             | \$ -                  | \$ -                          | \$ -                          | \$ -                  |
| Pledges Receivable, net (Note 3)                 | -                    | 1,073,421                     | -                             | 1,073,421             | -                     | 469,887                       | 1,000                         | 470,887               |
| Investment in Pooled Funds (Note 4)              | 30,831,471           | 167,212                       | 7,547,715                     | 38,546,398            | 42,591,196            | 6,045,507                     | 7,545,715                     | 56,182,418            |
| Other Investment (Note 5)                        | 61,311,187           | -                             | -                             | 61,311,187            | 79,491,395            | -                             | -                             | 79,491,395            |
| <b>Total assets</b>                              | <b>\$ 92,160,520</b> | <b>\$ 1,240,633</b>           | <b>\$ 7,547,715</b>           | <b>\$ 100,948,868</b> | <b>\$ 122,082,591</b> | <b>\$ 6,515,394</b>           | <b>\$ 7,546,715</b>           | <b>\$ 136,144,700</b> |
| <b>Liabilities and Net Assets (Note 10)</b>      |                      |                               |                               |                       |                       |                               |                               |                       |
| Due to the Administrative Office<br>(Note 2)     | \$ 25,543            | \$ -                          | \$ -                          | \$ 25,543             | \$ 63,901             | \$ -                          | \$ -                          | \$ 63,901             |
| Funds Held in Trust                              | 3,436,001            | -                             | -                             | 3,436,001             | -                     | -                             | -                             | -                     |
| Program Awards Payable                           | 6,662,163            | -                             | -                             | 6,662,163             | 10,038,770            | -                             | -                             | 10,038,770            |
| Accounts Payable and Accrued<br>Expenses         | 28,064               | -                             | -                             | 28,064                | 29,992                | -                             | -                             | 29,992                |
| <b>Total liabilities</b>                         | <b>10,151,771</b>    | <b>-</b>                      | <b>-</b>                      | <b>10,151,771</b>     | <b>10,132,663</b>     | <b>-</b>                      | <b>-</b>                      | <b>10,132,663</b>     |
| Commitment and Contingencies<br>(Notes 9 and 11) |                      |                               |                               |                       |                       |                               |                               |                       |
| Net Assets (Note 8)                              | 82,008,749           | 1,240,633                     | 7,547,715                     | 90,797,097            | 111,949,928           | 6,515,394                     | 7,546,715                     | 126,012,037           |
| <b>Total liabilities and<br/>net assets</b>      | <b>\$ 92,160,520</b> | <b>\$ 1,240,633</b>           | <b>\$ 7,547,715</b>           | <b>\$ 100,948,868</b> | <b>\$ 122,082,591</b> | <b>\$ 6,515,394</b>           | <b>\$ 7,546,715</b>           | <b>\$ 136,144,700</b> |

See Notes to Financial Statements.

**Catholic Education Foundation of  
the Roman Catholic Archdiocese of Los Angeles**

**Statements of Activities  
Years Ended June 30, 2009 and 2008**

|  | 2009                |                        |                        |                     | 2008               |                        |                        |                     |
|--|---------------------|------------------------|------------------------|---------------------|--------------------|------------------------|------------------------|---------------------|
|  | Unrestricted        | Temporarily Restricted | Permanently Restricted | Total               | Unrestricted       | Temporarily Restricted | Permanently Restricted | Total               |
| Revenues:  |                     |                        |                        |                     |                    |                        |                        |                     |
| Donations  | \$ -                | \$ 3,664,299           | \$ 1,000               | \$ 3,665,299        | \$ -               | \$ 2,827,998           | \$ 183,454             | \$ 3,011,452        |
| Net investment pool (loss) (Note 4)                      | (9,073,261)         | (1,903,713)            | -                      | (10,976,974)        | (3,446,424)        | (1,090,330)            | -                      | (4,536,754)         |
| Dividend income from other investment (Note 5)           | 2,738,315           | -                      | -                      | 2,738,315           | 2,481,972          | -                      | -                      | 2,481,972           |
| Unrealized (loss) gain on other investment (Note 5)      | (18,180,208)        | -                      | -                      | (18,180,208)        | 250,761            | -                      | -                      | 250,761             |
|  | (24,515,154)        | 1,760,586              | 1,000                  | (22,753,568)        | (713,691)          | 1,737,668              | 183,454                | 1,207,431           |
| Net assets released from restrictions:                   |                     |                        |                        |                     |                    |                        |                        |                     |
| Satisfaction of program restrictions                     | 3,560,081           | (3,560,081)            | -                      | -                   | 4,137,827          | (4,137,827)            | -                      | -                   |
| <b>Total revenues</b>                                    | <b>(20,955,073)</b> | <b>(1,799,495)</b>     | <b>1,000</b>           | <b>(22,753,568)</b> | <b>3,424,136</b>   | <b>(2,400,159)</b>     | <b>183,454</b>         | <b>1,207,431</b>    |
| Expenses:  |                     |                        |                        |                     |                    |                        |                        |                     |
| Tuition awards program                                   | 6,984,234           | -                      | -                      | 6,984,234           | 10,031,255         | -                      | -                      | 10,031,255          |
| Tuition and other program awards                         | 648,646             | -                      | -                      | 648,646             | 1,081,198          | -                      | -                      | 1,081,198           |
| Santa Barbara tuition awards                             | 336,500             | -                      | -                      | 336,500             | 346,750            | -                      | -                      | 346,750             |
| <b>Total program expenses</b>                            | <b>7,969,380</b>    | <b>-</b>               | <b>-</b>               | <b>7,969,380</b>    | <b>11,459,203</b>  | <b>-</b>               | <b>-</b>               | <b>11,459,203</b>   |
| Employee compensation and benefits (Note 11)             | 721,736             | -                      | -                      | 721,736             | 561,006            | -                      | -                      | 561,006             |
| General operating expenses                               | 195,961             | -                      | -                      | 195,961             | 194,312            | -                      | -                      | 194,312             |
| Fundraising expenses                                     | 99,029              | -                      | -                      | 99,029              | 92,000             | -                      | -                      | 92,000              |
|  | 1,016,726           | -                      | -                      | 1,016,726           | 847,318            | -                      | -                      | 847,318             |
| Provision for uncollectible pledges (Note 3)             | -                   | -                      | -                      | -                   | 267,583            | -                      | -                      | 267,583             |
| <b>Total operating expenses</b>                          | <b>1,016,726</b>    | <b>-</b>               | <b>-</b>               | <b>1,016,726</b>    | <b>1,114,901</b>   | <b>-</b>               | <b>-</b>               | <b>1,114,901</b>    |
| <b>Total expenses</b>                                    | <b>8,986,106</b>    | <b>-</b>               | <b>-</b>               | <b>8,986,106</b>    | <b>12,574,104</b>  | <b>-</b>               | <b>-</b>               | <b>12,574,104</b>   |
| <b>(Decrease) increase in net assets before transfer</b> | <b>(29,941,179)</b> | <b>(1,799,495)</b>     | <b>1,000</b>           | <b>(31,739,674)</b> | <b>(9,149,968)</b> | <b>(2,400,159)</b>     | <b>183,454</b>         | <b>(11,366,673)</b> |
| Transfer of Hanrahan Fund (Note 13)                      | -                   | (39,265)               | -                      | (39,265)            | -                  | -                      | -                      | -                   |
| Transfer of net assets to funds held in trust (Note 13)  | -                   | (3,436,001)            | -                      | (3,436,001)         | -                  | -                      | -                      | -                   |
| <b>(Decrease) increase in net assets after transfer</b>  | <b>(29,941,179)</b> | <b>(5,274,761)</b>     | <b>1,000</b>           | <b>(35,214,940)</b> | <b>(9,149,968)</b> | <b>(2,400,159)</b>     | <b>183,454</b>         | <b>(11,366,673)</b> |
| Net assets, beginning 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         |
| Net assets, end of year                                  | \$ 82,008,749       | \$ 1,240,633           | \$ 7,547,715           | \$ 90,797,097       | \$ 111,949,928     | \$ 6,515,394           | \$ 7,546,715           | \$ 126,012,037      |

See Notes to Financial Statements.

**Catholic Education Foundation of  
the Roman Catholic Archdiocese of Los Angeles**

**Statements of Cash Flows  
Years Ended June 30, 2009 and 2008**

|   | 2009                | 2008               |
|---|---------------------|--------------------|
| Cash Flows From Operating Activities  |                     |                    |
| Decrease in net assets  | \$ (31,739,674)     | \$ (11,366,673)    |
| Adjustments to reconcile decrease in net assets to net cash used in operating activities: |                     |                    |
| Transfer of Hanrahan Fund   | (39,265)            | -                  |
| Realized and unrealized investment pool loss  | 11,803,819          | 5,991,054          |
| Unrealized loss (gain) on other investment  | 18,180,208          | (250,761)          |
| Increase in allowance for uncollectible pledges   | -                   | 267,583            |
| Amortization of pledge discounts  | (29,608)            | (35,406)           |
| Assets contributed for long-term investments  | (1,000)             | (183,454)          |
| Decrease in accounts receivable   | -                   | 131,780            |
| (Increase) decrease in pledges receivable   | (572,926)           | 283,840            |
| Decrease in prepaid expenses  | -                   | 7,133              |
| Decrease in due to the Administrative Office  | (38,358)            | (884,334)          |
| (Decrease) increase in program awards payable   | (3,376,607)         | 2,751,269          |
| (Decrease) increase in accounts payable and accrued expenses                              | (1,928)             | 10,883             |
| <b>Net cash used in operating activities</b>  | <b>(5,815,339)</b>  | <b>(3,277,086)</b> |
| Cash Flows From Investing Activities  |                     |                    |
| Additions to investment in pooled funds   | (6,833,386)         | (9,149,953)        |
| Redemptions from investment in pooled funds   | 12,665,587          | 12,243,585         |
| <b>Net cash provided by investing activities</b>  | <b>5,832,201</b>    | <b>3,093,632</b>   |
| Cash Flows From Financing Activities, assets contributed for long-term investments        | 1,000               | 183,454            |
| <b>Net change in cash</b>   | <b>17,862</b>       | <b>-</b>           |
| Cash, beginning of year   | -                   | -                  |
| Cash, end of year   | <b>\$ 17,862</b>    | <b>\$ -</b>        |
| Supplemental Disclosure of Noncash Operating Activities                                   |                     |                    |
| Transfer of net assets to funds held in trust   | <b>\$ 3,436,001</b> | <b>\$ -</b>        |

See Notes to Financial Statements.

Notes to Financial Statements

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**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:** Include 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:** Include 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 4.30 percent and 4.59 percent for 2009 and 2008, 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.

Notes to Financial Statements

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

**Investments:** The Foundation has an investment in the Archdiocese Investment Pool (the Pool) (see Note 4), which is recorded at fair value. The fair value of the Pool is determined by management of the Archdiocese based on the underlying fair value of investments that make up the Pool. The underlying investments consist of debt securities and equity 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. 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 donor stipulations.

**Funds held in trust:** Funds held in trust represent assets that the Foundation holds and manages for the benefit of a specified beneficiary. The assets are part of the investments of the Investment Pool and are recorded at fair value.

**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 was set at 8.04 percent and 6.95 percent of the award commitment in 2009 and 2008, respectively.

**Fair value measurements:** The Foundation adopted SFAS No. 157, *Fair Value Measurements*, effective July 1, 2008. SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosure of fair value measurements. SFAS No. 157 also emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and sets out a fair value hierarchy with the highest priority being quoted prices in active markets. Under SFAS No. 157, fair value measurements are disclosed by level within that hierarchy. In accordance with FASB Staff Position (FSP) No. FAS 157-2, *Effective Date of FASB Statement No. 157*, the Foundation has delayed its application of SFAS No. 157 for nonfinancial assets and liabilities that are recognized or disclosed at fair value on a nonrecurring basis until July 1, 2009. See Notes 4 and 5 for additional information.

Notes to Financial Statements

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

SFAS No. 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. SFAS No. 157 requires the use of valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent resources, or unobservable, meaning those that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. In that regard, SFAS No. 157 establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs.

The fair value hierarchy is as follows:

- Level 1—Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.
- Level 2—Significant other 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.
- Level 3—Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

**Recent accounting pronouncements:** In April 2009, the FASB issued SFAS No. 164, *Not-for-Profit Entities: Mergers and Acquisitions—Including an amendment of FASB Statement No. 142*. This standard provides guidance for determining whether a combination of not-for-profit entities is a merger or an acquisition. The standard requires the application of the carryover method in accounting for a merger and the acquisition method in accounting for an acquisition, and provides guidance on determining which of the combining entities is the acquirer. It requires disclosure of information to enable users of financial statements to evaluate the nature and financial effects of a merger or an acquisition. This standard also amends SFAS No. 142, *Goodwill and Other Intangible Assets*, to make it fully applicable to not-for-profit entities. The standard is effective for fiscal years beginning on or after December 15, 2009, with early adoption prohibited. Management is currently assessing the impact the adoption of this standard will have on the Foundation's financial statement disclosures.

In June 2009, the FASB issued SFAS No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles—a replacement of FASB Statement No. 162*. SFAS No. 168 establishes the FASB Accounting Standards Codification, which officially launched on July 1, 2009, as the source of authoritative U.S. generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. The subsequent issuances of new standards will be in the form of Accounting Standards Updates that will be included in the Codification. SFAS No. 168 is effective for financial statements issued for interim and annual periods ending after September 15, 2009. Although the Codification is not expected to change U.S. GAAP, the Foundation is currently evaluating the impact SFAS No. 168 will have on the financial statement disclosures as all future references to authoritative accounting literature will be in accordance with the Codification.

**Catholic Education Foundation of  
the Roman Catholic Archdiocese of Los Angeles**

**Notes to Financial Statements**

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

**Subsequent events:** In May 2009, the FASB issued SFAS No. 165, *Subsequent Events*, which establishes general standards of accounting for, and disclosure of, events that occur after the date of the financial statements but before the financial statements are issued or are available to be issued. SFAS No. 165 requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date. The Foundation adopted SFAS No. 165 on June 30, 2009. The adoption of this guidance did not have any impact on the financial statements. The Foundation has considered subsequent events through January 22, 2010, the date the financial statements were available to be issued, in preparing the financial statements and notes thereto.

**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 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 \$25,543 and \$63,901 at June 30, 2009 and 2008, 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 were the following as of June 30:

|   | <u>2009</u>         | <u>2008</u>         |
|---|---------------------|---------------------|
| Pledges receivable, before unamortized discount and allowance for uncollectible pledges | \$ 2,419,602        | \$ 1,799,130        |
| Less unamortized discount   | (96,181)            | (78,243)            |
|   | <u>2,323,421</u>    | <u>1,720,887</u>    |
| Less allowance for uncollectible pledges  | (1,250,000)         | (1,250,000)         |
| Pledges receivable, net   | <u>\$ 1,073,421</u> | <u>\$ 470,887</u>   |
| Amounts due in:   |                     |                     |
| Less than one year  | \$ 496,872          | \$ 184,100          |
| One to five years   | 476,700             | 169,000             |
| More than five years  | 1,446,030           | 1,446,030           |
|   | <u>\$ 2,419,602</u> | <u>\$ 1,799,130</u> |

The discount rate applied in determining the unamortized discount was 4.30 percent and 4.59 percent for 2009 and 2008, respectively, which is the rate for the 20-year Treasury securities.

Pledges receivable totaling \$946,480 and \$395,030 were receivable from related parties, net of allowance for uncollectible pledges of \$1,200,000, at June 30, 2009 and 2008, respectively. Related parties include trustees of the Foundation and entities owned by those trustees.

**Notes to Financial Statements**

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**Note 4. Investment in Pooled Funds**

In November 1986, the Archdiocese established the 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 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 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 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 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, 2009 and 2008, are invested 64 percent and 68 percent in equities, 29 percent and 29 percent in fixed income securities, 6 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, 2009 and 2008, are invested 88 percent and 88 percent in fixed income securities, 8 percent and 5 percent in notes receivable, 3 percent and 6 percent in cash and cash equivalents, and 1 percent and 1 percent in other assets and investments, respectively.

The Pool adopted the provisions of SFAS No. 157, which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. At June 30, 2009, the Pool was considered a Level 3 investment. At June 30, 2009, the Pool invested 35 percent, 55 percent and 10 percent in fair value hierarchy Levels 1, 2 and 3, respectively.

As of June 30, 2009 and 2008, the Foundation's fair value on the portion invested in the pools was \$36,754,671 and \$55,826,827 in the Balanced Pool and \$1,791,727 and \$355,591 in the Income Pool, respectively.

The investments in both pooled funds are carried at fair value. The 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.

**Catholic Education Foundation of  
the Roman Catholic Archdiocese of Los Angeles**

**Notes to Financial Statements**

**Note 4. Investment in Pooled Funds, Continued**

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

|  | <u>2009</u>            | <u>2008</u>           |
|--|------------------------|-----------------------|
| Average annual return:                   |                        |                       |
| Balanced Pool                            | (18.90)%               | (7.00)%               |
| Income Pool                              | 1.70%                  | 2.30%                 |
| Interest and dividend income:            |                        |                       |
| Balanced Pool                            | \$ 1,194,463           | \$ 1,888,378          |
| Income Pool                              | 15,888                 | 14,373                |
| Total interest and dividend income       | <u>1,210,351</u>       | <u>1,902,751</u>      |
| Net realized and unrealized (loss):      |                        |                       |
| Balanced Pool                            | (11,813,735)           | (5,985,359)           |
| Income Pool                              | 9,916                  | (5,695)               |
| Total net realized and unrealized (loss) | <u>(11,803,819)</u>    | <u>(5,991,054)</u>    |
| Investment expenses                      | (383,506)              | (448,451)             |
| Total investment loss, net               | <u>\$ (10,976,974)</u> | <u>\$ (4,536,754)</u> |

**Note 5. Other Investment**

Other investment includes the investment in Watson Land Company (501,523 shares owned in 2009 and 2008), which was donated to the Foundation in 1991. Fair value of the investment is based upon certain industry standard valuation methodologies, including the methodology used for land holdings of other publicly traded real estate investment trusts. At June 30, 2009, the investment in Watson Land Company was considered a Level 3 investment under SFAS No. 157 fair value hierarchy levels. The fair value of the Watson Land shares owned by the Foundation was \$61,311,187 and \$79,491,395 at June 30, 2009 and 2008, respectively.

The unrealized loss on investment in Watson Land Company was \$18,180,208 for the year ended June 30, 2009, and represents the change in the fair value of the investment from June 30, 2008. The unrealized gain on investment in Watson Land Company was \$250,761 for the year ended June 30, 2008. Dividend income on Watson Land Company shares was \$2,738,315 and \$2,481,972 for the years ended June 30, 2009 and 2008, respectively. The Foundation's investment in Watson Land Company stock represented 61.4 percent and 58.6 percent of total investments at June 30, 2009 and 2008, 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.

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**Notes to Financial Statements**

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**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 totaled \$1,137,666 and \$1,124,667 during the years ended June 30, 2009 and 2008, 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 consisted of the following at June 30:

|  | <b>2009</b>                       |                                   |
|--|-----------------------------------|-----------------------------------|
|  | <b>Temporarily<br/>Restricted</b> | <b>Permanently<br/>Restricted</b> |
| Tuition awards program                       | \$ 966,137                        | \$ -                              |
| Santa Barbara funds                          | -                                 | -                                 |
| Urban Peace and Racial Tolerance 1 and 2     | 93,661                            | -                                 |
| Annette and Paul Doyle Pre-K Reading Program | 39,663                            | -                                 |
| Tuition awards program, honorary funds       | -                                 | 1,302,336                         |
| Tuition awards program, individual donors    | 141,172                           | 6,245,379                         |
|  | <b>\$ 1,240,633</b>               | <b>\$ 7,547,715</b>               |
|  | <b>2008</b>                       |                                   |
|  | <b>Temporarily<br/>Restricted</b> | <b>Permanently<br/>Restricted</b> |
| Tuition awards program                       | \$ 135,484                        | \$ -                              |
| 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       | 21,294                            | 1,300,336                         |
| Tuition awards program, individual donors    | 1,092,193                         | 6,246,379                         |
|  | <b>\$ 6,515,394</b>               | <b>\$ 7,546,715</b>               |

**Note 9. Contingencies**

**Litigation:** Various lawsuits and 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.

Notes to Financial Statements

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**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 and funds held in trust:** The fair value of the Pool is determined by management of the Archdiocese based on the underlying fair value of investments that make up the Pool.

**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 \$22,482 and \$18,045 for the years ended June 30, 2009 and 2008, respectively.

**Note 12. Endowment Funds and New Asset Classification**

In August 2008, the FASB issued FASB Staff Position 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*. This staff position provides guidance on the net asset classification of donor-restricted endowment funds for not-for-profit organizations that are subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and improves disclosures for endowment funds, both donor-restricted and Board-designated (quasi-endowment). The Foundation's Endowment Fund consists of various donor-restricted endowment funds.

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**Note 12. Endowment Funds and New Asset Classification, Continued**

The Foundation has interpreted the UPMIFA adopted by the 2008 California legislature as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets 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 the State of California in its enacted version of UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the Endowment Fund; (2) the purposes of the Foundation and the donor-restricted Endowment Fund; (3) general economic conditions; (4) the possible effect of inflation and deflation; (5) the expected total return from income and the appreciation of investments; (6) other resources of the Foundation; and (7) the investment policies of the Foundation.

The Foundation has adopted investment and spending policies for its Endowment Fund. The objective of these policies is to provide the Foundation a predictable funding stream for its programs while protecting the purchasing power of the Endowment Fund. The Foundation, through its investment policy, has established a target (inflation-adjusted) annualized rate of return over the long term of at least 5 percent; the total return during any single measurement period may deviate from the long-term return objective. To satisfy its long-term rate-of-return objective, the Foundation expects to maintain appropriate diversification among equity, fixed income and alternative investment allocations. The purpose is to moderate the overall investment risk of the Endowment Fund.

The Board of Trustees of the Foundation may appropriate for expenditure or accumulate so much of the Endowment Fund as the Foundation determines is prudent for the uses, benefits, purposes and duration for which the Endowment Fund is established. The amount appropriated, the spending policy, is a Board-approved percentage applied to the average fair value of the endowment fund investments for the three preceding years. The Board approved spending percentage was 5 percent for the fiscal years ended June 30, 2009 and 2008, respectively. For the years ended June 30, 2009 and 2008, the actual expenditures from endowment funds and earnings for support of operations were \$129,000 and \$447,812, respectively.

Assets of the endowment fund as of June 30 consist of the following:

|                            | <u>2009</u>                | <u>2008</u>                |
|----------------------------|----------------------------|----------------------------|
| Pledges receivable         | \$ -                       | \$ 1,000                   |
| Investment in pooled funds | <b>6,808,893</b>           | 8,590,531                  |
|                            | <b><u>\$ 6,808,893</u></b> | <b><u>\$ 8,591,531</u></b> |

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**Note 12. Endowment Funds and New Asset Classification, Continued**

Endowment net assets as of June 30 were as follows:

|   | 2009                |                           |                           | Total               |
|---|---------------------|---------------------------|---------------------------|---------------------|
|   | Unrestricted        | Temporarily<br>Restricted | Permanently<br>Restricted |                     |
| Donor-restricted endowment funds:         |                     |                           |                           |                     |
| Tuition awards program, honorary funds    | \$ (289,555)        | \$ -                      | \$ 1,302,336              | \$ 1,012,781        |
| Tuition awards program, individual donors | (590,439)           | 141,172                   | 6,245,379                 | 5,796,112           |
| Total endowment funds                     | <u>\$ (879,994)</u> | <u>\$ 141,172</u>         | <u>\$ 7,547,715</u>       | <u>\$ 6,808,893</u> |
|   |                     |                           |                           |                     |
|   | 2008                |                           |                           | Total               |
|   | Unrestricted        | Temporarily<br>Restricted | Permanently<br>Restricted |                     |
| Donor-restricted endowment funds:         |                     |                           |                           |                     |
| Tuition awards program, honorary funds    | \$ (68,671)         | \$ 21,294                 | \$ 1,301,336              | \$ 1,253,959        |
| Tuition awards program, individual donors | -                   | 1,092,193                 | 6,245,379                 | 7,337,572           |
| Total endowment funds                     | <u>\$ (68,671)</u>  | <u>\$ 1,113,487</u>       | <u>\$ 7,546,715</u>       | <u>\$ 8,591,531</u> |

The changes in endowment net assets for the years ended June 30 were as follows:

|   | 2009                |                           |                           | Total               |
|---|---------------------|---------------------------|---------------------------|---------------------|
|   | Unrestricted        | Temporarily<br>Restricted | Permanently<br>Restricted |                     |
| Endowment net assets, beginning of year             | \$ (68,671)         | \$ 1,113,487              | \$ 7,546,715              | \$ 8,591,531        |
| Investment return:                                  |                     |                           |                           |                     |
| Investment income                                   | 104,255             | 32,097                    | -                         | 136,352             |
| Net (depreciation) (realized and unrealized)        | (915,578)           | (875,412)                 | -                         | (1,790,990)         |
| Total investment return                             | (811,323)           | (843,315)                 | -                         | (1,654,638)         |
| Contributions                                       | -                   | -                         | 1,000                     | 1,000               |
| Appropriation of endowment funds for<br>expenditure | -                   | (129,000)                 | -                         | (129,000)           |
| Other changes                                       | -                   | -                         | -                         | -                   |
| Endowment net assets, end of<br>year                | <u>\$ (879,994)</u> | <u>\$ 141,172</u>         | <u>\$ 7,547,715</u>       | <u>\$ 6,808,893</u> |

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**Notes to Financial Statements**

**Note 12. Endowment Funds and New Asset Classification, Continued**

|   | 2008         |                           |                           |              |
|---|--------------|---------------------------|---------------------------|--------------|
|   | Unrestricted | Temporarily<br>Restricted | Permanently<br>Restricted | Total        |
| Endowment net assets, beginning of year             | \$ -         | \$ 2,186,024              | \$ 7,363,261              | \$ 9,549,285 |
| Investment return:                                  |              |                           |                           |              |
| Investment income                                   | 11,076       | 201,898                   | -                         | 212,974      |
| Net (depreciation) (realized and unrealized)        | (79,747)     | (826,624)                 | -                         | (906,371)    |
| Total investment return                             | (68,671)     | (624,726)                 | -                         | (693,397)    |
| Contributions                                       | -            | -                         | 183,454                   | 183,454      |
| Appropriation of endowment funds for<br>expenditure | -            | (447,811)                 | -                         | (447,811)    |
| Other changes                                       | -            | -                         | -                         | -            |
| Endowment net assets, end of<br>year                | \$ (68,671)  | \$ 1,113,487              | \$ 7,546,715              | \$ 8,591,531 |

From time to time, the fair value of endowment funds associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration, underwater endowments. As of June 30, 2009, the Foundation's donor-restricted endowment funds were underwater by \$879,994. This amount is reported in unrestricted net assets. These deficiencies, which the Foundation believes are temporary, resulted from unfavorable market fluctuations. The Board determined that continued appropriation during fiscal year ended June 30, 2009 for a certain program was prudent. As of June 30, 2008, the Foundation's donor-restricted endowment funds were underwater by \$68,671.

The sources of net assets released from temporary restrictions by incurring expenses satisfying the restricted purposes, by occurrence of events specified by the donors, for the years ended June 30, 2009 and 2008 were \$3,560,081 and \$4,137,827, respectively.

**Note 13. Transfer of Net Assets**

During fiscal year 2009, net assets relating to the J. Hanrahan School Fund were transferred to the San Gabriel Mission High School for further administration of this fund. Also in fiscal year 2009, management discovered that certain funds were incorrectly accounted for as net assets of the Foundation. These funds in the amount of \$3,436,001 as of June 30, 2009 were transferred to a liability account and are now properly disclosed as funds held in trust.