Catholic Education Foundation of the Roman Catholic Archdiocese of Los Angeles

Financial Report
June 30, 2010

Contents

McGladrey

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, 2010 and 2009, 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, 2010 and 2009, 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 14, 2011

Catholic Education Foundation of
the Roman Catholic Archdiocese of Los Angeles

Statements of Financial Position
June 30, 2010 and 2009

	2010				2009			
Assets (Note 10)	**Unrestricted**	**Temporarily Restricted**	**Permanently Restricted**	**Total**	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Cash	**$ -**	**$ -**	**$ -**	**$ -**	$ 17,862	$ -	$ -	$ 17,862
Accounts Receivable	**-**	**662,986**	**-**	**662,986**	-	-	-	-
Pledges Receivable, net (Note 3)	**-**	**532,327**	**-**	**532,327**	-	1,073,421	-	1,073,421
Investment in Pooled Funds (Note 4)	**32,497,388**	**181,872**	**7,547,715**	**40,226,975**	30,831,471	167,212	7,547,715	38,546,398
Other Investment (Note 5)	**64,947,228**	**-**	**-**	**64,947,228**	61,311,187	-	-	61,311,187
Total assets	**$ 97,444,616**	**$ 1,377,185**	**$ 7,547,715**	**$ 106,369,516**	$ 92,160,520	$ 1,240,633	$ 7,547,715	$ 100,948,868

Liabilities and Net Assets (Note 10)								
Outstanding Checks in Excess of Bank Balance	**$ 19,622**	**$ -**	**$ -**	**$ 19,622**	$ -	$ -	$ -	-
Due to the Administrative Office (Note 2)	**62,951**	**-**	**-**	**62,951**	25,543	-	-	25,543
Funds Held in Trust	**3,600,764**	**-**	**-**	**3,600,764**	3,436,001	-	-	3,436,001
Program Awards Payable	**6,463,726**	**-**	**-**	**6,463,726**	6,662,163	-	-	6,662,163
Accounts Payable and Accrued Expenses	**26,877**	**-**	**-**	**26,877**	28,064	-	-	28,064
Total liabilities	**10,173,940**	**-**	**-**	**10,173,940**	10,151,771	-	-	10,151,771
Commitment and Contingencies (Notes 9 and 11)								
Net Assets (Notes 8 and 12)	**87,270,676**	**1,377,185**	**7,547,715**	**96,195,576**	82,008,749	1,240,633	7,547,715	90,797,097
Total liabilities and net assets	**$ 97,444,616**	**$ 1,377,185**	**$ 7,547,715**	**$ 106,369,516**	$ 92,160,520	$ 1,240,633	$ 7,547,715	$ 100,948,868

See Notes to Financial Statements.

Catholic Education Foundation of
the Roman Catholic Archdiocese of Los Angeles

Statements of Activities
Years Ended June 30, 2010 and 2009

	2010				2009			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues:								
Donations (Note 7)	$ 544,010	$ 3,115,906	$ -	$ 3,659,916	$ -	$ 3,664,299	$ 1,000	$ 3,665,299
Net investment pool gain (loss) (Note 4)	3,963,561	120,123	-	4,083,684	(9,073,261)	(1,903,713)	-	(10,976,974)
Dividend income from other investment (Note 5)	2,407,311	-	-	2,407,311	2,738,315	-	-	2,738,315
Unrealized gain (loss) on other investment (Note 5)	3,636,041	-	-	3,636,041	(18,180,208)	-	-	(18,180,208)
	10,550,923	3,236,029	-	13,786,952	(24,515,154)	1,760,586	1,000	(22,753,568)
Net assets released from restrictions:								
Satisfaction of program restrictions	3,134,386	(3,134,386)	-	-	3,560,081	(3,560,081)	-	-
Total revenues (net losses)	13,685,309	101,643	-	13,786,952	(20,955,073)	(1,799,495)	1,000	(22,753,568)
Expenses:								
Tuition awards program	6,733,493	-	-	6,733,493	6,984,234	-	-	6,984,234
Tuition and other program awards	651,918	-	-	651,918	648,646	-	-	648,646
Santa Barbara tuition awards	68,332	-	-	68,332	336,500	-	-	336,500
Total program expenses	7,453,743	-	-	7,453,743	7,969,380	-	-	7,969,380
Employee compensation and benefits (Note 11)	726,714	-	-	726,714	721,736	-	-	721,736
General operating expenses	181,397	-	-	181,397	195,961	-	-	195,961
Fundraising expenses	61,528	-	-	61,528	99,029	-	-	99,029
Total operating expenses	969,639	-	-	969,639	1,016,726	-	-	1,016,726
Total expenses	8,423,382	-	-	8,423,382	8,986,106	-	-	8,986,106
Increase (decrease) in net assets before transfers	5,261,927	101,643	-	5,363,570	(29,941,179)	(1,799,495)	1,000	(31,739,674)
Transfer of Alice M. Burns Estate from the Administrative Office (Note 13)	-	34,909	-	34,909	-	-	-	-
Transfer of Hanrahan Fund	-	-	-	-	-	(39,265)	-	(39,265)
Transfer of net assets to funds held in trust	-	-	-	-	-	(3,436,001)	-	(3,436,001)
Increase (decrease) in net assets after transfers	5,261,927	136,552	-	5,398,479	(29,941,179)	(5,274,761)	1,000	(35,214,940)
Net assets, beginning 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
Net assets, end of year	$ 87,270,676	$ 1,377,185	$ 7,547,715	$ 96,195,576	$ 82,008,749	$ 1,240,633	$ 7,547,715	$ 90,797,097

See Notes to Financial Statements.

Catholic Education Foundation of
the Roman Catholic Archdiocese of Los Angeles

Statements of Cash Flows
Years Ended June 30, 2010 and 2009

	2010	2009
Cash Flows From Operating Activities		
Increase (decrease) in net assets	**$ 5,363,570**	$ (31,739,674)
Adjustments to reconcile increase (decrease) in net assets to net cash used in operating activities:		
Transfer of Hanrahan Fund	**-**	(39,265)
Transfer of Alice M. Burns Estate from the Administrative Office	**34,909**	-
Realized and unrealized investment pool (gain) loss	**(3,362,662)**	11,803,819
Unrealized (gain) loss on other investment	**(3,636,041)**	18,180,208
Amortization of pledge discounts	**(21,978)**	(29,608)
Assets contributed for long-term investments	**-**	(1,000)
Increase in accounts receivable	**(662,986)**	-
Decrease (increase) in pledges receivable	**563,072**	(572,926)
Increase (decrease) in due to the Administrative Office	**37,408**	(38,358)
Increase in funds held in trust	**164,763**	-
Decrease in program awards payable	**(198,437)**	(3,376,607)
Decrease in accounts payable and accrued expenses	**(1,187)**	(1,928)
Net cash used in operating activities	**(1,719,569)**	(5,815,339)
Cash Flows From Investing Activities		
Additions to investment in pooled funds	**(5,970,485)**	(6,833,386)
Redemptions from investment in pooled funds	**7,652,570**	12,665,587
Net cash provided by investing activities	**1,682,085**	5,832,201
Cash Flows From Financing Activities		
Assets contributed for long-term investments	**-**	1,000
Increase in bank overdraft	**19,622**	-
Net cash provided by financing activities	**19,622**	1,000
Net change in cash	**(17,862)**	17,862
Cash, beginning of year	**17,862**	-
Cash, end of year	**$ -**	$ 17,862
Supplemental Disclosure of Noncash Operating Activities		
Transfer of net assets to funds held in trust	**$ -**	$ 3,436,001

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: 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 statements 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 (the Pool) of the Archdiocese (see Note 4).

Accounts receivable: Accounts receivable consist of a donation receivable whereby the Foundation was the beneficiary of the donor's estate.

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

Pledges receivable: In accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958, *Financial Statements of Not-for-Profit Organizations*, 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 3.74 percent and 4.30 percent for 2010 and 2009, 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.

Investments: The Foundation has an investment in the Pool of the Archdiocese (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 statements of activities as increases or decreases in unrestricted net assets unless their use is temporarily restricted by donor stipulations.

Other investments: The Foundation also has an investment in Watson Land Company (Note 5), which is recorded at fair value. Fair value of the investment is based on certain industry standard valuation methodologies, including methodology used for land holdings or other publicly traded real estate investment trusts. Gains and losses on other investments are reported in the statements of activities as increases or decreases in unrestricted net assets.

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 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.

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

Uncertain tax provisions, if any, are recorded in accordance with FASB ASC 740, *Income Taxes* (previously FASB Interpretation No. 48). FASB ASC 740 requires the recognition of a liability for tax positions taken that do not meet the more-likely-than-not standard that the position will be sustained upon examination by the taxing authorities. There is no liability for uncertain tax positions recorded at June 30, 2010, nor was there a liability as of the date of implementation of July 1, 2009.

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 10.41 percent and 8.04 percent of the award commitment in 2010 and 2009, respectively.

Fair value measurements: The Foundation adopted FASB ASC 820, *Fair Value Measurements and Disclosures*, which defines fair value, establishes a framework for measuring fair value and expands disclosure of fair value measurements. It 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 FASB ASC 820, fair value measurements are disclosed by levels within that hierarchy.

FASB ASC 820 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. It 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, FASB ASC 820 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.

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

Recent accounting pronouncement: In January 2010, the FASB issued Accounting Standards Update (ASU) 2010-06 to make certain amendments to ASC 820-10 that require two additional disclosures and clarify two existing disclosures. The new disclosures require details of significant transfers in and out of Level 1 and Level 2 measurements and the reasons for the transfers, and a gross presentation of activity within the Level 3 rollforward that presents separately information about purchases, sales, issuances and settlements. The ASU clarifies the existing disclosures with regard to the level of disaggregation of fair value measurements by class of assets and liabilities rather than major category where the reporting entities would need to apply judgment to determine the appropriate classes of other assets and liabilities. The second clarification relates to disclosures of valuation techniques and inputs for recurring and nonrecurring fair value measurements using significant other observable inputs and significant unobservable inputs for Level 2 and Level 3 measurements, respectively. ASU 2010-06 (ASC 820-10) is prospectively effective for financial statements issued for interim or annual periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances and settlements in the rollforward of activity in Level 3 fair value measurements, which are effective for fiscal years beginning after December 15, 2010 and for interim periods within those fiscal years. The Foundation is currently evaluating the impact ASU 2010-06 (ASC 820-10) will have on the financial statement disclosures.

Subsequent events: The Foundation has considered subsequent events through January 14, 2011, 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 or the Foundation's main bank account. 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 $62,951 and $25,543 at June 30, 2010 and 2009, 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:

	2010	2009
Pledges receivable, before unamortized discount and allowance for uncollectible pledges	**$ 1,856,530**	$ 2,419,602
Less unamortized discount	**(74,203)**	(96,181)
	1,782,327	2,323,421
Less allowance for uncollectible pledges	**(1,250,000)**	(1,250,000)
Pledges receivable, net	**$ 532,327**	$ 1,073,421

Note 3. Pledges Receivable, Continued

	2010	2009
Amounts due in:		
Less than one year	**$ 311,750**	$ 496,872
One to five years	**98,750**	476,700
More than five years	**1,446,030**	1,446,030
	$ 1,856,530	$ 2,419,602

The discount rate applied in determining the unamortized discount was 3.74 percent and 4.30 percent for 2010 and 2009, respectively, which is the rate for the 20-year Treasury securities.

Pledges receivable totaling $548,480 and $946,480 were receivable from related parties, net of allowance for uncollectible pledges of $1,250,000, at June 30, 2010 and 2009, 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 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, 2010 and 2009 are invested 65 percent and 64 percent in equities, 32 percent and 29 percent in fixed income securities, 2 percent and 6 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, 2010 and 2009 are invested 83 percent and 88 percent in fixed income securities, 9 percent and 8 percent in notes receivable, 7 percent and 3 percent in cash and cash equivalents, and 1 percent and 1 percent in other assets and investments, respectively.

The Pool adopted the provisions of FASB ASC 820, which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. At June 30, 2010, the Pool was considered a Level 3 investment. At June 30, 2010, the Pool invested 37 percent, 52 percent and 11 percent in fair value hierarchy Levels 1, 2 and 3, respectively. 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, 2010 and 2009, the Foundation’s fair value on the portion invested in the pools was $39,487,772 and $36,754,671, respectively, in the Balanced Pool and $739,203 and $1,791,727, respectively, in the Income Pool.

Note 4. Investment in Pooled Funds, Continued

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.

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

	2010	2009
Average annual return:		
Balanced Pool	**11.90%**	(18.90)%
Income Pool	**1.80%**	1.70%
Interest and dividend income:		
Balanced Pool	**$ 1,059,431**	$ 1,194,463
Income Pool	**15,473**	15,888
Total interest and dividend income	**1,074,904**	1,210,351
Net realized and unrealized gain (loss):		
Balanced Pool	**3,351,361**	(11,813,735)
Income Pool	**11,301**	9,916
Total net realized and unrealized gain (loss)	**3,362,662**	(11,803,819)
Investment expenses	**(353,882)**	(383,506)
Total investment income (loss), net	**$ 4,083,684**	$ (10,976,974)

Note 5. Other Investment

Other investment includes the investment in Watson Land Company (501,523 shares owned in 2010 and 2009), 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, 2010 and 2009, the investment in Watson Land Company was considered a Level 3 investment under FASB ASC 820 fair value hierarchy levels. The fair value of the Watson Land shares owned by the Foundation was $64,947,228 and $61,311,187 at June 30, 2010 and 2009, respectively.

The unrealized gain on investment in Watson Land Company was $3,636,041 for the year ended June 30, 2010 and represents the change in the fair value of the investment from June 30, 2009. The unrealized loss on investment in Watson Land Company was $18,180,208 for the year ended June 30, 2009. Dividend income on Watson Land Company shares was $2,407,311 and $2,738,315 for the years ended June 30, 2010 and 2009, respectively. The Foundation’s investment in Watson Land Company stock represented 61.8 percent and 61.4 percent of total investments at June 30, 2010 and 2009, 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 totaled $1,147,666 and $1,137,666 during the years ended June 30, 2010 and 2009, 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. The Foundation received $0 and $9,842 of gift annuities during the years ended June 30, 2010 and 2009, respectively, and recorded these amounts as revenue.

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:

	2010	
	Temporarily Restricted	**Permanently Restricted**
Tuition awards program	**$ 1,235,631**	**$ -**
Urban Peace and Racial Tolerance 1 and 2	**105,160**	**-**
Annette and Paul Doyle Pre-K Reading Program	**26,105**	**-**
Tuition awards program, honorary funds	**-**	**1,302,336**
Tuition awards program, individual donors	**10,289**	**6,245,379**
	$ 1,377,185	**$ 7,547,715**

	2009	
	Temporarily Restricted	Permanently Restricted
Tuition awards program	$ 966,137	$ -
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
	$ 1,240,633	$ 7,547,715

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.

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.

Accounts receivable: The carrying amounts of accounts receivable approximate fair value due to the short maturities of the instruments.

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 FASB ASC 715, *Compensation Other—Retirement Benefits*. Pension cost for the Foundation was $18,750 and $22,482 for the years ended June 30, 2010 and 2009, respectively.

Note 12. Endowment Funds and New Asset Classification

In August 2008, the FASB issued ASC 958, *Financial Statements of Not-for-Profit Organizations,* which 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.

Note 12. Endowment Funds and New Asset Classification, Continued

The Foundation has interpreted 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, 2010 and 2009. For the years ended June 30, 2010 and 2009, the actual expenditures from endowment funds used in support of operations were $87,734 and $129,000, respectively.

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

	2010	2009
Investment in pooled funds	**$ 7,558,004**	$ 6,808,893

Note 12. Endowment Funds and New Asset Classification, Continued

Endowment net assets as of June 30 were as follows:

	2010			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Donor-restricted endowment funds:				
Tuition awards program, honorary funds	**$ (165,482)**	**$ -**	**$ 1,302,336**	**$ 1,136,854**
Tuition awards program, individual donors	**(107,993)**	**283,764**	**6,245,379**	**6,421,150**
Total endowment funds	**$ (273,475)**	**$ 283,764**	**$ 7,547,715**	**$ 7,558,004**

	2009			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
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	$ (879,994)	$ 141,172	$ 7,547,715	$ 6,808,893

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

	2010			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Endowment net assets, beginning of year	**$ (879,994)**	**$ 141,172**	**$ 7,547,715**	**$ 6,808,893**
Investment return:				
Investment income	**113,417**	**33,715**	**-**	**147,132**
Net appreciation, realized and unrealized	**493,102**	**196,611**	**-**	**689,713**
Total investment return	**606,519**	**230,326**	**-**	**836,845**
Contributions	**-**	**-**	**-**	**-**
Appropriation of endowment funds for expenditure	**-**	**(87,734)**	**-**	**(87,734)**
Other changes	**-**	**-**	**-**	**-**
Endowment net assets, end of year	**$ (273,475)**	**$ 283,764**	**$ 7,547,715**	**$ 7,558,004**

Note 12. Endowment Funds and New Asset Classification, Continued

	2009			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
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 expenditure	-	(129,000)	-	(129,000)
Other changes	-	-	-	-
Endowment net assets, end of year	$ (879,994)	$ 141,172	$ 7,547,715	$ 6,808,893

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, 2010, the Foundation's donor-restricted endowment funds were underwater by $273,475. 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 the fiscal year ended June 30, 2009 for a certain program was prudent. As of June 30, 2010 and 2009, the Foundation's donor-restricted endowment funds were underwater by $273,475 and $879,994, respectively.

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, 2010 and 2009 were $3,134,386 and $3,560,081, respectively.

Note 13. Transfer of Net Assets

During fiscal year 2010, net assets relating to the Alice M. Burns Estate in the amount of $34,909 were transferred to the Foundation from the Administrative Office. The funds were used in connection with the Foundation's SOS program. During fiscal year 2009, net assets relating to the J. Hanrahan School Fund in the amount of $39,265 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.