Catholic Education Foundation of the Roman Catholic Archdiocese of Los Angeles

Financial Report
June 30, 2012

McGladrey

Assurance ▪ Tax ▪ Consulting

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McGladrey

Independent Auditor's Report

To His Excellency
José H. Gomez
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, 2012 and 2011, 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 audits 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, 2012 and 2011, 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 LLP

Los Angeles, CA
December 14, 2012

Catholic Education Foundation of the Roman Catholic Archdiocese of Los Angeles

Statements of Financial Position
June 30, 2012 and 2011

	2012				2011			
Assets (Note 10)	**Unrestricted**	**Temporarily Restricted**	**Permanently Restricted**	**Total**	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Cash	**$ 48,332**	**$ -**	**$ -**	**$ 48,332**	$ 312,495	$ -	$ -	$ 312,495
Grant Receivable	**30,000**	**-**	**-**	**30,000**	175,000	-	-	175,000
Pledges Receivable, net (Note 3)	**-**	**975,060**	**-**	**975,060**	-	437,884	-	437,884
Investment in Pooled Funds (Note 4)	**33,984,168**	**1,522,333**	**17,879,852**	**53,386,353**	37,935,911	1,746,632	17,879,852	57,562,395
Other Investments (Note 5)	**91,079,779**	**-**	**-**	**91,079,779**	74,462,648	-	-	74,462,648
Total assets	**$ 125,142,279**	**$ 2,497,393**	**$ 17,879,852**	**$ 145,519,524**	$ 112,886,054	$ 2,184,516	$ 17,879,852	$ 132,950,422
Liabilities and Net Assets (Note 10)								
Liabilities								
Due to the Administrative Office (Note 2)	**$ 81,625**	**$ -**	**$ -**	**$ 81,625**	$ 58,373	$ -	$ -	$ 58,373
Funds held in trust (Note 13)	**5,143,403**	**-**	**-**	**5,143,403**	5,494,908	-	-	5,494,908
Program awards payable	**8,362,177**	**-**	**-**	**8,362,177**	6,955,880	-	-	6,955,880
Accounts payable and accrued expenses	**42,821**	**-**	**-**	**42,821**	56,185	-	-	56,185
Total liabilities	**13,630,026**	**-**	**-**	**13,630,026**	12,565,346	-	-	12,565,346
Commitment and Contingencies (Notes 6, 9 and 11)								
Net Assets (Notes 8 and 12)	**111,512,253**	**2,497,393**	**17,879,852**	**131,889,498**	100,320,708	2,184,516	17,879,852	120,385,076
Total liabilities and net assets	**$ 125,142,279**	**$ 2,497,393**	**$ 17,879,852**	**$ 145,519,524**	$ 112,886,054	$ 2,184,516	$ 17,879,852	$ 132,950,422

See Notes to Financial Statements.

Catholic Education Foundation of the Roman Catholic Archdiocese of Los Angeles

Statements of Activities
Years Ended June 30, 2012 and 2011

	2012				2011			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues:								
Donations (Note 7)	**$ -**	**$ 4,697,634**	**$ -**	**$ 4,697,634**	$ -	$ 5,041,821	$ 11,262,137	$ 16,303,958
Grant revenue	**-**	**60,000**	**-**	**60,000**	-	350,000	-	350,000
Net Investment Pool (loss) income (Note 4)	**(500,437)**	**16,047**	**-**	**(484,390)**	6,369,132	1,653,448	-	8,022,580
Dividend income from other investments (Note 5)	**2,407,310**	**-**	**-**	**2,407,310**	2,407,310	-	-	2,407,310
Unrealized gain on other investments (Note 5)	**16,312,331**	**-**	**-**	**16,312,331**	9,279,417	-	-	9,279,417
	18,219,204	**4,773,681**	**-**	**22,992,885**	18,055,859	7,045,269	11,262,137	36,363,265
Net assets released from restrictions:								
Satisfaction of program restrictions	**4,460,804**	**(4,460,804)**	**-**	**-**	5,832,252	(5,832,252)	-	-
Total revenues	**22,680,008**	**312,877**	**-**	**22,992,885**	23,888,111	1,213,017	11,262,137	36,363,265
Expenses:								
Tuition awards program	**9,505,939**	**-**	**-**	**9,505,939**	8,533,149	-	-	8,533,149
Tuition and other program awards	**819,344**	**-**	**-**	**819,344**	1,112,959	-	-	1,112,959
Santa Barbara tuition awards	**-**	**-**	**-**	**-**	56,668	-	-	56,668
Total program expenses	**10,325,283**	**-**	**-**	**10,325,283**	9,702,776	-	-	9,702,776
Employee compensation and benefits (Note 11)	**755,446**	**-**	**-**	**755,446**	711,151	-	-	711,151
General operating expenses	**258,644**	**-**	**-**	**258,644**	219,109	-	-	219,109
Fundraising expenses	**149,090**	**-**	**-**	**149,090**	253,493	-	-	253,493
Total operating expenses	**1,163,180**	**-**	**-**	**1,163,180**	1,183,753	-	-	1,183,753
Reduction for allowances of uncollectible pledges	**-**	**-**	**-**	**-**	(48,450)	-	-	(48,450)
Total expenses	**11,488,463**	**-**	**-**	**11,488,463**	10,838,079	-	-	10,838,079
Increase in net assets before transfers	**11,191,545**	**312,877**	**-**	**11,504,422**	13,050,032	1,213,017	11,262,137	25,525,186
Transfer of net assets to funds held in trust (Note 13)	**-**	**-**	**-**	**-**	-	(405,686)	(930,000)	(1,335,686)
Increase in net assets after transfers	**11,191,545**	**312,877**	**-**	**11,504,422**	13,050,032	807,331	10,332,137	24,189,500
Net assets, beginning of year	**100,320,708**	**2,184,516**	**17,879,852**	**120,385,076**	87,270,676	1,377,185	7,547,715	96,195,576
Net assets, end of year	**$ 111,512,253**	**$ 2,497,393**	**$ 17,879,852**	**$ 131,889,498**	$ 100,320,708	$ 2,184,516	$ 17,879,852	$ 120,385,076

See Notes to Financial Statements.

Catholic Education Foundation of the Roman Catholic Archdiocese of Los Angeles

Statements of Cash Flows
Years Ended June 30, 2012 and 2011

	2012	2011
Cash Flows From Operating Activities		
Increase in net assets	$ 11,504,422	$ 25,525,186
Adjustments to reconcile increase in net assets to net cash used in operating activities:		
Realized and unrealized investment pool loss (gain)	1,425,440	(7,402,621)
Unrealized gain on other investments	(16,312,332)	(9,279,417)
Decrease in allowance for uncollectible pledges	-	(4,000)
Amortization of pledge discounts	583	(3,740)
Assets contributed for long-term investments	-	(11,262,037)
Decrease in accounts receivable	-	662,986
Decrease (increase) in grant receivable	145,000	(175,000)
(Increase) decrease in pledges receivable	(537,759)	102,183
Increase (decrease) in due to the Administrative Office	23,252	(4,578)
(Decrease) increase in funds held in trust	(351,505)	558,458
Increase in program awards payable	1,406,297	492,154
(Decrease) increase in accounts payable and accrued expenses	(13,364)	29,308
Net cash used in operating activities	(2,709,966)	(761,118)
Cash Flows From Investing Activities		
Additions to other investments	(305,000)	(305,000)
Redemptions from other investments	202	68,997
Additions to investment in pooled funds	(5,286,389)	(16,251,278)
Redemptions from investment in pooled funds	8,036,990	6,318,479
Net cash provided by (used in) investing activities	2,445,803	(10,168,802)
Cash Flows From Financing Activities		
Assets contributed for long-term investments	-	11,262,037
Decrease in bank overdraft	-	(19,622)
Net cash provided by financing activities	-	11,242,415
Net change in cash	(264,163)	312,495
Cash, beginning of year	312,495	-
Cash, end of year	$ 48,332	$ 312,495
Supplemental Disclosure of Noncash Operating Activities		
Transfer of net assets to funds held in trust	$ -	$ 1,335,686

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 the Foundation's 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 (U.S. GAAP).

Basis of presentation: The financial statements of the Foundation have been presented in accordance with U.S. GAAP applicable to nonprofit organizations. 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).

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 0.41 percent and 1.76 percent for the fiscal years ended June 30, 2012 and 2011, respectively. Amortization of the discounts is included in donation revenue. Conditional promises to give are not included in pledges receivable until the conditions are met.

Pledges deemed uncollectible by management are included in the allowance for uncollectible pledges. If a restriction is fulfilled in the same time period in which the contribution is received, the Foundation reports the support as unrestricted.

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

Grant revenue: Grant revenue and other promises to give are recorded in accordance with FASB ASC 958, *Financial Statements of Not-for-Profit Organizations*. Unconditional promises to give are recorded upon receipt. Conditional promises to give are considered unconditional if the possibility that the condition will not be met is remote. All other conditional promises to give are accounted for as a refundable advance until the conditions have been substantially met.

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 investments in Watson Land Company and Shea Ventures Opportunity Fund, LP (see Note 5), which are recorded at fair value. Fair value of the investments 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. Gains or losses on the related investment are recorded as a change in the related assets and the funds held in trust balance, with no amounts being recorded in the statement of activities.

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.

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, 2012 and 2011.

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

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 12.92 percent and 11.82 percent of the award commitment in 2012 and 2011, respectively.

Concentration: The Foundation received $1,072,300 and $11,262,037 from one donor during the years ended June 30, 2012 and 2011, respectively. The majority of these donations came from estates, wills, trusts or foundations.

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)

Subsequent events: The Foundation has considered subsequent events through December 14, 2012, 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 $81,625 and $58,373 at June 30, 2012 and 2011, 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:

	2012	2011
Pledges receivable, before unamortized discount and allowance for uncollectible pledges	$ 1,047,106	$ 509,347
Less unamortized discount	(71,046)	(70,463)
	976,060	438,884
Less allowance for uncollectible pledges	(1,000)	(1,000)
Pledges receivable, net	$ 975,060	$ 437,884

	2012	2011
Amounts due in:		
Less than one year	$ 356,076	$ 184,317
One to five years	445,000	79,000
More than five years	246,030	246,030
	$ 1,047,106	$ 509,347

The discount rate applied in determining the unamortized discount was 0.41 percent and 1.76 percent for 2012 and 2011, respectively, which was the rate for the three-year and five-year Treasury securities during those years.

Pledges receivable totaling $886,030 and $396,030 were receivable from related parties, net of allowance for uncollectible pledges of $1,000, at June 30, 2012 and 2011, 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, 2012 and 2011 are invested 65 percent and 66 percent in equities, 32 percent and 31 percent in fixed-income securities, 2 percent and 2 percent in cash and cash equivalents, and 1 percent and 1 percent in other assets and investments, respectively.

The Income Pool was established to provide shorter-term objectives of current income with low risk of fluctuation in principal value. Assets of the Income Pool as of June 30, 2012 and 2011 are invested 91 percent and 84 percent in fixed-income securities, 6 percent and 7 percent in notes receivable, 2 percent and 8 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, 2012 and 2011, the Pool was considered a Level 3 investment. At June 30, 2012 and 2011, the Pool invested 36 percent, 54 percent and 10 percent in fair value hierarchy Levels 1, 2 and 3, respectively.

As of June 30, 2012 and 2011, the Foundation’s fair value on the portion invested in the pools was $51,838,726 and $56,894,752, respectively, in the Balanced Pool and $1,547,627 and $667,643, respectively, in the Income Pool.

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.

Note 4. Investment in Pooled Funds (Continued)

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

	2012	2011
Average annual return:		
Balanced Pool	-0.10%	23.80%
Income Pool	0.80%	1.00%
Interest and dividend income:		
Balanced Pool	$ 1,339,856	$ 964,804
Income Pool	7,905	11,143
Total interest and dividend income	1,347,761	975,947
Net realized and unrealized (loss) gain:		
Balanced Pool	(1,423,409)	7,403,521
Income Pool	(2,031)	(900)
Total net realized and unrealized (loss) gain	(1,425,440)	7,402,621
Investment expenses	(406,711)	(355,988)
Total investment (loss) income, net	$ (484,390)	$ 8,022,580

Note 5. Other Investments

Other investments include the investment in Watson Land Company (501,523 shares owned in 2012 and 2011), 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, 2012 and 2011, 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 Company shares owned by the Foundation was $90,524,902 and $74,225,404 at June 30, 2012 and 2011, respectively.

The unrealized gain on investment in Watson Land Company was $16,299,498 for the year ended June 30, 2012, and represents the change in the fair value of the investment from June 30, 2011. The unrealized gain on investment in Watson Land Company was $9,278,176 for the year ended June 30, 2011. Dividend income on Watson Land Company shares was $2,407,310 for each of the years ended June 30, 2012 and 2011. The Foundation’s investment in Watson Land Company stock represented 62.7 percent and 56.2 percent of total investments at June 30, 2012 and 2011, respectively, and therefore presents a concentration of credit risk.

Note 5. Other Investments (Continued)

On April 6, 2010, the Foundation entered into a partnership with Shea Ventures Opportunity Fund, LP. The general purpose of the partnership is to buy, sell, hold and otherwise invest in securities of any kind. The partnership has a term of 10 years. The Foundation is a limited partner and has a funding commitment of $1,000,000. As of June 30, 2012 and 2011, the Foundation's unfunded capital commitment was $432,060 and $737,060, respectively. During the years ended June 30, 2012 and 2011, the Foundation made $305,000 in cash contributions to Shea Ventures Opportunity Fund, LP and received a capital distribution of $63,458 in the year ended June 30, 2011. The investment had a net return of $12,633 and $4,298, of which $12,833 and $1,239 were from unrealized gains for the years ended June 30, 2012 and 2011, respectively.

The fair value of the investment is based on certain standard valuation methodologies and may take into consideration the cost basis of the securities, developments concerning the issuing company subsequent to the acquisition of the securities, and any financial data and projections. At June 30, 2012 and 2011, the investment in Shea Ventures Opportunity Fund, LP was considered a Level 3 investment under FASB ASC 820 fair value hierarchy levels. The Foundation's partnership interest had a fair value of $554,877 and $237,244 at June 30, 2012 and 2011, respectively.

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 $1,417,665 and $1,167,666 during the years ended June 30, 2012 and 2011, respectively, and is included in the financial statements of the Annuity Fund of the Archdiocese. Amounts received from gift annuities are recorded as revenue when received and may be less than the principal amount. The Foundation did not receive any contributions from gift annuities during the years ended June 30, 2012 and 2011.

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:

	2012	
	Temporarily Restricted	Permanently Restricted
Tuition awards program	$ 1,167,578	$ -
Urban Peace and Racial Tolerance 1 and 2	113,960	-
Annette and Paul Doyle Pre-K Reading Program	26,374	-
Tuition awards program, honorary funds	105,932	1,302,436
Tuition awards program, individual donors	1,083,549	16,577,416
	$ 2,497,393	$ 17,879,852

	2011	
	Temporarily Restricted	Permanently Restricted
Tuition awards program	$ 850,735	$ -
Urban Peace and Racial Tolerance 1 and 2	133,288	-
Annette and Paul Doyle Pre-K Reading Program	26,321	-
Tuition awards program, honorary funds	104,737	1,302,436
Tuition awards program, individual donors	1,069,435	16,577,416
	$ 2,184,516	$ 17,879,852

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.

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

Note 10. Fair Value of Financial Instruments (Continued)

Pledges receivable: The fair values of the pledges receivable are determined by analyzing discounted cash flow, using the interest rate used for five-year Treasury securities. Pledges received in the fiscal years ended June 30, 2012 and 2011 are discounted using the interest rate for the three-year and five-year Treasury securities, respectively. 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 $17,473 and $15,269 for the years ended June 30, 2012 and 2011, respectively.

Note 12. Endowment Funds and Net 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.

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.

Note 12. Endowment Funds and Net Asset Classification (Continued)

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, 2012 and 2011. For the years ended June 30, 2012 and 2011, the actual expenditures from endowment funds used in support of operations were $800 and $57,466, respectively.

Assets of the Endowment Fund as of June 30 consist of the following:

	2012	2011
Investment in pooled funds	$ 19,069,332	$ 19,054,024

Endowment net assets as of June 30 were as follows:

	2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds:				
Tuition awards program, honorary funds	$ -	$ 105,931	$ 1,302,436	$ 1,408,367
Tuition awards program, individual donors	(155,299)	1,238,848	16,577,416	17,660,965
Total endowment funds	$ (155,299)	$ 1,344,779	$ 17,879,852	$ 19,069,332

	2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds:				
Tuition awards program, honorary funds	$ -	$ 104,737	$ 1,302,436	$ 1,407,173
Tuition awards program, individual donors	(164,717)	1,234,152	16,577,416	17,646,851
Total endowment funds	$ (164,717)	$ 1,338,889	$ 17,879,852	$ 19,054,024

Note 12. Endowment Funds and Net Asset Classification (Continued)

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

	2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ (164,717)	$ 1,338,889	$ 17,879,852	$ 19,054,024
Investment return:				
Investment income	217,770	156,126	-	373,896
Net decrease in realized and unrealized	(208,352)	(149,436)	-	(357,788)
Total investment return	9,418	6,690	-	16,108
Appropriation of endowment funds for expenditure	-	(800)	-	(800)
Endowment net assets, end of year	$ (155,299)	$ 1,344,779	$ 17,879,852	$ 19,069,332

	2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ (273,475)	$ 283,764	$ 7,547,715	$ 7,558,004
Investment return:				
Investment income	109,627	37,646	-	147,273
Net appreciation, realized and unrealized	(869)	1,480,631	-	1,479,762
Total investment return	108,758	1,518,277	-	1,627,035
Contributions	-	-	11,262,137	11,262,137
Appropriation of endowment funds for expenditure	-	(57,466)	-	(57,466)
Other changes	-	(405,686)	(930,000)	(1,335,686)
Endowment net assets, end of year	$ (164,717)	$ 1,338,889	$ 17,879,852	$ 19,054,024

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, 2012 and 2011, the Foundation's donor-restricted endowment funds were underwater by $155,299 and $164,717, respectively. These amounts are reported in unrestricted net assets. These deficiencies, which the Foundation believes are temporary, resulted from unfavorable market fluctuations.

Note 12. Endowment Funds and Net Asset Classification (Continued)

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, 2012 and 2011 were $4,460,804 and $5,832,252, respectively.

Note 13. Transfer of Net Assets

As of June 30, 2011, net assets relating to Santa Barbara Fund I were transferred to a liability account based on an agreement dated August 31, 2009 with an effective date of July 1, 2009. The assets are now properly disclosed as funds held in trust.